Economic Slowdowns: Fundamentals Overshadowed by Structural and Policy Problems

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The Context:

Whenever recession looms around, experts start blaming policy paralysis, wrong policies, policy implementation and vision of the government. Policy makers, their advisers and economist will think around narrow technical aspects of 'economics'. Economists will talk about structural problems. Hardly someone goes beyond investment, demand, supply, saving, inflation and bank rates. This paper breaks on the basics. We try to dissect fundamentals of the economy. The variables of economy like investment, demand, supply, saving, inflation and bank rates are man-made. The government attempts to control economy by fixing bank rates, tax rates, financial incentives and so forth. Policy makers ignore the psychological and social factors that influence the economy. The paradigm shift in thinking is required to see beyond narrow definition and elements of 'economics'. It must understood that economics and it's so called elements are not in isolation. Those elements are not well understood like Mendeleev's table of elements. Elements of economics are required to seen in bedrock of personal, social, technology and political issues.

As Irene and Tim presented latest scientific evidence that confirms that "we are now in an era when human activities are having a significant global impact on Earth's natural systems (the 'Anthropocene'), leading to growing risk of climate change and exceeding the Planetary Boundaries, with resulting socio-economic and political impacts on development, leading to calls for a fast transition towards a low carbon, resource resilient economy". Alan Kirman (2019) in his study pose question that if you ask most economists what is the basic question that concerns them they will probably answer that it is to understand what the equilibrium of the economy or market that interests them is like, and whether it entails an efficient use of resources. Yet there is a prior problem that intrigues many people when they first come to economics and which is posed by the behavior of social insects. It is that of explaining how the myriad of disparate individual economic activities, in a modern economy, come to be coordinated. Economic agents constantly interact with each other in different ways and for different purposes and somehow out of these individual interactions certain coherence at the aggregate level develops. Disappointingly economics has rather little to say about this. The reason is that the basic paradigm in economic theory is one in which individuals take decisions in isolation, using only the information received through some general market signals, such as prices, to make their decisions.

Even basic principles of economics remain intact; the new world order has changed their characteristics from the foundation. Behavioral scientists are finding new evidences on new paradigm shifts that are evolving. Behavioral economics is a small and growing field within economics that seeks to incorporate more realism and insights from psychology about individual behavior into economic models. The goal of

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this movement is not to refute economic principles, but rather to help improve our understanding of behavior in ways that allow economists to make better predictions and suggest better economic policies. While many economists continue to be hesitant, the past decade has revealed a growing interest in understanding how relaxing certain assumptions about behavior and incorporating new elements about information processing or individual preferences might impact economic models and analyses. The behavioral economics movement has shown that it is often possible to incorporate slightly richer assumptions about individual behavior into economic models without losing the fundamental tractability and purpose of those models. There are certain aspects of individual judgment and behavior that present a more fundamental challenge to the economic approach, but in many areas it has proven possible to incorporate psychological insights about well-known cognitive biases and heuristics in ways that mesh with main-stream economic analyses (Devin and Justin, 2014).

The analogy is akin to a fire in the forest. The fire occurs due to wood or igniting element? Can a fire occur if there is wood but no ignition or proposition is reverse? In any case, after the fire, spray of oil can definitely accelerate the fire rate. The base of economy is demand and supply. The factor of production is man, machine, material and capital. We talk about machine, material and capital. We talk about skilled workers. We talk about the people who participate in the economy. It is irony that we never think about people who are not willingly participating in building economy. We never gave due weightage for those who are not offered any opportunity to be part of productivity; explicitly or implicitly. Employment rate will be ascertained based on who are willing to join the work force. There are a substantial lot of people who are self-excluded from participating in building economy. People across age are engaged in non-productive activities like video games and social platforms. People are puzzled in completing unnecessary government formalities. There is information asymmetry; internal and external. People are unaware about hidden skill in themselves. People are not aware about any possible opportunity that matches with their skill.

Economist Types

There are four types of economists. (i) Pessimist economists are inclined to see the worst position of economy in time to come. They are conservative in their approach. They can be seen as people with negative mindset. They will generally under-estimate everything. Pessimism is a negative or depressed mental attitude in which an undesirable outcome is anticipated from present situation. They believe that demand, saving, investment and supply will decrease. They believe price, inflation, unemployment will increase. (ii) The optimist economists are exactly opposite. They are hopeful and confident about future. They have positive mindset and generally over-estimate. They believe that demand, saving, investment and supply will increase. They believe price, inflation, unemployment will decrease.

(iii) Third type of economists are ‘pesimist’ (yes, PESIMIST and there is no spelling error). Irrespective of their belief; ‘pesimist’ economist are professionally inclined to oppose the government in all conditions. Because of inherent political compulsion, they will articulate data in a manner that economy will look gloomy. In other words, they are born to oppose the government. (iv) The fourth type of economists is ‘optimisst’ (no spelling error, it is in fact OPTIMISST’). Irrespective of their belief; ‘optimisst’ economist are professionally inclined to support the government in all conditions. Because of inherent political

compulsion, they will articulate data in a manner that economy will look always rosy. In other words, they are born to support the government.

None of the economist talks about factors that affect productivity, or only few talk on other factors. Productivity is not only about technical skill; it is about self-drive, creativity, motivation and several other psychological and social factors that affect more than the technical skills. Investment and saving is not only about inflation, interest and tax. It is also about confidence in the system. It is about the trust to whom you handover your investment. Demand and supply also influenced by factors ignored by economists and policy makers.

Psychological bearers

When a person is pre-occupied by some internal matters, some of those matters may adversely affect in his decision making. It may affect communication, creativity, confidence and motivation; the factors of productivity, saving and investment. Research shows that people make a wide variety of suboptimal decisions that are biased in systematic and predictable ways. Poverty, illiteracy, health issues, social and family tensions and administrative hurdles in day to day tasks leads to stress. The stress when becomes unbearable, the person will lose focus on his initiative and work. He will not undertake new initiative equal to if he was stress-free. His creativity will affect his efficiency and effectiveness. Individual loss in productivity will pile up into national loss. The policy makers should consider at micro level, how to address individual bearers to boost economy at macro level.

Sedef Sen argues that “Economics is a science which is constantly progressing and interacting with other sciences. Studies in the economics literature discuss how people display a behavior in the economic decision- making progress. Psychology is a science which explains behavior of people and it cannot be ignored that psychology has a profound effect on economics. Human psychology and behaviors show complex structures, stereotyping people as indicating homogeneous behavior is criticized by many academics and researchers. In this study, it is examined how human psychology guides people when they make economic decisions and the purpose of this research is to analyze how the relationship between economics and psychology has progressed and to explain behavioral economics in this framework” (2012).

Behavioral economics is a relatively new field of economics that attempts to incorporate insights from psychology into economic models and analyses. The field has grown rapidly over the last decade and has produced a large amount of both theoretical and empirical research. Psychologists are often interested in understanding the deep underpinnings of those behaviors at the level of the individual or social group, the primary interest in economics is usually in understanding how behavior and interactions play out in a system to shape economic outcomes. Economists are interested in system-level outcomes, such as the level and path of wages, the effect of taxes on economic output, how rates of savings respond to interest rates, and so on. Those economic outcomes, of course, depend on complex interactions of individuals. Economists have traditionally made traction on understanding these complex economic outcomes by developing mathematical models that allow them to map out and quantify economic dynamics (Devin and Justin 2014).

Social bearers

Social belief, tension and pressure affect productivity of people. Trust and confidence is contagious like a virus. It spreads in no time. If the triggering matter is negative, trust and confidence will lose quickly compared to positive triggering matter. If a rumor starts on a bank failure, people will start withdrawing money from the bank. If there is ethnic tension, absenteeism will increase in jobs. People will become cautious. Certain society think doing some type of work is bad; people will avoid taking such jobs. That belief may be based on religion or customary. Policy makers should identify proper clusters that inhibit growth and find solutions to minimize social bearers.

Charles F. Manski shed important insight on relation between economics and sociology. He says that "Economists have long been ambivalent about what social interactions constitute the proper domain of the discipline. The narrower view has been that economics is primarily the study of markets, a circumscribed class of institutions in which persons interact through an anonymous process of price formation. The broader view has been that economics is defined fundamentally by its concern with the allocation of resources and by its emphasis on the idea that people respond to incentives. In this view, economists may properly study how incentives shape all social interactions that affect the allocation of resources" (2000). He further argues that narrowing phase of economics ended by 1970, since then a new phase has been underway, in which the discipline seeks to broaden its scope while maintaining the rigor that has become emblematic of economic analysis. We further advance his thoughts that after waves of globalization and technology disruption in late 1990s; particularly after social media outburst after 2000s, the economics has broaden its wings to add new dimensions that are relevant rather more relevant.

People sitting idle and people engaged in social media are new phenomenon witnessed after social media explosion that began in 2000s. Government, researchers and social institutes must work in creating awareness among people to maximize benefits of social media but minimize its cost; may be economic or otherwise. Spending too long on social networking sites could be adversely affecting your mood. In fact, you're more likely to report poor mental health, including symptoms of anxiety and depression. Healthy society gives healthy economy and vice versa. Electronic gadgets which have made our life easier than never before become integral part of our life. The American Academy of Pediatrics and the Canadian Society of Pediatrics warns on overuse of handheld devices by children which may lead to various lifelong diseases (Sweta Patel, 2019). Emerging social bearers must also be concern of economist and policy makers.

Political bearers

It is difficult to separate political bearers from the social bearers. Social bearers are clustered among ethnic or religious groups, people of similar economic level, people living in same locality and so forth. Political groups are attached to particular ideology or approaches. Unfortunately political attachment mixes with economic activities. Different political attachment than who is in power tends to become non-cooperative to government plans and projects. Their creativity, trust and productivity affect economy. The policy makers must create economic environment free from political bias.

Shaun et al argue that markets emerge from (a) the economic interaction of both supply and demand sides, in continual and mutual interplay, and (b) more basic social interactions. Consumer behavior in the marketplace is complex, not only contributing to determine the market price, but also extending the consumer's cognitive processes to reliably attain a correct evaluation of the good. Moreover, this economic reasoning is socially situated and not something done in isolation from other consumers. From a socially situated, interactive point of view buying or not buying a good is something that enacts the market. This shifts the status of markets from external institutions that merely causally affect participants' cognitive processes to social institutions that constitutively extend these cognitive processes. On this view the constraints imposed by social interactions, as well as the possibilities enabled by such interactions, are such that economic reasoning is never just an individual process carried out by an autonomous individual, classically understood. In this regard, understanding the concept of relational autonomy allows us to see how economic reasoning is always embodied, embedded in, and scaffolded by intersubjective interactions, and how such interactions make the market what it is (2019). The politics drive the social and consumer expectations. Political rivalries are fueled by environment, consumer and labour activists. Thus there is constant interaction between several dynamic elements. Politics drive their embodied agenda into the market. It controls the law and order of the state. Predictable long term policies, better law and order coupled with harmony amongst people accelerate the economy.

Social justice is sacred duty of the government. Bypassing merits through various modes hamper the productivity. Merits are subverted through corruption but also enacting law to over-rule merits through dubious means. Merit based society grows faster than those who ignore it. The whole idea behind merit raises is to reward the most productive and the highest-performing workers, which in turn incentivizes others to do better. ... "If it's done well, it's a retention tool; it's a productivity and performance management tool. Merits are designed to ensure fair and open recruitment (employment and admission in academic institutes) and competition practices free of political influence or other non-merit factors.

Social processions in public space are very common in developing and populous countries. These inhibit smooth traffic and pollute the environment. The good governance includes political system to minimize such occurrences through other means. People engaged in fighting, people under arrest and jail ,
people indulged in litigation are detrimental to the economic growth. The political and governance system must work hard to minimize such negative connotation to boost economy. During the riots and war, during curfew and strikes, during natural calamities and man-made unrest; the productivity decelerates while resources are engaged in non-productive or destructive purposes. In ideal situation, rules must be enacted or policies must be framed after due consultation involving people at large. This will reduce friction in implementing rules and policies. Political bearers are the biggest of all and are avoidable bearers.

Technical Bearers

Technology change and advancement is faster than individual capacity. If the economic system does not provide learning environment to match the technology advancement, productivity will be seriously

affected. Policy makers must consider finding the ways to minimize the gap. Learning new technology must be inherent part of the system.

Financial bearers

Financial conditions of working people affect their creativity and productivity. If financial resources are not enough to sustain, psychological pressure on individual will inhibit working efficiency. Financial bearers will affect health of the people. The policy makers must link productivity and financial sustainability. The financial reward is important, but more important is long term mutual strategy that helps workforce and employers.

Infrastructural bearers

The infrastructure is important for faster and steady economic growth. The adequate infrastructure in the form of road, railway transport system, ports, power, airports and their efficient working is very vital for the economy to run. It is important that people reach to workplace with ease. Transportation system in poor economy inhibits the productivity. Investment in infrastructure must be seen as incentive for productivity.

The economy needs reliable infrastructure to connect supply chains and efficiently move goods and services across borders. Infrastructure connects households across metropolitan areas to higher quality opportunities for employment, healthcare and education. Clean energy and public transit can reduce greenhouse gases. This same economic logic applies to broadband networks, water systems and energy production and distribution (Robert Puentes, 2015). Infrastructure determines the quality of life. Suitable infrastructure facilities must percolate to the small towns and remote villages. It also helps in administering law and order beside two-way supply chain. The economists and policy makers must give due weightage to remove infrastructure bearers to strengthen economy.

Governance bearers

Considerable importance is given to governance in stabilize economy and deliver justice; particularly the social justice. A satisfied society is catalyst to the growth. Good governance provides satisfied society. Numbers of economists of development consider that good governance, defined as the quality management and orientation of development policies has a positive influence on economic performance. Sapovadia (2003) discussed importance of corporate governance; the notion can be extended to all type of governance. Corporate Governance is now an issue and important factor that can be used as tool to maximise wealth of shareholders of a corporate. In changing world, the word 'good corporate governance' has expanded its meaning.

Economically, the proper functioning of markets is correlated to the proper functioning of institutions through efficient practice of state governance, what is commonly called “good governance”. Therefore, underdevelopment and low economic growth performance of countries could be explained by a ”state failure” and the components of good governance with the increase in corruption, instability of property rights, market distortions, and lack of democracy (Rashid and Ahmed, 2017).

Lack of motivation impedes productivity. Good governance system motivates people to demonstrate their creativity. In a complicated and failed governance system, people will be required to be indulged in completing administrative formalities. Simple, transparent and predictable but comprehensive governance system optimizes efficiency of the system. It enhances trust and confidence of people and government. It minimizes litigations. In the current age, technology helps governments to seek minimum details from the citizens. The government should avoid seeking overlapping details. Various agencies may use same data to retrieve their own specific requirements rather than harassing citizens to submit those filthy details on continuous basis. The governance bearers should be minimized to boost economy.

Conclusion

The economy is a complex subject. Unlike chemical elements, the elements and its characteristics are ever changing. They are interdependent and highly volatile and subjective. New findings are emerging which economists and policy makers must looked into. The slowdown of economy is not result of economic factors, but non-economic factors. Fundamentals are ignored in understanding economy. It is overshadowed by structural and policy problems. This paper suggests that economists must look beyond demand, supply, interest rate, inflation, saving and investment. Even basic elements of economics remains the same, their characteristics has been changed.

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