marconomics

Defining Economics *through* Social Science *and* Consumer Behavior

KEN R. BLAWATT

Emerald

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Preface

Marconomics introduces an alternate theory to classical economics. It is the union of marketing and economics and draws its scientific foundation from the principles of consumer behavior. Economic activity is a human undertaking. It is motivated by needs, wants, desires and directed by social behavior, psychology, and our own personal experiences. There is very little that is assumptive in the approach to acquiring goods and services. It cannot be defined by the idea that we are driven to maximize our satisfaction, all things being equal. When we want something, we want it and it can be an emotional or an objective search. Just as easily it can be an irrational or an ulterior action of choice. It is not a one act play sketched out on an assumption backed downward sloping line.

The book begins with a review of the sense and sensibility of classical economics with an extensive search through the writings of hundreds of senior professionals and established academics. It concludes that the "laws" and nostrums of economics can best be expressed as an economic belief system that has taken society to a precarious place in history. And within this belief system there is a trinity, three conceptions that guide the faith. The first is that the wealthy are entitled to their position. This social nostrum has been accepted by mankind with the ancient notion that as the wealthy acquire riches they will share their gain with lesser beings through a trickle-down effect. Unfortunately, history shows this process does not work very well. The wealthy keep the vast majority of their wealth and through clever planning pass most of it on to their heirs with little benefit to the society that helped them earn it. The second conception is the notion of a free market in which the theoretical beliefs of supply and demand will reach some equilibrium. There are no free markets. The concept of a free market is a myth and one that is welcomed by financial players for their own purpose. And the tenets that accompany the concept are also myths. The third is the acceptance of a monetary value as the only appropriate measurement of economic success. The goal is to make as much money as you can. We can add to that with Milton Friedman's declaration[1] "the social responsibility of a business is to make profit." Only money counts as the end result of business.

As the book will argue, the trinity is an unsupported belief system without scientific and empirical content. The book discounts the notion of free markets and the tenets of classical economics; the belief system that has built a structure that favors the upper "one percent." It challenges the emphasis economists and financial authorities have placed on the monetary outcome as being the only measure of economic success and suggests a return to human scale and the triple bottom line.

Classical economics is not based on any known scientific procedure. It is very much a development that comes from subjective estimations as to how the economy should work. As such it lacks both integrity and validity and this omission of reality has led to policies and directions that have produced any number of dramatic failures in regions and globally, including the 2007–2008 financial crisis. Here's the issue. In our universities, we instruct young people to know and understand the most current principles in the social sciences, medical health, the hard sciences, business, and technology. Each of the two dozen or so major disciplines is very busy doing scientific research that advances, changes, or modifies the principles of that discipline. As a result of this requirement,[2] academics are able to teach the latest in astrophysics, medical sciences, psychiatry, and so on. They perform

1. Friedman (1970).

2. It's why faculty are called on to publish or perish.

new experiments in chemistry and physics. They have come to understand mankind more and better in behavior and remedial applications. Every discipline pushes at and improves the underlying principles of that specialty. Well just about every one, excepting economics where the underlying "principles" have not changed since the days of Adam Smith. In fact, many of the mathematical formulations used in economics are redundant, out of date, and no longer useful. On this account it is argued the basis for economic thinking is actually a belief system. It is composed of selective laws that have no footing in fact and as such is more akin to being a religion.

In recent times, a number of learned economists have pondered the lack of a scientific foundation for the discipline. These few have begun to apply elements of the social sciences to economic decision making as a place from which they might begin an evolution. The book goes on to examine the recent emergence of economic thought that incorporates behavioral factors into a new field of "behavioral economics." The advancement of this innovative thinking is long overdue; but it is only a partial solution. It is excellent but not good enough to cite Edward De Bono.[3]

"Marconomics" develops the argument there is a more advanced incorporation of the social sciences which progresses to a new economic paradigm; an extension of current behavioral economic thinking. It establishes a hypothesis, tests it empirically, and sets out a model that is more representative of human economic behavior. Economics is about the marketplace. It is not about the "price-auction" paradigm that Thurow[4] sees as irrelevant to science and dangerous to policy. It is about human beings

3. Edward de Bono has had faculty appointments at the universities of Oxford, London, Cambridge, and Harvard. He is widely regarded as the leading authority in the direct teaching of thinking as a skill. He originated the concept of lateral thinking and developed formal techniques for deliberate creative thinking. He has written 57 books, which have been translated into 34 languages, has made two television series and there are over 4,000,000 references to his work on the Internet. Texts include Lateral Thinking, New Thinking for the New Millennium, and Teach Yourself to Think, all from Penguin Books. Read more at http://www.penguin.co.uk/authors/edward-de-bono/8158/#cvHWHzIkc7ObjE0B.99

4. Thurow (1983).

making developed decisions about the acquisition of a goods and services. It is directly tied to two variables; *expectation of performance* and *perception of worth* and these form the paradigm that establishes a new plateau from which one can examine economic activity. The theory has been tested in a pilot study and preliminary papers have been published. What is to follow will be a larger research effort that confirms the initial findings and leads to the development of an optional economic foundation.

The book goes on from this point to explore a number of directions that further research might take to empower economic considerations in forecasting the role of innovation, the entrepreneurial prerogative, and competitiveness. For example, there may be a rational basis for an historical price curve, similar to the demand curve that may play in a particular sector of the economy where there is an indicated association between price and volume.

Having reviewed and cast over the rationale of the elite or the upper one percent and the unsupportable assumptions of classical economic thinking, the book considers the effect of the paradigm as it moves the philosophy of economics from a foundation of monetary performance to one that is more human and based as much on behavioral outcomes. The proposed model is one that prioritizes the importance of the market (Customers), the enablers (Employees), the social system (Community) and lastly the monetary (Shareholders and Capitalists). It concludes with a discussion of conscious capitalism over an unfettered, pecunious, and individualistic capitalism as the over-arching economic model.

Abstract

Marconomics challenges the efficacy of classical economics and proposes a new paradigm that better explains the human dynamics of economic activity. The book reviews the literature beginning with a critical examination of *classical economics* on to the recently engaged *behavioral economics* and develops a new theory as to microeconomic behavior, *marconomics*. A pilot study tests the hypotheses and establishes an initial positon that leads to a new economic model of behavioral economics.

The conclusion from examination of the literature is twofold. Firstly, classical economics has little if any validity in describing economic activity and the subsequent development of models. It should be set aside and a new approach applied to replace it. The newly emerging field of behavioral economics is a positive first step in understanding economics but needs to progress further into the use of the social sciences. The proposed new paradigm posits that two variables, (i) the *expectation* an individual has about the performance of a product or service and (ii) the *perception* as to its worth, are the primary dimensions of economic activity. The paradigm replaces the conventional price — quantity relationship used in the demand curve.

The new marconomic model describes the economy as a segmented structure made up of three sectors; an entrepreneurial economy, a managed economy, and a mass market economy. Implicit in the discussion is the need for more research and the further exploration of the importance of a socially conscious economic system based on some of the propositions in the text.

Keywords: Marconomics; classical economics; behavioral economics; entrepreneurial economy; managed economy; mass market economy

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Economics of Power — Failure of Classical Economics

Our belief in the current economic philosophy has brought us to an uncertain and challenging place in history. It encouraged the 2008 financial meltdown that has left the world in a complex state of fluctuation and vulnerability. In America GDP output for 2015 rose from a very weak 0.6 percent to 3.2 percent, averaging a modest two percent plus, which is not really ground breaking and quite different from the growth rates enjoyed coming into the millennium. And offsetting any positive expectation for the future is the problem of real unemployment.[1] While the official rate was 5.78 percent, real unemployment registered 11.3 percent or just about double the official rate. There may be modest growth in America but many people have given up on employment, and this will modify growth because of lower aggregate demand. Elsewhere America's biggest trading partner, Canada continues to skirt with recession even as Mexico expects three percent growth in the year, boosted by the modest American revival. Meanwhile South America with an uncertain outlook hopes to maintain a two percent rate.

1. Amadeo (2015).

Overseas, there is the tenuous European Union with its lackluster growth and 11.5 percent unemployment. At this writing Italy is into its third recession, Germany is faltering, and France is flat. As Reuter's Dixon[2] notes, "This is no longer a crisis of what used to be called the 'little PIGS' — Portugal, Ireland, Greece and Spain. It might be best to use a new acronym 'FIG' to describe the travails of the big three." It may be suggested that the only thing holding the EU together is Putin's threat over the Ukraine; any break in the façade of unity could be taken as weakness and encourage the faux tsar to act out his fantasy. On the other hand, Germany might just opt out in the future, tired of sacrificing its economy to lesser governments and "return to the Deutschmark. German trade surpluses and a less inflationary policy would likely lead to an appreciation of the new currency which would allow for cheaper imports, vacations, investments abroad and an increased standard of living."[3]

Meanwhile Eastern Europe is burdened with Russia's anemic and shrinking economy. What is often overlooked is that the Russian population is forecast to shrink by 28 percent in the next 40 years as young people leave and an older population dies off. Then there is China and its concerns over a faltering contribution to global demand. But while China will no doubt see reductions to its export activity, its domestic affairs are interesting and promising. The country is experiencing solid GDP growth at better than seven percent and their consumer demand remains strong[4] which signals good internal market strengths. On another front some point hopefully to India as a huge 1.3 billion player in the region and its 7.3 percent growth[5] as a contributor to global growth. But to be realistic, its $2.3 trillion economy is smaller than that of France and will not really have a major impact on the overall picture for a while. As for the rest of South East Asia, falling currencies and the promise of export slowdown to China has had

2. Dixon (2014).
3. Bagus (2010).
4. Rauhala (2015).
5. Zhong and Kala (2015).

a negative effect on the region. And of course dominating much of all economic activity is the greatly unsettled Middle East.

When we add up all the pieces we see the outlook is hardly robust and may very well take some years before returning to more productive times. One aspect is clear and that is we are trending back to the economics of the 1980–2000 Great Slowdown.[6] While aggregate growth was positive during those decades and many economists celebrated the period as one of sustained growth and prosperity, the fact is that per capita GDP growth was cut to one-third previous rates across the globe and middle class wealth shrank significantly. How did this happen? Politicians and economists point at each other but much of the cause can be seen as the result of bad economics and the injudicious application of wrong-headed thinking. Some analysts sum it up by observing it was caused[7] by the "rigid adherence to the neo-classical liberal macroeconomic policies" by developed countries. These policies stressed the need for a totally "free market" system. They remain fixed in mainstream political thinking and will likely throttle any chance for serious economic growth for some time to come. That, and our acceptance of a redundant economic assembly of "laws" and "principles" has led us to an un-promised land, where the growing wealth of the "one percent," along with enforced free market conditions based on a monetary premise has placed us in a poor situation.

The Rise of Inequality

You see, what is at issue is our belief in a governing philosophy and system that was developed centuries ago. One of the primary conventions was set out by Adam Smith who declared that if a person makes a million dollars he will use it to hire workers and tradespeople, thereby making their lives better and adding to their wealth as well. It's now a conventional wisdom that says

6. Weisbrot (2012).

7. *ibid*.