

A Heterodox Perspective on the Unfolding Economic Environment

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Contextualization

- Rapidity of diffusion and the rising power of consumers
 - Changing global social contracts
 - Work and compensation
 - Sustainability, Climate and Environment
 - Governance and Transparency
 - Diversity, Equity, and Inclusion
 - Requires developing new tools of seeing, thinking, strategizing, and executing to remain competitive

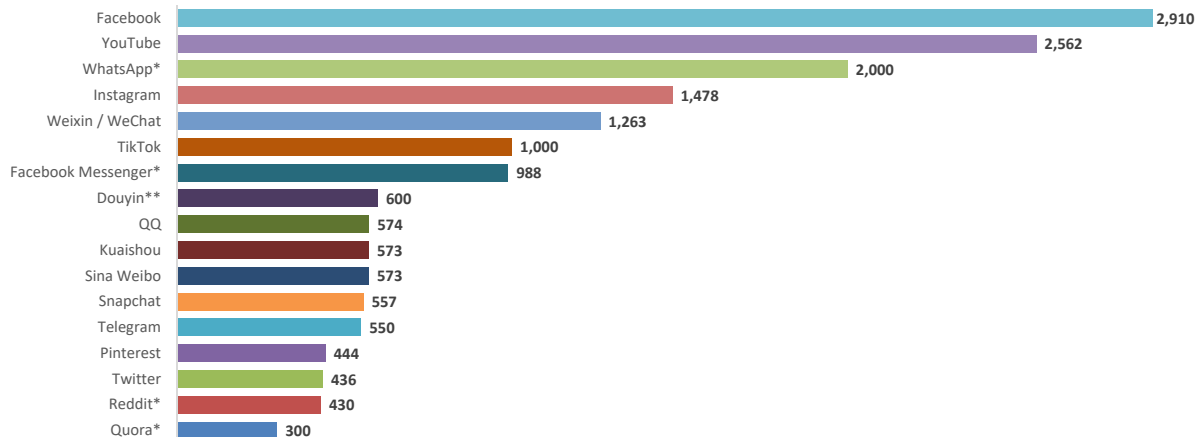


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Social Media as Influencers

						
Age Group	25-35 Boomers	18-34 Millennials	25-49 Educated & wealthy	45-55 Professionals	10-19 Female (60%)	13-17, 25-34 Mainly teens
Content	Photos, information, live video	Inspiration & Adventure, Polls	News, discussion, humor	Long-form content, networking	Entertainment and humor	Silly, feel-good

Social Media Platforms as Influencing Forces





Contextualization

All policy is individual

In the absence of uncertainty, there are no decisions



Contextualization

- *Heteros* (Greek) – **Other**; *doxa* (Greek) – **Beliefs**
 - Other beliefs, opinions, or doctrines at variance with an official or accepted (orthodox) position
- The unfolding economy is similar to what has been seen before but different in many dimensions, demanding new tools for seeing, thinking, and dealing with it successfully
 - Local becomes global quickly as ideas are distributed more rapidly than in any other period

Orthodox Economics

- Orthodox economics in the West is Neoclassical economics, which is based on what should happen under certain assumptions
 - Profit maximization for firms and utility maximization for consumers
 - Perfect information
 - Perfect competition
 - Equal access to all economic resources
 - Homogenous products and resources
 - Non entry and exist costs

Heterodoxy as Difference in Time and Place



Adam Smith's ideas were embraced by most western political leaders and implemented as capitalist ideology from 1770s and dominates as the orthodoxy (nearly globally)

Karl Marx's ideas were embraced by Lenin and implemented as a socialist ideology considered superior to capitalism and dominated from 1918-1980 (unorthodox in many countries)

A blend of these ideological bookends is found in various places given the socio-economic leanings of their political leadership (liberals, social democrats, progressive conservatives, etc.)

Heterodoxy as Difference in Time and Place

- The purpose of heterodoxy differs by the orthodoxy it confronts
 - Capitalist heterodoxy in socialist economies sought to prove the ineffectiveness of socialist economic policies
 - Libertarian heterodoxy in capitalist societies rebels against government interventions of any form in the economy
 - Behavioral economics heterodoxy in neoclassical economics seeks to prove the inefficiencies of rational expectations neoclassical economic theories

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A different window through
which to see the world



A different lens to view and
understand our reality

Because orthodoxy is place and time dependent, heterodox
perspectives try to bring. . .

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Praxeology as a Heterodoxy



Praxeology – the study of what people do – instead of what they say they do or what they should do



Does not need the ability to compute probabilities of outcomes as demanded by behavioral economics



Does not need to impose normative behavior as practiced by neoclassical economic theory



Humans' actions reveal their purpose, and their purpose underscores their rationality

Human Action Economics

Action emanates from dissatisfaction with the status quo

Dissatisfaction emanates from new information about the status quo and/or alternative futures

How the new information is read, understood, and used is always an individual pursuit



Human Action Economics

- Dissatisfaction is necessary but not sufficient to provoke action
- For action to happen, there is a need for the ability and willingness to:
 - Perceive alternatives to the status quo
 - Compare those alternatives based on their potential contribution and the resources needed to produce the desired satisfaction to
 - Voluntarily choose the “best” alternative given the comparative assessment of the alternatives



Human Action Economics

The foregoing calculations' results trigger a choice to move or stay

The calculations could be *wrong*, but the choices they trigger are **always** right

Because people **never** *knowingly* choose inferior solutions when superior solutions are available



Human Action Economics

A choice in time $t = 0$ is known to be wrong only in time $t = 1$, when new information about the choice becomes available

Since all decisions are about the future, inter-temporal comparison of decisions is irrelevant (Shackle, 1959)

Further, since all decisions are purposeful, there is no room for regret



Human Action Economics - Summary

Human action is conscious and purposeful, a result of deliberate judgment leading to a selection from among alternatives at the time a choice is made

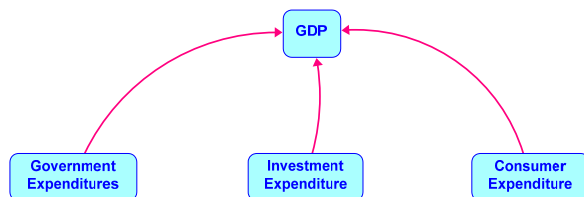
Involuntary actions are NOT human action because they are responses to stimuli that do not go through the purposeful choice process (Rothbard, 1993)

Human Action Economics - Summary

This implies all policies are attempts to achieve some individual's objective by corralling the group to see the world through that individual's lens

All policy, therefore, is individual, and the important thing is to find the least cost solution that produces the desired value

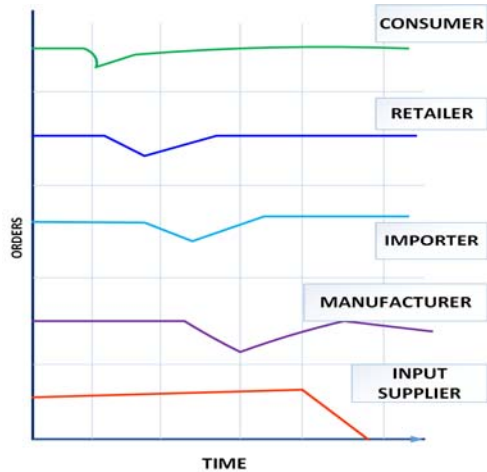
A Neoclassical View of the Macroeconomy



Factors influencing GDP (outcome) are assumed to be independent of each other and exhibit no countervailing interference with GDP (outcome)

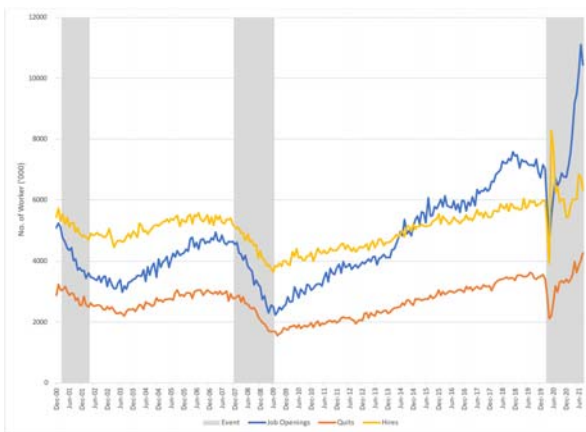
- Keynesians view the autarkic macroeconomy as comprising Government, Investment, and Consumer Expenditures
- Keynes' purpose was dampening the amplitude of the business cycle
- All those who judge the business cycle as "BAD", focus on policies aimed at dampening it

Covid-19 Led to Shuttering of Many Economies



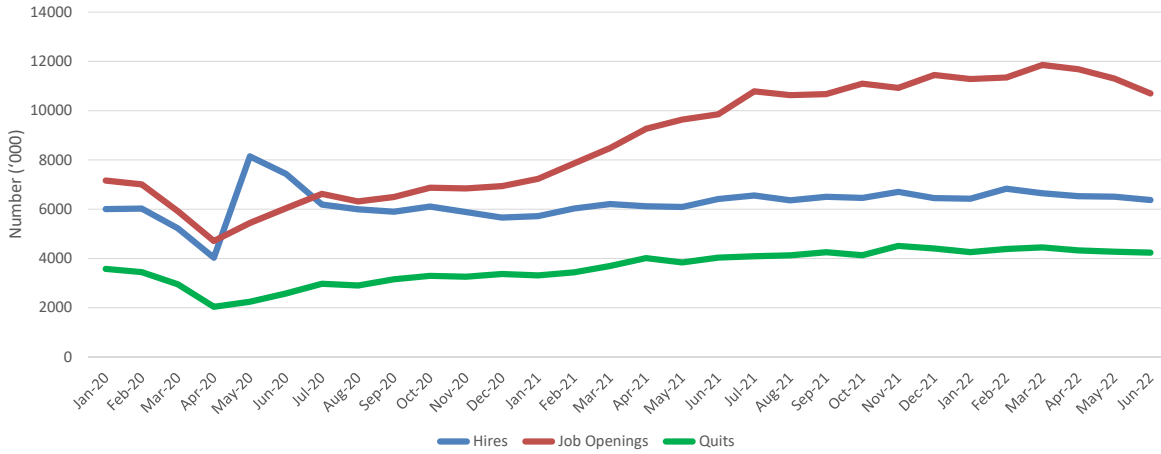
- Consumer demand is stalled immediately, causing retailers to cut their demand and deplete inventory given the uncertainty
- Creating a bullwhip effect upstream
- Input suppliers shut down not knowing when demand will begin
- When consumer demand started returning, upstream links were still adjusting downwards
- Circles back to create panic buying, increasing price and *measured* inflation
- Which could create oversupply creating recession

Shuttered Economy Allowed Many People to Re-Evaluate Their Lives and What They Do

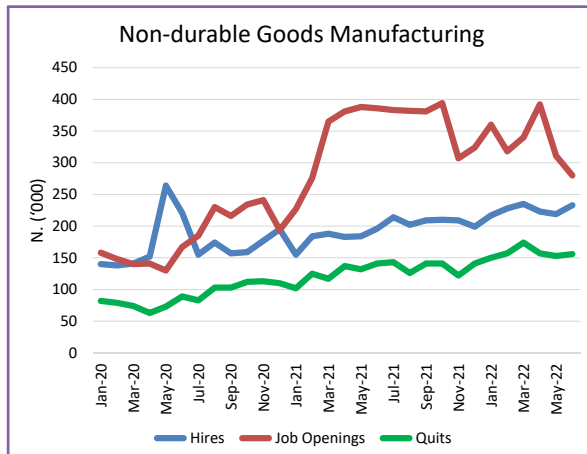
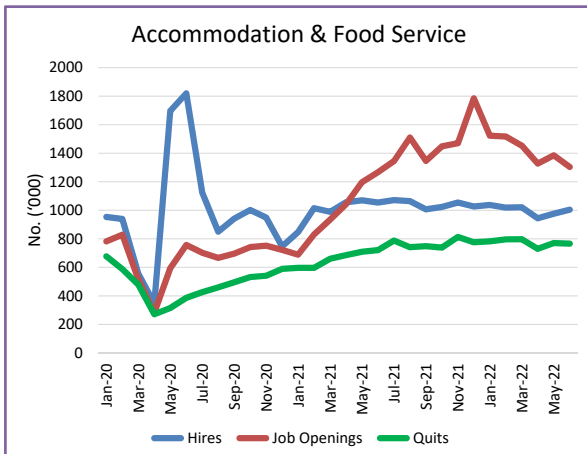


- The Great Resignation and its effect on the supply chain's bullwhip effect
 - Overbidding for labor, and wages are sticky downwards, increasing cost, and reducing profits
- China's Zero-Covid and its role in the bullwhip effect and the supply side inflation
 - In March 2022, 345M people were in full or partial lockdown across 46 cities in China
 - This population accounts for 40% of Chinese economic output (GDP)
 - Can't open tomorrow and fix problem

Total US Quits, Hires, and Job Openings



Sector Specific Quits, Hires, and Job Openings



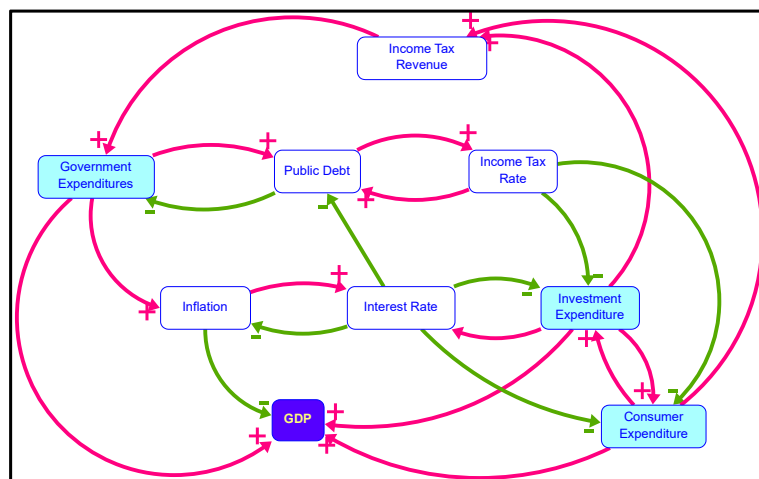
Importance of Time

- In *Capitalism and Freedom* (1992) Friedman writes:
 - There is likely to be a lag between the need for action and government recognition of the need; a further lag between recognition of the need for action and the taking of action; and a still further lag between the action and its effects (Friedman, 1992)
- We can say there ***definitely*** is a lag between recognition, policy, implementation, and outcomes
 - Which causes most policies to be wrong not because they are misconceived but solely because of the time lag (Shackle, 1959)

Heterodox Perspective of the Macroeconomy

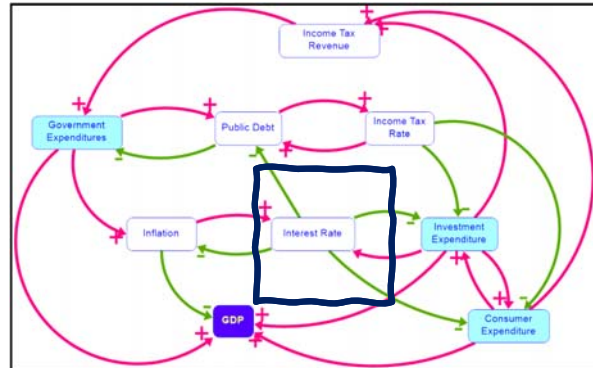
Lags between action and reaction often distort policy expectations

Wrong causal relationships among variables also cause erroneous policy expectations



Public and Business Policy Implications

- When interest rate is moved, it affects a lot more than the price of money
- The lagged feedback loop distort expected outcomes when not included in forecasts of effects
 - Businesses and consumers can incorporate policy actions in their decisions ahead of the policy
 - Making the policy overshoot or undershoot expectations



Public and Business Policy Implications

- These interventions then delay the original problem's solution
- Or create unintended problems that are bigger than the problem they were attempting to address
- They may shift the marketplace, creating or exacerbating rent seeking and/or moral hazard behaviors or shifting the locus of such behaviors
- They may also shift the locus of cost and/or benefit incidence, increasing the possibility of adverse selection



Public and Business Policy Implications

- Yet, interventions are always based on individual assumptions, interpretations, mental models, and expectations (simulated outcomes)
- And an ability to convince others that one's world view is what will create a superior future
- Focus on your objective always and what it takes to achieve it, carefully recognizing the feedback loops and their lags and indeterminacies



After Thought

We have no eternal allies, and we have no perpetual enemies. Our interests are eternal and perpetual, and those interests it is our duty to follow

- Henry John Temple, 3rd Viscount Palmerston (20 Oct. 1784 - 18 Oct. 1865)



Thank you

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