
SCRUTINIZING THE FUTURE OF THE ECONOMY

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Abstract

The present paper presents an argument for a better framing of the business world forward looking perspective and for adopting a watchful attitude toward the future impact of current choices. The literature exploring future transformations in economy and society, although abundant, remains fragmented and, from a certain point of view, looks like having let behind some necessary clarifications about fundamental theories on which it should be grounded. This calls for revisiting the basics, the founding paradigms in economics and business. Therefore, a distance is here taken from concrete phenomena, in an attempt to provide a possibly new perspective on several concepts frequently tied to the representation of the future economy.

Keywords

change, foresight, scenario making, social choices, economic development, business organization,

JEL Classification

L16, L20, M20, N30, N40

Introduction: The pressure of change

The need to anticipate the future, which was always strong in the human history, is related to the fact that the word „future” is almost a synonym for „change”, which means „different” and possibly threatening. A relatively small proportion of the population takes change as an opportunity, while most people feel it as a threat. However, the dominant discourse invites us to consider future/change as a challenge, a sort of game restart when everybody gets again equal chances to win.

On another hand, at least in economy and social life, change is the result of human action, and – with a certain simplification - is a result of scientific and technological advances. In other words, mankind creates its own future. How the vision of a desired future is built upon perception of present realities was demonstrated and already used in mathematical modelling (Sheynin, 1988; Onicescu and Botez, 1985). Who is able to influence the current perceptions, is deciding the choice among alternative futures, no matter how deliberately or how legitimate it exercises such influence. This bring into discussion, from a

sociological perspective, the issue of power and the emerging issue of post-truth politics (Amadae, 2017). Psychologists evidenced that for most people anticipation is biased toward „good” futures (Zhang, Gong, Fougny and Wolfe, 2015). It is generally accepted that change is the engine of progress, but sometimes, looking retrospectively we need to question the extent to which the outcome of former choices actually serves progress. Take for example climate change, or the issue of innovation acceleration through the lens of creative destruction theory (Komlos, 2016).

One should also take into consideration the accelerating rate of change. According to Kurzweil (2003), „The whole 20th century (...) is equivalent to 20 years of progress at today’s rate of progress, and we’ll make another 20 years of progress at today’s rate of progress equal to the whole 20th century in the next 14 years, and then we’ll do it again in seven years.” Although a number of scholars deny the acceleration phenomenon (Theodore Modis and Jonathan Huebner have argued—each from different perspectives—that the rate of technological innovation has not only ceased to rise, but is actually now declining.). In futures studies and the history of technology, accelerating change is a perceived increase in the rate of technological change throughout history, which may suggest faster and more profound change in the future and may or may not be accompanied by equally profound social and cultural change. If history progresses because of the synergistic interaction of past events and innovations, then as history does progress, the number of these events and innovations increases. This increase in possible connections causes the process of innovation to not only continue, but to accelerate. Burke poses the question of what happens when this rate of innovation, or more importantly change itself, becomes too much for the average person to handle, and what this means for individual power, liberty, and privacy.

Globalisation, the new economy and sustainable development

These three expressions are among the most frequently used in economics and business literature and even in the daily conversations. Even though, their meaning is vague and ambiguous, allowing both legitimate and illegitimate interests to make use of them in support of their own agenda for the future.

For instance, referring to globalization we find diverging points of view, ranging from considering globalization a new era of colonization, to defining it as “an establishment of the global market free from sociopolitical control.” Tăchiciu (2003) has argued for considering globalization as a process of cultural fusion, an approach which is gaining grounds with the definition proposed by the Geneva Centre for Security Policy (Nayef, 2006): “Globalization is a process that encompasses the causes, course, and consequences of transnational and transcultural integration of human and non-human activities.” If current perceptions of reality which shape the vision of the future are influenced through means adapted to the cultural specificity, then globalization provides conditions for influencing the entire world’s choices.

According to the OECD Glossary of Statistical Terms, the expression “New Economy” describes aspects or sectors of an economy that are producing or intensely using innovative or new technologies. This relatively new concept applies particularly to industries where people depend more and more on computers, telecommunications and the Internet to produce, sell and distribute goods and services. While the sectors or intensely using innovative or new technologies tend to encompass the entire economy, the reference to “aspects of an economy” tends to cover a certain unease of economists to apply traditional

(neoliberal) paradigms to the (new) real economic world. Moreover, some use this expression to describe a (new) division between more and less advanced economies. Sustainability has been defined as a state of society where living conditions and resource use continue to meet human needs without undermining the integrity and stability of the natural systems. A 2013 study concluded that sustainability reporting should be reframed through the lens of four interconnected domains: ecology, economics, politics and culture (Magee, 2013). The problem is if the concept of sustainability is compatible with economic growth. More recently the concept of sustainable development meets strong and credible criticism grounded on the finding that developed countries had experienced improved resource efficiency since the early 20th century already, but this improvement had been more than offset by continuing industrial expansion, to the effect that world resource consumption. The policy of perpetual economic growth for the entire planet remained virtually intact (Perez-Carmona, 2013).

Economics and Power

It is long since science has understood that economy is a form or a result of human behaviour. Behavioral economics, along with the related sub-field behavioral finance, studies the effects of psychological, social, cognitive, and emotional factors on the economic decisions of individuals and institutions and the consequences for market prices, returns, and resource allocation, although not always that narrowly, but also more generally, of the impact of different kinds of behaviour, in different environments of varying experimental values. Risk tolerance is a crucial factor in personal financial decision making. Risk tolerance is defined as individual's willingness to engage in a financial activity whose outcome is uncertain. Behavioral economics is primarily concerned with the bounds of rationality of economic agents. Behavioral models typically integrate insights from psychology, neuroscience and microeconomic theory; in so doing, these behavioral models cover a range of concepts, methods, and fields.

A problem with behavioural economics (BE), from an operationalization perspective, and especially in the context of future anticipation, is the large diversity of human motivations. This is why BE has been left in the shade a long period, until the global financial crisis of 2008. Then, the BE came with a single word to explain how people decision making has resulted in such a disaster: greed. We propose a different point of view, trying to get a common denominator for economic behaviour, social relationships, psychological and emotional mechanisms, politics and policy etc.: the need for power (where power is defined as the capacity to influence other people. Here, we close the loop.

About the nature and future of firms

According to Ronald Coase, the firm is a form of production organization adopted in order to avoid transaction cost (Coase, 1990), or, in other words, the cost of using the market mechanism in order to get a fair deal. The firm gives to a person (called entrepreneur) the power over other people (called employees) to decide about the way in which such other people use their creative power, in exchange of price, called salary. The question coming from revisiting this theory is what happens when the transaction cost tends to decrease close to zero as a result of new information and communication technologies? Giving credit to Coase the firms should reduce their size until completely vanishing, with the consequence that entrepreneurs lose their power.

From a different perspective, the evolution of current forms of production is governed by the interplay between mobilization (suggesting increase in capacity) and mobility (suggesting an increase of freedom in resource allocation). Thus, firms do not disappear but they gradually evolve in networks, from networked organizations toward networked individuals. This process can already be observed.

Food for thought

Three interlinked factors have the potential to shift the global economy from one long-term outcome to another: aggregate demand, structural challenges, and diverging growth patterns. First, in the near term, the major economies continue to struggle to achieve self-sustaining growth in aggregate demand. This continues despite years of monetary and fiscal stimulus, as well as the recent drop in oil prices. Second, the world's major economies face long-term structural challenges, including rising debt loads, aging populations, and inadequate or aging infrastructure. Success or failure in resolving these structural challenges will determine the speed of long-term growth in these economies. Third, the world's major economies have increasingly diverged in the last few years. The world's major economies, emerging and mature alike, have been experiencing clearly divergent growth paths in the first half of 2015, in some cases due to unexpected challenges. These developments may signal the return of country-level business cycles, suppressed in the depths of the global economic downturn. Yet they may also be its lingering effects, suggesting that deeper forces are at work. We believe that three sets of forces will shape the global economy over the coming decade. The first two are stimulus policies and shifting energy markets. These are near-term forces, whose effects are felt on a daily basis. The next two forces, urbanization and aging, are powerful, inexorable trends aggravating ongoing structural challenges. Finally, two forces are of uncertain and variable magnitude: technological innovation and global connectivity. All of these trends could intermittently disrupt and transform sectors.

Unlike the variegated impact of demand stimuli and energy-market shifts, the effects of urbanization and aging are predictable and are tilting the global economy in one general direction: toward emerging markets. Increasing urban congestion and an aging labor force impose burdens—among them, lower productivity, falling demand, and rising health and pension loads—on all economies. The challenges are clear. The uncertainty lies in how economies will adapt to them.

Technological innovation has reached a level in the major economies where significant structural changes are in process or have already occurred. Digitization has transformed the telecommunications, media, financial-services, and retail sectors. Consumers are using mobile devices to connect to an ever-widening range of goods and services, while businesses embed such devices more deeply in functional processes and industrial activity. High-tech innovations in robotics and 3-D printing could enable mature and emerging economies alike to boost labor productivity and rapidly expand industrial horizons, while also shifting global trade patterns.

Day-to-day developments in the world economy have become increasingly complex and global in their implications. Economic shocks are now of greater concern because around the world, traditional policy tools have already been used and financial resources depleted to help economies recover from the last downturn. Strategic decisions have become correspondingly more consequential. Shocks are inevitable, but strategists must find ways to extract the signals from the noise to understand what's over the horizon.

The direction and potential impact of the factors considered in the present paper including driven by technological innovation and global connectivity are already familiar phenomena. As the science fiction author William Gibson remarked 15 years ago, “The future is already here—it’s just not very evenly distributed yet.”

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