

## A NEW HETERODOX APPROACH: WACKONOMICS<sup>1</sup>

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### ABSTRACT

The neo-classical economics approach, which implies that markets are effective, has begun to be discussed frequently with the participation of various disciplines within the theory of economics. One of the critical approaches that emerged with these discussions is criticized as wackonomics. This approach is basically opposed to the assumptions of neo-classical economics as well as the methodological and empirical basis. This approach, which was able to go until 50 years ago, but became active in the theoretical level after the second half of the 90's, especially after Kahneman's Nobel Prize in Economics in 2002, has not been taken into consideration in our country or in developing countries. Within the scope of the study, various sub-approaches that can be evaluated under the wackonomics are discussed. It should be noted that this approach will probably contribute to the further development of economics in terms of its scientific basis.

**Keywords:** Wackonomics, Economics of Sports, Economics of Religious, Economics of Health, Economics of Law

## YENİ BİR HETERODOKS YAKLAŞIM: WACKONOMİCS

### ÖZET

Piyasaların etkin olduğunu imâ eden neo-klasik iktisat yaklaşımı, iktisat teorisi bünyesine çeşitli disiplinlerin katılması ile birlikte sıkça tartışılmaya başlanmıştır. Bu tartışmalarla birlikte ortaya çıkan eleştirel yaklaşımlardan biri de wackonomics olarak ifade edilmektedir. Söz konusu yaklaşım temelde neo-klasik iktisadın varsayımları ile birlikte metodolojik ve ampirik özünü de karşı çıkmaktadır. Geçmiş 50 yıl öncesine kadar gidebilen, ancak 90'ların ikinci yarısı ile birlikte özellikle de Kahneman'ın 2002'de Nobel Ekonomi Ödülü almasından sonra teorik düzlemde oldukça aktif hale gelen bu yaklaşım gerek ülkemizde gerekse gelişmekte olan ülkelerde pek dikkate alınmamıştır. Çalışma kapsamında wackonomics yaklaşımı altında değerlendirebilecek olan çeşitli alt yaklaşımlar ele alınmıştır. Belirtmek gerekir ki bu yaklaşım belki de bilimsel nitelik açısından iktisadın daha da gelişmesine katkı verecektir.

**Anahtar Kelimeler:** Wackonomics, Spor İktisadı, İnanç İktisadı, Sağlık İktisadı, Hukuk İktisadı

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## INTRODUCTION

With the statement of the Nobel Prize Laureate, Daniel Kahneman, often and in most cases, individuals and firms do not rationally make decisions when making decisions. At this point, neo-classical economics become unable to process models based on rational behavior. It must be noted that heterodox economics refers to the fact that this point should not be limited to economic mathematics, and that borders must be expanded towards sociology and psychology. The heterodox economics is radical in dealing with the historical structure of institutions link. Heterodox economics provides an alternative to mainstream economics. This help gives an explanation to the economic phenomenon that doesn't receive much credence.

Wackonomics, whose foundations could go as far as 50 years ago but became highly active in the theoretical plane after Kahneman received the Nobel Prize for Economics in 2002, advocates the need to further expand the boundaries. Work on wackonomics is very limited in our country and in developing countries. In the first part of this work, very brief information is given about the emergence of this new approach which has become more popular since the second half of 90's. Then, it is aimed to examine the main sub-approaches that can be evaluated within the scope of this approach and to give basic studies in the literature.

### 1. EMERGENCE OF WACKONOMICS

A couple of weaknesses of economic theories have been the fertile ground for wackonomics to thrive. Economists carry the most sway on influence on public policies. However, due to the misbehaving of humans, economic models make a couple of bad predictions. For instance, very few economists foresaw the 2008 Global Financial Crisis. Many economists thought that it was impossible for a meltdown of such magnitude to occur in the financial markets (Francesco et al., 2009).

The primary foundation of economic theories is optimality. This means that people choose the best from a limited budget. Equilibrium is another cornerstone of economic theory. These foundations are strong when compared to other social sciences. However, the premises that drive economic theory always seem to depart from the realities of life. Economists get it wrong when they come up with projections that depend entirely on the economic sophistication of humans. The optimization challenges that ordinary human beings face are often too difficult for them to come up with solutions. Some of these challenges are choosing a mortgage, spouse or even a career. The levels of failures among human beings raise many doubts on the viability of the optimization principle (Sheila, 2007).

Economists ignore the effects of overconfidence and other biases that may affect the rationality of human beings. They forget that we live in a world of humans and not of economists. These weaknesses in economic theories have laid a sound ground for the emergence of wackonomics. It is a high time that economists accepted this fact and come up with research models that are tailor-made for humans and not for economists. However, previous theories that are based on rationality should not be discarded but should rather be a foundation for more realistic models. Incorporating humans into economics is a means of improving the accuracy of prediction based on economic theories (David, 2004).

## 2. APPROACHES TO WACKONOMICS

The wackonomics title can be divided into several subheadings. Within the scope of the study, six subtopics were discussed. These are economics of economics, economics of sports, economics of religious, economics of health, economics of law and crime economics.

### 2.1. Economics of Economics

Economics of economics focuses on the behavior of economists. The behavior of economists generates several questions that need to be answered. The main lingering question has always been whether studying economics have an impact on the behavior of economists (Tom, 2004).

Economists have been found to recommend to other theories that they rarely use. This has been a starting point for critics of modern economics. The fact is that despite the underlying assumptions in economic theories, people do not always maximize payoffs from opportunities and equilibrium is always difficult to attain in the markets. This is grounded in the fact that motivations of humans are complex, and their behaviors are almost unpredictable (Eggertsson, 1995).

A couple of studies have examined whether studying economics has an influence on beliefs and behavior. Economics students have been found to be different from others. Others like Frey and Meier (2003) have concluded that selfish personalities are more likely to study economics. Other studies concluded that economics make people selfish. Economics students also develop some unique ideological beliefs because of the schools they went to on various economic phenomena like inflation and employment (Eggertsson, 1995).

In this regard, promoters of modern economics call for economists to practice what they advocate for. If this is observed, they will have to align the economic theories and models to the realities of life. This will enhance the accuracy of economic theory-based predictions (Tom, 2004). Cognition is easy to measure. Uses the experimental evidence but does not rely on it exclusively.

It seems that many of the economists working in this area specialize in public preferences and non-marketable goods. While this issue is considered within the scope of the public economy in our country, it is seen as a subdivision of the economy in the worldwide.

### 2.2. Economics of Sports

There is a close interrelationship between football or sports in general and economics in the modern-day world. Sports and by extension football is a social, cultural and economic phenomenon. Football remains the most lucrative fields of sports globally. Football has attracted strategic partnerships over time with sponsors who have catalyzed the tremendous economic growth of football clubs and organizations (Fiona, Dennis and Robert, 2000). Other revenue sources like the sale of tickets, jerseys, and television broadcasting rights make conventional economics feel that the operations of football should fit appropriately to economic theory-based models of allocating resources. They feel that economic discourse must be introduced and taken seriously in sports in order to enhance more economic growth. Sports, in general, should view sports as an industry and lead it toward professionalism (Stephen and John, 1998).

However, application of economic theory in football may ignore some unique dynamics in this field of operations. For instance, economists would assume that football clubs purchase players purely on rational decisions. However, the fact is that most of the times clubs may overestimate the ability and consequently the value of a player. Researchers have found that there exists a winner's curse in the football world where rival clubs assume that their competitors think the same about a target player as they do. They may end up giving in to outrageous demands of the sellers due to fear that their competitor may outdo them (Stephen and John, 1996).

In another unique aspect, competitive balance is a fundamental component of economics in the sports industry. Competition is a key driving force of success of professionally run sports. In the ordinary business world, corporate seek to acquire monopolistic powers and be leaders in the market. However, in the world of sports, players in the market are in need of each other for their products to exert economic viability. The stiffer the competition in a sport, the larger the attendance and consequently the revenues. In this regard, modern economists call for economic models to take into account the unique environment under which sports/football clubs operate in (Fiona et al., 2000).

Because of the diversity of sporting activities, sports economics are divided into the lower arms such as the olympic economy, the basketball economy and the football economy. The most interesting of these is the football economy (Cornes and Sandler, 1996). One of the factors that have contributed to the importance of sport economics recently is related to bets. As a matter of fact, the legal and illegal betting market has gained a very high transaction volume with the possibilities provided by the internet all over the world.

### **2.3. Economics of Religious**

Karl Marx submitted that religions were a product of the economic system. Religions can also be part of the base, which shapes societies economic. Religion is both an independent and dependent variable in economic development (Laurence, 1990).

Consumer-driven religion has risen significantly in the recent past. His has attracted economists to try and use economic theory to explain the competitive models of religious markets. Just like in the business world, religions seek monopolistic power over other religions. However, unlike in the business world, competition is argued to be healthy for religious markets. Religiosity has been found to decline in countries in Western Europe where religions have monopolistic traits. In the 19<sup>th</sup> and 20<sup>th</sup> centuries, it was evident that in countries where Protestant and Catholic missionaries were in competition, the religious organizations provided better hospital schools and other important amenities that later benefited the residents tremendously (Dennis and Avi, 2001).

Also, economists argue that people make rational choices on which religion to be identified with. However, the fact is that religious decisions are not always a matter of cost-benefit analysis as economists would want us to believe. The rational-choice theory in classical economics, in this case, turns out to be a substantial distortion of real human economic activity. The assumption of smart people who can handle simple situations like the religions to follow is mistaken. The reality is that most people are simply born into and raised in a religion (Laurence, 1990).

## 2.4. Economics of Euthanasia/Health

Euthanasia has emerged as another area where economic theory conflict with the realities of life. The advocates of euthanasia argue that disabled people and the elderly would choose to die rather than become a financial burden on their loved ones. They claim that the fear of such burden combined with pain and suffering is the motivation for people to die by euthanasia (Stephen and David, 2001).

Pure economists argue that given shortages of beds and nursing staff, challenges of allocating funds to health-care coupled with an elderly population that is growing exponentially, policymakers and doctors should look at euthanasia as a means of minimizing health-care costs. They argue that end of life care is materially expensive due to the frequency of hospitalizations. The continued existence of people in such circumstance may be meaningful to their loved ones. However, from an economic side of view, their existence has more costs than the underlying benefits. The economist then argues that it is not prudent to waste resources on people whose destiny is death even no matter the level of further treatment they receive (Margaret and Peter, 2000).

However, it is wrong to assume that decisions on euthanasia are based on rationality. The fear of becoming a financial burden on loved ones is a key reason people want to die by euthanasia. Euthanasia mostly happens when patients are too incapacitated to make a meaningful decision. The terminally ill and those with disabilities may make such decision out of fear and coercion. It is also not outright that there will be no abuse of control measures set in place due to the pressures of the overstretched public health system. In such circumstances, the premises of rationality under which economic theory lie may not hold (Stephen and David, 2001).

## 2.5. Economics of Law

Economists assert that economic theory offers the best explanation of various aspects of the legal practice. Law is regarded as a social tool that enhances economic efficiency. Ideally, efficiency is exerted on a legal situation if a right is granted to the party who would be willing to pay the highest for it. The underlying assumption just like other filed of economics is that individuals respond to incentives rationally. In this regard, an increase in the penalties for a crime would lead to a proportionate decrease in such acts just like a rise in the price of bread would lead to a proportionate decrease in demand. The purpose of damages in the law of tort is to create an incentive for potential offenders to avoid such acts but not to compensate the victims (Thomas, 1996).

However, economic views fail to capture the concerns for distributive justice and the importance of human rights. Economic theory holds that a rational maximizer of personal satisfaction adjusts means to ends in the most efficient way possible. They assume that there is rationality and the trade-off of costs and benefits in the legal systems. Economists believe that deterrence is achieved if the quantity of punishment exceeds likelihood of punishment multiplied by the payoffs accrued from the criminal act. However, the reality of things is that information is not processed according to model rationality because the criminals do not have the capacity to undertake such evaluations (Polinsky, 1989).

The Nobel Prize for scientists working in law-abiding science shows the importance given to the subject in the scientific world (Gürpınar, 2008).

## 2.6. Crime Economics

Gray Becker (1968) introduced the standard economic model of crime that held that in the economic theory, crime is in a criminal's interest. In this regard, to avert this interest, punishment must be very punitive. The opportunity cost of engaging in crime can also be increased by creating more lucrative job opportunities, especially of the youth. Optimality in punishment is attained where a low possibility of being punished is combined with harsh punishment when one is caught. However, over time there is little evidence to show that criminal sanctions affect the thinking of criminals. The fact is that the cost of a prison sentence is experienced in future and not immediately after a crime is committed.

Criminals have been found to respond to immediate costs of their actions. Longer sentences have little impact on the reduction in crime because criminals rarely think about the future. Instead of reducing crime, long sentences increase the population in prisons. In this regard, modern economists argue that criminals should be treated like children rather than rational thinkers (Becker, 1992). Crime should be treated as a spur of the moment rather than being in a person's interest. The recommended punishment for children is for it to be quick, clear and consistent. Under such a framework, a high probability of being arrested would reduce crime better rather than concentrating on harsh sentences. The proposed behavioral approach to crime advocates for a model that combine emotional decision systems and cognitive systems. A criminal under this approach is ecologically rational and not irrational (Francesco, et al., 2009).

The number of studies on crime economics, which has a history of 50 years, has increased in recent years.

## CONCLUSION

The neo-classical economics approach basically ignores the process of developing the sense and feelings of people, the basic features and characters of nations, the cause, formation and development of historical events, and even works that don't use econometric models and methods almost don't give credit. As a natural consequence of this, neo-classical economics has been criticized in many respects and heterodox economics has taken its place among these critics. One of the most remarkable ones in the school is the wackonomics approach. This approach seeks to create a new framework of analysis by taking social feelings and behaviors into account in economics. The main purpose at this point is to strengthen the link between economics and other social sciences.

Work in the field of wackonomics, which has a multidisciplinary nature, can be considered in six subgroups. These can be listed as economics of economics, economics of sports, economics of religious, economics of euthanasia/health, economics of law and crime economics.

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