

WELCOMING ECONOMIC PSYCHOLOGY

DARRAGH MCCASHIN

Senior Freshman

The social sciences, by definition, deal with human behaviour at an individual level and within society. None of them in isolation can fully explain such complex phenomena. Thus, Darragh McCashin calls for a greater integration of economics with psychology in order to produce more relevant and realistic results in both disciplines. His exploration of how the different professions approach the all-important concept of 'well-being' serves to illustrate this need, and to remind the reader of the very human objectives that underpin the study of economics.

Introduction

'Let me talk to you about my generation... we enjoy a thousand material advantages over any previous generation, and yet we suffer a depth of insecurity and spiritual doubt they never knew'¹.

The basis for major economic decisions 'amounts to little and sometimes nothing'; decisions 'can only be taken as a result of animal spirits – of a spontaneous urge to action rather than inaction'.² Does this sound like economics? These are the wise words of the famous economist John Maynard Keynes. Keynes never indulged in the systematic and scientific study of human thoughts, feelings and behaviour, i.e. the concepts that define psychology (Stantrock, 2005). But it is clear to see psychological elements at the core of his hugely influential economic thought. Economics never merged with psychology in Keynes' day, despite their compatibility. But the apparent calling of this interdisciplinarity is evident in recent publications that seriously question economic assumptions, namely people's rationality. For example, Hartford (2006) identifies flaws when economists identify irrationality. Instead, he states that there are underlying emotions causing this apparent irrationality. Thus, this deems the rationality assumptions of economics to be seriously questionable.

In response to the perceptible weaknesses of economics, this essay will set out to show where economics needs psychological input, particularly with regard to social issues. Psychological input is also required not least because psychology is proving an effective tool for many powerful organisations (some of which are larger than several economies themselves); a consumer and marketing discussion will highlight this. This examination will show where psychology fits in as a practical application in reality, thereby justifying the encouragement of the study and application of

¹ Tony Blair at the 1995 Labour Party Conference, cited in Kreitzman (1999: 17).

² Clinical psychologist Dr. Maureen Gaffney from the National Social and Economic Forum (NESF) quotes John Maynard Keynes in *The Irish Times* (24th January 2008).

economic psychology to the discipline of economics. Arguments will be discussed showing the unfortunate exclusion of economic psychology when it could be most beneficial i.e. in achieving greater results from economic and social policy objectives. This is the *raison d'être* of economic psychology; its usage will hopefully assist in explaining why, as countries in the western world have gotten richer the past fifty years, average happiness has not followed suit (Frank, 1999; Layard, 2005 and Argyle, 2001). The potential consequences of this finding are evident in the thoughts of the former British prime minister who introduced this essay.

What economics is missing: the use of psychology in business.

‘Nike is leveraging the deep emotional connection that people have.... it adds a greater sense of purpose to the experience’.³

There is a fair chance that after reading the phrases ‘The best built cars in the world’ or ‘Probably the best lager in the world’, many people would have the names Toyota and Carlsberg springing to mind. An indirect cueing prompt (the advertisement catchphrase) is used to prompt these brand names - a technique discussed by Baddeley (1990) for assisting memory recall performance. These brand names will arguably spring to mind quicker than other indisputably more relevant items. These items could include, for the purposes of the economist: basic citizen tax rights, policy entitlements, wise pension planning and saving in a scarce environment (Parkin et al., 2005: 4). Considering public knowledge on these items is poor and improved knowledge could, for example, increase pension participation (Chan et al., 2003), the statement that these are more relevant to store in human memory than corporate advertisements will receive few opponents.

This everyday, somewhat simplistic example is the tip of the iceberg. Slovic et al. (2002) concretely showed, through scientific methodology (the essence of academic psychology), the link between emotion and cognition, which is related to all types of behaviour, including economic behaviour. Similarly, Tykocinski et al. (2004) researched economic psychology and, through experiments, showed how individuals who missed out on opportunities to enjoy a high gain may then decide to pass up a subsequent chance to enjoy a positive one. This is called retroactive pessimism. What would Keynes say? Could this be useful or indeed similar to the pessimism he referred to? Retroactive pessimism may be helpful in explaining stock market phenomena, according to the authors. Moreover, Kassirjian et al. (1991) confirm how marketing experts borrow freely from psychology (cognitive psychology, psychoanalytic theory and stimulus-response theory, to name but a few). Kassirjian et al. accept that mood states exert an important influence on consumer behaviour, judgment and recall. This relates to psychobiology, an exciting new branch of psychology. Psychobiology incorporates biological, neurological and physiological processes with psychological processes when defining and measuring mood to ascertain its influencing effects on behaviour. Surely such approaches can yield better knowledge about human behaviour than just economics?

These examples typify some of the many psychological strategies which business uses to successful effect. It may not appear obvious but media psychology is also having many controlling effects, as discussed in depth by Giles (2003). The sometimes strict usage of economic models and assumptions in evaluating behaviours is no longer commonplace. To some, this may not seem like

³ Scott Bedbury, former Nike director, quoted in Klein (2001: 20-21).

front-page news. But for some economists, however, this is hard to accept; this is due to the need to adhere to the economic traditions of rational economic assumptions.

Fashioning economic psychology

It is unashamedly useful to use a topical trend related to popular youth culture in our seemingly 'consumer society' (Campbell, 1995: 100) as an example of where economics is missing out by not embracing psychology. In any event, this is fitting for a student-oriented journal. Likewise, it is also fitting when one acknowledges arguments suggesting that corporations promoting consumption are believed to have created a global youth culture or a consumer society (Macionis and Plummer, 2005).

With regard to the fashion industry, Snyder et al. (1980) argue that consumers seem to have a need for uniqueness; they wish to be different yet not too different. Consumer behaviour expert Solomon (2007) states that economics only applies the supply and demand models when explaining the trends in this industry. With these points in mind, let us consider an Irish example. To begin with, ponder the now noticeable trend among young women in the population to consume hefty quantities of Ugg boots and fake-tan. If one had to choose between economics or psychology to explain the following trend, which discipline would be picked? Economics may adequately explain why this consumption is so high, through supply and demand models. On the other hand, that does not explain the root cause of the initial emergence of this demand, which led to this (at times baffling) trend. It is not difficult to envisage where psychology could uncover the possibly deep social class issues, group psychological needs, body-image irregularities related to social anxieties or comparisons (Englen-Maddox, 2005) and media or peer created wants which could underpin this trend. Moreover, these underpinnings would be well accompanied by the economist's analysis of the economic consequences of this trend, therefore resulting in a much more informative piece of research, as opposed to the separation of the two.

Happiness and well-being: which is the more dismal science?

As mentioned earlier, a key concern of economic psychology (and the social sciences as a whole) is happiness or subjective well-being, in light of findings such as Layard's (2005). In a recent publication by the Institute of Public Administration (2007), it was concluded that subjective well-being and national morale were high: living standards have risen, jobs are more abundant and of increased quality and people 'as far as we can tell from the rather patchy evidence' generally feel good about the lives they lead (Fahey et al., 2007: 10). Fahey also says that the questions about the goals which society should pursue cannot be addressed in this study. Similarly, economists Clinch et al. (2002: 164-177) state that it is beyond their expertise to address the issue of unhappiness with life in Ireland, namely those who are suicidal.⁴ So surely the goal should be to gather workable evidence rather than bemoan the "patchy" evidence?

Fahey (2007) is sceptical about the pessimism of many commentators such as economic psychologists, sociologists and journalists regarding the issue of well-being within the Irish economic boom. In response to Layard (2005) and the 'static' nature of happiness in richer western

⁴ This is particularly so for young men, where there has been a four-fold increase in the suicide rate in Ireland since 1990, making it the most common cause of death in young people. Taken from 'Suicide in Young People - A Global Perspective' (September 1997), as summarised by 'Aware': <http://www.aware.ie/online%20books/suicide.html#trends>.

world countries, Fahey questions what further increases beyond the present levels of happiness are attainable. Interestingly, this is only a question raised, as opposed to a thorough investigation of the question, even though valid comprehensive responses to this are significant for all.

Fahey validly points out a flaw in the pessimistic research. Psychologists Diener and Seligman (cited in Fahey: 21) identified the massive increase in the risk and experience of depression in the USA over time, yet Fahey says no effects on happiness levels are evident. This may be due to the better treatment of depression, such as chemical treatments. Thus, this does not necessarily follow the assertion that psychological well-being is in decline in booming economies. However, this suggests that just because treatments have emerged, the problem is no longer a problem as such. This would contradict the notion that prevention is better than cure. Fahey concludes by stating that the Celtic Tiger has helped to deliver a modest happiness goal. It is possible on paper and through statistics to conclude that the population's well-being is fine, but it is impossible to imagine similar conclusions on these issues, had psychological science been incorporated into the research. After all, mental illness in the younger generation is reported to be increasing in line with this economic prosperity.⁵

On the other side of these debates, there are strong opinions. Sociologists Keohane et al. (2004) believe that increased income levels in Ireland (viewed as a positive development by economists) lead to extravagant spending which does nothing but reveal the erosion of Irish values of family and community. They creatively reject any optimism from economists. Furthermore, it is fascinating to observe that there is no uniform explanation for the Celtic Tiger phenomenon. Sweeney (2008) outlines some of the explanatory factors (such as investment and European Union membership), but there is no definite or conclusive explanation available.

These different researchers all highlight the disagreements in this field. Also, they clearly demonstrate that there appears to be a certain narrow-mindedness to each of their analyses in that they acknowledge other disciplines - yet critique them as opposed to using each other's strengths to assist in answering these burning questions. Thus, economic psychology is being used, studied and applied on some levels, but this is far from being universally the case.

The future of economic psychology

The separation and conflict between the disciplines are evident when it comes to analysing the success of policy objectives. So what does this mean for the future? Despite the many stumbling blocks interdisciplinarity will undoubtedly encounter, economic psychology nonetheless has good reason to be hopeful and expectant for the future.

It is not unreasonable to assume the rationale for economic psychology will increase in an age where economic prosperity is higher than before, yet so many new types of social problems accompany it. The World Health Organization predicts that by 2020, depression will be the second most disabling illness for all ages and sexes.⁶ It is relevant to outline an interesting finding by Whitley et al. (1999) about suicide. She examined the theory that economic downturns could increase suicide rates. By studying electoral constituencies in Britain, measuring social

⁵ According to Professor Michael Fitzgerald, chairman of the Irish Association of Suicidology (IAS), as reported by Marese McDonagh in *The Irish Times* (2nd December 2006).

⁶ According to WHO's website: http://www.who.int/mental_health/management/depression/definition/en/

fragmentation and poverty levels, she identified a stronger link between suicide and social fragmentation rather than poverty. Suicide is without doubt a massive concern to society. Its relationship with poverty, an issue of great concern to economics and social policy, may not be of the degree of importance in explaining and preventing suicide as is usually assumed.

Thus, as more and more weaknesses become apparent from all corners, it would suggest that interdisciplinary work is the only way forward. Furthermore, Lucey and Delaney (2007) recently conducted the first psychological and attitudinal profile of the Irish economics profession. The results showed a picture of a group who believe their discipline to be relevant to society and policy, who perceive the discipline of economics to be somewhat stale and who desire a greater focus on interdisciplinary work. This is a clear sign of a shift taking place. One hopes that this desire will be sustained when it comes to decision-making.

Conclusion

This essay has shown where psychological input is beneficially taking place and where it is not yet being properly considered. Disagreements and conflicts within academia have been discussed with a view to showing how the use of economic psychology would surely yield more conclusive research outcomes. Finally, this essay suggests that these conflicts will no doubt continue and therefore will substantially increase the call for welcoming economic psychology by highlighting the clear weaknesses that are becoming increasingly obvious, due to the neglect of interdisciplinarity. The recent finding showing Irish economists' desire for interdisciplinary work is a positive indication that, at last, economic psychology is being welcomed at an influential level. Here is hoping this continues.

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