

## **Rethinking Applied Economics by Classic Grounded Theory: An Invitation to Collaborate**

Olavur Christiansen, University of Faroe Islands

### **Introduction**

The heading of this paper refers to an issue that so far remains unaddressed by classic grounded theory (CGT) researchers. The aim of this paper is to take a closer look at the accordance between the CGT methodology and the field of applied economics (economic policy-making).

The goal is NOT to present a finished theory; the purpose is to briefly discuss the main concern and to suggest some possible properties of the recurrent solution of the main concern (the core variable) within the field of applied economics.

The paper is based on some open coding of sampled data. These data came from interviews with leading politicians with economic responsibilities, memoirs, and published diaries of leading economic politicians, and a selection of popular books written by leading economists.

The procedure of memo writing has been used to a limited extent, but no sorting of memos has been made. Selective coding has not yet begun. This means that the work is far from finished. It has hardly begun. Thus, it is far from possible to present an entire classic grounded theory. I can only present some initial theory bits that relate to the discovered main concern. This paper is also an invitation to collaborate, see the epilogue.

### **Two most different methodological approaches**

The methodological approach of generating and presenting economic theory by classic grounded theory (CGT) is very different from the conventional economic approach.

Neoclassic and keynesian economics are both normative. These approaches focus on what should be done, and how. Mainstream economics is based on the assumption that the behaviour of economic agents follows the rule of "rational choice" (optimizing), and that the actual behavior of economic agents should follow this rule.

CGT methodology on the other hand is not normative in the same sense. Use of the CGT methodology means that focus will be on actual behavior (what people actually do) and how to explain this actual behavior. No apriori assumptions are made regarding this actual behavior. Discoveries regarding this actual behavior that are grounded in the data may be used at a later stage as a guideline for problemsolving within the field of study (i.e., as "grounded action").

### **“Schools” of economics**

A distinction can be made between present-day mainstream economics (typically neoclassic and neoclassic-keynesian synthesis) and different smaller schools of what we can call “minorstreams economics”. These “streams” can typically be identified by the journals, where the respective research is published.

One illustrative example of such a “minorstream” is the approach of Daniel Bromley (2006). Bromley challenges the prevailing economic assumption of “rational choice” of economic agents (optimization), and he offers an alternative evolutionary model of pragmatic human action, where individuals “work out” their desired choices and actions, as they learn what choices are available. Bromley’s methodological perspective of “volitional pragmatism” builds on the work of Charles Sanders Peirce and his abductive approach. For Bromley (2006), the most fundamental human need is not eating, drinking or obtaining shelter, but concerns “what to believe” (Ibid). Nevertheless, Bromley’s approach just replaces the “rational” choice assumption with the assumption of “volitional pragmatism” – i.e. so far, the methodology is not so different from the mainstream.

### **Methodologies: Better or worse?**

Despite this difference of methodological approaches, it would be too brash to claim that the CGT approach is better or worse compared to other approaches. CGT is just different.

From the perspective of a CGT researcher, CGT also becomes justified because it is “different”. That it is “different”—and thereby justified—means that it can possibly shed light on some issues that constitute a “blind spot” for other approaches. It can be vice versa, when the neoclassic approach is preferred over the CGT approach.

One main difference between these two approaches is (a) the a posteriori (dependent on grounding in the data) and initially assumption-free approach of CGT, as opposed to (b) the a priori (independent of grounding in the data) and assumption-bounded approach of especially neoclassic economics.

### **From preconceptions to discoveries – from logical deductions to empirical discoveries**

When governments appoint commissions to resolve a particular task (for example, reform issues, a new IT system, digitalization, etc.), these commissions typically follow the neoclassic methodological approach, and the terms of reference (task, mission) typically preconceive “the problem”.

An alternative use of the CGT methodology would mean that the first priority should be given to the suspension of preconceptions, and next priority should be given to the discovery of the most important and problematic for those who have a stake in the solving of the task. This latter has to be discovered from a systematic treatment of the data.

### **The main concern of sustaining employment**

Those who have most at stake in the economic policymaking of a country are politicians with special economic responsibilities, the electorate, and professional economists as civil servants. Data have only been collected from these three groups of stateholders. University economists with research responsibilities have not been included<sup>1</sup>.

What is at stake is different for these three separate groups of stakeholders. Nevertheless, the main concerns regarding economic policy-making are the same. They are worried about "sustaining employment" mostly in the short term, but also in the long term.

During the periodic business-cycle-dependent waxing and waning of the economy, periods of labour shortages can be just as problematic and relevant as periods of unemployment. Experientially, labour shortages follow periods of unemployment and vice versa. Usually, what is problematic relates to the employment of people (labour), but occasionally there are also concerns about the employment of capital, when this employment is associated to the employment of people.

### **The impact of employment/unemployment**

The importance of work and employment for society, the economy, and the individual can hardly be overstated. In the US, the "king" of economic indicators is the monthly job report. The employment/unemployment number is also the key indicator of the "location" of the economy on the pattern of the business cycle. The importance of employment for the self-worth and self-identity of the individual is obvious.

The balance of governmental finances is highly dependent on the employment/unemployment situation. When people proceed from no work to work, this has a "double effect" on the public finances—governmental expenditures decrease, and governmental taxing incomes increase. It is vice versa, when people lose their jobs. The effects of unemployment on private consumption and private demand is considerable. Geographical areas with high unemployment lose inhabitants, and geographical areas with suitable employment attract immigrants. Serious economic crises, such as the recent financial crisis, have affected the quality of sleep of a large proportion of the population; many people had sleepless nights due to fear of losing their job, which impacts the national health.

Influencing employment/unemployment by the standard means of economic policymaking (fiscal policy, monetary policy, income policy, labour market policy, industrial policy, etc.) is problematic. Interventions by these policy means can improve the situation in the short term, but usually at the cost of a worsening in the long term. A delimiting factor will be governmental debt. On the other hand, measures to improve the economic situation and employment situation in the long term are usually not helpful for the short term, and vice versa.

### **The dependability and undependability of employment/unemployment**

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<sup>1</sup> This may be a shortcoming of this study; for all researchers, publishing is also a mean of "sustaining employment".

The numbers of employed and unemployed are highly variable and are highly dependent on other factors of the economy. Simultaneously, most of the other factors of the economy are highly dependent on the trends of employment and unemployment.

One single factor can trigger a change the economy. The change in this factor can affect another factor positively or negatively, which, in turn, effects a third factor of the economy, etc. This is the "domino effect" (a theoretical code). Merged with the "domino effect" (or the inverse domino effect) is another theoretical code of "amplified causal looping" when consequences are becoming causes and vice versa. (In this case, one sees either worsening or improving progressions). These forces make the economy complex, fluctuating and unmanageable, and they reduce the transparency regarding possible causes and effects.

The government finances and the long-term fiscal sustainability of the governmental economy depend on the level of employment. Furthermore, the educational policy, the health policy and the social policy depend on and are dependent upon the employment/unemployment issues. Thus, there seems to be an interdependence between educational policy, health policy, and social policy on the one hand, and the employment/unemployment issue on the other. For example:

(i) Regarding education policy, education is a preparation for employment and can affect job prospects and the quality of employment. This means that there will be a relationship between educational policy and an employment sustaining policy.

(ii) Regarding health policy, one purpose of hospitals and health institutions is to keep people fit for work. It is also common knowledge that unemployed people tend to be less healthy than other citizens.

(iii) regarding social policy, kindergartens and day nurseries for children, as well as home care and nursing homes for the elderly do have an obvious relationship to the employment/unemployment issue.

### **Relationships between employment, economic growth and productivity growth**

The economy (GDP) has an inherent tendency to grow in the long-term. Around its long-term growth trend, there are short-term fluctuations (expansions and contractions) in line with the movements of the business cycle.

This long-term growth tendency of the economy is due to an unstoppable productivity growth that in turn is due to the phenomenon of an unstoppable technological progress.

As long as businesses have to match their competitors in their use of new technology in order to survive, productivity will be boosted and productivity growth will be unstoppable. This becomes a basic social condition.

New technology that sustains productivity growth is usually embedded in investments. The following textbox explains the relationships between changes in employment, changes in productivity, and changes in the size of the economy (GDP):

TEXT BOX
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We have:  $Y$ =real sum of value added (GDP),  $L$ =hours of work,  $Y/L$ = Labour productivity, and the identity  $Y = (Y/L) * L$ . We use the natural logarithm as approximation to differentiation (can be used when changes are small):  $\ln Y = \ln (Y/L) + \ln L$ . From this we can see that a percentage change in real GDP  $\approx$  a percentage change in labour productivity + a percentage change in employment.

The conclusion from the textbox is thus that a percentage yearly change in real GDP equals a percentage yearly change in labour productivity + a percentage yearly change in employment.

For example, if the yearly growth of GDP is 2% and the yearly growth in labour productivity is 2%, there will be 0% yearly growth in the employment. If the yearly growth in GDP is 0% and the yearly growth in labour productivity is 2%, there will be -2% growth in the employment.

### **Consumerism and the employment issue**

Thus, all else equal, the growth of the economy (GDP) in % has to be higher than the growth in labour productivity in % in order to allow for a positive growth in employment (i.e., a fall in unemployment).

So far we have looked at the supply side of the economy. It is the demand side that can keep the economic growth higher than labour productivity growth and thus boost the growth of employment.

Productivity growth makes it possible for companies to lower the prices of luxury goods (price elastic and income elastic goods). Such a price cut will boost the revenue from sales. The price cuts will also sustain spending on other goods. Both effects lead to higher demand and higher GDP.

Over time, luxury goods become necessity goods (price inelastic goods). Over time, people become used to these former luxury goods and cannot be without them. A price increase for price inelastic necessity goods will boost the revenue from sales. This can also lead to higher demand and higher GDP.

Thus, employment depends on the recurrent innovation of new luxury goods (price and income elastic goods) that over time become price-inelastic necessity goods. "Consumerism" (throw away and buy new) thus becomes a precondition (a basic social condition) for sustaining employment.

### **Technological disruption and the employment issue**

It follows from the text box that if the yearly growth of the economy (GDP) in % is less than the yearly growth in % in labour productivity, there will be a negative growth in the employment (i.e. an increase in unemployment).

This is what happens in the case of job-destruction or disruption due to new technology and new innovation that lead to high gains in labour productivity, but without the balancing factor of increased consumerism. The debt burden of government and the private

sector of the economy will be a check on domestic demand of the economy. Globalization and an increase in free trade also have an impact.

During periods of contraction of the economy (business cycle recessions) jobs are made redundant without the immediate creation of a corresponding number or a higher number of new jobs requiring new job qualifications. According to McKinsey Institute (2011), new job-creation due to technological progress has slowed down during the two recent decades. Recent elections indicate that such a trend has had a considerable impact on the behavior of the electorate.

### **The recurrent solving of the main concern of sustaining employment?**

The solving of the main concern of "sustaining employment" during the recent financial crisis can be summarised as "sustaining employment apparently". This may be a core variable candidate.

The policy for solving the financial crisis was a monetary policy of quantitative easing (i.e. providing a considerable increase in the money supply) and a policy of keeping interest rates close to zero. It was also a fiscal policy of "stimulus packages". However, interest rates may increase sooner or later, and the money supply has consequently to be normalized. The effects of such interest rate increase and money supply decreases are unknown to leading economists; we do not have any precedents. It was a policy that "looked right" from the perspective of the stakeholders in the context of a serious debt crisis.

Normally, it is not possible to give strong evidence regarding success or failure of economic policy. It is about what "looks right" as a policy in a given context. It is very much about convincing stakeholders by communication. Thus, a preliminary naming of the core variable may be "sustaining employment apparently".

### **Epilogue**

For the core variable to emerge more clearly, more data need to be coded selectively, memos have to be written, they have to be sorted at the appropriate time, and theoretical coding has to be performed. Someone else is welcome to collaborate or take over and finish this study.

### **References**

- Bromey, Daniel W (2006) *Sufficient Reason – Volitional pragmatism and the meaning of economic institutions*, Princeton University Press, New Jersey
- McKinsey Global Institute (2011) *An Economy that works: Job creation and America's future*, McKinsey & Company.