Bridging Leadership and Economics Studies

Tomaž Schara[1], Richard Kennedy Common[2], Paul Saunders[3], Katja Hleb[4]
[1]*IEDC – Bled School of Management Affiliate,* [2] Faculty of Business, Sohar University, [3] NEOMA Business School, Campus de Reims, [4] Faculty of Economica, University of Ljubljana Affiliate

Abstract

The United States of Earth debate, as Churchill might have called it, relates to the globalization vs. protectionism debate. It has consequences for the developed and developing countries, and the equality/inequality divide of individuals living in those. Distribution of power and wealth within and among those societies, and individuals, places the concepts of leadership and debt into a relationship that offers profound understanding of social relations and contribute to the growth of theory and practice in complex political environments, like the EU. Such better understanding should make a substantial contribution to better policy-making to the benefit of citizens.

Economics is preoccupied with trying to understand the relations between symptoms without ever being capable to predict a future cyclical downturn or explain the last one (Stiglitz, 2002), symptoms of debt creation in models of economics which are based on questionable and simplistic assumptions. The 'invisible hand' of the market is the base of neo-classical as well as post Keynesian theories of economics. Rational behavior of individual agents, persons or businesses, and absolute symmetry of information are further assumptions on which theories are built and policies proposed. Theories were unsuccessful in predicting economic downturns as well as in explaining them once they happened. Many policies are thus flawed.

If there is a single word that appears most frequently in discussions of the economic problems now afflicting both the United States and Europe, that word is surely debt (Eggertsson & Krugman, 2012). "Surely one has to pay one's debts." The reason this statement about debt so powerful is that it's not actually an economic statement: it's a moral statement. (Graeber, 2011). Dealing with debt overdue among companies and nonperforming bank loans of companies to the banks is studied in economics on the aggregate levels. Policies are confined to monetary measures like setting the interest rates and quantitative easing, thus adjusting the money supply in an economy on one side; and on the fiscal side bankruptcy legislation and regulation are tightened, which causes more companies, individuals and banks to go bankrupt even their receivables are plenty only not serviced on time.

Entropy in a financial system is increased trough debt overdue among companies and nonperforming bank loans. Without external intervention, like in all cases of entropy it can only increase, and the increased entropy of the system leads to economic downturns and crisis. They are exogenously driven by the actors that cannot settle their outstanding obligations on time as agreed upon.

This provides a situation whereby societies seek explanations of actual developments in the fields of thought based on populism, ideologies or religions. Leadership and Economics as a meta sciences should address their own weaknesses and must find means of understanding the phenomenon of a society and economy much deeper by simply considering what is it that is going on in the phenomenon itself.

Ultimately there are 7 billion people in the world and not more than 7 billion companies, which amounts to 21 billion financial statements at the most. Technologically processing this is miniscule against what many social networks do every day. The recapitulation is that technology and availability of data to provide insight into the depths of the phenomenon of an economy is there easily available. It is up to scholars and politicians to use it ethically and morally to the better good of all. This would allow Economics combined with Humanities and Sciences to build coherent theories that could serve as grounds for policy development.

Heterodox economics view on the role of debt/money is needed. Heterodox monetary Economics theories of sovereigns and their monetary and fiscal systems (Arestis & Sawyer, 2006) provide insights into the working of an economy and provide policy actions in the public interest. Creation and destruction of money is a consequence of deliberate actions of individual leaders of governments and central banks on level one, leaders of banks on level two and leaders of companies on level three. "States with sovereign currency control (i.e. that do not operate under the restrictions of gold standard, fixed exchange rates, dollarization, monetary unions or currency boards) face none operational financial constrains (although they may face political constrains)." (Arestis & Sawyer, 2006, 70).

What makes the field of heterodox monetary Economics relevant to the field of Leadership research is that it starts with a very fundamental philosophical understanding of money, or better debt, which is much older than money as its material form. The concept of debt is as old as mankind, like leadership. Parallels between leadership and debt, the latter represented by today's monetary and fiscal policies, can be better understood in how they stir societies, governments, banks, businesses and individuals that are the constituents of a sovereign model (Arestis & Sawyer, 2006).
Economic downturns and crisis are exogenously driven by the actors that cannot settle their outstanding obligations on time as agreed upon. Psychology (Maslow, 1943) explains that such actors are deprived of their existential means of existence and are thus consequentially in economic terms in no position to invest or consume. What are the means at our disposal that are exogenous to an economy?
The level of entropy in the economy is in the debts overdue. Debt overdue or bad debt can be and should be empirically measured and analyzed to be resolved by the redistribution of power by the state or by the markets. Our thesis is that the lead indicator of economic downturns is there to be defined theoretically and that there are means to measure it empirically.