ACADEMIA SUPERIOR
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How do we measure well-being?

discussion

- interaction of demographics, energy, and politics
- opportunity for Upper Austria
  - modeling on a regional basis is more complicated, fascinating, and more necessary
  - concentrate on the synergies and spillovers
  - develop own strategies
  - research project: which dimensions should be optimized?
- most relevant factors for the growth of sub-national economies
  - 1 capital city or not
  - 2 wealth of the region (distance to economic 'frontier')
  - 3 proportion of people with a tertiary degree = education and ability to innovate (ability to move the frontier)
- how to define welfare?
  - find ways to measure things that are not measurable
  - improve society in more dimensions than 'income per capita'
    - e.g. Human Development Index
  - change the metric!
  - What is the aim in a rich society? Not growth but ... Social cohesion?
- separation of real economy and financial markets > speculation over reality

Surprise Factors

- greater scale
  - big surprise is the lack of surprises
  - lack of (positive) surprises in the financial crisis
  - lack of discussion on the regulation of financial markets
- personal surprise
  - research unfolding in reality: in Northern Africa (democratization process)
  - Which long-term demographic and educational processes make conflict successful, which ones lead to civil wars?

What is the purpose of economics?

- tries to explain social interactions among people (in general - as "dismal science")
- build econometric models, develop methods that try to explain economic phenomena
  - e.g. to understand revolutions
  - e.g. to understand democratization processes
  - e.g. to investigate impact of education
- exploit the uncertainty of economic and social relationships to improve understanding of it > eventually: prediction and application

Need of a paradigm shift in economics

"We are very pretentious"

- taking risk aversions into account
- meta-abstraction as a normal instrument (instead of solely mathematical models)
- mix theoretical backgrounds of potential explanation of the world together > make sense of it by looking at meta-models
- economists usually concentrate on single potential explanation > meta-models contain information about the uncertainty that individual models contain

biology (Darwin) in economics

- Neuroeconomics (Ernst Fehr): try to find the neurological source of economic activity; e.g. Where does altruism come from in your brain?

political lethargy

- importance of education for democratic processes
- "Give an extra course of philosophy to kids. That would by itself improve the way we approach politics."

limits of models

- Do we confuse the map with the territory?
- With finite time and finite information all models are approximations
- communication between science and policy-making has not been good enough
- politicians need to know the limitations of models
- wrong paradigm in policy making: models are and were taken at face value, as if they were reality
  - 1 policy makers use economics as defense mechanism
  - 2 policy makers do not understand the level of abstraction of models
  - transition mechanism between policy makers and economists has been failing
    - 1 models become more and more complex mathematically
    - 2 belief in models becomes stronger
  - "The paradigm at the policy making level has been wrong"
- "People don't acknowledge the limits of science, the limits of abstraction."
- a photo never captures reality > give people a photo album to describe reality better

Topics Suggestions for Action

- ✔ raise awareness that abstraction / models are not reality
- ✔ politicians need to know the limitations of models
- ✔ create meta-models that can deal with unpredictability or uncertainties of individual models
- ✔ education as a key factor in working democracies: add an extra course of philosophy in the school curriculum to improve politics
- ✔ find new dimensions of measuring well-being in wealthy societies What is the goal? What do we want to improve?