Supply Side Behaviour: A Source of Welfare & Happiness

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The microfoundations of welfare are intended to achieve social welfare. Individual is a micro-order having economic and non-economic factors, shadows of scenario, and it works and takes decisions in the combined system of soul, body, and instruments of activity. Welfare is a macro concept, but it can be achieved by the aggregate behavior of a micro unit, which is an individual. The micro approach reveals that the decision to embody the spirit of sacrifice and selfless service without disregarding one’s own integrates the cause of life and livelihood both for oneself and others. Welfare, peace, and happiness can be secured through action or work, which is the supply-side behavior of an individual. Such microfoundations for welfare highlight the importance of supply-side behavior from all stakeholders in society. Supply-side economics is a different concept that is based on economic rationality. Here, the supply-side behavior is normative in nature. The approach calls for taking care of the welfare of others besides our own. Indian economic thoughts and ancient literature all have this broader outlook. The paper is divided into four sections: introduction, individual as micro-order, background basis, different concepts and dimensions of supply-side behavior, and conclusion. The paper is food for thought, with many dimensions of supply-side behavior that can be explored.

Keywords: invisible hands, market failure, Pareto optimal, economic rationality, normative approach

Introduction

In economics, the concept of “invisible hands” of classical school founder Adam Smith (1776/1999) and free play of market forces is well known, where hands of demand and supply bring about equilibrium in the market and they are self-adjusting, hence no requirement for governmental interference. In the market behavior of demand-governing consumers and supply-governing producers, both are based upon the assumption of economic rationality, which is self-interest maximization, i.e., as consumers, utility maximization, and as producers, profit maximization. For economic progress, both demand and supply sides are important. But when we look at social welfare or the welfare of humanity, we look beyond positive economics, and in the normative front, supply side behavior becomes important, whether the actions of an individual as a unit of supply side behavior or governmental actions or policies for society or people.

In standard economics, the aim of supply-side economics is to boost an economy by implementing policies that can lead to increased supply of goods and services and, subsequently, economic growth. The core of supply-side economics is that production (i.e., supply of goods) is the most important factor in determining economic growth. But, in this paper, the approach to the supply side is broad, including economic and non-economic variables, i.e., socio-economic, psychological, philosophical, ethical, cultural, and religious. A combo approach to supply-side behavior that first requires the preparation of supply-side behavior stock within and then its delivery to society. Every individual is an economic man, as producer, consumer, laborer, service provider, etc., with economic rationality, but his overall supply behavior can have a broader perspective. Even with self-interest maximization, the welfare of others can also be increased with a slight change in perception. The role of non-economic factors in the personality of an individual becomes important here.

Individual as Micro order for Macro welfare

The micro approach reveals that the decision to embody the spirit of sacrifice and selfless service,
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The 47th shloka of second chapter of the Indian holy treatise Shrimad Bhagwad Gita emphasized on the ‘Nishkam Karma’ (निष्कामकर्म) (कर्मयेवाधिकारस्ते मा पलल्यु कदाचन। माकर्मकलहतुमाये ते सहकर्मयुक्तकम्यो) “Nishkam Karma” translates to “action or without desire” or “work without reason.” To elaborate this— Lord Krisha, the preacher suggests that we have rights only on the work or the action, and not on its results, whether it is good or bad. Our works, our desires should be “desireless”, we should not desire for any pleasing (or unpleasing) result. Here, karma is duty to others (all those in society and within your reach). So, karma refers to supply-side behavior, which says to do as per your duty without any expectation. Here the message is not only performing duty but with utmost responsibility.

The predominance of ethics, religion, and philosophy undermined the importance of economic ideas, and no value was attached to an independent study of economic problems. Since the dawn of history, our ideas in ancient economic thought have always been governed by ethics and morality. Economic thoughts in India, like those in other parts of the world, have developed through the ages under the influence of philosophical theories and political and physical conditions. Based upon the principles of Dharma, Arth, Kama, and Moksha (the four aspects of ways of life as mentioned in the Vedic texts), economic decisions were not taken in isolation from economics; rather, these decisions were taken in totality by considering social, political, and economic factors. The overall outlook of ancient thinkers was to do and promote those deeds that could increase social welfare and help or support people. Indian ancient thinkers believed that all social sciences were interdependent in their theoretical as well as practical aspects. Indian thinkers didn’t advocate the survival of the fittest in terms of material goods but emphasized the obligation of a civilized society to ensure an equal opportunity, at least for the survival of the weakest. Ancient Indian thoughts from sages and seers have considered economics to be very wide in scope. Even wealth was not considered apart from the demands of ethics.

Economic thoughts in ancient India were influenced by the religious, social, and economic ideals and the system of education existing at those times. The aim and ultimate objective of all the activities of human beings were to take care of society by helping others. Sacrifice full consumption, use of wealth for helping others, clarity, and doing duty for society and nation were the philosophical thoughts of Indians. All the
primary and secondary sources for the study of Indian economic thoughts, from the Vedas to modern sources of Kautilya, emphasize the importance of the supply behavior of individuals from whatever resources they have in possession. The study of economics was combined with the study of religion, ethics, philosophy, law, politics, and public administration. Kautilya’s Arthasastra (4th century B.C.) is one of the most influential treatises. According to Kautilya, the study of all these together was essential for the salvation of an individual. The concept of a welfare state was important, and it was the duty of all to maintain it.

The importance of selfless supply leads to the welfare of society at the macro level. Nature, a symbol of the Almighty, shows all this in its behavior. According to ecological economics, nature performs four important functions for the human economy and human beings. Without all these, life and the economy are not possible. Important is that all from the environment or nature is selfless supply for our welfare. It is an example of natural supply-side behavior, which is the best example. The four supply-side functions of nature and the environment are:

1) Supply of renewable and non-renewable resources for human economy
2) Environment acts as Sink to assimilate waste
3) Nature provides life support system e.g., fresh air, fresh water, rich biodiversity, etc.
4) Nature provides entertainment value, spiritual value, aesthetic value and recreational value for human beings.

All these are supply side behaviour of nature which are very crucial for human beings.

Concepts

Economic activities are done by every person with the objective of self-interest maximization, which is fundamental to economic rationality. But self-interest maximisation does not ensure social interest maximisation (a view opposite to Adam Smith, the 18th-century Scottish philosopher and economist). Garrett Hardin, in his famous concept of “The Tragedy of Common” (1968), has shown that individual interest maximization is not social interest maximization. But in a normative sense, when our economic actions are also welfare-oriented, such supply-side behavior or government policies create social welfare.

Nowadays, sustainable development is the goal of all countries in the world. It is a normative concept that requires deliberate efforts to attain social, economic, and environmental goals while satisfying the needs of the poor as a priority and taking care of the capabilities of future generations with inter- and intra-generational equity. Such goals cannot be attained by only economic rationality and self-interest maximization; they require new thinking in terms of welfare-oriented supply behavior from consumers, producers, entrepreneurs, stakeholders, and everyone else. Only through such an approach can we attain sustainable development goals.

Pareto optimal state is the best state for economy. It is first best solution which is socially desirable but it is attained in ideal conditions of perfect market and without interference. Here, Market of Adam Smith works efficiently. But such state is seldom found. Anyone of the following factor, if present, can create violation of efficiency conditions and Market failure:

(1) Imperfect market;
(2) Presence of externality;
(3) Presence of Social good;
(4) Absence of property rights;
(5) Asymmetric information etc.

In the presence of even one of the aforementioned factors, market failure occurs, which means that the market is unable to adjust to that factor, resulting in inefficient production, misallocation of resources, etc. Herein lies the function of the supply-side approach: the government makes an external effort to correct market failure in order to restore efficiency conditions and the Pareto optimal or Pareto efficiency, a situation in which no action or allocation can make one person better off without making another individual worse off (1906). The government, as a result of its efforts, focuses on the supply side.

Supply Dilemma: Failure of Say’s Law

“Supply creates its own demand”, is the famous law of classical economist J.B. Say (1803). Whatever is produced will generate demand due to an increase in income and purchasing power. At the time of the Great Depression (1929), overproduction was found, and this supply law failed. The reason that supply was in anticipation of demand is that demand is controlled by consumers. Here, what is talked about on the supply side is not in anticipation of any demand to be met. It is an external flow from inside for welfare; hence, there are no expectations or demand-side issues.

Government (Public Sector): Welfare maximiser

The objective of public finance and the public sector is social welfare maximization. The government is the guardian of people. Nowadays, for social welfare, the
government provides a lot of social goods and services that are essential for people. Such provisions are not profit-based. It is supplying side behavior. Normative economic policies of government are supply side behaviourmaximisation which is mentioned here. Its aim is welfare maximization, e.g., poverty alleviation and employment generation programs; policies for weaker sections and marginalized people; youth training programs; subsidies; and tax discount schemes, easiness of loan payment, monetary incentive programmes public distribution system.

Corporate Social Responsibility

The private sector and business world work on the economic principle of profit maximization. There is a provision of corporate social responsibility where corporations have to contribute 2% of their profit after tax to education, health, the environment, etc. First, it was voluntary, but since 2012, it has been made mandatory by law. It is also an example of supply-side behavior, where the corporate world can contribute to social welfare through effective and strategic CSR policies besides doing its profit-based business. Supply-side behavior can also include soft pricing on essential goods and producing a certain percentage of essential goods.

Individual consumers can contribute to the supply side in various ways. Having the philosophy of simple living and high thinking, purchase from needy sellers, find them, talk to each seller, educate them, make them aware, and make them feel that they are also important. They will have a connection with you. There is ample scope for supply-side behavior in this area to give others a lot, in terms of income, thought, and feelings, and to make them feel good with happiness and self-respect. It is a broad point with many dimensions of supply-side behavior.

Class room supply side

As a teacher, the supply side of the classroom is very important, from primary to higher education. Before us, students in the class are of different talents. Sometimes below average is more, sometimes above average. But a teacher should try two-way teaching but always supply their best for the class without thinking that only a few are getting it. Results are mesmerizing; many students who are deserving will get the benefits of the supply-side behavior of teachers; many ignorant students may become serious in the future; with a lapse of time, many others may get attention to studies and a positive attitude.

Family and Social Supply behaviour

There is a great importance of supply-side behavior in these areas for a better social atmosphere with dignity. Behaviour of younger’s towards elders and vice versa; children towards parents and vice versa; behavior of friends on supply as strength of friendship. Doing and thinking for others in society is our supply-side behavior, which gives very important and beautiful results. One can change the life of another. Sometimes, we observe the beauty of the understanding between two individuals where both think and act from their supply side, just assessing the aspirations of the other. Only supply from both sides without demand produces beautiful, untold, heavenly outcomes.

Conclusion

The role of absolutism is more important than relativity. Absolutism does not mean to get away from the world or stay away from whatever is happening around you. Absolutism is the personal concept of feeling that whatever is happening outside is the behavior of others according to their potential or wisdom. My side of absolutism means whatever positive potential, knowledge, skill, or feeling I have, and this is what I can give to others. This attitude saves time, energy, confusion, superiority or inferiority, and a lot more. I am ready to give what I have with confidence. Minimization of needs gives minimum self-interest, according to the “Theory of Wantlessness” of J.K. Mehta (1962). This thought is a way of life that minimizes pain and maximizes peace and happiness and puts a person in a sound state to feel about others where he can think, plan, and act on supply-side behavior with all its potential experience and knowledge for macro-level welfare maximization.

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