REMAPPING DEBATE
Asking "Why" and "Why Not"

# Behind scientific façade, economics depts serve heavy dose of laissez faire

**Original Reporting** | By Mike Alberti | Alternative models, Economy, Education

**WHY SO NARROW?**

This article is part of Remapping Debate's four-part series on the consequences of how economics is and is not taught to undergraduates in the United States. One school of thought — neoclassical ecomomics — has continued its long dominance, a status quo unchanged by its failure to predict or account for the current financial crisis. In Part 1 of the series, also published today, we looked at some basic precepts of neoclassical economics, the divergent perspectives that are ignored, and the charge that the current system fails to foster critical thinking in economics students.

Here, we examine the way that neoclassical economics presents itself as a neutral and fact-based discipline, despite ample evidence that it is committed to promoting a specific set of values.

In Part 3, we will look closely at the curriculum that exists at most schools; the wide-ranging impacts on students (including who is attracted to and repelled by the field in terms ranging from deciding to take introductory courses, to majoring as an undergraduate, to going on to graduate work in the field); and at what would be involved in adopting more pluralistic curricula.

Finally, in Part 4, we will investigate the obstacles that stand in the way of changing how economics is taught to undergraduates, and ask supporters of the status quo to explain why they believe that both students and society at large would not benefit from a more open, inclusive curriculum.

*— Editor*

Feb. 8, 2012 — In Part 1 of Remapping Debate's series on undergraduate economics education, we reported on how the discipline has been dominated by neoclassical economics, a school of thought that is presented to students without giving them the opportunity to study other, more "heterodox" perspectives or to develop the ability to think critically about the foundational assumptions that undergird neoclassical thinking.

A separate but related vein of criticism of the current educational model argues that it strongly influences students to unthinkingly adopt the values generally held by their professors. As a practical matter, critics say, they will generally reflect a belief in free markets and laissez faire economic policies.

In economics, a distinction is often made between positive statements (*what is*) and normative statements (*what ought to be*). When neoclassical economics is presented as a science, its axioms and assumptions are presented as being completely positive, neutral and devoid of any specific values.

But many heterodox economists reject this description.

"Neoclassical economics is full of normative judgments," said Neva Goodwin, co-director of the Global Development and Environment Institute at Tufts University. "Once you think about them for ten minutes you can see that they are strongly biased."

According to David Ruccio, a professor at large at the University of Notre Dame, if neoclassical assumptions are presented to students without explaining to them that they are assumptions, and without presenting other perspectives, "students are encouraged to believe that it's all been figured out. They don't need to make any of their own value–based judgments about the economy, because the big decisions have already been made."

When students are not given the tools necessary to recognize theories and to question them, he went on, their education becomes closer to "indoctrination."

For example, one of the most basic concepts in neoclassical economics concerns the question of whether a market will find and retain "equilibrium" — a situation where the amount of goods or services sought by buyers (demand) has come to be equal to the amount that are produced (supply). Neoclassical economics maintains that markets tend to reach and maintain equilibrium if not interfered with.

According to Geoffrey Schneider of Bucknell University, undergraduate students "are taught that markets are always self-correcting, which is another way of saying that the government has no business in them."

Many heterodox economists question the theory of market equilibrium on the grounds that there will *always* be disparities in information and power among buyers and sellers. And some circumstances exist in which the market price of an asset does not actually reflect its value. This phenomenon was strikingly apparent in the run up to the financial crisis, in which the financial markets priced many securities far above their actual value.

"It might be that in many, even most, cases the market will find equilibrium," said Steve Cohn, a professor of economics at Knox College said. "But we know empirically that it doesn't always happen."

According to Geoffrey Schneider, associate professor of economics and director of the Teaching and Learning Center at Bucknell University, the theory of equilibrium is taught to students as a positive description of what is, while in reality it is often a normative description of what neoclassicists believe *should be*. "They're taught that markets are always self-correcting, which is another way of saying that the government has no business in them," he said.

The concept of an "externality" is another example. Neoclassical economics uses the word externality to encompass any costs or benefits to society that occur outside of the basic supply and demand model. Some heterodox economists argue that the very concept of a negative externality is biased, implying that undesirable effects of economic processes are somehow outside of the frame of reference of analysis.

Take, for example, the "externality" of pollution. A Marxian or ecological economist, in contrast to a neoclassical economist, might view the environmental degradation, health costs and impacts, and societal stresses that result from pollution as inherent or "internal" to at least some economies. Heterodox economists stress that the ways in which different schools of thought decide to include or exclude certain costs and benefits is an important factor in how one assesses the merits of that particular school. (See box below.)

Another normative judgment presented as neutral fact is the basic neoclassical precept that there is a necessary tradeoff between efficiency and equality. Indeed, this is presented as one of the "10 Principles of Economics" in the most widely–used introductory economics textbook in the country, N. Gregory Mankiw's *Principles of Economics*. The precept begins with the idea that the "natural" tendency of the market is to distribute resources most efficiently. It then says that anything that interferes with the market's allocation of resources will impair that efficiency, creating waste (that is, less than maximum production from a fixed set of resources).

According to Goodwin, students are encouraged to think that it is simply a matter of objective fact that economies work "best" when they are most efficient. If, on the other hand, there is a proposal to make a society more fair to more of its members by *redistributing* resources (through modifying a tax system, for example), that goal is treated as a waste-generating consideration, laden with subjective values, and "outside of economics," she said.

### Perfect information? Perfect competition?

According to David Ruccio of Notre Dame, one of the major omissions of neoclassical economics is a nuanced discussion of class. "Neoclassical economics typically ignores class," he said. "It doesn't fit into the framework."

But after the financial crisis, in part because of the Occupy movement, inequality had become "too glaring to ignore," he said. "So the next stage, after denial, was to say, 'Okay, it exists, but don't worry about it because we still have mobility. So, yes, there is inequality and class, but don't worry about it because anybody can still make it.'" However, when it is pointed out that mobility has declined significantly in the United States and is now below most other industrialized countries, Ruccio said, "then they will try to get around it by saying that it 'reflects things over which we have no control, like technology. People just need to get more education and they'll get paid more, end of story.'"

"The way that neoclassical economics treats class is essentially to say that, because markets are fair and democratic, class is irrelevant," Ruccio said.

Imbued with that bias, Goodwin concluded, "it's perfectly reasonable for students to assume that redistribution is inherently wasteful" and decide that the market should be left alone.

"Students graduate without ever studying capitalism as a social system," said Steve Cohn of Knox College. "They are studying a narrow set of ideas about how capitalism works and how it can work well, but they never get a sense that this is only one way to organize society."

More generally, many economists argue that neoclassical economics has an inherent bias towards free markets and against government intervention. "Neoclassical economics has an agenda, and it's an agenda that tends to reinforce arguments for *laissez faire* policies," Schneider said. The idea that markets will generally produce the most efficient outcomes and promote economic growth, he said, serve to justify a range a political arguments, from tax policy to environmental and labor regulation.

And even more generally, some economists see neoclassical economists as providing a justification for capitalism. "Students can graduate without ever studying capitalism as a social system," said Cohn. "They are studying a narrow set of ideas about how capitalism works and how it can work well, but they never get a sense that this is only one way to organize society. For example, they never question capitalism's reliance on indefinite growth in consumption, or what affects that might have on the environment."

"If students get nothing else out of their education," Ruccio said, "I would want them to see that every time we think about the economy we're employing a certain theory, and each of those theories have consequences. That puts the onus on them to decide for themselves how the world should look."

## Divorce from reality?

Over the past half–century, neoclassical economics has become increasingly mathematical and abstract, placing a heavy emphasis on economists' ability to create complex mathematical models to simulate economic behavior. The reliance on mathematical "proofs" is one of the primary reasons that neoclassical economics has been able to portray itself as akin to hard science, and has played a large role in its dominance of the discipline as a whole. But as those models have become increasingly complex, critics say, they have also become so abstract that the conclusions they point to may not always match up with the empirical reality observed by the students who learn them.

"The consequence is that students are learning a lot about *economics*, but very little about the actually economy," said Perry Mehrling, a professor of economics at Barnard College and a senior advisor to the Institute for New Economic Thinking.

The disconnect between abstract models and the observable economy can sometimes mean that students are expected to take conclusions for granted that may not be borne out by empirical research, said Julie A. Nelson, a professor and chair of the economics department at the University of Massachusetts Boston. As an example, she used the debate about the minimum wage. Because the economy is said to "work like physics, the laws of supply and demand should mean that if you put in a price floor" — or a minimum wage level — "you will increase unemployment. That's a very standard conclusion that comes from the model."

Nelson said that while the model may hold in certain situations — "We might expect unemployment if you raised the minimum wage to $100 an hour," she said — she added that empirical evidence shows that the model is hardly binding. In fact, the most rigorous empirical research on the minimum wage has shown that increases can actually *increase* employment. "Why wouldn't you take the policy issue as the starting point?" she asked. "Then if it's helpful you can work back through the models and explain why they do or don't hold in specific situations."

Nelson also pointed out that, in addition to being normative, the efficiency/equity trade–off has actually been found to be applicable only in certain situations. If the income distribution in a country is so unequal that people at the bottom of it are not able to get an adequate amount of food or sleep, for example, then the economy will not produce as much as it could — it will be less *efficient*.

"They start out at the most basic levels learning about abstractions, and as they go through their education it just becomes more and more abstract," said Neva Goodwin of Tufts University. "They can get a degree in economics and not understand what they read in the paper, what's happening in the real world."

According to Goodwin, the fact that students will learn by rote the conclusions of models without being encouraged to investigate how those conclusions comport with reality does them a profound disservice. "They start out at the most basic levels learning about abstractions, and as they go through their education it just becomes more and more abstract," she said. "They can get a degree in economics and not understand what they read in the paper, what's happening in the real world."

## "Tomorrow's problems"

Critics of the narrow focus of undergraduate economics education are often focused on how that narrowness will affect individual students, who are not given the opportunity to question the assumptions on which their education is based and to develop critical thinking skills that will serve them later in life. But many critics point out that society as a whole also suffers.

“We are all losing out by not giving students the tools they need to address tomorrow’s problems,” said Robert Prasch, a professor of economics at Middlebury College. “Those problems are too complicated to be addressed by only one set of tools.”

Rachel Sandalow–Ash, a freshman at Harvard University who helped to organize a walkout of Mankiw’s introductory economics class in November, agreed. “When students are encouraged to just accept the world as it is and not think for themselves, they are encouraged to be less politically engaged,” she said. “In a world where inequality is growing and 25 percent of children in the U.S. are poor, this is a time when the policies we’ve been [pursuing] really need to be debated. Students need to learn to think for themselves how they want to create social change.”

There are many economists and educators who have thought about how undergraduate economics education needs to be reformed, and have proposed alternative models. And while the obstacles to change are daunting, Ruccio said that the financial crisis might have provided an opening.

“If you don’t see the crisis as evidence that something needs to be changed in economics, you’re not paying attention,” he said. “That leads to questions about why we’re teaching our students the same old thing.”

*This content originally appeared at http://www.remappingdebate.org/node/1077*