Preface for the Student

This book is written for you, the student. It's meant to give you a sense of what economics is, how economists think, and how they approach policy problems. There's only so much that an introductory text can cover, so much is left out. That includes much of the subtlety of economic thinking. So if you have a problem swallowing some of the ideas, and you believe that there's more to the issue than is presented in the text, rest assured; generally you're right. Hard choices have to be made for pedagogical purposes—issues have to be simplified and presentations curtailed. Otherwise this would be a 1,600-page book and much too heavy to carry around in a backpack.

Economics as a Method of Reasoning, Not the Truth

This book is what would be called mainstream (it presents the conventional wisdom of economists) both because I'm mainstream and because most economists are as well. But pedagogically, I also believe that students learn by questioning—to say, no, that's not right, that's not the way I see things, and then to compare their way of thinking with the conventional way. Despite my being mainstream, I'm by nature also a skeptic, and in terms of pedagogy often find myself in sympathy with Joan Robinson, a famous economist, who argued that "the purpose of studying economics is not to acquire a set of ready-made answers to economic questions, but to learn how to avoid being deceived by economists." So, to encourage questioning everything, I don't present models and insights of economists as the truth (the field of economics is far too complicated to have arrived at a single truth) but as a set of technical hurdles, reasoning processes, and arguments that students should know, and that will help prepare them to deal with economic issues. Economics primarily teaches you how to approach problems; it does not provide definitive answers about what is right and what is wrong. It is a method, not a set of truths.

Alternative Perspectives in Economics

One of the pedagogical choices I made in writing the book was to concentrate almost exclusively on the mainstream view. I strongly believe that focusing on that view is the best way to teach the course. However, I also believe that students should be aware of the diversity in economics and know that the mainstream view is not the only view out there. In fact, there are probably as many views out there as there are economists. Still, for a majority of economists, the concepts presented in this book are an acceptable pedagogical simplification of the myriad views held by economists.

Some economists, however, don't find aspects of what is presented in this text to be an acceptable simplification. They wouldn't necessarily say that the presentation is wrong; they are more likely to see it as misleading, or as diverting the discussion away from other, more relevant, issues. These economists are generally called nonmainstream or heterodox economists. A heterodox economist is *one who doesn't accept the basic underlying model used by a majority of economists as the most useful model for analyzing the economy*.

In this preface I will briefly introduce six heterodox economic approaches to give you a sense of how their analyses differ from the mainstream analyses presented in this book. The six heterodox approaches are Austrian, Post-Keynesian, Institutionalist, Radical, feminist, and religious. Below are brief descriptions of each group, written with the help of the team of alternative-perspective economists.

Austrian Economists

Austrian economists believe in methodological individualism, by which they mean that social goals are best met through voluntary, mutually beneficial, interactions. Lack of information and unsolvable incentive problems undermine the ability of government to plan, making the market the best method for coordinating economic activity. Austrian economists oppose state intrusion into private property and private activities. They are not all economists from Austria; rather, they are economists from anywhere who follow the ideas of Ludwig von Mises and Friedrich von Hayek, two economists who were from Austria.

Austrian economists are sometimes classified as conservative, but they are more appropriately classified as libertarians, who believe in liberty of individuals first and in other social goals second. Consistent with their views, they are often willing to support what are sometimes considered radical ideas, such as legalizing addictive drugs or eliminating our current monetary system—ideas that most mainstream economists would oppose. In macroeconomics, Austrian economists emphasize the uncertainty in the economy and the inability of a government controlled by self-interested politicians to undertake socially beneficial policy.

One proposal of Austrian economists will give you a flavor of their approach. That proposal is to eliminate the Federal Reserve System and to establish a free market in money—a policy that would leave people free to use any money they want and that would significantly reduce banking regulation. In a sense, their proposal carries the Classical argument in favor of laissez-faire to its logical conclusions. Why should the government have a monopoly of the money supply? Why shouldn't people be free to use whatever money they desire, denominated in whatever unit they want? Why don't we rely upon competition to prevent inflation? Why don't we have a free market in money? Well-known Austrian economists include Peter Boettke, Veronique de Rugy, Mario Rizzo, David Gordon, Israel Kirzner, Peter Leeson, Chris Coyne, Dan Klein, and Roger Koppl.

Institutionalist Economists

Institutionalist economists argue that any economic analysis must involve specific considerations of institutions. The lineage of Institutionalist economics begins with the pioneering work of Thorstein Veblen, John R. Commons, and Wesley C. Mitchell. Veblen employed evolutionary analysis to explore the role of institutions in directing and retarding the economic process. He saw human behavior driven by cultural norms and conveyed the way in which they were with sardonic wit and penetrating insight, leaving us with enduring metaphors such as the leisure class and conspicuous consumption. Commons argued that institutions are social constructs that could improve general welfare. Accordingly, he established cooperative investigative programs to support pragmatic changes in the legal structure of government. Mitchell was a leader in developing economics as an empirical study; he was a keen observer of the business cycle and argued that theory must be informed by systematic attention to empirical data, or it was useless.

Contemporary Institutionalists employ the founder's "trilogy"—empirically informed evolutionary analysis directed toward pragmatic alteration of institutions shaping economic outcomes—in their policy approach. Examples include indicative planning—a macroeconomic policy in which the government sets up an overall plan for various industries and selectively directs credit to certain industries; and income support programs, including those assuring employment for all willing. Well-known Institutionalists include Greg Hayden, Geoff Hodgson, Anne Mayhew, James Peach, and Ronnie Phillips.

Radical Economists

Radical economists believe substantial equality-preferring institutional changes should be implemented in our economic system. Radical economists evolved out of Marxian economics. In their analysis they focus on the lack of equity in our current economic system and on institutional changes that might bring about a more equitable system. Specifically, they see the current economic system as one in which a few people—capitalists and high-level managers—benefit enormously at the expense of many people who struggle to make ends meet in jobs that are unfulfilling or who even go without work at times. They see the fundamental instability and irrationality of the capitalist system at the root of a wide array of social ills that range from pervasive inequality to alienation to racism, sexism, and imperialism. Radical economists often use a class-oriented analysis to address these issues and are much more willing to talk about social conflict and tensions in our society than are mainstream economists.

A policy favored by many Radicals is the establishment of worker cooperatives to replace the corporation. Radicals argue that such worker cooperatives would see that the income of the firm was more equitably allocated. Likewise, Radical theorists endorse policies such as universal health care insurance that conform to the ethic of "putting people before profits."

There are a number of centers of Radical thought, including The Political Economy Research Institute, The New School for Social Research, and some campuses of the University of Massachusetts. A good place to find Radical views is the *Dollars & Sense* magazine. Well-known Radical economists include Lourdes Beneria, Sam Bowles, Arthur MacEwan, Robert Pollin, Gerald Epstein, Anwar Shaik, Michael Reich, Richard Wolff, and Stephen Resnick, as well as a number of feminist economists who would be considered both Radicals and feminists.

Feminist Economists

Feminist economics offers a substantive challenge to the content, scope, and methodology of mainstream economics. Feminist economists question the boundaries of what we consider economics to be and examine social arrangements surrounding provisioning. Feminist economists have many different views, but all believe that in some way traditional economic analysis misses many important issues pertaining to women.

Feminist economists study issues such as how the institutional structure tends to direct women into certain types of jobs (generally low-paying jobs) and away from other types of jobs (generally high-paying jobs). They draw our attention to the unpaid labor performed by women throughout the world and ask "What would GDP look like if women's work were given a value and included?" They argue for an expansion in the content of economics to include "women as practitioners and as objects of study" and for the elimination of the masculine bias in mainstream economics. Is there such a bias? To see it, simply look at your class and compare the relative number of women to the relative number of women at your school. It is highly likely that your class has relatively more men. Feminist economists want you to ask why that is, and whether anything should be done about it.

The historical roots of feminist economics can be found in the work of such authors as Mary Wollstonecraft, John Stuart Mill, Harriet Taylor Mill, and Charlotte Perkins Gilman. Feminist economics has expanded significantly in the past 15 years and has emerged as an influential body of thought. Well-known feminist economists include Myra Strober, Diana Strassmann, Amartya Sen, Barbara Bergmann, Julie Nelson, Jane Humphries, Marianne Ferber, Randy Albelda, Nancy Folbre, and Heidi Hartmann.

Religious Economists

Religion is the oldest and, arguably, the most influential institution in the world—be it Christianity, Islam, Judaism, Buddhism, Hinduism, or any of the many other religions in the world. Modern science, of which economics is a part, emphasizes the rational elements of thought. It attempts to separate faith and normative issues from rational analysis in ways that some religiously oriented economists find questionable. The line between a religious and nonreligious economist is not hard and fast; all economists bring elements of their ethical considerations into their analysis. But those we call "religious economists" integrate the ethical and normative issues into economic analysis in more complex ways than the ways presented in the text.

Religiously oriented economists have a diversity of views; some believe that their views can be integrated reasonably well into standard economics, while others see the need for the development of a distinctive faith-based methodology that focuses on a particular group of normative concerns centered on issues such as human dignity and caring for the poor.

One religious perspective that is represented by a defined group in the U.S. economics profession is Christianity, and a number of Christian economists have joined together in the Association of Christian Economists (ACE). Its stated goal is "to encourage Christian scholars to explore and communicate the relationship between their faith and the discipline of economics, and to promote interaction and communication among Christian economists." Centers of ACE are Pepperdine University, Calvin College, and Gordon College. Leading Christian economists include Kurt Schaefer, Andrew Yuengert, and Stephen Smith.

Many of the religious alternative perspective questions that we provide in the text are from the Judeo-Christian perspective, the perspective most familiar to U.S. students. However, we intersperse some questions from other religious perspectives, both to show the similarity of views and to encourage students to think in a multicultural framework.

Post-Keynesian Economists

Post-Keynesian economists believe that uncertainty is a central issue in economics. They follow J. M. Keynes's approach more so than do mainstream economists in emphasizing institutional imperfections in the economy and the importance of fundamental uncertainty that rationality cannot deal with. They agree with Institutionalists that the study of economics must emphasize and incorporate the importance of social and political structure in determining market outcomes.

While their view about the importance of uncertainty is similar to the Austrian view, their policy response to that uncertainty is quite different. They do not see uncertainty as eliminating much of government's role in the economy; instead, they see it leading to policies in which government takes a larger role in guiding the economy.

One of their policy proposals that gives you a flavor of their approach is tax-based income policies—policies in which the government tries to directly affect the nominal wage- and price-setting institutions. Under a tax-based income policy, any firm raising its wage or price would be subject to a tax, and any firm lowering its wage or price would get a subsidy. Such a plan, they argue, would reduce the upward pressure on the nominal price level and reduce the rate of unemployment necessary to hold down inflation. Well-known Post-Keynesian economists include Paul Davidson, Jamie Galbraith, Barkley Rosser, John Cornwall, Shelia Dow, Malcolm Sawyer, Philip Arestis, Victoria Chick, Jan Kregel, and Geof Harcourt.

Consistency of the Various Approaches

A characteristic of almost all heterodox economists of all types is that their analyses tend to be less formal than mainstream analysis. *Less formal* doesn't mean better or worse. There are advantages and disadvantages to formality, but *less formal* does mean that there's more potential for ambiguity in interpretation. It's easy to say whether the logic in a formal model is right or wrong. It's much harder to say whether the logic in an informal model is right or wrong because it's often hard to see precisely what the logic is. The advantage of an informal model is that it can include many more variables and can be made more realistic, so you can discuss real-world problems more easily with that model. Nonmainstream economists often want to talk about the real world, which is why they use informal models.

Often, after I discuss the mainstream and heterodox approaches, some student asks which is right. I respond with a story told by a former colleague of mine, Abba Lerner:

> "But look," the rabbi's wife remonstrated, "when one party to the dispute presented their case to you, you said, 'You are quite right,' and then when the other party presented their case you again said, 'You are quite right.' Surely they cannot both be right?" To which the Rabbi answered, "My dear, you are quite right!"

The moral of the story is that there's nothing necessarily inconsistent among mainstream and heterodox economists' approaches. Their approaches are simply different ways of looking at the same event. Which approach is most useful depends on what issues and events you are analyzing. The class analysis used by radicals is often more appropriate to developing countries than it is to the United States, and, in analyzing developing countries, many mainstream economists also include class fights in their approach. Similarly, Austrian analysis provides more insight into the role of the entrepreneur and individual in the economy than does mainstream analysis, while Post-Keynesian and Institutionalist analyses are useful when considering major institutional changes.

The distinctions between heterodox and mainstream economists can be overdone. One economist may well fall into two or three different groupings and use a combination of various analyses.

I follow the work of heterodox economists carefully. Their writing is often more interesting than mainstream writing, which can often get rather technical and boring. But in this book, I present primarily mainstream views. I do that because that's what I see as the job of the principles of economics course. My goal, however, is to present those views to you, not to indoctrinate you with those views, and throughout the text I include some challenges to the standard views. At the end of each chapter I also include some questions that challenge the view presented in the chapter. These questions are written by representatives of different heterodox groups. I also encourage you to look for these other views in your outside reading. The *Dollars and Sense* supplement to the book has radical critiques and *Free Market,* an Austrian newsletter found at www.mises.org/freemarket.asp, has Austrian critiques. There are many other sources and Web sites for heterodox groups. Exploring these sites, and learning about the many different views that are competing in the market-place for ideas, make your economics course more interesting.

A Concluding Thought

There are many ways to explore economics, and in your exploration, the textbook is only a map. You and your professor determine what you discuss and learn and what path you will take. Ultimately, that's the way it has to be. Most of you are in this course for the grade—college is a way of progressing up the ladder. That's how it was for me. But the process also can be transforming; it can change how you look at issues, how you think, and who you are. The economics courses I took were especially important in determining who I have become.

Much of the principles course is what I call hurdle jumping—calisthenics of the mind. It is a set of strengthening exercises. Separately, each is not especially relevant, but combined, they help turn your weak cranial muscle into a strong muscle better able to handle the problems that life throws at you. So, do the work, even if it seems boring; follow your professor's reasoning, even if you don't agree with what he or she is arguing; and keep thinking. Read newspapers and try to apply the lessons, deciding when they apply and when they don't. But in the process be happy—enjoy the moment, because that moment will never be again.