

How The Economy Works?

by Parag Joshi

At the National Council for the Social Studies annual conference in November, 2003, a representative of the National Council on Economic Education (NCEE) commented that their organization's Content Standards in Economics were intended to teach students "how the economy works." The NCEE's goal is to explain the workings of the economy *as it is*. If the economy were an automobile, then the standards would help teachers and students make sense of what they saw if they lifted up the hood and peered inside.

My reading of these economics standards is very different. Putting aside the idea of whether or not it is possible to see the economy without bias, it is important that we acknowledge the lens we do use to see it. The main flaw with the NCEE standards is that they do not inform the reader that these standards come from a particular ideological perspective, that of neo-classical economics. While their ideological assumptions are often hidden beneath the clothing of empiricism, they are in reality cast from a neo-classical perspective. This is a serious concern for economics teachers since neo-classical arguments are often couched in empirical language giving the impression that it is ideology-free. The online lessons (<http://www.ncee.net/resources/lessons.php>) and published materials from the NCEE are useful to economics teachers. But the consumption of this material in high school economics classes must be done in such a way as to reveal their underlying ideological baggage. The following are five main critiques of the NCEE standards:

1. Many of the standards assume that to achieve optimal allocative efficiency the economy must be near conditions of perfect competition (perfect information, countless buyers and sellers, commodity products, etc.). This model is theoretically useful for imagining what an economic policy could try to achieve, but it does not represent how the United States economy actually works.
2. By explicating a world in which government is a force that interferes in the economy to create inefficiencies, these standards are making a value statement. To understand how the economy actually works, students must examine modern mixed economies in which governments play a vital and often positive role. For 2002, government spending at all levels in the U.S. comprised fully 18% (or \$1.8 trillion) of Gross Domestic Product, employing approximately 14% of the nation's labor force. In addition to spending and employment, government produces certain goods under monopoly conditions (such as military defense) and competes with private industry in other markets (such as express mail). Government also is heavily involved in the private economy through regulations, tariffs, taxes, subsidies, quotas, transfer payments, counter-cyclical policy, international trade and currency agreements and participation in world trade organizations.

The two main standards that look at government in the economy are standards 16 and 17. According to standard 16, "There is an economic role for government in a market economy whenever the benefits of a government policy outweigh its costs." Accepting this maxim, the important question becomes how the cost-benefit determination is to be made and by whom. This is a very complicated question. One could conceivably envision a planned economy where decisions about government intervention were made based entirely on this one principle, a state of affairs surely abhorrent to the NCEE. The standard goes on to state that "most government policies also redistribute income." If the market economy is largely self-correcting and people respond predictably to incentives, it seems curious why government would ever wish to do so.

The explanatory text which follows the standard does yield some sympathetic language toward the role of government and even includes the possibility that markets may fail in some way. However the only example offered is highway construction. In the benchmarks for Standard 16 there are some neutral and thoughtful questions about the role of government, such as "Explain why there is usually only one local water supplier." But many of the benchmarks lead students to the conclusion that government involvement is quite likely to be counter-productive or unfair. For example, "What would happen to some land they own . . . if they found crude oil on this land but had no right to sell it?" The picture grows even more ideological when Standard 17 is scrutinized. The only non-ideological portion of this standard is the title, "Using Cost/Benefit Analysis to Evaluate Government Programs." It might more appropriately have been called, "Using cost/benefit analysis to evaluate government programs leads to the conclusion that special interests co-opt policy toward expensive and inefficient programs." The explication of this standard presents the view that government is concerned, not with the general welfare of society, but

exclusively with maximizing political goals. One of the 12th grade benchmarks is “Explain why a political leader would support an idea that helps only a few while harming many, such as a tariff on imported luggage or import quotas on sugar.” It is legitimate and necessary that government functions and actions be critiqued. But the contrast in the tone and foci of Standards 16 and 17 indicate that government, rather than business, is the institution that must be reformed in order to improve the general welfare.

3. A consistent theme of the NCEE standards is that public welfare is best served when individual consumers get what they want. The assumption is that such wants are, in fact, in the best interests of those consumers. Nowhere in the standards is the pernicious impact of advertising on consumer demand discussed. The economist John Kenneth Galbraith once said, “What is called a high standard of living consists, in considerable measure, in arrangements for avoiding muscular energy, increasing sensual pleasure and for enhancing caloric intake above any conceivable nutritional requirement.”

4. While the subject of market failure is taken up half-heartedly, market power is completely absent from the standards. By failing to address the subject of market power (the ability of a firm or consumer to influence price), the standards present an underlying neo--classical view that firms and workers are equal in market power. The situation of individual laborers being forced to negotiate wages and work conditions with large firms does not receive any attention even though the Bureau of Labor Statistics reports that only 13% of the American labor force was unionized in 2002. Also missing is the way market power affects competition between large and small firms.

5. The NCEE standards are ahistorical and present economic ideas and economic principles as if they were scientific truths. Such thinking is dangerous. Markets, scarcity, wants, firms, and property are all constructs - linguistic, legal, philosophic, and historic. If the objective is to set out “how the economy works,” then there must be a discussion in economics education of how these constructs were created historically. A charting of the intellectual history of economic thought is necessary in order to understand the multiple ways in which we might see and understand economic phenomena. But the standards make no place for the ideas of Smith, Marx, Marshall, Keynes, and Friedman. Each of these important thinkers came to see economics principles through the context of his time. It is necessary that any standard of teaching and learning economics include this notion. Implications for the Social Studies I want to emphasize that I do not believe that the NCEE had a sinister motive in creating neoclassical standards for economics education. The standards may, in fact, reflect the views of many economists. The question of how economics educators should respond is an important one. By adopting standards that are ahistorical and value-laden, the NCEE has incurred an important social studies cost: the loss of economics as a contested space. More than any other academic school subject, the social studies deal head-on with issues that are live and controversial.

It is instructive to contrast the NCEE standards with the National Council for the Social Studies curriculum standards. Within the social studies strand “Production, Distribution, and Consumption” the following four questions are posed: “What is to be produced? How is production to be organized? How are goods and services to be distributed? What is the most effective allocation of the factors of production (land, labor, capital, and management)?” Another alternative approach is taken by economists Thomas Swartz and Frank Bonello in *Taking Sides: Clashing Views on Controversial Economic Issues*. A series of issues (e.g. “Should Social Security Be Privatized?”) are presented and addressed in opposing essays. According to the editors, their aim is to help students “achieve a critical and informed view of the economic issue at stake” and to ensure that “the views presented should be used as starting points.” I want to offer a concrete alternative to the benchmark for Standard 17 which suggests that removing price controls is “good economics but bad politics.” One of the most important examples of price controls is the minimum wage. Standard supply and demand theory predicts that a loss of jobs will result if wages are raised above the equilibrium level by government fiat. In fact, studies by Princeton economists David Card and Alan Krueger conclude that fast-food employment was unaffected after the increase in the minimum wage in New Jersey in the early 1990s. While their methodological work has come under fire, the important lesson for economics educators is that the impact of the minimum wage on employment is not an open-and-shut case.

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