HAR06561

REVAMPING THE ECONOMICS CURRICULUM

By

Peter Harkness
Senior Lecturer in Economics
Swinburne University
Melbourne

Email : pharkness@swin.edu.au

A paper presented at the Australian Association for Research in Education Conference in Adelaide in November 2006

Revamping the Economics Curriculum

ABSTRACT

Economics is commonly studied at schools and is one of the most popular courses at university (usually within a Bachelor of Business or Commerce degree). Thus, it is of great importance that the economics curriculum is enlightening and revealing and addresses profound questions. In my view, it is not doing this well. The typical syllabus hides more than it reveals, especially at the tertiary level.

This paper will describe the major deficiencies in the way economics is normally taught in western countries, including how narrow and unrealistic orthodox economic theory is, and how it legitimises our unequal, competitive, individualistic capitalistic economic system. Orthodox economics courses rarely question the status quo, and rarely present students with alternative ways of imagining society.

The paper outlines an alternative syllabus which endeavours to analyse the economy the way it really is, and addresses all its main dimensions: historical, social, political and environmental. This contrasts starkly with the simplistic stylised "perfectly competitive" economy assumed in standard economic theory.

Revamping the Economics Curriculum

Synopsis

The economics course that is typically taught at Year 12 in schools and at most universities around the world (often supported by large- selling, American text books) is based on a synthesis of classical economics and Keynesian theories. This is known as neo-classical economics. It is usually split into Microeconomics (essentially the economics of the firm) and Macroeconomics (national economics). This is what I call "orthodox economics".

Orthodox economics bends over backwards to be a value-free, apolitical, neutral, objective social science. Text books often call this "positive economics" as against normative.

In this paper, I demonstrate that economics is not apolitical, value free, and objective. Worse, the pursuit of a scientific formulation of economics, has been a serious distraction that has led to the development of elegant and complex mathematical models, but they are based on the absurdly simplistic and unrealistic theory of perfect competition.
The paper describes some of the major shortcomings of micro and macro, (there are too many to include them all) and concludes with an Attachment outlining what, in my view, would be a much better, more enlightened and educational syllabus for first year economics.[1]

[1] Hopefully it might even provide the side benefit of ceasing to make students who major in economics more selfish than those who take other majors. That orthodox courses make students selfish has been found in a number of studies and most recently in the article "Economics Language and Assumptions: How Theories Can Become Self-Fulfilling", *The Academy of Management Review,* Volume 30 number 1, January 2005.

"Modern economics is sick. Economics has increasingly become an intellectual game played for its own sake and not for its practical consequences for understanding the economic world.

Economists have converted the subject into a sort of social mathematics in which analytical rigour is everything and practical relevance is nothing."

Mark Blaug

"[Economics as taught] in America's graduate schools …. bears testimony to a triumph of ideology over science."

Joseph Stiglitz

"… the close to monopoly position of neoclassical economics is not compatible with normal ideas about democracy. Economics is science in some senses, but is at the same time ideology. Limiting economics to the neoclassical paradigm means imposing a serious ideological limitation. Departments of economics become political propaganda centers."

Peter Soderbaum

"Most courses deal with an imaginary world, and have no link whatsoever with concrete problems."

Emmanuelle Benicort

"…mainstream economists seek knowledge through numbers to stop the messy reality of people, processes and politics dirtying their invisible hands."

Alan Shipman

"Multinationals are everywhere except in economic theories and economics departments."

Grazia letto-Gillies

"… the concepts of uneconomic growth, accumulating illth and unsustainable scale have to be incorporated into economic theory if it is to be capable of expressing what is happening in the world. This is what ecological economists are trying to do."

Herman E. Daly

The above quotations of comments by notable economists regarding the state of the discipline are taken from the web site of the Post-autistic Economics Network.[2]

[2] See www.paecon.net

Introduction

I have taught economics at Australia universities for twenty-five years. During this time I have become increasingly concerned that the discipline, as represented in most orthodox courses, is off the rails. It is narrow, simplistic, abstract and ignores most of the major problems facing mankind today, for example hunger. It is not relevant in any obvious way to the lives of most people.

By contrast, some economists would argue that in a (hidden) way, it is very important and relevant to our lives; even explains them. Orthodox courses focus on market forces at both the micro (or individual firm) and macro or nationwide levels. Our lives are very (excessively) dominated by markets and marketing. So it would seem, surely Economics must be very relevant. The problem is however that markets don't work the way economic theory (as taught in orthodox courses) predicts. There are many reasons for this divergence between theory and reality. They will be explained in this paper.

A less serious, and pedagogical problem is that however well or poorly markets work, I have found that the importance of market forces as a resource allocating and income distributing device in society is difficult for students to appreciate unless we explain how an economy would work without markets. Only then, can the student begin to appreciate the pervasive power of markets. This was always an important benefit of courses in "Comparative Economics Systems" (CES). Such courses, if done well could also demonstrate what the pros and cons were of not having markets (i.e. government planning instead).

Whether the means of production were privately or publicly owned was another crucial variable addressed in CES courses. All sorts of important consequences flowed from this choice. For example, there were consequences for incentives, savings and investment, equity of income and wealth, and efficiency of capital markets.

Typically, the economics courses taught in most universities today omit any serous consideration of public versus private ownership, and of market versus plan. While this is often justified with the throw-away line that socialism was a failure (not altogether true surely), the pedagogical opportunity to better understand markets, by observing what happens in their absence, is lost.
But now I shall consider the more serious problem with orthodox economics courses. They are usually quite unrealistic: micro because it is based on the simplistic theory of perfect competition. Macro because it largely ignores so many economic issues that matter to societies. In addition, both micro and macro are inevitably political, but most orthdox teachers and text books try to hide this.

Microeconomics

Orthodox economists believe that capitalist economies will allocate and use their resources efficiently (that is, produce the goods and services that people most want); and they will perform well dynamically (i.e. GDP will grow well) because this is what happens according to the theory of perfect competition. But that theory is based on several renowned assumptions which are quite unrealistic.

Specifically, the theory of perfect competition assumes there are many small firms, all selling a standardised product. There is no product differentiation or any non-price competition. Therefore at any given price, consumers will be indifferent as to which firm they purchase from. So the lowest price wins. By assumption, no firm is large enough in relation to the market to influence the prevailing price. That is, firms are price takers, not price setters. It is assumed that there are no barriers to entry, meaning new firms can easily enter the industry and existing ones can exit. There are no legal, financial or technical barriers.

The theory of perfect competition, which nearly all orthodox courses are based upon, makes some strong even heroic assumptions about people's behaviour. The theory assumes that people always act rationally, calculating which alternative will maximise their satisfaction or utility (in terms of their time, consumption and production or work choices). It is generally assumed that work yields disutility, while consumption gives satisfaction or utility. More choice is always seen as good.

It is assumed that all people have perfect information about all the alternative consumption, production, investment and employment choices that are available.

In my opinion, it is an understatement to call these assumptions (and thus the theory of perfect competition which is based on them) unrealistic. In fact, one struggles to find any industries or parts of the economy that conform to the assumptions. Stock or share markets probably come closest. Now that large agri-businesses (like Chiquita or Monsanto) are becoming so dominant in agriculture, even this is no longer a good example. Today most industries in most economies are dominated by a handful of large companies. Some multi-national companies (MNCs) have turnovers larger than many countries' GDP. Indeed, this is becoming common.

Contrary to the assumption that there are no barriers to entry, today many industries produce technologically complicated goods, making it difficult for competitors to enter the industry. The incumbents are often very large so that they enjoy economies of scale and even diminishing unit costs (increasing returns). Again, this is a barrier to new entrants.

Orthodox economic theory also assumes that everyone has perfect information and perfect mobility. So for example, consumers are assumed to know of the existence, location and price and quality of all goods and services. Thus, they will always get the best price or wage, and rip-off merchants and mean employers will not survive. Similarly, according to the theory, all people know of all job vacancies and requirements, just as would-be employers know of the existence and attributes of every potential employee. Business people know of the whereabouts, quality and price of all inputs and resources, and the characteristics of all markets for their outputs.

In my view economic theory should attempt to describe and conform to reality. But for decades orthodox economists have refused to do this. Instead, they continue to teach the theory of perfect competition and try (mostly in vain) to find a few examples of industries that conform to their assumptions. In the age of transnational corporations and globalisation, it is time for a new theory or paradigm. At the least, a new syllabus.

Many discontented economists before me have made similar criticism of orthodox microeconomics. Famous ones have included the American John Kenneth Galbraith, the Swede Gunnah Myrdal and the Cambridge economist Joan Robinson. The last of these demonstrated victoriously (after a long debate in the top journals with leading economists) that there were fundamental flaws in the foundations of the theory, in particular that there was no cardinal and objective justification for capitalism's distribution of income. But it was to no avail. The critics were largely ignored within the mainstream discipline. It is often suggested that the profession has invested too much time and effort in mastering the theory of perfect competition and the tools of neo classical economics (which is the basis of neo liberalism or economic rationalism) to lightly ditch it all, and to undertake the development of a whole new paradigm. So it doesn't happen, and orthodox economics continues to be taught.

Orthodox economics courses at some universities have become very rigorous, often using extremely sophisticated mathematics (called econometrics) to specify demand, supply and other functions, and indeed statistical models of the whole economy. But a major weakness in these models is that often they are based on the unrealistic theory of perfect competition, or a close derivative.

The one concession the orthodoxy has long made is that it has tacked on to most microeconomics courses an explanation of how the theory changes when there is product differentiation and when there is only limited competition (oligopoly) or none (monopoly).

But it is usually an afterthought and it is rarely developed to the point of drawing any serious conclusions about how pervasive oligopoly and monopoly are. Students simply learn that oligopoly and monopoly are characterised by "above normal profits".

Usually there are few if any case studies to show just how large these profits can be, or what a tiny minority of society receives the profits, or what can be done to rectify the situation. Students are usually taught to be sceptical towards any proposed solutions involving government regulation of monopolies on the grounds that governments might cause an inefficient allocation of society's scarce resources. Of course, this might well be no worse than prior to the government's "intervention", and the government might achieve other benefits like greater equity. But this is rarely explored.

Most orthodox courses give little (if any) time to the topic of income distribution. It is seen as too subjective, value-laden and political. But the omission can easily give students the impression that there is nothing worth analysing or discussing in this area; and even that nothing is wrong with society's distribution of income.

Neo classical economics is biased from the word go, because it talks only about markets implying that resource allocation by government is not worth discussing, or explicitly labelling it an "intervention" (as though markets are the natural order[3]). And it is usually said or implied that collective resource allocation by government is inefficient and inferior. The hundreds of examples of very efficient and successful government enterprise are ignored in most orthodox courses.

Even if the market were working perfectly, the allocation of resources and the distribution of goods which would result, would be an optimum, according to the theory, but only for that particular initial distribution of income and wealth. Who can say that another distribution of goods and services, involving fewer luxuries and more necessities for example, which might result from a different (more equal) initial distribution of income (following fiscal intervention by the government) is not a better one? In terms of economic theory, it will be no more or less "efficient", but it is likely to provide greater total social welfare, and will be more equitable.

It is this consideration (essentially an equity one) that provides a major justification for government intervention. And it prompts the question: why do we devote about 90% or more of introductory economics courses to teaching students about markets and perfect competition (with a slight adjustment for imperfect competition) when this market system almost certainly produces sub optimal allocations of resources and products from the view point of total utility or social welfare. If a redistribution of income could increase social welfare by much more than a slightly more efficient resource allocation could, why do economics courses focus entirely on resource allocation, and largely ignore income distribution and useful related theories like the ethical one by John Rawls. The typical Economics 1 syllabus and text book badly needs revamping (such as inclusion of John Rawls ideas).

Another reason why it is wrong for orthodox courses to concentrate almost exclusively on free markets is that there are many areas of the economy where *theory* shows that markets simply won't allocate resources efficiently and the way we want (*even if* the assumptions of perfect competition were met). This is well known in economic theory, and is called "market failure". (I have listed some of these areas below.)

[3] An early and famous article arguing that reliance of market forces is the only "natural" way to run society is the one by R.A. Radford, "The development and organization of the market in a prisoner of war camp" , *Economica,* vol.12*,* The London School of Economics and Political Science, November 1945.

The common causes of market failure include situations where there are

(a) external economies (e.g. education and health);
(b) external diseconomies (e.g. pollution);
(c) natural monopolies (e.g. town water);
(d) "public" goods – that is, goods characterised by non-excludability and non diminishability (e.g. street lighting, parks, defence);
(e) joint products (e.g. leather and beef, or petrol and kerosene);
(f) merit-want goods (e.g. ballet, museums);
(g) common property resources (e.g. the atmosphere, oceans or fisheries), or more generally "the global commons". Garret Hardin's famous paper "The Tragedy of the Commons" shows the tragic destruction that will beset most common property resources (oceans, skies, forests) if left to market forces. Yet orthodox economics courses frequently omit common property resources from their syllabus, or if briefly mentioned, it is only to say that common property should be redefined so that it or aspects of it can be privatised.

It is because the market fails to provide the correct or efficient amount of goods and services in these areas, that most governments need to either regulate private producers to make them behave differently, or to provide the good or service themselves. It can be shown that at least 25% of G.D.P. in most modern economies is provided by governments and largely because of market failure. Orthodox courses ignore this quarter of the economy.

There are often good reasons why some of the other 75% needs to be regulated too. So, in toto there is a large part of the economy that orthodox courses say little about.

In most universities' courses, capitalism and economics are synonymous. Even if economics lecturers accept that their courses will be exclusively about capitalism, markets and private property, they should, in my view, at least ensure that students are not given the impression (which is common) that an equilibrium between demand and supply means a state of harmony or desirability. Rather their students should be taught that a common characteristic of any market equilibrium is that many people (those on the section of the demand curve beneath the equilibrium price) have been unable to obtain the good or service because the price was too high. Very often this is because of their limited means. If the good is a staple food, then it is particularly tragic that people are denied consumption by the market and go hungry. A World Bank economist estimated that 2 per cent of the average annual world grain harvest would be enough to provide food for over a billion people who need it. Susan George estimated that 8% would easily eradicate world hunger.[4] (This is less than the United States feeds to its livestock.)

We should ensure our students understand that a billion people can be hungry, and are hungry while a state of economic equilibrium between demand and supply can exist in

[4] Susan George, *Ill Fares the Land*, Penguin, 1992, pp.4-5

the world's food markets. So what does "equilibrium" really mean? We should come clean.

Some of the major problems in the world are poverty, hunger, lack of secure jobs, environmental destruction, inadequate education and health care.

In most Australian universities (and many others around the world) students enrol in Economics courses (often Economics is compulsory in Business degrees) and discover that in the typical economics course only one of these six problems is addressed, that being unemployment. But even then the discussion is usually a very abstract one: often discussing little more than the measured unemployment rate, and how it may be reduced by stimulatory policy. I will return to this a little later. If one examines text books commonly used in introductory economics (ten popular ones are surveyed in the Appendix), it is striking that these other five major social problems facing the world are rarely mentioned in the contents.

Microeconomics teaches students about how individual economic actors (consumers, workers, or firms: mostly firms) make decisions. These decisions are mainly: what will they produce? How much? With what inputs? And at what price will they sell the output? Usually there is no reference to any particular firm, inputs, outputs or price. It is all done in abstract and conceptually. For example, we often say "therefore, price will rise"; we rarely say by how much.

Demand and supply curves are explained. Much time is devoted to understanding their varying slops (called "elasticity") or price sensitivity, and the relationships between elasticity and total revenue. Similarly, broad categories of production costs are defined as these determine the supply curve.

But this description is rather flattering. From the word go, demand and supply curves are kept very abstract and simplistic. Since one doesn't see demand or supply curves as one walks down the street, it would help make them more tangible to students if some empirically established demand or supply relationships were presented. Or, if the students were even given the task of trying to estimate these relationships. But this is so difficult that it is seldom done, even by professional economists.

So what is the use of demand and supply, and microeconomics generally? I have never in 25 years heard a graduate say that microeconomics helped him in his work place. This is almost certainly because it is so abstract, general, simplistic and unrealistic.

The avowed purpose of micro is to explain how competitive markets work, and how they allocate resources and distribute products. But perhaps this is really code for a hidden agenda, which is to promote capitalism. It certainly does this, and with what strikes students as "scientific" proof of its virtues. In a technical and rigorous way it seems to prove that as long as the real economy has, or approximately has, the characteristics assumed in the theory of perfect competition (which it never does, as discussed earlier), then it will operate as follows. The profit motive will lead businesses to produce the goods and services that consumers want (the consumer is said to be sovereign). Businesses will charge consumers fair prices, meaning a price that enables business owners to make a so-called "normal" profit, but no more. A normal profit is deemed to be equivalent to what the capital and labour invested in the venture could earn in the next most profitable alternative: which ultimately means the capital should earn about what it would in a bank term deposit. If it is much more, other firms will enter the industry, offer products at cheaper prices, undercutting the existing firms, thus whittling profits back to a normal level.

So it is concluded that capitalism is efficient and democratic. Consumers, through their purchases, are sovereign and their preferences determine how society's scarce resources are allocated. Goods and services are provided in the style, place, and quantity and at the time that consumers desire. All this, and at a fair price. (It is quite a claim.) Furthermore, unlike a centrally planned socialist economy, there is no government involvement or intervention. Resources are used as sparingly as possible, and to make only the things people most want – because anything else would be inconsistent with profit maximisation. Thus capitalism claims to be very "efficient" in its allocation and use of resources – much more so than any socialist society was (particularly the planned ones). The words of the famous early Scottish economist Adam Smith are often quoted to explain the efficient modus operandi of capitalism:

"Every individual endeavours to employ his capital, so that its produce may be of greatest value. He generally neither intends to promote the public interest, nor knows how much he is promoting it. He intends only his own security, only his own gain. And he is in this led by an invisible hand to promote an end which was no part of his intention. By pursuing his own interest he frequently promotes that of society more effectually than when he really intends to promote it".[5]

Incidentally elsewhere Smith expressed biting criticism of businessmen's selfishness, and of the materialistic motives of capitalism.[6] But orthodox economists prefer the above quote.

After teaching these virtues of markets for many years, I am left wondering whether the typical syllabus has an ulterior motive: to legitimise capitalism and private business[7].

---

[5] Adam Smith, *The Wealth of Nations,* Edwin Cannan ed. Methuen, London, 1961, vol 1, p.423. (originally published 1776).

[6] For example: - "People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices …" ibid, vol 1, p.144 And later (on p.284) he says businessmen "… have generally an interest to deceive and even to oppress the public, and .. have upon many occasions, both deceived and oppressed it."

[7] A conspiracy? Well, others before me have wondered. One did a convincing job of documenting it in relation to why and how the influential Institute of Economic Affairs in London came into being. The conservative economist Friederich Hayek was influential in its foundation. It began as the Mont Pelerin Society in Switzerland entirely for political purposes: to promote markets and capitalism, as a response to the growth of socialism in Europe after World War 2. (I am still searching for the book to get the details!)

Why else do we erect an entirely unrealistic model of the economy and then spend most of the semester in an introductory course showing how "efficient" and "democratic" this model is.

The "democratic" claim is severely damaged by the fact that unequal incomes mean that rich consumers have millions more dollars to "vote" with than do paupers – an odd type of democracy.

There have been many excellent criticisms over the years of the orthodox economist's claim that the consumer is sovereign[8]. Common to them is that the advertising and values propagated by business are so powerful that consumers are largely controlled by producers. We are like their puppets. Sovereignty lies more with producers than consumers. This totally undermines orthodox economic theory. But like so many other convincing criticisms they are assiduously ignored by the orthodoxy, who, head in the sand, continue to believe and teach only the standard (neo classical) fare.

Macroeconomics

Macroeconomics is typically the other half of most introductory first year courses. While it is more pragmatic and realistic, it is narrowly conceived and disappointing.

Nowadays, more than ever, it has become obsessed with macroeconomic stabilisation (how to avoid the ups and downs of the business cycle). In particular it focusses on how monetary policy (interest rates) can be varied to avoid inflation.

As important as this is, so are many other things: unemployment, conditions of employment, casualisation of the labour force, poverty, housing, education, health, commodification of life, consumerism, materialism, the growth of individualism and the decline of community, limited natural resources, pollution and a host of environmental problems often aggravated by economic growth, imperialism, sexism, etcetera.

As mentioned earlier, most macroeconomics courses ignore all of these social and economic problems except unemployment. Even this is dealt with in an extraordinarily aggregated, superficial, depersonalised way. People are not discussed at all, only the national percentage of the work force that is unemployed. The fact that certain types of people (e.g. the unskilled, the elderly or minority races) are much more likely to be unemployed than others is ignored. Similarly the geographic distribution of the

---

[8] For example, a couple of good, well known ones are : E. J. Mishan, *The Costs of Economic Growth,* Penguin 1970 and Paul A. Baran , *The Political Economy of Growth,* Monthly Review Press 1962. Extracts reproducing their critical views on consumer sovereignty are often published in modern books of readings.

unemployed (it's much higher in poor suburbs than others) is rarely discussed. Quite often, we don't even tell the students that, in many western societies, job seekers exceed the number of job vacancies by three or four times (or more). So that even if, miraculously, we could over night slot a suitable job seeker into every current position vacant, we would often find about 80% of the unemployed would have to remain jobless. (This fact suggests that unemployment is not due to laziness or lack of resolve by the jobless. In fact, it is mainly due to lack of jobs!)

Omitting information like this, is partly what makes orthodox economics seem like an apology for capitalism and a legitimisation. It has the effect (intended or not), or allowing students to adopt or maintain the common conservative "blame the victim" view that the unemployed and the poor have probably caused their own plight, either because they are lazy or because they "choose" not to acquire sufficient education or skills, or to live in a "bad" area, or to be a member of a minority race or group. Surely it is our function as teachers of economics (or any social science) to disillusion them, and to confront this sort of (mostly) wayward thinking. Pointing out that the main cause of joblessness is the lack of jobs would be a good start. But generally, economics lecturers don't do this.

In Macroeconomics students often glean that wage rises are bad because they might cause inflation, but if profits and dividends increase, causing capital owners' income to rise this is good; it is a sign the economy is performing well (which is why record company profits are usually celebrated in the business pages of newspapers). The double standard involved here is rarely addressed in standard economics courses.

There are more aspects of Macro courses that need addressing, but for space and time considerations, I will in stead put forward an alternative approach.

In the interest of being constructive, I have outlined in the Attachment a suggested syllabus for an introductory one semester course in economics. In my opinion it provides students with a sketch of the big economic picture of which micro and macro and the theory of perfect competition are only small pieces. It offers an historical and social perspective which young students need in order to be informed citizens. This is not to say that it can't be improved or refined. It may be too ambitious. Still, I think its breadth should not be replaced by depth. That can come in later units of economics. (Though from my experience, often these are of doubtful or mixed benefit and also need some revamping.)

Attachment

Outline of an alternative (non orthodox) syllabus for an introductory one semester course in Economics.

I have allowed 2 x 1 hour lectures per week for twelve weeks.
In many universities there would also be a further hour of class contact each week in the form of a tutorial. I have not detailed any topics for tutorials, but would suggest broadly that students read and discuss a mixture of some contemporary articles and classic ones, like the POW one and Baran and Mishan on economic growth and the myth of consumer sovereignty, cited earlier.

Week 1

Some history

A sketch of the development of economic systems from primitive tribal communities, through slavery, mercantilism, capitalism, socialism, communism, monopoly and trans national capitalism. The purpose would be to identify the unique characteristics of each system, locate it briefly in time and place and show superficially what was good or bad about it, and who (which class of people) benefitted/suffered most from it. Perhaps, if time, show superficially why and how it led to the next system.

(2 lectures)

Week 2

Production

A description of the three factors of production (land, labour and capital) concentrating on how they need each other to be productive. But in capitalist economies, when they combine, capital (and land) employ labour, not vice versa. This results in the owners of capital claiming all profits as theirs. Explain briefly how this can be varied, as in socialist countries. Some pros and cons of each. Orthodox or neoclassical courses usually say little if anything about production and these relationships between people (owners and non owners, employers and employees). Rather the orthodoxy concentrates almost exclusively on products and the prices they exchange at in markets. The human relationships (often exploitative) that were incurred in order to produce the good that can now be exchanged in a market are ignored.

(2 lectures)

Weeks 3 & 4

Capitalism

The essential features of modern capitalism should be explained, including who owns most of the capital.

Since capitalism is based on market forces, their modus operandi needs to be explained. But the gist will suffice. There should be only two lectures on demand, supply and elasticity and costs. The theory of perfect competition could be explained in two lectures. The rationale being that this is the system and outcome to which modern capitalism would supposedly gravitate if its many imperfect characteristics and obstacles could be ironed out. Thus, attempts by government (via, say, competition policy from the ACCC) to make our real economy more like the theoretically perfect one, could be understood as an endeavour to achieve an outcome (in terms of efficient resource use) more like the state of perfection promised by the theory. This state is called a Pareto Optimum.

This rationale for perfect competition justifies two or three lectures. An important object would be to have students understand, in the simplest way, that if there are many small firms competing and producing similar products, and no significant barriers to entry, mobility or information, then consumers can expect to receive the goods and services they most want (as expressed through their purchases) at a reasonable price when and where they want them. This is a lay way of saying resources will be allocated efficiently. It could be contrasted with the inefficient resource allocation typical of socialist countries and the reason for this could be briefly explained.

(4 lectures)

Weeks 5 & 6

Capitalism: the Downside

As well as explaining the concept of externalities (unintended effects upon third parties e.g. pollution) and how varied and widespread these can be, other types of market failure should be explained. The latter should include the undesirable features of a society that is dominated by competition, pitting firm against firm (e.g. intense advertising, built-in obsolescence, commodification, etcetera) and person against person (stress, rampant individualism, inequality, loneliness, loss of community etcetera). These cannot be left to the sociologists. They are often direct consequences of our type of economic system[9].

---

[9] Various studies over the years have demonstrated that Economics seems to make students not only more selfish but also less honest than majoring in most other disciplines. This is a worry. E.g. see a study by Robert Frank, Thomas Gilovich and Dennis Regan, "Does studying economics inhibit co-operation?", *Journal of Economic Perspectives,* Fall 1993. If studying orthodox economics can do this, it is perhaps not surprising that a society based on this discipline can exhibit similar problems and pathology.

It is based on competition, and like a sporting competition, it produces winners and losers; the rich and the poor, and the troubled.

The many inadequacies of GDP as a measure of welfare should be explained (as done well by J.Cobb & J.Daly[10]). Similarly it should be pointed out that while GDP and "standards of living" might rise steadily by a few per cent each year, doubling every few decades, the number of hours in a day stays at 24. So the time available to work, rest and enjoy this higher standard of living and to consume all these goods, services and activities stays the same. Is it any wonder many people in today's economy feel time poor and stressed.

Work by the renowned German economists, Axel Ockenfels of the Max Planck Institute, and his Nobel Prize winning mentor Reinhard Selten[11] demonstrates also that people are more than just calculating, utility-maximising, always rational Homo Economics creatures who do not naturally or intentionally wish to be driven by only competition, individualism and more money. They are often motivated by other more social and community minded non-economic desires.

In laboratory run games, Ockenfels repeatedly finds people soon prefer to cooperate than compete. This contradicts neo classical theory in the most fundamental way.

Obviously capitalism's downside has many aspects (e.g. Naomi Klein's criticisms[12]) and could be expanded to fill out several more lectures. But the main ideas could be communicated in two weeks. (4 lectures)

Weeks 7 & 8

Can Markets serve society better?

Given that market forces and capitalism exhibit all these undesirable features, three or four lectures should be devoted to the question of whether market forces can be tamed and made to serve us better- perhaps through government regulation.

Different examples of government intervention and regulation could be considered, along with a range of views on its merits. But these views should include the radical one that nearly all government regulations band-aid measures. They do little to help ordinary people and distract the populace from the realisation that the real purpose of capitalism and government is to serve the interests of the well-to-do (the property owning class) i.e. the capitalists. Most regulation is a smoke screen hiding the fact that capitalism, being based on private-property ownership primarily serves the property owning class, and being based also on competition, produces winners and losers – that is, rich and poor, or

---

[10]Herman Daly and John Cobb jnr., *The Common Good*, Beacon Press, NY 1994.
[11] A brief survey of their work is published in "Playing Games", *Max Planck Research 1/2003.*
[12] For example, see Naomi Klein, *No logo, no space, no choice, no jobs* Flamingo, London 2000.

inequality. It is designed to do this, just like the board game "Monopoly" is designed to. And statistics within and between countries show it is doing this very well.[13]

Reference should be made to the ascendancy of conservative and neo-liberal views which currently dominate policy making in many developed countries. As a result, most governments are loath to intervene or regulate[14] except to advance the interests of capital, e.g. by signing free trade agreements (FTAs). Generally, they are doing the opposite: deregulating and privatising. New regulations pertain mainly to toughening up the eligibility conditions for welfare. So like it or not current fashions in ideology are forcing us to rely more and more on free market forces (i.e. free of government regulations or intervention).
But our students, having learnt all about the virtues of market forces and perfect competition would think this was good. The euphemistic language of our neo liberal governments and also corporations seems to suggest greater reliance of markets is good. They tell us it will encourage greater efficiency and productivity and world best practice by streamlining, cutting edge technology, downsizing, contracting out, cost control, greater accountability and team work, and ownership with flat organisational structures and employees on individual (important) contracts. Need I go on? We are all familiar with this political/managerialist language, which is often a thin disguise for sacking staff, worsening their conditions of employment, casualising the labour force and deriding any collective resistance through trade unions as being obstructionist and old fashioned.

So one or two lectures should be devoted to an honest translation of this nasty euphemistic legitimising language, with many practical examples e.g. how despite all the claims for how good NAFTA would be (i.e. a freer market) the real value of most worker's wages in the USA has steadily declined over the last decade.[15]

One lecture should also be devoted to a brief assessment of the role of trade unions – especially in achieving many of the terms and conditions (8 hour day, equal pay, annual leave, sick leave etc.) that many people (including our students) often take for granted. It should be emphasised that these benefits were not freely offered by generous employers. They were forcibly extracted from employers by collective action (strikes etc.) by previous generations of workers through their trade unions. This action usually led to the benefits being enforced by way of legislation or regulation through industrial courts.

---

[13] For instance, the richest 1% of the world's population now receive as much income as the poorest 57%. The 25 million richest Americans have as much income as almost 2 billion of the world's poorest people. The richest 10 people in Britain have as much wealth as 23 poor countries with over 174 million people. See *New Internationalist* magazine, January/February 2004 p.20

[14] Australian Governments (Labor and especially Liberal) have been emphasizing for more than a decade that they are keen to reduce the amount of red tape particularly for the business sector. They want to make life easier for business by "getting off its back". As part of this, they have for example reduced company taxes by about 40 per cent over this period, weakened workers' rights, and will soon abolish our unfair dismissal laws.

[15] In fact US Bureau of Labor statistics show that by the year 2000, average weekly earnings, adjusted for inflation, for all private workers were about 5% below their 1964 level.

So it should be stressed that these benefits came not from a market free of government intervention, and based on individualism. It was the opposite.

(4 lectures)

Weeks 9 & 10

Macroeconomics Theories and Politics

An introductory economics course, might explain the key national accounting terms (GDP, GNE, etc.), aggregate demand and supply; and outline the essence of stabilisation policy. But unlike most orthodox courses, it should reveal how political macroeconomics is, as outlined in the following paragraph: -

It should for example, demonstrate how classical economics (based on Say's Law) implied a laissez-faire economy with minimal government intervention. And how and why Milton Friedman's theory, known as Monetarism, became popular in the 1970s and 80s as a successor to Keynesianism. More recently we have had prominence given to other new theories: Supply-side Economics, Rational Expectations Theory, and Economic Rationalism. In some respects these theories are not new: they are reincarnations of classical economics. They too imply a minimal role for government, and advocate almost complete freedom for market forces. These schools of thought generally prefer monetary policy to fiscal policy (the latter is too political and interventionist), But Keynes' theory, along with modern day Institutionalists (like J. K. Galbraith) and Political Economists (like FJB Stilwell) are quite different. This needs to be made clear. They advocate major roles for government, not only "intervening" but modifying the capitalist system rather radically.
(4 lectures)

Week 11

The Environmental Dimension

There should be at least one lecture on what markets do to common resources (The Tragedy of the Commons), the implausibility of unlimited economic growth in a finite world, and if time, some other environmental issues.

I feel it is irresponsible today to teach an economics course without referring to the finite nature of the earth and many of our resources. But orthodox courses rarely do this.

Similarly we should explain that the forces of perfect competition will often exploit a resource to the point of extinction. This can be shown, mathematically, to be a more profitable strategy than saving enough of the resource (e.g. a type of fish) to allow it to reproduce and continue. Extinction of species is often the preferred outcome for profit maximising firms in a free market (depending on their discount rate).[16]

We might do well to have our students ponder the American Indians' saying : "Treat the earth well. It was not given to you by your parents. It was lent to you by your children."

Orthodox courses advocate unlimited economic growth, whereas the famous scientist David Suzuki has long ago pointed out that nothing in the universe grows exponentially and indefinitely. So why do we think our planet can sustain endless growth?

A similar theme runs through a recent newspaper article headed "The end is nigh" which states that "The human race is living beyond its means. A report backed by 1360 scientists from 95 countries – some of them world leaders in their fields – warns that almost two thirds of the natural machinery that supports life on Earth is being degraded by human pressure."[17] But orthodox economists continue to teach and espouse the benefits of unlimited growth of GDP[18].

(2 lectures)

Week 12

Conclusion

Instructors could well modify this schedule to allow for a lecture on how orthodox economics (especially micro) is distinctly sexist. e.g. see the paper by Myra Strober showing how masculine it is in its focus, concepts, and even terminology.[19]

But in concluding, instructors might consider extending the earlier analogy with the board game of Monopoly. In that game, although all players begin with equal amounts of money, at the end, one (the winner) will own everything and be super rich, the other players will be paupers and broke. Interestingly, this is always the result of the game if played long enough. Starting from equality, the logical outcome of sufficient buying and selling (or market activity) is extreme inequality.

Only if the players agreed, to change the rules could the results be any different. For example, if a graduated property tax were levied and the proceeds distributed to needy players, perhaps all players could keep the game going indefinitely. But this would be the result of a conscious decision to collectively intervene in the market.

---

[16] Tom Teitenberg, Environmental Economics and Policy, 2nd edn Addison Wesley, New York 1998.
[17] Tim Radford, "The end is nigh, scientists warn", in "The Age", p.1, March 31st, 2005.
[18] Further more, to worsen matters at my university, a number of economics units were axed because of financial cuts, including two which I taught in Environmental Economics, and Social Economics. But our orthodox Micro and Macro courses were unaffected.
[19]Myra H. Strober, "Feminist Economics: What's it all about?" Downing Oration, University of Melbourne, 1996

This is an apt analogy with real economics in my view. If market forces are given a free reign in today's economy, with government intervention being minimal and even then mainly to further facilitate free markets and commerce, I believe we will experience extreme and worsening inequality; this may eventually threaten political stability.

As economics teachers, I consider it mandatory to teach a course that opens our students eyes a little to this danger and to the above issues. Most courses described in the popular introductory text books, and taught at Australian universities (and in most other countries) are what I call orthodox or neo classical economics courses and they do not do this. I have taken an interest in them for at least 25 years. They are narrow, unrealistic and misleading. They short change the students, while legitimizing capitalism and inequality. In my view they desperately need major revamping.

(1 - 2 lectures).

Further Reading

1. Frank Stilwell, *Political Economy – The Contest of Economic Ideas, Oxford University Press, Melbourne, 2002.*

2. Herman Daly and John Cobb jnr., *For the Common Good – redirecting the economy toward community, the environment and a sustainable future ,* second edition, Beacon Press, Boston USA 1994.

3. New Internationalist, issue no.364 on *Equality,* January/February, 2004.

4. W.J.Waters and E.L. Wheelwright, "University Economics- A Radical Critique", in *Readings in Political Economy Vol.1,*ANZ Book Co., Sydney, 1976.
5. Michael Pusey, *The Experience of Middle Australia. The Dark Side of Economic Reform,* Cambridge University Press, 2003.

6. Daniel R. Fusfeld, *The Age of the Economist,* ninth edition, Pearson Education , Boston USA, 2002.

7. Korten, David C., *The Post Corporate World – Life After Capitalism,* Pluto Press, Annandale, Sydney NSW 2000 (KumarianPress, in the USA).

8. Korten, David C., *When Corporations Rule the World,* second edition, Berrett-Koehler Publishers Inc., San Francisco, California USA, 2001.

9. William J Barber, *A History of Economic Thought,* Penguin Books, UK 1967.

10. E.K. Hunt and Howard J. Sherman, *Economics – an introduction to traditional and radical views,* Harper International, New York, 1978.

11. Leonard Dalton Abbott, *Masterworks of Economics*, Volumes 1- 3, McGraw-Hill, 1973.

12. Mark Blaug, *The Methodology of Economics – or how economists explain,* Cambridge University Press, Cambridge, UK, 1980.

13. Peter Singer, *One World,* Text Publishing, Melbourne, 2002.

14. Michael Moore, *Stupid White Men, Penguin, UK, 2002.*

Appendix

Ten introductory text books which have often been used at different Australian universities over the last decade are listed in the left hand column of the matrix below.

All books discuss unemployment (though in a frustratingly depersonalized and abstract manner). I have indicated which of the other five world wide social problems (discussed in the paper, and listed across the top of the matrix) are considered in each text book.

	POVERTY	HUNGER	ENVIRONMENT	EDUCATION	HEALTH
Baumol & Blinder	Yes	No	Yes	No	No
Tim Robinson et al	No	No	No	No	No
Jackson & McIver Derived from C. R. McConnell	Yes	No	No	No	No
R. N. Waud	Yes	No	No	No	No
Sloman & Norris	No	No	No	No	No
P. A. Samuelson et al	Yes	No	No	No	No
D. McTaggart et al	No	No	No	No	No
Dornbusch & Fischer	No	No	No	No	No
N. G. Mankiw, King et al	No	No	No	No	No
Auerbach & Kotlikoff	No	No	No	No	No

Conclusion

As can be seen, these introductory economics text books generally ignore major social and economic problems. Incidentally, I could have chosen nearly any social problems and the result would be the same. Some times poverty is discussed (four of the above books considered it). But nearly always the conclusion is that we need freer reign for business and markets, which will accelerate economic growth, and then some of this increased output will benefit (trickle down) to the poor. In reality of course most of the benefit of economic growth goes to those who need it least, the rich. There is much evidence for this. It is why inequality throughout the world is steadily worsening. (More equal distribution of incomes was one of the ways the socialist countries performed better than western capitalist ones.)

****