

What's Wrong with How We Teach Economics

by *Brandon Crocker*

The decline in the core curricula of universities and the growing “cultural illiteracy” of high school and college graduates have been lamented in many books and articles. As universities have redesigned their curricula to fit the demands of political correctness and the particular interests of their faculties, we have seen an alarming rise in the number of college graduates who know little about the basics of American history and the Western tradition. But as troubling as this is, we need also to examine the state of economic education in America.

Though college economics programs have not suffered the same degradations that have occurred in many other disciplines, the fact is, in most major universities economics has never really been taught as well as it should have been.

The problem with the way most universities teach economics is the overwhelming emphasis on mathematics. When I was an undergraduate at the University of California, San Diego, in the 1980s, I remember one economics professor who, after displaying one particularly confusing mathematical function, stated bluntly that if you don't understand advanced calculus, you'll never understand economics. As I was struggling through calculus at the time, this was of concern to me.

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Mathematics is, of course, useful in understanding economics. Unlike other disciplines, such as political science, which have increasingly used mathematical formulations to explain principles, mathematical formulations actually do make sense in the study of economics. Though given the inability of economists to forecast GDP growth from quarter to quarter, and continual doubts about the accuracy of how we measure GDP in any case, the mathematical exactitude economists sometimes like to pretend exists in this “science” is a bit comical.

But as good and useful as mathematics is in economics, we have to remember what is behind all the variables in these formulas. The great economist and philosopher Wilhelm Röpke reminded us in his classic, *A Humane Economy*, that the economy is nothing more than the interaction of human beings. Or, similarly, the basis of economics is the title of Ludwig von Mises's tome, *Human Action*. The founding work of economics, *An Inquiry into the Nature and Causes of the Wealth of Nations*, by Adam Smith, is a work of observations that, without the use of advanced mathematical formulas, explains how markets function and how resources are effectively deployed. Smith's “invisible hand” may not be possible to graph or to represent as a mathematical formula, but it is as important in understanding market economics as are supply and demand curves.

In the course of obtaining a B.A. in economics at UC San Diego, I was never assigned a single page of *The Wealth of Nations*. (Nor, for that matter, was I ever assigned anything by Wilhelm Röpke or Ludwig von Mises.) All the core courses I took in microeconomics and macroeconomics were focused on mathematical theorems and models (invariably Keynesian, not Austrian). Elements of human action did occasionally come up in explaining things like “Giffin goods” (goods that people consume less of as their incomes increase), which posed “quirky” exceptions to the economic models we were being taught. And in microeconomics the intuitive assumptions of human behavior behind the shapes of demand and supply curves were routinely explained. But for the most part, a typical college course in basic micro or (particularly) macroeconomics was 90 percent mathematical equations with scant attention paid to the vagaries of human behavior. (This is still the case, as confirmed by my perusal of standard textbooks and course syllabi, and my speaking with recent college graduates.) And when such behavior is explicitly discussed, it’s usually in the context of how it can be neatly captured in a mathematical model.

More Than Mere Science

One factor behind the stress on mathematical modeling is the belief by the fraternal order of economists that being able to construct models and mathematical proofs elevates economics from a mere academic discipline to a “science.” One of the outcomes is the conceit that the economy (the decisions and interactions of millions of individuals) can be accurately understood, modeled, and manipulated, which in turn encourages faith in central economic planning—a faith which is belied by history.

When I was an undergraduate, Ronald Reagan was president. Keeping up with current affairs, one of my macroeconomics professors devoted some class time to the ideas behind the so-called “Laffer Curve,” which was the basis of the Reagan administration’s argument that lower tax rates would increase revenue. Though this professor was more or less “conservative,” he nonetheless scoffed at the notion because, as he proceeded to show, getting more tax revenue through lower tax rates was *mathematically* impossible. Of course, the mathematically impossible proved possible after all. In the wake of Reagan’s tax cuts the revenue generated by even the highest income tax brackets increased, though they experienced the greatest percentage rate reductions.

My economics professor, like many economists, put too much stock in mathematical formulas and not enough in the study of the complex dynamics of human behavior in which incentives, interaction, preferences, and even individual “quirkiness” cannot be effectively plugged into a mathematical model. Although modeling can be a useful tool, we have to recognize its limitations, since we cannot predict with any degree of precision the various, and often far-reaching and unforeseen, effects of particular policy decisions on the behavior of millions of individual human beings.

My old economics professor who thought advanced calculus was the key to understanding economics was wrong. The key to understanding economics is understanding human action. Economic education will improve in this country when works that portray the grand nature of the economic process—works by Adam Smith, Wilhelm Röpke, Ludwig von Mises, F. A. Hayek, and others—are given an important place in the university. □