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NO SALE

Pluralism in economics teaching – Why and how?[1]

Gilles Raveaud

> I think the textbooks are a scandal. I think to expose young impressionable minds to this scholastic exercise as though it said something about the real world, is a scandal…I don't know of any other science that purports to be talking about real world phenomena, where statements are regularly made that are blatantly contrary to fact.[2]
>
> Herbert Simon

What's wrong with economics teaching? The students' protests

In June 2000, a small group of French undergraduate students which I was to join launched a protest that became known worldwide.[3] Their main reason was simple: they were bored and frustrated. Having decided to study economics in order to understand the world they lived in, they had realised that they were not going to make it. This was not because they were poor students. Quite the contrary: they were students in prestigious French institutions, mainly the Ecole Normale Supérieure and the University of Paris I (the Sorbonne).

At first, we had a hard time articulating a precise critique of the courses we were attending. Everything seemed so wrong that we had no idea where to start. Also, it seemed presumptuous to throw away the theories for which the brightest economists are recognised. Who were we to criticise the 'queen of the social sciences', as economics

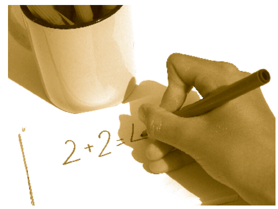
1 Thanks to Robert Österbergh for his extremely careful editing, and to Steve Marglin for his helpful remarks and suggestions.

2 Herbert Simon, 'The Failure of Armchair Economics', *in Models of bounded rationality*, Vol. 3, (1997), p. 397.

3 The definite source for the whole story is Fullbrook, Edward (ed.), *The Crisis in Economics. The post-autistic economic movement: the first 600 days*, London, Routledge, 2003.

likes to call itself? We were angry, but we did not know how to articulate our protest.[4]

In such a situation, a few words from a legitimate professor can make all the difference in the world. We invited Bernard Guerrien, a Sorbonne professor and a fine specialist of the dominant economic theory, called 'neo-classical economics'. Guerrien, who is a provocative mind and person, made a great show. He convinced us that our critique was right…and that things were even worse than we thought![5] With the backing of this intellectual and emotional support, we decided to write an 'open letter' addressed to our teachers.[6]



For many, questioning the place of maths in economics teaching meant nothing less than questioning and, perhaps ultimately, getting rid of the 'scientific nature' of economics.

The open letter raised three main lines of critique. First, we denounced the fact that 'the empirical side' of teaching was 'virtually non-existent'. For us, economics was dealing with 'imaginary worlds', not real ones. Of course, we knew that a theory has to detach itself from facts in order to be general. But as we pointed out, in the dominant economics teaching, theories 'rarely carry out the necessary return to the facts'.[7]

Second, we opposed the use of maths as 'an end in itself'. Although the open letter was cautious in indicating that we did not oppose the use of maths *per se*, this aspect of the critique was often misunderstood. For many, questioning the place of maths in economics teaching meant nothing less than questioning and, perhaps ultimately, get-

4 In fact, we were later to discover that a similar debate had taken place in the US. As the members of the Commission on Graduate Education in Economics (COGEE), created in 1988, put it: '…the Commission's fear is that graduate programs may be turning out a generation with too many idiots savants, skilled in technique but innocent of real economic issues' (Krueger, Anne O. et al.., 'Report of the Commission on Graduate Education in Economics', *Journal of Economic Literature*, 1991). The recommendations of the Commission were close to ours: less technique, more empirical work, and more creativity.

5 On the shortcomings of neo-classical theory, see the papers collected in Fullbrook, Edward (ed.), *A Student's Guide to What's Wrong in Economics*¸ London, Anthem Press, 2004.

6 This text and others can be read on the Post-Autistic Economics Network Website, managed by Edward Fullbrook: http://www.paecon.net.

7 A survey showed that, for the vast majority of PhD students, the knowledge of empirical facts was not useful for their research. See Davis, William L., 'Economists' perceptions of their own research: a survey of the profession', *American Journal of Economics and Sociology*, 1997.

ting rid of the 'scientific nature' of economics.[8] We said nothing of the kind. We simply meant that maths should be used to the extent that it is necessary, no more, no less. But saying this echoed a debate on the nature and role of mathematics within economics that has never been resolved. Thus, most of the commentators focused on this specific point, engaging in epistemological debates only loosely related to our protest.

Last, instead of the 'dogmatism', or one-sidedness, of the curriculum, we pleaded for 'pluralism'. In fact, the plurality of approaches was a central feature of many economic curricula not so long ago. In those years – when I was a student – economics students were exposed to, among others, the works of the classicists (Smith, Ricardo), the neo-classicists (Walras, Menger, Jevons) as well as those of Marx and Keynes. Then, teachers did not hide the permanency of conflicting views within economics. But those days are gone.

In fact, the field of economics today is still characterised by some pluralism. But as far as teaching is concerned, it is no longer presented as a multicolour field. All courses have the same grey colour of neo-classical economics – even if modern textbooks use fancy colours to present it.

Pluralism, pluralism, pluralism

For me, pluralism is the central issue. In fact, taking pluralism seriously would answer all our criticisms. First, engaging with debates and controversies would necessarily reduce the place of formal models because one would have to deal with the *ideas* developed by various economists, not only the mathematical *models* they have written down (or not) to express them. Second, questioning the relevance of different theories can hardly be done without looking at the facts.

On top of that, a pluralistic curriculum would actually be more, not less, theoretical than the current one. The current curriculum does not focus on theory, but on *technique*. Today, students spend hours calculating 'marginal rates of transformation', 'optimal inter-temporal allocation of resources' and 'equilibrium prices', but this does not lead them to understand what the underlying theory is. A curriculum that would systematically confront each theory with the others would force teachers to be more specific. In each case, they would have to

8 As the French teachers opposing the students' protest made clear. Read their 'Contre appel pour préserver la scientificité de l'économie' ('counter-appeal to preserve the scientificity of economics'), *Le Monde*, 31 October 2000. On our website: www.mouv.eco.free.fr/doc/tcontre.pdf.

specify which assumptions are made, which mechanisms the theory focuses on, to which predictions these mechanisms lead, and so on.

Also, pluralism corresponds to what economics and, probably, any science, is – that is, a body of knowledge which has common elements among its members, but which is also moved by diverging orientations. Today, for instance, the majority of economists belong to the 'neo-classical paradigm' which stresses the efficiency of markets. But there are other economists who view things very differently. For instance, Keynesians emphasise the role of the state in ensuring that enough jobs are available; Marxists accord the priority to the process of capital accumulation, rather than the functioning of markets; feminist economists insist on the role of care and gift in the functioning of the economy; ecological economists point to the necessity of diminishing growth in order to preserve the planet; and so on.

Depending on the observer's epistemological stance and/or the question considered, these diverging points of view can either be considered temporary, until the right 'solution' is found, or permanent, as resulting from irreconcilable starting points and methods. But whatever the position taken, the fact is that these debates exist, even in academic journals. And newspapers remind us every day that economists diverge on many important issues.

In fact, the more important the issue, the more heated the debate. What are the causes of and cure for unemployment? Is free trade the answer to poverty in the South? What is the role of the state in the economy? How should the planet be preserved? All these questions find different answers from (serious) economists. And everybody knows it. So why should economics students be the only ones on earth to believe that these questions can be answered unambiguously within a single theoretical framework?

The peaceful world of mainstream reasoning

During private discussions with teachers who publicly opposed our petition, we were often left with a strange impression: our interlocutors often acknowledged the validity of our claims. In fact, most did. So why did they oppose our protest? Here, social pressure and conformity, widespread diseases as they are within the academy, provide the first reason for this strange behaviour. But there was a second reason: the appeal of mainstream economics.

What is mainstream economics? Contrary to what the reader may think, mainstream economics is not best described as an analysis of *existing* markets. In mainstream economics, believe it or not, there is no McDonald's, no advertising, no Alan Greenspan, no fashion, no hardship… Why? Because mainstream economics is about perfect markets.

Let's say you do not take out health insurance because you have to pay your rent? Well, that's your preference … such reasoning is atomistic and individualistic

What are perfect markets? They are markets where all firms produce the same good, and use the same techniques of production. Also, each firm is assumed to be 'small'. This assumption is crucial because it means that firms have no market power. That is, a firm *cannot* fix the price of the good it sells. Firms can neither increase their price (to increase their profits) nor diminish it (to kill the competition); the 'market' fixes it for them. In this environment, firms cannot make extra profits – that is, profits which are beyond the normal return on capital. In fact, as long as there are extra profits in a given industry (say, a rate of 8 per cent when the rate in other industries is 5 per cent), this gives an incentive to other firms to enter this industry. When they do, supply goes up, so prices and profits go down – and this goes on until profits are nil. In total, firms are entirely passive in this model: they do not set the price of their good, do not innovate, and cannot make a profit.

Moving out of the sphere of production and into the sphere of consumption, are consumers better apprehended by neo-classical economics? Not really. According to the standard theory, the consumer behaves in a very simple manner. He/she has 'preferences', which represent his/her taste. These preferences are entirely his or her own: they are not influenced by the consumption of other consumers – fashion and habit have no room in this model. Also, preferences are fixed: they do not vary over time.

Referring to 'preferences' to describe consumers' behaviour is one of the good tricks of mainstream economics. For when one uses the word 'preferences', one can no longer think in terms of constraints, hard choices, or poverty. Let's say you do not take out health insurance because you have to pay your rent? Well, that's your preference. You do not save for retirement because you pay for the education of your children? This is called 'preference for the present'. You are unemployed? You have a 'preference for leisure'. And so on. As one can see, this mode of reasoning is atomistic and individualistic. In this world, there are no such things as collective identities and collective choices, but only isolated individuals, each trying to 'maximise his/her utility', with no regard to the wellbeing of others.

Also, the world of mainstream economics excludes the possibility of crises. Were any change coming from outside of the economy to disrupt it, the theory assumes that the market would deal with it efficiently.[9] Has oil become more scarce? This will lead to a higher price, which in turn will induce less consumption, changes in the production system, so that demand will go down and other energy resources will be used. Is there persistent unemployment? This is because real labour markets are not perfect, with unions, unemployment insurance, minimum wage regulations and the like preventing a full and immediate (downward) adjustment of the wage rate. That is, the solution to unemployment is perfectly competitive labour markets. Etcetera.

Mainstream economics excludes the possibility of crises

All this may sound surprising. So how come this approach has become the dominant one, if not the only one, in economics?

The two strengths of mainstream economics: market and science

The first asset of mainstream economics is its (implicit) ideology. This ideology is threefold. First, mainstream economics is a theory of a free individual operating in free markets. Second, mainstream economics is about efficiency. According to this view, markets, if not hampered, will deliver the greatest amounts of resources at the minimum cost.[10] Last, mainstream theory is about justice. Indeed, when perfect, markets are fair, as they reward individuals according to their contribution – the price others are willing to pay for your services being the measure of your social value. In total, markets allow individuals to obtain the best they can in an environment which promotes efficiency and equality of opportunity.

This ideology is in line with today's dominant representation of the individual in industrialised societies.[11] This representation of the individual is the main feature of mainstream economics and the first reason why it became so widespread.

9 For mainstream economists, only decisions which respond to prices are directly part of the economic realm. Thus, natural resources, tastes, political systems, gender roles, technologies, and so on, are all said to be out of the economic system (they are 'exogenous').

10 This is so because competition forces firms to diminish their costs. To do so, firms will turn to the cheapest inputs – that is, they will use more of the relatively abundant input (for instance, if labour is abundant and capital scarce, they will use more labour). Also, the dynamic of competition forces firms to look for productivity gains – that is, to use fewer resources to produce more.

11 On this, read Marglin, Steve, *The Dismal Science. How Thinking Like an Economist Undermines Community*, Cambridge, Harvard University Press, 2008.

Still, I would like to stress another important feature of mainstream economics – that is, its 'scientific' nature. More precisely, I would argue that it is probably the combination of a market-oriented ideology and the use of 'scientific' tools that explains the enduring success of mainstream economics, despite the numerous critiques it has been exposed to since it emerged at the end of the 19th century.

An important 'scientific' strength of mainstream economics is its claim to universality. Neo-classical economists wanted to build an elegant, *general* theory of markets. Have they succeeded? Yes and no. Yes, in the sense that there exists a mathematical theory of how perfectly competitive markets function. According to this theory, under a set of limiting assumptions,[12] there exists a 'general equilibrium' in the economy – that is, for each good traded, it is possible to find a price at which quantities supplied and demanded are equal. It is for this theory that Gérard Debreu and Kenneth Arrow have been awarded the 'Nobel' prize in economic sciences, delivered by the Bank of Sweden.[13]

But no, in two crucial respects. First, Arrow and Debreu realised that the usual assumptions, such as perfectly competitive markets and self-interested behaviour, were not sufficient to demonstrate the existence of a general equilibrium. For this reason, they had to add supplementary assumptions. That is, in order to reach the conclusions they were after, mainstream economists had to make their model even more unrealistic.[14]

12 The main assumptions are the following: perfect competition between firms; existence of markets for all present and future goods; existence of an auctioneer which collects the quantities supplied and demanded by each agent for each good at each possible price; 'endowment' available to households so that they can survive even if they do not participate in the market. (Other assumptions concern the shape of firms' production functions and households preferences in order to ensure the possibility of mathematical treatment).

13 The exact title is 'Bank of Sweden prize in economic sciences in memory of Alfred Nobel'. The prize was instituted 1968 by the Bank of Sweden and it is not delivered by the Nobel foundation, although widely perceived as a 'real' Nobel prize. According to three Swedish professors, 'The Nobel prize in economics diminishes the value of all other Nobel prizes' (*Dagens Nyheter*, 10 December 2004). Peter Nobel, descendant of Alfred Nobel, hopes that 'the Bank of Sweden Prize will be de-linked from the Nobel Prize.' (See Handerson, Hazel, 'Nobel prizes and the Bank of Sweden's game', October 2005, http://www.hazelhenderson.com/editorials/nobel_prizes_bank_of_sweden.html).

14 This is clearly the case of the 'endowment' hypothesis (see note 11). Arrow and Debreu introduced this assumption to ensure that demand would not suddenly stop when people do not have enough resources. But it is hard to imagine what the empirical counterpart of this 'technical' point in a free market economy could be.

Second and more importantly, Arrow and Debreu basically failed in their enterprise. Their aim was to calculate the value of the equilibrium the economy would converge to, if it worked under their assumptions. For this result to be meaningful, three conditions are to be observed: this equilibrium must exist; it must be unique; and the economy should converge towards it whatever its starting point. Arrow and Debreu succeeded with the first requirement – they did find an equilibrium. But they failed with the other two: they could not demonstrate that the equilibrium is unique, nor that the economy will reach it. Otherwise said, even within their highly restricted framework, true, there exists a general equilibrium of the 'economy' but…we have no way to know where it is! In fact, even the existence of the 'law of supply and demand' cannot be demonstrated in all generality in this framework.[15]

The current situation of economics-as-a-science is thus a strange one. True, economists have a (mathematical) theory of a perfect market system, but it suffers from two major defects. First, it corresponds to a very specific world, and, even within that world, the theory does not ensure that free markets will lead to an equilibrium. Of course, this questions the very relevance of neo-classical economics as a whole.[16]

Now, the thing is that this situation is in no way an accident. On the contrary, as I would like to show now, this theory is the only one that can be produced if one abides by the current rules of economics. By rules, I do not mean the specific assumptions we dealt with here, but the more general requirements one has to fulfil in order to be admitted within the economics profession. These rules are twofold: to start from the individual and to build an entirely consistent theory.

Micro-foundations and universality: science, or ideology?

The first requirement of contemporary economics is that any theory should be derived entirely from individuals, consumers and firms. Is this starting point arbitrary? Answering this question would lead us

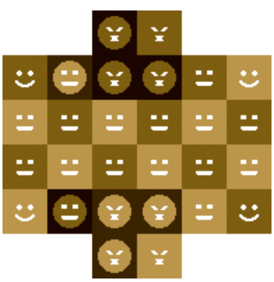
15 To have an idea of the reasons for this surprising result, one must have in mind that the prices of goods are also the revenue of individuals. So if the price of good *A* goes down, the revenue of the sellers of good *A* diminishes; this will lead them to diminish their consumption of all goods, including, possibly, good *A*. If this is this case, a lower price of good *A* leads to a lower demand – the contrary to the law of supply and demand.

16 See t he heated debate Bernard Guerrien launched in the *Post-Autistic Economic Review* No.12, 15 March 2002, with his 'Is There Anything Worth Keeping in Standard Microeconomics?'. Access the articles on http://www.paecon.net/PAEReview/index.htm.

into too long a story for the purpose of this article. Here, it may suffice to say that 30 years ago, a common approach in social sciences and economics was 'structuralism', a theory which focuses on the effects of structural elements, such as the family, the state, the social class, on the behaviour of the individual. Today, such 'deterministic', or 'holistic', theories have been abandoned. Why?

One can think of several reasons. First, these theories have been increasingly criticised as the behaviour of individuals has become more and more diverse. For instance, it is well known that even within the same social group, there are many different kinds of behaviour, such as in the case of, say, the type of music blue collar workers listen to. This first point of criticism has led to a second one: how could the researcher know which 'social group' to infer from the behaviour of the individuals? One can belong to the working class, but also be gay, live in the countryside, and so on.

Last, holistic analyses were put on the defensive when individualistic theories managed to explain a number of empirical phenomena better. For instance, the 2005 Bank of Sweden prize laureate, Thomas Schelling, provided an explanation of racial segregation in housing by referring only to the behaviour of utility-maximising individuals. Using a chessboard, Schelling demonstrated that even when people only wish to live in a neighbourhood where there is slight majority of people like them, this may result in complete segregation. Why is this? Think of yourself in this situation, when there are only two races: you do not mind people of the other race being around you, but you definitely want to have a majority of people of your race in your immediate neighbourhood. If everybody around you behaves the same, then it is very likely that your total segregation will result, despite the fact that everybody accepts the immediate presence of people from the other race in its vicinity.[17]



A puzzle game based on Schelling's segregation model

This analysis is important because in Schelling's model, segregation is no longer the consequence of deep-seated racism, but the unintended collective outcome of rational decisions taken by individuals. It is part of a now widespread method of analysis, called 'game theory' – for the use of which Schelling (along with Robert Aumann) received the Bank of Sweden prize in 2005. Because it can explain a wide range of phenomena through simplified assumptions and mechanisms, game theory is very popular nowadays, not only in economics but also in sociology, political science, etc. But game theory shares the un-social

17 Schelling, Thomas S. (1978), *Micromotives and Macrobehavior*, W. W. Norton and Co, N.Y.

character of neoclassical economics: in the case discussed here, positing utility-maximisation as a 'black box' – that is, as independent of the wider social conceptions of the status and 'worth' of different ethnic groups – is obviously a very limiting assumption.

All in all, these critiques, together with the general right-wing turn of political ideas that took place in the late 1970s/early 1980s, have convinced the vast majority of social scientists that the only scientific approach to social phenomena is to take the individual as the starting point. This is problematic, as it can be argued that this stance leads to two major shortcomings.

The first dead end of micro-based analysis is empirical: not to take into account the environment in which individuals are embedded, when dealing with empirical phenomena, amounts to a great loss of relevant information. To take Schelling's example, it is not the case that people make their choice in an abstract vacuum when they decide where to live. On the contrary, they are influenced by the country they live in, the policies devised to counter racism and segregation, their age, their occupation, and so on.

Second, I would argue that starting from the individual leads to a theoretical inconsistency. This is because there is no way to build a general theory based on the behaviour of *really* different people: how could you aggregate millions of different choices into a single, coherent explanatory framework? How, for instance, could you derive a 'consumption function' which would aggregate the billion of choices all American consumers make in a single day? This cannot be done. This impossibility has led mainstream economics to take another strange road. According to the most recent models, all individuals are posited as being *the same*. Worse, the economy is reduced to the behaviour of…a single individual. Sure, this makes things easier for the theoretician. But what sense does it make? [18]

This situation is absurd. But my claim is that it is inescapable. There is no way one can avoid it when one wants to fulfil the three requirements of modern mainstream economics: (i) explain aggregate outcomes; (ii) start from the individual; and (iii) proceed step by step from the individual to the global. Unfortunately, these three requirements are now engraved on the walls of economic departments all over the world. Taken together, they impose the building of theories which are at the same time simplistic in terms of ideas and complicated as regards

18 Kirman, Alan P., 'Whom or what does the representative individual represent ?', *Journal of Economic Perspectives*, 1992.

the mathematical tools they use. Unfortunately, the disease created by economists has spread to other departments, starting with political science, where a critique very similar to ours developed in 2001.[19]

So, to sum up, contemporary mainstream economics is a very abstract and technically complicated theory that relies on over-simplistic and arbitrary assumptions. Obviously, if these features were better known, neo-classical theory could not be used as a very convincing support for market ideology.

But obviously it is possible *not* to say all this to students – as everyday economics teaching proves. There is another story which can be told: the 'supply and demand' story.

The case of the market for apples – an illustration of the 'supply and demand' story told to economics students

The market as our skyline?

The story – fairy tale? – told to students everywhere is a short and simple one. All you need to do is to introduce them to two marvels of the human mind: the supply curve and the demand curve. Let's take the case of the market for apples (see Figure 1). As the price goes up, producers will want to produce more and more, because they will make more profits. So we can draw the 'supply curve', which indicates that the higher the price, the bigger the quantity of apples produced.

On the other side, the more expensive the apples, the fewer people are going to buy them. So the 'demand curve' will go down when the price goes up. As the two lines go in opposite directions, they will necessarily cross at some point. This point is the equilibrium at the market: in the example below, 50 apples are exchanged at the price of 70 cents each (point *E*). One can see that it is only at this point that the number of apples bought is equal to the number of apples sold.

When the price is higher than 70 cents, producers are willing to produce and sell more, but apples are now too expensive for consumers. As a result, supply is greater than demand (there is *excess supply*). On the contrary, when the price is lower than 70 cents, consumers would like to buy more apples, but producing these extra apples is not profitable for apples producers. As a result, demand is greater than supply (*excess demand*).

19 Kurt Jacobsen, 'Perestroika in American Political Science', *Post-Autistic Economics Review*, No. 32, 5 July 2005, article 6, http://www.paecon.net/PAEReview/issue32/Jacobsen32.htm.

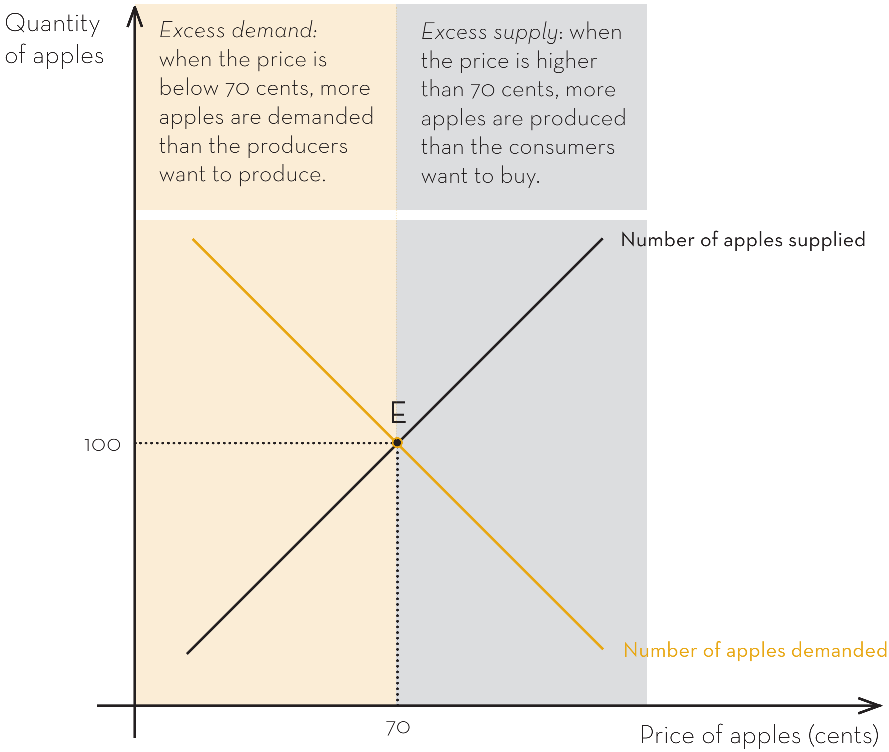


Figure 1 – The market for apples

The magic of the market is that only point *E* is sustainable: if the market is in any other situation, it will converge towards the equilibrium point. That is, if demand is greater than supply, then the price will go up. And if supply is greater than demand, then the price will go down. This is the 'law of supply and demand'.

Economists (and some sociologists) will nowadays refer to marriage as taking place on the 'market' for wives and husbands

And…that's it! If you have this graph in your mind, you know what economists have in mind when they are dealing with any problem. In effect, for mainstream economics, the mechanisms of supply and demand apply to any social phenomenon. You can apply them to any problem, whether it is the price of oil, health care or peas. Indeed, economists (and some sociologists) will nowadays refer to marriage as taking place on the 'market' for wives and husbands, or to the decision to have children as depending on the 'price' of children.[20]

20 This follows the works of Gary Becker, another laureate of the Bank of Sweden. His classic work is *The Economic Approach to Human Behavior*, University of Chicago Press, 1978.

This may initially seem odd, or even scandalous. Again, many students react strongly when introduced to these modes of reasoning. But teaching experience proves that after only a few weeks, even if they are not convinced, more and more students finally accept this way of seeing things. This is where the power of economics comes from. Mainstream economics is strong because it has managed to redefine any social problem in its wording. Whatever the problem, you are faced with scarcity: of jobs, of clean environment, of basic goods. In each case you can observe, or, if necessary, imagine, a supply and a demand side: people demand jobs, clean air, basic goods. Firms supply jobs, pollution and goods. With these three elements – scarcity, supply and demand – you have a market.

And with a market comes the price. The price is the magic wand of the economist: it will solve any problem you face. Let's take the example of unemployment. We will define unemployment as a deviation of the economy from full employment, the situation when the number of people looking for a job is equal to the number of jobs available. Let's call the people looking for a job the supply of labour and the firms offering jobs the demand for labour. There is full employment when supply is equal to demand. That is, in Figure 2 (below), full employment corresponds to point *E*, where 100 workers are employed at a wage of 70 cents an hour. Now, unemployment is the situation when there are too many people chasing too few jobs: that is, unemployment appears when the supply of labour is greater than the demand for labour. How can supply be greater than demand? There is one and only one answer to this question: when the price of labour is too high. For instance, at an hourly wage of 90 cents an hour, there would be 112 persons looking for a job, but only 87 jobs are available. As a result, 25 persons (112 minus 87) are unemployed.

So the lesson is clear: the *only* reason why there could be unemployment is that labour is too expensive for employers. Otherwise put, one has to diminish the cost of labour (wages + social security contributions and taxes) in order to resolve unemployment. In effect, when the price of labour goes down to 70 cents an hour, fewer people are willing to work, and more jobs are offered. That is, the supply of labour diminishes, while the demand increases. Thus, excess supply (=unemployment) gradually disappears as the economy moves towards the equilibrium (=full employment; point *E*).

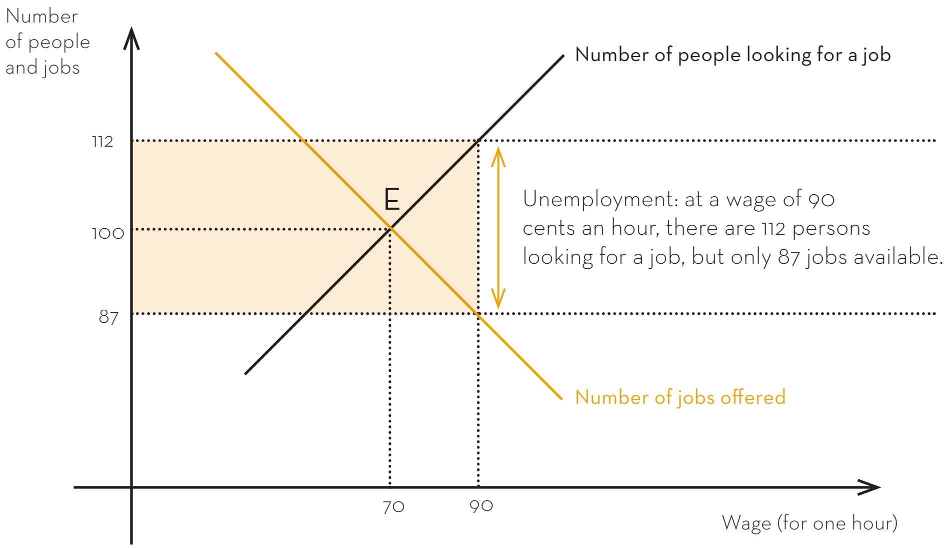


Figure 2 – Unemployment

So how can unemployment persist? According to mainstream economists, because a number of actors and institutions in the economy prevent wages, taxes and social security contributions from falling: unions defend high wages; the unemployed, the sick and the old ask for social benefits; and politicians wants to levy taxes to achieve their projects. All these actions create so-called 'imperfections' on the labour market which, according to mainstream economists, are ultimately the causes of the persistence of unemployment, notably in Europe.[21]

So making the labour market perfect is the agenda of mainstream economists. This is why they advocate the reduction of the minimum wage, the diminution of unemployment benefits, the fight against unions, the reduction in social security contributions and taxes, and so on. But, for mainstream economists, perfect markets are not only the solution to unemployment. They are the key to any and every issue society faces. For instance, 'many economists believe that there would be large benefits to allowing a free market for organs'.[22] This market will give an

21 For a critique of this view, read Howell, David (ed.), *Fighting Unemployment. The Limits of Free Market Orthodoxy*, Oxford, Oxford University Press, 2005. For an alternative explanation of unemployment in Europe, read Gérard Duménil and Dominique Levy, *Capital Resurgent. Roots of the Neoliberal Revolution,* Cambridge, Harvard University Press, 2004.

22 Mankiw, N. Gregory, *Principles of Economics*, Thomson South Western, 2004, p. 152

incentive to people with healthy organs to sell them, which will help to resolve the current shortage.[23] Similarly, the mainstream solution to pollution is not to forbid it, but to make firms pay for the right to pollute. This is why a market for 'rights to pollute' has been created in the framework of the Kyoto agreement on the reduction of greenhouse gas emissions. The idea with this market is that firms which pollute less will sell their excess rights to firms which pollute more. As a result, total pollution will be reduced, it is argued.[24]

As one can see, whatever the issue, the market is always the answer, according to mainstream economics. A problem can persist only under one of the three following situations: either the corresponding market has been forbidden by law (organs); human interventions fiddle with markets (unemployment); the market to solve the problem has not been invented yet (pollution). Yet as pointed out above, there is no proof out there that these solutions are the best available. Even the theory of markets developed by neo-classical economists cannot by itself sustain their claim that 'more and better markets' are the solution to just about everything. If the appeal of the market is so great, it is not so much for scientific reasons; it is for normative reasons.

Perfect competition is not the only model of mainstream economics

Perfect markets as the core of a just society?

Perfect competition is not the only model of mainstream economics. For instance, textbooks introduce students to 'monopolistic competition', the situation in which a few big firms sell products which differ only slightly. Monopolistic competition is probably a closer approximation of what is going on in many markets, in particular for consumer goods, than the 'perfect' competition between 'small' firms. Still, mainstream economists insist that *the* right model is perfect competition. It is this model which students have to have in mind when they analyse real economies.[25] Why do most economists do

23 One may resist this argument on the grounds of fairness: with a market, only those that can pay can have an organ. But think of the current situation, in the case of kidneys. As Professor Gregory Mankiw puts it, 'Now, most of us walk around with an extra organ that we don't really need, while some of our fellow citizens are dying to get one. Is that fair?'.

24 For an extensive critical discussion on carbon trading see 'Carbon Trading: A critical conversation on climate change, privatisation and power', *Development Dialogue*, No. 48, Dag Hammarskjöld Foundation, Uppsala, 2006.

25 As Professor Mankiw puts it in his textbook (see note 23), 'It is true that many firms have some monopoly power. It is also true that their monopoly is usually limited. In these cases, we will not go far wrong assuming that firms operate in competitive markets, even if that is not precisely the case.' (p.340). One can see that, following Professor Mankiw's premises, we could just as well have concluded that we would not have gone far wrong assuming that firms operate in monopolistic markets.

this? A first possible answer is, again, the quest for scientism. As the words indicate, a model dealing with *im*perfect competition is less general than a model of *perfect* competition.

But this answer is not the whole story. Another reason why mainstream economists primarily refer to the model of perfect competition is that this model corresponds to an ideal situation. When competition is perfect, all actors in the economy are powerless. The price is imposed on all of them. Were a seller to wish to charge his or her consumers a higher price, he or she could not do it, because the consumers could immediately find another producer that sells at the market (lower) price. And were a consumer to wish to pay less, he or she could not do it either, because the producer would immediately find other consumers ready to pay the equilibrium (higher) price.

The producer would immediately find other consumers ready to pay the equilibrium (higher) price

Otherwise put, competition is not only a device which leads to more efficiency. It is also a just device, because it prevents any use of power by any participant in the market on any other participant. According to mainstream economists, widespread competition is similar to a perfect democracy in which no power, let alone any tyranny, can emerge. Everybody is submitted to the law of the equilibrium price which is the result of the decentralised interaction of millions of people – just as, in a democracy, everybody is submitted to the law of collective decisions.

Also, the goods that provide the most utility to the consumers will be more demanded, thus leading to a rise in price which will induce producers of other goods to switch their resources to the more demanded products. Similarly, when a resource becomes scarce, its price will rise, inducing consumers to save on it and/or to use substitutes. Thus the dynamic of the price system, if unimpaired, will permanently lead producers to produce the most demanded resources at the lowest possible cost. In total, the price appears as a kind of magic device which informs each of us of the relative scarcity of the goods we consume, as well as the preferences of our fellow consumers.

It is possible to expand on that line: if prices indicate scarcity and tastes, why should society use any other allocation device? How can we explain that some goods are – for the time being – not provided on a market?

There is a variety of reasons why some goods and services are not provided by the market. First, some goods may be seen as too important to be left to the market, as in the case of the army, education or the environment. In fact, one could argue that our shared humanity should oblige us to make every possible effort to grant everyone access to health, education, transportation, culture, employment, and so on, especially when economies are rich enough to provide them.

In fact, in many developed countries, important redistribution and allocation schemes exist that favour access to some of these goods for a majority of citizens.

However, the support for these interventions seems to be diminishing by the day. Why is this case harder and harder to make today? What is so convincing about deregulation, competition and privatisation? Yet another story may help us to understand this.

Here comes the economist

In Swefrangermania, public services are under high pressure as a growing number of decision-makers want to privatise them. To these decision-makers, privatisation is the obvious solution to a number of current social problems: it will lead to the provision of better services at a lower cost. However, the population disapproves of these changes. In order to convince their electors, local political leaders invite a famous Harvard economist, Mr Inowatsgoodforyu, to discuss the issues with the people. On a Wednesday night, Mr Inowatsgoodforyu appears on a TV show. Miss Oïpola has been selected to put questions to him. She starts:

> – Mr Inowatsgoodforyu, it is an honour for me to have the possibility to discuss with you. As you know, there is a discussion in our country about the future of public services. Although they are far from perfect, these services work pretty well now, but many leaders want to privatise them. I do not understand that. Could you explain it to me?
>
> – Miss Oïpola, all the pleasure is mine. I understand your surprise: public services have existed for some decades now in Swefrangermania, they work all right, some of them are even among the best in the world, and all of a sudden, there is this urge for privatisation. Why is that? To address this, I think that the first point we need to agree on is that there is no such thing as a 'free' good. Even apparently free goods, such as primary schools, have a cost, which is paid through taxes.
>
> – Thank you, but I know that. What does that imply?

– This simple remark has far-reaching effects. As you may know, even in a rich country such as Swefrangermania, it is at present difficult to maintain the quality of public services: trains are running late, hospitals are more and more criticised, the pupils did not fare well in the latest international comparative study, etc. So Swefrangermania has to make choices. We would all like to have more and better roads, trains, schools, hospitals, museums, etc. But this is not possible. We have to choose between these priorities. How can we decide?

– Let me think… By deciding these priorities during elections.

– True, votes and democracy are a possibility. But, as you know, they are packed with imperfections: elections offer you the choice between two or three parties at most, you have no way to commit leaders to their promises, and any change leads to a mountain of protests and criticisms of all parties involved, etc. The truth is that the political system is better suited to immobility than to change. Don't you think?

– Sure, the system is not perfect, but it is the best I know. What do you propose? To have more parties, to make leaders accountable, to have a more efficient state?

– All of these are excellent suggestions. But I would turn to a more radical change. As I take it, the founding ideal of democracy is self-determination. Ideally, in a democracy, people decide by themselves for themselves. But in our current system, this is far from being the case: a few people decide for everybody else, and we all have to go where we are told to go. We cannot decide which school to send our children to, we have to queue at the same post office, we cannot escape the public hospital, in a word we have no choice.

– Right. But what do you propose instead? Direct democracy?

– In a sense, yes. We live in societies of well-informed people who know what is best for them. Why not let people decide by themselves?

– Why not, indeed. How?

– The best answer I know is the market.

Will education, health care, culture become the privileges of the rich?

– The the the… *market*? (gasping) Is it the market you have in mind when you talk of 'direct democracy'? Excuse me but…are you in your right mind? Will it be more democratic if people have to pay for the services they have access to freely now, such as education, health care, etc? What if they cannot afford them? Will education, health care, culture become the privileges of the rich?

– Not at all. You misunderstood me. My proposal does not entail that people's total consumption should be diminished. Let's take the case of education. Instead of paying taxes and sending their children to the local public school assigned to them by the authorities, parents would have vouchers that they would use to select the school they prefer for their children.

– But if all well-educated parents send their children to the same school, what will happen? Will not this lead to the creation of ghettos?

– Quite the contrary. In effect, as you know, ghettos already exist now, precisely because schools do not have any incentive to increase their quality. With families deprived of the right to choose which school to send their children to, public schools have what we economists refer to as 'captive consumers'. If there were a market for schools, each school would have to do its best in order to attract parents. In this way the quality of each school would improve – just as the quality of consumer goods has improved over the years in response to consumers' demand. Just compare the quality of your car to the one your parents had when you were a child.

– Do you mean that the school for my children is the same as my car?

– More so than you think. And the same goes for many goods that are or were publicly provided before. Look at the tremendous progresses competition has introduced in areas such as the Internet, phone services and air flights. Why would this logic not apply in areas like education, energy or postal services? For each of these goods, competition would provide society with a better use of its resources, which are always scarce.

– This is hard to believe. Would you also say that this logic applies for hospitals or the police?

– No. In these cases, a public system may be more efficient. But the number of exceptions is limited, as you can see.

– You talk a lot about efficiency. But what about fairness? What if people cannot pay for the newly privatised services?

– Well, first of all, you already have to pay for many current public services. In fact, you pay twice for them: first through your taxes and second when you want to send a letter or take the train. With privatised services, competition will drive the price down: far from being hurt by privatisation, modest households are the ones who will benefit most from it.

– So if privatisation diminishes the cost for everybody and does not make anyone worse off, why do so many people resist it?

– For many reasons. First, many of the critics are not trained to think as economists. They do not realise the true cost to them of the services they have access to for 'free'. Also, people fear change because they do not like the unknown. Last, some groups of interest are against privatisation because they would lose from it.

– Who? I thought you said privatisation would benefit everybody?

– Privatisation would definitely benefit consumers. And we are all consumers, aren't we? But by introducing competition, privatisation will by definition remove public monopolies. This will force these enterprises to be more efficient, in order to remain competitive. So their workers will have to work harder, they may get less advantageous benefits, and some of them will even lose their jobs. This is why these persons oppose privatisation.

– So there are losers. You did not mention that at the beginning.

– There are losers, but this is the inevitable effect of economic change, of progress. Would you like competition to disappear? Why do you think your standard of living is so much higher than the one your grandparents had? How do you think millions of people are getting out of poverty all around the world today? Because of the virtue of competition. You may well prefer to protect the advantaged workers of the protected public monopolies. But by so doing, you go against the historical trend which has proven so beneficial to humanity. And let me ask you: why should these workers benefit from a protection that you, who are working in the private sector, are not entitled to?

– I could put it the other way round: why don't we all benefit from the same protection that they do?

– Hmm…do you miss the USSR that much?

Here, Miss Oïpola blushes, and does not reply. She looks at the same time shocked and puzzled. The programme runs a commercial.

Real economies against the market ideal

So here is present-day mainstream economists' fairy tale. What arguments could we draw on to challenge such a beautiful story? The case in favour of markets seems overwhelming: markets are efficient, markets allow each individual to make their choices, markets promote a decentralised and fair society, and markets will even help protect the environment.

In fact, once one leaves the quiet realm of the academy, the picture changes dramatically. It is observable everywhere that markets induce waste, are unfair and displace more efficient ways of organising life.

Among industrialised countries, the results are striking: the public health systems are more efficient than the private ones

The typical example is health systems. Careful studies by the World Health Organization (WHO) have compared existing health systems in different countries. Among industrialised countries, the results are striking: the public health systems are more *efficient* than the private ones. The inefficiency of private provision of health is demonstrated by the case of the United States. In terms of absolute *results*, measured by an index taking into account a number of issues (what WHO calls 'overall health attainment'), the United States ranks OK – as the 15th-best country in the world (the top five countries being Japan, Switzerland, Norway, Sweden and Luxemburg). But when it comes to the 'performance' of health systems – that is, how efficiently health systems translate money into health, measured by disability-adjusted life expectancy – the United States instead ranks 72nd. In contrast, countries not as rich as the United States but where health is mostly publicly provided, like Italy (ranked third), France (fourth), or Japan (ninth), obtain much better results.[26]

How come? According to WHO, part of the result can be explained by the *fairness* of public health systems. When health is provided to all, people do not wait to see a practitioner: they are cured earlier, which is both better for their health and less costly for the system as a whole. Hence, for some economic activities, refusing to exclude people as the market does may be not only fair, but also more efficient.

The health care example also reminds us of the costs of competition. According to mainstream economics, competition has only advantages when compared to a monopoly, because the monopoly has no incentive to innovate, to better the quality of its products or to lower its price. In contrast, competition is praised for the permanent downward pressure it imposes on prices, and for being a source of new and better products.

There is more than a grain of truth in this argument in favour of competition. But one should not forget that competition also comes at a cost. First, competition takes place between private companies which are motivated by profits and the perspective of shareholder dividends. These profits and dividends are, at the end of the day, paid for by the consumers. Second, competition induces an important amount of costs in marketing, publicity and the like – which are non-existent when there is a public monopoly. Third, competition may lead to redundant positions among the competing firms. Fourth, top wages are higher in private companies than in public institutions, and this also raises costs for the consumer.

In total, the case for competition against monopoly is not straightforward. True, it is probably better to have competition than monopoly for most consumer goods. But in many other cases the advantages of competition may be slim, if any. Even in the realm of mainstream economics, there is recognition that some goods and services can be better provided by a monopoly than through competition. These goods are called 'public goods': they are goods which cost the same to provide to one or 1000 consumers, and to which all consumers can have access simultaneously without impairing one another's con-

26 See WHO, *The World Health Report 2000 – Health Systems: Improving Performance*, Geneva, 2000, statistical annex, tables 9 and 10. Available at: http://www.who.int/whr/2000/en/index.html.

sumption. Examples of such goods are national defence, education or TV signals.

There is yet another kind of goods which imposes limitations on the market. These are the goods which have an effect beyond the consumer who buys them. In such cases – called 'externalities' – the market price underestimates the real value of the good. For instance, for education or health care, the price that consumers are willing to pay is 'too low', because consumers do not include the positive effect of their good education and health on others. In the same way, when the production of a good induces pollution, the price charged by the producer is too low, because he does not take into account the negative effect of his production on the collective wellbeing of the members of society.

Public goods and externalities have been the classic cases in favour of public intervention in the economy. It was on the basis of such arguments that many economists favoured a wide public intervention after World War II. Nowadays, the trend is being reversed: nearly every good is understood as being the subject of potential privatisation. Let's suppose we would like to stop this. Can we?

The state versus the market: science, or ideology?

The conclusion of the previous discussion is that, *even while restricting ourselves to the way most economists think*, there is no economic law which can decide what the 'optimal' size of the state – or the market – should be. Answering this question is a matter of judgment, which varies with time and place. In most contemporary economics classes, the bias is in favour of the market, because most goods are thought of as being standard private goods. Thus the market naturally follows as the general mode of organisation, every other possibility being treated as an exception. Does this make sense?

A queue at the supermarket is a negative externality imposed on me by other consumers as they make me lose time

Again, it is a matter of judgment. Let's take the case of externalities. In a sense, externalities are simply everywhere: a queue at the supermarket is a negative externality imposed on me by other consumers as they make me lose time; the fact that I live in a safe society increases my wellbeing and is thus a positive externality; the high consumption of my neighbours is a negative externality affecting my consumption, as I want to copy them – or to distinguish myself from them; the existence of high inequalities can be a negative externality to me as I would prefer to live in a more equal society.

The same can be said about public goods. Today, the encompassing economic policy of the European Union, the 'Lisbon strategy', aims to make the EU 'the most competitive knowledge-based economy in the world'. This is excellent, especially if one remembers that knowledge is a public good: the cost of producing knowledge does not depend on the number of 'consumers', as you knowing more than me does not mean that I know less…quite the contrary! So taking the 'knowledge-based economy' seriously would definitely require bringing the state back in, as the success of Scandinavian countries, where massive spending in public education goes hand in hand with a very innovative private sector, illustrates.

Similarly, not so long ago, in many industrialised countries, basic industries and, in some countries like France, banks, belonged to the state. This was so because these organisations affect society as a whole and so should be made responsible for their choices. One could say that their activities are 'core activities', in the sense that they are at the heart of how the economy functions. In fact, the reactions of politicians when a large plant in a poor region is closed show that these core activities have not disappeared. So why let the 'market' decide their fate?

All in all, what this shows is that economic reasoning can be used in a variety of ways. Even within economics, there is no theorem demonstrating that there should always be more and better markets in order to increase the wellbeing of individuals. These questions are precisely the ones that make the study of economics fascinating. But in order to address them, one has to start from the recognition of the existence of pluralism.


Adam Smith (1723-1790)

Teaching economics through controversies

As already stated, pluralism is a basic requirement of a scientific attitude. In fact, the importance of pluralism should be obvious to economics teaching. Ever since economics was 'invented' by Adam Smith at the end of the 18th century, it has been a field of permanent debates and controversies. These debates were highly influenced by the political debates of the time. Thus, while the respective merits of capitalism and socialism were a central issue during most of the 20th century, that issue has largely disappeared since the collapse of the USSR.

Within the economics profession, the pro-market stance has become increasingly influential since the late 1970s. Thus, most economists are in favour of the free market in, for example, trade (free trade), housing (suppression of rent control) and currencies (a flexible exchange rate mechanism).[27] But this growing consensus does not imply that debates have completely disappeared. On the contrary, questions which seemed settled keep on coming back, such as the effects of the minimum wage on employment.[28] Also, some debates which have been downplayed by economics departments continue in other academic departments, such as sociology, history, or political science, or even business schools. Even among economists, hot debates take place when policy issues are discussed. Indeed, there is still a significant diversity in the Econ world, with species like feminist, realist, Marxist, post-Keynesian, institutionalist, and so on, still surviving.

This is why I propose to put controversies in the centre stage.[29] A controversy is a situation when economist *A* formulates a theory, which economist *B* criticises, *A* replies, and so on. A famous example of a controversy is the debate between neo-classical economists and Keynesians about the source of unemployment. According to neo-classical economists, the main source of unemployment is the lack of flexibility of the labour market. What Keynes demonstrated is that this reasoning overlooks the fact that the wage is also a revenue for the workers. For him, increasing the flexibility of the labour market does not solve the problem: it makes it worse. He thought that a better way to tackle unemployment was through public investment.

Keynes' analyses guided post-World War II economic policies around the world. But from the early 1950s on, neo-classical economists criticised expansionary fiscal policies for artificially stimulating the economy. According to the leader of what was later to become the mainstream counter-revolution, Milton Friedman, these policies would result in higher inflation in the end, without any benefits in terms of new jobs. When inflation soared in the 1970s and governments were stuck with high levels of unemployment, the economic profession took off its Keynesian clothes and put on the neo-classical suit.

27 Alston, R. M., J. Kearl and M. B. Vaughn, 'Is There Consensus Among Economists in the 1990s', *American Economic Review*, 1992. Dan Fuller, Doris Geide-Stevenson, 'Consensus Among Economists: Revisited', *Journal of Economic Education,* 2003.

28 Following the works of Krueger, Alan and Card, David, *Myth and Measurement: The New Economics of the Minimum Wage*, Princeton, Princeton University Press, 1997. For a short presentation, read André Orléan, 'Humility in economics', *Libération*, 5 February 2001 (mouv.eco.free.fr/english/textsautors.htm).

29 Raveaud, Gilles, 'Teaching Economics through Controversies', in Fullbrook, Edward (ed.), 2003, *op. cit.*, pp.62-69.

But the persistence of unemployment in today's Europe is somehow bringing back Keynesian ideas to the forefront…

This is one example of a controversy. But others abound on virtually every topic. Sometimes, some of these controversies are presented in courses. But when they are, they are presented as an exception. What I propose is to give these controversies a central role, to introduce students to them at the earliest stage in the curriculum. But doing so raises a number of issues.

Teaching economics through controversies: what it is, what it is not, and why it matters

Teaching economics can be really boring – for teachers too!

Among the many benefits of 'teaching through controversies' is the perspective of interesting students. Teaching economics can be really boring – for teachers too! – when it boils down to the instruction of the 'tools' of mainstream economics. On the other hand, students are eager to discuss real world issues and controversies when given the chance.

Does this mean that the teacher has to choose between the technique and 'real' problems? In an absolute sense, no: he/she has to do both. But in practice, as choices are to be made, yes. The teacher has to decide what his or her priority is: technique and mainstream economics, or pluralism and debates? Unfortunately, teachers choose the first option in the vast majority of cases, an option which is both more valued by academia and more comfortable to teach.

In most economics departments, the theoretical tools are taught primarily for their own sake. Our plea, among the group of critical students, was to change this radically. In our scenario, teaching would be centred on the various analyses offered by different economists. This orientation would likely benefit students in terms of intellectual and professional training. Today, in order to succeed in their exams, students of economics around the world must either do calculus or repeat what they heard during the lectures. They are not asked to engage with concrete problems and to analyse them from different standpoints. Doing so would train them to think by themselves, to weigh the merits of various proposals, and to make a final decision – all competencies which are likely to be useful to them whatever their future career is.

I would like to underscore that our commitment to pluralism does not lead to a downplay of statistics and econometrics. It is quite the opposite: as economic phenomena are measured, to understand them requires figures, statistics and econometrics. To our mind, whatever the subject discussed, students would have to be faced with real data, both during classes and for exams. In fact, judgments on competing approaches can hardly dispense with analysis of their quantitative impact. Take the case of an anti-pollution policy. By how much is this policy going to reduce pollution? At what cost? How do we know? What assumptions are we making in order to obtain this result? And so on. Again, these questions should be at the core of an engaged practice of economics.

Moreover, in the curriculum devised by our student group in France we proposed to tackle head on the normative aspects of economics. In our proposal, political philosophy would occupy a central role in the curriculum. But this was generally unnoticed by our critics. Here, hypocrisy is at its maximum, as economists pretend to be able to separate neatly 'positive' from 'normative' economics. In fact, these two dimensions are intertwined and inherent in *every* economic issue. So the 'welfare effects' of a given policy proposal cannot be left to passing remarks, or to advanced courses as they are now. Putting these dimensions in the core of the curriculum, and, again, grading students on their ability to assess them, should be a major requirement.

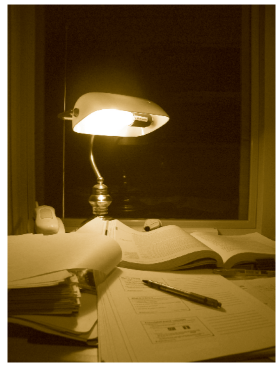
Thus, to sum up, the pluralist approach advocated here combines data, economic reasoning and political philosophy to address current issues. Isn't this what economics was for the great minds of Smith, Ricardo, Marx, Keynes, Schumpeter and the like? Now, is this merely a dream, something that sounds nice but, as is too often the case with economists, cannot take place in the real world? I do hope not. But it is also true that a pluralist curriculum raises some difficulties.

Pluralist teaching: from theory to practice

In 2000 and 2001, during our heated discussions about the 'ideal' curriculum, we encountered three main difficulties: what space should be allotted to disciplines other than economics in the curriculum? What sources should be used for lectures? What balance should be struck between theoretical tools and real world issues?

Regarding the question of multidisciplinarity, I would propose the following. In their first year, students should be introduced to the main thinkers and principles of at least two other subjects among, say, philosophy, sociology, law, history, political science or psychology. Second, the historical, sociological and political aspects of economic theories should be brought back in: to take contemporary US examples, it simply does not make sense to present the theoretical models of Arrow, Friedman, Lucas, Samuelson, Solow or Stiglitz without presenting the empirical problems they had in mind when devising their theories. Last, later on in the curriculum (for instance, in the third year), economics students should do an assignment together with a student majoring in another discipline on a subject of their choice.

The second problem concerns the kind of sources to be used. Ideally, I would like not to use a textbook at all. Why? Because it would be much better to give students first-hand access to economic thought and issues. In fact, when I was a student the textbook used did not have the prominent place it has now. During our *first-year* module on 'political economy' we studied original texts from thinkers like Adam Smith, Karl Marx, Alfred Marshall, Lionel Robbins and Joan Robinson. We propose to return to these good old days! Plus, these readings would be accompanied by articles from newspapers and reports by national and international institutions (the OECD, the World Bank, the United Nations Development Program, etc.). Indeed, a major hole in current economics curricula is the absence of a core course on economic institutions such as, for example, central banks, the WTO (World Trade Organization) and global companies.



Ideally, I would like not to use a textbook at all. Why? Because it would be much better to give students first-hand access to economic thought and issues

This leads on to our third point of discussion: how to engage students with real-world problems which require the use of theoretical tools. The current position among economics departments is the following: let's teach them the tools first, and we will deal with the problems later. The fact is that the 'tools' presented are only the mainstream ones and that the study of current problems…never comes. To counter this, we had initially proposed to create thematic courses. The idea was to appeal to students by having courses with 'sexy' labels such as 'Do we have to choose between poverty or unemployment?', 'For or against the WTO?' or 'Pollution or growth?'.

With thematic courses, debates and controversies would be virtually everywhere, both in the main courses (labelled for instance 'political economy' and 'history of economic thought') and in the thematic courses. But as critiques made us realise later on, there is a difficulty here: dealing with real-world issues would lead teachers to refer implicitly to various theories, to which students would not yet have not been introduced. So, in the thematic courses, one would have to introduce students at the same time to the problem *and* the theories. I do not think that this cannot be done, but it certainly needs to be considerably thought through. In particular, the thematic courses would have to be closely articulated to the courses on 'political economy' and 'the history of economic thought'. Again, this is far from impossible to achieve, and the expected gain may well be worth the challenge. So, all in all, I think that placing controversies at the centre has two merits: (i) it corresponds to an idea of science we want to defend; (ii) it is pedagogically feasible. Now, going into further detail, how should these controversies be presented? Here, unfortunately, it seems that there is no choice but to organise them around…mainstream economics.

Pluralism as a series of critiques of neo-classical economics

In the vast majority of economics departments, when it is not the only one taught, neo-classical economics is the *dominant* theory in the sense that it absorbs the most of teaching time. This is unfortunate, given all the shortcomings of mainstream economics. But we have to be realistic: mainstream economics is the current language of mainstream economists, journalists, politicians. In short, mainstream economics is the language of power. Therefore, students (and citizens) have to know it – and to know it well. Also, it is true that, historically, alternative economic theories have themselves developed as a critique of mainstream economics, the obvious cases here being the theories of Marx and Keynes. Thus, for all these reasons, it makes sense, in an alternative economics course, to introduce students to mainstream economics first.

In this approach, the course starts with the mainstream view of the world and its basic tools: specialisation and the gains from trade, supply and demand, producer and consumer choice, 'market failures' (public goods and externalities) and the labour market. After that, students are introduced to various alternatives that have been proposed to mainstream analysis. After this, empirical problems are introduced. This approach is the one devised by Professor Steve Marglin in his Harvard introductory course, to which I contributed in the first semester of 2005-2006. It has many merits, and it may be the case that it is hard to do better.

Still, one must be aware of the limits of this choice. First, this way of proceeding presents the mainstream view as 'the way economists think'. Again, this is perfectly legitimate given the orientation of most economists today around the world. But it makes the presentation of alternative theories difficult: once one has started with mainstream economics, it is more difficult to convince students of the validity of other approaches. For instance, when students – after having initially resisted it – have assimilated the reasoning on 'equilibrium', they are more likely to find Keynes' focus on disequilibrium arbitrary. Similarly, introducing the students to the conflict-laden worlds of the Marxists, to the inequitable and patriarchal world of the feminists or to the world of limited resources of ecological economists proves difficult.

Why? Because after having been exposed to mainstream economics, students have in mind a world of rational individuals with infinite agency operating in a limitless world. With such a picture in mind, facts such as, for instance, conflicts on the distribution of wealth, the stratification of society in social classes, the importance of gender roles, or the limits imposed on us by nature appear as *ad hoc* superimpositions on the otherwise pure model of mainstream economics. That is, one of the strengths of the simplistic model of mainstream economics is that it makes reality look strange. Indeed, none of the elements discussed here (power, gender, nature) fit into the nice supply and demand diagram presented above. There is therefore a danger that they appear to students as (unnecessary) complications. It thus requires an effort on the part of the teacher to remind the students of the even greater arbitrariness and narrowness of mainstream economics. Were theories presented the other way round – that is, for instance, starting with Marx and Keynes and presenting mainstream economics only afterwards – it is quite possible that the students' judgment on the relevance of each approach might be different.

Also, as already stated, putting mainstream economics at the centre of the stage has the effect of presenting alternative views as 'critiques' of the mainstream, and not as theories standing on their own. I find this frustrating because I take Keynes' analysis to be, indeed, a 'general theory' which encompasses neo-classical analysis as a 'special case'. So, in presenting both, I would rather start with Keynes and his macro point of view of the economy, and present mainstream economics as a 'critique' of Keynesian analysis (as developed by Milton Friedman from the 1950s onwards).

This approach is possible, but it misses the important point that Keynes himself presents his work as a critique of mainstream economics. And Marx's *Kapital* has as a subtitle: 'A Critique of Political Economy'. Similarly, each heterodox economic school presents itself as an 'alternative' to or a critique of mainstream economics. Plus, as Steve Marglin points out, starting with mainstream economics may, contrary to what I have argued here, make students more ready for other theories, as they are faced early on with the limits of mainstream economics. Therefore, although I still find it somewhat unjust to give such prominence to mainstream economics, I am afraid that there are just too many reasons to put it centre stage from the very beginning, and to present other views as 'critiques'.

Teaching pluralism at Harvard – the 'Social Analysis 72' course

In Steve Marglin's course at Harvard, five critiques are studied. The first is what Marglin has labelled the 'structural critique', which deals primarily with the internal limits of mainstream economics. This critique stresses the fact that what are regarded as 'exceptions' by mainstream economists – such as externalities, market power, increasing returns in production,[30] or the fact that some exchangers have more information than others – are not exceptions but central features of real markets. In effect, extra profits always derive from some kind of market imperfection which could be either innovation, or the capacity to exclude competitors, or the creation of a brand. If markets were what mainstream economics says they are, there would be no stimulus for extra profit, and hence no investment, that is no capital, and in the end…no capitalism.[31]

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The second is the Keynesian critique. In the course, Keynes' analysis is presented as a critique of neo-classical economics. This diverges from conventional curricula, which present 'macro' and 'micro' courses as complementary, the macro course following the micro class. I think it makes much more sense to present Keynes as a critique, for the reasons explained above. In fact, one of Keynes' crucial points was that the general state of the economy ('macro results') does not follow from individual decisions ('micro actions'). On the contrary, what is rational for the individual firm – reducing its wage expenditures – may end as a catastrophic result – depression – for the economy as a whole.

The irony is that while the academy persists in presenting Keynes' ideas as being no longer held in great esteem by the profession, these

30 Increasing returns means that the cost of production per unit produced goes down as the quantities produced increase. In the presence of increasing returns, the mainstream fiction of the 'small' firm cannot hold, as bigger units drive smaller ones out of business (the typical example here being factories versus craftsmen).

31 In fact, neo-classical economics is not a theory of capitalism, but a story which corresponds to small markets for fresh products from local small producers. In effect, a large number of the examples used by the most popular textbooks come from…agriculture.

ideas are at the core of the economic policies of all governments around the world, starting with the US. The economies we live in are not 'free market' economies in this important sense: everywhere central bankers manipulate interest and exchange rates in order to achieve certain goals, and states use their budget to move the economy in one direction or another. Arguing that these features matter only in 'the short run', as mainstream economists do, means omitting a central part of really existing economies.

The third critique is the distributional critique. A major flaw of mainstream economics is its complete disregard for poverty and inequality – even when they are so widespread that they threaten the very existence of society, as during the Great Depression or more recently in Russia or Argentina. To address the relation between efficiency and equity is, in economists' terms, to discuss the 'trade-off' between these two goals. That is, for most economists, one has to choose between more efficiency and more equity. This is because, according to the mainstream view, inequalities are an incentive for people to work harder, invest more, and so on, which will lead to a larger pie. This is a strong argument. In fact, all industrialised economies are associated with a certain level of inequality, and none has achieved perfect equality. And it is not clear if a majority of the people would prefer equality to the current situation.

But, on the other hand, it has to be stressed that industrialised countries are at the same time richer and much more equal than poor countries. Plus, Scandinavian countries demonstrate that it is possible to reach high levels of income per inhabitant while ensuring a minimum level of inequality.[32] There is no evidence that the rise of inequalities which took place in the US during the 1990s and, to a lesser degree, in Europe, was either justified by efficiency, or had a positive impact on it.[33] Also, some state interventions, such as public education and health, promote efficiency as well as equality, because they raise the quality of the workforce. Last, positive dynamics between equity and efficiency may emerge in production, when trust between workers and management favours productivity. So, all in all, there are a

32 See Jackson, Andrew, 'Why We Don't Have to Choose between Social Justice and Economic Growth: The myth of the equity/efficiency trade-off', Canadian Council on Social Development Report, 2000. Access: http://www.ccsd.ca/pubs/2000/equity/.

33 For the US, see Galbraith, James K., *Created Unequal*, Chicago, University of Chicago Press, 1998, and Krugman, Paul, 'For richer', *New York Times*, October 2002. For Europe, read Huffschmid, Jörg (ed.), *Economic Policy for a Social Europe: A critique of Neo-liberalism and Proposals for Alternatives*, Palgrave Macmillan, 2005.

number of empirical and theoretical arguments against the idea of an inescapable trade-off between equity and efficiency.

Mainstream economics is unable to address the issues of resources depletion, because it postulates a world of unlimited resources

The last two critiques addressed in Marglin's course are the ecological and the 'foundational' critique. The ecological critique deals with the irreversible effects of human economic activity on the environment. Mainstream economics is unable to address the issues of resources depletion, because it postulates a world of unlimited resources. In fact, as Cambridge (UK) professor Tony Lawson has put it, mainstream economics is a 'closed system'.[34] That is, mainstream economics is a purely logical world, a world which cannot be disrupted from the outside – including by the disappearing of the natural environment. For mainstream economics, nature is reduced to a good which can be traded like any other. On the contrary, ecological economists remind us that the economy is inescapably embedded in nature, that the economy is a subset of nature – not the other way round.

What Marglin has labelled the 'foundational' critique tackles the anthropological dimension of the markets. Here, the stress is on the fact that markets may have a negative impact on communities, local cultures and, more generally, social ties. A case in point here are Indian workers who work in outsourced call centres in India for US companies and who change their name, their accent, and, progressively, their entire behaviour, because of their interaction with US customers. While the evaluation of these changes inevitably depends on the observers' point of view, this example shows that one cannot discuss the merits of free trade without questioning its effect on habits, customs and ways of living.

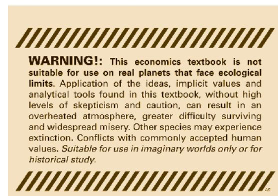
In a sense, these two last critiques deal with the impact of the market on our 'environment' – both natural and human. Mainstream economics is blind when it comes to the effects of the market on this environment simply because it takes the environment to be a given, unchanged by economic activities. So it cannot address the current depletion of resources, destruction of communities, the desperate quest for material goods and the expansion of greed. This is problematic as the development of mainstream economics and markets are linked. Sure, one did not have to wait for mainstream economists to invent markets. But, today, many mainstream economists play an active role in promoting market-based solutions to the world's most pressing problems. And their opinions and proposals are ascribed great importance by decision-makers.

34 In *Economics and Reality*, Routledge, 1997.

All in all, Marglin's course includes a variety of views that allow the students to have a broader analysis of the issues at stake. The next step would be to apply these different views (and others, such as the feminist critique) on current issues. Indeed, this is where the thematic courses presented above would come in. But this would require an orientation of the entire Harvard economics department in that direction. Even if forecasts are always difficult to make, I take the chance to say that I might not live long enough to see this happen – but who knows?

Conclusion: let's lead our kids away from market ideology!

One of the reasons the textbooks are a scandal is that they omit basic aspects of the world, such as the environment, power relationships, the role of organisations and institutions, or the existence of inequalities. This may sound hard to believe – and it is. But what is worse is that, as a student, you get used to it. At the beginning, you ask questions, but after having heard dozens of times that 'this is an interesting question, but we will deal with it later on', and that 'later on' never comes, you give up. You learn some fancy models, you run a few econometric exercises, you grasp a few facts in passing – but you are still unable to reply to your friends' questions about current economic issues.



Sticker for textbooks from *Adbusters Magazine*. See issue 85, Sep/Oct 2009 on 'Thought Control in Economics'
www.adbusters.org

That is, it can be argued that many economics departments have managed to discourage enquiry, to downplay knowledge. They have become agencies of ignorance and/or diffusion of a biased vision of the world. A crucial agent in this process are the introductory textbooks. These textbooks can be criticised in two major respects. First, they limit themselves to mainstream theory, with no mention of other theories. Second, they frequently omit many of the internal problems and inconsistencies of mainstream economics, under the guise of 'simplifying'.[35] In short, to quote Herbert Simon again, these textbooks are 'a scandal'.

Happily, a number of alternative textbooks have been published in the last few years.[36] They are the resource for a pluralistic teaching of

35 See our collective text, 'These Wonderful US textbooks', mouv.eco.free.fr/english/twonderfull.htm.

36 Notably: Colander, David, *Economics*, McGraw-Hill, 2004; Goodwin, Neva *et al.*, *Microeconomics in context*, Houghton Mifflin, 2005 and *Macroeconomics in context*, forthcoming; Samuel Bowles *et al.*, *Understanding Capitalism*, Oxford University Press, 2005; Klamer, Arjo, Deirdre McCloskey and Stephen Ziliak, *The Economic Conversation*, Palgrave Macmillan, forthcoming.

economics. True, these textbooks may seem a very modest solution to the problems pointed out in this article. By themselves, they will certainly not overthrow mainstream economics from its currently dominant position. But I hope, and think, that they will help undermine it, as more and more teachers use them.

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