

## **Textbook Confessions: Government Failure**

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### **Abstract**

What students learn in the Principles of Economics course may become the permanent lens through which they view and understand how the economy works. While most textbooks cover a core of material in a consistent manner, the same cannot be said for the treatment of government failure. We review twelve principles of economics textbooks to analyze the treatment given to government failure. Our analysis shows that authors fall short in adequately addressing this topic, thereby exposing students to the fallacy that government is the solution to market failure and drawing dangerously close to the line between positive and normative analysis.

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### **I. Introduction**

The Principles of Economics course serves as an introduction to the discipline for economics majors. It is also likely to be the only encounter nonmajors will have with the field. What they learn may become the permanent lens through which they will observe and understand how the economy works. Therefore, the principles course needs to be simple enough to foster a solid understanding of

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different aspects of the economy, yet thorough enough to prevent a Pollyannaish view that solutions to complex economics problems are formulaic. This balance may depend in large part on the textbook the instructor selects.

While most texts overlap in the topics they cover, there are a few areas where they differ. For instance, most if not all texts address market failure in some way; however, while markets may fail in the short run, the voluntary exchanges of the participants, enabled by well-defined property rights and well-functioning institutions, can correct those failures without government intervention. Yet, that same intervention can exacerbate problems and prevent market corrections. In the interest of teaching students to think like economists, this reality should be included in the principles classes and textbooks in a more consistent way than it currently is. Consider the following quotes from two widely used texts:

It is tempting to jump to the conclusion that if the market fails to achieve economic efficiency, then the government can intervene and improve the situation. Indeed, even professional economists often make this error. But we must not forget that government directed by political decision-making is merely an alternative form of economic organization. It is not a corrective device that can be counted on to make choices that will promote economic efficiency. There is government failure, as well as market failure. (Gwartney et al. 2013, p. 106)

When markets don't achieve efficiency, government intervention can improve society's welfare.

That is, when markets go wrong, an appropriately designed government policy can sometimes move society closer to an efficient outcome by changing how society's resources are used. . . . An important part of your education in economics is learning to identify not just when markets work but also when they don't work, and to judge what government policies are appropriate in each situation. (Krugman and Wells 2013, pp. 16–17)

Both texts admit that markets have shortcomings. Yet the authors clearly disagree on the role government plays in correcting perceived market failures. In many texts, the implied assumption is

that government intervention into the market is justified. In making this assumption, however, authors risk crossing the line from positive economics into normative economics, a position they claim they wish to avoid in the book's introduction. As this paper will point out, authors often fail to give credence to the consequences of government attempts to correct market failure, and when they do mention it, the coverage is minimal. If this is the case, are authors failing in their mission to encourage their readers to think economically? If they fail to do that, should educators consider adopting such texts?

The current paper reviews twelve college-level principles of economics textbooks to analyze the treatment they give to government failure. The paper proceeds as follows: First, we identify what we are looking for in terms of government failure. Second, we discuss the methodology used in our analysis. Third, we present the data and analyze the findings. We conclude with some final thoughts on the matter.

## II. Defining Government Failure

Research on what content should be included in collegiate Principles of Economics courses (Elzinga 1992; Lopus and Leet 2007) has been a concern of various groups, but much of the discussion is limited in scope, depth, and breadth. At the high school level, however, the focus on what content should be taught in economics courses is much more widely discussed and defined. In 2010, the Council for Economic Education published a revision to its *Voluntary National Content Standards in Economics*, first published in 1997. While voluntary, these twenty standards guide high school educators regarding what is important, from the perspectives of high-ranking economists and experts, for primary and secondary students to know about economics. According to the authors, "Each standard is an essential principle of economics that an economically literate student should know . . . This knowledge includes the most important and enduring ideas, concepts, and issues in economics" (Council for Economic Education 2010, p. V).

While we do not have a set of common standards for college Principles of Economics courses, perhaps the *Voluntary National Content Standards in Economics* are a reasonable substitute for us to

follow. Miller and VanFossen (2008), in their review of the economic education literature, explain that the *Standards* have played an important role in influencing how economics is taught at the precollege level. Many states looked to the *Standards* for guidance on developing state benchmarks, and the content of national assessments, such as the National Assessment of Educational Progress in Economics 2006, an assessment of high school seniors, was influenced by the *Standards*. Thus, the *Standards* offer us a starting point to identify the “most important and enduring” topics for our students.

While the *Standards* cover a range of twenty topics, we focus our attention on Standard 17: Government Failure. Standard 17 states:

**Students will understand that:**

Costs of government policies sometimes exceed benefits. This may occur because of incentives facing voters, government officials, and government employees, because of actions by special interest groups that can impose costs on the general public, or because social goals other than economic efficiency are being pursued.

**Students will be able to use this knowledge to:**

Identify some public policies that may cost more than the benefits they generate, and assess who enjoys the benefits and who bears the costs. Explain why the policies exist.

Using this standard as a guideline, we identify nine topics that textbooks should cover when addressing government failure (shown in Table 1). We are interested in learning which, if any, of these topics are addressed in college Principles of Economics textbooks and what degree of detail these books go into.

**Table 1. Topics Related to Government Failure\***

1. Costs of government policies sometimes outweigh the benefits for society. These policies are inefficient.
2. In some cases, unintended consequences of government policy distort incentives in the market, resulting in social inefficiency.**
3. Voters, government officials, and government employees face their own incentives. (Government is not neutral.)
4. There are costs involved in gathering and using information about different candidates and government programs. As a result, voters tend to be rationally ignorant.
5. Majority rule can lead to inefficient outcomes.***
6. Political incentives lead to shortsightedness.
7. Politicians have incentives to implement policies that disperse costs widely over large groups that each pay only a little and may not recognize the full costs and benefits.
8. By influencing government policy, special interest groups can impose costs on the general public.
9. Government policies sometimes lead to adverse economic outcomes because of the moral hazard problem.
* Two topics relating to Arrow's impossibility theorem, and to the voting paradox, were not included in the list. Although some textbooks cover them, they are not found in the Standards, and are at a different level of analysis than the rest in relation to government failure. **From Standard 1: Scarcity. See Council for Economic Education (2010) for details. *** From Standard 3: Allocation, majority rule is mentioned as an allocation method, though not its problems. See Council for Economic Education (2010) for details.

### III. Methodology

Studies have examined the coverage of a variety of topics in leading textbooks. Lee (1992) evaluates the coverage of international issues in textbooks, finding that while a concerted effort has been made to expand the amount of coverage, textbooks, particularly the micro sections, still lack a cohesive approach to the topic. Kent and Rushing (1999) update earlier work by Kent (1989) related to the coverage of entrepreneurship in principles texts. Both articles found

that textbook coverage of entrepreneurship was minimal, concluding that coverage was more implicit than explicit. More recently, Phipps, Strom, and Baumol (2012) similarly lament the dearth of exposure granted to entrepreneurship in current textbooks. Lopus, Parringer and Leet (2008) examine the coverage of the role of government in high school economics textbooks finding, in particular, a great variation in the coverage and discussion of property rights. They also observe little consistency across texts regarding the role of government in the economy.

Each of these studies follows a similar methodology to reach its conclusions. A set of topics is defined, and the texts are then examined to see if they cover those predetermined topics. Analysis from Kent and Rushing (1999) and Lee (1992) goes so far as to count the number of pages devoted to the topic to measure intensity of coverage.

We follow a similar methodology for our study; however, having the right balance between a quantitative and qualitative analysis is not necessarily easy to accomplish. On the one hand, the quantitative analysis could be misleading. Comparing the coverage of market and government failure by counting words may not be an accurate reflection of how well the topics are treated. On the other hand, a qualitative approach possesses an unavoidably subjective component. Thus, we attempt to provide a mix of both qualitative and quantitative analysis.

We examined twelve college textbooks for explicit reference to government failure. These books are listed in Table 2. The editions reviewed were the most recent available, a 2009 edition being the oldest. We chose these texts for their broad range of publishers, familiar authors, and varying focuses. First, we examine where a topic related to government failure might appear. We have identified four potential locations: in an independent chapter, in an independent section of a chapter, in the glossary, and in the index. Each concept can appear in any or all of these locations, and we attempt to measure their impact through a quantitative tally. To address the depth of

coverage of the topics, we conduct a word count for complete chapters and sections of chapters that address government failure.<sup>1</sup>

We also measure the breadth of coverage in a book by evaluating how many of the nine topics in Table 1 are covered. Additionally, we count how many terms or concepts related to these topics appear in the glossary and in the index of each individual book.

**Table 2. Textbooks Reviewed**

<b>Title</b>	<b>Ed.</b>	<b>Author</b>	<b>Publisher</b>	<b>Year</b>	<b>Pages</b>
<i>Economics: Principles &amp; Policy</i>	12th	Baumol, William J. Blinder, Alan S.	South-Western Cengage Learning	2012	880
<i>Principles of Economics</i>	10th	Case, Karl E. Fair, Ray C. Oster, Sharon E.	Prentice Hall	2012	816
<i>Economics</i>	8th	Colander, David	McGraw-Hill Irwin	2009	1020
<i>Modern Principles of Economics</i>	2nd	Cowen, Tyler Tabarrok, Alex	Worth Publishers	2013	900
<i>Principles of Economics</i>	5th	Frank, Robert Bernanke, Ben	McGraw-Hill Irwin	2013	896
<i>Economics: Private and Public Choice</i>	14th	Gwartney, James D. Stroup, Richard L. Sobel, Russell S. Macpherson, David A.	South-Western Cengage Learning	2013	816
<i>Economics</i>	4th	Hubbard, R. Glenn O'Brien, Anthony	Prentice Hall	2013	1152
<i>Economics</i>	3rd	Krugman, Paul Wells, Robin	Worth Publishers	2013	1200

<sup>1</sup> We expedited this process by using CourseSmart.com, a website developed by Cengage Learning to review and evaluate texts online. We were able to view all the texts on our list, cut and paste material, and then use a word count tool.

<i>Principles of Economics</i>	6th	Mankiw, N. Gregory	South-Western Cengage Learning	2012	888
<i>Economics: Principles, Problems &amp; Policies</i>	19th	McConnell, Campbell R. Brue, Stanley L. Flynn, Sean M.	McGraw-Hill Irwin	2012	896
<i>Economics: A Contemporary Introduction</i>	9th	McEachern, William A.	South-Western Cengage Learning	2012	832
<i>Economics Today</i>	16th	Miller, LeRoy	Prentice Hall	2012	840

#### IV. Textbook Coverage of Government Failure

How do texts cover the topic of government failure? As Table 3 shows, of the twelve books we reviewed, only seven actually use the term “government failure.” Two texts, Cowen and Tabarrok (2013) and Gwartney et al. (2013), have chapters devoted to the topic, while nine additional texts have a section within a chapter that specifically discusses government failure. Frank and Bernanke (2013), Mankiw (2012), McEachern (2012), and Miller (2012) do refer to the inefficiency of government action, but without referencing the term “government failure.” One text, Krugman and Wells (2013), offers no acknowledgement that government failure or government inefficiency occurs. If the actual usage of the term “government failure” is any indication, it would seem that textbooks are falling short of the *Standards*.

##### A. Word Count

Still, we may be overstating the issue. While the mention of government failure is instructive, merely including the term fails to tell us the degree to which a text addresses the subject. We therefore conduct a word count of the sections devoted to government failure. The texts dedicate significantly different amounts of space to the topic. Excluding the Krugman and Wells text since it has no chapter or section on government failure, word counts range from 499 for

Colander (2009) to 8,026 for Cowen and Tabarrok (2013). Word count totals appear in parentheses in Table 3.

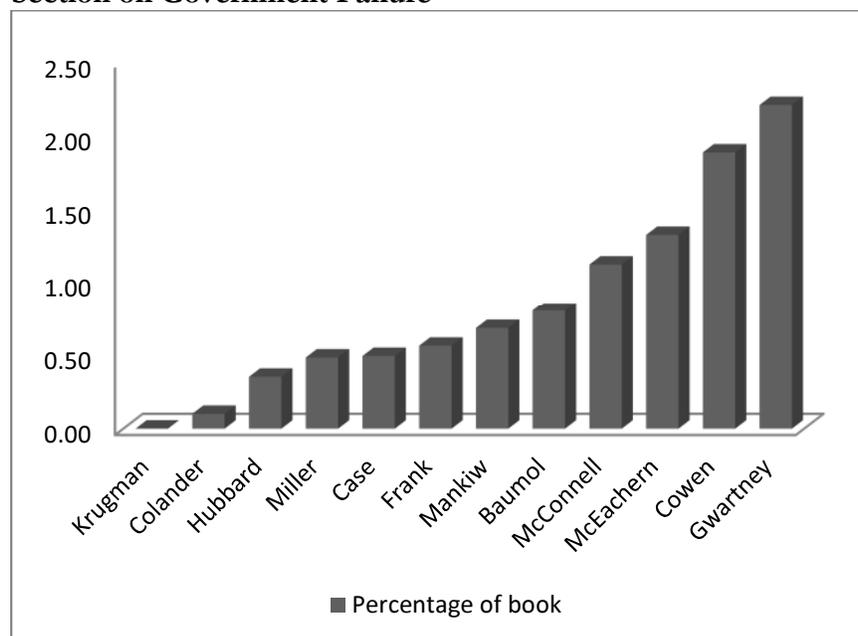
**Table 3. Mention and Location of Government Failure**

	"Government failure"* mentioned?	A separate chapter? (word count)	A separate section of a chapter? (word count)	Chapter number/ total chapters
<b>TOTAL YES</b>	<b>7</b>	<b>2</b>	<b>9</b>	
Baumol & Blinder	Y	N	Y (3,075)	15/37
Case, Fair, & Oster	Y	N	Y (2,361)	16/36
Colander	Y	N	Y (499)	21/38
Cowen & Tabarrok	Y	Y (8,026)	N/A	19/36
Frank & Bernanke*	N	N	Y (1,273)	14/26
Gwartney et al.	Y	Y (7,873)	N/A	6/28
Hubbard & O'Brien	Y	N	Y (2,834)	18/30
Krugman & Wells	N	N	N	N/A
Mankiw*	N	N	Y (2,061)	22/36
McConnell et al.	Y	N	Y (5,969)	17/38
McEachern*	N	N	Y (5,246)	16/34
Miller*	N	N	Y (1,283)	5/33
* It refers to the inefficiency of government action, but does so without referencing the term government failure. Y=Yes, N=No, N/A=Not Applicable				

Part of the disparity in word count may be due to textbook length. A book with far fewer pages than others could reasonably be expected to have a shorter section or chapter on government failure. The textbooks used in this study range from 528 to 1,200 pages. To try to compensate for this factor, we construct a ratio comparing the number of pages devoted to coverage of government failure with the total number of pages for each textbook. The highest, Gwartney et al.

(2013), devotes 2.21 percent of its pages to addressing government failure, followed by Cowen and Tabarrok (2013) with 1.89 percent. Seven texts are below 1 percent, as Figure 1 shows.

**Figure 1. Percentage of the Text Dedicated to a Chapter or Section on Government Failure**



### B. Location

Another interesting dimension of the inclusion of government failure is the location of this material. In his analysis of international coverage, Lee (1992) decries the placement of international topics near the ends of the texts he reviewed, the point being that when coverage occurs later in a book, a topic is more likely to be passed over in a semester-long course. Based on the layout of the texts under our review, it appears that covering government failure would face a similar risk of relegation. With the exception of Gwartney et al. (2013) and Miller (2012), most books present government failure in a chapter or section near the end of the microeconomics part of the book, or if the text is a combined micro and macro text, somewhere near the middle. The chapter locations are noted in the final column of Table 3.<sup>2</sup>

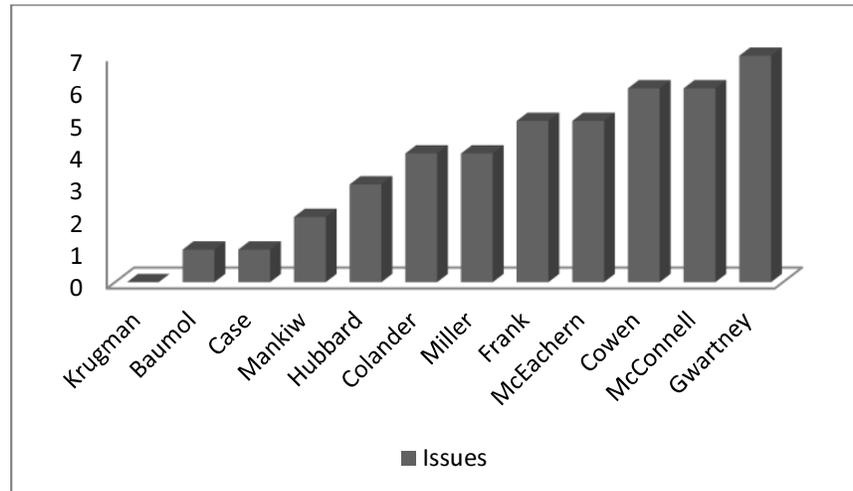
<sup>2</sup> Colander's newest edition has moved the discussion of government failure forward to chapter 8.

### C. Topic Coverage

From our list of topics in Table 1, we now turn to an examination of how many of these each book covers. Figure 2 shows the results, revealing that even the most comprehensive book, Gwartney et al. (2013), only addresses seven of the nine topics under consideration.

In terms of topics covered, five texts cover five or more topics; seven cover four or fewer topics. The average number of topics covered is only 3.67. Topics 1, 3, and 8 (see Table 1) are the ones covered most often (in ten, eight, and seven books, respectively). Details of which topics appear in which books are presented in Appendix 1 at <http://myweb.nmu.edu/~tferrari/>.

**Figure 2. Number of Selected Topics Covered in a Chapter or Section**



### D. Coverage in the Glossary

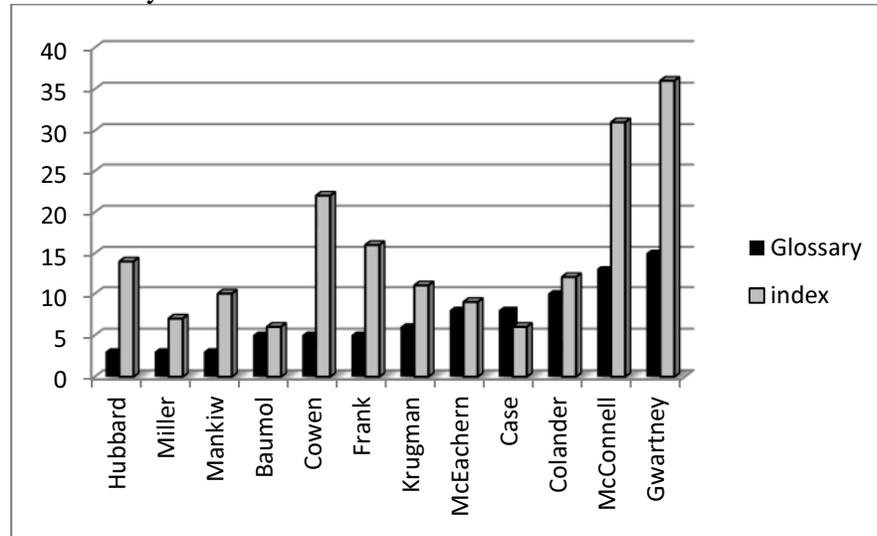
Another way to locate the use of a term in a text is to consult the glossary. It is presumed that authors (or at least publishers) include terms to which they believe students will need ready access. We reviewed the glossaries of all twelve selected texts to find whether terms related to our topics of interest appear there. For instance, topic 2 addresses inefficiency resulting from unintended consequences. There are a number of ways these inefficiencies could present themselves, such as through price controls, barriers to trade, and the crowding-out effect.

In addition, a topic like price controls may be covered in a way that relates to different topics. For example, price controls may lead

to inefficiency resulting from unintended consequences, where policies alter incentives in the markets. However, considering topic 7, price controls may also alter politicians' incentives to implement policies that disperse costs widely over large groups in which each individual pays such a small fraction that they may not recognize the cost, while politically powerful groups benefit. Still, it could be that price controls reflect the ability of special interest groups to impose costs on the general public, which appears in topic 8. Because of this potential cross-topic overlap, we compiled a count of glossary terms related to any of the topics listed in Table 1. Any term that could coincide with any aspect of those topics is included in our count. A list of the terms we used and the books to which those terms pertain can be found in Appendix 2 at <http://myweb.nmu.edu/~tferrari/>.

Using our measure of glossary terms, Gwartney et al. (2013) and McConnell, Brue, and Flynn (2012) cover the most topics, while Cowen and Tabarrok (2013), who appear at the top of our lists in Figures 1 and 2, drop significantly in the rankings, as the heavily shaded bars in Figure 3 show. Part of the reason for this result is that some books have less extensive glossaries. For example, the term “government failure” is mentioned in Cowen and Tabarrok (2013), but it is not included in the book's glossary. Thus, the evidence presented in the glossary count must be tempered somewhat. Differences in glossary length are part of the reason for the significant variation among the remaining texts in terms of coverage. The range in the number of concepts is large, from three to fifteen. What is significant, however, is that six of the twelve books mention only five or fewer concepts related to government failure in their glossaries.

**Figure 3. Number of Concepts Related to Government Failure in Glossary and Index**



#### *E. Coverage in the Index*

In the case of the index, as expected, more of the concepts related to government failure are covered. The top three texts are again Gwartney et al. (2013), McConnell, Brue, and Flynn (2012), and Cowen and Tabarrok (2013), as the lightly shaded bands in Figure 3 show. The range is very wide, from six to thirty-six concepts related to government failure listed in the index. Seven of the twelve books listed twelve or fewer concepts.

Again, we are concerned with how extensive an index might be. It certainly affects our ability to evaluate the coverage. Nevertheless, this approach gives us one more way to view the treatment of these topics. We assume that topics that make their way into the index are the ones that the author deems most important. Appendix B at <http://myweb.nmu.edu/~tferrari/> provides a list of index topics by author.

#### **V. Observations**

Based on the systematic review of the textbooks selected, we identified some general trends regarding the treatment given to government failure.

In all the textbooks we reviewed, there is a discussion of the inefficiencies resulting from government policies, specifically, the

outcomes of price controls, trade barriers, and labor policies. Some texts limit themselves to saying that the government should be cautious when adopting these policies.

1. In many cases, a passing reference to government failure is limited to the “technical difficulties” of coming up with the right policy. This topic is often presented when examining externalities.
2. In most cases, if the role played by “politics” is mentioned, it is granted only a few lines.
3. In many texts, the notion of government failure is not presented in a direct manner, but is rather dispersed throughout the book. This is similar to Phipps, Strom, and Baumol’s (2012) discovery of the coverage of entrepreneurship.
4. Only seven texts of the twelve actually use the term “government failure,” nine have a section within a chapter that specifically deals with government failure, and only two, Cowen and Tabarrok (2013) and Gwartney et al. (2013), have chapters devoted to the topic. Frank and Bernanke (2013), Mankiw, McEachern (2012), and Miller (2012) do refer to the inefficiency of government action, but without referencing the term “government failure.” One text, Krugman and Wells (2013), offers virtually no acknowledgement of government failure.
5. In Baumol and Blinder (2012), Krugman and Wells (2013), and Frank and Bernanke (2013), the term “public choice,” so commonly used in economic analysis, cannot be found.

## **VI. Conclusion**

We invite the readers of this paper to teach government failure in their Principles of Economics courses and to encourage others to do so. At the same time, we encourage our readers to lean on textbook authors and publishers to systematically address government failure and to give market failure and government failure similar coverage. Finally, we call on professors, instructors, and graduate teaching assistants in economics and related fields to present an even-handed picture of human motivation. Like the individuals living in households and operating businesses, individuals in government and connected to government pursue their own self-interests given their

constraints. To help students understand the economic way of thinking, we should not limit the application of it to households and businesses, but rather extend it to the behavior of those working in the public sector. As Alan Greenspan once said, “What is being taught in the universities today will determine national economic policy 10 years from now.” This statement implies that somewhere in our sea of students are a few who will influence national policy, and this influence will impact our and their future consumption, saving, investment, and voting opportunities, and, consequently, levels of wealth and prosperity.

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