

Don't Be a “Jibbering Idiot”: Economic Principles and the Properly Trained Economist

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Abstract

Economics, properly understood, makes sense of the complex web of historical relations that constitutes reality by utilizing economic theory. Economics without price theory is not economic theory, and measurement without theory isn't empirically meaningful. However, graduate students are being increasingly trained in sophisticated procedures of optimization and statistical testing while remaining largely ignorant of economic theory as a tool for understanding economic history. This address is a renewed call for my fellow economists to instill in their teaching and training the beauty of economic theory, the empirical importance of economic history, and an understanding of economic forces at work to provide a golden key that unlocks the deepest mysteries of the human experience. Without learning the governing dynamics of human action and the mechanisms that produce social cooperation under the division of labor, modern civilization will be left undefended against the fallacious claims that market processes are exploitative, monopolistic, and unfair.

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I am not here today to insult my fellow economists, but to hopefully inspire the young, aspiring economics teachers among you to learn your craft and to do your job. Teaching is a most worthy vocation, and the teaching of economics is especially needed today given the plethora of popular fallacies that occupy the public imagination and the public policy community. But the problem is even deeper because our profession has fallen short in its job of teaching the basic principles of our discipline. Graduate students are too often trained in the technical tools of optimization and in deriving the theorems

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that constitute the equilibrium models with which they are taught to work. However, they no longer learn price theory, which analyzes the critical role that relative prices play in guiding human decision making and the necessary adjustments on multiple margins that are required for adapting to changing circumstances. Institutions, while no longer ignored, are merely mentioned, not analyzed, as Barry Weingast (2016) has recently emphasized in an essay, “Exposing the Neoclassical Fallacy.” Again, graduate students are trained in sophisticated procedures of statistical testing, but largely remain ignorant of history and thus economic performance through time as a result of institutions and institutional change.

The consequence of this educational trajectory is that when graduate students find themselves in front of a classroom of undergraduate students after successfully completing their studies, they either must bifurcate their teaching lives from their research lives or attempt to dumb down their research results to communicate effectively with undergraduates. There is nothing inherently wrong with this, but economics without price theory is not *economic theory*, and measurement without theory isn’t *empirically meaningful*. Students don’t learn the beauty of economic theory, and they don’t learn the empirical importance of economic history. In short, they don’t learn how the world works; they don’t learn the governing dynamics of human action and the mechanisms that produce the social cooperation under the division of labor that modern civilization depends on.

My speech title derives from a brilliant lecture from my teacher James Buchanan. In his essay “Economics and Its Scientific Neighbors,” Buchanan argued for the renewed commitment by the economist to the basic principles of the science. These principles have been refined through the evolution of economics, but the essential insight comes down from Adam Smith through F. A. Hayek—what I have called “mainline economics.” In mainline economics, the invisible hand explanation of market order follows from the self-interest postulate via institutional analysis. The economic forces *at work* bring about systemic order and the pattern of exchange and production that realizes that the gains from social cooperation come about due to the incentives created by private property rights, the guiding influence of relative prices, the lure of entrepreneurial profits, and the discipline of losses. Shifts in the rules of the game will set in motion changes in incentives and information, and with that the learning from the feedback that actors receive.

Not only do different institutional arrangements possess different incentive effects, they also provide different informational signals that economic actors rely on in making their decisions and different feedback about how to learn, what to learn, and who is to take responsibility for learning. Economic theory enables us to see through this complex set of issues and to understand not just the *what happened* of economic history, but the *why* of what happened in economic history. As Buchanan says, it is these principles of economics that enable the ordinary scientist to rise to the height of genius in the ability to make sense out of the seemingly senseless ([1966] 2001, p. 7). It is a thing of beauty, and our students must be intellectually seduced by the aesthetic beauty of the logic of economic analysis in the hands of a master teacher.

As I alluded to already, James Buchanan was such a master of conveying the beauty of economic analysis, so I will rely on his insights throughout this talk to guide me through the points I want to make. First, let's consider the passage from which I derive my title. "As a 'social' scientist," Buchanan argued, "the primary function of the economist is to explain the workings of these institutions and to predict the effects of changes in their structures. As the interaction process that he examines becomes more complex, it is but natural that the task of the economic scientist becomes more intricate. But his central principle remains the same, and he can, through its use, unravel the most tangled sets of structural relationships among human beings" ([1966] 2001, p. 7).

Economics, properly understood, makes sense out of the complex web of human relations that constitutes reality. Buchanan writes, "The economist is able to do this because he possesses this central principle—an underlying theory of human behavior. And because he does so, he qualifies as a scientist and his discipline as a science. What a science does, or should do, is simply to allow the average man, through professional specialization, to command the heights of genius. The basic tools are the simple principles, and these are chained forever to the properly disciplined professional. Without them, he is as a jibbering idiot, who makes only noise under an illusion of speech" ([1966] 2001, p. 7).

Rather than move increasingly away from the basic principles of our discipline, Buchanan suggests, our job is to reaffirm and refine those principles and to deploy them to address ever-more complex problem situations—to keep them, as he puts it, forever chained to our side as a properly disciplined professional economist. Forgive me

for a slight detour here, but there is an important lesson to be learned from the great basketball coach and teacher John Wooden. The best book I have ever read on pedagogy is one about Wooden, titled *You Haven't Taught until They Have Learned* (Nater and Gallimore 2006), which I think many college teachers of economics would benefit from reading even if they had no interest whatsoever in basketball.

Anyway, Wooden at UCLA was loaded with All-American players during his run of ten NCAA championships, and despite the fact that his gym was full of the best players in the game at the time, and in the instance of a few, arguably the best players of all time, he began the first practice of every year with a lesson on how to put on your socks and tie your shoelaces. His reason was simple—you cannot play good basketball if your feet are not in good shape. An untied shoelace or a bunched-up sock could result in an inability to perform a basic task, and a blister might eliminate the ability to play altogether. First principles matter. Attention to detail matters. One should never get bored with first principles or with exploring the intricate details if one wants to excel.

Now, back to economics. Fancy techniques are fine, and sophisticated tools are important, but not if they are acquired at the expense of basic principles. In that case, they are likely little more than activity without accomplishment, something that any serious and self-respecting economic scientist should avoid. But Buchanan fears we have lost this seriousness and self-respect for the discipline of economics. He challenges us all when he writes: “Unfortunately, most modern economists have no idea of what they are doing or even of what they are ideally supposed to be doing. I challenge any of you to take any issue of any economics journal and convince yourself, and me, that a randomly chosen paper will have a social productivity greater than zero. Most modern economists are simply doing what other economists are doing while living off a form of dole that will simply not stand critical scrutiny. Beware the day for educators generally when the taxpaying public finds out that the king really has no clothes” ([1979] 2000, pp. 28–29).

The problem, as Buchanan sees it, is that economics as a discipline has a public purpose, but modern economists have shirked that purpose and yet are still being rewarded as if they were earnestly working to meet their educational obligation. As he put it: “I have often argued that there is only one ‘principle’ in economics that is worth stressing, and that the economist’s didactic function is one of conveying some understanding of this principle to the public at large.

Apart from this principle, there would be no general basis for general public support for economics as a legitimate academic discipline, no place for ‘economics’ as an appropriate part of a ‘liberal’ educational curriculum. I refer, of course, to the principle of the spontaneous order of the market, which was the great intellectual discovery of the eighteenth century” ([1977] 2000, p. 96).

Economics properly done is an invitation to inquiry, and the principles constitute a golden key that unlocks the deepest mysteries of the human experience. We live in a world of scarcity, and as a result, individuals must choose. In choosing, individuals face trade-offs, and in negotiating those trade-offs, they need aids to the human mind to guide them. Prices serve this guiding role, profits lure them, losses discipline them, and all of that is made possible due to an institutional environment of property, contract, and consent. These are the basic principles from which we work in economics. Economic analysis relies neither on any notion of hyper-rational actors myopically concerned with maximizing monetary rewards, nor on postulating perfectly competitive markets. It relies simply on the notion that fallible yet capable human beings are striving to better their situations, and in so doing, they enter into exchange relations with others. Atomistic individualism and mechanistic notions of the market are, as Buchanan has stressed, nonsensical social science. Instead, economics as a social science is about exchange relations and the institutions within which those relationships are formed and carried out.

As Buchanan stressed in his essay “What Should Economists Do?,” it is “man’s behavior in the market relationship, reflecting the propensity to truck and to barter, and the manifold variations in structure that this relationship can take” that are “the proper subjects for the economist’s study” (Buchanan 1964, p. 214). We study “markets” because markets are the institutional embodiment of the network of these exchange relationships. “A market is not competitive by assumption or by construction,” Buchanan argued.

A market *becomes* competitive, and competitive rules *come to be* established as institutions emerge to place limits on individual behavior patterns. It is this *becoming* process, brought about by the continuous pressure of human behavior in exchange, that is the central part of our discipline, if we have one, not the dry-rot of postulated perfection. A solution to a general-equilibrium set of equations is not predetermined by exogenously-determined rules. A general solution, if there is

one, *emerges* as a result of a whole network of evolving exchanges, bargains, trades, side payments, agreements, and contracts which, finally at some point, ceases to renew itself. At each stage in this evolution towards solution, there are *gains* to be made, there are exchanges possible, and this being true, the direction of movement is modified. (*italics original*, Buchanan 1964, p. 218)

It is our job as teachers of economics to alert and emphasize to our students the manifold ways in which (1) individuals in the market are constantly adapting and adjusting, (2) coordinative processes of adjustment align the production plans of some with the consumption demands of others, and (3) the unintended yet reliable orderliness of this coordinative process emerges spontaneously because of the role that property, prices, and profit and loss play in guiding, cajoling, and disciplining individuals. This is how the price system impresses upon decision makers the essential items of knowledge required for plan coordination. This is how monetary calculation works to guide us amid a sea of economic possibilities and ensures that among the technologically feasible, only the economically viable projects are selected. This is how wealth is created and humanity is lifted from the miserable condition of extreme poverty to one where human flourishing is possible.

From a Buchanan perspective, basic economics can be conveyed in eight points.

1. Economics is a “science,” but not like the physical sciences. Economics is a “philosophical” science, and the strictures against scientism offered by Frank Knight and F. A. Hayek should be heeded.
2. Economics is about choice and processes of adjustment, not states of rest. Equilibrium models are only useful when we recognize their limits.
3. Economics is about exchange, not about maximization. Exchange activity and arbitrage should be the central focus of economic analysis.
4. Economics is about individual actors, not collective entities. Only individuals choose.
5. Economics is about a game played within rules.
6. Economics cannot be studied properly outside of politics. The choices among different rules of the game cannot be ignored.

7. The most important function of economics as a discipline is its didactic role in explaining the principle of spontaneous order.
8. Economics is elementary.

When you are teaching, think about these eight points constantly. By pursuing them consistently and persistently, you will be able to demonstrate that you are a properly trained professional, and you will communicate to your students the intellectual beauty as well as the scientific power of economic theory. You also will avoid being a “jibbering idiot” in economics who confuses noise for speech in the analysis of human action in all walks of life. And, in avoiding that fate, you will be able to communicate to your students how economics is both the most wildly entertaining social science and the most deadly serious. It is, in short, the scientific vehicle by which they can be transformed from ordinary observers to the height of genius, capable of making sense of the seemingly senseless and exploring the mysteries of man in his ordinary business of life.

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