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Why Economic Education Is Dangerous for Politicians

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Abstract

This paper explores reasons why pre-college economic education is not more widespread. Although survey data suggest that adults think that economics is important in the pre-college curriculum, the study of economics tends to be delayed until the last possible moment in schooling, if it is included at all. We argue that if voters took seriously such basic economic concepts as scarcity, opportunity cost, and incentives and applied them to public issues, it would make life more difficult for politicians who prefer a world in which people think they can get something for nothing. The paper analyzes aspects of public choice theory to help explain why politicians are adverse to widespread economic education. We conclude with thoughts regarding how things could be different.

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I. Introduction

> "The first lesson of economics is scarcity: There is never enough of anything to satisfy all those who want it. The first lesson of politics is to disregard the first lesson of economics." Thomas Sowell (1993, p. 131)

Inspired by Thomas Sowell, the purpose of this paper is to explore reasons why economic education is not more widespread at the precollege level. "Economic education" commonly involves teaching college students the basic principles of economic by professors with PhDs in the discipline. But a significant amount of economic education takes place at the K-12 grade levels, most often at grades 11 and 12, with students enrolling in one-semester economics courses usually taught by a teacher with a background in general social studies. However, state and national curriculum standards generally call for some economic concepts to be included in the earlier grades as well.

Much has been written on why economic understanding is not more widespread. Public choice theorists often explain this outcome as a result of special-interest effects and rational ignorance. Others come at the problem differently. Caplan and Stringham (2005), for example, analyze the debate by reference to the ideas of Ludwig van Mises and Frederic Bastiat. Caplan (2007) suggests that the public has a built-in tendency to underestimate the value of markets in such areas as international trade and as substitutes for "make work" programs.

We wonder why schools do not teach more economics at the K-12 level. Curriculum matters. A pre-college curriculum, rich with economic principles that are taught early and often, might influence how responsive voters are to the traditional appeals made by politicians wishing to gain support for this or that new government program. A review of the economic education literature (Miller and VanFossen, 2008) reveals that research dating back several years shows that children as well as adolescents can learn basic economics. Research indicates that even elementary-age children can learn economics through direct and purposeful instruction. Studies show further that students who take a high school economics course score significantly higher on tests of economics than do students who had not taken an economics course.

This paper is structured in the following fashion. In Section I, we describe the status of economic education at the precollege level. In Section II, we explore why politicians might fear facing voters who are economically literate. Here we provide an overview of three basic economic concepts that, if widely understood, would send chills down the spines of politicians. In Section III, we expand on this analysis by applying these concepts to such issues as health care, family medical leave, and the environment. In Section IV, we discuss how basic ideas from public choice theory might help explain why politicians are adverse to widespread economic education. In Section V, we discuss the relationship between economic education and the interests of politicians by examining the role of market failure and government in the school curriculum. We conclude with thoughts regarding how things could be different.

II. Economics: The Rodney Dangerfield of the School Curriculum

Remember Rodney Dangerfield? His "shtick" throughout his long comedic career was his frequent refrain, "I can't get any respect." We wonder if economic education is in the same boat as Rodney. People "say" it's important, but their actions don't seem to reflect it, certainly not the actions of politicians. Economic education can't seem to get any respect. This seems odd. Few people seriously question the importance of understanding the basics of economics. For example, in 2005, the then National Council on Economic Education conducted a national poll that found the following:

> More than nine in ten adults and students believe that it is important for the people of the United States to have a good understanding of economics. Virtually all adults believe that economics should be included in high school education. (2005, p. 2)

However, the same poll found that only half of high school students say they have ever been taught economics in school, and most of this happens late in students' schooling—at grade 12 in a one-semester course. Thus, there is little time in the curriculum for in-depth development of economic principles. Economics is considered important verbally, but this importance isn't reflected in action. When school subjects are really considered important, they are taught more than once. Civics and government courses at the K-12 level are examples. Civics and government concepts are integrated into elementary social studies courses that focus on families, neighborhoods, communities, states, and regions. Basic concepts about government are included in virtually all the major elementary social studies textbook series. Beginning in kindergarten, young children are introduced to patriotic symbols such as the American flag as well as pictures of state capitols and the national capitol. Scenes of Washington D.C. monuments, descriptions of national celebrations such as the Fourth of July, and the birthdays of famous presidents and other respected Americans, such as Martin Luther King Jr., are also included. The pattern continues through the intermediate grades and middle school grades. At grade 9 and again at grade 12, it is common for students to study civics or government in full-year, two-semester courses.

But the study of economics remains relatively scarce at these grade levels. Again, it tends to be delayed until the last possible moment in schooling, if it is included at all. Why? It is not for lack of trying. Several national organizations have lobbied state legislators for years to up the ante for the study of economics. The Council on Economic Education and Junior Achievement work tirelessly to enhance the teaching of economics. Funds are raised. Curriculum materials are produced. Teachers enroll in economic education workshops and courses, often with incentives provided by private foundations or corporations. There is a small but dedicated crew of teachers who love teaching economics. But, by and large, there has not been a groundswell of support that has thrust economic education into the mainstream of K-12 education.

III. Is Economic Education Unhealthy for Politicians?

State legislators certainly have the power to encourage the study of economics at several grade levels, but they choose not to do so. In Wisconsin, for example, more high school students take concert band than study economics (Niederjohn, 2011). One wonders if there could there be something about basic economics that elected officials see as detrimental to the long-term health of their political careers. Is it possible that the jobs of elected officials would be made more difficult if basic economic concepts were widely understood by voters?

Let's begin with three basic economic ideas that we suggest are "unhealthy" to politicians and yet are fundamental to economic education: *scarcity*, *opportunity cost*, and *incentives matter*.

- Scarcity: The productive resources of any society are limited but we want more—more education, more frequent Caribbean vacations, a more financially secure retirement, a nice vacation home, a cleaner environment, more time to spend with family and friends—than our limited resources permit.
- Opportunity cost: Every time we make a choice, we incur a cost. Something must be sacrificed. This is true regardless of whether we are rich or poor.

- Incentives matter: Incentives are any sort of reward or penalty and may be monetary or non-monetary. Markets work because they create incentives that provide information and motivations for both buyers and sellers to adjust their behavior in ways that coordinate their decisions when circumstances change. Non-monetary rewards—satisfaction gained from teaching children, helping a loved one, or watching a glorious sunset on a northern Wisconsin lake—can also be powerful rewards.

Scarcity, opportunity cost, and incentives seem little more than common-sense ideas. But they are powerful ones. Once understood and applied, they change the way people look at things. They make people critical thinkers. Those who have learned to think like economists are immediately skeptical of claims that the quantity and quality of goods and services can be increased without increasing costs. They know that trade-offs are involved in everything we do, that tough decisions cannot be wished away, and that every decision to do something comes with a sacrifice of a valuable alternative—a cost. And the economically literate understand that markets make it possible for people to do a better job solving most of their own problems through specialization and cooperation with others without detailed regulations and mandates being imposed by political authorities. It would be surprising indeed if politicians were anxious to have large numbers of voters thinking like economists. Let's consider some examples of arguments for political proposals that would be far less convincing to voters if more of them had a solid understanding in economics.

Health care has been much in the news over the past few years. What might a voter who understands scarcity, opportunity cost, and incentives think the consequences stemming from the recently passed Patient Protection and Affordable Care Act are likely to be? Everyone agrees that health care is scarce. We have a finite number of health care providers. Our supply of doctors, nurses, medical technicians, and aides is limited. The labor and other resources that we devote to providing health care have many alternative uses. When we choose to buy more health care, we face an opportunity cost. The Patient Protection and Affordable Care Act contains several provisions designed to increase the availability of health care to several million Americans who were previously uninsured. Yet, the politicians favoring this legislation tell us that it will actually reduce costs. For example, in July 2010 (Todd, 2010) President Obama said that the health care reform bill will, "not only make sure that everybody has access to coverage, but also is reducing costs." Would economically literate citizens accept this assertion? Hardly. But a nation of citizens that are largely economically illiterate reduces the costs politicians from both parties face when claiming that they can provide benefits at either no cost or at far less cost than is actually possible. Of course, politicians can disguise and delay the cost of government programs with subsidies and deficits, but that invariably increases the cost we end up paying. Simple economics would inform citizens that the most effective way to control costs is by revealing them through market prices so that we know the value of what we are giving up when we make decisions, rather than concealing them with political deception.

Politicians, again from both political parties, have been fond of claiming that we can improve the environment and have a strong economy because improving the environment creates jobs. Indeed, it is implied that the case for improving the environment is stronger because it does create jobs. Obviously, a clean environment is valuable and is one of many things we would like to have more of. And we should increase the number of people working to improve environmental quality as long as the value created by another environmental job is at least as great as the value the worker taking that job could create in a job producing something else. The point is that the need to create jobs to clean up the environment is a cost of environmental improvement, as measured by the value that is sacrificed in other productive activities. The case for doing more to improve the environment would be stronger if we could do it without creating any jobs. This would be true even when there is a lot of unemployment. If the government hires an unemployed worker to do an environmental job, that worker could have been hired to produce value in another job. Economically literate voters are unlikely to be fooled into believing that the cost of improving environmental quality is a benefit of doing so.

Politicians commonly employ consultants who use focus groups to measure the emotional response to various ways of presenting arguments for policies. Invariably the strongest and most favorable responses are to statements that emphasize benefits and ignore costs. A good example of such a statement was made in the 1998 State of the Union Address when President Clinton said, "Not a single

American family should ever have to choose between the job they need and the child they love" (Clinton 1998). No one can deny that this statement has emotional appeal. And if the proposal being recommended (expanding the Family Leave Act of 1993) could deliver on the implied promise, only the most calloused would find fault with it. The problem is that as much as we would like to have unlimited time, our time is limited, and we have to make choices about how we use it. To say that we shouldn't have to make such choices between the time we spend with our family and the time devoted to our jobs is to say that there shouldn't be a cost when we decide to do one thing rather than something else. Those who are economically literate may favor the proposal being recommended, and they may even respond emotionally to the thought of being able to spend more time with their family and loved ones without worrying about the costs. But they are unlikely to be responsive to an argument for a policy that implies they can have benefits without costs.

Of course, costs are hard to ignore completely, and so although politicians emphasize the benefits of the proposals they favor and downplay the costs, they seldom claim the costs don't exist. But they will claim that the benefits from proposals they support are so important that the costs should be ignored. This has been the case in environmental legislation. For example, the Endangered Species Act of 1973 calls for preserving endangered species regardless of the costs. The Clean Water Act of 1970 had provisions that were interpreted as forbidding cost to be considered when protecting water quality in navigable waterways. And politicians often make claims that certain other activities, such as supporting the arts or improving safety, are so important that their value cannot be measured in economic terms and therefore they should be done without considering costs. Such claims can sound convincing to people who think of costs in terms of money. But they make no sense when the cost of doing something is recognized as the value of the most valuable alternative that has to be sacrificed. Doing something without considering the costs is the same as doing it without considering the value of the alternatives. This is clearly not sensible, particularly when the economic concept of marginal value is also considered. No matter how important something is (safety for example), as more is provided the value of a little bit more—its marginal value—becomes smaller relative to the marginal value of others things that are being sacrificed. As more and more of something is made available, its marginal value will eventually decline below the marginal value of foregone alternatives.

IV. Public Choice Analysis

Perhaps the desire of elected officials to make claims that ignore economic logic can be better understood by examining the context in which they work. Elected officials are keenly aware that they face competition, often intense competition. They compete to gain the nomination of their party. They compete to get campaign volunteers. They compete to find professional staffers and to gain support from colleagues. They compete to get votes for election and reelection. Most importantly, they compete for contributions to make these other things possible.

To compete successfully, elected officials seek the help of groups that share some of the same interests as they do. Center left politicians might seek the support of organized labor or environmental groups. Center right politicians might seek out the support of large corporations or business organizations. The problem is that these interest groups invariably have a healthy regard for private interests that, despite the rhetoric of public interest, can be advanced only through subsidies and restrictions on competition that impose higher taxes and prices on the general public. As Adam Smith (1776, p. 145) warned in the *Wealth of Nations*, "People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices."

Imagine the case of a hypothetical Wisconsin candidate for Congress named Heidi Olson. She views herself as a fiscal conservative. But she also knows that many people in her Wisconsin district are dairy farmers who participate in the Milk Income Loss Contract (MILC) program. This is a federal subsidy program that concentrates millions of dollars on dairy farmers in her congressional district in the form of cash transfers and artificially elevated milk prices. These subsidies obviously have a big influence on the political decisions dairy farmers make. They will watch Ms. Olson carefully to see if she supports the program. If she does, most of them will contribute directly or indirectly to her campaign. If she doesn't, she will pay a penalty in lost campaign contributions and votes. Although the costs to taxpayers and consumers are invariably greater than the benefits, those costs to are *diffused* and *disguised*. Few consumers will notice an increase of a few pennies in the price of milk. And even if they did, the amount is too small to influence the typical person's vote. Ms. Olson is confident that general voters are unlikely to punish her at the polls because she supports the MILC program. So the pressure will be intense for Ms. Olson to favor that program. Having more economically literate voters will not eliminate the political influence of organized interests benefiting from programs such as the MILC program. But increasing economic literacy would clearly reduce the influence of interest groups and limit the ability of politicians to gain political advantage by transferring benefits to a few at the expense of the many.

There are other reasons why politicians are leery of widespread economic education. Politicians like to accomplish what are easily seen as desirable outcomes directly so that they can take credit for them. Economics explains how desirable outcomes are commonly better accomplished indirectly, by allowing people to use the dispersed information that only individuals have to productively coordinate their decisions with those of others by responding to market prices. Far more good is accomplished in this way than by the direct action of politicians and other government authorities who lack the local information of time and place that is critically important to determining the best responses to particular problems. But market solutions are the result of the marginal and mundane adjustments of millions of people who solve most problems with little fanfare and with few people even being aware of the problems or the process that solved them. These are solutions for which it is almost always impossible for anyone, much less remote politicians, to take credit.

V. Elected Officials and Economic Education

We have argued that elected officials benefit from the economic ignorance of voters. We believe this is an important reason why economic education is not more widespread at the pre-college level. Economic ignorance among voters allows elected officials to pretend that they are providing low-cost health care, improving the environment, or supporting dairy farmers at little or no cost when they are doing no such thing.

Widespread economic education among voters would reduce the benefits elected officials receive from understating the costs and overstating the benefits of their solutions to problems. It is in the interest of elected officials to be portrayed as benevolent leaders acting only in the best interests of all. As suggested earlier, this is what the social studies curriculum with its emphasis on the study of government does to a large extent. Such misrepresentation may not be entirely bad. We do wish for young people to respect the offices held by elected officials. But we don't want such respect to result in an overly romanticized view of elected officials and what they could do if only they had more power and money. This romanticized view is often promoted by a social studies curriculum with little emphasis on economics, and it provides a cover for politicians to perpetuate themselves in office with economic policies that reduce our prosperity by rewarding those specializing in the transfer of wealth at the expense of those specializing in the production of wealth.

Politicians typically have no problem with the emphasis traditional high school social studies curriculums place on *market failures*. This is an implicit concept that young people study in history or government courses as they learn about the "excesses of capitalism," "robber barons," and environmental degradation. Market failures provide politicians with a justification for expanding government and their power to impose mandates and regulations on private-sector decisions to correct those failures. Students learn that businesses that are increasing their share of the market, even if they are doing so by providing better products at lower prices than the competition, are trying to monopolize their market, and this requires government action to reduce such "unfair" competition. Students learn about the negative externalities—uncompensated costs imposed on third parties—usually associated with air and water pollution. Finally, they are likely informed that there are market failures stemming from asymmetric information in, for example, the financial products markets. Because consumers cannot be expected to understand the terms of their personal loans, home mortgages, credit cards, or insurance policies, government officials must step forward to regulate these markets, typically with one-size-fits-all regulations that ignore case-by-case differences.

There are, of course, market failures, and any good economic education program will examine them and consider how they might be corrected, or at least reduced, in the most effective ways. But any intellectually respectable economic education program will also point out that there are *government failures* that result from the same problems that cause market failures. Government policies are commonly enacted in response to the desires of organized interest groups, such as Wisconsin dairy farmers, that want to benefit by imposing uncompensated costs (negative externalities) on others (consumers and taxpayers). Governments create monopolies such as the United States Post Office and Amtrak that are known for their high costs and poor service. Businesses have long sought government regulations that protect them against competition, with restrictions and tariffs duties on imported products being obvious, but far from the only, examples.

In cases of environmental pollution, the government action that is taken often does more to protect certain industries against competition than it does to protect the environment against pollution. And just as consumers can be harmed by poor information and misleading claims by businesspersons on the cost and quality of market goods, they can also be harmed by poor information and misleading claims by politicians on the cost and quality of government policies.

By considering government failures along with market failures, the student immediately recognizes that the existence of a market failure does not automatically justify bringing government in to correct the problem. Given the prevalence of government failures, political attempts to correct market failures commonly make the situations worse. But politicians are not likely to find the study of government failure nearly as agreeable as they do the study of market failure. And discussions of government failure often fail to make it into economic education courses, and almost never are they coupled with discussions of market failure in history and government courses. This omission should be intellectually embarrassing.

Imagine the reaction of the teachers' unions to the following argument:

> Government regulations protect public schools and their teachers against competition by reducing the ability of parents to send their children to the school of their choice. Therefore, we should correct this government failure by replacing public school monopolies with market competition in the provision of K-12 education by privatizing all public schools.

Obviously, the teachers' unions, and many teachers, would consider this argument outrageous and demand that the problems with market-provided education be compared with those of public education. Fair enough. Yet when is the last time you heard of teachers' unions responding to a recommendation that government is needed to correct a market failure by demanding that this should not be done unless the problems with government actions are honestly studied and compared with those of market action, and it is shown that the government failure would be less than the market failure?

VI. It Could Be Different

Things could be different. If voters were better educated regarding basic economic principles, they would be more keenly aware of the context in which elected officials operate. They would quickly recognize the concentrated interests of interest groups and the perverse influence of these groups over political decisions, and would be far less naïve in believing that every market failure, real or imaginary, can be corrected by increasing the power of government. They would not have to study every issue in great depth to know when politicians and their special-interest clients are trying to deceive them. The more voters who have such an economic education, the more difficult it will be for elected officials to benefit from enacting bad economic policies.

If our analysis is correct, then it seems unlikely that elected officials will be the prime movers in favor of a strong role for economic education in the K-12 curriculum. The odds of having explicit state and local K-12 economics curriculum standards and a rigorous system for student testing are slim and none.

Is it likely that economic education will ever get widespread support? Maybe. Two reasons come to mind. First, a number of market-oriented reforms are under way in public education today. Some states and urban districts are experimenting with voucher programs. Charter schools are popular in several states. Some states, such as Florida, are examining ways to implement new pay structures for teachers that reward performance. As teachers themselves become more familiar with market competition and the advantage this competition offers to students and competent teachers, perhaps they will be more generally supportive of markets. This might establish a more hospitable environment for teaching economic reasoning to young people.

Second, perhaps the best immediate hope lies with free market–oriented businesses and free market private foundations being willing to expand their efforts to raise the probability that most students who graduate from high school have enough initial economic understanding to respect the importance of limited government and the preservation of a free market economy. This would not be easy. It would require developing powerful incentives to gain the voluntary cooperation of high school teachers to increase their own economic understanding and to have, close at hand, effective and engaging curriculum materials that would do the same thing for high school students when used in the classroom.

On the surface, it would appear that much more is gained from private foundations contributing to fighting diseases and world poverty than from their contributions to economic education. Reducing diseases and poverty have immediate and certain benefits. But, although these are highly valuable goals, they are best achieved in a vibrant free market economy. If our youth do not understand enough economics to value and preserve free market institutions and the economic freedom they promote and protect, there is little chance that other worthwhile goals can be accomplished over the long term. Maybe someone should give Bill Gates and Warren Buffett calls. They are giving away billions to worthy causes. Economic education should be among them.

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