

# HOMO ECONOMICUS

INSIDE THE MIND OF AN ECONOMIST



**B**erkeley economist Christina Romer, 2009-2010 chair of President Obama's Council of Economic Advisers (and former superb student of mine), has been quoted as saying there are two kinds of students in this world—those who hate economics and those who really hate economics.

A few years ago, a *Chicago Tribune* story about students' least favorite courses elicited this response from one: "Probably economics—the numbers get really boring. And how the country works is not so interesting to me." (Clearly this kid has a bright future in Washington!)

Nationally, about 40 percent of college students take at least one economics course, and about five percent of college graduates major in economics. Survey results confirm that there is no discernible difference in understanding basic concepts between those who have taken economics and those who haven't. No wonder economic advisers often wince at remarks made by political candidates who exhibit a complete lack of economic reasoning.

As the late Andy Rooney would have said, "Why is that?" Perhaps woeful classroom instruction, where the incentives to teach well are minimal—and a distraction from tenure-achieving activities and consulting opportunities. But it goes deeper in terms of what is being taught: emphasis at the undergraduate level on graphs, equations, and modeling (that is, the "stuff" instructors cut their teeth on in graduate school and now serve as crutches in front of a classroom), and far less attention is paid to learning how to think and to interpret everyday events and data.

The world has been very good to economists for 50 years. Adding a Nobel Prize in 1969 solidified its "scientific" reputation. Employers value analytical skills and quantitative literacy, and they are willing to pay higher premiums for these attributes. Economics students and practitioners also have higher levels of job satisfaction.

In spite of the common refrain that economists can't agree on any-

thing, there is a remarkable uniformity of opinion among them. Thus when not being paid to endorse a particular candidate or policy, economists tend to think that:

- Minimum wage laws increase unemployment among the young and unskilled;
- Gas prices are too low;
- Taxes in the U.S. are too low;
- Rent control and agricultural subsidies (including ethanol) are bad ideas;
- Trading with other nations is a win-win, and the "outsourcing" charge is largely political theater;
- Immigration is not a big problem, and likely a small benefit;
- Backyard gardening should only be a hobby, and "green thumbs" should leave rounding up dinner to the professionals—those, often at a distance or across an ocean, who can take advantage of mechanization and scale economies that enrich us all;
- The appropriate amount of anything, including pollution or crime, is not zero (because driving it to zero would entail enormous costs and produce very few benefits at the margin).

What makes someone think like an economist? Having a steady job, more education, and a higher intelligence. Income level and political ideology don't matter much: economists are disliked by rich and poor, the far left and far right. (Sociologists and anthropologists are virtually all Democrats; the majority of economists are as well, though not overwhelmingly so.)

But events and research in the last few years may have shifted some sands. On the political stumps and in Occupy protests, "fairness" seemed to be the coin of the realm in 2011, and that will certainly continue in this election year. Economists are on firm ground in knowing how to use resources efficiently to maximize output; when it comes to equity and empathy they may have to cede the podium.

And two research "frontiers" are challenging the rational, self-interested, economic-man framework. Utilizing lab and field experiments, behavioral economists attempt to tease out human foibles. Neuroeconomics looks at the brain's physical structure and how it makes decisions. The juries are still out on these two contributions, but both have implications for fairness debates and the rationality assumption.

At Glasgow, Adam Smith held the chair of moral philosophy, and early economists mixed in goodly doses of religion and ethics; then mathematics replaced philosophy, and economists retreated into their insulated world and "don't get around much anymore." Maybe psychology and medicine will coax them out a little.

But for now, we'll let John Maynard Keynes have the last word: "The ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed the world is ruled by little else. Practical men, who believe themselves to be quite exempt from any intellectual influence, are usually the slaves of some defunct economist." □