

The Importance of Economics Education

Professor Greg Mankiw of Harvard University is a highly regarded American economist.

He has served as chairman of the president's Council of Economic Advisers. He has a popular blog.

Recently he has been expressing scepticism about the US administration's trillion dollar spending package.

Mankiw is also known for his well-regarded introductory economics textbook.

In chapter two he includes a table of propositions to which most economists subscribe, based on various polls of the profession.

Below is a selection, together with the percentage of economists who agree, and some related comments in brackets.

1. A ceiling on rents reduces the quantity and quality of housing available. (93%)

(New Zealand does not have rent controls, but state housing and so-called tenant protection regulation have a similar effect on the supply of private rental housing.)
2. Tariffs and import quotas usually reduce general economic welfare. (93%)

(There are theoretical exceptions to the case for free trade but, as another eminent economist Jagdish Bhagwati has written, "Basically, in the world of practical policy, the subtle qualifications do not really amount to a can of beans. If you want to bring prosperity to people, free trade is the way to do it.")

With only low tariffs now and the free trade agreement with China, New Zealand is close to becoming a free trade economy like Hong Kong and Singapore.)

3. Flexible and floating exchange rates offer an effective monetary arrangement. (90%)
(This was not widely recognised until the early 1970s when the Bretton Woods system of fixed exchange rates broke down. New Zealand's floating exchange rate regime has served us well in responding to the present financial crisis and recession.)
4. Fiscal policy (eg tax cut and/or government expenditure increase) has a significant stimulative impact on a less than fully employed economy. (90%)
(This point is less relevant to New Zealand than to a large economy like the United States because much of the spending would go on imports. Also the Keynesian mechanism only works if workers do not realise that higher inflation results from the stimulus and reduces their real wages and thereby the costs to employers of employing them.)
5. The United States should not restrict employers from outsourcing work to foreign countries. (90%).
(Nor should New Zealand: we benefit from globalisation. Fisher and Paykel Appliances is one company that has gone down this path. While Dunedin may have lost out in the process, the company should not have been subsidised by ratepayers in the first place and the move has assisted it to survive.)
6. The United States should eliminate agricultural subsidies. (85%)
(Bravo! This illustrates the point that many subsidies and regulations benefit private interests rather than the public interest. Just because another country has a particular policy doesn't mean New Zealand should follow suit.)

7. Local and state governments should eliminate subsidies to professional sports franchises. (85%)

(The Auckland Regional Council, which recently lost \$1.8 million on the David Beckham fiasco, should take note.)

8. If the federal budget is to be balanced, it should be done over the business cycle rather than yearly. (85%)

(This is the rule in the Public Finance Act, which now incorporates the Fiscal Responsibility Act.)

9. Cash payments increase the welfare of recipients to a greater degree than do transfers-in-kind of equal cash value. (84%)

(This calls into question programmes such as state housing. In the case of dysfunctional families, however, there may be a case for provision-in-kind – eg the equivalent of a food stamps programme.)

10. A minimum wage increases unemployment among young and unskilled workers. (79%)

(Regrettably, the Maori Party has not grasped the point that raising the minimum wage is likely to hit Maori disproportionately. The Council of Trade Unions has suggested to today's Jobs Summit that the minimum wage should continue to be increased "to boost demand". If that made sense, why not double or treble it? It doesn't: in the absence of higher output from greater productivity, a higher wage for one person is a lower income for someone else. Aggregate spending power is unchanged.)

Economists broadly agree on many other things as well, such as the case against government ownership of businesses. The empirical evidence that, on average and over time, the performance of privately owned businesses is superior to state-owned businesses is overwhelming.

Of course, there is seldom complete agreement among economists just as there is rarely complete agreement in other scientific fields, but the degree

of consensus on many issues provides a sound basis for much public policy.

As Mankiw writes: “If we could get the American public to endorse all these propositions, I am sure their leaders would quickly follow, and public policy would be much improved. That is why economics education is so important.”

The same could be said about public understanding of economics in New Zealand.

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