BOOK REVIEWS


The "enfant terrible" of American economics, Paul Krugman, is about to launch onto the Australian market the first half of his textbook on economic principles. The second installment upon Macroeconomics follows later this year. In writing a principles text Krugman is following in the footsteps of other luminaries like Mankiw, Stiglitz, Taylor, Colander, Lipsey and Samuelson. Apart from being a best selling author and also an influential columnist for the New York Times, Krugman’s venture boasts the first husband-wife partnership to write a textbook. Robin Wells is an economist in her own right working alongside her husband at Princeton. Her joint authorship will presumably buffer this textbook from criticisms that presenting economics from a male perspective ignores more than half of the student population (Brennan and Walker, 2000). If reclaiming a sense of gender balance was not enough, Krugman’s undoubted ability to communicate well on economics means that great things will be expected of this textbook. Krugman has already said the writing the text has been an educative experience and forced him to rethink some of his economics. Perhaps, though, we should guard against over exuberant expectations.

The website of the forthcoming text which features a blurb from the authors on the lay out of the Microeconomics volume is, alas, depressingly familiar to the other volumes. It bears testimony to Stiglitz’s (1988) research that when it comes to writing textbooks there is very little real product differentiation on offer. Apart from upholding the mainstream textual innovations to content or syllabus are too risky and costly. In any case offering something different will upset instructors and the professoriate. Consequently we get a string of clones. But Krugman comes to us as an outspoken economist, a man who having won the American Economic Association Bates medal in 1991 has now seemed to vulgarize his professional reputation by writing opinion pieces for the press. The man cannot help it if he is being compared with J. K. Galbraith. When Krugman was told this he decried: “Galbraith is a stylish, witty commentator on economic issues. But if you ask economists what lasting contribution he has made to economics they’ll say ‘not much’: I like to think of myself as much more of an economist’s economist” (cited in Richards, 1998, 170).

And so it will prove if the abbreviated guide to the content of the microeconomics volume is any guide. Given that this is a commercial venture and the textbook is oriented to the biggest market in the world,
American undergraduates, one could hardly expect anything less - or different. The book certainly appears to be conventional in placing the perfectly competitive market as depicted in the supply and demand framework as the centrepiece of analysis. A reading of the thought-provoking paper given by Roderick Hill and Anthony Myatt (2004) at the Tenth Teaching Economics conference held in Adelaide last year might have persuaded Krugman and Wells to make imperfect competition the focus of analysis. If they had adopted that approach it would have allowed the authors to still tell the parable of how even imperfect competition shows the usefulness of markets in organizing economic activity and stimulating innovation and enterprise. This would have been a useful approach with many economics students are now undertaking business degrees. A greater emphasis on the strategic interaction between firms and market institutions would have been conducive to their studies in marketing and business strategy. It is not to be. While the husband and wife trumpet about their ‘vivid story-driven approach’ the content follows the standard format – ‘the bloodless account of exchange’ (Hill and Myatt, 2004, 27) of any other principles text. There is little heterodoxy there and perhaps a fair bit of Neverland instead. Just ask your average business student what they make of perfect competition.

One innovation in the text is that the authors have placed the chapters covering the producer before the chapters covering the economics of the consumer. Instructors who prefer the conventional sequence can still do so of course. In the latter third of the text Krugman and Wells test the student by exposing them to applications of micro theory like risk, uncertainty and private information. Again the authors contend that first year minds can comprehend these concepts if it is related in an every day form of discourse. The last chapter entitled technology innovation and network externalities underlines the economic consequences of the internet.

References


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Galbraith has taught economics for some 70 years, indeed for as long as anyone alive today. He has taught that it is ill taught, and that theoretical requirement has been allowed to dictate to socio-economic reality, rather than vice versa. He continues to beat this drum by now reaffirming many of his key themes earlier presented in The Affluent Society, The New Industrial State and Economics and the Public Purpose – specifically including his theme that corporate power has shifted from owners to managers. For him, conventional economic wisdom remains at odds with reality.

Economics cultivates its own version of truth. Galbraith notes that no one is especially at fault - and what is at issue is simply a widespread preference to believe what is convenient. Hence the term “innocent fraud”. Most practitioners have simply been conditioned into a thought framework, without consciousness of how their views were shaped. This much is certainly echoed elsewhere in the economics literature, as in Joan Robinson's comment that economics is part science and part ideology, and in the economic philosophy literature, per medium of the writings of Schumacher, Etzioni, Sen and others who object that most economists don’t appreciate that alternative conceptions of the nature of humankind and of the acceptability of utilitarianism are available and that their theories would have to change if they acceded to them.

Galbraith objects that bland reference to “the market system” places a veil over the reality of corporate power. The market is subject to skilled and comprehensive management but this is not mentioned in most economics teaching. Thus, teaching new students of “the market system”, and of consumer sovereignty, is “a not wholly innocent fraud”. Another innocent fraud is the willingness to use aggregate output (versus education or the arts or other qualitative measures) as a measure of social achievement. While this stance lends itself to the development of a critique of utilitarianism Galbraith refrains from providing one in any comprehensive way.

Those who most enjoy work are normally also those who are best paid. G.B Shaw taught that too, in his parable of the captain and the cabin boy. Galbraith laments that idleness is somehow perceived as good for the leisure class but bad for the poor. He notes that corporate bureaucracy must never be referred to as such – since bureaucracy smacks of government – but as management. Boards of directors are compliant, and approval for management – and management pay – is assumed. To Galbraith, the notion
of shareholder control is a fraud, and managers set their own compensation in legal self-enrichment arrangements. Corporate power lies with management, with rewards that sometimes verge on larceny.

Another myth is the myth of the two sectors. For Galbraith the distinction between public and private sectors is a matter of rhetoric not reality. He is in no doubt that corporate influence extends to the regulators, and that much arms production in the public sector is at the instigation of the private sector. This myth of the two sectors is a less innocent fraud, in that weapons development helps motivate foreign policy as well as corporate size, such that the Pentagon is only ostensibly in the public sector. Corporate power sees the private sector become the public sector.

Our most elegant fraud, says Galbraith, relates to prediction and economic control. He objects that the Federal Reserve System does not deserve its favourable reputation. Monetary policy is ineffective – as he has long argued – and “interest rates are a detail when sales are bad”. For Galbraith, it is apparent that a recession calls for a reliable flow of purchasing power for the needy, who will spend. Without mentioning President Bush he notes that under some administrations this truism is dismissed as ‘unserviceable compassion’, while huge dollar rewards for the influential are endorsed, even though they won't be spent.

Any author still writing in his 90s is doing well. Nonetheless, this book is a pot-boiler. What previously were called 'myths' in earlier Galbraith books are now called ‘innocent frauds’. Basically what this book offers is a reaffirmation of core Galbraith protestations about four or five key myths in orthodox economic teaching, coupled with an “I told you so” as far as corporate power and executive management is concerned. In effect Galbraith is grateful to Enron, WorldCom and other 'corporate scandals' of recent years for vindicating his case about corporate power and producer sovereignty, as taught over the last 30 years. Given the massive pay packages executives have secured for themselves even in failing corporations, this is not without point. Some auditors have been compliant, and unduly compliant public officials confirm doubt as to the quality of much regulatory effort. Given the way in which Galbraith has been dismissed by Krugman (Peddling Prosperity, 1994) and others as a “policy entrepreneur”, not an economist, it must be very satisfying for him to see that Krugman's contemporary New York Times columns now read as those of a new age Galbraith. Krugman, for example, now writes (NYT 29/3/03 and 13/7/04) that “the California energy crisis had nothing to do with environmental restrictions, and a lot to do with market manipulation” and “If Enron hadn't collapsed, we might still have only circumstantial evidence that energy companies artificially drove up prices during California's
electricity crisis”. Beyond that, Krugman's writings now tell of public policy serving the private interest rather than the public interest, of corporate power as a reality that orthodox economics rushes to overlook, and of the sources or determinants of government policy and of consumer tastes as proper matter for study by economists.

For Galbraith, the corporation is necessary, but so are certain public restraints. Effective supervision is essential and the odd jail sentence for managerial impropriety is probably needed to send a helpful message. More attention to managerial self-reward is needed. Corporate power still sees even public regulation serving the private interest not the public purpose, as corporate power shapes the public purpose to its own need. Better to accept the reality of corporate power, the reality that the distinction between public and private sectors is a myth, and the reality of the relevance of private corporations to Pentagon policy, foreign policy and war.

Accordingly, Galbraith's enduring message is that there is much to correct in the teaching of orthodox economics.

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