

Excerpt from "Why Does Johnny So Rarely Learn any Economics?" by Paul Heyne

Why is it that so few people understand even the most basic functioning of a market system? Four reasons.

The first is the obvious one. It is a complicated system with billions of moving parts, in which everything depends upon everything else. That is the fundamental difficulty.

The difficulty would be less if people weren't convinced that the system is basically quite simple, which is my second reason. If it is so simple, you don't need any special knowledge to understand it. "I may not know much about economics," people often say, "but I do know...." And then there follows some bit of incoherent but confident nonsense. The invincibility of such arrogant ignorance manifests itself in the contempt that these people have for "ivory-tower economists" who espouse academic irrelevancies like comparative advantage, marginal cost, and elasticity of demand. The late scientist, philosopher, and economist Michael Polanyi taught me how much we can do while completely misunderstanding how we do it. My favorite example--learned from Polanyi--is that all but a few people who ride bicycles successfully are quite mistaken in their beliefs about how they keep the bicycle balanced. Most people when asked will say that they balance by leaning in one direction to counter any tendency to tip in the opposite direction. That, in fact, is what little children do when they are learning to ride a bicycle. It is why they need training wheels. The training wheels finally come off when the children learn to stop leaning (which will invariably cause the bike to tip over) and instead to turn the handlebars in the direction they are tipping so as to generate a centrifugal force that will offset the gravitational force pulling them down and to do this in such a manner that, for any given angle of imbalance, the curvature will be inversely proportional to the square of the cyclist's velocity. As nearly as I can tell, no kid has ever stopped leaning because he learned this, but rather because he blundered onto the successful practice and consequently stopped feeling any temptation to lean.

We can ride successfully without knowing how we do it. Moreover, we can hold a totally erroneous theory about bicycle balancing without getting into any trouble, unless we try to design the bicycle in accordance with our faulty theory. That is when we will get into trouble. In the economy, we can enrich one another without knowing how we do it. And we can maintain completely fallacious views of how any economy works without creating any great difficulties for anyone. But if our practical success generates excessive confidence in our erroneous theory, and we try to use that theory to improve the operation of the system, we can do a great deal of damage. When we put faulty theories about bicycle riding into practice, we are instantly refuted. Few of us are either stubborn or stupid enough to persist in a faulty theory that is skinning our elbows or bruising our bottoms. We admit our ignorance. There is nothing similar, however, to correct faulty theories that are applied to the reconstruction of economic systems. The links between causes and effects are too numerous and too difficult to trace. There are consequently people who can honestly maintain that the deterioration of a city's housing stock after the imposition of rent controls had nothing to do with rent controls, but was the result of landlord greed, or demographic changes, or--worst of all--failure to enforce the controls.

That brings me to the third reason why Jack and Jill are not very knowledgeable about economics. They believe the system is immoral. "It's a system based on greed," they wrongly think, and so it ought not to work satisfactorily. Since it should not work, it really does not work. If it doesn't work, why waste time studying how it does work? "Economic theory was invented by economists," these people maintain, "to explain the working of a wholly imaginary system that economists, unfortunately, often confuse with the real world. But it is not the real world." If all that sounds confusing to you, it is confusing to me, too. Yet, I think this is basically the position of many otherwise thoughtful and generous people who support absurd economic policies. They will not engage in serious study of economic theory, which explains the workings of actual economic systems, because they are convinced in advance that such systems harbor a deep moral flaw that will not permit them to operate in any genuinely successful manner over the long run--however successful these systems may seem to be in the short run.

My fourth and final reason can be stated briefly. Jack and Jill don't learn economics because a knowledge of economics will not significantly increase their ability to make money.

Where are we, then? If the study of economics is unlikely to increase your private fortune, what reason do you have to study it--other than the fact that somebody made it a degree requirement? My answer is that *it clears up puzzles*. It explains important and interesting mysteries. People with an intellectual life cannot be comfortable participating in a social system that they don't understand. Social systems that impinge on us daily in important ways seem threatening when we don't know how they work. They generate alienation and anxiety. The best reason to study economics is that a knowledge of how markets work empowers the knower. Economic understanding is a powerful antidote to the sense of impotence that comes from supposing that "they" must be in control because we are not. And if enough people learn good economics because it is interesting and empowering, they will generate better economic policy as a spillover benefit.