

# THE RISE OF POP ECONOMICS

Andrew Kemp

## Economics has come along way since Tom Carlyle dubbed it 'the dismal science'!

The classical economists of the nineteenth century were largely concerned with wealth creation. David Ricardo developed theories of wages, rent and profit. Thomas Malthus wrote the consequences of population growth. Karl Marx looked at the moral and spiritual effects of the Industrial Revolution.

Today, Steven Levitt investigates why drug dealers still live with their mothers, Steven Landsburg asks why popcorn costs more at the movies, Tim Harford applies game theory to speed dating, and Peter Leeson is about to release a book on the hidden economics of pirates. This is popular economics, and the book-buying public seems to be lapping it up.

Each of these economists delight in applying the insights of their discipline to as diverse an array of human activities as possible. Nevertheless, they are surprisingly consistent, arguing a few universal messages.

Firstly, there is a clear dissatisfaction amongst the authors about how economics as a discipline should be taught. 'The sad irony of Econ 101', explains Charles Wheelan, author of *Naked Economics*, 'is that students too often suffer through dull, esoteric lectures while economics is going on all around them'. Robert Frank, author of *The Economic Naturalist*, believes that

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introductory economics courses 'inundate students with equations and graphs', the result being that students 'never really grasp that distinctive mind-set known as "thinking like an economist"'.

So how does an economist actually think? As all undergraduate economics students are taught, the economist recognises that people act rationally by responding to incentives. That's the easy part. The difficulty is discovering what the incentives are, and occasionally, the results aren't always what we hope them to be.

For example, Tim Harford's *The Logic of Life* describes a concept called 'statistical discrimination'. This involves people using aggregate information of a particular group to form judgements about particular individuals. This is different from simple bigotry, but it is a rational response that can produce undesirable results. For instance, an employer in the United States will choose a white applicant over a black applicant because statistically the white applicant on average will be better educated.

It is, as Tim Harford describes it, 'rational racism'. This type of behaviour was even replicated in a university experiment conducted by economists at the University of Virginia. It appears that even the land of the free has been unable to fully break away from its past.

In the same book, Harford attempts to explain the rise of oral sex in the US as a rational response to our improved knowledge of the risks of actual sex, such as sexually transmitted diseases.

Economists make no apology for these touchy subjects—'The economist's greatest passion is not to change the world but to understand it', explains Steven Landsburg. Understanding the world is easier said than

done, though economists are probably doing it better than any other profession in the social sciences. Thinking dispassionately about passionate subjects is almost impossible, and that's partly why politicians are so often wrong about policy matters—dispassion doesn't win over voters.

More importantly, economics has been quietly developing itself into a discipline that encourages rigour and precision in its analysis. As the authors of *Freakonomics* explained in their introduction:

[Economics] comprises an extraordinarily powerful set of tools that can reliably assess a thicket of information to determine the effect of any one factor, or even the whole effect... Since the science of economics is primarily a set of tools, as opposed to a subject matter, then no subject, however offbeat, need be beyond its reach.

There are certainly some economists who are nervous about pop economics. James Heckman, the 2000 recipient of the Nobel Prize in Economic Sciences, believes that younger economists are devoting too much time to trivial pieces of research in the hope of gaining larger citations for their research. 'In some quarters of our profession', argues Heckman, 'the level of discussion has sunk to the level of a *New Yorker* article: coffee-table articles about 'cute' topics, papers using 'clever' instruments... this is a sad development that I hope is a passing fad'.

But from the point of view of the general reader these criticisms are largely irrelevant. Pop-economics is bringing positive attention to a discipline that has experienced two hundred years of scorn and cries of boredom. Moreover, they are presenting some of life's most important questions in a modern light. In its own funny way, pop-economics is becoming a sub-genre of the 'self-help' style of book. Tyler Cowen's *Discover Your Inner Economist: Use Incentives to Fall in Love, Survive Your Next Meeting, and Motivate Your Dentist* is certainly a creative approach that stands in stark contrast to the incomprehensible equations of Leon Walras in the late nineteenth century.

## The Chicago connection

Gary Becker won the Nobel Memorial Prize in Economic Sciences in 1992 'for having extended the domain of microeconomic analysis to a wide range of human behaviour and

interaction, including non-market behaviour'. The long road to Becker's Nobel achievement began with his 1957 doctorate thesis on *The Economics of Discrimination*, a ground-breaking paper which used microeconomic theory to analyse the extent of discrimination in the workplace.

Becker would continue his efforts in applying price theory to typically non-market related issues in his extraordinary *Treatise of the Family*, a book that approaches behaviour in families in purely cost/benefit terms with the objective of maximising welfare. The results were definitely original but not always popular. Becker's colleague at the University of Chicago, George Stigler, remarks in his autobiography that, 'I still remember the tone of outrage with which a Harvard economist complained at the impropriety of comparing babies with refrigerators and other durable consumer goods'.

True enough, Becker may not have got the user-friendly language right. Those with certain sensitivities may not have liked the assumption that 'children are viewed as a durable good, primarily a consumer's durable, which yields income, primarily psychic income to parents'. It would take the penmanship of a Stephen Dubner or Tim Harford to translate controversial economics into a more compassionate and reader-friendly format, but the ground had been set for similar research to take place. Becker opened the door for thousands of young economists who finally saw that such research could be not only empirically rewarding but now also publicly rewarding.

A year later, Steven Landsburg, also from the University of Chicago, would publish *The Armchair Economist*, the first commercially successful 'pop-economics' book. In 1996, David Friedman, son of the most famous Chicago economist, Milton Friedman, would publish *Hidden Order: The Economics of Everyday Life*. It was not until 2005 however, that Steven Levitt produced *Freakonomics*, the most successful book of the genre yet.

That the University of Chicago was the origin of this new sort of economics makes sense. George Stigler remarked that 'it would have been surprising to see the appearance of the works of ... Becker ... at a university hostile to the traditional

Chicago School'. The Chicago School is famous also for its libertarian bent, and it is no surprise then to find the majority of these books coming from economists sympathetic to the free market. Nevertheless, the market for books on economics aimed at the non-specialist probably opened as soon the discipline was born.



William Cobbett, the prolific journalist of early nineteenth century England, turned to Adam Smith's *Wealth of Nations* for hope of a general education in economic matters, but 'could make neither top nor tail of the thing'. Cobbett spent much of his life trying to educate working people on a range of topics, and while an accessible economic text was certainly in the pipeline, Cobbett never managed to complete it.

Even by the twentieth century, this demand had been largely unmet. A particularly early attempt at such a book was Henry Clay's *Economics for the General Reader*, which was probably more famous for a cameo appearance in F. Scott Fitzgerald's *The Great Gatsby* than anything else. Even so, Clay's book begins in many ways similar to the books of today—an admission of the lack of a proper book on economics aimed at the general reader and an affirmation of the importance of economics in understanding the world.

Clay's work—which deals with more traditional topics than the quirky *Freakonomics* or *The Undercover Econ-*

*omist*—has modern relatives in recent books like Thomas Sowell's *Basic Economics*, Charles Wheelan's *Naked Economics* or John Kay's *The Truth About Markets*. These works attempt to explain the traditional concepts of economics to the general reader—monetary policy, price formation and international trade, for example—that are not as clearly spelt out in *Freakonomics*-style books.

## The sensitive economist

In his 1944 address to the London School of Economics, 'On Being an Economist', F.A Hayek admitted that 'the dislike for most of the teaching of the economists in the past has built up a picture of the economist as a sort of monster devouring children'. But Hayek continued that 'I must say that I have found them on a whole a surprisingly nice, sensitive and sane lot of people, less crotchety and mad than other scientists'.

This misperception of economists is no doubt partly responsible for the tone set in most pop-economics books. This is certainly true for one in particular, Diane Coyle's 2007 *The Soulful Science: What Economists Really Do and Why It Matters*. The final chapter, named 'Why Economics Has A Soul', aims to put an end to this idea of the economist as soulless, jargon ridden and obsessed with financial markets:

No matter that this isn't what most economists do, it's what most people mostly see of us. That the public face of economics is usually a dull but pompous, middle-aged, white man makes matters even worse. When a critic charges economists with only caring about money, it's easy to believe, as that's all we're seen to talk about in public.

Pop economics has provided a powerful vehicle for defending a discipline that feels it has been misunderstood for too long. George Stigler called economics the 'Imperial Science'. After fighting so many successful battles in university campuses against those unfortunate but ill-disciplined foes—sociology and political science—it has now spotted your bookshelf.

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