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# What Economists Know, Believe, and Debate

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> A morality that believes itself able to dispense with the technical knowledge of economic laws is not morality but moralism. As such it is the antithesis of morality. A scientific approach that believes itself capable of managing without an ethos misunderstands the reality of man. Therefore it is not scientific. Today we need a maximum of specialized economic understanding, but also a maximum of ethos so that specialized economic understanding may enter the service of the right goals. Only in this way will its knowledge be both politically practicable and socially tolerable.[1]
>
> —Pope Benedict XVI

## Introduction

Arguably, economics, when functioning as a science, provides knowledge of economic reality. But it is devilishly hard to determine just what that knowledge is. This problem is partly the fault of some economists, who may treat their discipline in a positivist way or fail to distinguish knowledge from speculation and normative judgment in their public pronouncements. This helps feed an impression outside economics that the field is nothing more than, say, ethics, political philosophy, or mere ideology.[2]

Despite these difficulties, a careful study of economic books and articles, refined by crowd-sourced testing among economists (described below), suggests that there is at least a minimal core of truths that economists know, or justifiably believe. These include not just discrete facts but orderly, law-like patterns in what might otherwise appear to be the chaotic meanderings of a market.

Even when it comes to public policy, there is far more agreement on politically controversial economic issues among economists than there is among the general population. How do we account for this, while accommodating the intuition that economics has something to do with ethics?

## Distinguishing Three Questions: What, Why, and What Ought

As in any science, economists gain knowledge of a domain of reality by testing conjectures, hypotheses, and theories against that domain with respect to their predictive and/or descriptive power. Economists study that social domain where individuals, families, firms, and states produce, consume, buy, sell, and exchange goods, services, and information. The fruit of economic research is a limited but successful social science with a growing set of descriptive truths and theoretical insights.

This "just the facts" description reflects the is/ought—or positive/normative—divide so common in the modern academy. To the uninitiated, economics can look like a vast sea of mathematical abstractions with no dry land for flesh-and-blood human beings, with their moral concerns, to inhabit.

Still, the distinction is clear enough in the abstract. The basic idea is that economists, when pursuing their work as social scientists, focus, or should focus, on descriptive and theoretical questions, or what we might call "what" and "why" questions. Take some economic policy that has testable effects, such as raising the minimum wage to fifty dollars an hour in Seattle. Economists can observe what would happen following the implementation of such a policy, even if they have trouble teasing out cause and effect. And using well understood theoretical principles from economics, such as scarcity, the relationship between supply and demand, and the function of prices, an economist could both predict and explain why certain effects would follow the implementation of the policy and then test those predictions against the empirical outcomes after the fact.

Economists can pursue such questions without considering the normative question of whether a policy is just or well-conceived. Indeed, it is helpful to keep the descriptive and theoretical questions separate from the normative ones, if only to serve as a reminder that they are different questions, and that one can, in principle, answer the two former without considering the latter. More strongly, one could argue that if one has no idea what would happen following, say, a spike in Seattle's minimum wage, then on what grounds could one argue that it ought to be done?

Still, too strong a divide between the positive and normative can create problems, especially in economics, in which moral and philosophical questions tend to surface faster than they can be buried. *Positivism* makes this problem worse, as when economists imply that only empirical knowledge (and easily confirmed theoretical predictions) counts as knowledge *simpliciter*. This can be especially off-putting when the same economists offer *advice* on public policy, while insisting their discipline eschews normative claims.

## Real Knowledge

There is, however, another, equally erroneous view outside economics. It is common among the general public but especially pernicious among influential clerics, ethicists, and thought leaders. *That error is to treat the discipline of economics as if it is only a branch of ethics or political philosophy, masquerading as a descriptive science.*

This error may be neutral or hostile. One might simply think that economics reduces to normative questions, that is, to ethics, and does not offer us anything like an accurate description of some slice of social reality. A hostile form of this error treats economics as biased political ideology, perhaps based on questionable assumptions about human nature. Some critiques of economics from behavioral economists (most of whom are psychologists) incline in the latter direction. According to its now-commonplace critique, mainstream economists are wedded to a distorted picture of human rationality and motivation, in which individuals ("econs") act according to their self-interest, or to "maximize their utility" (a notion that is itself quite malleable). There are fair responses to these charges, but the point is that they are often made, even by some practicing economists.

This assessment, in either form, when pushed to the limit, implies that there is no real economic knowledge. The relationship between supply and demand, the reality of opportunity costs, the impact of price on incentives, or comparative advantage, is simply a projection of "libertarianism" or "liberalism" or "market fundamentalism." Economics *per se* is reduced to partisan ideology.

This attitude is widespread among clerics and the Church hierarchy. In its 2018 response to the 2008 financial crisis, for instance, the Congregation for the Doctrine of the Faith asserted that "there do not exist universally valid economic formulas for every moment."[3] This contradicts the statement by Pope Benedict XVI quoted at the beginning of this article. Benedict took for granted that there were discernible economic "laws."

For any serious student of economics, the charge that economics is merely socially constructed ideology should seem deeply mistaken. Almost no one who has truly analyzed the function of prices or the role of incentives in governing economic outcomes would dismiss these insights as so much bad philosophy. On the contrary, most who truly study economics come to perceive important *truths* that economists know and rightly take for granted. These are truths from which everyone can and should benefit. No sound social ethics should ignore or mistreat them.

But if this is so, why is there no *Encyclopedia of Economic Truths*? Why is there no economic equivalent of the Periodic Table of the Elements? Why do trained economists so often disagree over economic policy, on national television no less?

The reality is that economists deal with many uncertainties. This makes their discipline similar to every other discipline. Economic policy disputes often take points of agreement for granted and focus on larger macro-questions that are far more theoretical than empirical. That is just the nature of the beast when it comes to economic policy, and it can give the appearance that economists agree on nothing. Economists would do well to remind themselves of Aristotle's advice on the study of ethics: "Our account of this science will be adequate if it achieves such clarity as the subject-matter allows; for the same degree of precision is not to be expected in all discussions, any more than in all products of handicraft."[4]

There is also the question of how to describe what economists know. One's knowledge of, say, the GDP of Tonga in 2015 is concrete. Knowledge of the relationship between supply and demand is far more general and theoretical—and yet probably more secure than precise knowledge of Tonga's economy in 2015 could ever be. Still, the content of that knowledge is often poorly formulated. Saying that "the demand curve always slopes downward" or "the supply curve always slopes upward" is false, since there are rare counterexamples at the margins.

For instance, some studies find that people are more likely to give a pint of blood during a volunteer blood drive than when they are paid a small amount for their contribution of blood.[5] Other studies have found the opposite.[6] The jury is still out on this question—though the debate suggests that developing a robust economic account of so-called intrinsic and extrinsic motivation is still a work in progress. For our purposes, then, the way we describe the *known* relationship between supply and demand should be formulated to take account of cases that might appear to be counterexamples.

Even when such economic regularities are articulated precisely, calling all of them "laws" may seem a bit strong, insofar as it suggests they are equivalent to laws of physics. To bypass this debate, we can refer to discoveries, regularities, and principles, or simply to "truths."

Still, it is hard to find these truths listed in one place, as propositions that can be objects of knowledge—claims to which truth or falsity may apply. Perhaps the task of building such a list seems more pressing to a philosopher convinced of the importance of economics for human flourishing than to most economists themselves.

The following is an attempt at such a list, by one such philosopher. The method for arriving at this list bears as much precision as the subject matter currently allows. Each item merits its own essay but developing a minimal list is surely the first order of business.

## The Method

To begin, I queried a diverse group of economists about what they thought would be included in such a list. This group was both politically and philosophically diverse. It included conservatives, centrists, and liberals, Austrians, libertarians, and mainstream economists of subtly different stripes.[7] I cross-referenced these with a careful survey of economics textbooks, journals, and popular writings by economists with different policy views and philosophical orientations. These include Paul Krugman and Robin Wells's *Microeconomics*, Greg Mankiw's *Macroeconomics*, Tyler Cowen and Alex Tabarrok's *Modern Principles of Economics*, Thomas Sowell's *Basic Economics*, and James Gwartney and co-authors' *Common Sense Economics*. As the list slowly developed, I sent it to a group of economists to gauge consensus and receive feedback. Through this iterative process, the statements slowly coalesced into a total of thirty propositions. No one should infer that this is a complete list, or that the order implies a ranking. Indeed, a number of propositions that this author (and many economists) take to be secure truths failed the test of widespread and diverse consensus and so are either stated here in quite modest form or are not included. Finally, I have tried to state the propositions as concisely as possible. So, by necessity, detail has been traded for concision.

This list does not include discrete empirical claims, such as those involving economic data for a country during some period of time, since these are legion. Still, the list is diverse and includes semilogical truths, broadly empirical truths, justifiable and testable assumptions, and theoretical insights held by economists.[8] That is a cumbersome name for a list. In contrast, "Thirty Economic Laws," while pithy, is too strong. So, let us call this list "What Economists Know."[9]

Some of these may seem to be commonsense. Indeed, much of what economists know seems to lurk as presuppositions rather than explicit assertions. When presented with some of these items—for example, that incentives matter or that prices convey information—many economists treat them as trivialities. But, trivial or not, millions of non-economists fail to grasp them. Even many highly educated people either do not know them or do not apply them consistently. So, it may help to have them stated in one document.

## What Economists Know: Thirty Truths

1. Human beings (at least sometimes[10]) act purposively[11] to achieve ends (this commonsense observation is crucial for economic reasoning).
2. Incentives matter (that is, humans respond to both intrinsic and extrinsic incentives).[12]
3. Scarcity is real.[13]
4. Our choices have opportunity costs.[14]
5. We can weigh costs and benefits, and often do so when making economic choices.
    a. Normative version: For practical decisions, one should try to anticipate and weigh costs and benefits. (Kenneth Arrow: the economist's job is to say "this or that, not both. You can't do both." Henry Hazlitt: "The art of economics consists in looking not merely at the immediate but at the longer effects of any act or policy; it consists in tracing the consequences of that policy not merely for one group but for all groups.")
6. In some social situations, people act, in the aggregate, in ways that economists can predict and model.
7. The quantity of a good or service demanded is usually inversely related to its price.
    a. The concepts of elasticity and inelasticity help us describe the relationship of supply and demand more accurately.
8. In a competitive market bound by rule of law, the price of X will approximate the balance between the supply of X and the demand for X.
9. In competitive markets, prices approximate and reveal subjective preferences of participants in a market (that is, suppliers and consumers).
10. Under certain conditions, trade is mutually beneficial.[15]

11. Economic growth can occur when discoveries and innovations allow more output to be achieved with less input.
12. Specialization and division of labor plus trade increase overall standard of living for participants.
13. The economic benefits of voluntary trade outweigh the costs, overall.
14. Even if A has an absolute advantage over B, both A and B will benefit if each focuses on his comparative advantage, and then trades with the other.
15. People tend to spend and risk more when someone else must pick up the tab. (This is called "moral hazard," which often leads to "adverse selection," with one party benefiting from information the other party lacks—see also number 30 below.)
16. Money is a medium of exchange and a store of value.
17. Money has a time value (an implication of opportunity cost).
18. Stable money reduces transaction costs and improves the flexibility of trade compared to unstable currency or a barter system.
19. In general, because economic knowledge, including access to subjective preferences, is dispersed, markets are better at allocating goods and services than command-and-control systems are.
20. A society with well-defined and enforced property rights will be better off economically than a society with ill-defined and poorly enforced property rights.
21. The average citizen of a developed society today is vastly better off, in terms of life-expectancy, economic wealth, and technology, than the average citizen of any society two hundred fifty years ago.
22. The percentage of the world's population living in absolute poverty is at an all-time low and is much lower now than in any decade in the past.
23. For many kinds of goods and services, consumers value each additional unit of a good or service less than the previous one (marginal benefit).
24. Economic growth depends not just on technology and innovation but also on the health of institutions including families, banks, religious bodies, voluntary civil organizations, and political and regulatory bodies.

25. Wages are stickier than the prices of many commodities and retail goods.[16]
26. A competitive market works less well in cases where there are large harms/benefits from consumption/production that fall on third parties who are not subject to a transaction (these are called externalities). In such cases, the solution involves finding a way to "internalize" the externalities into the transaction. Laws and regulations are one way to realign incentives and can help "internalize" these harms or benefits (though the best way to do this in individual cases is subject to debate).
27. Sometimes, producers of goods and services can reduce costs per unit by increasing production (economy of scale). In other cases, marginal costs go up with an increase in output (diseconomy of scale).
28. It is possible to collect and assess with reasonable accuracy certain economic data such as GDP, GDP per capita, unemployment rates, worker participation rates, economic growth, consumer satisfaction, purchasing power parity, and distribution of incomes.[17]
29. Information plays a key role in economic transactions. When parties in an economic exchange do not have equal access to relevant information, it may be harder to achieve mutually agreeable exchanges or costlier than otherwise (asymmetric information).
30. Goods and services in an economy come in different forms.
    a. *Accessibility and use*: Goods fall into one of four categories relating to accessibility and use. Access to goods can be excludable or non-excludable. That is, people may be prevented from accessing a good. And goods can be rivalrous or non-rivalrous. When the use of a good restricts its simultaneous use by others, it is a rival good. When it can be used by others equally and simultaneously, it is a non-rival good. A bicycle is a rival good. An online computer app is non-rivalrous.
    b. *Responsiveness to income*: Demand for a good or service often changes in response to income. The degree to which demand changes is known as income elasticity of demand.
    c. *Relationship to other goods and services*: Goods and services may relate to other goods and services insofar as they complement or substitute for other goods and services.

## Economists Agree

What about public policy, which does not just try to describe the world but also tells us what we should do? Here, too, there is more agreement among professional economists than an outsider might suspect. This suggests that economists know, or at least share beliefs, that transcend their partisan differences.

In his 2008 book *The Myth of the Rational Voter*, economist Bryan Caplan argues persuasively that economists have knowledge of truths that are not known to the average voter. Surveys of economists show far more agreement than a similar survey of average voters. Indeed, the latter often exhibit systematic biases that a good economics education could help remedy.[18]

*Econ Journal Watch* has published a series of articles over the years under the heading, "Do Economists Reach a Conclusion?" In many cases, these articles show widespread agreement among professional economists on policy questions.[19]

Similarly, economist Robert Whaples has conducted several surveys over the last two decades showing just this. In 2006, he sent a questionnaire to "210 Ph.D. economists randomly selected from the American Economic Association."[20] The results revealed a broad consensus on issues such as the funding problems for Social Security and problems with a minimum wage. They also showed that economists' knowledge of the function of prices and markets shapes their policy views:

- Economists overwhelmingly favor free trade—apparently, the freer, the better.
- Economists are very wary of subsidies.
- Economists favor expanding competition and market forces in education.
- Economists lean toward more competition in mail delivery.

On the value of free trade, a bipartisan group of economists wrote an open letter to Congress in 2015,[21] showing that the 2008 financial crisis did not shatter this consensus.

Harvard economist Greg Mankiw produced a comparable list in 2009:[22]

- A ceiling on rents reduces the quantity and quality of housing available. (93%)
- Tariffs and import quotas usually reduce general economic welfare. (93%)

- Flexible and floating exchange rates offer an effective international monetary arrangement. (90%)
- Fiscal policy (e.g., tax cut and/or government expenditure increase) has a significant stimulative impact on a less than fully employed economy. (90%)
- The United States should not restrict employers from outsourcing work to foreign countries. (90%)
- The United States should eliminate agricultural subsidies. (85%)
- Local and state governments should eliminate subsidies to professional sports franchises. (85%)
- If the federal budget is to be balanced, it should be done over the business cycle rather than yearly. (85%)
- The gap between Social Security funds and expenditures will become unsustainably large within the next fifty years if current policies remain unchanged. (85%)
- Cash payments increase the welfare of recipients to a greater degree than do transfers-in-kind of equal cash value. (84%)
- A large federal budget deficit has an adverse effect on the economy. (83%)
- A minimum wage increases unemployment among young and unskilled workers. (79%)
- The government should restructure the welfare system along the lines of a "negative income tax." (79%)
- Effluent taxes and marketable pollution permits represent a better approach to pollution control than imposition of pollution ceilings. (78%)

## Economists Debate

Of course, economists disagree about all sorts of things. "If all economists were laid end to end," George Bernard Shaw purportedly said, "they would not reach a conclusion."[23] Disagreements tend to appear along theoretical fault lines. Indeed, many of their disputes are the subject of macroeconomics rather than microeconomics. Macro tends to be much more theory-laden than micro. Debates also tend to break out at the border between economics and other disciplines, such as psychology, philosophy, or ethics.

For instance, economists debate:

- The causes of business cycles.
- The causes of financial crises.
- The merits and predicted effects of monetary and fiscal policies.
- The relative merits of different tax arrangements, cuts, and increases.
- The value of the Quantity Theory of Money (MV = PT) as a theory of business cycles.
- How rational market actors are, and what "rational" means (consider the ongoing debate between "rational choice" and "behavioral" economists).
- "Self-interest" (economists use this term in different ways).
- Counterfactuals. For example, what would have happened if the federal government had let Bear Stearns fail in March 2008? What if Congress had refused to approve the September 2008 bailouts? What would have happened if the 2009 "stimulus" had been larger or smaller? Answers to such questions tend to be highly theory-dependent.
- How best to measure the wellbeing of individuals and populations.
- The best way to internalize negative externalities (see number 26 above).
- The economic role of entrepreneurs.
- The relationship between technology and long-term unemployment.
- The appropriate role of government action in the economy.

Despite such debates, there remains a broad base of agreement among professional economists. Since it transcends powerful partisan biases, we have good reason to suspect the agreement is grounded in a shared base of knowledge, and not mere groupthink.

Given these findings, it is irresponsible for non-economists to dismiss what economists know, since human life and wellbeing often depend on such knowledge. If we want to determine what economic policies we *ought* to pursue, in other words, we must first consider what economists know.

## Notes

1. Joseph Ratzinger, "Church and Economy: Responsibility for the Future of the World Economy," *Communio* 13, no. 3 (Fall 1986): 199–204.

2. This includes many academics, and at least one scholar who traded economics for theology. In her recent book *Aquinas and the Market: Toward a Humane Economy*, Mary L. Hirschfeld argues that economics (as she defines it) belongs to moral philosophy and is not a positive science (Cambridge: Harvard University Press, 2018). Her argument depends on reducing uncharitably the discipline of economics to rational choice theory. See Catherine R. Pakaluk, "Whither Humane Economics? In Defense of Wonder and Admiration in Natural Science," *The Public Discourse*, March 27, 2019, https://www.thepublicdiscourse.com/2019/03/50583/.

3. Congregation for the Doctrine of the Faith, "Oeconomicae et pecuniariae quaestiones," May 17, 2018, 2.7, https://press.vatican.va/content/salastampa/en/bollettino/pubblico/2018/05/17/180517a.html.

4. Aristotle, *Nicomachean Ethics*, trans. J. A. K. Thomson, rev. ed. (London: Penguin, 2004), 1.3, 5.

5. See the survey of this literature in Emir Kamenica, "Behavioral Economics and Psychology of Incentives," *Annual Review of Economics* 4, no. 1 (2012): 427–52.

6. Nicola Lacetera, Mario Macis, and Robert Slonim, "Rewarding Altruism? A Natural Field Experiment," NBER Working Paper 17636 (December 2011), https://www.nber.org/papers/w17636.

7. In the interest of full disclosure, I should report that some economists found the idea of such a list disagreeable.

8. I would like to thank Frederic Sautet and Dan Hammond for their helpful comments, and also Robert Whaples, Richard Gallenstein, and Joseph Connors for their valuable assistance, which included clarifying and formulating several of these propositions.

9. I am presupposing a correspondence theory of truth and a broadly realist view of knowledge, defined (very roughly) as the mind conforming itself to reality. I take the propositions in this list to be claims about human nature and features of our social reality.

10. Why only "sometimes"? Because some of our actions reflect habits, instincts, and biological impulses over which we have little or no direct control. And we sometimes act thoughtlessly, rather than with clear purpose. No careful economist thinks that every human act is the result of a free, clear, and conscious purpose, or that every purposeful act is reducible to mere self-interest.

11. This often functions as a fundamental presupposition of economics, even among economists who might hold a materialist view of the human person, a view which, strictly speaking, contradicts the existence of agency. There is a complication here. In theoretical models, human agents with their choices tend to be abstracted out, at least for the sake of the model.

12. James D. Gwartney et al., *Common Sense Economics* (New York: St. Martin's Press, 2010), 6–8. In recent years, economists have started to recognize internal incentives and constraints, which include cognitive and/or behavior phenomena such as aspiration, hope, altruism, and compassion. "Incentives" refers to more than mere external, monetizable, economic incentives.

13. Scarcity includes resources, material goods, and services, as well as subjective preferences. If someone wants a larger house than he can afford, it is a scarcity to him, even if the market has many empty houses.

14. Robbins: Economics is "the science which studies human behaviour as a relationship between ends and scarce means which have alternative uses." Lionel Robbins, *An Essay on the Nature & Significance of Economic Science* (London: MacMillan & Company, 1932), 15.

15. I have stated this proposition modestly to accommodate those economists most skeptical about free trade.

16. In a survey of labor economists, Robert Whaples wrote, "Almost all (96 percent) of the labor economists surveyed think that 'nominal wages in the U.S. economy are downwardly rigid.'" "Is there Consensus among American Labor Economists? Survey Results on Forty Propositions," *Journal of Labor Research* 17, no. 4 (December 1996): 730.

17. Orazio Attanasio et al., "Dismal Ignorance of the 'Dismal Science'—a Response to Larry Elliot," *Prospect* (Dec. 20, 2017), https://www.prospectmagazine.co.uk/economics-and-finance/dismal-ignorance-of-the-dismal-science-a-response-to-larry-elliot. Of course, the significance of this data is open to debate.

18. Bryan Caplan, *The Myth of the Rational Voter: Why Democracies Choose Bad Policies*, new ed. (Princeton: Princeton University Press, 2008), esp. 23–93.

19. Of course, the breadth and nature of the consensus varies from topic to topic. See, for instance, Mark Thornton, "Prohibition vs. Legalization: Do Economists Reach a Conclusion on Drug Policy?" *Econ Journal Watch* 1, no. 1 (April 2004): 82–105; Shirley Svorny, "Licensing Doctors: Do Economists Agree?" *Econ Journal Watch* 1, no. 2 (August 2004): 279–305; Robin Lindsey, "Do Economists Reach a Conclusion on Road Pricing? The Intellectual History of an Idea," *Econ Journal Watch* 3, no. 2 (May 2006): 292–379; Dennis Coates and Brad R. Humphreys, "Do Economists Reach a Conclusion on Subsidies for Sports Franchises, Stadiums, and Mega-Events?"

*Econ Journal Watch* 5, no. 3 (September 2008): 294–315; Blair Jenkins, "Rent Control: Do Economists Agree?" *Econ Journal Watch* 6, no. 1 (January 2009): 73–112.

20. Robert Whaples, "Do Economists Agree on Anything? Yes!" *Economists' Voice* (November 2006).

21. Signers included Alan Greenspan, Greg Mankiw, Austan Goolsbee, and Alan Krueger. See "An Open Letter," on *Greg Mankiw's Blog* (March 5, 2015), http://gregmankiw.blogspot.com/2015/03/an-open-letter.html. See also N. Gregory Mankiw, "Economists Actually Agree on This: The Wisdom of Free Trade," *New York Times*, April 24, 2005, https://www.nytimes.com/2015/04/26/upshot/economists-actually-agree-on-this-point-the-wisdom-of-free-trade.html.

22. In his *Principles of Macroeconomics*, 8th ed. (Mason: South-Western Cengage Learning, 2017), 31, Mankiw credits two articles by Robert Whaples, as well as Richard M. Alston, J. R. Kearl, and Michael B. Vaughn, "Is There Consensus among Economists in the 1990s?" *American Economic Review* 82 (May 1992): 203–9; Dan Fuller and Doris Geide-Stevenson, "Consensus among Economists Revisited," *Journal of Economics Education* (Fall 2003): 369–87. See the list online, "News Flash: Economists Agree," *Greg Mankiw's Blog*, February 14, 2009, https://gregmankiw.blogspot.com/2009/02/news-flash-economists-agree.html.

23. This is almost certainly apocryphal.