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ON ECONOMIC EDUCATION

Economics and Leadership: An Introduction

Why Leaders Need A Foundation of Economic Understanding

by Gary M. Walton

Leaders in particular should learn economics because their decisions are more important.

Milton Friedman, 2005

More than anyone, leaders must have a solid understanding of economics. The choices that leaders make shape the worlds and opportunities of those they lead and every person that interacts with them. Economics does not tell leaders what choices to make, but it does inform them about the likely costs and consequences of their decisions.

To the extent that people in leadership positions understand economics and can apply this knowledge as part of their leadership style, better choices will be made, better outcomes will be realized and greater prosperity for everyone will result.

I hope you enjoy this quarters' expanded edition of Inside Economics. Dr. Walton, a recognized author of leadership handbooks and economic textbooks, lays out the essential connection between effective leaders and economic literacy.

- Dr. Roger B. Butters, President

Like Machiavelli's **The Prince**, this short treatise is a plea to recognize and address the vital need to improve the quality of leadership. Our unsolicited advice to leaders in all walks of life proposes an approach to decision-making based on economic reasoning. With memories ourselves of dismal undergraduate classes in the dismal science, we anticipate well founded skepticism; misconceptions about the nature of economics and economic reasoning are widespread. So we turn to John M. Keynes for insight into the essence of the discipline.

"Economics does not furnish a body of settled conclusions immediately applicable to policy. It is a method rather than a doctrine, *an apparatus of the mind*, a technique of thinking which helps its possessor to draw correct conclusions."

It is this *apparatus of the mind* that empowers leaders to address practical organizational and business problems no less than national and international policy issues. The following examples illustrate the folly to which we descend without this apparatus of the mind, and the heights of wisdom we scale when equipped with an economic way of thinking.

About the Author:

Gary M. Walton, a Guggenheim Fellow (1976), and Founding Dean of the Graduate School of Management at the University of California, Davis (1981), is Professor Emeritus of Economics at the University of California, Davis (2005). Since 1990, he has served as President of the Foundation for Teaching Economics (www.fte.org), where he has designed and administered highly acclaimed economics and leadership programs delivered domestically and internationally to high school seniors, selected for their leadership potential, and to high school teachers.



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Inside Economics is a publication of the **Nebraska Council on Economic Education**, a not-for-profit organization founded in 1963 to promote and improve economic literacy in Nebraska schools. We feel that an understanding of key economic concepts is vital for all citizens in order to live, work and make informed decisions in our modern economy. We sponsor and conduct high-quality pre-service, in-service and post-graduate courses designed to provide an understanding of important economic concepts to K-12 teachers throughout Nebraska, so that teachers can then bring these concepts to their classrooms. Topics covered include monetary policy, taxation, spending, inflation, the environment, growth, conservation, trade and energy, to name a few.

On Saturday morning, July 9, 2005, Hurricane Dennis bore down on Mobile, Alabama. As residents scrambled to protect homes and families from the monster storm, viewers of Fox Television news were reassured that these clouds, too, had silver linings, in the form of services demanded and jobs created. Those skeptical of the value of natural disasters as economic stimuli got no help from the Fox host, who apparently also failed to see storm damage as an actual loss of wealth. In any case, this vaunted media opinion-leader was content to acquiesce in the silly notion that we'd be better off if Mother Nature unleashed more rather than fewer hurricanes, tornadoes, and tsunamis. Indeed, the logical conclusion of the affable exchange between host and commentator is that setting fire to towns and cities would make us better off!¹

Also costly to the nation are misguided policies, self-inflicted disasters. A good example of this occurred in 1971 when President Nixon told the American people that he was going to impose wage and price controls throughout the economy, and that this action would reign in the inflation that had been building. Arthur Burns, Chairman of the Federal Reserve, parroted similar sentiments so at odds with economic wisdom that it tore at his credibility. The wage and price controls were imposed in August of 1971 when the inflation rate was 4.5 percent. The pre-control peak rate of inflation was 6 percent in early 1970 was actually falling at the time the controls were imposed. The rate of inflation continued to drift downward and remained around 3 percent until mid-1972 when it started to rise again. By early '73 the rate was over 7 percent and rose to over 10 percent by '74, the year the controls were completely abandoned (For further elaboration and evidence see Walton and Rockoff, 2004, P.12). Fortunately Nixon only took a few years of observing escalating shortages in many marketed items (e.g. gasoline) to learn from his mistake. Sound economics tells us that you can put a lid on a boiling pot of water, but steam (price level) doesn't stop rising until you turn down the head (money).

On the other end of the spectrum from the nonsense spouted when economic reasoning is absent or ignored, is the insight such reasoning provides the mind of a seasoned

problem-solver. In the aftermath of the attacks on the World Trade Center, our nation expressed its compassion by creating the \$7 billion Victims Compensation Fund. U.S. Attorney General John Ashcroft appointed an experienced and respected lawyer, Kenneth Feinberg, to administer the fund and disperse the revenues to families of the victims. It is hard to imagine that, in the raw aftermath of the terrorist attack, even those most accustomed to the mantle of leadership would aspire to the task, but Feinberg answered the call. As he testified in his recently published book, "What Is Life Worth?," and as he explained to National Public Radio's Terry Gross, (<http://www.npr.org/templates/story/story.php?storyId=4700911>) on June 13, 2005 the leadership challenge he assumed was life-changing but not life-shattering. It was made bearable by the collective understanding of economic reasoning embodied in our heritage of civil law.

The one-page law creating the September 11th fund authorized a "special master" to distribute awards based on the minimal guideline that he determine economic loss, add an award for pain, suffering, and emotional distress, subtract any collateral sources of income (insurance, etc.), and use his discretion in special circumstances to ensure justice. No further direction was given, but Feinberg found guidance in the heritage of American jurisprudence on compensation for damages from injury or death, a heritage that embodies sound

economic reasoning. Feinberg decided that non-economic loss awards (emotional loss) would be the same for all who were eligible, asserting that neither he nor anyone else possessed the wisdom to discern the differences in value – if there are any – in the existence of one human being over another. The decision to award equal compensation for emotional loss was met with almost universal acceptance (although contention over the amount did eventually lead him to revise upward to \$250,000 + \$100,000 for each surviving spouse and dependent). The legal directive to calculate economic loss, which effectively mandated that Feinberg make unequal awards, was far more divisive, making him the target of a firestorm of accusations of unfairness and elitism. Surprisingly, Feinberg, who has testified repeatedly to the emotional impact of his over 900 extended interviews with 9/11 victims, met the onslaught with great equanimity. As he explained to NPR's Terry Gross, who repeatedly questioned the unequal distributions, he was confident that he had arrived at an "American" solution, an allocation of the fund that reflected American values.

Mr. Feinberg is an able lawyer, not an economist, but as he explained in response to NPR's questions about fairness, Americans are equal at the ballot box, and perhaps in the hereafter, but in the courts we are vastly unequal in compensation for damages. Unskilled workers typically receive far less compensation than surgeons for the same

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physical injury – from falling off a ladder, for example – that ends their working careers. Feinberg’s understanding reflects three key economic concepts: productivity, human capital, and marginal analysis, even if his terminology does not always match the economist’s. Our legal system has, over the past 200 years, institutionalized the guideline that *economic* damages to individuals vary with their productivity, which is influenced by the education, experience, and skills that make up their human capital. Further, the courts have recognized that economic damages vary with age – that is, the amount of time individuals have left to use their human capital.²

After meticulously researching the productivity, human capital, and ages of those who died or were disabled in the attacks, Feinberg offered compensation awards ranging from a low of \$500,000 for low skilled, older workers up to a maximum of \$7.2 million for a 33 year-old stockbroker who had been making \$3 million a year. Guided by economic reasoning embodied in compensation law, Feinberg calmly navigated a sea of unimaginable grief and loss. It is a testimony both to his leadership and to the fundamental utility of economic reasoning that the controversy that met the announcement of wads died rapidly and the Victim’s Compensation Fund has gained wide acceptance as a proud symbol of American compassion.

An Economic Way of Thinking

Keynes’s “apparatus of the mind,” empowers people possessing it with insights that most people do not have. Like Paul Heyne’s well titled text (1995) we call this “apparatus” an economic way of thinking: it’s formed from basic building blocks of economic reasoning. These building blocks change the way we see the world, allowing us to identify currents of change in seas of apparent chaos, currents that our untutored competitors and opponents cannot see.

The basic building blocks of economic reasoning stem from the reality of *scarcity* – the fact that human wants collectively exceed our ability to satisfy them. This ubiq-

uitous condition of life renders choice neither a luxury nor an option, but a constant of human existence. It also mandates that choosing one alternative means foregoing another; in economic terms, all choices impose costs – both on the decision-maker and on others. Our purpose is to show and strengthen the link between leadership and economic reasoning, and provide a heightened awareness of the impact our decisions have on others and acceptance of the responsibility that awareness imposes.

Paul Heyne’s superb text begins with a challenge many of us face daily – rush hour traffic. As you groan at the experience of congestion, Heyne marvels at the symphony of coordination that emerges from the choices of individuals dealing separately with scarcities of time and lane space:

“The dominant characteristic of rush-hour traffic is not jam but movement, which is why people venture into it day after day and almost always reach their destinations. It doesn’t work perfectly, of course, (Name one thing that does) but the remarkable fact at which we should learn to marvel is that it works at all.

Thousands of people leave their homes at about eight in the morning, slide into their automobiles, and head for work. They all choose their own routes without any consultation. They have diverse skills, differing attitudes towards risk, and varying degrees of courtesy. As these passenger automobiles in their wide assortment of sizes and shapes enter, move along, and exit from the intersecting corridors that make up the city’s traffic veins and arteries, they are joined by an even more heterogeneous mixture of trucks, buses, motorcycles, and taxicabs. The drivers all pursue their separate objectives, with an almost single-minded devotion to their own interest, not necessarily because they are selfish but simply because none of them knows anything about the objectives of the others. What each one does know about is confined to a few observations on the position, direction, and veloc-

ity of a changing handful of vehicles in the immediate environment. To this they add the important assumption that other drivers are about as eager to avoid an accident as they themselves are. There are general rules, of course, which everyone is expected to obey, such as stopping for red lights and staying close to the speed limit. That’s about it, however. The entire arrangement as just described could be a prescription for



chaos. It ought to end in heaps of mangled steel.

What ensues instead is a smoothly coordinated flow, a flow so smooth, in fact, that an aerial view from a distance can almost be a source of aesthetic pleasure. There they are – all those independently operated vehicles down below, inserting themselves into the momentary spaces between other vehicles, staying too close and yet rarely touching, cutting across one another’s paths with only a second or two separating a safe passage from a jarring collision, accelerating when space opens before them and slowing down when it contracts. The movement of rush-hour traffic, or indeed of urban traffic at any time of day, really is an astounding feat of social cooperation.” (Heyne, 1995, p.1-2)

Even many of those who have never red this passage must have marveled at the beauty of endless streams of vehicle lights glowing below when flying over a city on a dark clear winter night. All that social cooperation and only one simple rule: Don’t touch!

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Heyne's important insight for leaders is the primacy of choice, or as Heyne himself often asserted: "Social phenomena emerge from the choices of individuals." When confronted with apparent chaos, look to the choices of individuals. In the case of traffic, what we typically see is the emergence of cooperation through (self-interested) mutual adjustment:

"Picture a freeway with four lanes in each direction and with all the entrances and exits on the right. Why don't all the drivers stay in the far-right lane? Why do some of them go to the trouble of driving all the way over to the far left when they know they'll have to come back to the right lane to exit? Anyone who has driven on a freeway knows the answer: the traffic flow is impeded in the far-right lane by slow moving vehicles entering and exiting, so people in a hurry get out of the right lane as quickly as possible. Which of the other lanes will they choose? Although we can't predict the action of any single driver, we know that the drivers will disperse themselves quite evenly among the three other lanes. But why does this happen? How does it happen? The answer is also the explanation of what we meant just now by a process of continuing mutual adjustment to the changing net advantages that their actions generate. Drivers are alert to the net advantages of each lane and therefore try to move out of any lanes that are moving slowly and into those that are moving faster. This speeds up the slow lanes and slows down the fast lanes until all lanes are moving at the same rate, or, more accurately, until no driver perceives any net advantage to be gained by changing lanes. It all happens quickly, continuously, and far more effectively than if someone at the entrances passed out tickets assigning each vehicle to a particular lane. That, according to the economic way of thinking, is how the social world works. Individuals choose their actions on the basis of the net advantages they expect. Their actions alter, however minutely, the relative benefits and costs of the options that other perceive. When the ratio of expected benefit to expected cost for any reason increases, people do more of it. When the ratio falls, they do less. The fact that almost everyone prefers more money to less is an enormous aid in this process, an extremely important lubricant, if you will, in the mechanism of social coordination. Modest changes in the monetary cost and monetary benefit of par-

ticular options can induce large numbers of people to alter their behavior in directions more consistent with what other people are currently doing. And this is the primary system by which we obtain cooperation among the members of society in using what is available to provide what people want." (Heyne, 1995, p. 5-6)³

From Heyne's analysis, we can formally state two Economic Reasoning Propositions (ERPs):

ERP-1: People choose, and individual choices are the source of social outcomes.

Scarcity necessitates choices: not all of our desires can be satisfied. People make these choices based on their perceptions of the expected costs and benefits of the alternatives.

ERP-2: Choices impose costs; people receive benefits and incur costs when they make decisions.

The cost of a choice is the value of the next-best alternative foregone, measurable in time or money or some alternative activity given up.

To apply these in a dramatic, but on-going setting, consider the mind-numbing dilemma leaders and decision-makers face at the Federal Drug Administration. First empowered by the Food and Drug Safety Act of 1906 and amended in 1938 and 1962, authorities at the FDA review, approve, or disapprove safety and efficacy evidence given by drug providers. The 1962 Kefauver-Harris Amendment requiring "proof of efficacy" came on the heels of deformed infants born to mothers in Britain who had taken a sleeping pill called thalidomide.

This amendment helped stop such side effects and other unintended consequences when new drugs came to market, but it also caused delays in the speed of entry of new drugs. Prior to the 1962 amendment, the average time between listing and approval of a new drug application was about seven months. This "proof of efficacy" testing period grew to thirty months by 1967 and by the 1970s had reached 8 to 10 years. Miller, Benjamin, and North (2005) summarize the dilemma and trade-off:

"Every time a new drug is introduced, there is a chance that it should not have been either because it has adverse side effects that outweigh the therapeutic benefits (it is not safe), or because it really does nothing significant to help the individuals who take it (it is not effective). When such a drug is introduced, we shall say that a "Type I error" had been committed. Since 1962, incidence of Type I error (the thalidomide possibility) has been reduced by increasing the amount of testing necessary for the introduction of new drugs. People have surely benefited from this reduction in Type I error by incurring fewer adverse side effects and by being spared the costs of taking ineffective drugs. But other people have been the victims of what is called "Type II error." Their cost is the pain, suffering, and death that occur because the 1962 amendments have prevented or delayed the introduction of safe, efficacious drugs. Type II error occurs when a drug should be introduced, but is not, because of FDA regulation."

In the 1980s the filing to approved time gradually declined after the FDA accelerated the approval process for drugs used in treating terminal diseases, a change in policy founded on basic economic principles. As Miller, Benjamin, and North (2005) state:

"One of the most famous of these drugs is azidothymidine (AZT), which emerged in 1986 as a possible treatment for AIDS. AZT received FDA approval after a testing period of only 18 months when it was found that the drug appeared to increase the life expectancy of AIDS patients. In effect, the FDA decided that the costs associated with the Type I error such as headaches, nausea, and a reduction in the number of disease-fighting white blood cells, were outweighed by the many deaths that would result if the drug were not approved quickly."



Careful scrutiny, guided at least in part by economic reasoning, must be constantly applied to determine whether future choices by the FDA help or harm the people the agency was created to protect.

From this arena of life-saving and life-destroying decisions, we now consider examples of how understanding the calculus of scarcity-engendered decision-making by individuals is a powerful force for order in both unstructured society and the structured environment of the firm.

Vision: Seeing Order in Chaos

In the weeks before the 1984 Olympics, news personalities warned of traffic jams and severe parking shortages near the main Olympic site at the University of Southern California. The unspoken but clear media message was to chastise city leaders for their oversight. On the opening day of the games, traffic did move slowly and the price to park all day in most nearby lots was \$30 to \$40. On the second day, however, many homeowners sold all-day parking places in their front and back yards for \$10 each. Homeowners, following their own self-interest, added parking space for anxious automobile drivers attending the games. By the third day, and throughout the remaining days of the games, traffic moved smoothly, and the typical all-day parking fee around the stadium dropped to \$5.

Other self-interested decision-makers also contributed to the smooth flow of traffic. Many Los Angeles residents left town to avoid the crowds. Indeed, an historical rar-

ity occurred at Disneyland and at Magic Mountain: there were no waiting lines for their highly popular rides as many people sought vacation destinations in places *other* than southern California. The result of individuals choosing alternatives in their own self-interest was more parking space and less congestion for everyone.

Similarly in Sydney in 2000 and in Athens in 2004, widely-feared traffic deadlocks never materialized, partly due to prudent planning but also due to private-party anticipation and social cooperation – neither of which were forecast ahead of time by newscasters or politicians. Once again, the pursuit of self-interests can lead to social cooperation, especially when appropriate incentives are in place:

ERP-3: People respond to incentives in predictable ways.

Choices are influenced by incentives, the rewards that encourage and the punishments that discourage actions. When incentives change, behavior changes in predictable ways.

The ability to see systematic movement and cooperation in “unmanaged chaos” is valuable not only to society, but to the firm. In some cases – hospitals – it has proved to have life-saving implications. Throughout the country many hospitals regularly face the problem they call “diversion.” When hospital surgical and emergency clinics become too congested to take any more cases, ambulances are *diverted* to more remote emergency units, risking life and limb.



The Boston Medical Center is the busiest emergency clinic in New England, treating nearly 128,000 cases per year. For years, it struggled with diversion. In 2001, BMC closed its doors to emergency ambulances for almost 700 hours, a dismal record that frustrated concerned hospital administrators, doctors, and staff. Believing themselves to be at the mercy of unpredictable accidents and emergency cases, they saw only chaos.

Knowing that people choose (ERP-1), Eugene Litvak, a transportation and industrial efficiency expert at the Boston University School of Management and Harvard School of Public Health, looked for and found the currents in the apparent sea of chaos that swamped Boston Medical Center’s emergency cases: “...Those numbers held steady...Surprisingly, Mother Nature is more predictable than our actions,” said Litvak. He found instead that the problem started with the decision to schedule non-emergency surgeries only on Tuesdays, Wednesdays, and Thursdays. Presumably, those days had been selected on the belief that surgical suites then would be more available for supposed greater weekend emergency demand. A reasonable presumption, until one considered that individual doctors had an incentive (ERP-3) to work longer hours on Tuesdays, Wednesdays, and Thursdays, to leave the other days of the week free for personal and professional – non-surgical – pursuits. In any case, the evidence showed an even daily flow of emergency cases, with no systematic weekend excess demand.

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As reported on Jim Lehrer's New Hour, (http://www.pbs.org/newshour/bb/health/jan-june05/er_6-07.html), Professor Litvak provided insight into the problem by drawing an analogy to Boston traffic. Pointing across the Charles River, he noted the traffic on Memorial Drive, flowing smoothly, distributed more or less evenly, and moving at the speed limit. He reminded hospital administrators what most of them already knew: Memorial Drive isn't always so pleasant. When the capacity of the roads is exceeded (as in the predictable morning rush), slowdowns impose time costs on drivers. The same thing happened at Boston Medical.

The incentives for doctors to schedule as many surgeries as they could on Tuesdays, Wednesdays, and Thursdays, meant that hospital facilities were already fully utilized and couldn't accommodate the added (and predictable) flow of emergency "traffic." Jointly needed surgical intensive care units and recovery rooms were swamped with patients. The congestion led to ambulance diversions and even to disruptions of previously scheduled surgeries.

Once regularly scheduled operations were spread more evenly over the week, annual ambulance diversions fell by nearly two thirds at the BMC. In effect, smoothing the

flow of normal prescheduled operations led to mutual adjustments by the professionals competing for commonly needed, but scarce, resources – namely, surgical hours and recovery beds.

Susan Dentzer, the Emergency Unit's nurse manager said:

"Why did we ever live with it? I mean it was such an easy thing to fix, why didn't we think of fixing it before? I think in medicine we don't look at the obvious. Dr. Litvak made us look at the obvious, and it's much better."

The Gains of Economic Empowerment

From event managers, to hospital administrators, to the special master caring for the victims of terrorism, we have provided examples of how the economic way of thinking empowers leaders. In the Foundation for Teaching Economics: Economics for Leaders Program, we further build the case for economic reasoning as an essential tool of leadership. Our goals are: 1) to help leaders make better decisions, 2) to improve the operation of the firms and organizations they will or have dedicated their working lives to build, and 3) to encourage leaders to defend the competitive open market system, the "goose that lays the golden eggs."

Fortunately, the process of learning sound economics is aided by the fact that people enjoy talking about economic issues, especially on social occasions and in the context of current events. There is also a socially comfortable common ground in casual conversations about economics, certainly compared to religion or politics. Nevertheless, leaders are often passive and reluctant to rebut challenges to their economic opinions or beliefs. All too frequently they seem intimidated by the subject, perceiving it as too technical, with complicated statistical measures, vast array of data, and mind-twisting theoretical equations. And we would agree. Many of the topics listed in the table of contents in college principles textbooks are, in fact, useless to most people, including leaders. Needed instead is a set of basic economic reasoning skills (e.g. ERPs 1-3), tools that work everywhere as a basis for understanding people, their choices, and how to motivate them. These tools do not work perfectly, but they help leaders see the world in new helpful ways.

In addition, we wish to elaborate on and encourage leaders to defend the competitive open market system, the "Goose that Lays the Golden Eggs." The undeniable lesson of economic history (see Chapter 1 of Walton and Hughes, 2005, for example) is that this Goose is a society constituted in justice and property rights, with open, competitive markets, and the freedom for individuals to pursue opportunities to direct human and physical capital to legal pursuits. The resulting golden eggs are for rich and poor alike, such a structure of rules, formal and informal, is the best hope for widespread and growing prosperity, surely one of the underlying goals of all leadership. Leaders in families, in organizations, in business, in communities, and in society at large are motivated by their visions of better life, of improved well-being. We argue that their ability to realize their vision depends on their recognition of the importance of the institutions that succor the Goose, and on their willingness to actively defend those institutions.

ERP-4: Institutions are the "rules of the game" that influence choices.

Laws, customs, moral principles, superstitions, and cultural values influence people's choices. These basic institutions controlling behavior set out and establish the incentive structure and the basic design of the economic system.

Although business leaders, who pursue wealth commercially and understand its creation, have a natural inclination to support and defend market institutions and to utilize economic reasoning skills in their business pursuits, it is also important for religious, academic, government, and not-for-profit leaders to do so. Wealth creation is the great engine of progress. It is the source of charitable donations and taxes and the primary determinant of research and advance in all fields of knowledge. As a creator of wealth, the Goose – the competitive open market system, firmly anchored to a legal system centered on the Rule of Law – has done more to improve man's condition on earth, to save lives and lift people out of poverty, than any other force. It is also clear that although the market system is fundamentally reliant on the power of individual choices, it is equally dependent on government, one that ensures secure rights of human beings

Upcoming Events

June 22, 2010

The United States Economy

Recovery, Revenue, Reform & Resources

A seminar for middle and high school teachers

8am to 3pm

Union Pacific Headquarters, Omaha

July 20-22, 2010

Personal Finance Institute

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to themselves and their physical property, and also ensures that the decisions of government will depend not on the identities of those in power, but instead on guiding principles of clearly-enumerated rules that apply to the governed and governors alike. This is no mere opinion, inviting us to state Economic Reasoning Principle 5:

ERP-5: Understanding based on knowledge and evidence imparts value to opinions.

Opinions matter and are of equal value at the ballot box. But on matters of rational deliberation the value of an opinion is determined by the knowledge and evidence on which it is based. Statements of opinion should initiate the quest for economic understanding, not end it.

Leaders need all five Economic Reasoning Principles to leverage their understanding of how the world works, and to be convincing to others on ways to improve the human experience.

Footnotes

Selected References, Suggested Readings

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(Endnotes)

1 When Hurricane Katrina hit Biloxi, Mississippi dead center on August 29, 2005, and the levees were breached hours later in New Orleans, no such nonsense was espoused on the nation's air waves. The disaster in Texas when Hurricane Rita hit a few weeks later also muted misguided discussion on "advantages." The costs were enormous and evident, and any benefit from regeneration were too paltry to note, even for newscasters lacking the benefits of economic reasoning.

2 It is ironic that these legal precedents of unequal compensation for unequal human capital in people find their roots in the economics of American slavery. U.S. compensation laws grew out of awards granted to **Slave Owners** in the American South and paid by renters or borrowers of slaves when the slaves (of varying attributes and values) suffered injury or death. Slave values, set by market exchanges of "property" were clear, and compensations were based on Human Capital values lost. Personal injury and death cases for workers, which came well after emancipation in the U.S., extended these precedents to free labor.

3 As the world observed September 22, 2005, sometimes traffic flows are real chaos. The rapid simultaneous exodus of a million plus people from Houston in response to Hurricane Rita's approach was real chaos. Texas officials had been bragging that their evacuation plans were superior to those followed earlier in New Orleans. Those on the road didn't agree:

"This is the worst planning I've ever seen," said Judie Anderson, who covered just 45 miles in 12 hours after setting out from her home in the Houston suburb of LaPorte. "They say we've learned a lot from Hurricane Katrina. Well, you couldn't prove it to me."

Houston Mayor Bill White acknowledged that the pre-hurricane evacuation preparations, which some Texas officials had been boasting about earlier this week, had gone awry, in part because so many people attempted to flee the city at once." (Sacramento Bee, September 23, 2005, A-1)

Similarly on the return to Houston, an absence of social planning and cooperation were apparent:

"Mindful of the 12-hour traffic jams during the evacuation late in the week, officials said they needed more time to restock gas stations, clear debris and restore power.

'We want to avoid traffic gridlock. So again, we can't say enough times to those I know are ready to go back to their homes: Please stay where you are,' Gov. Rick Perry said.

The state homeland security director urged a staggered return of residents starting today. Those who live beyond the suburbs were told, 'Stay away until further notice.'

But by midday, roads from Austin to Houston were clogging. Traffic picked up on Interstate 45, the main north-south artery from Dallas to Galveston, with vehicles full of children, pillows and pets." (Sacramento Bee, September 25, 2005, A-20)

There were no mechanisms or incentives in place to enforce a staggered return and it wasn't even tried on the exodus. Fuel and vital services remained in short supply, along with patience and confidence in leaders.

The question that immediately arises is, "Why were people seemingly unable to obey according to ERP-3?" We think the answer is simple. As hinted at by Heyne's discussion of rush hour traffic, in day-to-day activities, people have good information on the costs of various departure times and travel routes, and they act accordingly to make the best choices. Hurricane Rita was an unusual rare event, so that people had little information on which to base their choices. Katrina had been sufficient to educate people on the importance of evacuation, but it would have taken more to educate them on how to efficiently evacuate.

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