

### Lincoln and Slavery

I have long been fascinated with world and American history, particularly the life of Abraham Lincoln. I recommend an excellent book by historian Eric Foner, *The Fiery Trial: Abraham Lincoln and Slavery*.<sup>1</sup> According to Foner,

“Early in life, Lincoln decided he did not want to live like his father, who in his son’s eyes exemplified the values of the pre-market world where people remained content with a subsistence lifestyle. From age twenty one, Lincoln lived in towns and cities and evinced no interest in returning to the farm or the manual labor. He held jobs – shopkeeper, lawyer, and surveyor – essential to the market economy. The storekeeper brought manufactured goods from afar to isolated communities. The bulk of legal work revolved around land titles, business arrangements, bankruptcy cases, and the credit and debt that oiled the market revolution. The surveyor transformed land into private property with clearly identified boundaries, ready to be bought and sold. Lincoln was so enmeshed in market society that during the 1840s and 1850s, even while pursuing his legal and political careers, he provided credit reports about his Springfield neighbors to the Mercantile Agency, a credit rating company founded in New York City by the abolitionist Lewis Tappan.”<sup>2</sup>

Another of Foner’s insights crystalizes my admiration for the Great Emancipator:

“Lincoln came of age as two great transformations unleashed by American independence – the market revolution and the democratic revolution – reached fruition, and he embraced them both. Many conservative Whigs<sup>3</sup> retained a distaste for popular democracy inherited from the old Federalists. They preferred government by a ‘natural aristocracy’ and disapproved of the elimination of property qualifications for voting, which occurred in nearly every state between 1800 and 1828. Lincoln was part of a younger generation of ‘New School Whigs’ comfortable with a mass political democracy, and was convinced that the party could compete head-on with the Democrats for votes of humble citizens.

By the time of Andrew Jackson’s presidency, the axiom that the people ruled had become a cliché of American politics. When he ran for reelection to the legislature in 1836, Lincoln took this principle further than most of his contemporaries by issuing a politic letter stating that he favored ‘admitting all whites to the right of suffrage, who pay taxes or bear arms (by no means excluding females).’<sup>4</sup>

---

<sup>1</sup> Norton, 2010. You can find this book on Amazon.com, in hardback, paperback, or used.

<sup>2</sup> Foner, page 37.

<sup>3</sup> The Whig Party was the precursor of the modern Republican party, having spun off from the Democratic-Republican Party, which had essentially been the only political party from 1800 when Thomas Jefferson defeated the last Federalist president, John Adams, until the Whig party was founded in 1834, in reaction to the perceived authoritarian rule of President Andrew Johnson. The Whig party got its name from the anti-royalist faction in British politics (who opposed the Tories, or pro-monarchy conservatives). See <http://www.u-s-history.com/pages/h279.html>

<sup>4</sup> Foner, page 39.

## What Is Economics and How Does It Relate to Discrimination?

As the previous sentence indicates, Lincoln was progressive for his time, but a creature of his time nonetheless. While few politicians entertained the notion of female suffrage, Lincoln was willing to extend the franchise to women, but with a catch. Women did not serve in the militia, the way most men did, and few women (except for widows) paid taxes in their own name. Many would consider Lincoln sexist by today's standards; men would represent the interests of their wives when they voted, but women without husbands, who paid taxes (demonstrating their personal responsibility), could be trusted to represent their own interests. The theme of Foner's book was to trace the evolution of Lincoln's attitude toward slavery from enlightened self-interest to moral cause.

Lincoln was born into a society in which slavery thrived in one part of the country, and was seen as an economic threat in the rest of the USA. Born on a small farm, without a formal education, Lincoln understood that "free labor" (white men without property) could not effectively compete with slave labor. During colonial times, slavery existed both in the north and the south, and many white migrants to North America arrived as indentured servants – contract workers who owed seven years labor to men or businesses that financed their passage from Europe to North America. After fulfilling their financial obligations, former indentured servants could hope to advance by learning a trade, financing their own education (by saving or being self-taught like Lincoln), or by purchasing property (also by saving). Slaves, however, were property for life – indeed, the offspring of slaves were also slaves, even though their fathers were slave masters or overseers. Slave owners spent just enough to maximize their profit from slavery. Slave owners often leased their slaves to farmers or other businesses for the cost of the upkeep of the slave plus a small profit. Free men, competing with slave wages, could expect to receive slave wages themselves. Therefore, it was critical to Lincoln and other free whites, to prevent slavery from expanding into the Free States.

In 1857, the Supreme Court upset the status quo, in its infamous *Dred Scott* decision. Dred Scott was a slave born on a plantation in Missouri, a slave state by virtue of the Missouri Compromise of 1821. By that compromise, slavery was outlawed in the Nebraska territory. Congress carefully balanced the admission of slave and free states to maintain balance in the US Senate. However, because opportunities were superior in the North, the House of Representatives was dominated by free states. When Dred Scott's master brought him to the free state of Illinois, Dred Scott claimed that he was no longer a slave. When his case (financed by abolitionists), reached the US Supreme Court, the simplest decision would have been for the Court to rule that, as a non-citizen, Dred Scott had no standing to sue. Instead, the Court overreached, ruling that (1) no black people, including freed slaves, were US citizens, and (2) Congress had no authority to prohibit or otherwise regulate slavery in any US territory. This decision energized anti-slavery forces, leading the Republican Party to nominate Abraham Lincoln, who won 180 (59%) of the electoral votes even though he won just 40% of the popular vote in a four-party election: Lincoln, 40%, Breckinridge (Southern Democrat) 18%; Bell (Constitutional Union), 13%; and Douglas (Northern Democrat) 29%.

As an economist I am perplexed by the behavior of those Southern whites who owned no slaves. Since importing slaves was banned by Congress in 1808, the only way to obtain slaves was to inherit them, typically by inheriting a plantation. This meant that the South was an aristocracy, with slave owners (the haves) and everyone else (the have nots) lived in an economy wherein slave wages

## What Is Economics and How Does It Relate to Discrimination?

thwarted upward mobility. By fighting for the Confederacy, southern whites were dying to preserve an economic institution that was contrary to their economic self-interest. Sometimes people oppose their self-interest out of a sense of altruism: parents support young children, children support aging parents, and people contribute to charity without expecting a monetary return. But, as we will learn throughout this course, people also sacrifice self-interest to malevolence. The altruist is willing to incur a cost to help a loved one; the villain is willing to incur a cost to hurt an enemy.

### **Are We Hard Wired to Be Conservative?**

Economics deals with how people make choices in the face of scarcity. Choice involves selecting from available options; scarcity means that selecting one option implies sacrificing all others. Poor people typically have few options, and choosing the wrong option may mean death. Rich people have more options than poor people do; the rich are protected from bad choices, even from stupid mistakes. Whether one is rich or poor is usually due to one's endowment. Some poor people succeed through hard work, frugality, and temperance. Some rich people fail because of laziness, stupidity, or villainy. The USA is no longer the land of opportunity; fewer people are born into poverty in other advanced economies, and those who are born poor have a much better chance of escaping into the middle class.

We will occasionally discuss three political philosophies: libertarianism, conservatism, and liberalism. Economists are naturally libertarians in our outlook. Libertarians believe that people are the best judges of their own wellbeing and that the role of government should be limited to those services that maximize the mutual benefit of voluntary trade. Liberals, on the other hand, favor a larger government sector than libertarians do in order to increase upward mobility; liberals are willing to accept a slightly smaller pie in order to make the slices more equal. What is usually overlooked is that conservatives also favor a greater role for government than libertarians do, only their goal is to protect privilege, typically by decreasing upward mobility. Through sexism, racism, and brutality, conservatives are willing to reduce the size of the pie in order to maintain larger slices for "God's favorites."

Economists understand why the rich are conservative and the poor are liberal; rational self-interest implies that change is more likely to reduce the wealth of the rich and improve the economic prospects of the poor. Exit polls indicate that approximately 40% of the richest Americans (e.g., those in the top 1% of the income distribution) voted for Barack Obama in 2008 and 2012. Even more startling is that 40% of the least fortunate voted for John McCain in 2008 and Mitt Romney in 2012. To predict the percent of a state's vote President Obama received in 2012, we need know only two factors: the percent of the vote he received in 2008 and the proportion of the adult population who are college graduates.<sup>5</sup> I believe (and there is plenty of evidence to support me<sup>6</sup>) that the rich who vote for liberals are altruistic;

---

<sup>5</sup> Data from the fifty states plus the District of Columbia predicts the proportion of the vote received by John McCain as  $\hat{O}_{12} = .6O_{08} + .69CG$ . In blue (majority Democratic) states, 29.2% of adults are college graduates; in red (majority Republican) states, only 23.3% of adults are college graduates. Despite all the attention the swing states received, Obama received approximately the same proportion of the votes in those states in 2012 that he had received in 2008.

<sup>6</sup>Bling.com gives three definitions of belief. Those who ignore empirical evidence are consistent with the first definition; I am relying on the third definition:

## What Is Economics and How Does It Relate to Discrimination?

they are willing to incur some cost (higher taxes, more regulation, scorn at the country club) in order to help the less fortunate. I fear that the poor and uneducated who vote for conservatives are malevolent; they are willing to incur a personal cost (lower income, reduced upward mobility) in order to hurt others (racial minorities).

I write this introduction to communicate where my heart is. As an economist, I am naturally a libertarian. I am skeptical of the use of government power to accomplish either conservative goals (religious conformity, racism, sexism) or liberal ones (attempting to mandate egalitarian outcomes instead of expanding economic opportunity). As a religious agnostic, I have no supernatural agenda. I hope I do my best to overcome malevolent urges. Nevertheless, I do believe the words of Scripture: "For everyone to whom much is given, of him shall much be required." -- Luke 12:48. To me, this is the essence of Christianity, not John 3:16.<sup>7</sup>As we encounter controversial topics in the economics of discrimination, it will be impossible to ignore our endowment of our beliefs and values. However, we cannot use our personal disagreements to excuse ignorance or error. I expect you to learn economics, and to pass examinations revealing your understanding. I will not require you to agree with my beliefs or values to pass the course.

Economists have long taught that **economics** is a science that studies how people allocate scarce resources to satisfy their most important wants. Students take introductory economics courses because they are required to do so; if they become interested they may take more advanced economics courses. Students are often more interested in those topical courses than in the principles that they learn by rote, if at all. Some economics principles texts are crammed with real-world applications, often at the expense of students understanding fundamental economic concepts. Alternatively, and especially at "better" universities that screen students on their willingness and ability to delay gratification, students are told that interesting applications courses are the prize for enduring the cost of focused principles courses. Alas, too often students infer that those applied courses are likely to be just as boring as the principles course and decide never to take another economics course.

Economists who purport to understand incentives should know that the "my way or the highway" philosophy to economics instruction is inefficient. I propose to combine principles of economics and one sustained application. The advantage of this approach is that students requiring a specific topic course—for example, the economics of discrimination—can learn the principles of economics they need as they explore their chosen application. The disadvantage—and in economics there is never a benefit without a cost—is that there may be some duplication of topics for students

- 
1. acceptance of truth of something: acceptance by the mind that something is true or real, often underpinned by an emotional or spiritual sense of certainty
  2. trust: confidence that somebody or something is good or will be effective
  3. something that somebody believes in: a statement, principle, or doctrine that a person or group accepts as true

<sup>7</sup>"For God so loved the world that he gave his one and only Son, that whoever believes in him shall not perish but have eternal life." I reject this quote, not because of what it says about Jesus, but because of what it says of his (alleged) Father. A perfect creator who punishes his imperfect creation for eating from the Tree of the Knowledge of Good and Evil is the ultimate example of the conservative parent. Don't even get me started on the story of Abraham and Isaac.

## What Is Economics and How Does It Relate to Discrimination?

taking multiple economics courses. But we'll worry about that problem after exploring the success of this approach for the economics of poverty and discrimination.

### What Is Economics?

The great economist Frank Knight stated:

[I]t ought to be the highest objective in the study of economics to hasten the day when the study and the practice of economy will recede into the background of men's thoughts, when food and shelter, and all provision for physical needs, can be taken for granted without serious thought, when "production" and "consumption" and "distribution" shall cease from troubling and pass below the threshold of consciousness and the effort and planning of the mass of mankind may be mainly devoted to problems of beauty, truth, right human relations, and cultural growth.<sup>8</sup>

An idealist might attribute these sentiments to any profession. Physicians wish to eradicate all disease and police officers dream of life without crime. Psychiatrists labor for a future in which all are sane. Lawyers yearn for a judicial system so fair and transparent that anyone can negotiate a contract without legal assistance. Social workers dream of a world inhabited by functional families whose incomes exceed the poverty level. Accountants dream of a tax system so simple and logical that complex accounting rules will become obsolete.

Cynics may scoff: "If a person's livelihood is derived from helping people cope with a persistent problem, doesn't that person have an interest vested in perpetuating that problem?" Recall that usually left-leaning social workers voted overwhelming for Richard Nixon in 1972 after his opponent George McGovern proposed a negative income tax that would have eliminated the role of social workers in enforcing the rules of the Aid to Families with Dependent Children program.<sup>9</sup> Why should economists behave any more nobly than other professionals? The answer lies in the nature of what economists study and what economists do. Why it is necessary for people to earn their living is one of the central concerns of economic inquiry. Because goods are scarce we must expend effort to obtain them, although we can never have all we want. If there were no scarcity, people would work only for recreation; imagine all those professional stair steppers and power lifters. So what would economists do if there was no economic problem? Why, anything they wanted, including economics, if they thought it was fun.<sup>10</sup>

---

<sup>8</sup> Frank H. Knight, "Social Economic Organization," in *The Economic Organization* (New York: Harper & Row, 1951); quoted in Thomas M. Carroll, *Microeconomic Theory: Concepts and Applications* (New York: St. Martin's Press, 1983), 2.

<sup>9</sup> Technically, this argument relies on a *post hoc ergo propter hoc* logical fallacy—literally "after this, therefore because of this." We know that McGovern proposed a welfare reform program that many social workers complained would cost their jobs. We know that almost everybody voted for Nixon in 1972 (who carried 49 of 50 states). However, the one is not necessarily dependent on the other.

<sup>10</sup> No doubt, one of the things that makes the *Star Trek* science fiction series so attractive is replicator technology, which morphs garbage into food, clothing, and entertainment. The only scarce factors of production are di-lithium crystals, whose acquisition has injected economics into the plots of a few episodes.

## What Is Economics and How Does It Relate to Discrimination?

The word *economics* is of both humble and practical origins: It is derived from the ancient Greek word *oikonomia*, which literally means “household management”. *Home economics* is redundant. Greek philosophers, like Plato and Aristotle, believed that issues like balancing the household accounts or whether to plant figs or dates were too mundane to occupy a philosopher’s attention. After all, there were more important issues to be considered: beauty, truth, proper human relations, and cultural growth. Yet with all its disease and starvation, not to mention the enslavement of most of humanity, classical Greece can hardly be characterized as a golden age of plenty.

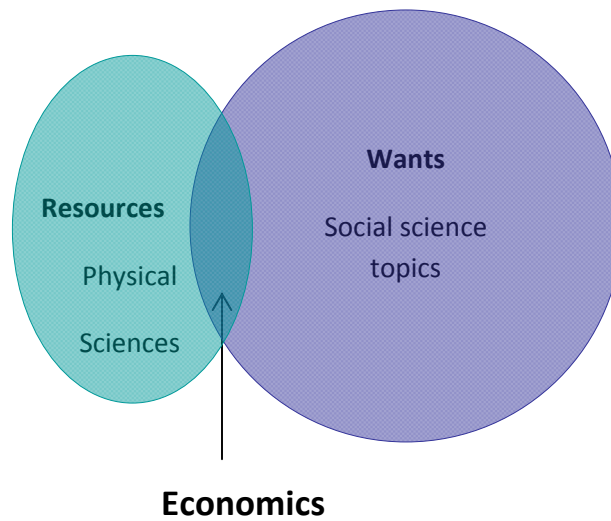
In this book we return to these ancient roots, studying how economics embraces both household behavior – the allocation of time between work, household production, and leisure – and the behavior of business – which purchases the services of land, labor and capital owned by households to produce goods and services they sell to households, ideally at a profit. Households and firms interact through markets that set the price and quantity exchanged of goods and services. Within households, behavior is best explained by altruism: from each according to ability, to each according to need. Within firms, behavior is best explained by command – while employment is a voluntary contract, workers agree to obey the commands of owners and executives in exchange for wages and salaries. Markets work by balancing the best in us (altruism) with the worse (selfishness) and the worst (malevolence).

### What Economists Do

Figure 1-1 relates economics inquiry to the physical and social sciences. The circle on the left depicts **economic resources**—land, labor, capital, and entrepreneurship—and the circle on the right depicts **human desires**. The “resources” circle is substantially smaller than the “wants” circle because of scarcity. People generally want more than they can have. The resources circle is also labeled **physical sciences**—disciplines such as physics, chemistry, biology, engineering, and mathematics— which explore properties of inanimate objects to find ways of bending those properties to serve humanity. The “wants” circle is also labeled **social sciences**—disciplines like sociology, anthropology, philosophy, not to mention marketing and education—which explore how people behave.

The overlapping area of these circles is labeled **Economics**; economists try to reconcile means (resources) with ends (human wants). Economics does not lay claim to the entirety of either sphere. Physics, chemistry, and engineering study explore physical laws that are outside the purview of economics. Economists do not ask *why* two atoms of hydrogen and one atom of oxygen combine to form one molecule of water. Economists understand that hydrogen, oxygen, and energy are often scarce.

Figure 1-1



A similar restriction rests on how economists treat human wants. Economists do not record history, but they can provide insights into historical events.<sup>11</sup> Economists do not specify the rules of government, but they do investigate their implications.<sup>12</sup> Today economists typically take what people want as given, instead of rendering moral or ethical judgments about what people want. This was not always the case. Originally economics was a branch of moral philosophy that preached why some desires are good and others are bad.<sup>13</sup> Today the overwhelming majority of economists are more concerned with how to allocate resources efficiently than how to restrict choices.

Two important intellectual documents were created in 1776: Thomas Jefferson's *Declaration of Independence* and Adam Smith's *An Inquiry into the Nature and Causes of the Wealth of Nations*. In the *Declaration of Independence*, Thomas Jefferson declared that "all men are endowed by their creator with certain inalienable rights, among them life, liberty, and the pursuit of happiness." In his *Wealth of Nations*, Smith argued that the "wealth" of a county reflects the standard of living of the population. Although Adam Smith was a moral philosopher by training, he asserted that the role of the economist was to help people attain what they want rather than preaching about what people *should* want. With the *Wealth of Nations*, economics shifted focus from justifying ends to understanding means. And, straddling the physical and the social sciences, economists choose the scientific method over theology as their guide to understanding human behavior.

**Economics** spans the social and the physical sciences. Like the other social sciences, economics studies the causes and effects of human behavior through the special lens of *scarcity*. Like the other social sciences, economists try to understand "what is" and contrast it with "what ought to be." Like most people, I have strongly held opinions about what works and what is broken and some ideas of how

<sup>11</sup> That intersection of economics and history is called cleometrics. For a cleometric analysis of American slavery, see <http://oyc.yale.edu/history/civil-war-and-reconstruction/content/transcripts/transcript-2-southern-society-slavery-king-cotton>.

<sup>12</sup> This branch of economics is called public economics or public choice.

<sup>13</sup> Most economists still do this, but now in our role of parents.

## What Is Economics and How Does It Relate to Discrimination?

to fix broken things. I strive to separate my opinions (what *ought to be*) from my objective side (what *is*). Like other humans, what I believe filters the evidence I see. I try, however imperfectly, to confirm or refute my beliefs by perusing evidence and listening to those whose world views differ from mine. I strive to structure my exam questions so that your performance depends on your ability to use economic logic, not whether you agree with me about economic policy. To this end, I provide comment sheets on your exams; if you think that any of my questions are biased or unfair, tell me!

Like the other physical sciences, economics depends on the *scientific method* in its pursuit of the truth. Economists use well-tested **theories** to predict how people respond to incentives. Economists test their theories by contrasting real world events with the predictions of their theories. Unlike the physical sciences, and like the social sciences, economists cannot conduct controlled experiments. Instead, we rely on *statistical analysis* of actual events. Instead of controlling the experiment, we take into account the diverse influences on behavior through large samples drawn randomly from a population of interest. In this text, I will make extensive use of *The Current Population Survey*, a database collected by the U.S. Department of Commerce containing approximately 58,000 households, spanning the period between 1962 and 2011.

### Scarcity and Economic Behavior

Scarcity exists because people want more than they can have. Anyone who has escorted a five-year-old child down a candy aisle appreciates the fact that “what I want” is substantially greater than “what I can have.” Mothers, confronted by a crying child, face a **dilemma**<sup>14</sup> of buying candy for the child, temporarily securing quiet at the cost of encouraging future tantrums, or saying “no” and prolonging the current tantrum.

Any time we use scarce resources to satisfy one desire, we simultaneously sacrifice something else of value.<sup>15</sup> Reducing the number of undocumented migrants means not catching some child molesters. Studying economics for two hours means not earning \$20 by working overtime. Actions always have consequences, and those consequences are not always the ones that we expect. The decision to execute convicted murderers may reduce the number of people who commit murder (because the potential price of the first murder is infinite), only to increase the number of murders per offender (since after incurring the liability of execution, subsequent murders are free). Whether capital punishment actually reduces the number of murder victims is an empirical question: we have to evaluate the data. If an employer offers on-site child care for working parents, she may have to reduce the wage offer to continue to earn a profit. One good (on-site day care) requires the sacrifice of another good (the wage rate). Workers will find they face a trade-off. Those who prefer higher wages will take other jobs for higher pay. Those who value child care will take the job, placing a greater burden on the

---

<sup>14</sup> Many people use the words *dilemma* and *problem* interchangeably. This is a mistake; a dilemma is a problem where all available options have undesirable aspects. How to rescue children from a burning building is a problem; deciding which of two children to save when there is only time enough to save one is a dilemma.

<sup>15</sup> Choices are not dilemmas when one option is efficient and the other is inefficient; choosing the efficient option creates more for all!



employer's resources. The *unintended* consequence of the employer's "free" daycare is to attract working mothers and repel employees who do not have pre-school-aged children.

Economic activity can be *organized* in three ways. The oldest system is **tradition**,<sup>16</sup> whereby people inherit their jobs and social status from their parents and everyone's standard of living socially (or divinely) ordained. There is little social mobility in a traditional system; traditional societies tend to stagnate. The unequal distribution of wealth, authoritarian political and social structure, and repressive theocracy create many of the problems of poor countries resulting from a traditional system. A second method of social organization is **command**, where people are rewarded for their submission to authority and where the social climate is also one of repression. Many of the current and former communist regimes are command economies, as were the economies of Nazi Germany, Fascist Italy, and Imperial Japan, which change incentives and society quickly, albeit more often for the worse than for the better. The third approach to economic organization is the most successful.<sup>17</sup> In a **market** economy people (usually through families or **households**) own the factors of production whose services they *exchange* for money (income). Households, in turn, spend their money to buy the goods and services businesses provide at a profit. In a market economy one's standard of living depends on (1) one's endowment—what he or she inherits from one's relatives, and (2) one's effort. This text emphasizes how the market process causes three related but distinct outcomes: economic inequality, poverty, and discrimination.

Economics explores how people choose to satisfy some of their wants with resources available to them. But economists go further. We have developed theories that are based on *efficient* or optimizing behavior, whereby people attempt (not always successfully) to satisfy the desires *they* consider most important. People respond to incentives, shying away from activities whose *prices* (in money, time, or self-esteem) increase, and leaning towards activities whose prices decrease. The incentives people face may not always be obvious to the outside observer (such as the social worker). Economics teaches us to pay much more attention to what people do than to what they say, especially; people are more likely to lie in what they say than in what they do.

### Economics of Discrimination

We have seen that economics is a science that studies the relation between scarcity and human choice. The word *discrimination* typically has three meanings—one bad, one good, and one somewhat neutral—as shown in the following definition from the Microsoft® *Encarta*® definition:

## discrimination

**dis·crim·i·na·tion** [di skrɪmɪnə náysh'n]

*noun*

---

<sup>16</sup> Catch the History Channel series, *Mankind: The Story of All of Us*, which has a remarkable amount of economic content.

<sup>17</sup> As if to illustrate that change is not always progressive, the authoritarian regimes in Iran, Iraq, and Egypt have been replaced by theocratic Islamic (theocratic) governments.

## What Is Economics and How Does It Relate to Discrimination?

1. **treating people differently through prejudice:** unfair treatment of one person or group, usually because of prejudice about race, ethnicity, age, religion, or gender
2. **ability to notice and value quality:** the ability to appreciate good quality or taste
3. **awareness of subtle differentiation:** the ability to notice subtle differences <sup>18</sup>

The first definition is the one you probably use on a day-to-day basis: Discrimination has a negative connotation of *unfairness* in the treatment of a group (or a person who belongs to an “inferior” group). *Prejudice* in turn has to be defined. Here is its definition from the same source:

Prejudice, strictly defined, a preformed and unsubstantiated judgment or opinion about an individual or a group, either favorable or unfavorable in nature. In modern usage, however, the term most often denotes an unfavorable or hostile attitude toward other people based on their membership in another social or ethnic group. The distinguishing characteristic of a prejudice is that it relies on *stereotypes* (oversimplified generalizations) about the group against which the prejudice is directed.<sup>19</sup>

So “bad” discrimination is unfair treatment based on inaccurate information that resists correction.<sup>20</sup> But “good” discrimination is the ability to recognize quality. The third definition refers ability to notice subtle differences; a synonym would be “nuanced,” which was used to slander presidential candidate John Kerry during the 2004 election.

As a person living in a condition of scarcity, you are forced to make choices, most of which require the ability to notice subtle differences in the options you confront that allow you to be a discriminating consumer. However, if you are intellectually lazy or just plain pigheaded, you make some of your decisions based on inaccurate information that discriminates against others because of their gender, race, ethnicity, or religion.

In order for a market economy to operate, scarce resources—land, labor, capital—must be privately owned, meaning that owners have the right to exclude (discriminate against) others in the use of their property. Without property rights, societies invariably confront the *tragedy of the commons*, whereby resources are inefficiently allocated and both renewable and nonrenewable resources are squandered. But, with an irony that will become a hallmark of this text and this course, property rights are exchanged in a market that is all-inclusive. When sellers have the ability to exclude potential competitors from the market, they possess **monopoly** power which reduces overall economic well-being. When potential buyers have the ability to exclude potential competitors, they possess **monopsony** power which reduces overall economic well-being.

---

<sup>18</sup>Microsoft® Encarta® 2006. © 1993–2005 Microsoft Corporation. All rights reserved.

<sup>19</sup>Microsoft® Encarta® 2006. © 1993–2005 Microsoft Corporation. All rights reserved.

<sup>20</sup>My apologies for the *anthropomorphism*; technically, it is employers or other discriminators who rely on inaccurate information they refuse to correct.

### Economics and the Scientific Method

One of the most important aspects of economics is that it is a *social science*. As scientists, economists develop theories that are abstract generalizations of reality. Typically, economic theories begin with a hypothesis—that individuals behave rationally, that firms attempt to maximize profits, that income is distributed according to the contributions of different factors of production to the value of output. These hypotheses in turn lead to testable predictions—that the increase in the price of a commodity will reduce its consumption that increases in the supply of money will cause inflation, or that decreases in tax rates will stimulate economic growth.

Scientists admit their fallibility and entertain evidence contrary to their beliefs. But they wish to discriminate between their beliefs that are supported by the evidence and beliefs that are contradicted by the evidence. For instance, the theory of evolution predicts that random mutations will tend to persist if and only if those mutations improve the ability of a species to survive. If one found that a random mutation decreased the ability of a species to survive, yet that trait persisted, then the theory of evolution would be compromised. Formally, the evidence would **disverify** (contradict) the theory. Once the evidence was verified, the theory should be modified, or in the extreme, abandoned.

By contrast, consider the so-called theory of intelligent design (aka, creationism). This argument purports to explain that which evolution allegedly cannot—the complexity of nature. According to the argument, the world (or the universe) is too complex to have arisen by accident. Therefore, an alternative explanation is called for; the world must have been created or designed by an intelligent being. Presumably, this intelligent being was/is also complex, and so, by this argument, must have been created. And the creator of the creator must have been created, and so forth back into infinity. There is no way to prove the statement wrong, because each step backwards invokes another creator. But, if the creator is God, who was not created, then the infinite regression is short circuited. But none of this is science; this is faith.

Faith is a set of the beliefs we maintain in the absence of clear evidence. Sometimes faith goes so far as to deny evidence that contradicts beliefs. As we shall see, there are many people who treat economics as a type of faith. Marxists believe that since labor creates all value, labor should receive all value. There is no way to test this theory, so Marxists continue to believe that their way is the only way.<sup>21</sup> Libertarians place so much faith in free markets that they believe that markets are perfect; however, their definition of perfection is “anything that markets create.” Since markets function perfectly, the only role libertarians allow government is to create an environment for markets to thrive. Conservatives often place the interests of the elite above economic efficiency, marshaling government force to protect the privileged.<sup>22</sup> Political liberals also seek to use government force to override market outcomes arguing that they wish to help the less fortunate. Ironically, when liberals work against

---

<sup>21</sup> Ultimately the unworkability of Marxism was its undoing. People in Marxist countries observed that, even if they were all equal, they had much lower standards of living than people in capitalist countries. This, in a way, was a kind of scientific outcome.

<sup>22</sup> An example of such conservative policies include Jim Crow laws that denied economic opportunity to southern blacks and prevented employers the right to hire the most qualified workers.

## What Is Economics and How Does It Relate to Discrimination?

markets rather than with them, they may actually hurt their clients more than they help. Simply put, all people who put their faith in a political ideology and who refuse to learn from experience and ignore evidence that contradicts their beliefs have much to learn from economics.

Scientific economics is ultimately an ethical standard. A good economist should be self-critical. A good economist, like any good scientist, should be willing to specify: “Here is what I predict, and this is the kind of evidence that would prove me wrong.” This is an ethical standard I will try to maintain in this text, as I do in my professional life. I will often express my opinion; but when I do, I will also provide a basis for proving myself wrong. If you will do me the same courtesy, we can learn much from each other.

Virtually every society has a creation myth about how a super being shaped the world, plants, animals, and people from raw material available. According to **polytheistic** religions (e.g., ancient Egypt, Greece, and Rome before Emperor Constantine, as well as Hinduism and pre-Columbian Native American beliefs), creation and human history involve an ongoing struggle between good gods and bad gods, the creators and the destroyers. I always found Greek mythology particularly entertaining because Greek gods were as imperfect and as unpredictable as humans. Eventually the Greeks and Romans outgrew their religions and largely converted to the major **monotheistic** religions—Judaism, Christianity, or Islam. Unfortunately, differences of opinion about religious beliefs cannot be resolved by logic or evidence because believers refuse to doubt their “holy” book (*Talmud*, *Bible*, or *Koran*), because that book assures them that their god will punish nonbelievers. The prerequisite of science is doubt, which is sinful to religious zealots.

### Summary

1. While I am politically liberal and religiously agnostic, you do not need to agree with me to perform well in this class. However, as a conservative, you may be hostile to ideas that contradict your prejudices. Alas, if you registered for a grade, you will be required to understand economic theory, particularly as it relates to economic inequality, poverty, and economic discrimination.
2. Economics is a social science that investigates the impact of scarcity on human behavior.
3. Modern economics concentrates on assisting people in attaining their goals by using scarce resources efficiently, instead of making judgments about what those goals should be.
4. Economics straddles both the social sciences and the physical sciences. It is similar to the social sciences because it seeks to understand human behavior. It is similar to the physical sciences because it employs the scientific method to produce and test theories. However, like the other social sciences, economists rely on statistical analysis, rather than controlled experiments, to test their theories.
5. Economists seek not just to understand problems, but also, by concentrating on efficiency, to solve those problems as well.
6. As scientists, economists attempt to develop objective, testable theories. What separates science from religion is the willingness to admit error.

## What Is Economics and How Does It Relate to Discrimination?

7. In contrast to the scientific method, religion requires unquestioned adherence to a set of beliefs contained in some holy book. It really is not surprising that religion is the root of much discrimination.

### Glossary

**Economics:** The **social science** that studies how people make decisions in the face of scarcity.

**Physical sciences:** Disciplines that focus on the discovery of natural laws including economics, physics, chemistry, biology, geology, and mathematics. Physical sciences tend to focus on physical, as opposed to human or social, phenomena.

**Social sciences:** Disciplines that focus on human behavior including economics, psychology, sociology, political science, history, and anthropology.

**Scientific method:** A method of inquiry that strives for objectivity, with the ultimate goal of learning truth. The scientific method relies on observation and logic to develop **theories**, typically expressed in mathematical form. **Theories** generate **testable hypotheses**, which are compared to actual events (controlled experiments or statistical analysis) to determine if the theory accurately predicts or explains reality. A theory that is refuted by real events is discarded or modified in such a way to take account of the contradictory evidence.

**Scarcity:** A condition encountered when people want more than they can have. Scarcity implies choice—people make priorities and (ideally) use scarce resources to satisfy their most important wants first, understanding that at some point they must “do without.”

**Resources:** In economics labor (human time), capital (commodities that produce other commodities), land (and other natural resources), and risk taking are combined to achieve desired goals (or products).

**Tradition:** The oldest form of economic organization where one’s standard of living depends on family and conformity to social norms.

**Command:** The form of economic organization whereby success depends on conformity to authority.

**Market:** The form of economic organization based on exchange and mutual advantage; bakers make bread and butchers slaughter animals so that together they can have baloney sandwiches.

**Discrimination:** A word that has three, potentially contradictory meanings: (1) unfair treatment of people or groups based on prejudice, (2) the appreciation of quality, or (3) the ability to recognize small differences.