



The New World of Economics

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The New World of Economics

Explorations into the Human Experience

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Preface

Economics traditionally has been defined by both its method and its subject matter. That is to say, there are economic methods—models and statistical tests based on a set of assumptions about the way people interact. In addition, there is an area of human life, which is hard to describe in a brief phrase but is known to all economists, in which these methods are applied. We believe that the methods have a much wider scope than previously has been thought. Like the first three editions, this fourth edition attempts to introduce the student to the new work that has been done in applying economic methods to problems outside the traditional subject matter of economic study. This new field of research is, we think, more exciting, more interesting, and even more relevant than the more traditional applications to traditional economic problems.

Economics has developed over two centuries. During this 200 years, almost all of the places where a simple line of reasoning can be applied to an important and interesting problem have been explored. The remaining areas for economic research are, in general, those where the reasoning is difficult and the amount of progress made in each investigation is comparatively small. The result has been that more and more complex and sophisticated methods have been applied to smaller and smaller problems.

This book attempts to break out of the narrow confines of economic subject matter as traditionally defined and to seek out new and refreshing problems that can be dealt with in a simpler way. In this edition, we have added a chapter on the new, emerging field of sociobiology (which, as it so happens, has as much or more to do with economics as it does with either sociology or biology—see Chapter 12). We have also added several chapters on current public-policy issues like taxes (Chapter 23), supply-side economics (Chapter 14), and rent seeking (Chapter 15). Past users of the book will recognize that

we have rearranged several chapters and condensed and combined others, making for what we believe is a much more usable book.

By using the tools of economic analysis as we have (admittedly in some cases, in an exploratory and venturesome manner), there is the ever-present possibility for misunderstanding. Economic method does not cover all phases of human life. Hence, when economics is applied to new areas (and in this book it is applied to many new areas), it does not give a complete picture. We study supply and demand without studying the consumer tastes which have so much to do with the demand schedule. This problem is left to the psychologists simply because we do not know enough to deal with it. Similarly, in many of the areas we discuss in this book, our approach is a partial, rather than a complete, modeling of the real world. In many subtle ways, especially in Chapter 1, we have in this new edition attempted to place greater stress on the limitations of economic analysis. Nevertheless, we think that these economic models are enlightening even if they do not give complete answers. The growth of human knowledge is a matter of step-by-step progress, and the fact that we are unable completely to explain crime by economic methods does not imply that these methods should be abandoned.

As the reader may deduce as he goes through the textbook, we have found it an interesting and exciting book to write, and we hope that both the professors and the students will also find it interesting and exciting. If it is merely used to teach elementary economics, we will have achieved only part of our goal. We hope that the readers of this book will learn enough so they can apply economic methods to various problems that occur, both in public life and in their own private lives, outside the traditional areas. We also hope that they will find the process more fun than more traditional economics.

A few of the chapters in this book are based upon articles which have appeared in the economic literature. Since we have not been deluged with critical comments on these articles, we assume that they contain no serious errors. We have made every effort to eliminate all errors, but it is possible that we have missed some. We hope that professors and, for that matter, students who detect such errors will share them with their classes but will also let us know about them. This will make it possible for us to improve the quality of the book in future editions.

As a last note, this author must admit frankly that this book is rather controversial. I have been involved in controversy of one sort or another during my entire professional life, so I, in any event, do not find this at all unusual. I have attempted to present the truth as I see it.

But I should not be surprised if some of these chapters lead to very vigorous discussion. I only request that students reading the book attempt fully to understand our arguments. Perhaps, even after having fully understood them, they will prefer some other approach. But at least they should give me that small benefit of doubt which involves reading carefully enough to understand before making a judgment.

In writing a book of this nature, the author is, of necessity, indebted to others for ideas and criticisms which have improved the book. Accordingly, I would like to express my gratitude to James Buchanan, Stephen Buckles, Paul Combs, Lila Flory, Allan Freiden, Charles Haulk, Roger Leonard, Thomas Ireland, Michael McPherson, Alan Mandelstamm, Dennis O'Toole, Joseph Prinzinger, Lloyd Reynolds, Robert Staaf, and Gilroy Zuckerman for giving their views on various portions of the first edition of the manuscript.

The final bit of acknowledgment: this book in its earlier editions was a joint product of Dick McKenzie and myself. We've had a completely friendly divorce and so this book is my product with McKenzie listed as a contributor. He was a major contributor. Indeed many of the chapters which were carried over from the earlier edition were actually written by him rather than by myself. In fact, he will continue to draw substantial royalties on this edition, and somewhat smaller, but still substantial ones on succeeding revisions. He emphatically deserves the thanks of the now sole author and, I hope, of the readers for his very substantial contribution to the whole project.

Finally, I received a number of comments and suggestions for improvements in this volume from economists across the country. Their comments on the classroom usefulness of *The New World of Economics* have been encouraging, and their suggested changes have helped me a great deal in the revision process. I would especially like to thank J. Fred Bateman, Raymond Battalio, Ann Fisher, Jane Humphries, John Kagel, Maren Marie Kiilsgaard, Virgil L. Mitchell, Guy Schlick, Alain Sheer, and Elliott R. Sussels.

Gordon Tullock

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INTRODUCTION

The economists' stock-in-trade—their tools—lies in their ability and proclivity to think about all questions in terms of alternatives. The truth judgment of the moralist, which says that something is either wholly right or wholly wrong, is foreign to them. The win-lose, yes-no discussion of politics is not within purview. They do not recognize the either-or, the all-or-nothing, situation as their own. Theirs is not the world of the mutually exclusives. Instead, it is the world of adjustment, of coordinated conflict, of mutual gains.

From James M. Buchanan, "Economics and Its Scientific Neighbors," in *The Structure of Economic Science: Essays on Methodology*, ed. Sherman Roy Krupp (Englewood Cliffs, N.J.: Prentice-Hall, 1966), p. 168.

The economic approach to the study of human behavior

Economics is a constantly changing discipline. This can be said about most disciplines, but it is particularly applicable to economics. At one time students could think of economics as being neatly contained within the sphere of commercial life, and most courses and books on the subject have traditionally revolved around such topics as money, taxes and tariffs, stocks and bonds, and the operation of the market as it pertains to the production and sale of automobiles and toothpaste. In recent years, however, economists have greatly expanded their field of concern, and, as a result, the boundaries of economics as a discipline are rapidly expanding outward, encroaching on areas of inquiry that have historically been the exclusive domain of other social sciences. The change in direction and scope of the discipline has been so dramatic that the economists who have been involved in bringing about the change are no longer inclined to debate the issue of what is or is not economic in nature. They merely ask "What can economics contribute to our understanding of this or that problem?"

This book reflects this expanded vision. Accordingly, we will introduce you to topics and points of discussion you may never have imagined would be included in an economics book. We will talk about family life, child rearing, dying, sex, crime, politics, and many other topics.¹ We do this not because such topics add a certain flair to the book, but rather because we believe that these are extraordinarily important areas of inquiry and that economic analysis can add much to our understanding of them. In addition, we are convinced that you will learn a good deal about economics through their consideration.

In dealing with such topics, we cannot avoid coming to grips with human behavior and making it the focus of our concern. The simple reason is that crimes cannot be committed, children cannot be reared, sex cannot be had, and governments cannot operate without people "behaving" in one respect or another. We argue that before we can ever hope to understand social phenomena, we must understand why people behave the way they do. To do this, we must have some perception, or model, of how behavior is motivated and organized from which the revealed actions of people can be interpreted. Economists have such a model, which has been developed and refined since the days of Adam Smith, and it is because we employ this model in our discussion, that we consider this to be an economic treatise. All we intend to do here is to extend the application of this model into unconventional areas.

This is not to say, however, that economics can give a complete understanding of these problem areas. Other social scientists have long considered many of the topics included in this book, and their contributions to our understanding of human behavior cannot be overlooked. By viewing these topics through the thinking process of economists, we must be ever mindful that what we are dealing with is one particular point of view, which can be complemented by many of the findings in other disciplines.

You may at times have reservations about accepting what we have to say, but this is not necessarily unwelcome to us. We could easily write a book with which the reader would readily agree; however, we imagine that such a book might deal only with trivial issues and very well be a monumental bore. We take the view that at any given time, there are many important issues that are to some degree unsettled; we believe that learning not only requires that an individual know the settled issues but also be able to explore those issues over which there may be some disagreement.

¹Actually, Adam Smith was concerned with several of these problem areas in *The Wealth of Nations*, which was published in 1776. He would not be surprised that economists are now giving such topics more attention.

You do not need to have a large reservoir of economic knowledge in order to understand what we have to say. We will provide you with the *necessary principles on which later discussion will be founded*. Furthermore, we do not intend to waste your time with a lot of esoteric theory that will never be used. We understand that you want to make as efficient use of your time as possible, and we intend to cooperate with you. (Remember, this is a book on economics!) The principles that we do develop and the points that we make will at times be very subtle and a little tricky to handle—we cannot escape this. You may be pleasantly surprised, however, at how few in number these principles are and at how useful they will be in thinking about topics that are and are not included in this book. First we need to lay the foundation—to explain how economists look at their subject and at human behavior.

THE MEANING OF ECONOMICS

For nearly 200 years, economists have periodically struggled with the problem of defining economics, and it is still a live issue. At times the subject has been defined as “what economists do,” as that part of human experience that involves money, or as a study of how men attempt to maximize their material well-being. Different people perceive a discipline in different ways; therefore, no one can ever claim to offer readers the definition of the subject. All we can hope to accomplish is to lay out our own perception of the subject and in that way suggest how we will proceed.

The approach taken in this book is to define economics as a *mental skill* that incorporates a special view of human behavior characteristic of economists.² It is, in short, a thought process, or the manner in which economists approach problems, rather than an easily distinguishable group of problems that sets an economist apart from others. Sociologists and political scientists have dealt with many of the *problems considered in this book*, but the reader may notice that our approach to these problems is substantially different from theirs. This mental skill or approach has several distinctive characteristics that can be discussed as follows.

²In fact, it is the thought process or the mental skill developed below that defines an economist. Indeed, in the context of the discussion that follows, there are no doubt *many people who call themselves economists but who do not meet the description offered here*, and there are many persons in other disciplines who can, according to our definition, accurately be classified as economists. However, given the differences in *policy conclusions of economists and noneconomists*, it is apparent that not everyone possesses the mental skills developed in this book. By the same token, economists are well advised to develop some of the skills possessed by other social scientists.

ABSTRACTIONS

First and foremost, economists are prone to think, as are all other scientists, in terms of *abstractions*, not in the sense that the notions are vague or nebulous, but rather in the sense that their first impulses are to reduce reality to the relationships that are important and that bring the inquiry down to manageable proportions. The ideal approach to the study of human and social phenomena would be to treat the world as we confront it. However, the world is terribly complex; at any point in time it encompasses literally billions of bits of information and tens of thousands (if not millions) of relationships. On the other hand, the human mind has a limited capacity to handle such data; it can only consider so much at any one time. It is, therefore, literally impossible for a person to think about the world in its totality and deduce anything meaningful. As a consequence, scientists must restrict the information they do consider. They must *abstract* in the sense that they pull out from the total mass of information a limited number of relationships they think are important and can handle.

This means that the analysis that then follows will lack a certain degree of realism. The analysis is based on abstractions that represent only a small portion of what we might call the *real world*. The expectation is, however, that such an approach will increase our understanding of the real world and will increase our ability to predict events in it. Economists heed the principle concisely laid out by economist Kenneth Boulding: "It is a very fundamental principle indeed that knowledge is always gained by the orderly loss of information; that is, by condensing and abstracting and indexing the great buzzing confusion of information that comes from the world around us into a form which we can appreciate and comprehend."³ (Take a moment and think about this.) If you have difficulty understanding the world we live in, we suggest that your problem is likely to be that you are attempting to consider too much information, not too little.

Since the theory or model that is handled is, by its very nature, "unreal," the test of its acceptability is not dependent solely on the degree of its "realism" but also on the extent to which the model is able to accomplish its purpose—that is, to explain events in the real world and to make correct predictions. At times, the reader is likely to think to himself that our analysis is, in one respect or another, unreal or that the model we employ does not represent the "fullness of the human experience." To such a comment we agree, but we must follow with the question, "Are our conclusions not borne out in the real world?"

³Kenneth E. Boulding, *Economics as a Science* (New York: McGraw-Hill, 1970), p. 2.