THERESA LADRIGAN-WHELPLEY: Welcome to INTEGRAL, a podcast production out of the Ignatian Center for Jesuit Education at Santa Clara University exploring the question: is there a common good in our common home? I'm Theresa Ladrigan-Whelpley, the director of the Bannan Institutes in the Ignatian Center and your host for this podcast.

We're coming to you from Vari Hall on the campus of Santa Clara in the heart of Silicon Valley, California. This season of INTEGRAL, we're looking at the ways in which issues of economic justice intersect with the question of the common good. Today we'll explore the discipline of economics itself. Do classical economic models teach us to privilege our own self interest as the most efficient means to the good? Is an economy of the common good even possible?

DAVID: You know in economics, students are often taught that the market works its wonders through selfishness. It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest. Those words come from the famed 18th century economic Adam Smith. He wrote that many years ago. Now there is new research exploring how this lesson shapes the way students themselves behave.

SHANKAR VEDANTAM: We want education to change the way that people behave, but I'm not sure learning economics has quite the effects that professors of economics might want from students. Zarghamee and Ifcher find that students tend to prioritize fairness over selfishness. But when students are taught how rational self-interest economic actors ought to behave, something happens to the way they behave.

HOMA ZARGHAMEE: I don't know that people are just immediately becoming more selfish per say, it's just that they are internalizing this lesson somehow, and it's bringing out behavior that isn't necessarily for the common good.

JOHN IFCHER: And my concern is that we're making these strong assumptions so we can solve our models and then lo and behold these assumptions actually change people's behavior.

THERESA LADRIGAN-WHELPLEY: To unpack these questions, we're joined today by John Ifcher, assistant professor in the economics department at Santa Clara and Bannan Institute scholar in the Ignatian Center. He teaches courses in microeconomics, the economics of the public sector, and the economics of poverty and income inequality. His recent work focuses on subjective well being, social welfare programs, and the decisions people make that affect others. Welcome John.

JOHN IFCHER: Thanks Theresa, it's a pleasure to be here today and talk about economic justice and the common good.

THERESA LADRIGAN-WHELPLEY: Great so let's start with a brief introduction to the field of economics. What do economists study? What kinds of questions are they seeking to answer?

JOHN IFCHER: Well, I'm a micro economist by training and on some level all microeconomic models thinking ultimately reduce down to an individual decision maker. Now I say decision maker as if it's a person, but it could be a household, it could be a country, it could be a firm, and underlying all of our models is the assumption that this decision making entity, which I'll just call a person, is trying to maximize their own well being. In this model of individual maximization, we make some very basic assumptions. One of those assumptions is we assume this decision maker is acting in their self interest exclusively. So, I'm trying to do what's best for me and not considering other people in this decision making.

SHANKAR VEDANTAM: Students of course are taught that self-interest drives economic behavior, it's a cornerstone idea of the field. Students are also taught that it is rational to behave this way. We use the phrase "rational self-interest."

JOHN IFCHER: So, in creating these models, we have to simplify, and when I say that I mean we were trying to model the world and all its richness, then we couldn't solve the models and the models actually wouldn't be very useful. This very large concept or model is only useful when you make strong assumptions about how people behave because if you don't make these strong assumptions, you can't solve any problems with this model and my concern is that we're making these strong assumptions so we can solve our models and then lo and behold these assumptions actually change people's behavior. So what was made as a simplifying assumption, I'm concerned actually drives students' behavior when they leave the class.

SHANKAR VEDANTAM: John Ifcher, along with Homa Zarghamee, conducted as series of experiments. In one, students play a common game known as "The Ultimatum Game." Basically, let's say that you and I have twenty bucks and I can choose to give you a share. You only get to say yes or no, you can't negotiate. So if you agree to my division, we divide the money. If you reject the money, neither of us get anything.

DAVID: But wait a minute, I would want something more than nothing, so wouldn't I just agree to whatever you're offering?

SHANKAR VEDANTAM: Precisely, so standard economic theory suggests that I should offer you a buck and keep $19 because we are both acting in our self-interest. Meaning I should keep as much as possible, and you should say yes to a buck because getting one dollar is better than getting nothing.

DAVID: Okay.

SHANKAR VEDANTAM: Zarghamee and Ifcher find that students ask to share the $20 with a partner tend to divide it close to 50-50. In fact studies all over the world show that people do this even when they are playing with strangers, not just among friends. They tend to prioritize fairness over selfishness. But when students are taught how rational self-interest economic actors ought to behave, something happens to the way they behave.

HOMA ZARGHAMEE: I don't know that people are just immediately becoming more selfish per say, it's just that they are internalizing this lesson somehow, and it's bringing out behavior that isn't necessarily for the common good.

JOHN IFCHER: We think, meaning me and my co-author think, that economic instruction could lead students to draw any or all of the following conclusions. One is that people are motivated primarily by self-interest, when people act in their own self-interest, it generations good outcomes for society, that most markets are competitive, that efficiency is a very important goal for society, and lastly redistribution always reduces efficiencies. Yet, each of these either is simply an assumption or only holds given a set of recently strong assumptions.

THERESA LADRIGAN-WHELPLEY: So teaching the models themselves create a reality that may not presently exist as the students enter your classroom…

JOHN IFCHER: Yeah and it almost becomes a self fulfilling prophecy. They come in the class with broad life experiences. We say this is how people make decisions, we tell them this is why people make decisions this way is because we can actually solve our models, not because we think they make their decisions fully like this. Then they walk out of the class like "Oh, this is how people make decisions, maybe I should make decisions like that as well".

THERESA LADRIGAN-WHELPLEY: So the models themselves are shaping outcomes.

JOHN IFCHER: Exactly, so the models were meant to reflect something, and now my concern is that they actually are now prescribing something and the students are walking out with these models and then basically trying to replicate what the models say in their own behavior. The people who created the models understand that the models are just models and the assumptions are strong, but I am concerned that the students don't fully take that in.

THERESA LADRIGAN-WHELPLEY: So it becomes a normative standard versus something that is trying to reflect in a predictive way it actually becomes determinative.

JOHN IFCHER: Yeah and that's one of my concerns.

THERESA LADRIGAN-WHELPLEY: Let's take a listen to a recent dialogue Professor Ifcher had with one of his microeconomic students.

JONATHAN JAWORSKI: And I remember just like starting to feel like the message that was being sent was dangerous in terms of how much the free market could do well on its own.

JOHN IFCHER: That's one of my concerns. Because you know you take that first class you come away with maybe some of these ideas but then when you take more advance classes you

realize that that's all based on a large number of assumptions and the nuances of these assumptions and how that impacts the predictions.

JONATHAN JAWORSKI: Oh okay and so do you think that this is a concern that you have with business students in general and so they just take a little bit of econ and finish their other majors.

JOHN IFCHER: Yeah I mean I'm concerned for all students who take economics but I'm particularly concerned about non-econ majors.

JONATHAN JAWORSKI: Okay.

JOHN IFCHER: That they walk out very free-market oriented not realizing that the assumptions don't hold under a lot of situations and the support for it is probably a lot less strong than they think.

JOHN IFCHER: When I teach introductory microeconomics, literally a dozen times or more during the quarter, I might repeat the following statement: We assume that economists, or our models, assume that individuals act in their own self interest. And as I said this is the core of many of our models, so I'm concerned that is becoming prescriptive. Perhaps more amazing is that in such classes, the benchmark model of competitive markets asserts that when everyone acts in their own self interest, the outcome is efficient. So this is pretty remarkable; when you act in your own self interest, not only does it not harm other people, but it actually improves efficiency.

THERESA LADRIGAN-WHELPLEY: Can you explain a little bit more about efficiency in an economic framework?

JOHN IFCHER: Yeah, so I think this is one of the things that has one meaning outside the classroom and another meaning inside an economics classroom. So outside the classroom I think of efficiency as meaning something good, you know, a car is efficient when it gets more miles per gallon. A washing machine is efficient when it uses less electricity and less water. In this way, efficiency is a sort of general good. But that's not what we mean in the economic classroom sense or what we mean in the case of a market. In a market, what we're saying is that we have generated all of the surplus or well being that the market can generate. A slight set of details that maybe would be useful is that if you have something and I want to buy it from you, and you value it at let's say $5, and I value it at $10, then there's a lot of opportunity for us to make a trade that's going to make us both better off. Like let's say we trade it for $7.50, well you get $2.50 of what we call surplus because you got $2.50 more than you value it and I get $2.50 in surplus because I value it at $10 and only paid $7.50 for it. So we're both made better off and in the market, we assume that all trades are mutually beneficial for the reason I just explained. Now you can see that if we both act in our own self interest, it's going to maximize surplus because we'll make all the trades that are mutually beneficial.

THERESA LADRIGAN-WHELPLEY: But are there times when that kind of maximization fails, or when that kind of competitive framework does not result in an efficient outcome?

JOHN IFCHER: Sure, so in general, we make this blanket initial assumption, sort of our baseline assumption that markets are what we call competitive. And in a competitive market things work just the way I said they do. But now imagine that there's a bystander, they're not you and they're not me. They're another person, but somehow they're affected by our trade. Maybe our trade makes pollution, maybe our trade makes a lot of noise, maybe our trade damages their property in some way. Well once you add that other person, who is neither the buyer or the seller, but is affected by the transaction, then our trade can actually make them worse off.

THERESA LADRIGAN-WHELPLEY: How does the model account for that?

JOHN IFCHER: Well that's the thing, we start with our baseline of a competitive market, so we make another strong assumption that there are no bystanders. So we assume away that problem. When we assume away all those problems, then all of the sudden, self interest leads to efficiency. So people think 'Oh, the goal is to be efficient, let's be efficient', and then they don't think further what are the implications of efficiency and one of the implications of efficiency is the outcome might not be just. And again let me just repeat it's pretty nice to walk into a class where the professor says 'Oh you can be completely self interested and it's going to lead to an efficient outcome'.

THERESA LADRIGAN WHELPLEY: A kind of permission slip.

JOHN IFCHER: Yeah, so in the case of global climate change, the emission of carbon dioxide and other greenhouse gases, is, we believe, heating up the planet, there are human causes to global climate change. And so we recognize we should reduce the amount of greenhouse gases that are being released into the atmosphere. So one approach would be that the government uses what's called command and control regulation. They simply put an absolute limit on how much carbon dioxide could be emitted by firms. Another option that's more market oriented would be to impose what's called a carbon tax, and the carbon tax would increase the cost of releasing carbon into the atmosphere, thereby hopefully reducing the emission of carbon.

THERESA LADRIGAN-WHELPLEY: So kind of priming a more efficient outcome that's directed to a common good versus a self interested good.

JOHN IFCHER: Yeah.

THERESA LADRIGAN-WHELPLEY: What would it look like if the economic models that you're proposing and ultimately operationalizing within the economics curriculum were realized, how would our economic landscape be impacted?

JOHN IFCHER: I want to be clear, when we redo our lesson plans, we want traditional neoclassical economists to recognize what we're teaching that it is rigorous and holds true to the underlying models. So it's really not that we're creating new models, it's that we are making different choices in what the baseline is and how we're explaining the models and how much emphasis is placed on, for example, when the assumptions fail or the limits of the models. So I want to be clear that we really want to stick to the traditional models, we just want to explain them in a different way that hopefully has a different impact. Now once we do that our hope is that students will leave our classes and recognize for example that not all markets are competitive and therefore maybe we do want a government to intervene in markets to try and improve the outcomes. Or we want students to think when I make this decision, it's gonna have impacts on other people. Maybe I should take those other impacts into consideration in my decision making as opposed of doing just what's best for me.

THERESA LADRIGAN-WHELPLEY: To what extent are other economists raising concerns such of this.

JOHN IFCHER: Yeah so, you know, we are certainly not the first economists to have had this thought or raise this concern, and our research builds on the work of others. To quote Robert Franke, " The authors asked their subjects two questions. First, what is a fair investment in the public good? Of non-economists, 75% answered half or more of the endowment, and 25% answered all. Second, are you concerned about fairness in making your investment decisions? Almost all non-economists answered yes." Franke continues, "the corresponding responses of economic graduate students were more difficult to summarize. More than ⅓ of the economists either refused to answer the question regarding what is fair, or gave very complex, unquotable responses. It seems that the meaning of fairness in this context was somewhat alien for this group. Those who did respond were much more likely to say that little or no contribution was fair. In addition, the economic graduate students were about half as likely as other subjects to indicate that they were, quote unquote, 'concerned with fairness in making their decisions.'" So, my goal is to come up with new lessons that everyone would feel are valid, meaning I'm not in any way destroying the models, but I'm just making different choices in terms of the order in which I present things in class. I'm emphasizing what happens when the assumptions don't hold. I'm emphasizing the limits of our theoretical predictions, and giving lots of examples of when they fail, and what happens.

THERESA LADRIGAN-WHELPLEY: Well I look forward to seeing the impact of this work and following closely how that might reshape economic instruction and ultimately maybe some of the framework of our markets.

JOHN IFCHER: Thanks Theresa!

THERESA LADRIGAN-WHELPLEY: Thanks for listening to INTEGRAL, a Bannan Institute Podcast of the Ignatian Center for Jesuit Education at Santa Clara University. Special thanks to Professor John Ifcher for his contribution to today's episode. Coming up next week is Catherine

Murphy, associate professor in the religious studies department at Santa Clara, who will invite us to critically examine how the Christian scriptural tradition and Catholic social teaching open up questions of economic justice and the common good in dynamic ways today.

THERESA LADRIGAN-WHELPLEY: Technical direction for INTEGRAL was provided by Craig Gower and Fern Silva. Our production manager is Kaylie Erickson. Thanks to Mike Whalen for advisory and editorial support. You can find us on web at scu.edu/integral, or subscribe via iTunes, Soundcloud, Stitcher, or PodBean.

Sources:

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- Does Studying Economics Make You Selfish?, Shankar Vedantam and Brian Greene, available at: http://www.npr.org/2017/02/21/516375434/does-studying-economics-make-you-selfish