

Chapter 7

Textbook Confessions: Government Policies and Market Outcomes



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Abstract This paper focuses on how government action in the market is presented in Economics Principles textbooks. It looks at whether the government’s role (and failure) is addressed in two topics, price controls and trade barriers, which are presumed by many outside of the economics community that they are strategic uses of government resources and will be efficiency enhancing. These topics are covered in all textbooks in our sample, and are typically explained, in economic fashion, as voluntary policies that subvert the market outcome. However, the motivations provided by textbook authors for adopting these measures are woefully inadequate. In particular, while authors regularly bring up the role of special interests when discussing the implementation of trade barriers, those pressures brought to bear in favor of price controls are rarely acknowledged.

7.1 Introduction

The importance of the Principles of Economics course cannot be overstated. It serves as the foundation course for majors, and perhaps more importantly, for most students, this will be their only point of contact with the way economies work. Consequently, Principles becomes the window through which most students will observe and understand how the people living in a world of scarcity make decisions and why those decisions have future consequences. It follows then, that the Principles of Economics textbook plays a central role in guiding the content of

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these classes and the instruction received by the students. What is or is not presented in the textbook, therefore, will affect the perspective of students in an out-sized way.

This concern over what is generally covered in Principles has been discussed by Elzinga (1992) and Lopus and Leet (2007). More germane to this essay, others have examined the degree to which specific topics are covered by textbook authors. Lee (1992) focuses on the placement of international topics in textbooks, while Phipps et al. (2012) look at the extent to which textbooks include discussions of entrepreneurship. Hill and Myatt (2007) critique Principles texts for focusing too much on perfectly competitive markets. Levy and Peart (2011) explain between 1960 and 1980 textbooks persistently overestimated economic growth in the Soviet Union.

One of the more studied areas of coverage in Principles texts concerns the emphasis on government solutions to market failure. Fike and Gwartney (2015) examine textbooks in relation to their coverage of public choice, market, and government failure. Market failure is by far more commonly addressed in the texts studied. They conclude that students are being short changed when only the strengths of government policy are addressed as opposed to sharing the strengths and the weaknesses.

Eyzaguirre et al. (2014) find that while the coverage of market failure is a traditional topic in textbooks, government failure does not receive nearly as much attention. Eyzaguirre et al. (2016) examine the extent to which legal and institutional infrastructure provided by government appears in the pages of college textbooks. The reason for this analysis is that most textbooks present market failure as a result of unclear property rights. It would seem somewhat difficult for college students to grasp this point if the coverage of property rights and other relevant institutions is lacking in their textbooks.

Further supporting the contention that government failure is under represented in texts, Coyne and Lucas (2016) discuss the presentation of national defense as a public good. However, of the 50 books in their study, there is rarely a mention of the possibility of government failure in the provision of those public goods. They note that this “leaves students with an incomplete and biased exposure to the government provision of public goods” (Coyne and Lucas 2016, p. 65).

The current paper zeroes in on how government action in the market is presented in texts. Specifically, it looks at whether the government’s role (and failure) is addressed in relevant topics. Two important points made in this updated analysis differ from those presented before. First, they correspond to issues where government intervention plays a key role. Second, we extend the analysis by looking at the motivations behind the intervention. We believe this provides a more complete picture of how the economic system works, beyond pure market economics.

Again, as in the previous papers, it is important to distinguish the operation of markets in a free society from the constrained decision-making in the real world. In this particular case, we focus on the constraints imposed by transferring decision-making power from the individuals living in households and operating businesses into the realm of the public (better yet, political) arena where elected officials, policymakers, and appointees make decisions.

Government intervention into the market is addressed in a variety of ways in textbooks. They include:

- Price controls
- Trade barriers
- Fiscal policy (budget deficits)
- Subsidies
- Antitrust policies
- Regulation
- Competition
- Externalities
- Consumer protection (information, standards mandated).

While these subjects are commonplace, they typically are presented with the presumption that they are perfectly strategic uses of government resources, and that they will be efficiency enhancing. Narrowing this list down, we will focus on the first two topics. The primary reason for choosing these two topics is that they are addressed in nearly every Principles text, they are clearly areas where the appropriateness of government intervention can be questioned, and they have recently been discussed in the popular press.

7.2 Methodology

The methodology is similar to our previous work and the existing literature on textbook coverage of a variety of topics. There are quantitative and qualitative methods that have been used.¹ For consistency with our previous work, we will use the textbooks selected in those papers. These texts are presented in Table 7.1. The logic at the time was that these books cover newer and older books spanning a few years old to McConnell et al. (2018) which is in its 21st edition. These books also appear at the top of the list when searching for Principles texts on Amazon. However, we have updated to the latest edition available.

In order to evaluate these texts, we feel an objective criterion is in order. Given that there is not a set of standards for the content of Principles of Economics courses, we resort, as in the past to the Council for Economic Education's Voluntary National Content Standards (referred to from now on as Standards) (Siegfried et al. 2010). The Standards is a document in which Ph.D.s in economics and experts in economic education identify learning milestones for high school students to pass as they prepare to enter a global economy and become productive citizens. While we

¹We have discussed some of the literature in our previous work. Here, we refer the reader to some of those studies: Lee (1992), Kent and Rushing (1999), Lopus et al. (2008), and Phipps et al. (2012).

Table 7.1 List of textbooks included in the analysis

Title	Edition	Author and year	Publisher
Economics Principles and Policy	13th	Baumol and Blinder (2016)	South-Western Cengage
Principles of Economics	12th	Case et al. (2017)	Prentice Hall
Economics	10th	Colander (2017)	McGraw-Hill Irwin
Modern Principles of Economics	4th	Cowen and Tabarrok (2018)	Worth Publishers
Principles of Economics	7th	Frank and Bernanke (2019)	McGraw-Hill Irwin
Economics: Private and Public Choice	16th	Gwartney et al. (2018)	South-Western Cengage
Economics	6th	Hubbard and O'Brien (2017)	Prentice Hall
Economics	5th	Krugman and Wells (2018)	Worth Publishers
Principles of Economics	8th	Mankiw (2018)	South-Western Cengage
Economics: Principles, Problems, and Policies	21st	McConnell et al. (2018)	McGraw-Hill Irwin
Economics: A Contemporary Introduction	11th	McEachern (2017)	South-Western Cengage
Economics Today	19th	Miller (2018)	Prentice Hall

are concerned about college textbooks, the Standards act as a solid proxy for what students should know at the college level about basic economics and the economy.

Because not all states require economics of their graduating high school seniors, Principles courses at the college level may be the only point of contact between economics and the college student. So, what is covered in a Principles course should at the very least bring all students up to the same level and provide them with a solid foundation in economic reasoning. As the authors of the standards are all themselves college educators, we feel that the Standards provide us with the best available point from which to launch our analysis.

Generally, these standards cover non-controversial topics such as the role of scarcity, incentives, and trade. According to the Standards: The standards focus on the more fundamental economic ideas and concepts that are widely shared by professional economists. Some very important aspects of economics are either quite complex or so controversial that there seems to be no existing consensus. In spite of their importance, such complex or controversial aspects of economics receive less attention in the standards for pedagogical reasons. In addition, those aspects of economics that are more easily separated into independent components account for more of the standards.

7.2.1 *Standard Specifics*

Because we are focused on price controls, trade barriers, and role of government, let's review the relevant standards for these topics.

Content Standard 8: Role of Prices

At the completion of Grade 12, students will know the Grade 4 and Grade 8 benchmarks for this standard, and also that:

4. Government-enforced price ceilings set below the market-clearing price and government-enforced price floors set above the market-clearing price distort price signals and incentives to producers and consumers. Price ceilings can cause persistent shortages, while price floors can cause persistent surpluses.

At the completion of Grade 12, students will use this knowledge to:

4. Describe what is likely to happen if the government imposes a price ceiling on gasoline and a price floor on milk.

Content Standard 5: Trade

At the completion of Grade 8, students will know...that:

5. Imports are foreign goods and services that are purchased from sellers in other nations.

At the completion of Grade 8, students will use this knowledge to:

5. Examine labels of products in their homes and compile a list of imported products and the countries from which they are imported.

Benchmarks: Grade 12

At the completion of Grade 12, students will know...that:

2. When imports are restricted by public policies, consumers pay higher prices and job opportunities and profits in exporting firms may decrease.

At the completion of Grade 12, students will use this knowledge to:

2. Analyze the political and economic implications of a proposed ban on imported products.

Seeking to evaluate Principles textbooks' coverage of these topics relative to the role of government means we must also evaluate what the Standards say about government failure.

Content Standard 17: Government Failure

At the completion of Grade 12, students will know...that:

3. Although barriers to international trade usually impose higher costs than benefits, they are often advocated by people and groups who expect to gain substantially from them. Because the costs of these barriers are typically spread over a large number of people who each pay only a little and may not recognize the cost, policies supporting trade barriers are often adopted through the political process. 4. Price controls, occupational licensing, and reductions in antitrust enforcement are often advocated by special interest groups. Price controls can reduce the quantity of goods

Table 7.2 Our scoring matrix

	Government policy	Political interests	Special interests
No mention	0	0	0
Only a mention	1	1	1
An explanation	2	2	2

and services produced, thus depriving consumers of some goods and services whose value would exceed their cost.

At the completion of Grade 12, students will use this knowledge to:

3. Explain why a political leader would support an idea that helps only a few while harming many, such as a tariff on imported luggage. 4. Explain the statement: Removing rent controls in New York City is good economics but bad politics. Also, explain who would gain and who would lose as a result of a 10 percent ceiling on credit card interest rates.

Reading these standards as a whole we identify three elements as suitable to our analysis of price controls and trade barriers. First, the situation being analyzed is entirely created by government policies, be they forays into controlling market prices or limitations on free trade. Second, the motivations behind the policies include particular political interests. Finally, the motivations behind the policies include particular economic benefits advocated for by special interests.

Because our focus here is on qualitative measurements of the textbook coverage of price controls and trade barriers we develop an index to identify which books cover which topics and in what way. The index used is quite simple. A book receives a score of zero if there is no mention, a score of one if there is a mention, and a score of two if there is also an explanation. We view this index as qualitative because we do not try to make distinctions between a strong and a weak explanation, a clear or confusing explanation, a thorough or partial explanation, and so on. The only distinction we look for is between a mention and an explanation.

For each subject we identify if the authors address the policy as government based, if political interests are discussed, or if special interests are mentioned, and if these subjects are mentioned, are they further explained. We can represent this simple methodology with the matrix shown in Table 7.2.

Based on this matrix, the maximum number of points a textbook could earn for each of the selected topics is six.

7.3 Textbook Coverage

7.3.1 Price Controls

When discussing price controls, all texts do an admirable job of explaining this as government policy. This should not be surprising. Price controls imply the absence

Table 7.3 Textbook discussion of price controls

Textbook	Government policy	Political interests	Special interests	Total
Baumol and Blinder (2016)	2	1	1	4
Case et al. (2017)	2	0	0	2
Colander (2017)	2	2	1	5
Cowen and Tabarrok (2018)	2	0	0	2
Frank and Bernanke (2019)	2	0	0	2
Gwartney et al. (2018)	2	0	1	3
Hubbard and O'Brien (2017)	2	0	1	3
Krugman and Wells (2018)	2	1	2	5
Mankiw (2018)	2	0	1	3
McConnell et al. (2018)	2	0	0	2
McEachern (2017)	2	0	0	2
Miller (2018)	2	0	0	2
Average	2	0.33	0.58	2.92
Percentage	100.00	16.67	29.17	48.61

of the price mechanism to clear the market, in fact it is made illegal. That can only come as a result of government policy. However, when we look into the second and third elements the findings are not so favorable. Except for Colander (2017), which is the only text that offers an explanation, there are only two books that even mention of political interests. In the case of special interests, the results are a little better. Six books mention special interests, but only Krugman and Wells (2018) go on and explain the role they play in the adoption of this policy.

While all books refer to minimum wages as a government policy (the score is 2 out of 2 points for each) identifying the role of political and special interests is lacking. The average score for a book in these two areas is only 0.33 and 0.58 points, respectively. You can see the results in Table 7.3. The comparison among textbooks is illustrated in Fig. 7.1. We found that Colander (2017) and Krugman and Wells (2018) do better than the rest which as we will discuss later is at odds with our findings in our two previous papers.

To get a better sense of the different treatment of price controls we show a sample of quotes from some of the textbooks.

- Cowen and Tabarrok (2018, p. 152)

One of the primary reasons for price controls may be that the public, unlike economists, does not see the consequences of price controls. People who have not been trained in economics rarely connect lineups with price controls.

- McConnell et al. (2018, pp. 160, 162)

...government sometimes concludes that supply and demand will produce prices that are unfairly high for buyers or unfairly low for sellers. So government may place legal limits on how high or low a price or prices may go... In all these cases, good intentions lead to bad economic outcomes.

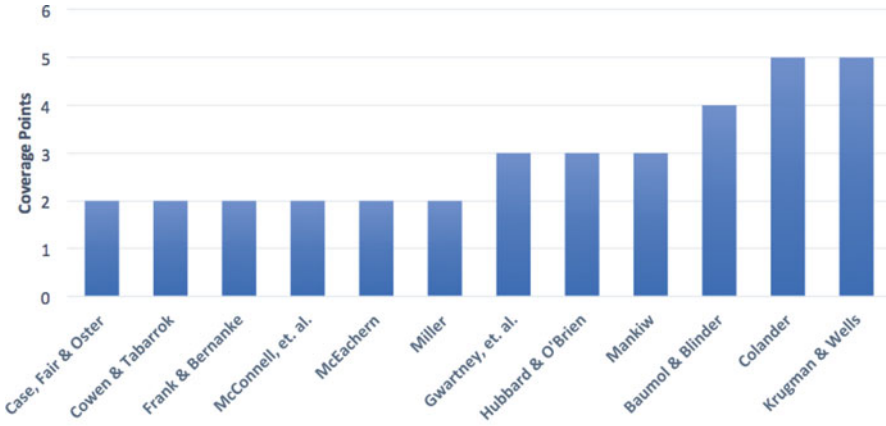


Fig. 7.1 Textbooks by coverage points for price controls

- Krugman and Wells (2018, p. 130)

...there is often a strong political demand for governments to intervene in markets. And powerful interests can make a compelling case that a market intervention favoring them is “fair.” When a government intervenes to regulate prices, we say that it imposes price controls... Unfortunately, it’s not that easy to tell a market what to do. As we will now see, when a government tries to legislate prices—whether it legislates them down by imposing a price ceiling or up by imposing a price floor—there are certain predictable and unpleasant side effects.

- Colander (2017, p. 105)

Since politicians tend to focus on the short run, we can expect rent control to continue to be used when demand for housing suddenly increases.

From these quotes, we can observe a variety of approaches to covering the explanation of why price controls exist in the first place. A close look at them reveals there is tremendous variation in using fundamental economics to explain how special interests and policymakers respond to incentives in order to capture rents by using the political system to draw benefits to themselves and serve their narrow interests at the expense of many, many others.

7.3.2 Trade Barriers

In the case of trade barriers, we observe better results than in the case of price controls when it comes to connecting this policy with motivation and incentives. Again, all of the textbooks explain the role of the government creating the situation under analysis. Only in four cases, Baumol and Blinder (2016), Case et al. (2017), Mankiw (2018), and Miller (2018), there is no mention or discussion of any of the

Table 7.4 Textbook discussion of price controls

Textbook	Government policy	Political interests	Special interests	Total
Baumol and Blinder (2016)	2	0	0	2
Case et al. (2017)	2	0	0	2
Colander (2017)	2	1	2	5
Cowen and Tabarrok (2018)	2	1	2	5
Frank and Bernanke (2019)	2	1	1	4
Gwartney et al. (2018)	2	2	2	6
Hubbard and O'Brien (2017)	2	1	2	5
Krugman and Wells (2018)	2	1	2	5
Mankiw (2018)	2	0	0	2
McConnell et al. (2018)	2	2	2	6
McEachern (2017)	2	1	2	5
Miller (2018)	2	0	0	2
Average	2	0.83	1.25	4.08
Percentage	100.00	41.67	62.50	68.06

motivations behind the policy. The rest of the textbooks contain at least a mention of political interests driving the policy, while only Gwartney et al. (2018) and McConnell et al. (2018) provide a discussion of these driving interests. Still the overall results are somewhat disappointing with an average score of 0.83.

The texts, as a whole, are more comprehensive in their coverage of the role of special interests. We see that seven of the books not only mention, but also discuss the role special interests play in adopting trade barriers. The proclivity of discussing the involvement of special interests results in a score of 1.25 when analyzing trade barriers, far higher than the score earned in their analysis of price controls.

The results for each textbook can be seen in Table 7.4 and a comparison among them provided in Fig. 7.2.

To get a better sense of the different coverage of trade barriers we include a sample of quotes from some of the textbooks.

- Mankiw (2018, p. 182)

Economists and the public often disagree about free trade... Only 29 percent of those polled said free international trade helped, whereas 34 percent thought it hurt. (The rest thought it made no difference or were unsure.) By contrast, economists overwhelmingly support free international trade. They view free trade as a way of allocating production efficiently and raising living standards both at home and abroad.

- Hubbard and O'Brien (2017, p. 309)

This concentration of benefits and widely spread burdens makes it easy to understand why members of Congress receive strong pressure from some industries to enact tariffs and quotas and relatively little pressure from the general public to reduce them.

- Gwartney et al. (2018, p. 376)

Regardless of the arguments made by the proponents of trade restrictions, their political attractiveness is primarily the result of their special interest nature. Murray

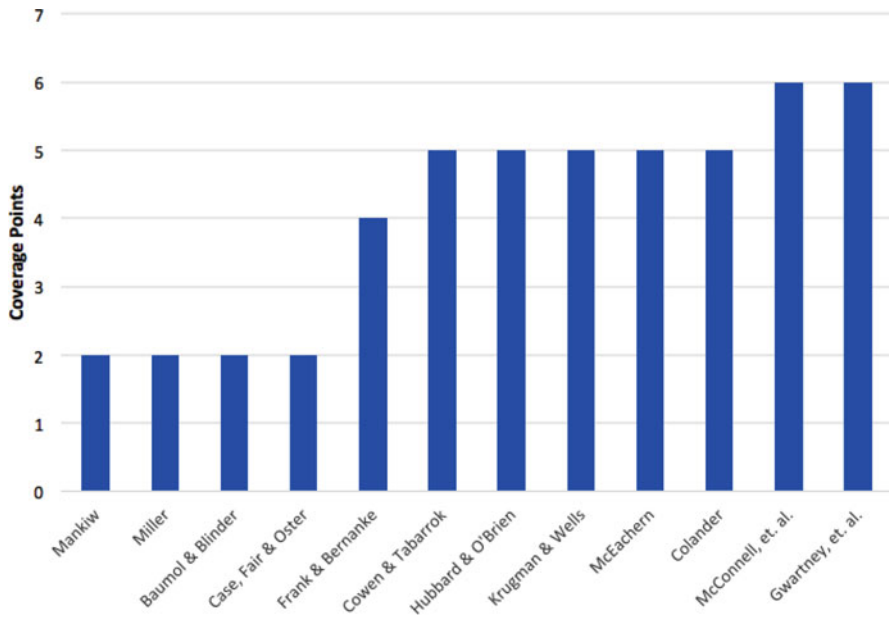


Fig. 7.2 Textbooks by coverage points for trade barriers

Weidenbaum, former chairman of the President’s Council of Economic Advisors, put it this way: “Protectionism is a politician’s delight because it delivers visible benefits to the protected parties while imposing the costs as a hidden tax on the public.”

- McConnell et al. (2018, p. 819)

Study after study finds that the costs to consumers substantially exceed the gains to producers and government. A sizable net cost or efficiency loss to society arises from trade protection. Furthermore, industries employ large amounts of economic resources to influence Congress to pass and retain protectionist laws. Because these rent-seeking efforts divert resources away from more socially desirable purposes, trade restrictions impose these additional costs on society as well.

These quotes indicate that the authors of the textbooks reviewed are more skeptical of the role political and special interests play in the setting of trade policy than they are of these influences in price controls.

7.4 Comparing with General Government Failure Coverage

To wrap up our analysis, we want to see how the results in this paper coincide with the findings in our previous papers about a textbook’s coverage of government failure (see Eyzaguirre et al. 2014, 2016). In our previous papers, we show different ways to measure the coverage of government failure. In general, a book’s rank is

relatively consistent regardless of the measure used, so for simplicity of comparison we picked the number of topics covered in a chapter or section on government failure. We expect that the authors who have a better coverage of government failure will also expend effort detailing the political and special interests' influence on price control and trade barrier policy.

The most salient finding is that some of the texts that performed better regarding the general coverage of government failure did not do well with the price controls and trade barriers coverage, and vice versa. The most notable one is the case of Krugman and Wells (2018). This book earned the lowest rating on how much of their material was devoted to discussing government failure, but they are at or near the top in ratings for the topics covered in this paper.

The opposite occurs with Cowen and Tabarrok (2018). They ranked very well in our previous papers but relatively poorly, compare to the coverage of topics in this paper.

This comparison between our prior papers and the current one raises an interesting question. If all the results were similar, then we could simply state that some textbooks are lacking in their coverage of these important issues. Having found some notable differences though, we are forced to ask: "does this mean the coverage of government failure is not as bad as we thought or is it even worse?"

One final issue arises concerning consistency within each textbook. An illustration of what we mean can be seen in the Krugman and Wells (2018) textbook. When discussing market failure, they say "When markets don't achieve efficiency, government intervention can improve society's welfare. That is, when markets go wrong, an appropriately designed government policy can sometimes move society closer to an efficient outcome by changing how society's resources are used" (Krugman and Wells 2018, p. 15).

However, when they discuss price controls the authors suggest that "powerful interests can make a compelling case that a market intervention favoring them is 'fair.' "...those who benefit from the controls are typically better organized and more vocal than those who are harmed by them... government officials often do not understand supply and demand analysis! It is a great mistake to suppose that economic policies in the real world are always sensible or well informed" (Krugman and Wells 2018, p. 130).

If we analyze these quotes together, we could conclude that when there are market failures, government intervention could be very helpful in improving society's welfare, but when we are talking about price controls there are interests influencing policies and as a result the government does not understand supply and demand analysis. This raises an important concern. At what point does the government become smart enough to deal with market failures? The government is the same no matter when it is intervening. It would be illogical to think that the corrective power of government in the case of some market failures is pure and unbiased, while in other instances, the pull of special interests leads to irresponsible applications of policy.

7.5 Conclusion

We began this paper suggesting that the textbook used in a Principles class is of utmost importance. This instrument of instruction provides students an insight into economics that they are unlikely to get anywhere else in their college education or throughout life. As such, we hope the materials covered are comprehensive, and provide a realistic look at the world into which our students will soon be embarking.

Such an analysis of textbooks gives us pause. In these books we see a wide and varied amount of coverage when it comes to price controls and trade barriers. Each of these topics is explained as a voluntary policy that seeks to subvert the market outcome. However, the motivations given for adopting these policies are woefully inadequate. In neither case is there much attention paid to the political intrigue that leads to the adoption of these policies. Similarly, there is very little effort made at explaining the role of special interests in adopting price controls. However, when trade barriers are discussed, the tone changes and a significant majority of the texts we evaluated bring up the role of special interests.

More curious to us though is that when comparing the result of this paper to our previous work there appears to be some significant inconsistencies in some of the books reviewed when it comes to the overall presentation of government failure. A text that provides a thorough discussion on government failure generally should extend this discussion to specific policies. Furthermore, students should not be led to believe that, when moving into the political arena where price and trade policy are debated, government has a clear eye for fixing some perceived problems such as determining a minimum wage but is otherwise incapacitated by special interest lobbying when trying to set trade policy. We would expect textbook authors to be more consistent in their presentation than this.

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