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MACROECONOMICS AND  
DISCRIMINATION IN TEACHING

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## MACROECONOMICS AND DISCRIMINATION IN TEACHING

Elias H. Tuma\*

There are biases in the teaching of macroeconomics. These biases reflect economic discrimination which varies in kind and impact on policy making and welfare of the people. Traditional economic concepts and tools of analysis are capable of identifying the different kinds of economic discrimination and assessing their impact on the economy. These concepts and tools are also adequate in teaching macroeconomics without bias and without compromising traditional objectives<sup>of</sup>, economic education.

The existence of economic discrimination has been widely recognized, but the teaching of macroeconomics has been too slow to reflect that reality.<sup>1</sup> There have been a few attempts to identify the bias in economic education and restructure the introductory course to remove the bias. However, economic textbooks continue to focus on the economics of homogeneous labor, economic rationality, and perfect competition which tend to ignore race and gender biases in economic policy and implementation. Models and theories of perfect competition can establish standards for explanation of economic behavior, but they do not explain economic discrimination nor justify the bias in economic education. Similarly, failing to emphasize the distinction between theoretical models and applied behavior can result in distorted perspectives of the economy, misleading economic

policy, misguided economic behavior, and inefficiency. The new goals of macroeconomics aim at removing the biases which are related to race, ethnicity, and gender (REG) and thus make economic education more accurate and useful in guiding policy and performance.

The focus in this paper is to show how removing REG biases in teaching macroeconomics serves to enrich economic education and bridge the gap between economic theory and economic behavior. I shall also show that the traditional tools of economic analysis are capable of identifying the REG biases and alternative ways for removing them. Finally, I shall illustrate how restructuring introductory macroeconomics so as to integrate the economics of discrimination into the course need not be at the expense of material traditionally covered in the course or the methods utilized in the field.

#### Bridaina the Gap

Several decades have passed since imperfect competition has been recognized as characteristic of economic society. Yet we continue to focus on perfect markets in which labor is homogeneous, producers and consumers are rational decision makers and maximizers of material gain, and all individuals enjoy equal opportunity and freedom of choice in economic activity. We also continue to analyze economic behavior, whether in production, distribution, or exchange, on the basis of these assumptions, even though empirical studies cast great doubt on the assumptions of homogeneity and equal

opportunity. Given these contradictions, we must question the relevance of these assumptions and the existence of a bias-free scientific objective economic education.

For example, if labor is homogeneous and economic opportunities are equal, and if people are rational economic maximizers, regardless of their REG affiliation, then we should observe similar patterns of distribution of productivity, occupations, earnings, and other economic indicators among the various REG groups. The observable patterns demonstrate the opposite. The levels of productivity and earning, and the distribution of occupations show great differences between different REG groups. For instance: whites are more productive than blacks, have more opportunity to be fully employed, earn higher levels of income, and occupy more prestigious and rewarding occupations; men have similar advantages over women, occupy more desirable and higher paying jobs, and have more decision-making power. The theory of perfect competition does not offer an adequate explanation of these differences. Furthermore, to teach economics as if economic discrimination does not exist undermines the objectives of economic education, namely to observe, explain, and improve economic behavior and performance as ways of maximizing social benefits and minimizing social costs.

Economic discrimination against certain REG groups and in favor of others is inherent in the social economy.<sup>2</sup> It takes the form of underendowment, underutilization, and

underrewarding.<sup>3</sup> Underendowment results in low qualifications relative to natural capability and thus to relatively low marginal productivity; underutilization results in underproducing, and underrewarding results in discouragement, lower incentives, and underperformance. These three forms of discrimination add up to an observable and measurable social economic loss. Such a loss is usually overlooked in economic teaching and in policy making because all REG groups are lumped together as if they had equal weight in the population, and as if all REG sub-populations reflect the same patterns of distribution of endowment, utilization, and reward as those observed for the whole population. 4

#### Tools of Economic Education and Analysis.

The bias in economic education is reflected also in the language of economics and the usual explanations of the differences. We speak of an "economic man" not an economic person; we explain differences in rewards as due to differences in marginal productivities, but we do not ask why the marginal productivities are different between different REG groups; we also speak of individual choice but we barely note that choice exists within a framework of constraints.

The traditional tools of economic teaching and analysis are fully capable of identifying the sources, extent, and effects of economic bias and discrimination. One way to identify the problem is to disaggregate the population according to the apparent differences in the patterns of

distribution of endowment, utilization and rewarding and REG affiliation. By doing so it becomes possible to observe and explain the differences in the patterns of distribution of incentives, productivities, and rewards. Standard tools of economic analysis, such as descriptive statistics, control groups, cross-section and time series analyses are also the tools that can be applied in studying economic bias and performance. Disaggregation of the population according to REG affiliation serves to refine analysis and diagnosis of the economic problem and formulation of economic policies so as to target the problem areas. Disaggregation and targeting, which are standard tools in economic analysis can be extended to the study, analysis, and removal of REG economic bias.

Disaggregation may be illustrated by reference to the production possibility curve, the investment multiplier, and fiscal and monetary policies. For example, should we estimate only one production possibility curve for the total population or several curves according to REG affiliation? I argue that disaggregating production possibilities according to REG affiliation and targeting those groups that have most potential to increase their production would increase the effectiveness and social benefits of economic policy. A policy refinement would also try to isolate the causes for underperformance, whether they are underendowment, underutilization, or underrewarding, and target them in order to bring performance up to potential.



Another illustration relates to application of the investment multiplier. Suppose the overall marginal propensity to consume (MPC) is 0.75 and the multiplier is 4. Suppose further that there are three separate group MPCs: 0.6, 0.75, and 0.9. An investment fund of \$100 spent at random to stimulate the economy would generate a total income of \$400. However, if this investment were disaggregated to target the groups with higher MPCs, a higher total income would be generated. For example, let \$50 be targeted toward the group with 0.6 MPC, \$20 toward the 0.75 MPC, and \$30 toward the 0.9 MPC group. The total income generated by the same \$100 investment expenditure will be \$505.

A third illustration relates to the consumption basket. Given that lower income groups have a higher marginal propensity to consume, disaggregating the consumption basket and comparing its composition for different REG groups could help to identify the causes of underendowment. When a group is unable to spend on education because its basic needs of food and shelter consume most of its income, fiscal policy would be more effective if it targets the educational needs of that group to improve its endowment, making it possible for its members to acquire the necessary qualifications and raise production and productivity up to potential.

Monetary policy is another area in which macropolicy could be more effective by disaggregation and targeting. We should remember that not all people use banking services equally, nor do they respond equally to changes in interest

rates and credit availability. The differences in response are often related to the REG affiliation. Certain groups do not respond because they are not well informed or have little money to invest, or because their members have little hope of one day owning a house or starting a business. Other groups may not respond because they face discrimination in the market. Women have difficulty in borrowing compared to men, as do blacks, hispanics, and certain other minorities compared with white people or people with power majorities. These people can hardly respond to changes in monetary policy and yet they are the producers, consumers, and investors who would make a difference in the economy by responding to monetary policy changes. If so monetary policy can be strengthened and made more effective if its provisions are disaggregated and applied differentially to target different REG groups so as to encourage them to save, invest, and participate more effectively in the economy.

Impact on Course Coveraae.

When I teach macroeconomics I assume that the course is terminal. Therefore I plan the course to help the students gain command of the basic concepts of macroeconomics, recognize its main components, and understand how fiscal and monetary policies are formulated and applied to maintain economic stability and growth and improve economic welfare in society. Up to this point the course is primarily theoretical. I then try to expose the students to the main issues that usually face the macroeconomy, such as

unemployment, inflation, instability, poverty, inequality, and low productivity. I explore with them how these problems vary in incidence and intensity from one country to another, and from one region within the country to another, and between one REG group and another.

Can we do all this in one semester or quarter course? The field of economics has expanded *immensely* in the last few decades. The amount of material to be covered in macroeconomics has multiplied over the years but the major issues have remained the same. The instructor, therefore, has to be selective in what details to cover or exclude, and what to leave up to the students to study on their own. The same process of selection must be applied when integrating economics of discrimination into the course. Based on my experience, none of the main concepts or traditional issues need to be left out because of the integration of economics of discrimination into the course. On the contrary, the study and analysis of economic discrimination can be highly effective by making the concepts more relevant, intelligible, and applicable.

To suggest, however, that adding new material does not threaten or crowd out traditional material would be inaccurate. It takes interest, creativity, and dedication on behalf of the instructor to be able to avoid any important deletions. I apply three main approaches to avoid serious deletions. First, I emphasize that such integration is only another way of applying traditional concepts of economics and

no new concepts are being added to the fund of concepts students are supposed to master in the course. Second, I prepare examples to illustrate the relevance of each of the main concepts in the analysis of economic discrimination. Though I prepare a reading supplement with illustrations, I always try to bring fresh examples from current economic news, research findings, and court cases to keep the topics current and alive.<sup>5</sup> I select these examples to fit each of the main topics such as banking, unemployment, monetary policy, etc. Thus, I spread out the discussion over the duration of the course to make it clear that economics of discrimination is an integral part of economics and economic education. Third, I usually require students to write papers on topics of their choice, including economic discrimination, its theoretical and empirical aspects, and how it might have affected them. Though writing on discrimination is optional a fairly large number of students usually opt to write on it. Many students have found it highly educational and exciting to examine their own family history, life style, and economic experience and behavior to assess the impact economic discrimination might have had on them.

Do I plan this part of the course to change attitudes and fight discrimination? It would be untrue to deny that I would be pleased to see discrimination reduced and eliminated. But that is not the main part of my plan for the course. My course objectives have not changed by including economics of discrimination. What has changed is the course

perspective to make it more realistic, to make economic analysis more relevant, and to restore to economic policy the power inherent in it to deal with issues that face the economy and society, including discrimination. Thus the students become aware that the market is not perfect, workers entering the market do not come with equal endowment, do not enjoy equal opportunities of utilization and reward, and that certain factions of the labor force are not able to produce up to their capacities. They become aware also that fiscal and monetary policies are capable of reducing the negative effects of discrimination, if not eliminating them. They discover that fiscal and monetary policies are usually based on aggregate indicators and therefore are not able to recognize and deal with the problems related to REG affiliation and economic discrimination. Finally, they discover that policies often fail in dealing with discrimination because those who are discriminated against are minorities in power terms and have little influence over policy making. As a result the economic tools are rarely utilized to prevent discrimination or to minimize its effects. By the end of the course it becomes evident that while some groups may benefit from discrimination and others lose, the social economy loses in either case.

#### Footnotes

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1 Marshall, 1974

2 Tuma, forthcoming

3 Endowment in this context refers to acquired qualifications and skills.

4 For quantitative illustrations see references below, especially Current Population, series ; Pascal, 1972; Affirmative Action 1973; Hammerman 1984

5 Tuma and Hayworth, 1993

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