# *Why Economists Disagree*

## Part A
## Understanding the Reasons Why Economists Disagree

It is not unusual to find "experts" disagreeing with each other. Experts disagree about all sorts of matters: nuclear power, environmental protection and who will win the Super Bowl. Why do experts disagree? How can the average person make sense out of the differing viewpoints and recommendations? Here are several important factors that often lead economists to different conclusions.

### ■ Different Time Periods

One economist might state that the current policy of the government will lead to inflation. Another might disagree. Both could be right if they are talking about the effects of the policy on inflation at different times — for example, six months from now compared with two years from now.

### ■ Different Assumptions

Because an economy is a complex system, it is often hard to predict the effects of a particular policy or event. Therefore, to be able to make predictions, economists usually must make certain assumptions. But economists often differ in their assumptions. For example, one economist might assume that the federal budget deficit will become larger next year. Another might not. These different assumptions could be the result of their assumptions about economic growth, tax revenue and government spending.

### ■ Different Economic Theories

Economists agree on many matters such as, "If the price of beef goes up and nothing else changes, people will buy less beef." This is a prediction with which nearly all economists would agree because it rests on the generally accepted law of demand. However, economists have yet to settle a number of important questions, especially those concerning macroeconomics. Macroeconomics deals with the behavior of the economy as a whole or large subdivisions of it, and how to influence this behavior. Economists have several different theories or explanations about what influences macroeconomic behavior. Until these theories are reconciled or until one of them is widely agreed on as best, economists will disagree on macroeconomic questions because the economists are using different theories. The same applies to certain microeconomic questions.

### ■ Different Values

Economics is concerned with explaining what is happening in the economy. It is also concerned with predictions. The economist should be able to say to the president or to Congress, "If you follow Policy One, then X, Y and Z will happen. If you follow Policy Two, then Q, R and S will happen. Pick the policy that gives the results you like better." In practice, such statements by economists often contain more than just analysis and a prediction about results. Their statements often recommend policies they like because the results agree with their own values — in other words, the results they prefer. For

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example, some economists will recommend Policy One because X, Y and Z will happen and they favor achieving X, Y and Z. Other economists will recommend Policy Two because they favor achieving results Q, R and S. Such disagreements are basically about which outcomes the economists prefer. The economic policies they recommend are determined by their preferred outcomes.

## Part B
## Listening in on a Discussion of Economists

Four distinguished professors of economics are discussing current economic policy at a luncheon press conference attended by leading reporters of business news. Let's listen in.

**Professor T.X. Cut:** Let's separate issues. On the fiscal policy side, this administration's budget proposal is not extravagant or inflationary. The tax cuts are partly balanced by spending cuts. With so many people still unemployed and many factories still closed, a policy of this kind cannot rekindle inflation. The tax cuts will stimulate consumer spending, work effort and business investment in an economy just emerging from a recession. We must let people keep the fruits of their labor and sustain savings as incentives to produce and invest more. The spending cuts will prevent government from continuing to receive an ever-increasing piece of the nation's economic pie.

**Professor U.R. Nutts:** Excuse me, Dr. Cut. But that position makes little sense. First of all, let me say that this administration's tax cuts and spending cuts have been and are grossly unfair. The tax cuts have favored the rich, and the spending cuts have reduced programs that help maintain economic security for Americans with low incomes. The present deficit — and the deficits projected for the future — are so large that they threaten our recovery from the recession. Here's why: All deficits must be paid for by government borrowing, and because the government is borrowing so much money, there is less available for consumers and businesses. With government borrowing now threatening to increase, interest rates will rise and this will reduce spending for houses and cars and, in fact, spending on anything bought with a loan, as well as business investment that must be financed by borrowing. In other words, some important private borrowing will be crowded-out. Sometime next year, the recovery will therefore weaken, and we'll move back into recession. Taxes should be raised, especially on the wealthy, and at least some government programs that help low-income people should be restored to the original funding levels.

**Professor E.Z. Money:** Let me just comment, U.R., on your point about federal spending and borrowing crowding-out private consumer spending and business investment. This is where monetary policy comes in. The Federal Reserve must continue to allow relatively free expansion of money and credit. If the Fed makes more money available, there will be less pressure for interest rates to rise. We'll be able to sustain the recovery in housing, autos and other sectors. And businesses will be able to get loans for investments at affordable interest rates. Continuing our economic growth by sustaining this recovery is the most important task we have before us. Increasing taxes now would only reduce total spending and thus threaten the recovery.

**Professor Fred Critic:** Excuse me, Dr. Money. You forget that the expansion of the money supply we're currently witnessing is part of a long history of bungling by the monetary policy makers. Our most recent recession was brought on by the Fed's jamming on the monetary brakes by an abrupt reduction in the increase of the money supply in order to bring inflation under control. They

overdid it, as they always do, and produced a recession. Now, they're overdoing it in the other direction: stepping on the monetary accelerator and increasing the money supply too rapidly. This will stimulate the economy all right, but in a year or two these actions will rekindle inflation. The Fed then will again jam on the monetary brakes and produce yet another recession. Everyone knows this. Interest rates right now are higher than they should be because everyone expects more inflation later. Only moderate growth in the money supply can bring interest rates down in the long run. The only way to get back on a long-term, stable economic growth path is to reduce money growth to a steady, predictable, noninflationary level.

Ladies and gentlemen, that's all the time we have. Let's give our distinguished panel a round of applause.

## Part C
## Analyzing Disagreements Among Economists

Economists disagree for the following reasons:

- Because they evaluate the impact of policy over different lengths of time.
- Because they make different assumptions.
- Because they have different theories about how the economy works.
- Because they have different values and ideas about which economic goals are most important.

Now analyze each professor's comments in Part B, using the format on the next two pages.

## Professor T.X. Cut

Major point:

Time period:

Assumptions:

Theoretical support:

Values:

## Professor U.R. Nutts

Major point:

Time period:

Assumptions:

Theoretical support:

Values:

## Professor E.Z. Money

Major point:

Time period:

Assumptions:

Theoretical support:

Values:

## Professor Fred Critic

Major point:

Time period:

Assumptions:

Theoretical support:

Values: