



ECONOMICS EDUCATION  
RESOURCE CENTRE

# Secondary Economics Textbook Reviews

THE CENTRE FOR  
**INDEPENDENT**  
STUDIES

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## INTRODUCTION

THESE seven reviews of major high school economics textbooks were commissioned by the Centre For Independent Studies in 1989. A prime function of The Economics Education Resource Centre is to critically review the major books and other resources being used in the teaching of high school economics in Australia. Concern is widespread over the coverage and accuracy in the presentation of micro and macro economics as well as the degree to which current textbooks motivate students to apply their theoretical skills to current issues in the Australian economy.

The textbooks represent a sample of those currently used in a number of mainland States. Since economics syllabuses vary from State to State, the demand for textbooks and their content tend to reflect the particular State's syllabus requirements. However there are exceptions to this rule, as syllabus contents converge on common topics. In this case, a textbook written in and for one State may appeal to teachers and students in other States, even if only for reference and supplementary reading purposes.

Many of the texts such as Gallagher & Burkhardt's *Our Economic Environment* and R.J. Brown's *Student Economics* have been used in schools for over ten years and are now in their fifth and seventh editions respectively, whereas Miller & Shade's *Foundations of Economics* broadly follows the West Australian syllabus, Joyce & Heads' *Our Kind of Economics* and Morris' *Speaking of Economics* are more tailored to the Victorian Syllabus. With the advent of the new NSW Economics Syllabus (introduced in Year 11 in 1989) a host of new textbooks was ushered into the market (including updated versions of older texts). These were written according to the core and option approach adopted in Year 12 as well as the sectoral Circular Flow Model theme used in Year 11.

Shade, Latty, and Scott's *Fundamentals of Economics Vol. 1* is an update of Shade's *Fundamentals of Economics: Gittins' Guide to Economics* by Ross Gittins has the newspaper articles ordered to reflect the new topic headings of the NSW Syllabus. There is a national trend towards the adoption of this core-option approach by syllabus committees and this has led to textbooks being written that have a very wide coverage of topics.

Each of these reviews assesses:

1. The book's coverage of topics in breadth and in depth; of balance between micro and macro; and between descriptive and analytic content.
2. The accuracy of the exposition of traditional areas and new developments.
3. The particular position taken by the book on controversial matters.
4. The degree of emphasis placed on Australian institutions and the use of current statistics.
5. The book's suitability as an aid to the achievement of economic literacy, interest in economics, and as a basis for further study of the subject.

The reviewers are all academic economists who tend to reflect the rigour of their teaching, particularly of undergraduates who may or may not have studied economics at high school. The reviews are not all favourable, though in many cases it is the course planners who are held responsible for designing syllabuses that are out of date in terms of micro and macro theory, and fail to stress the application of general economic principles to current Australian economic issues. Many of the texts are written for the student who may simply memorise and rote learn information without necessarily grasping and applying basic economic concepts. This is perhaps a reflection of the emphasis placed on examination success at senior school level.

There is perhaps a trade off between the wide and generally superficial coverage of topics in a course and the importance placed by the reviewers on the development of analytical and critical thinking skills. Suggested references like Alchian & Allen's *Competition and Exchange* and Heyne's *The Economic Way of Thinking* equip students with a theoretical base and present various interesting avenues for the application of this theory.

The final common criticism seems to be the stubborn retention of Keynesian macroeconomic orthodoxy in the face of new developments in micro and macro theory. The Monetarist, Rational Expectations and Supply Side schools are not given the prominence afforded them in the academic literature. This retards high school economics and makes the transition from high school to tertiary

economics a rather difficult one for students.

This volume is the first in a continuing series of economics textbook reviews. The next volume will review eight recently published textbooks, six of which were written for the new NSW Syllabus. R.J. Brown has written an updated version of *Student Economics* entitled *The Australian Economy* (with a workbook) and Terry and Leonie Downing with Trevor Taylor have produced *Economics Towards 2000* (an update of *Economics for the Eighties Books 1 & 2*). Other titles to be reviewed include Jill Tuffley's *Our Economy* and the associated series of option books for the NSW 2 and 3 Unit courses; Barry Collier's *Introducing Economics Books 1 & 2*; John Paine et al *Economics for Australians Books 1, 2 & 3*; Humphreys et al *The Economy: An Australian Focus Books 1 & 2*; Parry & Kemp's two books, *Exploring Macroeconomics and Pathways in Economics*; and finally the very popular and widely used series by Bulmer and Chapman called *Updated Economics*. Where applicable, workbooks are included in reviews.

These texts represent the revolution in writing that has occurred since the advent of the new NSW Syllabus. The approaches differ markedly. Some are large and detailed volumes whilst others avoid undue wordiness by stressing basic principles and skills. The collection is competitive and offers teachers and students a welcome degree of choice in treatment, price and quality.

Economics should live and be taught in such a way as to excite and motivate young minds to grapple with contemporary problems by acquiring sophisticated analytical skills from well written textbooks.

**Tim Riley**  
Series Editor  
**Director, EERC**  
June, 1990.

ROSS GITTINGS

## *Gittins' Guide to Economics*

First Edition, VCTA Publishing, Sydney, 1988.

GARRY BELL (ed.)

## *The Australian Economy* —

## *A Student's Guide to Current Economic Conditions*

Warringal Publications, Melbourne, 1988.

Reviewed by *Dr Robert Albon*

Senior Lecturer in Economics

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THE *Gittins' Guide to Economics* (GG) and the collection edited by Garry Bell, *The Australian Economy: A Student's Guide to Current Economic Conditions 1988* (SG) comprise an interesting set of journalistic economic writings, principally by Ross Gittins of *The Sydney Morning Herald*. The first volume (published by the VCTA Publishing in 1988) is work totally by Gittins, while the second collection (from Warringal Publications) contains, in addition to three items by Gittins, pieces by Peter O'Hanlon and Barry Streete.

These collections are explicitly not 'textbooks', but they are both intended for, in particular, secondary school students, with the intention of 'bridging the gap between theory oriented and rapidly dating texts, and the ever changing world of economics as applied to the Australian economy' (*Gittins' Guide*, Author's note).

### Scope, Balance and Style

The *Gittins' Guide* itself is broad ranging in scope with articles 'arranged to fit with the Economics Syllabuses in several states'. The particular syllabus followed is not stated, but implicitly is a rather lopsided one. In order of appearance the 45 items are grouped under the following headings: the household sector, the firms sector, the financial sector, the government sector, the overseas sector, macroeconomic management; budgetary policy; monetary policy; incomes policy; external policy; labour economics; international economics; and the distribution of income and wealth. The bias is strongly in favour of macroeconomic topics; only six or seven of the papers are clearly microeconomic in flavour.

The other collection is also predominantly about macroeconomics with one of the five articles being solely about microeconomics and the other four being almost exclusively about macroeconomics. The dearth of microeconomics may reflect Gittins's training in the 1960s when macroeconomics was all the go in Australian universities.

The articles are all written in a journalistic style — most of them come directly from *The Sydney Morning Herald*, while others were written for, or modified for, inclusion in these collections. The approach is perhaps a bit too 'chatty' in places, but this approach is the one that Ross Gittins has rather successfully taken in *The Herald* over many years. Its appropriateness is, perhaps, a matter of taste, but I would prefer a more serious manner for use in high schools.

### Analytical Content

The content of these volumes ranges from descriptive and institutional to theoretical. Where there is some analysis, there is an emphasis on attempting to expound on difficult economic arguments in a clear commonsense manner. The argument in Ross Gittins's articles is verbal throughout, except for one paper

(GG-20 on the relationship between budget and current account deficits) where some symbols are used. Ross Gittins proves himself overall to be a pretty good 'bush economist' but this level of analytical competence is not always enough. Barry Streete (writing on the 'Accord') does not really chance his hand at any analysis, and Peter O'Hanlon's article on interest rates, monetary policy and exchange rates is largely descriptive, although it does have a small implicit theoretical content.

Instances where theoretical arguments are particularly well handled include the analysis of takeovers (GG-4); floating the dollar (GG-15) and the effect of asset sales on the budget deficit (GG-24). Cases where there is some fuzziness in the analysis include the articles on business investment (GG-6), the aims of macro policy (GG-17) and tax disincentives and the supply of labour (GG-38). In other cases (discussed below) ideology and analysis seem to get too closely entwined.

### **Institutional and Descriptive Content**

Some of the articles are purely institutional or descriptive (i.e. not analytical) in nature, while others report on published work. Like a good economic journalist should, Ross Gittins keeps abreast of publications from a variety of sources — official publications from government departments and bureaus, interest groups (e.g. the ACTU) and academics. Many articles revolve around recent publications and these are usually well synthesised for the reader. More explicit references to these publications would be a useful innovation in the guides, even if not in the newspaper articles.

The descriptive and institutional material in many articles — particularly those in the *Student's Guide to Current Economic Conditions* — is very useful and up to date. Statistics from a wide variety of sources are presented in a clear and competent manner, usually with the aid of graphs and tables. Institutional details on matters such as wage fixing arrangements and the role of government in the determination of exchange rates are accurate and clear.

### **Ideological Content**

Turning now to the 'ideological' content of these guides, one finds a rather mixed picture. The use of labels can be misleading, but there are elements of many 'isms' in these publications. Perhaps the strongest of these is 'pragmatism', particularly as it might be applied to the policies of the Federal Labor Government. Ross Gittins would appear to be a fairly strong supporter of the approaches to economic policies of the senior economic ministers — Keating, Walsh, Burton, Kerin and Willis — all of whom have developed reputations for 'pragmatism' rather than adherence to principle.

Another 'ism' of prominence is that of Keynesianism in macroeconomic thinking. Gittins tells us that 'I belong to the Order of Pump primers myself' (GG-63) and this is clear from a number of the pieces which extol the virtues of a rather crude brand of Keynesianism and/or are critical of an excessively crude straw man version of 'monetarism'. The synthesis of Keynesianism and Classicist thinking common to virtually all modern texts seems to have had a very limited influence on the sole/principal author of these guides. The support for Keynesian policies appears to be based on instinct (or enslavement to the ideas of a long dead academic?) rather than theoretical considerations.

Corporatism is also featured in these guides. *Australia Reconstructed* gets a very good run in a number of these articles. It is described as the ACTU's 'magnum opus' (p.115) and is asserted to contain 'many sensible things' (p.109). The Accord is discussed most approvingly as an attempt 'to change our economy ... from the conflict model to the cooperation model' (p.89). The 'neo-corporatist' approaches in the Nordic countries are reported with unabashed enthusiasm. Barry Streete's article in *A Student's Guide* is also a very glowing account of the success of the corporatist approach encapsulated in the Accord. My own view is that both Keynesianism and 'corporatism' are dangerous as guiding principles for government intervention. Approval for both of these approaches is obvious in these guides. Unfortunately, these rather extreme policy directions are endorsed without sufficient attention to alternative policies or any underlying argument for them. A teacher using these guides would find it difficult to give a balanced view on macroeconomic, industry and wage fixing policies without recourse to supplementary material.

### **Overall Assessment**

In contrast to the approach in these cases, the guides contain much that is sensible and balanced. Much of the material on institutional and descriptive matters is, as already noted, very useful. Some of the more

analytical pieces have already been praised and this list could be extended. For example, GG-5 is a fine account of why we cannot blame (as some do) business borrowing for the foreign debt that has amassed. GG-39, on the effects of technological change on unemployment, provides an excellent account of why the Luddites had (and have) it all wrong. In these and other cases the articles contain good and competent debunkings of some rather dangerous myths.

It is worth repeating that the *Githins' Guide* and the *Student's Guide to Current Economic Conditions* were never intended as textbooks. Rather, they are intended as a supplementary resource and as an aid to the achievement of elementary economic literacy. In this respect they are not an unqualified success. We are told that 'complex economic issues are reduced to simple terms', but this is not always a good thing. The attempt to simplify can sometimes lead to superficiality and confusion. It is not always, as claimed, 'a nice blend of getting it right and keeping it simple'. Further, theory and ideology can be mixed up rather than clearly distinguished. It is a fault in some of the articles (such as GG-45 on taxation of wealth) in these guides that the latter course has, perhaps unwittingly, been taken.

The style of writing of these articles is rather informal or chatty in places. As a means of awakening an interest in economics this is not an undesirable trait. However, the caveats to this endorsement are the same as those above — simplicity must not become superficiality and ideology must not be confused with positive analysis.

### **Conclusion**

Finally, while these guides will not form a strong basis for further study in economics, they will serve a good purpose if they stimulate a student's initial interest in the subject. But there are considerable dangers in exposing young minds to this type of material. In my view students should first be exposed to institutional and descriptive material and then be fostered through the teaching of rigorous economic theory with carefully specified models, rather than through exposure to articles of this kind. These guides might give the wrong push and possibly should be used in teaching of people who already know some economics.

**R.J. & E.J. BROWN**  
***Student Economics***

Part One 7th Edn, rep. 1986; Part Two 7th Edn, rep. 1982, William Brooks, Sydney

**Reviewed by Professor Geoffrey Brennan**  
**Department of Economics**  
**Australian National University, Canberra**

I takes a measure of presumption for someone who has never taught below second-year university level to offer advice to school-teachers as to what, or how, they ought to teach and/or what kinds of textbooks they are likely to find most useful. That's all right, because I am by nature a fairly presumptuous person — but my lack of experience in classroom matters should be noted and can be used, where necessary, in evidence against me. Moreover, some of the remarks I shall make about Brown's textbook(s) may be better directed at those who set the economics syllabuses. In the highly centralised secondary education systems that prevail in most Australian states (or have prevailed until recently), the textbook-writers are as much followers as they are designers of the system: the scope to write a highly innovative (or even distinctive) textbook may be quite limited. The weaknesses of Mr Brown's book may therefore not be entirely Brown's fault. Nor are the weaknesses that I identify by any means unique to Brown's book — some of those weaknesses are characteristic features of the vast bulk of 'Principles' texts that inhabit the English-speaking world market. But it is Brown's book I have been asked to appraise, and in my critique of its content and approach I shall simply have to let the chips fall where they will.

In keeping with the spirit of the dismal science, most of my comments are negative. We economists are a fairly miserable lot. But let me begin at least with some positive remarks. This book (or these books actually — because there are two volumes to the text, and a workbook for each volume) represents, on the whole, a fairly workmanlike overview of the core of conventional economics as it stood about 25 or 30 years ago. There is very little — piece by piece — that is deeply misleading: a student who had mastered this book would not have much to unlearn, and would come to future study (if any) with a tolerable familiarity with the main bits of economic theory and language. And perhaps that is as much as one can reasonably hope for. But I should like to think we might hope for something more. And in particular three things. First, a sense of the basic conceptual unity of economics as an intellectual enterprise. Second, a sense of excitement and enthusiasm about the subject-matter. And third, a feel for the difficulty of the problems economists deal with and the tentative nature of our conclusions. Let me talk about each of these hopes in turn.

One thing that is striking about Brown's book(s) is the extent of its coverage — a feature it shares with most first-year university texts. The whole has a slightly encyclopaedic air. And if one were to criticise Brown for leaving something out (be it public choice or rational expectations or mention of methodological individualism, or the prisoners' dilemma), I'm sure that the first instinct would be to stick it **in**: add a chapter or two. But that is precisely the problem. That is, the Brown approach is to provide a large catalogue of independent 'concepts' (or rather, terms that **stand** for concepts) much like one might give a student a list of 'facts' under one view of the content of history. For example, in chapter 1, Brown discusses the general nature of economics (like most text-books do in chapter 1) — something that in itself is rather extraordinary since the student has no independent knowledge of what economics is like.<sup>1</sup> And in a few pages (six to be precise), he discusses whether economics is a science or not, the nature of economic thought or language, the role of logical reasoning (including a few Venn diagrams), a catalogue of common fallacies in economic (social?) reasoning, and also manages to squeeze in a couple of paragraphs on 'social goals', 'value judgements' and the positive-normative distinction. All that is in itself fairly mainstream stuff. And I do not want to argue that such issues are all too hard for students at this level: the issues **may** be too difficult, and yet be good for stimulating general discussion. But I do argue that if such issues are going to be raised, they have to be referred to again and again as they crop up in specific



instances: they can't be allowed to hang there as unconnected ideas of the 'been-there, done-that' kind, because all that does is to provide a formula for inoculating the student against thought. And where the issue raised (such as the positive-normative distinction, or the role of 'authority' in economic argument), is a difficult and/or controversial one, some confession of the difficulties and/or controversies seems highly desirable.

I reckon that economics is more to be regarded as a way of **thinking** than as a subject-matter. The object of a course at this level should be to give the student a feel for what this way of thinking is, and for the few core concepts that make up the economist's stock in trade. In my view those core concepts (exchange; the role of relative prices; fungibility; the average-marginal distinction; etc) become obliterated in Brown's book in a welter of apparently unrelated bits and pieces of fact, technique, and analysis. It is not that the 'financial sector' or 'population' or 'international trade' and so on do not make worthy chapters — but what connects them up? Is the student supposed to recognise the connections for herself/himself? Are those connections so obvious? Is it, after all, transparent that these are all instances of the same range of ideas and concepts, differently applied? Is there no role for the text-book in making such connections **salient**?

Undoubtedly, economics as taught in most places in the Western world is taught on the 'spiral' principle: that is, we go over the same material again and again, absorbing a little more each time, so that with luck after the fourth or fifth circuit we begin to internalise (and thereby understand) what is really at stake. It is a not uncommon experience to discover that you don't really understand something until you have to **teach** it, which is why we, at ANU, recommend to our best students that they do a semester or so's tutoring in first year economics before they proceed to graduate school overseas. As Herbert Spencer remarks: 'only by varied reiteration can alien concepts be forced upon reluctant minds'. And Mr Spencer is right so far as he goes. The problem is that not all our students will spiral over this agenda four or five times: strange to tell, some high school economics students will be studying economics for the **last** time. It therefore has to be a matter of concern whether what students learn at that level is the most important material they might learn. When one tries to teach **too much** material, one can't be sure that what sticks will be the most significant. And this is particularly so if what is taught is portrayed as being disjoint, with the separate parts rather like pages in the telephone directory. I reckon it's harder to **learn** the telephone directory than a logical sequence of ideas — and harder still to 'understand', if indeed understanding is a relevant category to apply to the telephone directory. For my taste, the Brown book is composed too much along telephone directory lines.

My second criticism is, I **think**, distinct. It is that Brown's treatment is too dull. I **think** this criticism is distinct because I also find the telephone directory dull reading. I find **ideas** exciting, and because I relish the explanatory power that the few simple notions of mainstream economics displays, I enjoy a conceptually elegant treatment. But there is more involved than this. Brown's **approach** is unexciting. There are a few examples, no cartoons (as some of the livelier American principles texts have);<sup>2</sup> there is no chapter on the economics of sex, which for all its absurdities sold large numbers of the McKenzie Tullock *New Worlds of Economics*, and can be guaranteed to capture a modicum of interest in **economics** if the topic can be used to good pedagogic purposes; there is no parable, no funny story, no one-liners from Paul Keating (or more limited economists like Robert Solow or Milton Friedman.) More to the point really, there is not much sense of enthusiasm or vigour. This is a book for students who are a captive audience, who must do well in exams to proceed, and for teachers who are rather tired and want it all carefully and competently laid out. This is not a book to lure students to a love of learning, or to a sense of fun and excitement in discovery. We are all of course under the heady influence of Peter Weir's *Dead Poet's Society*; and no doubt desks in many schools will get a fair scraping from students' shoes over the next few months. But desk-standing will mainly take place in poetry classes: we **expect** a little eccentricity and emotional vigour in teaching **English**. But **economics**? I am confident that economics can be taught in an exciting and mind-changing way. But Mr Brown's book hardly encourages such — or indeed, even the idea that such teaching might be possible.

Third, and again perhaps related, this is a **didactic** book — stronger on giving the answers than setting out the questions. This is a matter of style. There are economists who like to preface their speculations and conjectures with the phrase 'We now know that ...'. I do not much care for this kind of professional hubris: I think that the economics profession knows a good bit less than we usually pretend. But we **do** have a widely shared 'grammar' of argument — a large measure of agreement as to what kinds of considerations are relevant to the analysis of particular topics and/or the drawing of particular conclusions. The University of Chicago used to have a rule of thumb that there should always be on the

Ph D prelim exams a question or puzzle to which none of the examiners had a satisfactory answer. The economic world is full of puzzles of this type, and these and the kind of spirit of enquiry that goes with isolating them, do have their analogue at the high-school level. The interesting **question** is no less significant than the clear **answer**, at all levels of intellectual endeavour. Some reader recognition of that fact would make Brown's *Student Economics* a better book. And while we are on the subject of interesting **questions**, I have to say that I found Brown's 'student workbooks' decidedly ho hum. Getting good questions is at least half the task of writing a textbook. One reason I so much like Don McCloskey' price theory text (*The Applied Theory of Price* (Colliery/Macmillan, 2nd edn, 1985, \$29.95) is that McCloskey writes from a problem-solving viewpoint. This feature is an enormous strength and makes McCloskey's book a fine one, even though students tend at times to find his expositions unclear. I do not of course recommend McCloskey's book for high school students.

At (almost) the level under consideration, I **would** recommend Paul Heyne's *The Economic Way of Thinking* (Science Research Association, 1983). If this turns out to be too difficult (or too conceptual), there may be a gap in the market for a slightly lower level and popular version of that book, with appropriately Australian content. Mr Brown's book is not that book. The Brown book does not, for my taste, emphasise enough the intellectual coherence of the economist's vision of the social order. It does not seek to excite the student or lure her/him to a love of the subject. And it does not so much seek to engage the student in an intellectual enterprise as to **inform**. These are, in my view, fundamental inadequacies. It is these considerations rather than the omission of particular topics or questions of ideological orientation that cause me anxieties about this book and the kind of education in high school economics that it connotes.

## Notes

- 1 For example the first question for discussion at the end of the chapter is: 'What do you [the student] consider to be the best definition of economics?' Surely the only conscientious answer is: 'How the hell should I [the student] know — I've never done any economics.'
- 2 Demand-supply diagrams are not the only pictures that can be worth a thousand words (or so):

**R.F. GALLAGHER & G.A. BURKHARDT**  
***Our Economic Environment:***

***An Introduction to the Australian Economy***

(5th ed.), McGraw Hill, Sydney, 1980 (rep. 1988)

**Reviewed by Wolfgang Kasper**

**Professor of Economics, Department of Economics and Management  
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**Campbell, ACT**

**O**BJECTIVITY and rationality suggest that the criteria for evaluation of a product should be stated explicitly at the outset. As a long-time teacher of introductions to economics, both of full-year university courses at first-year undergraduate level and of more compact courses and lecture series to all sorts of mature, professional audiences, I would list the following criteria (with per cent weights that I would apply in the case of full-year undergraduate subjects in brackets):

**Coverage (breadth and depth):** Does the text serve as a self-contained introduction to the subject of economics, familiarising the reader with all those phenomena that I consider essential knowledge for undergraduate students, senior high school students, or mature professionals who want to familiarise themselves with the discipline? [20 per cent]

**Approach to the discipline:** Is the personal view of economics that I have developed in 25 years of teaching, research and policy advice reflected in the presentation? And is it balanced by other, competing ideological approaches to the major economic paradigms? Are controversial issues clearly identified as such, and are aspects of positive and normative economics held clearly separate? [15 per cent]

**Relevance to Australian problems:** Does the text cover the theories, as well as the empirical and institutional knowledge necessary to inform a budding 'economic citizen' of Australia? Does the text engage the reader with emerging economic issues, or simply echo the controversies of yesteryear? [15 per cent]

**Presentation, clarity, readability:** Is the style of presentation (text, mathematics, graphs, statistics) clear and appropriate for the prospective students' maturity, so that an uninitiated reader can read the text without much priming and tutoring? Is the presentation economical in the sense that relevant knowledge can be grasped quickly, without wasting effort on redundant material? [20 per cent]

**Consistency:** Is the reader likely to be educated in a consistent mode of thinking about issues, so that he or she can apply what is learnt in the more basic chapters to applied issues later on? Are there unexplained contradictions in approach between various chapters? [15 per cent]

**Interest:** Is the textbook written in a way that is likely to arouse the enthusiasm of a beginner to start thinking as economists do? [10 per cent; the relatively low weight I attribute to this is a consequence of my view that one of the functions of the teacher is to convey enthusiasm for the discipline.]

**Is the book value for money?** [5 per cent] (Although students and their families are often strapped for funds, and prices of textbooks weigh heavily in student budgets, I do not rate price very highly as a criterion, because the investment of time and commitment by the student costs infinitely more than the purchase price. Students who disagree with me on this can, in any event, do a one-night a week waiting job and will then be able to afford even the most expensive of first-year texts.)<sup>1)</sup>

In addition, a minimum requirement is that the text does not contain too many errors or misrepresentations of facts or logic.

I would assume that these same criteria are also applied by teachers at senior high schools.

## Coverage and Organisation

Gallagher-Burkhardt (GB) is a solid tome; 658 narrowly printed pages. It begins with introductory chapters on the subject of economics, on Australian economic resources (documented essentially for the mid- to late 1970s, an unpardonable lag in a book reprinted in 1988!), and on economic-reasoning (logical approaches to economic analysis). Chapters 4 and 5 deal with some rudimentary material on the macro economy (the circular flow with some mention of business cycles; then the Australian monetary system). Thereafter, we are presented with a chapter on the firm, in which some aspects on location (Gallagher-Burkhardt call it 'localisation'), entrepreneurship, innovation and technology are also treated. This is followed by a chapter on the 'Marshallian cross' of supply and demand (what is called here 'the perfect market').

These two microeconomic chapters are followed by an essentially macroeconomic chapter on public finance and the role of the government, where fiscal policy is related to inflation and unemployment, but where we also read about public enterprises and 'government assistance to private enterprises' (subsidies, protection, etc) and social policies (health, education, social welfare etc).

Similarly, the 'international sector' is treated in its micro- and macro-economic aspects, essentially as an add-on to a closed economy. The following two chapters deal with growth and development (in the latter abandoning the title's promise of offering material on the Australian economy). After having dealt with these outcomes of the economic process, we are taken back to the input of labour (and population) and are given a detailed run-down on the wages system, or rather interventions in labour markets. Thereafter, the reader is taken back to the circular flow and is introduced to National Accounts data (up to 1976-7), immediately followed by a (non-empirically supported) treatment of the multiplier and the accelerator. Fiscal policy surfaces again. Then, we are taken again into microeconomics (market theory) and matters behind the supply curve (cost theory), as well as (again) innovation, product differentiation, trade practices, factor markets, etc. Then it is back to macroeconomics, the business cycle and a discussion of demand-stabilising interventions and selected supply-side policies, including a chapter on agricultural marketing.

If readers gain the impression from the above that a loose-leaf collection of lecture notes must have fallen to the ground and was collected haphazardly, they share my feelings. Most of the topics one would wish covered are somewhere there, some several times, but I was not able to detect a logical red thread through the material or a logical progression from simple, basic to more complex ideas.

There is probably much merit in getting away from the artificial textbook dichotomy between microeconomics and 'macromechanics' (as has, for example, been quite successfully attempted in the first-year text by Craven, 1984). I would have appreciated an arrangement that intersperses the treatment of the big macroeconomic building blocks with the microeconomic foundations and the empirical-institutional detail. But such a logical approach is not perceivable in this book.

## Mode of Presentation

The text appears to me very wordy. It often takes a long time to come to the point. This impression begins right on page 1, where the authors promise to tell us what economics is all about. Instead of being presented with a definition, we are first bombarded with a medley of quotes from other (and better) textbooks. For my taste, the definition that GB attribute to Lord Robbins would have sufficed: 'Economics is the science which studies human behaviour as a relationship between end and means which have alternative uses' (1948:16).<sup>2</sup> The readers of GB are told only in repetitive, rambling passages on pages 3 to 5 what the essence of economics is. Instead of a crisp functional definition, the text drifts into a long enumeration of phenomena from production to regulation. Production and distribution are repeatedly mentioned, but there is no indication of whether these two aspects are more or less important than, e.g. regulation 'in the interests of certain groups' or natural resources. Nor are we informed whether production and distribution are two separable activities — a highly relevant issue.<sup>3</sup> No distinction is made in GB's enumerative definition between different logical categories, like objectives and means, mechanisms and institutions.

If I were an uninitiated student who has read the 28 pages of chapter 1, I would not be able to give a short answer to an exam question: 'What is economics?' Students should therefore be referred to the one page in Samuelson-Nordhaus which answers that question, and they might as well go on to read the first 13 pages of that book to be presented with didactically excellent material on a range of important, basic

methodological ideas that are likely to recur in the discussion of introductory economics<sup>4</sup> ... Or, if one dislikes a 'half-lapsed Keynesian' text like Samuelson-Nordhaus (1985) one will get concise, and learnable, instruction on the first pages of Heyne (1983), Craven (1984) or Alchian-Allen (1983) (the latter is not a high school text).

After reading several chapters, the reader of GB is, in my view, likely to get the impression that economics is not about the hopes, fears, aspirations and creativity of real-life people and about moral and practical problems in society, but a matter of abstract relations between variables; of levers being pulled in a machine; of a mechanical rather than a moral and social science.

A consequence of the wordiness and lack of clear 'red threads' is that the text often rambles off the pre-announced track, for example, when we read in a chapter on Australian economic resources that 'the USSR possesses one of the largest supplies of human resources' (p. 31), or when the treatment of the capital stock is documented by a breakup of the governments' composition of investment flows. More generally, the text is frequently overburdened with descriptive detail, much of which I find irrelevant for high-school or first-year tertiary students. Two random examples may illustrate this: On p. 602, we are informed on the size of wheat stabilisation pools since 1945-6. On p. 60 and then again on p. 554, we are presented with a plethora of economic policy objectives. The list of policy objectives given on p. 60 numbers no less than 12 'fairly commonly accepted' objectives, and there is no indication of hierarchies. Are 'stable prices' more or less important than 'aid to developing countries'? Indeed, some of the goals of economic management are in reality (highly dubious) means of achieving them, e.g. 'protection of Australian industry' or 'greater government control over production'. Many professional economists and citizens would disagree with GB's glib assertion that these goals are 'fairly commonly accepted'. Not even a super-human government could meet so many conflicting goals. We are not informed whether the Australian government pursues this long 'wish list' of policy objectives ... Students and teachers, who want to learn about the basic issue of objectives in economic policy, are (immodestly) advised to read pp. 1-14 in my own introductory text (Kasper, 1982).

When I get student assignments that ramble on wordily and zig-zag ad hoc through facts that do not lead to a conclusion, I tend to write in the evaluation: 'In your next essay, think before you write and take more time to write shorter!' I felt like writing the same under each chapter of GB.

GB present numerous statistical and other tabulations, but quite a few seemed to me more coincidental to the main argument in the context in which they were used. There are also numerous graphs. I strongly believe in good, telling graphs as teaching and communication aids, but I personally found the style of the graphs in this book not terribly attractive. Where long time series are plotted, professional standards require in my opinion semi-log scales. Otherwise, we get the (misleading) impression of accelerating expansion (e.g. in the graph of exports and imports from 1956 to 1976-7 p.562).

There are two approaches to teaching in most first-year courses and in most texts, namely:

- to begin with some empirical material or a moral issue and then to develop a theory that can assist in structuring our thinking (deductive reasoning); or
- to begin with a simple theoretical proposition and then apply it to complex evidence (inductive reasoning).

Frequently, neither of these approaches is taken. Indeed, there is no method in the presentation that lets the student expect a certain pattern of treatment of a new topic. This adds to the overwhelming impression I had when reading GB, that it is fairly muddled. The constant zig-zagging between description, models and references to authors (who are unknown to the student and who are often not properly cited) greatly distracted me and detracts from clarity and readability.

The lack of clear, consistently applied theories serving as a backing for facts sometimes leads to odd results. For example, unemployment is taken as the measure for the business cycle (p.555). This is at variance with widely accepted international practice, which takes as the reference cycle either the rate of capacity utilisation in industrial production (OECD's practice) or some basket of indicators (Kasper, 1982:34-45). Only populist opinion in Australia looks at the rate of unemployment, which is a lagging indicator. Using unemployment as a guide to anti-cyclical policy amounts to 'looking in the rear-vision mirror to drive a car' — very accident prone! If one uses unemployment relative to unfilled vacancies as GB do (and neglects to distinguish between trend and cycle in time series analysis), one arrives at the altogether implausible and counter-factual result that there was one huge record recession from 1973-9

(in Figure 18.2 on p.555), a period at whose end everyone was talking of a second mining boom!

The ad hoc mode of presentation frequently leads the reader to populist conclusions which professional economists would not wish our high school students to make. And the shunning of a consistent thread of theory through the text creates the — unwelcome — impression that economics is an unsystematic collection of facts and a 'not very scientific' discipline.

### Approach to the Discipline

In the 1990s, matters of basic economic and social philosophy and value judgements are high on the agenda in our discipline. They surface every day in topical newspaper articles and rightly excite the imagination of the young (be it in the West or the USSR and China). One would therefore like an introductory text to alert and inform the beginning student about the various ideologies which determine to a considerable extent 'what economists think'. I for one would like to see some explicit coverage of the great and exciting battles of ideas in the past and the present.

To check on awareness about ideologies, I began — as a quick, first test — to search the (lengthy) index for references to 'Smith, A.' and 'Marx, K.'. No reference to Karl Marx! Two to Adam Smith! The first was a casual, indirect quote from the solid 1963 (Keynesian) textbook by Reynolds. It did not suggest to the uninitiated why a certain Adam Smith should be mentioned, and who he might have been. The second (p.315) informs us: 'In 1976 (sic, in a fifth, revised edition!!!) Adam Smith in his treatise entitled *An Enquiry into the Nature and Cause of the Wealth of Nations* set out to seek the causes and consequences of economic growth.' Full stop! Period! No reference to the book which might have informed the reader of Adam Smith's towering role and lasting influence in our discipline, or, at least, of the correct date of his publication! More generally, few of the great books or the major economists who have shaped our discipline are mentioned, let alone properly cited.

This quick check having failed, I started to read for implicit value judgements and implicit normative interpretations of the literature. Once on the track of searching for implicit value judgements, I found numerous implicit references to the value of collective action. We are, for example, informed that the trade unions are 'important Australian economic institutions'. We learn that the unions were crucial in establishing the arbitration system, but also that the real wage is determined by productivity. But we do not learn anything about the important question of how the unions and the arbitration system have affected productivity increases. Instead, the student is presented with a detailed, descriptive, and good-natured write-up of union and related organisations. The reader does not go away with the understanding that there is a market for labour, what really determines supply and demand in it, and why profit-maximising firms demand labour, given a certain state of the production apparatus. We only learn how the labour market is interfered with. But interference is not critically analysed as to its positive and normative consequences (e.g. unemployment; access to opportunities for skill formation; freedom of choice). The only theoretical relationship given in the labour context is the (I thought by now discredited) Phillips curve (p.392): 'There is certainly evidence of the operation of the Phillips theory during the last decade of Australian economic history.' — 'If 'last' is to mean latest, then a book printed in 1988 must refer to the 1980s, for which I see no trace of evidence that the Phillips curve holds. The same is true of most of the 1970s (Kasper, 1985:14), the decade in which empty-box Keynesian 'macro mechanics' (like the Phillips curve) were largely discredited.<sup>6</sup>

Another area where one can normally get a good feel for implicit, unreflected and often unintended ideology in textbooks is the discussion of the market mechanism. In GB, it takes no less than 158 pages till we get to the 'price mechanism' (after we have read much about production possibility frontiers, circular flows and other, more abstract, technical and less relevant concepts). But what we get is only the single market with supply and demand, nothing about the complex web of markets, and prices as social signalling and co-ordination devices.<sup>7</sup>

Later, we read about the 'perfect market', which is presented as being the opposite to monopoly and imperfect competition. We read that our sympathies are with the small firm (p.201), but that we should judge markets by performance. We are not told, yet, how monopolies or 'imperfect' competitors perform. Three hundred pages later (p.507), there is a section on oligopolistic competition, which makes — amongst others — unqualified statements that such markets are characterised by a high incidence of takeovers and mergers, by price leadership and by the fact that 'oligopolists refrain from price competition'. In reality, some of the fiercest price battles are amongst the few suppliers! No awareness is shown of the interdependence of oligopolistic competition, innovation and/or regulator-and-rent seeking (see



for example Kasper, 1985:104-7), although Schumpeter is mentioned elsewhere in passing (e.g. p. 146). Indeed, the socio-political dimension of competition and the issue of public choice are ignored altogether.<sup>8</sup> Instead, the student is invited (in the revision questions to Chapter 16) to adduce evidence for the statement by Wheelwright and Miskelly that 'Australian manufacturing industry is known to be heavily concentrated' (p.522). There is no cross connection to the important Australian issue of tariff protection (irritatingly called 'assistance'), which is the crucial factor in making Australian industrial oligopolists into non-innovative and non-competitive, because their markets are uncontested (Kasper, 1985:108-11). And where tariffs are analysed, this is essentially done under *celeris paribus* assumptions with no regard for the overall system effects of long-term protectionism (poor innovation; rent-seeking; politicisation of allocation; slow economic growth).

One could quote numerous other instances to support the conclusion that the book's vision of the economics discipline is one of implicit collectivism/statism which describes historically grown institutions and unreflectingly quotes what self-justification these institutions have offered. But GB does not offer a critical analysis of the impact of Australian institutions on the country's economic performance. As an antidote to this impression, the reader would be well served with an up-to-date, easy-to-read analysis of the debate on policy reforms in Australia (like a new book edited by Ulyat, 1989).

The student of the book by GB will not be taught critical thinking and alternative views but simply to accept the institutions as they are. I would therefore recommend that a book like M. & R. Friedman (1980) be prescribed as a supplementary text, both to sharpen the young intellect to the fact that economics is rooted in moral philosophy and to raise the students' interest in our discipline. Or I would put current copies of *Economic Affairs* into the school library. Although this is a British bi-monthly publication, the articles by prominent academics on how to study for 'A Levels' in economics and how to think critically about current economic issues would be a tremendous supplement to any introductory textbook.<sup>9</sup>

### Summary

I enjoy reading and reviewing textbooks, as I enjoy teaching first-year students or conveying to courses of adult engineers or managers some of the intellectual excitement of our discipline — with its positive and normative approaches, with its relevance to our daily lives, and with the fascinating complexities of economic life where everything depends on everything else. I would have preferred to review an exciting text (of which there are many) and to engage in nipping on marginal issues or enter into violent disagreement on some central position in the textbook. Reading this book gave me none of these pleasures.

What I began to understand when reading this text was this: When teaching introductory economics in the only Australian tertiary institution with a representative intake of students from right across the nation, I was puzzled that students, who had done economics at high school, fared less well in Economics 1 than complete novices, irrespective of their State of provenance. The answer must be — I now presume — that they have so much to un-learn and often have been educated in just accumulating much descriptive knowledge and unrelated models without the benefit of an ordering, cohesive theory and without instruction in normative values. They may well start with a handicap as compared to the novice.

In an open market for ideas, one has to measure a textbook against the international industry leaders. If I take the thoroughly revised, new edition of Samuelson-Nordhaus (Op. cit.) as a standard for didactic skill, clarity of presentation, and coverage of the subject (equal 100), I would rate GB on these attributes at 35. If I take Heyne or Alchian-Allen (Op. cit.) as a standard (equal 100) for logical cohesion and soundness, I have to rate GB at 30. And if I take Baumol & Blinder (1988) as a standard (of 100) for interest in controversial, topical policy issues and for getting students interested in the drama of economic debate, I would rate GB at 25. The only advantage over these texts (which each take quite differing ideological approaches) is that GB saves the lecturer the effort of digging up Australian data and relating issues to Australian institutions. But what is the point in getting outdated statistics when so many trends have changed over the past decade? And what is the point in getting outdated institutional description when economic policy has been going through a revolutionary re-evaluation?

GB is an ill-organised, wordily written, out-of-date collection of lecture notes that do not make 'a book'. In large parts, it is boring. In many details it is inaccurate or one-sided, normally not by intent, but by omission or insufficient reference to basic principles. Its price of \$43.00 seems steep for what it has to offer.

My recommendation to teachers and students: give it a miss!

## Notes

- 1 Price-anxious students may also like to order their books by mail from England or America. Many overseas bookshops allow Australian customers to open accounts and air freight books here — often 10–40 per cent cheaper than local prices, a decent margin for entrepreneurial teachers or students!
- 2 However, it may be worth knowing that Robbins cites here explicitly from Menger and von Mises.
- 3 Every high-school and tertiary student ought to be made familiar with the notion that a separation of distribution from production and exchange leads to distortions and disincentives. Every student should be made to read early in his studies: M. and R. Friedman (1980:33–44), which in my view is still best value for money on all counts for educating economic citizens!
- 4 P.A. Samuelson & W.D. Nordhaus (1985) chapter 1 introduces in easily readable form the definition of the discipline, problems of measurement, positive and normative aspects, subjectivity and testing of ideas.
- 5 GB probably mean 'price level stability', since stable individual prices cannot be an objective in a continually changing economy.
- 6 Every high school teacher with a 'paleo-Keynesian education' can greatly update his understanding by perusing a highly readable little book by leading economists: Burton et al. (1986).
- 7 Users of GB, who want to make good for this important deficiency, are referred to M. & R. Friedman (1980:31–37), the excellent Chapter 4 in Alchian and Allen (1983) or Chapter 4 in Heyne (1983).
- 8 Teachers who wish to update themselves quickly in these topical areas might begin by reading Giersch (1989) and Pincus (1989).
- 9 *Economic Affairs* is published six times a year by the Institute of Economic Affairs, 2 Lord North St., London SW1P 3LB, and costs individuals \$45 p.a.

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**E.D. SHADE, G.C. LATTY, AND P.M. SCOTT**  
*Fundamentals of Economics*  
Vol. 1, 3rd edn., McGraw Hill, Sydney, 1989

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**F**UNDAMENTALS, Volume 1 has five somewhat equal sized chapters after the Introduction, on five 'sectors': household, firms, financial, government, and overseas. Essentially, the first-half of the book is micro, and the second macro (although some micro appears in the chapter on the government sector). In the first chapter, the student gets a bit of micro 1, a bit of comparative economic systems, and a bit of macro ( $Y=C+I+G+X-M$ ; a circular flow diagram with tax, import, and saving leakages). The subsequent chapters tend to begin with definitions and basic statistical facts, with fresh analytical categories introduced as the chapter develops. You'd find there many, if not most of the concepts in introductory economic texts. For example, in 'The household sector', SLS define and illustrate the population age pyramid; labour force participation rates; discrimination; the difference between ABS and CBS measures of unemployment; functional distribution of income; Lorenz curve; real income; CPI; demand pull and cost push inflation; disposable income; effective demand; substitutes and complements; law of demand; income and substitution effect; shift versus movement along the demand curve; and elasticity. Clearly, the book is designed to give the student access to the tools of economic analysis, as well as to the chief Australian institutional and statistical facts. It has few photos, some cartoons and many graphs, figures and tables.

### Chapters One and Three

SLS very clearly state that economics is a social science, dealing with people and their reactions (p.1). Surely a social science would deal mostly with interactions, not reactions. In keeping with this opening, SLS define economics as 'the study of the way people react to the economic problem, that is the choice of what wants to satisfy'. So, economics is about the choice between competing ends; about rationing scarce resources when wants are unlimited; about opportunity cost; of course, opportunity cost existed for Robinson Crusoe in the time before Man Friday arrived, but there was then no social interaction, no exchange. Because SLS adopt Lord Robbins's definition of economics, there is very little in their book about the gains from those social interactions that economists call 'exchange' or 'trade'.

I am not here trying to make an ideological point (e.g., that SLS should have stressed the great superiority of free enterprise and so on). Rather, the point is that by adopting a definitional approach to economics, and one in which the economic system is evaluated in terms of its 'functions', SLS miss almost entirely the excitement of economics as analysis. They reduce it to lists of definitions or of facts to be learned.

Take the fundamental notions of Adam Smith (who does not appear in the index; J.M. Keynes does, as the sole example of a person appearing in the index as an author). Smith is credited with seeing that profits are vital to the firm and to the working of the economic system (p.159). We are carefully told that most of what is commonly called 'profits' is really wages (of the proprietor) or interest or land rents, and that 'true' profits are returns over and above these (pp.11, 78). However, we are also told that 'the profits actually made depend in large part on the extent to which firms can manipulate supply and demand in the market' (p.159). There is very little to indicate what Smith had in mind when he wrote about profits. The reader does not learn, from SLS, that Smith believed that profits were invested rather than consumed, whereas rents tended to be spent on luxuries, display, etc. Nor is there any prominent discussion of the role of profits as a signal to entry, as in Smith's notions about how competition drives rates of profit towards

equality across fields: All I could find are two sentences on p.228.

Smith reappears in the section about the changing role of government (p.235), where he is presented as advocating a limited government — law, order, defence, some public works — and an 'unplanned' economy of a kind which never existed. The rapid rate of economic and industrial progress which coincided with an era of limited government ('less government intervention ... than at any time before or since') gave credence to Smith's belief in the invisible hand of the price mechanism and the profit motive to solve the economic problem (p.235). Lest the unwary regard an era of rapid economic progress in too favourable a light, SLS at once claim that, during that era the less fortunate of Europe were exploited to a large extent by those with economic power. But lo, along comes the white knight, Government, to protect and educate workers, to regulate business and foreign trade, and so on, in order to minimise the suffering of the poor and to assist further with economic growth. The distinct impression given is that government, not enterprise, raised living standards. What would a student make of the phrase 'invisible hand', as used in SLS? Would he or she get even a hint that Smith had uncovered surprisingly desirable characteristics of a social mechanism, competition; for harnessing selfishness? Or made to wonder at the amazing feats of social coordination achieved by the market mechanism? No. For although SLS's *Fundamentals* is by no means stridently anti-market, it is weak or timid in its presentation of what the market mechanism offers, and naive in its discussion of the alternatives.

There is no chapter on market mechanisms and little on gains from trade (chiefly pp.295-9). Preceding the traditional diagram of supply, demand and a market clearing price in perfect competition (p.169), is a long warning that the model has unrealistic assumptions and applies only to a few wholesale produce markets and the share market; and it is succeeded quickly by a long discussion of monopoly and so on. Because perfect competition does not exist in practice, 'Governments have to intervene in a market economy to achieve social goals' (p.176) or 'to bring about the results that are "best" for the community' (p.177).

### Chapters Four to Six

In almost every discussion of government, it is beneficent and potent. It protects 'the whole community', consumers (e.g., by setting up public enterprises to compete with private ones), producers (farmers 'at the mercy of the free market system', p.261), and ameliorates, chiefly by redistribution, the 'vast inequalities' of income in Australia (p.264; see also pp.26,81 on 'great inequality'). In all this it seems to do a good, almost perfect job. Yes, there are some unintended consequences of otherwise sensible actions — the fringe benefit taxes, designed to spread the tax burden more evenly, hurt the car industry (pp. 259, 285). But by and large all that stops government from doing even more good are some federal constitutional barriers (e.g., on a prices and incomes policy); some institutional limitations (e.g., BHP is a monopoly; big unions exist — no hint that either owes something to government); too small a budget for the Bureau of Statistics. Interestingly, half a page is devoted to 'political limitations': Australia has a 'democratic' system of government by which citizens, through their elective representatives, 'share in the government of the country' (p.286). I wondered about the quote marks around 'democratic'.

Two substantial criticisms, of public policies followed in Australia, concern financial regulation and import protection. Financial regulation (pp.217-219) is presented as a consequence of the 1936 Royal Commission and the collapse of several banks in the 1930s. Briefly we are told that regulation spread to non-banks, and that loan rationing harmed low income earners both as lenders and as borrowers. A brief history of financial deregulation is recounted. On tariffs etc., (pp.300-14), the student is firmly told that few standard arguments for protection have any economic validity (p.303: SLS go so far as to claim that protection cannot preserve jobs except temporarily, because of the rise in costs caused elsewhere — Dixon defeats Brain).

### Types of Economic Systems

What are the alternatives to consumer and voter sovereignty? These include central planning which, we are told, encourages high rates of economic growth, reduces waste of resources, generates a more equal distribution of income, produces more essential goods (like heavy engineering) and fewer luxuries (e.g. cars: see p.30 if you doubt me) and does not suffer the extreme trade cycles which beset the market economy (pp.29-30). This is a catalogue of nonsense (made only slightly less ridiculous by the list of disadvantages of central planning in which we are told that 'The planners sometimes lose touch with what

consumers want' (p. 31). By setting down lists of advantages and disadvantages for both systems, and by the 'even handed' summary (p.33) and by posing at the end of the section the question 'Outline the ways in which the market economies and centrally planned economies are becoming more similar' (Q.7, p.33), SLS surely leave the student with the impression that central planning offers a real and attractive alternative to the market form of organisation.

### Macroeconomics

On macroeconomics, SLS take the standard Keynesian line: the book is innocent of monetarism, or of neo-Keynesianism, let alone of rational expectations. Inflation is cost-push or demand-pull. Deficit spending raises aggregate demand and income. Public debt is not bad (except for some possible crowding out). In fact, the interest liability is not as big a burden on government as on other borrowers because governments can borrow cheaply (here they confuse the burden of \$1 in interest with the burden of servicing \$B of borrowing); because tax is paid by people who receive interest income, so the net cost to government is low (it is not clear over whom this gives government a comparative advantage in borrowing) and that public debt is usually spent on infrastructure which lifts taxable incomes and tax receipts in the future (a sort of bootstraps theory). There is no discussion of the Hawke government's 'accord' with the ACTU.

### Conclusion

Some of the harm that this book could cause is that students will get the impression that economics is boring. Volume 1 of *Fundamentals of Economics* like an extended dictionary of economic terms, rather than an introduction to analysing economic issues. For all I know, many students might find the book itself interesting, especially those who like to learn lists of facts. What it does not do is to use economic concepts often enough to motivate the student beyond the desire to pass the examination. Economic ideas are made to live. Let me illustrate with the concept of elasticity of demand (pp. 102-7). With the exception of a single sentence — 'If they raise the price of their goods, and demand is elastic, it will contract to such an extent that revenue will be less' — there seems to be no application using demand elasticity for which the notion of slope would not have sufficed (i.e. of  $dg \backslash dp$  or its inverse). A single sentence is scant reward for learning the concept of elasticity. (The minimal use made of elasticity, as opposed to slope, may have caused SLS to make the technical error in this section. After presenting perfectly inelastic and perfectly elastic demand curves, and after showing in one diagram three parallel demand curves in order to indicate that at any chosen price they have different elasticities, SLS illustrate (less than perfectly) inelastic and elastic demands by means of a steeper and a flatter demand curve; unfortunately, for the latter ('elastic') they draw attention to a price quantity combination at which demand is in fact inelastic: Fig. 2.24(b), Elastic demand, ... ination p.2 Q.2). When elasticity could be used again, SLS omit it: e.g., Fig 6.9, on tariffs, shows the partial equilibrium consumption effect and the production effect and so on. The text does not refer the reader to elasticities; and again, nothing in the discussion of Fig. 6.11 shows the effects of a subsidy on domestic supply of an importable good.

RICHARD MORRIS

## *Speaking of Economics — The Australian System*

Second Edition, Prentice Hall, Sydney, 1988

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**S***PEAKING of Economics* is specifically written to cover the core syllabus of the current Victorian Certificate of Education (VCE) Economics course. Thus, this review is as much a review of the Victorian core syllabus as of Morris' text.

About 5000 candidates, of widely differing abilities, have sat the VCE Economics exam in recent years. With the state planning to increase retention rates at Years 11 and 12, both numbers and the range of abilities are likely to increase in the future. Many of these students are not capable of achieving academic results close to university entrance standards. Many will go direct from Year 12 to employment in commerce and industry. These are the realities confronting Year 12 Economics course planners and textbook authors. How well do they convey the central ideas of economics, its specialised vocabulary, and a modest understanding of the operation and problems of actual economies to the body of students just described?

The VCE Economics course objectives are set out in the course description booklet published by the Victorian Institute of Secondary Education in 1986. They are consistent with the objectives suggested above, albeit more ambitious.<sup>1</sup> The core syllabus covers economic systems, in particular the Australian economic system, Australian economic policy objectives, and macroeconomic policy in Australia. It omits microeconomics, or at least substantive discussion of how individuals, firms and governments make choices.

The emphasis on macroeconomic policy is understandable, given its prominence in the media, and the desire of course planners to make the course seem interesting and relevant. (I am told that students like the course for these reasons.) It is a disaster educationally. Studying macroeconomics with no information about choice behaviour is roughly equivalent to studying the weather with no knowledge of mathematics or physics. A student could read *Speaking of Economics* cover to cover and never realise that economics is ultimately concerned with the choices of people of flesh and blood. Interest and apparent relevance are achieved at the cost of elementary economic literacy.

The strong criticism just made will be amplified below. Before proceeding to chapter and verse, I reiterate that, while *Speaking of Economics* is the immediate target of this review, the VCE course planners are responsible for many of its deficiencies. The textbook writer must adhere to the syllabus to achieve commercial success, and I will argue that the chosen syllabus is seriously flawed.

### **Macroeconomic Policy Versus Choice Behaviour**

Tertiary courses and texts in macroeconomics devote much time and space to specifying the behaviour of the individuals and groups who together determine aggregates such as national output and employment. The VCE course planners have decided, correctly, that macroeconomic analysis based on explicit behavioural models is too abstract, complex, and time consuming for Year 12 students. Nevertheless, they have stuck to Australian macroeconomic policy as the centrepiece of the course.

In the case of *Speaking of Economics*, this has two serious consequences. First, the discussion of macroeconomic policy, shorn of most of its behavioural underpinnings, tends to degenerate into recipes which list the levers to pull if the government wants a particular result. Second, the macroeconomic discussion crowds out substantive discussion of individual choice and of markets as signalling and incentive systems.

## Economic Systems

(Chapter 1, pp.9-21, Ch.2.)

Morris devotes considerable space to descriptions of economic decision-making in centrally administered socialist economies, in particular the Soviet Union, and market capitalist economies, with Australia as an example of a contemporary (mixed) market capitalist economy.<sup>3</sup>

The descriptive material is doubtless interesting to many students, but Morris' classification of economic systems according to ownership (private or state) and locus of decision-making ('market' or government) (pp.9-11), doesn't help students understand how they work. Signalling of wants and supplies and incentives to respond to those signals are the crucial elements of any economic system.<sup>4</sup> Morris says nothing about signalling mechanisms; he recognises the importance of incentives (e.g. p.12), but fails to note the dependence of incentives on ownership rights.

The description of the functioning of the contemporary Australian economy lacks perspective, in part because there is no description of the overall structure of the economy, to indicate the economic and political importance of the various players consumer/taxpayers, small business, big business, unions and governments. Morris concentrates on the latter three, reinforcing the views of most politicians and media, that only the big players matter.

The lack of perspective is most obvious in the discussion of the power of large corporations. Concentration ratios are given without any information about possibilities of entry by other domestic or overseas firms. Nor is there any mention of government-created barriers to entry as a source of market power.

Another reason for the lack of perspective on the Australian economy is failure to consider the objectives and behaviour of individuals in government. Other actors — unions, corporations — are assumed to pursue selfish interests, but government is assumed to be purely altruistic (pp.5-6-8). The inconsistency of these assumptions, and the incongruity of the second assumption in the face of daily media coverage of government actions, are ignored.

## Macroeconomic Objectives and Performance Criteria

(Chapter 3)

Morris provides comprehensive explanations of the generally accepted goals of macroeconomic policy— price stability, full employment, stability of foreign exchange reserves or the exchange rate, rapid economic growth, and a relatively even income distribution. He discusses definitions, measurement, the effects of poor performance and Australian trends in the years to 1987-88. Morris is at his best with this mainly descriptive material. However, as mentioned above in respect of the balance of payments and the exchange rate, nowhere in the book is there an adequate exposition of the economic forces determining any of the target variables. Morris is at pains to present arguments both for and against economic growth, presumably in the interests of 'balance' (pp.117-22). Such discussion would be more appropriately included in his earlier consideration of the limitations of GDP-based growth measures, thus avoiding the impression that zero or even negative growth might be a sensible government objective. In discussing the advantages and disadvantages of equality, he recognises the link between government redistribution and incentives, but states that the precise motivational impacts of redistributive measures are unknown. The extent of tax evasion and avoidance in Australia goes unremarked.

## Macroeconomic Relationships

(Chapter 4)

Chapter 4 is devoted to explaining determinants of aggregate demand, the volume of money, wages and other prices in the Australian economy, and likely influences of each of these on price stability, employment and external stability. As in chapter 3, Morris documents the recent Australian experience and the descriptive material is well presented. The gist of the Keynesian and Monetarist theories of aggregate demand determination is presented, with minimal behavioural underpinnings. Supply-side theory is mentioned, in connection with the determination of wages and prices and hence production

costs by the Arbitration Commission, unions, business and government, but with no clear explanation of producer behaviour, the determination of aggregate supply is obscure. Morris presents a formal model depicting aggregate demand and aggregate supply and the determination of national output and the price level in an appendix, but the behavioural basis for the model is so slim that it will mislead and confuse.<sup>5</sup> Teachers using *Speaking of Economics* would be better advised to concentrate on the descriptive material in chapters 3 and 4, and the goals and behaviour of the main actors involved.

### Macroeconomic Policies

(Chapters 5, 6, 7, 8.)

Parts of these chapters are devoted to descriptions of government policy instruments and determinants of Australia's recent growth and distributional performance, the remainder to describing the likely effects of policies. As before, the descriptive material is unexceptionable. However, in the absence of behavioural models which enable students to trace causes and effects, the book is likely to encourage rote learning of the lists of outcomes attributed to each policy instrument. Such behaviour will be reinforced by the academic pressures of Year 12. To make matters worse, policy instruments are discussed one at a time, and related to one economic objective at a time, so that the student gets no feel for tradeoffs among policies and objectives.

The last brief chapter does discuss tradeoffs between objectives. This material should come before or together with the discussion of the effects of policies.

Given the difficulty of a genuinely analytical approach to macroeconomic policy, it would still be possible to convey a feel for its complexities and tradeoffs by giving a blow-by-blow account of the problems and policy options of recent years. This would have several advantages over Morris' presentation. It would better integrate the recent data dispersed through chapters 3 to 8. It could be tied to a clear description of the structure of the economy, the major players, and their behaviour, since the required descriptive material is readily accessible to students through statistical publications and the media. It would also facilitate critical examination of the motivations of individuals in government. And finally, although lacking a firm analytical base, it would illuminate the tradeoffs and uncertainties inherent in macroeconomic policy making.

Lacking a firm behavioural basis, Morris's discussion of policy leaves some outcomes unexplained, for example, political pressures on government budgetary decisions (p.236) and the determination of interest rates and exchange rates by 'market forces' (p.248). He ignores the conflict between wages and incomes policies, as partially implemented by the Arbitration Commission and the Prices Surveillance Authority, and the signalling role of prices in a market economy, and also the monitoring difficulties faced by such public bodies. And throughout he adheres to the view of government and public bodies as impersonal and omniscient decision makers: thus, on page 284, he suggests that government should encourage firms to specialise in areas where Australia has cost advantages, and may help to promote efficiency by selecting industries to be encouraged by 'temporary' positive incentives — Senator Burton's and Mr. Dawkins' 'picking winners' policy to a T.

One wonders whether Morris appreciates the relationship between electors and government in a democracy. On page 298, discussing why no government has pursued the goal of absolute equality, he states 'governments cannot afford to upset their electors who generally appear to tolerate a degree of income inequality'. There is no recognition that governments in Australia are supposed to represent **electors**.

### Presentation

Morris writes clearly. The style is workmanlike rather than inspired. *Speaking of Economics* appears to be purposely written to get the average student through the core examination under the current VCE syllabus; it is unlikely to arouse interest or excitement in students. There are no memorable quotes, anecdotes or interesting examples of economic controversies or policy outcomes to lighten students' weary way through Year 12. Nor is there any mention of the work of prominent Australian economists, such as Colin Clark. Morris does not cite any references for additional reading on the topics discussed, so that the book provides no guidance for further study of economics.

Morris provides comprehensive summaries and lists of vocabulary at the end of each chapter, and a

36-page economics dictionary at the end of the book. Each chapter is followed by lists of multiple-choice and essay questions representative of VCE exam questions in recent years. The questions test recall and basic understanding of the material in the text, rather than application of general principles. The dictionary provides a comprehensive listing of macroeconomic terminology, but coverage of microeconomics terms is less complete, and the definitions are not free of errors — for example, collective goods are defined as ‘output generally made available to the community by the government’. Notable omissions include property rights, nominal versus real values, resource substitution, crowding out and nominal and effective rates of protection. It would help the reader if all dictionary terms were included in the index, enabling quick location in the text.

### Conclusion

It would be difficult to write a textbook of manageable size which adequately covered the VCE syllabus and the economic way of thinking about human behaviour. Morris has not achieved this. Speaking of Economics does a reasonable job of describing Australia’s macroeconomic environment, of explaining economics terminology, and probably of helping students to pass VCE Economics exams. It fails to adequately explain the central ideas of economics, the operation of actual economies and reasons why economic policies succeed and fail. Its failure is substantially due to the orientation of the current VCE course, which requires the study of macroeconomics without examining the behaviour of the individuals and groups (including government) who together determine Australia’s economic performance.

As they stand, it is arguable that the course and Morris’s text do economic literacy more harm than good. Improvements based on the current syllabus will not greatly help matters; what is required is a shift in course and text focus towards microeconomics.

### Notes

- 1 The Economics course description lists the following specific course objectives:
  - an introduction to various concepts and techniques used by economists;
  - a working understanding of some of the important economic institutions and behaviour in our society; an understanding of the distinction between a government’s aims and the policies it uses to achieve those aims, as well as the distinction between a criticism of that government’s aims and a criticism of its policies;
  - an understanding of the nature of abstractions, assumptions and analyses; and of our inability to comprehend the complex ‘real world’ except through such abstractions;
  - an attitude of enquiry towards the nature of the real world, and an attitude of reserve or caution towards economic generalisations and predictions;
  - an introduction to sources of economic data, to statistical definitions, and to the interpretation of statistical information.

Of these, the objective of conveying an appreciation of abstract economic models, and of the analytical use of such models, seems ambitious, given the academic abilities of most Year 12 Economics students.

- 2 Explanations of the nature of scientific theories are given in Richard G. Lipsey, Paul C. Langley, and Dennis M. Mahoney, *Positive Economics for Australian Students*, Weidenfeld and Nicolson, London, 1981, and Paul Heyne, *The Economic Way of Thinking*, 5th edn., Science Research Associates, Chicago, 1987, Chapter 1.

- 3 Short sections on Yugoslavia and Nazi Germany, as examples of other economic systems, are too brief to be of much educational value.