

# Preparing Leaders for the Next Century: An Essay on Economic Education

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## Abstract

*Public policy decisions involving agricultural and natural resource issues are founded on prevailing world views and ethical considerations. Teaching undergraduate students how to analyze these fundamental factors demands the use of models and tools which go beyond the standard content of the conventional economics class. A political economy framework is developed in this essay which enables the instructor to capture the essence of policy analysis without losing the analytical rigor of economics. This framework serves as both a challenge to standard classroom approaches and as a complementary instructional tool.*

The predominant emphasis in undergraduate economic education is placed on models of self-interest and purely competitive markets. In Colleges of Agriculture, rational maximization models at the consumer and firm level, and the assumption that agriculture is a perfectly competitive industry, continue to dominate our instructional programs. Yet it is increasingly obvious to this interested observer that a world view solely based on simple abstract models of economic rationality falls short in preparing our students for management positions in industry and government where human interaction is not costless, information is not complete, institutions matter, and where the exercise of economic power is an everyday occurrence. Our undergraduates need and deserve a broader, yet complementary, analytical framework which will equip them for grappling with the major agricultural and natural resource issues they will confront in their careers.

As noted by Jimmerson (1991):

“Leaders recognize the importance of their personal world view and the world view of others as basic to the change process. One’s world view includes his/her culture, background and experiences which provide the basis for his/her values, goals, beliefs and assumptions” (p. 50).

## Beliefs and Values

At the core of this political economy framework are beliefs and values (Figure 1). As noted by John Brewster (1970), beliefs reflect concepts of right/wrong, desirability/undesirability, etc. Values are the relative weights assigned to these beliefs; they are observable in the choices we make. Divergent values generate conflict; yet the existence of shared beliefs increases the probability of a reasonable compromise. So a strong sense of community (i.e. common

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beliefs) can constrain the generation of negative externalities and free rider behavior. Fundamentally divergent beliefs, however, invariably lead to a crisis: an adversarial and combative climate characterized by personal conflict, lengthy litigation and wasteful rent-seeking in the public policy process. Unfortunately, far too few of our classrooms echo from a recent discussion of the role and importance of beliefs and values in economic decision making (Frank, 1988).

## Institutions

Built on beliefs and values, institutions reflect the prevailing ideology of an economic system (Bromley, 1989). Institutions are the rules and regulations, informal or formal, which govern the behavior of members of a group or society; in short, they are the “rules of the game”. Institutions structure human interactions and reduce uncertainty in human exchanges.

In our undergraduate instructional programs we generally take institutions “as given”. Yet a market system is founded on and dependent upon a sustainable institutional base; a truth that decision makers in eastern Europe and Russia are learning at this very moment. Well-specified property rights, Uniform Commercial Code-type regulations and a functioning and just legal system are necessary conditions for a “free market”. Our lectures should reflect this reality.

## Interests

Institutions and interests interact to generate the incentive structure for the decision maker (Elster, 1989). The incentive of self-interest and the rational maximization assumption have served as the driving forces in economic education for many years. Yet economists recognize that roles in society determine interests, and hence, the incentives facing decision makers. We also know that non-maximizing choices are prevalent throughout society. For example, stockholders and corporate managers may not share the same interests or incentives, nor may they maximize profits. So during the last decade economists have made significant strides in relaxing the rational maximization assumption as the predominant driving mechanism behind economic decision making. Our classroom presentations should include these relatively new and useful analytical advances in economics.

## Interdependencies and Power

In economic life “no person is an island”. Human interdependencies are ubiquitous. The crises issues (e.g. price

support programs, endangered species) confronting the agricultural and natural resource sectors do lend themselves, in some cases, to analysis using standard economic theory; yet potentially more useful at the undergraduate level are the not so standard economic models where interdependencies are explicitly discussed such as the interaction between principals and their agents, coalition building, and strategic behavior (Dixit, 1991). I question, however, whether the majority of our undergraduates gain a useful and intuitive understanding of these powerful concepts.

And like interdependencies, the imposition of one individual's or group's economic interests over the interests of another is a common occurrence in our world. The exercise of economic power can maintain existing institutions (i.e. status quo) or create new institutions, thereby modifying the "rules of the game" (Bartlett, 1989). Our undergraduate students understand interdependencies and the exercise of power on an experiential level. They realize that others have the ability to alter their choices and influence their welfare. Yet in the classroom we usually restrict the discussion of economic power to models of monopoly, oligopoly and monopolistic competition; and only after we have spent three quarters of the semester using the assumption of perfectly competitive markets which are free of power! Which models increasingly reflect reality in the agricultural sector? Where and to what degree does the interplay of law and economics enter our undergraduate instructional programs?

### Transaction Costs

Law is a, if not the, major cost in the exercise of power. Lobbying, litigation, excluding access and contracting are significant costs of doing business in our modern economy, including the agricultural sector. One farmer recently confessed that he includes a legal cost of \$20/acre in the crop budget he presents to his lender. Legal and bureaucratic conflicts over water rights, qualifications for government programs, pesticide spray drift and alleged groundwater contamination have become an integral part of operating his business.

Broader, public policy decisions involving crisis-type issues depend upon answers to questions concerning environmental and economic impacts. Yet transaction costs associated with mustering environmental, biological and economic evidence are real and substantial. When and how do undergraduates prepare for such legal costs and informational uncertainty?

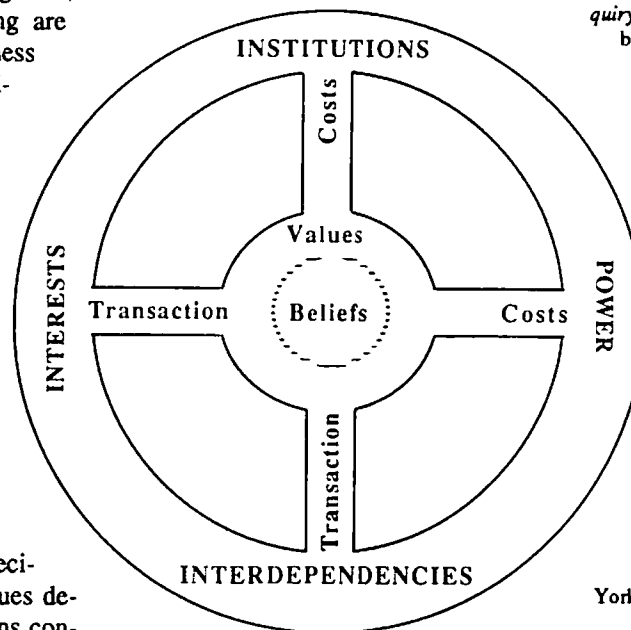


Figure 1. A Political Economy Framework

### Which Path Do We Take?

I believe we take the broader path sketched in Figure 1 in designing our undergraduate instructional programs for the next century. There are at least three markers that will guide us. First, we must illustrate to our students that beliefs and values matter in economic decision making. The role of perceptions, culture, experience and matters of morality in economic decisions should not be ignored in the agricultural economics classroom of tomorrow.

Secondly, our future agricultural leaders deserve the richness in insights that economics can offer when narrow methodological biases take a back seat to improved student preparation and understanding. For example, the incorporation of institutional constraints and transaction costs into our finance, production or marketing class lectures can create a rewarding learning environment for both the students and the faculty member. We should encourage the efforts of instructors who integrate economic principles and tools from several world views.

And finally, professors must explore and analyze, in the classroom, the issues surrounding the exercise of economic power. Our major, crisis-type conflicts in the agricultural and natural resource sectors have potential winners and losers. In the public policy process some individual and/or group interests will count more than the interests of others. So let's not restrict the relevance of our teaching by ignoring the economics of power struggles. Our undergraduate students deserve the complete story. They deserve the best.

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