

ABOUT YOU AND ME

I do not know you. But you have been constantly on my mind over the last few years. This paradox was solved by equating you with former me's and former students of mine. When I studied and taught economics, I was confronted with any number of problems. Economics textbooks, though written with great expertise and commitment, accounted for some of them. While offering an enormous wealth of examples and case studies, they never managed to dispel my and my students' suspicions that they were intended to conceal an astonishing dichotomy between the textbook world and the real world. We therefore increasingly felt that what we really needed was pure theory – clearly spelt out premises, the theories built on them and the conclusions drawn – to enable us to assess the validity of the economic edifice of thought.

Another problem was that we failed to understand parts of economic theory. This is bad enough for a student; for a teacher, it is horrendous. It took me quite an effort to find out that several fundamental economic theories are incomprehensible because they are based on erroneous assumptions on the behaviour of humans, firms and costs. Our difficulties did not vanish completely until I had sought information on a highly technical level: the discussion of economic theory in economic journals. Though published, this debate takes place behind closed doors. What bars access is its highly technical terminology combined with the most forbidding maths you can think of. I learnt that mainstream economists are well aware that many of their theories are completely unsuitable to describe what happens in capitalist economies. They stick to them because they are unwilling to give up the *laissez-faire* recommendation which the theories logically imply. They can do so because capitalism is extremely successful in producing an unprecedented abundance and choice of goods. In short, I ultimately came to learn that there is a second dichotomy: What economists write in textbooks is worlds apart from what they really know and discuss in the upper echelons of their science.

A third problem was that conventional textbook teaching had an immense Teflon effect on my students: Nothing stuck with them. This problem was aggravated by the fact that they found economics "aggressively dull", to cite John Kenneth Galbraith, and, to make things worse, completely unscientific and irrelevant. As a result, they adopted a quantitative approach intended to cram masses of theories for their next exam and get things over and done with as quickly as possible.

The endeavour to write this book (and a subsequent one on macroeconomics) was motivated by the desire to overcome all these problems. I have tried to provide a comprehensive and concise summary and explanation of standard microeconomic theory in the *Crash Course*. While writing it, I discovered that economics is astonishingly easy.

Thereafter I wrote the *Critique* of all standard theories, my own and that discussed behind the closed doors.

When the book was almost completed, I had my computer linked up to the Internet. The result was one of the most pleasant surprises in my whole life. I learnt that there are large numbers of heterodox economists (i.e. economists who oppose neo-classical economics) and that there is a world-wide student protest movement against mainstream economics. It is astonishing that one can read the leading academic journals for such a long time without being given as much as a hint that there are so many other schools of economic thought.

I hope very much that this book will be helpful to you. There are other hopes. You will see that part of the *Critique* has been written in a very candid and at times rather sharp tone. This was done to avoid the Teflon effect and to show how far-reaching the shortcomings of economic theory are. I hope that this approach will encourage independent thought and that it will embolden you to rely on your own faculties of reason. Rather than chalk-and-talk or text-book teaching, it is your own ideas provoked by the clear ideas of someone else that are likely to remain in your mind.

Furthermore, I hope that the book will help you to approach economic theory with interest in the literal sense of the word: inter-esse. (Esse is Latin for "to be"; interest hence means inner involvement with things you encounter.) Not because economics is so important, which it is, but because inter-esse is so important for your own career. I have seen in my students that such an inner involvement is almost synonymous with an intelligent and successful approach while the quantitative cramming method ultimately has a stupefying effect. This impression is supported by academic research, which has revealed that active student involvement is prerequisite to success. Education psychologists recommend two methods. One consists in working together with another person or with a group. This is, in fact, viewed as the key to academic success. The other method consists in so-called last-minute questions. Last minute can be any minute. Students are advised to interrupt reading as often as they feel inclined to do so by asking themselves two questions: (1) What was the most important thing I learnt on the last few pages? (2) Which issue is still unclear to me?

I would like to suggest a third kind of involvement: Subject the theories you will encounter in this book to empirical testing. Does your consumer behaviour and that of the people surrounding you comply with the theories on homo economicus and demand? Is firm theory an adequate description of the behaviour of shops you know or companies that are analysed in the media? Are the pricing policies of real-world firms in accordance with price theory? There are numerous such questions. At the end of this exercise, you should have a list with two sorts of theories: standard theories that have been corroborated by your observations and alternative theories that you have set up yourself to replace or supplement standard theories.

There is a last and greater hope. Economic theory does not need ever more refinements and it definitely does not need the esoteric models built behind

the closed doors, many of which are no more than desperate attempts to save wrong theories. What it does need is a far-reaching overhaul of several of its principal theories. Those who have preached these theories to students and readers all their lives cannot be expected to embark on such an endeavour. It is your generation that must accomplish this task, and I think it is encouraging that the subject you have chosen to study offers ample room for very interesting and important work.