What should we teach about the role/function of debt in capitalism?

In Ivan Turgenev's short story, "The Loner," the main character, a peasant overseer of a forest owned by an absentee landlord, zealously practices his craft to such an extent that "there wasn't a better master of his job in the world: '[The Loner] won't let you take so much as a bit of brushwood! It doesn't matter when it is, even at dead o' night, he'll be down on you like a ton o' snow, an' you best not think of puttin' up a fight . . . An' you can't bribe him, not with drink, not with money, not with any trickery" (Turgenev 1976 p. 175).

In the short story, the peasant hears an axe felling falling and immediately confronts the would- be thief. "Let me go" cries the peasant. . . It's been hungry . . . my little horse . . . let 'er go, she's all I got." The loner replied, "I know your sort . . . You're all the same where you come from, a bunch of thieves . . . I'm telling you I can't. I'm also the one who takes orders and I'll have to answer for it. And I've got no reason to be kind to the likes of you."

Why would the loner zealously guard the pecuniary interests of a distant and well-off landowner and ruthlessly castigate the destitute? In addition, this cogent short story raises a number of fundamental questions central to thinking any about economic system,

1. Why an exclusive right to own nature, when nature was given as a gift to all? Why can only a few expropriate it?
2. Is there a way to reconcile the bounty of nature with the poverty of individuals?
3. What is the role of property rights in causing and extending poverty? How can property rights be aligned with the rights of people in order to ensure a decent living for all?
4. What is the role of subordination and economic stratification, which "supposes power on one part and subjection on the other" (Johnson 1759 [1976], p. 55).

While Turgenev accurately depicted the mid-19th century Russian countryside, and its class relations centered on land, debt, power and subordination[1], these themes still resonate in today's capitalist societies. But, it is also interesting, as capitalism progressed, "almost none of the great theorists of capitalism, from anywhere on the political spectrum, from Marx to Weber, to Schumpeter, to von Mises, felt that capitalism was likely to be around for more than another generation or two at the most" (Graeber, 2011, p. 359). Indeed "it does seem strange that capitalism feels the need to imagine, or to actually manufacture, the means of its own imminent extinction" (Greeber 2011, p. 360). But why? Perhaps because capitalism has personified and elevated greed, and "capitalism as a system, simply cannot extend [inclusionary] deals to everyone" (Graeber 2011, p. 374). Perhaps capitalism is self-destructive bordering on class genocide (Leech 2011).

Nevertheless, with climate change already here, many are speculating that capitalism whose sole objective is making ever-increasing returns is on a collision course with ecological catastrophe. While much attention is devoted to discussing other alternative economic systems based on different value systems consistent with ecological values, it is also important to recognize and understand the obstacles to transition.

While attention at this workshop is focused on mapping a transition, the focus of this paper is to examine one of the most formidable and insidious obstacles- neoclassical economics education. Indeed, "economics [and economics education] as currently constituted and practiced, acts as a most effective barrier against the understanding of [our] problems" (Schumacher 1989, p. 50). And, "economists may be the main force preventing the introduction of countervailing measures to any future economics slump. Economics may make our recessions deeper, longer and intractable, when the public is entitled to expect economics to have precisely the opposite effect" (Keen 2011, p. 1).

This paper will briefly examine (in light of the main theme of this workshop) the role of credit and debt in economics education. As Graeber has cogently argued, money, credit, debt, slavery, power are all interrelated, "if history shows anything, it is that there's no better way to justify relations founded on violence, to make such relations seem moral, than by reframing them in the language of

[1] Indeed Turgenev was exiled during the 1850s due to his realistic portrayal of Russia's landowning class.

debt- above all, because it immediately makes it seem that it's the victim who's doing something wrong" (Graeber, 2011, p. 5).

It is also necessary to understand how debt is currently taught and whether it enables student understanding, or like so many aspects in neoclassical economics, how it inhibits understanding and knowledge. As Keynes wrote on the Ricardian victory, "That it could explain much social injustice and apparent cruelty as an inevitable incident in the scheme of progress, and the attempt to change such things as likely on the whole to do more harm than good, commended it to authority" (Keynes 1936, p. 33). Reforming and reconceptualization of economics education is our most important task.

If we are to design more equitable economic systems that comport with nature, it is important to understand how the existing actual capitalism system works, not an ideal caricatured in textbooks. Can we can rectify existing teaching to make it more amenable to developing alternatives to the current economic system? Section one will briefly survey how principles texts teach about debt and credit; section two will proffer alternatives; section three will offer concluding observations.

Section One: Neoclassical Discussion on Debt/Credit

While neoclassical economics has been consistenly critized at many differnet levels, the focus of this paper is pedagogical. A most persistent criticism is that it is irrelevant and boring. Nothing pains me more than to see an eager student wanting to study economics in order understand their socielty, only to be turned off by overly deductive logic with textbook authors spinning tales of ideological fancy.

Consider a flyer sent by Hugo Radice in 1969, a Cambridge Univesity post graduate student in economics, "Many of us who study or teach economics feeel that much of our subject matter is irrelevant and meaningless in the face of the intense social and economic problems of the world" (quoted in Lee 2009, p. 127).

And as Hodsgson writes, "in the business, government and other non-academic communities, the perception is widespread and growing of economics as a technical and rarefied discipline, of questionable relevance and limited practical use" (Hodgson 2001, p. 9).

Considering our global problems and the keen interest of our students to learn and understand the system in which they will eventually live and work, that even that economics can remotely be considered boring is a damming criticism. Who knows how many students have been discouraged from enrolling in economics courses, given the air of boredom that precedes it, which is even institutionalized in economics textbooks, "Welcome to economics! Some of your fellow students may have warned you that econ is boring . Don't believe them, or at least, don't beekive them too much" (Baumol and Blinder 2012, p. 1).

A Quick Look at Economics Textbooks

Neoclassical textbooks claim that their goal is to educate students how the economy works. One text ebulliently claims that "economics can be an eye-opening experience. There is a vast and important word out there - the economic world and this book is designed to help you understand it" (Baumol and Blinder 2012, p. 1). And another, "economists are concerned with why the world is what it is- it is the study of human behavior . . . it is a broad fascinating field of study that deals with every aspect of life" (Boyes and Melvin 2013, p. 3). Well, apparantly, not every issue, debt and credit which is central to the functioning of capitalism, is barely mentioned.

Given the ubiqitous criticism of the similarity of neoclassical texts in both topical issues included and excluded and pedagocial presentation, I decided to sample the following textbooks at the principles, intermediate and advanced level:

Principles of Macroeconomics:

(1) William Baumol and Alan S. Blinder (2012) *Macroeconomics- Principles and Policies.*
(2) William Boyes and Michael Melvin (2013). *Macroeconomics* 9th ed.
(3) Paul Krugman and Robin Wells, *Macroeconomics*, 3rd ed.

Intermediate Macroeconomcs:

(1) Robert Gordon, (2012) *Macroeconomics*

Advanced Macroeconomics:

(1) David Roemer (2012) *Advanced Macroeconomics*

I perused each chapter, looking for anything remotely connected with debt and credit; and whether such discussion was integrated within the theory or incidental and merely included as a topics issues. I also searched for theoretical discussion of how debt affects consumption, aggregate demand and the business cycle; and any mention of previous authors (e.g., Hyman Minsky). I also perused the aggregate variables presented as important to students, such as GDP, inflation, income, money supply, etc, which is usually presented on the front/back covers.

In *Debunking Economics,* Steve Keen wrote,

> "It may astonish non-economists to learn that conventionally trained economists ignore the role of credit and private debt in the economy- and frankly it is astonishing . . . An economic theory that ignores the role of money and debt in a market economy cannot possibly make sense of the complex, monetary, credit-based economy in which we live. Yet that is the theory that has dominated economics for the last half century. If the market economy is to have a future, this widely believed but inherently delusional model has to be jettisoned" (Keen 2011, p. 6).

Not that I had great expectations, but nevertheless, the results were sobering, problematic and worrisome. Specifically, my findings are:

1. Occupying center stage is the debt of the federal government. Obviously this is important given the widespread coverage in the press.
2. No text discusses consumer debt and its role in augmenting aggregate demand.
3. There is no systematic discussion of Hyman Minsky and his illuminating models of debt accumulation. While Baumol and Blinder (2012) at least mention (albeit briefly) Minsky, it is only in the context of financial bubbles, "A number of economists, most prominently the late Hyman Minsky, have argued that bubbles are an inherent part of the cycle of financial capitalism- almost as if they had it hard-wired in" (Baumol and Blinder 2012, p. 238). While this is a positive step, much more informative would be Minsky's conceptualization of credit/debt and its role in the business cycle.
4. The most recent crisis is discussed as an example of a financial bubble; however students are precluded a thorough understanding of the crisis without access to Minsky's models; and thus, not surprising, students are also presented with misguided and myopic solutions, "if you omit so crucial a

variable as debt from your analysis of a market economy, there is precious little else you will get right" (Keen 2011, p. 321).

5. Among the macroeconomic variables and their historical numbers presented to students, such as Income, GDP, Employment, Unemployment, Money Supply, Interest Rates, variables such as Consumer Debt/GDP or Investment/GDP are omitted. Students enrolled in a principles course would assume that not only is debt non-existent but given its omission, it is not important. Thus, at least with this important topic, students are worse off from reading the economic texts than they would be otherwise.[2]
6. While perhaps an argument could be made that Minsky's debt theory might be more effective at the intermediate, or even advanced level- I vehemently disagree- it was doubly disappointing that little mention was made at the more advanced levels.
7. While Gordon contains coverage of the federal debt- the recent crisis as a bubble and the leverage that fueled it, no mention is made of Minsky, nor of debt increasing aggregate demand. Gordon titillates with this sentence, "The bias in the tax system toward encouraging borrowing was one of many causes of the 2000-2006 housing bubble" (Gordon, 2012, p. 331). But this is it: no effort is made to incorporate this into a broader theoretical model. Although Gordon introduces Household Net Worth and its role in increasing household saving rates during the recent crisis, it is relegated as a case study and not expanded in the text[3] (Gordon 2012, pp. 506-509).

In an essay on teaching money and banking to undergraduates (Croushore 2012) there is no clarion call -- despite the recent crisis -- to discuss credit, debt and its role in increasing aggregate demand; nor any exhortation to incorporate

[2] A similar conclusion was reached in a systematic review of environmental coverage in mainstream textbooks (Green 2012). What does this say about education when two of the most prominent problems confronting students today – climate change and the role of debt - are totally ignored in principles of economics textbooks?

[3] While some might argue that textbook deficiencies are inconsequential, since professors can supplement their lectures with a reader and their own material; I disagree for two reasons: One, textbooks should at least provide a foundational state of the knowledge in the profession; and two, most neoclassical economists are incapable of supplementing the text not only given their profound ignorance of other views, but also of critical views within the neoclassical model (Keen 2011, passim).

Minsky's models. And at least for me, quite troublesome is the candid admission of the lack of institutional knowledge necessary to teach money and banking, "The second key section of a money and banking course concerns the fundamentals of banking. This is often a difficult are for many instructors, especially those whose background is in macroeconomics and who may not know very much about the institutional details of banking" (Croushore 2012, p. 632).

Section Two: How Should We Incorporate Minsky and Consumer Debt into Economics Pedagogy?

The need for radical reformation of economics education is increasingly becoming more accepted across the globe (Reardon 2012), yet given the vested interest by neoclassical economists in perpetuating the status quo, the task is formidable, "there are substantial vested interests by university departments, associations, journals, classification systems, economics 101 textbooks, and its basic narrative, collectively and interactively block any effort at meaningful reform (Fullbrook 2010, p. 95).

As founding editor of a new global journal on economics education, I have a keen interest in the reformation of economics education and have written about this extensively (Reardon 2012). I have consistently argued that if the reformation of economics education is to succeed, no student should enroll in any economics course until a number of prerequisites have been taken, in order for students to develop a solid intellectual foundation to parry the inevitable ideological onslaught in later (neoclassical) courses,

> "so when a neoclassical professor bullies students into assuming that all consumers are rational or when a textbook claims that markets, left uninhibited, arrive at a beneficent equilibrium for all, students rather than absorbing this like a sponge, can think for themselves, develop their own minds, and challenge their professors" (Reardon 2012).

In addition, I have the following suggestions pertaining to debt and credit:

1. It is essential to start with a broader definition of economics. Instead of the myopic, narrow neoclassical definition of economics- the science of allocating resources amongst unlimited wants (I can't imagine any student being enthused about this!), a much more practical and holistic definition is "that economics is defined by the concern of economic provisioning, or how societies organize themselves to sustain life and enhance its quality" (Nelson 2009, p. 61). Such a definition can "encompass social and economic institutions, real human psychology and the actual unfolding of historical events [and] invites questions about whether current patterns of wealth and income distribution, consumerists attitudes, and the use and abuse of the natural environment serve valuable ends" (Nelson 2009, p. 61).
2. Rather than the usual introduction to using graphs why not introduce students to differential equations and nonlinear techniques right off the bat (Keen 2009). Although some might object to the difficulty, is there anything more difficult than constricting students to think in the idealized world of perfect competition?
3. Steve Keen's workshop on computer simulation, to understand the restricted utility of linear relationships and as hands-on approach to introducing students to complexity, dynamic models, and non-linear models.
4. Careful distinction between markets and capitalism which are very different. Students after taking the prerequisites will understand this, but nevertheless, it needs to be expanded here. As Graeber writes, "while markets are ways of exchanging goods through the medium of money, capitalism is first and foremost the art of using money to get more money" (Graeber 2011, p. 260).
5. Careful discussion of debt: what is it and its inextricable link between money, credit, violence, slavery and capitalism. According to Graeber, "a debt is the obligation to pay a certain sum of money. As a result, a debt, unlike any other form of obligation, can be precisely quantified [which] allows debts, unlike any other form of obligation to be precisely quantified. This allows debts to become simple, cold and impersonal – which in turn allows them to be transferable" (Graeber 2011, p. 13). I would suggest using Graeber's book, *Debt – The First 5,000 Years* as a supplementary text and

encourage a pluralist connection between economics and anthropology, since, "anthropology has shown us just how different and numerous are the ways in which humans have been known to organize themselves" (Graeber 2011, p. 89), along with a pluralist cooperation of all the social sciences.

6. Jettison the neoclassical delineation between states and markets, since "it's a false dichotomy. States created markets. Markets require states. Neither could continue without the other, at least, in anything like the forms we would recognize today" (Graeber 2011, p. 71).
7. A systematic discussion of Hyman Minsky's model of debt and how it can augment aggregate demand and thus the business cycle. This should form a separate chapter and the foundation of the book, enabling a systematic bridging of micro and macro economics, which never should have been separated in the first place.

Section 3: Conclusion

The paucity of references to debt and its role in augmenting aggregate demand is shockingly derelict, but unfortunately not surprising. If we are to change economics – which we must- and use economics education in order to conceptualize a more equitable set of global institutions- which we must - then it is imperative we radically reform economics education. Although Robert Gordon noted that "the development of new theories in macroeconomics and the abandonment of old theories often occur in response to major macroeconomic developments" (Gordon 2011, p. 543) since "events and ideas evolve together" (Gordon 2011, p. 571) there is little if any abandonment of the old economic theories and students are just as short-changed as ever.

We need a new economics and a new economics education. No better place to begin than a systematic discussion of the role of debt in capitalist economies.

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