

# International Perspectives in Undergraduate Education

By JOSEPH E. STIGLITZ\*

There is an old joke about economics which says that the questions stay the same, only the answers change. Though there is some truth in that idea, I would argue that over the past 50 years, there have been marked changes both in the questions and in the answers, but that many of these changes are still only imperfectly reflected in undergraduate textbooks.

To be sure, there have been marked changes in the commonly used texts during the past 50 years: Paul Samuelson's was the most successful in introducing Keynesian economics into the Principles course in the late 1940s. While that was a major departure from earlier texts, his book continued many earlier traditions. For instance, Joseph Schumpeter, writing several years earlier in *Capitalism, Socialism, and Democracy*, bemoaned the lack of attention in undergraduate (and graduate) texts to technological change, a discussion of which he saw as essential for an understanding of modern industrial economies. Samuelson, and the texts after him, ignored Schumpeter's pleading.

Similarly, the domain of economics was narrowly construed. I remember being told when I took the Principles course at Amherst, some 32 years ago, that subjects like finance and organizations belonged in business schools and were not properly part of a liberal-arts education; Samuelson's text, as well as the other Principles books, reflected these views.

Indeed, if we look at modern developments in economics, it is remarkable how few of them are adequately represented in most of the Principles textbooks. To take

but one example, economists have devoted increasing attention to problems of incentives. In our complex modern economy, most workers work for others. Whether we are concerned with a government employee acting on behalf of the "public" he is supposedly serving, an investment banker acting for an investor, or an assembly-line worker working for an industrial firm, the incentives of the parties are often not well aligned. The collapse of the Soviet empire is often attributed, in large part, to a failure to develop an adequate incentive system; and the failure of the S&L's within the United States is often attributed, in large part, to a regulatory system with misguided incentives. Yet issues of incentives—at least as approached by modern economics—receive scant attention in most Principles books.

This session focuses on one aspect of the undergraduate curriculum, international perspectives. It has become almost a cliché that we live in a global, interconnected economy; but the fact that it is a cliché does not alter the importance of recognizing this in our undergraduate economics courses.

At the time Samuelson's textbook—which set the tone for the generation of books to follow—was written, it was perhaps understandable that economics, at least in America, would be approached from the perspective of a closed economy. One could, *perhaps*, make an argument that, in the basic Principles course, one might legitimately ignore international issues. With this closed-economy perspective as its starting point, the evolution of the modern American undergraduate textbook is also perhaps understandable: as international issues mattered more and more in the 1960's and 1970's, additional material was added incrementally, without a thorough rethinking of how it fit into the text. One can only conjecture how undergraduate economics (or the profession as a whole) might have developed had Keynes himself, or some other

\* Department of Economics, Stanford University, Stanford, CA 94305-6072. Financial support of the National Science Foundation and the Hoover Institution is gratefully acknowledged.

writer in the United Kingdom, been the first to set out a textbook synthesis of Keynesian and classical economics. It is unlikely that the standard treatment, relegating international economic issues to the chapters at the end of the book and skipping over them in the inevitable rush at the end of the term to cover the "core material," would have predominated for as long as it did.

Undergraduate textbooks of recent years have, as I have suggested, made some improvements in taking a more international perspective. Many of the textbooks have, for instance, added more pages. A brief survey of three longstanding leading textbooks showed in each case an increase in the percentage of pages devoted to international issues—in one case from 8.9 percent in the 1951 edition, to 9.5 percent in the 1992 edition; in another from 9.1 percent in the 1963 edition to 10.2 percent in the 1984 edition.<sup>1</sup> On the other hand, it was perhaps noteworthy that while one of the books moved the international chapters from the very end of the book to the center of the text, the two other books had kept the discussions of international economics (including comparative economic systems) at the place of distinction, at the very end of the book.

There are other manifestations of the internationalization of the Principles course: It has, for instance, become common, if not standard, to add "exports minus imports" to the  $C + I + G$  of the conventional income-expenditure analysis.

I want to argue in this paper that there is still much more to be done: providing an international perspective not only can en-

rich the standard course, but beyond that, is *necessary* if we are to understand modern economics, in all of its manifestations. As I have suggested, all too often, what has been done has been the addition of material on international economics, without a thorough reexamination of how the fact that goods and capital markets are open affects modern economies, including that of the United States.

We need to remember that many of our students will not be going on to take further courses in economics, let alone to do graduate training. What they know about economics may (at most) be limited to what we teach them in the basic undergraduate courses. We need to ask, are we providing them with a basis for understanding the everyday events which they read about in the newspapers? To be sure, currency crises, balance-of-payments problems, international trade wars and so forth are complicated matters. These events raise issues with which graduate students struggle and about which Ph.D. theses are written. But as voters, they will be called upon to make judgments about international economic policies being advocated by one or another party, and as businesspeople, they will be called upon to react and interpret these events in the realm of international economics. In other areas, economists have been remarkably successful in translating complicated ideas into a form in which at least part of the essence can be transmitted to undergraduates. Shouldn't we be able to do the same here?

I wish to make five points in this paper:

1. First, I shall suggest that several of the standard issues discussed in elementary economics courses can only be properly understood within an international perspective. Using a closed-economy model leads to misleading, if not "wrong" results. This is an area in which, in many cases, the questions have stayed the same, but taking a global perspective has forced us to change the answers.
2. Secondly, I will argue that several of the issues which are of most concern, both to

<sup>1</sup>These numbers do not include chapters on comparative economic systems. In two of the three texts examined, the attention devoted to that topic actually declined, in one case from 3.8 percent to 2.8 percent, in another from 4.5 percent to 4.0 percent; in the third text, in the 1963 edition, no attention was devoted to comparative economic systems, while in the 1984 edition 2.6 percent of the pages were concerned with that topic. The numbers are meant only to be suggestive, since we did not analyze portions of chapters devoted to international issues.

- students and to the citizenry at large, are international in character. These are examples where global perspectives force us to change the questions being asked.
3. Thirdly, I will argue that taking an international perspective can enrich the undergraduate curriculum by providing meaningful illustrations of basic economic principles.
  4. Fourthly, I will suggest that it is important for students to have an "international perspective" to put the kinds of statistics with which they are confronted into perspective. Is a 7-percent unemployment rate a high or a low number? Is a 2.7-percent growth rate a high or a low number?
  5. Finally, I will argue that we often take our economic (and social) institutions for granted. By taking an international perspective, students can come to understand that there are differences, and similarities, across economies; and we can at least raise the possibility that some of the things that other countries do—some of their economic institutions and arrangements—may actually have some advantages over those prevalent in the United States.

In this paper, I will focus on the two undergraduate courses with which I am most familiar, the introductory course and the public-finance course, but the implications for other courses (including macroeconomics and industrial organization) should be clear.

**I. Why An International Perspective is Necessary for Understanding Modern Economics: New Answers to Old Questions**

First, I want to argue that several of the *standard* issues discussed in elementary economics courses can only be properly understood with an international perspective. Consider first the issue of the U.S. debt and deficit, the center of the debate in the last presidential election. Many textbooks continue to teach that there is no burden, because "we owe it to ourselves." However,

that is a perspective that is valid only within a closed economy,<sup>2</sup> which we surely are not. To a large extent, either directly or indirectly, our deficit is being financed by foreign borrowing. Indeed, the trade deficit—which students who read the newspaper will surely be acquainted with as a problem worthy of regular front-page coverage—is closely linked with the fiscal deficit, and it is essential to understand the links between the two.

Next consider the issue of the effect of monetary policy. Again, as capital markets have become more open, it has become increasingly difficult for governments to affect real interest rates for any but the short term. Again, when monetary policy failed significantly to stimulate investment directly (or even change long-term interest rates by very much), many prominent economists, including James Tobin, argued that monetary policy would still exert influence, through its effect on exchange rates. If students are to understand monetary policy in our present economy, they must at least be aware of these international ramifications.

Putting our standard models into an international context does present challenges. As we try to explain our idealized models of perfect competition, with all firms facing horizontal demand curves, brighter students are apt to ask: does that mean that small countries cannot face a problem of insufficient aggregate demand, since they can export as much as they want at the going international prices? Such questions help bring realism into our idealized models and help motivate interest in models of imperfect competition.

As another example, consider the effect of a corporate income tax. Again, if capital markets are open, the incidence of such a tax will not be borne at all by capital; it will reside either on labor or land. Public-finance textbooks which simply teach the Harberger model (Arnold Harberger, 1962),

<sup>2</sup>It is, of course, questionable whether that view is accurate even for a closed economy.

based on a closed economy, are clearly not giving students an accurate view of the effect of such a tax in our modern open economy.

As a final example, consider the implications of the development of international markets for traditional antitrust policy. The fact that there are only three car producers in the United States does not mean that they can exercise the same kind of market power that they formerly could. Issues of industrial concentration within a country take on a new light when approached from a global perspective.

## II. International Policy Issues: Asking New Questions

We live in a global economy, and that fact confronts us with many important policy issues, beyond the more obvious ones concerned with trade policy. Let me illustrate with three examples. Discussion of these examples not only makes the course more relevant to current concerns, but can be used to illustrate basic economic principles.

Issues of global warming and ozone holes have recently received extensive discussions. These are questions which cannot be resolved by any country alone. Discussions of these issues illustrate the problems of externalities, and in a far more relevant way than the examples of honey and bees often used to illustrate externalities. The tragedy of the commons—and how the problem of commons can be addressed—can be illustrated by the depletion of the ocean's supply of whales and the international treaties designed to limit the extent of whaling.

While the recent Rio conference brought attention to the international aspects of environmental issues, there are other key international issues within courses on public-sector economics. How the international burden of defense should be shared—a topic which was also raised in the last Presidential election—illustrates that public-good and free-rider problems can arise at the level of nations as well as individuals.

The problem of the international competitiveness of the American economy, while it

has only gradually become the focus of academic research, has been the subject of popular concern for at least a decade, and it would be remiss if Principles texts did not at least devote some attention, both to the description of the relative growth performance and to an analysis of some of the possible causes of the differences.

## III. International Perspectives as Illustrations of Basic Economic Principles

In the previous situations, the international perspective simply could not be ignored. In the first set, if we address policy issues from the perspective of a closed economy, we get the “wrong” answer; in the second set, the policy issues are essentially international in nature. But there are a wider set of issues in which bringing international perspectives adds richness to the discussion.

Several of these wider issues are standard: concepts of comparative advantage, specialization, and gains from trade were developed in an international context. All too often, however, elementary textbooks illustrate these principles in the early chapters of the book, without reference to the international context, and then relegate the international “application” to those chapters that are so often not covered. In my judgment, it makes much more sense to bring out the parallels far earlier in the course.

Others, while not standard, are fairly straightforward: we can use tariffs as an illustration of how an excise tax shifts the supply curve in a supply-and-demand diagram; or we can use trade wars to illustrate the prisoner's dilemma, bringing home the importance of international cooperation.

I conclude this section with a perhaps somewhat less obvious illustration. While most students may not be absorbed by a concern over intellectual property rights, the prominence of that issue in the Uruguay round provides a natural setting both to discuss a major policy issue and to illustrate the importance of property rights and appropriability problems.

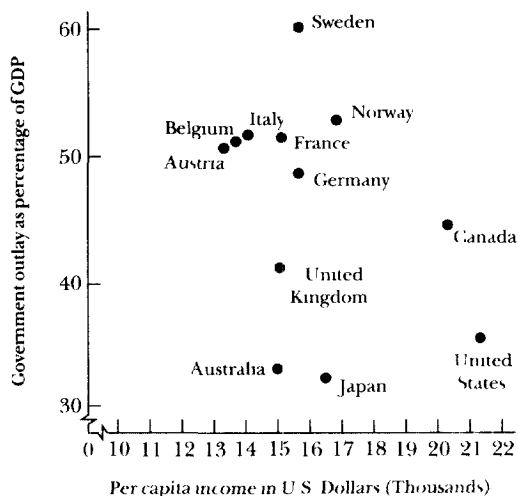


FIGURE 1. GOVERNMENT EXPENDITURES IN INDUSTRIALIZED COUNTRIES

Source: Organization for Economic Cooperation and Development (1991).

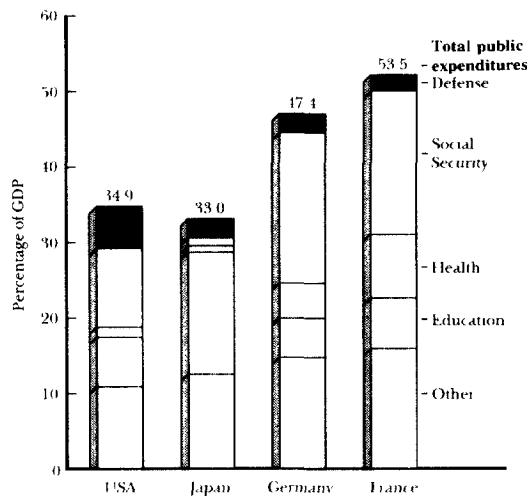


FIGURE 2. EXPENDITURE PATTERNS OF INDUSTRIALIZED COUNTRIES

Sources: Government Finance Statistics Yearbook (1990), National Accounts Statistics (1990).

**IV. International Perspectives on the American Economy**

In the standard economics courses, we present students with an array of statistics. We discuss, for instance, the share of government in GDP. The issue of whether government is too large or too small again was one of the major issues raised in the last presidential campaign. But how are students to interpret the statistics describing what is going on? If the share of government expenditure in GDP is 35 percent, is that a large or a small number? One way to get some insight into that matter is to contrast the number with those for other countries, as illustrated in Figure 1. There, we see that, relative to most countries with comparable per capita income, we are spending much less.

Further insights into this question can be had by comparing levels of expenditure other than defense. The bar chart (Fig. 2) shows that, compared with other major countries, non-defense expenditures as a percentage of GNP are considerably smaller.

When we tell our students that savings are low, one way to bring that home is to compare the U.S. savings rate with that of some other developed countries, as illustrated in Figure 3. When we tell our students that the United States is spending "too little" on civilian R&D, the point can be brought home most effectively by comparing levels of expenditure (as a percentage of GDP) in the United States with those in Japan. The point that the United States has a "growth problem" can most forcefully be brought home by comparing its growth rate in per capita income with that of other countries, as in Figure 4.

**V. International Perspectives and American Institutions**

Students are likely to take for granted the institutional arrangements that they have lived with their entire lives. That is the way things are, and perhaps even should be. There is a certain "natural order." However, institutions differ across countries, and it is useful to confront students with these

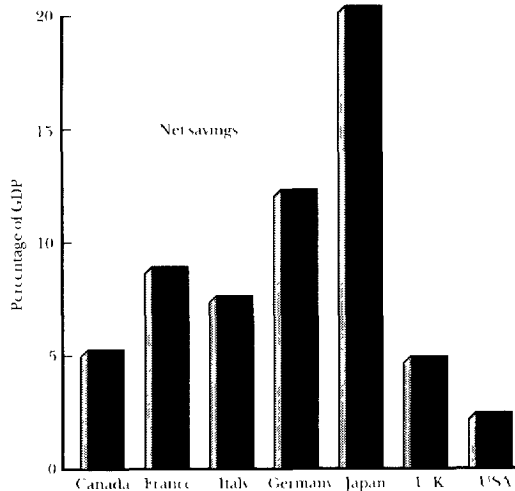


FIGURE 3. SAVINGS RATES IN DEVELOPED ECONOMIES

Source. Organization for Economic Cooperation and Development (1990).

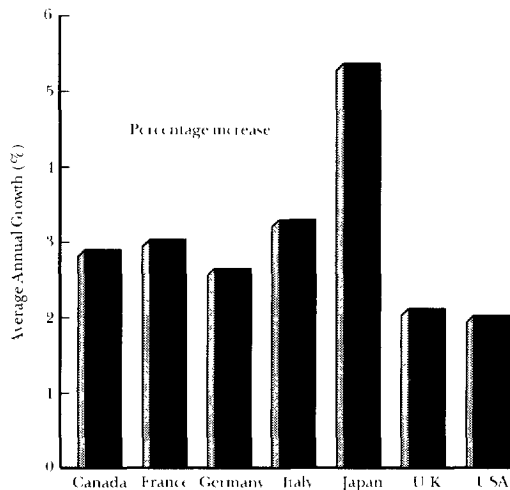


FIGURE 4. ANNUAL GROWTH IN GDP PER CAPITA

Source. Organization for Economic Cooperation and Development (1992).

differences, to make them think more deeply about alternatives.

The socialist experiment—and its failure—provides an obvious example which most students find intriguing. But there are many other examples which can be used to put into perspective both government policies and market relations. Let me illustrate with a few examples.

The American health system became a central issue in the last presidential campaign. Students should know that the American health delivery system differs markedly from that of almost all other countries of the world. At least within courses in public-sector economics, they should become familiar with the outlines of such alternatives as the Canadian and British systems and the problems each has encountered.

Next, consider social security. Again, students (at least in courses in public-sector economics) should be familiar with such alternatives as the recently introduced New Zealand program and the Provident funds of Singapore and Malaysia, alternatives which may be far more effective in meeting the basic objectives of social security than the system currently employed in the United States.

Students in public finance should become aware that the United States is one of the few countries not to use a value-added tax. Such discussions help put into perspective issues such as whether such a system can work and at least raise questions of why it is that the United States differs from other countries.

Consider America's financial system. In courses in money and banking, and in macroeconomics, students should be made aware of the marked differences between the Japanese and American banking systems. They should at least be aware of the arguments concerning the advantages of the Japanese banking system (its greater effectiveness in monitoring firms).

Similarly, courses in labor economics should devote at least some time to some of the important ways that the Japanese labor market differs from that of the United States (such as lower labor turnover). They need to

understand, for instance, some of the explanations of the causes of these differences, as well as their consequences.

Of course, in each of these instances, the fact that the United States differs from other countries, or that it stands out from institutions and practices in other countries, does not mean that the United States is either "right" or "wrong." But it should at least raise questions in students' minds. Are there other ways of doing things? Why do we do things the way we do? Is it institutional inertia, the force of habit? Or are there good reasons? Addressing these questions provides a good opportunity for the use of economic analysis.

#### VI. Concluding Remarks

I have tried to illustrate the variety of ways in which an international perspective can enrich the undergraduate economics curriculum, by providing new illustrations of standard principles and thus reinforcing the students' understanding of those principles; by putting new perspectives on the vast array of statistics with which students are confronted in their courses; and by providing alternative points of reference through which students can look at American economic institutions and practices. I have tried to illustrate this by choosing examples drawn from a wide array of topics, from macroeconomic and monetary policy to tax policy, from issues of externalities and public goods to those of property rights, from insights into labor markets to implications for antitrust policy, from new issues like international competitiveness to old issues like the burden of the debt and the incidence of the corporation income tax.

I would argue that what is at stake, however, is more than just the enrichment of the course. In some cases, by not putting policy issues in an international perspective, we provide students with the "wrong" answers. In other cases, we provide them with no guidance on issues which they see daily in the newspaper, and in doing so, we make our courses less relevant than they might be. Beyond that, textbooks help shape students' perceptions of the world and of America's place in that world. The challenges of the 21st century will require that those perceptions adapt to the changing realities.

#### REFERENCES

- Harberger, Arnold**, "The Incidence of the Corporation Income Tax." *Journal of Political Economy*, June 1962, 70, 215-40.
- Samuelson, Paul**, *Economics*, New York: McGraw-Hill, 1948.
- Schumpeter, Joseph**, *Capitalism, Socialism, and Democracy*, New York: Harper, 1942.
- Government Finance Statistics Yearbook**, Washington, DC: International Monetary Fund, 1990.
- National Accounts Statistics**, New York, United Nations, 1990.
- Organization for Economic Cooperation and Development**, *Economic Outlook*, Paris: Organization for Economic Cooperation and Development, 1990.
- \_\_\_\_\_, *Economic Outlook*, Paris: Organization for Economic Cooperation and Development, 1991.
- \_\_\_\_\_, *National Accounts*, Paris: Organization for Economic Cooperation and Development, 1992.

Copyright of American Economic Review is the property of American Economic Association and its content may not be copied or emailed to multiple sites or posted to a listserv without the copyright holder's express written permission. However, users may print, download, or email articles for individual use.