

000 partnerships, and 1,000,000 corporations), annually produces goods and services worth more than \$1,000,000,000,000—some 30 percent of the world total. Who or what directs this vast production-and-distribution system? In small and intimate matters, willy-nilly individual decision making may be tolerable, but to resolve the vital, over-all, aggregate problems, it seems that someone must be in charge.

But American economic activity is *not* directed, planned, or controlled by any economic czar—governmental or private. No person or group poses detailed questions of how the community is to use its resources, and no one imposes comprehensive answers to the questions. Yet such problems—large and small—somehow *are* solved daily. No agency is appointed to ensure that adequate food reaches every city and is allocated among competing claimants—and yet the people eat. No “big brother” oversees the multitudinous operations of the economy and ensures that the essential functions are performed. The alternative to “big brother” evidently is not chaos and anarchy. An economic order does exist; some sort of control and direction does operate. Moreover, this mysterious system allows individuals and businesses to be essentially autonomous—and self-interested—agents (subject to the constraints that define property arrangements) and, at the same time, yields a viable and enviable degree of economic efficiency.

The individual, far from wrestling with grandiose problems of the universe, decides how much of his own wealth and income to expend for this or that and what kind of work to do. No farmer adds up the total demands for food in a city, comparing the total with the amount being shipped to the city, to make sure (because of his compassion) that adequate supplies will be available. Instead, with his individual interest and perspective, he asks, “Would I personally be richer or poorer if I shipped *and exchanged* more or less?” Millions of us make *exchange* decisions on our own “little pictures.”

Although many of us solve our personal problems, we may still be grossly ignorant about how our actions and laws affect the rest of society. Comprehension of these larger effects requires economic theory, even if virtually none is required for individual decisions. We can be sure, as we shall see later, that economic analysis is ignored when the following incorrect assertions are proposed: the rationale of the capitalistic system requires a “harmony of interests”; customers must take what producers offer them; minimum-wage laws help the unskilled; discrimination can be stopped; pollution of air and water unquestionably should be stopped; automation reduces available jobs; tariffs protect domestic wage earners from foreign labor; our otherwise unlimited productive capacity is curtailed by monopolistic capitalists who arbitrarily set prices high; unions protect workers from greedy employers; inflation hurts the wage earner and benefits the employer; private firms serve private interests while publicly owned agencies serve public interests; used-book markets must reduce the royalties of textbook authors; social conscience and civic sensitivity are or should be the guides to business corporate behavior; unemployment occurs because not enough jobs are available or because some people are shiftless and lazy; or American agriculture produces a surplus of wheat because it is so productive. And that is only a tiny sample!

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Three Attributes of Economic Analysis

To help understand what economics is, three methodological attributes should be clarified.

1. Economic theory is “positive” or “non-normative.” It gives no generally accepted criteria for determining which consequence or type of behavior or economic policy is good—any more than physics tells whether gases are “better” than solids, or any more

than medicine can tell whether you "ought" not to smoke and drink. Economics can tell only the consequences of certain conditions, policies, or choices. It is no more proper for the economist than for any other person to sit on Mt. Olympus and decree what is desirable, though everyone may in fact make such pronouncements.

2. Economics explains what conditions will lead to what consequences. Economics yields conditional "if-A-then-B" propositions; it does not forecast that the A will occur—although some *economists* (as opposed to economics) may hazard such forecasts. It says a lower price of cars will sell more cars, but it doesn't say car prices *will* be lowered.

3. Valid economic theory exists and is applicable to *all* economic systems and countries. There is *not* a special economic theory for capitalism and another for communism, although significant differences exist in the institutions and legal frameworks to which the theory is applied. For the present, it is sufficiently accurate to define capitalism as a system of exchangeable private-property rights in goods and services, with the central government protecting these rights. Private-property rights, in turn, can be defined as the rights of owners to choose the use of their goods and resources (including labor and time) as they see fit. If a rock is said to be my property and a piece of glass is yours, I have control over only the rock, and you over only the glass; for me to throw my rock through your glass without your permission would exceed my rights to use only my goods as I wish because it would usurp your rights to use only your property as you see fit. In socialism, rights to the uses of a good are not assigned to specified individuals but instead are divided among various people in government agencies, who decide about uses and consequences to be borne. This is a system of "government ownership."

Market exchange of property rights is applicable to a wider class of activity in a "capitalistic" private-property economy than it is in a socialistic society. The extent of and reliance on interpersonal market exchange is greater in a capitalistic system. In a socialist system, political power and exchange of *nonprivate* rights are used more widely to solve the economic questions. If we were to devote primary attention to socialist systems, we would investigate much more fully political exchange, political decision making, and political competition. Although applicable to all economic systems, economic theory has been more extensively and fruitfully applied to the analysis of capitalistic than of socialistic systems. However, some applications to noncapitalistic organizations are given in this book.

In sum, economics studies the competitive and cooperative behavior of people in resolving conflicts of interest that arise because wants exceed what is available.

Introductory comments cannot adequately reveal all that economics is or the richness of applications of economic theory. Only a study of economics can do that. Societies and open markets *have* grown and prospered in the face of almost universal illiteracy about economic theory, so there *are* limits to the significance and usefulness of the formal study of economics. But give it a fair try, anyway. Economics does deal with important things. Unless you fight it assiduously, it may well even be quite interesting.

Summary

A cautionary note: do not use these summaries as quick learning devices for examinations. Instead treat them as listing in capsule, cryptic form the major ideas of the chapters. The statements do not always reveal the full content and significance of each idea.

- 1 Given the limitations of nature and the unlimited desires of man, scarcity is inevitable and pervasive.
 - 2 Efficient productive activity exists if an increase in the output of any good requires a reduction of some other good.
 - 3 Economic theory is explanatory and amoral, not moral or prescriptive.
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Questions

Questions at the end of each chapter are a basic element in this book. Read each question, ponder it, and then read the selected answers at the end of the book. Answers have been supplied for questions numbered in bold type. Do not skip the questions and answers; they contain some important ideas, applications, and interpretations you will find nowhere else in the book.

- 1 A recent book states (in essence): "We are trapped by the 'dismal science'—economics, which is dominated by the belief that the achievement of abundance is impossible and that the economic problem is still the distribution of scarce resources. This is nonsense. Abundance has arrived! The United States can produce so much that the basic problems are to see that the potential production is realized and distributed fairly and equitably." Are you inclined to agree or disagree? Why?
- 2 What is nonsensical about the proposition, "A good economic system maximizes the welfare of the maximum number of people"?
- 3 When a group of Russian officials touring American farms persistently asked who told the farmers how much to produce in order to supply the appropriate amounts of goods, the farmers said that no one told them. But the Russians were convinced the farmers were concealing something. What would you have told the Russians?
- 4 Try to give a definition of "efficient" production, "scarcity," "shortage," "surplus," "needs." (Later, compare your definitions with those given in subsequent chapters.)
- 5 What is meant by specialization? Do you know anyone who does not specialize? Why do people specialize?
- 6 "The economy of the United States is directed by the capitalists concentrated in Wall Street." Evaluate this assertion now, and again when you have completed this course.
- 7 "Food is grown, harvested, sorted, processed, packed, transported, assembled in appropriately small bundles, and offered to consumers every day by individuals pursuing personal interests. No authority is responsible for seeing that these functions are performed and that the right amount of food is produced. Yet food is available every day. On the other hand, especially appointed authorities are responsible for seeing that such things as water, education, and electricity are made available. Is it not paradoxical that in the very areas where we consciously plan and control social output, we often find shortages and failure of service? References to classroom and water shortages are rife; but who has heard of a shortage of restaurants, churches, furniture, beer, shoes, or paper? Even further, is it not surprising that privately owned businesses, operating for the private gain of the owners, provide as good, if not better, service to patrons and customers as do the post office, schools, and other publicly owned enterprises? Furthermore, wouldn't you expect public agencies to be less discriminating according to race and creed than privately owned business? Yet the fact is that they are not." How do you explain these paradoxes?

- 8 The *Statistical Abstract of the United States*, published annually by the U.S. Department of Commerce, Bureau of the Census, is a standard summary of statistics on the social, political, and economic organization of the United States. Every college library has a copy. You are urged to spend half an hour or so scanning the volume. For example, on page 125 of the 1969 edition you will find some data about faculty salaries. Do you think your instructor is underpaid or overpaid? After thinking about that for three minutes, compare faculty salaries with the information on pages 227-230 of that same edition about earnings in other industries.
- 9 What is meant by (a) the logical validity of a theory? (b) the empirical validity? (c) Does either imply the other?