

Task Section Document

It would be possible to imagine thousands of rules for allocating resources, goods and services—for example, according to how tall people are, or according to hair color. Many such possibilities would make no sense, obviously. Five common methods covered in this lesson include the following: rule of force, first come-first serve, government rules, market systems, and allocation by appearance and personality. Each method is discussed below.

One of the most important functions of government is to outlaw the rule of force so that it can be replaced by better rules (although competition through force remains common between governments in the form of wars). Reliance on the rule of force is costly to society because it motivates destructive competition and discourages productive competition.

Another familiar rule for allocating scarce goods and services that is not uncommon is first come-first served. For example: the first shoppers to show up when the store opens get to buy up goods on sale at low prices. This rule causes people to compete by waiting in line, with the competition favoring those who get in line first and wait the longest. Unless fighting breaks out as some people start cutting in line (which is a violation of the rule) first come-first served does not motivate destructive competition, but neither does it motivate productive cooperation that can make everyone better off. Waiting in line does nothing to get people to work together to produce more of what people are waiting for, or more of anything else of value.

A more common way of allocating scarce goods is by having the government distribute them. Government distribution is typically justified as a way of making sure that things go to those who most deserve them instead of to those best able to compete. But the rules of government distribution don't eliminate competition; they just change the type of competition that takes place. The more governments take over the task of allocating valuable goods and services, the more money people will spend contributing to political campaigns and hiring lawyers and lobbyists to influence the allocation decisions of politicians.

Obviously, some political competition for government favors is useful, since it provides politicians with information on what people want, but it does little to produce more of the wealth that people are competing over. When one group gets more through political competition, other group typically gets less.

In the United States economy, most resources and goods and services are allocated through markets. Under the rules of the market, firms compete for more customers and higher profits, workers compete for better jobs and larger incomes, and consumers compete by being willing to pay more for the products they value most. Much of economics is a study of how market competition

promotes productive cooperation by providing each of us with the information and motivation to pursue our interests in ways that best serve the interest of others. For example, firms make more profit by producing those products that consumers value most--products the consumers are willing to pay the most for. Workers make more money by taking jobs in which they help firms produce the products that consumers value the most. Market competition doesn't lead to perfect cooperation (what does?), and there are some circumstances (supplying national defense, for example) under which it simply doesn't work at all, in which case we typically have to rely on government allocation. No matter how well market competition works, it does not allow people to have all they want: it doesn't perform the impossible task of eliminating scarcity. Market competition does, however, allow people to get more of what they want by helping others get more of what they want. The result is that scarce resources are not merely allocated, but allocated in ways that push back the limits of scarcity by increasing the value of what is produced. Also, even when markets are capable of working well, we need some involvement on the part of government-- not to allocate products directly, but to enforce the rules that are necessary for markets to work properly.

There are ways of allocating nice things other than by force, first come-first serve, government rules, and markets. For example, people want to be popular, have good friends, get invited to parties, and get dates for Saturday night, and they will compete for popularity, friendships, etc., by making efforts to improve their appearances and personalities. This competition is certainly productive because it results in people being more pleasant to be around. But it doesn't motivate the development of skills and efforts that produce more general goods and services, as market competition does.