

HANDOUT

I Don't Want Much, I Just Want More: Allocation, Competition and Productivity

Because there is never enough to satisfy everyone, there has to be some way of allocating all resources, and the goods and services they produce. Allocating requires rules and those rules determine the type of competition that takes place. Even no rules will quickly become a rule—the rule of force where desirable things are acquired by the meanest and strongest who simply take what they want from others. This rule motivates competition that is so destructive (since existing wealth is destroyed as people fight over it and there is little motivation for anyone to produce new wealth) that not even the mean and strong are likely to benefit from it long.

Almost everything thing we do can be used as a method for allocating most resources, goods and services. Five common methods, however, include the following: rule of force; first come-first serve; government; markets; and appearance and personality. Each method is discussed below.

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

Another rule for allocating scarce goods and services that is not uncommon is first come-first serve. This rule causes people to compete by waiting in line, with the competition favoring those who wait the longest. Unless fighting breaks out as some people start cutting in line (which is a violation of the rule) first come-first serve 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 wealth government allocates, the more money people will spend contributing to political campaigns, hiring lawyers and lobbyists to influence the decisions of politicians.

Obviously, some political competition for government favors is useful by providing 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, some 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 under which it simply doesn't work at all, in which case we typically have to rely on government allocation--such as national defense. And 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 just 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 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, 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 these things 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.

In conclusion, some methods used to allocate resources include: rule of force; first come-first serve; government; markets; and appearance and personality. In fact, almost everything we do can be used for allocating resources, goods and services—such as awarding a prize to the person in the classroom who has the greatest number of freckles on her nose or the greatest number of hairs on his head.

The most common method used in the United States is markets. 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. Market competition tells firms what to produce, and how much to produce. Therefore, while market competition doesn't lead to perfect cooperation, the benefits are higher and the costs lower, in most situations, than through other methods.