

Who Gets What? How Do Societies Decide?

If resources were unlimited, we could all have whatever we want. But as the scarcity-forces-tradeoff principle reminds us, resources are limited. Just as scarcity forces individuals to make choices about what to have and what to give up, it also forces societies to make choices. The larger and more advanced a society is, the more numerous and complex these choices may be. In the end, however, these choices boil down to three basic questions.

Key Concept

The Three Basic Economic Questions
Every society—no matter how rich or poor—must answer three basic economic questions about the goods and services its people want.



What will be produced? Even with our limited resources, billions of things might be produced. Who or what decides which wants to fulfill and which to leave unsatisfied?

How will it be produced? There are many ways to produce a desired item. Who decides how the factors of production will be organized to make what people want?

For whom will it be produced? Once an item is produced, the question remains: who should get it? The first person in line? The highest bidder? The person who needs it most?

The Three Fundamental Economic Questions: What to Produce, How, and for Whom?

In deciding how to allocate limited resources, every society—from a tribe of people living in the Kalahari Desert to a modern industrial nation like the United States—must answer three fundamental economic questions. Each society answers these questions differently, depending on its priorities. The questions, however, are the same for everybody.

What goods and services are to be produced? Because of scarcity, no society can produce everything its people might want. This raises the question: What goods and services are most wanted and needed? For example, should the United States conserve wilderness areas for recreational purposes or open them up to logging or oil exploration? Should the U.S. steel industry produce more car parts or more beams for skyscrapers? What do consumers want or need more: sneakers or diapers? Teachers or dentists? Books or video games? With millions of possible products and many different interests competing for the same limited resources, the choices seem endless.

Even the simplest societies face difficult choices. Vanuatu is a nation of several small islands in the South Pacific. Vanuatu's economy has long depended on agriculture, but tourism is growing in importance. The question looming over Vanuatu's people is about what will benefit them more—putting more resources into growing food, or expanding tourist services? As a society, Vanuatians must decide.

How are goods and services to be produced? The answer to this question is not as simple as it may seem. You know that goods and services are produced by combining the factors of production: land, labor, and capital. But how is this done, exactly, and in what combination?

Consider wheat production. How should land, labor, and capital be used to raise this essential grain? Should wheat be grown mainly on giant factory farms? That is the way an American agribusiness raises wheat. But in a different society—say, in France—wheat is more likely to be grown on smaller family farms. Think about another example: hats. Should hats be crafted individually, by hand, or in factories by machines? Each society has to decide for itself the answer to such questions.

At this point, you are probably wondering why a society as a whole has to make decisions about hats. Don't hat manufacturers decide how to produce headwear? In the United States, they do, but that is because our society gives them that choice. Not all societies work this way.

For whom are goods and services to be produced? In other words, who gets what? This last question is a difficult one, because it inevitably raises the slippery question of fairness: who *deserves* what? Again, every society finds its own answer.

Goods and services are distributed in a variety of ways. The ability to pay is the approach most of us know best. It essentially says that anyone who can afford to buy a hat can have one.

Another approach is equal distribution. This approach was adopted by the Soviet Union before its collapse. Unfortunately, goods were in such short supply that lines formed for everything. Instead of distributing goods equally, the system favored those who got in line early and had time to wait. As a result, some people got more than their share, while others got nothing.

This brings us to yet another form of distribution: first come, first served. As in the Soviet Union, this approach often prevails when quantities are limited. Goods such as concert and theater tickets are usually sold this way.

In addition, there is distribution according to need. A soup kitchen does this when it provides meals to the homeless. So does a public school that provides classroom aides for special education students.



A Society's Answers Depend on Its Economic Goals

The way a society answers the three economic questions will necessarily depend on its economic aspirations and social values. Most societies try to address some or all of the following six economic goals.

Economic freedom. In our society, we place a high value on [economic freedom](#)—the ability to make our own economic decisions without interference from the government. When you choose to buy something, whether it is a music download or a used car, you are exercising this freedom. When you choose to sell your car or go into business selling cars or anything else, you are exercising this freedom. A society that values economic freedom gives individuals and businesses the right to make decisions about how to use their resources, without government intervention.



Economic efficiency. An efficient economy makes the most of society's resources. It delivers the goods, literally, by allocating resources in such a way that the greatest number of consumers get what they want with the least amount of waste. Because unemployed workers are a wasted resource, an efficient economy strives for [full employment](#), which exists when all who want to work can find jobs.

Economic equity. The term equity concerns fairness and justice. [Economic equity](#) involves the fair and just distribution of a society's wealth. A society that values economic equity seeks to give everyone his or her fair share of the economic pie.

But what constitutes a fair share? Is it fair that corporate executives make millions while retail workers earn minimum wage? Is it fair that women, as a group, earn less than men? People often disagree on questions of equity, which makes it a difficult goal to achieve.

Economic growth. An economy is said to grow when it produces more and better goods and services. **Economic growth** is desirable because over time it leads to an improved standard of living. A century ago, middle-class Americans lived without cars, electricity, kitchen appliances, and indoor plumbing (not to mention antibiotics, frozen foods, and the Internet). A key element of economic growth is scientific and technological innovation. New ideas and inventions bring new and improved products into the market, creating economic growth and raising living standards.

Economic security. Every society has people who cannot provide for themselves. They may be too young, too old, too sick, or too poor to meet all of their basic needs. A society that puts a high value on **economic security** seeks to provide its less fortunate members with the support they need in terms of food, shelter, and health care to live decently. This is another economic goal about which people often disagree. For example, in the United States, access to affordable health insurance, which most people need to pay for health care, differs greatly from state to state. Even when Americans agree that access to health care should be provided to everyone, they do not agree on how this goal should be accomplished.

Economic stability. No one likes economic uncertainty. Societies therefore strive for its opposite: economic stability. **Economic stability** means that the goods and services we count on—electricity on demand, food and clothing in the stores—are there when we want them. Our jobs are there when we go to work each day. Prices are predictable, allowing us to plan ahead for purchases.

Most societies consider these goals when making economic choices, but societies differ in the degree of importance they attach to each goal. Sometimes progress toward one goal can be achieved only at the expense of another. For example, when the government taxes our wages in order to pay unemployment benefits, it is contributing to society's economic security. But it is also encroaching on our economic freedom to control our own resources. Societies, like individuals, must weigh the tradeoffs and opportunity costs of pursuing any particular set of economic goals.

1. How does the size of a society impact its choices?
2. What questions must each society answer?
3. How a society answers these questions depends on what?
4. If a society prioritizes economic freedom, what are individuals and businesses able to do?
5. Why is full employment considered a part of an economy being efficient?
6. In your opinion, which is fair--equality of opportunity or equality of outcome?
7. What is a key element of economic growth **and** why?
8. What is a current issue our country is debating which provides economic security?
9. What is a tradeoff of a country paying unemployment benefits?