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Economics: Is the Dismal Science Becoming More Dismal?

Economics — like business, government, and capital budgeting — is the study of the allocation of scarce resources to competing ends over time to maximize utility.

by E. James Burton

What do we really care about? What do we want to maximize? Is K–12 education more important than state parks? Are new highways more important than higher education?

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It was a very long time ago, but I remember it clearly. The book was written by Paul Samuelson, trained at the University of Chicago and Harvard University. He was a neoclassical economist noted in his early days for comparative statics. In 1970 he won the Nobel Prize for Economics. His thick book was daunting for a young and very naive student — me! But I jumped right in because I had heard about the professor assigned to my course, and he scared me to death.

Here is how Dr. Samuelson started, as I remember it now. Essentially the first thing the great man thought someone ought to know was his definition of economics. I think it went something like this: "Economics is the study of the allocation of scarce resources to competing ends over time to maximize utility."

I thought, "Wow! It can't be too difficult if that's all there is to the definition." I certainly knew a lot about scarce resources. In the town where I grew up, the major industry, a railroad car manufacturer, pulled out and left a huge empty factory and lots of unemployed people — some in my family. I knew we studied a lot about how we were going to use the scarce resources — particularly money — that were available to us. There were always lots of bills to be paid. Sometimes we had to choose which bill to pay and which one(s) to let ride for a while. So I had a handle on the allocation part, the scarce resources part, and the competing ends part.

To me, "over time" mostly meant making it to the end of the month or to the next payday. I don't know; maybe that was an appropriate view of time, so I was pretty experienced there, too.

The thing I just wasn't sure I had any idea about was "maximizing utility." I thought I understood maximizing, but what in the world was utility? I had never encountered that word in that context. Or if I had, I had managed to ignore it rather completely. Now I was faced with understanding it. My professor gave unannounced examinations, and I wanted to be ready for the first one.

So I thought back to my own experiences. Just what were we trying to do when we chose one bill over another to pay? Well, we really valued electricity and water, so we did not want those to be turned off. And we had to eat, so the grocer had to receive at least a partial payment on the grocery bill. We could risk possible illness, so we chose not to pay for insurance. We planted a big garden each spring, so we had food in the summer and enough left over to can for the winter. That meant we had to buy seeds and plants, our home version of capital investing and capital budgeting — and delayed gratification.

And so, this 18-year-old kid from a small Illinois town began to get his first taste of economics as an academic subject and quickly found that it is also very practical.

In the substantial number of years that have followed, Samuelson's simple definition has served me very well. I think you can substitute the word business for economics, and it still works. It changes a bit but still has essentially the same meaning: *Business is the study of the allocation of scarce resources to competing opportunities over time to maximize profit.*

I think you can even substitute the word government for economics, and it still works: *Government is the study of the allocation of scarce resources to competing needs over time to maximize the good of the people.*

If those definitions work, utility can mean profit or the good of the people and perhaps many other things.

As an accountant, I have often been involved in capital budgeting processes whereby the business has to decide in which of several possible alternatives it will choose to invest. *Capital budgeting is the study of the allocation of scarce resources among competing alternatives to maximize the return to the company.*

The current budget situation of the State of Tennessee and all of its units presents another opportunity to visit this definition and understand it more fully. During periods of expansion when state revenues are increasing and budgets are getting larger, the resources don't seem scarce and the ends don't seem to compete with each other. There is enough money to go around, and one doesn't worry too much about whether or not utility, by any measure, is being maximized.

But when times are tough the definition becomes real again, as it has in the current budget situation. Resources at every level of state government are scarce. There is simply not as much money to go around as there has been in times past, and everyone has reduced resources with which to work. There isn't much argument to be made about that.

And the "ends" are still competing: K–12 education, higher education, prisons, state parks, highways, and so many other things for which state government has or at least has assumed responsibility. Each is competing for some of the scarce resources and has a constituency that thinks it is so important that "utility" will be maximized more by putting resources toward that end than anywhere else.

And so, ultimately, someone has to make decisions. The governor proposes a budget (his view of how the scarce resources should be allocated), and the legislature weighs in on whether or not those allocations "maximize utility" — remembering that there are constituents back in the district who care very much about some things (roads in their district) and very little about others (roads anywhere else).

It is times such as these that help us refocus our definition of utility. What do we really care about? What do we want to maximize? Is K–12 education more important than state parks? Are new highways more important than higher education? Is the possible increase in crime a reasonable tradeoff for fewer police on the streets?

We really need to be asking ourselves questions such as these. And we need forums where we can and will do exactly that. Of course, it is easier just to make "cuts across the board." Everyone takes off 1% or 2% or 20% or whatever the number may be. But that sort of decision process raises the really important and very difficult questions, "What is utility?" and "Are we maximizing it?"

Now would be a good time for us to create informed, rational responses to those two very simple but important questions. Families are having to answer these questions at home. Is a personal automobile more important than health insurance? Does a vacation far from home produce more family utility than sending a child to college?

Our governments need to answer these questions as well. "What is utility?" and ""Are we maximizing it?"

Then economics will really mean something.

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