TWELFTH EDITION

THE MAKING OF ECONOMIC SOCIETY

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CHAPTER 1

THE ECONOMIC PROBLEM

Now that we have decided on our course of exploration, it would be convenient if we could immediately begin to examine our economic past. But not quite yet. Before we can retrace economic history, we need to know what economic history is, and that, in turn, requires us to take a moment to clarify what we mean by economics and by the economic problem itself.

The answer is not a complicated one. In its broadest sense, economics is the study of a process we find in all human societies—the process of providing for the material well-being of society. In its simplest terms, economics is the study of how humankind secures its daily bread.

This hardly seems like a particularly exciting subject for historical scrutiny. Indeed, when we look back over the pageant of what is usually called “history,” the humble matter of bread hardly strikes the eye at all. Power and glory, faith and fanaticism, ideas and ideologies are the aspects of the human chronicle that crowd the pages of history books. If the simple quest for bread is a moving force in human destiny, it is well concealed behind what one philosopher has called “that history of international crime and mass murder which has been advertised as the history of mankind.”

Yet, if mankind does not live by bread alone, it is obvious that it cannot live without bread. Like every other living thing, the human being must eat—the imperious first rule of continued existence. This first prerequisite is less to be taken for granted than at first appears, for the human organism is not in itself a highly efficient mechanism for survival. From each 100 calories of food it consumes, it can deliver only about 20 calories of mechanical energy. On a decent diet, human beings can produce just about one horsepower-hour of work daily, and with that they must replenish their exhausted bodies. With what is left over, they are free to build a civilization.

As a result, in many countries, the sheer continuity of human existence is far from assured. In the vast continents of Asia and Africa, in the Near East, even in some countries of South America, brute survival is the problem that stares humanity in the face. Millions of human beings have died of starvation or malnutrition in our present era, as countless hundreds of millions have died over the long past. Whole nations are acutely aware of what it means to face hunger as a condition of ordinary life; it has been said, for example, that a peasant in Bangladesh, from the day he or she is born to the day he or she dies, may never know what it is to have a full stomach. In many of the so-called underdeveloped nations, the life span of the average person is less than half of ours. Not so many years ago, an Indian demographer made the chilling calculation that of 100 Asian and 100 American infants, more Americans would be alive at age 65 than Asians at age 5! The statistics, not of life but of premature death throughout most of the world, are overwhelming and crushing.

Thus, we can see that economic history must begin with the crucial problem of survival and on how humankind has solved that problem. For most Americans, this may make economics seem very remote. Few of us are conscious of anything resembling a life-or-death struggle for existence. That it might be possible for us to experience severe want, that we might ever know in our own bodies the pangs of hunger experienced by an Indian villager or a Bolivian peon, is a thought nearly impossible for most of us to entertain seriously.\(^2\)

Short of a catastrophic war, it is highly unlikely that most of us ever will know the full meaning of the struggle for existence. Nonetheless, even in our prosperous and secure society, there remains, however unnoticed, an aspect of life’s precariousness, a reminder of the underlying problem of survival. This is our helplessness as economic individuals.

For it is a curious fact that as we leave the most primitive peoples of the world, we find the economic insecurity of the individual many times multiplied. The solitary Eskimo, Bushman, Indonesian, or Nigerian peasant, left to his or her own devices, will survive a considerable time. Living close to the soil or to his or her animal prey, such an individual can sustain his own—more rarely, her own—life, at least for a while, single-handedly. Communities numbering only a few hundred can live indefinitely. Indeed, a considerable percentage of the human race today lives in precisely such fashion—in small, virtually self-contained peasant communities that provide for their own survival with a minimum of contact with the outside world. This portion of humankind may suffer great poverty, but it also knows a certain economic independence. If it did not, it would have been wiped out centuries ago.\(^3\)

When we turn to the New Yorker or the Chicagoan, on the other hand, we are struck by exactly the opposite condition—by a prevailing ease of material life coupled with an extreme dependence on others. We can no longer envisage the solitary individual or the small community surviving unaided in the great metropolitan areas where most Americans live, unless they loot warehouses or stores for food and necessities. The overwhelming majority of Americans has never grown food, caught game, raised meat, ground grain into flour, or even fashioned flour into bread. Faced with the challenge of clothing themselves or building their own homes, they would be hopelessly untrained and unprepared. Even to make minor repairs in the machines that surround them, they must call on other members of the community whose business it is to fix cars or repair plumbing, for example. Paradoxically, perhaps, the richer the nation, the more apparent is this inability of its average inhabitant to survive unaided and alone.

DIVISION OF LABOR

There is, of course, an answer to the paradox. We survive in rich nations because the tasks we cannot do ourselves are done for us by an army of others on whom we can

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\(^2\) Although the sight of homeless people huddled on the sidewalks of our major cities tells us that even rich countries can harbor poverty.

\(^3\) Anthropological investigation shows that small-scale, traditional societies may also enjoy a kind of affluence, in that they voluntarily spend many hours at leisure rather than in hunting or gathering. See Marshall Sahlins, *Stone Age Economics* (New York: Aldine, 1972).
bлем of survival problems may make eco-
g a life-or-death struggle, a reminder to take things seriously. 2

Along with this invaluable gain, however, comes a certain risk. It is a sobering thought, for example, that we depend on the services of only about 200,000 people, out of a national labor force of 130 million, to provide us with that basic commodity, coal. A much smaller number—roughly 60,000—makes up our total airline pilot crew. An even smaller number of workers are responsible for running the locomotives that haul all the nation’s rail freight. Failure of any one of these groups to perform its functions would cripple us. As we know, when from time to time we face a bad strike, our entire economic machine may falter because a strategic few—even garbage collectors—cease to perform their accustomed tasks.

Thus, along with the abundance of material existence as we know it goes a hidden vulnerability: Our abundance is assured only insofar as the organized cooperation of many regiments, even small armies, of people is to be counted upon. Indeed, our continuing existence as a rich nation hinges on the tacit precondition that the mechanism of social organization will continue to function effectively. We are rich, not as individuals, but as members of a rich society, and our easy assumption of material sufficiency is actually only as reliable as the bonds that forge us into a social whole.

ECONOMICS AND SCARCITY

Strangely enough, then, we find that humankind, not nature, is the source of most of our economic problems, at least above the level of subsistence. To be sure, the economic problem itself—that is, the need to struggle for existence—derives ultimately from nature. If goods were as free as air, economics—at least in one sense of the word—would cease to exist as a social preoccupation.

However, if the stringency of nature sets the stage for the economic problem, it does not impose the only strictures against which people must struggle. For scarcity, as a felt condition, is not solely the fault of nature. If Americans today, for instance, were content to live at the level of Mexican peasants, all our material wants could be fully satisfied with but an hour or two of daily labor. We would experience little or no scarcity, and our economic problems would virtually disappear. Instead, we find in the United States—and indeed, in all industrial societies—that as the ability to increase nature’s yield has risen, so has the reach of human wants. In fact, in societies such as ours, where relative social status is importantly connected with the possession of material goods, we often find that “scarcity” as a psychological experience becomes more pronounced as we grow wealthier: Our desires to possess the fruits of nature race out ahead of our mounting ability to produce goods.

Thus, the “wants” that nature must satisfy are by no means fixed. However, for that matter, nature’s yield itself is not a constant. It varies over a wide range, depending on the social application of human energy and skill. Scarcity is, therefore, not attributable to nature alone but to “human nature” as well. Economics is ultimately concerned not
merely with the stinginess of the physical environment, but equally with the appetite of
the human being and the productive capability of the community.

THE TASKS OF ECONOMIC SOCIETY

Hence we must begin a systematic economic analysis by singling out the functions that
social organization must perform to bring human nature into social harness. And when
we turn our attention to this fundamental problem, we can quickly see that it involves
the solution of two related and yet separate elemental tasks. A society must

1. organize a system to assure the production of enough goods and services for its
own survival, and
2. arrange the distribution of the fruits of its production so that more production can
take place.

These two tasks of economic continuity are, at first look, very simple, but it is a
decceptive simplicity. Much of economic history is concerned with the manner in which
various societies have sought to cope with these elementary problems. What strikes us
in surveying their attempts is that most of them were partial failures. (They could not
have been total failures, or society would not have survived.) Therefore, we had better
look more carefully into the two main economic tasks to see what hidden difficulties
they may conceal.

PRODUCTION AND DISTRIBUTION

MOBILIZING EFFORT

What obstacles does a society encounter in organizing a system to produce the goods
and services it needs?

Because nature in the raw rarely gives us exactly what we need in the quantities we
seek, the production problem is usually one of applying engineering or technical skills
to the resources at hand, of avoiding waste and utilizing social effort as efficiently as
possible.

This is indeed an important task for any society, and a great deal of formal economic
thought, as the word itself suggests, is devoted to economizing, yet this is not the core of
the production problem. Long before a society can concern itself about using its energies
"economically," it must first marshal the energies to carry out the productive process
itself. That is, the basic problem of production is to devise social institutions that will mobi-
lize human energy for productive purposes.

This basic requirement is not always so easily accomplished. For example, in the
United States in 1933, the energies of nearly one-quarter of our workforce were some-
how prevented from engaging in the production process. Although millions of unem-
ployed men and women were eager to work, although empty factories were available
for them to work in, despite the existence of pressing wants, a terrible and mystifying
breakdown called a depression, resulted in the disappearance of a third of the previous
annual output of goods and services.

We are by no means the only nation that has, on occasion, failed to find work for large
numbers of willing workers. In the very poorest nations, where production is most
The streets of many Asian cities are thronged with people who cannot find work, but this, too, is not a condition imposed by the scarcity of nature. There is, after all, an endless amount of work to be done, if only in cleaning filthy streets or patching up the homes of the poor, building roads, or digging ditches. What is lacking is a social mechanism to mobilize human energy for production purposes. This is the case just as much when the unemployed are only a small fraction of the workforce as when they constitute a veritable army.

These examples point out to us that the production problem is not solely a physical and technical struggle with nature. On these aspects of the problem will depend the ease with which a nation can forge ahead and the level of well-being it can reach with a given effort. But the original mobilization of productive effort itself is a challenge to its social organization, and on the success or failure of that social organization will depend the volume of the human effort that can be directed to nature.

**ALLOCATING EFFORT**

Putting men and women to work is only the first step in the solution of the production problem. They must not only be put to work, they must be put to work to produce goods and services that society needs. Thus, in addition to assuring a large enough quantity of social effort, the economic institutions of society must also assure a viable allocation of that social effort.

In a nation such as India or Bolivia, where the great majority of the population is born in peasant villages and matures to be peasant cultivators, the solution to this problem offers little to tax our understanding. The basic needs of society—food and fiber—are precisely the goods that its peasant population “naturally” produces. In an industrial society, however, the proper allocation of effort becomes an enormously complicated task. People in the United States demand much more than bread and cotton. They need such things as automobiles, yet no one “naturally” produces an automobile. On the contrary, in order to produce one, an extraordinary spectrum of special tasks must be performed. Some people must make steel; others must make rubber. Still others must coordinate the assembly process itself. This is but a tiny sampling of the far from natural tasks that must be performed if an automobile is to be produced.

As with the mobilization of its total production effort, society does not always succeed in the proper allocation of its effort. It may, for instance, turn out too many cars or too few. Of greater importance, it may devote its energies to the production of luxuries while large numbers of its people are starving. It may even court disaster by an inability to channel its productive effort into areas of critical importance.

Such allocative failures may affect the production problem just as seriously as a failure to mobilize an adequate quantity of effort, because a viable society must produce not only goods, but the right goods, and the allocative question alerts us to a still broader conclusion. It shows us that the act of production, in and of itself, does not fully answer the requirements for survival. Having produced enough of the right goods, society must now distribute those goods so that the production process can go on.

**DISTRIBUTING OUTPUT**

Once again, in the case of the peasant family that feeds itself from its own crop, this requirement of adequate distribution may seem simple enough, but when we go...
beyond the most small-scale, traditional society, the problem is not always so readily solved. In many of the poorest nations, urban workers have often been unable to work effectively because of their meager compensation. Worse yet, they have often languished on the job while granaries bulged with grain and the well-to-do complained of the hopeless laziness of the masses. On the other side of the picture, the distribution mechanism may fail because the rewards it hands out do not succeed in persuading people to perform their tasks. Shortly after the Russian Revolution in 1917, some factories were organized into communes in which managers and janitors pooled their pay, and from which all drew equal allotments. The result was a rash of absenteeism among the previously better-paid workers and a threatened breakdown in industrial production. Not until the old unequal wage payments were reinstituted did production resume its former course.

As was the case with failures in the production process, distributive failures need not entail a total economic collapse. Societies can exist—and most do exist—with badly distorted productive and distributive efforts. Only rarely, as in the instance just noted, does maldistribution interfere with the ultimate ability of a society to staff its production posts. More frequently, an inadequate solution to the distribution problem reveals itself in social and political unrest, or even in revolution.

Yet this, too, is an aspect of the total economic problem. If society is to ensure its steady material replenishment, it must parcel out its production in a fashion that will maintain not only the capacity but also the willingness to go on working. And so, once again, we find the focus of economic inquiry directed to the study of human institutions. For a viable economic society, we can now see, must not only overcome the stringencies of nature, but also contain and control the intransigence of human nature.

Thus, to the economist, society presents itself in what is to the rest of us an unaccustomed guise. Underneath the problems of poverty or pollution or inflation, he or she sees a process at work that must be understood before we can turn our attention to the issues of the day, no matter how pressing. That process is society's basic mechanism for accomplishing the complicated tasks of production and distribution necessary for its own continunity.

But the economist sees something else as well, something that at first seems quite astonishing. Looking over the diversity of contemporary societies, and back over the sweep of all history, he or she sees that humankind has succeeded in solving the production and distribution problems in but three ways. That is, within the enormous diversity of the actual social institutions that guide and shape the economic process, the economist divines but three overarching types of systems that separately or in combination enable humankind to solve its economic challenge. These great systemic types can be called economies run by tradition, economies run by command, and economies run by the market. Let us briefly see what is characteristic of each.

TRADITION

Perhaps the oldest and, until a very few years ago, by far the most generally prevalent way of solving the economic challenge has been that of tradition. Tradition is a mode of
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Societies based on tradition solve their economic problems very manageably. First, they typically deal with the production problem—the problem of assuring that the needful tasks will be done—by assigning the jobs of fathers to their sons. Thus, a hereditary chain ensures that skills will be passed along and jobs will be staffed from generation to generation. In ancient Egypt, wrote Adam Smith, the first great economist, “every man was bound by a principle of religion to follow the occupation of his father and was supposed to commit the most horrible sacrilege if he changed it for another.”4 It was not merely in antiquity that tradition preserved a productive orderliness within society. In our own Western culture, until the fifteenth or sixteenth century, the hereditary allocation of tasks was also the main stabilizing force within society. Although there was some movement from country to town and from occupation to occupation, birth usually determined one’s role in life. One was born to the soil or to a trade; and on the soil or within the trade, one followed in the footsteps of one’s family.

In this way tradition has been the stabilizing and impelling force behind a great repetitive cycle of society, ensuring that society’s work would be done each day very much as it had been done in the past. Even today, among the less industrialized nations of the world, tradition continues to play this immense organizing role. In India, for example, until very recently, one was born to a caste that had its own occupation. “Better thine own work is, though done with fault,” preached the Bhagavad Gita, the great philosophic moral poem of India, “than doing others’ work, even excellently.”

Tradition not only provides a solution to the production problem of society, but it also regulates the distribution problem. Take, for example, the Bushmen of the Kalahari Desert in South Africa, who depend for their livelihood on their hunting prowess. In her now-classic account from the 1950s, Elizabeth Marshall Thomas, a sensitive observer of these peoples, reported on the manner in which tradition solves the problem of distributing their kill by applying the “rules” of kinship:

The gemsbok has vanished. . . . Gai owned two hind legs and a front leg. Tsetchwe had meat from the back. Ukwane had the other front leg, his wife had one of the feet and the stomach, the young boys had lengths of intestine. Twikwe had received the head and Dasina the udder.

It seems very unequal when you watch Bushmen divide the kill, yet it is their system, and in the end no person eats more than the other. That day Ukwane gave Gai still another piece because Gai was his relation, Gai gave meat to Dasina because she was his wife’s mother. . . . No one, of course, contested Gai’s large share, because he had been the hunter and by their law that much belonged to him. No one doubted that he would share his large amount with others, and they were not wrong, of course; he did.5

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The manner in which tradition can divide a social product may be, as the illustration shows, very subtle and ingenious. It may also be very crude and, by our standards, harsh. Tradition has regularly allocated to women in nonindustrial societies the most meager portion of the social product. But however much the end product of tradition may accord with, or depart from, our accustomed moral views, we must see that it is an effective method of dividing society's production.

The Cost of Tradition
Traditional solutions to the economic problems of production and distribution are most commonly encountered in primitive agrarian or nonindustrial societies where, in addition to serving an economic function, the unquestioning acceptance of the past provides the necessary perseverance and endurance to comfort harsh destinies. Yet even in our own society, tradition continues to play a part in solving the economic problem. It plays its smallest role in determining the distribution of our own social output, although the persistence of such traditional payments as tips to waiters, allowances to minors, or bonuses based on length of service are all vestiges of older ways of distributing goods, as are differentials between men's and women's pay for equal work.

More important is the continued reliance on tradition, even in the United States, as a means of solving the production problem—that is, in allocating the performance of tasks. Much of the actual process of selecting employment in our society is heavily influenced by tradition. We are all familiar with families in which sons follow their fathers into a profession or a business. On a somewhat broader scale, tradition also dissuades us from certain employments. Children of American middle-class families, for example, do not usually seek factory work, although factory jobs may pay better than office jobs, because blue-collar employment is not in the middle-class tradition.

Thus, even in our society, clearly not a "traditional" one, custom provides an important mechanism for solving the economic problem. Now, however, we must note one very important consequence of the mechanism of tradition. Its solution to the problems of production and distribution is a static one. A society that follows the path of tradition in its regulation of economic affairs does so at the expense of large-scale, rapid social and economic change.

Thus, the economy of a Bedouin tribe or a Burmese village is in many respects unchanged today from what it was a hundred or even a thousand years ago. The bulk of the peoples living in tradition-bound societies repeat, in the daily patterns of their economic life, much of the routine that characterized them in the distant past. Such societies may rise and fall, wax and wane, but external events—war, climate, political adventures and misadventures—are mainly responsible for their changing fortunes. Internal, self-generated economic change is but a small factor in the history of most tradition-bound states. Tradition solves the economic problem, but it does so at the cost of economic progress.

COMMAND
A second manner of solving the problem of economic continuity also displays an ancient lineage. This is the method of imposed authority, of economic command. It is a solution based not so much on the perpetuation of a viable system by the changeless reproduction of its ways as on the organization of a system according to the orders of an economic commander-in-chief.
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Not infrequently we find this authoritarian method of economic control superimposed upon a traditional social base. Thus, the pharaohs of Egypt exerted their economic dictates above the timeless cycle of traditional agricultural practice on which the Egyptian economy was based. By their orders, the supreme rulers of Egypt brought into being the enormous economic effort that built the pyramids, the temples, the roads. Herodotus, the Greek historian, tells us how the pharaoh Cheops organized the task.

[He] ordered all Egyptians to work for himself. Some, accordingly, were appointed to draw stones from the quarries in the Arabian mountains down to the Nile, others he ordered to receive the stones when transported in vessels across the river . . . . And they worked to the number of a hundred thousand men at a time, each party during three months. The time during which the people were thus harassed by toil lasted ten years on the road which they constructed, and along which they drew the stones; a work, in my opinion, not much less than the Pyramid.6

The mode of authoritarian economic organization was by no means confined to ancient Egypt. We encounter it in the despotisms of medieval and classical China that produced, among other things, the colossal Great Wall, or in the slave labor by which many of the great public works of ancient Rome were built, or, for that matter, in any slave economy, including that of the pre–Civil War United States. Only a few years ago we would have discovered it in the dictates of the Soviet economic authorities. In less drastic form, we find it also in our own society; for example, in the form of taxes—that is, in the preemption of part of our income by the public authorities for public purposes.

Economic command, like tradition, offers solutions to the twin problems of production and distribution. In times of crisis, such as war or famine, it may be the only way in which a society can organize its workers or distribute its goods effectively. Even in the United States, we commonly declare martial law when an area has been devastated by a great natural disaster. On such occasions we may press people into service, requisition homes, impose curbs on the use of private property such as cars, or even limit the amount of goods a family may consume.

Quite aside from its obvious utility in meeting emergencies, command has a further usefulness in solving the economic problem. Unlike tradition, the exercise of command has no inherent effect of slowing down economic change. Indeed, the exercise of authority is the most powerful instrument society has for enforcing economic change. Authority in communist China and Russia, for example, effected radical alterations in their systems of production and distribution. Again, even in our own society, it is sometimes necessary for economic authority to intervene in the normal flow of economic life to speed up or bring about change. The government may, for instance, utilize its tax receipts to lay down a network of roads that will bring a backwater community into the flux of active economic life. It may undertake an irrigation system that will dramatically change the economic life of a vast region. It may deliberately alter the distribution of income among social classes.

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The Impact of Command
To be sure, economic command that is exercised within the framework of a democratic political process is very different from that exercised by a dictatorship: There is an immense social distance between a tax system controlled by Congress and outright expropriation or labor impressment by a supreme and unchallengeable ruler. Yet though the means may be much milder, the mechanism is the same. In both cases, command diverts economic effort toward goals chosen by a higher authority. In both cases, it interferes with the existing order of production and distribution to create a new order ordained from "above."

This does not in itself serve to commend or condemn the exercise of command. The new order imposed by the authorities may offend or please our sense of social justice, just as it may improve or lessen the economic efficiency of society. Clearly, command can be an instrument of a democratic as well as of a totalitarian will. There is no implicit moral judgment to be passed on this second of the great mechanisms of economic control. Rather, it is important to note that no society—certainly no modern society—is without its elements of command, just as none is devoid of the influence of tradition. If tradition is the great brake on social and economic change, economic command can be the great spur to change. As mechanisms for assuring the successful solution to the economic problem, both serve their purposes, both have their uses and their drawbacks. Between them, tradition and command have accounted for most of the long history of humankind's economic efforts to cope with its environment and with itself. The fact that human society has survived is testimony to their effectiveness.

THE MARKET
There is, however, a third solution to the economic problem, a third way of maintaining socially viable patterns of production and distribution. This is the market organization of society—an organization that, in truly remarkable fashion, allows society to ensure its own provisioning with a minimum of recourse to either tradition or command.

Because we live in a market-run society, we are apt to take for granted the puzzling—indeed, almost paradoxical—nature of the market solution to the economic problem. But assume for a moment that we could act as economic advisers to a society that had not yet decided on its mode of economic organization. Suppose, for instance, that we were called on to act as consultants to a nation emerging from a history of tradition-bound organization.

We could imagine the leaders of such a nation saying, "We have always known a highly tradition-bound way of life. Our men hunt and our women gather fruits as they were taught by the force of example and the instruction of their elders. We know, too, something of what can be done by economic command. We are prepared, if necessary, to sign an edict making it compulsory for many of our men to work on community projects for our collective development. Tell us, is there any other way we can organize our society so that it will function successfully—or better yet, more successfully?"

Suppose we answered, "Well, there is another way. One can organize a society along the lines of a market economy."

"I see," say the leaders. "What would we then tell people to do? How would we assign them to their various tasks?"
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That's the very point," we answer. "In a market economy, no one is assigned to any
task. In fact, the main idea of a market society is that each person is allowed to decide
for himself or herself what to do."

There is consternation among the leaders. "You mean there is no assignment of
some men to farming and others to mining? No manner of designating some women for
gathering and others for weaving? You leave this to people to decide for themselves?
But what happens if they do not decide correctly? What happens if no one volunteers to
in the mines, or if no one offers himself as a bus driver?"

"You must rest assured," we tell the leaders, "none of that will happen. In a market
society, all the jobs will be filled because it will be to people's advantage to fill them."

Our respondents accept this with uncertain expressions. "Now look," one of them
finally says, "let us suppose that we take your advice and allow our people to do as they
please. Let’s talk about something specific, like cloth production. Just how do we fix the
right level of cloth output in this 'market society' of yours?"

"But you don't," we reply.

"We don’t! Then how do we know there will be enough cloth produced?"

"There will be,” we tell him. “The market will see to that.”

"Then how do we know there won’t be too much cloth produced?” he asks
triumphantly.

"Ah, but the market will see to that too!"

"But what is this market that will do these wonderful things? Who runs it?"

"Oh, nobody runs the market,” we answer. “It runs itself. In fact, there really isn’t
any such thing as ‘the market.’ It’s just a word we use to describe the way people
behave.”

"But I thought people behaved the way they wanted to!"

"And so they do,” we say. “But never fear. They will want to behave the way you
want them to behave.”

"I am afraid,” says the chief of the delegation, “that we are wasting our time. We
thought you had in mind a serious proposal. What you suggest is inconceivable.
Good day.”

Could we seriously suggest to such an emergent nation that it entrust itself to a
market solution of the economic problem? That will be a question to which we shall
return. But the perplexity that the market idea would rouse in the mind of someone
unacquainted with it may serve to increase our own wonderment at this most sophisti-
cated and interesting of all economic mechanisms. How does the market system assure
us that our mines will find miners, our factories workers? How does it take care of
cloth production? How does it happen that in a market-run nation each person can
indeed do as he or she wishes and still fulfill needs that society as a whole presents?

Economics and the Market System
Economics, as we commonly conceive it and as we shall study it in much of this book, is
primarily concerned with these very problems. Societies that rely primarily on tradition
to solve their economic problems are of less interest to the professional economist than
to the cultural anthropologist or the sociologist. Societies that solve their economic
problems primarily by the exercise of command present interesting economic questions,
but here the study of economics is necessarily subservient to the study of politics and
the exercise of power.
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It is a society organized by the market process that is especially interesting to the economist. Many (although not all) of the problems we encounter in the United States today have to do with the workings or misworkings of the market system, and precisely because our contemporary problems often arise from the operations of the market, we study economics itself. Unlike the case of tradition and command, in which we quickly grasp the nature of the production and distribution mechanisms of society, when we turn to a market society we are lost without a knowledge of economics. For in a market society, it is not at all clear that even the simplest problems of production and distribution will be solved by the free interplay of individuals; nor is it clear how and to what extent the market mechanism is to be blamed for society's ill—after all, we can find poverty and misallocation and pollution in nonmarket economies too!

In subsequent parts of this book, we shall analyze these puzzling questions in more detail, but the task of our initial exploration must now be clear. As our imaginary interview with the leaders of an emergent nation suggests, the market solution appears very strange to someone brought up in the ways of tradition or command. Hence the question arises: How did the market solution itself come into being? Was it imposed, full-blown, on our society at some earlier date? Or did it arise spontaneously and without forethought? This is the focusing question of economic history to which we now turn, as we retrace the evolution of our own market system out of the tradition- and authority-dominated societies of the past.

Key Concepts and Key Words

1. Economics is the study of how humankind ensures its material sufficiency, that is, how societies arrange for their material provisioning.
2. Economic problems arise because the wants of most societies exceed the gifts of nature, giving rise to the general condition of scarcity.
3. Scarcity, in turn (whether it arises from nature's stinginess or people's appetites), imposes two severe tasks on society:
   • It must mobilize its energies for production—producing not only enough goods, but the right goods; and
   • It must resolve the problem of distribution, arranging a satisfactory solution to the problem of Who Gets What?
4. These problems exist in all societies, but they are especially difficult to solve in advanced societies in which there exists a far-reaching division of labor. People in wealthy societies are far more socially interdependent than people in simple societies.
5. Over the course of history, there have evolved three types of solutions to the two great economic problems. These are tradition, command, and the market system.
6. Tradition solves the problems of production and distribution by enforcing a continuity of status and rewards through social institutions such as the kinship system. Typically, the economic solution imposed by tradition is a static one, in which little change occurs over long periods of time.
7. Command solves the economic problem by imposing allocations of effort or reward by a governing authority. Command can be a means for achieving
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1. If we could produce all the food we needed in our own backyards, and if technology were so advanced that we could all make anything we wanted in our basements, would an “economic problem” exist?

2. Suppose that everyone was completely versatile—able to do everyone else’s work just as well as his or her own. Would a division of labor still be useful in society? Why?

3. Modern economic society is sometimes described as depending on “bureaucrats” who allow their lives to be directed by the large corporations or government agencies for which they work. Assuming that this description has some truth, would you think that modern society should be described as one of tradition, command, or the market?

4. In what way do your own plans for the future coincide with or depart from the occupations of your parents? Do you think that the so-called generational split is observable in all modern societies?

5. Economics is often called the science of scarcity. How can this label be applied to a society of considerable affluence such as our own?

6. What elements of tradition and command do you think are indispensable in a modern industrial society? Do you think that modern society could exist without any dependence on tradition or without any exercise of command?

7. Much of production and distribution involves the creation or the handling of things. Why are production and distribution social problems rather than engineering or physical problems?

8. Do you consider humankind’s wants to be insatiable? Does this imply that scarcity must always exist?

9. Take some of the main problems that disturb us in the United States today: neglect, poverty, inflation, pollution, racial discrimination. To what extent do you find such problems in societies run by tradition? by command? What is your feeling about the responsibility the market system bears for these problems in the United States?