**THE MIDNIGHT ECONOMIST**

A note from the author:

Many have concluded that the primary value of economics training lies in the consistent ability to apply its basic principles over a wide range of phenomena in an unavoidable complex world. Yet these basic insights are violated every day in academia, the media and government policy.

As his alter ego, the Midnight Economist (named for the radio time slot in which his commentaries were first delivered), UCLA economics professor Bill Allen, has, in well over 1,200 scripts, consistently demonstrated and explained to a lay audience the implications of the basic analytical principals of economics. This section presents a small sample of those commentaries, with added questions for thought and discussion.

This section is designed to complement *Exploring Economics* 6e, by Robert Sexton. It follows the order of the book, and is intended to be used to stimulate classroom discussions of the relevant material, to help train students to learn to apply economic principles for themselves.

Each article is laid out on a single page (except for the introductory one, which is two pages), so that it can be copied (with or without the discussion questions) and handed out for use in the classroom.

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**Introductory Concepts and Supply and Demand** (Chapters 1-9)

**1. Introduction The Midnight Economist**

According to a famous definition: "Economics is the science which studies human behavior as a relationship between ends and scarce means which have alternative uses."

Some may gag a bit over reference to economics as a science. And some may sense from the definition a lack of sex appeal, with economics appealing as a deadly dull, dry, and dreary field of arcane doodling and diddling. In actuality, there is, in good economics, muchof feel and flair, of instinct and intuition: economic analysis is not a purely mechanical exercise of grandly grinding out uninteresting answers to artificial problems. In any discipline of analytic application to important matters, elegant tools and rigorous techniques of thought must be supplemented with accumulated learning and developed wisdom in order to distinguish the profound from the superficial, the appropriate from the inapt and the inept, and the feasible from what cannot work well.

The foregoing definition of economics does suggest the core of the broad, versatile field of study and use. It all starts with scarcity: in this world of limitations, we cannot produce all we want. The fact of scarcity has implications of the most fundamental seriousness. Scarcity implies the necessity to pick and choose, for we will never fully satisfy all desires; choice-making implies cost-bearing, for cost is what we must give up in order to get the thing preferred. A world of scarcity and choices and costs is a world not only of dealing with stingy nature but of dealing with people; in dealing with other self-centered, aggressive, would-be autonomous people, we sometimes coordinate our efforts to mutual advantage, and we persistently compete in many ways as each tries to get a bigger slice of thefinite social pie.

A world of scarcity is inherently a hard world. But with some civility and sense, we can make our lives easier than they otherwise would be. How are we to organize ourselves as a community, what ground rules and institutions can we evolve and adopt which will enable people, with all their grasping grubbiness, to live together peacefully and productively?

By and large, people and their governmental leaders and masters have not answered that central question well. History is not an impressive story of progressive sophistication in formulating rules and procedures which enable the great bulk of the world's peopleto live without fear of oppression and want and with reasonable hope of personal fulfillment. But the human spirit is remarkable: people have been denied many options, their initiative has been severely curtailed, they have been abused and oppressed--and yet they have not only stubbornly survived, but commonly have shown much sense in adjusting and making do within the limited alternatives available to them.

People usually have done as well in their personal affairs as they have been permitted to do. How can they be permitted to do better? Much of what we do is "economic" in nature--what we do and how we do it, that is, in allocating *"*scarce meanswhich have alternative uses." Much of our misery has stemmed from dumb economics-inefficient institutions, inappropriate property fights, wasteful processes, debilitating policies.

While people commonly are shrewd in handling their private business, they are not accomplished economists in the broader context where their expertise and; experience are necessarily limited. And they have been taught much mythology, including:

\* we could have enough of everything if we were fully to exploit our fantastic productive power;

\* economic efficiency is a matter only of technology and engineering;

\* agricultural and other surpluses stem from productivity outrunning demand;

\* property rights frequently conflict with human rights;

\* most business people are self centered and rapacious, while all government people are self-sacrificing and altruistic;

\* charging a higher price always increases the seller's profits;

\* the American economy is increasingly dominated by monopolists who arbitrarily set prices as high and wages as low as they please;

\* minimum wage laws are an effective tool that generally raises the income of the poor;

\* rent control improves and expands housing;

\* a government budget deficit reflects failure to tax enough to finance needed government services, and increasing tax collections will surely reduce a deficit;

\* inflation is caused by greedy domestic monopolists and irrational consumers, and disruptive international cartels;

\* the optimal size of various key measures is invariably *zero*, e.g., zero budget deficit, zero foreign trade balance, zero unemployment, zero pollution, zero crime, zero unwed mothers;

\* tariffs increase domestic employment and wages;

\* we cannot compete in a world in which most foreign wages are lower than wages paid domestic workers.

Mythology is a legitimate part of romantic and arational life, but it leads us astraymaking us poorer and weaker and more troublesome in a stingy worldwhen it is made part of economic analysis and policy.

Good economics of description, diagnosis, and prescription will not solve all our problems. The best of achievable worlds will still be a world of scarcity--and thus a world of choices, costs, and competition. But good economics will help us to do best, even if not well, in a hard world.

Questions for Thought and Discussion:

1. Frank Knight, a famous economist, was well-known for saying "It ain't ignorance that does the most damage; it's knowing so derned much that ain't so." If the myths listed above are not, in fact, true, what differences will it make in our understanding of public policy?

2. In a world of scarcity, can social problems be "solved" without causing problems elsewhere? Which problems are therefore worth solving?

3. How does the statement "incentives matter" result from the definition of economics given above? Why, therefore, might economists spend a great deal of energy on appropriately specifying the incentive structures facing the relevant decision makers in analyzing public policies?

**2. Understanding Adam Smith and the Economy The Midnight Economist**

Mouse Karl was in one of his sophisticated moods of insightful sneering. "You and Professor Allen," he sneered to Mouse Adam in sophisticatedly insightful manner, "like to laud Adam Smith as the great father figure of modern economics. But Smith was either extraordinarily naive or a deliberate purveyor of capitalistic propaganda. And, in extolling Smith, you and Allen also are either innocent of sense or guilty of little integrity."

"Well!" exclaimed the amiable Adam. "What inspired that outburst? Adam Smith was capable of error and inadequacy. Further, there have been giants in the history of economic analysis both before and after Smith. Still, his influence on serious economic thought has been enormous."

"That has to be a misfortune," snapped Karl, "for Smith basically misled us. He taught that we prosper most when we put ourselves into the grubby hands of business people, painting captains of commerce as paragons of prosperity and philanthropy. In actuality, capitalists are at least as greedy and self-centered as real people."

"You may not be persuaded by Smith's analyses of history, institutions and policies," replied Adam with some impatience, "but do try to get straight what the man was saying. Smith certainly was *not* an apologist for the business community. He observed: 'People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices.' He bitterly complained about the common propensities in the business world to try to monopolize and collude, to conspire against workers and the public, to seek governmental protection against competition. Does this suggest that Smith wanted the businessman, any more than the king and his bureaucrats, to be the autonomous master of mankind?"

"I confess that I am confused," conceded Karl. "If businessmen are so grasping, so willing to exploit, how could Smith promote an arrangement of private property and open markets, thereby giving free play to the most unlovely characteristics of people?"

"Market processes, with efficient production and exchange," answered Adam, "do not require that we like one another and are inspired by purity of heart to cooperate with one another. Market institutions and prices provide options and incentives to use our privately-owned resources well. Our intention is to benefit ourselves. But we individually prosper by supplying valuable goods and services to others, led as by 'an invisible hand' to coordinate our activities to the benefit of all."

"I see," said Karl contritely, "that there is more sense and subtlety in Smith than I had supposed. Smith understood that men are not angels. But with appropriate ground rules of the market, we can--quite amazingly--channel acquisitive instincts and aggressive inclinations to mutual advantage and the common good."

Questions for Thought and Discussion:

1. If an analyst has made mistakes in one area, does that demonstrate whether his ideas in other areas are either correct or incorrect? Why do you think people so often attack the analyst rather than the analysis?

2. Is a system of private property rights and open markets better described as one based on selfishness or as providing protections from the selfishness of others?

3. Why, in market systems, do people frequently voluntarily deal with others they may not like (e.g., sellers selling to buyers they may dislike)? How do market systems make discrimination against productive members of less popular groups costly?