Resources: Allocation, Competition and Productivity

Scarcity is a basic problem in economics that requires people to make decisions. One of these is how resources are allocated. **Allocation** can be defined as the process of distributing or giving out shares from a total amount.

Because there are never enough resources to satisfy everyone, there are different methods of allocating resources as well as the goods and services they produce. Almost every choice we make could be used, but there are five common methods most generally used: rule of force, first come-first serve, government decisions, markets, and personal characteristics. Each method is discussed below.

- Rule of Force. Allocating resources, goods, and services requires a set of rules to determine the type of competition or process needed. However, the rule of force will tend to emerge even when no rules are in place. The **rule of force** describes what happens when desirable products are acquired by the meanest and strongest who simply take what they want from others. This method motivates destructive competition because a person’s wealth is destroyed as people fight over it and leaves little motivation for anyone to produce new wealth. Although it might benefit those who are strong, the destructive nature of this allocation process makes it unlikely they will benefit for long.

- First Come-First Serve. This rule involves having people compete by waiting in line, with the competition favoring those who wait the longest. It may also provide motivation for some people to start cutting in line (which is a violation of the rule), resulting in fighting or other turmoil. Even so, this method does not tend to promote destructive competition nor does it motivate productive cooperation that can make everyone better off. Waiting in line also fails to get people working together to produce more of a valued product that people are wanting to purchase.

- Government Decisions. Government distribution is typically justified as a way of making sure products go to those who need or most deserve them instead of to those best able to compete. However, the rules of government distribution don't entirely eliminate competition; they just change the type of competition that takes place. For example, people may compete for government distribution by contributing money to political campaigns or hiring lawyers and lobbyists to influence the decisions of politicians who set the rules.

  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.

- Markets. In a market-based economy such as the United States, most resources and goods and services are allocated by price. This process includes having 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 producers and consumers with sufficient information to make good decisions, along with the motivation to pursue those interests in ways that best serve the interest of others. For example, firms make more profit by producing what consumers value most (the resources, goods, and services they are willing to pay the most for). Workers make higher incomes in jobs which help firms produce the products that consumers value the most, and business owners buy the resources needed to produce them.

  Like other allocation methods, market competition doesn't lead to perfect cooperation. In fact, there are some circumstances where it is not an efficient choice–which leads to relying on government allocation. One example is national defense because it isn’t reasonable for every consumer to purchase their own resources, goods, or services to protect themselves from a foreign invasion or attack.

  While economists tend to argue that market competition works best in most situations, it still does not allow people to have all they want or eliminate scarcity. However, it does 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 simply allocated, but they are allocated in ways that push back the limits of scarcity by increasing the value of what is produced. In a mixed-market, like the U.S economy, it establishes a role for some government involvement to enforce the rules that are necessary for markets to work properly even when not allocating products directly.

- Personal Characteristics. This method establishes an allocation process based on who people are, what they have, how they look, etc. For example, people who want to be popular, have good friends, get invited to parties, or get dates for Saturday night must compete solely on their appearances and personalities. While this competition might be productive in making people more pleasant to be around, it doesn’t motivate the development of skills and efforts that produce more general goods and services.

In conclusion, no method of allocating resources, goods, and services is perfect. However, some are better than others. Whatever method is used can have both short-term and long-terms costs and benefits for consumers and producers. Market competition tends to be the most efficient in promoting productive cooperation by providing the information and motivation needed to allow individuals to pursue their own interests while also serving the interest of others. Market competition tells firms what to produce, how much to produce, and what price to sell. While it doesn’t lead to perfect cooperation, the benefits overall are higher and the costs lower than through other methods, in most situations.