

## 1.7. THE THREE PROBLEMS OF ECONOMIC ORGANIZATION

Whenever people gather into communities, they must necessarily **confront** a few universal economic problems. These fundamental questions are as important today as they were at the **dawn** of human civilization. We'll see that every economy must answer a **triad** of questions:

- *WHAT* commodities shall be produced,
- *HOW* these goods should be produced,
- *FOR WHOM* they will be produced.

*WHAT* commodities are to be produced and in what quantities? How much of each of the many possible goods and services should the economy make? And when will they be produced? Should we produce pizzas or shirts today? A few high quality shirts or many cheap shirts? Should we produce many consumption goods or services (like pizzas and concerts) or few consumption goods and many investment goods (like pizza factories and concert halls), allowing more consumption tomorrow.

*HOW* shall goods be produced? By whom and with what resources and in what technological manner are they to be produced? Who farms and who teaches? Is electricity to be **generated** from oil or from coal? With much air pollution or with little? Are goods produced by hand or with machines? In privately-owned capitalist corporations or in state-owned socialist enterprises?

*FOR WHOM* shall goods be produced? Who gets to eat the fruit of the economy's effort? Or, to put it formally, how the national product to be divided among different **households**? Are we to have a society in which a few are rich and many poor? Shall high incomes go to managers or workers or landlords? Shall the selfish inherit the earth? Shall the lazy eat well?

These three basic problems are common to all economies, but different societies take different approaches in solving them.

### *INPUTS AND OUTPUTS*

The three central economic tasks of every society are really about choices among an economy's *inputs* and *outputs*.

*INPUTS* are commodities or services used by firms in their production processes. An economy uses its existing technology to combine inputs to produce outputs.

*OUTPUTS* are the **various useful** goods or services that are either consumed or employed in further production. Imagine the "production" of an omelette. We say that the eggs, salt, heat, frying pan and the chef's skilled labor are the inputs. The fluffy omelette is the output.