

# Epilogue

*Gouverner, c'est choisir.*

Gaston, Duc de Lévis, 1812, *Maximes politiques*

*Everybody has won, and all must have prizes.*

The Dodo, *Alice's Adventures in Wonderland*, Lewis Carroll

**T**he fundamental problem of government is the fundamental problem of economics: wants exceed resources. Therefore, choices must be made. In the words of the Duc de Lévis two hundred years ago: “to govern is to choose”.

Some people, often philosophers or ascetics and occasionally economists, propose to solve the fundamental problem of economics by eliminating wants. There has long been a view that the route to happiness lies in the elimination of desire. Indeed, one of the messages of the economics of happiness literature (Layard, 2005) is that, despite all the goods we enjoy today, people in developed economies are no happier than they were 50 years ago. However, without an extraordinary change in human nature, it is a very safe prediction that our wants will continue to exceed our means of supplying them.

The market response to the fundamental problem of economics is to use prices to balance demand with supply. This does not mean that wants equal supply. Rather, prices ration and allocate scarce resources.

For many goods, competitive markets provide an efficient response to the fundamental economic problem. By trading freely in markets, both for factors of production and for goods, individuals can choose how to work and spend their income to maximise their own welfare. As Adam Smith showed over two hundred years ago, remarkably, in competitive markets individuals generally act not only to their own benefit but also to the benefit of the community as well. And there is no doubt that markets have encouraged the innovation and energy that have driven world economic growth over the centuries.

However, there are many circumstances (market failures) where markets fail to supply the goods that we want. More critically, given an unequal endowment of resources across individuals, in many cases from birth or the first few years of life, or simply due to misfortune, income and goods are often distributed most unevenly. Therefore, some form of collective action is essential to achieving efficient and socially inclusive outcomes.

As the famous parable of the Good Samaritan suggests, some collective action may be achieved by individual effort without government intervention. However, for most purposes, government at some level has a central and indispensable role in the rules by which we live and in the provision of social welfare.

But, as have seen, government is not a simple process. Collective decision-making processes are complex. And, regrettably, with good reason politicians are often not trusted to improve the situation.

Some readers may recall Lewis Carroll's satire of the political process in the Caucus race in *Alice's Adventures in Wonderland* (Lewis Carroll, 1865). To get dry after a swim in the river, the Dodo proposed that Alice and everyone else in the party should run a Caucus race, in which they would run in patterns of any shape, starting and leaving off wherever they wished.<sup>1</sup> After they had been running around for half an hour or so and were quite dry again, the Dodo called out 'the race is over', whereupon everyone crowded round and demanded to know who had won the race. After a period of silence and thought, the Dodo announced at last, 'Everybody has won, and all must have prizes'.

Giving out prizes seems to be a universal political practice. In the words of Nikita Khrushchev, Chairman of the Soviet Union from 1958 to 1964: 'Politicians are the same the whole world over. They promise to build a bridge even when there is no river.' And Khrushchev did not even have to get elected other than by a few party officials!

On the other hand, economics is a science of choice. We try to show how individuals make choices in markets and how governments do and could make choices over the use and distribution of resources for the betterment of individuals in our society.

This is an important task though generally a less popular task than handing out prizes! But, hopefully, the study of public economics will encourage a rational and generous view about how governments can secure and enhance our welfare both as individuals and as a community.

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<sup>1</sup> The Dodo was the nickname that Lewis Carroll, whose real name was Lewis Dodgson, gave to himself in his stories. As a professor of mathematics at Oxford University, Lewis Dodgson wrote among other things about the voter paradox, the impossibility of rational collective choice.