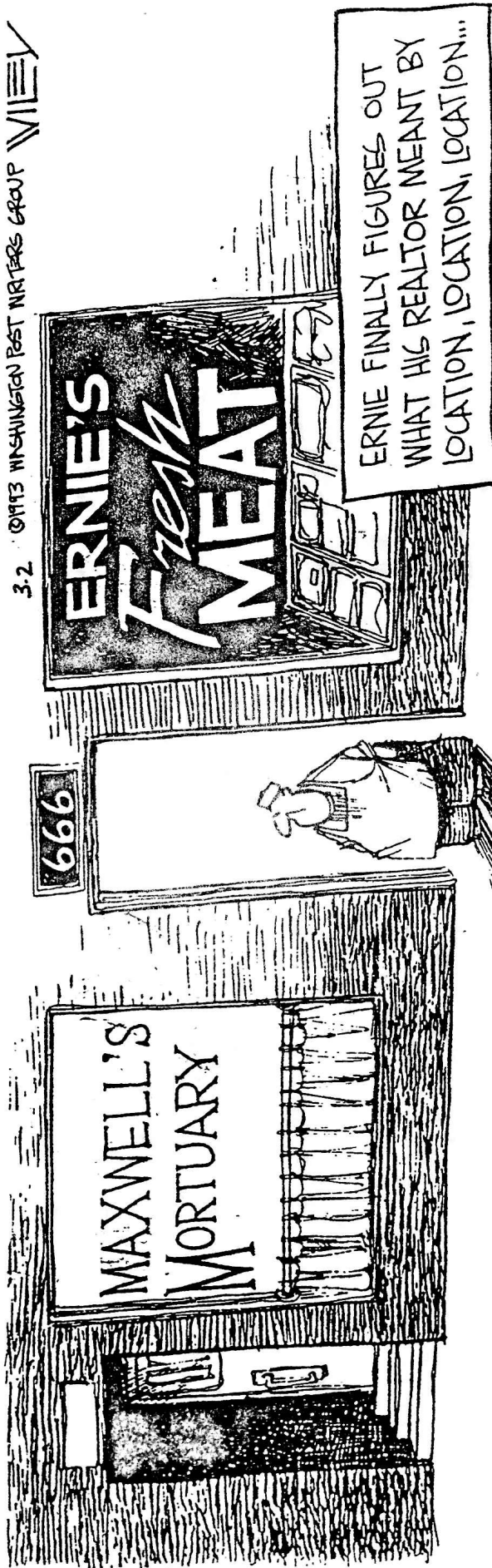


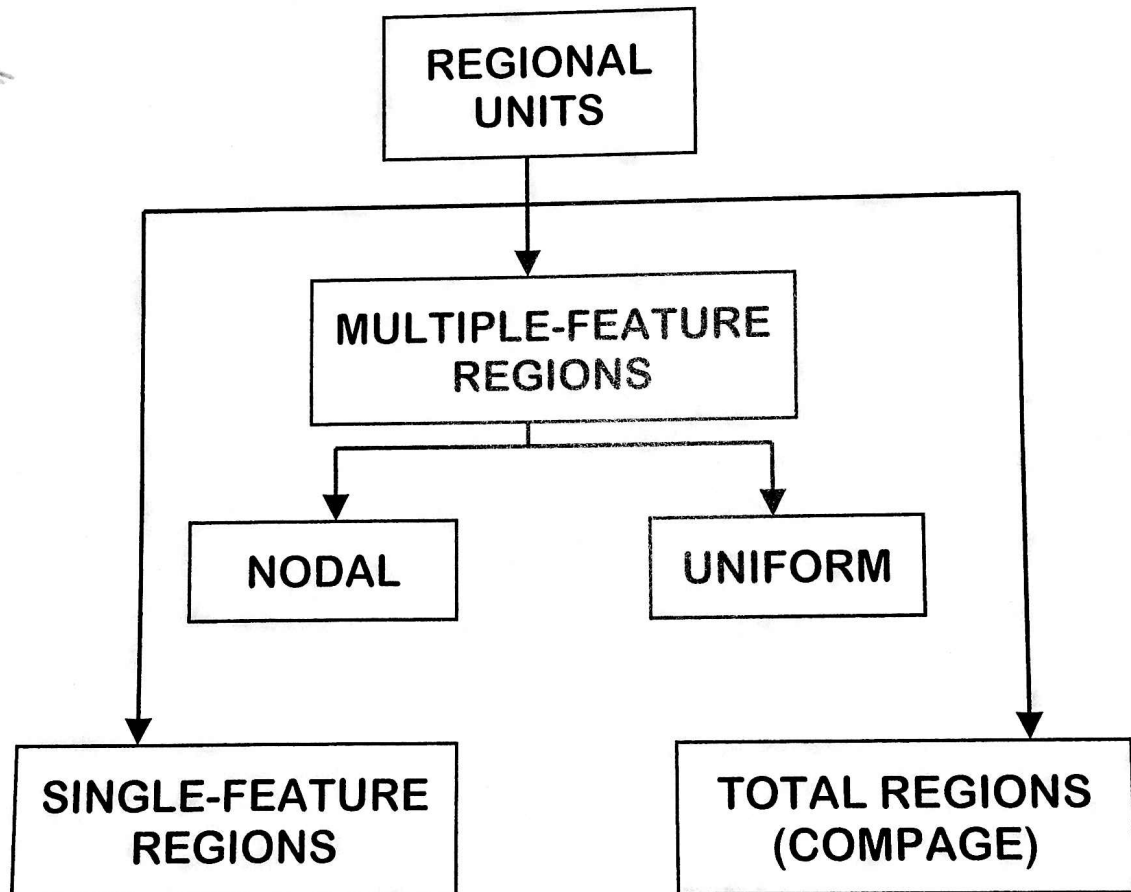
3-2 ©1993 WASHINGTON POST NATIONAL GROUP VILEY



NON SEQUITUR

CATEGORIES OF REGIONS

[after D. Whittlesey]



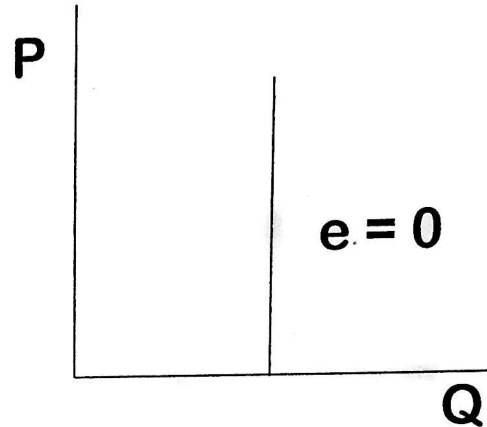
INDUSTRIAL LOCATION TYPES

Value of Outputs (Market Selling Prices)		
Value of Inputs (Production Costs)	Spatially Variable	Spatially Uniform
	<p>TYPE B</p> <p>Profits maximized at locations that <u>maximize difference between prices and costs</u></p>	<p>TYPE A</p> <p>Profits maximized at locations that <u>minimize costs</u></p>
	<p>TYPE C</p> <p>Profits maximized at locations that <u>maximize sales</u></p>	<p>TYPE D</p> <p>Plants are <u>indifferent</u> (economically) to location ("footloose")</p>

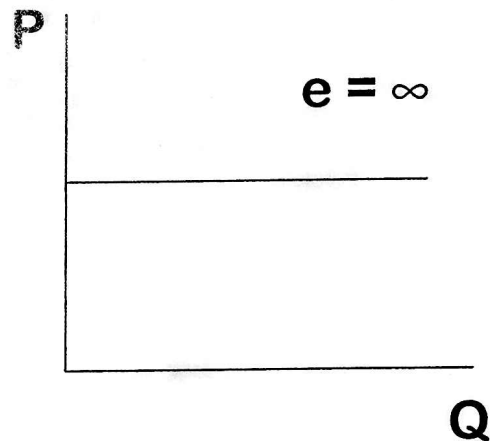
(after: Beckman)

TYPES OF ELASTICITY

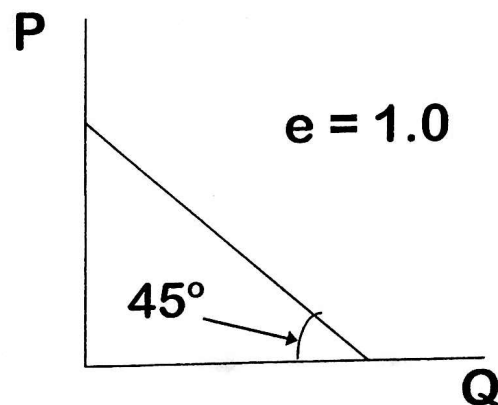
1. If there is no change in demand with a change in price, then $e = 0$



2. If small changes in price produce large changes in demand (including reducing demand to zero), then e approaches ∞



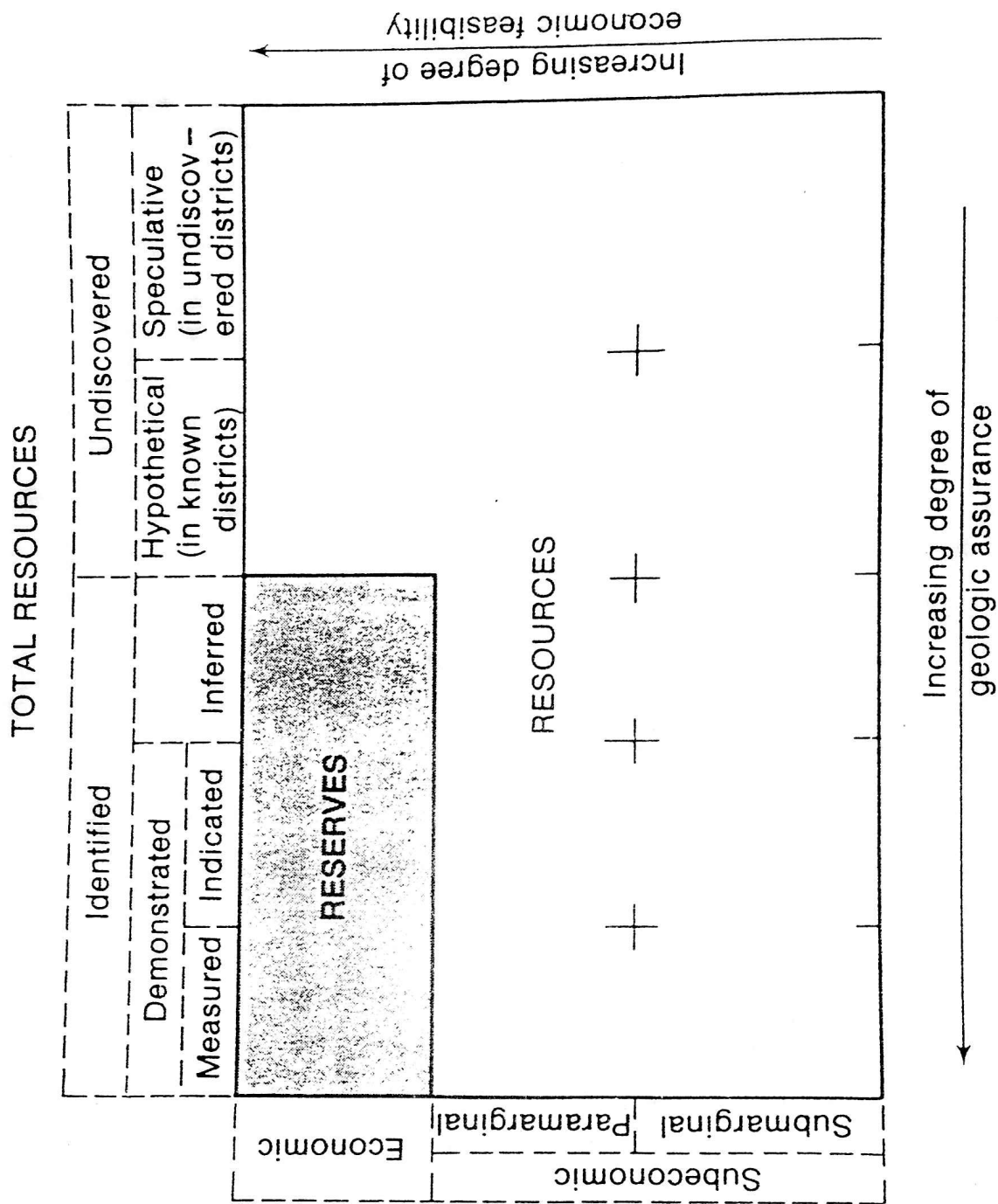
3. If a 1% change in price produces a 1% change in demand, then $e = 1.0$ (aka: unit elasticity)



Summary: Barriers to Development

	attributes
Population	<i>Death control increasing; birth rates high; rapid population growth.</i>
Resources	<i>High population ratios / perceived or developed resource base. Technological deficiency.</i>
Colonialism	<p><i>Initial Advantages — cumulative advantages of early capitalist development.</i></p> <p><i>Colonialism — “god, gold, and greed.” Viable socioeconomic structures wittingly or unwittingly destroyed and replaced with an “alien” European-oriented system. Economic control and exploitation; satellite of mother country.</i></p> <p><i>Neocolonialism — monopoly capitalism, system imposition, metropolis orientation. Warping of indigenous development by external pressures.</i></p>
Political	<p><i>Obstacles to national unity — artificial boundaries, divided groups.</i></p> <p><i>System capability of certain political structures — the development syndrome — failure to maintain law and order, corruption, lack of planning, etc.</i></p> <p><i>Ideology — divert attention from crucial economic factors; justify prestige projects or military adventures.</i></p>
Cultural Structure	<p><i>Value system — prescientific, traditional, age-deference, religious.</i></p> <p><i>Stratification — caste systems, class systems, elite power groups, peasant groups; lack of mobility between groups.</i></p> <p><i>Atomism — individuation, lack of group consciousness, lack of concern for human welfare.</i></p>
Economic Structure	<p><i>Domination by external economic forces; foreign “aid” with strings attached.</i></p> <p><i>Lack of “preconditions” — insufficient capital, savings nonexistent, infrastructure undeveloped, markets too small, consumer purchasing power negligible.</i></p> <p><i>Lack of “motives” — few entrepreneurs, risk takers, achievement motivation minimal.</i></p>

Classification of mineral resources. Identified resources consist of economically recoverable reserves and subeconomic resources. Undiscovered resources are divided into hypothetical and speculative resources.



COMPETING ECONOMIC MINDSETS

Alternative Viewpoints	Human Nature	Work Incentives	Unit of Analysis	Analysis Based on	Human Goals	Nature of Market Economy	Nature of Societal Problems	Role of State	Social Change
Conservative	Humans are naturally unproductive & individualistic	Essentially material; (1) positive: raise in income (2) negative: unemployment	Individuals, persons or companies	Classical & marginal economics; competition & individuals maximizing profits	Maximum personal liberty & material well-being	Harmonious state of equilibrium: created by supply & demand forces	(1) Individualism: lack of motivation, culture of poverty, racial inferiority (2) Government interference in the economy	Only police power to maintain law & order so that the market can work freely	Gradual change results from individuals' interactions in the market place
Liberal	Humans are naturally unproductive, but of goodwill	Essentially material; (1) positive: raise in income (2) negative: unemployment	Individuals and groups in society	Keynesian economics; competition & individuals maximizing profits with government assistance	Individual equality & social justice (equal opportunity)	State of equilibrium, achievable with government involvement in the economy	(1) Monopolistic tendencies in major economic sectors (2) Insufficient & inappropriate government programs	Police power & offsetting inadequacies in the economy whenever basic human needs & social justice are not achieved	Rapid change through government action
Radical	Humans are naturally productive & cooperative	None really necessary: social awards valuable	Classes in society	Marxist economics: labor theory of value, theory of surplus value, theory of class struggle & revolution	Social equality: from each according to their ability, to each according to their need	Contradictions & crises of production & consumption; exploitation of workers; irrational allocation of natural & human resources	Capitalism which creates unemployment, poverty, hunger, regional inequality	Police & economic power used to maintain & enhance capitalism	Revolutionary change through mass movement to transform society's structure and values

SOURCE: Ingolf Vogeler and Anthony R. de Souza, *Dialectics of Third World Development*. Montclair, New Jersey: Allanheld, Osmun & Co. Publishers, Inc. (in press).

Cowboy Lifestyle	Spaceship Lifestyle
Essentially infinite resources and energy.	Finite resources and infinite energy (if fusion or solar energy can be developed).
Linear flow of matter and energy.	Linear flow of energy but recycling of matter.
Increase flow rates of matter and energy and output (maximize throughput).	Stabilize flow rates of matter and energy by deliberately reducing throughput—a steady-state system with balanced inputs and outputs well below the limits of the system.
Goals of efficiency, quantity, simplification, and cultural and physical homogeneity to attain short term stability	Goals of quality and deliberate preservation of cultural and physical diversity to attain long term stability at the expense of some efficiency.
Output control of pollution (consequences of second law of thermodynamics can be avoided or minimized by cleaning up output).	Input and output control (consequences of the second law of thermodynamics can be decreased in the long run by decreasing input and flow rates along with controlling output).
Continued growth provides capital for output control and redistribution of wealth (trickle down theory).	If growth continues, capital must be increasingly devoted to maintenance and repairs, thus decreasing life quality and preventing redistribution of wealth.
Free enterprise, a competitive market system, or a centralized control economy that can respond to undesirable side effects.	Market responds only if we find ways to include quality of life indicators into the price of goods and services.
Short term view and planning.	Long term view and planning.
Local and national outlook.	Global outlook.

NOTE: The table suggests that we can transform our "cowboy" lifestyle to a "spaceship" lifestyle without restructuring our economic system. Can we become "spacemen" and, at the same time, maintain our existing market system?

Distribution Versus Efficiency

Economists recognize that government actions can affect both the efficient allocation of resources and the distribution of income. Because it is possible to talk about *efficient* and *inefficient* allocations, but not about “better” or “worse” distributions of income, without introducing normative considerations, much of positive economics concerns efficiency and neglects redistribution of income. Many policy disagreements can be understood in terms of a difference in emphasis on these things.

From an efficiency point of view alone, the correct policy was to let domestic oil prices in all oil-importing countries rise along with the world price. Instead, many governments held the price down. For they were concerned, among other things, with the effect of rising prices on the windfall profits earned by large oil companies and on the welfare of poorer citizens. “We just cannot let the poor find their heating bills rise so much and so fast while the profits of the oil companies soar” was a common reaction.

Here is a genuine conflict for which economics cannot provide a solution—because in the end the answer must rest on value judgments. However, economics can make the consequences of various choices apparent, and it can suggest policy alternatives. The consequence of holding down the price of oil (out of concern for the effect of higher prices on the poor) in the manner discussed in Chapter 17 was an inefficient use of the countries’ resources. Total production was reduced, and some new investment was misdirected into high-cost (rather than low-cost) methods of production. Thus in the long run average standards of living were reduced. Whether the reduction in the average was a reasonable price to pay for shielding the poor is an open question; yet it is unlikely that the question was ever posed or the calculations made.

Can one have both efficiency and desired redistributions? One way is to let the price sys-

tem do the job of signaling relative scarcities and costs, thereby ensuring some efficiency in the allocation of resources, but at the same time use the taxes or expenditures to transfer income to achieve redistributive goals. This method does not seek to help the poor (or other underprivileged groups) by subsidizing oil or any other price. Rather, it seeks to provide these groups with sufficient income by direct income transfers. Then it leaves producers and consumers free to respond to relative prices that approximately reflect relative opportunity costs.

Advocates of this method argue that it is surer, more direct, and less costly in its side effects than the method of subsidizing the prices of particular goods. Moreover, the price-subsidy method surely ends up subsidizing some who are rich and missing some who are very poor. Subsidizing gasoline prices, for example, benefits the Cadillac owner and does nothing for those too poor to own a car. Thus even in redistribution it is haphazard.

Supporters of redistribution through the price system usually counter with one or both of two arguments. The first says that it is well and good to say we *could* let oil prices rise and simultaneously subsidize the poor and tax the rich, but the political process makes it unlikely that we *will* do so. Thus holding prices down may be the best or even the only practical way to get a fair distributive result.

The second argument claims that certain commodities such as food, heat, medical care, and housing are basic to a civilized life and should be provided to households cheaply whatever their real opportunity cost. Supporters reject the view that a minimum living standard can be provided simply by allowing a minimum income and letting the recipients spend it at market-determined prices. They believe that the inefficiencies resulting from prices that do not reflect opportunity costs are a price worth paying to ensure that everyone can afford these basics.

