



EPILOGUE

Now that we have studied these theories and tools of economics, let us reflect on what we have learned and look ahead to where economics can go from here. Throughout this text, we have emphasized that economics is designed to help decision makers, not replace them. Economics can be used to clarify benefits and costs, to compare alternatives, and to evaluate effects of decisions. Yet economic analyses need to be tempered by human judgment and, for public decisions, viewed within the context of larger societal goals. Economists often say that any decision can be evaluated using economics—that it is just a matter of doing the economics “right”—whether it means placing a monetary value on something inherently nonmonetary or attempting to compare projected future amounts with present amounts. Yet economic tools are often imprecise, and analyses can be performed and interpreted in different ways. Subjectivity and uncertainty often underlie seemingly objective and convincing economic analyses. Therefore, it is important to understand the assumptions and values underlying these analyses, and to keep in mind the strengths and limitations of what economics can do.

Based on what we have learned, what might be useful directions for economics in the future? As we have seen, public sector decisions frequently involve effects, both positive and negative, and trade-offs that are not easy to quantify or compare. Yet economics typically tries to monetize and combine these effects into a single number, using cost-benefit analysis, for instance, in order to make decisions. Perhaps economics can move beyond a strict cost-benefit analysis, recognizing that this framework may be inadequate for decisions whose effects are not purely monetary. Further, this framework can obscure distributional effects—that is, who benefits and who bears the costs. Because individuals have differing marginal utilities of income, even a decision with positive net monetary benefits could decrease net societal utility. Plus, willingness to pay depends on ability to pay, so those with less wealth may have less influence in the analyses, raising equity concerns.

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Rather than relying upon a summary number to represent all benefits and costs, think about creating better alternatives, looking for actual Pareto improvements, practicing precaution in decisions with significant uncertainty and irreversibility, and promoting multiple societal goals such as economic efficiency, environmental quality, and equity. Even Adam Smith, while writing on the efficiency of the Invisible Hand, also spoke of the need for equity: “No society can surely be flourishing and happy, of which the far greater part of the members are poor and miserable.” Economics can develop new ways to “manage the house,” to meet basic needs of food, clothing, and shelter for as many as possible, rather than to measure economic progress solely by aggregate and quantitative increases in consumption and production. Further, people’s “unlimited wants” are not just for material goods, but also for nonmaterial aspects of life. Economics can try to consider such noneconomic goods, or at least recognize limitations in its ability to quantify all that is important in public life.