Weighing the (Opportunity) Cost, Arkansas Democrat Gazette, Sept. 25, 2004

The Democratic and Republican nominees for President could both benefit from taking an introduction to Economics class. In any introduction to economics class, students learn about opportunity cost. Opportunity cost is the value of the best option not taken. By understanding opportunity cost people can make good decisions, when they ignore this cost, they often make bad decisions.

To understand the concept, consider an example. Suppose a college student has one hour at his disposal and the following preferences. He believes his best option is attending class, followed by sleeping, and then by eating breakfast in the dining hall. When this student decides whether to go to class, he considers the benefits of going to class, and weighs them against the cost of missing out on extra sleep. In this case, the student considers the benefits from going to class to be greater than the cost of missing sleep, so he goes to class. When making this decision, the student ignores the cost of skipping breakfast, because he was not giving up both breakfast and sleeping. He can only do one of those activities at a time. Opportunity cost is the most valuable option not chosen – which is a student's sleep in this example.

If the student framed his choice differently, and did not identify opportunity cost correctly, he would make a bad decision. Suppose the student asked: should I sleep in?

If he only considered the cost of missing breakfast, he would conclude that he should sleep in. He just made a bad decision. He ignored the cost of going to class, which led him to his mistake. Instead, he should conclude that the cost of missing class is greater than the benefit from sleeping an extra hour. Therefore, he will run a comb through his hair and trudge off to class.

Unfortunately, John Kerry is acting like the student who can not correctly identify opportunity cost. The Presidential aspirant says that we should not have gone to Iraq because the resources could have been used elsewhere. Fair enough. So far all he has said is that there is an opportunity cost to the war in Iraq – which, of course, is true. Our government only has a finite amount of money and manpower to spend on government policy. Unfortunately, when Kerry continues his line of thought, he says that the U.S. is giving up health care and other domestic spending. He believes this domestic spending is the opportunity cost of Bush's policies.

Kerry's argument is troubling for two reasons.

First, he has bad judgement. Suppose that he has identified the correct opportunity cost of the war with Iraq. His argument will not have any traction. The American electorate is willing to forgo government domestic spending to fight the war on terrorism. The voting public will believe the benefits of fighting terrorism are greater than the costs Kerry identifies. When Kerry claims otherwise, people will worry whether he can make good decisions.

Second, John Kerry has not identified the true opportunity cost of going into Iraq. What the U.S. has given up by invading Iraq is the ability to actively engage, and perhaps invade, other countries that are actually harboring terrorists. Iran is first among these other countries.

John Kerry could give a meaningful critique of Bush's war in Iraq by making the argument that our nation is less safe because Bush did not correctly identify the opportunity cost of the war. Kerry could claim that Bush did not understand the opportunity cost of going to war, and for this reason Bush needs to be replaced. Unfortunately, Kerry also does not seem to understand the concept either. Kerry is like the student who sleeps through class because he can not identify the correct opportunity cost.

Both presidential candidates could benefit from the economics principles found in an introductory economics text book. If they each understood opportunity cost, I am confident that public policy would improve, as would the political debate.

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