**Consumer Sovereignty**

In a free market system, the government doesn’t organize, direct and control economic activity. If the government doesn’t, who does? Who decides what is to be produced, and how, and in what quantities and quality, and who gets the fruits of production?

The answer is that **you and I decide these important questions** by the way we spend our money. The market system features consumer sovereignty, meaning that the **consumer is king**. We decide what will be produced by casting dollar votes for the things we want and by not spending on the things we don’t want.

If we want more hamburgers and fewer hot dogs, we spend our money accordingly. As hamburger sales pick up and hot dog sales languish, the derived demand for beef to make hamburgers will rise relative to the demand for pork to make hot dogs. As prices and profits rise in the hamburger and beef industries, new producers and suppliers are attracted, increasing the supply of hamburgers and moderating the upward pressure on prices. The initial rise in profits will be temporary since the supply will increase to match the higher level of demand.

While all these good things are happening in the hamburger industry, times are tougher in the hot dog business. The decline in hot dog demand pushes down prices and profits. Producers of hot dogs and pork will cut back production, and, if demand stays weak, some will leave the industry. The exodus will reduce excess supply until the producers that remain are restored to normal profitability.

Where will the hot dog workers go? In our simplified model of the world, they will go into hamburger and beef production. This is an important point, easy to see in our simple example but often overlooked in the real world. Under normal conditions of near full employment, expanding industries can grow in response to consumer demand only if others are allowed to shrink. If the adjustment process begins immediately in response to gradual changes, it need not be too painful.