

## SCARCITY

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### 1. The Postulate of Scarcity in Economic Science

The scarcity postulate delineates the object field of modern economic theory.<sup>1</sup> Although it was already implicit in the 1870s theories of marginal utility (Xenos 1989: 67), its most authoritative statement is found in Lionel Robbins' essay on the nature and significance of economic science. Robbins contrasted the 'materialist definition', which maintains that economics is the study of the causes of material welfare, with the 'scarcity definition', which maintains that economics studies the allocation of scarce means among competing ends (Robbins 1932: 12-15). According to the latter definition, both ends and means can be of a material or a non-material nature. For example, the need for aesthetic beauty or religious inspiration is no less potentially subject to scarcity of means than the need for bread and butter. The satisfaction of all these different types of needs under conditions of scarcity marks the 'economic aspect' of action. Since every action has such an economic aspect, every action is a legitimate subject of economic analysis. The domain of economics is principally unlimited.<sup>2</sup>

For Robbins and most economists after him, scarcity is characteristic of the human condition.<sup>3</sup> It arises out of the unavoidable opposition of endless wants and limited means to satisfy these wants. The concept of opportunity costs explains why means (time and resources) are always limited in supply: every choice for one course of action implies the costly sacrifice of alternative courses of action. Under these conditions, the 'economic problem' is how to use these limited means as efficiently as possible, i.e. how to raise productivity to enable the satisfaction of as many wants as possible. This implies that wants or preferences for the purpose of economic analysis are to be treated as given or 'exogenous'. Their endlessness is formalized in standard micro-economic theory as the axiom of non-satiation: every consumer prefers to possess more rather than less of any available bundle of commodities (Hodgson 1998: 7, 51).<sup>4</sup>

The postulate has not gone uncontested. Here a sharp distinction needs to be drawn between the scarcity condition itself and its prescribed 'treatment'. It is one thing to say that man is always confronted with endless wants compared to available means (a descriptive claim). It is quite another thing to propose that man should respond by maximizing the satisfaction of his preferences (a normative claim). On the descriptive

side, critics have questioned the ‘fact’ of scarcity, disputing that it represents a universal predicament and claiming that it is the historical product of modernity (section 2). On the normative side, criticism has focused on the fact that economics’ prescribed response leaves no room for the mirror strategy of reducing scarcity by limiting wants or criticizing preferences (section 3). At both the descriptive and the normative level, economic theory has some arguments available in its defence against these criticisms (section 4).

## **2. The ‘Fact’ of Scarcity as a Social Construction**

The argument that scarcity is not a natural fact is inspired by anthropological interpretations of primitive tribal societies as ‘societies of affluence’, despite their low level of material want satisfaction. Low levels of consumption in these societies of hunters and gatherers result from low levels of time spent working and correspondingly low levels of wants. The experience of scarcity would therefore be largely absent in these societies (Sahlins 1972: 1-39).<sup>5</sup> Absolute levels of production and consumption (imagine them forming a scale from great wealth to extreme poverty) should not be confused with levels of our subjective experience of them, measured against our needs and desires. ‘Scarcity’ and ‘abundance’ denote these experiences, and as we all know, wealthy persons can experience scarcity just as poor persons can experience abundance. The anthropological evidence suggests that modern societies are like the wealthy person experiencing scarcity, while primitive societies were like the poor person experiencing abundance.

This opens up the question why *modern* societies – as an apparent exception to the historical rule - experience scarcity despite high levels of want satisfaction (wealth). A distinction between scarcity as a temporary or concrete experience and scarcity as a permanent or general condition may be useful (Claassen 2004: 41-44). Primitive societies have known periods of scarcity, when droughts or other natural conditions cut them off from their supply of basic necessities, but such experiences were passing in that as soon as natural conditions improved scarcity was over. The experience of such specific forms of scarcity didn’t influence the level of wants (Xenos 1989: 3, calling this form of scarcity ‘insufficiency of supply’). By contrast permanent scarcity refers to scarcity as a dynamic process of both increasing productivity and increasing wants, with the latter ever-remaining one step ahead. Several hypotheses have been put forward to explain this dynamic, all pointing to some kind of social construction of scarcity.

Some have claimed that the production side of the economic circle is causally responsible: higher levels of production necessitate higher levels of want creation. Advertising and ‘salesmanship’ become necessary to sell the fruits of higher productivity and are largely successful in doing so. In this way preference formation is endogenous to the economic system - this was coined the ‘dependence effect’ (Galbraith 1958: 124-131). This emphasis on the production side is shared by some in the Marxist tradition, who give a similar explanation. The increases in productivity and wealth made possible by capitalism make possible either extra leisure or higher levels of production and consumption. ‘Now, capitalism inherently tends to promote just one of the options – output expansion – since the other, toil reduction, threatens a sacrifice of the profit associated with increased output and sales, and hence a loss of competitive strength.’ (Cohen 1977: 118; similarly Booth 1989). Increased consumption is treated as a mere consequence of this autonomous process.

For others the consumption side is primary in explaining scarcity. The upward spiral of production and consumption levels would be due to people’s quest for status in careers and consumption choices. This hypothesis is associated with the work of economists such as Thorstein Veblen, Fred Hirsch and Robert Frank.<sup>6</sup> Veblen maintained that individuals strive to emulate relevant others with their superior consumption patterns (Veblen 1998[1899]). This is the phenomenon of ‘conspicuous consumption’, familiarly known as ‘keeping up with the Joneses’. Hirsch distinguished between a ‘material economy’ and a ‘positional economy’. The latter exists of all those goods that are scarce in a social sense (‘positional goods’), scarce because their supply is limited by definition. Hirsch distinguished two categories of such goods: goods people want because of their being scarce, i.e. as a sign of distinction (snob and luxury goods) and goods that are scarce because the use of others limits my opportunities to use them (congestion goods). The crux of his argument is that with economic growth, more people are able to join the race for these socially scarce goods. As a consequence, the proportion of the positional economy, compared to the material economy, grows. This explains the frustration that comes with economic growth – contrary to popular expectations it doesn’t become easier but instead harder to purchase socially scarce goods (Hirsch 1976).

The most recent elaboration of the status hypothesis comes from Robert Frank, who emphasizes the contextual nature of most of our preferences and formalises this in interdependent utility functions. Insofar as preferences concern positional goods, he characterises the ensuing form of competition as identical to an arms race: both parties have to invest ever more resources in the race without gaining a better chance of winning the good. The problem is therefore structurally similar to a prisoner’s dilemma (Frank

1985: 122). For Frank, the desire for status is a ‘universal’ of human nature. It occurs because of the evolutionary advantage that comes with a superior position within a group (Frank 1999: 146). Nonetheless, its realization depends upon the existence of favourable social institutions. In modern society the decline of fixed status hierarchies opens up an arena of ubiquitous status competition with permanent scarcity as a result.<sup>7</sup>

### **3. Ethical evaluations of scarcity**

For convenience sake I will divide the normative approaches into two ideal-typical categories, the ‘ascetic’ and the ‘collective action’ approaches. Both approaches are critical of scarcity-generating processes and propose to mitigate or eliminate them. Schematically, the difference lies in the following two interrelated propositions that are affirmed by the ascetic approach and rejected by the collective action approach: (a) the content of individual preferences is the legitimate and appropriate target of normative evaluation, and (b) the responsibility to revise one’s preferences - if that is the recommendation resulting from such an evaluation - belongs to the individual.

The evaluation under (a) in *ascetic approaches* leads to a critical or even outright negative view of human desires. Its origins can be traced to several philosophical theories from Classical Antiquity. For instance, it is visible in Plato’s rejection of the unruly desires of democratic man and Aristotle’s condemnation of *chrèmatistikè* as an unnatural form of wealth seeking that knows no boundaries and prevents people from experiencing the good life in activities outside of the economic domain. Furthermore, Stoic, Epicurean and Christian thought all – in one way or another – have urged a stance of disapproval toward indulgence in wealth, luxury and avarice. In contemporary western societies the idea that scarcity must be combated by individually renouncing the fulfilment of (certain of) one’s preferences is promulgated by the so-called voluntary simplicity movement, that promotes ‘downscaling’ consumption patterns.

Ascetic positions do not rely on any specific *explanation* of the scarcity condition. They are compatible with the idea that people come to desire goods for their intrinsic characteristics but also explanations based on social construction. If they endorse the first kind of explanation, they must explain why possession of or attachment to goods is intrinsically wrong. Here the range of options is wide: an attachment to possessions might distract one from concentrating on preparation for the afterlife (as in Christianity), it might cause a disturbance of one’s personal peace of the soul (as in Stoic ethics), etc. When relying on social construction explanations ascetic theories must instead critically relate themselves to the motive of status seeking, instead of the goods sought for. For

This sits somewhat uneasily with the idea that individuals have to voluntarily restrain themselves: it requires that the drive for status is depicted as both malleable - individual effort may soften if not completely suppress it – and reproachable, something that should be morally condemned (see for an example of this combination consumer-critic Juliet Schor 1998).

The *collective action approach* rejects the appropriateness of evaluating the content of individual preferences because such an evaluation is bound to be perfectionist or even paternalist. Any such evaluation must rely on a hierarchy of values that is always ‘extremely controversial’ (Heath 2005: 211). An assessment of needs reveals as much about the value orientation of the observer as about the value of the preferences of the observed. The reason for rejecting individualist strategies of preference suppression as a solution lies in an adherence to the explanation of scarcity as socially conditioned by status seeking. Since the problem has the structure of a prisoner’s dilemma, it cannot and should not be solved by individual restraint but rather by social-institutional arrangements that mitigate status consumption. The collective action approach considers a voluntary withdrawal from an arms race for income or consumption goods ‘too much to ask for.’ Since the possession of many status goods enhances one’s chances of survival and reproduction, it is an innate drive that people cannot be expected to give up (Frank 1999: 187). Thus, the solution should come from a structural adjustment of the rules that create status games. Different proposals have been made, such as a tax on consumption, a (more) progressive income tax, or proposals for restricting specific status struggles, such as those for leadership positions or educational positions in prestigious institutions (Frank 1999: 194 ff).

The normative ground is found in efficiency-considerations. Status games create negative externalities, henceforth they are inefficient. More resources are used up to combat contestants for status than would be necessary if the ‘arms race’ was curbed by an ‘arms control agreement’ – a form of waste. So it is not that wants at higher levels of wealth production and consumption are less urgent (as Galbraith would maintain), or that they are morally reprehensible (as the ascetic would say); the point is that their satisfaction comes at an unnecessarily high cost (for a different normative foundation, see Claassen 2007b). Sometimes recent empirical research into happiness is used to support these conclusions. In rich countries (above 15.000 average per person per year) subjective well-being does not increase when national income rises. By contrast, people do become happier when their income rises relatively to others in their societies (but the extra happiness enjoyed by the upwardly mobile is offset by those going down relatively). Some draw the conclusion that this makes striving for economic growth useless – or even

harmful, to the extent that it distracts resources (such as people's time and energy) to activities that do make people happier according to research; such as family life, spending time with friends, etc. (Lane 2000, Layard 2005).

#### **4. Economics' Defence and a Mixed Conclusion**

The scarcity condition as adhered to in mainstream economics can be defended on two different levels, corresponding to the descriptive and normative levels of criticism. The descriptive defence is that scarcity is a universal feature of human action after all, while the normative strategy is to value the recurrence of scarcity positively.

David Gauthier defends economics' *theory of action*. He argues that a Utopian world without scarcity is unthinkable: 'Paradise is gained when all obstacles to fulfilment are overcome, but when all obstacles are overcome, instrumental activities lose their point and cease to afford fulfilment.' (Gauthier 1986: 333). What is of intrinsic value in human life is engaging in instrumental activities; i.e. activities in which obstacles must be overcome. Scarcity is therefore necessary for human fulfilment to be possible, the 'humanly necessary evil' (Gauthier 1986: 335) This argument shows that wants are endless in one specific sense: as long as we are alive, we act and so we have to have some ends in view. On the other hand, *which* ends this should be, remains an open question. So this defence of the scarcity condition doesn't commit one to endorse economics' attitude of treating preferences as authoritative at the normative level. Rejecting some ends doesn't imply being without ends, for such a thing is impossible; it merely implies preferring the attainment of some types of ends over others. From this perspective, economic theory strictly speaking can accommodate preferences with any kind of content.

Nonetheless, in practice it seems to favour an interpretation of the end of human action as the attempt to satisfy individual preferences for goods that can be *privately appropriated* (allegedly contrary to interpretations of action by members of pre-modern societies). In this interpretation of action certain institutions are presupposed: private property, freedom of contract and exchange in a market context. Only this focus on individual preferences for private goods can explain the occurrence of constant increases in preferences. Dynamic preferences are to be observed where action is interpreted as a quest for individual appropriation by persons who exchange and consume under the pressure of producers and/or try to get ahead of other persons in terms of status. This reconciles the universal and the socio-historical explanations of the scarcity condition (to a certain extent<sup>8</sup>). Within this framework scarcity is universal, but the framework itself is

a social construct, supported by a set of specific social institutions (Claassen 2007a). Correspondingly, the limit of such a framework lies where the reach of the presupposed institutions stops. The relevant question therefore is which goods should (not) be subject to private appropriation in a market context. That requires engaging with the essentially normative challenge of boundary setting.

The classical *normative defence* of scarcity is utilitarian: the satisfaction of individual preferences increases overall utility.<sup>9</sup> Such an endorsement of the positive value of preference satisfaction stands in noteworthy contrast to other (e.g. Kantian) theories, which ascribe moral value to the capacity of practical reason to critically scrutinize one's preferences. Given modern economics' utilitarian background its reluctance to consider the problem of how to value the formation of new preferences is understandable, as well as its neglect of the alternative option of increasing overall utility by reducing preferences.<sup>10</sup> It is therefore unsurprising that there is hardly any explicit engagement with the scarcity problem from a utilitarian point of view. A more explicit answer to the critics is delivered by several writers who acknowledge scarcity's social construction but maintain that it creates positive external effects: it makes people enrich their culture, refine their talents, etc. The roots of such a positive evaluation go back to the endorsements of the rise of commerce by 18<sup>th</sup> century authors such as Mandeville, Smith and Hume.

A more contemporary example is Friedrich Hayek's rejection of Galbraith's dependence effect. According to Galbraith, the law of diminishing marginal utility, routinely applied to the demands for individual goods, should also be applied to preference satisfaction itself. Wants on a higher level of economic development are not innate but created within the economic system and therefore less important or urgent. Preference satisfaction is itself subject to diminishing utility (Galbraith 1958: 118-123). According to Hayek, it doesn't make sense that only innate wants would be important or urgent. Desires for art, literature etc. have been developed in a social context – but we never protest as to their origins; so why should we protest against attempts by advertisement and marketing to induce wants for standard market goods? Furthermore, there would only be reason for protest when producers could causally determine these wants, but this is something Galbraith cannot prove. Producers' attempts to instil wants in consumers are only one among many influences upon consumers, who in the end make a free choice (Hayek 1961: 346-8).

This argument implies that different types of activities will have to be evaluated on their merits. Whether private consumption creates more or less 'positive externalities' compared to activities such as art, cannot be determined a priori. Both types of activity

can be framed as a struggle for status, and both can have positive as well as negative externalities. The battle between those judging the overall balance to be positive and those perceiving the contrary, will probably continue for a long time.

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<sup>2</sup> The only exceptions, according to Robbins, are those 'free commodities' whose acquisition does not require any effort, such as the air we breathe (quite an ironic example nowadays, since air pollution has rendered air quality all but free).

<sup>3</sup> The treatment of scarcity as part of the human condition also found its way into liberal normative theory. Rawls, following Hume, maintained that 'moderate scarcity' is one of the two 'circumstances of justice' that necessitate and render possible social cooperation. Cooperation is necessary because there is scarcity rather than abundance; cooperation is possible because scarcity is moderate rather than extreme (Rawls [1971] 1999: 110 and Hume [1739] 2000: 312).

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<sup>4</sup> Technically, economic analysis acknowledges the existence of ‘satiated preferences’, but these are considered to be less interesting from the point of view of economic choice than those choices that concern unfulfilled preferences (Varian 2003: 43).

<sup>5</sup> For the debates in anthropology between formalists and substantivists over the applicability of the scarcity condition to primitive societies, see Prattis and references therein (1982).

<sup>6</sup> A closely related hypothesis points to the imitation of others’ desires (so-called ‘mimetic desire’), which was largely suppressed in premodern societies by religious and moral teachings and practices. Scarcity only gets free reign when these are removed – which happened in western societies from the 18<sup>th</sup> century onward. The concept of mimetic desire, originally developed by René Girard, was applied to scarcity by Dumouchel (1979) and Achterhuis (1998).

<sup>7</sup> For an evolutionary explanation of the birth of modern societies in terms of a struggle for status, see Coelho (1985).

<sup>8</sup> Economists may still object that their theory also has application outside of this framework. This carries the discussion into the problem of ‘economic imperialism’. The question then becomes whether the rational choice methodology can and should also be applied outside of ‘traditionally economic’ fields of action, such as the family or the courtroom.

<sup>9</sup> I leave aside the political view that preference satisfaction is a legitimate part of the private sphere protected from interference (which has to explain what should belong to the private sphere and what not – so that the issues re-appear). I also leave aside the romantics’ attitude toward scarcity. Although they were often highly critical of the emerging capitalist economy, they also advocated endless desires as a realm of imagination and refuge from reality (thanks to Pieter Pekelharing for this suggestion).

<sup>10</sup> McPherson (1983) for a critique of economics’ treatment of preferences as given; Bowles (1998) for an attempt to recover the idea of endogenous preferences.