

OWNERSHIP, SCARCITY, AND ECONOMIC DECISION MAKING

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A central theme of all schools of economics is the notion that goods are scarce. The extent of human wants and needs is sufficiently great that the means man would apply to those ends are limited, requiring that he choose among alternative actions. The purpose of this article is to call attention to a facet of scarcity that stems from this fundamental notion and that is of relevance to economic decision making, the determination of what goals to pursue, and how to attain them. This facet is the ownership of these scarce goods. The fact of ownership means that there is an additional problem faced by those who would use such goods, beyond the fact that such goods are physically unable to satisfy all conceivable uses to which they could be put. This problem is how to convince the owner, who by the very meaning of ownership is entitled to complete control over those goods, to part with those goods (so that they may be applied to other uses).

Since some owners may be more willing to part with those goods than others, the notion of how scarce some good is for a particular use cannot be answered outside the context of ownership and the valuations of property owners, making scarcity in this sense subjective as well. The existence of and need for property is a consequence of scarcity, which is further affected by the very institution to which it gives rise. However, this “problem” in a sense supplies its own solution, as ownership implies the ability to exchange, and consequently, the emergence of exchange ratios in a common unit (that is, money prices) that permit economic calculation and thus the ability to coherently compare prospective courses of action.

This article will attempt to elaborate on this idea, and applications of this notion will be made to the problems of socialism, monopoly capitalism, and business cycle theory.

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SCARCITY IN THE GENERAL SENSE

We live in a world characterized by scarcity. That is, the physical amount of the things man would use to satisfy his wants and needs are limited in relation to those wants and needs.¹ It is for this reason that conflicts can arise over things: if goods were so plentiful that another's use of them would not preclude my use of them, then no disagreements could arise over their use. It is because of the possibility of such conflicts that some means of conflict resolution is needed, and this is precisely why any theory of conflict resolution—ethics—is ultimately a theory of property rights (Rothbard 1998; Hoppe 1989, 1993). When scarce goods become owned, then conflict over their use is resolved (at least in principle). These goods then become *property*, and as the owner of property, I am entitled to exclude others from the use of the goods manifesting themselves as property. Of course, questions as to how property may be justifiably acquired must be resolved,² but once such questions are addressed, economic interactions between men become exchanges of property under a system delineating how such exchanges may legitimately take place.

Thus the concept of property stems from that of scarcity. This connection has long been recognized. Menger (1976, quoted in Salerno 1999) argues that

[A person's] property is not . . . an arbitrarily combined quantity of goods, but a direct reflection of his needs, an integrated whole, no essential part of which can be diminished or increased without affecting realization of the end it serves. (p. 84)

Salerno further notes that property is “a praxeological category that refers to a purposively created structure of goods that is adjusted through the operations of economizing to serve the structure of ends aimed at by an individual actor” (p. 84), the need for which (economizing) is entirely due to the fact of scarcity. Scarcity is a fundamental concept of economics and, more generally, of human action, as we confront scarcity with every action.

Unowned goods become property precisely because their use by one person means that others will be unable to use them. When a good is unowned (for example, in a state of nature), the question of acquiring it and making it one's property is a question, as with all actions, of choosing one course of action over another. However, given a system of property rights that determines how goods may be justly acquired, interactions with others do not necessarily arise. That is, as an unowned good, no one else has any justifiable claim over it. Others may desire it or hope the prospective owner puts it to a certain use, but in attempting to obtain it, one needs, in principle, no more

¹Air, for example, is physically of finite supply, but no wants are currently left unmet on account of this. Thus, air cannot qualify as an economic good and in this sense is of “unlimited” supply.

²See the preceding references. Kinsella (1996) provides an overview of other such recent work.

than one's own labor. Cooperation with others is not necessary (though of course it may be preferable to acting alone).

SCARCITY AS DERIVED FROM OWNERSHIP

The case is different regarding goods that are owned. Here, interactions with others *necessarily* arise when nonowners seek to put the good to an alternative uses. The owner, presumably, has a just claim over the use of that good, and he alone may decide how that good is put to use. Different property rights regimes may place greater or lesser constraints over the extent of his use, but ultimately the owner determines what will happen to this good. Of course, with a system of property rights there must not only be constraints on how property is acquired, but also on how it is exchanged. Still, what determines the terms on which exchanges of property take place are the desires of property owners on both sides of an exchange.

Because of the fundamental fact of scarcity, a good can be applied to multiple ends, any one of which precludes the others from being realized. In deciding whether to homestead an unowned good (that is, apply one's labor to acquiring the good and so become the just owner), a person must judge whether that choice will best meet his ends. He must then make a further choice as to how the good should be obtained and used. Of course, he must understand the property rules for his society, so that his actions are justifiable, but in this case the only barriers due to scarcity that he faces are the facts that by homesteading the good, he cannot do something else, and that by using the good in one way he cannot use it in some other way.

He of course faces these same difficulties when deciding whether to acquire an *owned* good. However, now he faces an additional problem: namely, how to obtain access to property from which he is forbidden, absent the owner's consent. The scarcity he now faces is distinct from the fundamental or general scarcity that characterizes our world. For under a private property regime, the owner alone decides how available an owned good will be for various purposes. This scarcity stemming from ownership holds across all property. For to obtain someone else's property, I must engage in some kind of exchange with that owner, and this presumably will involve an exchange of property. If, say, owners of beer are demanding \$20 a bottle for their product, then if I so desire beer that I will pay this price in money property, my money property likewise becomes scarce to me and I must be quite careful in how I apply it elsewhere. On the other hand, with money prices, I am at least able to coherently apprehend scarcity in this sense, as there exists numerical ratios that allow me to compare prospective actions to anticipated outcomes.

Thus we can see that goods can be considered scarce not only on the basis of the limits of their physical supply relative to wants, but also on the basis of the desires of the owners of those goods. The need for and existence of property stems from a fundamental fact of reality regarding objects as goods—namely, scarcity. However, once a good becomes property, there is a further aspect

of scarcity that must be considered, and this aspect stems from ownership. Because of scarcity in the fundamental sense, one is forced to make choices. An action made in one endeavor is an action that cannot be made in another. A ton of steel used to make cars cannot be used to make railroad tracks.

Because of scarcity due to ownership, one is forced to take something else into consideration: how to persuade the owner of the good in question to part with it, and this is distinct from the notion of scarcity as reflecting a limited physical supply relative to wants (although, of course, it is ultimately dependent on this fact). Now, the question is not only whether to use steel to make cars versus railroad tracks, but how to obtain the necessary steel from the person who owns it. Depending on the relative ease with which this can be done (that is, how much *other* property must be given in exchange for this steel), one application might be chosen over the other, and it is possible that neither will be feasible. The owner may be so insistent on keeping his property that the only price (in terms of money property) that will change his mind is sufficiently high for an entrepreneur to judge that these goods cannot be profitably applied anywhere. Or, the owner might be sufficiently generous that an entrepreneur will judge a wide range of projects to be feasible. In either case, the good in question is scarce to the extent that the owner wants it scarce.

Property is a means for solving one problem: the fact that prospective means in the physical world are of insufficient supply to meet all our ends, so conflicts with others may arise as a result. Property rights in these means establish boundaries which exclude others from using these means, and so serve as a way of resolving conflicts over them. (Of course, any property rights system, including systems based on the violation of such rights, for example, the State, is only effective to the extent that people are willing to abide by it.) In solving one problem—namely, disagreement over (scarce) goods in a state of nature—property creates another problem: the fact that an owner must now be persuaded to part with his property if one desires to apply that good to some end. However, as a property rights system must provide some way of exchanging validly owned goods, the system permits a solution to this problem: specifically, economic calculation. The amount of property one must surrender to acquire some other property, deemed more important to satisfying one's needs, can be determined in terms of money prices. One can calculate whether the anticipated proceeds from some course of action will exceed the costs required to presumably bring that action about.

So under a system of property rights, economic decision making must take scarcity into account, not only in the usual sense of choosing which wants are to be satisfied with a finite physical supply, but also in the sense that how available a good is depends also on the circumstances arising from that particular good being owned. When a good is owned (and on the free market, ownership implies not just control but the ability to exchange), the notion of a quantifiable amount of property needed to acquire that good comes into existence. This in turn leads to numerical exchange ratios (prices), which are the basis of economic calculation for comparing prospective gains and costs.

Whether a particular good will be scarce or plentiful relative to a potential use then depends on how much property that good's owner demands for it; the question of how to "best" produce something cannot be answered outside the framework of a property rights system for determining what factors are available (attainable) for its production. Indeed, the availability of factors in an economic sense plays a role in determining *what* should be produced in the first place.

IMPLICATIONS FOR ECONOMIC DECISION MAKING

Under a private property regime, there is a duality: On the one hand, consumers, as property owners, determine what is produced to the extent that producers whose products are unwanted by consumers will soon find themselves out of business. On the other hand, producers, as property owners, determine what is consumed to the extent that they decide to allocate their property to certain production processes. If the owner of some factor of production will not commit that factor to some line of production, those products will not be produced and, hence, not consumed. He may come to regret his decision, but that can only be revealed in the future, not now. The wishes of consumers and the "knowledge" of other entrepreneurs are irrelevant. As Rothbard (1993, p. 561-66) argues, the concept of "consumer sovereignty," if used in any but the above sense, is false.

Attention here must be drawn to the aspect of scarcity that derives from the specific fact of ownership, as opposed to the more general condition that the physical supply of a good is insufficient to meet all wants regarding that good. To be sure, we live in a world where goods exist only in finite physical amounts, so that not all wants can be satisfied. However, a subset of this more general form of scarcity is the scarcity that depends on the subjective valuations and desires of property owners. Whether a good is scarce or plentiful from this standpoint depends on the wishes of the owner(s) of that good.³ A few pounds of wheat, for example, may be more plentiful than a ton of wheat, if the owners in the former case are extremely generous with their property while the owners in the latter case are extremely covetous of theirs. It is this component of scarcity, and not *only* the general fact of physical scarcity relative to wants, which is relevant for economic decision making. Even to acquire an unowned good from a state of nature requires the concept of self-ownership, such that one can compare the amount of property one would receive by acquiring the good oneself or working in a different line of production. (This leaves aside issues of alienability in one's body compared with physical objects; see Kinsella 1999.)

³Of course, if nobody else wants the good in question, then from the point of view of these others, the good is quite plentiful. However, to acquire an owned good requires the consent of the owner, and his desires will determine how scarce the good is for use by others.

Under a capitalist system, it is largely irrelevant who owns what.⁴ More precisely, the functioning of a market does not depend on particular ownership, only on the fact of ownership. As a consumer of beer, it may matter quite a bit to me that the owners of factors that could produce beer are unwilling to devote their resources to such production, thus yielding less beer than (technically) possible. However, with unfettered private property rights (such that valid exchanges are unhindered), there will be no situations of surplus or shortage, where actors cannot adjust prices and where there are willing sellers and buyers, but no willing buyers and sellers, respectively. (Markets “clear,” in other words.⁵) It is only important that someone owns a factor of production. In that case, one may compare the anticipated revenues (in terms of money property) from an action with the costs (also in terms of money property) of bringing that action about. Once one has formed a judgment as to how much property consumers will give for some product, one can calculate how much property (in the same units) one can afford to give to acquire the means judged appropriate to produce that good. Regardless of whether a particular factor is owned by a miser or a freewheeling sort, exchange ratios result that permit the meaningful comparison of various actions on the market.

Factors of production are valuable because the output they produce is valuable. But because the outputs of production are subjectively valued, it is not possible to compare outputs with potential inputs on the basis of value. However, under a system of private property in the means of production, numerical exchange ratios (prices) exist which permit precisely this comparison (that is, economic calculation). Whether a factor owner is stingy or generous (so that the price of his factor is “high” or “low”) is irrelevant to the fact that economic calculation is the tool of entrepreneurs who must always first form a judgment about the future. Whatever “knowledge” may be “embedded” in the prices in those two different cases in no way changes the fact that, in either case, the factor in question can only be applied to production if an entrepreneur judges that it will be profitable, *and* if he can obtain property sufficient enough to acquire it (Hülsmann 1997). Indeed, the question of whether he can afford this factor determines the profitability of that factor in any given venture. The scarcity induced by ownership is always addressable by economic calculation.

The question of what goods to produce cannot be answered separately from the question of how scarce the factors needed to produce that good are. However, this scarcity is dependent on the ownership of those goods, and not simply on the fact that such resources exist in physically finite amounts. Thus one can never speak of value scales as such for the purposes of economic planning. One must always speak in terms of how much (anticipated) property

⁴Provided, of course, that unowned goods may be homesteaded (that is, unowned goods can become property), and that one can expect such rights to be respected over time.

⁵A “common-sense” equilibrium, as opposed to the general disequilibrium case of unmet desires at any given time, see Gordon (1995).

consumers are willing to give in exchange for those goods, which, when combined with the amount of property (referred to a common unit) needed to obtain the means for producing those goods, enables one to decide what is to be produced for consumption.⁶ Value scales of consumers are only part of the problem. If a particular factor owner will not surrender his property for less than what other entrepreneurs think it can yield in some line of production, then that factor will not be used in such a way, regardless of consumer wishes (or competing entrepreneurs' knowledge thereof).⁷

PREDECESSORS

The notion that the scarcity of a good depends on the ownership of that good is not entirely new. Indeed, an early economist of Austrian bent, Bastiat (1966b, chap. 1), spoke of the subjectivity of scarcity (and its flip side, abundance) when he noted that people have different attitudes toward scarcity depending on what side of a transaction they are on. In fact, property played a key role in his thought. Consider the following passage from Bastiat (1966a, p. 228):

What I now say, what I declare with conviction as an absolute certainty in my own mind, is this: Yes, there is constant interaction between private property and the communal domain. . . . But the second assertion, amplified and exploited by the socialists, is even more dangerously erroneous; for this interaction does not cause any part of the communal domain to be appropriated into the domain of private property, but, on the contrary, constantly extends the former at the expense of the latter. Private property, inherently just and legitimate, because it always is proportional to services, tends to convert onerous utility into gratuitous utility. It is the spur that impels the human intellect to realize the latent potential of the forces of Nature. It attacks, to its own profit admittedly, the obstacles that stand in the way of gratuitous utility. And when the obstacle is surmounted to any degree, we find that it results in corresponding benefit to all. Then, tirelessly, property attacks new obstacles, and this process continues with never an interruption, steadily raising the standard of living, bringing the great family of man nearer and nearer the goals of community and equality.

There are probably a number of ways to interpret this passage, but its emphasis on the centrality of property in human society is clear. Bastiat clearly recognizes the role property plays as a means toward our ends. However, one can

⁶In fact, the price of any good depends both on the demand and supply of it, so one can never speak of prices for consumer goods without reference to prices for producer goods. For a discussion of price formation on the market, see Rothbard (1993, chaps. 2 and 3).

⁷Likewise, if factor owners are unable to ask for as much property as they would like to for their products (as is the case under, say, price controls), then they will not do so, and furthermore, prospective buyers of those factors will deem them more plentiful than they actually are. This is another example of the illusions fostered by the property rights violations of the State; see Hülsmann (1998).

discern (at least, with a broad reading) elements of the role of economic calculation here. For by permitting exchange ratios (Bastiat elsewhere speaks of the necessity of exchange for determining value), individual ownership of property allows all others in society to appraise such property as means for meeting their ends, whereas such an appraisal would be impossible without property. The means available to man without economic calculation are of extremely limited scope; private property enabling such calculation broadens this scope enormously.

Among modern Austrians, it is Rothbard who comes closest to calling explicit attention to this concept in his discussion of monopoly prices (Rothbard 1993, chap. 10). Here, Rothbard notes that the notion of “restrictionist” production (a charge frequently leveled against entrepreneurs in support of antitrust policies) makes no sense on a free market, as the fact of scarcity means that one *always* restricts some production by the simple fact of pursuing one course of action over another. According to Rothbard,

In the real world of scarce resources in relation to possible ends, *all* production involves choice and the allocation of factors to serve the most highly valued ends. In short, the production of *any* product is necessarily always “restricted.” Such “restriction” follows simply from the universal scarcity of factors and the diminishing marginal utility of any one product. But then it is absurd to speak of “restriction” at all.

And in his discussion of the concept of “consumer sovereignty” (pp. 561–66), Rothbard notes the dual role all men play as both consumers and producers, and that the proper conception is one of *self-sovereignty*. The notion that producers serve consumers is true in the sense that producers must make things that consumers want, otherwise they will go out of business. However, it is false in a literal sense, and certainly unjustifiable in an ethical sense.

In the context of a different controversy of relevance, namely the socialist calculation debate, Rothbard (1991) quotes Professor Georg Halm:

It is true that the central authority would know quite well how many capital goods of a given kind it possessed or could procure. . . .; it would know the capacity of the existing plant in the various branches of production; but it would not know how scarce capital was. For the scarcity of the means of production must always be related to the demand for them, whose fluctuations give rise to variations in the value of the good in question.

It can only be added to this insightful statement that “demand” must be understood to include *reservation demand*, the amount that sellers will withhold from the market (see Rothbard 1993, p. 118). But of course, something can only be withheld on an unhampered market if it is validly owned, so we see again the key role ownership plays in the decision making of all market participants, both of existing owners and prospective owners (that is, nonowners). The scarcity of a factor of production will depend not only on

the demand for the products it can produce, but also on the judgments and valuations of the factor owner regarding its use.

The key point, the explication of which has been the objective of this here, is that restriction and sovereignty on the market stems from *ownership*, both in the sense of producers as owners of themselves, and as owners of the factors of production which they alone may decide how to best dispense with. In this case, scarcity of both consumer and producer goods is derived from the judgment of property owners. While scarcity is a fundamental fact of our existence, scarcity on that subset of existence, the market, is entirely dependent on ownership. If one wishes to attack a producer on the grounds that he makes his goods scarce, then one must do so on ethical grounds, for by granting him control over these goods, one grants the notion of their availability for production to be a question for him to decide. One cannot speak of consumer goods being scarce without reference to the scarcity of the goods needed to produce them, and this scarcity on the market must ultimately be considered in terms of the ownership of those factors.

We will use the term *catalactic scarcity* to refer to this notion of scarcity that derives from a good being owned, in distinction from the more general fact of scarcity, which we will term *physical scarcity*. Of course, physical scarcity is understood to have an economic component of its own, specifically the limitation of means relative to ends. However, we make the distinction to call attention to the ownership-dependent aspects of scarcity. By understanding catalactic scarcity as inseparable from ownership, we can turn attention to applying this concept to several current debates in Austrian economics.

APPLICATION I: ECONOMIC CALCULATION AND SOCIALISM

The comparison of prospective gains with potential costs as a criterion of economic decision making has been referred to as economic calculation (Mises 1998, chap. 12). It was Mises who put forward the argument over seventy years ago that economic calculation is impossible under socialism, and that such an economic system is therefore not rational (Mises 1990; 1998, chap. 26). There has recently been a debate within the Austrian School over what, precisely, this argument means, with some researchers taking the position that the argument refers to the absence of private property, such that exchange ratios permitting computation of profit and loss are impossible (for example, Herbener 1991; Salerno 1993; Hoppe 1996); others interpret it as meaning that information conveyed by prices does not exist under socialism, such that opportunities for profit go unrevealed (for example, Kirzner 1996 and Horwitz 1998). These two camps may be called, respectively, “Misesian” and “Hayekian.”⁸

⁸The neoclassicist position seems to be sympathetic to the Hayekian interpretation, see Yeager (1994). See also, among others, Hülsmann (1997) for a detailed analysis of these issues.

It is not the purpose here to enter into this debate. However, some support will be given for the Misesian framing of the argument by highlighting the centrality of privately owned property to economic decision making, and we will now turn to this topic.

Under socialism, of course, there is no private ownership of the means of production. Thus, the notion of scarcity in an *economic* sense has no meaning in such a system. A socialist planner may have complete knowledge of the *physical* amounts available to him, and all the ways to use them, but this is irrelevant for the purposes of economic planning. For this, he must have some knowledge of a factor's catallactic scarcity, but this is entirely dependent on that factor being owned (so that exchange ratios may be formed). This "knowledge," however, does not refer to some physico-chemical property of the good that could be "conveyed" to him through a price system. Rather, this knowledge refers to no more than being able to determine how much property he must give to acquire the good, which will then constrain what kind of consumer goods he can create with it. Under different patterns of ownership, this kind of catallactic scarcity will change, so there is in fact nothing objective the planner *can* know about. But when the factor is owned, prices for economic calculation can *always* be formed. Without any notion of catallactic scarcity of the means of production (which depends on ownership, not knowledge⁹), there can be no notion of what consumer goods are economically feasible.

What does not exist without private property (however incompletely attenuated) is a means for objectively comparing different courses of action, *given* a judgment about the future. At most, prices inform about how much *property* must be given *now* to acquire a particular factor of production. They tell nothing about how to use that factor or whether the future will prove some such use fruitful or not. Entrepreneurial judgment is required for this, and if some factor owner will not surrender his property for less than an entrepreneur thinks its products can be sold for, that factor will not be so used. It is ownership, not knowledge, that determines the status of the factor (Hülsmann 1997).

Thus, in a socialist economy, it is not enough to know (however completely) available physical amounts of resources and technologies for combining them along with consumer value scales. To speak of an action being economically "efficient" or rational requires being able to meaningfully compare inputs and outputs. One must be able to quantify what consumers will be willing to give in return for the outputs of production, and similarly relate the inputs of production to the same "standard." However, it is clear that no such thing can be done in a socialist state, where there can be no ownership in the means of production, and so notions like catallactic scarcity (and resulting

⁹Property and knowledge are not the same thing, and unlike property, knowledge itself can never be scarce in any sense. That I have an idea in no way precludes someone else from having that idea, while ownership arising from scarcity does imply such exclusion (Kinsella 2001).

exchange ratios in terms of other property) are meaningless. It makes no sense to speak of how much property can be given in exchange for socialized factors of production, so it likewise makes no sense to speak of what products should be produced for consumption, as the ability to consume depends on the ability to produce. Knowing consumer preferences is of no use in solving this problem.

Socialism thus severs the duality between consumption and production, and this is its fatal flaw, not an absence of knowledge that could be conveyed by prices. (The equations of neoclassical economics explicitly make this dichotomy and consider only the physical scarcity of resources for production, and so are of no use for economic planning, even apart from knowledge problems and their static nature.¹⁰) To be sure, it has never been demonstrated how this transmission of knowledge through prices supposedly occurs, or exactly what information, “tacit” or otherwise, is contained in prices, but the point is that under a private property system, it is irrelevant whether someone “knows” of great, unmet demand toward which some factor of production can be applied. On the free market, such a factor is presumably owned, and unless that owner is willing to part with his property (which requires an exchange of other property), that factor cannot be applied to that production process, regardless of how much knowledge one possesses of alternative uses for it.

Also, one wonders where the importance of “decentralized” knowledge lies (see Hoppe 1996). For ownership is both centralized and decentralized: centralized in the fact that one and only one person controls access to some good (even when the good is jointly owned, different people own different shares), and decentralized in the fact that under a private property regime (either free or partly free), *anyone* can attempt to acquire the good by offering sufficient property in exchange. Indeed, at what stage does “economic knowledge” become decentralized? When, say, ownership of some physical supply is more or less evenly distributed? Why not when a single person owns 99 percent of a good? In either case, prospective actions can be coherently

¹⁰All of these equations in their various guises essentially try to “maximize” utility subject to physical and technological constraints on available resources. Even granting that, with complete knowledge and perfect foresight, a planner could allocate resources for a given period based on these equations, the question of how much of his available resources he should hold in reserve for future consumption cannot be so addressed. At some point a planner must stop cannibalizing an existing capital structure and at the very least maintain that structure, so capital goods must be included in his value scale. However, it is nonsense to include indirectly valued means among his directly valued ends. Even means must be economized, but unlike ends, recourse to their utility is futile for doing so. They only have utility because of the (direct) utility of the ends they produce, but it is only the utility of ends that one may appraise, in terms of the wants they remove. Only monetary prices permit the appraisal of both means and ends. The choice of how to “model” available means in these equations is arbitrary at best, if not absurd (for example, modeling capital “growth” like some sort of natural phenomenon). Thus, as Salerno (1990, p. 56) noted, “[s]ocialism will have particularly devastating effects on the economy’s capital structure.”

evaluated (“appraised”) via economic calculation. It is the existence of markets that permits economic calculation, not the decentralization of knowledge, economic or otherwise.

One may concede, however unlikely, that a socialist planning board may have complete knowledge of resources, technologies, and tastes, and may be able to assemble factors to produce some list of desired goods. However, this output has no economic meaning because there is no notion of exchanging one state of affairs for another, of sacrificing consumption to production and vice versa. One may contend that the central planning board could not “know” whether a particular allocation of resources is economically efficient, or whether they are meeting some needs at the expense of other, more urgent needs. However, these objections only make sense within the context of ownership of the goods and resources in question. However, it is pointless to exchange property for production purposes based on subjective valuations, and economic calculation with market prices (exchange ratios) permits the subjective valuations of consumer goods to be *indirectly* imputed to producer goods. But again, it is ownership and not knowledge that is central to this process, for only ownership enables the exchange ratios necessary for this comparison process to come into being.

What are economically wasteful inputs under one realization of private property rights may be profitable under another realization, depending on the desires of property owners, both from the point of view of producers as well as consumers. Correspondingly, a different set of outputs (consumer goods) will be economically rational or irrational, depending on these circumstances. Under such a system, it only makes sense to speak of less urgent needs being met if an entrepreneur obtains a loss on his venture. With different patterns of ownership, that venture may well prove profitable, in which case one would say he has met urgent needs. One cannot say, for example, that it is always economically wasteful to build a car with gold. It is only under *current* conditions (of ownership, valuations, etc.) that such an activity is wasteful. Under different conditions, it may well be profitable.

So, the problem with socialism is not that the central planning board will not know how to best meet given ends. It is that without the notion of privately owned means of production (and hence catallactic scarcity of those means), the notion of *what* ends are appropriate at all makes no sense. One may postulate a “market” for consumer goods in a socialist state, with “prices” for these goods. However, these prices have no relation whatsoever to their counterparts in a capitalist state, even if numerically they should happen to be the same. For the prices in a capitalist system imply an amount of property that can be given in exchange for that good. In a capitalist system, this (money) property encompasses consumer as well as producer goods. Obviously, whatever property can be obtained in a socialist economy must exclude producer goods, so the notion of “prices” as exchange ratios, even among consumer goods, is severely restricted if not meaningless.

APPLICATION II:
MONOPOLY CAPITALISM

Of course, it may be objected that, even under socialism, catallactic scarcity also exists, as the central planning board *does* in fact own the means of production in the society under its control. However, this is better characterized as *controlling* these factors, as ownership suggests that one can divest oneself of property, and of course this cannot happen under socialism (if the system is to remain socialistic). A contrast may be made with the situation of monopolies under capitalism. Under capitalism, a person may be the sole owner of some particular factor or class of factors. In principle, however, one can always offer such a person property in exchange for these factors, so there is a notion of scarcity in the sense of what uses these factors can be profitably put to, relative to what must be used to first acquire them. Such a situation cannot, even in principle, occur under socialism. Indeed, we again see the duality of exchange that exists under a private property system. To own something means that someone *else* must surrender a certain amount of property in order to become the owner. How much property depends on the valuations of the prospective exchangers. Even a “monopolist” can in principle be persuaded to part with his goods, and an entrepreneur can at least attempt to calculate how much this will take. Such an endeavor may prove fruitless, but it is at least possible. (Likewise, if no one has any interest in or anticipates any profitable use of the monopolist’s goods, then the fact that he is sole possessor poses no problem for entrepreneurs.)

So even an extremely restrictive monopolist faces a categorically different situation than the director of the central planning board. The monopolist can in principle transfer ownership (for a price), while the director cannot. The extent to which the monopolist is willing to do so determines the scarcity (economic) of his factors, and thus what is feasible to produce for consumption. Whether the director would be generous or covetous is irrelevant; neither characteristic changes the fact that he cannot dispose of these goods, so attaching economic significance to them is impossible (or, better, meaningless), unlike under a private property system. Furthermore, from an economic perspective, the monopolist, as an owner, behaves no differently if he restricts use of his factors or applies them. In either case, his subjective valuations and judgment of how best to satisfy himself drives his actions. This aspect of economic behavior, either committing or withholding resources, is the dual part of every economic action under private property. For the director, it makes absolutely no sense to speak of him withholding resources. For what end? For the director, he *must* apply these resources, so the notion of catallactic scarcity which implies the need to conserve resources is absent. Again, the duality between production and consumption is severed under socialism.

Even if an entrepreneur should happen to come into ownership of all the means of production in some society, his position is quite different from that

of the director of the central planning board under socialism. The monopolist can always assign economic significance to his property by entertaining bids from others, and of course he can accept those offers. In a capitalist society, money prices encompass both consumer and producer goods. For the central planner, it is absurd to think he can receive bids for the property under his control. He *cannot* exchange his property, so any attempts by him to “play” market are just that: meaningless games.¹¹

Should the monopolist actually refuse all offers, he can still in principle accept them at any time. And in fact it is his stance that determines the notion of catallactic scarcity in his society. For assuming he came about his goods justly (that is, mixed his labor with unowned land or acquired, through voluntary exchange with others, property likewise created (Hoppe 1989, 1993; Rothbard 1998), then there can be nothing wrong in an ethical sense with him hoarding all of his goods. (Of course, socialism violates the “natural” property rights of others, and this alone would disqualify socialism as a justifiable system, but this is a separate issue.) Whether his hoarding, which would presumably lead to great suffering for others, is wrong in a moral sense is an entirely different matter. In this case, the scarcity in society is quite extreme—one might say far “greater” than the mere fact of limited physical amounts.

The director of the central planning board is in no such position. The notion of him accepting or refusing an offer for his property (so that numerical *exchange* ratios for economic calculation could be formed) is absent under socialism. Any bid he could receive would be meaningless, for he cannot surrender any factor of production. Under capitalism, the bids made to factor owners, be they monopolists or not, permit the evaluation of prospective actions. That is, prospective gains can be meaningfully compared with costs because a common unit of comparison exists. No such common unit exists under socialism. Even a monopolist can coherently compare the gains from applying a factor to production himself or selling it to someone else. The socialist director cannot sell a factor. Single ownership of a good does not abolish markets for that good, so prices can still be formed. Coercive socialism, however, *does* abolish markets.

APPLICATION III: BUSINESS CYCLE THEORY

As a further, albeit brief, application of the concept of catallactic scarcity as determined by ownership, consider Austrian business cycle theory. The details of this theory need not be expanded upon here, and some familiarity will be

¹¹More generally, as states may be considered territorial monopolists of judicial and protective services, one can make a distinction between privately owned governments, such as monarchies, which can engage in economic calculation, and publicly owned (“caretaker”) governments, such as democracies, which cannot. For more on this distinction, see Hoppe (1999).

assumed (for example, Rothbard 1983; Mises 1998, chap. 20). The main thrust of the theory is that economic downturns (“recessions”) are attributable to the fact that credit inflation distorts the structure of production, which depends on the time preferences of consumers (their willingness to forego current consumption in favor of future consumption). Thus, “artificially” low interest rates give rise to a (lengthened) structure of production inconsistent with the (unchanged) time preferences of consumers, necessitating at some point a restoration of the original structure (a boom-to-bust process).

Certain aspects of this theory have been criticized by Hülsmann (1998), in particular the notion that downturns are the *consequence* of credit inflation. (Hülsmann accepts the descriptive details of the nature, but not the cause, of the cycle as laid out by Austrian business cycle theory.) Among other points, he argues that inflation, like any other unanticipated change, can be correctly forecast by entrepreneurs, so there is no reason to presume that they will be so misled. (This is actually, in one form or another, a common critique of the theory.) Austrian business cycle theory in its usual form is at best, then, a contingent theory of economic downturns. Instead, he argues for an *essentialist* rendition of Austrian business cycle theory, wherein error is not a consequence of past conditions (no such consistent theory is possible), but rather is inherent in the system of banking that exists today throughout the Western world (that is, fractional reserve banking, the lending out of demand deposits in excess of reserves).

Some support will be given here for Hülsmann’s argument. First, it should be noted that, on a free market, it is consumer time preferences that determine the length of the structure of production. The more consumers are willing to save (that is, forego current consumption in favor of future consumption), the more far-removed or “round-about” production processes can be relative to the finished product.¹² That is, the *scarcity* of capital goods in an economic sense is determined by ownership, namely the willingness of consumers to exchange their current property for future claims to property. This property can then become owned by entrepreneurs, who can assemble a structure of production as described above (that is, via judgments and economic calculation). Whether the consumers directly give their property to entrepreneurs or (more likely) use banks as an intermediary is irrelevant. The key point is that the availability of capital goods again depends on private property (ownership).

The situation is quite different under a system of fractional reserve banking. Here it is not property and the subjective valuations of its owners that determine scarcity (in the economic sense) and drive production processes. Rather, it is the ability of banks to create *titles* to property not backed up by actual property.¹³ That is, catallactic scarcity, which depends on the ownership of property, is not the determinant of production (and thus, ultimately,

¹²See Rothbard (1993, chap. 8) for a more detailed discussion of this process.

¹³See Hoppe et al. (1998) for more on this point, as well as the purely juridical nature of fractional reserve banking.

consumption). Instead, the catallactic scarcity of capital goods is *inherently* misrepresented under this system, as the bankers do not surrender their own property in exchange but rather create “false” property, claims to property divorced from existing property. It thus *appears* that more property is available for production than actually exists, and here is the nature of the crisis as laid out by Austrian business cycle theory—the mismatch between consumer time preferences and entrepreneurial judgments thereof.¹⁴

Indeed, one may refer to this situation as a “political discovery process,” as distinct from a fallacious “price” discovery (Hülsmann 2000), since the availability of capital is not determined by the value judgments with property of individual owners, but by the ability of bankers to discover how much they can jointly issue titles to property in excess of actual, existing property. That is, the scarcity of capital is not determined by the subjective valuations of the *owners* of capital, whether they are generous or greedy with their property. Rather, the amount of capital is determined by the actions of *others*—in this case, other bankers. The more other bankers expand their lending beyond reserves, the greater latitude any other banker has for doing the same. This situation does not result when considering individual property owners, where the decision to make property available is entirely up to the individual owner. In fact, the entire concept of property *at all* is distorted under fractional reserve banking, for in this case what constitutes “property” is dependent on the will of the bankers to create something out of nothing. Under a true property regime, one cannot create something out of nothing, regardless of the intensity of one’s desires. This is not true under fractional reserve banking, where the only constraint on any individual bankers desires is the extent to which other banker’s are likewise willing to inflate.

Thus the notion of scarcity of capital goods (and the resultant production structure based thereon) is completely blurred under fractional reserve banking, and it is the nature of the system that is the ultimate source of the error (malinvestments) and that Austrian business cycle theory attempts to explain. To be sure, the concept of catallactic scarcity is not completely obliterated, as it is under full-blown socialism. It remains the case, though, that the scarcity of capital is falsely represented under fractional reserve banking.

CONCLUSION

To conclude and summarize, the notion of scarcity of a particular good for economic purposes must include reference to the *ownership* of that good, and not just the limited physical amount of that good relative to wants. It is scarcity in this economic sense (that is, the willingness of the owner of some good

¹⁴To use Hülsmann’s (1998) term, the illusion of more property is created by fractional reserve banking. More generally, as an inherently aggressive institution, the State relies on many other illusions to continue its existence, for example, the illusion that people can remain owners of themselves and their property while granting the State the ability to unilaterally tax, jail, etc.

to exchange it for something else) that is of central importance to economic decision making (calculation, comparing anticipated revenues with prospective costs in a common denominator), both in deciding *how* to produce something, as well as *what* to produce. One cannot hope to reproduce the results of an unhampered market with systems that destroy the central characteristic of that market. Various forms of violent intervention in the market abolish this crucial notion of scarcity, either completely, as under socialism, or partially, as under fractional reserve banking, with results that are, at best, arbitrary from the point of view of consumers. In actuality, of course, the realized results have been utterly disastrous.

It is not a question of “knowing” how valuable ones actions can be, and learning of this through the price system. The point is that action within society is always action within a system of property rights, restricted or unrestricted to some degree. Given constraints on our actions as imposed by such a system, the question becomes, what must one do to attain one’s goals? In a system of property rights, one must exchange property for property, based on judgments of the future. Only under a system of property rights can one quantify and compare in a common unit gains relative to losses (comparison of procedures for producing subjectively valued goods being otherwise impossible), and only under a system of *unfettered* property rights is the duality between consumption and production preserved. That is, only then are there objective constraints on both what is produced and consumed. Social democracy and state capitalism as currently exist in the Western world blur this duality, while complete socialism demolishes it.

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