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The Scarcity Hypothesis in Modern Economics

By M. BRONFENBRENNER

I

ALMOST SINCE THEIR SHADOWY BEGINNINGS, political economy and later economics have attempted to assimilate their disciplines to the natural sciences. This has been done by the use of mathematics, following the lead of astronomy and physics in particular, and by the use of statistics as a substitute for laboratory experimentation. Yet at the base, however mathematical and statistical the superstructure, doubt has remained as to whether there is such a thing as an economic problem in the scientific sense, or rather, whether the economic problem was natural and inevitable or artificial and contrived. This doubt has grown rather than subsided as our wealth and income have risen, since the economy has increasingly suffered from lack of demand along with lack of supply. The same doubt is manifest in comments about the need for an "economics of abundance" to replace our "economics of scarcity"; the most popular American work on economics for the general reader in the postwar period, J. Kenneth Galbraith's *The Affluent Society*, regards the economist's "conventional wisdom" as outmoded in an era of affluence.

What I want to examine here is the nature and importance of the scarcity hypothesis in modern economics, then the possibility of this hypothesis being mistaken, and finally the kind of society an "economy of abundance" might possibly resemble.

II

THE ECONOMIST MEANS by "scarcity" something different from the man in the street, and perhaps we should make the difference clear at the outset. When the man in the street says that food, clothing, or housing is scarce at some time or in some place, he may mean either or both of two things. He may mean that the physical stock of it available is small by comparison with some other time or place, or he may mean that the amount demanded is tending to outrun the amount supplied at the price which rules at the present or which has ruled in the immediate past. And conversely, when the layman says that food, clothing, or housing is abundant. To the economist, however, a good is scarce whenever the amount demanded *as a free good* (with no price at all, whether measured in money, bushels of wheat, or hours of labor) exceeds the amount supplied as a free good.

Consider for example the American farm surplus problem and program. To the man in the street, cotton and wheat are surplus and not scarce

goods, because the government is buying and storing them to maintain prices satisfactory to farm organizations and their political spokesmen, and because prices would fall sharply without this support. To the economist, cotton and wheat remain scarce rather than surplus commodities, because the amounts supplied would surely fall below the amounts demanded were their prices to fall all the way to zero. Only things like air (in most situations), water (in some situations), and insect pests are described by the economist as free rather than scarce goods. (And in the case of the pests and other nuisances, the service of getting rid of them is itself a scarce good.)

The fact or rather hypothesis that a great many important items are naturally and inevitably scarce in this sense and therefore naturally and inevitably "economic" goods underlies modern economics. Most of the current crop of textbook definitions of the subject stress this point. "Economics is the science which deals with the allocation of scarce resources among alternative uses," is one of these definitions. "Economics is the science which deals with the social management of scarcity" is another. I happen to prefer a variant of the second definition: "Economics is the study (not necessarily science)¹ of social adjustment to scarcity and management of it."

Once having stated, and thereby established to the general satisfaction, that many important things are scarce, economists then subdivide the scarcity problem in various ways—for example, *what* goods are produced and in what quantities, *how* they are produced, using up what scarce resources, and *for whom* they are produced or how they are distributed among social classes. Or consider the concept of "cost." This means to the economist not merely a sum of money but rather a quantity of resources which are scarce in the economist's sense. To say that a good or a production process "costs too much" means that it uses up scarce resources worth more than the good or the process in question, or else that the resources in question have alternative uses which are worth more than the good or the process in question, or more usually, both of these things at once.

But clearly, the fact or hypothesis of scarcity lies at the base of the whole structure, just as the fact or hypothesis of disease lies at the base of the whole structure of medical science. Furthermore, just as Christian Scien-

¹ To what extent economics is, can become, or ought to be a "science" is a shopworn and hackneyed topic of debate among economists, and between economists and their critics. The answer depends upon one's definition of the elusive term "science"—particularly the importance one assigns to the use of the method of controlled experiment (in which economics is defective) and upon the expression of results as quantitatively testable predictions (in which economics struggles to keep pace with, for example, meteorology).

tists and faith healers undermine medical science by denying the hypothesis of disease, so the adherents of the "economy of abundance" and "affluent society" undermine conventional economics and reduce its applicability by denying the hypothesis of scarcity.

III

"ECONOMY OF ABUNDANCE" and "affluent society" adherents do not agree among themselves, any more than Christian Scientists and faith healers. Yet there is a certain common core underlying their beliefs, whether they call themselves New Dealers like Galbraith or go beyond him to Communism, Technocracy, Anarchism, Maximalism, or what have you. Having been raised by a father who denied the scarcity hypothesis for society (although not for his own household), let me outline what seems to me this common core of their beliefs.

1. While the fact of scarcity cannot be denied in the present, its inevitability or naturalness is another matter. To the more moderate, a considerable range of necessities and conveniences of life can be made free, subject to liberal rationing policies. To the more thoroughgoing, which included my father, all the necessities and conveniences of life can be made free goods, without even the necessity of rationing.

2. If the demand for goods is not to outrun the supply at a price of zero, the amount demanded at this price must be less, and the supply at this price must be greater, than they are at present. Measures to overcome scarcity can be divided into those designed primarily to decrease demand at zero price and measures designed primarily to increase supply at zero price.

3. Artificial scarcity exists at present in part because demand is artificially high. Demand is artificially high because goods are wanted not only for themselves but for "conspicuous consumption" or as "status symbols." Demand is also stimulated artificially by the black arts of advertising and salesmanship, including accelerated style changes, accelerated obsolescence, and simple waste. In an economy of abundance with all goods free, there would be no purpose in conspicuous consumption and goods would lose their value as symbols of social status. There would be no motive to stimulate demand by advertising and salesmanship—rather the reverse. Style changes would be slowed down and planned obsolescence would become a thing of the past. Goods would be demanded only for their ability to satisfy genuine pre-existent wants, or for what the economists have called their "utilities."

4. Artificial scarcity exists at present in larger part because supply is artificially low. It is artificially low for a great number of reasons. Tech-

nological improvements are not applied as soon as practicable, but are held back to maintain capital values and protect specialized jobs; nor, for that matter, are scientists and technologists given a free hand to make improvements which would have these effects if they were adopted. Output is restricted or held off the market by monopolies, cartels, gentleman's agreements, or government policies to maintain profitable prices. The labor supply, particularly the skilled labor supply, is restricted by union rules, racial and sexual prejudices, "democratic" over-education, and premature retirement to maintain wage rates for a labor aristocracy. As the Single Taxers never tire of telling us, land is held idle or used unproductively for speculative reasons. Most important of all, the supply of the necessities and conveniences of peaceful living is reduced on the one hand by diversion to luxury production, and on the other to the production of military goods. The elimination of luxury and military demand could at one blow transfer resources to ordinary consumer and capital goods production and eliminate the bulk of the scarcity problem on the supply side.² And in an economy of abundance, with all goods free, there would be no need for any of the other restrictions to which we have alluded.

5. We need to say a good deal more about the labor supply. Even without restrictions of any kind, voluntary labor in adequate amounts may not be forthcoming to supersede the scarcity economy, particularly if a wide range of goods were obtainable free of charge without working. (Anarchists hope the educational system will avoid this problem by teaching a willingness to work, but let us adopt a less optimistic view.) If an adequate labor supply is not forthcoming on a voluntary basis, some form of compulsory labor service would be required to insure the economy of abundance.³

Just as modern societies provide for and enforce compulsory education, and in most cases compulsory military training as well, compulsory labor service could be carried out by requiring of each individual a certain number of years under public orders. Allocation of individuals to particular jobs and types of job training could be made as voluntary as possible, but with elements of compulsion on the one hand to staff the less desirable

² Conservative and moderate adherents of the economy of abundance go no further than proposing elimination of these restrictions and letting prices fall to whatever level they would then find, without insisting that this level be zero, or that scarcity be eliminated completely.

³ Here again, conservative and moderate adherents of the economy of abundance, not insisting that goods become absolutely free, desist from the argument of the remainder of this section and do not advocate compulsory labor service. (Professor Galbraith in particular is to be included in this category.)

jobs and restriction on the other to avoid overcrowding the more desirable ones—quite as is done at present in our educational and military systems, not to mention our private bureaucracies. How many years of such free service per man, to insure the supply of free goods to society? This would depend upon how much voluntary service was forthcoming, upon the productivity of labor, and upon the level of production necessary to bring supply of goods up to demand without the institution of scarcity. Under American conditions but in full peacetime, it might not be unreasonable to hope for considerably less than half the current conventional working life span of 45 to 50 years—say 15 to 20 years of labor service as a target for males, or from 2 to 2½ times the period of compulsory public education. This is clearly no “retire at birth” plan; neither is it universal life imprisonment in the salt mines. For other countries less well endowed with natural resources, technical knowledge, and capital equipment, or with farther to go before scarcity can be eliminated, the required labor services would probably be longer for a few generations. The Chinese People’s Communes seem to be our closest existing approaches to this type of economy, with wages extremely low but a number of goods and services distributed free. These Communes, still in their early years, do not seem concerned with reducing the span of compulsory labor service in the special conditions of the Chinese economy much, if any, below the maximum possible working life—rather the reverse, but their outlook may change if conditions improve.

IV

WHAT KIND OF SOCIETY might it be, an economy without scarcity? Some imagine it as a lotus-eating Utopia or Beatnik’s Paradise. Others see it as a large-scale prison, concentration camp, or Chinese Commune. Still another view is a dreary desert of ineffable idleness and boredom, perhaps with inflated rates of suicide, alcoholism, drug addiction, and mental illness. My own view is intermediate; a thorough-going economy of abundance might be more like a military base in civilian clothes than any of the other alternatives, and might combine some of the features of all of them. Whether, even in civilian clothes, army camp life is worth striving for depends upon the alternative from which one starts.

In an economy of abundance, conflict in particular would be concentrated more largely on issues of sex and power, less largely on issues of wealth and income, than it is at present. Once again it is difficult to decide whether the result would be an improvement or the reverse. My Socialist friends are sure the change would be for the better; my teacher

Frank Knight of the University of Chicago assumes the contrary; the issue is one of subjective values rather than objective facts.

* * *

THE POINT I SHOULD LIKE TO MAKE in closing, however, is that modern economics neither proves nor sets out to prove the impossibility or unfeasibility of such a regime of abundance. It assumes the inevitability of scarcity as the basic economic problem, and proceeds from there. It is simply not set up to disprove or even examine the possibility of abundance for goods in general—although it can do so for individual goods or even commodity groups. This is a gap which we economists may have to close in short order, unless the military and other excrescences of our social order keep the question of abundance “academic” in the pejorative sense of the term.

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