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A comment on the concept of desire satisfaction and the Mises-Hayek dehomogenization debate

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Abstract

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One of the cornerstones of the science of economics in its post-marginalist-revolution period is the realization that the necessity of “economizing” — i.e., maximizing individual desire satisfaction whilst minimizing the exploitation of productive resources — stems from the fact that the said resources are not sufficient to satisfy all of the desires entertained by the totality of purposive agents. In this essay I suggest that in order to paint an accurate picture of human psychology, the desires in question should be thought of as unsatisfiable rather than unlimited. Furthermore, I propose that this observation provides yet another avenue for making a cogent analytical distinction between Hayek’s “knowledge problem” and Mises’ “calculation problem”, i.e., it allows for further elucidating the nuanced differences between these two authors’ views on the efficiency (or lack thereof) of centrally planned economies, thus making a contribution to what has become known as the “dehomogenization debate” within the Austrian School.

One of the cornerstones of the science of economics in its post-marginalist-revolution period is the realization that the necessity of “economizing” — i.e., maximizing individual desire satisfaction whilst minimizing the exploitation of productive resources — stems from the fact that the said resources are not sufficient to satisfy all of the desires entertained by the totality of purposive agents (Menger 1976;

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Mises 1996: 93; Rothbard 2004: 5–6). A further conclusion sometimes deduced from this realization states that if a given entity is to remain a purposive agent throughout its life, its desires have to be essentially unlimited, since as soon as all of them are satisfied, the entity in question becomes permanently passive, frozen in the state of final contentment. From this, in turn, it follows, among other things, that as long as the world is populated by purposive agents, the concept of persistent, long-term economic equilibrium is bound to remain purely hypothetical and imaginary (Mises 1996: 247–251; Rothbard 2004: 320–328; Klein 2008: 174).

An interesting question to ask in this context is whether the above description paints an accurate picture of human psychology vis-à-vis the concept of desire satisfaction. It seems to me that asking this question of a thymological nature and grounding it in the insights of the Austrian value theory offers a rare opportunity to advance our understanding of praxeology by means of exploring its reciprocal relationship with other sciences of human action. While such opportunities for interdisciplinary intellectual cross-fertilization are few and far between, they usually provide important, sometimes crucial, insights into relevant disciplines. Just as the physico-empirical observation that goods are scarce informs the fundamentals of the logic of choice, and just as the biológico-psychological observation that human beings differ in terms of their physical attributes and mental qualities informs the Ricardian Law of Association, I believe that a logical reflection on the nature of desire satisfaction may further illuminate our understanding of certain fundamental aspects of price theory, in particular in the context of the issues raised as part of the so-called “dehomogenization debate”. Thus, in the first part of what follows I shall elaborate on the concept of desire satisfaction and present what I believe to be its psychologically most plausible interpretation, and then connect it to the price-theoretic issues mentioned above by means of further elucidating the essence of what makes the market process uniquely efficient in terms of satisfying consumer desires.

Let us start our inquiry by asking whether it is plausible to say that human desires are unlimited, or should it rather be said that they are limited, but unsatisfiable. The former claim seems to suggest that at any given moment each of us entertains a set of clearly specifiable desires, such as the desire for apples or the desire for iPads, which, upon being satisfied, give way to a new set of this kind, and so on ad infinitum. The latter claim, on the other hand, which I personally find more convincing, appears to suggest that each of us permanently entertains a limited and largely unchanging number of vaguely specifiable desires associated with particular, oftentimes overlapping sensations and values of material, intellectual, moral, aesthetic, or interpersonal nature (power, love, belonging, gratitude, knowledge, the comfort of living space, culinary pleasure, visual pleasure, etc.), the point being that none of them can ever be really satisfied.

Thus, as I see it, it is not the case that as civilization progresses, more and more of our desires are being satisfied, only to give way to new ones, but that our

essentially unchanging desires are being satisfied more and more effectively² — for instance, the invention of the Internet resulted in our desire for efficient communication being now much more satisfied than it was prior to that event, rather than in replacing our already-satisfied desire for telephone communication with the desire for electronic communication.

As I indicated earlier, what I would like to propose here is that the above observation provides yet another avenue for making a cogent analytical distinction between Hayek’s “knowledge problem” (Hayek 1945, 1948) and Mises’ “calculation problem” (Mises 1990, 1996, part 3), i.e., it allows for further elucidating the nuanced differences between these two authors’ views on the efficiency (or lack thereof) of centrally planned economies, thus making a contribution to what has become known as the “dehomogenization debate” within the Austrian School.

To summarize briefly the debate in question, one side of it (Salerno 1993, 1994, 1996; Herbener 1996; Hoppe 1996) articulated and defended the view that even if a hypothetical central planning bureau were in possession of the totality of relevant information pertaining to a vast, locally heterogeneous and dynamically changing economic system, it would still be unable to convert the information under consideration into a single scale of exchange value expressible in terms of cardinal numbers and reflective of socially meaningful utility appraisals. Absent private property rights and free exchange of private property titles, no such scale can emerge, and thus rational allocation of resources becomes literally impossible, no matter how much knowledge about the supply of and demand for any given pool of resources one might have. The other side of the debate (Kirzner 1996; Yeager 1994, 1996, 1997), on the other hand, defended the view that the apparent difference pointed to by the above authors is more verbal than substantive.

By drawing on the concept of desire satisfaction delineated in the earlier paragraphs, I would like to offer an argument in support of the former group, thus suggesting that, while most usefully thought of as complementary, Mises’ and Hayek’s views on the allocative limitations of centrally planned economies are in important respects different.

Let me start by pointing out that if the “knowledge problem” described by Hayek is to be applicable to genuine concerns of economic theory, it needs to be restricted to what is logically (even if not practically) knowable. Hence, as I see it, it is applicable to the putative central planner’s knowledge concerning the supply of consumer goods, producer goods of various orders, and the available technological possibilities (since this kind of knowledge constitutes a finite set of data), but not to his knowledge concerning consumer desires (since, as I argued above,

² This contention does not in any way suggest that it is inadmissible or inadvisable to represent preference scales as composed of specific, ordinally ranked goals (desires), such as going to a concert or playing bridge. It only hints at the thought that these individual, specific goals (desires) can be reduced to a small number of more general, ultimately unsatisfiable goals (desires), such as the desire for aesthetic pleasure and the desire for competitive achievement.

these can be satisfied in a literally infinite number of ways, thus being infinitely translatable into more specific desires for particular consumer goods, and the infinite is necessarily unknowable to any finite mind).

This, in turn, implies that if in a given economy only one will acts with respect to the disposal of producer goods, then, as Mises remarks, even if the finite mind behind it knows everything that is logically knowable to it (i.e., everything about the available supply of consumer goods, producer goods of various orders, and the existing technological possibilities), it is still bound to lack any inter-subjective benchmark for assessing the extent to which its decisions satisfy the desires of the consuming public as compared with the extent to which they could be satisfied by the decisions of all those who would be eager to acquire the available factors of production and use them in an entrepreneurial manner were it not for the central planner's prohibition.

It might be suggested here that my point is irrelevant to the dehomogenization debate, since it can be interpreted as saying that the central planner would lack particular data, viz., information about people's infinite efforts to satisfy their desires, which might seem to be just another formulation of the Hayekian knowledge problem, whereas the debate is about whether a planner who had all relevant data would face an additional problem, since in the absence of markets he would have no prices and thus could not calculate. My reply is that it does not seem to me to be logically objectionable to describe such a planner as lacking precisely a certain crucial kind of information, i.e., information as to how to transform the data concerning the available supply of consumer goods, producer goods of various orders, and the existing technological possibilities into a single, intersubjective scale of exchange value expressible in terms of cardinal numbers. However, such a formulation of the issue still allows for distinguishing between the Hayekian knowledge problem and the Misesian calculation problem, since it allows for distinguishing between finite data, which the central planner could theoretically possess, and the compass for assessing these data against an infinite number of their possible uses, corresponding to an infinite number of ways to satisfy consumer desires, which only the free market price system can furnish.

In other words, while the extent to which we are in possession of dispersed information associated with specific circumstances of time and place can be measured on a strictly finite spectrum, the calculation of profits and losses in the free enterprise system allows us to determine how closely we approach a literally infinite horizon (that is, the horizon of efficiency measured against a literally infinite number of results).

This observation allows us to see even more clearly that the market, together with its institutional manifestations of the price system and the free exchange of capital goods, is not just one of the alternative systems of economizing on the use of scarce goods, but a necessary prerequisite of such economizing. In other words, while there is no logical incoherence in viewing capitalism, socialism, and inter-

ventionism as alternative systems for aggregating decentralized information, only the first of these (even assuming that the amount of relevant information is finite) is capable of giving the information in question a form that makes it usable in the context of allocating resources rationally, i.e., in accordance with the criterion of consumer sovereignty.

Furthermore, this way of viewing things offers a novel avenue to dispose of the Galbraithian (1958) notion that the market satisfies primarily those consumer wants that it artificially creates in the first place. If, as was argued earlier, the most plausible picture of human psychology suggests that, instead of developing ever new desires upon the satisfaction of the old ones, we permanently entertain a limited and largely unchanging number of general desires that can be satisfied in ever new ways, the idea that new desires can be manufactured through motivational advertising makes no sense at all. And though distinct from Hayek's (1961) argument against the "Dependence Effect", the approach in question reinforces his claim that no logically meaningful distinction can be made between "original" and "contrived" wants. There are just wants and an infinite number of ways to satisfy them, and only the unhampered market process can discover and rationally evaluate their respective effectiveness in this regard.

The resulting conclusions can be summed up by paraphrasing Arthur C. Clarke and Mark Twain: given that any sufficiently advanced ability is indistinguishable from magic, I suppose the reports of the "magic of the market" have not been greatly exaggerated.

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