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Common Error No. 72 [1]

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72. "Scarce resources should be allocated on the basis of need, instead of going to the highest bidder."

If scarce resources are allocated on the basis of need, they stay scarce. When allocation is other than by price for goods in short supply, nothing is done to relieve the scarcity. When allocation is by price, it does act on the shortfall.

In a market situation, goods in short supply command high prices. This means that producers and dealers make good profits, and others are attracted to do the same. The high prices bring new sources of supply to the market, and the price falls gradually as the scarcity is relieved.

When allocation is on the basis of need, there are no high prices and profits to attract new supplies, so the shortage goes on. Consider the case of a new product such as computers or DVDs. At first they are for the very rich, but the profits attract competitors, and the increased supply brings prices within reach of ordinary people.

Consider, more revealingly, the case of two villages in a famine. Village Bigthorpe allocates the scarce food on the basis of need, and all starve together. Village Littlethorpe lets food prices rise. The high prices attract produce from all around and far away. People have to sell their rings and go into debt, and lots of merchants get very rich. But Littlethorpe survives.

Poorer people can be helped not by rationing, but by being given the resources to buy their necessities. Ultimately they are better served by a wealth-generating society in which supply can be brought to meet demand, and in which the market responds to changing circumstances. Such a society will improve their living standard and their command of resources faster than any which tries to allocate according to perceived needs, and which prevents prices from sending their signals and eliciting a response.

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