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Space is the new frontier in economics



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Property rights underpin capitalism here on Earth, they must do the same in space – a new book by City AM columnist Rainer Zitelmann argues

A little over ten years ago, when smartphones were still sufficiently new to mention, I attended a talk by an economist who argued that it was a mistake to see the rise of the smartphone primarily as a technological phenomenon. He argued that if technological feasibility had been the only constraint, smartphones could have become a thing much earlier.

We should think of them as an indirect product of a legal innovation, not just a technological one. He was talking about how, in the 1990s, we started to use market mechanisms to allocate usage rights over the electromagnetic spectrum, which led to a much more efficient use of the airwaves. This triggered the explosion in mobile phone usage, of which the smartphone later became an extension. He was not trying to downplay the technological marvel that is the smartphone: his point was that the technological innovation was downstream from the legal innovation, and would not have happened without it.

During the Q&A, I asked whether this meant that there was a parallel universe somewhere which is otherwise very much like ours, except insofar that smartphones were already widely used there in the 1980s. He said that, yes, there probably was such a universe.

Tiktoks on the Berlin Wall?

Since then, I have been haunted by a mental image of an alternative 1980s where people with ridiculously puffed-up hair, shoulder pads and leggings film Tiktok-style videos in front of the Berlin Wall. If it is true that we could have had these innovations decades earlier, it makes you wonder: what else have we been missing out on? What other innovations are currently not happening that would happen if we applied market mechanisms more widely?

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I thought about this again when I read Dr Rainer Zitelmann's latest book [New Space Capitalism: The Entrepreneurial Path to the Stars](#). Will future economists talk about the space revolution in similar terms? Will they also argue that asteroid mining, space tourism and even the colonisation of space for human habitation, could have happened decades earlier, if only policymakers had been willing to give space capitalism a go?

Space has become the new frontier in economics. Space is a potential goldmine, full of valuable resources, such as rare-earth metals contained in asteroids or other planets. Thus far, those were so completely out of our reach that questions about who – if anyone – would own them if we could access them were purely hypothetical. The problem is that if we do not answer that question in advance, it will remain hypothetical forever. We do not yet have the technological capacity for asteroid mining. We have not reached that stage. But we have reached the stage at which it would make sense to come up with a way to assign property rights over space resources. Because the technological innovations will be downstream from the legal innovations, and without the latter, the former will not happen.

Zitelmann shows that there already is a large private space economy. Thus far, it mostly revolves around satellites rather than asteroid mining or space tourism, but it is not science fiction: it is an actual industry, and a fast-growing one. It is also one of the few industries in which there has been a trend towards marketisation in recent years.

Our idea of “space” is still shaped by the Apollo programme of the 1960s, which culminated in the first moon landing. Mariana Mazzucato and her fan club have, quite cleverly, appropriated the ‘moonshot’ rhetoric, and interpreted the moon landing as a victory of state-led industrial policy over laissez-faire capitalism.

Zitelmann shows that the reality of state-directed space exploration was a little different. Yes, it was a government programme that put the first man on the moon. Governments can do things, if they single-mindedly pursue an objective. However, if we look at the period of Space Mazzucatoism as a whole, including the ill-fated space shuttle missions that started in the 1970s, the results look a lot less impressive. Here, we get to see all the problems that critics of industrial policy usually predict: political pork-barrel projects, rent-seeking, interest group politics, abrupt political mood swings, etc. What Space Mazzucatoism was particularly bad at was process innovation, the kind that leads to major cost reductions over time. In their dealings with private contractors, government agencies used “cost plus” contracts, under which those companies would see their full costs reimbursed (plus a mark-up), and had no incentive to cut them. Cost-cutting only happened when the ‘entrepreneurial state’ retreated to a less active role, and actual entrepreneurs stepped in.

So far, so good. The next stage, though, requires a property rights system for outer space, which is currently a legal grey area, based on international treaties that predate the modern space economy. The next stage in the space economy will require huge upfront investments for extremely uncertain returns. We cannot reduce the uncertainties of outer space, but what we can do is reduce legal uncertainties by coming up with an unambiguous system of property rights. Property rights underpin capitalism here on Earth, and they will have to

underpin it in space as well. Zitelmann's book concludes with an outline of what such a system could look like, analogous to the 'homesteading' laws that were used for the settlement of the American West from the 1860s onwards. Science fiction? No – just good economics.

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