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# Consumption and the Consumer Society

The average U.S. resident, in a year, consumes 275 pounds of meat, uses 635 pounds of paper, and uses energy equivalent to 7.8 metric tons of oil. Forty-five years ago, the average American ate 197 pounds of meat, used 366 pounds of paper, and used energy equivalent to 5.5 metric tons of oil. In the U.S., there is about 1 passenger car for every two people. Europeans have about 1 passenger car for every 3.1 people. Developing countries have, on average, about 1 passenger car for every 49 people.<sup>1</sup> What does economics have to tell us about these differences in consumption?

Most introductory economics textbooks portray consumer behavior as relatively simple, rational, and untouched by social influences. Rather than focusing on choices made by people who live in social and environmental contexts, the “utility theory” view taught in such texts focuses on behavior that individual consumers would *logically* pursue, given certain assumptions. Such an approach leaves out a number of important factors which merit exploring.

## 1. Consumption: Final Use

Consumption is the process by which goods and services are, at last, put to final use by people. Consumption is at the end of the line of economic activities that starts with an evaluation of available resources and proceeds through production of goods and services and distribution of goods and services (or the means to acquire them) among people and groups. At last, the goods and services themselves come to be used. The effect of this consumption, including depletion of resources and generation of waste as well as enhancement of human survival and flourishing, determines the resource base for the next round of economic activity.

### 1.1 The "Sovereign" Consumer?

Much of economic discourse, from Adam Smith onward, has assumed that everything we value about the functioning of an economy is to be found in the final demand for goods and services. As Smith said,

Consumption is the sole end and purpose of all production and the welfare of the producer ought to be attended to, only so far as it may be necessary for promoting that of the consumer. [Adam Smith, *The Wealth of Nations*, 1937 Modern Library edition, p. 625]

The belief that consumer satisfaction is the ultimate economic goal and that the economy is fundamentally ruled by consumer desires is called **consumer sovereignty**.

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<sup>1</sup> Statistics are from the World Resource Institute's *Earthtrends* database, accessed January 2008.

**consumer sovereignty:** the idea that consumers' needs and wants determine the shape of all economic activities

Is this belief valid? That is, are the final goals of economic activity all to be found in the act of consumption?

### *Arguments in Favor of Consumer Sovereignty*

There are, indeed, two quite different answers to the question of why consumers are important in economics. One is the traditional assumption, as stated by Smith, that final consumption is the ultimate purpose of all economic activity; production and distribution exist solely to increase the well-being of consumers. In this view, consumers are the *justification* for economic activity and therefore for economic theory as well.

The other answer is that consumers keep the economy going by generating demand for goods and services. Without this demand, the supply side of the economy would expire: How long can producers keep producing if no one buys their goods? From this perspective, consumers as a source of demand are central to the *mechanism* that makes the economic system run.

### *Arguments Against Consumer Sovereignty*

Regarding the justification argument for consumer sovereignty, it should be remembered that although the end products of production derive their value solely from their contribution to the well-being of society and of individual consumers, the *process* of production is valuable for other reasons as well. People are more than just consumers. Consumption activities most directly address **living standard (or lifestyle) goals**, which have to do with satisfying basic needs and getting pleasure through the use of goods and services.

**living standard (or lifestyle) goals:** goals related to satisfying basic needs and getting pleasure through use of goods and services

But people are also often interested in goals such as self-realization, fairness, freedom, participation, social relations, and ecological balance. These may be either served by, or in conflict with, their goals as consumers. People also often get intrinsic satisfaction from working and producing. For many people, work defines a significant part of their role in society. Work can create and maintain relationships. It may be a basis for self-respect and a significant part of what gives life interest and meaning.

If the economy is to promote well-being, all these goals must be taken into account. An economy that made people moderately happy as consumers, but absolutely miserable as workers or community members, could hardly be considered a rousing success!

Regarding the view that consumer sovereignty is the fundamental mechanism that guides economies, we need to recall that consumers—as members of complex larger

organizations including families, communities, corporations, and nations—are subject to many influences from social institutions. The idea of a “sovereign consumer” implies someone who independently makes decisions. But what if those decisions are—instead of being independent—heavily influenced by community norms and aggressive marketing by businesses? Who “rules” then? When we look at an economy from this perspective, we can see that consumer behavior is often cultivated as a means to the ends of producers, rather than the other way around.

## 1.2 Who Are the Consumers?

We generally think of consumption as something that benefits individuals. When one person eats an apple, no other individual person can benefit from that apple. We also tend to think of consumption decisions as being made by individuals and families, and not so much by businesses, governments, or other organizations. In contemporary economies, however, consumption decisions and consumption benefits are more complicated than this individualistic picture implies.

The fact that individuals (except for hermits) always live in society complicates the discussion of consumption. Consumption of a public good, like a pleasant city park, can be experienced by many people at the same time. Decision-making about whether to build a park is done at a community level, not by an individual.

Even within a household, both decision making and enjoyment of consumption may involve more than one individual. Adults may negotiate about what to produce or purchase. The heat from a home furnace is a small-scale “public good,” since everyone in the household benefits from it.

Many goods and services are also consumed by people while in their roles in business or other organizations. For example, some employees are given opportunities to satisfy their individual needs for food and entertainment through business lunches and employer-sponsored sports outings.

In practice, however, economic analysis concerning consumption tends to focus on “the consumer” as the unit of analysis. The individual decision maker is assumed to be making consumption choices for himself or herself or on behalf of his or her entire household.<sup>2</sup> Imagining the consumer to be an individual economic actor, such analysis ignores both the larger issues of social consumption and the complications of decision-making and enjoyment within households.

Limiting analysis to the individual level is a useful simplification for some purposes. In the rest of this reading, we will look at two major theories about how individuals make consumption decisions: the marketing view and the utility theory view. Then we will turn to the issues of consumption viewed at a society-wide scale and to the effect of consumption on human well-being.

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<sup>2</sup> Data, however, are usually collected only for households, leading to some problems in using theoretical intuitions about individuals to explain observed consumption patterns by family groups.

## Discussion Questions

1. How important are your lifestyle goals to you, relative to your other goals? A recent survey, for example, asked respondents to say whether each of the following was absolutely necessary, very important, somewhat important, not very important, or not at all important “for you to consider your life as a success.” How would you answer?

Earning a lot of money

Seeing a lot of the world

Becoming well-educated

Having a good marriage

Having a good relationship with your children

Having an interesting job

Helping other people who are in need

Living a long time

Having good friends

Having strong religious faith

2. Who makes the important consumption decisions that affect your life, right now? Who decides where you will live, what you will eat, what you will wear, how you will get around, etc.? To what extent are these individual decisions, and to what extent are they family or societal decisions?

## **2. Consumer Behavior: The Marketing View**

Marketing professionals have a job to do: they want to influence consumers toward purchasing their organization’s product. To do their jobs, they have to have a good idea about what makes people want to buy and consume. Most often, their focus is on why a consumer would choose a particular brand of a product, at a particular time and place. Social science research, primarily from psychology and sociology, forms the basis for the standard marketing view of consumer behavior.<sup>3</sup>

### 2.1 The Decision-Making Process

The marketing view portrays consumers as going through a five-step decision-making process:

1. *Problem recognition.* In this stage, the consumer perceives that he has a want or need. The consumer compares his situation to some situation he would consider to be better, and his desire to move to the better situation is aroused. For example, the consumer might feel hungry or feel unsatisfied with her current athletic shoes, which are shabby compared to those in advertisements.

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<sup>3</sup> Standard marketing textbooks also usually include a similarly extensive discussion about marketing to organizations such as businesses and governments. While this is highly relevant to our discussion of markets in general, most economists focus on consumers envisioned as individuals or households.

2. *Information search.* In this stage, the person seeks information about how this want might be met. She may search her own experience, looking for ways she has satisfied it in the past. Or she might consult external sources of information, like friends, family, newspapers, advertising, packaging, etc. For example, he might be attracted by the photos on the packages of frozen dinners in the supermarket. The packages give him information about the product inside. Since humans have a limited availability to absorb information and can only assess a limited number of options, this process is likely to be very incomplete—the consumer will generally move on to the next stage knowing only *some* things about *some* alternatives.

3. *Evaluation of alternatives.* After gathering information, the consumer compares the various alternatives about which he or she has gathered information. Goods and services are said to have **attributes** (or **characteristics**) that are the real items of interest to the consumer. The consumer will lean toward the alternative that has the bundle of attributes that most meets his or her desires. For example, the consumer might be interested in how a dinner tastes, in its nutritional value in terms of calories and fat content, and in whether it will satisfy his desire to try new things (or stick to old ones). She will compare brands and decide which one fits her priorities best. If she is deciding on athletic shoes, the fashionableness of various brands may weigh heavily—or even be the overwhelming factor—in his choice.

**attributes (or characteristics):** the specific qualities of a good or service, that are of interest to the consumer

4. *Purchase decision.* Having developed an intention to buy something, the consumer will (barring interference or unforeseen events) follow through and make the purchase.

5. *Postpurchase behavior.* After the purchase, the consumer will decide whether he or she is satisfied or dissatisfied with the good or service. Consumption, in the marketing view, is seen as something of a trial-and-error process.

Marketing professionals are interested in all aspects of this process, since each step gives them opportunities to try to sway consumer choices toward their organization's products. They may try to create new desires, for example, or try to better inform the public about the value of their product. They may improve web sites, to make sure customers aren't frustrated in making their intended purchases. Or they may inform their own organization of changes in design that could improve customer satisfaction (and thus bring more repeat business).

## 2.2 Consumer Motivation and Behavior

Why do consumers want what they want? Why do they buy what they buy? The standard marketing view draws on a wide variety of research concerning individual motivations and social influences to answer these questions.

Psychological theories of motivation can shed light on why people come to desire certain things. One frequently used categorization breaks down human perceived needs into five categories:

1. Physiological needs, such as hunger and thirst.
2. Safety needs, for security and protection.
3. Social needs, for a sense of belonging and love.
4. Esteem needs, for self-esteem, recognition, and status.
5. Self-actualization needs, for self-development and realization.<sup>4</sup>

A consumer's recognition of a need—step 1 of the decision process—can include one or many of these categories.

Psychological theories can also shed light on why people sometimes consume in unpredictable, even seemingly irrational ways. It is no secret that sex is used to sell everything from cars to magazines or that soft drink ads appeal more to a desire for a sense of belonging and self-esteem than to a desire to relieve thirst. People know, at a conscious level, that the tie between such advertising campaigns and what they actually will get by buying the product is tenuous at best. But that doesn't stop such campaigns from being successful!

Psychologists have noted that the degree to which people perceive a need is clearly related to two important factors: our own past experience, and the experience of groups to which we compare ourselves. These create reference points and reference groups, in light of which people evaluate their own well-being and state of need.

Humans seem to be more tuned in to *changes* in our perceived satisfaction than to the absolute level of satisfaction we experience. We take as our **reference point**, in judging what we want and need, any situation to which we have become accustomed. If we are used to eating out once a week, that seems normal to us. We may not feel any particular joy in eating out once a week. If we change, and start eating out three times a week, we will feel a surge of pleasure. But once we have adapted to the new situation, the pleasure tapers off and we come to think of the new situation as normal. (We will even feel deprived if cut back to “only” twice a week!) For this reason, as marketers well know, to the extent that we seek jolts of happiness, we can be continually attracted by stimuli that promise us something more, new, or different.

**reference point:** a situation to which we have adapted. We have a tendency to primarily notice changes in satisfaction relative to this point, rather our absolute level of satisfaction.

The picture of consumer behavior that comes out of the marketing synthesis of social science research is one that sees consumption behavior as very much a *social* behavior, in far-reaching ways. **Reference groups** are particular groups of people who

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<sup>4</sup> This is the well-known “Maslow’s hierarchy of needs,” based on Abraham H. Maslow’s *Motivation and Personality* (New York: Harper & Row, 1970).

influence the behavior of a consumer, because the consumer compares himself or herself with them. **Membership groups** are groups to which the person belongs, such as families, student communities, and groups of co-workers. Membership groups are important sources of information and also sources of pressure to conform to group practices and norms. Another kind of reference group, an **aspirational group**, is a group to which a consumer *wishes* he or she could belong. People often buy, dress, and behave like the group—management personnel, rock stars, sports teams, or whoever—with whom they would like to identify.

| **reference group: a group to which we compare ourselves**

| **membership group: a group to which we belong**

| **aspirational group: a group to which we would like to belong**

### Discussion Questions

1. What advertisement, either in print or on TV, have you seen recently that sticks in your mind? What product is it trying to sell? Which of the stages of your decision process do you think it is aimed at? Which human need is the advertisement aiming at? Which human need do you think, rationally, the product itself would most *logically* satisfy? Is the advertisement directed to that need?
2. How important do you think reference groups are in explaining your own consumer choices? The choices of people you see around you?

## 3. The Consumer Society

Having explored how social context may (or may not) be included in the marketing and utility theory views of *individual* consumer behavior, we now switch gears and look more directly at long-term historical and social factors influencing consumption.

The modern consumer is not an isolated individual making purchases in a vacuum. Rather, we are all participants in a contemporary phenomenon that has been variously called a consumerist culture and a consumer society. To say that some people have **consumerist values** or attitudes means that they always want to consume more, and that they find meaning and satisfaction in life, to a large extent, through the purchase of new consumer goods. Consumerism has emerged as part of a historical process that has created mass markets, industrialization, and cultural attitudes that ensure that rising incomes are used to purchase an ever-growing output.

| **consumerist values:** the belief that meaning and satisfaction in life are to be found through the purchase and use of consumer goods

### 3.1 The Birth of the Consumer Society

Look back into history and you will find patterns of consumption very different from those that exist today. Turn the clock back just a few centuries, and almost no one in any country spent a significant amount of time or resources on shopping for goods produced far from home. Before the Industrial Revolution – that is, before the late 18th century in England, or the middle of the 19th century in the rest of Western Europe and North America – the vast majority of each country's population lived in rural areas and worked in agriculture. Their clothing and household possessions were extremely limited by today's standards and were typically made by household members or by artisans from the same village. Fashions, technological change, and social pressure did not drive people constantly to make new purchases; rather, individual material goods were used, with repairs if needed, for decades. Major items such as winter coats were expected to last a lifetime and more and were often passed from one generation to the next.

A small elite, of course, had long enjoyed higher consumption standards and habitually bought luxury goods and services. Elite consumption created employment for small numbers of artisans and merchants, often clustered around the courts and trading centers of each country. However, purchases by the elite were not large enough to transform a predominantly agrarian economy. Rather, elite consumption depended on the existence of agriculture, since upper-class incomes were directly or indirectly derived from rents, taxes, or other payments extracted from rural areas.

The Industrial Revolution clearly transformed production. It is less obvious, but equally true, that it transformed consumption. Large-scale industrialization began in the British textile industry; the amount of cotton used in that industry rose from less than 3 million pounds in 1760 to more than 360 million pounds annually in the 1830s. Within one lifetime, that is to say, the production of textiles in Britain was multiplied more than 100-fold. Luxury consumption by the English upper class did not grow nearly that rapidly. Who, then, bought and used the vast outpouring of cloth?

In the early 19th century, roughly two-thirds of the increased output was sold to other countries around the world. Much of it went to less developed areas such as India, which was rapidly becoming a British colony (and where the British conquest was followed by the destruction of India's formerly thriving textile industry), and to the newly independent states of Latin America, where British merchants displaced the earlier commercial connections to Spain and Portugal.

There were limits, however, to the possibility of growth through expansion into foreign markets. As other industries followed textiles, and other countries followed Britain's example of industrialization, much of the growing output was inevitably sold at home or to other relatively developed countries. Thus mass production required mass consumption. (Even when two-thirds of England's burgeoning textile output was sold abroad, the domestic absorption of the remaining one-third involved sweeping changes in English patterns of consumption.) Over the course of the 19th century, both the growing middle class and the working class became consuming classes as well.

### 3.2 Workers Become Consumers

At the dawn of industrialization, it was not at all clear that workers could or would become consumers. Early British industrialists complained that their employees would work only until they had earned their traditional weekly income and then stop until the next week. Leisure, it appeared, was more valuable to the workers than increased income. This attitude, widespread in pre-industrial, pre-consumerist societies, was incompatible with mass production and mass consumption. It could be changed in either of two ways.

At first, employers responded by lowering wages and imposing strict discipline on workers, to force them to work longer hours. Early textile mills frequently employed women, teenagers, and even children, because they were easier to control, and could be paid less, than adult male workers. Due to such draconian strategies of labor discipline, living and working conditions for the first few generations of factory workers were worse than in the generations before industrialization.

Over time, however, agitation by trade unions, political reformers, and civic and humanitarian groups created pressure for better wages, hours, and working conditions, while rising productivity and profits made it possible for business to respond to this pressure. A second response to the pre-industrial work ethic gradually evolved: as workers came to see themselves as consumers, they would no longer choose to stop work early and enjoy more leisure; rather, they would prefer to work full-time, or even overtime, in order to earn and spend more.

In the United States, the "worker as consumer" worldview was fully entrenched by the 1920s, when the labor movement stopped advocating a shorter work week and instead focused on better wages and working conditions. The old philosophy was never entirely displaced by the new; both repressive and consumerist approaches to motivating workers continue to exist today, with the former particularly prevalent in low-skill, low-wage industries. But mass consumption, and the consumerist attitudes that support it, became increasingly important to the economic system.

Notice that, if workers are also important as consumers, the attitude of employers toward wages may become more complex. Under the old model, where workers had to be strictly controlled and most products were sold to elite or foreign customers, business owners had an unambiguous interest in keeping wages as low as possible, to stay profitable and competitive. Under the new model, where the same people are workers and consumers, should business owners favor low wages to limit production costs, or high wages to create more consumer demand? The answer is both: if an individual business could arrange the whole world solely to maximize its own profits, it would pay its own employees as little as possible – while everyone else would be paid, and would spend, as much as possible.

This change in the economic interests of businesses was only occasionally recognized in explicit terms by business leaders themselves. Henry Ford, the founder of Ford Motor Company and developer of the assembly line, made a point of keeping wages high enough, and the price of his cars low enough, that his employees could afford to buy cars. The owners and managers of beer and liquor companies have sometimes backed liberal, pro-union politicians, perhaps reflecting an awareness that higher wages are good for their line of business. But for the most part, businesses continued well into the era of the consumer society to struggle against wage gains for their own and for other workers – not realizing how ironically essential it was for them to periodically lose some ground in that battle.

The bifurcation in the business view of people as workers and consumers is mirrored throughout society. Work is associated with an ascetic, prudent, saving, and rational ideology – what was referred to by the sociologist Max Weber as "the Puritan ethos." At the same time, the ethos of consumerism includes a focus on pleasure and a conviction that it is right to seek the satisfaction of selfish desires. In the modern economy, the same person is often expected to combine both roles.

### 3.3 Institutions of the Consumer Society

Many of the institutions that sustain and promote mass consumption first took shape near the end of the 19th century—in the same period, it turns out, when economic theory first gave consumers a central role to play. Department stores appeared in the big cities of England, France, and the United States, creating comfortable semi-public spaces in which consumers could contemplate many different purchases. New packaging technologies were developed, allowing distribution of goods in bags, cans, and bottles. This technological advance made it possible for the first time to create nationally and internationally known "brand names" in the marketing of foods, beverages, cosmetics, and other goods.

#### ***Advertising***

Above all, advertising emerged as an essential component of the marketing and distribution of goods. Although advertising has existed as a specialized profession for only about a century, it has become a force rivaling education and religion in shaping public values and aspirations. In the U.S. today, the amount of money spent annually on advertising exceeds total U.S. public expenditures (by federal, state, and local governments) on police protection, natural resources, and higher education combined (see the accompanying Economics in the Real World commentary).

Advertising is often justified by economists as a source of information about products and services available in the marketplace. While it certainly plays that role, it does much more as well. Advertising appeals to many different values, to emotional as well as practical needs, to a range of desires and fantasies. The multitude of advertisements that we encounter all carry their own separate messages; yet on a deeper

level, they all share a common message – they are selling the joys of buying, promoting the idea that purchasing things is, in itself, a pleasurable activity.

The presentation of consumption as pleasurable and ever-expandable helped to address the nagging question of a growing industrial economy: What would happen to the producers, with their continuously growing production capacity, if people were to decide that they had enough? This was considered a serious question in the first half of the 20th century, particularly during and after the Great Depression of the 1930s. It became possible to foresee a situation in which all the basic needs of an entire population could be met – and to forecast a disastrous end to economic activity as we know it, if people therefore stopped buying more stuff. For example, an American retailing analyst named Victor Lebow proclaimed,

Our enormously productive economy... demands that we make consumption our way of life, that we convert the buying and use of goods into rituals, that we seek our spiritual satisfaction, our ego satisfaction, in consumption... We need things consumed, burned up, worn out, replaced, and discarded at an ever increasing rate. (*Journal of Retailing*, Spring 1955, p. 7)

John Kenneth Galbraith, a prominent U.S. economist and social critic, argued that advertising by producers is increasingly needed to make affluent consumers keep buying their products – and therefore it is no longer socially important to satisfy consumer desires, since they do not originate within the consumer:

If production creates the wants it seeks to satisfy, or if the wants emerge *pari passu* [at an equal pace or rate] with the production, then the urgency of the wants can no longer be used to defend the urgency of the production. Production only fills a void that it has itself created. (*The Affluent Society*, Chapter XI)

#### Economics in the Real World: Has Advertising Gotten Out of Hand?

Advertising in the United States is big business. Advertising Age, a company that analyzes the advertising industry, estimates that spending on TV, radio, and print advertisements in 2004 was around \$134 billion, or about \$460 per American. When spending on other forms, including direct mail, phone marketing, and Internet ads, was included, total spending on all forms of advertising was estimated to be over \$263 billion in 2004. This amount exceeds the entire annual GDP of many countries, including Denmark and Saudi Arabia.

By the mid-1990s, the average American adult was exposed to about 3,000 ads every day. Advertising is evident in an increasing number of private and public places, including school textbooks, hospital emergency rooms, and even fortune cookies. While some analysts claim that advertising increases the availability of information and allows consumers to make better choices, an increasing number of social advocates are calling for limits on commercialism. For example, some groups take as their particular concern the effect of media advertising on the health of young women and children.

Media advertising contributes to eating disorders among young women, some public health analysts claim. Mediascope, a nonprofit research and policy organization, reports that

... today's fashion models weigh 23% less than the average female, and a young woman between the ages of 18-34 has a ...1% chance of being as thin as a supermodel. However, 69% of girls in one study said that magazine models influence their idea of the perfect body shape.... "the media markets desire. And by reproducing ideals that are absurdly out of line with what real bodies really do look like...the media perpetuates a market for frustration and disappointment. Its customers will never disappear,' writes Paul Hamburg, an assistant professor of Psychiatry at Harvard Medical School.<sup>5</sup>

Such advertising keeps the diet industry going strong, but perhaps at a substantial cost in terms of the mental and physical health of many young women.

Advertising targeted at young children is particularly worrisome because children lack the ability to resist commercial messages. Research reported in a recent volume of the *Journal of Developmental and Behavioral Pediatrics* illustrates the effects of TV ads on children's requests for products. The study found that a school-based effort to reduce TV viewing by third- and fourth-graders significantly reduced their requests for toy purchases. The cigarette manufacturer Philip Morris was recently criticized for dispensing 28 million book covers to American schools for free distribution to students. While the book covers carried apparently anti-smoking messages, one editorial noted that "What you've got is a book cover that looks alarmingly like a colorful pack of cigarettes."<sup>6</sup>

Some countries have passed laws designed to limit or regulate advertising aimed at children. For example, airing of TV ads selling toys to children are banned in Greece between 7:00 a.m. and 10:00 p.m., and Sweden and Norway ban all advertising aimed at children under the age of 12. In the U.S. some legislators have proposed increased regulation of ads targeted at children and banning ads in schools, but no serious attempt has been mounted to reduce the onslaught of ads directed at children. For now, this work seems to be left to non-profit groups, such as Mediascope, and Commercial Alert, a nonprofit organization that seeks to prevent commercial culture from exploiting children and "subverting the higher values of family, community, environmental integrity, and democracy."

*Do you think advertising has gotten out of hand? Do you enjoy ads? Do you think the present volume of advertising is socially beneficial?*

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<sup>5</sup> "Body Image and Advertising," Issue Briefs. Studio City, CA: Mediascope Press, 2000.

<sup>6</sup> *Star Tribune* (Minneapolis, MN), January 17, 2001, "Judging a Book Cover."

## *Consumer Credit*

Another institution created to support the consumer society was expanded consumer credit. Cultural values about spending in the U.S. up through the early 1900s emphasized thrift, prudence, and living within your income. Poorer households were forgiven for using installment purchasing (payments over time) and small loan agencies only if they needed the funds to purchase the necessities of life. Middle-class households borrowed for buying homes and furniture, but other spending for immediate pleasure was frowned upon.

With mass production of automobiles and household appliances, however, came a large expansion of institutions of consumer credit. By the 1920s, department stores were issuing charge cards, and automobile financing was common. Economist E.R.A. Seligman was a key figure in convincing the public that consumer credit was a sound idea. In a study funded by the head of General Motors, he argued that credit purchases were vital to stimulating economic growth and that condemning luxury purchases was not possible because the definition of a luxury varied from individual to individual. In the 1950s the first general-purpose credit cards were issued by banks.

By 2004, about three-fourths of U.S. households had at least one credit card. While some cardholders use them only for convenience, paying off their balances in full each month, other cardholders use them as a form of borrowing by carrying unpaid balances, on which they pay interest. In 2004 about 40% of families carried unpaid credit card balances. The average amount of credit card debt among households with at least one credit card was \$5,100. By the end of 2007, total outstanding consumer credit in the U.S. topped \$2.5 trillion.

### 3.4 Changes in Other Institutions

Besides creating new institutions of mass advertising and consumer credit, the consumer society also changed how people thought about households, and about the infrastructure for public consumption.

## *Households as Consumers*

When everyone in a family pulled together for survival in primarily agricultural societies, households were often recognized as important locations of production. With the rise of consumerism, however, the work of women in households came to be portrayed as managing the “consumption” behavior of their families. Many of the new goods and services being marketed were substitutes for goods formerly produced using household labor, usually the labor of adult women, perhaps aided by children. Factory-manufactured clothing replaced home-sewn, for example, and bakery bread replaced home-baked. Other new goods, such as gas or electric stoves replacing coal or wood for cooking, made home production more efficient.

While you might think that such innovations would reduce the hours of labor spent on housework, economic historians have found that the facts are otherwise. The average number of hours devoted to homemaking by full-time homemakers stayed constant, at over 50 per week, from 1900 into the 1960s. The new goods were accompanied by pressure to raise household consumption standards. With access to a refrigerator, stove, and supermarket, women were expected to prepare more elaborate and varied meals; with access to washing machines, standards of clothing cleanliness rose. Labor effort in household production remained high, even though such work was commonly referred to as “consumption.”

### ***Displacement of Public Consumption***

The growth of consumerism has altered the balance between private and public consumption. Public infrastructure has been shaped by the drives to sell and consume new products, and the availability of public and private options in turn shapes individual consumer choices.

In the early 1930s, for example, many major U.S. cities—including Los Angeles—had extensive, relatively efficient, and nonpolluting electric streetcar systems. Then, in 1936, a group of companies involved in bus and diesel gasoline production, led by General Motors, formed a group called the National City Lines (NCL). They bought up electric streetcar systems in 45 cities, dismantled them, and replaced them with bus systems. U.S. government support for highway construction in the 1950s further hastened the decline of rail transportation, enabled the spread of suburbs far removed from workplaces, and encouraged the purchase of automobiles.

Many of the choices you have, as an individual, depend on decisions made for you by businesses and governments. In some cases, like public transportation, consumption possibilities display the phenomenon of “path dependence”—that is, economic developments depend on the historical development of events. Los Angeles would look much different today—more like the older sections of many East Coast and European cities—if it had been built up around streetcar lines rather than cars and buses. Even today one can see tradeoffs between public (or publicly accessible) infrastructure and private consumption. As more people carry cell phones and bottles of spring water, pay telephones and drinking fountains are less well-maintained in some cities...leading to more people needing to carry cell phones and bottles of spring water.

### **Discussion Questions**

1. How much do you know about how your grandparents, or great-grandparents, lived? Would you describe them as living in a “consumer society”? What consumer institutions affected their lives?
2. Would it be possible for the U.S. to have an economy that does *not* rely on ever-increasing sales of consumer goods? What might such an economy look like? What

values might be promoted in place of consumerism? What might be some of the problems in moving toward, or living in, such a society?

## 4. Consumption and Well-Being

As noted earlier, consumption activities most directly address people's living standard (or lifestyle) goals. People generally have other goals as well, concerning self-realization through work, fairness, freedom, ecological balance, etc., which may either be supported by, or undermined by, their actions as consumers.

Looking at the contribution of consumption to individual and social well-being requires taking a broader view than that of marketers, who are primarily interested in selling their products. It also means taking a broader view than that taken by utility theorists, who are primarily interested in modeling consumer choice.

### 4.1 Old Utility Theory, New Utility Theory, and Capabilities

What is the relation, then, of consumption to well-being? Can social well-being be increased by any particular policies or practices related to consumption?

#### *Old Utility Theory*

In the old-fashioned utility theory view, individual well-being was, rather narrowly, simply equated with pleasure. Because, however, some of the early theorists thought that utility could be measured and summed not only within a person, but also across persons, the theory was sometimes used to draw conclusions about social well-being.

Some of these economists assumed that everyone has similar utility functions, characterized by diminishing marginal utility. If so, then taking away \$1 that a rich person would have spent on a luxury good such as caviar would cause little decrease in utility, since the rich person has already consumed a great deal and has low marginal utility from consumption. Giving that same \$1 to a hungry poor person who has high marginal utility to spend on a necessity like bread would cause an increase in overall utility that more than outweighed the loss to the rich person. This is a fancy way of saying that satisfaction of **wants**, what people simply desire, should take a back seat to satisfaction of **needs**, what people require for a healthy, flourishing life.

| **needs**: what people require for healthy, flourishing lives

| **wants**: what people simply desire

Thus such economists, when comparing two societies with the same overall level of consumption (or income), felt safe in concluding that the society with a more equal distribution would have higher social well-being (that is, a higher sum of utilities) than the less equal society. This was used to justify redistributive policies and a concern with poverty.

## *New Utility Theory*

The new utility view, well established by the mid-to-late-20th century, shared the same basic normative ideal as the old utility view. Both agreed that the satisfaction of consumer desires was the goal of economic activity.

However, by this time the notion of utility as a measurable entity had been thoroughly dropped, and economists had come to believe that utility could *not* be compared across individuals. Consumer sovereignty held sway, but now in a very individualistic form. Since people were assumed to act rationally in their own self-interest, their actions were taken to reveal their true preferences, and were assumed therefore to serve their own well-being, however they might individually define it.

These assumptions had two significant implications for discussions of well-being. First, by emphasizing choice and denying interpersonal comparisons, discussion of wealth and poverty faded away. It was argued that distinguishing wants from needs was impossible. How could food be considered a necessity, it was argued, if some people choose to fast (even to death) for religious or political reasons? How could good dental care be “needed” in the U.S. if people in poor countries often survive without it? Since “needs” could not be clearly and rigorously distinguished from “wants,” or necessities from luxuries, discussions of poverty were considered to be less scientific than discussions of rational consumer choice. Issues of minimum necessary consumption levels, basic needs, poverty, and redistribution were rarely discussed in the economics of this period, except by specialists.

The second implication was that any suggestion that consumers were acting unwisely—that consumer behavior perhaps did *not* serve to advance their standard of living or more general goals—was generally dismissed as “paternalistic.” No one, besides the individual, should be able to say what is good for him or her, the argument went. The choices and preferences of the sovereign consumer were sacred.

If someone ate a high-fat diet and developed heart disease, for example, it might be assumed that the person had calculated that her pleasure from eating the high-fat diet outweighed the drawbacks of ill health. To encourage her to eat a better diet—or to campaign to keep advertisements for junk food out of schools—would be paternalistic interference. Occasionally exceptions to this belief were granted if it could be shown that one of the assumptions of the view had been violated. (Usually this was the assumption that consumers’ choices were informed by “perfect information.” For example, it might be that the consumer was not well informed about the relation between diet and disease.)

## *Capabilities*

Nobel laureate economist Amartya Sen, in the late 20th century, proposed a different approach. He argued that social evaluations of peoples’ advantage and disadvantage should be done on the basis of “capabilities,” rather than on the satisfaction of their

desires. The **capability approach** evaluates institutions, policies, and actions according to the opportunities they give people for valuable ways of living.

**capability approach:** assessing institutions and policies according to the opportunities they create for people to live valuable lives

It is widely assumed, for example, that being adequately nourished, being in good health, being well sheltered, and avoiding premature death are good things. People might add to the list more complicated valuable ways of living, including having self-respect, being able to participate in community life, being happy, being able to form intimate relationships, and being able to live in harmony with nature.<sup>7</sup>

The capabilities view allows for more complex goals than either version of the utility theory view. It changes the focus to objective criteria like opportunities for health and participation, and away from subjective feelings of pleasure or satisfaction. It resurrects the concern with poverty and deprivation that was lost in the new utility theory view. However, with its emphasis on *opportunities* rather than outcomes, it also preserves some of the respect for individual choice characteristic of the new utility view. We don't worry about people who are hungry because they choose to fast, according to this view, as long as they have the capability of eating well (if they should choose to).

Sen's capability approach was influential in bringing discussions of well-being back into economics. Instead of looking just at whether people get pleasure from their consumption choices, it directs us to look at whether societies, and societal consumption patterns, would permit people to live healthy lives, in harmony with each other and nature.

#### 4.2 Inadequate Consumption: Poverty

The division of the world's human population into portions defined by their consumption characteristics was pioneered in 1992 by ecologist Alan Durning.<sup>8</sup> He described the high-consuming fifth of the world as those who travel by car and air, eat meat-based diets, live in spacious, single-family residences, and discard much of what they purchase as packaging or post-consumption waste.

The next three-fifths of the global population may look deprived, when compared to the high-consumers—and, to the extent that that is their reference group, they may feel deprived—but they are well-off indeed when compared to any but the richest individuals of 200 years ago. Their ancestors would have envied them their healthy diet (grain and vegetable based, with some meat); the convenience of bicycles and public transportation; work that is made productive through the assistance of mechanized tools; light, heat, and running water in homes and workplaces; much improved and convenient sanitation; and a level of schooling that was available to only a very few in, say, the year 1800.

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<sup>7</sup> Some of these were suggested by Sen, others by philosopher Martha Nussbaum.

<sup>8</sup> Alan Durning, *How Much is Enough?* (New York: Norton, 1992).

The bottom one-fifth of the global population suffers from **absolute deprivation**. What constitutes absolute deprivation? If a household is unable to obtain minimal nutrition, shelter, clothing, and sanitation for its members, most people would agree that it is deprived of the necessities of life. Some people would add other services, such as elementary education and basic health care, to the list of necessities. The United Nations defined absolute poverty as subsistence on less than U.S. \$1 per day. Worldwide, nearly one billion people suffer from absolute poverty, and 815 million people suffer from undernourishment.

| **absolute deprivation:** lack of the minimal necessities for sustaining life

The poorest of developing countries, particularly in sub-Saharan Africa and South-central Asia, are simply too poor to lift their entire populations out of absolute deprivation. Increasingly, however, the more economically successful developing countries in Asia and Latin America have sufficient resources to provide basic necessities to all; the fact that absolute deprivation still exists for the poor in these countries reflects the inequality in the distribution of income. Absolute deprivation may also vary with factors like race and ethnicity, and even within households by age and gender.

Because inadequate consumption is not simply a matter of having a low household income, however, some kinds of absolute deprivation can exist even amid general wealth. As the capability approach points out, well-being depends on resources relative to needs. Some people—particularly young children and the ill and handicapped—have dependency needs for care, plus needs for special goods and services (like education or medicines) that healthy, prime-age adults do not require. Even people with fairly high household incomes may sometimes, then, find themselves in a situation of lack. Advocates for the elderly, the sick, and children, for example, often claim that the U.S. has an inadequate system of care.

Absolute deprivation is only one type of inadequacy, however. As discussed earlier, psychological research also tells us that people's perception of their own well-being depends on the consumption patterns they see in the people around them—their reference groups. Modern information technology has created a new source of discontent, in that the predominant images shown to all the world are of the affluent one-fifth — or indeed, of even more elite subgroups. The result is the creation of widespread feelings of **relative deprivation**, i.e., the feeling that one's condition is inadequate because it is inferior to someone else's circumstances. The richest man in a small village could be quite content with traditional clothing and diet, an outdoor latrine, and water drawn from a communal well, as long as that way of life is consistent with honor and self-respect. However, if his reference group changes—for example, if he begins to compare himself with news he hears of life in the city—all that he has will begin to seem poor, mean, and disgraceful.

| **relative deprivation:** a feeling of lack that comes from comparing oneself with someone who has more

The government-defined poverty level in the U.S. was \$21,200 for a family of four in 2008. This income would be at or above the national average in many countries; in most developing countries a family income of \$21,200 would put that family well above the poverty level. It may be possible to buy the bare physical necessities of life for this sum, even in the U.S.—at least in areas of the country with low housing costs.

Yet it is likely that most of the Americans who fell below the poverty level (12.3% in 2006) do not feel able to enjoy a "normal" American lifestyle. They clearly do not have the resources to buy the kinds of homes, cars, clothes, and other consumer goods shown on American television. They may need to rely on inadequate public transportation and wait in long lines for health care. People with sufficient physical means of survival may still feel ashamed, belittled, and socially unacceptable if they have much less than everyone around them. It is unlikely that the 17.4% of U.S. children who live in poverty start out on an "even playing field" with nonpoor children, in terms of nutrition, health care, and other requirements.

The fact that people deprived of "normal" societal consumption levels feel relative deprivation suggests that poverty, even relative poverty, is not conducive to promoting capability goals such as self-respect and the ability to participate in community life.

Would it be good, then, for everyone to aspire to the "normal" level of consumption enjoyed by middle-income (or upper-income) Americans? This question brings us back to the issues of capabilities, from another angle. When does consumption serve to provide people with healthier, more fulfilled lives? Are there times when it does not?

#### 4.3 Excessive and Misdirected Consumption: "Affluenza"?

Increasing consumption is unquestionably a goal of high importance in situations where people have insufficient goods and services. However, as the human race grows richer, it becomes increasingly important to recognize that more consumption is not always better. Increasing consumption can be worse for individuals who may suffer ill health from overeating, psychological disturbances from certain kinds of overstimulation, and (some say) spiritual malaise from exclusive or excessive attention to material things. In short, there can be such a thing as too much consumption.

At some point, the drive for pleasure can begin to cut into other goals, and even basic valuable capabilities like good health. For example, diets high in sugars and fats can lead to people becoming overweight. Obesity, in turn, is a risk factor for all four leading causes of death in the industrialized world—stroke, heart disease, cancer, and diabetes. In the U.S. about 300,000 people a year die from health problems related to obesity. Obesity is a growing problem among the more affluent classes in less developed countries as well, even as too few calories remains a serious problem for the very poor.

As described earlier, psychological research indicates that people's feelings of well-being adapt over time to their situation (or reference point). To the extent that a society emphasizes the consumption of material goods, this means that subjective feelings of happiness and satisfaction can be maintained only by continually ratcheting up the pleasures to be had by consuming them.

A long line of distinguished economists has pointed out this ratcheting-up effect, and the great degree to which consumption in affluent societies tends to be less about staying alive and healthy than about achieving status or "keeping up with the Joneses." Thorstein Veblen (1857–1929) wrote about "conspicuous consumption." John Kenneth Galbraith's *The Affluent Society* (1958), Tibor Scitovsky's *The Joyless Economy* (1976), Juliet Schor's *The Overspent American* (1998), and Robert Frank's *Luxury Fever* (1999), took up this theme. A recent special on public television focused on the "disease" of "affluenza." The use of reference groups creates a paradox in consumption: we can apparently never have enough to be satisfied, because there is always (unless we are Bill Gates) someone with more than we have.

Does more consumption make people happier? In surveys of people *at any point in time*, people with more to spend generally report themselves as somewhat more satisfied with their lives than do people with less to spend. This makes sense, given both the stresses of being poor and the way people lower down will tend to compare themselves, negatively, with people higher up. Factors not as related to consumption, however, like good health and good relationships, often contribute even more strongly to people's self-reported sense of satisfaction.

Over time, however, more consumption does not seem to be related to more happiness in affluent societies. In 1957, for example, 35 percent of respondents to a U.S. survey indicated that they were "very happy." Between 1957 and 1998 the purchasing power of the average citizen of the U.S. roughly doubled. In 1998, the proportion saying they were "very happy" was a little lower, at 32 percent.

Even people with abundant purchasing power seem to find their situation only "normal," or even lacking, once they have gotten used to it. Juliet Schor reports that in a 1995 survey, over a third of respondents in households with income between \$75,000 and \$100,000 agreed with the statements "I cannot afford to buy everything I really need," and "I spend nearly all of my money on the basic necessities of life." Even 27% of those with incomes above \$100,000 agreed that they "cannot afford to buy everything I really need."

The situation of rising consumption levels has been compared to one in which the front row of a crowd of spectators stands on tiptoe to see better. Everyone else has to stand on tiptoe also, just to see as well as before. All are more uncomfortable, but none except the front row are better off. There is probably no net gain.

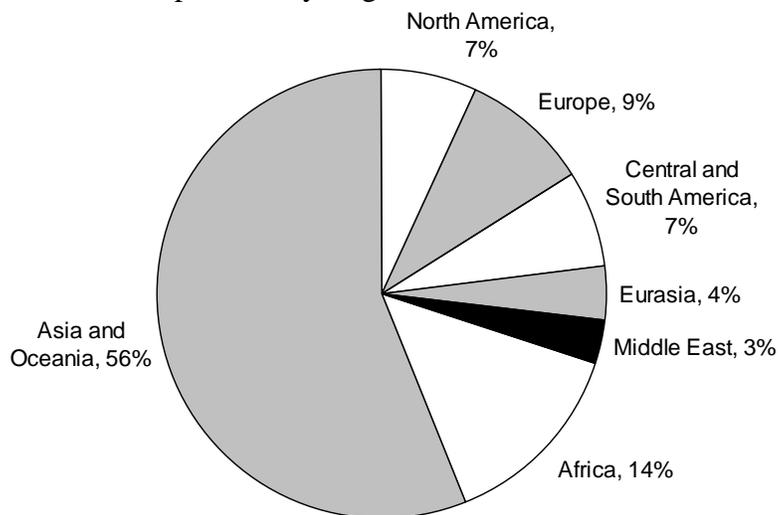
#### 4.4 The Ecological Impact of Consumption

More consumption of goods that use up resources in their production and generate waste materials also means more degradation of the natural environment. A U.S. standard of living for everyone on the globe is simply impossible. Analysts have estimated that giving everyone in the world a U.S. style of diet and other consumption would require an extra two to four planets to supply resources and absorb waste.

High-consuming countries have an impact on the natural environment that is out of proportion to their populations. As mentioned at the start of this reading, for example, the average American consumes 275 pounds of meat a year. Per capita meat consumption in industrialized countries is about three times that in the developing world. Of the grain consumed in the United States, about 65% is fed to livestock. Since livestock are relatively inefficient converters of the calories in grain to calories for human consumption, high-meat diets mean less food available for direct human consumption. Growing pressure on the world's available cropland, along with environmental damage from fertilizer run-off, pesticides, depletion of aquifers, and soil salinization make U.S.-style diets an unsustainable proposition.

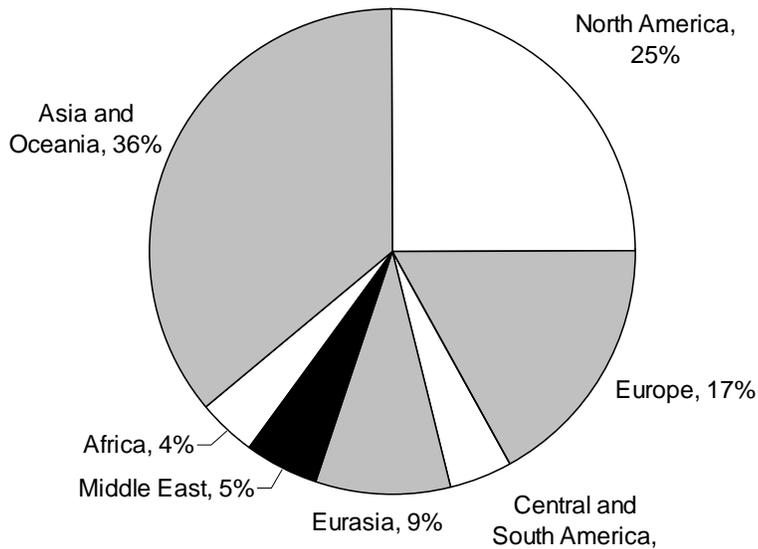
As also mentioned at the start of this reading, there is about one passenger car for every two people in the U.S., one for about every 3.1 people in Europe, and one for every 49 people in developing countries. Carbon dioxide emissions arising from the burning of fossil fuels (such as gasoline in cars) have been scientifically linked to problems of global climate change. North America has only about 7% of the world's population, as shown in Figure 1. However, as illustrated in Figure 2, North America generates over one-quarter of the world's carbon dioxide emissions.

Figure 1. World Population by Region, 2005



*While the vast majority of the world's population lives in countries of the global South...*

Figure 2. Carbon Dioxide Emissions by Region, 2005



*...the countries of the global North generate more than half of the emissions linked to global warming.*

Source: United States Energy Information Administration, International Energy Annual 2005.

Increased use of private cars also competes with food production for the use of land, since car travel requires paved roads and parking lots. For example, it has been estimated that if China were to increase its car ownership to the U.S. level (of one for every two people) it would need to pave over an area for parking lots and roads equivalent to more than half of its current rice-producing land!

As public awareness of environmental damage increases, some beneficial changes in consumption patterns have been accomplished. Reduced use of chlorofluorocarbons (formerly used in refrigeration and air conditioning) has slowed the depletion of the earth's ozone layer, and use of unleaded fuels has reduced the release into the atmosphere of toxic lead. More remains to be done, however, to encourage healthy and sustainable patterns of consumption.

### Discussion Questions

1. Tiffany is very happy with her fifth brand-new sports car. Jonelle is unhappy, because her computer is slower than all her friends'. Marcus is worried because he can't afford his prescribed high-blood-pressure medication. Describe the well-being of Tiffany, Jonelle, and Marcus, from the old utility, new utility, and capability views.

2. Do you think the society we live in suffers from "affluenza"? If so, do you think there is a cure?

## Review Questions

1. Which goals does consumption address?
2. At what levels of social organization (individual, household, work group, society) does consumption take place?
3. What are the five steps of consumer decision making, according to the marketing view?
4. What five categories of needs have psychologists identified as sources of consumer motivation?
5. How do reference points and reference groups play a role in consumer behavior, according to the marketing view?
6. How did the consumer society come about, historically?
7. What are two major institutions that were invented to support the consumer society?
8. What are two major institutions in society that were modified by the turn to consumerism?
9. Describe the relation between utility and well-being in the “old utility theory” view.
10. Describe the relation between utility and well-being in the “new utility theory” view.
11. Describe the criteria for good policies and actions advocated in the “capability” view.
12. What is the difference between absolute and relative deprivation?
13. What fraction of the world’s population suffers from absolute deprivation?
14. Does increasing consumption always increase people’s well-being? Explain.
15. How are people's consumption levels related to their reported happiness at any point in time? Over time?
16. Could the world sustain its population if everyone had a typical U.S. level of consumption? Explain.

## Exercises

1. Various U.S. government agencies, including the Food and Drug Administration (FDA) and the Environmental Protection Agency (EPA), include “consumer protection” as one of their goals. The FDA, for example, decides whether drugs that pharmaceutical companies want to sell are safe and effective, and the EPA decides whether particular pesticides are safe for consumer use. Some people feel that such government oversight overly interferes with companies’ freedom to sell their goods and with consumers’ freedom to buy what they want. How do you think consumer protection policies, in general, would be evaluated by someone who:

- a. believes strongly in consumer sovereignty
- b. believes strongly that consumers make rational choices
- c. believes that consumers sometimes have less than perfect information about what they are buying
- d. believes that consumers can be overly influenced by marketing campaigns
- e. believes that policies should focus on human capabilities

2. Match each concept in Column A with an example in Column B.

### Column A

- a. problem recognition
- b. attribute of a good
- c. social needs
- d. reference point
- e. reference group
- f. consumerist values
- g. displacement of public consumption
- h. absolute deprivation
- i. relative deprivation

### Column B

- i. “The one who dies with the most stuff wins.”
- ii. the standard of living you are used to
- iii. not being able to afford to eat like people around you
- iv. buying a gun, rather than relying on a police force for protection
- v. the number of speeds of a bicycle
- vi. “I’m not as cool as I’d like to be.”
- vii. models in magazine advertisements (for some people)
- viii. lacking adequate food
- ix. the need to be loved