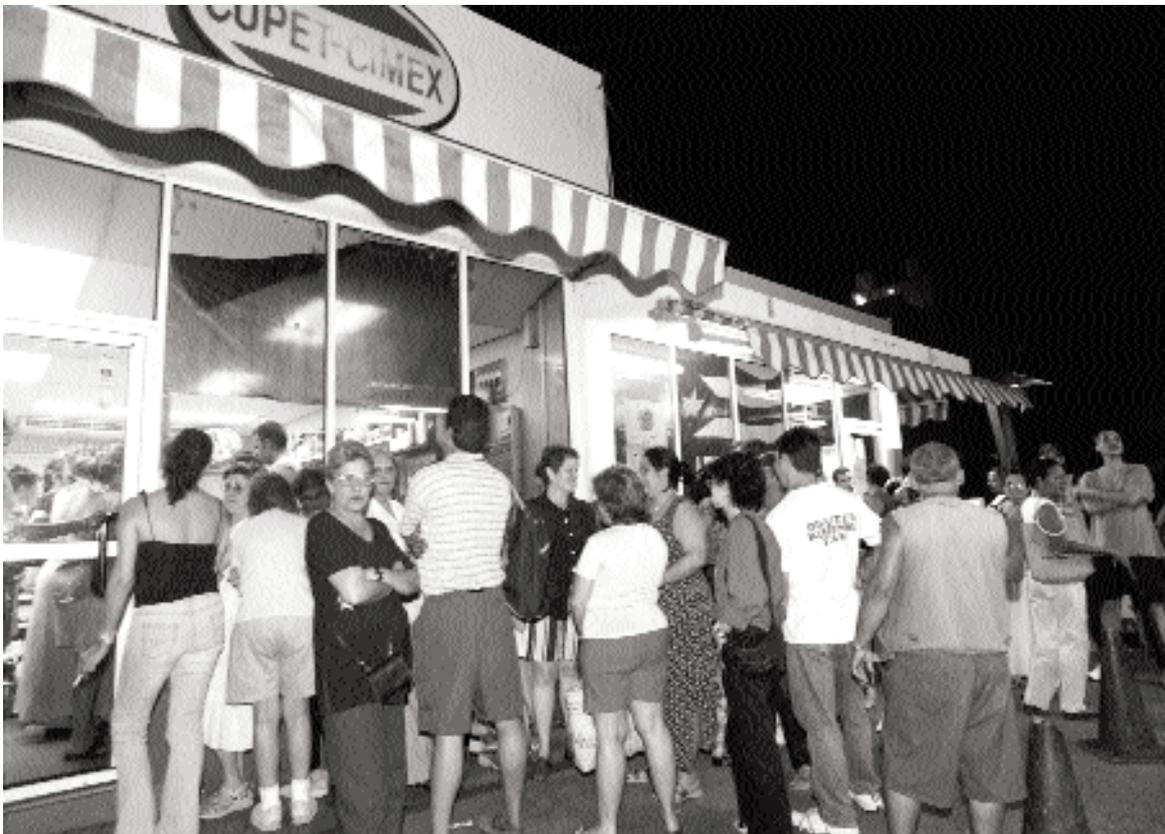


Consumption, Economic Theory And the American Way of Life

Pablo Ruiz Nápoles*



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CONSUMPTION AND UTILITY AS A MEASURE OF VALUE

For contemporary economic theory, in general, consumption, the satisfaction of human needs, is the final aim of economic activity. As a result, all stages of

the economic process (production, circulation and distribution of goods and services) are attendant on it. Even the value placed on economic goods and the activities needed to produce them occurs from the perspective of consumption—understood in the broad sense—as we will try to show.

With the emergence and development of industrial capitalist society,

a corresponding economic theory was built based on the study of the functioning of the competitive market, as the fundamental institution for the assignment of resources needed for producing goods and services and their distribution through the mechanism of prices determined by the free play of supply and demand in specific markets of goods and productive factors.

* Economic and political analyst.

In the nineteenth century, the first developments of this theory emphasized the determination of the real cost of goods due to abstinence (by the capitalist or rentier) and labor (of factory or agricultural workers). In the words of Eric Roll, the renowned historian of economic thought, putting an equals sign between abstinence and labor weakened the theory; for that reason, there was a move toward a totally subjective establishment of value of goods using the concept of “utility,” which was a real revolution in economic thought. True to Roll, this revolution was also a long time in the making, with the value determined by utility—not unrelated to Marx’s theory of use value—and was mainly attributable to the so-called Austrian school: the Englishman Jevons, the Austrian Menger and the Swiss Walras.

This was the decisive step that differentiated modern from classical theory: the complete abandonment of the labor theory of value, replaced by the theory of marginal utility. This theory establishes that each person, as a consumer, assigns the value of each good according to the utility of that good upon consumption. As the consumer has more and more of this good, his/her level of satisfaction increases and, as a result, the utility decreases so that the marginal utility diminishes. This is how the theory of individual demand is built, in which quantity decreases vis-à-vis price, a fundamental element of modern economics. The sum of individual demands constitutes market demand, which also declines.

This presupposes similar behavior on the part of all consumers. This has been called the consumer’s rational behavior and is the basis of all demand theory.

This recent theory immediately claimed universal validity in two senses: 1) as an economic criterium to be followed by all the agents that participated in the process of exchange (production would also be seen as an exchange); 2) as applicable to any historic period and almost any region or country. The maximization of utility thus becomes the mechanism—conscious or unconscious—of *homo economicus*, an idea initially sketched out by Adam Smith, although from the perspective of production, instead of from that of consumption

We could say that, in essence, the theory of welfare economics developed

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initially by Vilfredo Pareto is based on these concepts of utility and rationality. This means that the equilibrium between production and consumption is socially and individually achievable and represents the optimum.

The last thing we should consider is that, in these theories, the notion of utility is applied not only to goods that the individual obtains through exchange for his/her own resources, but also to leisure, so the individual freely chooses between working or resting, assigning a certain utility to leisure.

THE CONSUMPTION OF DIFFERENTIATED GOODS

As capitalism evolved, consumers’ needs diversified and became more complex. It is not that in previous stages there was no production of luxury goods;

there was, and it was even very sophisticated. Suffice it to consider the consumption of European monarchs and nobles in almost any period and country. But the production of these kinds of goods was never massive and therefore, their value was even more subjective and, in essence, not subject to the common rules of the market. Under capitalism, the production that matters is the mass production of identical goods. It was not until manufacturing diversified the production of goods that satisfy the same needs attributing to these goods special properties (mostly intangible properties like a brand or a design) created by publicity that so-

ciety was really transformed into a society ruled by consumption.

Based on the process of the diversification of the product and a more aggressive entrepreneurial search for markets, production began to create its demand, not in the sense of classic economics, but in the sense of creating heretofore non-existent needs through the introduction of new, differentiated, more technically sophisticated products (even if that sophistication was in some cases only in packaging). At the same time, a special disposable culture began to develop (called the “Kleenex economy”). As everyone knows, Kleenexes are used and thrown away, and the only objective way they differ from other similar products is through the brand name. In the case of Kleenex, its market penetration is so strong that it relegates all competitors to second place, giving its name—duly registered as a

trademark, of course—to the generic product. Actually, this was the prototype of the modern product, even though it is only a disposable tissue.

CONSUME TO GROW

Up to here, I have dealt with what we economists call micro-economics. There are, however, other reasons why the role of consumption is very important in contemporary capitalist society, and they are related to macro-economics. About macro-economics, in the late eighteenth and early nineteenth century, French economist Jean Baptiste

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Say held that it was impossible to have an over-production crisis since every “supply creates its own demand.” This is known as Say’s Law, which was thoroughly refuted in the 1930s by John Maynard Keynes, whose theories showed not only the possibility of unemployment with balanced global supply and demand, but also particularly that the driving factor behind economic growth was aggregate demand, that is consumption and investment. But, given that investment’s only incentive is sales, the decisive role in the last analysis falls to consumer demand. Mass consumption, which in Malthus’s early-nineteenth-century theory was the villain threatening society as the product of exponential demographic growth contrasted with the arithmetic growth of food production, in Keynes’s theory became the saving factor of the capitalist system, given its recurring, profound

crises and the resulting unemployment. The key for getting out of the crisis was not saving but spending. And that was the sign of the times in macro-economics, from the 1930s to the early 1970s, especially in the United States.

U.S. CAPITALISM AND THE “AMERICAN WAY OF LIFE”

According to the Marxist concept of modes of production in history, the basic structure of society is the economy and all the political, religious and ideological institutions that correspond to that structure make up the supers-

structure, though not always harmoniously. Thus, for example—and even though it sounds a little mechanical—the democratic political system, Protestantism and liberal ideology correspond to the prototypical developed capitalist mode of production. In my opinion, this model can be found in its most finished form in the United States, almost since its birth as an independent country in 1776.

This prototype of society and culture, described very precisely, critically and rather pessimistically by the U.S. economist Thorstein Veblen in the early twentieth century, has been exported in many ways to the whole world as the model of modernity. The model’s spread sped up after the end of World War II thanks to U.S. economic, political and military hegemony in the West, and climaxed with the U.S. Cold War victory over the European

socialist bloc and the Soviet Union. I think that the technological development of U.S. and European industries played an important role in this victory, oriented as it was to the mass production of high-tech goods very much in demand and not produced by any Eastern European economy with the same quality or price.

The stage that begins after the triumph of economic liberalism in the world, a few years before the fall of the Berlin Wall, that some have called postmodernity, is characterized by the generalized adoption of some basic aspects of the American Way of Life, mainly consumerism as a cultural matter, that is, not only the economic factor of demand, but rather, from the perspective wherein whoever consumes a certain specific product does so in such a way as to adopt a way of being.

THE CONSUMPTION OF ENERGY

The American-Way-of-Life consumption pattern has evolved with time and has lost no adherents despite creating very diverse problems in the world, mainly linked to the environment and health. I will refer to only one of these problems, linked to energy, the production and consumption of fuels and electricity.

It has been estimated that the average energy consumption of an individual with a rich country life style is 7.5 times the kilowatts needed by an individual in a poor country. This figure must, of course, be carefully considered because not all the inhabitants of rich countries consume the same amount of energy—neither do they in poor countries—but indisputably, there is waste of energy in some countries

and unequal distribution among individuals and countries. The serious problem is that this inequality cannot be corrected at the current rate of expenditure because energy reserves would be exhausted before leveling off consumption. This means that rational consumption requires decreasing the energy use by the rich and increasing that of the poor to an intermediate level. In other words, the excessive expense of energy per capita of the American Way of Life cannot continue or spread to other social groups that do not enjoy it today; but even if there was no desire to correct that inequality, the current rhythm of energy expenditure implied in the American Way of Life will soon-

er or later lead to the depletion of the world's energy reserves.

I cannot refrain from mentioning that the world's current fuel consumption is already causing the proven increase in the average temperature, which makes for important modifications in global climate, with negative repercussions for all economies.

To finish up, something that can be said of the American Way of Life is that, whether judged good or bad, it cannot endure even in the United States itself, today the main producer of CO₂, the main cause of atmospheric warming. Non-wasteful, more environment-friendly models of fuel consumption exist. Their adaptation to daily life

requires mainly a change in mentality and ethics on the part of the population (including producers, merchants, publicists and consumers) and the governments of all countries. **NM**

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