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Questioning Consumerism

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Abstract

This paper critically evaluates the assumptions of microeconomic theory of consumer behavior using several disciplinary perspectives. Examining the political economic analysis the study concludes that ideology of consumerism keeps the economy from sliding into recession.

In every country consumption is the largest component of Gross Domestic Product (GDP).The level of consumption reflects the standard of living of the citizens of any nation. The economic prosperity of a nation is measured by the growth rate of the GDP; hence a higher level of production of goods and services is the goal of every nation. Consumption is the main driving force of the market economy, because a higher level of consumption reflects a higher standard of living and also propels the engine of economic growth. To support ever-increasing consumption and therefore growth, there is a need for a set of institutions promoting the ideology of consumerism. In a recent article Michael Pollan (2007) explains that "ideologies are ways of organizing large swath of life and experience under a set of shared but unexamined assumptions." This notion of ideology is used in this paper to explain consumerism.

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Consumerism is an ideology which places the insatiable desire for consumption of more and more goods and services as the primary motivating factor for people.[2]Higher levels of consumption give people meaning in life and define all social and environmental relations.

This paper explores consumption through several disciplinary lenses to examine the assumptions of consumer behavior. The first section outlines the basic assumptions of microeconomic theory regarding consumer choice.The theory assumes that consumer wants are unlimited, and that consumers are free and independently make rational choices to maximize utility. The next section of the paper briefly highlights psychologists' perspective on human needs and wants.The following section criticallyevaluates the theoretical assumption of consumer independence.Consumer independence is questioned due to the socially motivated nature of relative consumption and the effects of marketing and advertising efforts of the producers.The next section analyses the relationship between consumption and happiness. This section uncovers that an ever-increasing level of consumption cannot guarantee happiness.The following section discusses some other negative effects related to consumerism such as clutter and waste; erosion of leisure, community, and family; debt burden; and lower savings.Finally, the paper argues that in a market economy workers' income falls short of their contribution to the production,reating deficiency in aggregate demand. For that reason, it is important to uphold the ideology of consumerism and growth. Satisfied and rational consumers may lead to an economic slowdown.

2. Diminishing Marginal Utility and Overall Consumption

Currently, microeconomic theory makes a simple assumption regarding consumer behavior: the desires of a consumer are unlimited and unending. Moreover, no distinction is made between needs and wants; economists never raise value judgments, such as bad or good, important or unimportant.Consumer sovereignty and subjectivity prevail.

[2]It is important to distinguish the term consumerism as used in this discussion from the use in business and marketing journals. In business and marketing journals consumer activism is referred to as consumerism. Consumer activism occurs when consumers or buyers organizeto seek protection from producer's or seller's fraud. (See Buskirk & Rothe, 1970; Gaedeke & Udo-Aka, 1974; Darley & Johnson, 1993).

Galbraith ([1958]1998, p.120) quoted Alfred Marshall "[the] economist studies mental states rather through their manifestations than in themselves; and if he finds they afford evenly balanced incentives to action, he treats them *prima facie* as for his purposes equal." (Principles of Economics, 8th ed., London, Macmillan, 1927, p. 16).In other words, economists simply consider revealed preference. Additionally, if consumers desire something, the market will supply the product if the price is high enough and the seller makes a profit.

Another fundamental assumption is diminishing marginal utility, which is applicable to any good or service a consumer uses.

According to this concept, if an individual uses more of any product, no matter how favorable, important, or needed, the incremental satisfaction of each additional unit will be decreasing. Galbraith (1998, p.119) wrote, "The concept of diminishing marginal utility was, and remains, one of the indispensable ideas of economics since it conceded so much to the notion of diminishing urgency of wants, and hence of production, it was remarkable indeed that the situation was retrieved. This was done – and brilliantly. The diminishing urgency of wants was not admitted."

Utility theorists purport that peopleconsume goods because such consumption makes them feel good or happy. More specifically, utility theorists believe consumers maximize satisfaction by buying different products, in accordance to their preferences, but constrained by available income. However, various problems have been encountered with absolute measurements of utility. Due to these problems, economic theory has moved from cardinal utility theory to ordinal utility theory. The conclusions from the latter were the same as those from the former. One of the fundamental conclusions of utility theory is that larger incomes lead to higher levels of consumption and that a higher level of consumption givesa higher level of satisfaction; consumers prefer higher levels of consumption.

If a single product is subject to diminishing marginal utility, should this not apply to the total level of consumption? If we accept such a notion of diminishing marginal utility of overall levels of consumption, then it could be argued that increasing the total level of consumption does not necessarily lead to higher levels of satisfaction. And, if that is the case, unbridled economic growth and expansion of production might be questionable.

Unlike the current reluctance to distinguish between needs and wants, classical economists were very much concerned with the categorization of products as “true needs” verses “false needs.” For example, Adam Smith complained (as quoted in Economists, Dec 23, 2006), “How many people ruin themselves by laying out money on trinkets of frivolous utility?”Adam Smith also raised the question of the paradoxical value of diamonds and water.In the mid-nineteenth century while observing consumer expenditure, Ernst Engle documented that often lower level basic needs are fulfilled first and spending then moves to less immediate needs and luxuries.

3. Psychological Perspectives on Consumption

Psychologist Maslow introduced the concept of a hierarchy of needs. Some post Keynesian theorists used Maslow’s ideas to construct an alternative theory to neo-classical theory of consumer choice and explain Engle’s observations. The first stage of need relates to basic needs, which can be thought of as biological or physiological needs; needs for food, drink, sleep and sex. The second stage of needs relates to safety and stability.The third priority relates to social needs, needs to have family, friends, and to belong to a community. The fourth priority is self-esteem. Once individuals acquirea sense of belonging to a group, they strive for status and prestige, an indication of social acceptance. The fifth and highest level of need for human fulfillment is self-actualization, “seeking to act in accordance with ideals of love, truth, justice and aesthetics in order to realize higher human purpose.” (Ekins, 1998). The need for self-actualization also means reaching the fullest potential of the individual, which may be “creative, artistic, or extremely altruistic, contributing to public service.” (Trigg, 2004).According to Maslow’s framework, consumption beyond a decent standard of living suggests “psychological fixation and immaturity” and can hinder achievement of higher human purpose. Maslow’s framework is based on innate human needs, and does not incorporate the learned behavior, and the influence of culture. Maslow (1970, p. 103) wrote (as cited in Trigg, 2004), “Our human instincts [including our needs] are so weak that they need protection against culture, against learning – in a word, against being overwhelmed by the environment.”

Alternatively, Manfred Max-Neef (1992) rejects hierarchical needs postulated by Maslow and argues that humans fulfill both material and non-material needs simultaneously.

Max-Neef (1992) identifies nine fundamental human needs: subsistence, affection, protection, understanding, participation, leisure, creation, identity, and freedom. The modes of experience which satisfy these needs are: being, having, doing, and interacting. 'Satisfiers' are the means of satisfying the needs. Some 'satisfiers' have synergy to satisfy more than one need. There are 'pseudo-satisfiers' which do not really satisfy the relevant needs. The 'inhibitors' satisfy one need but simultaneously inhibit other needs; and 'violators' fail to provide the satisfaction of needs toward which it was targeted. Seeking esteem from status goods might be a counter-productive fixation with pseudo-satisfiers, inhibitors, or violators. Competitive consumption can be compared to an arms race which is supposed to protect the parties, but ends up making everyone more insecure (Ekin, 1998).

4. Social Aspects of Consumption

Consumer choice theories assume that consumers are independent and free to make choices and that businesses supply goods and services to fulfill consumer demand. However consumers do not always make their choices independently to fulfill some inherently felt needs or wants. The choices of an individual consumer often depend on other factors, including what other people consume. In that sense, consumers are not independent. Many arguments regarding social motivations for consumption have been put forward. Consumers are guided by the norms and standards established by the society; consumers may have to buy certain products just to be able to function in a society; or consumers may be motivated to display their wealth, social position, and status through their possessions.

Socialization can affect the choices of individual consumers.A major component of the social dimension of consumption is emulation. People learn from peers, parents, the educational system, neighbors, and the media about group norms and the acceptability of types and levels of consumption. A group or a class may have some minimum established norms of decency, and thus all individuals conform to such norms to gain respect.The type of clothing one wears in public could be an example. To avoid shame or ridicule it becomes necessary for individuals to conform to that standard. This motivation is shaped by the individual's desire to belong to a group. The established standard is generally specific to a society at a particular time period. Over time it changes, as the general standard of living of the society changes.

Consumption is also influenced by structural and technological changes in an economy. Individuals need to have certain goods to simply live and function in a particular society. For example, having a car is a necessity in the United States in areas without public transportation. An individual without a car may have limited job opportunities. Or in recent years it has become very difficult to function without access to a computer and the internet. Those who lack this accessdo not have the ability to network and gather information electronically which further limits their business prospects as well as their educational endeavors.

As discussed previously, people buy certain goods and services because they belong to a particular society.

These consumption decisions are largely connected to the cultural norms of a society as well as the structural and technological changes that the economy is facing. The social dimension of consumption also includes conspicuous consumption which is showing off one's wealth and social status through one's possessions. Conspicuous consumption attempts to establish the notion of superiority of one's material possessionsrelative to one's peers, or neighbors, and others below them. This type of consumption contributes to the insatiable cycle of ever-increasing consumption for the society.

Veblen (1899) used a hierarchic framework to describe the social nature of conspicuous consumption. He observed that the norm established by the group at the pinnacle of the society "extends its coercive influence with but slight hindrance down through the social structure to the lowest strata. The result is that the members of each stratum accept as their ideal of decency the scheme of life in vogue in the next higher stratum, and bend their energies to live up to that ideal." (Veblen [1899] 1934 ed. P.84). Belonging to a group/class and following the standard of consumption of the group/class is not enough. It is important to establish superiority within the group by emulating the lifestyle of the class just above. Veblen (1934 ed. pp.103-104) wrote

"…the standard of expenditure which commonly guides our efforts is not the average, ordinary expenditure already achieved; it is an ideal of consumption that lies just beyond our reach, or to reach which requires some strain. The motive is emulation – the stimulus of an invidious comparison which prompts us to outdo those with whom we are in habit of classing ourselves ….each class envies and emulates the class next above in the social scale, while it rarely compares itself with those below or with those who are considerably advanced."

Social theorist Pierre Bourdieu (1984) captures a more intricate framework of social hierarchy and consumption, particularlycultural capital, which essentially leads to symbolic struggle among different social classes.For Bourdieu, society is categorized into different *habitus,* which represents the social location of a person. Each habitus is endowed with a certain level of 'economic capital', i.e. financial resources, and a certain level of 'cultural capital'. To illustrate, in this framework the newly rich small business owner may have a large level of economic capital but low level of cultural capital. Alternatively, a college professor may possess a high level of cultural capital but a low level of financial capital.

Each group has its own internal dynamic. A person's sense of belongingness in their respective group influences their level and type of consumption. Each group reproduces its own cultural norm through family upbringing, education, and other socialization processes. Consider an example: the hallmarks of the 'habitus' with both high financial capital and high cultural capital may be an understanding of high art, classical music, designer clothing, and understated elegance. Those who belong to this group recognize each other's expression of cultural status, which helps them maintain their position in the group, in business dealings, and in securing high paying employment.

Individuals in society compete to acquire cultural goods and practices which give them social distinction and superiority. This struggle for distinction is connected to the distribution of economic resources. The accumulation of cultural capital looks distinctive and legitimates economic capital that determines the cultural taste of the individual (Gartman, 2002).In a competitive world of culture goods, individuals employed in the culture industries (designers, artists, and musicians) engage in "creative redefinition."

According to Trigg (2004) "whereas Maslow sees higher order tastes as the ultimate expression of humanity, Bourdieu develops a virulent critique of the 'essential hypocrisy' of bourgeois taste and the inequitable social conditions that are behind it.… for Bourdieu luxury tastes are socially formed in opposition to necessity."

If and when due to economic growth the lower income group catches up with the standard or article of use by the upper class the higher income group loses their position of distinction in consumption and redefines their standard relative to mass consumption.[3] Before World War II buying a personal car meant convenience and privilege, but as more and more people got cars, roads became congested, places of work got further away from the places of residence, and it is no longer a privilege to own a car. It has lost its status as a symbol. Aldous Huxley wrote (as cited in Cross, 1993, p.60), "To extend privileges is generally to destroy their value."

Hirsch (1976) uses the concept of "positional goods," goods that are distinctive because they are limited in supply but very coveted, to make an argument similar to that of Bourdieu (1984). Most people would like to have "positional goods" but goods are only positional if a select group of consumers can enjoy them. For example, residences with a certain ocean or mountain-view are positional goods because they are scarce and buyers compete to have them. Such goods establish the social position of the owner.

This section explores the different circumstances that affect people's pattern and level of consumption. Veblen's analysis of consumption centers on a top down hierarchy where the higher income groups influence the consumption decisions of the lower income groups. Bourdieu's framework is more nuanced; he has categorized groups in a matrix of high and low combinations of financial and cultural capital. Therefore, a consumer's choice of different products as well as total level of consumption is influenced by others in the society. In that sense, consumers are not independent. Particularly when satisfaction or pleasure is dependent on the relative consumption rather than the absolute level of consumption, there is no concept of sufficiency; it is an ever-receding goal.

5. Consumer Independence and Marketing

Another factor contributing to the lack of independence of consumers is advertising. The main function of advertising is to create desire in the minds of consumers. The efforts of businesses to this end are sizeable.

[3]For an interesting discussion on the rise and fall of the 'tail-fin' in American cars see Gartman (2000). In the 1950s people who were "well-off" used to trade their cars every two to three years to keep up with the latest design and model. However, as more and more people bought the latest model, the rich and wealthy had to move to imports to establish their distinction and superiority.

In the United States alone advertising ismore than a $200 billion industry. Marketing agencies and the marketing departments of large corporations employ behavioral psychologists, designers, performing artists, graphic designers, and sociologists to sell products more effectively.Galbraith (1998[1958]) articulated this phenomenon as the 'dependence effect': production within an economy is dependent on creating desire and need through advertising, rather than fulfilling the needs and wants of consumers as the theory assumes. Thus, producers are not responding to independent human needs, but creating the needs for things they produce. In Galbraith's ([1958]1998 ed.p.129) opinion, "The fact that wants can be synthesized by advertising, catalyzed by salesmanship, and shaped by the discreet manipulations of the persuaders shows that they are not very urgent."

Advertisers sometimes resort to misrepresentation to persuade buyers.

Their marketing efforts exploit the emotions of the buyer, and the buyer often does not realize it. A common tactic employed by companies to generate desire is to create a climate of dissatisfaction and insecurity in the mind of the potential buyer. So, with countless hours of television watching, bundled with all kinds of entertainment, consumers are told how ugly they are, how old they are, how unpopular they are, and how sick they are. Once convinced, they seek to buy products to conquer their insecurity. The average American watches about twenty-five thousand TV commercials annually, many of them devised by highly paid cognitive psychologists (Elgin, n.d.). Often, consumers choose a product or a brand not because of their functional qualities, but rather due to symbolism, social status, group identity or fantasies as projected by the advertisers (Schor, 1999). Furthermore, manufacturers incorporate planned obsolescence and continuous upgrading to perpetuate sales.

6. Consumption and Happiness

As mentioned, utility theory purports that large levels of consumption, meaning large consumption budgets, are preferable to smaller consumption levels. A criticism of this fact has already been given in the form of a diminishing marginal utility principle for overall consumption.Another important criticism of this idea is that people in countries with high incomes are not necessarily happier than people in countries with low incomes.

In most developed countries, income levels and standards of living have increased significantly over the last six decades. In spite of this fact, various studies show that the self-reported happiness of the people in these countries did not increase along with the increases in income and consumption level (Easterlin 1996, Oswald 1997, Frey and Stutzer 2002a). According to a 2006 Pew Research Center poll, 49% of Americans with annual income of more than $100,000 said that they are very happy, compared to only 24% of the people with incomes of $30,000 or less (Economist, June 29, 2006). So, higher income correlates with higher levels of self reported happiness at a particular point in time, in a particular society. As people move from the poverty level to the middle class level, higher income and consumption increases happiness, but beyond that, increased income cannot be associated with increased happiness (Gilbert 2006).

Using the World Value Survey II, Diener and Seligman (2004) estimated the correlation between per capita GDP and average life satisfaction to be .08 for nations with average per capita GDP above $10,000. Frey and Stutzer (2002b) found out that in the United States the same inflation adjusted income provided more happiness in 1973 than in 1995. Diener and Seligman (2004) showed that real income per person has tripled in the United States from 1947 to 1998, yet life satisfaction remained practically flat, causing a growing divergence between income and happiness. This trend is observed in other high income countries as well. Of course, it is difficult to measure happiness, and happiness is realized from various sources; material possessions, a sense of security, as well as other social considerations. A large body of literature has established that an increased standard of living and increased consumption does not necessarily increase happiness or well-being. What might be some of the reasons?

Campbell (1999) argues that the ability of modern consumers to produce new wants soon after the old wants are satisfied is related to 'day dreaming'. They imagine the possibility of greater pleasure which they seek to satisfy with new and novel items. Such imagined pleasure can never be fulfilled as it is always, by definition, just beyond what has been experienced. "This dynamic interplay between illusion and reality is the key to understanding of modern consumerism ..., for the tension between the two creates longing as a permanent mode, with a concomitant sense of dissatisfaction with what is and the yearning for something better…. [T]hey continually strive to close the gap between imagined and experienced pleasures." (Campbell 1999, pp. 24-25).

Easterlin (2001) argued that along with the increase in material well-being individuals also increase their material aspiration, thereby cancelling the sense of well-being that was achieved. Experienced utility systematically differs from the decision utility because, for the consumer, changes in aspiration were unforeseen at the time of making the decision. As a consumer's income increases so does material aspiration and experienced utility falls short of expectation.

Studies done by behavioral psychologists show that people often make incorrect choices.Their decisions are incorrect in that they think they will be happy with material possessions; they buy them only to realize that their expectation of happiness was not fulfilled.Daniel Kahneman explains (as cited in Gartner, 2003) that people make affective forecasting errors regarding the extent and duration of emotional consequences. For example, in the context of consumer choice, people may think that buying a luxury car, or a big screen television, or some other expensive item will make them really happy. They buy them but fail to reach the level of happiness they expected and the sense of happiness does not last very long. So, they may target some other possession to reach the expected level of happiness and make the same error. Gartner (2003) also points out that according to Tim Wilson and Daniel Gilbert, this gap between what we expect in terms of emotional consequence and what we experience is called "impact bias". We generally think that we cannot get what we want, but the real problem is that we cannot always know what we want. Consumers make forecasting errors and thereby fail to reach the expectation of happiness. According to Kehneman if people make 'affective forecasting errors' and do not know what will make them happy, it becomes questionable as to whether they make rational decisions, i.e. decisions that truly increase satisfaction levels (Gartner, 2003).

Loewenstein (as reported by Gartner, 2003) adds the concept of an "empathy gap" with respect to consumer decisions. People make decisions to buy in a "hot" state rather than a calm and rational "cold" state (which the economic theory assumes). "Hot" state decisions are influenced by fear, anxiety, courage, sexual excitement etc. Decisions made in such transient emotional and psychological states fail to foresee possible future consequences clearly. If buyers allow a "cooling off" period, they may not regret the decision later on.

'Adaptation bias' is another concept which explains why impact bias is so pervasive. People get used to the conveniences and pleasures of any possession, and such things become ordinary and necessary. Thus, the initial pleasure of an acquisition fades, and expectations of happiness are not met. When people make purchasing decisions they fail to predict adaptation biases. Together with forecasting errors and adaptation biases it is very easy to see how reaching happiness by a larger level of consumption (as is assumed by economic theory) becomes so elusive (Gartner, 2003).

Let us consider some social reasons why increased consumption may not necessarily lead to increased satisfaction or happiness. As mentioned above, social hierarchies can influence consumption choices. Thus an individual may consume certain things in order to belong to or emulate a certain social stratum.

In a stratified society such norms get continuously redefined, as the upper class wants to create their distinction and the lower class strives to reach the norm of the higher social class. Reaching a higher level of satisfaction (happiness) becomes an ever-receding goal, a mirage. Jean Baudrillard (1999) wrote,

"… paradoxical though it may appear, consumption is defined as exclusive of pleasure…. Pleasure would define consumption for *itself,* as autonomous and final. But consumption is never thus… (the isolated consumer is the carefully maintained illusion of the *ideological* discourse on consumption).Consumers are mutually implicated, despite themselves, in a general system of exchange and in the production of coded values. … In the final analysis, the system of consumption is based on a code of signs (object/signs) and differences, and not on need or pleasure." (p. 48)

Consumers are controlled and it becomes their moral obligation to pursue happiness through consumption. They are not really free; they pursue happiness but never really become happy (Baudrillard, 1999).

Layard (2005) and Frank (1999a) argue that the consumer behavior of "keeping ahead of the Joneses" generates a negative externality in the society. The social motive of 'invidious comparison' creates the envy of others in the social group and pushes them to work harder to reach the higher level of income and consumption. Behavior like "keeping ahead of the Joneses" makes the Jonesesunhappy thus creates the externality of unhappiness in their neighbors (Luttmer, 2005) and the race for a relative higher standard of living continues.

However, if it is the relative income and thus relative consumption which is the source of happiness and not the absolute level of income and consumption, happiness will never be reached unless income inequality is removed. Such behavior has been dubbed as running in a "squirrels' cage" or on a "treadmill"; people are running, only to go nowhere. Frank (1999a) and Layard (2005) propose a progressive tax on luxury goods to correct such externalities.

7. Other Problems Related to Consumerism

Consumerism also leads to problems such as clutter and waste. People often buy things they do not even use.

Richard Thaler (1999) writes: "Some goods are purchased primarily because they are especially good deals. …Most of us have some rarely worn items in our closets that are testimony to this phenomenon."[4]

In the US, self-storage facilities, practically unknown before 1970, have grown to 45,000 units nationwide with more than 2 billion square feet of rentable space. Additionally, the average home size has increased about 60% from 1,500 square feet in 1970 to 2,400 square feet today, and most new homes include three-car garages. About a quarter of home owners with two-car garages use the garages exclusively for storage and park in the driveway (Dudley, 2007).

It could be argued that cluttering has very little relationship to consumerism; it is the problem with individuals who are messy, unorganized and displaying other psychological voids. Whatever the cause, when the problem afflicts a large number of the population, some social phenomenon must be accounted for. Consumerism of the last 50 to 70 years can be thought of as one such phenomenon.

One solution to hoarding and clutter could be to clean up and throw away before buying new items.Campbell (1999) wrote, "Consumerism involves a high *turnover* of goods, not merely a high level of acquisition." A consumer society becomes a throw-away society, which leads to a solid waste disposal problem.

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[4] Quoted in Don Moyer, **Panel Discussion**, "*Homo Uneconomicus",* Harvard Business Review, November 2006.)

Currently there are 3,900 members of the National Association of Professional Organizers who for an hourly fee, help clients organize, throw away, and clean (Dudley, 2007).Many families do dispose of some of their possessions on a regular basis, for example, through garage sales or tax deductible donations to thrift stores and other charities. Such outlets make reuse of many items possible. However, there are simply too many things thrown away, and even these charities have to deal with disposing of a tremendous amount of those contributions as garbage.[5]Consumers do not pay for many of the environmental externalities associated with solid waste; therefore their purchases and throwaway decisions do not reflect environmental costs.

Consumer happiness may be compromised because too many choices are available to the buyers. According to economic theory, choices are good, and options allow consumers to purchase what is just right for them. However, Schwartz (2004) argues that Americans have too many choices and as a result customers have become stressed and unsatisfied. Given the wide range of options consumers feel overwhelmed. Those who try to maximize satisfaction by examining all possibilities thoroughly make better decisions, but may feel worse, second guessing their decisions.

Emphasis on consumption has reduced leisure time and caused an erosion of family and community relationships. Often, the pursuit of consumption can detract from other sources of happiness such as "stable caring families; secure, convivial communities; meaningful and satisfying work; good health; a sense of personal identity and social purpose; a diverse, beautiful and sustainable natural environment; and open, participatory and democratic societies." (Ekins1998). A flexible, mobile labor market places strains on community building. Forty million Americans move homes every year.[6]During industrialization, extended families broke down, and currently, the nuclear family is also under pressure. With the rise in incomes, the price of leisure has gone up, leaving less time for family, friends, and community. A typical American workers work one additional eight-hour day per week compared to their counterparts in France and Germany (Lazear, 2006).

[5]Most of the thrown-away apparel in rich countries makes its way to poor countries; this has choked off their own textile and clothing industries. See "T-Shirt Travels" a documentary by Independent Lens.

[6] Noted in Economist, June 29, 2006

The Hewlett and Luce (2006) study of "extreme jobs" reports that 62% of high-earning individuals work more than 50 hours a week, 35% work more than 60 hours a week, and 10% work more than 80 hours a week. Of these extreme job holders, 48% say they are working an average of 16.6 more hours per week than they did five years ago.[7] The study also reported the negative effect of such demanding jobs on children, family time and relationships with spouses.

Although Robert Pear of The New York Times[8] reported a recent study by Bianchi et al. (2006) of family time allocation which found that both married and single parents spend more time in child care compared to parents forty years ago.

Married fathers are spending more time for child care, 6.5 hours a week in 2000 relative to 2.6 hours in 1965. It should be noted that only about 30 percent of children now live with two parents and 70 percent live in single parent homes. Women's labor force participation has reduced the hours spent on household duties; however, employed mothers face the double burden of paid work and unpaid household duties, spending 71 hours per week on average fulfilling those dual responsibilities. Parental responsibilities have intensified as parents are aware of preparing their children for the shifting sands of the market place.

An increased level of consumption has been facilitated by various types of consumer credit ranging from installment payments and credit cards to home equity loans and other personal loans. As of June 30 of 2006, consumer debt for credit cards and car loans was $2.18 trillion, up from $1.5 trillion in 2000, according to the Federal Reserve Board. Figure 1 below shows the exponential growth of credit (excluding mortgage loans) in the U.S. from 1955 to 2004.

Using a 1998 Federal Reserve survey, Palley (2002, p. 21) calculated that for households earning less than $50,000 (which make up over 50% of households) the debt to income ratio was 2.98; whereas for the households with more than $50,000 income (with average income of $112,232) the debt to income ratio was 1.4. Clearly, the debt burdens of lower income families, as a percentage of income, are larger than higher income families.

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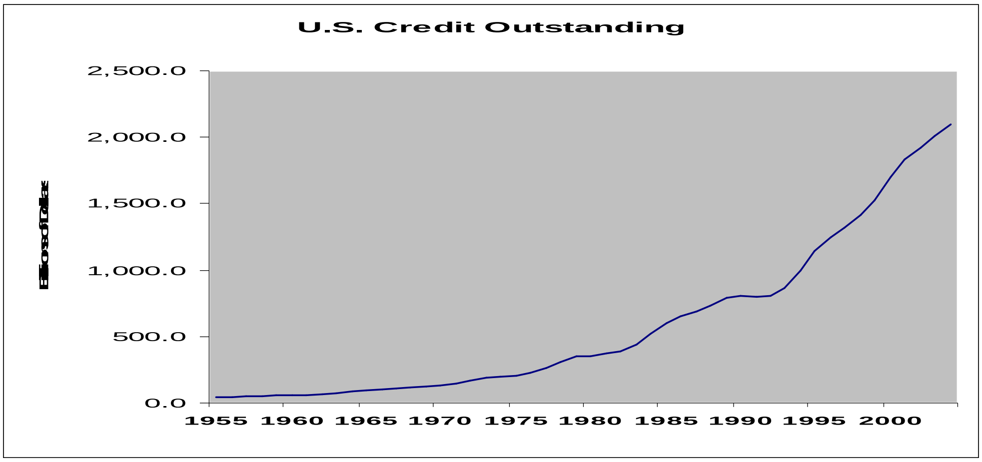
7 "These findings are consistent with the NBER study by Peter Kuhn and Fernando Lozano, which noted that "among college-educated men working full-time in the United States …those putting in 50-hour weeks rose from 22.2% to 30.5% between 1980 and 2001." (Hewlett and Luce 2006).

8 "Married and Single Parents Spending More Time With Children, Study Finds," *New York Times*, October 17, 2006.

Figure 1



Source: Economic Report of the President 2006

Consumer indebtedness also links to bankruptcy. About 1.6 billion people were filing bankruptcy per year in the United States until 2005. Since then a new law was passed with various restrictions; it has increased the cost of filing for bankruptcy. However, the level of debt and economic uncertainty may not ease the rate of bankruptcy even with the new law.

8. Historical Political Economy

So consumers are not really always rational, they are not really free or autonomous as the consumer theory assumes, and the level of happiness has not increased along with the higher level of income and consumption. Moreover, there are so many personal, social, and environmental costs in terms of reduced leisure, disintegration of community, the loss of family relationships, and mounting ecological problems (which has not been discussed in this paper but is common knowledge by now). Why then does the ideology of consumerism persist?

This section analyzes the role of the historical political economy in the making of a consumer society. In a market system, workers' income is not enough to clear the market, leading to overproduction and inventory build-up. Thus the ideology of consumerism is essential to keep the economy from sliding into recession. To propel consumption, credit facilities along with marketing and advertising efforts play their roles.

In the context of an unequal distribution of income conspicuous consumption and the emulative motives of people are particularly exploited by the manufacturers to perpetuate the demand for their products. In the macroeconomic context, emulative consumption and aspirations for a higher standard of living play a role in keeping the economy from contraction.

The industrial revolution ushered in the era of mass production. Prior to the industrial revolution, only a small segment of the population, nobilities and feudal lords, lived in affluence. Most of the people lived at a subsistence level, often barely surviving. Mechanized factories increased the productivity of workers and total output grew. However, the rise in wages did not match the increases in labor productivity, meaning that labor's share of the total output did not grow proportionately relative to the share of the capital. As a consequence, workers did not receive enough income to generate demand for the increased production.

Malthus tried to point out to Ricardo that if workers continued to live at subsistence levels there would be a general oversupply or “glut” as each worker produces much more than what is required for the subsistence of the worker's family (Dorfman, 1989, p.160).Whereas Veblen (1934[1899]) viewed conspicuous consumption of the leisure class as wasteful; Dorfman (1989) noted that Malthus saw luxury consumption by the wealthy as essential in avoiding overproduction. Veblen contrasted workmanship (technological efficiency) and the conspicuous waste by the leisure class. But he also realized the problem of overproduction in a market economy.

Recurrent recessions were a problem for industrial countries throughout the nineteenth century. Economic growth verses economic stability became a dilemma under market capitalism.It was not the shortage of food supply which Malthus feared, but the “glut” that caused misery, pushed workers to unemployment, and small businesses to bankruptcy (Galbraith, 1958). In the U.S., recessions after the Civil War in the 1870s, a series of business crises in the 1890s, the financial panic of 1907, short but deep recession after World War I and of course the Depression following the stock market crash of 1929, illustrate the challenge of maintaining economic stability. Classical economists mostly attributed exogenous factors, such as crop failure, drought, war, or pestilence, as responsible for the boom and bust of business cycles.

Such notions implied that nothing could be done to remedy short-run economic fluctuations and that in the long run, through unemployment, reduced wages, and adjusted prices, equilibrium would be reached, surpluses would be cleared, and the economy would grow again.

Technically speaking, workers should gain more leisure time with the increased productivity of mechanized factory systems. On the contrary, workers worked 12-14 hours a day, for six to seven days a week. Factory owners wanted to see their equipment used as much as possible, since the capital intensity of the manufacturing processes increased. Workers were sometimes ruthlessly disciplined to turn out production (Schor 1991, Ch. 3). Labor's struggle for a shorter work week began first in England and later in the United States.

During the first quarter of the twentieth century, Frederick Taylor, a pioneer in the field of industrial engineering, popularized the concept of scientific management and the rationalization of industrial production.

He claimed that his system would bring about a "mental revolution" and the resulting productivity gain would end the class conflict, particularly the conflict between the stopwatch man and the worker. Taylor argued that scientific management would increase production surpluses so much, that it would not be necessary to fight over how it should be distributed. He supported a shorter work week as a way to reduce worker exhaustion and increase efficiency (Cross, 1993).

Industrial productivity in the U.S. improved significantly during the first quarter of the twentieth century.From 1899 to 1914, industrial productivity per American worker increased only 7.5 per cent; but, it jumped to 37 per cent between 1919 and 1926 (Cross 1993, pp.28-30). However, in the United States, glut became a big concern throughout the 1920s. There was simply not enough demand for the goods being produced. According to Walter Grimes, an American businessman, "the middle class American already buys more than he needs. Unless we have a greater outlet for our goods … as manufacturing efficiency increases, there will be larger groups with too much leisure."[9]

[9]William Grimes, 'The Curse of Leisure', Atlantic Monthly 142, April 1928, pp. 355-60 - quoted in Gary Cross, Time and Money – The Making of a Consumer Culture, Routlegde, 1993, pp.38-39.

Grimes was referring to involuntary leisure, that is, unemployment.And even though large inventory accumulation was worrisome, businesses were unwilling to distribute a greater share of the output to workers in the form of higher wages or greater leisure (a shorter work week) for fear of reduced profit.

Henry Ford offered the idea of higher wages and shorter work week (40 hour week with a two day weekend). Ford offered a wage rate of $5.00 an hour, when the market going wage rate was $2.00 an hour, to increase worker productivity. This higher wage was to motivate the workers to increase their effort and thereby reduce the cost of production. At the time, many business leaders were not enthusiastic about the proposition of a shorter work week or higher pay; many thought that output per worker would fall with fewer hours worked, meaning a rise in the cost of production. But what was the alternative? Suppressed wages, even when the productivity is increasing, kept workers at a subsistence level, and bolstered worker discipline. However, a workforce unable to increase its standard of living meant a limit on consumption and thus unsold inventory. “A very different solution to the burden of ‘overproduction’ was to lift the cap on needs. This would create both mass consumers and disciplined workers.

The central discovery was that unlimited consumption did not mean waste and declining effort. Rather with increased spending, growth and labor discipline could become compatible.” (Cross, 1993).

With the Taylor’s rationale and Ford’s proposal, eight-hour work days and five-day work weeks were won by the labor movement, culminating in the 1938 Labor Law. “Of course, talk of alliance between engineers and labor was brief, emanating from vastly different ideological and status concerns.And the principle goal of progressive productivism – the distribution of free time and higher wages – was largely a failure after the postwar gain of the eight-hour day in many industries.” (Cross, 1993, p. 30)

9. John Meynard Keynes and The New Deal

John Meynard Keynes made two fundamental observations regarding market economies.

First, he understood the problem of aggregate demand deficiency and the possibility of below full-employment equilibrium; he credited the idea to Malthus (Dorfman 1989). Second, he recognized the difference between two categories of needs and wants; absolute and relative. "Keynes observed that the needs of human beings 'fall into two classes – those needs which are absolute in the sense that we feel them whatever the situation of our fellow human beings may be, and those which are relative only in that their satisfaction lifts us above, makes us feel superior to, our fellows" noted Galbraith (1998 [1958] p.123) and the "needs of 'the second class,' i.e., those that are the result of efforts to keep abreast of one's fellow being, 'may indeed be insatiable; for the higher the general level, the higher still are they.'[10] And in the view of other economists emulation has always played a considerable role in creation of wants. One man's consumption becomes his neighbor's wish. This already means that the process by which wants are satisfied is also the process by which wants are created. The more wants that are satisfied, the more new ones are born." Galbraith (1998, pp. 125-126).

Keynes, when prescribing a remedy to the problem of demand deficiency, however, did not focus on the income distribution to improve the demand condition; rather his recommendations focused on the continued expansion of consumption – the insatiable demand which is due to emulation and keeping ahead of fellow beings. Keynes also emphasized the expansionary power of government deficit financing.

America's left also began to focus on economic growth rather than egalitarian distribution of output or income. Due to the influence of Keynes and implementation of the New Deal, the government's role in economic stabilization became accepted by both academics and politicians. As long as the standard of living could be increased by lowering the price of consumer goods, with the help of technology in large scale manufacturing and agriculture, the distribution of income or wealth was not particularly important in America.According to Wolff (2004) "Adam Smith had argued that as capitalism widened inequalities between the profits garnered by the few and the wages of the many, the resulting envy and resentment threatened a Hobbesian war of all against all. Smith hoped that threat might be thwarted if such capitalism could compensate the wage-earning mass for deep income inequality with rising consumption. This is what U.S. capitalism accomplished."

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[10] J.M. Keynes, *Essays in Persuasion*, "Economic Possibilities for our Grandchildren" London, Macmillan, 1931, p. 365) – foot note 1 in Galbraith (1998[1958]) p. 123.

In essence, U.S. workers have accepted higher levels of consumption as compensation even though that compensation falls short relative to their contribution to production.

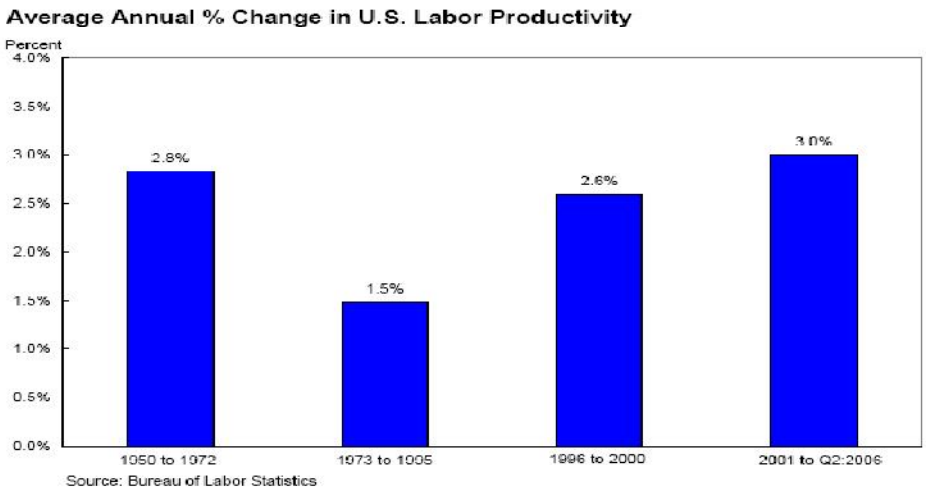
If labor productivity increases but wages fail to keep pace with that rise, income inequality widens. With unequal distribution of income, there is the problem of overproduction or glut, because the workers cannot afford to buy the products they have produced.In response, businesses continuously gear their production towards segments of the market where income growth is concentrating.The combination of income inequality and social motivations for consumption, such as the process of emulative and conspicuous consumption, reinforces the social demand for a higher level of consumption. (Frank 1999b)

10. Consumerism in the Context of Income inequality

To understand consumerism in the context of income inequality and overproduction it is imperative to know what has been happening to income distribution in the U.S. over the last few decades.

According to the Bureau of Labor Statistics, during the years from 1950 to 1972, American productivity grew at an average annual rate of 2.8%, then average productivity growth slowed down to 1.5% from 1973 to 1995. From 1996 to 2006, however, productivity has picked up, and averaged 2.6% per year. From 2000 to the middle of 2006 American productivity has shown even more spectacular growth, averaging 3% per year. See Figure 2 below.

Figure 2

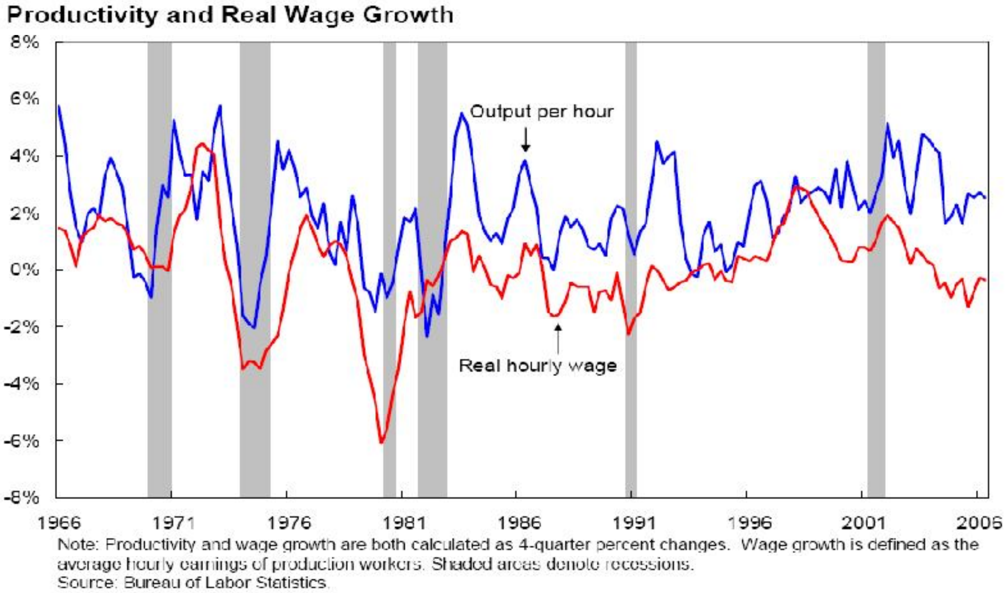


Source: Lazear (2000)

Generally when productivity increases, output per worker increases, which means that the wages or income of the workers would rise as well.

Figure 3 shows that from 1966 to 2006 real hourly wage consistently lagged behind the productivity of workers. Labor income catches up barely as the economy continues upswing but falls back again.Figure 4 below shows real growth of employee compensation and corporate profits from 1991 to 2006. During this time period when labor productivity had spectacular growth, employee compensation did not keep pace with productivity growth and the corporate profit swelled. It should be noted that the employee compensation includes high paid executives and supervisory positions as well, whose income has far outstripped the income of general workers. Nonetheless in recent years corporate profit is at record level since 1950.

Figure 3

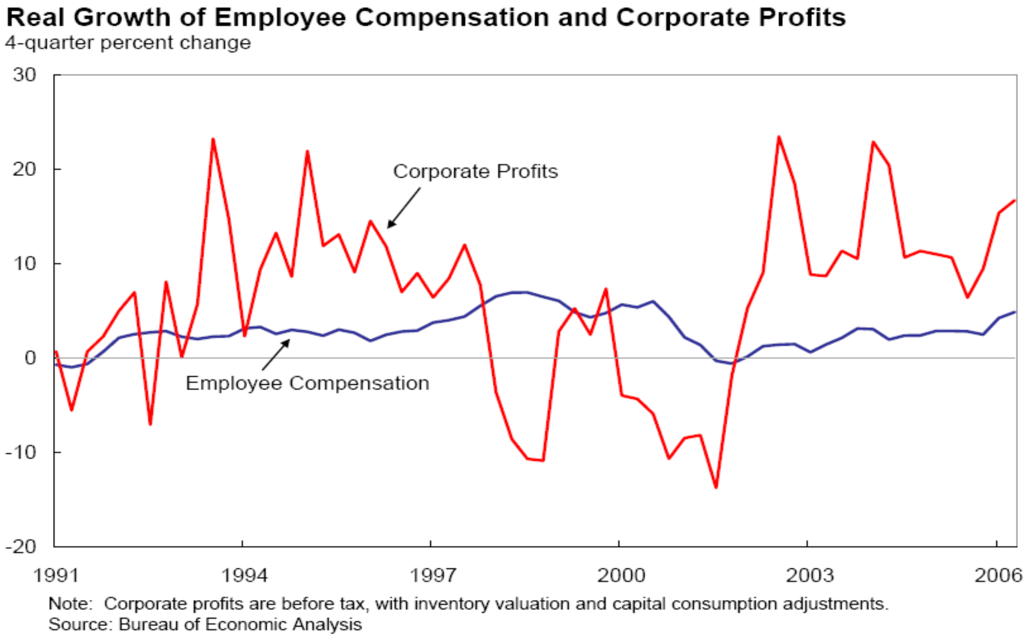


Source: Lazear (2000)

According to Emmanuel Saez and Thomas Piketty the share of aggregate income going to highest-earning 1% Americans has doubled from 8% in 1980 to over 16% in 2004. The share of total income going to the top tenth of 1% has tripled from 2% in 1980 to over 7%; and the share of the top one-hundredth of 1% (top 14,000 or so at the top of the income pyramid) has quadrupled from 0.65% in 1980 to 2.87% in 2004. (*Economist*, July 17, 2006)

Dew-Becker and Gordon (2005) point out that only the top 10% of the non-farm workers wage kept pace with the productivity growth, with more than half of labor’s gain going to this group. Among this top 10%, even more disproportionate gain was enjoyed by the top 1%. As a result 90% of workers in the bottom were left with a decline in their wage rate even though there were productivity gains.

Figure 4



Source: Lazear (2000)

This trend corroborates the runaway increase of CEO pay (of S&P 500 companies) over last three decades, which is 320 times the pay of the average workers. The growing prosperity of the extremely rich is not explained by executive pay alone. There are others, such as corporate lawyers, who have joined the super rich at a faster rate in recent years. Also, in the financial industry the senior investment bankers earned $20-$25 million, and top traders $40-$50 million in bonuses alone in 2006. Hedge-fund managers typically earn over $130 million a year. (Economist, January 20, 2007).

Many regressive factors in the recent income tax, capital gains tax, and taxes on dividend income also explain the income polarization. Corporate wealth owned by the top 1 percent of the households increased to 57.5% in 2003 from 38.7 percent in 1991. TheNew York Times (Johnson, 2006) reports that "[for] every group below the top 1 percent, shares of corporate wealth have declined since 1991.

The declines ranged from 12.7 percent for those on the 96th to 99th rungs on the income ladder to 57 percent for the poorest fifth of Americans, who made less than $16,300 and together owned 0.6 percent of corporate wealth in 2003, down from 1.4 percent in 1991." The top1% of households in America own more wealth than the bottom 90% combined noted Bill Moyers (2007) in a recent speech.

As mentioned above, if the workers are not earning equivalent to their productivity increase there is a possibility of aggregate demand deficiency, a glut. Even with such polarization of income and wealth, the U.S. economy has not endured a prolonged recession (even though there were brief recessions in early 80s, 90-91, 2001).[11] At the macroeconomic level, various factors compensated for income inequality, to keep the consumer demand afloat. Household sector debt has increased considerably as pointed out earlier. In recent years, the savings rate has continuously declined and in 2005 and 2006 has actually been negative. See Figure 5 below.

Consumers are spending more than their income. For the aggregate economy this is unsustainable. Various types of consumer credit enabled households to borrow and spend during the 1990s and on. This type of debt-driven spending has been happening even as the economy was in expansion.

Credit cards, home equity loans, lower refinancing rates allowed households to increase spending. These are mostly related to increased liquidity, or increased money supply. Interest rates declined further from 2001 to 2005. However, higher demand in the housing market, and demand for bigger homes has also increased the home prices considerably.

Stock market activities and home price increases gave consumer confidence in addition to wealth effect and kept the consumption spending up. Palley (2002) points out that consumer confidence has an even stronger effect than the wealth effect, which only applies to those households who own equities. However, since bull markets are an indicator of a robust economy, all households (even those without stock ownerships) tend to spend more. Continued economic expansion has also contributed to consumer confidence.

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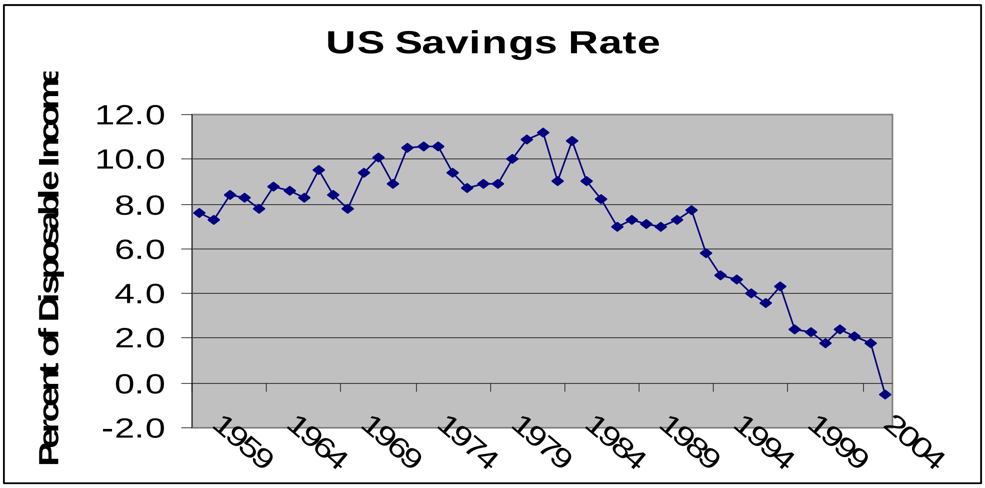
[11] Please note that this paper was written in 2007 before the Great Recession of 2008.

Figure 5



Source: Department of Commerce, Bureau of Economic Analysis; (Economic Report of the President 2006)

In recent years economic slow downs have been short lived, and unemployment problems are becoming more structural. Due to globalization and technological advances unemployment problems affect only certain industries and regions. In such conditions, people are more optimistic about the future, and may continue to spend, even by increasing debt. However, lower income groups become more dependent on debt.

Polarization of income and wealth requires that consumerism be continually upheld; otherwise the economy may fall into the grip of recession. It is the paradox of thrift, that is, lower spending by the workers threatens economic slowdown and loss of jobs.Conspicuous and emulative consumption becomes essential to avoid economic slow down. Consumerism emanates from the economic system. More equitable distribution of income, economic security and educating people about the ecological and environmental damage to reduce consumption is the only way out. Reaching that goal is a formidable political challenge.

11. Conclusion

This paper examines the basic assumptions of microeconomic theory of consumer choice and, using various disciplinary perspectives,critically evaluates those assumptions. Consumers are not free and independent as the theory assumes; they do not always make rational decisions; higher levels of consumption do not guarantee a higher level of happiness and well-being. Moreover, consumerism leads to clutter, waste, ecological problems, loss of leisure, erosion of family and community relationships, and debt burden. However, in a market economy with polarization of income and wealth, the ideology of consumerism keeps the economy from sliding into recession.Therefore, the marketing efforts and credit facilities feed into emulative and conspicuous consumption to keep the economy growing. Massive income redistribution and environmental awareness could reduce the level of consumption but the political challenge is insurmountable.

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