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Author(s): David B. Hamilton

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## **Institutional Economics and Consumption**

*David B. Hamilton*

Conventional economics has given major attention to the production process. Consumption has been given a rather minor position in the classic perception of the economy. This is not to say that consumption has been wholly ignored, for it most certainly has not. All economic theories of value have consumption implications. But these are often only implicit, rather than explicit, and hence obscured. Further obscuring the matter that classic value theory does address consumption is the fact that the utility substitution was introduced more to avoid the political embarrassments caused by the labor theory of value than to further our understanding of the consumption process.

The institutional interpretation of the economy has given consumption greater significance. As a matter of fact the first major work in what is recognized to be institutional economics, Thorstein Veblen's *Theory of the Leisure Class* lends itself readily to a useful analysis of the consumption process, something of which contemporary marketing science is only too well aware [Tucker 1964, 1967]. In what follows these differences will be brought out in the course of presenting the institutional analysis of consumption.

### *Jeremy Bentham and His Ghost*

In a chapter entitled "Economics and the Tradition of Despair," J. K. Galbraith argued that economics in its classic mold was one of de-

spair [Galbraith 1984, Chap. 3]. Ironically, the despair was created at just the time that the rise of the industrial economy was beginning to make itself known by a long sustained growth in the general level of living. He attributed the despair to the long human experience of living close to the line of subsistence. And although this concept of a primitive ancestor constantly digging and grubbing for a living may be contrary to established fact, as Marshall Sahlins argued, the perception the classicist had of early man was unencumbered by anthropological fact [Sahlins 1972, Chap. 1]. The perception, correct or not, was firmly held and did color economic thought. Thomas Carlyle's sobriquet, "the dismal science," was most certainly warranted.

More surprising than the fact that this despair was created at just the time that things were beginning to look up, is the subsequent continued, rather glum, outlook of the economist. With some two hundred years during which per capita income in the industrial economies has increased at a prodigious rate, not much has changed in the general perspective of conventional economics. The favorite saying of the orthodox when indirectly alluding to a general condition of scarcity involves a declaration of the non-existence of a free lunch. This allusion to scarcity and the meanness of life, usually said with a certain archness, is meant to convey in small compass what is defined as the fundamental problem of economic existence, infinite wants and scarce resources.

If this is accepted as the fundamental economic problem, and it goes largely unquestioned among the orthodox, then a notion of an "affluent society" or of an "economy of abundance" is preposterous. That being the case, who could possibly take the matter of consumption seriously when the needs of production remain so urgent?

Reinforcing the general downgrading of consumption in mainstream economics is Adam Smith's perception of consumption as a kind of final end-all of economic activity. As he put it in *The Wealth of Nations*:

Consumption is the sole end and purpose of all production; and the interest of the producer ought to be attended to, only so far as it may be necessary for promoting that of the consumer. The maxim is so perfectly self-evident that it would be absurd to attempt to prove it. But, in the mercantile system, the interest of the consumer is almost constantly sacrificed to that of the producer; and it seems to consider production, and not consumption, as the ultimate end and object of all industry and commerce [Smith 1937, p. 625].

That this is still the mindset from which conventional theory approaches consumption is testified to by the opening words of a chapter on the consumer in a very enlightened present day introductory text-

book: "The end result of nearly all economic activity is consumption" [Mings 1987, p. 79].

If consumption is the end-all of economic activity and nothing is subsequent, then, of course, nothing can or need be said. The consequence of viewing the general human condition as one of scarcity, combined with the notion that consumption is the end of all activity, left the study of the consumption process largely untended.

Further consigning the process of consumption to an obscure corner of all economic treatises, was the adherence to Say's law. Anyone who dared toy with the notion that consumption as a part of aggregate demand just might be weak enough at times to provoke a bit of unemployment was ruled incompetent and beyond the pale. Lord Lauderdale, Thomas Malthus, John Hobson, and even Karl Marx (although the bill of particulars against the latter was so extensive as to make the underconsumption dereliction a minor offense) all bore the scarlet letter. Since any reduction in aggregate consumption would be offset by an equal increase in investment expenditure and vice versa—all by virtue of the magic of the interest rate—consumption on this count got no attention.

In terms of aggregate economic well-being, the only consumption worthy of attention was deferred consumption, or savings. Current consumption was a constant threat to growth in aggregate output. Consumption should be discouraged by a highly uneven distribution of income. The greater the savings of the rich, the greater would be aggregate output in the future. And since this great truth held at any point in time, it also held for all subsequent points in time. The long-run salvation of the poor was the current richness of the rich. Richness was a convenient social virtue, as J. K. Galbraith would have put it. If more current income went to the lower elements, very little would be accomplished to raise their level of living, and there was reason also to doubt the wisdom of their expenditure patterns. After all, John Wesley and his followers devoted their lives to saving the poor of England from the evils of gin!

To point out that consumption was treated rather shabbily in traditional theory, to some extent, overlooks the fact that the whole theory of value is related to consumption. A major aim of conventional economics has always been to demonstrate that the ratio of the prices of commodities is equal to the ratio of the true values of those commodities, whether the locus of that "true" value be in embodied labor or in subjective feelings. But whatever the locus of value, the whole value issue has a consumption dimension. The very word used to designate the objects of economic activity—goods—begs the question, good for

what? And that question directs our attention to the consumptive implications of goods.

For the reasons already enumerated and also because of the obsession with price as a measure of value, the consumptive side of economic theory has largely been obscured even from the theorist. Yet both the older labor theory and the contemporary utility theory of value have implicit consumption implications. Demand theory, even though it purports only to help explain price, is the conventional theory of consumer behavior.

The shadow of Jeremy Bentham hangs heavily over all of this traditional consumption theory, even that of classical economics, if we mean by the statement the spirit as well as the disembodied formal ideas. Although Bentham was a contemporary and intellectual companion of some of the major classic theorists, only one half of the hedonist felicific calculus encumbered classic theory. And it did not get even that one foot—and the left foot at that—in the door, thanks to Bentham. The same climate of opinion that influenced Bentham influenced the early classical economists. Hedonist ideas have an ancient lineage, and identifying the valuable with that which is associated with either pleasurable sensations or painful creation has apparently always been quite tempting.

Psychological egoism, of which psychological hedonism is the Benthamite version, characterized most social thought of the seventeenth and eighteenth centuries and got itself into classical economics by way of the labor theory of value. Work was held to be irksome and painful, and those products representing its physical embodiment then were construed to have value because of the sweat and tears that were by-products of that creative process. If it takes two days to capture a deer and one day to capture a beaver, obviously the former represents twice the value represented by the latter. To the eighteenth-century gentleman-philosopher that was a self-evident truth.

Despite the non-existence of “self-evident” truths, the labor theory of value did have a consumption meaning [Galbraith 1986, pp. 42–45; Veblen 1945, pp. 78–96]. What made goods good was the labor embodied therein. Since the goods that one produced by blood, sweat, and tears would exchange for goods in which an equal amount of blood, sweat, and tears was embodied, the consumption implication was that one literally ate bread in the sweat of one’s brow, even though the bread embodied someone else’s sweat.

However, the labor theory of value entailed certain social hazards even though it might satisfy some ethical questions concerning the

equality of effort and subsequent consumptive enjoyment. Present day conventional consumption theory is largely a derivative of an effort over a century ago to retrieve classic theory from the grip of Karl Marx, the innocent legends concerning water and diamonds notwithstanding.

Any theory of authorship, whether in behalf of land, capital, labor or what-have-you, can easily be construed as an ownership claim. Any labor theory of value can readily be turned into a power claim. If labor is the ultimate author of all things, then it seems only reasonable that the author should also be vested with ownership. This proposition suggests itself to even sluggish minds; those with more nimble minds can do all sorts of things with it. As Max Beer once wrote, "Locke used it as an argument in favour of private property; while the socialists used it as an argument against capital" [Beer 1938, p. 57]. Some of these latter possibilities were taken advantage of by the Ricardian socialists Thomas Hodgskin and William Thompson [Stark 1944].

Contemporary standard consumption theory is largely a response to Marx's later employment of the labor theory to lay a much more powerful claim to the whole produce of labor for labor. This turn of events is often brushed aside in accounts of how Bentham's utilitarianism, and only his right foot now, came to be the base upon which contemporary consumption theory was built. Most accounts of the birthing of modern orthodox consumption theory attribute it wholly to an innocent attempt to resolve a knotty problem that Adam Smith had left unresolved and that subsequent classical economists had apparently found embarrassing. As mentioned above, conventional economics has spent an inordinate amount of time attempting to show that the ratio of the prices of commodities is equal to the ratio of their real value. And although it was assumed that the ratio of the labor embodied in two commodities was equal to the ratio of the prices of the two, this was not taken without question.

Smith himself raised doubt in his water and diamonds question as to why some things having great value in use—water for instance—had little value in exchange (price), while other things having little value in use commanded a high price. With his usual good sense, Smith dropped the matter and went on about his work. But according to the legends that pass as the history of economic thought, this question kept economists awake at night until the whole conundrum was resolved by the shining lights of economics of the 1870s, Stanley Jevons, Carl Menger, and Léon Walras.

It is conceded that these latter were "anticipated"—the usual word used for the work of predecessors upon whom later innovators build—

by such as Hermann Gossen and Richard Jennings.<sup>1</sup> But these “anticipators” went unappreciated until the same ideas were arrived at by almost immaculate intellectual conception by the “innovators” of the 1870s. These latter solved the water and diamonds problem with finality.

Guy Routh in his *Origin of Economic Ideas*, however, contends that, while the sequence of events is correct, the interpretation lacks something in veracity [Routh 1977, Chap. 4; Hamilton 1970, p. 35]. While it is true that Gossen, Jennings, and others had earlier versions of the utility theory of value, their failure to make a significant dent in economics was not because of a lack of clarity in exposition; nor was the success of their successors ascribable to any enhanced clarity of exposition. Changed social circumstances probably explain the more charitable treatment of the exponents of hedonism in the 1870s than had been the case twenty and thirty years earlier.

As a means to showing that price measures something called real value, the labor theory of value is no worse off than the utility theory. The utility theorists, in rejecting the labor theory, have always contended that no independent measure of embodied labor existed other than that of price. Hence, price measured embodied labor, and embodied labor was that stuff that price measured. But exactly the same tautological objection can be made to any meaningful relationship between utility and price. No one has yet come up with a utilometer so that price as a measure of utility, a subjective feeling about which little can be known, is no better off than it was in its attempt to measure labor. Hence every reason and quite a bit of evidence suggests that the substitution was for other than the advancement of the frontiers of knowledge. The reason is not hard to locate.

By the 1870s, Marx's *Das Kapital*, in its first and most useful part, Volume One, was available and had an influence on the socialist movement. It represented as formidable an interpretation of the Western World economy as any of the works of the received classical economists. In fact, it was classical in every way and merely represented Ricardo in reverse, as Marx contended. By the 1870s there was a handbook for socialists and there were Marxists ready to carry out some of its propositions, as events in the early 1870s in Paris and elsewhere in Western Europe were ample testimony. Twenty years before, no such formidable challenge to the established institutions of capitalism existed. And all of this derived from the labor theory of value [Böhm Bawerk 1949].

That the appeal of utility theory had much to do with its usefulness

in getting rid of the troublesome labor theory of value is now well established. But the triumph was not one that was instantaneous. Guy Routh wrote, "Menger and Jevons published their books in 1871, Walras his in 1874, and the doctrine spread, not by teachers of economics crying 'Eureka!' and casting aside their lecture notes, but, as befitted the new creed, marginally but continuously, creeping into the texts, syllabuses and examination papers until, by 1890, the metamorphosis was complete" [Routh 1977, p. 198]. The substitution of the utility theory for the labor theory did, of course, get rid of the specter of the Red Baron and undoubtedly retrieved classic theory from the jaws of defeat. But, what is not often fully appreciated is that it gave to classic theory a consumption theory that was pure Jeremy Bentham. The "first neo-classical synthesis" was engineered by Alfred Marshall, who brought Bentham into economic theory now with both feet. Demand represented pleasure (utility) and supply represented pain (disutility).

The psychology that snatched victory from the Red Baron was itself flawed, however. Hedonism was not acceptable in any other area of social inquiry except economics [Girvetz 1963, Chap. 7]. Rather than rise to the defense of Bentham, an impossible task, some economists began to deny that psychology was relevant to the theory. This is the route taken by Lionel Robbins in the 1930s and this is the meaning of the phrase, "We take wants as given" [Robbins 1949, pp. 83–84]. 'Tis not for the economist to ask why! If the consumer is willing to pay a price, then that is taken as evidence that the object of that purchase is a desired thing and hence valued. As Bentham said, "Pushpin is as good as poetry" [Mill 1962, p. 123].

Of course, there is no secret about the origin of wants. They are most certainly not a reflection of the inner yearnings of a pre-programmed human heart. Any marketeer worthy of his pay knows this not to be the case. And most certainly J. K. Galbraith, when he developed what he called the "dependence effect," was saying that wants are not made in heaven [Galbraith 1984, Chap. 11].

Such a concession to social reality as Galbraith made is wholly unacceptable to a theory that contends that the market reflects the inner yearnings of the human heart. If wants are made in heaven, and if those wants can only be expressed in the free market, then that expression is very significant. Wants are precious to each individual. Thus, any theory that suggests that wants may, in fact, be made culturally here on earth suggests that there is nothing sacred about them. To the avid believer in the virtues of a free market, such a suggestion is heresy of the worst kind. Galbraith committed the unforgivable. He suggested that



to want is to be human and that being human is a culturally conditioned expression.

To the larger criticisms of hedonism, the conventional economist has been singularly unresponsive. Indifference analysis was proliferated in the 1930s as a response to the rather minor criticism that no one could be counted upon to calculate cardinal utilities in the manner the theory presumed. And Paul Samuelson rushed in with revealed preference so that the word "utility" could be wholly unsaid, while still retaining the geometric and mathematical apparatus and, purportedly, also giving to the whole apparatus empirical verification. The consumer, by purchasing any particular combination of goods at a specified total price, revealed by that purchase that all other possible combinations at the same total price had been rejected. He/she revealed thereby his/her preferences. To many observers this seemed, however, to say no more than that we choose.

Today, even minor questions and self-doubts seem to have been shoved under the rug as we go about our appointed tasks as though Benthamism had been established with great finality. Rehabilitation is by way of reassertion. As one contemporary theorist wrote: "There is little to be added to the doctrine of Jeremy Bentham, a nineteenth century English philosopher, who postulated that utility is power in goods which creates satisfaction, and that the happiness of the individual is the sum total of his or her satisfaction" [Gisser 1981, p. 15].

In short, the classic theory of consumption has viewed the consumption process as wholly consummatory, a final end to economic activity. What theory does exist is largely concerned with explaining why the consumer is willing to pay so much for the whistle. After substituting the value theory of Jeremy Bentham in order to avoid the social implications of the labor theory of value, the economist was only minimally responsive to the inadequacies of utilitarianism as either a theory of consumer behavior or as a theory of value. Those minimal concessions today go largely unspoken as Benthamism is simply reasserted. This, of course, does leave the theory of consumption without much theory.

*The Simultaneity of Goods as Symbols of  
Status and As Instruments to Achieve  
an Ends-In-View*

That the first major work in institutional economics was written as a theory of consumption is frequently missed even by those who profess sympathy for the institutional approach. But it was in a time when the slow incorporation of marginal utility into mainstream economics

was still under way that Veblen published *The Theory of The Leisure Class*. This work should be viewed as a positive alternative to the hedonist invasion of what passed for consumption (demand) theory in conventional economics. That this work, however, is not frequently so interpreted is attributable to two circumstances.

The first of these is the manner in which the book was received at the time of its publication. There were reviewers who indicated no tolerance for an analysis of present day economy analogous to that one might make of the Hottentot. Others who appreciated this cultural analysis, treated it as though it was satire. Comparing us to the Hottentot! What wit! In neither case, as unappreciated satire or as appreciated satire, was it accepted as a serious attempt to develop a theory of consumption [Dorfman 1940, pp. 191–97].

Secondly, the book has subsequently been interpreted by many to refer to the foibles and follies of the rich engaged in excessive consumption. Those who take this interpretation then superimpose Veblen upon utilitarianism. In other words, “conspicuous consumption” and “conspicuous leisure” are terms that refer to an exceptional consumption and a peculiar form that it sometimes takes. A few years ago an English economist took this interpretation in a book entitled *Conspicuous Consumption: A Study of Exceptional Consumer Behavior* [Mason 1981]. Rational consumption was guided by the old felicific calculus; conspicuous consumption represents a form of irrational behavior, a kind of social aberration. This, of course, is not what Veblen was saying.

It is quite clear that Veblen rejected any kind of hedonist explanation of consumption behavior or, for that matter, any kind of hedonist explanation of any aspect of behavior [Veblen 1942]. To Veblen, human behavior was social behavior, one that took its form from cultural conditioning. His *The Theory of the Leisure Class* was a theory of consumption in cultural, rather than individual, terms. It rejects the basic premise of conventional theory that wants are unique to each individual, that wants must be taken as givens—things about the origin of which we can know nothing. In fact, we know very much about their derivation as any student of marketing well knows.

Conventional theory operates from the premise that the normal state of any individual is an equilibrium one. Human beings are always attempting to reach a static state, but are constantly thwarted in this quest by disturbing (exogenous) forces. Quietism is the normal human state. We become active only when aroused from our quiet state by a disturbed equilibrium. This contrasts sharply with the position of Veblen and with contemporary behavioral theory, for that matter.

It might be said in contrast that the institutionalist contends that any

attempt to establish any kind of individual or social equilibrium would be an impossibility given the active nature of human beings [Girvetz 1963, pp. 162ff]. As John Dewey stated the case long ago:

The idea of a thing intrinsically wholly inert in the sense of absolutely passive is expelled from physics and has taken refuge in the psychology of current economics. In truth man acts anyway, he can't help acting. In every fundamental sense it is false that a man requires a motive to make him do something. To a healthy man inaction is the greatest of woes. Any one who observed children knows that while periods of rest are natural, laziness is an acquired vice—or virtue. While a man is awake he will do something, if only to build castles in the air [Dewey 1930, pp. 118–19].

In *The Theory of The Leisure Class*, human beings are viewed as active, not passive receptors of sensations, as is characteristic of hedonistic interpretations. Veblen views the human animal as engaged in an ongoing life process, producing goods, consuming goods, and the latter activity contributing to the subsequent production of more goods. In fact, in an institutional analysis, it would be difficult in many circumstances to differentiate production from consumption. Is the worker's lunch a part of the productive or consumptive process? Does not the re-creation engaged in by the worker in off-work hours contribute to subsequent production? Is the birthday cake at noontime in the office consumptive or productive? Is the handsome, smart corporate headquarters in the "right" location a matter of conspicuous consumption or conspicuous production? To answer these questions would be to indulge in the kind of taxonomic exercise of which Veblen accused conventional theory. Life is an on-going active process with nothing that can be substantively distinguished as a consummatory end from a productive means. Means and ends are such only in a temporal sequence. Life is an active continuum.

In conventional hedonistic theory, people, of course, do act as they are driven to do by circumstance (disturbing forces); the sum total of those actions is the social. The presumption is that meaningful human behavior would take place in the absence of any social dimension. Culture as a shaper of human behavior is totally absent. As a matter of fact, people act first, and in acting they somehow manifest culture. Culture is nothing more than the actions of people. A solitary individual somewhere in the Australian bush, if it is not preposterous to conceive of such an individual, in his actions is building culture. In other words, culture, somewhat like a coral atoll, is the sum total of human accretions [Mayhew 1987].

However, today it is realized that all behavior is both individual and social at the same time and that the form that it assumes is a culturally conditioned and derived one. In fact, there is no such thing as a solitary individual who is not the product of the acculturation process. Those economists who are fond of alluding to Robinson Crusoe as an illustration of solitary economic behavior seem to wholly overlook the fact that that fictional hero was a thoroughly acculturated Englishman [Gisser 1981]. And that presumes that at some time he participated in a socially organized learning process. What we are treated to when we deign to look at the real world is people eating, working, recreating, meditating, traveling, loving, and always in socially organized motion. And, simultaneously, they maintain their biological individual identities.

In viewing consumption from this activist standpoint, Veblen noted that all of the actions can be viewed as having two dimensions—one being ceremonial and one being technological or instrumental. We use goods in two ways. We use goods as symbols of status and simultaneously as instruments to achieve some end-in-view.

In one sense, our consumption honors the distribution of income. According to common belief, as well as high economic theory, the distribution of income reflects the differential contribution that individuals have made to the production of the total yet-undistributed income. It is commonly believed that there is distributive justice. What disagreement does exist over the matter is over whether in specific cases that distributive justice inherent in the system has somehow been violated. Some particular individual or particular group is alleged to have acquired some income over and beyond the contribution made or vice versa. But few, indeed, question the justness of the system itself.

This differential receipt of income is required to be put in evidence. The interpretation of this phenomenon is, however, never blatant. It is commonly contended that one must observe the amenities in consumptive behavior. One must “dress for the occasion,” maintain a “decent” house, live in a “decent” neighborhood, eat with “proper decorum,” neither be “tight” nor “profligate,” belong to the “right” organizations and clubs. And what is “decent” or “right” or “proper” at any moment is a function of the role we occupy at the moment.

Veblen made this quite clear in *The Theory of the Leisure Class*. But this point has frequently been misinterpreted both in scholarly and in popular usage. Popularly, and sometimes in scholarly presentations as well, the phenomenon is referred to as “keeping up with the Joneses,” as though consumption were a pell-mell race to outspend one another

and that prestige accrued to the victor. But nothing could be further from the facts. The racketeer who put ill-gotten gain on display in vast quantities to the shame of the banking millionaire who had inherited large sums would not surpass the latter in status. Of course, it behooves the racketeer to spend on a level commensurate with one of his status within the racketeering world, likewise the banker of substance within the banking world. And so it goes from the most prestigious positions to the most lowly. And the most lowly cannot elevate themselves by spending, perhaps by a deft use of credit cards, to a level commensurate with the most prestigious. The canons of conspicuous consumption, as well as demanding "adequate" expenditure, also put limits on that expenditure. Again, what is fit depends upon the role at the moment. To exceed what is called for will attract as unwanted an attention as will inattention to the status-defined amenities. Status defines what is adequate expenditure, not vice versa.

All of this is not to assert that an entire status group cannot symbolize an advance in rank by altering consumptive habits. But a particular group can do so only if the larger society has already acceded to this advancement. Within the last three generations in the United States, the status of the veterinarian has been markedly advanced by circumstances that have little relation to the direct action of the major beneficiaries. At the opening of this century veterinarians took care of farm animals and worked largely in the barn yard. Horses were a major part of their clientele. As motorized vehicles displaced the horse, the move from rural to urban living was a part of the larger industrial transformation of which the horse was a victim. At least rural veterinarians were being technologically displaced.

In small town and rural America, as well as in cities, dogs and cats were not likely subjects for the veterinarians' attention—not when larger and more important animals called for the services of the veterinarian. Dogs and cats had to earn their keep, such as it was, guarding the house and controlling rodents. When ill they were dispatched rather quickly, if not by the owner, most certainly with the aid of the town constable.

With increased urbanization and apartment living, dogs and cats were bred as ornaments to be kept within the household, assuming human names, and being taken to the veterinarian when ill just as all family members were taken to the medical doctor. They were expensive ornaments and no longer the product of casual liaisons. Veterinarians have risen to the occasion. Diplomas from prestigious universities are framed and displayed on the walls of their examining rooms that re-

semble those of the more prestigious MDs. Soft music is played in the waiting room and the veterinarian is no longer addressed as "Doc," an appellation that always conjured up the distinct odors of horse liniment and the barnyard, but is now accorded the title "Doctor." They have in other words, with changed circumstances, elevated their consumption habits much as the sub-castes, the jatii, in India Sanskritize their behavior when moved up within the caste ordering. But no one veterinarian could so elevate himself; the whole order moves up in unison, with some, of course, more equal than others.

Tangential to this phenomenon is that of style and fashion. Veblen contended that the leisure class set styles that were then emulated by the lower orders. He also insisted that style, heavily laden with the mark of conspicuous consumption, lost touch with function. In a rather short period, what had been appreciated as attractive began to be viewed as awkward and perhaps dingy and ugly.

This probably has it only half right [Hamilton 1962, p. 70ff]. What does in the latest in fashion is the emulation by the so-called lower orders. When milady's maid arrives in an inexpensive imitation of milady's original, the original is no longer in style. When the Cadillac tail fins appear on the Chevrolet, they have already disappeared from the Cadillac. Style is a necessary part of conspicuous consumption; without style there is the suspicion that today's suit may have been purchased with yesterday's income.

Style is a factor in just those items most prominent as major symbols of status. It is very apparent in transportation, where in yesteryear a fine brougham was a symbol of status as is today's latest imported sports car. In matters of dress, housing, and gourmet food, styles come and go with almost rhythmic regularity. And these are all items that serve as conspicuous status symbols.

Actually the ceremonial requirements for consumption do not differ greatly in their functioning today from those of medieval times. The just-price doctrine that required that one charge no more for a product than a price that would enable one to live on a level commensurate with one of that calling, incorporated the canons of conspicuous consumption. It linked income received with consumptive outgo. We today do not have sumptuary laws such as those that reinforced the medieval just-price doctrine; but we do not need them. Much of our early childhood and early adulthood is involved with knowing what is decent consumption on any occasion and what is decent is defined by that which is commensurate for one in a particular role. We internalize the values of the tribe and police our own consumption. No overt social

action will be taken against us for violating the prescribed standards. But we, through Charles Horton Cooley's looking-glass self, see ourselves as we think others see us [Cooley 1964]. That is sufficient to keep our consumption within the requirements of one of our rank. As it was in the twelfth century, 'tis today and ever shall be! Ah, institutions!

The judgment of the worthiness of any consumptive item or practice institutionally hangs on the matter of authenticity. Given the role in which the participant is engaged, wife, bride, groom, minister, priest, carpenter, salesperson, banker, the question is, what is authentic dress under the circumstances. Given the occasion, a wedding, Thanksgiving, Easter, a funeral wake, a business lunch, a worker's lunch, a club-woman's luncheon, what is appropriate food? We are all well aware of these demands at the time of marked and infrequent rites. But the same governs everyday life. Our casual dress at casual occasions does not indicate an indifference to authenticity. A tuxedo or a wedding gown would be "out of place" at a summer tennis match. And the casual dress of the bank clerk at a Wimbledon tennis match is not the same as the casual dress of those occupying the royal box. Casualness in consumption is no less attentive to role behavior than is that which we recognize as more formal. There is nothing casual about casual dress.

When attention is called to these cultural complexes, one is apt to conclude that the attention-caller is meaning to say that we give great thought to these matters on each occasion. But nothing could be further from the fact. Certainly a full-blown wedding requires much attention on the part of the major parties and those anxious parents off in the wings. But that is because of its infrequency. The invited participants, having been to many weddings and knowing what is expected in their minor role as participants, do not have such anxieties. As we move through life we have become so habituated to respond to the consumptive role requirements that we are practically no more aware of the demands of role and status behavior than is a fish of the water in which it swims. Conformance seems to be "natural" once acculturated; we can walk and chew gum at the same time.

Ironically, it may well be that this conformance is what gives credence to a hedonistic interpretation of behavior. Conformance begets a certain self-satisfaction. To adhere to the mores and taboos that define role behavior gives to the adherent a certain feeling of righteousness. Bentham was right. There is emotion in human behavior. But the emotion is not the cause of the behavior nor is behavior some maximizing quest for this emotion. It accompanies and may even follow the behavioral pattern. And it may also be that there are feelings that could

be defined as painful when one does not comply with the requirements of role and status. We feel that we have attracted an unwanted attention, we feel shamed and diminished in stature. So strong is the acculturation process that these feelings of expansiveness and of being diminished may be experienced even when no one is present to register either approval or disapproval. But action is not a quest to secure or avoid these feelings—nor to maximize or minimize them. Action needs no such motive. Action is its own motive; feelings are a derivative [Dorfman 1940, pp. 130–131].

The utilitarian interpretation of human consumption behavior as a quest to maximize pleasant feelings and minimize the unpleasant has been construed as rational behavior in contemporary economic theory. The use of goods as symbols of status contrasts to this rational maximizing behavior. Of course, in an uninhibited hedonistic interpretation, conspicuous consumption would simply be said to be the means by which some human beings maximize their pleasure. No possible form of behavior would be excluded from the first premise, that of a maximizing individual. But to a more cautious hedonist, conspicuous consumption would remain exceptional or anomalous behavior. Some students of these matters, such as Roger Mason, who accept the concept of conspicuous consumption, have construed it in this manner [Mason 1981]. In this view, Veblen was only pointing out some irrational anomalies that live on in contrast to the rational system of choice based upon strong feeling.

This interpretation of Veblen and the institutional theory of consumption is faulty for two reasons. One, to place the locus of valuation in feelings is to place it on an extremely ephemeral base. Nothing is more mercurial or illusory than feelings. First you have them, then you don't. How frequently good feelings turn to bad and bad feelings turn to good! And how frequently immediate good feelings turn out to reflect something that in longer perspective has pernicious effects. This seems most certainly to be the case with the cigarette smoker and the cocaine user. And the negative judgment is not based on subsequent pain exceeding pleasure which, in some cases it never does.

To get out of this predicament, the economist has usually resorted to Bentham's way out. Pushpin is as good as poetry. 'Tis not for the economist to ask why, but to accept as good anything for which the consumer is willing to forego something else. Valuation is purely subjective. There is no disputing tastes since they are unique to each individual, and to judge such subjective feelings is to impose those of the judge upon those being judged. Such is the route of the dictator. Ap-



plied to consumption this is merely a specific application of a more general position in which it is contended that it is impossible to assess the outcome of the valuation process—values. Judgments of value are unique to the beholder.

This values nihilism gets reinforcement from the position of the sociologist and anthropologist in the form of mores nihilism and cultural relativism. Thus, the hedonist theory of consumer behavior seems to have authentication in the other social sciences in which a blatant acceptance of Bentham's eighteenth-century notions would provoke nothing but mirth. The cultural relativist, in a worthy effort to avoid ethnocentrism, sometimes gets into the position of arguing that judgment other than on a ceremonial basis is impossible. All truth is unique to the culture in which it is held. And although this is something quite different than contending that all truth is dependent upon the individual who holds it, it does seem to sustain the notion that nothing can be said about values.

In any event, that behavior that has no more to be said for it than that it is guided by a singular quest for pleasure would appear to warrant classification as irrational. As a guide to life and living nothing could be a more fatal Lorelei than the whimsicality of pleasures and pains whether they be referred to as utility and disutility or merely satisfaction.

A more important criticism of the conventional interpretation of Veblen's consumption theory is what it ignores, rather than what it accepts. If goods were used solely as symbols of status, most certainly the theory could be interpreted as one of irrational behavior. Some institutionalists have actually taken this view. They have conceded that rational behavior is hedonistically guided self-interest. What they find objectionable to traditional theory is that it ignores the irrational in the form of socially induced conspicuous consumption. Their objection boils down to arguing that people are creatures of social convention as well as of self-interest. Their only fault with conventional theory is that it ignores what they feel is a most important element, the socially induced irrational.

This latter position both participates in what is wrong with a hedonistic egoism and fails to appreciate all of Veblen's theory of consumption. Veblen did not contend that conspicuous consumption was an irrational struggle among people to outstrip one another [Hamilton 1973]. As noted above, the consumer maintains a modicum of decency given a certain status and role position. Consumption neither falls much below nor much above. Both conditions would attract un-

wanted attention, or so it would seem to the mind of the consumer. But, more importantly, goods are used in two ways simultaneously; they are, of course, used as status symbols, but, more importantly, they are used as tools or instruments to achieve some end-in-view—one of many waystations in the continuity that is the life process.

Throughout *The Theory of the Leisure Class*, Veblen alludes to a standard of function in distinguishing between the use of goods to satisfy conspicuous consumption (waste) and the use of goods to achieve some end-in-view. The goodness of goods is their contribution to the continuity of the life process. “The test to which all expenditure must be brought . . . is the question whether it serves directly to enhance human life on the whole—whether it furthers the life process” [Veblen 1931, p. 99].

Many readers of Veblen slight the value theory that is not everywhere explicit, although it most certainly is explicit in the concluding paragraphs of the chapter entitled “Conspicuous Consumption.” His judgment of the usefulness or value of anything is an instrumental one.

We most certainly do judge goods on the basis of authenticity. Conspicuous consumption mandates that an item be authentic for the occasion and for the role of the consumer. But this is not the exclusive basis for judgment. At the same time that goods are used as symbols of status and as marks of the occasion, they are also used as instruments to achieve some end-in-view. Automobiles are excellent examples of this dual purpose. We use our cars as symbols of status and simultaneously as instruments of transportation to get from one point to another. And when we state that we need a new car, elements of both are intertwined. The need may refer to a ceremonial need at the same time it refers to a technological need. The physical deterioration of the car, which makes it unreliable as an instrument to reach an end-in-view—work, for example—may simultaneously render it weak as a symbol of status or as representative of the ability to pay.

Most certainly this dual use of goods makes their judgment all the more difficult. But more importantly the goodness ultimately of any consumption item is determined in the same manner in which we judge the goodness of a wrench. Goods are used in problem situations, in the continuity of living. If, for the moment, my attention is focused on the removal of a series of hexagonal nuts of varying sizes, I may for the moment value an adjustable wrench. My judgment of its goodness is how effectively it functions in conjunction with my skilled use of it in removing the set of nuts. I do not choose a pipe wrench because it would score the heads and render unfit any kind of wrench for their

removal in the future. We judge according to present and future known consequences.

The use of goods takes place within an "if-then" context. If I use this snark in this fashion, then . . . If the "then" represents a desired outcome, then the judgment of the employment of the snark in the context will be contingent upon achievement of the desired outcome. If left at this point, however, it would represent nothing but crude pragmatism. But there is no necessity to leave it at this point, nor in our behavior do we do so most of the time [Hamilton 1962, pp. 76-81; Kyrk 1923, Chap. 7].

Asbestos was once judged on the basis of its qualities as a fire resistant material. On the basis of the knowledge then at hand concerning the consequences of its employment it did retard fires in public buildings, theaters, schools, and homes. As a fire retardant it was deemed "good." Subsequent experience indicates other consequences not desired, namely lung cancer. We have, thus, reassessed the employment of asbestos and would no longer classify it as a good for the purposes once used. Fiber glass, used in a variety of consumer goods, is currently under the process of rejudgment because of possible health hazards. Historically, the same can be said for the smoking of cigarettes, a product once rejected for women on status considerations. Ladies did not smoke; pseudo social consequences were cited as sufficient reason. Prostitution was held to be one of the consequences of smoking. When the bogus nature of all of this was uncovered the matter of "to smoke or not to smoke" was considered to be a personal decision. Today no one, outside those dependent for income on the tobacco industry, would argue that cigarettes represent a "good." This new judgment is based on subsequent evidence relating smoking cigarettes to lethal consequences.

To observe this valuation process in action we need but look at the operations of consumer testing organizations within the United States as well as within most of the other major industrial nations. These organizations simulate the instrumental usage to which we subject consumer goods. Their criteria of judging the goodness of the goods is how effectively the good contributed to the simulated end-in-view. They do not test on the basis of institutional authenticity or on the basis of feelings whether defined as pleasure, utility, or satisfaction. Tires, when tested, are placed on automobiles, driven under controlled conditions, and the results as carefully measured as they can be under the circumstances. The tread wear is measured, the ability of the carcass to withstand the exigencies of the road is noted, the performance in wet

weather is tested and all detectable influences on driving characteristics are recorded. The published ratings provide these matter-of-fact experiences along with a rating on the basis of overall performance. Most certainly no single consumer can go through such processes in making everyday consumer decisions. As a matter of fact, it is precisely because of such an impossibility that consumer testing organizations survive. But in a rough and ready manner and within the limitations imposed on individuals, this is the way we choose. Again, this is not to argue that questions of authenticity do not intrude themselves insidiously into this judgment process. As we noted above, they most certainly do. But, in the long haul, what makes things good is an instrumental efficacy and efficiency.

Judgment is never absolutely certain, nor is it eternal. It is always uncertain and temporal. It is based on the evidence now at hand, and with the understanding that very likely future evidence will require re-judgment.

There is, in other words, no certainty whereby we could link price and value. Prices, as perceptive readers of consumer testing reports know, are sometimes a deceptive guide to the good. And over time even items that commanded a price, and almost all do, are found to be deleterious. Over time, the bad as well as the good commands its price. No institutional theory of consumption would attempt to link value and price. That is not to say that the institutional analysis does not recognize the problems of consumers in allocating cash income to procure a way of life. But that is something other than contending that price measures meaningful value.

### *Aggregate Consumption Expenditure Does Matter*

In institutional economic theory, aggregate consumption and consumption expenditure are significant determinants of national income and employment. As we mentioned earlier, conventional economic theory is interested in consumption in its postponed dimension. Saving represents postponed gratification. That postponed gratification is a vital necessity if the economy is to grow. It could be said without much distortion that the conventional version views savings as a dynamic force and consumption as a deterrent to savings. Currently, much concern is expressed over what is viewed as a low rate of saving; some attribute the lagged growth rate to this low rate.

In the institutional view of the overall economy, we are all technologically interdependent. Our technologically oriented behavior is

related to both that which is precedent and that which is subsequent. It is complementary, not competitive. The work of the sanitation specialist, including those who tote refuse, is complementary to that of the medical doctor. And the work of the medical doctor is complementary to that of the sanitation worker. Our technological behavior is complementary to all other technological behavior in the same manner that the various technological operations in a factory complement one another—both those that precede and those that follow. The economy is one huge factory.

But granted this fact, ours is not an industrial economy only; it is also a pecuniary one. Complementarily linked as we are in our tool-oriented behavior, we are reciprocally linked in our pecuniary behavior. If one had aerial photos of the countryside, as used during World War II for selecting bomb targets, one could see the technological linkage that bound all of those living within the photographed area. Bombing targets were chosen to disrupt these linkages. But one could not see the pecuniary linkages that punctuate the passage of goods through the system. Nor was the bourse a prime bomb target, testifying to the primacy of the technological activity. As goods pass in one direction, money, symbolizing a change in ownership, passes in the reverse direction. We recognize these counter flows of goods and money in what we refer to as the “great wheel of wealth.” The continuity of technological activity is punctuated periodically in the process of transfer of ownership and investiture of status all of that require some pecuniary transfer [Hamilton 1984].

Institutionally, money serves as a permissive agent giving access to the technological process. Any disruption of the flow of funds will inhibit the full use of the technological process; any expansion in the flow of funds will allow the technological process to be more fully utilized and expanded. Technology, however, is primary; the pecuniary reflection is secondary. For the society as a whole, anything technologically feasible can be funded. Whether the society will allow this to take place is institutionally determined.

To the institutionalist, none of the conventional flows of funds, consumption, investment, or government, is any more important to the total flow other than in relative size. A stoppage or reduction in any one or several can have a devastating effect on the technological process and on employment. The notion that in order to enhance the investment flow, consumption expenditure must be reduced is contrary to historic fact. Historically, within the United States, as well as within other of the industrial nations, consumption expenditure increased pari

passu as investment expenditure increased. There is no record of any people having starved themselves into economic advance. As a matter of fact, full utilization of expanding technological possibilities, given the institutions, requires an expansion in permissive pecuniary flows.

Technologically, it is rather difficult to differentiate between those activities that constitute consumption and those that constitute production. On the pecuniary side, consumption expenditures are usually those emanating from a household, but not exclusively, and investment expenditures are those emanating from some business, but also not exclusively. The government flow has always been treated ambivalently, being called government investment, but being treated as wholly consummatory.

Only in this second half of the century has conventional economics recognized that a consumption expenditure such as that for education can be treated as an investment in human capital. That such an obvious matter should have taken so long to have been recognized is a source of wonderment. But even more startling is the fact that all the other items in the consumer budget have yet to be so treated. But if we treat the technological process as one of continuity, it then becomes apparent that health and nutrition (food), are most certainly on a par with education. And if we can go this far we can surely see that transportation to get children to school and to the doctor is no less related to production. But then so is re-creation, which, when looked at etymologically, points to its relation to the productive process. When it is realized that what is commonly recognized to be consumption is directly related to production it becomes apparent that real investment cannot be expanded without a concomitant increase in consumption.

Most certainly it is true that we had the "guns or butter" problem during World War II when the neat "trade-off" phrase first became prominent. Its very neatness in application in the form of production possibility curves in elementary texts has a tendency to obscure its rather trivial meaning and its lack of general application. Indeed, if a certain metal was absolutely critical to the production of military aircraft and its current output was limited it might have to be restricted in its usage for home refrigerator production. But home refrigerator production, given the state of the domestic arts, could not be eliminated. Substitutes were resorted to. It is often noted that total consumption within the U.S. economy reached, up to that time, an all-time high in 1944 at the height of war production. If it is kept in mind that war workers had to be fed, had to be housed, had to be clothed, it is no anomaly that all-time production and consumption heights were

reached simultaneously. Further confounding the conventional wisdom is the fact that the military output was one hundred percent consummatory in the conventional sense. It did not contribute to further production, but to further destruction.

From this view of the interrelationships between production (investment) and consumption, the institutionalist would not view them as antithetical. On the other hand, the institutionalist would argue that our system of distribution of pecuniary income is such that it consistently inhibits the expansion of consumption warranted by the potential increase in production. As Hobson contended, we do have periods when income is transferred from lower to upper income groups, provoking both a surfeit of funds at the upper level and a shortage at the lower level. Various stratagems are created to circumvent this hiatus. We use what is referred to as "creative finance" in the form of ingenious devices to postpone the ultimate day of reckoning. At the same time, the excess of savings is absorbed in "paper" creations, corporate takeovers, stock speculation, and foreign adventures, giving the impression of a shortage of savings, and reinforcing the notion that savings is a dynamic force, the shortage of which limits production.

The institutional position would be one endorsing the welfare state within which consumption would be underwritten by income maintenance and excess savings reduced by progressive taxation. These devices would get around the great "capitalist" flaw, long ago cited by John Maynard Keynes—economic instability along with great inequality of income distribution. To the institutionalist, the great problem of the modern industrial economy is ever-rising consumption to underwrite the ever-rising production potential.

### *Summary*

In summary, it can be said that the conventional theory of consumption is a static one. The primary concern is with an equilibrium situation in which some maximum condition of well-being, based on Bentham's felicific calculus, could be achieved. To the institutionalist, with emphasis on the dynamic character of technology, interest in consumption is first in its expansive nature, and second, in utilizing that expansive potential to eliminate utter degrading poverty. The conventional theory sees consumer well-being as a function of Bentham-derived feelings. The institutionalist identifies well-being as a function of a valuation process, no different than how to choose the right wrench. It is what we do most of the time in choosing the good, here on Earth.

## Notes

1. Erich Roll, for example, wrote, "But there is at least one other author whom one is obliged to mention in company with them (Jevons, Menger, and Walras). Gossen was not dealt with in the preceding chapter because he is an anticipator rather than a forerunner" [Roll 1946, p. 412].

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