9.1 INSTITUTIONAL ANALYSIS

An economics that treats institutions as primary is necessary to understand the economic behavior of group-dependent individuals–that is, people making decisions within the context of their families, communities, industries, and other forms of organization, formal and informal. It is these social contexts and organizations to which heterodox economists are referring when they use the term **institutions**. A broad definition of the term might be stated as follows:

Institutions are collectively shared habits of thought–of knowing, doing, and valuing–that control, expand, and liberate individual action.

As Aristotle recognized some 24 centuries ago, these institutions exist prior to the individuals born into them. They are the rules we learn that tell us what to do and what not to do. But as constricting as that may sound, institutions also constitute a powerful tool for the human race: they allow individuals to forego solving problems that others have already solved (so that we don't have to 'reinvent the wheel', as it were); and they create reasonable expectations of others' behavior, allowing us to act collectively. Take, for instance, the simple collectively shared habit of thought concerning which side of the road to drive on. Knowing ahead of time which side we're to drive on saves us from the dangerous requirement of learning through trial and error. Likewise, this simple institution doesn't just restrict our decisions; it also produces expectations of what others will be doing, allowing us to travel more safely than we could without those expectations. In this manner, our actions are expanded beyond what they could otherwise be–we would, in fact, be more limited without this institution.

Of course, individuals are not–and could not be–made to conform precisely to the institutions into which they are born–society is not a rigid mold into which each person is poured at birth. We are 'prime movers' capable of making our own decisions and, to some extent, of changing the institutions of our society. But, it is the collective power that institutions give human communities as a whole which ultimately liberates us, that allows us to shape our own destinies and to participate in the collective shaping of our community's destiny as well.

Finally, as habits, institutions clearly must stay the same over some period of time. Yet, the technologies, laws, culture, and so on–that is, the institutions–of any given society evolve over time, too. This occurs through the accidental and intentional adaptation of how we think–our 'habits of thought'–to an ever-changing world around us. But, this creates an inherent tension within the concept of institutions: as the essential means by which humans collectively survive, institutions must constantly evolve to meet the proliferating exigencies we face; yet, as habits, they must have a resilience to change, a constancy, to be of any use at all. Recognizing this tension offers an important insight into the essential nature of present institutions: our collectively shared habits of thought are always a combination of useful ways of solving problems and the useless remnants of old ways of thinking.

With the basic tools and insights of institutional analysis in hand, we turn now to analyzing consumption in modern society. As you'll see, the decisions we make when it comes to what we consume and why we make those decisions can look very different once we take this fundamentally distinct perspective as our starting point. Our understanding of how we act as consumers depends on our understanding of who we are as a species.

9.2 CONSPICUOUS CONSUMPTION

An institutional analysis of modern consumption patterns would, of course, look first and foremost to a society's institutions to explain these behaviors. Our tastes and preferences, in this view, are primarily the result, not of some abstract lightning calculation of marginal utilities per dollar, but rather of the common habits of thought shared among our peers, our family, and our society more generally. They do not emerge miraculously from each of our individual constitutions. Instead, they are the result of an institutional evolution, occurring in part by unplanned drift, and in part by intentional acts of problem solving, ceremonial observance, and persuasion.

In this view, we're consuming the things we consume today largely because we learned that those things are appropriate to consume. And, importantly, the institutions that define what is and is not appropriate do not entirely reflect what is most conducive to nurturing individual well-being, social cooperation, and sustainable uses of technology. Rather, they will reflect in part the imbecile and anachronistic habits of thought inherited from our past.

Take for instance one of Veblen's best-known concepts, conspicuous consumption: consuming goods not for their capacity to produce personal satisfaction (utility), but rather because they allow the consumer to demonstrate or enhance her prestige. Surely, a host of examples come to mind readily: designer clothing that serves no better as clothing than equivalents without the brand recognition; upscale dining establishments serving food that is no more nutritional than their more modest counterparts; sports cars that, while perhaps hypothetically capable of winning high-speed races, are no better at what they'll actually be used for (driving around town and sitting in traffic) than an ordinary automobile. What do all of these have in common?

While one could argue that each of these examples is a good or service of a higher quality than their cheaper alternatives, most people would easily recognize that there is an element in each of allowing one to conspicuously consume–to 'show off' the fact that one has the money to make purchases that others simply could not afford. The question becomes, why would someone go out of their way to spend money on things that, in fact, *don't* provide additional utility or value in use? And, as you might have guessed, answering this question requires an analysis of the institutions that guide our consumption decisions in modern society. The following breakout box points the way toward Veblen's ultimate conclusion.

Sometimes referred to as the first feminist economist, Thorstein Veblen published his "Economic Theory of Woman's Dress" in 1894, breaking down the characteristics of the apparel of his time that offered the consumer something more than simply protection from the elements. His three cardinal principles of women's dress, each of which was "advertising the fiction that they live without any gainful occupation," were:

1. Expensiveness: clothing "must be uneconomical"–that is, demonstrating that the wearer, or her family, has the means to waste money on items of little functional value. High-dollar brand names make this easier to recognize for the uninitiated; but ultimately the expense of the work and material that went into producing these items is a more subtle, sophisticated way of indicating the same.
2. Novelty: to the extent that clothing is useful, the wearer must not get the full use value from it. She must discard articles well before even insignificant wear starts to show. Observing seasonal changes in fashion helps to coordinate and enforce this sort of consumption observance.
3. Ineptitude: clothing must show that the wearer doesn't have to participate in useful work. For instance, clothing might be severely binding, or footwear might restrict movement.

Can you think of any examples of consumption goods outside of women's apparel that fit this description? My personal favorite comes from men's professional clothing: the necktie. As you're probably aware, neckties don't serve much of a function–they're certainly not providing warmth, and in fact they're not even covering up an otherwise naked part of the body. So why do some men find themselves compelled not only to buy and wear these products, but to periodically discard the old ones and purchase new ones?

A common response from students is: they make you look professional. But, that just begs the question, *why* do they make you look professional–that is, why do we associate neckties with professionalism? Surely men in most professions don't actually make use of the tie in their work (though I've found they make a convenient wipe for smudged eyeglasses). Consider Veblen's cardinal principles above as applied to the necktie.

1. Expensiveness: while presumably whatever function neckties serve could be equally well-served were they made from a relatively inexpensive material like cotton (or, for that matter, paper), they tend instead to be made of more expensive materials like silk.
2. Novelty: those who follow men's fashion will know that neckties are subject to similar style changes as other types of clothing–in terms, especially, of patterns and widths. Most people are probably able to discern a tie that was purchased in the 1980s versus the 2010s, much as most people can give a rough date to when a car was produced just by looking at it.
3. Ineptitude: paradoxically, to demonstrate professionalism, men are often expected to wear apparel that does more to hinder than to aid their capacity for work. The delicate and expensive fabric, for instance, indicates that the 'professional man' is not likely doing work that would involve 'getting his hands dirty' in the literal sense. Likewise, it would not typically be wise to wear a long necktie in a manufacturing context in which machines are being used, lest the tie get caught in the machine.

These are strange principles by which to guide your consumption goods, indeed; and certainly not ones that are limited to women's dress–or even clothing in general. A little reflection on modern culture and the reader could probably see these principles in much of what we consume today. But, again, why are these apparently useless and even wasteful elements so desireable to the modern consumer? Why would someone want to waste money, or to show off they they don't contribute to society? The remainder of this section will give a summary explanation.

It goes almost without saying that, as social creatures, we humans feel a sense of self-esteem based in part on how we think others see us. We strive to fit in, to avoid feeling inferior, and at times to show our superiority to others–which, of course, must make others feel inferior. But, how we do so is dictated by the accepted social norms–the institutions–that we were born into; and those institutions have mutated through generations to produce a 'strange' set of criteria for who is superior and who is inferior.

In much earlier times one's prowess, the respect afforded by one's peers, would reflect chiefly the capacity to ably accomplish something that was useful to the group. As humans' technologies improved, however, it became increasingly the case that:

1. The greatest contribution to current productivity came from the countless generations of workers, inventors, engineers, and so on from whom society had inherited its industrial arts. And,
2. As technologies became increasingly sophisticated, more and more people, each having increasingly specialized skills, was necessary to efficiently produce things with these more sophisticated technologies.

The problem with these developments is that it becomes very difficult to differentiate one person's contribution from another's, or, more accurately, from the general productivity of the group acting collectively.

Consequently, over a very long time the presumption developed that how much you contributed relative to others would simply be reflected in how much money you made (whether this is true or not is another matter altogether). But this presented a problem for establishing the amount of prestige others should afford you: how much you have in your bank account isn't typically public information, and politeness dictates that you shouldn't go around waving your most recent ATM account balance slip in people's faces. The solution? Demonstrate your prowess, as evidenced by your vast riches, by wasting money wherever possible.

Part of this anthropological history, which can only be given in the most rudimentary of forms here, also demonstrates a division of employments in terms of prestige. In particular, early humans garnered prestige from exercising their power over the natural world–hunting and killing large game, or controlling the floods through irrigation channels, for instance. However, once technologies improved, it became increasingly the case that demonstrating power meant controlling or extracting from the productive community itself–that is, from people–more so than from nature. As a result, the higher classes came to be associated with occupations of predation, control, and leisure–for instance, politics and war, management and finance, celebrity and fashion, . With consumption as the chief way to demonstrate, and to reinforce in the minds of one's peers, that one belongs to the 'better' class of people, our institutions began to prescribe an element of ineptitude, showing exemption from useful labor.

9.3 THE COMPLEX WORLD OF MODERN CONSUMPTION

The institutional analysis of conspicuous consumption demonstrates the importance of moving past notions of utility maximization, and beginning to look at the historical and cultural reasons behind individual consumers' decisions. Yet, consider the following

- Americans are exposed to hundreds, perhaps thousands, of advertisements every day
- Some consumers are willing to camp outside of stores for days just to be the first to purchases a new product
- The traditional holiday of Thanksgiving has now been paired with (if not eclipsed by) the so-called 'Black Friday' it precedes

These and many other examples might be taken to suggest that it is not only the individual decisions of consumers concerning what to buy that needs to be explained. Rather, we should also be looking to understand consumer*ism*–the social preoccupation with acquiring and, most importantly, identifying with consumer goods–as well.

To understand the importance of advertising and consumerism today, the best place to start is with the work of institutional economist John Kenneth Galbraith. In *The Affluent Society* (1958) and later in *The New Industrial State* (1967), Galbraith argued forcefully that the historical conditions that classical and neoclassical economists were chiefly concerned with–namely, production of necessities amidst widespread poverty and the allocation of scarce resources–had been superseded by an age of relative affluence. Mass production, as you'll see in a later chapter of this textbook, had largely solved the problem of *producing* enough to adequately meet the needs of the people (though ensuring everyone has *access* to basic necessities remains a problem to this day). Of course, solving one problem presents new ones, and for Galbraith one of the most important problems society had come to face was how to ensure that there would be demand for what could be produced once our basic needs were met.

Enter the adman. As Galbraith argued, advertising and salesmanship became important once our basic needs were, for the most part, easily met, and our remaining desires were no long immediately evident to us. Advertising and salesmanship functioned, then, to 'synthesize, elaborate, and nurture' our desires for goods and services beyond those serving simply to keep us fed, clothed, sheltered, and so on. Another way to look at it: where businesses had come increasingly to serve customers in ways that went beyond providing the goods and services to meet basic needs, these businesses required a way to maintain demand–the willingness to buy–where hunger, cold, and so on would not. In this manner, advertising and salesmanship became a form of 'demand management', designed to keep sales up, to keep people buying even after they would have otherwise felt satisfied.

With the ascendancy of marketing, the products we buy come to take on special characteristics as their design increasingly reflects the needs of businesses to sell as much as our own personal wants and

The 1959 Cadillac Eldorado, sporting the decorative tailfins that reflected the increasing influence of marketing on automobile design in the mid-20th century. (Wikimedia user Veesixteen. Public Domain)

needs. More or less superficial options for colors and frequent style changes, for instance, demonstrate that consumption is, increasingly, a conspicuous act.

But more than this, these new characteristics indicate that people are associating their very identities with the consumption choices they make. Consider, for instance, what kind of car you would prefer to drive versus what kind of car you wouldn't want to 'be caught dead in'. Or, ask yourself why it is common to see groups of people who are all dressed similarly. It's likely not difficult to see that consumption and identity have become significantly intertwined in modern culture.

But what of the rebels–the people who refuse to conform? As you might have guessed, today there are plenty of products available for her as well. Consider the New York advertising firm Doyle Dane Bernbach's campaign to sell the Volkswagen Beetle in the 1960s. The ads famously used wit and humor to target drivers who favored reliability and affordability over the increasingly common conspicuous consumption elements of American automobiles. A 1963 magazine spread, for instance, depicted 15 identical images of the Beetle with model years from 1945 to 1963 under each image, indicating the utter lack of changes in the body design over this period. With advertising like this Volkswagen was able to successfully market its products to the consumers who didn't accommodate themselves to the mainstream preferences of the time.

The Volkwagen ad campaign of the 1960s might be taken as marketing naturally restraining the potential excesses of conspicuous consumption: needless model changes and functionless decorations were explicitly rejected, even mocked, in these ads. However, the important thing to recognize is that it also allowed consumers to display their of independence from the cultural trends while still maintaining their relationship with the businesses that provide these goods.

Over the decades this form of marketing has evolved into what institutional economist Philip Mirowski calls “murketing”: a form of marketing in which businesses promote the belief that consumers are ‘too smart’ to be fooled or persuaded by advertising, brands, and so on. With that belief firmly held, consumers are free to buy what they want, safe in the knowledge that their decisions are their own. Self-reflection becomes unnecessary, and (potentially all) differences of opinion, whether political, cultural, or otherwise, become expressible through the conspicuous consumption of goods and services. In this manner, the very concept of Self is reduced to selections from a menu of shopping opportunities; the boundaries between a person’s identity and businesses’ marketing become murky–hence, “murketing.”

The curious result of all of this is that our consumption choices, our preferences, our very identifies seem more and more to be adjusted to fit the goods and services available for purchase, rather the reverse. To be sure, this is not a criticism of individuals who prefer one branded identity over another. It is, rather, an observation of the extent to which the complexity of the practices of conspicuous consumption and corporate demand management have coevolved.