

## 4. Economic progress and the standard of life: notes on a dynamic approach to needs and consumption

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### 4.1. INTRODUCTION

Economic growth is considered a goal in itself by most economists; a growth rate theory thus often exhausts the question of economic progress. Part of the same framework is the firmly established growth–consumption trade-off. Growth depends on saving and saving struggles with consumption, like two opposites. The ‘golden rule of accumulation’ is then spelt out as a growth equilibrium condition that maximizes consumption per capita.

This approach, however, increasingly conflicts with the criticism of the established measures of economic performance. In particular, development studies have pointed out that GDP measures only market transactions and is therefore a limited indicator. This concern lies behind the effort, pioneered by A. Sen, to establish indicators of human development and welfare that go beyond standard economic measures. More recently, the dissatisfaction with the traditional approach to economic progress has opened the way to rethink its goals completely, towards questions traditionally outside the domain of economic analysis, such as that of happiness (Bruni and Porta, 2005).

This has an interesting counterpart in the history of economic thought. An examination of the writings of fundamental figures such as J.S. Mill, Marshall and Keynes (Opocher, in this volume) suggests that they considered the goals of economic progress a very complex question, one that led them to consider an objective standard of comfort, often associated with the notion of a nobler life. Its improvement is fundamental to measure economic performance.

The main objective of the chapter is to clarify the notion of a standard of life and its improvements with respect to an evolving standard of consumption, and discuss the extent to which the latter can explain the former, thus contributing to the question of the goals of economic progress. In the approach taken here consumption evolution is systematically linked to

the growth process, so that we speak of a dynamic approach to consumption. Such an approach rests on the existence of a second relationship, besides the consumption–growth trade-off: the positive feedback between growth and consumption, which might cause a shift of the frontier along which the trade-off operates. This requires transformation, which is in principle driven by the social construction of the need structure and made real by the evolution of consumption patterns (Gualerzi, 2001).

Fortunately, for the main task of the chapter, i.e. shedding light on the relationship between consumption, economic growth and the standard of life, we do not need to develop a dynamic approach to consumption, which is clearly beyond the reach of these notes (see Gualerzi, 1998, 2001). It is sufficient to indicate the theoretical framework and fundamental concepts that lead to considering the question of need and need development. It is, however, first necessary to briefly clarify how the approach relates to the debate on demand theory.

In their introduction to a supplement of *History of Political Economy* on demand theory (2006), Mirowski and Wade observe that ‘the history of demand theory is a play in two (or possibly three) acts’, referring to ‘the ordinal revolution’ that superseded the early neoclassical theory based on ‘hedonistic psychology’ (p. 3), the only additional development being Samuelson revealed preference theory. ‘Notwithstanding technical and mathematical improvements, and various pedagogical innovations, the demand theory of the 1940s is the demand theory of today’ (ibid.).

The contributions in the HOPE supplement aim to dig deeper into the problems left open by the stabilization of demand theory (act two) and its relationship to the (failures) of general equilibrium theory, offering an overview of the questions internal to the development of the theory. A good example is the examination of the contributions of Allen and Hicks by Fernandez-Grela. He points out that Allen was convinced that the basic hypothesis on consumer behaviour had to find empirical confirmation first to have a sound theory. Referring to the ‘escape from psychology’ (p. 46) he then brings to the fore the vexed question of the relationship between observed data and the (subjective) theory of demand, an issue that runs through the entire history of demand theory.<sup>1</sup>

As noticed by Duesenberry (1949, pp. 18–19) economists want to speak of individuals choice and stay away from analysing their psychology. It is not clear whether that makes their theory invincible or fundamentally flawed. In fact, demand theory makes psychological assumptions, although they might not be a satisfactory description of human psychology.<sup>2</sup> Camerer et al. (2005) observe that behavioural economics is based precisely on a re-established relationship with psychology, beyond these assumptions. The advances of medical science, and of neuroscience in particular, can now offer

a fresh view on the problem, contributing to economics 'new insights and useful perspectives on old problems' (p. 31).

Whether this solves the problems raised by demand theory has to be discussed elsewhere. For the present purpose, it is important to note the great difference between the questions addressed in the debate on demand theory and those posed in the dynamic approach outlined here. The latter is not concerned with choice and its underlying causes (explanations), but focuses instead on the process that brings into being new commodities and establishes change in consumption. It looks at consumption and its changes in the perspective of development, rather than that of choice. This is conceivably a more promising way to discuss the relationship of consumption to growth and the improvement of the standard of life.

Not surprisingly, the first step of the research agenda is still the critique of traditional consumer theory. The first section of the chapter focuses on two lines of criticism that have more direct implications for the main goal of the chapter: one is rather an attempt at improving traditional theory and concerns taking into account technical change and new products; the second focuses on a time-conscious consumer theory. The question of new products is a premise to the fuller consideration of change in consumption in section two; the question of time-uses becomes relevant when the overlapping and the difference of an evolving standard of consumption and the improvement of the standard of life are analyzed in the last section of the chapter.

In Section 4.2 Pasinetti's structural dynamics and Sen's capabilities are briefly examined to point out how they frame the question of a dynamic approach to consumption. Despite their non-negligible differences, complementarities with respect to this task are more important. They ultimately share both the critique of standard consumer theory and, more importantly, an orientation to the question of growth and development in which the evolution of consumption patterns is an aspect of the growth process itself. But it is especially the illuminating comparison of the two approaches by Walsh that permits us to define in what sense they lead to considering the question of need.

Quite conceivably, needs are not only satisfied in the static sense of being fulfilled, they are rather developed. Neither structural dynamics nor the capabilities approach discuss this aspect of the problem, which is addressed in Section 4.3. The notion of socially determined need (Levine, 1981, 1998) allows for a discussion of need development as it occurs in a market economy by means of new products and innovation in consumption (Gualerzi, 1998). In a market economy, need development is both the potential for market expansion, i.e. a growth determinant, and the basis for construction of socially determined individuality and differentiated life styles, stressing an endogenous process of preference formation.

It transpires that the focus on need development: a) takes us already considerably close to the questions raised by the notion of standard of life, pointing to the significant overlapping with the standard of consumption; b) permits a fundamental distinction to be drawn between changes in consumption that fuel market expansion, i.e. growth, from the improvements of what we more broadly regard as the standard of life that have a more tenuous link to consumption as such, or no link at all. This allows for the distinction between need development as the basis for market expansion and personality development within a system of market relations, and need development as individuals' self-fulfilment 'independent' of the market. This is the key to the relationship between a standard of consumption and a standard of life, which is discussed in the last section of the chapter.

## 4.2. CHANGE AND TIME IN CONSUMER THEORY

### 4.2.1. Consumer Theory and New Products

One of the fundamental limits of traditional consumer theory lies in the difficulty of addressing analytically the question of change in consumption. Nor has this been widely discussed in the debate on demand theory.

Consumer theory rests on a model of preference ordering and income allocation, stressing a very specific understanding of rationality and consumer sovereignty. As such it is static and has difficulties accommodating change in a broad sense, but also in the fine sense of change in the items of consumption. This should probably be thoroughly investigated with respect to the role consumption has in the main traditions of economic analysis.<sup>3</sup> It can be argued that consumer theory is largely defined by the overall goal of Neoclassical theory to determine prices according to supply and demand.<sup>4</sup> Nevertheless, the problem of change in consumption has not gone unnoticed and is the focus of the two attempts to improve traditional theory examined below. As we will see, this has involved reconsidering some transitions in the history of economic analysis.

An attempt at 'dynamizing' consumer theory is that of Lancaster's characteristic model (1966, 1971), which addresses the issue of new products and product differentiation. In traditional theory 'we can do only two things: (i) ignore the changes, and proceed as if the new variant is the same good as before or (ii) regard the variant as an entirely new good, throwing out any information concerning demand behavior with respect to the original variant, and start from scratch' (1971, p. 8) This follows from the fact that utility indexes are associated directly with goods, rather than with 'characteristics', i.e. properties, which make these goods the object of 'wants'. 'Any change in

any property of any good implies that we have a new preference pattern for every individual' (p. 4). Lancaster's objective is to put the 'characteristics model' at the core of demand theory. Characteristics are the objective properties of a good. Therefore 'the relationship between people and things' is a 'two-stage affair'. It is composed of the relationship between things and their characteristics (objective and technical) and the relationship between characteristics and people, involving individual preferences (p. 7). He notes that his 'consumption technology approach' is found elsewhere and is the foundation of 'the diet problem'. Hicks drew explicitly the analogy with the entrepreneur choosing means to satisfy objectives, but abandoned the approach because of its 'technical difficulties'.

The revision of consumer theory suggested by Ironmonger (1972) goes in the same direction. The focus is also on the problem created for traditional consumer theory by new commodities and quality changes. The revision is centred on a consumption technology, intended to satisfy 'various separate wants', leading to the choice of an 'optimum budget ... (which) is found to be a solution of a linear programming problem'. The main conclusion is that new commodities add a dimension, independent of taste, income and prices, to consumer choice.

This follows from the fact that Ironmonger's analysis rests not on characteristics, but rather on wants separability. Wants arise from physiological and psychological needs. *They* are the object of satisfaction, rather than 'a single desire, happiness or utility'. The introduction of wants and desires into economic theory is traced back to Marshall, who acknowledged the work of earlier theorists such as Menger, Jevons and others. The point is, Ironmonger argues, that Marshall's reference to satiable wants and diminishing marginal utility resulted in a refocusing of the theory on utility maximization. The original distinction was then lost. Indeed, Lancaster also finds the roots of his approach in early Marginalists, especially Menger (1971, pp. 9 and 146)

We can conclude that it is precisely the discontinuity of separate wants of early Marginalism which is the conceptual basis for taking into account technical change in the commodities entering consumption. It has a further consequence, one of great relevance to the discussion of consumption theory in the next sections. Wants discontinuity is indispensable to consider an order in the satisfaction of needs. This is the basis of lexicographic models. More generally, it opens the way to consider the pattern of evolution of the consumption structure with respect to a hierarchical arrangement of needs, a fundamental aspect of Pasinetti's structural dynamics.

#### 4.2.2. 'Consumption Takes Time'

Drawing attention to characteristics and new commodities departs little from the main focus on consumption bundles and optimal choice. Indeed, these are efforts at improving standard theory. It is then interesting to briefly consider a critique of consumer theory that goes in an altogether different direction. In *Consumption Takes Time*, Steedman (2001) argues that

the received theory of consumer behavior is firmly centred on the allocation of money expenditure amongst commodities and pays only marginal, or even no, attention to the consumer's allocation of time (p. 1).

This fundamental flaw calls into question the entire analysis of the consumer and 'filling the lacuna does indeed result in making the theory significantly different' (p. 19). His time-use centred approach to consumer theory first draws the consequences of adding a time constraint to the usual budget constraint and then focuses on time use as a direct object of choice. In doing so, Steedman follows Gossen's 'brilliant but ill-fated work' of 1854 which centres on the time-allocation problem.<sup>5</sup> At any rate, his 'Gosseian' analysis recognizes that 'both time and money act as constraints' (p. 31).<sup>6</sup>

We are not concerned here with the analytical aspects and the technicalities arising from a consumer theory centred on the use of time, rather with the implications that the argument has for an analysis of the notion of standard of life beyond commodities-centered consumption. Focusing on time proves quite helpful in this respect.

Steedman makes reference to 'the time-allocation problem facing Vecchio, an elderly man convinced that he has just six months to live'. Even with no binding budget constraint 'he still has to decide what to do, how to use his time, over his remaining six months' (p. 21). Such a change in perspective is the fundamental point of the criticism of the established theory. 'To put it crudely, do we take the agent to think in terms of 'what shall I consume?' or in terms of 'what shall I do?' (p. 107). The ultimate consequence of time constraints is affecting the role of relative prices in demand analysis. Hardly a secondary effect. Indeed, time constraints must be recognized, 'if certain long-run patterns of change in capitalist market economies are to be understood' (p. 141).

The focus on the different uses of time and 'exclusively on "pure consumption time" sets this approach aside from that of Becker's [1965] household production time'.<sup>7</sup> Steedman quotes Winston (1982, p. 163), saying that in household-production theory 'time has been fully "reified", treated as a "thing"' (p. 5). The problem posed by Vecchio is distinctively different. The approach rests on the distinction between work, consumption and leisure time, recognizing that consumption requires time *per se*. *This*

changes the problem of consumer choice. Interestingly for the present purposes time-uses are then associated to (rates) of consumption of commodities as well pure leisure activities, with no association at all with consumption (p. 108).

The focus on time draws attention to what has been recognized by economists, albeit often in passing: the really scarce resource. By implication time-uses stress what individuals consider really valuable in life. Steedman's argument is interspersed with numerous references to economists, and especially Marshall, as well as writers and philosophers, conveying a sense in which the focus on time is on what individuals pursue in their lives. This is quite consistent with what Steedman regards as the ultimate result of the analysis, that is, to draw a number of implications of the time-centred consumption theory for issues 'not always seen as falling within the scope of the theory of consumption' (p. 107).

Broadening the scope of the analysis leads us to consider a number of questions relevant to a discussion of the standard of life. We can single out one more directly touching on the question, although many others offer hints in the same direction. It is based on the observation that uses of time are shared uses; agents 'prefer to do together what could be done alone' (p. 135). This applies to many activities, such as taking a walk or attending a concert, that could be done by an individual alone, but are regarded as more pleasurable, or are customarily done, with other people. Other such activities, like playing a game or having a conversation, could hardly take place if not together. This is an example of the way the question of time uses and that of the standard of life intersect, with the noticeable absence, at least in principle, of commodities consumption involved. It suggests that a standard of life may depend on many aspects that are not directly linked to consumption as such, involving instead social interaction and life routines.<sup>8</sup>

Steedman concludes that the broader scope of the analysis of time-uses allows for a more fruitful collaboration of social scientists. This suggests that there is a common ground where the economist can join forces with other social scientists to analyze what really matters to individuals, what drives their choices over time, consumption and life 'strategy'.

### 4.3. CONSUMPTION PATTERNS CHANGE: A DYNAMIC APPROACH TO CONSUMPTION

#### 4.3.1. Structural Dynamics and Consumption Theory

The attempts to insert change into consumer choice examined above begin to tackle the issue of need and new products. In particular, Ironmonger's conclusion that new commodities add a dimension to consumer choice can be further developed. Focusing on the pattern of diffusion of new commodities we can go beyond the question of change in the items of choice to that concerning the patterns of change in consumption. A broader view of consumption structure evolution, such as that underlying Pasinetti's structural dynamics, can then allow for better understanding of the role played by new commodities. In particular, in a dynamic perspective new products help to understand the process of need development that is examined below.

The analysis of consumption built into Pasinetti structural dynamics is one of the distinguishing features of his model of growth and structural change. The well-known consequence is an economic system whose structure changes both on the production and demand side. A changing consumption composition becomes a crucial aspect of the growth process. In particular, if full employment is to be maintained, either we assume that demand adjusts passively, increasing in step with productivity in each sector, or demand composition must change and spending must be redirected to new areas of consumption. This follows exclusively from the existence of technical change or, more generally, learning, independently of any institutional framework.<sup>9</sup>

The possibility of a meaningful investigation of change in consumption requires us to refocus away from the 'rational' consumer who is busy to determine his/her preferred basket of consumption making marginal substitutions. Indeed, need satisfaction depends not only on the amount, but also on the order in which goods are consumed. The recognition of an order in the satisfaction of needs – already suggested by wants separability – implies that a certain level of consumption for a commodity must be reached if any other commodity can bring in any utility at all. Relative prices become important only when the level of demand is approaching saturation levels. In other words, relative prices do not matter as much as the hierarchical pattern of need satisfaction. This stresses that needs satisfaction is the ultimate goal of consumption.

Structural dynamics focuses precisely on the evolution of consumption patterns as an aspect of the growth process. Focus on the needs hierarchy shifts attention away from choice of the utility-maximizing basket of



consumption given income, to the idea of a (changing) pattern of consumption spending dictated by income growth. This conflicts with the assumption so often made by economists that preferences are homothetic.

Pasinetti argues that there is one thing we do know about consumption expenditure, it does not expand proportionally: actually, an empirical regularity indicates that there is a certain pattern of evolution endogenously determined by income growth. The non-proportional growth of consumption expenditure is then based on a generalization of the Engel curve, a well-known, albeit somewhat neglected, concept.

The second foundation of the dynamic theory of consumption contained in structural dynamics is consumer learning. The process of learning is prior and more fundamental to consumer choice than the notion of rational behaviour, which can guide choice only over a given set of products and at a given level of income. Mere rationality is the static counterpart of learning, as maximization of marginal utility is the static criterion of choice as opposed to the need hierarchy. Furthermore, learning is likely to become increasingly important as income increases.

In the basic scheme of structural dynamics, changes in demand composition are then determined by income growth through the endogenous law of non-proportional expansion of consumption expenditure, technical change and consumer learning. This suggests a picture of consumption whose fundamental concerns are quite distinct from those of traditional theory. In income-driven dynamics a prominent role is played by the sequential satisfaction of needs, reflecting biological, but also social priorities, and the limits sets by market saturation.

#### **4.3.2. The Capabilities Approach**

A second element of the dynamic approach to consumption pursued herein is that of capabilities. Sen's capabilities approach also rests on a criticism of traditional consumer theory, the theory of the 'rational fools' (1977). Continuity of preferences, he argues, is indispensable for the principle of substitution. However, once we abandon the example of trading apples for oranges and instead consider lifestyles, alternative systems of preferences individuals evaluate and choose from, the plausibility of the continuity assumption becomes far less obvious. Sen also observed (1985) that preferences refer not to needs, but rather to goods in the market, which are defined in a market economy by other economic agents. Moreover, needs can be satisfied by different types of goods, in different consumption forms (individual, family, social). It follows that there is a discrepancy between preferences and needs.<sup>10</sup>

Interestingly, also Sen's theory of human capabilities follows from a dynamic perspective, that of development, which they contribute to redefine, addressing issues of human development and social justice. If social justice is a goal of development, then the traditional distinction between positive and normative analysis breaks down, and development theory must be modified accordingly.

It can be noted that we are dealing with a concept that has distinctively broad implications beyond consumption theory. Not consumption as such, but well-being is the goal, as stressed by the criticism of rational fools. This raises a question concerning subjective evaluations, such as those involved in the pursuit of happiness, although an objective foundation remains in the notion of need. The point that concerns us here is simply to stress that goods' characteristics are one thing, but the result obtained in terms of needs satisfaction depends on capabilities. This stresses that, rather than in the sense of axiomatic maximization, rationality is redefined in more general terms of systematic exploitation of information and reasoning, but also that individuals are active in defining what can actually be the outcome of goods in satisfying a particular need.

The notion of 'subject capability' refers to what individuals can accomplish with the resources available to them, given the constraints and the causation links that affect the capabilities set.<sup>11</sup> This is no uncontroversial issue. A recent development of the capabilities approach (Nussbaum, 2000) proposes a definite list of capabilities. This contrasts with Sen's insistence on the fact that there can be no such list and we cannot anticipate in any meaningful way what individuals can accomplish with the goods available. The contention might be explained by the distinct goals pursued by Sen and Nussbaum.<sup>12</sup>

In the context of the dynamic approach to consumption discussed here capabilities have then a limited, but fundamental role to play. They allow for the full consideration of the subjective element that concurs to determine need satisfaction, hence the ultimate effects of consumption. On the other hand, it is by means of capabilities that the final specification of a product and its insertion into the structure of consumption are obtained. Until individuals discover the various ways in which a good can satisfy needs, a good is not fully established in the consumption pattern. Capabilities then account for what we can call innovation in consumption (Gualerzi, 1998).


What we are suggesting is that the development of capabilities can then be seen as part of the process by which individuals, according to social rules and socially devised practices, define the feasibility of a form of need satisfaction and contribute to establish that as a new standard for the satisfaction of a certain need.<sup>13</sup> The development of commodities, interacting

with social practices and consumer learning, then drives changes in the way needs are satisfied and hence change in consumption patterns.

#### **4.3.3. Structural Dynamics and Capabilities: Towards a More Cultivated Life**

What of the relationship between structural dynamics and the capabilities approach. In what way does it lead us to formulate the problem of need development within a dynamic approach to consumption? This is well clarified by Walsh (2003) in an insightful comparison carried out within a larger account of the developments in Classical theory.

Walsh stresses that the question of change lies at the centre of structural dynamics. Not only does it make the assumption of a balanced path of growth driven by technical progress impossible, but it also bears all its consequences for consumption and consumption choice. If we further observe that new goods, at least some of them, are likely to diffuse and become the new basis of consumption patterns, then the question arises as to the relationship of these new goods and capabilities. Here the argument made by Walsh rests on one basic point: although there is no strict correspondence, 'there *is* ... a significant relationship nonetheless' (p. 376). Structural dynamics presents a truly dynamic process by which new commodities that appear are conceivably capable of the realization of vital capabilities; but the rise of new commodities follows a sequence, dictated on the one hand, by unbalanced technical progress, on the other, by the hierarchy of human needs, which is satisfied sequentially. There is no reason to suppose a tight relationship of these two sequential processes, even less assume a tight relationship with the development of capabilities.

Nor can the problem be solved by observing that the need hierarchy can go well beyond basic needs to include the full development of human personality. Let us assume an extreme hierarchy of needs, going bottom-up, from basic needs, such as food and shelter, to 'higher' needs, well beyond those of mere survival, up to those relating to self-fulfilment: there would still be no necessary relationship, aside from the limits posed by market saturation, between the need structure and the sequential development of the material basis for the satisfaction of needs implicit in the path of structural dynamics. This conclusion is emphasized by considering capabilities. There is no guarantee 'that a particular amount of a particular commodity will be necessary (or sufficient) to allow the fulfillment of a particular capability', a point stressed by Sen.  *metimes* it will happen' (p. 377). Nor can the question be solved by defining a list of capabilities.<sup>14</sup>

This leads to full appreciation of the contribution that the capabilities approach can give to structural dynamics. Through capabilities we can take

into account what can be accomplished by individuals through consumption. Although no doubt this will depend on the commodities that are brought out by technical progress – and, we might add, by investment in these commodities – it will also depend on a subjective element and on the social form in which needs are satisfied. This is why Walsh (2003) says that structural dynamics, and the evolving basket of consumption it implies, does not indicate a tight mapping to the list of capabilities, ‘but surely a soil and a climate in which capabilities can flourish’ (p. 377). Indeed, capabilities, while reaching beyond the traditional idea of consumption, must rest on an evolving material basis.

Although further work seems necessary to fully evaluate the relationship between structural dynamics and the capabilities approach, Walsh’s insight indicates their complementarities. As suggested above, their complementarities depend on a fundamentally similar view of long-run development and ultimately of economic progress. It is not that of growth with an unchanging structure of consumption, nor of consumption reflecting only the satisfaction of basic material needs. It takes into account the full range of possibilities relating to the ‘development’ of the need structure and of individuals. Indeed, structural dynamics implies a consumption composition of an improved and ‘more cultivated life’ (p. 375). At the same time, it is precisely their complementarities that raise the question of need and need development, which appears to lie behind the problem discussed by Walsh and the missing element of a dynamic approach to consumption.

#### 4.4. BEYOND THE NEEDS HIERARCHY: NEED DEVELOPMENT

##### 4.4.1. Consumption and Need Structure

Before moving on, let us summarize what has been said so far and examine how it leads into discussing need and need development.

The fundamental law of motion of the consumption structure of Pasinetti’s model, i.e. the dynamic theory of consumption contained in structural dynamics, makes reference to an evolving material basis aimed at satisfying needs that are arranged in a hierarchy from basic to higher level needs. Higher level needs become areas of expansion of consumption spending, such that the consumption structure evolves. In this sense we could say that income growth reveals the structure of needs. The production of the means to satisfy needs, and new commodities in particular, highlight, as pointed out by Walsh, an issue of consistency of technical change with the

ascending pattern dictated by the needs hierarchy. The reference to capabilities makes that more evident.

Capabilities move us a step forward because through them we can take into account what individuals can accomplish with goods. The capabilities approach suggests that commodities are conditions, but outcomes depend on what individuals can do with them.<sup>15</sup> On ascending through the needs hierarchy, i.e. moving towards higher needs, needs satisfaction increasingly depends on the subject's capabilities. This only exacerbates the lack of any necessary correspondence between commodities, need and capabilities. It highlights the limits imposed on the analysis precisely by a notion of need as a given, and of the need structure as a hierarchical arrangement itself fundamentally given. We could say that in this framework needs can be satisfied, not quite developed.

This suggests that the notion of need and needs structure are not adequately investigated, precisely with respect to the very dynamic process that shapes consumption patterns. It is thus necessary to discuss explicitly the question of need development, to seek the reasons for the forms taken by the satisfaction of needs, their effects on the volume of spending and the evolving structure of demand. In other words, Walsh's remarks on the lack of correspondence can be taken to indicate a deeper question: the adequacy of the notion of a needs hierarchy and the role it plays in structuring consumption patterns. It exposes precisely the unsatisfactory conceptualization of need and need development.

If we remove the notion of a fixed needs structure, we may then look at structural dynamics and capabilities and their complementarities from a new angle, which also gives full scope to the claim that the capabilities approach can add and complete structural dynamics. A really interesting aspect is how capabilities allow us to speak of need and of need development. If we think of capabilities as part of personality development, then capabilities become part of need development driven by the individual's search for self-fulfilment. This means taking into account need development as it actually occurs, that is, by means of consumption innovation, i.e. a combination of commodities and consumption practices.

#### **4.4.2. Need Development and Socially Determined Needs**

The approach to need development presented here is based on the discussion of needs that is central to the reconsideration of the economic theory of David Levine (1981). It is not any notion of need belonging primarily to the sphere of nature, nor the general notion of human and social needs at the centre of the analysis, but rather a specific notion of 'socially determined needs'. They are not only the potential for expansion of the market, in

relation to what Levine calls the structure of expansion,<sup>16</sup> but also the basis for the development of individual identity.<sup>17</sup>

The structure of expansion is responsible for determining the growth rate of aggregate circulation, i.e. the growth of the market in aggregate. It exploits what Levine calls 'the latent structure of the market', realizing its developmental potential. This in turn involves the process of determining consumption patterns. It can be illustrated as follows: in principle, market growth depends on need development. This occurs by means of the interaction of consumers with new products, which are tested and validated in the process of consumption innovation to become part of the consumption structure. Thus the drive to expansion is validated by changes in consumption patterns.<sup>18</sup> Indeed, in this scheme the structure of expansion cannot be sustained unless it finds its counterpart in the process of determination of consumption. The latter reflects the development of socially determined needs, which proceeds on the basis of the constitution of the individual personality within a system of persons.

As opposed to subsistence needs, 'which are imposed on the individual' (Levine, 1981, Vol. II, p. 280), socially determined needs contribute to the individual's self-seeking and personal identity. It is precisely the freedom according to which needs are developed, which makes them impossible to determine *a priori*. This is in sharp contrast with the notion of needs 'by which the species renews itself within a determinate system of natural relations' (Levine, 1981, Vol. I, p. 45). In other words, socially determined needs are not a necessity of nature, but contribute to individual identity, which is itself a dynamic concept, inherently subject to development. For the same reason there is no predetermined path to needs development, since it reflects a social process. To that extent we can say that socially determined needs are not deterministic. At the same time, the reference to the social process, and not to nature or individuals as such, indicates where their determination comes from. The development of needs, latent in the idea of their social determination, is a constant stimulus to change and the potential for the expansion of the market. To the extent in which needs are developed, new markets will emerge, affecting the structure of demand and sustaining demand growth.

Levine argues that, although insisting on the social determination of needs, Classical theory cannot articulate the notion of need that remains 'relegated to the life of the individual outside society ... since (it) entails the element of constraints and determination which is connected to a requirement of life but not to an individual whim'.<sup>19</sup> This raises a number of interesting questions on the notion of subsistence and the role it plays in the Classical system. Here it is sufficient to note that it effectively prevented fuller analysis of consumption that indeed plays little role in the Classical system.

The question of needs and personality development is too difficult and complex to be fully addressed here. For the present purposes it is sufficient to stress that the importance of Levine's notion of socially determined needs is that of clarifying that we are concerned with needs as requirements of social life, but also as the manifestation of the self-seeking of individuals. This in turn is shaped by their constitution as individuals in a system of persons and market relations. Levine's needy individual is not the result of biological necessity, nor the simple replication of a social uniform pattern. It is the result of socially shaped personality development within a system of market relations.

Therefore, in the approach to consumption pursued here the main purpose of the notion of socially determined needs is that of establishing the fundamental difference with a notion of needs arising from 'nature', which usually serves to displace the issue of taste formation into the domain of an extra-economic determination. In this perspective taste formation appears instead inextricably linked to the development of a socially determined identity. This stresses a particular notion of endogenous preferences.

Endogenous preferences have been associated in the literature to habit formation, preferences interdependence and adaptive behaviour. They suggest that, rather than individual choice in a narrow sense, what matters is social interaction. In the present context they attain a further connotation, since taste formation proceeds on the basis of the constitution of individuals within social life.

Precisely by insisting on the very social determination of needs, needs development does not obliterate individuality as a source of differences and change, but actually magnifies its role in determining consumption patterns. Uniformity of needs, Levine argues, would call into question the very existence of individuality, but also that of the market. Indeed, while needs development can occur only through change in the forms of their satisfaction, change is the key to the dynamism of the market economy. 'No matter how complex the structure of production and consumption, if it is unchanging, then the market is superfluous to its process of renewal. ... Change ... poses the economic problem' (Levine, 1981, Vol. II, pp. 283-4). We could say that need development is therefore a defining trait of a market economy consistently operating in the 'regularly progressive mode' of the theory of Transformational Growth (Nell, 1998, p. 15).


#### **4.4.3. An Evolving Standard of Consumption and Growth**

The theory of need development based on the notion of socially determined needs completes the basic scheme of a dynamic approach to consumption grounded on structural dynamics and the capabilities approach. In this

perspective an evolving standard of consumption is associated with the socially determined evolution of the material basis of individuality. The need structure is revealed by, and need development is structured around, commodities and innovation in consumption. This implies that the very notion of need can be grasped only in conjunction with the commodities that determine its social manifestation, consumption patterns.

The neediness of individuals is therefore limited by the very mechanism of expansion resting on need development. This mechanism is set in motion by the firm's effort to exploit the potential implicit in the development of need. The latter, however, depends also on the creation of 'uncommitted income'. Levine defines uncommitted income as the income that is not committed to sustain a given structure of consumption, and therefore becomes available for its development. This drives attention on the one hand to the firm's effort to develop the market and their pricing policies; on the other, to the wage level and structure, hence to the relationship between growth and distribution.

In sum: identification through a specific pattern of consumption occurs through the system of market relations, which makes change possible and sustains income creation. Consequently, what can be accomplished by individuals through innovation in consumption and variations in lifestyles must be seen within the broader process of creation and distribution of income. Need development is therefore both sustained and constrained by the logic governing Levine's 'structure of expansion'. In particular, need development is constrained by the capacity of the system to create innovation *and* uncommitted income. The latter reflects the strength and pattern of the accumulation process.

This indicates that ordering in the pattern of need development may come from the technical and social process which establishes new commodities in consumption goods markets.<sup>20</sup> Variability in the forms of social provision, be it private, collective, public, or otherwise, opens interesting questions for the long-term evolution of the demand structure (Nell, 2002).  It matters here is to stress that in the dynamic approach outlined above the forms of need satisfaction and the standard of consumption associated with differentiated lifestyles are inextricably linked to commodities; similarly, the self-seeking of individuals is shaped and constrained by need development as it occurs through the market. This follows from the very effort to establish need development as the key to market expansion and growth.

To examine need development beyond the consumption of goods produced in the market, we need to shift our attention to need development as it may occur 'outside' the market. The standard of life includes precisely this second aspect of need development.



## 4.5. NEED DEVELOPMENT AND THE STANDARD OF LIFE

### 4.5.1. Shifting Focus

While focused on consumption and growth, the dynamic approach to consumption discussed above has a number of implications for the analysis of the standard of life. Interestingly, precisely the focus on need development helps to define overlapping and distinction of the two related concepts.

There is indeed an obvious relation between the two; an evolving standard of consumption is indispensable for an improvement in the standard of life. But then the latter seems to look beyond consumption, to consider what may be regarded as the true goals of life. The question then arises of the extent to which the laws governing an evolving material basis for need satisfaction, i.e. a standard of consumption, address this broader issue. In particular, is need development also the yardstick against which we could measure the move towards an improved standard of life?

From the reasoning in the previous sections, one thing should be clear: although the focus is not directly on the standard of life, we are taking the viewpoint, using Walsh language, of a richer and more cultivated life. This approach is certainly taking us already very close to the concerns behind the notion of a standard of life. At the same time, consumption, in whatever broad way we wish to consider it, does not necessarily answer the question exhaustively. To fully address this difference we ought to focus directly on need development as a measure of the quality of life, reflecting a more general concern for the well-being of individuals and what they regard as a better life (although probably not yet what can be called happiness).

This clarifies the fact that need development can also be an attribute of social life, social interaction and human development as such, reaching beyond the limits imposed on consumption by the expansion mechanism. We ought then to speak of need in a very broad sense indeed, not necessarily socially necessary need. But then the link to growth can no longer be the main focus, which shifts directly to the standard of life, or to what fundamental figures of the past have hinted at as a 'nobler life'.

However, even if our focus shifts to the pursuit of the true meaning of human life, this should not lead us to a sort of paradox, i.e. taking for granted the development of the material basis of an improving standard of life. In other words, we should not lose sight of the close relationship of any comfort in life with the material conditions of social reproduction and with the wage level. Otherwise the question of a wage constraint on an improving standard of life never arises. Unpleasant as it is, the reference to the subsistence of Classical Theory leaves no doubt as to the limits imposed on the standard of

living of the working population. In a similar way, a consumption-based standard of living highlights the limits imposed by the logic of expansion of a market economy on the neediness of individuals.

This fundamental clarification then lays the ground for distinguishing between an evolving standard of consumption linked to long-term growth and improvements in the standard of life.

#### 4.5.2. The Possibility of an Improving Standard of Life

This distinction emerges quite clearly on examining how the two concepts (partially) overlap with respect to key aspects of the dynamic approach to consumption.

1) *Need hierarchy and need development.* We have seen above that discussing need development we consider an *extreme* need hierarchy, of the kind one finds for instance in Maslow (1954), going from basic needs to self-fulfilment needs. We note that the growing importance of higher level needs, such as health and education, typically associated with income growth, quite clearly contributes to improvements in the standard of life. These are indeed specific aspects of the problem discussed in this volume.

Most of these needs are hardly satisfied exclusively, or not even predominantly, by commodities and market forces. This would then open the way to consider the role played by the public sector and more generally by public policy and income redistribution, but also that of social institutions, whether formal or informal, cultures and practices, that might have a positive effect on the standard of life, while having little direct relationship to the economic structure. The overlapping of an evolving standard of consumption and an improving standard of life considerably weakens and it almost dissipates when we further consider higher needs of the kind associated with individual self-fulfilment. Intellectual cultivation, leisure and aesthetic pleasure represent, no doubt, an ascent in the need structure and a fundamental aspect of need development. While that might be intertwined with the rise of new industries (from cultural tourism to continuing education), there is also another aspect, the human development they imply, which affects nothing else but the improvement in the standard of life.

2) *The subjective element.* The dynamic approach to consumption already takes into account a subjective element, that is, the agency of individuals in establishing viable new forms of need satisfaction as part of their drive to self-fulfilment. The development of personal identity contributes to shape consumption innovation and the evolving material basis for need satisfaction. The construction of socially determined individual identity and individuals' effort towards self-fulfilment are then emphasized as processes occurring through consumption. However, self-fulfilment has other dimensions, more

broadly rooted in ethical and cultural values. This forces attention to the non-economic aspect of personality development, which is not grasped by analyzing market forces, but rather as a result of inner development and social interaction.

3) *Lifestyles*. The notion of 'lifestyle' can be easily incorporated into the dynamic approach to consumption outlined above. It reflects the variability of the standard of consumption, of the forms in which needs are satisfied and developed. A lifestyle is a sort of social manifestation of a standard of consumption, introducing more variables into the analysis of consumption. It can take into account rules of behaviour and 'strategies' of consumption (Earl, 1986).

In general, need development can be articulated in differentiated lifestyles, reflecting social hierarchy, class structure and income levels. This brings us to consider social priorities and values regarded as important for the quality of life and human development. This gives full significance to social interaction as an element that is valuable *per se* in defining the standard of life. Time-uses are for instance a major aspect of an individual's life strategy. Whereas this follows from the fact that 'consumption takes time', a second aspect now comes to light. Time is indispensable for activities that are independent of consumption, but which contribute to shape lifestyles and to the improvement in the standard of life.

We can draw a general conclusion from the analysis above. Precisely due to the complexity of modern consumption and market development in advanced industrial economies, one thing is to focus on need development as an incentive to new industries and market expansion, quite another to consider it as a pure attribute of free time and relief from the pressure of work. While the former clarifies the relationship of need development with the growth potential of the market economy, the latter represents a reorientation of interest away from commodities, consumption and wealth towards what is regarded by individuals as truly important in life.

The approach to the standard of life based on need development considers aspects that have a rather tenuous link to commodities and the market, up to a point in which there is hardly any. It implies that: a) there are patterns of need development that do not depend on commodities and the market; b) there are improvements in the standard of life resting on developing subjectivity and lifestyles beyond an economic determination and the provision of goods and services.

Although concerned with an altogether different question (the effort to improve a consumer choice approach to consumption) the analysis of time constraints arising in consumption serves well to clarify this point. Time-uses are clearly part of the individual's choices and life strategy, affecting the

evolution of lifestyles as well as consumption change. They force attention, in particular, on what individuals pursue and want from life, i.e. what individuals consider really valuable in life, bringing into focus what is involved in improving the standard of life, rather than consumption.

#### 4.6. CONCLUDING REMARKS

The dynamic approach to consumption based on structural dynamics and the development of human capabilities treats the evolution of consumption patterns as part of the growth process. Its aim is an improved standard of consumption, with a systemic link to long-run development. Introducing higher level needs, human capabilities and the self-fulfilment of individuals bring us close to the question of what individuals regard as most important in life; hence the concerns behind the notion of an improving standard of life.

As shown, climbing up the need structure and need development do imply an improving standard of living and a more cultivated lifestyle. The focus on higher level needs (education, entertainment) and identity needs (informal education, arts, leisure, self-fulfilment) indicates the partial overlapping between consumption and improvement in the standard of life, at the same time suggesting that we move increasingly into an area of needs which, by their very nature, flow from and are satisfied by social interaction and individual life strategies independent of the market. The standard of life then inevitably leads us beyond the question of economic growth, to consider what can be more broadly regarded as the desirable goals of economic progress, although not necessarily a privileged topic of economic investigation.

The point is that our focus on need development clarifies a fundamental distinction between the evolution of a standard of consumption linked to the growth process and the improvement in the standard of life, which does not necessarily involve consumption but, for example, choices between time-uses. It is quite conceivable that there might be, as Marshall suggests, a positive feedback for example between the improvement in living conditions and productivity growth. The chapter does not address this aspect, confining its analysis to a better understanding of what is involved in setting the improvement in the standard of life as the ultimate goal of economic progress.

## NOTES

1. In this respect one may recall Sraffa's search for an 'objectivist' foundation for economic science (cf. Kurz and Salvadori, 2005)
2. As pointed out by Panico and Rizza (2009) Myrdal argued that these assumptions, resting on Bentham's utilitarian philosophy, lack scientific foundations.
3. The Classical tradition has mainly focused on production and distribution; it did not attempt to develop a theory of consumption as such, for reasons that would require discussion of the notion of subsistence and its function in the Classical system. The Keynesian tradition mostly discussed consumption as a component of aggregate demand, consistently maintaining the focus on its contribution to spending, but did not elaborate greatly on its motivations, nor on its internal structure and evolution. Therefore the question of output composition remains mostly open in the Classical and Keynesian theory and is instead entrusted to (given) consumer preferences in mainstream theory.
4. As observed by Zamagni (1986) consumer theory has a specific analytical purpose reflecting the role of demand in the Neoclassical theory of value. The analytical apparatus is necessary to derive demand curves with the desired properties, so that they can concur with supply curves to determine equilibrium prices. It does not aim to analyze the consumer and consumption patterns as such (Gualerzi, 1998).
5. 'Gossen worked, one might say, at the "opposite pole" from the now standard analysis of consumer behavior. While the latter ignores the consumption time constraint, Gossen began by ignoring the budget constraint' (p. 21).
6. In the same vein he says: 'our proposal that consumer theory should center on the use of time carries no implication that the economist should cease to care very much about commodity use, commodity prices and consumer expenditure!' (p. 60).
7. This does not imply it is 'either unhelpful or uninteresting, it is simply different' (p. 5).
8. Steedman discusses elsewhere (1989) the question of non-autonomous preferences and beliefs, arguing that 'The individual agent, invoked (quite properly) in economic theory, is...an *intrinsically* social individual agent' (p. 212) and 'it is incoherent to treat the individual's knowledge, beliefs and preferences as fundamental data' (p. 214). In discussing the relationship between rationality and altruism in Wicksteed he points out that the latter favoured a 'consideration of the "whole" individual' (p. 194) rather than the limited motives of 'economic man' when analyzing consumption choices.
9. This is why Pasinetti speaks of a 'natural system', independent of institutions, whose analysis represents a second step in the investigation (see Pasinetti, 2007).
10. Gibbard (1986) has pointed out that Pareto ordinality focuses on satisfaction of preferences, not of needs.
11. For a stylized representation of the several dimensions affecting the capabilities set, see Robeyns (2005).
12. As noted by Robeyns (2005, pp. 103–4) 'Nussbaum enters the capability approach from a perspective of moral-legal-political philosophy ... Sen's work on the capability approach is closer to economic reasoning than Nussbaum's'.
13. It is not the need for food or shelter that matters for a dynamic theory of consumption, but rather a socially accepted, although differentiated and technically feasible form of satisfaction of need. The reason why this has been difficult for traditional theory to grasp is possibly because it calls into question the traditional view of the consumer and of consumer choice (Gualerzi, 1998).

14. Walsh quotes Sen as saying '[t]here can be substantial debates on the particular functionings that should be included in the list of important achievements and the corresponding capabilities' (Sen, 1999).
15. It is a drastically different approach from that embodied in the diet problem, in which combinations of characteristics satisfy a given need in a given need structure.
16. The notion of structure of expansion combines the idea of structure with that of investment as the moving force of change. 'Investment is the activity of building the structure of expansion. But the peculiarity of capital is to be found in the fact that the building of the structure is also the purpose of the structure. It is as if the putting up of a house, rather than living in it, were the purpose of a house (which is, appropriately enough, the case so far as the contractor is concerned)' (p. 184).
17. With respect to the individual, need is 'the content of his self-determination, and the objective of his self-seeking' (Levine, 1981, vol. I, p. 45).
18. In fact, the structure of expansion, i.e. the producing and marketing structure, is such only to the extent that a particular capital succeeds in establishing its product within the structure of consumption.
19. 'Within society the individual can at best articulate a set of preferences, which as such cannot be considered to constitute any real determination. Ultimately the idea that there are needs articulated exclusively within society stands as a reproach to the whole of the history of social theory' (Levine, 1981, vol. I, p. 47).
20. In fact, it directs the attention to the relationship of consumption patterns and investment in new products and new industries, that is, the composition of the growth process (Gualerzi, 2005). The question of consumption composition and product innovation has recently resurfaced under the heading of quality improvement and variety growth. Recent developments have examined how variety sustains consumption spending (Bils and Klenow, 2001) and the reasons for consumption fluctuations (Parker and Preston, 2005).

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