PRODUCTION VERSUS CONSUMPTION

by

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Production Versus Consumption

There are two fundamental views of economic life. One dominated the economic philosophy of the nineteenth century, under the influence of the British Classical Economists, such as Adam Smith and David Ricardo. The other dominated the economic philosophy of the seventeenth century, under the influence of Mercantilism, and has returned to dominate the economic philosophy of the twentieth century, largely under the influence of Lord Keynes. What distinguishes these two views is this: In the nineteenth century, economists identified the fundamental problem of economic life as how to expand production. Implicitly or explicitly, they perceived the base both of economic activity and economic theory in the fact that man's life and well-being depend on the production of wealth. Man's nature makes him need wealth; his most elementary judgments make him desire it; the problem, they held, is to produce it. Economic theory, therefore, could take for granted the desire to consume, and focus on the ways and means by which production might be increased.

In the twentieth century, economists have returned to the directly opposite view. Instead of the problem being understood as how continuously to expand production in the face of a limitless desire for wealth resulting from the limitless possibilities of improvement in the satisfaction of man's needs, the problem is erroneously believed to be how to expand the desire to consume so that consumption may be adequate to production. Economic theory in the twentieth century takes production for granted and focuses on the ways and means by which consumption may be increased. It proceeds as though the problem of economic life were not the production of wealth, but the production of consumption.

These two diametrically opposed and mutually exclusive basic premises concerning the fundamental problem of economic life play the same role in economic theory as do conflicting metaphysics in philosophy. Point for point, they result either in opposite conclusions or in the advancement of opposite reasons for the same conclusion. So thoroughly and fundamentally do they determine economic theory that they give rise to two completely different systems of economic thought.

Two Views of Employment

If one is on the nineteenth century, productionist premise, one realizes first of all that there is no such thing as a problem of “creating jobs.” There is a problem of creating remunerative jobs, but not jobs. At all times, the productionist holds, there is as much work to be done—as many potential jobs to be filled—as there are unsatisfied human desires which could be satisfied with a greater production of wealth; and as these desires are limitless, the amount of work to be done—the number of potential jobs to be filled—is also limitless. The employment of more and better machinery, therefore, argues the productionist, does not cause unemployment. It merely allows men, to the extent that they do not prefer leisure, to produce more and thus to provide for their needs more fully and in a better way. Nor does the working of longer hours or the employment of women, children, foreigners, or people of minority races or religions deprive anyone of employment. It simply makes possible an expansion of production.

If one is on the twentieth century, consumptionist premise, one takes another view of machinery and the employment of more people. One regards every expansion of production as a threat to some portion of what is already being produced. One imagines that production is limited by the desire to consume. One fears that this desire may be deficient and, therefore, that an expansion of production in any one segment must force a contraction of production in some other segment. Hence, one fears that the work performed by machines leaves less work to be performed by people, that the work performed by women leaves less work to be performed by men, that the work performed by children leaves less to be performed by adults, that the work performed by Jews leaves less to be performed by Christians, that the work performed by blacks leaves less to be performed by whites, and that the extra work of some means a deficiency of work available for others.

Neither the productionist nor the consumptionist desires long hours or child labor. Here, to this extent, both reach the same conclusion. But their reasons are completely different. The consumptionist does not desire them because he thinks there is a problem of what to do with the resulting products, unless other products are to cease being produced and other workers are to become unemployed. The productionist does not desire long hours or child labor because he attaches no value to fatigue or premature exertion. The problem, in the eyes of the productionist, is not what to do with the additional products produced by longer hours or by child labor—only the intense need for the additional products calls forth this additional labor—but how to raise the productivity of labor to a level at which people can afford to have time for leisure and to dispense with the labor of their children.

Wealth Through Scarcity?

Because he imagines production to be limited by the desire to consume (rather than consumption being limited by the ability to produce), the consumptionist values not wealth but the *absence* of wealth. For example, after World War II, he imagined that the relative absence of houses, automobiles, television sets, and refrigerators in Europe was an asset of the European economy because it represented a large supply of unused consumer desire, thereby supposedly ensuring a strong consumer demand. By the same token, he imagined that the relative abundance of these goods in the United States was a liability of the American economy because it represented a depleted supply of consumer desire, thereby supposedly ensuring only a weak consumer demand. Prosperity depends on the absence of wealth, and poverty follows from its abundance, the consumptionist concludes, because that priceless commodity, consumer desire, more limited in supply than diamonds, is produced by the absence and consumed by the presence of wealth. It is on this principle that the consumptionist relishes war and destruction as sources of prosperity and attributes the poverty of depressions to "overproduction."

The consumptionist does not believe that the destruction of wealth is the only means of achieving prosperity. Though he believes it difficult of accomplishment, he has hopes that the supply of his commodity, consumer desire, may nevertheless be increased by positive measures. One such measure is a high birth rate. By bringing more people into the world, one brings more consumer desire into the world. The existence of a larger number of people, the consumptionist tells businessmen, will make it possible for business to find someone upon whom to unload its otherwise superfluous goods. Business will prosper because its supply of goods will find a counterpart in an adequate supply of desire for goods. In the absence of a high birth rate, or along with a high birth rate, the consumptionist believes advertising may suggest to the otherwise fully sated consumers some new desire. And, on a somewhat different plane, technological progress, the consumptionist argues, may provide new uses for an expanding supply of capital goods, which otherwise would find no "investment outlets." Or, if all else fails, the government may be counted upon to supply an unlimited consumption—even in the absence of desire. Or perhaps, the consumptionist hopes, a country may be fortunate enough to be in danger of attack by foreign enemies and therefore stand under the necessity of maintaining a large defense establishment. In either case, the consumptionist imagines that the government will be able to promote prosperity by exchanging its consumption for the people's products.

Production Limits Consumption

The productionist, of course, takes a different view of matters. He argues that the birth and upbringing of children always constitutes an expense to the parents. In raising children, the parents must spend money on them which they otherwise would have spent on themselves. Of course, the parents may, and hopefully will, consider the money better and more enjoyably spent on their children; but still, it is an expense. And if they have a large enough number of children; they will be reduced to poverty. This is a fact, the productionist argues, that anyone may observe in any large family which does not possess a correspondingly large income. The presence of children does not make the parents spend more than they otherwise would have, but only spend *differently* than they otherwise would have. They buy baby food, toys, and bicycles instead of more restaurant meals, a better car, or costlier vacations. There is no stimulus given to production. Production is merely differently directed, to the different distribution of demand.

The only increase in production that could take place, the productionist maintains, would be as a result of the parents having to take an extra job or work longer hours to support their children and still be able to maintain their own previous standard of living. And when the children grow up, the additional market which they are supposed to constitute for houses and automobiles and the like will only materialize to the extent that they themselves are able to produce the equivalent of these things and thereby earn the money with which to purchase them. It will only be by virtue of their production, and not by virtue of their desire to consume, that they will be able to constitute an additional market.

Advertising and the Consumer

Advertising, the productionist holds, does not create consumer desire where no desire for additional goods would otherwise have existed. It is not the case that, in the absence of advertising, people would be at a loss as to how to spend their money. Advertising is not required, and would not be sufficient, to rouse vegetables into men. What advertising does is to lead people to consume differently and in a better way than they otherwise would have. Advertising is a tool of competition, and, as such, for every competing product whose sale is increased by it, there is another competing produce whose sale is decreased by it.

The consumptionist's attitude toward advertising brings into clear relief some further corollaries and implications of his basic premise. His estimate of advertising, like that of war and destruction, is ambivalent, and necessarily so. On the one hand, he approves of it, on the grounds that by creating consumer desires, it creates the work required to satisfy those desires. However, this very belief, that advertising creates desires where absolutely no desires would otherwise exist, also makes him condemn advertising. For if it were true that, in the absence of advertising, men would be perfectly content with very little, the desires created by advertising must appear to be only superficial and basically unnecessary and unnatural.

And this is precisely how the consumptionist regards such desires. In his eyes, all desires men have for goods, beyond what is necessary to make possible bare physical survival and a vegetative existence, represent an unnatural taste for "luxuries." These desires the consumptionist considers to be inherently unimportant. Their only justification is the creation of work. The consumptionist's conception of the greater part of economic activity, therefore, is that it represents senseless motion, with deceit and deception required to make people desire goods for which they have no need, in order to enable them to pass their lives in the production of those very same goods.

Paradoxical as it may first appear, it is the productionist who attaches importance to consumer desires. In his view, the desire for "luxuries" is important; it is necessary and natural; for it is nothing but the desire to satisfy one's inherent needs (including the need for aesthetic satisfaction) in an ever more improved way. It is from the importance which attaches to the satisfaction of the desire for "luxuries," the productionist maintains, that the importance of the work required to produce them is derived, and not vice versa.

Technology and Capital Goods

The value of technological progress, the productionist holds, does not lie in the creation of "investment outlets" or "investment opportunities" for an expanding supply of capital goods. If the concept of capital goods is properly understood, as denoting all goods which the buyer employs for the purpose of producing goods which are to be sold, then, the productionist maintains, there is no such thing as a lack of "investment opportunity" for capital goods. So long as more or improved consumers' goods are desired, there is need of a larger supply of capital goods.

For example, ten million automobiles of a given quality require the employment of twice the quantity of capital goods—twice the quantity of steel, glass, tires, paint, engines, and machinery—in their production as do five million automobiles. If the quality of the automobiles is to be improved, then a larger quantity of capital goods is required for the production of the same number of automobiles. For example, a given number of cars of Chevrolet quality require a larger quantity of capital goods in their production than the same number of cars of Volkswagen quality; the same number of cars of Cadillac quality require still a larger supply of capital goods; and the same number of cars of Rolls Royce quality require yet an even more enlarged supply.

The identical principle applies to houses of different size and quality. A given quantity of eight-room houses of a given quality requires the employment of a larger supply of capital goods than the same number of seven-room houses of the same quality. A given number of brick houses requires a larger supply of capital goods than the same number of wooden houses of the same size; the bricks or any more expensive material constitute a larger supply of capital goods because a larger quantity of labor is required to produce it. The principle applies to food and clothing, to furniture and appliances, to every good. So long as more of any consumers' good is desired, so long as not every consumers' good that is produced is of the very best known quality, there is a need for a larger supply of capital goods.

As Technology Advances

It is not the case that in the absence of technological progress, the supply of capital goods would continue to expand, but find no "investment outlet." It is not the case that what we have to fear from a lack of technological progress is a flood of goods in which every car produced will be the equivalent of the finest known model Rolls Royce, in which every house that is built will be a palatial mansion, in which every suit of clothes produced will be fit for the Duke of Windsor, and in which every morsel of food will be a rare delicacy, and that then we shall be at a loss as to how to employ our expanding supply of capital goods. On the contrary, what we have to fear from a lack of technological progress, the productionist argues, is that we shall *not* have an increase in the supply of capital goods, that we shall not be able to exploit any considerable portion of the virtually limitless "investment outlets" which already exist, *within the framework of known technology.*

The value of technological progress,the productionist maintains, consists in the fact that it enables us to *obtain* a larger supply of capital goods, and not that it solves the problem of what to do with a larger supply. The technological advances which made possible the canal building and railroad building of the nineteenth century and the development of the steel industry were valuable, not because they *absorbed* capital goods, as the consumptionist maintains, but because they made possible the *accumulation* of capital goods. The consumptionist does not realize that capital goods can only be expanded in supply by means of an expansion in their production, and that precisely this is what technological progress makes possible. Had the technological advances which made possible the first railroads in the 1830s not taken place, the supply of capital goods required for the expanded and improved railroad building of the 1840s would not have been obtainable; or, if obtainable, only at the price of the expansion of some other industry. Had no technological advances been made in railroading in the 1840s, the supply of capital goods in the 1850s would have been less, both for railroads and for all other industries. And so it would have been decade by decade, had the technological advances made in railroading or in any other industry not taken place.

For capital accumulation to continue for any period of time, technological progress is indispensable. Only it can make possible continued increases in production, and only continued increases in production can make possible continued capital accumulation. The consumptionist is not aware that the very thing which he considers to be the solution to his imagined problem is the source of what he imagines to be the problem. Nor is he aware that when he advances technological progress as the solution to the problem of what to do with more capital goods, he is confronting himself with the problem of what to do with the larger supply of consumers' goods, which even he admits results from technological progress. The consumptionist is faced, in addition to other quandaries, with the dilemma of explaining how it is that technological progress may raise the rate of profit by, as he puts it, "increasing the demand for capital," while at the same time, as he admits, it increases the production of consumers' goods, which, he maintains, lowers the rate of profit through "overproduction."

Consumptionism and Parasitism

The idea that by consuming his product, one benefits the producer, by giving him the work to do of making possible one's consumption, is absurd, the productionist holds. Only the use of money lends it the least semblance of plausibility. If it were true, then every slave who ever lived should have cherished his master's every whim, the satisfaction of which required of him more work. A slave should have been grateful if his master desired a larger house, an improved road, more food, more parties, and so on; for the provision of the means of satisfying these desires would have given him correspondingly more work to do.

The belief that the consumption of the government benefits and helps to support the economic system is on precisely the same footing, the productionist argues, as the belief that the consumption of the master benefits and supports the slave. It is a belief the absurdity of which is matched only by the injustice it makes possible. It is the means by which parasitical pressure groups, employing the government as an agent of plunder, seek to delude their victims into imagining that they are benefitted and supported by those who take their products and give them nothing in return.

The only economic benefit which one can give to a producer, argues the productionist, consists in the exchange of one's own products or services for his products or services. It is by means of what one produces and offers in exchange that one benefits producers, not by means of what one consumes. To the extent that one consumes the products or services of others without offering products or services in exchange, one consumes at their expense.

The use of money makes this point somewhat less obvious but no less true. Where money is employed, producers do not exchange goods and services directly, but indirectly. The buyer exchanges money for the goods of a seller. The seller then exchanges the money for the goods of other sellers, and so on. But every buyer in the series must either himself have offered goods and services for sale equivalent to those he purchases, or have obtained his funds from someone else who has done so.

The fact that in a monetary economy everyone measures his benefit by the amount of money he obtains in exchange for his goods or services is interpreted by the consumptionist to imply that the mere spending of money is a virtue and that economic prosperity is to be found through the creation and spending of new and additional money—i.e., by a policy of inflation.

In rebuttal, the productionist argues that for everyone who spends newly created money and thereby obtains goods and services without having produced equivalent goods and services, there must be others who suffer a corresponding loss. Their loss, says the productionist, takes the form either of a depletion of their capital, a diminution of their consumption, or a lack of reward for the added labor they perform—a loss precisely corresponding to the goods and services obtained by the buyers who do not produce.

The consumptionist's advocacy of consumption by those who do not produce, to ensure the prosperity of those who do, is, the productionist argues, a pathological response to an economic world which the consumptionist imagines to be ruled by pathology. The consumptionist has always before him the pathology of the miser. His reasoning is dominated by the thought of cash hoarding. He believes that one part of mankind is driven by a purposeless passion for work without reward, which requires for its fulfillment the existence of another part of mankind eager to accept reward without work. This is the meaning of the belief that one set of men desire only to produce and sell, but not to buy and consume, and the inference that what is required is another set of men who will buy and consume, but who will not produce and sell. In the consumptionist's world, the producers are imagined to produce merely for the sake of obtaining money. The consumptionist stands ready to supply them with money in exchange for their goods—he proposes either to take from them the money he believes they would not spend, and then have someone else spend it, or to print more money and allow them to accumulate paper as others acquire their goods.

Hoarding is not the only phenomenon upon which the consumptionist seizes. Where nothing in reality will serve, the consumptionist is highly adept at bringing forth totally imaginary causes of economic catastrophe. Invariably, the solution advanced is consumption by those who have not produced, for the sake of those who have. Always, the goal is to demonstrate the necessity and beneficial effect of parasitism—to present parasitism as a source of general prosperity.

The Rationality of Economic Life

In view of the overwhelming absurdities and contradictions of consumptionism and the gross perversion of values which it engenders, one may only conclude that its support is founded on the interest which it obviously serves: parasitism. This, of course, does not relieve the economist of the duty of identifying the particular errors of every consumptionist argument. It does, however, disqualify every consumptionist as an economist. No scientist, in any field, can accept the view that reality is irrational or that irrational action is required to deal with it.

Those economists of the present day who openly and defiantly proclaim that the economic world is "non-Euclidean," do so happily. That is the way they would like the economic world to be. If they merely believed that economic life *appeared* to be irrational, and did not at the same time *desire* it to be irrational, they would never proclaim it to be so in fact. Instead of leaping to the support of consumptionism after only the most casual examination of their subject, they would not rest until they had identified the errors which could make them believe that economic life possessed the appearance of irrationality; and the greater such an appearance might be, the greater would they realize their own ignorance to be, and the harder would they work to overcome it and expose the errors involved. It is this which distinguishes an economist from a Lord Keynes.