

Kultūra ir vartojimas*

CONSUMER SOVEREIGNTY: THEORY AND PRAXIS

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The article discusses the principle of consumer sovereignty (considering the satisfaction of consumers' private wants as the ultimate end of economy and most important criterion of economic welfare) which together with the principles of freedom of choice and Pareto optimality constitutes the core of liberal libertarian apology for market economy. As a matter of fact, there are no empirically observable market economies without state regulation of consumption. This regulation includes prohibition to consume some products (e. g. drugs) and services, the restrictions (e. g. alcohol) on and sponsorship for consumption of some other products (e. g. theater performances). The article discusses whether and under what conditions state regulation of consumption is paternalist and when it is consistent with consumer sovereignty. The consumer welfare (defined by the satisfaction of private (self-regarding) wants) is considered as only a special aspect of total social welfare (including also the satisfaction of non-partial other-regarding (ethical) wants) which is theoretically inconsistent concept because of the unsolved aggregation problems disclosed by famous Arrow theorem. Because of the pluralism of ethical values, visions of good life and good society characteristic for (post)modern Western society, consumer sovereignty is considered as the only viable foundation of economic politics committed to values of tolerance and negative liberty.

Keywords: consumer sovereignty, freedom of choice, Pareto optimality, consumer and social welfare, state regulation of consumption.

Introduction

The fruitful research on consumption and culture is impossible without the clarity about the criteria for evaluation of the performance of

economy and the problems which arise in the formulation and application of these criteria. The questions of this type are scrutinised in the welfare economics which is border area between economics and ethics (Hausman and McPherson 1996). Generally, economics parades as positive science preoccupied only with the description and explanation (another question which cannot be discussed here is whether this

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self-limitation is possible) (Hausman 1992). The evaluation of performance of economic systems involves the normative and value questions, so this is no pure economics but philosophy of economics. I am about to discuss the evaluation criteria for the performance of economics which surely deserves most attention by researchers who are professionally pre-occupied with culture and consumption. This criterion is brought to expression by the concept of “consumer sovereignty”. “Consumer sovereignty’ is a central normative principle in contemporary assessments of economic policies and systems” (Penz 1986: XV). This principle is qualified sometimes even as the “Archimedian point of reference” in economic evaluation (see *ibidem*).

“Sovereignty” means “supreme authority”. “Consumer sovereignty” means supreme authority of consumer in economy. This sovereignty is realised if the consumer wants is the last instance deciding what and how many goods will be produced by producers and how goods produced will be allocated. Consumer is sovereign in the economy if production serves for satisfaction of consumer’s wants and if producers are flexible and operative in their adaptation to the changes in the consumer wants. The economy’s degree of responsiveness to the consumer’s wants is the most important thing for the evaluation, whether consumer sovereignty is realized in a economy under consideration (Rothenberg 1992: 325). Speaking figuratively, consumer sovereignty is realised if consumer is king in the economy; if the principle “consumer (buyer, customer) is always right” is effectively enacted. This criterion entails that in the situation where there is interest conflict between consumer and producer, the consumer interests should be given the upper hand. It is important to maintain that consumer sover-

eignty is by far not the only thinkable criterion for the evaluation of economy’s performance. To give the impression how broad the range of possible alternatives is, I will list only some examples: (a) satisfaction of the needs of all members of a society; (b) income equality for all members of a society; (c) creating of conditions for the creative self-realization of a personality. The criterion (a) is preferred by the partisans of Christian social ethics, the criterion (b) – by socialists, the criterion (c) – by communists. The partisans of these alternative criteria are no enemies of the satisfaction of consumer wants. The problem is about the lexicographic priority between the criteria. The consumer sovereignty principle is rejected by those who maintain that there are more important things than the satisfaction of consumer wants, and these wants should be satisfied only provided that their satisfaction is not contradicted by any more important goals.

Which philosophy of the economy considers the consumer’s sovereignty as most important principle and why? What organization of economic life ensures the maximal realization of the consumer sovereignty principle? These questions I will try to answer in the first part of my article. Which difficulties do arise while applying this principle in the practice of public economics which can be described as applied welfare economics (Myles 1995)? Is it possible to speak about the consumer sovereignty in the “real” market economies observing the regulation of consumption by state, e. g. prohibition to consume some products (drugs) and services (prostitution), restrictions on consumption of some other products and services (alcohol, tobacco) by taxation, and promoting the consumption of some products and services by subsidies? This is the subject of the second part. In the third part, I will present and substantiate

the proposal how to formulate the consumer sovereignty principle in a more precise way. Without this specification the consumer's sovereignty principle is not sufficiently reliable in its function of "Archimedean point" to provide definite answers to the questions from the second part.

1. Consumer sovereignty, freedom of choice, and Pareto optimality

The concept "consumer sovereignty" was popularized by the British economist who has taught also in South Africa and United States William Harold Hutt. He was who has used it for the first time in the systematic way – in the book *Economists and the Public: A Study of Competition and Opinion* (Hutt 1936; see also Hutt 1940)¹. This concept was adopted very quickly as part of the economists' professional jargon. Most important reason for this success was its close correspondence to the model economic life which was constructed during the closing part of 19th century by the pioneers of the marginalist (or neoclassical) economics Carl Menger, William S. Jevons and especially Leon Walras (see e. g.: Ekelund and Hebert 1990: 317–448). Differently from the classical political economy which included as one of its branches Marxian economy, marginalists consider as the source of economic value not "socially necessary" inputs of the labor time but marginal utility of the scarce resources (including the means of production employed to produce consumption goods) used to satisfy consumer wants. Neoclassical model of economy (that of "general equilibrium") portrays an idealized market economy where consumer

sovereignty principle is perfectly realized. In this article, this model will be heuristically used as ideal type in the way described by Max Weber (Weber 1982 (1904):189–212): empirical reality will be compared with this model to identify its deviations from consumer sovereignty principle, and to find out their causes.

In the neoclassical model of general equilibrium, consumers have immutable, clearly defined wants and are perfectly informed about opportunities of their choice. Each of them maximizes satisfaction of her wants, spending her money income in the way where marginal utility of each dollar or pound is the same. Everybody cares only about the satisfaction of her own consumer wants or those of the members of her own family (household). Everybody strives to maximize her income and is working up to the moment where the marginal utility of the additional dollar or pound is equal the marginal utility of the additional unit of the leisure time. Producers are the rational egoists too. The satisfaction of consumer wants is no final goal of their activities. This is only means for the maximization of their income and satisfaction of their own consumer wants. The satisfaction of consumer wants is only a by-product of their activities oriented to this goal. However, under conditions of free competition, producers are forced to produce the goods in the quantities which ensure maximal possible satisfaction of consumer wants. Besides that, under conditions of the free competition, scarce resources are efficiently used. In the economy of such kind "the people who direct business firms only execute what is prescribed for them by wants <...> Individuals have influence only in so far as they are consumers <...>" (Schumpeter 1911: 21, citation according Bowles and Gintis 1993: 86), and "the only power wielded by economic agents is purchasing power" (Bowles and Gintis 1993: 86).

¹ For more information on Hutt's views see: Fraser 1939, Reekie 1988.

This neoclassical model implies that under assumption of perfect information both of consumers and producers the only obstacle which can prevent the realization of consumer sovereignty is lack of free competition – the producer oligopoly and monopoly. Only monopolist producer has no risk to get out of business if she does not care about consumer wants. Besides that, under conditions of producer (or seller) monopoly the consumer sovereignty is violated by forcing the consumer to overpay, leaving her with less resources to satisfy her other wants. Neoclassical model implies that first objective of the state economic policy pursuing the goal to defend consumer sovereignty is to promote the competition between producers, traders and service providers, and to prevent oligopolist collusions. Very efficient mean to achieve this objective is free trade, the abolition of tariffs for the goods imported from abroad.

Notoriously, the economic policy of this kind is called “liberal”. The reasonableness of such policy was in doubt in interwar time. The great world economic crisis 1929–1933 was perceived by the majority of Western intellectuals as the evidence for bankruptcy both of market economy and of neoclassical economics. Under conditions of the unprecedentedly acrimonious debates between the defenders of free market and the proponents of the planned economy or the broader state regulation of market economy, the principle of “consumer sovereignty” was perhaps the most beloved argument of the defenders of economic liberalism. So Ludwig von Mises points out that the dominant position of the entrepreneurs (the production is under their direct control) is merely apparent one. They are only steersmen who “are bound to obey unconditionally the captain’s orders. The captain is the consumer” (Mises 1966 (1949): 269–

270). Consumers, according to Mises, “are merciless bosses, full of whims and fancies, changeable and unpredictable” (Mises 1969 (1949): 270). As for entrepreneurs, “in the conduct of their business affairs they must be unfeeling and stony-hearted because the consumers, their bosses, are themselves unfeeling and stone-hearted” (Mises 1969 (1949): 271). The partisans of free market considered the neglect of consumer wants, the inability to satisfy the solvent consumer demand as the uppermost flaw of the planned economy, and the defiance of consumer wants—as recurrent feature of the state-owned enterprises. The economists who in the 1980s designed the projects of economic reforms which were partly implemented by Margaret Thatcher’s and Ronald Reagan’s governments, used the slogan of “consumer sovereignty” as one of the most important legitimization formulas for the institutional change.

As a matter of fact, the economic system of “real socialism” known by Lithuanians from their personal memories, can be considered as good example of the economic system where consumer sovereignty was treaded down. The main goal of the producers in this system was to fulfil plan. Their income was dependent on the plan’s fulfilment. Therefore, they could neglect consumer wants. Moreover, even if they would want to pay due consideration for consumer wants, they could not this. They had no possibility to react in flexible way to changes in consumer wants because the resources for production were allocated in the centralized way. Of course, the produced consumption goods were sold in the market, and the consumer was free to buy or not to buy. However, in this system the market was only the mechanism for realization of production, but no instrument for the direction and control of the producer decisions. The consumer sovereignty is realized only

provided the freedom of choice in the market is here not only for consumers, but also for producers and for all other economic units.

However, consumer sovereignty and free choice in the free market are two different things. American economist Jerome Rothenberg makes convincing proposal (Rothenberg 1962: 270–273, Rothenberg 1968) to draw the distinction between two versions or redactions of consumer sovereignty principle: the popular (or narrow) one, used in the writings by the apologists of free market, and the broad one. The broad version is expressed by the statement that (1) satisfaction of consumer wants is the overriding criterion for evaluation of the performance of economic systems, the changes in the institutional order of economic life, the decisions of producers and so on. We get the narrow version after supplementing (1) by two further principles: (2) each economic unit should be allowed to make itself all decisions related to its welfare (the principle of freedom of choice); (3) Pareto optimality principle: comparing any two social states A and B, one of them (say A) can be considered as superior with respect to B only if in the state A the wants of at least one consumer are satisfied better than in B, and if there is in A no consumer whose wants are satisfied less than in B. Shortly, the Pareto optimality principle forbids to increase the welfare of some consumers at the expense of other consumers.

J. Rothenberg argues that (2) or (3) are separate value judgements which are not entailed by (1). The thesis that consumer wants are satisfied in maximal way when all economic decision-makers are free to choose and decide themselves how to use their scarce resources, is no analytical truth, but an empirical statement. This means that the situations are thinkable, where the consumer sovereignty is realized (production is responsive for consumer wants

and their changes) although consumer herself makes no decisions how to use her resources.

If John has strict but loving wife Jane who knows all his wants and takes at the end of the month all his salary, she can spend John's money for the satisfaction of his wants not less efficiently than it would be done by John himself. However, this example leaves much to be desired, because typical modern family is only consumption unit, whereas the consumer sovereignty principle can be applied in sensible way only to economic units encompassing both production and consumption. But imagine self-sufficient economic system where the consumer wants are revealed for producers not via the observation of their buying behaviour in the market, but using surveys, psychological projective tests, and so on. Assume this system is community where its members have voluntarily given the control over their behaviour to the caring charismatic guru. The evidence (as described above) about consumer wants could be used by guru to make decisions how to allocate scarce resources for production – what goods and how many to produce. There would be consumer sovereignty without freedom of choice. Of course, the consumer sovereignty in the community of such kind would be very fragile because it would be fully dependent on the guru's good-will and on the honesty of its members while revealing their wants².

² Of course, it is very difficult to imagine how guru could limit for long time her task to the simple registration and accounting of the wants disclosed by community members. Real gurus execute the paternalistic tutelage over their followers, assuming that they know better their "true wants". Without such pretense they barely could qualify as "real" gurus, i.e. teachers of the "correct" way of life. However, in this special case their followers give voluntary assent that this is indeed the case. If they accept all decisions by guru on their part as serving best to satisfaction of their real wants, then we really have the case of consumer sovereignty without freedom to choose.

Very rich and sometimes traumatic historical experiences show that free choice in free market for all economic decision makers is the most reliable institutional arrangement to ensure consumer sovereignty – to direct production for the satisfaction of consumer wants and to compel producers to display maximal sensitivity for the changes in consumer wants. However, it is not the only imaginable institutional arrangement for the implementation of consumer sovereignty. The connection between realization of consumer sovereignty and free choice in free market is empirical, not logical or analytical one.

The popular version of the consumer sovereignty principle includes as its part Pareto optimality principle which forbids to sacrifice satisfaction of the wants of one consumer for satisfaction of the wants of another. This prohibition is a separate value judgment too, because the consumer sovereignty principle only demands to subordinate production to consumption, but says nothing whether changes in individual welfare can be aggregated into the evaluation of the changes in total social welfare, and how (if this is possible) this task should be solved. Consumer sovereignty principle is compatible, e. g., with the utilitarian principle for the evaluation of social welfare. From the utilitarian point of view, social welfare can be increased through the income redistribution favoring the badly off consumers, because marginal utility of an additional dollar for poor consumer exceeds marginal disutility suffered by the well-to-do consumer because of the loss of this dollar. If the redistribution of such kind doesn't decrease the incentives of the less well-off consumers to work, and if the incentives of the well-to-do to invest remain the same, and if the responsiveness of the producers to the changes in the consumer wants doesn't diminish, then there is no reason in favor of the opinion

that redistribution of income is incompatible with consumer sovereignty.

One of the antiutilitarian arguments says that the utility which is quantitative measure for the satisfaction of consumer wants is not a variable like length or weight. It is possible to compare two sticks and say, which stick (and how much) is longer. But there is no way to compare utilities of John and Bob brought for them by 10 USD bonus or by the consumption of a piece of cake. This state of affairs is known in neoclassical welfare economics as "interpersonal incomparability of utility". It precludes the formulation of the social welfare criterion stronger than Pareto optimality³. On the other hand, the acceptance of Pareto optimality criterion commits to reject the statement that implementation of a social reform significantly improving (according to the judgment of the winners) the satisfaction of wants of the 99,99% members of society at the expense of slight decrease (according to the judgment of the losers themselves) of want satisfaction for the remaining 0,01% society members means the increase of social welfare. The limitations of Pareto optimality criterion are perhaps most clearly visible in the situations, where the choices of a consumer striving after the satisfaction of her wants have side-effects for the satisfaction of other consumer's wants. Does Pareto optimality imply that a consumer has no right to satisfy her want if at least one another consumer maintains that this satisfaction is detrimental to her own welfare? Do I have no right to play music if this disturbs my neighbour on the other side of the wall at the reading of Kant's writings? These are only a few

³ All social welfare functions which do not assume the interpersonal comparability of utility confront the problem known as "Arrow hurdle" (see part 3 in this article).

examples of the difficulties arising during the application of consumer sovereignty principle, i.e. evaluating economic institutions, economic policies and the proposals to reform them.

2. Consumer sovereignty and state regulation of market economy

One part of the difficulties for practical application of the consumer sovereignty principle arise because of the differences between the “real” consumers and the perfectly rational and perfectly informed consumers portrayed by the neoclassical economic theory. Another part involves positive and negative externalities of one’s consumer’s consumption on the consumption of other consumers. To provide the analysis of these difficulties with sociological detail, I will discuss them presupposing the institutional context of market economy. This is the economy where producers and consumers meet themselves in the markets, and their relations are mediated by the state – an agency with the monopoly of the legitimate use of force inside the borders of some circumscribed territory. Because of this monopoly, state can regulate the relations between consumers and producers, implementing some specific economic policy. So these difficulties can be described in a more concrete way: as the problems of state economic policy. They are questions about the compatibility or incompatibility of some specific law acts with the consumer sovereignty principle. Are the legislation acts, which are enacted with the announced goal to defend “consumer rights”, really the means serving to realize more fully consumer sovereignty, or are they rather the violations of this sovereignty?

Differently from the perfectly rational consumers of the neoclassical economics, real

consumers are only boundedly rational. This means that representative real consumer is making her choice either not having full information or lacking the competence to analyze this information and make correct conclusions. The consumer (buyer)-producer (seller) relationship is characterized by the information asymmetry: sellers (producers) know about the goods sold more than the buyers know. Is this asymmetry the buyer’s or seller’s problem? Those who maintain that this is a buyer’s problem accept the rule *caveat emptor* (let buyer beware). The adherents of this rule maintain that consumer sovereignty is defended sufficiently by the consumer right to bring a suit against the seller, producer or contractor if she suffered the harm because of the poor quality of the good or service. In this way, the adherents of the *caveat emptor* rule speak for the minimization of the state interventions in the relations between buyers or customers and sellers or service providers. They believe that the best medicine against the goods and services of poor quality, against the cheating by producers and sellers is free competition among producers which eliminates those sellers of goods and services, who ask the price over the quality of their goods and services.

As a matter of fact, the economic policy of the contemporary economically developed states corresponds more closely to the opposite rule – *caveat vendor* – which prescribes the preventive protection of consumer and puts seller or producer under the obligation to minimize the buyer’s information costs. The coming of *caveat vendor* rule to dominance was not the outcome of some principled long-term policy pursued by somebody in the conscious way. The body of legislation acts and a variety of state agencies for consumer protection has developed in incremental and *ad hoc* way as a cumulative

legacy of many separate actions by the legislative and executive powers responding to scandalous cases where consumers were victims of cheating or were harmed by the producers inadvertently⁴. This was the way in which the agencies like sanitary inspections, boards for the control of medicines, and so on have come to existence. This is also the way in which the standards for consumer goods and services, packing rules, and so on have arise. A producer or service provider who is about to launch a new consumer good or service into the market, must take into consideration numerous regulations prescribing what and how she is permitted or not to propose for sale in the market, and getting increasingly abundant permissions and certificates.

Does consumer only win from these measures and labours of numerous agencies working to protect her? On the one hand, these measures are decreasing the consumer information costs and increasing the probability that the goods or services bought will be of the quality expected by consumer. They enable a gullible, ignorant, uneducated consumer to become educated and bright consumer, and reduce the risks for gullible and uneducated consumers. In other words, these measures help only boundedly rational “real” consumer to approximate or simulate perfectly rational consumer described by idealized market model in neoclassical economics. As was stated above, this model portrays the consumer who uses her limited money resources for satisfaction of her consumer wants in optimal way.

However, on the other hand, these measures reduce the supply of the goods and services and

increase their supply. Permissions qualifying to produce or to trade are fences or barriers protecting the producers and dealers, who have already established themselves in the market, from the new competitors. For the newcomers, these requirements mean additional entrance costs. Notoriously, sanitary inspection is here in Lithuania one of the most powerful weapons used to protect local agricultural producers from the competition by the imported foodstuffs. However, our country is no exception in this respect. Generally, these measures of the market regulation that are introduced with the manifest purpose of consumer protection, can do more harm for consumer interests than benefit them. When market is under-competitive, the consumers are paying too much. This means that they can satisfy less of their wants – they simply are short of money to satisfy their remaining wants. For this reason, zealous and strict protection of consumer interests harms them and means a violation of consumer sovereignty. As a matter of fact, it serves for producers to bring them monopolist and oligopolist profits.

Such transformation into the tool of consumer exploitation is very frequent in the case of the licensure. A person who is about to provide medical or lawyer services is under obligation to get licence from specific state agencies or (in U.S.) professional organizations. One of the standard preconditions for getting a licence are educational credentials certifying the qualification of the applicant. The declared goal of licence as institution is consumer protection from the cheaters and services of low quality. However, it is very symptomatic that after the licence establishment happy possessors of the licences (“insiders”) insist on making qualification requirements more stringent, the conditions for granting a licence more demanding. “In the arguments that seek to persuade

⁴ Perhaps the most notorious case of this kind is talidomid disaster in the 1960s. Talidomid was tranquilizer which if used by pregnant women caused heavy foetus deformities.

legislatures to enact such licensure provisions, the justification is always said to be the necessity of protecting the public interest. However, the pressure on the legislature to license an occupation rarely comes from the members of the public who have been mulcted or in other ways abused by members of the occupation” (Friedman 1971 (1962): 140). So the prohibitions arise to photograph, to shave, to cut hair and so on without appropriate diploma or licence. In all these cases, the competition between the providers of the services or producers is limited and the supply of the services or goods themselves is diminished. Consumer is the harmed side. Some of consumers are compelled to consume less or pay greater price. And for some other consumers (those with the lesser purchasing power) licenced goods and services (even if of lesser quality) are getting unaffordable. Therefore, that part from total consumer wants which is satisfied becomes lesser, although it could be greater provided that licences are abolished.

However, the relations between consumers and producers is not the only area of state regulation. There are consumer wants that are under the prohibition. A notorious case is the prohibition to consume drugs. The satisfaction of some other wants is restricted in artificial way by taxation. The characteristic example are drinks with drug substance known as “ethyl alcohol” as their chemical composite. No matter what are consumer’s life expectation, she is under the obligation to pay part of her revenue for pension funds. The police fines drivers who are driving their cars with the unclashed seat belts. The persons suffering from tuberculosis are under the compulsive medication. In addition, state sometimes promotes the consumption of certain products and services by cutting taxes for their producers and providers or by direct

subsidies. Can all these cases be qualified as those of evident and heavy violations of consumer sovereignty?

To provide an adequate answer to this question, we should take into consideration the circumstance which was already mentioned above: the satisfaction of the wants of a given consumer produces (as a matter of rule) negative externalities (side-effects) for other consumers. The consumers, who get addicted to narcotic substances, commit crimes and become inmates of prisons and rehabilitation clinics where they subsist and are medicated at the expense of other consumers. The consumers who did not made financial provisions for their elder age, when getting old are burden for others, diminishing their income and – as a consequence – consumption. Careless drivers with unclashed seat belts endanger the interests of their spouses and children. In the case they are injured or killed in accidents, the consumption of their spouses and children diminishes significantly. By the way, this is one of the reasons why wives are fighting so fiercely against the bad habits of their husbands and care that their way of life would be a healthy one. The persons suffering from contagious diseases can infect others.

In all these cases the wants of some consumers cannot be satisfied without inflicting the damage on the satisfaction of the wants of some other consumers. Whose wants are more important? Consumer’s sovereignty principle in its broad version (1) has not enough content to answer this question. However, the narrow version of consumer sovereignty (including Pareto optimality principle) is inadequate for this task too. So we need a more contentful (and contentious) criterion for evaluation of social welfare. An utilitarian’ answer to our question would be that the satisfaction of a want must be forbidden if the utility from the satisfaction of these wants is

less than the harm suffered by other consumers who have not these wants. The same rule is implicitly in the so-called cost-benefit analysis (see Boardman et al. 1996).

However, the foundation for the cost-benefit analysis can be provided also by so called Kaldor-Hicks criterion which is a modified version of Pareto optimality principle. Kaldor-Hicks criterion says that the satisfaction of some specific want should be prohibited if the consumers having this want are not willing to pay compensation to other consumers suffering from negative externalities of the satisfaction of their wants (Boardman et al. 1996: 32–33, 41–42). So, for example, if John who is a smoker has as his roommate Jane who is not smoking, then John can get the right to smoke if he is willing to pay Jane the acceptable compensation. The excise tax for tobacco and for alcohol beverages can be considered as a compensation that is paid by smokers and drinkers for those who suffer negative externalities from their behaviour. It means, e. g., that we should not be too harsh for our inebriate fellow citizen. If she has consumed not the liquor produced in the underground (moonshine), but legal product, then she has already paid for the inconveniences which we are suffering because of her vicinity in the trolleybus. In this way, she helps to finance public goods like police, medical services or scientific research and education. Although she consumes these goods too, the payer of excise tax is participating disproportionately in the costs of the provision of these goods.

There is also the reverse side of the medal. The satisfaction of the consumer wants of some citizens can have positive externalities for other citizens. In such case the consumer sovereignty principle, if supplemented by the proper principle of the aggregation of individual welfares into the social welfare, is compatible

with the subsidizing by state of the satisfaction of these wants. This argument can be used to legitimate state subsidies for the public culture institutions, e. g. theaters. These subsidies enable also those consumers, whose wants to watch theater performances is not sufficiently strong (or the income is not sufficient) to pay for this pleasure full market price. If we would succeed to find out the utility which the subsidizing of the pleasures of the theater-loving consumers brings for other consumers, who pay for them (including those who are totally uninterested in the theater), then we would be able to provide the proof that this practice is fully compatible with the consumer sovereignty principle.

3. Consumer wants and citizen values

The most evident cases of the violation of the consumer sovereignty principle are those where the satisfaction of the wants under prohibition does no harm for other consumers. However, there are many prohibitions of this kind (especially in the sphere of sexual life). There are consumers, who overpay for the alleged negative externalities of their consumption for their fellow consumers (are exploited by them), and there are others who get subsidies for the satisfaction of their wants (parasitize at the cost of the excluded or non-interested). State regulation of consumption is used frequently for paternalistic consumer “education” – to inculcate “correct” wants. Why the practices of state regulation do deviate so frequently from the principle of consumer sovereignty? Answering this question, we should take into consideration another else difference between the real consumers and the perfectly rational consumers of neoclassical economic theory. One of the essential features of the perfectly

rational consumer is her self-interestedness. This means that she is totally unworried about the consumption of other consumers. Her welfare depends only on what and how much goods and services she is consuming herself, but not on what and how much their fellow consumers are consuming. In different words, she has no other-regarding wants. These are wants which have as their subject the wants of fellow consumers and the satisfaction of these wants⁵.

However, real consumers are worried very much about the wants of their fellow consumers, and what ideas about “good life” they have. There are two varieties of the worries about the consumption of other consumers. On the one side, there is partial interest in the consumption by some specific (“named”) consumers. On the other side, there is impartial interest which comes to expression in the concern about the mismatch between the wants of people, distribution of income in the society, and so on, and some specific idea of “good life” or “just society”. In this case, the people are resentful why they themselves or other people do not want things they would want, or why they want things they would not want. This means that real consumers have wants directed not at certain commodities or services, but at their own wants, wants of their fellows, and their way of life. It is possible to want to smoke and at the same time – to want not to want to smoke. It is possible to want to smoke and to want that Lithuanians, Catholics or people generally would not want to smoke (and do not smoke). Sociologists designate such wants or conceptions of desirable as “values” (see: Williams 1968: 283).

⁵ Even if they have such other-directed wants, they are purely contemplative ones. In other words, the agents with purely contemplative other-regarding wants (wishes) are not prepared to spend a penny for satisfaction of these wants. See Norkus (1993).

Values influence also the economic policy of the state, and its legal system. All these simple facts imply many problems for consumer sovereignty principle. We must specify, what is considered as the criterion for economy’s performance: the satisfaction of all consumer wants, or only of their private wants? Choosing the first version, we would exchange consumer sovereignty principle for some another principle. The regard for satisfaction of all wants would really mean more than simply *consumer’s* sovereignty. More proper name for such extended principle would be “human”, “personal”⁶ or some other sovereignty, because it would take into consideration also those wants which are possessed by human being is her quality as citizen. However, while speaking about *consumer’s* sovereignty, it is expedient to take into consideration only private consumer wants. This means that specification is required that consumer sovereignty principle is applicable only for evaluation of some specific aspect of total social welfare (provided we are ready to allow the aggregation individual welfare to social welfare). We propose to designate this aspect as “consumer welfare”. The measure of this welfare is the degree of the realization of consumer sovereignty: the degree of responsiveness of producers, tradesmen, service providers for private wants of solvent consumers. However, total social welfare includes also the correspondence of the society’s members ways of life, income distribution, and other aspects of social life to values shared by the members of this society. Total social welfare is high, if human wants and behaviour conform with society’s values. Total social welfare in this sense of many stone age tribes was very high. Total social

⁶ The term “personal sovereignty” is proposed by Peter Penz (1986:58).

welfare is low, if there is a wide gulf between values of society and the *de facto* wants of its members and their behaviour. In such case, sociologists are speaking about “anomy” or “social pathology”.

The difference between the consumer welfare and total social welfare can perhaps be made more clear using the following thought experiment. Let’s imagine small rich capitalist country, where absolute majority of population subscribes to communist values. If the communist government of this country would try abolish capitalism, it would be immediately occupied by U.S. army⁷. Therefore, the population of this country is living in the social system it hates, although this system realizes consumer sovereignty principle: the solvent demand of population is satisfied (there is plenty of goods in the shops), and the producers are responding to all changes in the private consumer wants. At the same time, total social welfare is low in this country, because citizen sovereignty is trampled down here. This evidently so, because the population of this country is not allowed to establish social order which it likes: to abolish without private property for means of production and so on. In addition, the members of this population is suffering ethically because of the discrepancy between their (“consumerist”) way of life and their ethical wants.

Would we exchange the principle of consumer sovereignty exchanged for some broader principle – that of “personal sovereignty” or something like? The application of the the concept of “total social welfare” to the developed market societies is hardly possible, because the ethical values (or ethical wants) of their mem-

bers are different. Even for the imagined case of the capitalist society consisting of the members with communist values, we hardly may assume that there is no dissident minority with different ideas about “good life” and “good society”. Max Weber once wrote that most important feature of modernity is “struggle that the gods of various orders and values are engaged in” (Weber 1971 (1917–19): 76–77, i.e. the pluralism and conflict of ethical ideals. In this respect, there are no significant differences between modern and postmodern societies, except that the value fragmentation and pluralism has increased still more. This means that it is not clear which are those shared ethical values that could serve as yardsticks for evaluation of the social organization of (post)modern societies, ways of life, wants and so on to estimate total social welfare of these societies. An advocate of the Sermon on the Mount ethics would say that notwithstanding the high consumer welfare enjoyed by the greater part of the their population, their total social welfare is low because people want things that Christ exhorted not to want and do not love things that He summoned to love. In similar way a “green” fundamentalist or post-materialist would reason, because they are disaffected by the “false wants” of their fellow citizens. Evidently, total social welfare would be maximized in a society of saints. In other cases, we have the problem with this concept. If we are true believers and are confident that the posthumous fate of our fellow citizens is dependent on their behaviour in earthly life, we should feel a duty to prohibit them to do things that spell doom for them. However, what if we as true believers are meeting people with different views on ways of salvation and with different model of the society of saints?

Because of these difficulties, while evaluating the economy’s performance it is advisable to take

⁷ Something like this situation was the reality in the Northern Italy provinces under communist rule in 1945–1980.

into consideration only the satisfaction of private wants, i.e. to work only with the consumer but not with “human” or “personal” sovereignty encompassing both the consumer’s and citizen’s sovereignty. Another reason to put a citizen with her sovereignty aside are farther difficulties of practical and theoretical kind haunting the concept of citizen sovereignty. Consumer sovereignty demands producer’s responsiveness for private consumer wants. Citizen sovereignty demands the congruence of the community’s institutions with citizen values, and the responsiveness of government for their value attitudes. Where citizen sovereignty is realized, both legislative and executive make all their decisions taking direction from the value attitudes of the citizens, and taking into consideration all changes in these attitudes. The problem of the practical kind for this ideal are “government failures” that match “market failures” haunting consumer sovereignty. Government fails because governors follow their own interests or private wants, and there is no institutional design for the government preventing this mismatch between the ideal of citizen sovereignty and the reality of governance.

The problem of theoretical kind infringes the citizen sovereignty ideal itself and the very concept of total social welfare⁸. This difficulty is known as “Arrow hurdle”. To advance the demand for government to follow exactly citizen will, we must have at our disposition the procedure to find out this will for every topic of public policy, i. e. to aggregate many value judgments into the one judgment expressing

⁸ This statement holds provided there is no possibility of the interpersonal comparison of subjective utilities. If this is possible (or would be possible), then the “Arrow’s hurdle” would be surmounted, and the only way to make citizen sovereignty a reality would be the governors’ “dishonesty” or lack of virtue.

“common”, “collective” or “general” will. The technical term, designating such device for derivation of collective preference from many individual preferences, is “social welfare function”. In the 1951, American mathematician and economist Kenneth Arrow has proved that no social welfare function can satisfy some intuitively obvious conditions of its adequacy as a “reasonable” and “fair” one (Arrow 1963 (1951)). One of these conditions is called by Arrow “consumer sovereignty”. This condition says that social welfare function cannot be imposed. The social welfare function is imposed if there is some pair of alternatives x and y such that collective preference is always for (say) x no matter what is the relative position of x and y in individual preferences. Even if all individuals prefer y to x , x is collective preference, so that some preferences are taboo (Arrow 1963 (1951): 28–29).

Arrow has proved that there is no social welfare function which satisfies this condition (realizes citizen sovereignty defined in such minimal way) and warrants the consistency (transitivity) of the collective order of preferences without violating at least one of the following intuitively obvious conditions that would be satisfied by every reasonable or fair aggregation procedure. These conditions are as follows: (1) the set of arguments for social welfare functions (individual orderings) would be unrestricted: the social welfare function would admit all possible individual preferences; (2) there would be positive association between individual and social valuations (if relative place of x in individual orderings rises, it would rise, or at least do not fall in the social ordering) (3) the independence of irrelevant alternatives; (4) nondictatorship (there is no individual such that if she prefers x to y , then x is always collectively preferred to y no matter the preferences of other individuals).

Notwithstanding the diversity of ideas of “good life” or “ethical values” which can be found in the contemporary Western countries, some “overlapping consensus” (Rawls 2002 (1993): 147 ff) can be found too, brought to expression by the ideas of tolerance and negative freedom. The principle of consumer sovereignty is perfectly compatible with these ideas. So the suggestion is perhaps not completely besides the point that this principle expresses most important value of “silent majority” in the consumerist Western societies. “From the primitive man, who was bound by an elaborate ritual in almost every one of his daily activities, who was limited by innumerable taboos, and who could scarcely conceive of doing things in a way different from his fellows, morals have more and more tended to become merely limits circumscribing the sphere within which the individual could behave as he liked” (Hayek 1962 (1944): 58).

Conclusions

1) Consumer sovereignty principle is pivotal in the liberal philosophy of economy.

2) According to consumer sovereignty principle, the overriding criterion for the evaluation of economy’ performance is the satisfaction of private consumer wants.

3) It is advisable to distinguish two versions of the consumer sovereignty principle – the broad one and the narrow one. Consumer sovereignty broadly conceived is equivalent to the conclusion statement (2). It is narrowed down by supplementing it by the freedom of choice principle which says that every economic unit must be allowed to make itself all decisions involving its welfare, and by the prohibition to sacrifice the welfare of some consumers to enhance the welfare of some other consumers (Pareto optimality principle).

4) The state policies of market regulation (especially licensure) which are introduced with announced goal to defend consumer interests can subserve to the monopolist inclinations of producers and to violate the consumer sovereignty principle.

5) Consumer sovereignty principle is compatible with the prohibition to satisfy private consumer wants, if their satisfaction hurts the satisfaction of consumer wants of fellow consumers; consumer sovereignty is compatible also with the taxing the satisfaction of wants with negative externalities.

6) Consumer sovereignty principle is incompatible with the state prohibition to satisfy private consumer wants, when their satisfaction does not harm other consumers; consumer sovereignty is also incompatible with the state prohibition to satisfy private wants, when consumers with these wants are ready to compensate the damage inflicted by the satisfaction of these wants on other consumers.

7) State regulation of the market takes into consideration not only private consumer wants but also their values (ideas of good society and of good life). Therefore, in the practice of state regulation, consumer sovereignty principle is often neglected. In particular, this is a case in the non-Western societies where tolerance and negative liberty do not enjoy the status of values.

The idea to consider the satisfaction of the private consumer wants as the overriding criterion for the evaluation of economy’s performance is not self-evident. Some possible alternatives were mentioned in the introduction of this article. Their proponents have strong arguments. The consumer wants are not constant and unchangeable. Is it reasonable to establish the satisfaction of consumer wants as the measure of their private and/or social welfare, if

it happens very often that consumers regret having satisfied them? More importantly, producers, sellers, advertising agencies exert all efforts to influence consumer wants. So the suspicion is not besides the point, whether consumer sovereignty principle is not simply ideological fiction disguising the fundamental

fact of producer sovereignty as essential feature of capitalist market economy? The questions touched upon are both important and difficult. Precisely because of this reason the space of this article is too narrow for their discussion. So I postpone this discussion for the sequel to this article.

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VARTOTOJO SUVERENUMAS: TEORIJA IR PRAKTIKA

Zenonas Norkus

Santrauka

Vartotojo suverenumo principas galutiniu ekonomikos funkcionavimo vertinimo kriterijumi skelbia vartotojų norų patenkinimą. Kartu su pasirinkimo laisvės ir Pareto optimalumo principais jis sudaro liberalios libertarinės ekonominės filosofijos branduolį ir pagrindžia laisvosios rinkos ekonomikos, kaip geriausios institucinės ekonominio gyvenimo organizacijos, vertinimą. Straipsnis nagrinėja filosofines gerovės ekonomikos problemas, susijusias su vartotojo suverenumo principu. Realios rinkos ekonomikos sąlygomis valstybė reguliuoja vartojimą, drausdama vartoti tam tikrus produktus ir paslaugas, kitų produktų ir paslaugų vartojimą apmokestinama, o trečių – skatindama mokestinėmis lengvatomis ir

subsidijomis. Ar tai iš viso suderinama su vartotojo suverenumu? Kaip atskirti tas valstybinio rinkos reguliavimo priemones, kurios suderinamos su šiuo principu ir jį įgyvendina, nuo tų, kurios jį pažeidžia? Straipsnis pagrindžia išvadą, kad į šiuos klausimus negalime pateikti visai aiškių atsakymų, jeigu vartotojo suverenumo principo neperformuosime taip: ekonomikos funkcionavimo vertinimo kriterijus yra gamintojų jautrumas *privatiems* vartotojų norams.

Prasminiai žodžiai: vartotojo suverenumas, pasirinkimo laisvė, Pareto optimalumas, vartotojo ir socialinė gerovė, valstybinis vartojimo reguliavimas.

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