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Consumer Sovereignty in the Modern Global Era

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Consumer sovereignty is the idea that consumers exert ultimate control over the economy. Under consumer sovereignty, consumer preferences determine the composition of goods that are produced in the economy. Through their spending decisions, individual consumers control both the allocation of resources and the distribution of goods across the economy (Hildebrand, 1951).

Three assumptions underlie the idea of consumer sovereignty. First, consumers are rational in the sense that they attempt to make optimal choices given their preference structures. Second, consumers are informed in the sense that they have enough knowledge to make optimal choices. Finally, consumers are able to purchase goods in a competitive marketplace. In the words of Arrow, "the consumers are in command, subject only to what they can afford to spend." (Arrow, 1963a)

There is also a social welfare dimension to consumer sovereignty. Many proponents of the doctrine have asserted that the performance of an economy should be evaluated by the extent to which it satisfies consumers (Rothenberg, 1962). In the words of one political economy writer, "democracy depends on a free market economic system, which in turn is based on consumer sovereignty, which is really 'voting with dollars' for our favorite products and services. American political sovereignty is necessarily tied to the people's right to sell or buy whatever they find useful" because consumer sovereignty facilitates democratic participation–and provides an important line of defense against an overweening state (Cobb, 1994).

One might expect that such a bedrock principle of both market economics and democratic politics would be uncontested in the social science literature. Instead, a large social science literature suggests that government action is needed to correct a wide variety of instances in which consumers cannot meaningfully exercise their will. Recent trends such as globalization and the New Economy have heightened these concerns, suggesting to some that consumer sovereignty is no longer viable in the modern age. It is the purpose of this paper to examine these concerns and their implications.

The Calculation Debate

The first question one must answer is whether consumer sovereignty produces an economic outcome different from what government could itself provide. This question forms a major part of the so-called "socialist calculation debate." In the first part of the twentieth century, many economists believed that markets were no more efficient than a properly run collectivist system (Barone, 1935; Taylor, 1929). To the extent government can correctly anticipate the wants of each consumer and then provide consumers with the goods they would have chosen had firms behaved efficiently and perfectly, government can produce an outcome functionally indistinguishable from what would have occurred if consumers were sovereign (Dobb, 1933). All one would need is the means to write down a model of the economy and then solve for the appropriate distribution of goods across the economy.

But could government actually "get the prices right"? Mises and Hayek contended this was a theoretical and empirical impossibility (Mises, 1990; Hayek, 1935). But a fierce counterattack was launched by Oskar Lange, who argued that government could not only get the prices right but could get them right in situations where markets would fail. So socialism could actually be superior to consumer sovereignty because it provides better price signals than the marketplace (Lange, 1938). One would still be left with enormous technical difficulties due to the size of the optimization problem that government would have to solve, but some economists believe the advent of the computer age has made it "technologically possible" for government planners to make decisions as if they had the right prices for goods and services (Cottrell and Cockshott, 1993).

Yet the fact remains that many governments have tried to solve the calculation problem and none have succeeded. Why not? Perhaps the simplest reason is that market prices do not arise in a vacuum – they are formed by market processes and are not knowable in the absence of those processes (Lavoie 1985). Further, much of the information that governs those processes is unobservable and therefore unknowable to any central planner that might seek to use them in his calculations. Certainly the fact that the centrally planned Soviet Union survived decades without advanced computing technology only to collapse as it became available suggests that technology does not play the deciding role here (Boettke 2001). Absent a computer capable not only of making a sufficient number of calculations per second but also of divining what individuals and firms would do at all points in time if free markets were to be established, the market will–even in principle–produce more efficient outcomes than would be possible under central planning.

Ignorance is Bliss?

Having established that consumer sovereignty is in principle preferable to what one might call "government sovereignty," we turn to practical objections. The first of these objections is that consumers are simply irrational and hence would exercise their sovereignty in a way that is clearly inconsistent with utility-maximizing behavior. For example, the editors of the *Journal of Health Economics* recently signed a statement endorsing the settlement between tobacco companies and the United States government. Large cigarette price increases formed a major part of the settlement, and the editors noted that such increases might appear to violate smokers' consumer sovereignty. But because the higher tax would demonstrably improve the lives of American smokers, the editors argued, the settlement actually promotes consumer sovereignty by encouraging smokers to behave in a more "rational" fashion.

This type of argument is not uncommon among social scientists. One noted researcher in this area concluded that "an individual's tastes, preferences, utility functions, goals, transitivity, and self-interests... can be irrational" (Gamble, 1997). To the extent this is generally the case, he argues, consumer sovereignty becomes "irrelevant" because consumers cannot fulfill their part of the bargain. This may appear to be a compelling argument for government intervention, but if individuals are incapable of rational behavior, why would one expect that a government composed of such individuals could behave rationally? This is the fundamental problem with which advocates of the irrationality thesis are confronted–and from which there is no obvious escape.

A similar objection is less easily dismissed: that consumers are too ignorant to make informed choices. To the extent consumers lack important information about the goods and services offered by a market economy, they will make the best choices they can with the information they have but will fail to make optimal choices due to their ignorance (Scitovsky, 1962). In the limit, individuals are so woefully uninformed that they would with virtual certainty be better off having their decisions made by a benevolent outside arbiter, such as government. This sentiment was best expressed in Ken Arrow's seminal look at the medical profession, wherein he concluded that medical care transactions should not be governed by the market because patients don't have enough information/expertise to make sound choices (Arrow, 1963b).

Two examples, both from the medical field, serve to illustrate this point. A reasonably well-known graduate program in health care administration informs its students that "unless you know as much about medicine as your doctor, you can't evaluate the quality of the advice he gives you." The statement is demonstrably false–errors made by experts are routinely caught by others with much less knowledge–yet it is presented as fact without any rebuttal. And a medical columnist takes even more direct aim at consumer sovereignty with his statement that "a quack is a practitioner who tries to please his customers rather than his colleagues" (Fitzpatrick, 2001). This statement is not only demonstrably false but also pernicious–as George Washington discovered when he could not convince his medical team to deviate from the "sound" medical logic behind the leeches that eventually took his life.

Do people sometimes lack full information when making economic decisions? Certainly–but this is not necessarily an argument for government action. The ignorance of which researchers sometimes speak can be rational in the sense that busy individuals weigh the cost of information-gathering against the potential benefit from making the *ex post* utility-maximizing decision. But a considerable body of research has shown that consumers (by and large) behave as if they were fully informed even when only a small number of consumers actually have full information about any particular product (Teske, 1993). This echo of Milton Friedman's famous insight about pool players suggests that ignorance is not enough, in and of itself, to build a persuasive case for government involvement. One can go further and apply the Austrian insight that some information is only available when entrepreneurs generate it in the marketplace (Kirzner, 1997). If true, government action could actually generate more "ignorance" than it hopes to ameliorate, throwing its proper role into further question.

Corporate Control and the Need for Government

One of the ironies of the consumer sovereignty debate is that the earliest known use of the phrase was by an economist who–despite his belief that consumer sovereignty is a reasonable guideline by which to live– harbored a profound distrust of consumers' ability to exercise their sovereignty in a responsible way. "Our tastes and desires have after all," he wrote, "been almost wholly imposed upon us by the teachings, the tastes and the standards of those among whom we live" (Hutt, 1936, 283). An Australian humanities course echoes this sentiment when it notes that maximizing consumer sovereignty can appear consistent with free-market principles "if you equate, as some do, voluntary transactions with market exchanges."

This theme has been echoed by the 20th century's most widely read opponent of the doctrine of consumer sovereignty, John Kenneth Galbraith, who argues that corporations routinely manipulate consumer preferences through advertising (Galbraith, 1958). That corporations try to make a case for their products is amply attested in the literature (Packard, 1957). Galbraith, however, asserts much more than this. In his view, Americans enjoy such abundance that "a large and talented expenditure on advertising and salesmanship is needed to persuade people to want what is produced. Consumer sovereignty, once governed by the need for food and shelter, is now the highly contrived consumption of an infinite variety of goods and services" (Galbraith, 1999). What is needed, he argues, is a return to the halcyon days when mankind sought to fulfill its fundamental needs rather than striving after goods that would not even exist if not for corporations' insatiable desire to invent unnecessary goods and sell them to the populace at large. And government action would be the vehicle through which consumer preferences would be reshaped into the form they "ought" to take.

Galbraith is certainly not the only one to make this argument—others have made the case in areas as diverse as arts and culture (Ridley, 1983). Some have even asserted that these "unpreferred preferences" are becoming ever more pervasive as the modern global economy extends the reach of the marketplace beyond what any previous generation has experienced (George, 2001). But who is to say which portions of an individual's preference structure should be reshaped due to their "dependence" on corporate influence (Hayek, 1961)? Who is to say which goods are valid consumer choices and which are "contrived"? The question is whether a competitive market for advertising skews consumer preferences in any particular direction–or whether it is precisely that competition that gives consumers the information they need to make informed choices.

A related argument is that collective action problems necessitate government intervention because no single individual can bring about the result that everyone would like to achieve. Galbraith, for example, argues that corporations plunder natural resources despite strong protestations from the public because they recognize that no single consumer has the ability to stop them (Galbraith, 1973). Another economist notes that, once one "recognizes" that the marginal utility of consumption quickly approaches zero, it becomes clear that consumers would like a steeply progressive income tax but have no way to single-handedly implement such a tax (Frank, 1999). Both cases have the same premise–that government action can overcome the market failure that is so clear to the particular observers who are suggesting a government solution. Both cases also have the same problem: the fact that they replace the revealed preferences of consumers with what one economist believes those preferences to be.

This has occurred with particular regularity in the environmental realm, where it is suggested that individuals will not feel the proper degree of respect for the environment unless taught to do so by government (Barry, 1999). A lively debate has erupted over identifying the precise environmental issues (if any) where government action is warranted and whether that "action" should take the form of new government regulations or the facilitation of private property rights (Anderson and Leal, 1991). But some social scientists go further and assert that market economies drive people toward selfish behavior–and away from the objectively knowable common good that everyone would champion if only they could be made to see the way in which their preferences have been distorted by the marketplace (Jacobs, 1991). If true, then government action is not only desirable but imperative so that individual preferences can be transformed from what they now are into what they ought to be–the survival of the species may depend on it.

That individual preferences can be purified through government action carries with it a host of logical problems. How can we know whether the purifiers seek the common good? How can we know whether they have discovered what it is, or whether they understand the proper way to achieve it? Since ordinary individuals are unable to perceive the common good until after the proper education is received, we must simply trust that all will become clear once government raises our consciousnesses to a purified state. But if government action truly is necessary to reach enlightenment, by what means did the purifiers themselves achieve enlightenment? They cannot themselves have achieved enlightenment through government action if such action is only now being initiated, after all. So it logically follows that individuals can perceive the common good without government action–which undermines the intellectual foundation upon which the purifiers base their claims.

The Death of Democracy?

A final case against consumer sovereignty is that recent trends such as globalization and the New Economy have undermined the validity of consumer choices. According to this line of argument, individuals generally choose to hear only "louder echoes of their own voices" when permitted to freely choose their sources of information, which they are now better able to do than ever before. This is said to produce a variety of negative effects including "social fragmentation, misunderstanding, and sometimes even enmity." To preserve true consumer sovereignty, government must subsidize speech on all sides of each issue, compel information-gathering entities to provide unbiased information about opposing points of view, and encourage self-censorship among journalists who excessively attack particular viewpoints. Only by recognizing that "unrestricted choices by individual consumers" hinders the spirit of free expression can a "well-functioning democracy" be maintained. (Sunstein, 2002).

If Sunstein is correct, then individuals' ability to acquire information more easily than ever before has paradoxically made them less willing than ever before to consider alternative points of view. But there is a great deal of empirical evidence to the contrary, as the worldwide convergence of values over the last few decades can attest. And even if people were less willing than ever before to hear alternative points of view, who in a world of insular consumers could be trusted to enforce ideological "balance"? Sunstein's answer seems to be that he and those like him are capable of so doing, and that for our own good we must be "forced to be free" (Rousseau, 1999). And at a minimum, this has yet to be proved, despite Sunstein's sincere conviction that he has identified a deep-seated flaw in consumer behavior that his desired set of government policies would correct.

The Final Problem

As government gains an ever-greater financial and regulatory role in private transactions and industries, consumers lose part of their influence over winners and losers in the American economy. Many see this as desirable for a wide variety of reasons: consumers are irrational, or ignorant, or simply too besotted by corporatism or greed to make the proper decisions. This raises the specter that consumer sovereignty may find itself replaced with, or at least partially supplanted by, "government sovereignty."

This paper examines recent critiques of consumer sovereignty and concludes that consumer sovereignty is alive and well in the modern era. Consumers are neither irrational nor uninformed, nor have their preferences been forcibly moved from where they "ought to be." Even if this had occurred, there would be no better doctrine for consumer well-being than the free exercise of their preferences–at least until the omniscient and impartial central planner of myth can in fact be found. And contrary to what some believe, current economic forces such as globalization will enhance rather than detract from consumer sovereignty, as consumers are presented with more options–and more opportunities–than ever before.

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