

The 'Iron Cage' of Consumerism

As every hunted animal knows, it is not how fast you run that counts, but whether you are slower than everyone else.

The Economist, November 2008'

A sense of anxiety pervades modern society. At times it tips over into visceral fear. The economic crisis of 2008 was such a time. Financial institutions became almost paralysed by fear. Banks refused to lend even to each other; consumers stopped spending because of it. Governments displayed signs of being totally bewildered, both by the speed of change and by the implications of failure.

Fear may not be all bad. The threat of imminent collapse may have been the only force strong enough to bring so many countries together in late 2008, with a pledge to 'achieve needed reforms in the world's financial systems'. Decisiveness in the face of fear is what the G20 leaders called for during the early phase of financial recovery.

And yet the sense of a more fundamental, a more pervasive anxiety underlying the modern economy is an enduring one. ² Could it really be the case, as *The Economist* suggests, that we are still behaving like hunted animals, even in the 21st century, driven by the fine distinction between predator and prey? If we are, it would be good to recognize it. And to understand why. For without that understanding, solutions to the dilemmas we face will inevitably prove elusive.

Admittedly, the dilemma of growth isn't helping much, looking as it does like an impossibility theorem for lasting prosperity. Perhaps at some instinctive level, we have always understood this. Maybe we're haunted by the subconscious fear that the 'good life' we aspire to is already deeply unfair and can't last forever. That realization - even repressed - might easily be enough to taint casual joy with existential concern.

And of course the analysis in Chapter 5 doesn't allay those fears. It more or less closes down the most obvious escape from the dilemma of growth. Efficiency is a grand idea. And capitalism sometimes delivers it. But even as the engine of growth delivers productivity improvement, so it also drives forward the scale of throughput. Nowhere is there any evidence that efficiency can outrun - and continue to outrun - scale in the way it must do if growth is to be compatible with sustainability.

There is still a possibility that we just haven't tried hard enough. With a massive policy effort and huge technological advances, perhaps we could reduce resource intensities the two or three orders of magnitude necessary to allow growth to continue - at least for a while. And yet, the idea of running faster and faster to escape the damage we're already causing is itself a strategy that smacks of panic. So before we settle for it, a little reflection may be in order.

Accordingly, this chapter confronts the structure of modern capitalist economies head on. In particular, it explores two interrelated features of economic life that are central to the growth dynamic. On the one hand, the profit motive stimulates newer, better or cheaper products and services through a continual process of innovation and 'creative destruction'. At the same time, the expanding consumer demand for these goods is driven forwards by a complex social logic.

These two factors combine to drive 'the engine of growth on which modern economies depend and lock us in to an 'iron cage' of consumerism. 3 It's essential to get a better handle on this dynamic, not least so that we can identify the potential to escape from it. The starting point is to unravel some of the workings of modern capitalism.

Structures of capitalism

Capitalism isn't a single homogenous entity. We've seen already (Chapter 2) that it exists in different varieties. Peter Hall and David Soskice distinguished between liberal market economies and coordinated market economics. The former place more faith in the power of liberalized, deregulated markets. The latter argue for stronger social institutions and more strategic relationships (rather than competition) between firms. An argument rages over which variety achieves more growth. 4

In *Good Capitalism, Bad Capitalism*, William Baumol and his colleagues classify the economies of capitalist countries in four different categories: state guided capitalism, oligarchic capitalism, big-firm capitalism and entrepreneurial capitalism. 5 About the only thing these systems have in common is that they recognize the right of private ownership of property' the authors write. 'Beyond that they are very different. 6

Private ownership of the means of production is, broadly speaking, Baumol's definition of capitalism. An economy is 'capitalistic' when 'most or at least a substantial proportion of its means of production [is] in private hands, rather than being owned and operated by the government'. But he also recognizes that this definition is fluid, with even the most capitalistic states prepared to take ownership in some sectors. The financial crisis has blurred this boundary even more, of course, with national governments taking substantial equity stakes in financial institutions. The main thesis of Baumol and his colleagues is that not all types of capitalism are equally good. Some of them lead to growth; others lead to 'stagnation'. Specifically, the 'good' ones lead to growth and the 'bad' ones lead to stagnation! This moral judgement is fascinating in its own right. It's also interesting in suggesting that a capitalist economy doesn't after all

inevitably have to be growth-based. We'll come back to this question later in the book (Chapters 8 and 12).

For now, the most useful part of Baumol's thesis is his claim that good' capitalism (that is, growth-based capitalism) is entrepreneurial capitalism with a dose of big-firm capitalism thrown in. It won't escape anyone's attention of course that this is pretty much the version of capitalism that characterizes the consumer economies of the west. In fact, much of Baumol's book is focused on how to nurture and protect this rare and beautiful creature and persuade others to adopt it, so that we can all get as much growth as possible from it.

Though it could clearly do with a dose of ecological realism, the book is nonetheless a useful resource for those interested in understanding how long-run economic growth is supposed to work in this kind of economy, at least in principle. In practice as we've seen things can go badly wrong. At its heart, however, consumer capitalism is strikingly simple (Figure 6. 1).

In broad terms, firms employ labour (people) and capital (buildings and machinery) to produce the goods and services that households want and need. Households (people) offer up their labour and capital' (savings) to firms in exchange for incomes. Revenue from the sale of goods and services is what allows firms to provide people with incomes. People spend some of this income on more consumer goods. But some of it they save. These savings are invested (directly or indirectly) back into firms. This, in a nutshell, is the 'circular flow' of the economy. 8

Missing from this oversimplified picture of the economy (and from Figure 6.1) are what's called the public sector (government), the foreign sector (overseas firms, households and governments), and the financial sector - which mediates the financial flows of the circular economy

All of these are crucial. Partly because they introduce a whole new set of actors and a whole new set of possibilities: different ways of spending and producing, saving and investing. These offer some potential (as we shall see in Chapter 8) for reconfiguring the economy. But they also complicate the basic simplicity of Figure 6.1 enormously.

In one sense, the financial crisis emerged precisely out of the complexity generated by the evolution of a global financial sector. And as we saw in Chapter 2, that complexity was in part the result of trying to keep the system going. Global credit markets facilitate one of the most fundamental features of capitalism: the dual role of saving and investment. The basic functioning of this feature is simple enough, Households give over part of their income to savings. These savings are invested - either directly or through an intermediary (for example a bank, building society or investment house) in businesses to generate profits.

Profit is key to this system. Why would households give their savings to firms rather than simply hanging on to them or spending the money on consumer goods? Only because they expect to receive a healthy 'return' on their capital at some point in the future. This return is created out of the stream of profits from the firms they invest in.

Firms themselves seek profit for several reasons. In the first place, it provides them with working capital (cash) to invest in maintenance and improvements themselves. Secondly, it's needed to pay off the company's creditors - people who've lent the firm money in expectation of a return. Thirdly, it's used to pay dividends to shareholders - people who've bought a share in the company.

A company that shows good returns attracts more investment. The value of the company will rise because people are prepared to pay more for shares in it. When share values are rising, more people will be keen to buy them. Creditors know they will get their money back with interest. Shareholders know that the value of their shares will rise. The company knows that it has sufficient resources to maintain its capital stock and invest in new processes and technologies.

This ability to re-invest is vital. At a basic level, it's needed to maintain quality. Without it, buildings and equipment inevitably get run down.⁹ Product quality is lost. Sales decline. The company loses its competitive position and risks going out of business.

Investment is also needed continually to improve efficiency, in particular labour productivity. The role of efficiency in capitalism has already been noted (Chapter 5). The driver for efficiency is essentially the profit motive: the need to increase the difference between revenues from sales and the costs associated with the so called factor inputs: capital, labour and material resources.

Cost minimization becomes a core task for any firm. But it involves some inherent trade-offs. Amongst these is that capital investment is needed, in addition to its role in maintenance, to achieve cost reduction in the other two factors: labour and materials. ¹⁰ Switching to more energy efficient appliances or less labour intensive processes requires capital. This continuing capital need both motivates the search for low-cost credit and highlights the dangers of credit drying up. It also explains why reducing capital costs indefinitely isn't an option.¹¹

When it comes to choosing which of the other two factors to target, a lot depends on the relative price of labour and materials. In a growing economy, wages rise in real terms. Until very recently at least, material costs have been falling in real terms. So in practice, companies have invested preferentially in technologies that reduce labour costs even if this increases material costs: an obvious counter to the trend of resource productivity discussed in Chapter 5. ¹²

For a company then, higher labour productivity lowers the cost of its products and services. Forgoing that possibility runs the risk that the company finds itself at a disadvantage compared with national and international competitors. In this case, it would sell fewer goods, report lower profits to its shareholders and risk capital flight from the company. At the national level, this dynamic plays out as the ability to compete in international markets.

This dynamic explains some of the concern over labour productivity in Europe over the last decade or so. Labour productivity growth in the EU has slowed considerably in recent years. Though it grew on average by 2.7 per cent per year between 1980 and 1995, the growth rate fell to 1.7 per cent for the period 1995-2005. The GDP growth rate remained fairly constant at 2.2 per cent over the period, but this is largely because people are working longer hours now than

they were before. A 3 per cent decline in the hours worked during the first period turned into an 8 per cent increase in hours worked over the second period. 13

One of the concerns for the EU is how well it's doing against its competitors. The contrast between the EU and the US over the two periods is striking. Growth in GDP in the EU already lagged behind the US during the first period (Figure 6.2). This difference was entirely due to the decline in working hours in the EU compared to an increase in working hours in the US.

During the second period, the gap between the EU GDP growth and the US GDP growth increased in spite of a faster increase in working hours in the EU than in the US. The difference was almost entirely due to changes in the labour productivity growth rate. As we noted, this fell dramatically in the EU during the second period. But in the US, it doubled from 1.2 per cent per year in the earlier period to 2.4 per cent per year in the later period."

Understanding the dynamic between labour productivity, working hours and economic growth is important for all sorts of reasons, not least is the insight it provides into the minds of economists. For instance, the conventional view on labour productivity allows the authors of the EU study cited here to describe the US as 'forging ahead' because of its higher labour productivity and to condemn the performance of certain EU countries as 'dismal' because of their low labour productivity.

We'll have occasion later (Chapter 8) to question these normative judgements. But for now the key point is that the general trend in capitalist economies is quite clearly towards increasing labour productivity. Since this means producing the same quantity of goods and services with fewer people, the cycle creates a downward pressure on employment that's only relieved if output increases.

Efficiency quite literally drives growth forwards. By reducing labour (and resource) inputs, efficiency brings down the cost of goods over time. This has the effect of stimulating demand and promoting growth. Far from acting to reduce the throughput of goods, technological progress serves to increase production output by reducing factor costs. 16

The phenomenon of 'rebound' attests to this. 17 Money saved through energy efficiency, for example, gets spent on other goods and services. These goods themselves have energy costs that offset the savings made through efficiency, and sometimes wipe them out entirely (a situation described as 'backfire'). Spending the savings from energy efficient lighting (say) on a cheap short-haul flight is one sure-fire recipe for achieving this.

This somewhat counter-intuitive dynamic helps explain why simplistic appeals to efficiency will never be sufficient to achieve the levels of decoupling required for sustainability. In short, *relative* decoupling sometimes has the perverse potential to decrease the chances of *absolute* decoupling.

But efficiency alone doesn't guarantee success in business. Making the same thing more and more efficiently does not work for a couple of reasons. The first is that there are physical limits to efficiency improvement in specific processes. At the basic level, these constraints are laid

down by the laws of thermodynamics. 18 The second is that failing to diversify and innovate risks losing out to competitors producing newer and more exciting products.

The economist Joseph Schumpeter was the first to suggest that it is in fact novelty, the process of innovation, that is vital in driving economic growth. 19 Capitalism proceeds, he said, through a process of 'creative destruction'. New technologies and products continually emerge and overthrow existing technologies and products. Ultimately, this means that even successful companies cannot survive simply through cost minimization."

The ability to adapt and to innovate - to design, produce and market not just cheaper products but newer and more exciting ones - is vital. Firms who fail in this process risk their own survival. The economy as a whole doesn't care if individual companies go to the wall. It does care if the process of creative destruction stops because without it economic growth eventually stops as well. 21

The role of the entrepreneur - as visionary - is critical here. But so is the role of the investor. It is only through the continuing cycle of investment that creative destruction is possible. When credit dries up, so does innovation. And when innovation stalls, according to Schumpeter, so does the long-term potential for growth itself.

At this point, it's tempting to wonder what the connection is between this self-perpetuating but somewhat abstract vision of creative capitalism, and the needs and desires of ordinary human beings. The circular flow of production and consumption may once have been a useful way of organizing human society to ensure that people's material needs are catered for. But what does this continual cycle of creative destruction have to do with human flourishing?

Does this self-perpetuating system really contribute to prosperity in any meaningful sense? Isn't there a point at which enough is enough and we should simply stop producing and consuming so much?

One of the things that prevents this happening, clearly, is the structural reliance of the system itself on continued growth. The imperative to sell more goods, to innovate continually, to stimulate higher and higher levels of consumer demand is driven forwards by the pursuit of growth. But this imperative is now so strong that it seems to undermine the interests of those it's supposed to serve.

The cycles of creative destruction become ever more frequent. Product lifetimes plummet as durability is designed out of consumer goods and obsolescence is designed in. Quality is sacrificed relentlessly to volume throughput. The throwaway society is not so much a consequence of consumer greed as a structural prerequisite for survival. Novelty has become a conscript to the drive for economic expansion.

This doesn't mean that innovation is always destructive. Or that creativity is intrinsically bad. On the contrary, the creative spirit can and does enrich our lives. Its potential to do so has already been demonstrated. Proponents point quite rightly to the human benefits that creative

entrepreneurship can bring: advances in medical science, for example, which have contributed to increased longevity; or the sheer variety of experience which now contributes to the quality of modern life. 22

But neither can we see novelty as entirely neutral in the structural dynamic played out through capitalism. In fact, there is something even more deep-rooted at play here, conspiring to lock us firmly into the cycle of growth. The continual production of novelty would be of little value to firms if there were no market for the consumption of novelty in households. Recognizing the existence, and understanding the nature, of this demand is essential.

Social logic

It is perhaps not surprising to discover that the desire for novelty is linked intimately to the symbolic role that consumer goods play in our lives. It has already been noted (Chapter 4) that material artifacts constitute a powerful 'language of goods' that we use to communicate with each other, not just about status, but also about identity, social affiliation, and even - through giving and receiving gifts for example - about our feelings for each other, our hopes for our family, and our dreams of the good life. 23

This is not to deny that material goods are essential for our basic material needs: food, shelter, protection. On the contrary, this role is critical to our physiological flourishing: health, life expectancy, vitality.

But stuff is not just stuff. Consumer artifacts play a role in our lives that goes way beyond their material functionality. Material processes and social needs are intimately linked together through commodities. Material things offer the ability to facilitate our participation in the life of society. And in so far as they achieve this, they contribute to our prosperity (Chapter 3).

One of the vital psychological processes here is what consumer researcher Russ Belk called *cathexis*: a process of attachment that leads us to think of (and even feel) material possessions as part of the 'extended self. 24 This process is evident everywhere. Our relationships to our homes, our cars, our bicycles, our favourite clothes, our books, our CD or DVD collection, our photographs and so on all have this character.

Our attachments to material things can sometimes be so strong that we even feel a sense of bereavement and loss when they are taken from us. 'Hollow hands clasp ludicrous possessions because they are links in the chain of life. Without them, we are truly lost' claimed the marketing guru Ernest Dichter in *The Science of Desire*.25

Some of these attachments are fleeting. They burn with novelty momentarily and are extinguished as suddenly when something else attracts our attention. Others last a lifetime. Possessions sometimes offer a sanctuary for our most treasured memories and feelings. They allow us to identify what is sacred in our lives and distinguish it from the mundane.

This kind of materialism, flawed though it may be, even offers some kind of substitute for religious consolation. In a secular world, having something to hope for is particularly important when things are going badly. Retail therapy works for a reason. 16

Novelty plays an absolutely central role in all this. In the first place, of course, novelty has always carried information about social status. As Thorstein Veblen pointed out over a century ago, conspicuous consumption' proceeds through novelty~ Many of the latest consumer appliances and fashions are accessible at first only to the rich. New products are inherently expensive, because they are produced on a small scale. They may even be launched at premium prices deliberately to attract those who can afford to pay for social distinction. 27

After distinction comes emulation. Social comparison - keeping up with the joneses - rapidly expands the demand for successful products and facilitates mass production, making once luxury goods accessible to the many. And the sheer wealth and enormous variety of material goods has a democratizing element to it. It allows more and more people to go about inventing and reinventing their social identities in the search for a credible place in society.

Arguably it is precisely this cornucopia of material goods and its role in the continual reinvention of the self that distinguishes a consumer society from its predecessors. Material artifacts were always capable of carrying symbolic meaning. They were often used to establish social position. Only in modernity has this wealth of material artifacts been so deeply implicated in so many social and psychological processes.

According to some commentators, the symbolic role of goods is even appropriated in modern society to explore deep existential questions about who we are and what our lives are about. Novelty is seductive in its own right here. It offers variety and excitement; it allows us to dream and hope. It helps us explore our dreams and aspirations for the ideal life and escape the sometimes harsh reality of our lives. 28

And it is precisely because material goods are flawed, but somehow plausible, proxies for our dreams and aspirations, that consumer culture seems on the surface to work so well. Consumer goods, suggests anthropologist Grant McCracken, provide us with a tangible bridge to our highest ideals. They fall, of course, to provide a genuine access to those ideals, but in failing they leave open the need for future bridges and so stimulate our appetite for more goods. Consumer culture perpetuates itself here precisely because it succeeds so well at failure! 29

Again, it is important to remember that this dynamic doesn't by any means exhaust our relationship to material goods. Consumption is also vital to us in simple material ways. It is as much about ordinary everyday survival as it is about the social and psychological processes of identity, affiliation, aspiration and self-expression. But it is this social dynamic, rather than physiological flourishing, which serves to explain why our desire for material goods appears so insatiable. And why novelty matters to us.

Novelty and anxiety

It is tempting to dismiss such a system as pathological. And in some senses it clearly is. Psychologist Philip Cushman has argued that the extended self is ultimately an 'empty self' which stands in continual need of 'being "filled up" with food, consumer products, and celebrities'. 30

But it is also vital to recognize that this pathology is not simply the result of some terminal quality in the human psyche. We are not by nature helpless dupes, too lazy or weak to resist the power of manipulative advertisers. On the contrary, human creativity, emotional intelligence and resilience in the face of adversity are visible everywhere, even in the face of an apparently pathological consumerism.

Rather, what emerges from this analysis is that the empty self is itself a product of powerful social forces and the specific institutions of modern society. Individuals are at the mercy of social comparison. Institutions are given over to the pursuit of consumerism. The economy is dependent on consumption for its very survival.

Perhaps the most telling point of all is the rather too perfect fit between the continual consumption of novelty by households and the continuous production of novelty in firms. The restless desire of the 'empty self' is the perfect complement for the restless innovation of the entrepreneur. The production of novelty through creative destruction drives (and is driven by) the appetite for novelty in consumers.

Taken together these two self-reinforcing processes are exactly what is needed to drive growth forwards. As the ecological economist Douglas Booth remarks: 'The novelty and status seeking consumer and the monopoly-seeking entrepreneur blend together to form the underpinning of long-run economic growth. 31

It's perhaps not surprising that this restlessness doesn't necessarily deliver genuine social progress. Sometimes (see Chapter 4) it even undermines well-being and contributes to social recession. And there are some pretty clear reasons for that. Amongst them is that this is a system driven by anxiety.

The extended self is motivated by the angst of the empty self. Social comparison is driven by the anxiety to be situated favourably in society. Creative destruction is haunted by the fear of being left behind in the competition for consumer markets. Thrive or die is the maxim of the jungle. It's equally true in the consumer society. Nature and structure combine together here to lock us firmly into the iron cage of consumerism.

It's an anxious, and ultimately a pathological, system. But at one level it works. The relentless pursuit of novelty may undermine wellbeing. But the system remains economically viable as long as liquidity is preserved and consumption rises. It collapses when either of these stalls.

These understandings provide us with our clearest insight yet into the enormity of the challenge implied in delivering a truly sustainable form of prosperity. Perhaps first and foremost, that challenge compels us to develop a different kind of economic structure (see Chapters 7 and 8).

But it's clear that this task isn't sufficient. We also have to find a way through the institutional and social constraints that lock us into a failing system. In particular, we need to identify opportunities for change within society - changes in values, changes in lifestyles, changes in social structure - that will free us from the damaging social logic of consumerism (see Chapters 9 and 10).

Only through such changes will it be possible to get ourselves unhooked' from growth, free ourselves from the relentless flow of novelty that drives material throughput and find instead a lasting prosperity - the potential to flourish, within ecological and social limits.