



“Summary of article by Ben Fine and Ellen Leopold<sup>1</sup>: Economics, Psychology, and Consumer Behavior” in Frontier Issues in Economic Thought, Volume 2: The Consumer Society. Island Press: Washington DC, 1997. pp. 207-209

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### **“Summary of article by Ben Fine and Ellen Leopold<sup>1</sup>: Economics, Psychology, and Consumer Behavior”**

Neoclassical consumer theory is not only self-contained relative to other social sciences, it is also akin to a sealed unit within economics itself. It is partly for this reason that there has been negligible advance in the economics of consumer behavior over the past century. (51)

The neoclassical theory of consumer behavior is subtle and sophisticated in mathematical technique, but rigid and impoverished in social content. These chapters relate the theory's rigidity to its exact parallel with the much better developed theory of production, and discuss the failure of economics to learn from other disciplines.

### **THE UNCHANGING ECONOMICS OF DEMAND THEORY**

Consumer theory within economics has remained essentially unchanged since the marginalist revolution of the 1870s. The theory focuses on the rational economic individual who optimizes subject to constraints. It is exactly analogous to the theory of the firm, which assumes that producers maximize profits subject to constraints. Like firms combining inputs to yield outputs, individuals combine purchases to yield utility. The formation of specific tastes, habits, and preferences is usually said to fall "outside economics."

The economic approach to consumer behavior is justified on the grounds that it analyzes the rational, systematic part of demand; deviations from optimizing behavior are often referred to as "irrational." Moreover, modern economic theory formally addresses bundles of commodities, so even individual acts of obtaining and enjoying goods become irrelevant.

The economics of consumer behavior has been concerned with deriving empirical laws and theoretical regularities from demand systems. For example, Engel's Law hypothesizes that the poorer a family, the greater the proportion of income spent on food. Subtle relationships of symmetry and other mathematical patterns have been deduced from abstract systems of demand curves. Yet such analyses ignore behavior other than individual utility maximization, and refuse to explore the origins of changes in preferences. The idea that consumers make decisions independently of one another is taken for granted, and social factors that might influence consumption are frequently ignored.

Not surprisingly, the resulting theory of demand is purely formal. Nothing is said about the specific uses of goods, or even broad categories of goods such as food and clothing. The mathematical parallel to the theory of supply is exact:

Conceptually, individual consumers can be interpreted as if they were entrepreneurs producing utility, rather than output, as efficiently as possible. The strict parallel highlights the extent to which neoclassical economics lacks a distinct theory of consumption. (51)

Yet there is a greater depth and variety of economic analysis around problems of supply. Issues such as the role of advertising are more at home in industrial economics, as part of the theory of the firm, than in demand theory. Competitive mechanisms that can lead to changes in the number of participants in the market are assumed to be at work in production but not in consumption. There is no analogue on the demand side to the theories of monopoly and oligopoly, or of managerial motivation, which examine important deviations from the pure competitive model on the supply side.

## **THE ISOLATION OF ECONOMICS**

Developments in the theory of supply, specifically in the theory of advertising, are of potential relevance to consumption. One strand of analysis treats advertising as an accumulated fixed cost of production, which can act as a barrier to entry. Another approach examines the role of information, modeling "rational" behavior under conditions of asymmetric information. But such models have little contact with analyses of consumer response to information developed in other disciplines.

Theoretical advances in economics have generally had little impact on the understanding of consumption in other disciplines. Sociology and anthropology have examined the influence of social factors such as family, class, status, and lifestyle, and considered the ritual and symbolic significance of consumption. Psychology has analyzed a broad range of individual motives for consumption, and considered the possible meanings of the consumption experience. Yet virtually all theories of consumer behavior fail to analyze the effect of the system of production on the consumption process. Meanwhile, "the role of economics for the theory of consumer behavior has been to provide an increasingly irrelevant core of rational, optimizing behavior." (54)

Attempts to combine disparate economic and non-economic approaches have produced the discipline of economic psychology, which focuses on consumer behavior. Yet this hybrid has been unable to advance much beyond its parents' accomplishments. On the one hand economic psychology often retains the narrow focus of economists on the allocation of scarce resources to competing ends. On the other hand, when broader motivational factors are admitted, the theoretical coherence of economics is simply swamped by exhaustive lists of possible influences on demand.

The nature of commodity relations as a social system, and the influence of production on consumption, must be considered in any discipline that seeks to create an adequate analysis of consumer behavior.

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1. This summary omits the authors' detailed discussion of psychological theories of consumer behavior.