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Cameron M. Weber
Graduate Economics Student
cameron_weber@hotmail.com
cameroneconomics.com

Consumption and Waste

One of the things that makes studying economics at the New School for Social Research unique from most other economics programs is that the New School offers course work in the Historical Foundations of Classical Economics. Students learn that economics was first addressed by the Greeks¹, and that economics branched from political economy, which branched from philosophy. Along the way, modern economics was born, a mostly mathematical social science based on behavioral assumptions devoid of the moral and ethical values contained in political economy and philosophy. This article addresses both values and economics.

During times of oppression many people have sought solace in spirituality. The Chinese used Taoism as a means to escape totalitarian emperors.² Sisters and Monks seek refuge in meditation, work, study and simple living. The Scottish enlightenment used asceticism against a new social order which acknowledged that the uneven accumulation of wealth was a natural outcome of:

1) the invention money as a means to facilitate exchange beyond barter and as a means to store value (as opposed to perishable foodstuffs), which helped to move society away from subsistence living and towards longer and more productive lives, and;

¹ See for example the writings of Hesiod (c. 700 BC) and Aristotle (384-322 BC).

² See for example the writings of Lao Tzu (c. 500BC).

2) a political order of property rights which was necessary to allow each individual to possess themselves and the fruits of their labors (as opposed to being possessed by others in an order of serfdom or monarchy).³

This ascetic outlook, or self-control, was a way to reduce the cognitive dissonance created through the need to balance acquisitiveness (the accumulation of material possessions) with a harmonious, sympathetic, social order that acknowledged not all persons had the same abilities or wants to create this wealth.

John Locke in *The Second Treatise of Government* (1690) writes of the conversion of the commons to personal property, and of the potential for waste:

“Before the appropriation of land, he who gathered as much of the wild fruit, killed, caught, or tamed as many of the beasts he could – he that employed his pains about any of the spontaneous products of Nature as any way to alter them from that which Nature put them in, by placing any of his labour on them, did thereby acquire a propriety in them; but if they perished in his possession without their due use – if the fruits rotted or the venison putrefied before he could spend it, he offended against the common law of Nature, and was liable to be punished; he invaded his neighbor’s share....”⁴

With population growth and freedom from religious and state control, came the enclosure of common lands, migration to cities (and the creation of city-states), centralized sources of labor, technological advance and the creation of industrial capitalism. With the growth of firms, assembly lines and bureaucracies - which represent a new society far removed from mankind’s formative hunter-gatherer and subsistence farming societies - came the alienation of people from the results of their labors.⁵ People no longer

³ See Adam Smith, *The Theory of Moral Sentiments* (1759) and *The Wealth of Nations* (1776), for an ascetic reaction to the development of capitalism and John Locke, *The Second Treatise of Government* (1690), on the development of money, self-possessiveness and property rights, and the theory of a limited government whose role is to protect property rights.

⁴ Locke, *Ibid.*, Section V. “On Property”, para. 37.

⁵ See Karl Marx, *Capital; Vol. I* (1867) and Max Weber, *The Protestant Ethic and the Spirit of Capitalism* (1905) on the development of capitalism and the alienation of labor.

consumed or possessed the results of their labors; they now were paid a (disembodied) wage for that labor's productivity, oftentimes not directly seeing the result of that labor.

Karl Marx' take on alienation was that the workers (the proletariat) would overthrow the factory owners (the bourgeoisie, or, capitalists) in revolution and a more equal society (communism) could be created.⁶ Given enough rope (the means to produce increasingly meaningless products in the search for profits), the capitalists, "would hang themselves." Thorstein Veblen, one of the first economics professors at the New School and perhaps the first great American economist, had a different take on industrial capitalism. Veblen in *The Theory of the Leisure Class* (1899) said that the workers want to emulate, not overthrow, the capitalists through 'conspicuous consumption' (the outward display of wealth.) U.S. society in the 21st Century has borne-out this prediction.

We can see from Illustrations One and Two that the U.S. now has a negative savings rate and that the Government of the United States will become an increasingly large part of the US economy. The US government is currently in debt to the tune of \$46 trillion (\$156,000 per person) which is predicted to go to \$65 trillion (\$230,000 per person) by 2010⁷. In simple economic terms, a negative savings rate and a large, and growing larger, government debt means that the money needed to sustain our lifestyle currently, and in the future, must come from sources outside the United States.

This money comes either in the form of loans or as investment. On the face of it, there is nothing wrong with this; this just means that the US is seen as a good creditor and a good place to invest. However, there are tipping points to this phenomenon. The US dollar is declining in value, which means that our dollar buys less of goods imported from elsewhere. Investment is important to have a growing economy as investment now is used to make an economy more productive in the future.⁸ Current consumption is traded for improving standards of living in the future. This

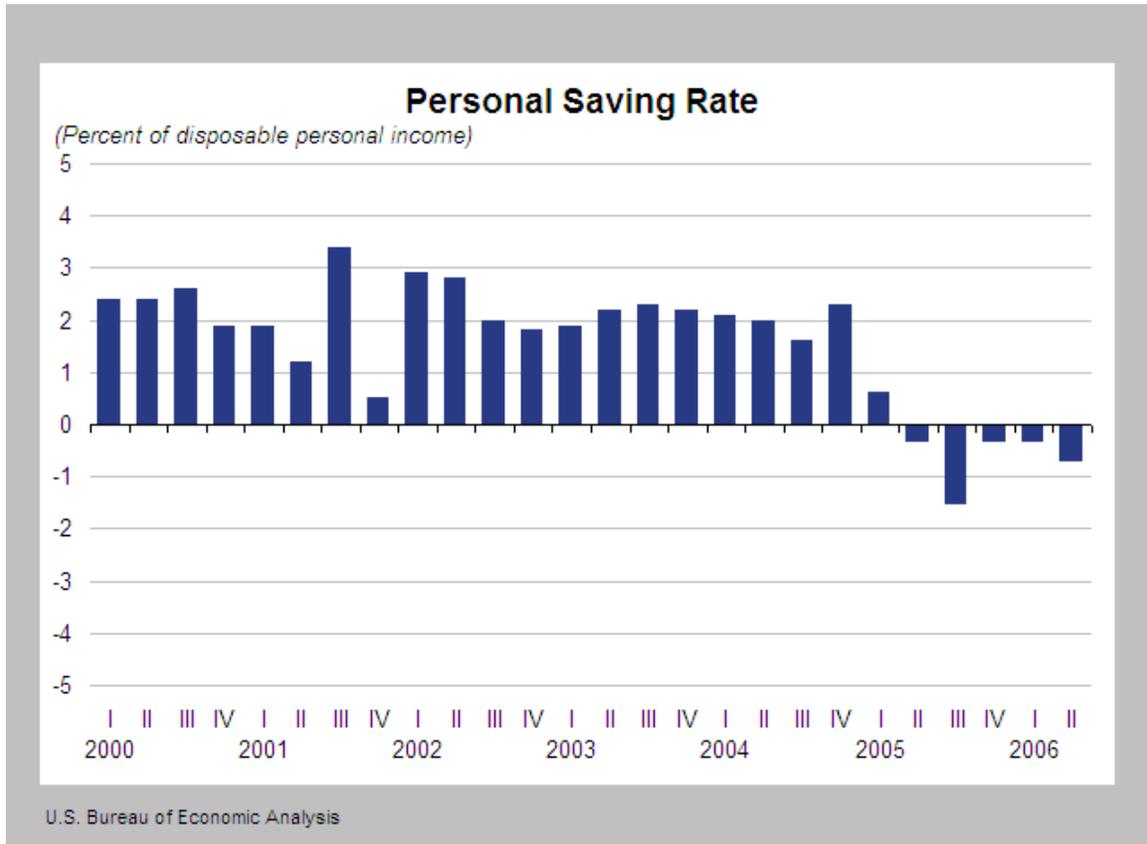
⁶ The U.S. anarchy movement is calling for a society less alienated as "primitivism." See for example the Fall 2006 *Fifth Estate*, <http://fifthestate.org>.

⁷ Government debt data from the Government Accountability Office (gao.gov).

⁸ See A.R.J. Turgot *Reflections on the Formation and the Distribution of Wealth* (1766) for an early theory on capital accumulation, investment and wealth-creation.

increasing debt may mean that, economically, our consumption-based, debt-ridden lifestyle is unsustainable.

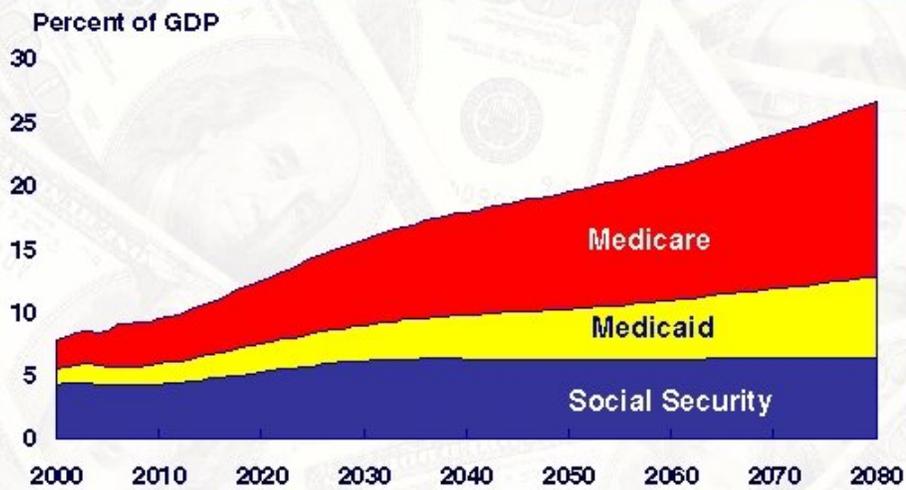
Illustration One



Source: bea.gov

Illustration Two

Social Security, Medicare, and Medicaid Spending as a Percent of GDP



Source: GAO analysis based on data from the Office of the Chief Actuary, Social Security Administration, Office of the Actuary, Centers for Medicare and Medicaid Services, and the Congressional Budget Office.

Note: Social Security and Medicare projections based on the intermediate assumptions of the 2005 Trustees' Reports. Medicaid projections based on CBO's January 2006 short-term Medicaid estimates and CBO's December 2005 long-term Medicaid projections under mid-range assumptions.

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Source: gao.gov

The conspicuous consumption of US society has meant that much of the debt of our government is held by those abroad (mostly individuals and central banks in Asia⁹) and our future generations will have to pay for the government programs of this generation. Is this ethical, does this represent a decent value system? This is the opposite of how people have dealt with uncontrollable or alienating power structures of the past. Instead of a retreat into spirituality or a search for knowledge we have become indebted consumers electing politicians promising more than it is just to deliver, robbing from future generations to pay for the government programs of this generation. To put it another way, these Illustrations show that we no longer possess ourselves of our own free will; we are in debt to others not ourselves.

The household negative savings rate might also add to our alienation. More debt means that we must work more to pay off this debt. It is hard to say if the debt-financed consumption itself is the *result* of some type of alienation, or the *cause* of (perhaps unacknowledged) alienation. Another solution to debt is to declare bankruptcy or “skip out.” This itself creates alienation; who does not want to live up to her or his promises? The debtor can say that their debt is to the big faceless corporation, e.g., the cause of much alienation in the first place.¹⁰ But this has unintended consequences;

⁹ For example, the Chinese central bank owns \$700 billion in dollars (http://english.people.com.cn/200601/12/eng20060112_234981.html) and the Indian central bank \$125 billion (<http://www.indiadaily.com/editorial/11-27-04.asp>).

There is nothing immoral about ‘foreigners’ owning assets of other countries as long as this is accomplished through the “just price” of supply and demand and not through government policy which favors special interest groups. For example, the Chinese government’s intervention into its foreign exchange markets in attempt to keep the Yuan stable may result in an undervalued Yuan. This would prioritize Chinese exporters (a special interest group) over Chinese consumers (which is everyone in the economy) and would earn a foreign currency surplus for the Chinese central bank. The US government policy of subsidizing farmers (a special interest group) makes farm products more expensive for agriculture product consumers (everyone in the economy) and decrease disposable income. In addition, this subsidization encourages wasteful excess production, resulting in agriculture products stored at taxpayer expense, i.e., “government cheese.”

¹⁰ It should be noted that more than 50% of Americans own corporate stock, mostly in pension funds. Therefore, although true emotionally, corporations are not faceless factually. (US Congress Economic Joint Committee, from Americans for Tax Reform data, atf.org)

high default rates means that the cost of capital is driven-up. This in turn means more costly, and therefore less, investment and thus less improved living standards for future generations.

The study of morality might be defined as the study of how our actions affect others. Where there is no harm, there is no foul. However, the conspicuous consumption of US society in the 21st century is not only wasteful; due to the effect on future generations, it may represent a society whose values have gone askew.