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Consumption and the standard of life

Introduction

Sustainable economic growth is considered a goal in itself by most economists. However, an examination of Mill, but also Marshall and Keynes, confirms that they considered the goal of economic progress a considerably more complex question, one that led them to consider an *objective standard of comfort*, often associated with the notion of a *nobler life*. Its improvement is fundamental to measure the performance of a capitalist economy.

In this paper the question of that standard of comfort and of its changes is discussed in relation to two analytical structures, Pasinetti's structural dynamics and Sen's capabilities approach. Both are critical of the standard approach to consumption and lay out the basis for a dynamic theory of consumption. That serves well the effort of framing the question of an evolving standard of life in the context of long run growth. A dynamic theory of consumption should also help to clarify the content and indeed the very meaning of the standard of life envisaged by Mill, Marshall and Keynes. It can account for the variations in such a standard that are an indispensable aspect of the problem of economic progress. Indeed, without variations of this standard, the entire issue of the move towards a nobler life would not exist.

The first section the paper outlines how, not surprisingly, a broader view of economic progress requires to move away from traditional consumer theory, and in particular from its static approach, and an orientation to the question of growth and development largely distinct from that of most Growth theory, old and new. Despite their non negligible differences, structural dynamics and the capabilities approach share precisely these two characteristics. The second section traces the dynamic theory of consumption emerging from these two analytical structures, which leads to argue that an essential aspect part of a dynamic approach is the notion of need and need development, beyond the sequential satisfaction implied by a given need hierarchy. Need development is part of the construction of socially determined individuality and the basis for differentiated life styles. Introducing self-realization of individuals we should therefore get closer to the concerns behind the notion of an improving standard of life.

The fourth section examines the views of Mill, Marshall and Keynes on an improved standard of life. We can observe that the standard of consumption and its changes, i.e. an evolving material basis for the satisfaction of needs, is not the focus of their concerns, but rather precisely a "nobler life", one in which the main questions of the living conditions of the working classes in the society they were observing were addressed.

Although an essential aspect of a standard of life, they seem to look beyond consumption, to focus on what they regard the main social issues facing capitalism. Indeed, an indispensable aspect of a nobler life are redistribution policies and government spending. That does not help, however, to establish the role of an evolving standard of consumption in long run development and leaves open the question of the relationship between a nobler life and the level of the wage. Section five concludes elaborating on these two aspects and the larger question of the social philosophy underlying the view of a nobler life.

1. A broader view of economic progress

1.1 Long run development

Although rarely discussed in the theoretical growth literature, a fundamental aspect of long run development is the evolution of consumption. This is why both Pasinetti structural dynamics and Sen capabilities approach stand out as noticeable exceptions. These two approaches provide an analytical structure that helps to frame and study the question of an evolving standard of life in the context of long run development.

Growth theory has in recent years focused on endogenizing the growth rate, overcoming the limitations implicit in a view of growth driven by exogenous factors. This has redefined the research agenda towards the analysis of knowledge and human capital accumulation. This has not led, however, to any particular focus on the analysis of consumption. Beyond a theory of the growth rate and its determination one finds in most textbooks a reference to the “golden rule of accumulation”, spelled out as the equilibrium condition that maximizes consumption per capita. Not much then addressing a broader view of economic progress and in particular the relationship between long run development and the standard of comfort of the working population. These are precisely the concerns of great economists of the past such as Mill, Marshall and Keynes.

The search of indicators of development that explicitly take into account variables normally excluded from standard economic measures, most notably measures of human development, owes much to the work of A. Sen and are now largely used in development studies. On the other hand, the view of consumption patterns evolution as part of the development process, i.e. a dynamic theory of consumption, seems a promising way to look at the relationship between that standard of comfort and long term growth.

1.2 The issue of change in consumption theory

The dynamic theory of consumption is the result of both an orientation to the question of growth and development largely distinct from that of most Growth theory and a response to the limitations of traditional consumer theory. This lies primarily in the difficulty of traditional theory to address analytically the question of change in consumption. Consumer theory rests on a model of allocation and a very specific understanding of rationality and of consumer sovereignty. As such it is static and has difficulties at accommodating change in a broad sense, but also in the fine sense of change in the items of consumption. Its structure is largely defined by the overall goal of establishing a supply and demand determination of prices.¹

What is relevant here is simply to point out that the question of change is at the center of the attempts to improve traditional theory. While that clarifies the main problem facing a theory of consumption patterns, it also indicates that a dynamic theory of consumption involves issues in the history of economic analysis, as well as questions of empirical verification and historical evidence.²

¹ As observed by Zamagni (1986) consumer theory has a specific analytical purpose reflecting the role of demand in the Neoclassical theory of value. The analytical apparatus is necessary to derive demand curves with the desired properties, so that they can concur with supply curves to determine equilibrium prices. It does not aim at analyzing the consumer and consumption patterns (Gualerzi, 1998).

² It would require an examination of the role of consumption within the main traditions of economic analysis. The Classical tradition has mainly focused on production and distribution; it did not attempt to develop a theory of consumption as such, for reasons that would require to discuss the notion of subsistence and its function in the Classical system. The Keynesian tradition has mostly discussed consumption as a component of aggregate demand, consistently maintaining the focus on its contribution to spending, but did not much elaborate on its motivations, nor on its internal structure and evolution. Therefore, changes in the

Lancaster's characteristic model (1966,1971) addresses the question of product innovation and differentiation. Similarly to the analysis of new commodities contained in Ironmonger (1972) it is based in a reconsideration of some fundamental concepts in the history of economic thought. They point out that the approach based on utility maximization is a shift away from the notion of wants one finds in early Marginalism. In the transition from the original focus on wants to the concept of diminishing marginal utility in Marshall, the discontinuity in the satisfaction of needs was lost. Discontinuity is indispensable to consider an order in the satisfaction of needs, which is the characteristic of lexicographic models.³ The problem is that utility indexes are associated directly to goods, rather than to the "characteristics" that make these goods the object of "wants." Similarly, Ironmonger (1972) observes that wants arise from physiological and psychological needs. They are the object of satisfaction, rather than "a single desire, happiness or utility" on which traditional theory has focused.

The existence of separate wants gives relevance to technical change in the commodities entering into the consumption, so that new commodities become the focus of the investigation. From the point of view of consumer choice new commodities add a dimension, independent from taste, income and prices; in a broader perspective as we will see, they become essential aspects of need and need development. In particular, the questions evolves from one concerning change of the items of choice to a the question of the pattern of change in consumption.

We can conclude that the issue of need, technical change and new products begin to be clearly articulated by the attempt to insert change into the analysis of consumer choice. A broader view of transformation, such as that underlying Pasinetti structural dynamics, allows for a better understanding of the questions they raise. In particular, the question of new products drives attention to two dynamic processes, the development of need and the development of commodities, which can be the basis for a development of structural dynamics.⁴

2. A dynamic theory of consumption

2.1 Pasinetti structural dynamics and consumption theory

It was pointed out above that the analysis of consumption built into Pasinetti structural dynamics is indeed one of the distinguishing features of his model of growth and structural change. The well known consequence is an economic system whose structure changes both on the production and the demand side. A changing consumption composition becomes a crucial aspect of the growth process. In particular, if full employment is to be maintained, demand composition must change and spending must

consumption structure bring into focus the question of output composition, which remains mostly open in the Classical and Keynesian theory and is instead entrusted to (given) consumer preferences in mainstream theory.

³ Lancaster observes that especially in Menger, one can find the basis of "...the consumption technology approach" and of "the diet problem". (1971, p.9 and 146).

⁴ In fact, they imply to discuss explicitly the relationship of consumption patterns and investment in new products and new industries. Ultimately, that drives the attention to the composition of the growth process. (Gualerzi, 2005) The question consumption composition and product innovation has recently resurfaced under the heading of quality improvement and variety growth. Recent developments have examined how variety sustained consumption spending (Bils, M. and Klenow, P., 2001) and the reasons of its fluctuations (Parker J. and Preston B., 2005).

be redirected to new areas of consumption. This follows exclusively from the existence of technical change.

The consumption theory contained in structural dynamics is based on the generalization of the Engel curve and on consumers learning. In this scheme changes of demand composition are determined by income growth, technical change and consumers' learning. The possibility of a meaningful investigation of change in consumption, and of a dynamic theory, requires to refocus the attention away from the "rational" consumer busy to determine his preferred basket of consumption making marginal substitutions. Indeed, absolute utility depends not only on the amount, but also on the order in which goods are consumed. the recognition of an order in the satisfaction of needs – already suggested by wants separability - implies that a certain level of consumption for a commodity must be reached if any other commodity can bring in any utility at all. Relative prices become important only when the level of demand is approaching saturation levels.

Structural dynamics directs the attention precisely to the evolution of consumption patterns, as an aspect of the growth process. The question of course is: what governs consumption, its structure and expansion? Which theory do we have of such evolution? Pasinetti argues that one thing we know about consumption expenditure: it does not expand proportionally: Actually, there is a well known empirical regularity that indicates that there is a certain pattern of evolution endogenously determined by income growth.

The non proportional growth of consumption expenditure is based on a generalization of the Engel curve. The Engel curve has been neglected because it creates problem for utility theory; it does not fit its marginal substitution notion that never confronts the issue of saturation. Although Engel curves can be fitted into standard demand analysis (Deaton and Muellbauer, 1980) dealing with the problem exposes the difficulties of the dominant paradigm in front of a well established evidence on the pattern of economic development. The second foundation for a dynamic theory of consumption is learning. The process of learning is prior and more fundamental to consumer choice than the notion of rational behavior, which can guide choice only over a given set of products and at a given level of income. Furthermore, learning is likely to become more and more important as income increases. Mere rationality is the static counterpart of learning, as marginal utility is the static criterion opposed to need hierarchy.

Consequently, the notion of choice based on income dynamics, sequential satisfaction of need, reflecting biological, but also social priorities, and the limits sets by market saturation, suggest a picture of consumption and of consumers quite distinct from that of traditional theory.

2.2 Structural dynamics and capabilities

The capability approach

Sen capabilities approach also rests on a criticism of traditional consumer theory, the theory of the "rational fools" (1977). Continuity of preferences, he argues, is indispensable for the principle of substitution. However, once we abandon the example of trading apples for oranges and instead consider life styles, alternative systems of preferences individuals evaluate and choose from, the plausibility of the continuity assumption becomes far less obvious. He has also observed (1985) that preferences refer not to needs, but rather goods in the market, which are defined in a market economy by other economic agents. Moreover, needs can be satisfied by different types of goods, in different consumption

forms (individual, family, social). It follows that there is a discrepancy between preferences and needs.⁵

Interestingly, also Sen theory of human capabilities follows from a dynamic perspective, that of development, which they contribute to redefine addressing issues of human development and social justice. We are therefore dealing with a concept that has distinctively broad implications. Not consumption as such, but well being is the goal, as stressed by the criticism of rational fools. This opens a question concerning subjective evaluations, such as those involved in the pursuit of happiness, although an objective foundation remains in the notion of need. The point that needs to concern us here is simply that goods' characteristics are distinct from capabilities and the latter account for the result obtained in terms of need satisfaction. Thus, rather than in the sense of axiomatic maximization, rationality can be redefined in more general terms of systematic exploitation of information and reasoning.

The notion of "subject capability" refers to what individuals can accomplish with the resources available to them, given the constraints and the causation links that affect the capabilities set.⁶ Because of that we can say that the capabilities approach has a fundamental complementarity with structural dynamics. Structural dynamics is built around a fixed need structure and that raises a problem. Similarly, recent development of the capabilities approach (Nussbaum, 2000) propose a concrete list of capabilities. This contrasts with Sen's insistence on the fact that there cannot be such a list and we cannot anticipate in any meaningful way what individuals can accomplish with the goods available.⁷ This is precisely the way in which capability approach can add and complete structural dynamics.

Need hierarchy, commodities and capabilities

Within a larger account of the developments in the field of Classical theory Walsh (2003) carries out a careful examination of the relationship between structural dynamics and capabilities, whose conclusions are quite illuminating.

Walsh stresses that the question of change is at the center of structural dynamics. Not only that makes the assumption of a *balanced* path of growth driven by technical progress impossible, but carries all its consequences also for consumption and consumption choice. If we further observe that new goods, at least some of them, are likely to diffuse and become new basic of consumption patterns, then the question arise of the relationship of these new goods and capabilities. Here the argument made by Walsh rests on one basic point: although there is no strict correspondence, "there *is* ... a significant relationship nonetheless." (p.376) Structural dynamics presents on the one hand a truly dynamic process by which new commodities that appear are conceivably capable of the realization of vital capabilities; but the rise of new commodities follows a sequence, dictated on the one hand, by the hierarchy of human needs, which is satisfied sequentially; on the other, by *unbalanced* technical progress. There is no reason to suppose a tight relationship of these two sequential processes, even less assume a tight relationship with the development of capabilities.

⁵ Gibbard (1986) has pointed out that Pareto ordinality focuses on satisfaction of preferences, not of needs.

⁶ For a stylized representation of the several dimensions affecting the capabilities see Robeyns, 2005.

⁷ This difference can be explained by the distinct goals pursued by Sen and Nussbaum. As noted by Robeyns (2005, p. 103-104) "Nussbaum enters the capability approach from a perspective of moral-legal-political philosophy...Sen's work on the capability approach is closer to economic reasoning than Nussbaum's..."

Walsh's remark can be taken further. While suggesting that a fundamental ordering may come from the process, technical and social, that establishes new commodities in consumption goods markets, it rises the question of the adequacy of the notion of need hierarchy and the role it plays in structuring consumption patterns.

In fact, even an *extreme* hierarchy of needs, therefore well beyond those of mere survival, a hierarchy going bottom-up, from basic needs, such as those relating to food and shelter, to "superior" needs, up to those relating to self-realization, there would be no necessary relationship, aside from the limits posed by market saturation, between the latter and the sequential development of the *material basis for needs fulfillment* implicit in the path of structural dynamics. This conclusion is emphasized by considering capabilities. There is no guarantee "that a particular amount of a particular commodity will be necessary (or sufficient) to allow the fulfillment of a particular capability.", a point stressed by Sen. "*Sometimes* it will happen." (Walsh, p.377) Nor the question can be solved by defining a list of capabilities.⁸

Walsh does not elaborate on this result, which exposes precisely the unsatisfactory conceptualization of need and need development. It is not overcome by observing that need hierarchy can well reach beyond basic needs, to include the full development of human personality.

A second consequence of this result is a full appreciation of the contribution that the capabilities approach can give to structural dynamics. Through capabilities we can take into account what can be accomplished by individuals through consumption. Although no doubt this will depend by the commodities that are brought out by technical progress – and, we might add, by investment in these commodities – this will also depend on a subjective element and on the social form in which needs are satisfied. This is why Walsh says that structural dynamics, and the evolving basket of consumption it implies, does not indicate a tight mapping to the list of capabilities, "but surely a soil and a climate in which capabilities can flourish." (p.377)

Although some more work seems necessary to fully evaluate the relationship between the two, the capability approach and structural dynamics converge around a fundamentally similar view of long-run development and ultimately of economic progress. It is not that of growth with an unchanging structure of consumption, nor of consumption reflecting only the satisfaction of basic material needs. Nevertheless, Walsh points out, capabilities themselves, while reaching beyond the traditional idea of consumption, must rest on an evolving material basis.

3. Beyond need hierarchy: need development

3.1 Capabilities and the subjective element

The reference to an evolving material basis does serve to establish the fundamental law of motion of the consumption structure. The need hierarchy implies a certain pattern for the satisfaction of higher level needs that become areas of expansion of consumption spending. In this sense we could say that income growth reveals the structure of needs. The issue of consistency of the ascending pattern dictated by needs hierarchy and the production of the means of satisfaction of needs, reveals that the analysis is constrained by a notion of need as a given, and of the need structure itself as an hierarchical arrangement fundamentally given. The reference to capabilities makes that more evident.

⁸ Walsh quotes Sen as saying " [t]here can be substantial debates on the particular functionings that should be included in the list of important achievements and the corresponding capabilities" (Sen, 1999).

In this approach, needs can be fulfilled, not developed. The point is that the notion of need and need structure is not adequately investigated, precisely with respect to the very dynamic process that shapes consumption patterns. It is then necessary to discuss explicitly the question of need development, within which search the reasons that determine the forms taken by the satisfaction of needs, their effects on the volume of spending and the evolving structure of demand.

Capabilities move us a step forward because through them we can take into account what individuals, but also groups and possibly social classes can accomplish with goods. The capabilities approach suggests that commodities are conditions, but outcomes depend on what individuals can make with them.⁹ It is then possible to look at capabilities from a new angle: A really interesting aspect is how they allow us to speak of need and of need development.

If we think of capabilities as a way of referring to *the subjective element* in the interaction with commodities and an aspect of personality development, then capabilities become part of need development. It could be said that individuals, according to social rules and socially devised practices, define the feasibility of a form of need satisfaction, driven by their search of self-realization. This is consistent with saying that the development of commodities, together with social practices and consumer learning, define the *forms of consumption*.¹⁰ Sen's theory of human capabilities can make the difference. It might allow taking into account need development as it actually occurs, that is, by means of innovation of commodities and consumption practices.

We can note in passing that framing the problem in terms of forms of consumption allows for a broader discussion of consumption activities. One can notice that especially goods highly placed in the need hierarchy (such as education, but also entertainment, cultural and esthetic pleasure): a) are not the result of a production process similar of other private goods – how do you produce sociality? – and subject to other rules; b) are usually produced by forms of production that are not private, but rather public or collective.

3.2 Socially determined needs and need development

To approach the question in this perspective requires a particular notion of need and need development. We are not referring to any notion of need belonging primarily to the sphere of nature, nor to a general notion of human and social needs, but rather to a specific notion of “socially determined needs”. Their defining characteristic is the possibility of development.

This notion of need is an essential aspect of the reconsideration of Economic theory of D. Levine (1981). On the one hand, they represent the potential for expansion of the market,

⁹ It is drastically different approach than that embodied in the diet problem, in which combinations of characteristics satisfy a given need in a given need structure.

¹⁰ Not the need for food or shelter matter for a dynamic theory of consumption, but rather a socially accepted, although differentiated, and technically feasible form of satisfaction of the need for food and shelter. The reason why it has proven to impervious to traditional theory is possibly that it calls into question the traditional view of the consumer and of consumer choice. (Gualerzi, 1998).

in relation to what Levine calls *the structure of expansion*;¹¹ on the other hand, they are the basis for the development of individual identity.¹²

The structure of expansion is responsible for determining the rate of growth of aggregate circulation, i.e. the growth of the market in the aggregate. It exploits what Levine calls “the latent structure of the market”, realizing its developmental potential. This is based on need development. Indeed, the dynamic force implicit in the structure of production and consumption is the development and the multiplication of needs implied by *the constitution of the individual personality within a system of persons*. This involves to a large extent the process of determination of consumption patterns. It follows that the structure of expansion has its counterpart in the process of determination of consumption.¹³

As opposed to subsistence needs, “which are imposed on the individual” (Levine, 1981, vol.II, p.280), socially determined needs contribute to the individual’s self-seeking and personal identity. It is precisely the freedom according to which needs are developed, which makes them impossible to determine a priori. This is in sharp contrast with the notion of needs “by which the species renews itself within a determinate system of natural relations.” (Levine, 1981, vol. I, p.45) In other words, socially determined needs are not a necessity of nature, but contribute to the individual identity, which is itself a dynamic concept, inherently subject to development. While on the one hand indeterminate, and for this reason subject to development, they are on the other hand specifically determined, not by nature, or individuals as such, but rather by the social process shaping individual identity. The development of need, latent in the idea of its social determination upon the basis of individuality, is a constant stimulus to change and the potential for the expansion of the market.

Levine argues that, although insisting on the social determination of need, Classical theory, cannot articulate the notion of need that remains “relegated to the life of the individual outside society...since (it) entails the element of constraints and determination which is connected to a requirement of life but not to an individual whim.”¹⁴ This raises a number of interesting questions on the notion of subsistence and the role it plays in the Classical system. Here it is sufficient to note that it effectively prevented a fuller analysis of consumption that indeed plays little role in the Classical system.

“Socially determined needs are requirements of social life, but also the manifestation of the self-seeking of individuals. Consequently they are neither simply an attribute of human nature, nor purely the result of the agency of individuals. They reflect rather their constitution in a system of persons and market relations. Personality development is similarly a result of the interaction of the self with these determinations. The needy individual is not the result of biological necessity, nor the simple replication of a social

¹¹ The notion of structure of expansion combines the idea of structure with that of investment as the moving force of transformation. “Investment is the activity of building the structure of expansion. But the peculiarity of capital is to be found in the fact that the building of the structure is also the purpose of the structure. It is as if the putting up of a house, rather than living in it, were the purpose of a house (which is, appropriately enough, the case so far as the contractor is concerned).” (p.184)

¹² With respect to the individual, need is “the content of his self-determination, and the objective of his self-seeking.”(Levine, 1981, vol. I, p.45)

¹³ In fact, the structure of expansion, i.e. the producing and marketing structure, is such only to the extent that a particular capital succeeds in establishing its product within the structure of consumption.

¹⁴“Within society the individual can at best articulate a set of preferences, which as such cannot be considered to constitute any real determination. Ultimately the idea that there are needs articulated exclusively within society stands as a reproach to the whole of the history of social theory.” (Levine, 1981, vol I. p.47)

uniform pattern. It is the result of socially shaped personality development within a system of market relations. This is the fundamental difference with a notion of needs arising from 'nature', which no longer can serve to displace the issue of taste formation into the domain of an extra-economic determination." (Gualerzi, 2001, p. 73-74)¹⁵

Precisely by insisting on the very social determination of individual needs and individual identity, need development does not obliterate individuality as a source of differences and change, but actually magnify its role in relation to self-realization and the economic structure. Uniformity of needs, Levine argues, would call into question the very existence of individuality, but also that of the market. Indeed, while need development can occur only through change in the forms of their satisfaction, change is the key to the dynamism of the market economy. "No matter how complex the structure of production and consumption, if it is unchanging, then the market is superfluous to its process of renewal. ... Change...poses the economic problem." (Levine, 1981, vol.II, pp.283-4).

We could say that that need development is therefore a defining trait of a market economy consistently operating in the "regularly progressive mode" of the theory of Transformational Growth (Nell, 1998, p.15),

4. Need development and the possibility of a more cultivated standard of life

4.1 The goal of economic progress and the nobler life

The notion of socially determined need is the basis for a theory of need development that completes the dynamic approach to consumption based on structural dynamics and the capability approach. In this perspective consumption is associated neither with affluence, nor with waste, but instead with the evolution of the material basis of individual and social life. An improvement of the standard of consumption taking into account superior needs, as well as human development, should help to address the question of the goals of economic progress, while the development of the means of consumption serving to develop human capabilities should bring us close to the question of an improving standard of living and a more cultivated life.

As pointed out above, fundamental figures in the history of economic analysis such as J.S. Mill, Marshall and Keynes had a rather different view of the goals of economic progress in a market economy than most modern theory. Their writings on the topic forcefully pose the question of a desirable standard of life as the ultimate measure of economic progress.

The striking differences between Ricardo's and Mill's stationary state is that the working class would be well-paid, with sufficient leisure to cultivate the graces of life (Opocher, 2006, p.4) Not only "the habitual standard of comfort " was higher than subsistence, but it was better defined as a life style in which a large role is played by education, social life, leisure (p.9)

The habitual standard of comfort "is made up by objective, measurable, habits of life (Opocher, 11, footnote). Nevertheless, it refers to a standard of life that is not strictly depending on the quality and quantities of goods, as the insistence on education and

¹⁵ In this perspective taste formation appears inextricably linked to the process of development of socially determined needs. In particular, the former is redefined to be "not only the bridge between need and purchase, that is taste as criterion choice, but also an aspect of the process of identification of individuals and therefore also of new needs. Consequently, taste formation depends on the development of the needy individual and proceeds on the basis of the same constitution of individuals within social life." (Gualerzi 2001, p. 74)

leisure suggests, and in general the reference to the enjoyment of the graces of life (p. 14) and the crucial role of “spontaneous education” The latter seems the clearest suggestion of a pattern of human progress in which intellectual and moral refinement would discourage the search for more material goods to the advantage of intellectual and moral cultivation. Advances in productivity should take the form of shorter hours and more leisure, rather than more goods. (p.14)

Marshall seems to go a step further, arguing that a better intellectual cultivation is at the roots of economic growth, so that it is a goal, but also a mean, to long term economic progress. His argument mainly relies on the positive feed back from a standard of life and the wage rate. He gets to the point of indicating restraint from material comforts as a key aspect of it, indispensable to the character of the individual Marshall had in mind, whose profile conforms quite closely that of the Victorian gentleman. He argues that there should be compulsory public school and public money should flow freely into education (p. 21). Furthermore, workers should be more and more occupied with skilled activities. That would help to refine the mind and the perceptions of these men, away from the rather unpromising consequences of the toil of manual work. Marshall also, like Mill, is an advocate of shorter work hours, favoring that on the ground of the intellectual and moral cultivation they permit, opposite to the effects of manual, low skill occupations.

Keynes seems to have a similar view, when he argues that the money motive is a reason for concern when we come to the goals of economic progress. What matters is the standard of life it makes possible and again what shows up prominently as a measure of progress is leisure and the pursuit of the true ends of human life. More explicitly, he envisages, in successive stages of civilization, a point when wealth accumulation is no more a fundamental social concern, so that the economic problem and the money motivation are superseded by a new vision of society. The problem, says Keynes, is that humans may not be capable of taking advantage of the new possibilities and of leisure, as confirmed by observing the rather depressing behavior of the wealthy, while lower classes simply were not in the position to learn to use leisure well.

The conclusion one can draw is that a nobler life is far more than an advancement in the standard of consumption, which remains an almost trivial question. It seems that the concern for the miserable condition of the working classes, which unifies, with all their differences, the economists considered above, has lost sight of this problem. It is assumed that technical progress would have solved the problem of the evolution of the material basis of social life. This is the almost paradoxical result of a framework in which the concern about the true meaning of human life is prevalent. The question of the evolution of the standard of consumption, which arises forcefully by the approach to consumption based on need development, remains elusive, as well as that of the real wage.

In Mill the level of the habitual standard of comfort depends on the autonomous restraint on population growth, though of course there are other causes of a rise in wages, such as the accumulation of capital. But the most fundamental point might be that the habitual standard of comfort in Mill, but also in Marshall, seems to depend only to some extent on the rise of production of material goods, but rather on other improvements of individual and social life. It is difficult, however, to conceive, for instance, of better health care independently of improvements in the provisions of new goods and services. On the other hand, the entire question is permeated by the assumption that a growing labour productivity would lead to shorter working hours and thus to the possibility of enjoying a better, richer life.

In Marshall there is two ways determination of the standard of life and the wage. Having described the basis of a nobler life in terms of education, shorter working hours, more leisure time, the extension and quality of social relations, he argues that, while depending on a rise of the wage, a higher standard of life has also a positive feedback on the wage. Having got rid of the population principle, Marshall focuses on the efficiency effects of a higher standard that might rise wages. He argues that that productivity growth may itself depend to a considerable extent on a rising standard of life. Efficiency could be spurred by shorter hours and an appropriate trade union wage policy, but also by the good use of wealth and leisure. Concentration of wealth makes expenditure inefficient, while learning and the learning by doing would help to make good use of wealth redistribution and leisure.

We can conclude that, in sharp contrast with the now established view that economic growth is a social goal in and of itself, these economists were concerned with the ways in which the standard of life could improve. They did not focus on a rising standard of consumption, but rather on what they regarded as the most desirable aspects of individual and social life, approaching the idea of a nobler life as the ultimate goal of economic growth. This echoes the concerns, expressed in some recent literature, on the relationship between wealth and material advances and happiness. Perhaps more importantly for the present purposes, it leaves open the question of the relationship of a nobler life to an evolving standard of consumption.

4.2 The standard of life: consumption, life style and the real wage

We have examined above a dynamic approach to consumption characterized by a systemic link to long run growth. Its object is an improving standard of consumption. We have seen now a broad view of economic progress according to which its goal is the improvement of an objective standard of comfort, a more cultivated life style and ultimately a nobler life. A significant relationship between these two approaches could be found if need development is also the yardstick against which we could measure the move towards an improved standard of life.

The dynamic approach to consumption focuses on a changing basket of commodities, which matter for their quantity, quality and variety. It is no doubt a fundamental aspect of an improved standard of life, that is, using Walsh language, of a richer and more cultivated life. Although this is considerably close to the notion of nobler life, the focus is on consumption, not directly on the standard of life. One can immediately notice how naturally the notion of "life style" can be incorporated into the analysis. A life style can be taken as the reference point for a standard of consumption reflecting variability in the forms in which needs are satisfied and developed according to social hierarchy, class structure and income levels, while incorporating a set of social and cultural variables influencing choice and behavior.

On the other hand, the approach already takes into account a *subjective element*, manifesting itself in the agency of individuals in establishing viable new forms of need satisfaction and the drive to self-realization, i.e. self-development. The development of personal identity contributes to shape consumption innovation and the evolving material basis for the satisfaction of needs. It has further implications for the question of individual freedom and the overall question of the "social purpose of the market" (Levine, 1981) Still, it is constrained by the logic governing the "structure of expansion". Identification through a specific pattern of consumption occurs through the system of market relations that make possible change and sustain income creation. In particular, need development is constrained by the capacity of the system to create uncommitted income, which largely depends on the level of the real wage and the wage structure.

Indeed, while need development is the basis for:

- 1) the construction of socially determined individual identity through consumption;
- 2) individuals' effort towards self-realization and the pursuit of personal identity;
- 3) differentiated life styles;

it is revealed by and structured around commodities. In a market economy the combination of commodities and consumption practices determines the forms of needs satisfaction. The very notion of need and need structure can be grasped only in conjunction with the commodities that determine its social manifestation, consumption patterns. The consequence is that the neediness of individuals is limited by the creation of "uncommitted income", which depends on the wage level and structure.

Uncommitted income completes the mechanism of expansion based on the structure of expansion and need development. Levine defines it as the income that is not committed to sustain a given structure of consumption, and therefore becomes available for its development. That calls into question pricing policies and their role within the effort to develop the market. It also raises the question of the level of the wage and of the relationship between growth and distribution. In other words, what can be accomplished by individuals by means of innovation in consumption and variations of life styles must be seen in the larger process of creation and distribution of income.

Alternatively, we can ask the question:

- 1) What can be accomplished by individuals in terms of need development *without* a wage rise, therefore envisaging forms of need development that do not depend on commodities and the market;
- 2) which kind of improvements of the quality of life can rest on a developing subjectivity beyond an economic determination and/or a non market provision of goods and services.

Variability in the forms of social provision, be it collective, public, or otherwise, opens interesting questions for the long term evolution of demand structure (Nell, 2002). What matters here is to stress that, in contrast with the two possibilities above, the approach outlined above stresses that long term growth rests on need development, but that there are definite limits imposed on the basic growth mechanism. The forms of need satisfaction and the standard of consumption associated with differentiated life styles are inextricably linked to commodities and the self-seeking of individuals is shaped and constrained by market relations. There is a clear limit imposed by the real wage and the wage structure.

We can conclude that although contributing to a better understanding, need development does not exhaust the question of an improved standard of life. There is definite sense in which the role attributed to a nobler life by Mill, Marshall and Keynes goes in a different direction, indeed brings us back to the question of the goals of economic progress and the way they can be achieved in a market economy.

5. Analytical structures and social philosophy

5.1 Technical change and the wage level

The argument about the nobler life rises two lines of remarks. At an analytical level, one can observe the role played by *technical change* in the improvement of the standard of life; second, the rather cavalier way in which the issue of the wage level is treated. A persistent push towards wages above the level of subsistence is assumed as it was the

almost inevitable result of technical progress. With respect to the role of public policy and the social philosophy behind it, one can notice the overall positive attitude towards the improvement of the living conditions of workers, which must have been indeed quite discouraging. The move towards a nobler life implies to educate the lower classes, but also the wealthy, to the benefits of economic progress. Both objectives should be pursued by means of public policy that appears an indispensable ingredient for pursuing and taking full advantage of economic growth.

It is rather striking to notice that the development of the material basis of an improving standard of life is almost taken for granted. Indeed, it is not so much the standard of consumption, but the possibility of a *nobler life* that moves the analysis. The former is an almost obvious result of the production potential of technical change, so that the issue of the patterns of change of consumption never even arises. Especially Marshall and Keynes insist on technical change in determining efficiency, therefore affecting both the production power of the economy and the wage. However, the scarce attention paid to consumption transformation highlights a certain lack of appreciation for the ways in which technical change operates. One might see in that a common trait of economic analysis, addressing technical change mainly as cost reductions and large scale production, making goods more easily available. The same goods, of course, and ultimately the same industrial structure. A view in which technical progress is scale and cost, not novelty.¹⁶

At the same time Mill, Marshall and Keynes insisted on a fundamental “novelty”, the importance of education, in the sense of “human capital”, i.e. improvement of labour skills, but mostly as intellectual cultivation and leisure. No doubt, that is a climbing up in the need structure and a fundamental aspect of need development. They did not, however, consider that as an incentive to new industries and to economic growth, rather purely an attribute of free time and relief from the brute nature of manual work. Of course, they did not have to develop a theory of consumption and elaborate on the systemic link with growth an structural change. But this highlights well the difference in the perspective of the analysis. More important might be that, in this way, they seem to assume that the age of abundance was around the corner.

In a kind of paradox, we lose sight of the close relationship of any comfort of life with the material conditions of social reproduction and with the wage level. But then again, there seems to be an assumption similar to that concerning the abundance of goods. Observing the powerful effects of technical progress, the real wage is assumed to be rising well above subsistence. Relief from the pressure coming from material life is ensured and the question of a wage constraint on a nobler life never arises.

Unpleasant as it is, the reference to subsistence of Classical Theory leaves no doubt as to the reality of the economic conditions of the working classes. Even though the very notion of subsistence is historically determined, its role in the analysis is that of defining a sort of lower bound to the wage level. Focusing on need development permits then to see the link with the limits that imposes on the expansion of the market.

One must conclude that, *of course* the material basis of a standard of life is important, but the point for Mill, Marshall and Keynes is to discuss economic progress with respect to true purpose of life, which is not the growth without limits of the production of goods. The close relationship of the two, however, dissipates into thin air. Although the higher standard of life envisaged is objective, in the sense that there is no subjective evaluation involved, such as that in the characteristics approach a la Lancaster, it is not grounded in any growing basket of consumption. Actually, quite the opposite; the stress lies on a more

¹⁶ That implies growth without change, Pasinetti “pseudo dynamics”.

cultivated life, which appears to be the result of re-orienting the interest away from commodities and material wealth. The reorientation towards what is truly important in life calls for active public intervention.

5.2 Public policy and social philosophy

A common element in the arguments made by Mill and Marshall is the role played by social institutions, redistributive policies and public education.(p.15) The outspoken call for public policy is a key element to pursue both a higher standard of life and higher efficiency. Marshall, who explicitly argues the positive effects of an improving standard of life on growth, maintains that redistribution policies and public spending in education are the source of externalities and thus of further efficiency gains. Educating the lower (but also the higher) classes to new and better working and living conditions is a fundamental question to be actively pursued by public power. Time and resources should be wisely spent in education, formal and informal, knowledge and the arts. This is the key to learn what matters in life and to enjoy the true life.

The stance towards public policy must be seen as an essential aspect of the social philosophy intertwined with the notion of economic progress. The nobler life is rooted it appears in the progressive character of a market economy, as it was a fact of nature, while the idea of economic progress justifies the optimism that permeates the entire analysis. Somewhat paradoxically for economists, they focus on *non material* advances and judge material wealth with a moral stance close to criticism of consumerism. ("Much expenditure has no touch of nobility", p. 34). At the same time, they expose the brute and degrading nature of manual work. Here the reason for shorter labour hours and more leisure.

Quite surprisingly for today's debate, their call for policy designs the basis of a modern welfare state, for which they see also an efficiency effect, most explicitly in the case of education.

The social philosophy underlying the nobler life, and the optimism it fuels, ultimately rests the true nature of capitalism as these economists saw it. The concern for the advancement in the lower classes with respect to their miserable condition and the insistence on helping them with public policy arises from a view of capitalism as an essentially progressive socio-economic system. It has the not secondary rationale of preventing protest and social unrest.

This optimism contrasts, however, with many economic trends of the last two decades, such as the persistent weakness of real wages and the difficulties in the way ensuring high and sustained growth rates in many advanced market economies. Indeed, the long virtuous cycle combining high growth rates, rapid productivity growth and a more even income distribution seems to have come to an end in the 1970s, coinciding with a deep crisis of Keynesian ideas in the domain of theory and policy. One may ask where is the society of abundance and high wages, the system were public money flows into public education, in industrialized countries, not to mention in transition and developing economies. This is not certainly the place to embark on a discussion of what the true nature of capitalism is. However, we might say that, looking in retrospect, these economists had an idealized view of capitalism and the market economy. To be true, their argument is confirmed by the dramatic improvement of living conditions of the working population in industrial economies. However, the perspective in which they framed the question of an improving standard of life seems to suit well only the "golden age" of post-WWII in the industrialized West. Except, one could say, it occurred after two major wars.

With respect to the economic trends recalled above one can instead notice, for instance, the obstacles encountered by any serious discussion of economic policy directed to the

reduction of working hours and the lack of appreciation for its long term benefits. Working hours have substantially decreased with respect to those observed by Mill, Marshall and Keynes. Nevertheless, there has been fierce opposition to any further progress.¹⁷ In the same vein, the decline of the money motive advocated by Keynes, who certainly was aware of the dynamics of financial markets, does not sit well with the rise of finance, which has continued unabated in the last two decades and is at the center of economic transformation. What more than speculation on financial assets is the highest manifestation of the money motive? A prominent Keynesian like Stiglitz argues that submitting to the rules of financial markets has been a major mistake, in fact a course on the US and the global economy.

6. Concluding remarks

Because of the analysis of an evolving material basis for the satisfaction of needs, or what we can call a dynamic theory of consumption, we can dwell deeply into the issue of an improving standard of life, or a nobler life, an issue of deep concern to major figures in the history of economic analysis, such Mill, Marshall and Keynes. Their same concerns for more adequate measures of economic progress is found in the effort, pioneered by Sen, to establish measures for human development and welfare that go beyond standard economic measures.

Focusing on the true goals of economic progress pushes these economists to look beyond the question of an evolving standard of consumption. The evolving material basis for needs satisfaction has little, if any space, in their analysis. Nor they seem to think of the nobler life as the development of individual identity, but rather conforming to some ideal of cultured life, as the reference to the Victorian age gentleman suggests. Nevertheless, the focus is on higher levels needs (education, health care), where public policy as an important role to play, or superior needs (informal education, arts, leisure) which, for their very nature, flow from social interaction, more than market mechanisms.

Having defined the improvement of the standard of life in reference to education, leisure and the pursuit of the true meaning of human life, does not quite specifies how it can be achieved in a system of market relations. Everything depends on the march of technical progress and its positive effects on production and distribution. It also suggests that a higher standard of living is within reach for the great majority. That must have appeared to be the case observing the technical advances and the growing economic power of capitalism. Especially in Marshall and Keynes there seems to be the presupposition that the age of abundance was around the corner, which might explain the lack of analysis of the relationship between the nobler life, an evolving standard of consumption and the wage level.

The pursuit of a nobler life has no limits neither on the production side, nor on the distribution side, as it was assumed that wages would rise as a consequence of improved efficiency and rising productivity. Consequently, the real wage never appears a constraint to the pursuit of human progress and the true meaning of life. The laws governing a consumption-based standard of living – as well as the Classical notion of subsistence – do instead clearly pose the problem.

¹⁷ We can in this respect recall the attempt and the substantial failure of the plan for 35 working hours in France in the 1990s. Most recently the newly elected President of France, in his polemical stance towards the French Socialist Party, has argued that the result of this policy is discouraging work motivation and depress the wage level.

In sum: the question of a nobler life takes for granted a number of tough questions concerning the relationship between a standard of life and long run growth. The insight into the question of the goals economic progress in a market economy is very valuable, as much as it has become unusual in current analysis of long term growth. It should be more deeply investigated with respect to long trends of transformation, in particular with respect to the turn that theory and policy have known since the 1970s, which seem to call into question much of the views of these illuminated reformers.

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