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THE CONCEPT OF 'CONSUMER' SOVEREIGNTY

Exposition, critique and defense.

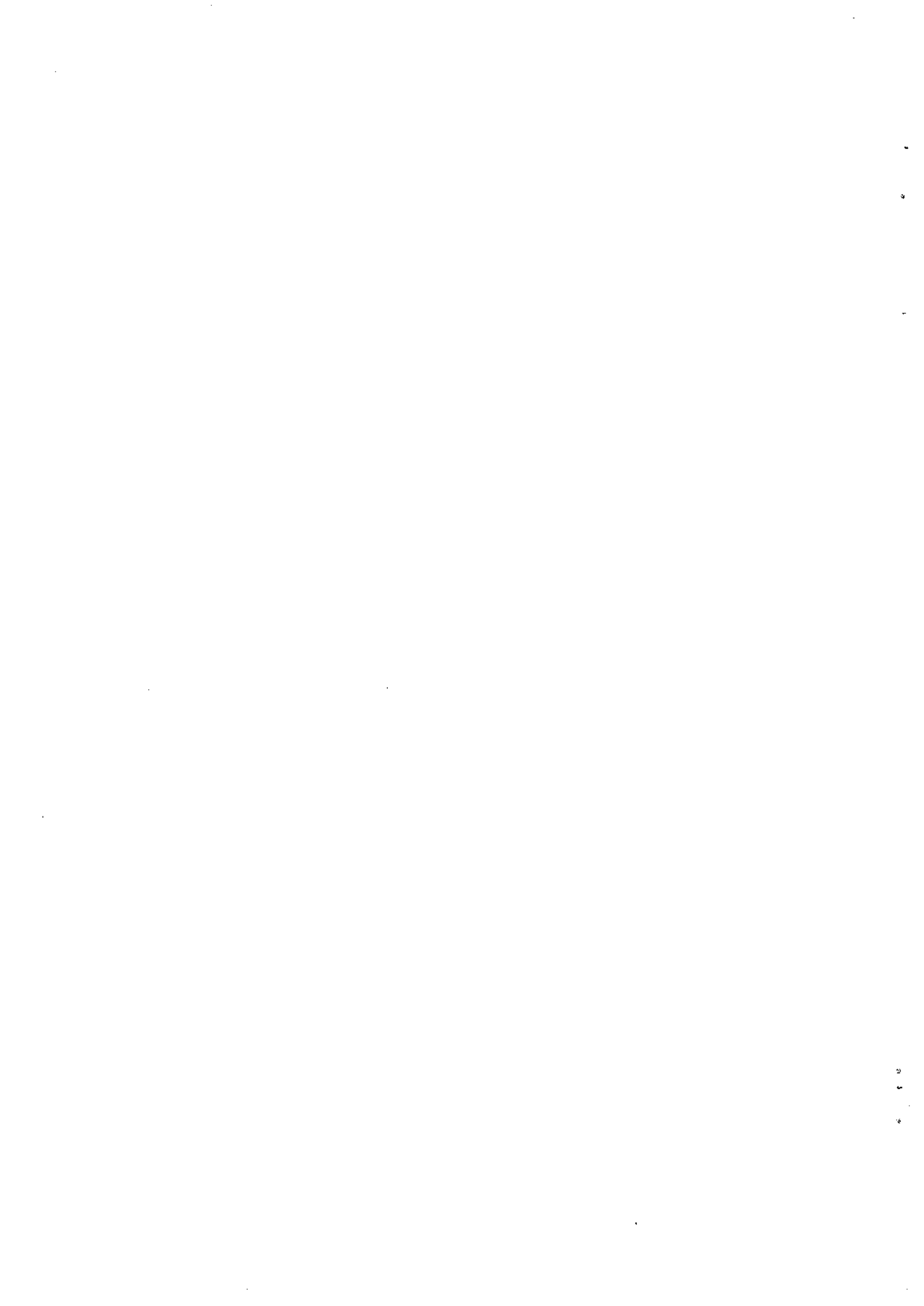
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1. Exposition of the theory of 'consumer' sovereignty

1.1. Introduction

'Consumer sovereignty' is a common but controversial term in political economy. It occurs in every textbook on economic theory and nearly every economist has a ready opinion on the subject, usually without having delved too deeply into its full meaning and implications.

The term was coined in the 1930's by the South African economist W.H. Hutt, who said it was suggested to him by the Dutch adage: 'The customer is king'¹). It was rapidly adopted into neo-classical economic vocabulary, but soon gave rise to misunderstandings, as well as some more fundamental controversies which have lasted until today²). On account of the criticism the concept has fallen somewhat into disfavour over the past two decades. The main purpose of this paper is to enquire whether this neglect, if not outright rejection, of the concept is merited.

We shall argue that the traditional term is actually a misnomer, the misleading denotation of the fundamental principle underlying market and democratic political allocation processes and their institutions. As a more accurate name for this principle we shall suggest the term 'the economic sovereignty of the individual', which is composed of three parts: consumer and factor owner sovereignty which rule market allocation, and voter sovereignty which governs democratic budget allocation. This principle is vital to the understanding and ethical justification of these two allocation systems, which characterise democratic market economies. The rejection of 'consumer sovereignty' leaves the theory of market and budget allocation without a normative basis. It must then be replaced by some other allocation principle, but far more serious objections can be raised against its logical alternative: 'leaders' sovereignty'. The ethical and theoretical issues involved in the controversy over 'consumer sovereignty' are important enough to warrant serious analysis.

In this paper we shall:

- define the allocation principle meant by 'consumer sovereignty' more precisely, especially the relationship between consumer, factor owner and voter sovereignty, and suggest the comprehensive term 'economic sovereignty of the individual',
- describe the ethical foundations of this concept,
- list all the points of criticism against 'consumer sovereignty' and defend the principle on each point,
- evaluate the controversy and its relevance for economic theory and for economic policy in contemporary market economies.

1.2. The traditional concept of 'consumer' sovereignty

Every allocation of scarce resources must be made according to some particular set of human preferences. In programming models for instance, such a set of preferences determines the objective function to be maximised. Consumer sovereignty is one of the conceivable

principles which state according to whose, or which, particular set of preferences the entire allocation process should function. It says who determines the goals of the economy and also (if we know what the preferences of this decision-maker are) what these goals will be. This principle is not unique, nor is it exogenously given to a society. It is consciously chosen from among several alternatives, the choice being justified by a number of value-judgements deriving from the ethics of the society in question.

Taken literally, the term means that the preferences of the final consumers determine the allocation of all resources in an economy. In the first place they determine the allocation of all final goods and services (the Austrian economist Karl Menger's 'first' or 'lower' order goods). However, as the demand for intermediate goods, raw materials and the factors of production is a derived demand, they also determine the allocation of all second, third and other 'higher' order goods. This conception has been strongly influenced by the Austrian School of economics, which stresses the decisive role of final consumer demand, and hence of subjective factors, in the entire economic process.

The allocation principle of consumer sovereignty can be used in a normative or in a positive sense. Used normatively, it means that consumer preferences should determine the allocation process, regardless of the fact whether this is indeed the case in any existing economy. Used in the positive sense it states that the allocation in a particular economy is governed by the preferences of the consumers, regardless of whether this is considered to be a good thing or not. Normative statements on consumer sovereignty are personal value judgements, whereas positive statements about it can in principle be verified by an appeal to the facts. The distinction between the two usages of the term is important, as we shall see that certain critics reject it on positive grounds ('it does not exist in reality'), whereas others do so on normative grounds ('it ought not exist, neither in theory nor in practice').

Before discussing some early criticism of this literal view of 'consumer' sovereignty and the extensions of the concept this led to, we must first consider its ethical basis.

1.3. The ethical basis of consumer sovereignty

The normative meaning of the traditional principle of consumer sovereignty is:

the goal of the entire economic process should be the satisfaction of the preferences of the individual consumers, as they are manifested by the consumers themselves.

The crucial elements in this definition are a) the preferences of the individual consumers are decisive and b) these preferences are what they themselves manifest them to be. The choice of this set of decision-makers and their preferences is justified by three complementary value judgements, which together form the ethics or 'ideology' of

consumer sovereignty. The first justifies the choice of consumption per se, the second that of the individual consumer and the third that of his subjective preferences.

- i) The first value judgement can be called 'consumptionism' and is best expressed in Adam Smith's classic words 'Consumption is the sole end and purpose of all production ...'3). Consumption should be the goal of all allocation, production and distribution. This statement is not as self-evident as it may seem. In many growth theories, for instance, consumption exists for the sake of growth, of expanding reproduction. As examples we refer to the Von Neumann system and the historical Soviet growth strategy, in which consumer goods form an input into the system and producer goods the output⁴). This reversed order of causality gives a different (and for proponents of consumer sovereignty, objectionable) ethical bias to the purpose of economic activity. The satisfaction of human wants is then seen as a means to the higher aim of capital formation for the duration of the growth process (even though such models may postulate consumer welfare as their ultimate goal). Consumer sovereignty expresses the opposite ethical view, with the satisfaction of consumer aims as the supreme goal in both the short and the long run.

'Consumptionism' also contrasts with the basic postulate of Marxian economics, according to which production primarily serves the aim of the self-realisation of human beings through social labour (i.e. production in the sense of 'working' is a supreme goal in itself). We shall see that much of the criticism of consumer sovereignty is voiced by Marxist economists, who postulate the rapid development of the economy towards a 'communist' society and the 'socialist labour ethic' as their highest goals. Their critique is largely based on their rejection of the consumptionist value judgement⁵).

- ii) The second value judgement is individualism. It says that the preferences of the individual consumer ought to be the goal of economic life. Only individual human beings are living creatures with senses capable of experiencing wants: '... it is only individuals who can experience welfare or the lack of it'⁶). Individual preferences include those preferences that arise out of the individual's social existence as a member of any number of social groups, such as interdependencies and external effects. But such preferences and the wants they give rise to are still individual - only the individual human being can experience and manifest them. In theory we could conceive of dividing individual preferences into 'nonsocial' intrinsic preferences and socially-induced ones, but we shall see later that such distinctions are meaningless. In this view all collective entities are seen as aggregates of their individual members - including the interrelations between them. The preferences of such collective bodies can only be derived from those of their individual members. There are no autonomous 'collective' or 'social' wants - society has no

own demand for justice or defense! Defined in this way, the maximisation of individual welfare also maximises social welfare.

The false idea that certain collective entities such as 'society' have 'social wants' of their own has taken deep root in modern economics. It has led to a widespread rejection of normative individualism and to attacks on the principle of consumer sovereignty.

- iii) The third value judgement is known as 'subjectivism'. It says that the preferences for the individuals are what they themselves manifest them to be. Their precise content must be determined by the individuals themselves. The subjectivist ethic can be expressed in a stronger or a weaker formulation. The stronger, 'classic', axiom is: 'No-one knows better than the individual himself what is good for him'. The weaker axiom is: 'If the individual does not know what is good for him, then ex ante no-one else knows categorically better'. The individual himself is the best judge of his own interests and if he is not, no-one else knows categorically better. The individual must even be given the freedom to take what may afterwards prove to have been wrong decisions, as only he himself can judge whether they were wrong or not.

All three value judgements are complementary and necessary, both to justify the concept of consumer sovereignty and to specify its content for operational uses. Together they form a compound ethic which we can call 'subjectivist individualism'. 'Consumer sovereignty' actually is an imprecise term for denoting the sovereignty of subjectivist-individualist ethics.

The acceptance of subjectivist-individualist ethics does not in principle predetermine the choice of certain social institutions to effectuate them. It is a matter of choice for the individuals concerned whether they want to effectuate their preferences by means of the market mechanism, bureaucracy, tradition or some other means. It only demands that such institutions should maximise the welfare of the individuals, as they define it themselves. Accordingly Rothenberg uses the concept of consumer sovereignty as a normative criterion for judging the efficacy of social institutions: '... we should take the degree of fulfillment of consumers' wants ... as a criterion for evaluating the social desirability of the various public policies or institutional structures which give rise to them'⁷).

1.4. Factor owner sovereignty

The original view of consumer sovereignty as being solely concerned with the preferences of the consumers in the literal sense of the word was immediately criticised by Fraser. He rejected Hutt's implicit suggestion that the preferences on the demand side of the market were more important than those on the supply side. '... the amount that is produced of any commodity and the value at which it sells depend in principle as much upon the willingness of the factor owners to provide

the necessary resources for their production as upon the willingness of the consumers to buy and pay for them. ... the ultimate power rests not with consumers as such, but with the men and women who are potentially consumers and producers, and who can decide ... whether to be both or neither⁸). Opposite to the sovereignty of the consumer stands that of the owners of the factors of production, which includes the workers as the owners of the production factor labour. The allocation of all resources is determined by the interaction of their conflicting preferences. P.J.D. Wiles coined the term 'worker sovereignty' for the preferences and power of the factor owners and says that in a market economy 'Consumer's sovereignty ... usually implies 'worker's sovereignty' as well. ... consumer's sovereignty unopposed by worker's sovereignty would be a curious form of tyranny, over man in one of his aspects by himself in another of his aspects'⁹).

Hutt defended his use of the term by saying that Fraser misinterpreted the word 'consumer'. If factor owners have their own preferences concerning the use of their property, they too must be regarded as 'consumers' of the services of these factors¹⁰). Thus Fraser and Hutt agree: 'consumer' sovereignty also includes the sovereignty of the factor owners over their means of production. It is a matter of terminology whether one speaks of consumer sovereignty (including that of the factor owners), or of a separate but equal 'factor owners' sovereignty like Wiles. We shall follow the convention established by Hutt and speak of 'consumer' sovereignty when in fact the sovereignty of both sides of the market is meant. M. Rothbard has coined the term 'the sovereignty of the individual in the market' or 'individual self-sovereignty in the market' for this dual sovereignty of each economic agent¹¹). This term is an exact description of the combined sovereignty of the consumers and the factor owners in their market transactions. It stands in useful contrast to the sovereignty of these same individuals in their political capacity as voters in the political decision-making process. However, it lacks familiarity and for this reason we shall continue to speak of 'consumer' sovereignty when meaning this combined sovereignty of consumers and factor owners.

1.5. Voter sovereignty

The second source of misunderstanding is the close historical association of consumer sovereignty with the market mechanism as a means for effectuating it. Many critics believe that it only applies to market allocation, where the individual economic agents strive to realise their aims by means of individual decision-making¹²). There is some reason for this belief, as the concept was most eagerly espoused and defended by libertarian economists, who pleaded for the free market. This has caused an unfortunate confusion between the allocation principle meant by the concept (the sovereignty of subjectivist-individualist ethics), and the efficacy of the market as a means of satisfying all human wants. The well-known failures of the market to provide Pareto-optimal allocations in cases of pure collective goods, externalities and interdependencies, have turned the concept of consumer sovereignty into a kind of 'straw man', an easy target for

its opponents (see criticisms A 1 i - iii further). If the allocation principle meant by consumer sovereignty should only apply to the market mechanism, with its cases of market failure, then it should be rejected as a normative prescription on its own normative grounds. As a positive statement it is then evidently false, as collective goods are provided and externalities corrected in every real-life economy. This misunderstanding is also caused by the literal interpretation of the word 'consumer', which suggests that only the preferences individually expressed on the market are decisive. This is wrong: the principle means the sovereignty of the subjective preferences of the individuals irrespective of how and by means of which institutions they are effectuated. The market is only one of the possible mechanisms for doing this and must be judged in terms of its instrumental efficacy. In cases of market failure some individuals find it impossible to realise their aims through individual decision-making on the market, so they try to do so through collective decision-making in the political process. They will manifest their economic preferences in their political capacity as voters and try to realise their aims through government intervention. This possibility extends the sovereignty of subjective individual preferences to the political decision-making over the economy. Already in 1934 Hutt coined the term 'elector's sovereignty', which he said governed the allocation of collective goods in a democracy¹³). American authors later introduced the term 'citizen' or 'voter sovereignty' to denote the same concept. Voter sovereignty is democratic collective decision-making under some sort of majority rule. It exists when the political decisions concerning the economy are made by at least the simple majority of the voters. H. Gintis expresses this in normative terms: '... state action ... must reflect some democratic aggregation of individual preferences'¹⁴). Voter sovereignty is the economic version of the 'instrumental' state (as opposed to the 'organic' state) : the state has no preferences of its own and merely serves to execute the will of the majority of its citizens. '... the government may have no substantive goals of its own other than to enable consumers to arrive at a Pareto-optimal point'¹⁵). Less stringently formulated, it means that if politicians and officials have preferences of their own, they are unable to pursue them at the expense of voter preferences. It would take us too far to go into the host of problems raised by this principal - agent relationship (see further criticism A 3 iii). The normative concept is clear: all government intervention must correspond to the aggregated preferences of the majority of the citizens, as they are manifested in the democratic voting process.

Despite a number of differences, voter sovereignty is to the political allocation process what consumer sovereignty is to the market¹⁶). Both are institutional means whereby individuals seek to implement their personal preferences. On the market they do this through individual decision-making, with the resulting decisions binding the contracting parties only; whereas in the political process they do so by collective decision-making, with the resulting decisions binding for all citizens. Under both mechanisms there will be individuals who are unable to realise their aims. In the market these are people with

insufficient purchasing power, whereas in the political process these are minority voters who get overruled. Neither mechanism is able to achieve the goals of all people, which is the essence of economic choice. Losers under the one system will strive to have the decision-making transferred to the other, if they believe that they will be more successful there. The choice of the decision-making mechanism itself must for each issue be decided on the basis of the individuals' preferences.

For collective goods voter sovereignty serves as a necessary complement to consumer sovereignty, but for externalities it functions as a substitute for it. In Hutt's words: '... electors' sovereignty is ... both subsidiary to, and ... the essential alternative to consumers' sovereignty. ... Electors' sovereignty and consumers' sovereignty under democratic institutions are complementary¹⁷⁾. This means that government intervention under voter sovereignty is not the suppression of individual preferences by collective preferences, as is often and erroneously stated. It is the substitution of collective decision-making on the basis of individual preferences for individual decision-making on the same basis (which need not be the same preferences). Voter sovereignty does not violate subjectivist-individualist ethics - on the contrary, it is even necessary to allow all individuals to manifest all their preferences. In the words of W. Baumol: 'The purpose of government intervention ... is to permit consumers' sovereignty to operate undistorted, not to suppress it. ... In this event the absence of (government intervention) may be construed to result in a vitiation of consumer sovereignty; since the individual consumer is by himself in no position to obtain the object he desires'¹⁸⁾.

1.6. The economic sovereignty of the individual

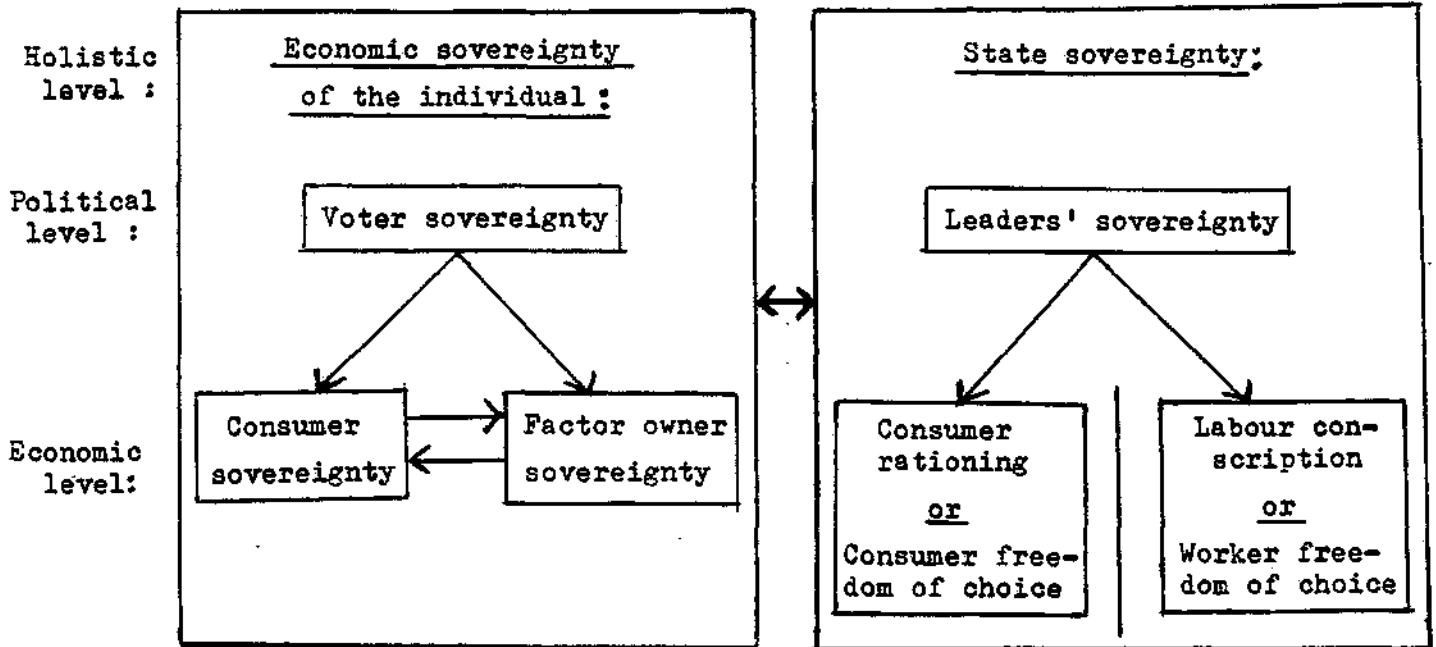
We now have three forms which the rule of subjective individual preferences over the economy can take: consumer and factor owner sovereignty, which together govern the market; and voter sovereignty, which rules the democratic political process. The combination of these three forms we shall call the 'economic sovereignty of the individual'¹⁹⁾. This is the true meaning of the term 'consumer sovereignty'. It is this sovereignty of the individual that the proponents of consumer sovereignty have in mind when they defend their inaccurately-named concept against its detractors. It is a much broader concept than 'consumer' sovereignty, as it also comprises voter sovereignty and therefore all forms of democratic government intervention in the economy. It is only identical with literal consumer sovereignty in general equilibrium models, where all collective goods and externalities are postulated away. But it is compatible with a considerable degree of suppression of consumer and factor owner sovereignty, as long as the condition of voter sovereignty is maintained.

The relationships between the three forms of individual sovereignty are shown in the diagram. Consumer sovereignty in the literal sense stands on a par with factor owner sovereignty. As far as the principle of individual sovereignty is concerned, it is immaterial whether and

to what extent the one side of the market dominates the other (see also criticism A 1 iv). Voter sovereignty dominates both other forms of individual sovereignty and determines whether and to what extent they are allowed to exist. It does so because political power is the supreme form of power in any society. As a hypothetical extreme case, the economic sovereignty of the individual could conceivably exist without either consumer or factor owner sovereignty (this means that all markets have been abolished), as long as voter sovereignty is maintained. Such a system would seem to be the ideal of all the socialist critics of consumer sovereignty: all individual decision-making by means of markets has been abolished and all economic decisions are made collectively by democratic political organs and executed through comprehensive national plans. Such a system, while conceivable, would hardly be Pareto-optimal. Without adopting the arguments of libertarian authors such as Von Mises and Von Hayek, one can say that Paretian welfare losses will increase with every further measure suppressing the market mechanism once a certain (but apriori unspecifiable) degree of political allocation has been reached. Various instances of 'government failure' will become more common and cause greater losses of potential welfare as the role of the market is reduced further. The principle of the economic sovereignty of the individual gives no definite rules concerning which areas of decision-making should be left to consumer and factor owner sovereignty and which to voter sovereignty, but the relative efficacy of the respective allocation mechanisms is decisive here.

The only logical alternative to the economic sovereignty of the individual is its counterpole, which is variously called 'state', "planners'" or 'leaders' sovereignty'²⁰). This is easiest defined as the opposite of the subjectivist-individualist concepts. The economic process is then not determined by the preferences of the majority of the individuals, as manifested in the market or the democratic political process, but by those of the political authorities or 'planners' for a society (in the ultimate decision-making sense of the word). The political leaders have their own preferences, which differ from those of the citizens. They implement them by suppressing those of the citizens, in both their market and electoral manifestations. Only when the allocation process is determined by leaders' or planners' preferences can we speak of the suppression of the economic sovereignty of the individual and of 'consumer' sovereignty (properly defined).

The relationships between the kinds of sovereignty



Under leaders' sovereignty there can at best only be 'consumers' freedom of choice', which is not the same thing as consumer sovereignty in the literal sense. It means that the leaders determine which consumer goods should be produced and in which quantities, varieties and qualities, according to their own personal preferences - i.e. what they proclaim to be 'good' for their citizens. These goods are then offered to the consumers (who have been paid money incomes) at market-clearing prices. This will require the taxation of some goods and the subsidisation of others, depending on the quantities offered in relation to consumer demand and the respective production costs. At its worst, leaders' sovereignty means consumer rationing on the basis of norms set by bureaucrats. There exist a number of contributions to a comprehensive theory of planners' or leaders' preferences and sovereignty²¹). We shall return to the subject of leaders' sovereignty in the conclusion of this article, when discussing the implications of abolishing consumer sovereignty.

2. Critique and defense of the economic sovereignty of the individual

We saw that the concept of the economic sovereignty of the individual can be used as a normative prescription or as a positive statement. Criticism of it also takes a normative or positive form, by averring either that it ought not exist, or that it does not exist in particular economies or economic systems. We shall discuss the critique under these two headings and distinguish between consumer, factor owner and voter sovereignty. After each point of critique we shall formulate the defense offered by its proponents.

A. The economic sovereignty of the individual as a positive concept

Used in this way the concept says that a combination of consumer, factor owner and voter sovereignty factually exists in certain economies. The allocation of resources occurs according to the subjective preferences of individual people in their economic roles as consumers and factor owners (e.g. as workers) and in their political capacity as voters. This is said of Western market economies, so that criticism of the concept often is a critique of capitalism as it exists in Western countries.

A 1: Critique and defense of consumer sovereignty as a positive concept

Criticism of the positive concept usually assumes one of two forms. Some critics say that it does not factually exist in Western market economies and point out various kinds of market failure with the resulting government intervention. Others maintain that the preferences which govern consumer behaviour are not their real or true preferences, but false ones that the producers have manipulated them into having. As a result even pure free market allocation is not governed by true consumer sovereignty, as the consumer is not really 'sovereign'.

A 1 (i): Government intervention - collective goods and services

Critique: The market mechanism cannot provide pure collective goods on account of their characteristic of non-exclusivity and the resulting 'free rider' problem. Such goods are provided on a planned basis by government agencies. Their allocation is not determined by consumer sovereignty.

Defense: Consumer sovereignty in the literal sense of the word does not apply to collective goods and services. But in a democracy their allocation is governed by voter sovereignty, which is the extension of consumer sovereignty to political decision-making. Therefore it is still determined by subjective individual preferences, as manifested in the voting process, and by the same ethical principles as underlie consumer sovereignty.

A 1 (ii): Government intervention - regulation of the market

Critique: There are innumerable cases in which laws and regulations restrict the free operation of the market mechanism. One case is that of various categories of persons who are generally not considered to be the best judges of their own interests, such as minors, addicts and the feeble-minded. Laws prevent them from effectuating their preferences by entering into valid contracts. A second category consists of certain goods or services which laws compel all citizens to consume, even when they may not want to, such as inoculation against epidemic diseases, compulsory education for children, motor car insurance, etc. Anyone who does not want to consume the good in question is not

considered to be the best judge of his own interests. A third case is that of certain goods for which the individual consumer is considered to be incapable of judging the quality or safety adequately, or where his faulty judgement may have serious consequences. Here government agencies prescribe and enforce health, safety and quality standards. In all three categories there is no free market allocation and no consumer sovereignty.

Defense: Again, in a democracy all laws and regulations restricting the free operation of the market are made by democratically-elected legislative bodies and their intervention conforms to voter sovereignty.

A 1 (iii): Government intervention - merit and demerit goods

Critique: Certain goods or services are said to have important external effects, so that their social utility or cost is greater/smaller than their private utility or costs. From the point of social welfare the free market produces either too little or too much of such goods. By paying a subsidy to the producers or the consumers the government can increase the quantity produced of a good with positive external effects, until its private marginal costs equal its social marginal utility. For goods with negative external effects taxes can raise the private marginal costs and lead to a reduction of the quantities produced. The subsidies or taxes are said to internalise the external effects. R. Musgrave coined the term 'merit' and 'demerit' goods for such goods²²). The subsidies on merit goods may be so high as to make them available free of charge. This has led to some confusion between merit goods and collective goods proper. Many so-called 'collective' goods are strictly speaking merit goods, such as subsidised or free education, public transport, medical services or libraries. In theory the distinction is clear: collective goods are non-exclusive in consumption, whereas merit goods have positive external effects. Critics of consumer sovereignty say that it does not apply to merit or demerit goods, as their allocation is determined by public policy through subsidies and taxes.

Defense: Literal consumer sovereignty does not apply to the taxed or subsidised part of the production of merit or demerit goods. As with collective goods, this part is determined by voter sovereignty and is therefore not in conflict with consumer sovereignty in the wider sense of the word.

In a controversy over merit wants and goods some authors defined the concept as the deliberate paternalistic or dictatorial 'correction' by the state (i.e. the politicians in command of the coercive powers of the state) of the 'incorrect' preferences of the citizens²³). We then have two different definitions of 'merit' wants and goods:

- those goods that under voter sovereignty are thought to have a greater social than private marginal utility. In subsidising their production voter sovereignty overrules consumer sovereignty. As both

are aspects of the economic sovereignty of the individual, the existence of such merit goods does not violate subjectivist-individualist ethics.

- those goods that ruling authorities proclaim to possess a greater social than private marginal utility, i.e. that they want to have produced in a greater quantity than the market would provide. In subsidising their production they overrule both consumer and voter sovereignty. They suppress the preferences of the majority of the citizens and impose their own preferences as being 'meritorious'. In this definition 'merit' goods are incompatible with the economic sovereignty of the individual²⁴).

To avoid confusion the term 'merit goods' should be reserved for goods of the first definition, where voter sovereignty exists. The wants behind the second category of goods should be called "planners'" or "leaders' preferences", which determine the allocation under a regime of "leaders' sovereignty". Another way of ascertaining the difference between the two concepts is to ask: who determines the 'merit' or 'demerit' of a good? If it is the majority of the citizens and their representatives, then we are dealing with merit goods, properly so called. If it is the political leadership of the country, and their opinion conflicts with that of the majority of their subjects, then we are dealing with "leaders' preferences".

In a democracy the existence of merit and demerit goods, properly so called, does not abrogate the economic sovereignty of the individual.

A 1 (iv): Monopoly

A number of authors say that consumer sovereignty only exists on perfectly competitive markets, where prices equal marginal cost and the marginal revenue product of the factors of production is the same in all uses²⁵).

Monopolists restrict output, so that prices exceed marginal cost and economic profits are earned, even in the long run.

Critique: Opponents use this particular definition of consumer sovereignty to prove that it does not exist. Perfect competition does not exist and real business life is characterised by oligopoly and monopolistic elements. There is no consumer sovereignty in contemporary imperfectly competitive market economies.

Defense: M. Rothbard argues that consumer sovereignty does not require perfect competition and that monopolistic pricing practices do not abrogate it. Monopoly pricing is only profitable when the demand schedule is inelastic ($\eta < -1$). This inelasticity of demand is the result of the purely voluntary choices of the consumers in their maximisation of satisfaction. Monopolists can only maximise their monetary incomes by serving the consumers, since all sales are voluntary on the part of both the consumers and the producers²⁶). Consumer sovereignty only requires the free and voluntary interaction

of consumer and producer wants, and that the producers should be responsive to consumer preferences (which they need not be, for instance, under 'consumers' freedom of choice'). It does not mean that bargaining power and the 'gains from trade' should be distributed equally over both sides of the market, or that economic profits should be zero in the long run. A profit-maximising monopolist must be as responsive to consumer demand as a competitive firm, as simple monopoly models show. Consumer demand, as expressed in the demand and marginal revenue functions, co-determines the profit-maximising output and hence the equilibrium monopoly price. Changes in consumer demand affect monopoly outputs and prices just like they do on competitive markets. Consumer sovereignty is not concerned with the distribution of economic power, as it is a principle of resource allocation given the distribution of market power (as of income, as we shall see under criticism A 1 viii). If the critics object to monopolies, they may try to abolish them and reinstate competitive firms. The principle of consumer sovereignty is applicable to both situations. Given the existence and degree of monopoly, the consumer is as 'sovereign' over the market behaviour of the monopolist as he is over that of the competitive firm.

A 1 (v): 'Producer sovereignty' - the manipulation of consumer preferences

Critique: This is the most common and popular criticism of consumer sovereignty. It says that powerful modern advertising and sales promotion techniques enable the big producers to manipulate consumer preferences to their own advantage. They change the intrinsic preferences of the consumers and instill new wants in order to maximise their profits. The result is that '... the consumers no longer act of their own free will. ... The consumer is 'brain-washed' ... Consumer wants are no longer a matter of individual choice. They are mass-produced' (27). The overt preferences of the consumers in their market behaviour are not their 'real' or 'true' preferences, but false ones that the producers want them to have. What they ostensibly want is not what they 'really' want, but what the producers want them to. Worse still, these are not the necessary goods they 'really' want, but socially-undesirable rubbish, which is bought at the expense of the really-necessary goods they then no longer want or can afford. The critique is twofold: not only are the consumers' preferences not genuine, but they are also false in a wrong and wasteful way. Instead of consumer sovereignty we have what Galbraith called 'producer sovereignty'. Characteristic of this theory is:

- the view of the producers as big, unscrupulous capitalist firms, not as small enterprises or factor owners in general,
- the view of the consumers as dumb and gullible,
- the belief that modern sales promotion techniques always yield net profits, i.e. that they cost less than the additional profits earned.

To illustrate their argument the critics refer to certain goods which they maintain only exist because the producers and their hired 'hidden

persuaders' have made the consumers believe that they want them, such as electric toothbrushes. The remedies proposed range from more state measures for consumer protection and the restriction of commercial advertising, to the abolition of consumer sovereignty itself.

Defense: there are several counter-arguments to this critique, which all lead to the conclusion that the producers can only persuade the consumers insofar as they willingly let themselves be persuaded - which means that they are ultimately not 'manipulated' at all.

- (i) The theory of 'producer sovereignty' is simplistic psychology. It assumes that consumer behaviour is a conditioned reflex to external stimuli, as in the case of Pavlov's dogs. It suggests that advertising stimuli are invariably followed by the conditioned reflex action of buying the article in question. Of course, the proponents of the theory do not say that this invariably happens, but then they must explain why it sometimes happens in some cases, but not at all in others. It cannot explain the exceptions to its predictions, except by tacitly conceding that consumers cannot be manipulated against their will. Successful advertising is only possible when it conforms to consumer sovereignty. 'Advertisers propose but the consumer disposes' (29).
- (ii) The theory in effect revives J.B. Say's 'law of markets' in a qualitative sense. If sales promotion enables the producers to sell whatever they want to produce on the basis of their own preferences, then 'supply creates its own demand' (29). They can then produce whatever they want, without using market research or their entrepreneurial skills, and rely on an a priori successful manipulation of consumer demand to sell the output at profitable prices. Not a single observation of business life will support this contention, yet it follows logically from the theory of producer sovereignty. It is incapable of explaining losses, business failures and notorious advertising flops. Not a single businessman or advertising agent would support it.
- (iii) The theory is also falsified by other observations of business life. In the long run, with capital and other resources mobile, businessmen can produce anything they want. As profit maximisers they should have no own preferences as to what they produce, as long as it yields maximum profits. So why do they produce and promote only certain products? Producers do not just produce anything they feel like and rely on sales promotion to sell the output. On the contrary, they use expensive market research to find out what the consumers want (or can be profitably made to want). Only the production and promotion of selected products yields maximum profits, not that of arbitrary goods. The consumer can only be manipulated to buy those goods he fundamentally seems to want anyway.

Furthermore, modern sales promotion is very expensive and will

only be undertaken if the additional profits exceed the costs. There is no guarantee that sales-increasing advertising will also increase net profits! Finally, expenditure on sales promotion is subject to the law of diminishing returns. There is an economic limit to the extent that it is able to influence consumer preferences. All these considerations have taught producers to concentrate their promotional efforts on particular products only. They only try to persuade the consumer with respect to those goods that their market research has shown him willing to be persuaded. The advertising profession owes its living to this fact. The fallaciousness of the producer sovereignty theory is shown by a criticism of T. Scitovsky, who accuses the producers of risk aversion and fear of innovative activities precisely because of the high penalties they must pay when they make wrong guesses about consumers' tastes and put unpopular products on the market!³⁰). Ultimate sovereignty, including that over the promotional activities of the producers, lies with the consumers.

- (iv) The critics always imply that the preferences of other people are manipulated and therefore 'false'. Their own consumption pattern apparently always reflects their true preferences. Their arguments have an elitist ring. The author still has to meet the first believer in producer sovereignty who tries to prove his case by quoting his own consumption as an example!
- (v) Another interesting aspect of the argument is that its proponents always use rather harmless examples to prove their case. 'Harmless', that is, to the feelings of their audiences. As examples they will use goods the majority of their audiences do not buy or possess anyway, so that they do not hurt their feelings and undermine belief in their argument. When addressing a young audience, they will not refer to 'pop' music or 'trendy' clothing, which one would expect are ideal examples of producer manipulation! Similarly (the critics usually holding leftwing views) they will not refer to the mass-produced goods primarily bought by the lower income groups. The reason for this reticence is obvious: no-one really believes that his own personal consumption is the result of insidious producer manipulation. On the contrary: everybody believes that his own tastes reflect his 'true' preferences! If you want to convince people that the consumer is manipulated by the producers, don't quote their own consumption to them as proof!
- (vi) Linked to the previous two points is the moralising attitude of the critics. They imply that the goods of which they approve satisfy people's 'true' wants and, if they sell well, do so on account of their intrinsic merit. Goods of which they disapprove reflect manipulated preferences and only sell well because the producers have brainwashed the consumers into buying them. An explanation for this attitude may be sought in the supposition that the adherents of producer sovereignty cannot accept that

millions of apparently-normal people voluntarily buy huge quantities of what they consider to be 'rubbish'. The critics are intellectuals with leftwing inclinations, who believe in the innate goodness of Man and find this faith difficult to reconcile with the daily evidence of his reprehensible consumption patterns. One way out of this moral dilemma is to proclaim that these people do not really buy 'junk' out of their own volition, but because they have been manipulated by the producers. In this way faith in man and evidence of his bad taste can be reconciled.

(vii) The argument is not extended to the democratic political process, where it would also apply. Politicians can be seen as entrepreneurs, and their parties as enterprises, selling prospective government services. Their elections campaigns are similar to the advertising campaigns of business firms. Yet believers in producer sovereignty hesitate to extend their critique of individualist ethics to the political 'market'. This fact was noted by Von Mises and Rothbard, who called it a 'fatal contradiction': individuals who are not deemed competent to choose their own consumption patterns are thought capable of choosing the right political leaders for an entire country!³¹) The cause of this lies of course in the consequences of applying the producer sovereignty argument to the political sphere: it then becomes a denial of the democratic political system as existent in the West. Most of the critics favour representative democracy and refuse to take this logical step (although Marxists do not hesitate to do so).

(viii) A final argument against this theory is its theoretical sterility. It is only employed in a critical sense, to show that consumer sovereignty does not exist. However, a positive theory of producer sovereignty to replace it is not offered. There is no theory of how producer preferences and sovereignty function as basis for real-life market allocation. If consumer sovereignty did not exist, one would expect the people who have been saying so for over half a century to have developed a theory of how the market economy works without it. This has not been the case.

Summing up, the popular argument that there is no consumer sovereignty because the consumers are manipulated by the producers, can be countered by several arguments to the contrary. The very fact that there is no theory to explain how market allocation functions under producer sovereignty proves the argument to be untrue.

A 1 (vi): The social determination of individual preferences

Critique: Another common argument says that individuals do not really have autonomous preferences. Man is a social being and lives by conforming to a society of fellow-humans. Once a certain degree of satisfaction of his biological needs has been reached, his further wants become social, conditioned by the society around him. It is even

probable that in affluent Western societies the greater part of a person's wants are social and psychological in nature, shaped by the customs and conventions of society³²). The 'Duesenberry-effect' is a case in point: people copy the life-style and consumption pattern of the socio-economic group towards which they aspire. 'Consumer' societies such as ours have 'trend-setting' groups whose innovative consumption patterns are, with time lags, successively imitated by increasingly larger sections of the population. From this the critics conclude that there is no such thing as autonomous individual preferences and hence no consumer sovereignty.

Defense: Proponents of consumer sovereignty admit that society is a major determinant of the individual's preferences, which are therefore socially-conditioned. They do point out some unsatisfactory aspects of the argument that therefore intrinsic individual preferences do not exist. If certain people 'keep up with the Joneses', who do the Joneses keep up with? Who do the trend-setters follow? The argument has a loose end - there must be some individuals whose preferences are not derived from other people. Otherwise the argument would be circular - everybody's preferences are determined by everybody else's. Such an explanation is clearly unsatisfactory.

More important, it does not matter where or how the individuals' preferences originate, whether out of their intrinsic needs or out of their social interaction with other people. The point is that the individuals experience them as their own. The purpose of consumer sovereignty is to maximise individual welfare as they experience it themselves, regardless of its well-springs. It is in any case impossible to distinguish between the intrinsic and the socially-conditioned part of an individual's preferences. There is no clear-cut boundary between the two. The individual himself will not be able to distinguish between them and any outsider's opinion is arbitrary and presumptuous.

Dobb says that if one changes the society in which people live, their preferences will change as well. Therefore there is no need to take their original preferences as the touchstone for a rational allocation³³). He apparently suggests that one should first change capitalist society into a socialist one and then take the individuals' now-altered preferences as guidelines for the allocation process. What he objects to is then not the socially-conditioned nature of individual preferences, but their actual content under capitalism. His critique is not aimed at consumer sovereignty, but at the capitalist system.

Defendants of consumer sovereignty say that it exists (and should do so) even if the major part of the individual's preferences are socially-determined. Individual preferences are subjective and it does not matter where or how they originate, or by whom and what they are influenced, as long as individuals experience them as their own and act on them.

A 1 (vii): Ex post transmission of consumer preferences to the producers

Critique: In modern economies the consumers cannot and do not tell the producers beforehand what they must produce. Modern mass-production technology forces the producers first to make the goods they expect the consumers to want. Production precedes consumption. This argument is usually followed by that of producer sovereignty: the producers first make the goods and then proceed to sell them with the aid of sales promotion. The critics say that consumer sovereignty in an ex ante sense may have existed in pre-industrial society, where craftsmen produced to order and probably knew their customers by name, but that it is an anachronism in modern industrial society³⁴).

Defense: Adherents of consumer sovereignty deny that modern consumers have no ex ante control over the producers. In the case of existant goods it is most recent consumer demand, as reflected in the sales and profit figures, which tell the producers whether to continue or to stop production. With new products the producers must make the best estimate of what they expect the consumers to want. The consumers exercise an ex post judgement when the goods appear on the market. If they do not conform to their preferences, they will not buy them at prices which yield the producers sufficient profits. Again profit or loss figures tell the producer whether to stop or to carry on production. In this way the consumer has the decisive ex post veto³⁵). Nothing that is not desired by the consumers will be produced for long. If consumer sovereignty did not exist because production precedes consumption, there would be no need of expensive market research, nor would there be an explanation for the very high rate of failures amongst the new products annually brought into the market³⁶).

A 1 (viii): Unequal voting

Critique: This is another common argument of socialist critics. Early proponents of consumer sovereignty likened market allocation to the democratic voting process, with each buyer tendering money as his 'vote' for a particular product. The market was seen as an impersonal and democratic institution like the ballot box. The critics do not deny that the 'dollar vote' is impersonal and that the majority of the 'votes' also carry the issue here, but point out that the number of votes is very unevenly distributed over the population. Whereas in a democracy each individual has only one vote, in the market process property and incomes are unevenly distributed and some 'voters' possess many more votes than others. Their vote weighs more than that of people with a lower income, so that their wants are satisfied at the expense of those of others. With unequal incomes the market voting process is the dictatorship of a small minority of the rich over a large majority of the poor. The critics say that if consumer sovereignty is presented as a democratic allocation principle, where every consumer has a say in the allocation, then it does not exist in real-world economies. Poor 'voters' whose 'vote' is frustrated through their lack of purchasing power have no say in the process and are therefore not 'sovereign'. Consumer sovereignty does not exist under

an unequal distribution of wealth and income.

Defense: The point of this criticism is misplaced. The concept does not say that all consumers are equally sovereign and have an equal voice in the allocation process. Some individuals may well have more say than others. The essence of the principle is that individual preferences determine the allocation. It is compatible with both an equal and an unequal distribution of purchasing power. If the critics object to the unequal distribution existing in real-life market economies, then they must try to change it. The principle is as applicable to an egalitarian society as to an inegalitarian one, as it is a principle of income-spending, not of income-acquisition or -distribution³⁷). It is not even true, theoretically speaking, that consumers with insufficient purchasing power have no effect on, and therefore no say in, the allocation of scarce resources. Even demand below the final equilibrium price has an effect on the price and quantity of a good by playing a role in the determination of that price.

Under voter sovereignty the political authorities may take redistributive measures without affecting the economic sovereignty of the individual. Consumer sovereignty is compatible with governmental measures (such as progressive taxation) that seek to redress distributions of wealth or income the individuals find unsatisfactory.

A 2: Critique of factor owner sovereignty as a positive concept

There is hardly any criticism of the concept of factor owner sovereignty in a general sense. On the contrary, criticism A 1 (v) of consumer sovereignty says that certain factor owners, i.e. the producers, are the true sovereigns in a market economy.

A 2 (i): No worker sovereignty

Critique: One point of criticism says that some factor owners are not sovereign. Socialists refer to the alleged powerlessness of the workers to freely select their occupation, place of work, wage level, etc. Workers are not sovereign over the allocation of their labour power; as the owners of the other factors of production are assumed to be. They are at the disposal of their employers and have to accept their decisions as to employment, place of work and wages. There is no sovereignty of the worker³⁸).

Defense: It is very difficult to argue this point with convinced Marxists. It is partly a matter of 'Weltanschauung' whether one wants to see modern employees as free economic agents seeking the best allocation of their labour power, or as wage-slaves subject to the will of their employers. One of the problems lies in the definition of 'worker' - only a diminishing part of the modern employees are still 'workers' in the classic socialist sense. The existence of a highly-differentiated wage structure also mitigates against this argument. Wages are differentiated to take account of the job preferences of workers. If they were indeed powerless over the allocation of their

labour power, there would be no need for differentiated wages.

A 3: Critique of voter sovereignty as a positive concept

There is also little explicit criticism of vote sovereignty. To do so, the critics must either demonstrate that 'democracy' does not exist in real-life representative democracies, or that even in a democracy the allocation by the government does not conform to the preferences of the simple majority of the citizens. In this context it must be stressed that voter sovereignty only exists in a political democracy. In a dictatorship there is no voter sovereignty and hence no economic sovereignty of the individual. If there is a market economy in a right-wing dictatorship, there may be consumer and factor owner sovereignty, but the government's allocation of resources will not reflect the majority of the voters' preferences. It is inadmissible to use the examples of dictatorships with a market economy (e.g. Franco Spain or fascist Italy) as arguments against 'consumer' sovereignty in the wider sense.

A 3 (i): Capitalist democracy is not true democracy

Critique: Marxist critics aver that Western representative democracy is not 'true' democracy as they define it. This means that there is no voter sovereignty under such a system. They employ an 'essentialist' definition of democracy, which enumerates a number of ideal characteristics of a 'truly' democratic society, such as an egalitarian distribution of economic power and incomes, state guarantees of employment and minimum living standards, etc. Such characteristics are not commonly found in Western representative democracies, with their unequal distributions of income and the privately-owned means of production. Marxists say that in such a society the state is but the executive organ of the capitalist class (this is the so-called 'Agenturtheorie des Staates'). Its decisions conform only to the preferences of a small minority of the rich and powerful, and not to the wants of the poor. This kind of state intervention is therefore 'undemocratic'.

Defense: This argument hinges on the definition of 'democracy'. In the non-marxist definition democracy is both a process for ascertaining and aggregating the wishes of the majority of the voters and a state that exists when government activities conform to these preferences. If one accepts this traditional definition then voter sovereignty does exist in a representative democracy, irrespective of the distribution of wealth and incomes.

A 3 (ii): 'Package' supply in political decision-making

Critique: A major difference between market and political allocation is the fact that in the market the individual can choose specific goods and buy only these, whereas in the political voting process he must vote for a party offering an entire bundle or 'package' of goods and services. There will not be a party offering exactly the bundle each individual wants. People must then vote for the party whose

proffered bundle comes closest to their specific set of preferences, and also accept the goods they do not want. Thus it may happen that even in a democracy certain goods are produced which are not wanted by a majority of the voters³⁹). Furthermore, party programmes do not only comprise economic issues, but also political, religious and other non-economic ones. It can and does happen that a party will win an election on the basis of such non-economic issues, whereas its economic programme is not desired by a majority of the voters. This is another reason why economic decisions in a democracy may not reflect the wishes of a majority of the citizens. Market choice is more personalised and consumers seldom have to accept other goods they do not want when buying something they do want. Such 'package' deals are even forbidden in some countries.

Defense: This is no criticism of voter sovereignty in actual democracies, but of the efficacy of representative democracy in satisfying individual wants. Even at its best this system cannot ensure that every economic decision made by the representatives conforms to the wishes of the majority of the voters. However, there are a number of built-in mechanisms which prevent government decisions from deviating too far from the wishes of the electorate, such as parliamentary debates and periodic elections. Furthermore, for collective and merit goods there is no better alternative for representative democracy. 'Direct democracy' and referenda are hardly possible in populous modern societies; and certainly not for the innumerable collective decisions which must be made daily. This criticism is in fact a plea for the market mechanism and for consumer, as opposed to voter, sovereignty.

A 3 (iii): Distortions of voter preferences

Critique: Even democratic decision-making does not automatically lead to a corresponding allocation. Two kinds of distortion are possible. The first occurs when voter preferences must be transformed into political decisions. Politicians are not the selfless agents of the voters they represent, but have aims and preferences of their own. When they must take decisions on the basis of their electoral programmes they to some extent smuggle in their own preferences. This 'colours' the decisions, which then do not entirely correspond to the wishes of the voters. The other type of distortion occurs during the execution of these decisions by a hierarchy of government officials. They also have their own goals, which they insert into their execution of the orders given them by their political superiors. This may make the final allocation correspond even less to the original wishes of the majority of the voters. Both kinds of distortion vitiate voter sovereignty.

Defense: Again, this is a criticism of representative democracy as an instrument for implementing the economic sovereignty of the individual. The existence of opposition parties and periodic elections provide some guarantee that politicians and their subordinate officials cannot distort voters' preferences too much. Some distortions will

persist, but large deviations from the mandate of the voters will create opportunities for electoral gain for the opposition⁴⁰). As in any other principal - agent relationship, the margin of tolerance will be determined by the costs of monitoring and policing the agents, i.e. the governing party. The self-interest of the opposition parties helps to keep these costs low for the citizens.

The same arguments apply to other problems of representative democracy as a means of determining and executing the will of the majority of the population, such as Arrow's 'general impossibility' theorem. Representative democracy is not a perfect instrument for realising voter sovereignty, but no better alternative for making the necessary collective decisions exists. Again, these failures of the political decision-making system show that where applicable, consumer sovereignty and the market mechanism are better instruments for implementing the economic sovereignty of the individual.

B: The economic sovereignty of the individual as a normative concept

The normative concept says that the allocation of all goods and services should correspond to the preferences of the individual members of a society. This is a value judgement, depending on the moral views held by a person. Criticism of the normative concept also depends on the ethical or political views of the critic. There is less criticism of the normative concept than of the positive one. More people in Western societies are willing to say that it ought to exist, than that it in fact does exist. The reason is that the underlying ethical principle is generally accepted in Western society. The alternative, the sovereignty of someone else over the economic life of a person is repugnant to most people.

B 1 (i): Critique and defense of consumer sovereignty as a normative concept

The normative critique of consumer sovereignty is adressed to all three of its aspects: its consumption orientation, its individualism and its subjectivism.

B 1 (i): 'Consumptionism'

Critique: The critics charge that consumer sovereignty is the cause of Western 'consumer society', in which the apparent supreme goal of life is the acquisition and consumption of goods and services. So-called 'conspicuous consumption' has supplanted all other human values and dominates Western social life. A host of social evils plaguing our society and the rest of the world is ascribed to this ideology of 'consumptionism', such as alienation, materialism, superficiality, the despoilation of nature and the exploitation of the underdeveloped countries. This critique has a very long history, going back to the early 19th century. It was resuscitated by such neo-marxist intellectuals as Herbert Marcuse in the 1960's and it played a major role in the student revolts against the 'consumer society'. The

critique of 'consumer society' is at the same time a critique of consumer sovereignty in the normative sense. The critics say that consumption ought not be the highest goal in society. They accuse consumer sovereignty of fostering a 'consumptionist' mentality.

Defense: Consumer sovereignty operates only within the economic sphere of life. It is not concerned with religious, social or political values outside the field of economics. If the critics are right in saying that economic values have come to dominate all others in Western society, then this is both a tribute to the efficiency with which the market system pursues its goal (which can only be the economic one of maximising the production of goods and services - an economic system cannot pursue any other than economic goals); and a critique of the values apparently held by most people in Western society. The blame for the 'consumptionist' spirit lies not with the market mechanism and the principle of consumer sovereignty, but with the values held by people in secular societies with an advanced technology. Each facet of human existence pursues its own specific goals: social life its social goals, political life its political goals. If people in Western society chose to give the highest priority to the economic aspect of their life and to devote most of their time to their economic goals, that is their own free choice.

Secondly, within the economic sphere of life, consumer sovereignty merely stresses the priority of consumption over production. It says that production ought to be adapted to voluntary consumptive demand. It does not exist for its own sake, or for that of economic growth, but in order to satisfy the wants of the consumers according to their own preferences⁴¹).

B 1 (ii): Against individualism

Critique: Many critics object to the stress laid on the individual consumer, factor owner and voter in the principle of individual economic sovereignty. They believe that the individual should not be viewed as the crux of societal organisation and its economic system. Man is a social being and the essence of mankind is its social existence. The social entities in which man lives are more than the sum of their individual members. Implicitly such critics ascribe to an 'organic' theory of social entities. The state is seen as more than the sum of its individual citizens, and the same holds for other collective bodies like 'the people' or 'the proletariat'. They say that it is this greater social whole which should be the subject of any social theory. The allocation process should serve the interests of the nation, the people or the race, which count for more than the individuals they are composed of. Individualism promotes egoism and leads to disregard for the greater social whole.

Defense: This criticism touches the essence of consumer sovereignty. The principle says that the welfare of the individual should be the aim and object of economic life. The essence of consumer sovereignty is normative individualism: 'nihil est praeter individuum' (Abelard).

Its proponents say that no collective entity has a real, concrete existence of its own. They are not living organisms and cannot experience wants. They have no preferences of their own, apart from those of their individual members. All collective entities are the sums of their parts, if we include the interrelationships between the parts⁴²).

No economist has yet constructed an operative theory on the basis of 'methodological collectivism', which would be the antithesis of the individualist concept. On the contrary, over the past decades all theories treating collective entities like the firm, the state, the central planners etc. as if they were a single decision-maker (the so-called 'black box' assumption) have come in for heavy methodological criticism. Students of public choice theory now know that 'the state' does not make decisions and provides collective goods, but that individual politicians and officials do. Holistic concepts like 'the state' or 'society' are no longer used as analytical tools in modern economic and political science. All collectivists, who want to replace the individual by some collective entity, must explain exactly how and by what means this entity will express itself and what the relationship between 'its' aims and those of its individual members will be. If they are democrats, they must fall back on some democratic system for aggregating individual preferences. If they are not, then the so-called preferences of the collective body are in fact those of its rulers or of the authors themselves.

In most instances the theory of the organic existence of social collectives has served to camouflage the particular preferences of those individuals who profess to speak in the name of such bodies. 'He who says 'the people', wishes to deceive'. Proudhon has said. Rulers of all sorts have always invoked the 'pluralis maiestatis' to give greater credence to their own personal convictions and demands. Normative collectivism must lead to étatism and the dictatorial imposition of the preferences of those who profess to speak on behalf of the collective. Any critique of individualism as the basis for economic choice must either rest on a misunderstanding of the nature of 'collective' wants, or on the advocacy of certain particular interests camouflaged as those of some collective entity.

Proponents of the economic sovereignty of the individual stress that collective decisions must be taken by means of the democratic aggregation of individual preferences. 'Collective' decisions based on any other principle are dictatorial.

B 1 (iii): Against subjectivism

Critique: The fundamental principle underlying the economic sovereignty of the individual is that all individuals should decide for themselves, on the basis of their own subjective preferences, as to what serves their interests best. '... everyone should have the right to be free to pursue his own interest as he deems best'⁴³). Against this value judgement the critics advance a number of arguments to

prove that the individual is not always the best judge of his own interests.

- a) Imperfect knowledge. Some critics say that consumers, especially in complex modern societies, act on the basis of very imperfect knowledge. Modern markets are not transparent and single individuals cannot know all the data required for rational decision-making. They say that the government and its experts possess more and better information and should have the right to interfere with the individuals' decisions, if this would lead to greater welfare for them.
- b) Faulty preferences. Dobb has argued that many of the consumers' preferences are stupid and wasteful. They lead to the production of unnecessary products that do not contribute to true welfare. Furthermore, consumers are fickle, causing continuous changes in the production process and excessive product differentiation. This makes mass-production and long production runs with their economies of scale impossible. Less goods are produced at higher cost, with national welfare less than it could have been⁴⁴).

Scitovsky criticised consumer sovereignty for precisely the opposite reason: it leads to the domination of 'low-brow' tastes and the elimination of superior varieties of goods. This is an élitist counterpole to Dobb's argument⁴⁵).

- c) Economic myopia. A special case of faulty preferences is made for the time preferences of the individuals. Dobb has stressed that consumer preferences are especially defective and a bad guide to decision-making when it comes to allocating resources over time. They are short-sighted and underestimate the future. It was A.C. Pigou who first mentioned the 'telescopic faculty' of the consumers as savers. All socialists have used this argument to prove that the consumers' time preferences should not be allowed to determine the national rate of saving (and hence of investment and growth)⁴⁶). They are convinced these crucial rates will be too low if left to the aggregated time preferences of the individuals. They also apply this criticism to a future socialist society. Even a liberal socialist like Oskar Lange would have the rate of saving and investment in his model of 'market socialism' arbitrarily and authoritatively determined by the political authorities, and not by the aggregated time preferences of the citizens⁴⁷).

Defense: The following counter-arguments can be raised against these points of criticism:

- a) Against 'imperfect knowledge': No-one would deny that individuals make their decisions on the basis of imperfect knowledge. Had they been better informed, they might have made different decisions. On the other hand, human opinions about the quality of information differ. What one person may think more or better information may not be thought so by someone else. It can only be esta-

blished ex post which of the two was correct, and then only by the agent himself. This criticism is in fact a plea for more information for the consumers, which is not the same thing as abolishing their right to decide freely for themselves on the basis of their own knowledge and judgement. Anyone who thinks that he is better informed is free to offer his advice. But the individual must have the right to accept or reject this advice - even if his own information is patently 'wrong' in the opinion of all other parties⁴⁸).

- b) Against 'faulty preferences': This is a purely subjective critique. There is no objective standard of 'right' and 'wrong' preferences. The Latin proverb 'De gustibus non disputandum est' exists in all European languages and is the only method of avoiding conflict over subjective value judgements. Neither can a clear distinction be made between the 'real needs' of people, as opposed to their 'mere wants'. What one person may call a 'real need', another may call an unnecessary 'want'. Social conflict and ultimate dictatorship can only be avoided by granting all preferences equal legitimacy. Tolerance is not a virtue, but a survival strategy based upon egoistic premisses.

The only legitimate instance of suppressing some consumer preferences is democratic legislation under voter sovereignty (see point A 1 ii). Such legislation also rests on subjective judgements, even if supported by a majority of the voters, and there is no guarantee that a majority judgement is objectively 'right'. One merely has to think of majority opinions concerning 'right' and 'wrong' preferences during the Third Reich in Germany.

The contradictory arguments of Dobb and Scitovsky already illustrate the potential conflicts inherent in the notion of 'wrong' preferences. Dobb would reduce product differentiation and standardise goods for mass consumption, whereas Scitovsky would increase the differentiation to allow for élite tastes. The final decision as to which would be a struggle between two different conceptions of 'good' preferences. History gives reason to fear that the decisive factor would be the 'ultima ratio', force. 'Might is right' would be the result.

Finally, the argument of 'wrong' preferences is paternalistic. By saying that certain preferences are 'wrong', the critic is saying that he has the discrimination to see this, that he can judge which preferences should be suppressed. In effect he is demanding the dictatorship of his own subjective opinions over those of others. In a controversy over consumer sovereignty a 'radical' critic once remarked that we must 'play God'. The question is: who is to be 'God'? Everybody will want to, once they are aware that what is at stake is their personal freedom to pursue their own preferences and the result will be a bitter social struggle.

The argument of 'good' and 'bad' preferences is a very dangerous one to use for all who love their own freedom. But it is also

dangerous for those who do not care for other people's liberty and would like to impose their own 'good' preferences upon them. They cannot be sure that they would win the ensuing struggle and may find others imposing their preferences upon them - which are the very ones they wanted to suppress in the first place!

- c) Against 'economic myopia': This is merely a special instance of the previous case. If we abolish the individual determination of the rate of saving, how will 'the state' find out the 'correct' rate? One possibility is to let parliament annually set the proper rate and amount for the coming year, with majority rule deciding the issue. But if this decision is taken under voter sovereignty, then again the myopic time preferences of the individual voters are ultimately decisive. The socialist critics do not have such a democratic determination of the national saving rate in mind. Dobb criticises the rationality of individual decision-making in general. It is not only the market determination of the rate that he objects to, but to the individualist basis of the saving decision as such. He has no greater confidence in the individual as a voter than as a consumer⁴⁹). What such socialists propose is that the political leaders of the state should set the rate according to their own preferences. Given the marxist teleology of reaching the promised 'realm of freedom' of communism as soon as possible, they will set this rate higher than would be the case under a democratic aggregation of the individuals' time preferences. This leads to a régime of 'forced saving' by means of dictatorially-imposed taxes. This is the logical solution to the problem of the individuals' economic myopia. Nowadays this rationalisation of a forced saving policy is heard less frequently, presumably due to concern over environmental deterioration and resource depletion. Here too, a similar case can be made for suppressing individual preferences by means of authoritarian measures to conserve nature.

Some of the points of criticism of consumer sovereignty as a normative concept also apply to it when used in a positive sense and have been discussed in section A 1.

B 2: Critique of factor owner sovereignty as a normative concept

We must distinguish between the ownership of the human production factor 'labour power' and that of the inanimate factors of production such as land and capital. There is a common consensus that the 'owners' of labour power (i.e. the 'workers' in the broad sense of the word) ought to be free to dispose over their 'property' as they think fit. Everybody is in favour of worker sovereignty. Not even a centralist socialist like Dobb would have it supplanted by labour conscription. Apart from ethical considerations, historical experience shows that 'forced' labour (i.e. labour allocated irrespective of the job preferences of the workers themselves) has a low productivity and high monitoring costs. Contrary to popular opinion, 'forced' labour is not cheap. Societies that in modern times have resorted to labour conscription have usually done so under exceptional circumstances and

rescinded such measures once the emergency situation was over.

Libertarian authors say that this argument of economic efficiency also applies to individual sovereignty over the inanimate factors of production. This is an argument in favour of private ownership of the means of production. There is some theoretical support for this view in the theory of property rights⁵⁰). However, there is no consensus on this point: all socialists are against private ownership of the means of production and therefore against the sovereignty of particular individuals over them. Indeed, all of marxist economics can be seen as a critique of the sovereignty of particular individuals over the inanimate factors of production!

B 3: Critique of voter sovereignty as a normative concept

There is no explicit criticism of the normative concept of voter sovereignty in economic literature. This is not surprising, for the critic would in fact be against democratic political decision-making and no-one is willing to say that openly. Yet this is what a particular critique of the economic sovereignty of the individual comes down to. It is one thing to reject the literal concept of 'consumer' sovereignty and to plead for democratic political decision-making (i.e. voter sovereignty) in its place. But when one rejects decision-making on the basis of individual preferences in general, then one also rejects the normative precept of voter sovereignty. This is what M. Dobb seems to do in several of his works⁵¹). By arguing that individual preferences are irrational and unsuitable to serve as the sole basis for social decision-making, he is not only rejecting consumer sovereignty, but voter sovereignty as well. Both ultimately rest on the preferences of individual human beings, and that is precisely what Dobb objects to, without saying so all too explicitly and without suggesting that individual preferences should be suppressed altogether. It is doubtful whether any of the critics of the rationality of individual preferences realise that they are in effect undermining the foundations of voter sovereignty and democracy. As Von Mises and Rothbard pointed out in their 'fatal contradiction': if the economic preferences of the individuals are irrational and unsuitable for determining the allocation of the national resources, then their political preferences should also not be allowed to determine the nation's political life!

3. Conclusion: the relevance of the debate over consumer sovereignty

In the preceding pages we saw that the economic sovereignty of the individual is, rightly or wrongly, subject to a barrage of criticism in both its positive and normative connotations. The question arises: even if the rebuttals of all the individual points of critique seem convincing, is it all worth it? Is it worth maintaining a rather abstract concept that gives rise to so many misunderstandings and criticisms? Is it worth so elaborate a defense? Is it not a Lakatosian 'degenerating programme', which yields little theoretical and empirical progress and needs to be defended by multiple layers of

'protective belts'?52).

Proponents of the concept argue that its proper value is only comprehended when one considers the consequences of its abolition. In conclusion we shall therefore examine what the theoretical implications and the practical consequences would be, if the critics were to be right in their rejection of the concept in both its meanings.

If the critique of the positive concept is correct and there is indeed no consumer sovereignty in Western market economies, then the actual allocation process in these economies has no ethical and welfare-theoretical foundation. Modern micro-economic theory should then be discarded, for there would be no foundation for its theories of consumer behaviour and the interaction of supply and demand. Without its basis of consumer sovereignty, conventional micro-economic theory hangs in the air. It can no longer explain how market allocation works.

The onus of providing an alternative theory rests upon the critics: they must formulate an alternative theory that is both consistent and realistic. They cannot reject the positive concept of consumer sovereignty and its derived body of micro-economic theory and merely leave the term 'producer sovereignty' in its place. They must then also explain what the preferences of the producers are, why they are that, and show how market allocation functions under producer sovereignty. We saw that they have not yet devised such a theory. The result is that apparently market allocation has no theoretical foundation! These considerations demonstrate the fallaciousness of the critique of consumer sovereignty in its positive sense.

If the concept should be rejected on normative grounds, then we are in fact rejecting the ethical basis of free market and democratic political allocation. Logic then demands that we should abolish the market and democracy as well, together with all other institutional means necessary for the efficient functioning of these two allocative institutions. We must then find an alternative normative principle for resource allocation. The only alternative is "planners" or 'leaders' sovereignty'. Despite Dobb's protestations against the 'unreal anti-thesis' between consumers' and leaders' sovereignty, there is simply no other theory of an alternative principle to guide resource allocation. None of the detractors of consumer sovereignty has ever formulated a full-fledged, consistent and ethically-acceptable alternative. They do not explain in any detail what should replace it, apart from some vague references to democratic collective decision-making (which show that they have not understood the relationship between consumer and voter sovereignties) or to disinterested government experts who are to decide for the individuals on account of their superior knowledge.

Any critique of the individuals' preferences, as voluntarily manifested by themselves, as either being 'wrong' or 'false' must next proclaim that somebody or something else does know what their proper preferences should be. It follows that this person or body should have the right and the power to suppress the individuals' 'wrong' preferen-

ces and impose their 'proper' ones on them. This is the rationale for 'leaders' sovereignty'.

The defining characteristics of leaders' preferences are:

- i) they differ from those of the majority of the population and would be ineffective minority preferences in a democratic collective decision-making process;
- ii) they are held by people with sufficient coercive power over the other citizens in a society to have them effected despite this - i.e. by the political leaders of a country;
- iii) they are effectuated by suppressing the preferences of the other individuals in their market or electoral manifestations;
- iv) they are therefore dictatorial.

'Leaders' sovereignty' means the dictatorship of the subjective preferences of a minority of the population, the political leaders. This is not to say that such preferences are 'arbitrary' - on the contrary, they are deliberately and willfully determined and often elaborately rationalised. Their justification has ranged from the divine right of kings and the authoritarian right of dictators ('Il Duce ha sempre ragione'), to economic arguments about the 'true' welfare of the people. Nowadays the case for suppressing the population's overt preferences is usually clothed in terms of its 'true' and 'long-term' welfare. The ultimate justification of leaders' sovereignty is 'might is right'.

Leaders' sovereignty exists in many countries. In all socialist countries the market has been abolished, but it was not replaced by some kind of democratic collective decision-making, as originally envisaged by many socialist idealists. Historical experience indicates that when consumer and factor owner sovereignty are abolished, they are not succeeded by voter sovereignty, but that voter sovereignty itself is also abolished, to be replaced by the will of an authoritarian leadership. This appears to be the logical consequence of the abolition of the market, and not some unfortunate but explicable 'accident' of history, as certain believers in the theory of the 'bureaucratic deformation of socialism' say..

If we want to avoid leaders' sovereignty and the undemocratic political order it requires, then we must know what 'consumer sovereignty', i.e. the economic sovereignty of the individual, is all about. Fundamentally, consumer sovereignty means the economic freedom of the individual; and ultimately his political freedom as well. 'Consumer sovereignty and the liberal system therefore stand or fall together'⁵³). It is this bond with individual liberty that gives the concept its lasting appeal, despite all the criticism directed against it. The critics themselves are aware of this, which is why they hesitate to propose its outright abolition. Even such a fervent opponent as M. Dobb phrases his criticism very carefully so as to avoid saying that it should be abolished altogether⁵⁴). Even less do they say that they want to have it supplanted by leaders' sovereignty. In the words of a radical neo-marxist like Paul Baran: 'Neither I nor any other marxist writer with whose works I am familiar, has ever advocated the abolition of consumer sovereignty and its replacement by the orders of a commissar'. This is true, but the trouble is that they

give no details of any third possibility beyond such nebulous and contradictory statements as '... by a system of rationally planned production for use, by a universe of human relations determined by and oriented toward solidarity, cooperation, and freedom'⁵⁵). Merely to criticise consumer sovereignty leads to a theoretical cul-de-sac: on the one hand either there is no such thing or, if there is, it is bad because the consumer is a bad sovereign; but on the other hand one must avoid authoritarianism. Historical experience until now shows that it has not been possible to do this. Criticism of the economic sovereignty of the individual paves the way for the suppression of his preferences and for the imposition of those of authoritarian leaders.

On the other hand, adherents of the principle must admit that the majority of the consumers may well be very bad 'sovereigns' indeed: that they may be stupid, gullible, rapacious and shortsighted and have abominable tastes. Nevertheless, in a democracy all men are equal and should be equally free to pursue their own conceptions of their happiness. The price to pay for the freedom to pursue one's own goals is to grant others the same right to pursue theirs, no matter how much one disapproves of them.

In the 1962 panel discussion on consumer sovereignty Baumol warned against the over-critical analysis of this fundamental ethical concept underlying Western society. 'In doing so, we will be right in every detail, but wrong on what matters most'⁵⁶). We have argued that the critics are not even right in the matters of detail, let alone the fundamental principle itself. The concept of 'consumer' sovereignty may be badly defined and in actual fact a misnomer, but '... it is an important and valid concept, whose significance can only be adjudged by contrast with a situation from which it is (largely) absent'⁵⁷). Like freedom itself, it is valued most when lost.

On a practical level, a better understanding of the concept is important in shaping both the general public's attitude and government policy toward the market mechanism. After being under heavy attack throughout the 1960's and 1970's, the market is going through a process of rehabilitation in the 1980's. As reasons for this we can mention the increasing evidence and better theoretical understanding of cases of 'government failure' and the stagnation and high rates of unemployment persisting in most Western 'mixed' economies. Even in the centrally-planned economies of Eastern Europe various attempts have been made over the past two decades to introduce market elements in order to improve their economic efficiency. However, there is a strong presumption that the market is being rehabilitated for the purely pragmatic reason of pulling bureaucratised economies out of the quagmire of stagnation. It is far less accompanied by a renewed appreciation of the fundamental principles underlying market allocation. As a result, the present pro-market spirit prevailing in the West may only be temporary, to be discarded again when growth and employment figures have improved. The past denigration of the market may recur in future. If we want to avoid this, both the professional economists and the general public need a better understanding of the fundamental principles underlying market and democratic political allocation.

Footnotes

1. W.H. Hutt: 'The concept of consumers' sovereignty', 'Economic Journal' Vol. 50 (1940) p. 66. The Dutch adage 'De klant is koning' actually does not mean that he is 'king', but that the customer is always right. It is a term from the retail trade and means that sales personnel should always obey the wishes of the customers. This saying is actually closer to the true meaning of the allocation principle than the word 'sovereignty' with its misleading political and juridical connotations suggests.
2. See the debates periodically held on the subject by the American Economic Association, as published in the 'American Economic Review' Vol. XLI (May 1951), Vol. LII (May 1962) and Vol. LXII (May 1972).
3. A. Smith: 'The wealth of nations', ed. E. Seligman, London (1971), p. 155.
4. See W. Keizer: 'The Soviet quest for economic rationality', Rotterdam (1971) p. 27: '... the Soviets see investment and economic growth as ends in themselves and view consumption as a 'leak' from reproduction. ... To Stalin and all other Soviet leaders ... concrete and steel are final goods, bread and clothing intermediate goods.' But note also Adam Smith's comment on the mercantilist system: 'But in the mercantile system the interest of the consumer is almost constantly sacrificed to that of the producer; and it seems to consider production, and not consumption, as the ultimate end and object of all industry and commerce.' A. Smith, op. cit. p. 155.
5. In the Soviet Union, for example, 'consumptionism' is a term of censure for models of economic reform and policy changes that pay more attention to consumption and the wishes of the consumers. Orthodox marxist opponents fear that such reforms would reduce investment in heavy industry and cause a reduction of the growth rate. See W. Keizer, op. cit. p. 206/7.
6. A.P. Lerner: 'The economics and politics of consumer sovereignty', 'American Economic Review' vol. LXII (1972) p. 263
7. J. Rothenberg: 'Consumers' sovereignty revisited and the hospitability of freedom of choice.' "American Economic Review" vol. LII (1962) p. 270.
8. L.M. Fraser: "The doctrine of 'consumers' sovereignty'", 'The Economic Journal' (1939) p. 547.
9. P.J.D. Wiles: 'The political economy of communism', Oxford (1962) p.97
10. W.H. Hutt, op. cit. p. 67/8.
11. M.N. Rothbard: 'Man, economy and state.' Princeton N.J. (1962) vol. II p. 560/2.

12. See for example G.H. Hildebrand: 'Consumer sovereignty in modern times.', 'American Economic Review' vol. XLI (1952) p. 19 and p. 31: 'Individual consumer sovereignty and the market go together.'
13. W.H. Hutt, op. cit. p. 71 and W.H. Hutt: 'Economists and the public', London (1936) p. 311.
14. H. Gintis: 'Consumer behavior and the concept of sovereignty: explanations of social decay.' "American Economic Review" vol. LXII (1972) p. 269. In a more homely expression: 'Citizen sovereignty merely keeps the government honest.' *ibid.*
15. N. Spulber and G.M. von Furstenberg: 'Welfare criteria for comparing changes within and between economic systems.' "Weltwirtschaftliches Archiv", vol. 110 (1974) p. 693.
16. Gintis, in referring to the 'neo-classical' vision, states: 'Thus consumer and worker sovereignty in economics parallels that of citizen sovereignty in liberal democratic political theory.' H. Gintis, op. cit. p. 268.
17. W.H. Hutt (1936) op. cit. p. 311.
18. W. Baumol in the panel discussion of the 74th annual meeting of the American Economic Association, 'American Economic Review' vol. LII (1962) p. 290. Similarly, Spulber and Furstenberg state that: '... many economic activities of government are entirely consistent with the theoretical welfare content of laissez-faire, consumer sovereignty.' N. Spulber and G.M. von Furstenberg, op. cit. p. 702.
19. M. Rothbard speaks of 'the sovereignty of the individual' and 'individual self-sovereignty', but is apparently only referring to the market activities of the individuals, not to their role as voters in collective decision-making processes. See M.N. Rothbard, op. cit. p. 560. P. Baran refers to the 'sovereignty of the individual human being' (which he says does not exist in democratic market economies of the West), see P. Baran: 'The longer view', New York (1969) p. 324.
20. G. Grossman correctly points out that the commonly-used terms "planners' preferences" and "planners' sovereignty" are less accurate because the major choices are not up to planners, but up to their political superiors, the political leaders of the country. G. Grossman: 'Economic systems', Englewood Cliffs, N.J., 2 nd. ed. (1974) p. 11.
21. See W. Keizer, op. cit. p. 238/9; the same author's "The optimal production of 'private' goods and 'socialised' goods under consumer sovereignty and under leaders' sovereignty", unpublished paper, Vrije Universiteit Amsterdam; J. Thornton and D.L. Leber: 'On the maximising behavior of a monopoly planner', 'Economics of Planning' vol. 10 (1970); Pham Chung: 'Optimal 'consumption - state' product-mix and level of control in a centrally-planned economy' and P. Jonas: 'Unilateral transfers in a Soviet-type economy', both in 'The Indian

Economic Journal', vol. XVIII (1971).

22. R. Musgrave: 'The theory of public finance' New York, 1 st. ed. 1959 p. 13. For a detailed analysis of, and controversy over, Musgrave's concept, see the articles by J. Head, C.E. McLure, N. Andel, D.A.L. Auld and P.C. Byng, A. Pulsipher and J.G. Ballantine in the journal 'Finanzarchiv', vols. 25-31 (1966-1972).
23. This is the view expressed by C.E. McLure: 'Merit wants: a normatively empty box.' "Finanzarchiv" vol. 27 (1968). See also W. Weber and C. Seidl: 'Zur Interdependenz von Steuer- und Wirtschaftssystemen.', 'Osteuropa Wirtschaft', vol. 16 (1971): 'Man spricht dann von einem meritorischen Gut, wenn eine zentrale Behörde (in der Regel der Staat) die Konsumentenpräferenzen in ihrem Sinne korrigiert.' p. 4.
24. C.E. McLure, op. cit. p. 483; W. Weber and C. Seidl, op. cit. p. 5.
25. G.H. Hildebrand, op. cit. p. 21; N. Spulber and G.M. von Furstenberg, op cit. p. 695/6.
26. M.N. Rothbard: op. cit. p. 564 - 566 and 570/1.
27. A. Hansen: 'The economics of the Soviet challenge', "Economic Record" (1960), quoted in M. Dobb: 'Welfare economics and the economics of socialism' Cambridge (1969), p. 6.
28. J. Rothenberg, op. cit. p. 280. P. Baran quotes the chairman of one of the largest American advertising agencies as saying 'If the product does not meet some existing desire or need of the consumer, the advertising will ultimately fail.' P. Baran, op. cit. p. 228.
29. A. Lindbeck: 'The political economy of the New Left', New York (1971) p. 41.
30. T. Scitovsky: 'On the principle of consumers' sovereignty', "American Economic Review" vol. LII (1962) p. 266.
31. M.N. Rothbard: 'Power and Market.' Kansas City (1970) p. 207/8: 'Yet in this political sphere of open demagogy is precisely the only one where the mass of individuals are deemed to be competent!'
32. A.P. Lerner, op. cit. p. 258: 'In a rich society like ours, only a very tiny part of what people want is determined by their physical and chemical makeup. Almost all needs and desires are built on observation and imitation'.
33. M. Dobb: 'Individual consumption and consumers', Ch. 10 of 'Welfare economics and the economics of socialism' op. cit. p. 227/8.
34. T. Scitovsky, op. cit. p. 265.

35. See the presentation by C.R. McConnel: 'Economics. Principles, problems and policies.' New York, 4 th. ed. (1969) p. 79.
36. Only 10-20% of the potential new products survive preliminary market survey studies and of the ones actually marketed, 30-50% fail within the first year. P. Doyle: 'Economic aspects of advertising: a survey' 'Economic Journal' (1968) as quoted in E. Neuberger and W. Duffy: "Comparative economic systems. A decision-making approach.", Boston (1976) p. 161.
37. A.P. Lerner even reverses this argument: the poorer people are, the more one should have consumer sovereignty! '... the poorer people are, the more important it is that what they do have should be used in the most efficient way to satisfy their needs; and this calls for consumer sovereignty.' A.P. Lerner, op. cit. p. 261.
38. H. Gintis, op. cit. p. 270/1.
39. This is the case of the Ostrogovsky-paradox.
40. B. Blankart: 'Zur ökonomische Theorie der Burokratie.' "Public Finance" vol. (1975) p. 172/3; A. Breton and R. Wintrobe: 'The equilibrium size of a budget-maximising bureau.', "Journal of Political Economy", vol. 83 (1975) p. 195-205.
41. After his thorough critique of the equilibrium thinking of neo-classical economics, J. Kornai writes: 'One of the basic ideas of the General Equilibrium School is that the economic system should be constructed in such a way that production ... is adapted to the needs of the consumer. Production should serve man and not the opposite. This is a beautiful humanistic idea, the importance of which cannot be stressed sufficiently.' J. Kornai: 'Anti-equilibrium', Amsterdam (1971) p. 153.
42. '... no races, classes, nations or other social groups have the sense organs, the nerves and the brain mechanisms which are capable of feeling pain and pleasure or gratification and frustration - that races, classes, nations and other social groups are only collections or combinations of individuals for particular purposes.' A.P. Lerner, op. cit. p. 263.
43. M.N. Rothbard: 'Power and the market' p. 206.
44. M. Dobb: 'Economic theory and the problems of a socialist economy', "Economic Journal" vol. 43 (1933) pp. 588-598.
45. T. Scitovsky, op. cit. p. 265/6.
46. M. Dobb: 'On economic theory and socialism. Collected papers.' London (1972) p. 73: 'When it comes to choices extending over time, individual preferences are notoriously irrational and exhibit a tendency to myopic underestimation of the future...'

47. See O. Lange: 'On the economic theory of socialism.' in O. Lange and F.M. Taylor: 'On the economic theory of socialism' ed. by B.E. Lippincott, New York, (1964) p. 85 and 108. See also M. Dobb (1969) op. cit. p. 217: '... the rate of investment in a socialist economy must be a social, or governmental, decision, bearing no necessary relation to the time-preferences of the individuals...'.
 48. M. Rothbard op. cit. p. 206/7.
 49. 'Mr. Dickinson would have us believe that in a socialist society the objections to the economic democracy of the market, like those to the democracy of the polls, would lose their force. But this is very far from being the case. ... there is no reason why, in a socialist order, the State should entirely abrogate the right of creating taste in favour of being its creature.' M. Dobb (1933) op. cit. p. 591/2.
 See also M. Dobb (1969) op. cit. p. 213/4 and p. 220.
 50. A. Alchian and H. Demsetz: 'Production, information costs and economic organization.' "American Economic Review" vol. LXII (1972). See also E.G. Furubotn and S. Pejovich: 'Property rights and economic theory: a survey of recent literature.' "Journal of Economic Literature" (1972) p. 1147/8.
 51. Most openly so in his early works, such as the 1933 article quoted above. For this he was sharply criticised by A.P. Lerner: 'Economic theory and socialist economy.' "The Review of Economic Studies", vol. II (1934).
 52. See I. Lakatos: 'Falsification and the methodology of scientific research programmes.' in I. Lakatos and A. Musgrave (eds.): 'Criticism and the growth of knowledge.', Cambridge (1970) pp. 91-197.
 53. G.H. Hildebrand, op. cit. p. 33. See also p. 20: 'The case for consumer sovereignty is formally part of the case for freedom itself ...' According to R.L. Carson '... consumers' sovereignty is basically economic freedom.' R.L. Carson: 'Comparative Economic Systems', New York (1973) p. 271.
 54. This leads to some tortuous prose, eg. 'But what there does seem to be reasonable ground for asserting is that the individual's estimate of his own needs can be taken as presumptive evidence, and as sufficient evidence in the absence of sufficient reasons to the contrary.' M. Dobb (1969) op. cit. p. 221 (the author's own italics). This late work abounds with cryptic formulations like this on the subject of the ethical acceptability of individual preferences.
 55. P. Baran, op. cit. p. 324.
 56. W. Baumol, op. cit. p. 289.
 57. Ibid. It is in the light of the absence of consumer sovereignty that the words of the Hungarian economist J. Kornai quoted in note 41

should be read.

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