

# Adam Smith and Consumerism's Role in Happiness: Modern Society Re-examined

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**ABSTRACT.** In modern America, consumerism has encouraged people to seek happiness through constant expansion of their material standard of living. Consumerism has led to a growth of status consumption and want-creation, both of which increase consumption without contributing to happiness. Adam Smith observed that lasting happiness is found in tranquility as opposed to consumption. In their quest for more consumption, people have forgotten about the three virtues Smith observed that best provide for a tranquil lifestyle and overall social well-being: justice, beneficence and prudence. Applying the virtues to modern society may decrease overall consumption but will lead to a more satisfied life.

## I. Introduction

The poor man's son, whom heaven in its anger has visited with ambition, when he begins to look around him, admires the condition of the rich. He finds the cottage of his father too small for his accommodation, and fancies he should be lodged more at his ease in a palace. ... It [isn't until] in the last dregs of life, his body wasted with toil and diseases... that he begins at last to find that wealth and greatness are mere trinkets of frivolous utility, no more adapted for procuring ease of body or tranquility of mind than the tweezer-cases of the lover of toys (Smith 1982, 181).

Adam Smith is perhaps best remembered as the author of *The Wealth of Nations* and the first modern economist. Yet much of his time was devoted to philosophical and ethical matters. His other major work, *The Theory of Moral Sentiments*, provides the moral context to his economics.

Smith's views have been often misrepresented by modern commentators. Some even go so far as to say that Smith encouraged the hedonistic view that greed and selfishness are a public virtue (Thompson 2003, 107). The hedonistic misrepresentation of Smith has been used as a justification for modern consumerism, which focuses primarily on encouraging consumption as both the person's main purpose and as the route to happiness.

Smith's ethics both place consumption in a more limited role than consumerism and offer an alternative route to happiness based on the natural sentiments of humanity. Empirical evidence suggests modern consumers are not happy. Because Smith did outline modern economics, a review of his entire economical and ethical system may reveal a more satisfying role for consumption in modern life.

## **II. Modern Consumerism**

Why do modern consumers consume? Standard economic theory would suggest that they are rationally maximizing their utility. While the assumption would appear to hold true at first glance, a more in-depth look is needed in order to understand modern consumerism.

Perhaps the most basic reason to consume is necessity. People have biological needs for food, water, and shelter. In modern American society, necessity is not the only, or even primary, reason for consumption. In 1965, a U.S. Senate subcommittee estimated that Americans would have an average work week of fourteen to twenty-two hours in 2000 because of productivity gains if consumption stayed constant (De Graaf et al 2001, 41). Instead, in 2006, the average full-time worker in America worked 8.54 hours each weekday and averaged more than 40 hours of work in a week (Bureau of Labor Statistics 2007). The extra hours worked indicate that Americans value additional consumption over additional leisure time.

Most consumer goods are not satisfying a basic physical demand but are instead used to satisfy desires. "When man has satisfied his physical needs, then psychologically grounded desires take over" (Galbraith 1984, 119). As soon as one psychological desire is satisfied, the consumer can move on to the next. A rational consumer would move from the desire with the highest marginal utility to the desire with the next-highest marginal utility, but a consumer's desires are not constant over time. Producers can and do use advertising and salesmanship to inspire new desires in the consumer. The average child can view up to 200 commercials in a normal day's worth of television consumption (De Graaf et al 2001, 53).

When the desires are created by the producers, satisfying each consumer desire does little to satisfy the individual in the long run. Instead, satisfying each desire provides the producers with the revenue to create more consumer desires that the producers will in turn satisfy with

new products. Increased consumption, then, contributes little to increased satisfaction or even higher utility over time among consumers. The means used to encourage consumer desires may even have a detrimental effect on the consumer's overall satisfaction. For example, many children's commercials are designed to undermine the child-parent relationship in that they encourage children to convince their parents to purchase products for them (Ibid, 54).

In addition to television advertising, high schools have become an important shaping ground for teenagers as consumers. Home economics courses, which once taught the skills needed for home production, now focus primarily on how to consume, such as buying furniture for a house or consumption-based leisure activities (Spring 2003 186). Among teenagers, consumerism has been found to be the biggest force linking them to each other (Ibid, 188). Since most teenagers have all of their immediate needs provided by their parents, their consumption is even more easily influenced by created desires than the average consumer's.

As the consumer's desires grow, the number of goods seen as necessary also grows. In 2000, approximately half of Americans believed they could not afford everything they needed. The results were not bunched at the lowest income quintile, as 33% of people in the highest income quintile said they could not afford all their needs (Hamilton 2005, 63). The figures suggest large variances in the definition of needs among consumers, both over time and in a given society. The trend of perceived unmet needs held true for both British and Australian consumers, so it is not exclusive to Americans. When asked about individual goods such as vacations, new clothes, or meals at restaurants, the vast majority of consumers said they could afford such goods (Ibid 64). The perceived difference between meeting general needs and purchasing particular goods suggests that people's definition of necessity is expanding.

In a similar vein, many goods are purchased as status symbols. In older cultures, status symbols such as noble titles would have been granted by the state or social institution (Silver 2002, 43). The American government and society has few notable titles or symbols to give to its most successful members to serve as the basis for an aristocracy. Instead, Americans purchase their own symbols to convey status. "Because the society sets great store by ability to produce a high living standard, it evaluates people by the products they possess" (Galbraith 1984, 128). Consumption for status works to show one's status only because American society measures its members primarily by economic means.

Not all consumption is visible to others, but to be effective status consumption must be noticed by other members of society. A finite supply of status exists in a given society, and in a consumerist society it is parceled out based on one's perceived level of consumption relative to others. For an individual to gain status, he can focus a higher percentage of his consumption on status goods, increase his level of income relative to others, or some combination of the two. Since the incentives hold for every member of society, in the long-run, if they all pursue higher status, none of them will gain despite a much higher level of status consumption in the society.

Despite the long-run fruitlessness of status consumption, it remains one of the most enduring consumer desires in America. A study of American and French automobile advertising from 1955 to 1991 found that Americans were more persuaded than the French by appeals to the status the automobile would convey as opposed to the intrinsic value of the automobile itself (Silver 2002, 135). Automobiles are a highly visible good to others, so their common use as a status good naturally follows in a consumerist society. What is striking, though, is that the American consumers were willing to sacrifice performance from consumption in order to improve their social status.

In a similar vein, people also consume to enhance relationships or to create a self-identity. Consumption is not only used to define status; it is also used to define a person in social settings. Consumption of certain goods allows one to fit into a subculture based on a particular type of consumption. For example, science fiction fans gather at annual conventions to discuss and celebrate films and television shows, and motorcycle owners gather every year at the Sturgis Motorcycle Rally (Thompson 2000, 130). Alternatively, a consumer can create part of his self-identity by specializing in shopping for a type of goods, such as computer equipment or bargain-priced goods (Faber 2000, 182).

Brands of consumer goods can also play an important role in forming a consumer's self-identity. Some brands, such as Harley-Davidson or Starbucks, allow consumers to live a fantasy identity through the brand (Thompson 2000, 121). For Harley-Davidson, the consumer is allowed to live out the fantasy of a tough-man motorcycle jockey, regardless of the consumer's actual lifestyle when away from the motorcycle. Similarly, the atmosphere at a Starbucks lets the consumer enjoy the brief fantasy of a laidback, coffeehouse-intellectual lifestyle while drinking coffee.

Want-creation, status consumption, and identity consumption have all been present in modern America, and the upper crust of American culture has worked to maintain America's consumerism. Post-World War II American culture equated the good consumer with the good citizen, and consumers were constantly "devoted to more, newer, and better" consumer goods (Cohen 2003, 119). As an example, consider leisure activities. Prior to the 20<sup>th</sup> century, the average American spent most of his or her leisure time engaged in family, church, and community related activities. Early in the 20<sup>th</sup> century, socially-based activities were mostly supplanted by leisure activities based on consumption, such as viewing a film or playing with recreational products (Spring 2003, 96).

Furthermore, the Cold War strengthened the American Dream's tie to consumerism. While American democracy provided a strong contrast to Soviet totalitarianism, American politicians and the elite emphasized mass consumption as another way Americans were different from the Soviets. In 1957, *Fortune* editor William H. Whyte stated that "Thrift is now un-American" (Cohen 2003, 121). In 1959, the economic highlight of the American Exhibition in Moscow was the demonstration to the Soviet leaders of all of America's consumer goods. At the exhibition, President Richard Nixon said "To us, diversity, the right to choose...is the most important thing. ...We have many ... many different kinds of washing machines so that the housewives have a choice" (Spring 2003, 137). The choice and freedom to which Nixon referred was not political choice, but rather the choices among what to consume.

The link in the U.S. between the American Dream, good citizenship, and the good consumer has continued to the current day. After the 9/11 attacks, Americans had united behind President Bush, and a brief outpouring of charitable giving followed. Bush had the opportunity to encourage the non-consumerist sentiments of Americans, but in his speeches following 9/11 he simply reminded them of the importance of a strong economy. The best action they could take for the health of the country was "continued participation and confidence in the American economy" (Bush 2001).

The problem with consumerism is that it makes the pursuit of happiness more difficult. While each individual good provides momentary satisfaction, the goal of consumerism is to keep the consumer wanting to purchase more goods. As a General Motors research director said, "The whole object of research is to keep everyone reasonably dissatisfied with what he has in order to keep the factory busy making

new things” (Spring 2003, 52). GM, along with many other manufacturers, encouraged planned obsolescence, the practice of designing goods to encourage frequent replacements. The practice is especially prevalent in the clothing industry, where a shift in fashion can make an entire wardrobe of clothing functionally worthless to a trend-conscious consumer (Ibid, 55).

### III. Adam Smith

Adam Smith was the first modern economist, but he was first and foremost a moral philosopher. At Glasgow University, he held both the Chair of Logic and later the Chair of Moral Philosophy (Smith 1982, 1). His philosophical views on life and ethics, expressed mainly in *The Theory of Moral Sentiments*, provide the underlying social context for *The Wealth of Nations*. In *The Theory of Moral Sentiments*, Smith discusses the sources of morality and how a person should lead a virtuous life.

A person’s moral faculties are based first on nature, which expressed itself in early religion. Early societies would ascribe their own morals to their local gods, which in turn would give more incentive for members to follow the morals of the society (Ibid, 164). Later, as the individuals mature, they can use their reason to question the morals, but the questioning would most likely result in a reaffirmation of the original morals because the morals are based on observations of what leads to a well-functioning society.

The use of a particular set of morals to ensure social well-being does not even have to be a conscious decision on the part of the members of society. Instead, it arises from their natural sentiments and moral feelings, almost as though an invisible hand were moving them towards a uniform set of morals. While Smith himself never used the invisible hand metaphor in the context of morality, it would be consistent with his idea of the invisible hand outlined in *The Theory of Moral Sentiments*. The invisible hand metaphor represents how the natural impulse of the rich to have a high level of consumption also increases the consumption level of the poor, which leads to a relatively equal distribution of wealth among the classes (Ibid, 184). The invisible hand, then, represents how the collective result of a group of individuals’ actions often have unintended side effects that benefit society, which fits the collective effect of individuals’ morality.

Smith asserts that the purpose of morals is to secure the happiness of

humanity. Even though the individual might act morally for reasons other than to promote society's happiness, social happiness is the long-run effect of natural-arising morality. Smith argues that no purpose for humanity, outside of happiness, fits with the concept of a benign divine creator of the universe, and the pursuit of happiness is the highest end for humanity. Since a person satisfied with his current position in life can be more content than a person who is worried with constantly improving his position, "Happiness consists of tranquility and enjoyment" (Ibid, 149). The natural behavior of humanity, he observes, works to promote happiness, which serves as further evidence of his claim (Ibid, 166).

Among all the moral rules developed by societies, Smith identifies three basic virtues that underlie happiness. The three major virtues, in Smith's view, are justice, beneficence, and prudence. Justice is the prevention or remedy of acts that cause "real and positive hurt to some particular persons, from motives which are naturally disapproved of" (Ibid, 79).

Beneficence is the free gift of items or services of value to another human being. For the gift to be beneficent, the recipient cannot actively suffer harm if the gift is not given (Ibid, 78). For example, if a Communist government seizes the food supply of a country and proceeds to "give" the food to the populace, the "gift" is not beneficence since the people would starve without the food.

Both justice and beneficence are considered public virtues because their effects are only felt when a person is in a community or a public space. Without other people, both justice and beneficence would be impossible to practice. On the other hand, prudence is a private virtue because it primarily affects the individual practicing it, though it can still have effects on others.

Prudence, according to Smith, is the "care of the health, of the fortune, of the rank and reputation of the individual, the objects upon which his comfort and happiness in this life are supposed principally to depend" (Ibid, 212). The virtue is primarily concerned with protecting the individual's status, as opposed to improving it. While improvement is not unwanted, "We suffer more ... when we fall from a better to a worse situation than we ever enjoy when we rise from a worse to a better" (Ibid). The prudent choice is for the individual to secure what he or she has before trying to gain further improvement and for the individual to be relatively risk-averse.

Smith gives a set of guidelines for a person to become prudent.

Knowledge is crucial for reasonable decision-making, so prudence requires the individual to undertake serious study to understand any field he or she claims to understand. Self-command is also necessary because otherwise the individual would be unable to act on his knowledge (Ibid, 237).

In relation to production and consumption, the prudent person is not lazy and is a steady worker. Prudence causes the individual to live within his means, so, over time, the prudent person will slowly accumulate wealth. While the wealth in itself will provide little satisfaction, the resulting increased economic security will allow the prudent person to work a little less as he ages. The prudent person will feel increased satisfaction as he ages from increased leisure time, due to the increase both in absolute terms and in comparison to his previous situation (Ibid, 215).

Essentially, the prudent person's position is a conservative one. The prudent person wants no major changes, only the incremental improvements over time from a lifetime's worth of hard work and frugality. Any major change would entail a significant risk to the status quo and make the person considerably less secure. In addition, the prudent person does not meddle in the affairs of others because the prudent person has "no taste for that foolish importance which many people wish to derive from appearing to have some influence in the management of those of other people" (Ibid).

The goal of security gained through prudence is the maintenance of the prudent person's tranquility. Tranquility depends on how well people have "accommodated themselves to whatever becomes their permanent situation" (Ibid, 149). While the prospect of change, for better or worse, makes a person anxious about the future, acceptance of one's current situation calms the mind. Smith attributes much of the misery in human life to overestimating the importance of changing one's current situation (Ibid).

#### **IV. Consumerism and Smith**

How does modern consumerism, the American Dream, compare to Smith's virtues? Smith recognizes that some consumption is necessary, but it is a far cry from the emphasis on continued consumption in the American Dream. The primary contrast is between Smith's virtue of



prudence and consumerism, but justice and beneficence are also both negatively affected by consumerism.

Justice is undermined by consumerism due to the isolating effects consumerism has on the community. As Jerry Evensky argues, in Smith's ethics, "justice must be enforced not by institutions and police, but by self-government – that is, by citizens who share and adhere to a common, mature standard of civic ethics" (2005, 129). Justice, in practice, is based on a set of general rules of conduct that people follow that are based on their observations of other people, accumulated over time. The rules should be fairly uniform over a group of people who interact because they would share many common observations. Consumerism reduces the time people spend interacting with each other, which will make Smith's justice less uniform over the group.

Another related, and more serious, problem consumerism creates for both justice and beneficence is alienation among consumers. Alienation, to Smith, occurs when self-interest is used in situations where virtue is more appropriate. Alienation results when a person never learns how to make moral choices (Fitzgibbons 1997, 97). Since the person never learns morality, the person is forced to always use self-interest because he or she cannot exercise virtue. Children's advertising fosters alienation by encouraging children's self-interested pursuit of consumption. A child raised on commercials, along with a stronger desire to consume, will be correspondingly less beneficent and, as a child, will have fewer opportunities to practice beneficence or justice. In turn, as an adult, the person will have more difficulty exercising the virtues and being a moral person.

While beneficence and justice are made more difficult because of consumerism, prudence is more directly affected. The prudent person only lives within his income. Modern consumerism, however, encourages people to consume on credit. The value of consumer credit increased 1100% from 1945 to 1960 and has continued to expand ever since (Cohen 2003, 123). Credit comes at the cost of future consumption, so consumers with large debt loads will be unable to enjoy the gradual increase in both consumption and leisure the prudent person would gain over time. In turn, debt is likely to reduce a consumer's tranquility because the consumer must now be concerned with increasing his income to be able to pay off debts and still attempt to maintain his current standard of living.

The prudent person should not be concerned with status consumption.

Smith does allow the prudent person to participate in the community insofar as duty requires the person to do so. Consumption to show status is unnecessary because the best way to be beloved by one's fellow citizens is through generosity and beneficence. Status consumption consumes resources and attracts the envy of neighbors, whereas generosity generates good will from its recipients.

In contrast, the purpose of status consumption is to demonstrate one's superiority to others. Buying more expensive or fashionable goods than others is a crude display of wealth. Smith rejects both vanity and attempts to be superior to others on the grounds that "the pleasures of vanity and superiority are seldom consistent with perfect tranquility" (Smith 1982, 150). An individual concerned with status must constantly attempt to defend his relative status through constantly increased status consumption, so such an individual would not be able to be tranquil.

Status consumption plays a large role in the rise of consumption in America, but want-creation is another critical component in the rise of consumerism. How would Smith view the increased desires of the American consumer? While a consumer good a person desires may appear to have some utility, "to attain this conveniency he voluntarily puts himself to more trouble than all he could have suffered from the want of it" (Ibid). A good may be enjoyable for a time, but a person will gain little long-term satisfaction from the good since new wants will replace the one just satisfied. With modern consumerism's propensity for planned obsolescence, a person will likely have a serviceable copy of a good when the next, more expensive, version is released to replace it. The person will be unable to reduce his workload if he continues to purchase goods at the previous rate. Similarly, the person's tranquility is continually disturbed by new desires for new or updated products.

While excessive consumption is not virtuous, self-interest and consumption play an important role in both Smith's ethics and economics. Some consumption is necessary in any society, and self-interest is the most efficient way for someone to take care of himself. Each person "feels his own pleasure and his own pains more sensibly than those of other people" (Ibid 219). Self-interest, constrained by the three virtues, works to the advantage of both the person and society. The person benefits from his own self-interest by focusing on the goods and activities that will generate happiness and tranquility. So long as consumption is moderate and the three virtues regulate self-interest, a consumer can reach happiness and tranquility within a market economy.

Smith's virtues all promote individual happiness and social well-being, but the virtues cannot be directly encouraged through government policy-making. Government policy could be manipulated to emulate the effects of Smith's virtues. Tax policy can be used to encourage both savings and charitable giving. The policies, though, do not cause the individuals to act virtuously because virtuous action must be based in self-command. Such policies may promote the tranquility and happiness of the individuals in society on the particular issue they address, but in the long run, the policies do not encourage the self-command required for the regular and continued exercise of virtue. The individual will be better off on the single issue a government policy addresses, but he would be even better off through the consistent practice of virtue since not all virtuous activity can be regulated by government.

The virtues have, in large part, been overlooked in modern society. Certainly there are still people and programs that promote justice, beneficence and prudence, but the programs are often drowned out by the much larger influences that champion consumerism. Perhaps simply increased awareness of the virtues and their positive long-term effects could spur more people to live a lifestyle based on Smith's virtues and focus on tranquility as the route to happiness.

## **V. Conclusion**

While modern consumerism has made continuous consumption into the primary road to happiness, Smith's ethics offer the vastly different picture of happiness found in prudence and tranquility. By embracing Smith's virtues and focusing more on tranquility, people could become happier at less cost and exertion than they go through now because so much of their labor is spent to acquire goods for status consumption or because of want-creation.

Some other areas to be explored in Smith's virtues would be public policies designed to indirectly encourage Smith's virtues and the effects Smith's virtues would have on the economy. Total economic activity would fall if people were less focused on consumption as a measure of well-being, but the effects on long-term innovation and economic growth are less clear. If Smith's ethics were adopted, then a more prudent, virtuous, and happier society, less focused on continual consumption, could arise. As Smith wrote,

The pleasures of vanity and superiority are seldom consistent with perfect tranquility, the principle and foundation of all real and satisfactory enjoyment. Neither is it always certain that, in the splendid situation which we aim at, those real and satisfactory pleasures can be enjoyed with the same security as in the humble one which we are so very eager to abandon (Ibid, 150).

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