

CONSUMER CHOICE FROM THE HETERODOX ECONOMICS POINT OF VIEW

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Abstract

In contemporary heterodox economics papers the main stream economics is most commonly criticized for its Homo Economicus concept. The paper considers this polemic senseless. As long as the neoclassical theory seeks to model with the use of mathematic instruments, it consequently must stay at the highest possible level of abstraction. The Homo Economicus concept is right within neoclassical axioms. This rational substitution stays a part of decision of the agent in the institutionalised market from heterodox social economics point of view, it means, on the much lower level of abstraction.

The basic part of rationality is utility - measure of consumer preferences satisfaction. Preferences are an individual and selfish impulse for rationality. Simultaneously, preferences are institutionalized; consumer derives his preferences inside psychological, cultural, historical, social consequences. This paper suggestion is that the wrong (irrational) decisions don't exist as long as preferences are seen in these aspects. The preferences are institutionally influenced and transformed in real-world. The neoclassical conclusion about consumer sovereignty is the real and the most serious myth of mainstream economics which consequents into believe that continuing economic growth in developed countries is in concordance with growing needs of their citizens.

Key words: Heterodox economics, rationality, consumer choice, consumer persuading

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Introduction

The reason why the neoclassical theory has been so influential and strong so far and that it is seen to be the main stream economics regardless real incapability of their representatives to comment contemporary economic problems is that it has been perceived as the common adversary for everyone. It is difficult to read a heterodox economics paper which would not

contain at least one, but very probably much more than one references polemical to the neoclassical theory.

Although this fact is with regard to the way of educating generations of economists and great main stream representatives' self-confidence understandable, for much less obvious reasons, the most controversy between the mainstream and the social oriented economics is concerned on the Homo Economicus concept, it means, on original neoclassical concepts of "mere" consumer marginal costs and benefits.

We want to contribute to the polemic in two ways. Firstly, we want to rehabilitate the Homo Economicus concept from heterodox economics point of view and, at the same time, we want to point out that the much more principal insufficiency of neoclassical approach is property ignoring. As long as the market is seen and described outside property rights, the theory is ahistorical at consequently it can consider the nineteenth century economy to be forever lasting perpetuum mobile. We dispute this idea and describe consumer demand determination in historically developed market.

1 Rationality, Preferences

As it is known, the founders of neoclassical theory, well educated in mathematics, physics and biology, sought for the economics which should be universal science of economy, the system of mathematically provable laws. Quantification methods were considered the only scientific methods in economics. In response to middle nineteenth century physics, the utility was seen an analogy for materialization of energy and the market an analogy for gravitation.

Utility, at the same time, is individual satisfaction measurable by "hedonimeter". This concept along with marginality was to explain seeming paradox of different prices of the same good or the difference between a price and generally apprehended utility of a good (well known diamonds - water paradox).

The individuality of the utility is the main reason, why the analogy with physical energy is hardly acceptable. The physical energy exists outside of human perception and it is generally measurable. Intensity of the light is given in watts or lumens, not by man need to see.

The neoclassical theory has replaced the value of goods for the individual utility and in this way it paradoxically has moved away from the analogy with physical energy, compared with classical economics labour value theory and especially with Marxist concept of abstract labour.

Polemic with this essential controversy of the neoclassical theory is not subject of this paper. We will continue in the polemic outside the energy concept. We will understand the utility willingness to pay for a good. In this regard the utility is one part of consumer rationality and consequently the clue individual demand determinant (the second Gossen law). (Sojka 2010)

As was mentioned above, the consumer rationality seems to be the main controversy for most opponents of neoclassical economics. Some of the opponents mean that the Homo Economicus theoretical concept does not make sense and consumer market decisions are not rational at all. Evidence is considered to be the fact that consumer choice often is not the best one. The decisions such as a holiday in Albania instead of in the Caribbean, to study economics instead of business are seen irrational.

Less radical approach to the polemic are concepts of limited rationality. The rationality is limited - mostly by moral, altruistic incentives which are controversial to the rationality in the original sense of the word. The limited rationality is an outcome of inner fight of a selfish rational part of an agent and altruistic irrational one. (Džbáňková2015) Human being with his hedonistic and selfish needs reflects negative impacts of his consumption on the society, the environment, the sustainability etc. and consequently he makes more acceptable, altruistic decisions.

The main idea for both radical and less radical way to refute the Homo Economicus concept is contradiction between selfish and hedonistic (means rational) on one side and altruistic and consumption limiting on other side.

This paper claims that the polemic has been growing apart from the original consumer rationality conceptual framework. Returning to the definition of the rationality as measuring potential welfare increasing (marginal utility) with expenditures for this increasing (price), despite the axiom is unprovable, we can accept it. This rationality seems to be indisputable in every consumer market decision: we look for what we need or what we like, we ask about price, we remember our account balance, we think about other possibilities how to spend the amount - and buy or not buy. What we need or like departs from our individual preferences and leads to our individual satisfaction. The satisfaction is inherently selfish.

As long as we do not prove that the particular agent of demand bought a good he did not need or like at the moment of this particular transaction or he paid more than he wanted to pay at the moment of this particular transaction, there is not irrational decision in the market. I can see the choice irrational when I project my preferences into other men's ones (I prefer

lying on the Caribbean beach over hiking in Albanian mountains) or I insert traditional values into someone's preferences (to earn money is more important than to enjoy my job). In both cases, the definition of the individual utility is ignored. Back to the definition as individual satisfaction of needs, we can acknowledge that these "irrational" decisions are fully rational for an agent with the "strange" preferences. The Homo Economicus can accept any market decision inside the original rationality concept.

The limited ability of an agent to compare and evaluate all possibilities of consumption is another important argument against the rationality (Simon 1986).. The thought that the ability of agents to recognize and compare all possibilities of consumption which are potentially possible is an implicit condition for their rationality, seems to be strongly rooted among heterodox economists. We may legitimately criticize authors of the original theory that their universal consumer in the universal market needs neither time nor energy to find wanted goods. Nevertheless, when we put the idea closer to reality, even inside the neoclassical theory, the argument is sufficiently disputed through explicit and implicit costs of the decision. Consumer transaction costs are the reason why an agent of demand rationally desists from evaluation of the vast majority of high costly possibilities. The consumer decision is rationally limited for those possibilities for which the explicit and implicit costs to get them are not higher than their marginal utility.

Seeing the Homo Economicus as a neoclassical universal agent of demand who makes his decisions on the universal market inside axioms of rationality and outside of specific space and time, we have not much to add to his rational market choice. Even though, the neoclassical economy has developed the original concept in several ways. Let's leave aside the ways which departs from mathematic skills of neoclassical economist and forget that to use a new language doesn't mean to have anything new to say.

The new theory of the utility (Becker 1997) is mentionable in our polemic. An effort of neoclassical economy to make the model more realistic can be, in fact, the main reason why the Homo Economicus concept is rejected by heterodox economists. Authors of contemporary developed utility theory have brought their models on the edge. They have moved the original ambition to be the physics of society into theory of real market decisions or even outside the market, to human behaviour. The marriage, for example, should be a rational decision of an agent who is driven by countable number of variables to do the conclusively right decision through which he maximizes his utility function. Becker's analysis of preferences is undeniable contribution to economic theory and we can agree with him as

long as he has pointed out, that almost every human decisions includes economic aspects. The decision to get married brings thousands market situations which lead into consecutive rational decisions. On the other hand, the marriage itself can never be only rational and the decision to get married cannot be described through a function with limited number of variables. We insist that the Homo Economicus is part of human being but the human being cannot be reduced into the Homo Economicus.

2 Institutionalised Preferences

We see rationality (in economic sense of the word) an important substance of human behaviour and the Homo Economicus one part of human being. We comprehend the rationality as satisfaction of individual needs and wants leading to welfare maximization with explicit and implicit costs minimization. The utility is a measure for the satisfaction. Unlikely neoclassical theory, we do not believe the utility can be seen as a function of limited number of variables which comes from individual preferences. We claim that the utility is influenced and affected through institutions.

Let's begin again from the original concept of utility as individual welfare satisfaction and let's go through heterodox economy way to real household market choice. Leaving the highest possible level of abstraction presumed by original neoclassical theory, we consciously disregard the axioms of consumer preferences, we desist from quantification and formal optimality condition. An agent of demand voting for goods on universal market is replaced by a household which purchases goods or services at institutionalized market.

The household is an institution, horizontally a vertically organized. The rationality of the household results from their institutional organization. There is not a household rationality, there is a set of household members rationalities. The market choice manifests the prevailing of those at the moment of the market transaction. Father prefers the cheapest package of rice, mother the most tasty one and a child the one in the most attractive wrap. Which preference becomes the prevailing preference of the household depends, firstly, on how strong or weak the vertical and horizontal relationships in the institutions are, and secondly, who of the institution is the agent of the particular market transaction. An important conclusion of what has been said is that inconsistency is a part of prevailing household preference.

Not only household preferences, but the preferences of individuals - members of the household are institutionalized. The agents of demand were not born with their preferences.

Unlikely for neoclassical theory, the clue questions from heterodox point of view are: Where the preferences come from, what are they affected by?

The preferences are affected biologically. The future consumer is not born with his preferences but he is born with basic biological needs, tastes, talents, interests which present determinants of his future preferences. To prefer chocolate over milk or hiking over lying on a beach is partly affected biologically. The important part of the biological factors of preferences is morality. Hodgson pointed out Darwin's claim that human has got an innate morality. (Hodgson 2013) The morality is, less or more, a part of biologically affected preferences. As we said, satisfaction of individual preferences is inherently selfish. Since we accept the morality as a part of preferences, we can see the moral choice over the selfish one rational. Even the Homo Economicus could buy, in full compliance with his rationality, more expensive fair-trade chocolate to satisfy his need to act morally.

The preferences are affected historically. For economists, the most important aspect of historic development should be scientific and technological progress. Of course, the first and the most obvious impact of the progress on preferences is that new needs continuously have replaced the old ones in history. The most of the goods we need or want did not exist two hundred years ago, most of the goods which our ancestors needed we go watch to museums. For our claims, the much more important aspect of scientific and technological progress is that the needs and wants has increased and extended incomparably from beginning of twentieth century. Then, meaning of life used to be to work to survive for an average household, its preferences were driven by basic biological needs. Consumption was a privilege of the "leisure class" (Veblen 1999). Over last hundred years the increasing labour productivity brought us to post-industrial society where an average household has changed from a part of working class to a consumer. The preferences of Veblen's leisure class became common in the greater part of society. The consumption has been becoming meaning of life.

The preferences are affected socially. The household belongs to certain nation, ethnic, social class, social groups, neighbourhood, etc. Depending on this circumstances both the household members preferences and the prevailing household preferences are influenced. (Gipsy mother wants her child happy now therefore she respects its wants, higher middle class mother wants her child successful and healthy in its life so force it to respect her wants.) Social impact on preferences can be principal, for example, the biological need for sweet taste has been socially eliminated for a lot of consumers.

Through social determination pretending has become a part of preferences. Everything I want, I want either for my inner feelings or to get respect from others. The "I feel better person" need can be dominating in a household preferences. Besides biological morality, the pretending is another incentive for moral or altruistic choices. In this case my welfare comes from need for respect of society. It means, even for a selfish household, with very low biological morality, an altruistic decision is not irrational as long as it brings utility increase equal to respect of society increase.

On the other hand, the pretending affects consumption of a household. Consumption of certain goods of services is necessary for certain social position (Veblen1999). To have the social position means to necessarily own, to wear, to do particular goods and activities. A household can be forced to consumption when its preferences to get higher social respect prevail over its laziness. The historical influence on consumption is accompanied with social influence, which makes our claim that the consumption is a meaning of life for an average household even more correct.

The preferences are affected by coincidence. I would have bought chocolate in the morning but I do not buy it in the afternoon when I read that it raises cholesterol meanwhile. The coincidence has changed my preferences, my need to be healthy is prevailing over my love to chocolate at the moment. To different decisions in one day do not mean irrationality. Both decisions are rational as both bring the highest possible welfare at the particular moment. The coincidence does not replace rationality, it is part of rationality.

If we understand the rationality from heterodox point of view and the preferences as biologically, historically, socially and incidentally affected, we accept, that every single rational market decision of a household is unique. We might describe it very precisely, we might analyse a set of factors which the decision is influenced by, however, the effort would be useless. The definite conclusion which follows from the institutional approach to rationality is that the household market choice is not functionally describable. The neoclassical models describing the problem with new variables can be interesting intellectual exercise, but they are not principally different from the original easy Homo Economicus concept described by consumer preferences for bananas and oranges. As long as we are not able count infinite number of determinants, including inconsistency and coincidence into finite number of variables, we do not bring anything principally new with new variables.

3 Institutionalised demand

As was said above, the rational decision is strictly in a market decision, from our point of view. The market itself is an institution which is a property neutral instrument to achieve goals of particular market agents. In traditional institutional approach, the market contains a lot of negotiations which eventually establish consensus about price. The market functions in particular social, historical and institutional conditions what, from the household point of view, makes the rationality more or less accessible. The difference between Japanese "one price market" and Turkey market place illustrates what we mean the accessibility. On-line shopping has expanded the number of household's evaluated possibilities for rational choice principally over last years etc.

The organization of the transactions, it means the invisible hand of the market, is pointed out by the neoclassical theory very strictly. The firms are the agents which maximize profit meeting demand formed from individual inner preferences of agents of demand. The implicit costs concept explains that the profit is as big as promptly a firm reacts on changing consumer preferences.

From heterodox point of view, the firms who operate on the supply part of the institutionalized market are very different from this neoclassical illusion. The firms are institutions which are vertically and horizontally organized, very variable from tradesmen to multinational corporations and, what is very important, they are owned, what is the fact ignored by neoclassical theory.

Analyse the supply side of the market is not concern of this paper. Instead of farther thoughts about it, we will accept the financial crises 2008 historical proof what the real goal of multinational corporations owned by financial capital is. The "financial" crises has been described as crises of capitalism many times. In our words it was the crises of the ownership based on anonymity of corporations owned by financial oligarchy and directed by management, leading into wealth and power growth as the main goal on the demand side of the market. This goal is generally supported by the fact that the post-industrial welfare society, where products are slowly becoming cheaper than natural sources still considers rate of GDP growth the main index of economic development (Sojka 2009).

The growing corporations are developed institutions with their own rationality. The degree of firms' rationality is higher than the rationality of households as the firms are more complicated and educated institutions. They can recognize not only their own goals ("preferences") but the consumer preferences as well, very often even earlier than the

consumers themselves. Another step after recognizing is to adjust the consumer preferences for their own goals.

Now we can add the last factors which affect consumer rationality: learning and persuasion. The social and historical factors which have changed the consumption into meaning of the life have been strongly influenced by the fact that the main concern for the growing production is to find a customer. Simultaneously with goods, the producers have to produce needs for the goods, to learn consumers what they need and to get them used to the goods. The consumer is "learn to use new technologies" what mean not only to watch his children to get addicted to intelligent cell phones but even to not do jogging without wearing functional underwear or "FiveFingers" shoes.

The idea, that effects of advertising on individual wide persuasion modify will of individuals out of conscious control is not new in economics (Schumpeter 2004). The economic development and growth has made the market decision even more challenging since Schumpeter's own lifetime. Unlikely economics, marketing theory and practice has got an important advance developing the claim over last decades. What is obvious in economy is not importantly reflected in economics.

What is called, very simply said, effect of advertising, we classify the learning and persuasion as determinants of institutionalized preferences of a household. In institutionalized market, the particular rational choice of the household means comparison of costs with increase of needs and wills satisfaction. The wills and needs are affected through social and market institutions. Learning and persuasion are the important part of the affection what means that the demand is, more or less, affected by supply. We replace the old neoclassical theorem demand determines supply by the new one: supply determines demand.

Conclusions

This paper is an attempt to turn attention paid to neoclassical consumer theory from the Homo Economicus concept to consumer sovereignty. We claim that every consumer market decision, in accordance with the Homo Economicus concept, is rational. As long as we respect original neoclassical axioms and we not leave the highest level of abstraction of nineteenth century neoclassical theory we can accept utility as "energy" of market mechanism. We do not see the right way to develop this highly theoretical concept in farther formalization, in looking for new variables and new "more developed" utility functions. We see it in institutional approach which refuses neoclassical idea about inner, just existing

preferences. We describe the preferences under biological, historical, social, by coincidence, through process of learning and persuading affection. We point out that firms which are different from neoclassical idea of profit maximizing agents operate on supply side of the market. Multinational corporations owned by financial capital can recognize and influence institutionalized household preferences and to affect them for their own rationality - wealth and power growth (Galbraith 1967). The corporations are drug dealers which grow drug addiction and profit from it. The drug for an average household is the consumption of goods and services. The prevailing household preferences are those conducted by the stronger and more educated institutions on the demand side of the market. Consequently, the continuing economic growth seems to be in accordance with interests of the post-industrial society regardless sustainability.

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