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Post Keynesian consumer theory: Potential synergies with consumer research and economic psychology

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Abstract

The paper argues that Post Keynesian consumer theory offers an interesting experimental research agenda to those studying psychological economics and consumer research. Post Keynesian consumer choice relies on six principles: procedural rationality, satiable needs, the separability of needs, the hierarchy of needs, the growth of needs, and the principle of non-independence. This consumer theory does not rely on the Archimedes principle that ‘everything has a price’, and it may be particularly relevant when decisions involve moral choices or public goods such as the environment.

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1. Introduction

While Post Keynesians have spent a great deal of effort on macroeconomics and monetary issues as well as methodological issues, they have devoted less attention to microeconomics, seemingly avoiding in particular the subject of consumer choice. For instance, in the two guides on Post Keynesian economics, published at a 20-year

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interval, there is no chapter devoted to consumer theory (Eichner, 1979; Holt & Pressman, 2001). However, despite its apparent neglect, there exists a Post Keynesian theory of consumer choice, based on the indications left by the best-known and most productive Post Keynesian authors, such as Joan Robinson, Luigi Pasinetti, Edward Nell, Philip Arestis, or Alfred Eichner. These indications on consumer choice show a great degree of coherence, and in my opinion they fit tightly with the rest of Post Keynesian theory. Indeed, Drakopoulos (1992b) goes so far as to argue that Keynes himself had in mind such a heterodox consumer choice theory.

The purpose of the present article is to show what a research agenda on Post Keynesian consumer theory could look like, and to show that such an agenda offers plenty of synergies with research programs of institutionalists, social or humanistic economists, marketing specialists, the literature in economic psychology, and the work of some dissident mainstream economists.

2. The coherence of views on Post Keynesian consumer choice theory

As a general statement, one could claim that Post Keynesian economists, in contrast to their neoclassical colleagues, are very much distrustful of the ability of the market price mechanism to solve most contemporary economic problems. This suspicion is based on a rejection, or at least a questioning, of the allocation role that is being attributed to prices by mainstream authors. Post Keynesian economists doubt the general validity of the principle of substitution. These doubts arise in particular from the results achieved with the Cambridge capital controversies, but also from the observation that factors of production are generally complementary, rather than substitutable, and also from the observation that most successful activities are being pursued on the basis of cooperation and trust. Applied to the field of consumer theory, this lack of confidence in the principle of substitution implies that Post Keynesian authors doubt that price is often a key determinant of purchasing decisions, and hence they question whether households or individuals take decisions based on compensatory rules. As claimed by Arestis (1992, p. 124), ‘The Post Keynesian theory of household demand begins with the fundamental assumption that in an economic system it is the income effects rather than the substitution effects which are most important’.

The most detailed examination of a possible Post Keynesian consumer theory can be found in two books by Earl (1983, 1986), and the motivations supplied above are quite apparent there. Other specific contributions to Post Keynesian consumer choice can be found in the works of Arrous (1978), Eichner (1987, Chapter 9), Drakopoulos (1990, 1992a, 1994), Lavoie (1992, Chapter 2), Hanmer and Akram-Lodhi (1998), Lah and Sušjan (1999), and Gualerzi (2001), and a substantial amount of overlap with Earl’s initial attempt at defining a specific Post Keynesian consumer choice vision is obvious. However, I consider that the first article that ought to be read to get a sense of what a Post Keynesian consumer theory implies is the one written by Roy (1943) – an author unrelated to heterodox economics, although he was teaching in the same school as Maurice Allais.

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