



# Why Consumption—Not Production—Is the True Goal of Economic Activity

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In 1936, the economist William H. Hutt (1899-1988) coined the term “consumers’ sovereignty” as a label for the driving force of a market economy in which producers succeed or fail depending on how well or poorly they attract the patronage of consumers spending their own (and only their own) money. Just as an all-powerful monarch dictates what his subjects may and may not do – and just as no subject has any power to direct or constrain the monarch’s actions – consumers in a competitive market economy ‘command’ producers to do this and that, as well as to *avoid* doing countless other things. The producers are obliged to obey, and they have no power to command consumers.

As summarized by Hutt, “as a ‘consumer,’ each directs. As a ‘producer,’ each obeys.”

The comparison of consumers to a flesh-and-blood sovereign ruler isn’t perfect. An actual monarch is a singular person who has a will and acts purposefully in accordance with the preferences embodied in that will. Consumers, in contrast, are a group of people, and a group of people has no will of the sort possessed by an individual. Strictly speaking, therefore, a group of people, as such, has no preferences. It follows that consumers, unlike an actual king or queen, do not issue actual commands aimed at achieving consciously chosen and rationally ranked ends for the economy as a whole. There is no singular set of preferences that the outcomes of market processes can legitimately be said to satisfy; there is no purpose to market outcomes that is analogous to the purpose that motivates a monarch to order his subjects about.

Also, unlike life in an actual authoritarian polity, no one in the market is ever compelled by another human being to act or to refrain from acting. A subject of Louis XIV had little choice but to obey the Sun King’s commands. In contrast, a producer in a market economy is free to choose to ignore the consumers’ ‘commands’; if a producer does so, he or she won’t be jailed, executed, or even fined in the conventional sense of having to pay money to an authority. Yet a producer who ignores consumers’ ‘commands’ *is* punished or fined in a different, still very real, manner: That producer suffers monetary losses. He or she is legally and ethically free to incur and absorb these losses. But what that producer is *not* allowed to do is coerce consumers into relieving him or her of the losses.

## Consumers' 'Commands' Are Announced in Prices, Profits, and Losses

What is meant by “consumers’ commands” is straightforward: Producers are free to make whatever peaceful offers they wish to potential buyers, *and buyers are free to accept or reject these offers*. And producers and buyers are both free to bargain with each other to search for mutually agreeable terms of exchange. Importantly, every adult is free to peacefully enter the market as a buyer *and as a producer*. The state excludes no adult from participating on either side of the market on the basis of that adult’s religion, sex, sexual orientation, marital status, family lineage, place of residence, eye color, shoe size, or any other economically irrelevant fact.

This freedom of buyers and producers naturally combines with secure property and contract rights, and a reasonably stable currency, to give rise to terms of exchange expressed in money — that is, prices.

Suppose consumers, for whatever reason, come to have a stronger desire for apples. Consumers will then buy more apples, thus causing the price of apples to rise relative both to the prices of other outputs, such as pears, and to the prices of the inputs, including labor, that can be used to produce apples. Thus is conveyed to all interested parties objective information about the relative profitability of producing apples — that information, here specifically, being that consumers demand more apples. Producers will notice this rising price and be incited by it to shift more resources into apple production, heeding this particular ‘demand’ of consumers.

In this way, an economy’s pattern of production is determined by the “commands” — or demands — of consumers. Consumers are the rulers; producers are the servants. Put less dramatically and more accurately, consumption is the end, and production is the means. To Adam Smith, this ends-means relationship of consumption to production was so obvious that it barely warranted mention:

*Consumption is the sole end and purpose of all production; and the interest of the producer ought to be attended to only so far as it may be necessary for promoting that of the consumer. The maxim is so perfectly self-evident that it would be absurd to attempt to prove it.*

But of course Smith *did* mention it. He did so because this maxim is in fact *not* so perfectly self-evident to everyone. Indeed, it is commonly denied, not least by opponents of free trade. Such was the case in Smith’s day, and such remains the case in our day.

## Attitudes Toward Consumption and Production

Among those today to whom Smith’s maxim about consumption isn’t at all evident is the trade skeptic Oren Cass. He wants to “redefine the economic orthodoxy that guides the nation’s politics and public policy” because he’s convinced that economists wrongly discount the importance of work while naively giving pride of place to consumption. Another is former International Trade Representative (during President Trump’s first term) Robert Lighthizer, who opined to the *New York Times* that “there’s a group of people who think that consumption is the end. And my view is production is the end.”

On my reading of Cass, he doesn’t go as far as Lighthizer. Cass doesn’t deny that consumption is *a* legitimate end; consumption is just not *the only* legitimate end. For Cass, there are two legitimate ends: consumption *and* production, with each to be traded off against the other. Lighthizer, in contrast, says that there is only one end, which is production. Because consumption necessarily *consumes* resources, if we take Lighthizer literally, he must believe that any consumption beyond that which is minimally necessary to maintain humans in peak working condition is illegitimate, for it reduces the supply of resources available for production.

It’s doubtful that Lighthizer has seriously thought through the implications of his assertion that “production is the end.” If he were correct, humanity would enslave itself to the chore of perpetually toiling to ‘produce’ things that — beyond the food, clothing, shelter, and health care necessary to keep humans in peak condition to continue to produce things — are utterly random and useless. It wouldn’t matter if the vast majority of human effort were devoted to churning out truckloads of Italian sausage and loaves of bread, or mountains of caramel-covered anchovies and sawdust-and-maggot pies. Indeed, we all could do nothing but repeatedly dig holes and refill them. If consumption isn’t an end — if, as Lighthizer says, the exclusive end is production — then that which is ‘produced’ doesn’t matter. All that matters is that humans exert maximum effort and use all available inputs to transform physical matter from one form into other forms.

To assume that Lighthizer’s ideal really is the impoverished, dystopian society implied by his literal words would be unfair. So I’ll instead assume that he, and any other individual who rejects Adam Smith’s statement about consumption being the sole end of production, really holds a view about consumption closer to that of Oren Cass.

Discounting consumption and elevating production is superficially appealing. Cass, Lighthizer, and others who do such discounting achieve, in many eyes, an aura of mature sophistication and gravitas that seems unavailable to people who insist that, ultimately, economic activity's only goal is consumption. Consumption is enjoyable and easy, and we willingly pay to do it. Working, in contrast, is often hard and is never so enjoyable that we willingly do it without being paid. Consumption is an activity that we naturally *want* to engage in. Unlike laboring, consumption is its own reward and, hence, its own motivation. Because consumption is naturally attractive to humans, we'll do too much of it if we're not properly incited to control our urge to consume. In contrast, working — the exertion of time and effort to produce — is not its own reward; we'll do too little of it unless we're properly incited to put forth productive effort.

Furthermore, consumption requires neither skill nor self-control. We consume from the moment we're conceived and continue to be only consumers throughout childhood. But to produce, we must have at least minimal skill and self-control. While even the most aimless and immature individuals can and do consume, production requires maturity and competence. Not everyone does it. Unsurprisingly, prosperous societies develop norms and attitudes that laud and encourage dispositions toward productive activity as they also temper our natural eagerness to consume.

Protesting against Adam Smith's insistence on the primacy of consumption thus seems to be merited, and perhaps even praiseworthy. Consumption, it appears, is valued above all and exclusively only by the frivolous, myopic, and childish. People who are serious, prudent, and mature understand that production is no less important — and perhaps even more important — than consumption.

## **A Category Error**

Protestors against Adam Smith's insistence on the primacy of consumption are mistaken. They commit a category error. They presume that production is in the same category of activities as consumption. Specifically, these anti-Smithians presume that production and consumption are alternative, competing human *ends*. It follows from this presumption that prudent societies aim to achieve an optimal *mix* of production and consumption, while imprudent ones aim for excessive consumption and too little production. But, as noted, this presumption is mistaken. As economic activities, production and consumption differ from each other categorically.

Production is a means toward the fulfillment of human ends (whatever these might be); consumption is the satisfaction of these ends. Production (the means) and consumption (the ends) are not traded off against each other as a consumer trades off one good against another good.

Consider a simple economics-textbook example of routine consumer choice — say, a consumer choosing how many apples and apricots to purchase. While she enjoys eating both apples and apricots and would like to have more of each, the consumer’s limited income requires that if she chooses to buy more of one fruit, she must settle for fewer units of the other. When a consumer trades off apples against apricots, she trades off one end (the satisfaction she expects to get from eating more apples) in order to obtain another end (the satisfaction she expects to get from eating more apricots). The consumer makes this trade-off in a way that she anticipates will give her the most possible consumption satisfaction — what economists call “maximum utility” — from her purchase of these two goods.

Importantly in this useful textbook example, neither apples nor apricots are a means of obtaining the other. The proximate means consumers use in modern society to obtain both apples and apricots is money. If protestors against Adam Smith’s statement about the primacy of consumption were correct, the relevant trade-off would be not apples-for-apricots but money-for-fruit. Because the textbook author understandably takes for granted that some particular combination of apples and apricots exists that will be chosen by the consumer in search of maximum consumption satisfaction and without any regard for the pleasure to be had by the continued possession of money, the anti-Smithian — were he or she consistent — would ridicule this familiar textbook example as naively elevating consumption over money. This anti-Smithian would suggest that a wiser person understands that, while consumption is worthwhile, it is not the be-all and end-all of human desire. Money is also desirable. The wiser person, the anti-Smithian would conclude, rejects the extreme solution of all consumption and no money in favor of *some* consumption and *some* money.

But the anti-Smithian’s conclusion is wrong. Unlike apples and apricots, money has utility to those who hold it only because and insofar as it is ultimately exchangeable for real goods or services — that is, for things that will satisfy consumption desires. It is a means. If we observe a consumer reducing her purchases of both apples and apricots to hold more money, what we observe is not someone who has come to attach a lower value to consumption as an end and a higher value to money as an end. What we

observe is someone who has come to believe that holding more money today will enable her tomorrow to acquire more or better consumption goods — a greater amount of consumption satisfaction over time. The trade-off that we observe here is every bit as much a trade-off of some kinds of consumption satisfactions against other kinds of consumption satisfactions as is the simple trade-off of apples for apricots.

Money is a means, and means are valuable. So people acquire means and hold on to these until using them to achieve ends yields to their holders the greatest expected utility. Observed acquisition, investment in, and retention of means should not, however, be interpreted as means *being* ends.

What is true for money is equally true for human labor and other production activities. All are *means* to the end of achieving maximum-possible consumption satisfaction. This is Adam Smith's point. Production effort — work — is not an end to be traded off against other ends in order to obtain an optimal mix of ends. Production effort is, like money, a means of achieving an end, namely, acquiring goods and services for consumption. Like the person who chooses to spend less money today in order to have more money to spend tomorrow on consumption goods, the person who chooses to work longer or harder does not do so as an end itself but, rather, in order to increase his or her overall access to real goods and services for consumption.

The above line of reasoning is valid. But much more straightforward evidence exists to prove that production, unlike consumption, is not an end in itself: As noted above, people are paid to produce; people pay to consume.

Any activity that will be performed only if the persons performing it are paid to do so is obviously not an end in itself; that activity is not its own reward or its own motivation. That activity is obviously a means. Activities that people pay to engage in are ends. These activities are what Adam Smith meant, and what all sensible economists today mean, by “consumption.” If work in a particular job were an end in itself, the individuals performing that job would not only not have to be paid to do it, they would *pay* to do it. The need to pay people to work — the need to pay even those persons who enjoy their jobs to work — proves that work is not an end in itself. Likewise, the need to pay firm owners to produce the outputs they produce and make available for sale proves that those production activities are not ends in themselves. As indispensable and praiseworthy as they unquestionably are, work and production are not ends. Work and production are means. Consumption is the end.

## **To Be Productive, Workers and Other Input Suppliers Must Heed the Demands of Consumers**

The end is consumption: “To produce” is necessarily “to increase individuals’ ability to satisfy their consumption desires.” Those activities, and only those activities, that further people’s ability to consume are productive. To spend time, effort, and resources baking sawdust-and-maggot pies would be wasteful, not productive. To be productive, therefore, workers and resource owners must have some way to determine which of the gazillion possible different ways these inputs can be put to use has the greatest likelihood of satisfying as many actual consumption desires as possible. Without this knowledge, work effort and resource use will almost certainly be wasteful rather than productive.

Free to spend their own (and only their own) money expressing their demands for different goods and services, “sovereign” consumers interact with suppliers who are equally free to use their own (and only their own) resources to produce and offer outputs for sale. The resulting exchanges result in market prices that simultaneously inform and incite resource owners to use their resources in ways that generate outputs of the greatest value to consumers. F.A. Hayek’s 1945 paper “The Use of Knowledge In Society” is justly credited as showing that prices — including wages and interest rates — allow enormous amounts of knowledge, dispersed today across billions of minds and millions of square miles, to be used in ways that generate modern prosperity. The knowledge put to daily, productive use in markets could not possibly be gathered, sent to a central location, and processed usefully by government officials. Therefore, to override markets in an attempt to allocate resources by conscious design in units larger than small bands is little better than an attempt to usefully allocate resources by throwing dice or by using some other method of random chance.

One consequence of this reality is that if genuine production is to occur in a group of people larger than a few dozen, the only reliable means of getting sufficient information about which uses of resources are productive and which aren’t is the market price system. By responding to market prices, individuals in their capacity as producers combine different resources into outputs for sale to consumers. Outputs bought by consumers in sufficient quantities and at prices sufficiently high to keep the production operations going are more valuable than the outputs that would have been produced had inputs been used differently. Using inputs to produce outputs sold at prices that cover their costs of production is productive;

using inputs to produce outputs sold at prices that do not cover their costs of production is wasteful. Although in both of these cases workers exert effort to transform physical matter from some forms into other forms, production occurs only when outputs exceed costs.

Oren Cass, Robert Lighthizer, and others who attempt to justify protective tariffs on the grounds that production be given its appropriate weight (relative to consumption) are thus mistaken. Protective tariffs *do*, of course, protect particular producers from competition and, therefore, enable these producers to continue to be paid to perform their long-standing jobs. These work activities *appear* to the uncritical eye to be productive. Also, the individuals who perform these protected activities no doubt feel as though they are being productive. But here, appearances and feelings deceive.

Were it not for tariffs, many workers in protected industries would discover that the prices — that is, the market values — of what they produce are not high enough to cover the costs of the protected activities. Scarce resources valued (say) at \$1,000,000 are consumed each day by these activities that produce each day only (say) \$800,000 worth of value. In this example, activities that appear to be productive actually *destroy* \$200,000 worth of value each and every day. The only reason these wasteful activities continue is that tariffs, by forcibly restricting consumers' freedom to spend their incomes as they choose, drive consumers to spend more than they otherwise would on the outputs of protected industries. Put differently, the government uses tariffs to forcibly transfer income from consumers to the particular producers who are protected. Tariffs give to people acting in their capacity as producers the power to commandeer some amount of resources from their fellow citizens acting in their capacity as consumers.

Economic activity under protectionism creates the false impression that production is taking place when, in fact, what's happening isn't production at all but, rather, waste. Because of tariffs, firms and perhaps even whole industries are prevented from coming into existence. And the tariff-driven loss of these firms and industries also means the loss of jobs in which workers could have produced more valuable outputs than they do in the protected occupations in which tariffs keep them stuck. This reality — tariffs *reduce* economy-wide production — is sufficient to discredit the argument that tariffs are a means of giving production its appropriate weight relative to consumption. Shrinking the magnitude of some phenomenon (here, production) cannot possibly increase that phenomenon's weight relative to some other phenomenon.

In short, even if (contrary to fact) production were an end along with consumption, by *reducing* production, protectionism cannot be justified as a policy tool that results in production being increased relative to consumption: protectionism decreases both consumption *and* production. More fundamentally, given that production in reality is only a means of enabling consumption, because protectionism forces consumers to do the bidding of ‘producers,’ protectionism treats a means as an end. The outcome makes no more sense for society as a whole than it would make for you to treat money as an end and, in consequence, hoard Federal Reserve Notes as you and your family live in dire poverty.

## **Consumer Sovereignty Requires Market Pricing**

Activities are productive only when they satisfy human desires — that is, only when and insofar as they satisfy consumption ends. The greater the amount of satisfaction, the greater the amount of production. In a group of people numbering more than a few dozen, the only reliable source of information about how much satisfaction is generated by different production activities is market prices. And market prices convey as much accurate information as possible when consumers are as free as possible to spend their incomes as they choose, and producers are as free as possible to compete for consumer expenditures. Only insofar as consumers are sovereign — that is, only insofar as individuals as consumers are free to spend their incomes as they choose *and businesses are free to compete as they choose for these expenditures* — is there a flow of reliable information to guide businesses, entrepreneurs, investors, and workers to ‘produce’ in ways that are truly productive.

Tariffs and other protective measures that relieve producers from having to compete for consumers’ patronage cause producers to be not producers, but *wasters*. Protected ‘producers’ exert effort and use resources in ways that fail to effectively satisfy humans’ wants and needs. With the possible exception of a few protected ‘producers,’ everyone in a ‘protected’ economy is made poorer.



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