
Consumerism and the New Orthodoxy in Latin America

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At the end of the 1940s and the beginning of the 1950s styles of consumption and their link with economic and social development became a focus of interest for social scientists. Influenced by Duesenberry's formulation in *Income, Saving and the Theory of Consumer Behaviour* [1949], Raul Prebisch of the Economic Commission for Latin America (ECLA) and Ragnar Nurkse [1953] pointed out the impact made by imitative consumer behaviour on the accumulation patterns of poorer countries.

Their main thesis was that:

- a) as a result of technical progress, new products arise which modify existing lifestyles, and often transform themselves into basic needs;
- b) the presence or knowledge of these goods and styles of consumption tends to increase the propensity to consume in the poorer countries;
- c) as a result, there is a growing gap between domestic productive capacity and consumption levels, causing a negative bias in national savings and investment and a distortion in the economic structure towards luxury consumer goods.

A decade later, another thesis was elaborated, which introduced the concept of concentrated income. This thesis of 'dynamic insufficiency' which Furtado [1968] formalised, revealed as basic obstacles:

- a) the effect of a high concentration of wealth;
- b) the structure of demand, restricted to no more than 10 per cent of the population;
- c) the orientation to consumption of luxury goods in this upper strata.

In his classical example, Furtado contrasted the negative effects of demand for goods such as cars, to the positive effects of demand for foodstuffs and essential goods. Lack of income and wealth redistribution was thus the structural factor which determined a consumption pattern that led to distorted production and low investment.

These propositions were widely accepted in Latin American thinking; and much of the economic and social literature since then has been explicitly or implicitly based on these assumptions. However, later,

new studies began to throw up problems and inconsistencies in this approach. In particular, Furtado's thesis of sub-consumption was increasingly questioned. The work of Felix [1976] and Wells [1976, 1979] was the first to show the weaknesses inherent in explaining the expansion of consumption merely as a reflection of income distribution. Wells, particularly, challenged the explanatory value of the thesis of dynamic insufficiency by describing the behaviour of consumption of durables in Brazil. Later, Lustig [1979] would show for Mexico too that the behaviour of consumption of durables was not restricted by concentration of income, and that there was a need for an interdisciplinary approach. At the same time, other studies stressed the importance of cultural and ideological elements in the diffusion of consumption patterns.

These debates raised questions on how needs are generated and how they are transferred into economic demands. But above all, they showed that what was behind the controversy was, in fact, the problem of value (ie the forms in which needs are socially determined) as a phenomenon closely linked to consumption. In this article this debate is placed in the context of the ultra-orthodox stabilisation models of the Southern Cone, in order to show how these models contributed towards creating favourable conditions for the emergence of a fully consumerist society.

Consumption Expansion: Some Statistics

During the first half of the 1970s, three Latin American countries—Argentina, Uruguay and Chile—embarked upon economic policies based on neo-classical principles. (For a discussion of these models see articles by Felix, Wells, O'Brien, and Beccaria and Carciofi in this *Bulletin*.)

In the short space of five years, the three countries experienced substantial changes in their consumption patterns and life-styles. A constant stream of imported durable consumer goods, accompanied by the penetration of consumer patterns characteristic of more advanced countries, substantially altered demand and spending patterns at all levels of society. Stabilisation policies, aimed at opening up and infusing greater dynamism into the economy, in turn paved the way for the emergence of a consumer society previously held in check by protectionist and other control measures. This substantially altered the savings-consumption-

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investment matrix, thereby reinforcing one of the salient features of peripheral economies: consumption jumping ahead of production capacity. The stabilisation models have been consumerist to such a degree that a great proportion of the benefits derived from the strategies set up with a view to promoting non-traditional exports was absorbed, and in some cases exceeded, by the consumer demands generated.

A few statistics will help to evaluate the magnitude of the contrasting trends.

table 1

Durable consumer goods imports
(US \$ mn constant prices 1970)

| | 1973 | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 |
|-----------|------|------|------|------|------|------|-------|
| Argentina | 21.2 | 39.5 | 28.7 | 17.6 | 27.7 | 36.7 | 112.0 |
| Chile | 17.6 | 13.9 | 31.4 | 29.4 | 73.5 | 86.9 | — |
| Uruguay | 1.5 | 2.7 | 10.2 | 10.1 | 18.1 | 17.2 | — |

Source: *Statistical Yearbook for Latin America*. United Nations, 1979

The figures in Table 1 show a significant growth of imports of durable goods in the three cases. Taking 1973 as the base of comparison, the 1979 level (in constant prices) went up by 428 per cent (Argentina), and the 1978 level went up by 393 per cent (Chile) and by 946 per cent (Uruguay). If 1970 is chosen as the initial period the results are slightly less impressive, although they indicate the same growing import trend—by 240 per cent (Argentina), 91 per cent (Chile) and 352 per cent (Uruguay). It should also be noted that in Chile the consumption effects continued after 1978. Whereas in 1979 imports of non-food products reached \$470.7mn, imports of these goods reached \$415.7mn, in the *first half* of 1980 and during the first half of 1981 they increased even further to reach \$873.6mn (Central Bank figures). This remarkable consumption boom has not been followed by a similar movement of exports and imports of capital goods. Rather, the rates of increase of these indices are much lower or, in some cases, show an absolute decline.

This spectacular rise in imports of consumer goods tends to be concentrated in certain types of commodities, particularly durable goods, leisure and sports goods, toiletries and certain luxury foods and beverages. Thus in Chile, during the period 1970-78, imports of television sets (at 1977 dollar prices) rose by 7,942 per cent, cosmetics and perfumery by 6,500 per cent; alcoholic beverages by 1,883 per cent; leisure articles and toys by 564 per cent; radio receivers and equipment by 534 per cent [French-Davies 1979]. In Uruguay, trends followed the same pattern: the increases between 1976 and 1979 were as follows: television sets: 2,574 per cent, radio recorders and equipment: 1,613 per

cent, leisure products and toys: 586 per cent [Brou 1980]. Although other types of consumer goods, such as cars, motorcycles, clothing, soft furnishings, musical instruments, increased at much lower rates, statistics for both Chile and Uruguay indicate that even here imports doubled or trebled.

To sum up: the evolution of imports of durables and luxury goods, as opposed to that of exports and capital goods, had negative effects for capital accumulation. Due to the predominance of the consumption element,

the savings-consumption-investment complex tended to create serious obstacles which precluded the possibility of effecting any of the dynamic feedback effects envisaged. Failure, on the one hand, to attract foreign investment and, on the other, to offer any incentive to encourage domestic savings, left little margin for investment. As a result the rate of investment fell sharply. The implementation of the stabilisation models was to a great extent dependent on growth of the external debt. In some cases this reached phenomenal proportions as, for instance, in Chile, where it increased from \$3,602mn in 1972 to \$6,587mn in 1978 and to \$11,238mn in 1980 [Griffith-Jones 1981].

Factors Underlying the Expansion of Consumption

The remarkable increase in consumer demand described above is attributable to the complex interaction of different economic and social factors. At first sight, this increase in consumption would seem to develop mainly from rapid and fundamental changes in import policy. Closer analysis, however, reveals that supply was not the only contributory factor: other considerations, notably demand stimuli, played an equally important role.

Five inter-related factors can be identified as the principal mechanisms operating under the new policies:

Opening up the economy (import liberalisation)

The lifting of restrictions on consumer goods made sophisticated products cheaper and more readily

available. This was not solely a question of lower unit prices. Equally important was the fact that the new goods bore a 'modern' aura, symbolic of more advanced societies. The massive arrival of these goods on Latin American shores no doubt had the psychological effect of enhancing their desirability.

Income concentration

Stabilisation models have favoured the concentration of wealth. Real wages declined in the period 1970-78 in the three countries, in some cases by over 40 per cent. The share of wages in total income declined, while income distribution was concentrated in the highest quintiles. Between 1969 and 1978 in the case of Chile, and 1973 and 1979 in the case of Uruguay, income rises occurred only in the highest quintile, to the detriment of the remaining four. In Chile, the fall in household consumer spending of these four quintiles was absolute, not relative (at constant peso prices, December 1979) [Cortazar 1980]. Wealth therefore tended to be concentrated in those sectors showing the greatest propensity to buy highly sophisticated imported goods.

Consumer advertising (dependency effect)

Advertising plays an indirect role in stimulating demand, raising expectations, and re-defining necessities. Since it is not necessarily linked to purchasing power, it is convenient to separate it conceptually from other demand factors. Higher investment in advertising was accompanied by a shift from the more orthodox media (press, radio) to more modern channels (TV, cinema, popular magazines). Publicity operations were concentrated within a small number of advertising agencies, operating either internationally, or in conjunction with national financial and importing interests. Chile's investment in publicity multiplied sixfold between 1970 and 1979, accounting in the final year for nine per cent of total investment [Salinas 1979].

Physical and psychological mobility (demonstration effect)

Physical mobility, particularly across national frontiers, increased significantly among upper and middle class groups. Foreign travel, in pursuit of holidays and tourist attractions, and sometimes for the specific purpose of purchasing goods (facilitated by tariff concessions) produced a general exodus, mainly towards Europe and the United States, but also within the region to countries offering favourable exchange rates. Thus, a movement of unprecedented magnitude could be observed throughout the whole of the Southern Cone. Special travel arrangements, travel agencies, package tours and credit facilities proliferated, while the tourist trade flourished in the host countries. Other factors contributed to the generation of con-

sumption stimuli. The availability of durable goods, such as radios and TV sets, led to expanded purchases of goods which form the final link in the mass media chain. Receptivity to commercial advertising increased, reinforcing the effectiveness of propaganda.

Decreased mobilisation

Open and participatory societies offer a link between the individual and society, in a multitude of corporative and institutional ways. Channels of participation—communal, artistic, cultural, trade union or political—lead to the formation of formal or informal groups in which individuality can be expressed and defined socially. Conversely, restrictive systems, with their narrow range of alternatives, limit the individual's capacity for self-expression to matters related to work and consumption. As work becomes less rewarding in itself, consumption becomes more important because of limited possibilities for other forms of participation.

Thus, the models established and consolidated a consumer ideology, sustained by the combined effect of:

- a) supply factors (import liberalisation);
- b) demand factors (income concentration);
- c) factors which stimulated the systematic pursuit of consumer activities (propaganda, physical and psychological mobility, restrictive participation and ideology).

Not all the factors appear to have contributed towards the same end or to have had the same effect on consumption growth. Import liberalisation and propaganda, for instance, seem to have affected all sections of society equally, whereas income concentration and/or physical mobility have stimulated a greater degree of consumption among the rich than among the poor.

Finally, social and ideological stimuli appear, paradoxically, to have produced effects contrary to those normally anticipated under conditions of regressive distribution; there was evidence of raised expectations among the lower strata and of a general *increase* in consumption, even among those sections experiencing a drop in purchasing power.

Structure of Expenditure on Durable Goods

Recent studies carried out in Latin America on household consumption patterns have indicated that the structure of consumption is affected both by the incidence of upward or downward mobility and cyclical and structural changes in the economy [Musgrove 1978]. This enables different forms of budgetary adaptation to the varying conditions produced by economic recessions or periods of affluence [Katona 1980]. Changes wrought by the

stabilisation models can then be viewed from a similar perspective.

An approximate picture of these changes can be derived from the data in Table 2. There are no comparative figures for Argentina and Uruguay. Thus, although the conclusions are probably valid for the three countries it is only possible to validate them for Chile.

From this table it is possible, at first, to evaluate the initial 1969 structure. As income level drops, expenditures on basic necessities such as food, housing and clothing, become proportionately higher. Similarly, the higher the economic level, the lower the proportion allocated to these three items, and the higher the allocation to luxury and high-prestige goods. This pattern corresponds to the known elasticity differentials applicable to the various consumer items. Food elasticity, generally speaking, is lower than the unit value (it drops when the income level rises), whereas the elasticity of luxury goods is higher than the unit value (the higher the income level, the higher their proportion).

Second, examination of trends during the period 1969-78 reveals that significant changes have taken place at all socio-economic levels:

- a) food shows an increase at all levels, although it is more marked where the socio-economic level is lower;

table 2

Individual mean expenditure shares of households (Santiago, Chile, 1969-78)

(%)

| spending category | low | I | | II | | III | | IV | | V | |
|-------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|------|
| | | 1969 | 1978 | 1969 | 1978 | 1969 | 1978 | 1969 | 1978 | 1969 | 1978 |
| Food and beverages | 52.2 | 59.3 | 44.0 | 56.0 | 44.1 | 53.2 | 36.1 | 47.7 | 28.7 | 32.1 | |
| Clothing | 8.5 | 5.6 | 10.4 | 7.2 | 11.4 | 7.9 | 13.1 | 8.0 | 13.3 | 7.3 | |
| Housing | 25.4 | 17.7 | 26.3 | 14.7 | 27.5 | 15.9 | 30.9 | 18.1 | 35.9 | 20.1 | |
| Central expenditures | 23.1 | 15.7 | 24.2 | 12.6 | 25.3 | 12.7 | 27.7 | 14.8 | 30.2 | 14.0 | |
| Operations and services | 2.3 | 2.2 | 2.1 | 2.1 | 2.2 | 2.4 | 3.2 | 3.3 | 5.7 | 6.1 | |
| Transportation | 3.7 | 5.6 | 3.1 | 6.5 | 3.4 | 6.9 | 3.8 | 8.5 | 4.8 | 15.9 | |
| Durables and recreation | 2.5 | 4.1 | 5.9 | 6.6 | 6.1 | 6.7 | 6.0 | 7.4 | 7.0 | 8.8 | |
| Personal care | 1.8 | 1.8 | 2.3 | 2.0 | 2.4 | 2.0 | 2.5 | 2.8 | 2.6 | 1.9 | |
| Medical care | 1.2 | 1.8 | 1.3 | 2.0 | 1.3 | 2.2 | 1.3 | 2.8 | 1.5 | 4.1 | |
| Education | 0.4 | 0.7 | 0.4 | 0.9 | 0.7 | 1.4 | 0.9 | 2.1 | 1.5 | 4.0 | |
| Others | 4.3 | 3.4 | 5.4 | 4.1 | 3.1 | 3.8 | 5.4 | 3.7 | 4.7 | 5.8 | |
| total | (100.0) | (100.0) | (100.0) | (100.0) | (100.0) | (100.0) | (100.0) | (100.0) | (100.0) | (100.0) | |

Source: INE, Encuestas de Presupuestos Familiares, 1978; ECIEL, Patrones de Consumo e Ingresos, 1969.

- b) the percentage share of housing, clothing and footwear has fallen;
- c) the relative share of durables and leisure items (indicators of modern life styles), education, toiletries and medical products, and transport, has increased.

Clearly, some of these behavioural patterns are attributable to circumstances exogenous to the models (transport, for instance, is affected by oil prices); others; however, must be seen as directly attributable to the models themselves. The rise in food expenditures bears no relation to anticipated trends, given that the economic sectors most favoured by the models (highest quintile) would appear to have enjoyed more favourable conditions for decreasing food consumption. Nevertheless, this trend can be explained by the relative price variations applicable to food products, industrial goods and imported commodities. During the period under consideration, food prices rose dramatically; industrial goods remained stable, and import prices declined quite considerably.

Increased expenditure on education and health (which increased at all levels) can be attributed to the denationalisation programme initiated after the state ceased to act as the main supplier of essential services.

Finally, the figures for durables and leisure articles indicate the strong influence exerted by the models on these categories of demand. The most outstanding

feature is the behaviour of the lowest quintile, whose percentage share of durable goods expenditure *rises significantly* despite the drop, in absolute terms, in the food, housing and clothing figures. Absolute income, for these lower-income sectors, fell below 1969 levels (overall expenditure of the lowest quintile is one-third lower than the 1969 level). Hence, the increase in the proportion of expenditure on food—from 52.2 to 59.3 per cent—in no way compensated for this deterioration; it is estimated that food purchasing capacity in these sectors dropped by approximately 20 per cent. In spite of this, the stimuli to modern goods consumption seem to have influenced their behaviour in such a way as to produce a typical 'empty refrigerator' situation.

Although income concentration would have led one to expect a different trend, it might at this point be useful to make a distinction between consumption and consumerism. The behaviour of the poorer groups cannot be attributed solely to economic effects (liberalisation of imports and income concentration). This applies particularly to durable goods, since the concentration process did not prevent them from becoming increasingly available to the middle- and lowest-income sectors. While high-unit-cost articles, eg motor cars, colour TV, and leisure and sports goods are exclusive to the wealthier sections of the community, this does not apply to certain other commodities, which have become standard items in lower-class homes [INE 1978]. Thus, expenditure on black-and-white television is concentrated in the three intermediate quintiles, of which the lowest accounts for 10 per cent of total expenditure. Other 'white line' commodities (refrigerators, cookers, etc) present a similar picture. Comparison of the concentration effect of expenditure on durable goods with that of the food sector (typically a lightly concentrated sector, with lower-than-unit-value elasticity) reveals that many modern articles show a concentration equal to, and even lower than that of the food sector.

Referring once more to the lowest quintile, the data available for 1978 indicate that its percentage share in certain sectors is greater than, or approximately equal to that encountered in the food sector. This applies to radio, television, sound equipment and toilet articles. On the other hand, the models' concentration effects are most clearly visible in certain sophisticated items and, particularly, in certain services associated with high-standard consumption. Travel and hotel expenditure, for example, is concentrated in the highest quintile (82.5 per cent).

It is interesting to note, also, that the concentration of expenditure on health and education shows a pattern much closer to that of luxury goods than to certain durable goods. In Santiago, 74.0 per cent of education

expenditure and 64.0 per cent of medical care is concentrated in the highest quintile. The share of the three lowest quintiles is only 11.1 per cent in education expenditure, and 17.5 per cent in medical care.

Finally, the concentration of expenditure, when analysed in terms of distribution per sector, indicates that in the period 1969-78 the effects of the stabilisation models tended to increase inequality in all of them. On average, for every monetary unit spent by the lowest quintile, the highest spent twice as much in 1978 as it did in 1969. In some consumption sectors the ratio fluctuates from 1:6 to 1:20 (health), from 1:30 to 1:50 (education), and from 1:3 to 1:6 in the food sector. Durable goods have the least tendency to concentrate; for each unit spent by the lowest quintile in 1969, the highest was spending 10, and in 1978 the ratio was 1:18.

Conclusion

The stabilisation policies carried out in the 1970s in Latin America illustrate the bias which the 'orthodox' models had in favour of modern consumption, to the detriment of savings and investments. This is certainly, as we saw, no new phenomenon in Latin America, since the traditional development models also had similar effects. What has now changed is the intensity of the phenomenon and the factors which contribute to it. Under the almost laboratory nature of the conditions governing unrestricted access of the domestic economies to international markets, stabilisation models reveal the rapid pace at which the demand for modern goods is able to grow as opposed to the lower expansion rate of the production structure.

But it is clear that consumerist ideological trends are neither an epiphenomenon nor merely a passive reflection of the structure of production. Rather, they correspond to a relationship of reciprocal implication, since the values and ideas are as real as the material goods themselves.

The redistribution of wealth, as has been frequently assumed, would not in itself ensure a more adequate consumption pattern (less conspicuous and more focused on basic necessities). The evidence provided by Latin American behaviour, and particularly in the context of orthodox stabilisation models, indicates that preference and taste for certain goods and consumer styles are not the prerogative of the highest strata of society.

The living standards achieved by a community at a given moment are not easily reversed. Any attempt to reduce the consumption levels reached by any social sector at any given moment, will inevitably be regarded as a fundamental loss. In this sense, the political resources which society would have to mobilise in

order to alter consumerist trends would appear to be no less important than those required to change the structure of production. As regards the stabilisation models, the implicit consumeristic options pose problems for which there is as yet no sign of solution. The question of the models' ability to maintain the continued growth of modern consumption depends apparently on the capacity of financing the increased trade-deficit by increased external debt. In so far as stabilisation experiments continue to be carried out without achieving the expected dynamic restructuring, the need to maintain the consumption levels so far attained, and their growth rate, will become more and more urgent.

The set of values organised around the ideology of consumption are not restricted to the sphere of consumption. They play a central role in the ideology of the society. The general principles that support the new ideology are well-known: economic freedom, consumer sovereignty, and non-interventionist state. In sum, ultra-orthodox stabilisation policies involve, in one way or another, a rediscovery of the ethical and philosophical principles of individual neo-liberalism. Thus, the central importance attached to the economic freedom of the individual is not extended to the sphere of political freedom. Indeed, the latter is being reduced to a mere instrumental—or prudential—role, thereby establishing a peculiar relation between an economic discourse framed in an individualistic-liberal mould and a political democracy which is very much relegated to the background.

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