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Liquid Lifestyles and Business Cycles: An Evolutionary Theory of Fashion

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1 INTRODUCTION

The theory of fashion has a curious but definite pariah status in modern microeconomics. It deals with phenomena that are too ephemeral and bourgeois for serious micro-economic theorists to touch, and that are seemingly irrelevant for macro-economists to use as an explanatory variable in equations that aim to pin down the causes of growth. In short, fashion is a topic that seems a bit too much like sociology or cultural studies, or worse, to warrant serious attention. Fashion is irrelevance multiplied by pretension, and therefore not a serious object of study. In this paper, however, we argue that fashion is integral to economic growth. Just as certain market dynamics are responsible for stimulating the (re)organization of production techniques of firms, so, too, market dynamics can be thought of as stimulating the (re)organization of consumer capabilities, which have important implications for understanding the nature and direction of economic evolution.

We argue that fashion is a mechanism for periodically liquidating elements of consumer lifestyles in a world where there is a continual flow of novel consumer goods. Changes in fashion entail the mass updating of durable goods that works to control and accelerate the depreciation of existing goods, thereby lowering the mass adoption costs of new goods into consumers' lifestyles. These adjustment costs are spread independently of whether consumers made good choices or bad choices in the previous rounds and they mitigate the effects of consumer mistakes. Fashion is to consumer theory in an evolving economic system what the liquidationist thesis of structural cleansing is to macroeconomics, under those same dynamic conditions (e.g. Caballero and Hammour 1994).[1] Our proposed evolutionary theory of fashion turns the standard view of fashion in microeconomics and consumer theory on its head. Instead of viewing fashion as a

[1] The liquidationist thesis, first advanced by Friedrich Hayek, Joseph Schumpeter and Lionel Robbins, holds that far from being an unmitigated bad, recessions are actually beneficial to the economy in that the low real prices of factors and resistance to change make them effective periods of 'structural cleansing' in a macroeconomy.

profligate bourgeois indulgence, we argue that it is an essential mechanism in the economic evolution of a market-capitalist system.

2 THE PROBLEM OF DEMAND

At the dawn of the nineteenth century, British economists were concerned that the rapid expansion of the economy's productive capacity might lead to a situation of over-supply. Then J. B. Say argued that if the productive capacity of the economy grows over the long term, the ability of the community to purchase output must keep pace with the growth of output (Say's Law). Furthermore, insatiability of consumer wants would ensure that consumers used fully their ability to purchase goods and services. Over the next hundred years this picture was reinforced via the development of the familiar indifference curve/budget line analysis of the consumer as a *constrained* optimizer. Nowadays, many macroeconomic models perpetuate Say's line of thinking by assuming that demand is simply insatiable and will automatically rise with an increase in income.

However, precisely what motivates consumers to convert potential demand into actualized demand remains a fuzzy issue once it is recognized that the timing of purchases can be varied strategically with the aid of credit markets. Policymakers appear less inclined than mainstream economic theorists to see aggregate demand as likely to grow smoothly as a consequence of individual optimizing behaviour. Instead, they often appear to be concerned either that consumer debt is growing too rapidly or that consumer confidence ('the feel good factor') is in danger of drying up.

Such concerns seem perfectly in order in terms of heterodox approaches to macroeconomics. The large element of discretionary spending in a modern economy has added a further layer to the critique that Keynes launched against Say's Law, a critique of which mainstream macroeconomists increasingly seem oblivious. The problem is not merely that demand need not rise as much as income does, or that firms may be reluctant to take risks in hiring people and generating income from which notional demands might be made effective. Rather, as economic psychologist George Katona (1960) pointed out, aggregate consumption demand can exhibit considerable instability since the *ability* to spend is not the same thing as the *will* to buy and the willingness of consumers to spend may depend on them being confident that they will not come to regret their purchasing decisions.

The modern consumer is justifiably nervous, for nowadays the problem of choice is much trickier than it was in Say's time, when income could barely meet basic human needs. The list of products on offer is enormous and growing rapidly, enabling affluent consumers to diversify in many different directions and choose particular sets of goods as means to live out particular lifestyles and uphold particular identities (Earl 1986). Many of the new goods that the consumer might purchase are not merely novel in the sense depicted by Lancaster (1966), namely, technological improvements of old commodities, offering bigger outputs of existing characteristics. Rather, new goods are often novel in that the features they offer are unknown to or have not hitherto been experienced by the consumer (Bianchi 2002). Like managers of firms, consumers are frequently making hard-

to-reverse decisions to invest in durable goods whose secondhand markets are far from perfect. There is considerable scope for error, since:

- Changes in employment status or interest rates may make it unexpectedly difficult to service the loans that were used to fund purchases.
- Domestic circumstances may change.
- Poor judgments may have been made in the face of quality uncertainty in respect of the product characteristics that were sought.
- Experience may result in the consumer having a clearer idea of the appropriate mix of product characteristics to demand.
- Technological change may offer new opportunities and render obsolete the goods that were purchased.
- It may turn out that the choice made is inconsistent with the consumer's goals in terms of fitting into or bucking the dominant fashion that emerges.

We are particularly concerned with the interplay of the last two of these factors.

In analytical terms, this means we need to understand how consumers cope with the problem of choice in the face of such risks, and how their preferences change endogenously.[2] A better understanding of the conditions under which novel goods emerge and how they are disseminated will have significant consequence for modeling macroeconomic growth. Central issues here – as with any evolutionary analysis – are the way and rate at which novel goods emerge and are adapted into the system (Dopfer *et al*. 2004, Witt 2003). Our simple suggestion is that part of the answer may come from viewing consumers as investing in commodities in lumps and bumps in much the same way firms invest in plant investments in bursts rather than in small adjustments of capital stock as the neoclassical theory suggests.

The theme of lumpy replacement cycles has become increasingly popular amongst macroeconomists who face the task of explaining volatile investment patterns amongst firms (Cooley *et al*. 1997, Cooper *et al*. 1999). From this approach a number of conjectures have been made about a link between macroeconomic fluctuations and investment spikes. Cooper and Haltiwanger first proposed that times of economic downturn are the best times to replace capital stock. They contend that 'Machine replacement is most likely to occur during downturns where the resource cost replacement is lower (due to low demand and/or high value of leisure) and just prior to upturns where the benefits of replacements are higher' (Cooper and Haltiwanger 1990: 34). Indeed, there have been many documented cases where recessions caused by weakening demand, have liquidated all but the most technologically advanced firms. Similarly, Caballero and Hammour (1994) observe that job destruction is much more responsive than job creation to business cycles, which leads them to argue that recessions are a time of 'cleansing' when outdated or unprofitably techniques and products are pruned out of the system.[3] Potts (2004) has recently argued that we

[2] See Bowles (1998), Witt (2001), Metcalfe (2001), Earl and Potts (2004).

[3] In a later study of US manufacturing data, Caballero and Hammour (1999) found evidence for a 'reverse-liquidationist' position, which held that recessions can be associated with a 'chill' in the restructuring

might view asset price bubbles in the same way. An asset bubble is a further variant on the liquidationist thesis, arguing that the low cost of finance and the tolerance for mistakes that accrues during a bubble increases the rate of novelty generation and diffusion. This surge of liquidity and experimentation fuels investor (and consumer) demand, at the same time promotes the restructuring of the economic system.

We seek to discover whether this modern renaissance of the liquidationist theme, traditionally associated with the likes of Schumpeter, Robbins and von Hayek, can be related not only to supply-side economic fluctuations but also to ones on the demand side that are typically treated as exogenous in macroeconomics. We argue that through a re-examination of recurring demand-side fluctuations — fashion, in lay terms — one may understand consumption decisions in much the same way we understand firms' investment decisions as inherently lumpy, done strategically, under uncertainty, etc.

3 OLD SCHOOL FASHION

Let us define fashion simply as the tendency (or behavioral norm) of actors to adopt certain types or styles of customs or commodities nearly simultaneously, only to adopt a different type or style of custom or commodity in future periods. The literature on fashion really begins with a remarkable paper by Caroline Foley (1893), but most modern articles in economics that link fashion and economic theory take Thorstein Veblen as the defining the state of the art. Veblen, typical of high-powered intellectual outsiders, was very much down on fashion. Indeed, *The Theory of the Leisure Class* (1899) reads like an analysis of a virulent social pathology. The centerpiece of Veblenian microeconomics is the theory of conspicuous consumption, which seeks to explain changing consumption patterns from the agent's basic desire for social status. Fashion is in this sense a kind of higher-order consumption, driven not by innate utility, but by its effects on other agents. According to Veblen, agents value and choose goods for status competition by emulating the tastes of other individuals situated at higher points in the social hierarchy. Where one is situated in the social hierarchy is decided by income but, according to Veblen's analysis of late-nineteenth century American *nouveaux riches*, income alone does not equate to status. Key to transforming wealth into status is the social performance of the individual in terms of conspicuous consumption. Status derives from the judgments that other members of society make of an individual's position in society. For this position to be established there must be a display of wealth, i.e. conspicuous consumption. As the lower classes imitate the higher classes, the higher classes must come up with more conspicuous and wasteful ways to display their wealth. As such, Veblen viewed fashion as symptomatic of the inherent instability of the market-capitalist system.

Veblen's disapproving view of fashion runs into trouble as soon as we try to reconcile his idea of conspicuous with Lancaster's (1966) view that the demand

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process, rather than increased 'turbulence'. Thus an increased period of liquidation does not necessarily lead to a increased period of restructuring. How well these two are connected will depend on the institutional environment in which the firms operate (Caballero and Hammour 2000).

for novelty can also be understood in terms of the consumer search for potential improvement in a commodity's functional properties. For improved functionality of products to be saleable to status-hungry consumers, the fact that they are consuming the latest generation of products must be conspicuous, even if their improved functionality is 'under the skin'. Otherwise, the status-seekers' expenditure will tend to go to products which are more cost-effective at signaling that one can afford the latest generation. Hence even firms dominated by engineers who are desperate to compete by adding improved functionality need also to spend on re-skinning their products even if there is no functional need to do so. For example, adding safety features to cars is an 'under-the-skin' activity. Clearly, manufacturers can spend on advertising such additions but cosmetic changes such as new lights, bumpers, wheels and trim garnishing may be a much more effective way of ensuring customers will buy vehicles with enhanced safety features.

A decade after Lancaster's attempt to get economists to understand the process of change in the technology of consumption, Tibor Scitovsky (1976) made some progress in understanding the economic consequences of consumer demand for novelty. Scitovsky relied on previous studies in neuro-psychology that postulated that novel experiences stimulate changes in a person's arousal levels that, if in the right direction, lead to the sensation of pleasure. Scitovsky argued that in reaching historically high *levels* of comfort in their lives, modern consumers paradoxically decrease their levels of pleasure, which derive from *changes* in comfort levels. The search for stimulation is the search for novelty. Fashion is the touchstone of social novelty. Thus, consumers demand novelty to attain utility and fashion becomes quasi-rational. This argument, together with that of Lancaster provides a basis on which fashion trends can be understood as the coordinated introduction of novelty into society.

It is this coordination-focused view that we think makes sense of the nature of fashion in an economic system in terms of the evolutionary dynamics of growth which are driven by the novel consumer good and the status-seeking behaviour of agents who consume goods socially. If we can understand consumers demanding novelty for the sake of arousal on the individual level, then it is simple to see how status competition is done in the context of gaining the attention of other members of society through consuming *new* items whose very novelty makes them attention arousing. As such, they invite onlookers to make judgments about the quality of choice that the status-seeker has made and hence about the status to which the status-seeker is due.

From Veblen's standpoint, the concern of consumers with fashion is a social phenomenon. The fashion-conscious consumer is demanding a social good, namely status, which is the 'dominant feature in the scheme of life' (Veblen 1899) and fashion would not exist if there were no one to impress. From Scitovsky's standpoint, by contrast, fashion is an artifact of the individual demand for novelty;

[4] However, it is important to note that understanding fashion as the demand for novelty does not negate Veblen's original argument of fashion being a function of status-seeking behavior. Indeed, we believe the novelty approach provides a better basis on which one can understand status competition. Status-conscious consumers invest in goods in the sense that they use a consumption item to signal their status to other consumers.

his argument does not ultimately depend on the existence of society, but rather on the fleeting nature of the individual's attention and the satisfaction of desire for stimulation in the form of novelty and the new stimulus and relational structures this brings. Fashion, in this view, is all about satisfying one's curiosity and seeking stimulating experiences. From this argument we understand why ultimately consumption items must be replaced, given the intrinsically fleeting nature of novelty. In both cases what is demanded, produced and exchanged is attention or stimulus. Combining these two theories permits an understanding of how one can view consumption decisions as investment decisions without necessarily focusing upon the physical durability of the things which consumers buy. As with the purchase of consumer durables, expenditure on services and non-durable goods (for example, fitness club membership or meals in a particular restaurant, respectively) may be undertaken as an investment in building one's social standing. Each of these kinds of spending involves risk because fashion goods are what Nelson (1970) would label as 'experience goods': novel aspects of utility-yielding properties cannot be assessed in advance via search, while the social response to an act of consumption can only be conjectured at the time of purchase.

Now, if fashion consumption is done for both individual and social reasons, then the obvious question that follows is about how these two distinct motivations interact to produce aggregate fashion consumption patterns. And this, we argue, requires a theory of how consumers strategically manage their consumption in a turbulent, changing and uncertain environment. Understanding a class of consumption decisions as investment decisions is one thing, analyzing the environment and the fluctuating determinants of these decisions is something altogether different.

4 CONSUMPTION COMPLEMENTARITIES AND MISTAKES

Evolutionary economists argue that the growth of knowledge drives the growth of economic systems (Loasby 1999). Choice is not so much a function of preferences, but a function of rules and knowledge, of which preferences are a subset. The importance of this distinction is that rules and knowledge, unlike the orthodox idea of preferences, are fallible. Thus the basic problem for the consumer in an evolving economic system is the problem of knowing and learning what to want (Earl and Potts 2004), and dealing with mistakes along the way.

This is not as trivial a problem as it is usually perceived to be in standard micro theory, where consumers want what satisfies their preferences, end of story. From the evolutionary perspective, the 'what to want' problem involves more than knowing (or learning) what one's preferences are; it also entails the strategic coordination of one's wants with those of other agents, and of not making mistakes in doing so — much in the same way that, as Richardson (1960) emphasizes, firms need to coordinate their investment decisions. Showing up at a cocktail party in an identical dress to someone else can be every bit as embarrassing to two women as the simultaneous proliferation of major investments in capacity to produce a particular good or service can be to the firms

who have made the investments, oblivious of each other's plan. In both contexts, there is more to the decisions than being alert to an opportunity; one must also be able to gauge the likelihood of others being alert to it and able to act on their alertness.

Knowledge influences both consumers' lifestyle choices and producers' production decisions. From facing continually new situations, agents, firms and societies learn and hence their knowledge base continually changes, which in turn changes the way they act, produce, consume and organize in the future. Modern evolutionary economics is thus especially focused on studying how *new* knowledge affects agents, and the system within which they act (Dopfer et al 2004). In its history, there has been a conscious effort to build an abstract model that can rigorously identify the path through which new elements of knowledge are discovered, selected and adopted by agents, firms and institutions (Dosi 1982, Nelson and Winter 1982). The evolutionary theory of consumption focuses on how the demand side evolves. If we understand consumers in a continuous process of 'learning to consume' (Witt 2001), then an evolutionary theory of consumption must seek to incorporate: (1) the selection of problems in respect of which knowledge production (learning) occurs; (2) the behaviour of learning and the complementarities between opportunities; and (3) the management of consumer capital in the face of a turbulent and changing consumption environment to which the consumer's capital is utilized.

A start to applying this alternative view of consumer behavior was made by Earl (1986), with his conception of a *consumer lifestyle*. A consumer lifestyle refers to the way in which the commodities that are inputs into a coherent consumption set (a lifestyle) are connected together. Earl defined these connections as 'viscous collections of procedures for dealing with fluid situations in which ambiguity is the order of the day' (Earl 1986: 4). According to Earl, consumption behaviour involves more than simply working out alternative choices and picking the optimal option, but involves navigating a web of ever-changing complementarity. Consumption choices are a function of many complex forces, such as social identity in an evolving and turbulent world filled with ever-present uncertainty and the live possibility of costly mistakes: 'If opportunities are not to be thrown needlessly away, the consumer must be a skilled speculator and strategist' (Earl 1986: 1). Given this need for strategy, rational consumers structure their consumption behaviour around a set of priorities and goals. Such strategic behavior helps the consumer to incorporate surprise and anticipate the unexpected, as well as to cope with the inevitable interdependencies that exist among choices. The coordination of complementarities constitutes a consumer lifestyle (the analogue of productive competence in the theory of the firm). These connections between durable goods are specific structures of complementarity, and into which new goods may or may not fit. Thus, consumption sets can be modular, in that one consumption activity cannot simply be substituted for another, but instead the activity may be embedded within a greater consumption strategy that adds up to a consumer lifestyle, as a coherent pattern of connected activities and consumption goods.

It is important to note that with this focus on the evolution of knowledge, the primary economic problem no longer concerns consumers spending a constrained amount of income on a range of commodities. Rather, it is one of consumers spending a constrained amount of attention on a range of things that offer to change the consumer's knowledge base in one way or another. Even with an unlimited amount of wealth to spend on an unlimited amount of goods, economic agents would still face the opportunity cost problem of deciding what pleasures to pursue, and for how long (Steedman 2001). The opportunity cost of consumption, and the significance of novelty in dealing with it, would be clear to anyone with a substantial collection of recorded music: each new item stands as a barrier to the consumption of existing items in the collection, so the former will need to offer more novelty than remains to be gleaned from the latter by repeated consumption.

A closely related idea is the concept of bounded rationality, as first conceived by Simon, which basically states that because agents have a limited amount of reasoning power, decisions incur 'energy cost' (Loasby 2001). If there are costs in making accurate decisions, then any conception of the consumer perfectly optimizing decisions would require an infinite amount of time and energy. This simply reflects the extension of one the fundamental laws of scarcity to thought processes. It is impossible knowingly to make an optimal decision in a changing environment, and if particular consumption decisions are perceived to be less important, then less thought will be given to them. Life is a succession of disrupted states of consciousness in which the *apparent* importance of problems that come to our attention induces corresponding amounts of effort towards solving them or, if they represent a source of cognitive dissonance with drastic implications and little prospect of resolution, justifying turning one's gaze elsewhere or denying that they exist (Earl and Wicklund 1999).

From this perspective, it is perfectly reasonable to argue that rational economic agents in an evolving economic system will sometimes make mistakes that result in actual utility derived being less than expected utility.[5] Making mistakes is inherent in fashion consumption as it is portrayed in the writings of both Veblen and Scitovsky. For Veblen, purchasing fashionable goods is as much for the satisfaction of other people's preferences as for one's own, since the utility one derives from fashion consumption depends on the approval of others. This is an inherent set up for making mistakes, if ever there were one. For Scitovsky, fashion consumption is inherently risky, since one can never tell *a priori* how long an item will provide personal stimulation if one did have perfect knowledge of a good, it could by definition no longer provide stimulation since essentially the demand for novelty is a demand for the unknown. In other words, consumer choice in a complex evolving world is fraught with difficulty. Stability and coherence consists of making connections between how goods fit together, both with each other, and with the social and cultural context of consumption. Mistakes will inevitably be made, even by the most rational of consumers, so it becomes

[5] Note that mistakes may also be positive, i.e. accidentally acquiring more utility than anticipated, but these do not really pose problems for agents and the economy.

important for consumers to develop ways of ensuring that the mistakes that they make are not personally catastrophic.

The problem, then, with the old-school literature on fashion is that it was essentially drawn with respect to a static economic background (intermittent not continuous novelty) and without due consequence to the difficulties of and scope for error when choosing goods and services about which one has little experience (bounded rationality). While the question of where the means to purchase new goods and services that accompany economic growth is tidily accounted for by Say's law, the question of the consumer will and ability to do so is another thing. A boundedly rational agent in a consumption environment that is constantly changing will inevitably make mistakes. Without some mechanism to periodically liquidate these mistakes, a consumer lifestyle will begin to degrade in its social capital until it reaches some threshold of social dysfunction that so passes it, along with its agent, into the realm of being unfashionable and no longer socially observed. That might suit the agent just fine, or it might not: *de gustibus*. The broader point is to consider the effect this has on both the course corrections of a consumer lifestyle and on the uptake of new technologies into the economy and therefore the sources of economic growth.

In an open evolving market economy, there are always new goods and services contesting the markets and so the consumption possibility set is constantly changing, both by entry and exit. This presents the consumer not just with a series of marginal choices (e.g. a new breakfast cereal), but also the possibilities of more radical change in systems of consumption possibilities (i.e. components of a lifestyle). But marginal changes to substitute one good for another are always easier than changes to blocks of connected choices. The risk is that new goods and services may only make sense when adopted as a bundle, and may never be able to penetrate certain locked-in consumption patterns. In an evolving economy, something must induce agents to revise and update their consumption sets in ways that still leave room for them to learn. Without such an institution, consumers are subject of overspecialization, and their consumption strategies become increasingly inflexible. They risk ending up like people with an obsessive–compulsive disorder (Earl 1986: 164–6). One way in which markets might promote dynamically efficient behaviour by consumers is if they incorporate some kind of mechanism that *forces* consumers periodically to re-orientate their learning processes onto different fields (as a kind of positive externality). Schumpeter first suggested this was achieved by the existence of entrepreneurs: 'new commodities or new qualities or new quantities of commodities are forced upon the public by initiative of entrepreneurs is a fact of common experience' (Schumpeter 1928: 379).

Whilst followers of Schumpeter long have recognized the central function of new goods as a way of evolving the economy, few have really questioned where the demand for novelty originates, and whether its strength changes over time. Intuitively, for the individual consumer, the demand for novelty is a hazardous want. Not only is there the potential for making mistakes as mentioned earlier, but transaction costs are involved in reconfiguring consumption strategies, and there is far more certainty in 'sticking to what one knows'. These costs may

derive from a number of sources; anything that hinders deviation and promotes conformity is accountable in this matter. Also nothing is said about when the time is right for people to adopt innovations rather than stick to their old strategies. The demand for novelty amongst consumers acts as the essential enabling force that allows innovating entrepreneurs, as creators of novelty, to be successful. In order for consumers to invest in the construction of consumption capital that is relevant to their consumption environments, something must exist to regulate these forces.

5 AN EVOLUTIONARY THEORY OF FASHION & WELFARE

What we argue here is that the introduction of a novel fashion trend into the agent's environment acts as a *potential* trigger for consumer to revaluate their consumption strategies in the face of this novel stimulus. The consumption strategies that they adopt in response to this novel stimulus turn into new habits. As the fashion trend becomes more normalized, novelty dissipates. Eventually a point is attained where novelty has dissipated to the extent where a newer stimulus is comparatively novel enough to force consumers again to re-orientate their strategies. If existing strategies of some consumers are still relatively novel to the extent that it is not worth the transaction cost of recalibrating their strategies to new the stimulus, then novelty will not be adopted by them. It is this decisive occupation of the consumer's existing attention resources that distinguishes between whether a novel stimulus is a *potential* or an *actualized* trigger for lifestyle restructuring.

From this framework, we can also understand that the degree of lifestyle complexity is linked to the rate at which the lifestyle is updated. If consumers choose a lifestyle which presents them with a relatively large number of problems, then over time they will have much less attention to dedicate to novel solutions to any particular problem than is available to those who choose much simpler lifestyles. Given this, we would expect much more herd-like behaviour to be displayed by those with complex lifestyles. Such consumers may have only small areas in which they can develop the expertise to choose for themselves. In principle, they may serve in those areas as trendsetters for their peers, whilst following the latter in other respects. However, in such situations there would be a problem of the overall coordination of the fashionable fit of different but complementary elements of the evolving lifestyle, particularly if specialists in some consumption areas differed in the signals they presented to their peers about 'the way to go'. Therefore, in practice in such cases, the busy consumers might be expected to delegate to an outside authority with professional expertise the task of ruling on what fitted together.

Complex, busy lifestyles seem incompatible with long fashion cycles because of the rapid convergence of behaviour via the use of externally supplied decision rules. By contrast, 'classic' styles of consumption that only evolve slowly and are commonly thought of as refined, would seem to be the prerogative of those whose wealth has given them a longstanding ability to consume at leisure. Such 'old money' consumers are rich enough to keep many problems at bay — often by following long established social rules — and, having not just 'arrived' (unlike the *nouveaux riches*), they have built up the experience to know

how to choose in those areas where the absence of rigid social codes gives them that freedom. Their lack of experience outside their narrow range of deep expertise imparts a profoundly conservative bias to their choices, and their connoisseurship is such that relatively small changes in products that make up their lifestyles will be sufficient to attract their attention. Anything with a particular category that is wildly different from their view of the norm will not capture their attention as it will not fit their classificatory pigeonholes (Hayek 1952).

Fashion cycles and the consumer's taste for novelty appear to play a very important – not wasteful – role in encouraging flexibility and experimentation in consumer strategies and thereby promoting the development of consumer knowledge and experience. Competition for social standing is not based merely upon displays of how much money one can afford to burn on a particular kind of consumption but also on the ability to display skill in placing the right kinds of fashion bets and not end up as a 'fashion victim' by failing to select neither a fashion rule that is also selected by the vast majority around the same time, nor a strategy whose minority status is regarded as a sign of one being 'hip' in Holbrook's (1995: 319–62) sense of displaying expertise and insight that is ahead of the field. As impact of the television series *Sex in the City* on women's fashion has demonstrated, such rules may embrace both the set of products to purchase and rules for the combinations in which products are consumed. When a fashion cycle comes to an end, those who placed unfortunate bets are placed back on a more nearly equal footing with those who succeeded in avoiding being seen, that time around, as fashion victims. For example, if all trousers fall out of fashion in favour of skirts, then it no longer matters that one chose the 'wrong trousers' when they were in fashion; the issue now is whether one can make a competent choice of skirt in the eyes of one's reference group. To be fashionable now, both fashion victor and fashion victim must incur the costs of tooling up for the novel fashion mode. Fashion cycles also play a major redistributing role in society that mitigates their seemingly wasteful 'throw away' aspect. The accelerated depreciation of fashion goods enables them to be enjoyed secondhand by consumer subcultures whose members could not hope to purchase them if their early rates of monetary depreciation accurately reflected their physical depreciation.

6 CONCLUSION

Where the standard view of fashion in microeconomics and consumer theory views fashion as a profligate indulgence, we have argued that it plays a more positive role in stirring consumers into actions from which their pools of knowledge and range of experience may grow. Just as an increase in the strength of competition may prompt decision-makers explore ways of increasing productivity, so a change in relative competitive strength between status-conscious consumers may force them to rethink their choices. Just as firms in featherbedded markets may fail to develop new knowledge, so consumers who opt out of social competition and take the 'quiet life' may fail to develop their ranges of experience and capabilities. Such a lifestyle may appeal to older

consumers: they have established who they are in the social order and, with fewer years of life remaining, they have less of an incentive to take risks associated with experimentation to acquire new capabilities as consumers. Not so the young, for whom there are higher pay-offs to being ‘hip’ and acquiring a reputation of being ahead of the pack or, at least, to know what is fashionable.

Mistakes are inevitable in the process of social competition. Sometimes we buy consumer goods that just don’t fit into our lifestyles, things that just don’t connect or enable us to connect socially: the wrong trousers, or the wrong lounge-suite, or cell-phone, or club membership, or car, and indeed any durable good in some measure. Development in consumer lifestyles is a process of re-coordination of a complex system of consumer durables. This growth process is facilitated by periodic liquidation for exactly the same reason that macroeconomic growth is also facilitated by periodic liquidation, namely that it lowers the overall cost of transformation. Fashion is a mechanism that is a part of this process and fashion cycles are necessary components of macroeconomic growth.

Fashion not only enforces flexibility in consumer lifestyles, but also has a positive distributional effect on consumer welfare by erasing past consumer mistakes as well as minimizing the opportunity cost of adopting novelty. Continuous economic growth requires consumers to have a continuous will to buy, learn, and risk. Risk-taking behavior inevitably causes mistakes, which are a necessary byproduct of economic growth. What is needed, therefore, is a mechanism to erase consumer mistakes in order to regenerate the incentive for them to continue learning. The modern social phenomena of fashion enables economic growth by providing consumers the twin incentive of both abandoning old fashion rules and adopting new rules through: a) periodically liquidating dated fashion goods and their related mistakes, and b) providing alternative goods that, thanks to standardization, cater for the varying risk preferences of consumers. Fashion trends can thus be understood as learning trajectories and by re-orientating consumer attention into new areas of learning. Through the working of social pressure, they periodically provide a fresh and self-regulated impetus for consumer learning. Fashion cycles periodically loosen the constraints that accumulate on the demand side and thereby facilitate the process of economic growth and personal development.

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