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LIQUID LIFESTYLES AND BUSINESS CYCLES:

THE EVOLUTIONARY ECONOMICS OF FASHION

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I declare that the work presented in this thesis, to the best of my knowledge and belief, original and my own work, except as acknowledged in the text, and that material has not been submitted, either in whole or in part, for a degree at this or any other university

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Abstract

This paper is about the economics of fashion. I argue that the Liquidationist thesis on the structural-cleansing nature of recessions (e.g. Robbins 1934, Cooper & Haltiwanger 1990, Caballero & Hammour 1994) has an important and much neglected analogue in consumer theory in the idea of periodic liquidation of a *lifestyle*. The concept of a lifestyle was first defined by Earl (1986) as a complementary set of durable and semi-durable goods that work together as a system to solve consumer problems. A lifestyle in consumer theory is the analogue of an organization in producer theory. One is a system that produces utility, the other a system that produces profit. Firms are affected by technological change and lifestyles (cf. households) are affected by fashion change. I argue that fashion is an emergent consequence of status-seeking competition played out over an environment in which the choice of durable goods (as inputs into a lifestyle) is constantly changing (Veblen 1899, Earl and Potts 2003). My starting axiom is that market-capitalism as an evolutionary system in which Schumpeterian competition between firms leads to the continual introduction of novelty (Nelson & Winter 1982, Metcalfe 1998, Loasby 1999, Potts 2000). A major implication of this view is that new rules, or knowledge, enter into an economic system as a three-phase trajectory or origination, adaptation and retention (Dosi 1982, Dopfer 1991). In this paper, I interpret fashion (Bianchi 1998) as the consumer side of these trajectories (e.g. Witt 2001, Aoki 2002, Foster & Metcalfe 2002) with the observation that they operate over the organization of consumer lifestyles. My theory is that as business cycles induce periodic liquidation of industrial structure to facilitate growth, so fashion cycles induce periodic liquidation of consumer lifestyles to facilitate growth. I then argue that fashion cycles and business cycles should be theoretically related. This has consequences for economic welfare. The wastefulness of fashion, a predominant theme in the economics of fashion literature, may well be rational from an evolutionary perspective when it associated with lowering the transaction costs of re-coordination of lifestyles.

JEL: Consumer Behaviour, Business Cycles, Evolutionary Economic Theory

Keywords: Veblen effects, Endogenous Preferences, Schumpeterian competition, Liquidationism, Consumer Lifestyles, Cultural Evolution, Diffusion of Novelty, Fashion Trajectories.

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Chapter 1:

Towards an Evolutionary Theory of Fashion

"Fashion is a form of ugliness so intolerable that we have to alter it every six months"-*Oscar Wilde*

"Fashion is a sorcerer's charm or talisman changing the masterpieces of today into the laughing-stock of tomorrow"- *Maurice Rheims*

1.1 Fashion as a mechanism of economic evolution

This thesis presents an evolutionary economic theory of fashion. Since the time of Veblen (1899), scholars have noted the close correlation between the growth of market capitalism and the increasing prevalence of fashion in society. I seek to discover what the role and nature of fashion is in an evolving economic system. From an evolutionary perspective, it is the creation and diffusion of knowledge that drives economic growth. If this conjecture holds, then a general approach would dictate that growth processes occur on both the consumer and producer side of the economy. While much has been written on technological change, the mechanism that drives supply side growth, this study looks to examine the much neglected consumer side processes of economic growth. In doing so, I propose that fashion is a demand side autocatalytic, self-regulating and emergent mechanism for economic evolution.

In the author's opinion, the central crux of Schumpeter's theory of economic growth comes from a study of collective behavioural patterns, stemming from a distribution of attributes over heterogenous population (Schumpeter 1934a). In observing how these interact through market institutions, the central tenet of the Schumpeterian perspective

maintains that it is the feedback of the market valuation of resources on entrepreneurial incentive that creates the conditions through which growth is stimulated (Foster and Metcalfe 2002). My central thesis is that fashion represents a similar set of behavioural patterns and market processes that stimulate demand side growth. Fashion cycles, like business cycles, have important evolutionary effects in terms of lowering the cost of structural change, which is an essential part of evolutionary growth.

The argument is based on the following logic. If one generally accepts Veblen's notion that fashionable behaviour is a means to achieving social status, then one can understand fashion investments in the same sort of way that one understands business investments: As business entrepreneurs dedicate their efforts in creating a marketable novelty, so too fashion entrepreneurs invest their efforts in creating a fashionable novelty. Of course the analogy is imperfect. While entrepreneurs act creatively to simply attain a business monopoly, I argue fashion entrepreneurs do not necessarily act creatively to gain a social monopoly. Although this is a possibility, fashion entrepreneurs could also act creatively for the simple sake of satisfying an innate fascination with novel rules. Thus, fashion originates from the consumer demand for novelty as well as for social status.

The microeconomic part of this investigation examines the nature in which the individual engages in fashionable behaviour. This component is strongly based on the concept of the consumer lifestyle as first conceptualised by Earl (1986). The main point of his argument is that consumers, in a turbulent world filled with change and uncertainty, strategically manage their consumption decisions, which collective make up a consumer lifestyle. This idea is thus highly relevant for examining consumer strategies that are designed to deal with the erratic and unpredictable nature of fashion. In this regard, I conjecture that lifestyles are liquid structures in that consumers are, to a certain degree, influenced by social preferences. Engaging in fashionable behaviour intrinsically involves making a judgement on the current state of social preferences. Given the uncertainty surrounding these, such behaviour fundamentally involves the possibility of making mistakes. If mistakes accumulate over time, the system, for the sake of its own survival, must have a mechanism that provides for their rectification. I shall argue that fashion cycles fulfil

exactly this function, although in this process they also temporarily cause certain types of these fashion mistakes.

The meso and macroeconomic part of this study revolves around understanding the stages and mechanisms involved in producing and shaping fashion cycles. Here I employ the micro-meso-macro methodology of Dopfer and Potts (2002) to argue that a typical fashion trend can be understood as the creation and diffusion of a novel element of knowledge (i.e. a fashion rule) in the complex system that is the economy. The social institutions and processes that drive the adoption and adaptation of new production knowledge on the supply side are similar to those that drive the adoption and adaptation of new fashion knowledge. In the same way a new production technology is normalized and incorporated into the economy's supply structure as composed of firms, so to a new fashion style is normalized and incorporated into the economy's demand structure, as composed of consumer lifestyles.

Two main implications derive from this study. First, the structural-cleansing view of macroeconomic recessions (Caballero and Hammour 1994, Schumpeter 1934b, Robbins 1934) has an analogy in consumer theory in the concept of a fashion-induced lifestyle recession. I argue that fashion is an evolved mechanism for periodically liquidating the fashion-related component of consumer lifestyles and their related mistakes. The lifestyle recession also lowers the costs of structurally adjusting lifestyles to new fashion trends, enabling consumers to remake their fashion decisions. Second, lifestyle recessions may play a role in influencing real macroeconomic recessions. Lifestyle recessions stem from diminishing returns from the consumer's investment in fashion rules. In the same way economic growth is fundamentally restrained by diminishing returns to capital in production technology, so it is also fundamentally restrained by diminishing returns to fashion styles. In the New Growth literature the economy is exposed to repeated and random supply side 'shocks' (Aoki and Yoshikawa 2002). I argue one also needs to account a second type of demand side shocks in the form of new fashion trends. Economic growth is simultaneously a producer process as well as a consumer process.

1.2 What is Fashion?

Fashion can appear anywhere. Clothing, home furnishing, cars, styles of music, management techniques and many things besides are all potential objects of fashion. The diversity of these objects is not so important as their similarity. Fashion is a manner, mode or style that applies to both things themselves and to ways of doing things. Importantly, it occurs wherever objects are socially consumed (Veblen 1899). Most consumers, consciously or otherwise, take fashion considerations into account in their consumption choices so as to align their preferences to the perceived preferences of others. This does not necessarily mean following the preferences of others, for one can hardly rebel against a fashion unless one understands it well. In any case, fashion is prevalent throughout the economic system, but, in spite of this, it is generally ignored in economic theory because of its primary implications for the interdependence of preferences.

Fashion may not be important for analysis of economic systems in general equilibrium, but, I argue, it is important for analysis of economic systems that are evolving. Following Earl and Potts (2002), new socially coordinated preferences are required whenever there are continual flows of new goods, which is precisely what occurs in a technologically evolving economy. An agent's deep preferences are clearly innate and sovereign, but when making choices over socially consumed objects the agent should *rationally* calibrate their own preferences to those of others. Moreover, agents will also take into account the social opportunity cost of pursuing their priorities. I argue that the coming and going of fashion trends represent periods where the social opportunity cost of agents deviating away from social preferences is relatively high. This occurs because most agents have some preference for social status, and are thus worried about what other people think of their fashion decisions. In the intermittent periods where no fashion trend is prevalent, social preferences are relatively unimportant and agents will be more inclined to follow experiment with their fashion decisions.

Why should agents demand novel fashion rules? I argue that novelty acts as an attractor of attention: Of ones own and of others. Its attention-arresting nature is demanded for the purposes of both avoiding personal boredom and arousing the curiosity of others in the context of status competition. In this sense, fashion represent consumers insatiable search for and use of novelty. The search for novelty is insatiable in the sense that as consumers use novel fashions they are degrading the very characteristic for which the fashion is demanded, thereby auto-catalytically creating a demand for the next new fashion. Hence, fashion is both evolutionary and entropic. In the social system that is the economic system, what evolves is novelty but what degrades is attention. Fashion is the complexity that regenerates or reanimates attention. Attention is the connective-energy of the novel ideas that drive economic evolution.

Yet, fashion is not just a consumer phenomenon. Fashion considerations also play a role in the production designs of commodities. Every year profit maximizing firms spend considerable resources on developing fashionable designs and advertising (see Klamer and McCloskey 1994), which is to suggest that the manufacture of demand is, in part, the manufacture of fashion. Economists are often sceptical of the value of this expenditure. Resources that could have been spent on improving the technical quality of the product are instead spent on simply creating a fashionable image for the product, a virtual rather than a real improvement in quality (Gregory 1948). Producers can also make fashion mistakes. A misjudgement of fashion can lead to financial losses from developing products with little consumer demand. This can also damage brand reputation. Ultimately, fashion matters to economic agents in both the productive and consumptive mode because the turbulent nature of fashion poses obvious risks for fashion conscience consumers and producers. Thus, one must ask, would society be better off without it? Is fashion bad?

This is the assessment of many commentator in economics (Gregory 1948). Fashion is broadly an expensive and mostly idle frivolity; an affliction of youth, perhaps, or of too much money. Adopting the evolutionary perspective, I shall argue the opposite. Fashion, as a mechanism, is positively valued in relation to economic evolution, and may well

even be an *efficient* mechanism for achieving ongoing structural re-coordination in the organization of consumption (a lifestyle) induced by Schumpeterian growth of knowledge processes in technological and organizational evolution. Fashion lowers the costs of the experimentation functionally necessary to the evolution of consumer lifestyles as processes of structural change. This is the process of the growth of utility, and, like business cycles, this growth process is naturally turbulent. While fashion is not a statically efficient mechanism in achieving social coordination; it may well be a dynamically efficient mechanism in the *ongoing process* of social coordination. This is the hypothesis I propose.

1.2 Evolutionary Economics and Fashion

Evolutionary economists argue that the creation and diffusion of knowledge is what drives economic growth (Schumpeter 1934, Nelson & Winter 1982, Eliasson 1991, Loasby 1999). Ultimately, agent's decisions are heavily dependent on their knowledge base. Knowledge influences both consumer's lifestyle choices and producer's 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 focused on studying exactly how new knowledge affects agents and the system within which they act. 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, Dopfer and Potts 2002). Economic evolution is a complex form of change, statistical and deterministic at once. And therefore evolutionary economics is essentially the study of the process of the growth of knowledge in market-capitalist systems.

A major insight of evolutionary economics is that new technology can be understood as a producer outcome of experimental search and selection. However, evolutionary economists often confine themselves to discussing evolutionary processes in the contect of entrepreneurial firms. There is seemingly a widespread neglect of the entrepreneurial consumer and their role in economic evolution. This thesis aims to redress this imbalance

by positing a mechanism of evolution that is predominantly consumer orientated. Following Veblen and Simmel, among others, I shall argue that consumers in an evolving economy are generally motivated by fashion mechanisms. Within this argument I highlight the insight of the behavioural tradition that new knowledge can be also powerfully understood as a consumer outcome of experimental search and selection. According to Giovanni Dosi (1997: 1531) the methodological imperative of evolutionary economics is 'dynamics first', which is supported with six building-blocks that together underpin the evolutionary approach:

1 Theories are explicitly microfounded, in the sense that they must involve or at least be consistent with a story of what agents do and why they do it.

2 Agents have at best an imperfect understanding of the environment they live in, and, even more so, of what the future will deliver. Hence 'bounded rationality' in a very broad sense.

3 Imperfect understanding and imperfect, path-dependent, learning entails persistent heterogeneity among agents, even when facing identical information and identical notional opportunities.

4 Agents are always capable of discovering new technologies, new behavioural patterns, and new organizations. Hence, also the continuous appearance of various forms of novelty in the system.

5 Relatedly, while (imperfect) adaptation and discovery generate variety (possibly in seemingly random fashions), collective interactions within and outside markets, perform as selection mechanisms, yielding also differential growth (and possibly disappearance) of different entities which are so to speak 'carriers' of diverse technologies, routines, strategies.

6 As a result of all this, aggregate phenomena (e.g. regularities in the growth process or in industrial structures, etc.) are 'explained' as emergent properties. They are collective outcome of far-from-equilibrium interactions and heterogeneous learning. Finally they often have a metastable nature, in the sense that while persistent on a time-scale longer than the processes generating them, tend to disappear with probability one as time goes to infinity.'

It is not hard to read the relevance of fashion into Dosi's description of evolutionary economics. Each point speaks to a different aspect of the fashion mechanism. This thesis aims to use the evolutionary economic methodology to analyse the nature of fashion as a mechanism operating over consumer lifestyles. I shall proceed as follows. Chapter two reviews the previous economic theories of fashion. Chapter three examines the behavioral foundations of fashion, in the form of the concept of a dynamic lifestyle and the nature of the demand for novelty. Chapters four and five examine the nature of fashion as analogous to a technological trajectory in the context of entropy of attention. I propose the concept of a lifestyle recession and the liquidationist thesis of fashion. Chapter six discusses two implications of this theory – first on the welfare enhancing effects of

fashion cycles and second on the connection between fashion cycles and business cycles – and then concludes with some possible avenues of future study.

Chapter 2:

The Great Fashion Riddle

"Fashion, n. A despot whom the wise ridicule and obey." -*Ambrose Bierce*

“The main lesson imparted by the test of time is the fickleness of taste whose meanderings defy prediction”-*William Baumol*

2.1 Introduction

This section reviews the varying theories that have been taken to explain the existence and functioning of the social phenomenon that is fashion. A popular approach was founded by Thornstein Veblen and later refined by Georg Simmel, which attributes the cause of fashion to the consumers need to compete for social status in a class-conscious society. This section will also survey later contributions from Blumer, Robinson and Gregory that offer some varying perspectives on the question. While in no way explicit continuations of one another, there are some reoccurring themes that flow across these works. I concentrate on how these differing perspectives explain: a) The origin and motive of fashion; b) The dynamic nature of fashion and; c) What the welfare effects of fashion are. In juxtaposition, many of the alternative theories highlight the deficiency of the Veblen-Simmel in lacking a proper explanation for the changing nature of fashion.

2.2 The Veblen-Simmel Theory of Fashion

The idea that fashion is a result of conspicuous consumption goes back to Thornstein Veblen who wrote 'The Theory of the Leisure Class' in 1899. Veblen argues that economic conditions since the industrial revolution created a new social class of idle owners of capital who appropriate income without having to work themselves. This 'idleness' was embodied in the conspicuous and wasteful manner in which the leisure class undertook consumption and leisure activities. From his critique of the leisure class, Veblen begins to draw some observations on the dynamic nature of fashion.

Essentially, Veblen holds three principles responsible for the emergence of fashion and its dynamic nature (Veblen 1899: 121-122). Firstly, members of the leisure construct their own social status relative to rival members of the same class through 'conspicuous waste'. In addition, they also differentiate themselves from the lower working classes through the principle of 'conspicuous leisure'. Finally, they also act in accordance with 'a series of imperatives' to change ones garments as soon as they are no longer up to date. He thus conjectures that the real purpose of modern fashionable consumption is not simply fulfil the private needs and wants of the consumer but is also primarily an act of competition with other consumers for social status. Since the individual's efforts to out-consume rivals in this way can only serve to spur them to even greater exertions, such conduct initiates an endless battle for status. Veblen assumes that there is one single existing and generally agreed system of social stratification in society, with the leisure class at its head. Hence, the form of the consumption embodied in these emulative endeavours will be dictated by the habits and preferences of this class, which then percolate down through the subordinate strata.

Georg Simmel, writing in 1905, continues with Veblen's approach of class analysis, but also explains fashion through the dual forces of social distinction as well as social integration, which provide two fundamental motives for individual action:

> "The whole of history of society is reflected in the conflict, the compromise, the reconciliations… that appear between to our social group and individual elevation from it,"(Simmel 1957: 549).

For Simmel, fashion represents nothing more than one of the many forms of life in which consumer's tendency towards social equalization contrasts with their desire for individual differentiation and change (Simmel 1957: 543). These contradicting tendencies serve to unite individuals into groups of equals and to divide them into status hierarchies (Simmel 1957: 544). In this respect, Simmel echoes Veblen's stress on fashion as mechanism which serve to distinguish consumer's class and rank. However unlike Veblen, Simmel believes fashion is not the source of status but merely its expression. Veblen recognizes the distinctions between strata as reflective of differences in wealth, while Simmel argues members of inferior classes are not emulating the ostentation of their superiors so much as imitating their taste (Campbell 2001). Thus, as the elite's tastes change, they also inadvertently change that which lower classes imitate. This serves to rectify a major problem of the Veblen model in that it has no explanation for the dynamic nature of fashion. Status competition through conspicuous display does not require novel products and coexists happily with an unchanging traditional way of life.

In addition, another criticism of Veblen's theory is that it is not obvious what dictates the fashion decisions of the leisure class. Simmel tried to resolve this by crediting the masses with a special propensity to engage in imitative tendencies and the elite with a special inclination to engage in creative tendencies (Simmel 1957: 545). Thus, he formulates a 'chase and flight' model that manages to explain the accounts for continuously changing fashions. What is especially interesting in Simmel's argument is the suggestion that a particular category of person (identified as 'the man of culture') is intrinsically attracted by whatever is perceived as "exceptional, bizarre, or conspicuous, independently of any need to adopt a new fashion in order to keep social imitators in their place" (Simmel 1957: 544). It is the presence of this assumption, when combined with the presumption of a need to maintain social distance, which provides Simmel's theory with the apparent ability to explain the ever changing nature of modern fashions. When these two assumptions are set within the larger framework of Veblen's claims concerning the status functions of consumption in general, one has an outline of the Veblen-Simmel model of modern consumption. The primary assumptions of this model are:

a) Consumption is an essentially other-directed activity, in which

b) Considerations of status maintenance predominate;

c) The motives underlying consumption are imitative and emulative such that the patterns manifested by superior groups are imitated by inferior ones and;

d) The elite class (who are intrinsically attracted to the new) must be continually adopting novel fashions and consuming novel goods in order to maintain their position of superiority (Campbell 2001).

Leibenstein was the first to incorporate Veblen's theory of conspicuous consumption into formal economic analysis. He does this by rethinking the shape of the demand curve for both the individual consumers and the aggregate market. From Veblen's works he identifies three separate forces of fashion that can affect demand (Leibenstein 1950: 188). Firstly, The Bandwagon effect occurs when there is a positive correlation between one's purchasers and those of other is positive. Here, the consumption of others directly enhances the utility of a specific good. Secondly, the Snob effect is when there is a negative correlation between one's purchases and those of others is negative. In this instance status seeking may require avoidance of overly popular products. Finally, the Veblen effect is the phenomena of conspicuous consumption, where the demand for a good is increases as its prices increases.[1]

2.3 Alternative Approaches

More than sixty years after the first publication of Simmel's theory of fashion, Herbert Blumer went a step further in proposing a general theory of fashion. He supports Simmel's idea of fashion as a social form, but he modifies the role of the social elite. He recognizes fashion as a social phenomenon in its own right that exists to some extent independently from deliberate fashion-setting activities (Blumer 1968). For Blumer, fashion has become one of the central mechanisms for recreating order in modern society. It is in this sense that he criticizes those authors who either restrict fashion to adornment or present it as socially inconsequential, aberrant or irrational.

[1]Leibenstein distinguishes between the snob and the Veblen effect in that the former is a function of consumption of other and the latter is a function of price, such that the utility derived from a product depends not only on the inherent qualities of that unit, but also on the price paid for it.

Blumer defines fashion as a "continuing pattern of change in which certain social forms enjoy temporary acceptance and respectability only to be replaced by other more abreast of the times" (Blumer 1968: 341). He discusses four features of fashion which emerge through a social selection process that mirrors the general direction of collective taste. First, fashion is marked by its historical continuity or, as Blumer states, "new fashions are related to, and grow out of, their immediate processes" (Blumer 1969: 283). Secondly, out of this historical sequence of fashion emerges a line of continuity that Blumer terms a 'fashion trend'. Here, Blumer characterizes the terminal points of fashion trends with a period of experimentation in various directions or potential fashion development. Thirdly, fashion is related with modernity, as it always reflects the 'spirit if the times'. Finally, collective taste also function as a selector for the acceptance or rejection of ideas, and as a formative agent for innovation. Through 'intense immersion', shared experience and a common sense of their field, fashion buyers develop a common taste and a shared understanding of the directions in which fashion is leading. The fashion elite, which is seeking to gain adoption of its creations, is eager to "develop an intimate familiarity with the most recent expressions of modernity" (Blumer, 1969: 270). Thus, Blumer inverses Simmel's argument of a fashion elite that creates fashion in order to differentiate itself:

> "It is not the elite which makes the design fashionable but, instead, it is the suitability or potential fashionableness of the design which allows the prestige of the elite to be attached to it. … The prestige of the elite affects but does not control the direction of this incipient taste. We have here a case of fashion mechanism transcending and embracing the prestige of the elite group rather than stemming from that prestige," (Blumer 1969:280).

Blumer thus criticises Simmel's link of fashion to class struggle. This link "does not fit the operation of fashion in our contemporary epoch with its many diverse fields and its emphasis on modernity," (Blumer 1969: 278). To Blumer, the elite is not predetermined but rather is constituted through the fashion process. Thus, Blumer viewsfashion as a process of selection that is not dictated by social hierarchy, but is indeed a mechanism from which hierarchy is borne.

2.4 The Economic Approach to Fashion

Predating Blumer, Gregory in 'Fashion and Monopolistic Competition' (1948) postulates that fashion is a pure and socially corrupting element of monopolistic competition. To Gregory, fashion is not so much a reflection of public tastes more than it is an artificial creation of business designed to force consumers to keep updating their commodities by blending the distinction between novelty and utility. He starts by distinguishing between 'fashion' and 'style'. Style is any distinctive mode of a commodity, while fashion is the prevailing style at any given time. Fashion is a "chameleon, ever changing; never in vogue long enough to reflect basic tastes and habits," (Gregory 1948: 69). This distinction is no doubt similar to Blumer's later comments that fashion reflects modernity and possesses a character of historical continuity. Yet, unlike Blumer, Gregory argues that 'trend' does not simply evolve from 'style', instead they are adversaries: "Frequent fashion changes artificially shorten the period during which a style prevails; fashion is a parasite on style," (Gregory 1948: 69). Thus, in contrast to Blumer, Gregory is highly critical of the role of fashion in the economy:

> "In the long run free consumer choice is more seriously restricted by fashion.. because merchants do not generally carry what considered to be unfashionable goods even though people may want them,"(Gregory 1948:70).

Not only does fashion impede rational choice, but it is also causes a high rate of obsolescence of fashion goods that makes people reluctant to buy ahead. "If styles were more stable and fashion change non existent," writes Gregory, "a prudent buyer could purchase several identical items at once, thus saving money and the time and energy of shopping," (Gregory 1948: 71). Finally, he is also critical of the waste that fashion generates, though he notes that in the case of automobiles, fashion-conscious consumers who trade their recently purchased vehicle in due to a change of fashion facilitate automobile ownership by lower a income group (Gregory 1948: 72). Here Gregory implicitly adheres to Veblen's link between a consumer's income and the degree to which fashion considerations play a role in their decisions.

In his exposition of the fashion industry as an explicit intensification of imperfect competition, he argues new fashions are not genuine innovations, since they fashion commodities are rarely new products but simply variants of existing commodities under a brand of model (Gregory 1948: 72). Also, by fostering monopolistic competition, fashion impedes perfect factor mobility by necessitating the use of highly specialised equipment (Gregory 1948: 73). Thus, a sudden fashion change may render worthless valuable equipment, although this argument seems to be inconsistent with his previous observation that fashion commodities were unoriginal continuations from previous designs. If this were the case, then the machinery required for their manufacturing would not significantly vary between fashion trends.

By connecting frequent fashion changes to the absence of competition, he relates fashion to the business cycle in quite a Schumpetarian manner. Such monopoly power has an impact on consumer sovereignty. Gregory comments that fashion is closely related to buyer ignorance and "fosters (it), by the lure or promised satisfactions more spurious than real," (Gregory 1948: 74). Thus, consumers purchasing fashionable goods face the prospect of making mistakes, where actual utility is less than expected.

Finally, Robinson (1961) continues Gregory's supply side analysis of fashion, but postulated, in a more positive tone, that the pursuit of rarity is key to understanding the demand for fashion. He defined fashion as the demand for design modification (Robinson 1961: 390). A fashion item is distinct from a stable luxury item, in that its value derives not only from the fact that resources have been used in its production, but that it has been produced recently. The economic distinction which fashion shares with no other form of demand is its exploitation of the versatility or partial fluidity of the factors of production in order to demonstrate command over currently disposable factors of production. Robinson argues that the distinction between current and past labour, or the exploitation the versatility of partial fluidity of production, appeals to consumers as a form of rarity:

"Fashion preserves us from what would be the otherwise Midas-like curse of durability. It permits us to live in a world of freshly cut blooms where without it we would suffer from an oversupply of artificial blooms. Just as sure as petals must fall from fresh blossoms so the fashion connotations of durable goods ineluctably vanish,"(Robinson 1961: 392).

In contrast, if items were continuously produced, there would be no distinction between current and past labour, so that effectively these items could not demonstrate their command over versatile factor of production, and consequently they would no longer be considered rare. It is precisely the imperfect mobility of the factors of production- their viscosity as it were- that provides fashion with means to achieve its economic *raison d'etre*. The consumer "willingly pays the producer for the latter's trouble and outlay in affixing the stamp of impermanence on the commodities he offer for sale,"(Robinson 1961: 390). Thus, to Robinson fashion plays a positive role in enabling consumers to display a command over resources.

In conclusion, from this overview one can understand that many diverse approaches have been taken to explain the purpose and nature of fashion. Of course, this was by no means an exhaustive review of all the relevant works in this field, and more recent approaches will be discussed in the course of the study. Interestingly, the vast majority of explanations have understood fashion as the outcome or symptom of the greater forces of society rather than a social institution in its own right. Only Blumer argued that fashion plays a role in creating a social hierarchy and yet even he did not consider it of any economic significance. Given this peripheral characterization of fashion, it is understandable how scholars such as Gregory took a dim view of its wasteful character. One may also note that most of these previous theories were microeconomic in nature, and did not consider the wider macroeconomic impact of fashion. Gregory did relate fashion to monopolistic competition, however he did not comment on the wider macroeconomic implications of this link, preferring to make the standard criticism of monopolies as welfare inefficient economic organizations. In contrast, I contend fashion plays a central role in the evolution of consumer preferences and also plays an important part in shaping macroeconomic growth dynamics. In doing so, I do not aim to invalidate the past approaches that have been reviewed here, but instead look to draw on important observations from each to conceptualise a more comprehensive theory of fashion.

Chapter 3:

Liquid Lifestyles and Fashion Mistakes

"Fashion is what you adopt when you don't know who you are." - *Quentin Crisp*

"Dress is a very foolish thing, and yet it is a very foolish thing for a man not to be well dressed." - *Lord Chesterfield*

3.1 Introduction

Fashion evokes passionate discourse from many commentators, yet it has eluded a rigorous explanation which can properly explain its purpose, its appeal to consumers and its changing nature. In this chapter, I seek to lay the behavioural foundations upon which a more complete theory of fashion can be built. To achieve this goal, the concept of consumer lifestyles is discussed. I contend that in making certain lifestyle decisions, consumers take into account, to varying degrees, both personal as well as social considerations. While such 'social considerations' can cover a wide range of influences, I focus specifically on a modified interpretation of Veblen's concept of conspicuous consumption, in which agents have the basic incentive to take into account social preference in adopting certain rules because of status considerations.

Furthermore, the second behavioural foundation I utilize is the notion that consumers demand a degree of novelty in their lifestyle. Novelty is demanded because acts as an attractor of attention; of one's own and of others. In the case of one's own attention, as *per* Scitovsky, consumers demand novelty because of their creative nature, as a way of

countering boredom. In the case of the attention of others, consumers demand novelty in certain goods because it enhances the signaling potency of the goods, which aids the consumer in the competition for status. Importantly, the demand for novelty also causes the existence of experimental consumer mistakes, which occurs because of the intrinsic uncertainty that surrounds novel items that consumers experimentally adopt into their lifestyles. Finally, I argue that these behavioural motivations that drive fashionable behaviour are dynamic in nature and change with the waxing and waning of fashion trends. This occurs because the changing prevalence of fashion trends alters the cost of both disregarding social norms and making fashion mistakes, hence altering the behaviour of potentially creative consumers. As a result of this continual adoption and experimentation with novelty, it is important to understand consumer lifestyles as both evolving and semi-liquid structures.

3.2 Consumer Lifestyles and their Guiding Principles

The concept of a consumer lifestyle was developed by Earl (1986) and refers to the way in which the commodities that are inputs into a life are connected together. He defined these as "viscous collections of procedures for dealing with fluid situations in which ambiguity is the order of the day," (Earl 1986: 4). The concept is grounded in the Lancastrian tradition, which maintains that consumers do not simply consume goods as they are provided by the market, but they use and combine them as inputs in a production process that yield final goods (Earl 1986: 29). For example, the production of the good 'music appreciation' is a final good requires the producing consumer to typically invest inputs of music records, time, skills and a stereo. Conversely, a typical consumer durable can serve as partial a input to simultaneously produce arrange of final goods Bianchi 1998c: 7). For instance, the purchase of a automobile can serve to partially fulfil such final goods as 'transport convenience', 'social status' and 'technical gadget appreciation'.

Earl argues consumption behaviour is not simply a trivial matter of working out alternative choices and picking the optimal option, but is fundamentally related and influenced by many complex forces such as the consumer's social identity, their life as an evolving and turbulent world filled with uncertainty and potential mistakes. Hence, "(i)f

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, the consumer structures their consumption behaviour around a set of priorities and goals. Such strategic behaviour helps the consumer to incorporate surprise and anticipate the unexpected, as well as to cope with the inevitable interdependencies that exist among choices.

Earl uses Kelly's psychological theory of personal constructs (Kelly 1955) to explain how this strategic behaviour is enacted. This theory emphasizes that from their environment, people engage in translating things and events into personal images and constructs as a way of gaining predictability and control. Through this abstract model, people can organize their ideas and construct mental replicas of anticipated events, and devise repertoires in order to compare and contrast events (Bianchi 1998a: 72). This cognitive order is tested, refined and revised as a result of the outcomes of the choices that it produces. Consequently, a consumer lifestyle is a collection of guided rules and strategies which are being constantly updated and changed according to the perceived performance of strategies employed in dealing with the new problems and situations that a consumer experiences. In this study, I seek to investigate the processes by which structural change in the consumer lifestyle is facilitated. More specifically, I examine the role that the periodic liquidation of consumer mistakes plays in the dynamics of the consumer lifestyle, through which I aim to identify the dynamical conditions that are pertinent to lifestyle evolution.

Yet, what exactly guides the change and order in a lifestyle? Ultimately, the sequence and structure of consumer lifestyles are driven by an underlying set of principles. As Earl states, "things that really matter in our lives are things that we do less out of choice than because we have come to regard them as necessary to making our lives fulfilling; choices are then subordinate, as means towards meeting these goals," (Earl 1998: 123). This study is a limited attempt to identify to some degree what the driving forces are that determine lifestyles choices, and how these forces interact in the social arena of status competition through the phenomena of fashion. Accordingly, I propose two fundamental and unsophisticated principles which guide consumer lifestyles: a) Consumers are guided

by their personal tastes and; b) Consumer are guided by social tastes. In the former, consumers base their lifestyle around things they like, which themselves change with experience. The latter refers to all social conventions, paradigms and rules that can influence consumer choice. While these are many in number, for the sake of this study I shall focus on only one, the concept of status competition.

3.3. Fashion and the Market for Social Status

Veblen, in "The Theory of the Leisure Class" (1899), developed an evolutionary framework of consumption in which preferences are determined socially in relation to the social hierarchy. According to Veblen's theory of conspicuous consumption, individuals emulate the consumption patterns of other individuals situated at higher points in the hierarchy. The social norms that govern such emulation change as the economy and its social fabric evolve over time.

The theory is based on the evolution of a leisure class whose members are not required to work but appropriate a surplus produced by those who do work, the working class. A hierarchy develops in which some people own property and others do not. To own property is to have status and honor: To have no wealth is to have no status. Key to the transformation of 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, and for this position to be established there must be a display of wealth.

While many criticisms can be made of this controversial theory,[2] I look to draw on only a few basic propositions from this work. Firstly, there is the primary notion that consumers use a set of goods (i.e. those which are affected by fashion) as a signaling mechanism by which they are socially judged and ranked. Specifically, the signal is received by other members of society who interpret the signal and assign some amount of status to the signaler. The potency of the signaling process lies in the fact that it essentially allows the

[2] See Trigg 2001 for a critical evaluation of these from an economic perspective

consumer to create an image or a perception, regardless of whether this perception is true or false.

Secondly, consumers actively compete to gain social status. However, social status, as understood by the Veblen-Simmel approach, is directly linked to agents' material wealth. While Veblen recognizes that the signaling goods (i.e. fashion) change, ultimately he conjectures that all such competition is purely an attempt on behalf of consumers to display their wealth. A more acceptable proposition would be to argue that while consumer compete for rank in a social hierarchy, this hierarchy itself can be based on a number of possible attributes- merit, holiness, intellect, sexual appeal or a combination of these. Furthermore, there is simply no one recipe for attaining social status. The characteristics of a social hierarchy (i.e. its structure, composition, benefit to the consumer, and role in society) are both variant across society, and dynamic over time.

This modified interpretation of conspicuous consumption can be understood in terms of a market for social status. Traditionally, a market is defined as "a specific institutional arrangement consisting of rules and conventions that make possible a large number of voluntary transfers of property rights on a regular basis,"(Menard 1995: 170 as cited in Loasby 2002: 14). A market is thus itself a set of devices for reducing the costs of each transaction through the provision of reusable knowledge (Loasby 2002: 14). In the market for social status, the consumers are those who use some signalling mechanism as currency for social means.[3] The producers are those who receive and evaluate the signal and assign the consumer with some amount of social means, transmitted in the way the producer changes their behaviour in relation to the signalling consumer. Competition occurs when consumers seek to accumulate larger amounts of social means relative to others, through which social status is determined. By 'social means' I mean something that works like financial capital in giving agents a certain power or capability, and allows them to achieve certain objective in a easier manner relative to what effort would be required had they not possess the social means. This asset is stored with those upon

[3]Originally I wanted to use the term 'social capital', however this term is already defined in the literature for other purposes.

whom an agent's status has been impressed, and hence alters the interactions this agents has with those upon whom the status-impression has been made.

The process by which the market for social status works is similar to how pawnbrokers operate in the market for used goods. Notionally, the pawnbroker is the consumer, since they purchase the second-hand good, but at the same time, the selling agent is also a consumer of the pawnbroker's service. Similarly, in the market for social status, the consumer receives, in exchange for producing a status signal, some amount of social means. The relative amount of means that the consumer possesses determines their social status. Conversely, the producer receives, in exchange for assigning the signaller with social means, knowledge regarding how the consumer has gained social status. That is, when a consumer observes an impressive fashion signal, they intrisnicly learn about what makes a good signal, which they can perhaps adopt their own use. It is through this market for social status where the *socialization* effect occurs in that personal preferences change in the direction of the characteristics that are consumed by those with whom the individual associate (Becker 1976, Bowles and Gintis 1976, Gintis 1972). In this way, a market is part of the greater mechanism through which endogenous preferences are determined (Potts and Earl 2002), in that agents can learn through the market what rules are successful rules for signalling purposes.

What is the nature of the demand for status? From one perspective, status competition is generally formulated in evolutionary psychology as an expression of sexual competition – the drive to find and maintain high-quality mates in order to maximize the potential of ones own genes (Dawkins 1976, Robinson 2001, Rubin 2002). In economics, this is expressed principally in terms of the shifting demand for consumer goods in response to shifting perceptions of the perceptions of other people's utility as generated by their consumer lifestyles (Duesenberry 1949; Hirsch 1995).[4] The idea that Veblenesque status competition underpins consumer theory in relation to the construction of an economic lifestyle is simply the idea that consumers build lifestyles in order to maximize some

[4] For economic studies of effects of relative consumption levels see (Clark and Oswald 1994, Neumark and Postlewaite 1995).

preference function that includes biological fitness. This is a normal assumption in evolutionary psychology and increasingly in economic theory. Bernheim (1994) also argues that behavioural conditioning may foster the development of preferences for esteem. If esteemed individuals receive better treatment, then esteem-enhancing activities will be reinforced.

Finally, it is important to understand that in this competition for status- one of the fundamental reasons as to why fashion is produced- there are generally two types of agents: trendsetters and imitators. Unlike Veblen, I do not assume that the distinction between the two groups is simply one of class. Given the plural and overlapping nature of hierarchies in contemporary society, such a clear-cut definition is simply not possible. Instead, it is better to make this distinction on the basis of the agent's attributes. The characteristics that distinguish a fashion trendsetter are the same as those that distinguish a business entrepreneur. Schumpeter saw entrepreneurs as having a set of supernormal qualities of intellect and will, beings that show the highest degree of initiative (Heilbroner 1997: 301). While it is accepted that more respectable agents are imitated by those lower in the social hierarchy (the bandwagon effect), one should not rule out the attempt by agents belonging to lower classes to set their own trend, or simply choose not to follow the social trend. A clear example of this is the history of American 'rap' music which arose in African-American minority population as an alternative to popular music trends of the time.

Thus, it is better to think of a society's population as being composed of a continuum of agents ranging from those who don't care about social status to those who completely follow social trends. Obviously, not strongly following social preference allows the agent to have more experimental 'room', as they are less concerned with the social consequences of a making a fashion mistake. However, what makes a trendsetter is not only influenced by how fashion-conscious an agent is, but also by how creative or daring they are, which influences their ability to create and set a trend. I argue those agents who are more creative are those who demand a greater degree of novelty in their lifestyle.

3.4 Consumer Demand for Novelty

In formulating a new theory of fashion, I rest the crux of the argument in the second major proposition which is the notion that consumer demand a degree of novelty in their lifestyle. Novelty is defined epistemically as anything that is unknown to the consumer, in Bianchi words, a mismatch of the consumer's present and past experience (Bianchi 1998b: 1). I argue that consumers demand novelty for the simple reason that it acts as an attractor of attention: Of one's own and of others. Firstly, as *per* Scitovsky, agents demand novelty as they seek some amount of arousal in their lifestyle, or in other words, agents do not enjoy boredom. Secondly, in terms of status competition consumers demand novelty in fashion goods as they enhance the signalling value of the good. Since novelty acts as an attractor of attention, fashion goods that possess the characteristic of novelty have a relatively higher chance of attracting the attention of other agents. Hence, its value as a signalling mechanism is relatively higher to non-novel goods. By understanding why consumers demand novelty, one can proceed to study how lifestyles on the individual level and fashion trends on the social level evolve in a continuous quest for novelty.

Central to Scitovsky's theory of consumption is the idea that human beings, like other animals, seek an amount of arousal. The specific amount of arousal demanded "depends on the stimulation the central nervous system receives from the outside, through senses… internal organs… and from within the brain itself," (Scitovsky 1976: 18). Too high a level of arousal gives rise to strain and discomfort, and induces actions on the part of the subject to try and reduce arousal levels. Conversely, too low a level of arousal leads to boredom and induces actions at raising arousal levels.[5] Consumption activity is one avenue for the attainment of changes in arousal levels. Many durable consumer goods are chosen not only because of their functionality but also because they have fashionable or aesthetic appeal. This indicates that their consumption can alleviate boredom and promote pleasure.

[5] A similar mechanism has been acknowledged by a variety of authors. Amongst them Durkheim (1933: 235) and Gombrich (1979: 9)

In this way, the pursuit of novelty can be seen as a method of avoiding boredom. What is fascinating about this proposal is that the alleviation of boredom through the pursuit of novel consumption activities is a process that can never lead to satiation, since "novelty, like food, is used up in the act of its enjoyment" (Scitovsky 1976: 58). While the choice of a novel consumption activity gives rise to high levels of arousal at first, the degree of arousal declines with every repetition of the activity. Central to the rate at which the novelty dissipates is the complexity of the activity or good. In complex goods, the consumer finds stimulus in the discovery of new aspects of the activity. Since the enjoyment of a complex activity is itself an accomplishment, the process of satisfying a desire for novelty can itself be pleasurable. Scitovsky gives the example of a crossword puzzle. Pleasure is a result of both the act of doing a crossword puzzle and finishing it (Scitovsky 1976:76-8).

On another level, this rationale can be used to argue that consumers enjoy utilizing strategy in their lifestyle, if ones understands the problem of making the right consumption decision as a puzzle that the consumer faces throughout their lifetime (And one in which the solutions are constantly changing with the consumers tastes). Similarly, Bianchi extends the argument that consumers demand novelty one step further by postulating that consumers cannot be assumed to simply use new goods as means for the production of existing commodities, as in Scitovsky's case (where the commodity is arousal). Instead, she argues consumers use novelty to also produce new goods in the form of new-discovered properties and links with other goods (Bianchi 2002: 2). In other words, novelty activates a process of discovery of new uses and interconnections with other goods. In this sense, the search for novelty can directly lead to the demand for evolution in lifestyles. Of course, how these lifestyles evolve is strongly influenced by how social influences evolve, and vice-versa.

Another reason as to why consumers may demand novelty comes from the previous discussion of fashion-related consumption as a form of status competition. A logical outcome from applying Scitovsky's basic concept of 'novelty as an attractor of attention' to status competition is that the characteristic of novelty enhances the signalling power of

fashion goods. If the purpose of a fashion good is designed to convey information regarding the owner's status to other agents, and novelty is a characteristic that arouses the curiosity of agents, then logically novelty assists in the fashion goods purpose of conveying a signal. The more agents pay attention to a good, the greater the likelihood they receive some signal regarding the user's social status.[6] Thus, if the goal of consumer is to seek status by the means of signalling through the consumption of certain goods, then having novelty as characteristic in these goods helps the consumer achieve this purpose. For instance, bringing a new type of lolly to the playground will improve a child's reputation amongst his or her peers.

3.5 The Changing Cost of Fashion Mistakes

The main implications of Earl's thesis are its consequences for the theory of demand elasticities. Earl argues that connected structures of complementarity exist, and indeed are the productive mechanisms that produce utility (Earl 1986: 79). These connections between durable goods are specific structures of complementarity, and into which new goods may or may not fit. Sometimes we buy consumer goods that just don't fit into our lifestyles, things that just don't connect. These are experimental consumer mistakes, that can occur in purchasing any good that is durable to some degree. Mistakes are understood to be errors in judgement that leads to a disappointment in an agent's expectations. Technically, any choice that has lead to an outcome where actual utility is less than the expected utility is known as a mistake. The prospect of making disappointing mistakes logically influences the structure of consumer lifestyles. Like firms undertaking business investments, consumers also face uncertainty when producing these goods. Every decision, no matter how experienced the consumer is, involves a degree of uncertainty and the prospect of failure.

Historically, orthodox economic literature has not given much thought to the idea that consumers can make mistakes. Quite simply, consumers are assumed not to make mistakes in that every decision they make, regardless of circumstance, is assumed to be optimal. In contrast, from the evolutionary approach, mistakes are a natural part of

[6] For a related study see Carr and Landa (1983)

experimentation in the face of uncertainty. Without uncertainty there would be no need for experimentation, and there would not exist such thing as novelty. Novelty is the flipside of uncertainty. Of course, the degree to which consumers experiment depends on their attributes- their level of risk adversity, their desire to experiment, their attraction to the novel, and so on.

Yet, regardless of whatever preference for experimentation a consumer does or does not have, they still face uncertainty because of the actions of others. For example if a completely uncreative agent wants to maintain an amount of status amongst peers, they must take risks because of the turbulent nature of fashion. Thus, novelty intrinsicly breeds mistakes, which is a natural part of the process by which knowledge grows (Popper 1985, Eliasson 1991, Loasby 1999). Schumpeter and Hayek argued that this is also true of macroeconomic systems and I argue that it is also true of consumer lifestyles. From the two hypothesized reasons as to why consumers demand novelty, two different types of fashion-related mistakes can be postulated. An integral feature of both types of mistakes is that actual utility can only be assessed *ex-post* after the time of purchase.

In the case of demanding novelty for the sake of avoiding boredom, a fashion mistake occurs when the adopted rule does not live up to a consumer's expectation in occupying his or her attention. The rule may be too simple or difficult to use for a consumer to bother adopting it. The level of complexity cannot be fully measured as the time of purchase, since it is only in the using the good that a consumer may comprehend its level of complexity. If a consumer did fully comprehend the full level of complexity of a good before using it, then logically that good would not occupy his or her attention for any considerable amount of time, thus defeating the initial purpose purchasing the good.

In the case of demanding novelty to attract the attention of others, consumer mistakes can easily occur in the market for social status. Quite simply, whether the impression the signal makes on its recipients lives up to the sender's expectations is a complicated

matter.[7] Not only is the utility that the status-signalling good delivers dependent on the consumer's personal judgement, but also the judgement of other agents.

Take the example of a fashionable hat. At the time of purchase, not only does one have to judge how well the hat serves its non-fashion purpose of keeping the head warm or providing some protection from sunlight, but one must also judge how it will look to other people. The final utility the hat delivers to its owner will not only depend on what other people think of the hat, but also on what the owner thinks the other people think of the hat. Say other people react to the hat with laughter. Pessimistically, the consumer could interpret this act as a representation of the silliness of the hat, or, optimistically, he or she could interpret the laughing as an representation of the pure joy people feel when they see a beautiful hat. Hence, there is obvious room for consumers to make a judgemental error. For all the consumer knows, people could be laughing for an entirely different matter. For instance, if the consumer fails to wear any pants while wearing the hat.

This logic explains why some people purchase overpriced fashion goods, although they may personally admit that the price was too expensive for their liking. While the consumer does not value the good at the sale price, society does (at least is perceived to do so by the consumer). And since the consumer is purchasing the good not only for their own utility but also as a means of impressing others, they are willing to pay more for the good than what they personally think it is worth. This logic explains Leibenstein's 'Veblen effect' where consumers increase their demand for a good simply because its price rises (Bagwell and Bernheim 1996: 349). In this instance, an increase in the price of the good signifies a higher value which society places upon the good, leading to an increase in its demand by status-hungry consumers.

The significance of consumer mistakes comes into play in explaining the changing degree to which the individual consumer tends to adhere to social preferences. I argue that the

[7] The study of signs has become a legitimate scientific field, with extensive empirical contributions, as in the work of Bourdieu (1979), and sophisticated theoretical treatment, as in the work of Eco (1968), Sebeok (1979) and MacCannell and MacCannell (1982), to name a few.

dynamic link between the evolution of consumer lifestyles and social fashion trends can be understood in terms of the economic notion of opportunity cost. The opportunity cost is defined as the highest valued alternative foregone in the pursuit of an activity. While to what extent agents act with reference to social preferences and fashion trends is naturally determined by their innate tendencies (their taste for creativity, status, risk etc) I contend this is also influenced by the opportunity costs of adhering to these 'instincts', which change as the influence of passing fashion trends change. For example, at a time where a fashion trend is extremely prevalent in society, the opportunity cost of following one's creative instincts and experimenting with new trends is socially very costly. Alternatively, at a time when no particular fashion trends predominate, the opportunity cost of the same sort of experimentation is much lower.

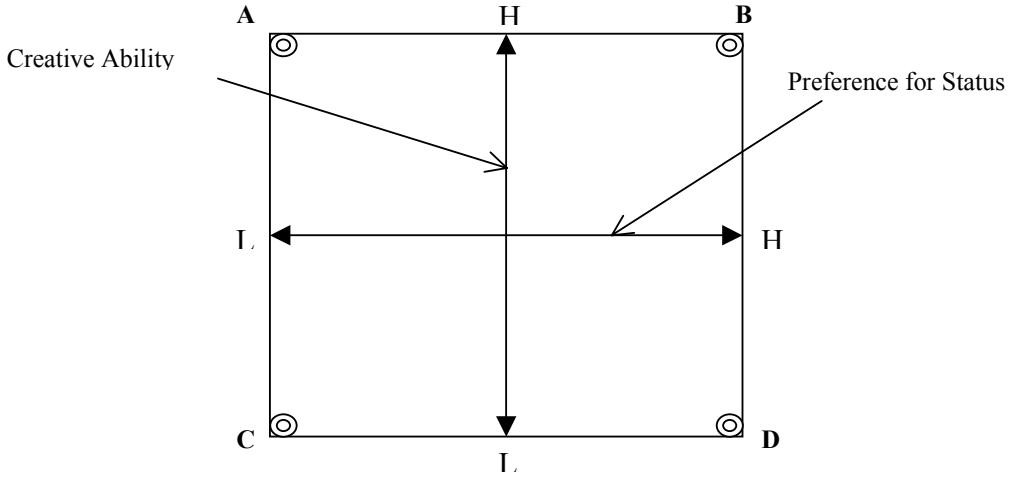
Significantly, in terms of mistakes, the cost of making fashion mistakes changes relative to the degree to which society's attention is occupied with a certain fashion. This occurs because the creative consumer adopts fashion for the purposes of both innate attention occupation as well as status competition. Attempting to create new forms of novelty when another form of novelty is already present in the social system, in the way of a prevalent fashion, is obviously risky. A few years ago, executing tricky acrobatic feats with 'rollerblades' was a popular form of adolescent entertainment. During this phase, the status cost of being creative and executing tricky acrobatic feats with something else, say a 'pogo' stick, was obviously high. Why engage in inventing new forms of entertainment, when existing forms are both socially accepted and are relatively novel to the extent that they arouse the agent;s personal curiosity?

To be precise, the negative payoff derived from fashion mistakes are magnified in the presence of an ascendant fashion trend, and so the consumer's status considerations have a tendency overshadow their creative nature. In effect, consumers will be less willing to deviate from the social norm. On the other hand, in the absence of a prevalent fashion trend, the consumer's status considerations will be relatively less imposing on the consumer's creative talent. The payoff from deviating from the social norm is relatively

smaller, and so there will be a relatively greater tendency for consumers to act upon their creative tendencies.

Thus, a explicit mechanism has been stipulated to reconcile the much observed and seemingly contradictory desire for people to both conform to and deviate from social tastes. This has been a contradiction many authors such as Adam Smith, Alfred Marshall, and Thornstein Veblen have given attention to (See Cowan et. al. 1997: 715). Obviously, such a link would not hold where there agents who simply don't care to any degree about social preferences, or don't possess an ounce of creativity. Ultimately, I argue that the attributes of the vast majority of agents are not situated at such extremes, instead they have a attribute mixture of creativity and social adherence that is mediated by changing opportunity cost. Graphically, this attribute mix can be displayed on a two-dimensional space:

Figure 3.1: The Attributes Space.



In this diagram, the horizontal axis access marks a consumer's preference for status. That is, how much utility he or she derived from a higher ranking in the social hierarchy. As consumer's tendencies move towards 'H' (for High) they become extremely sensitive to social considerations in making fashion decisions. Accordingly, as they move to 'L' (for Low) they decreasingly take into account social preferences in their fashion decisions.

The vertical axis maps the consumers creative ability. As the consumer's attributes tend toward 'H' he or she has a relatively high ability for being creative which translates into a higher demand for novelty in their lifestyle to avoid boredom. If the consumer's tends towards 'L', he or she has a lower creative ability meaning he or she has relatively little innate desire for novelty. Onto this space one can then map the different types of consumers distinguished by their varying combinations of attributes. At point 'A' in the first quadrant are those agents who are highly creative, and care little for what society thinks of them. At 'B', agents are very creative but are also very much concerned with social tastes. This seemingly stressful combination characterizes Morris Holbrooke's idea of fashion leaders, which he outlined in the chapter 'I am Hip' in 'Consumer Research' (1995). According to him, there are four simple steps to being 'hip':

1. Find out what most people like
2. Treat that with complete indifference
3. Ferret out some obscure treasure admired by at most, a few cognoscenti (or if necessary, by some other group of weirdos).
4. Elevate that piece of obscurity to a lofty status of extravagant admiration and treat anyone who cannot appreciate it with pity (sometimes mixed with disdain)

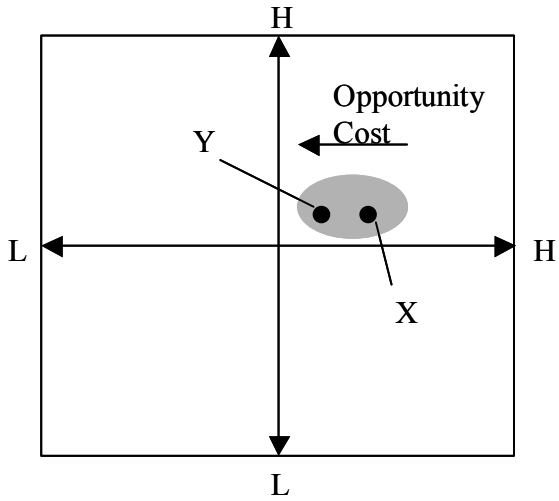
(Holbrooke 1995: 324)

These steps embody a mixture of highly creative tendencies that are strongly orientated by social preferences, which result in a distinct version of status in being exactly what others are not. These distinct species of extremists are unaffected by the fluctuating levels of opportunity cost of making fashion mistakes that has been previously discussed[8]. Those agents who are completely uncreative but strongly concerned with status are situated at point 'D'. These types of agents may still demand novelty in their fashion, as discussed earlier, since such characteristic enhances the signalling potential of such goods. Finally, those consumers situated at point 'C' are neither concerned with social status, nor are they creative. At this point there is no reason for to demand novelty.

[8] However, it should be noted that Holbrooke's rules do not consider what a 'hip' person should do if they themselves are bored with a fashion rule, or actually find the popular trend innately appealing.

Yet, a better way of understanding the dynamic nature of consumer preferences is attained when one imagines consumers to occupy not a point but a space on the attributes field. I argue that consumers have the ability to adopt a distinct mix of attribute considerations from a range of possible attribute considerations. In other words, at any one point in time, a consumer can choose to be more inclined to listen to their innate preferences, while at the next they can choose to be more influenced by social preferences. As mentioned previously, a mechanism which influences exactly where the consumer is located in this space is the opportunity cost of deviating from the social norm, as determined by the presence or absence of a fashion trend. In the consumer attributes space, opportunity cost encourages the movement of the consumer's attributes mix along the horizontal axis, thereby changing how much the consumer takes into account social preferences in making decisisons. If there is a predominant fashion trend, then opportunity cost for being creative is high, and consumers would be more likely to choose an attributes mix that would conform more to social tastes. On the other hand, if a fashion trend was fading, then the lowering opportunity cost of being creative would see consumers being more likely to choose a attributes mix which would allow a greater deviation from social norms. In figure 3.2, this effect changes the consumer's attributes mix from point X to point Y:

Figure 3.2: The Impact of Changing Opportunity Cost on a Consumer's Attributes Mix



3.6 The coevolution of Liquid Lifestyles and Fashion Trends

Thus, I have argue that while lifestyle directions are shaped by the consumer's innate attributes, the state of fashion can also influence lifestyle priorities by changing the opportunity cost of the agent's actions. This is an important point when considering the semi-liquid nature of a lifestyle. If making mistakes is part of life, and the cost of making mistakes change with the changing state of fashion, then one would expects a certain correlation between the population of mistakes that exist amongst consumers and the waxing and waning of fashion trends. Importantly, at certain times when a fashion trend is weak, agents are encourage to liquidate their lifestyles in that the cost of abandoning previous norms and experimenting with new rules is relatively low. In other words, changes in fashions encourage changes in consumer lifestyles. An implication of this, as will be properly outlined in chapter six, is that with the liquidation of the rules that constitute the fashion-orientated part of the consumer lifestyle comes the liquidation of the consumer's mistakes related to those rules. Fashion cycles effectively cleanse the consumer of past fashion mistakes.

In conclusion, this chapter proposed a basic behavioural framework in which one may investigate the coevolution of consumer lifestyles and fashion trends. Through the market of social status there exists a social institution of status competition where consumer preferences can both influence and are influenced by social preferences. The directional flow of this process depends upon, amongst other things, the personal attributes of the consumer and the state of fashion in society. Within this coevolutionary process, the significance of consumer mistakes comes into play through the concept of opportunity cost. It is argued that apart from the semi-stable personal attributes of the consumer, consumers also take into account the social opportunity cost associated with being creative and making fashion mistakes in making lifestyle decisions. The next step is to investigate the processes by which individual actions of heterogeneous agents interact through both self-organized and institutional process to produce the coordinated and complex procedure that is a fashion trend.

Chapter 4:

Fashion Trends

"A fashion is nothing but an induced epidemic." - *George Bernard Shaw*

4.1 Introduction

As Freeman notes, the evolutionary preoccupation with institutional change comes from the need to explain how relatively ordered processes of technical change can emerge from the diversity and uncertainty associated with invention and innovation (Freeman 1994: 460). Similarly, a theory fashion seeks to explain how relatively ordered social processes such as fashion trends can emerge from the diversity and uncertainty that is associated with fashion-orientated behaviour. Such a theory explains how positive feedback forces operate on fashion rules to produce a epidemic of rule adoptions. The main postulate of the evolutionary theory of technical progress is that new knowledge drives supply side evolution. I conjecture that the idea can be reciprocated on the consumer-side: New consumer knowledge drives demand side evolution. In this way, a fashion can trend can be understood as the introduction and subsequent diffusion of a new fashion rule into the complex system that is the economy. At the core of this evolutionary process lies the consumer's demand for novelty and social status.

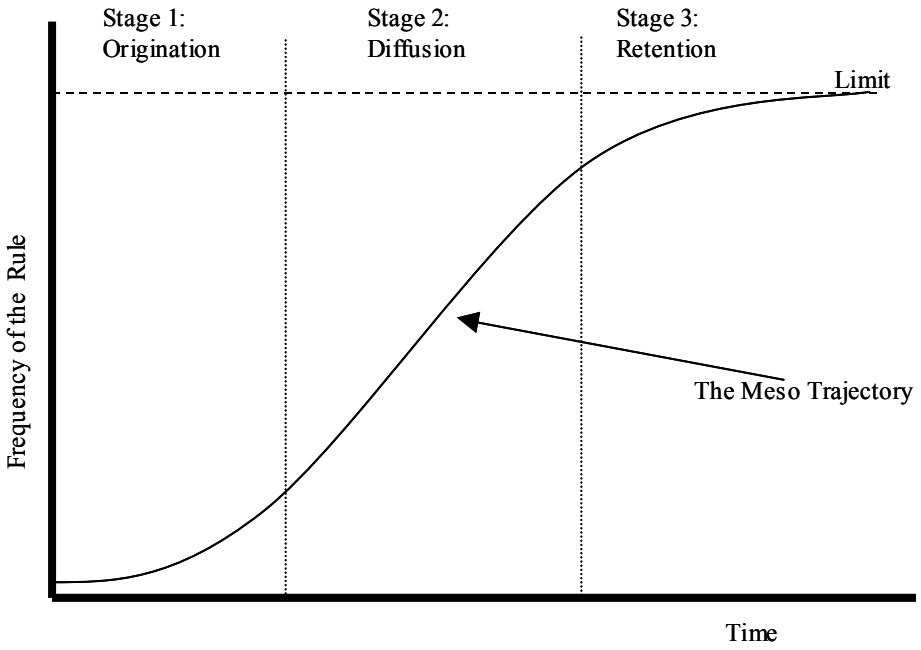
Such a process has both micro and macro effects in that it both influences the lifestyles of individual consumers and changes the greater institutional order in society. To explain this process, I focus on the institutions that amplify, negate and coordinate the diffusion of novelty. Furthermore, I examine what kind of endogenous and exogenous constraints

inhibit the growth of a rules population of actualizations. To begin this investigation, a brief overview of the evolutionary methodology employed to technological innovation and its impact is undertaken, and it is argued the same sort of method can be applied to the consumer fashion diffusion. Accordingly, the micro-meso-macro method of Dopfer and Potts (2002) is used to describe the life cycle of a fashion and what factors influence and inhibit this process. This will lead into the next chapter which examines how the new rule become part of the network, the process normalization of the fashion rule and its subsequent implications for consumers.

4.2 A Methodology for the Study of Knowledge Growth and Diffusion

Before one can study the origination and diffusion of fashion-related knowledge, a proper methodology for such a study must first be stated. As argued by Dopfer and Potts (2002), precisely how new knowledge influences the structures of the economic system on both a micro and macro level can be understood through the unifying concept of a meso trajectory (see figure 4.1). The trajectory itself is simply a historically observed typology of how the adoption of a particular rule leads to an increase in its population of actualizations. Dopfer and Potts proceed to construct a theory to explain the nature in which these actualisation increase. They argue the trajectory is characterized as a three-phase evolutionary dynamic: 1) *Origination* is the stage where a new knowledge element is conceived; 2) *Diffusion* consists of subsequent adoptions leading to a process of learning and competitive rivalry and the emergence of support institutions. This is also the phase when market and industry structures begin to transform, resulting in a new micro organization and meso order; 3) *Retention*: Here the meso element becomes normalized, institutionalized and reproduced in macro structures. This chapter will focus on the first two stages of the meso trajectory, precisely what processes, motives and institutions determine both the rule itself and the growth dynamic of its population. The third stage of normalization will be studied in the next chapter.

Figure 4.1: The Three Stages of the Meso Trajectory



Central to their theory is the idea that core evolutionary thinking is bimodal in that it involves both 'population thinking' about the nature of variety and selection, and 'connections thinking' about interactions between systems. As a result, a new study must be founded which concentrates on the dynamic nature of a rule of knowledge and its population, known as a 'meso' (Dopfer and Potts 2002). Such meso compose structures of knowledge that are carried by and generated between agents, and out of which the macroeconomic system is made. Doper and Potts argue that there exists a meso domain that is intermediate between micro and macro. Significantly, it is the meso domain that is central to dynamical analysis of trajectories. Traditionally, microeconomics is concerned with behaviour and decisions of the individual, while macroeconomics is concerned with the aggregate patterns these decision generates. But the process of translation is a complex one, where rules, strategies and incentives of the individual clash with embedded institutionalised motivations and rules of the past. This intermediate meso level is where the meso elements, do not simply aggregate, but interact and compete with each other meso, a process that determines their respective population of actualizations. Hence, economic evolution is defined as the change in the graph of meso elements.

Dopfer and Potts base their mesoeconomics on an ontology of three axioms; 2) Actualizations are matter-energy manifestations in space and time; 3) real phenomena evolve (Dopfer 2001: 8). The meso approach is based upon a hybrid of institutional and evolutionary ideas about what is actually evolving in the process of economic evolution (Veblen 1889, Nelson and Winter 1982). It is also draws its heritage with the Schumpeterian tradition of Dosi (1982) who defines a technological paradigm as an outlook that defines the relevant problems, akin to Kuhnian notion of a 'research programme' in epistemology. It is a set of methodological rules that essentially embody strong prescriptions on the directions of technical change. In a Lakatosian manner, it guides agents in deciding which areas of research to pursue (positive heuristic) and which to neglect (negative heuristic) (Lakatos 1978: 47).

Dosi argues its chief importance is derived as an exclusion effect: the efforts and the technological imagination of engineers (and their organizations) are focused in rather precise directions while they are 'blind' with respect to other technological possibilities (Dosi 1982: 153). Once a paradigm sets the direction of research, the actual progress derived from this direction is known as a technological trajectory, as first mentioned by Nelson and Winter. Just as normal science is the actualisation of a promise contained in a scientific paradigm, so technological progress is the actualisation of a certain technological paradigm. Hence, the trajectory can be represented by the movement of "multi-dimensional trade-offs among the technological variables which the paradigm defines as relevant," (Dosi 1982:154). An example would be the trade-off between energy consumption and horsepower in the case of the internal combustion engine. In other words, a technological trajectory is the pattern of 'normal' problem solving activity borne from the problems and direction set by a technological paradigm. Consequently, progress itself can be described in terms of these trajectories, as the cumulative improvements of these trade-offs.

Dosi's insights tell us that knowledge does not grow at random, rather it grows according to rules of guided variation with powerful constraints on the question that are asked of

any set of technological opportunities. While these notions have given scholars a better understanding about the direction of knowledge growth specific to technical change and innovation, there have been relatively few attempts to place the whole discussion of technological trajectories, patterns of innovation and the selection of the environment in "the wider context of the evolution of the economic system as a whole," (Freeman 1994: 487). Dopfer and Potts (2002) take up the challenge to build a more general theory of knowledge diffusion. It is effectively a concise way of understanding a process which gives rise to statistical change, the fundamental point behind populations thinking (Metcalfe 2001b: 150). The rest of this chapter will utilize this method to study the origination and diffusion of knowledge of fashion knowledge that motivates demand-side evolution.

4.3 Stage 1: Origination

Let us begin with phase one, the origination of the meso: The creation of a new element of knowledge, the introduction of a new rule into the system. In origination, one is dealing in the micro area of the agent and their actions, the classical Schumpetarian entrepreneur acting imaginatively in the face of uncertainty. On the micro level, the origination stage can be broken into four distinct steps, the creation, adoption, experimentation and finally the use of the rule by its originator. The completion of these steps leads to the next stage of selection, mass adoption and diffusion throughout the network.

In the context of fashion, it is important to remember that there is variety in both the rule and the actualizations of the rule. In relation to technical progress, Freeman comments "by definition innovation involves initially an increase in diversity-an extension of the range of products, processes and services. In early stages of diffusion, also this diversity will usually increase. At this stage design is fluid, there are no standards and there is great uncertainty about the future of the new products," (Freeman 1994: 484). The same logic applies to fashion innovation. Origination is concerned with selection in the variety in the rule, it is a problem of efficacy, working out which rule 'fits' into greater system (Dopfer and Potts 2002).

Origination occurs in any agent who is capable of it. This is where the traditional lines between demand side and supply side economics become inaccurate. A high school student is capable of creating of and experimenting new terms and phrases that will hopefully become 'the next big thing' in the school courtyard. On the other hand, highly paid fashion houses may have complete research teams and complex procedures dedicated to the creating novel fashion rules. This process is exogenously bounded by the agents limited capacity for carrying rules, and how fast and how well they can they can learn and adopt a rule. In terms of fashion rules as currency for social status, origination is bound by the previously discussed problems associate with signalling status through goods.[9]

Endogenous constraints to the origination of new rules include the complexity of the rule itself. The more complex the rule, the more time it takes more time to learn how to adopt and use it. Also, the existence of legal, ethical and cultural institutions can prevent the creation of certain types of cultural knowledge. In the previous high-school example, new forms of profanities would be hard to adopt in school environments where such language would be frowned upon. Such principles impose penalties that may prevent would-be creators from doing their work. Furthermore, on the individual level, there are clearly other factors and priorities within the agent's lifestyle that there can impose a multitude of constraints on the agent's creative aspirations. For example, in monetary terms, not everyone who has the idea to wear diamond-encrusted bikinis has the capability to do so. The variety in such constraints are endless and their existence as well as their influence are an outcome of the agent's personal, history goals and their character.

As noted in the previous chapter, the influence of existing meso can inhibit the creation of new meso. If the predominating colour of the season is beige, there is little possibility to wear a clashing colour. Hence the existence of powerful fashion trends can impose a large opportunity costs on potential originators. This suggests the timing of the meso

[9] This relates to Sah's point about how people are limited absorption of the information they see (Sah 1990).

origination, relative to other meso trajectories, is crucial in determining what impact the idea will have on the system. The timing of origination is also related to the history of the originator, and their lifestyle. There are times when an agents is relatively more willing to create and experiment with rules. If one assume agents prefer an amount of stability in their lifestyle, a period of much change in the agent's lifestyle can lead to a period where the agent is less willing to use their creative capabilities. Vice versa, a period of long stability in an agent's lifestyle will lead to an amount of boredom that makes an agent more likely to use their creative talents.

According to Dopfer and Potts (2002), a novel rule, in relation to the macro domain, disturbs the order in which previously existing rules relate to each other. It may destroy some, may augment others, the effects of which can be observed in how the population of actualizations of other meso change in response to the emergence and growth of the new meso. With respect to fashion, the destructive aspect of this process can be seen in the seasonal changes in clothing. A new range depreciates the value of its predecessors. In this way, a meso disrupts existing order and forces parts of the network and affected agents to reconfigure their respective structure and behaviour. In the case of holiday destinations, changing fashions can have real macroeconomic consequences for entire regions. A popular shift from beachside destinations to wine-growing regions could result in major economic consequences (income changes, business restructuring, labour force retraining) for both the newly popular and the newly unpopular regions. In such cases, fashion trajectories may change entire aspects of a network.

Also, disruptions may cause unforseen externalities. A simple example of a fashion externality is the restroom sign. These traditionally distinguish between males and females in that the female wears a dress and the male wear trousers (See figure 4.2). Over time, a series of meso trajectories, for whatever reason, have had the impact of enabling females to wear trousers. As a result, these meso made such conventional signs inaccurate in their portrayal of men's and women's dress- at least in the universal sense.

Figure 4.2: An Example of a Negative Fashion Externality

The Typical Restroom Sign:
An Unintended Victim of Changing Fashion

Thus, the exogenous and endogenous, as well as the individual and social constraints on the originations process have been outlined. The motivation behind origination lies in the fact that agents, some more than others, have a predisposition for being creative. At the end of the origination stage, the meso element is ready to be adopted by other agents and thus be diffused throughout the network.

4.4 Stage 2: Selection and Mass Adoption

Dopfer and Potts characterize the second stage as the one "where those that will adopt do adopt" (2002). The meso, via its population of actualizations, spreads throughout the network encouraging exploration, mutation and integration with the meso. While the first phase of origination was concerned with variety in the rule (what is the novel rule), the second stage of mass adoption is concerned with variety in the actualisation (how the rule will be utilized). This changeover occurs through a rule selection process that occurs on an institutional level, which leads to its standardisation that subsequently aids the process of adoption. I argue selection occurs through the functioning of a set of 'critical elements', a collection of agents, markets, and institutions that select, promote and standardize the novel for mass adoption. After selection, standardisation occurs on two separate levels: 1) The standardisation of the novel meso element and; 2) The standardisation the non-novel characteristic of the commodities in which the novel rule is actualised. The process of standardisation aids the adoption of the meso by reducing

consumers learning costs, leading to reduced uncertainty regarding the rule and a greater number of adoptions. As a result, the actualizations of the rule increase and vary. Through repeated use, agents gain consumption capital in learning how to use the rule (Loasby 1998: 100) and subsequently the use of the rule becomes efficient and normalized.[10]

In investigating this dynamic, the factors that can influence the scope and rate of adoption will be identified and discussed. Why do institutions have to select a fashion rule? Selection comes from the need of agents who are risk-adverse to gain some certainty regarding the performance or popularity of competing fashion trends. There are a number of possible ways through which this can occur. Agents can simply use the market as a selection mechanism in that they will only purchase a good if a critical number of other agents has purchased the same good. Hence, this type of behaviour will result in a degree of positive feedback where commodities that have had a good sales record will be reinforced. It is simple to model fashion trends in environment where there is a continuum of agents each with a different 'critical threshold' for fashion goods (Granovetter and Soong 1986).

Another selection mechanism would entail agents looking towards 'experts'. If these critical types of agents select a fashion trend, so will those agents who follow their styles (Potts 2000: 174). Fashion experts are agents such as fashion designers, movie stars, supermodels and celebrities who perceivably have specialized knowledge in what makes 'good fashion'. This is conjusive with Loasby's discussion of Sitgler and Beckers (1977) notion of 'consumption capital' (Loasby 1998: 99), where he argues that if consumers foresee the possibility of increasing the productivity of their consumption, then they may invest in learning by consuming, seeking consumption experiences which do not maximized present utility but which promise compensation yield in future utility. If this occurs, it only makes sense that sense look to more-experienced consumers, who have already made relatively larger investments in consumption (Conlisk 1980, Banerjee 1989, Bikhchandani et. al. 1992). This rationale also explains the phenomena of fashion labels,

[10] This point will be further discussed in the next chapter.

designed to explicitly signal that the commodities which have the label are designed by such experts (Earl and Potts 2002).

However, 'critical elements' also refer to information institutions such as fashion magazines, television programs and fashion markets play a obviously large role in signalling to consumers which meso is finding resonance amongst their peers, or amongst group of agents which the consumer aspires to. Thus, there are a number or institutions as well as individual agents that form parts of the critical network, through which meso are selected and promoted for mass adoption. A fashion trend will occur if a sufficient number of 'critical elements' adopt and promote the meso. These elements are essentially the institutions that create the relatively ordered processes of fashion trends that emerge from the diversity and uncertainty associated with fashion-related invention and innovation. A further avenue of investigation lies in examining how these critical elements themselves select a fashion meso. Here, chance may play a critical role. This a issue Brian Arthur has undertaken with reference to analysing competition between increasing-return technologies. He examines how 'random events' occurring during the adoption process could strongly influence the market-share (Arthur 1989, Arthur 1994, David 1985).

4.5 Standardisation

Once a meso has been selected a process of standardised is initiated. Standardisation represents the first step in the greater process of normalization which embeds the trajectory into the system. As Freeman notes, "Some degree of national and international 'lock-in' by standardisation is unavoidable for a whole variety reasons such as the need for 'connectivity' in systemic innovations, especially acceptance and learning, and scale economies," (Freeman 1994: 485). Standardisation transforms the meso into a formula of characteristics that can be quickly adapted, and are easily recognized. In this way, it is a process that effectively aims to minimize the transfer and learning costs of adaptation. In other words, the process of standardisation involves improving the marketability of a fashion rule.

Bianchi notes how fashion styles can ‘migrate from one set of goods to another, loosing themselves from their initial concrete forms and uses… styles repeat the same pattern or order of characteristics across goods,” (Bianchi 2002: 10). The effect is that a good is made more recognizable because its specific configuration is shared by numbers of other goods. Bianchi’s example is the introduction of sewing machines. To make the more familiar and less alien, they were given ornamental carvings and decorations (Bianchi 2002: 10). In this way, new inventions have drawn on past styles in order to gain the consumer’s acceptance.

In the case of a novel characteristic that is increasingly popular, a reverse flow would entail this style being adopted into various other commodities, to build a connection with the popular novelty. Through this process, variations in the rule’s actualisation are realized. Producers adopt those styles which are popular, and reproduce them in a range of goods. A good example of this is found in the history of ‘Denim’ material. This type of sturdy, rough textile was originally used in clothing only related to manual labour, but since its conception has been popularly adopted and adapted into many forms of casual wear. In terms of the agent’s lifestyle, one can imagine that an agent, having successfully adopted and been satisfied with the performance of one particular rule, looks to reciprocate its success in other aspects of their lifestyle. For example, the successful adoption of a distinctly fashioned sofa may lead to the consumer to purchase a entire lounge-suite designed in the same fashion. In this was one can envisage the coevolution of commodities through fashion trends.

There is also the second dimension to the process standardisation in the non-novel characteristics of the good. Bianchi’s insights highlighted that non-novel characteristics flow into novel commodities. The purpose of this is to reduce the level of novelty to an acceptable amount and build some affinity between the novel good and past meso. By making these references to already-popular rules, the aim is to give the customer some reassurance about the commodities’ social worth. Expanding on this observation, one can identify a whole range of standardisations designed to give consumers assurance concerning not only the social, but also the technical, durable and performance

characteristics of a novel good (Farrell and Saloner 1985). This process enables consumers to choose between competing products with the knowledge that if these goods adhere to a certain standard, a certain level of expected utility is guaranteed regardless of which good the consumer choses. The standardisation of women's clothing sizes, shoe sizes, and computer chip's performance are examples of this process.

In the example of standardised clothing sizes, given the consumer has some previous knowledge to what size is optimal for him or her, a consumer can choose from a variety of products with the sound assurance that these garments adhere to certain measurements which guarantee that the clothing is a good fit. With reference to experimental consumer mistakes, the standardisation of non-novel characteristics acts to minimize the impact of fashion mistakes. In the common situation where products serve not only as a fashionable signalling mechanism but also some other function, the imposition of standards can guarantee a level performance in the non-fashion uses of the product. It may be inhibiting for consumers to buy novel products such as abnormal-looking stereos, but if they know that these novel products adhere to a certain standard, then they know the sole risk they are bearing in purchasing the good is one in terms of social status.

A related phenomenon is the process of fashion decomposition as seen in the invention of the switchable mobile phone cover. Regardless of what style or colour of phone cover the consumer purchases, they are assured it fits to their mobile phone. Here the producer has decomposed the mobile phone into its fashionable and non-fashionable component to accommodate for the consumer's changing tastes. Instead of having to buy a new mobile phone to change the fashion of the good, he or she only has to buy a new mobile phone cover. In this way the decomposition of products enables the consumer to accommodate to fashion changes in a less costlier manner.

4.6 Conclusion

The mass adoption of a fashion rule, the so-called bandwagon effect, comes as a result of heterogenous varying degree of risk demanding novelty in their lifestyles. If, for a particular consumer, there is too much uncertainty regarding which rule to adopt, it is

logical for them to make use of other people's experience, and other people's patterns of behaviour in order to improve their own abilities to cope with uncertainty and complexity. As Loasby argues,"(s)ometimes the adoption of other people's conventions becomes a problem solving routine: the rule is to follow the fashion," (Loasby 2001: 13). How agents can gain information about other agent's experiences can happen in a number of ways. They can use the good's market performance as a measure of its popularity, they can look to fashion experts for guidance or they can use institutionalised sources of information such as fashion magazines.

In conclusion, this chapter has sought to describe the process by which a fashion trend is created and diffused through the economy using the micro-meso-macro methodology. Naturally, these characterizations are dependent on the exact particulars of a system. There are a number of individual and social, exogenous and endogenous constraints that can inhibit and influence the scope and rate of the fashion trajectories dispersion. Selection mechanisms aid the diffusion of the meso through minimizing the costs of fashion mistakes and reducing the costs of building consumption capital. Effectively, the period of mass adoption represents a period of stability in which scale economies in relation to the novel rule can be achieved, a phenomena that has been widely observed with the introduction of new technology (Freeman 1994: 483). In the next chapter, I will discuss how, as a result of these processes, consumers become more experienced and efficient at using the fashion rule, and the meso becomes a normalized part of the system.

Chapter 5:

The Dissipation of Novelty and Lifestyle Recessions

"Beauty is all very well at first sight; but whoever looks at it when it has been in the house three days?"
-*George Bernard Shaw.*

"The more deeply we study the nature of time, the better we understand that duration means invention, creation of forms, continuous elaboration of the absolutely new."- *Henri Bergson.*

5.1 Introduction

Generally speaking, why is there no such thing as an eternal fashion trend? The answer lies in the fact that novelty, the great attractor of attention, is fleeting. In this chapter attention shall be drawn to how the normalization of the meso leads to the dissipation of novelty. Consumers, through the continuous use of a rule, learn and become efficient in its use. As a result they form habits and dedicate decreasingly less attention to its use. In this way, consumers no longer find the rule novel, as it no longer attracts their attention. In turn, this process lays the groundwork for the next wave of novelty to originate and diffuse. Novelty dissipation leads to a periodic decline in the utility gained from fashion goods, a sort of lifestyle recession, causing an increasing number of fashion mistakes. While recessions are generally unwelcome in economics, there have been those 'liquidationists' who argue that recessions were not only necessary but beneficial to economic growth. I argue that a similar argument holds for lifestyle recessions in that they have a 'cleansing effect' on lifestyles. Recessions cause a depreciation in the factors of production that consumers use to make fashion investments. As a result, consumer have a greater incentive to deviate from degrading social norms. At any one time, it is the

level of novelty creation or dissipation that determines the state of fashion and fashion-orientated consumer behaviour. Thus, fashion cycles emerge as result of the consumer's insatiable search for dissipating novelty and their need to compete for social status.

5.2 The Dissipative Nature of Novelty

This section seeks to describe why and how the dissipation of novelty limits the growth of the meso trajectory. In the previous chapter a meso is defined as a rule and its population of actualizations. The dissipation of novelty is a process in which the continuous reuse of a novel rule eventually renders it familiar and hence 'un-novel'. As a result of this dissipation, the rule becomes increasingly worse at fulfilling its original purpose, leading to an accumulation in mistakes as the consumers keep using the rule. In Appendix A, a Non-Equilibrium Thermodynamic approach is used to explain how the dissipation process occurs. However, such a method of explanation is not essential for the purposes of this study, and here a less questionable explanation will suffice.

In chapter three, the reasons as to why consumers would demand novel fashion rules were discussed. Novelty acts as an attractor of attention: Of one's own and of others. With regard to the consumer's own attention, it has been conjectured that people actively seek to experiment and create or adopt new knowledge to avoid boredom. Secondly, with regard to the attention of others, status-conscious consumers demand novel characteristics in good because it aids its signalling power.

In both types of cases, the consumer's repeated use of the rule leads to its normalization. Addressing how the meso dissipates is the same as addressing how a fashion good becomes 'out of fashion'. As more is learnt about the rule's nature and performance, uncertainty surrounding its use recedes, and hence consumers become more familiar with the once-novel rule. According to the idea of habituation, as people are repeatedly exposed to a initially unfamiliar stimulus, the level of attention dedicated towards it diminishes as agents learn more about its nature. This occurs because of the limited amount of cognitive reasoning power agents have (Loasby 1998: 93). In the words of Pribarm:

> "If we repeatedly are in the same situation, in a relatively invariant environment, two things happen. One is that if we have consistently to perform a similar task in that environment, the task becomes fairly automatic. i.e. we become efficient. We say the organism… has learned to perform the task; he has formed habits regarding it. But at the same time the habituates..; he no longer notices the events that endure, which are constant," (Pribarm 1969: 195 as cited in Nooteboom 1997: 67).

In others, people form habits and routines concerning rules and events whose nature have become certain and known to them. In contrast to Pribarm, Magoun's formulation of habituation emphasizes the supervisory role of orientation:

> With recurring presentation of the same signals, which initially provoked orientation, arousal and related changes become progressively reduced in intensity and duration, until they fail to occur at all and a stage of habituation ensues. This not attributable to fatigue or other generalized impairment… for, during habituation, whenever signals regain a novelty, by some change in parameter, full-blown orientation is again evoked" (Magoun 1969: 170 as cited in Nooteboom 1997: 65)

Thus, failure of this act of habituation to deal with future stimuli may trigger adjustments to the path. Parts of the response path that go together with success may be reinforced, and parts that are not are weakened. In this way paths are 'etched in', and irrelevant appendages and connections are deleted. Hence, habituation takes place by a narrowing of the scope for response of nodes in the schema, and the inhibition of the triggering of higher level schemata that constitute attention to the lower level schema (Nooteboom 1997: 72). As the novel rule eventually becomes routine it no longer occupies the user's attention, which can then be saved and focused elsewhere.[11]

As consumers become more familiar with the rule, they will logically become better at using it. Loasby argues that through repeated actualizations consumers gain 'consumption capital', a improvement in their capability to use the rule in future situations (Loasby 1998: 99). Through this rationale, one can the begin to understand how competition emerges, leading to efficiency in the use of the rule. As Foster comments, there is a need for a "story as how variety emerges from novelty and becomes

[11] There is some literature which argues the reverse is true: Increased exposure leads to a strengthening of the stimulus-response relation between product and preference, the so-called *exposure effect* (se Foxall 1990). However these observations usually only hold for initial increases in exposure.

'fixed' in something on which competition can act,"(Foster 2001: 123). In the context of fashion, this something is quite simply the market for social status. Given agents are in a state of competition with each other for social status, they will be motivated to outperform each other in using popular fashion rules as signalling mechanism. Through this process, consumers will become efficient in using the rule. For example, in the instance of a fashionable shade of eye-shadow, agents learn through its frequent use which other make-up products perform well in combination with it to deliver the right 'look'. Also, in using the rule in different social situations, agents gain a better understanding of both what sort of signal the rule sends to different audiences, as well as the potency of the signal. A certain fashion rule may send different signals to different audiences, such as wearing a clown costume to a fancy dress party would send a different social signals in contrast to wearing the same suite to a funeral. Paradoxically, while such experimentation processes can be virtually endless, the novelty of the rule wears off, which is the very reason why consumers adopted it in the first place. Logically, this explanation also disables those consumer who demand novelty for the innate taste for novelty from infinitely continuing to use the rule.

Through this notion of learning as consuming, one can understand the processes of standardisation, mentioned earlier, as an example of institutions that serve to classify phenomena, simplify complexity, dissolve uncertainty and constrain choices (Loasby 2001: 12). Processes of standardisation reduce the uncertainty associated with adopting a novel rule, hence reducing the chance of the consumer making a experimental mistake. These are institutions which create a stable ambience in which consumer can develop capabilities. As Loasby argued "the stable environment may be construed, at least in part, as a set of institutions- a set of reliable regularities against which perceptions, actions and outcomes may be calibrated," (Loasby 1998: 101).

The rate at which novelty dissipates is linked to the complexity of the rule (Scitovsky 1976: 35). The more complex a rule, the longer it takes to learn about it, the longer it occupies the user's attention, and so the slower the rate of novelty dissipation. Scitovsky mentions serious music as having this quality of high complexity and subsequent high

information content (Scitovsky 1976: 58). Thus, uncertainty and novelty inevitably fade as consumers become better at using the fashion rule through its continuos use. Obviously, The critical threshold that determines when the novelty in the rule becomes *passe* is of course conditional on the agent's cognitive ability, their perceptions and may be influenced by the critical elements within the network (see discussed in chapter 4).

5.3 Habituation on a Social Level

Nooteboom originally raised the point of habituation in his argument that organizations "as in brains, there are phenomena of habituations, where a schema can become routine, where responses to stimuli that reach the schema escape higher level attention (consciousness), to the extent that stimuli conform to an established pattern," (Nooteboom 1997: 65). He saw the organization as a type of 'superbrain' which, when faced with the same pattern of stimuli, enters a process of habituation.

As a result, one can understand the processes of standardisation earlier discussed as processes of habituation in the network. These are processes which aid the diffusion of novelty by paradoxically tempering the amount of novelty found in a fashion good. The existence of such rules suggests that knowledge has accumulated within society about what the optimum level of novelty each new rule should possess and how they should be introduced. It is generally observed that in certain parts of the network, the introduction of novelty has become predictable, certain and guided. For example, the fashion industry has regular, official dates where the constellation of critical institutions gear in a coordinated manner to disperse information about the latest fashions. Hence, the introduction of novelty can itself ironically become routine. It was in this sense that Meyersoh and Katz argued that fashion could not be a mechanism for change, since "each new fad is functional alternative of its predecessor, this hit for that hit, this parlour game for that one,"(Meyersohn and Katz 1957: 595).

While this observation is certainly correct, I contend their conclusion that fashion is not a mechanism for change is objectionable. It is certainly the case that some fashion changes

have become routine, yet this may occur because in certain instances, consumer do demand 'more of the same'. This may happen as a consequence of consumers gaining a such a level of utility from the original novel trend that it motivates them to demand similar goods in the future. Take the instance of parlour games. One must understand that the changing fashion in parlour games is set in the context of the greater social trend of visiting entertainment parlours. If consumers enjoy the concept of frequenting entertainment parlours, but have become bored of the games which inhabit the parlour, then the obvious answers is to regularly introduce new parlour games. Thus, while the novelty regarding the parlour game has worn off for the consumer, the novelty of frequenting the entertainment parlour has not. It may also be the case that people have found other reasons which motivate them to frequent the entertainment parlour, such as a possible the social aspect to such places. The same argument can be made in relation to similarly unoriginal fashion changes that occur in the system.

5.3 Fashion Mistakes as a Consequence of Dissipating Novelty

Let us now focus on the implication of the dissipative nature of novelty for consumer mistakes. It is argued the dissipation of novelty causes two types of mistakes. In discussing these, it important to remember the axiom of irreversibility. As is the case in the world of finance, when consumers make investments in developing capabilities in using certain styles, they cannot reverse these investments once they have made purchases or adopted the rule. In the case of a pair of trouser, even with the existence of a clothes shop that will refund previous purchases, the consumer has lost resources in terms of time and effort which they cannot retrieve. In the instance where a second hand market is available in which the consumer may trade the fashion good, if the investment fails, the investor cannot simply sell off assets for its original value, since a competitive market will only recognize its *ex post* value (Pindyck 1991:1111). These investments are effectively 'sunk' meaning that they cannot be recovered or converted to other uses.

One can now analyse how the dissipation of novelty affects consumers and their tendency to make mistakes. In the case of the creative consumer, a consequence of dissipating novelty is that a surplus amount of attention is created since they have no reason to pay

attention to normalized fashion rules. In itself, surplus attention conveys boredom and disutility. However, surplus attention also leads to the first type of mistake occurring where the entrepreneurial consumers are forced to make fashion mistakes as they set out to find or adapt new fashion rules to redress the lack of novelty again prevalent in their lifestyles. Mistakes of this sort (type 1) are inevitable because the rule they seek is inherently novel and finding one that they can use, in that it attracts some amount of their own attention, it fits with the rest of their lifestyle, and works well as a signalling mechanism, will involve a process of experimentation. Hypothetically, if the consumers already knows what rule would perfectly fit into this required role, it would not be novel, thus defeating the consumer's original purpose of searching for a unknown fashion rule. In this process, all the normal learning cost and information processing constraints apply here that applied in the origination phase of the meso (see previous chapter).

The second type of mistake (type 2) comes from those consumers who mainly use fashion not as means for satisfying a degree of novelty in their own lifestyle, but as an attractor of other's attention in the fashion rules they adopt. The dissipation of novelty causes the meso to become decreasingly less effective as a signalling mechanism. Thus, those consumers who keep using the normalizing meso as signalling mechanism find that they are making progressively bigger mistakes as actual utility derived (in terms of social status) becomes increasingly less than expected utility.

The emergence of mistakes, due to a surplus level of attention, signal the start of a 'lifestyle recession' of a sort - the profit gained from investments made in the normalizing fashion rule start to degenerate. This emergence is ironic given that it occurs just as consumer have become efficient in using a certain rule, in that they have learnt, to a certain extent, how to use it *without* making fashion mistakes. In the case of the relatively more creative 'entrepreneurial consumer', profit would be measured in the rule's deliverance of non-boredom. On the other hand, the relatively more status-conscious consumer would a measure profit in terms of the rule's signalling effectiveness. Consequently, there is an increasing level of unhappiness in the lifestyles of both types of consumers as the meso becomes increasingly normalized.

The length of lifestyle recessions, in which bad fashion investments exist in the consumer lifestyle, may be prolonged since people have habituated the rule. As Scitovsky notes, the slower the dissipation of novelty, the slower is the loss of pleasure, the more the agents forms an unconscious habit in using the rule (Sctiovsky 1976: 73). In turn, this decreases the likelihood that the agent will stop actualising the rule even when it no longer delivers an acceptable amount of pleasure. Duesenberry (1949) observed how families run down savings to maintain the standard of consumption to which they have become accustomed. To a degree, there is some comfort in sticking to one's habits, or at least there is a cost in having to change them. As Loasby observed " the value of consumer capital may not merely be destroyed by change, it may even be rendered negative, because a deeply embedded network actually impedes the development of new connections," (Loasby 1998: 100).

5.4. The Structural Cleansing Effects of Recessions

Recessions, as the harbingers of unhappiness, receive a predictably unenthusiastic reception in economics. Much of contemporary Keynesian macroeconomics can described as the business of avoiding recessions. This can be traced to the fact that the modern macroeconomic science was born out of the essential need to give government advice on what policy ensures a 'healthy' economy, as defined by the minimization of unemployment (Samuelson 1947). Whether an economic science can ever be extracted from its functional role is question best left to philosophers. This section reviews a school of thought that once itself held sway amongst policymakers, which argued that indeed recessions where not only inevitable in modern capitalist economies, but also beneficial in encouraging future economic growth. It is from this doctrine of liquidationism that one can view lifestyle recessions as having a similarly beneficial effect of encouraging the growth of culturally new ideas.

Throughout the great depression, the US government under president Hoover did nothing to support depressed aggregate demand The only expansionary fiscal policy action undertaken was the Veterans' Bonus, passed over President Hoover's Veto. Apart from

this bonus, the full-employment budget surplus did not fall over 1929-33. The Federal Reserve did not use open market operations to keep the nominal money supply from falling. Instead, its only significant systematic use of open market operations was in the other direction: to raise interest rates and discourage gold outflows after the UK abandoned the gold standard in the fall of 1931 (Temin 1974).

This inaction did not occur because policymakers were ignorant of the apocalyptic conditions plaguing the economy, nor did it come from any misunderstanding regarding how to use the tools of monetary policy (De Long 1990: 5). The 'hands-off' approach adopted by the Federal Reserve was a calculated step to let private sector handle the Depression in its own fashion. Essentially, it saw the private sector's task as the 'liquidation' of the American economy. This view stemmed from the so-called 'liquidationist' school of economic thought, whose membership included the likes of Schumpeter, Robbins and von Hayek. These scholars saw recessions as beneficial to the capitalist economy as they instigate a process of liquidation of mistaken investments that will inevitably take place in a dynamic economy under uncertainty. As Robbins succinctly summarized:

> 'In the course of a boom many bad business commitments are undertaken. Debts are incurred which it is impossible to repay. Stocks are produced and accumulated which it is impossible to sell at a profit. Loans are made which it is impossible to recover. Both in the sphere of finance and in the sphere of production, when the boom breaks, these bad commitments are revealed. Now in order that revival may commence again, it is essential that these positions should be liquidated. There is nothing which is more damaging to confidence, nothing therefore which is more deflationary, than the persistence on a large scale of bad positions," (Robbins 1934: 7).

Given the inherent uncertainty that exists in a dynamic economy, mistakes are unavoidable. Hence, there must be some mechanism by which the correction of these mistakes occurs to enable sustained economic growth. Schumpeter described investments and enterprises as gambles on the future, made by innovative entrepreneurs who see things to be done or new ways to produce old commodities (Schumpeter 1934b: 13).[12] Sometimes these gambles fail. The actual future that comes to pass is one in which *ex post* certain investments should not have been made, or certain enterprises should not

[12] A similar argument was made by Knight (1921).

have been undertaken because they are not producing the requisite profits. The economy is left with excessive or the wrong kinds of capital relative to the actual state of technology factor supplies and consumer demand.

In his view, the best that can be done in such a situation is to shut down those production processes and enterprises that were based on too much guesswork and uncertainty, although one can never target all investment that are based on guesses. The liquidation of investments and businesses releases factors from their unprofitable uses, such that they can be redeployed to other sectors and used by future waves of entrepreneurs in new gambles the future. This occurs since the release of the factors of production spurs depreciation in their market value to the point where they become affordable for entrepreneurs. Without the initial liquidation, the redeployment and the subsequent wave of innovation and entrepreneurship cannot take place. Opportunity costs stifles entrepreneurial innovations. As a consequence, Liquidation is not only beneficial, but also necessary to ensure the future of an evolving capitalist economy. A depression is thus self-organized process of liquidation that activates the redeployment of resources, "Depressions are not simply evils, which we might attempt to suppress, but … forms of something which has to be done, namely, adjustment to ..change." (Schumpeter 1934b: 16)

Schumpeter saw modern capitalism as essentially a process of creative destruction, production units that embody the newest process and process innovations are continuously creates, and outdated units are being destroyed. Consequently, in order for one wave of entrepreneurship to be followed by another, prospective entrepreneurs must know where and in what quantities resources available for recombination and redeployment are available. He believed that recovery is sound only if it does come of itself. Any revival which is merely due to artificial stimulus leaves part of the work of depressions undone and adds, to an undigested remnant of maladjustment, new maladjustment of its own which has to be liquidates in turn, thus threatening business with another crisis ahead (Schumpeter, 1934b: 21).

For liquidationists, expansionary policy in the time of recession was not the difference between depression and no depression, but between depression now and a worse depression later. As de Long points out, in abstract theory there is no *a priori* reason for the redistributions of labor and machines from socially unproductive lines of enterprise to require prolonged unemployment and idle capacity (de Long 1990: 11). It is the frictions in market- labor unions, relocation costs, imperfect information, and so forth- which mean that this process of reallocation entails unemployment, slack capacity, and temporarily reduced production. Ironically, the Keynesians, who were to supersede the liquidationist view, argued that it was precisely the same market frictions that warranted cause for expansionary government policy.

In more recent times, Caballero and Hammour have undertaken econometric investigation to find evidence for the cleansing effects of recessions (1994). There have been many documented cases where recessions have been many documented examples where recession by weakening demand, have liquidated all but the most technologically advanced firms (Bresnahan and Raff 1991). The authors built a vintage model of creative destruction that analyses industry responses to demand variations. The model envisages the continuous creation of production units that embody the newest process and product innovation, which outdate previously produced units that are being continuously destroyed. Industry can respond to reduction in demand by either varying the rate at which production units that embody new techniques are created, or they can change the rate at which outdated units are destroyed. Their observation that job destruction is much more responsive than creation to business cycles (Caballero and Hammour 1994: 1365) leads them to argue that recessions are a time of 'cleansing' when outdated or unprofitably techniques and products are pruned out of the system

A closely related view is that recessions are a type of 'pit stop' for the economy when productivity improvements are undertaken because of their temporarily low opportunity costs. Cooper and Haltiwanger (1990) propose that times of lower productivity are the best times to replace capital stock. They content 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). This insight has been echoed by Perez who argued that the economic motivation for paradigm change lies not only in the availability of a cluster of radical innovations, but also in the universal and low cost availability of a key factor of combination of inputs (Freeman 1984: 487).[13]

Interestingly, Caballero and Hammour, in an later examination of US manufacturing data, found that this sector exhibited a reduction in cumulative factor reallocation following a recession. This result contradicts the notion that recessions result in increased restructuring. Although job destruction peaks sharply at the impact of a recessionary shock, it also falls below normal for an extended period during the ensuing recovery. Hence, the cumulative effect is a reduction in overall destruction. The authors concluded that the welfare implications of such a 'chill' depend on which of two factors dominate: 1) How sclerotic the economy is, in the sense that contracting obstacles in creation result in an inefficiently low equilibrium restructuring and; 2) How wasteful destruction is, in the sense that separations are privately inefficient (Caballero and Hammour 1999). There is, it seems, a big difference between increased restructuring and increased liquidation. Consequently, by 2000 the authors dis see a role for government in ensuring that the proper institutional framework is in place so that ultimately increased liquidations lead to increase restructuring. They note

"A Poor institutional environment results in technological 'sclerosis'- it permits outdated, low-productivity units to survive longer than they would in an efficient equilibrium. This causes the creative destruction process to stagnate. … Second, poor institutions cause process to be unbalanced. Although destruction is insufficient compared to an efficient equilibrium, it is, paradoxically, excessive given the economy's inefficiently sluggish creation rate." (Caballero and Hammour 2000:20)

Thus, the ultimate welfare effect of a recession depends not only on the amount liquidation that occurs as a consequence, but also on the amount of restructuring that occurs as an upshot of the liquidation. However, this new position does not negate the liquidationists view the recessions can have positive effects, it simply qualifies the

[13] This idea has also been further investigated by Davis and Haltiwanger (1990), Aghion and Saint-Paul (1991), Gali and Hammour (1991), and Hall (1991).

conditions under which this occurs. To this effect, it sheds some light on the question regarding when governments should let recessions run their course, and when, if the institutional frameworks are insufficient, to undertake expansionary policy.

5.5 The Cleansing Effects of Lifestyle Recessions

In the same way liquidationists argued that a recession stimulates technological innovation that leads to economic growth, I argue that lifestyle recessions stimulate fashion innovation that also leads to economic growth. As consumers face general unhappiness in that their fashion mistakes are making increasingly bigger losses due to the dissipation of novelty, they are by the same token, also setting the conditions in which the next fashion wave can be originate. Essentially, due to the declining profit from the investments they have made in learning how to use the rule (i.e. their consumption capital) decrease in value. As investment returns diminish so too does the value of the factors of production- time, money and effort. Correspondingly, material inputs upon which the rule has been actualised, such as a dress on which a fashion style has been printed, also diminish in value, creating material waste.

Importantly, the upshot of the diminishing value of the factors of production is that the opportunity cost of adapting or creating a new rule decline. Since novelty is no longer predominant in the system, the cost of making mistakes decline. In the market for social status, the underperformance of existing fashion rules cause consumers to abandon established fashions and choose to instead invest their resources to search for new rules. As novelty dissipates, the cost of changing rules becomes cheaper, while the cost of consumer maintaining their habit becomes increasingly more expensive. In turn, entrepreneurial consumers face a lower opportunity cost in their experimentation with new novel fashion meso. Since many agents have rules that are diminishing in value, entrepreneurs become more likely to experiment with new rules. Previously, experimenting with new fashion meso would carry high costs, since mistakes in the face of dominating fashion trends would be relatively higher. Consumers were better of investing their resources in popular and successfully performing rules. Why experiment with other new rules, when currently popular rules are still novel? If it is assumed the

entrepreneurial consumer also takes into account some status considerations into their behaviour, then costs of experimentation are high during periods when a fashion trend is commanding social attention, since it is unknown how well their own rule will act as an attractor of attention relative to currently popular rules. This argument is somewhat similar to Bernheim's observation,

> "When status is sufficiently important relative to intrinsic utility, many individuals conform to a single, homogenous standard behaviour, despite heterogenous underlying preferences. They are willing to suppress their individuality and conform to the social norms because they recognize that even small departures from the norm will seriously impair their popularity,"(Bernheim 1994:864).

However, in Bernheim's case, the relative importance of status to intrinsic utility is determined by individual attributes, whereas here it is it is also determined by the dynamic social costs of both being status conscious and following intrinsic preferences respectively. Hence, in such lifestyle recessions, creative tendencies are reinforced, while conservative tendencies are punished.

In the case of real recession and macro recessions, it has been argued that it is the feedback of the market valuation of resources on entrepreneurial incentive that create the conditions through which growth is stimulated. These two elements are thus the pillars to economic growth (Foster and Metcalfe 2002). Of course as Cabellero and Hammour (2000) noted, there must first exist the institutional conditions for this 'cleansing effect' to occur. In terms of fashion, social convention and institutions must be open enough to allow variation in times of lifestyle recessions. If social conditions do not allow this, fashion innovation would stagnate, as has been the case in countries under tight cultural restrictions. Also, the system must be properly balanced to allow the right mix of heterogenous agents with tendencies to either create or adopt novel fashion meso. Too much creation and too little imitation would not to overall fashion trends but instead 'everyone doing their own thing'. In other words, in a economy populated solely by entrepreneurs, anarchy would reign. On the other hand, too little creation and too much imitation would again lead to stagnant fashion situations. All in all, the correct selection, adoption and learning mechanism need to be in place for a creative period to be converted into a fashion trend. without these processes the growth would be stalled.

5.6 Conclusion

Through this description, I have described a process analogous to neo-Schumpetarian picture of how different firms react when approaching the growth limit related to a certain technological discovery. In this literature, it is argued that as the limit is approached, firms may keep reinvesting in finding new profits in relation to the normalising technology, but what they to realise is that there are diminishing returns to capital in existing technology since demand for this technology may be satiated (Aoki and Yoshikawa 2002). Instead, what is needed is new technology that successfully brings new demand for the technology. By re-investing in normalizing technologies, firms commit investment mistakes, and as a result, find their profits diminishing. This causes a recession which the liquidationist school has argued is vital for future economic growth as it clears the economy of past investment mistakes, enabling structural change and hence future economic growth to occur.

It has been argued that the same sort of process occurs in cultural evolution. Given the dissipation of novelty, less-creative consumers who keep reusing a normalizing style commit fashion mistakes and find that their actual utility is less than their expected utility (i.e. their profits in terms of social status diminish). As a result, the things they used to practice the actualisation of the fashion diminish in value. Thus, a fashion recession occurs in which the value of the capital (effort) and factors of production (materials etc.) that are used in the production of the normalising meso depreciate. In turn, such consumers are more willing to adopt or experiment with new meso. Thus, the lifestyle recession creates the conditions and incentives for the next fashion meso to originate and diffuse through the system. The implications of this theory will be discussed in the next chapter.

Chapter 6:

Liquid Lifestyles and Business Cycles

"Man is not imprisoned by habit. Great changes in him can be wrought by crisis -- once that crisis can be recognized and understood." **-** *Norman Cousins*

"I believe that in the history of art and of thought there has always been at every living moment of culture a 'will to renewal.'... All history is nothing but a succession of "crises" - of rupture, repudiation and resistance. When there is no "crisis," there is stagnation, petrifaction and death. All thought, all art is aggressive."- *Eugene Ionesco*

6.1 Introduction

This study aims to make an original contribution towards the development of an evolutionary theory of consumption. According to Metcalfe, what this promises is on the one hand an account of how individual consumption patterns may develop, and, on the other hand, an account of how populations of different individual consumption behaviours evolve (Metcalfe 2001a: 39). From this perspective, the study of fashion is an obvious point of departure, as it is a process of change that both influences and is influenced by the individual's evolving lifestyles. For these purposes, fashion is defined as a recurring pattern of social and behavioural preference dynamics that are caused by a set of changing consumer motivations, institutional processes and their interactions. This complex process typically causes fashion cycles – a rhythmic rise and fall in a particular fashion rule's population of actualizations, leading to the inevitable replacement of the rule by a successor. I contend that it is the ingredient of novelty that is the cause of both the fashion rule's success as well as its inevitable failure. Fashion is the continuously

temporal occupation of the collective mind, the fleeting snatcher of attention through which today's treasure becomes tomorrow's trash.

In the previous chapters, a thorough investigation has been undertaken to properly conceptualise and map the nature in which these components combine and interact to produce fashion cycles. This concluding chapter begins with a restatement of the inquiry's objectives, a summary of the argument, and an evaluation of how well the conceptualisation has achieved its purposes. Following on, two main implications of the theory shall be examined. Firstly, fashion cycles may have a 'cleansing effect' on consumer's lifestyles as they erase past consumer mistakes and allow consumer to refresh their fashion choices. Secondly, since lifestyle recessions lead to a decrease in demand for goods and service related to a certain fashion rule, they may play a role in causing real macroeconomic recessions. Finally, possible avenues for an econometric investigation of the stated theory will be discussed as an avenue for future research.

6.2 The Emerging Evolutionary Theory of Consumption

Evolutionary economics centres on the concept of an evolving economy, where knowledge drives processes of change in the economy. Knowledge is a structure that provides actors the capability, the 'know-how', to solve problems (Langlois 2001: 79). Logically, it is borne from agents solving problems faced in reoccurring and new situations. From continually engaging in such activities, agents, firms and societies produce new knowledge, transforming their capabilities, which influences their lifestyles, production possibilities, consumption patterns and methods of organization (Metcalfe 2001a: 38). Consequently, some account must be made of how consumers respond to new opportunities; of how they acquire and abandon particular tasks, and of how these changes are shaped by the characteristics of both the individual and the society in which they are situated.

Modern evolutionary economics thus focuses on investigating exactly how new knowledge affects agents and the system within which they act. 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 in relation to technological innovation (Nelson and Winter 1982, Dosi 1982, Potts 2002). While many have focused on supply side evolution, corresponding demand side analysis is lacking. According to Schumpeter, economic development is distinguished from growth as it "consists of… employing existing resources in a different way, in doing new things with them, irrespective of whether those resources increase or not,"(Schumpeter 1934a: 68). From this perspective, there is no doubt that the evolution of consumption plays an important role in economic development by shaping the way in which economic resources are produced and consumed. In the words of Pasinetti "to pretend to discuss technical progress without considering the evolution of demand would make it impossible to evaluate the very relevance of technical progress and would render the investigation itself meaningless," (Pasinetti 1981: 69 as quoted in Metcalfe 2001a: 38).

This study has been an attempt to provide a theory of how the evolution of consumption may occur in particular relation to fashion. In Chapter two, I reviewed some of the previous attempts to concisely explain its significance and its changing nature. In chapter three, I proposed that consumers demand a degree of novelty in their lifestyle, which was discussed in the context of heterogenous populations. Significantly, it was shown that even for agents who have no personal preference for novelty, the consequences of the social demand for novelty might still influence their preferences through their need to compete for social status. In chapter four, the mechanisms by which novel fashion trajectories originate and diffuse through an economy were outlined. I argued that fashion trends originate as a consequence of agent's actively seeking novelty. Diffusion occurs because of the existence of heterogenous agents with varying preferences for novelty, who seek to minimize the uncertainty surrounding a fashionable rule by learning from the experiences of others through various institutions. In chapter five, I explained how the dissipation of novelty occurs through agent's gaining increasing experience from repeatedly using a fashion rule. Ultimately, this dissipation leads to a lifestyle recession that causes agents to reconfigure their fashion investment. Once again, even if agents have no personal consideration for novelty, feedback through the market for social status

will influence their actions. As a result, the opportunity cost for entrepreneurial agents to experiment with ‘fresh’ fashion rules is lowered, creating the conditions in which the next fashion trend can form.

In relation to the existing literature, understanding changing consumer behaviour using heterogenous agent models has been a popular method to simulating fashion cycles (Janssen and Jager 2001, Cowan et. al. 1997, Bernheim 1994, Karni and Schmeidler 1990, Pesendorfer 1995). These typically work on ‘chase & flight’ dynamic in which there exist pioneers and imitators. Once the pioneers select a fashion to distinguish themselves from imitators, imitators inevitably follow, diminishing the exclusiveness of the good, and hence pioneers must again seek to find another new fashion. The theory built in this study is different in that it treats the consumer’s demand for social distinction separately from the consumer’s ability to be creative. The assumption that those at the top of the social hierarchy also happen to be the most creative is refuted. Instead, the agent’s level of creativity and the degree to which they take into account social status in their consumption decisions can vary across social classes. Of course, a special case of this more general approach will yield the dynamics of the chase-flight model. In figure 3.1, if one just considers points 'B' and 'D', and further assume that the higher the consumer’s taste for creativity, the higher up the social hierarchy they must be placed, then one has the simplified ‘chase & flight’ explanation of fashion cycles.

As an alternative, this theory replaces the previous class emphasis with the postulate that the dynamic nature of fashion is mainly attributed to the direct and indirect role that novelty plays in consumer lifestyles. Many authors have followed Robinson’s lead in arguing that fashion originates from the consumer’s intrinsic demand for scarcity in goods (Robinson 1961, also see Hirsch 1995: 3). While novelty is certainly a special form of scarcity, the demand for scarcity itself is not sufficient to explain the dynamic nature of fashion. Specifically, a system in which higher classes exhibit a demand for scarcity is not necessarily one that would experience continuous change in the fashion goods and rules that are used to signal and compete for social status (Campbell 2001). While in the postulated model, novelty can, in the right circumstances, work as a distinguishing barrier

between different social strata, it more importantly serves as an occupier of attention. It is a mixture of both direct (to occupy one's own attention) and indirect (to occupy the attention of others) demands for novelty that underpins the changing nature of fashion. The distinction between the stated and traditional theories can be clearly identified in the words of Quentin Bell:

> "Novelty, audacity and above all exclusiveness, the bright badge of social enterprise brings a fashion in, and when a hat or shoe has lost its social appeal, when everybody is wearing it, it dies of popularity. *Such seems to be the fate of elitist arts in our society, the social impulse that made it fashionable with the few ends by making it vulgar with the many where upon the elite must look for something else*," (Bell 1976: 8 as cited in Hall 1983: 69, own emphasis added).

The first sentence of this quote is perfectly congruent with the argument made in this study. Novelty, as a form of exclusiveness, is dissipative and dies of popularity. The second sentence, on the other hand, represents the traditional framework in which this dissipative dynamic is practically related to the real world through class distinctions, and it is this framework that I argue is inaccurate for the complex and changing organism that is modern consumer society. Blumer first raised this objection, "(it) does not fit the operation of fashion in our contemporary epoch with its many diverse fields and its emphasis on modernity" (Blumer 1969: 278). Of course, it can be argued the proposed theory makes class distinctions of its own in the way it relates to the Schumpeterian notions of 'entrepreneurial' consumers and 'status-conscious' consumers. While true to a certain extent, I argue that the Schumpeterian consumer categorizations employed here are far less restrictive than the orthodox Marxian class divisions as first used by Veblen. While also to some extent influenced by Marx, Schumpeter's categorizations do not relate certain attributes to a particular social class. In his theories, anyone can be an entrepreneur, as much as anyone can be the anti-entrepreneurial business manager, regardless of their class.

6.3 The Welfare Impact of Fashion Cycles

Traditionally, the phenomena of changing fashion have been viewed with abhorrence in the economic literature (Gregory 1948). These negative perceptions comes primarily in reference to the amount of waste changing fashion create. By making previous styles

obsolete, and depreciating those commodities that embody them, fashion cycles have been seen as a plague on the consumer welfare. The explanation set forth in this thesis does not deny the fact that fashion creates waste. However, it is argued that fashion cycles do, in certain respects, benefit evolving consumer lifestyles. Katz and Shapiro (1985) argued that a fashion trends are intrinsically beneficial, since they originate from positive consumption externalities. Yet, such a rationale does not explain the dynamic nature of fashion trajectories, since there would be no incentive to deviate from a popular social trend. Instead, I contend that the consumer benefit lies in its dynamic nature, as every fashion trajectory encourages the consumer to compete for status with a different set of fashion rules, thus negating past fashion mistakes.

As mentioned previously, status competition occurs through consumers choosing certain goods to signal some message concerning their social standing. The success of this signal, and hence the value of the signalling good are not known to the consumer at the time of purchase. It is only *ex post* after the good or rule has been socially evaluated, that the consumer can judge how well the signalling good has lived up to its expectations. Also, once a purchase has been made it is not always easy to simply dispose of a good if it does not live up to expectations. The consumer will incur certain transaction costs in its disposal, and must spend further valuable resources in searching for and learning how to use its replacement.

Fashion cycles are beneficial in this context, because they cheapen the cost of changing fashion rules, which encourages consumers to rechoose fashion goods and so compete for status with a fresh set of choices. For example, say there exists a fashion trend in which all things related to 'X' are considered popular and beneficial to a consumer's social status. Consequently, the consumer chooses, according to certain constraints, a subset of goods related to 'X' with which he or she will use to compete for status. In the market for social status, once these rules have been socially displayed, the consumer will receive some payoff in terms of social status for their initial decisions. However, mistakes can occur in their initial decisions, which lead to the payoffs to be less than expected. Meanwhile, on the social level, the dissipation of novelty leads to the depreciation of all

fashion investments related to ‘X’. As a result, the conditions are set in which a new fashion trend takes off, so that presently all goods related to ‘Y’ are considered beneficial to social status. Again the consumer chooses a subset of all goods related to ‘Y’ to compete for status and so on. By allowing consumers to continuously rechoose the goods with which they compete for social status, fashion cycles effectively cleanse the consumer’s lifestyle of past fashion decisions and any possible mistakes related to these.

Of course, in reality how fast this process of ‘rechoosing’ occurs depends on the nature of the good, the consumer’s motivations, and the rate at which fashion trends cycle. For instance, in the case of a consumer durable such as a piece of furniture, it may take a number of years for consumers to rechoose such a good, as these goods have a other uses to the consumer not related to status signalling. As a result, when novelty does depreciate, it does not affect the value of the good sufficiently enough for the consumer to deem it unusable. This condition in itself depends on the consumer’s relative level of income, what significance the good’s fashion plays in the consumer’s lifestyle, and their sensitivity to boredom. As income increases, so the relative costs of replacing durable goods decline, such that the consumer may begin to perceive formerly durable goods as non-durables. Secondly, as social status considerations become play a larger role in a consumer lifestyle costs of not replacing out of fashion goods rise. The consumer becomes more sensitive to the fact that other agent’s attention is increasingly not attracted by the good. Finally, if the consumer has a low tolerance for boredom, they will have a greater tendency to find a replacement that they consider novel and interesting. Naturally, for certain consumers, it may be combination of all three these factors that motivates the replacement of a rule.

From this perspective, lifestyle recessions have a beneficial ‘cleansing effect’ on consumer lifestyles in the same way real recessions have ‘cleansing effects’ of on an economy’s factors of production. Just as firms, through changing economic conditions, are given the opportunity to update their outdated equipment with newer, improved replacement, so too consumers, through changing fashion conditions are given the opportunity to replace the equipment they use for status competition with newer, and

perhaps improved equipment. This beneficial aspect of lifestyles does not negate the observation that households, like firms in real recessions, are burdened by declining profits from fashion investment. Effectively, the intertemporal benefits that fashion cycles bring come at the cost of a temporal increase in fashion mistakes caused by the dissipation of novelty that characterize lifestyle recessions, as discussed in the previous chapter.

6.4 Lifestyle Recessions and Macroeconomic Recessions

As was mentioned in chapter two, one of Gregory's criticisms of impact of fashion was that production of fashion goods required highly specialized equipment, that is rendered worthless by fashion change(Gregory 1948: 73). If one accepts that fashion changes do have such a real economic impact, then it is important to properly investigate the role fashion cycles have in producing real macroeconomic fluctuations.

In the standard growth literature, the fundamental factor restraining economic growth is diminishing returns to capital in production or research and development technology (Aoki and Yoshikawa 2002). Much models work on the concept that supply side productivity shocks intermittently hit the economy, which result in bursts of economic growth and restructuring. This study builds the evidence that such literature also needs to take into account demand side shocks that can instigate similar effects. Previously, a lifestyle recession was characterized by declining profits from consumer's fashion investment, which leads consumers to increasingly abandon the existing fashion rules and embark on an uncertain search for a replacement. In terms of the real economy, such a lifestyle recession thus causes a drop in demand for goods and services related to the existing fashion trends. This would be followed by a period of search where devaluing real factors of production aid entrepreneurs who are striving to successfully produce a new fashion rule which captures the collective attention of society. Once such a rule has been selected, its increasing demand necessitates a real restructuring of production labour and equipment.

This argument is similar to Aoki and Yoshikawa (2002) who present a model in which the restraining growth is saturation of demand for individual consumption goods. The economy sustains growth through the introduction of new products because these create high growth in demand. Essentially, economic growth does not only entail growth in the technologies in production, it also entails growth in consumer demand. The authors argue that if consumers have a certain saturation point with regards to a certain good, this would act as an obvious constraint on economic growth. Through the concept of a lifestyle recession, this thesis not only explains how demand satiation occurs, but also argues that these occur in a socially coordinated manner. If this is the case, then it can be argue that lifestyles recessions potentially lead real macroeconomic recessions.

6.5 Conclusion: Possible Avenues for Future Research

Cowan et. al. (1997) noted that attempts to integrate evolutionary analysis of production and consumption are almost non-existent.[14] This is a serious shortcoming of the evolutionary approach to economic change, since it is clear that both sides of a market are equally important, and that both sides must evolve together if the market is to work at all (Cowan et. al. 1997: 714). As Hirsch wrote,

> "Modern economic growth theory has been concerned with conditions that stimulate the growth process from the supply side. The problem is one of harnessing and augmenting available resources of land, labor, capital, and technology to meet the competing demands upon them. Consumption represents the ultimate source of these demands. It represents the true subject and object of economic growth. Yet the composition of consumption-its content- is not brought into the analysis," (Hirsch 1995:16).

This study aims to address this shortcoming through postulating a theory that systematically explains the dynamic nature of consumer preferences. Such a theory is designed to contribute to the construction of a more comprehensive understanding of the processes driving economic growth.

In doing so, it aims to build the proper theoretical foundations upon which econometric research can be based. One possible way of executing such econometric research would be to empirically investigate the concept of a fashion trajectory. Foster and Wild (1999)

[14] One exception is Pasinetti 1981

construct an econometric methodology for the detection of self-organizational change in economic processes that follow logistic diffusion paths in historical time. Using such methods on relevant data, one could derive parametric measures of meso diffusion and adoption rates as well as evaluate the self-organization nature of fashion trajectories. Another strategy, subject to data availability, would entail examining the historical profits of firms specialized in producing a good or service related to a single fashion trajectory. A more ambitious plan would research whether there is any causality between weakening fashion trajectories and the devaluation of factors of production for a specific class of good. Also, if certain fashion goods involved production processes that are heavily dependent on a specialized workforce, one could hypothetically examine the impact of fashion cycles on job creation and job destruction figures in the tradition of Caballero and Hamour (1994).

This thesis presents an evolutionary economic theory of fashion. To this end, it sought to investigate the role and nature of fashion in an evolving economic system. Methodologically, I conceptualised a link between the behavioural microeconomics of consumer lifestyles with the evolutionary macroeconomics of Schumpeterian competition through the micro-meso-macro approach of Dopfer and Potts (2002). Fundamentally, this involved disentangling the two major forces that shape individual fashion behaviour on the micro level and fashion trajectories on the macro level: 1) The consumer's innate attributes and; 2) The socially determined opportunity cost of pursuing these attributes. These fores interact and combine to determine the state of social preferences on the social level and the degree to which consumer are encouraged to follow them on the individual level. Dynamically, in times of lifestyle recessions, it is this feedback of the market valuation of resources on entrepreneurial incentive that create the condition through which growth is stimulated. At the same time, it also this mechanism which, in more positive times, creates the conditions that, leads to the onset of recessions. In effect, fashion is a self-regulating and autocatalytic mechanism driving demand side evolution.

In conclusion, it must be noted that the form in which this study aims to make a original contribution to the literature is as a theoretical conceptualization, as a gathering of ideas

which sets the direction and framework for further research. From this theory it is possible to derive a set of empirically testable hypothesis that would confirm or discredit the validity of the direction of this research. At a time when the field of economics is beginning to fundamentally review the method and nature of its work, it is important to point some of the possible areas that have been considerably ignored, and suggest methodologically sound ways in which this area can be incorporated to a greater degree into the economic agenda. Naturally, this attempt is not the first -nor shall it be the last- of its kind to emphasize the need for economists to make greater efforts to comprehend the nature of the demand-side. Yet, it is a conceptualization that, at least in the authors opinion, does not attempt to draw its strength from any self-conceived moments of genius. Rather, it builds on the insights of previous ingenious thinkers that history has yielded but, to a certain extent, not properly recognized.

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