

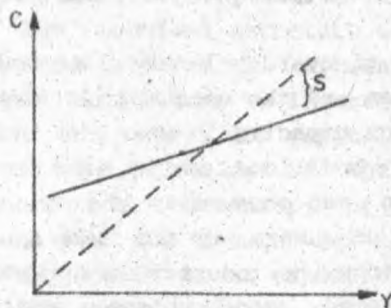
Søren Heede*

CONSUMER BEHAVIOUR DURING ECONOMIC CRISIS IN AN OVERDEVELOPED ECONOMY

1. THE CONCEPT OF AN OVERDEVELOPED ECONOMY

The concept of overdevelopment is not taken from the economic theory but from other sciences, where overdevelopment means a system, where one subsystem has grown so much that it creates problems in the original system. As this paper deals with consumers and consumption the "overdevelopment" must refer to some structural changes in consumption patterns of individuals and households. Therefore it seems fruitful to take a starting point in the classical economic theory.

According to this the consumption of an individual is the balance between needs and income of this particular individual. This goes especially for the total consumption, where the income is divided between consumption and savings in the well known model:



based upon the equation $Y = C + S$.

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It is now claimed that although income has been defined in different ways, it is more or less understood that it is the income of a given period that is influencing consumption together with needs for "survival". In an overdeveloped economy the following traits are found to characterize the "desease":

- Consumption has lost its role as a means to the fulfillement of some needs, being independent of the consumption process, and instead consumption has been the goal itself.

- The causal relation between needs and consumption is broken down, because a need is felt which causes consumption that satisfies the need and the individual is brought back to a "steady state", until the need is coming up again, etc. Instead consumption creates dissatisfaction that creates more consumption etc. giving the consequence that individuals are consuming increasing amounts of commodities causing problems with overweight, pollution problems in the family structure etc.

- The third sign of overdevelopment is found when the relation between income and consumption is abandoned. As mentioned earlier "misfits" between these two have been introduced in modern theory of consumption, but not to the extent that it is found in modern Western societies. Modern credit schemes, especially real estate credit and car credit programs have taken away the link between income and consumption so that a family is able to consume in a given period far more than it earns. This results in the fact that in many Western households more than 75% of the total income goes for direct taxes and payments on loans (the fixed costs of the household).

- The fourth sign of overdevelopment is found in the relation between the production and the consumption capacity of the society. The production capacity is what the industry can produce under normal working conditions, while the consumption capacity is what the population can consume in the same period. The first misbalance comes when consumers do not have enough income to buy the total production from the industry, and this is normally solved by the above mentioned credit schemes, and the next point of misbalance comes when the consumers are not able physically to consume more. In many Danish industrial sectors the capacity of the industry exceeds the capacity of the consumers by 5 to 10 times, causing severe economic problems due to the low rate of utilisation of the capacity and this keeps busy marketing people having the impossible job to persuade consumers to consume more than they can afford and physically eat.

The ultimate consequence of this overdevelopment is a very fragile economic system, where the least disturbance will not result in a return to the equilibrium state but instead will cause severe changes in the structure of the system.

2. THE CONCEPT OF ECONOMIC CRISIS IN AN OVERDEVELOPED ECONOMY

The traditional concept of economic crisis, referring to the business cycle concept and theories like this, is not suitable for the overdeveloped economies. These theories are developed on a hidden belief in the quantitative-equilibrium seeking economic system, and it seems to be time to abandon these kinds of theories.

By studying Western economies during the last couple of decades it is easily seen that problems and crisis do not only occur when the GNP declines. Very often companies are facing severe economic problems and unemployment is heavy during economic growth if the growth rate is not high enough. It is therefore assumed that the steady state of a Western economy, being the state where companies get a return on investment which do not cause bankruptcy is to be found at a given exponential growth rate in the GNP.

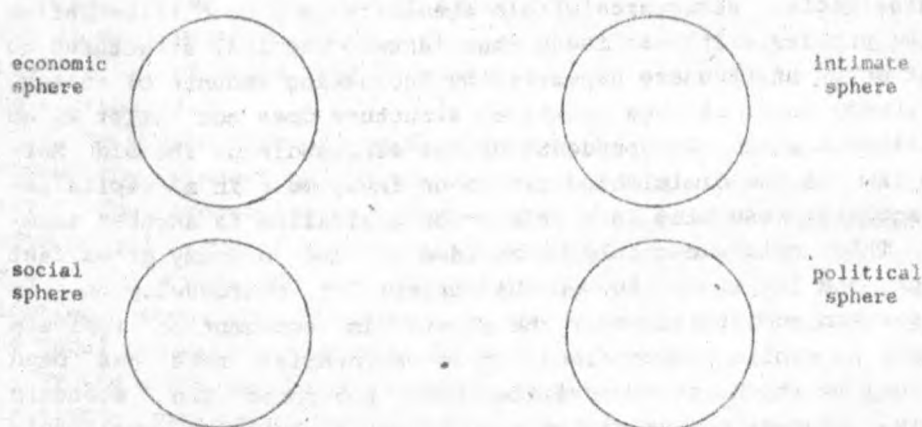
Two theories illustrate and support this view. The discovery of dissipative structures within chemistry is a good illustration of the problem. It is found that certain chemical structures do exist only if they are supported by increasing amounts of energy. The steady state of the chemical structure does not exist as an equilibrium state, independent of the surroundings. The old Marxian law of the diminishing return on investment in a capitalistic society resulting in a crisis for capitalism is another example. This crisis can only be avoided if the economy grows fast enough, and it is my view on the concept of overdevelopment in the eastern societies, where the growth in consumption (private as well as public consumption) at an exponential rate has been the tool by which these societies have postponed the economic crisis. However the crisis to come is not a business cycle only changing the quantitative dimensions of the society. As it will be shown in the chapters to follow, the crisis will cause qualitative changes in society, redefining the roles of consumers, industry and the state.

3. A CONSUMER MODEL

Marketing theory is, due to its origin, only interested in the economic behaviour of individuals and households. Moreover as the theory has its origin in the micro part of macro economics, it has tried to find the explanatory variables among other economic factors in society, reducing all other traits of the individuals to "statistical parameters", elasticity measures, etc. No one will deny, that the individual possesses other roles than that of economics, but in fact we have believed that these roles are independent. In fact, listing the roles as follows:

- the economic role, consisting of the production distribution and consumption role;
- the political role, consisting of the roles as voters and politicians;
- the sociological role, being member of family, belonging to a circle of friends or organizations;
- the intimate role, being the ultimate model of man, the selfconception, etc.

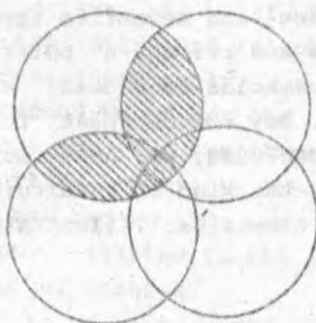
A graphical picture of the relation between these roles, perceived by a Western scientist is as follows:



This means that it is believed that the influence of the three non-economic roles upon the economic one can be reduced to "statistical parameters" implying statistical invariance or rather stability over a longer span of time. It can perhaps be accepted that this sounds reasonable in the very short run, but studied

over a longer period it seems necessary to include the non-economic sectors as variables, not only as statistical parameters. However this implies that the researcher has to decide which variables are to be named as "causes" and which shall be considered to be the "effects" of the causes. In order not to fall in the traditional "pit" or rather using the traditional paradigm of marketing that consumption will always be explainable by some "outside" effects, it has been chosen to consider the different roles as being mutually dependent in a dynamic system, implying that they change a relationship between cause and effect.

The most suitable way of portraying this thought is the following picture



and the relevant part of the graph is the squared area, showing the interrelation between the three sectors and the economic sphere.

4. SHORT - TERM REACTIONS TO THE ECONOMIC CRISIS

It is a well known fact that since the second oil crisis in 1979 the growth rate of the GNP in Western countries has declined to something around 1.5 to 2%. In the same period the number of unemployed has increased considerably, and numerous companies have faced bankruptcy.

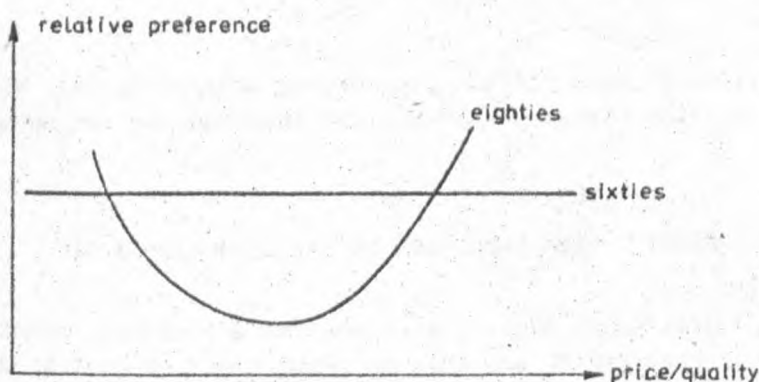
Consumers realized this very slowly. Inflation ceased, meaning that your house did not increase in value with the same speed as before, the annual increase in salaries went down, from time to time you risked unemployment, etc. etc. At this time the consumers, e.g. the housewives had already tried the traditional

savings, shifting from beef to pork and from steaks to chopped meat, so the potential savings on non-durables were rather restricted. Therefore the consumers went for the durables to find possibilities for further savings.

Since the sixties the lifetime of the durables, meaning the time they were kept in a family, had been considerably shorter than the technical and economical lifetime. Consumers bought and sold houses regularly, cars were sold after 3 years, old-fashioned clothes were hanging in the closet and modern ones were bought instead. The easiest thing was to postpone the replacement of durables and in no time, from year to year, sales of cars and stereo equipment dropped 35 to 50%.

But sooner or later the equipment of a household was worn out technically, and this meant replacement.

While in the sixties and seventies there had been room for all kinds of qualities and prices, a polarization took place in the eighties. Some households concluded: We have no money and we earn no money, let us buy the cheapest furniture on the market, while other families concluded, we have money, but we do not earn money, let us buy the kind of furniture that will last longest, meaning the most expensive. Illustrated in the following way



it meant that the cheapest and the most expensive shops survived relatively well while the middle quality/price shops suffered most.

What the consumers tried to do was to solve the economic problems within the economic sphere by means of substituting expen-

sive goods with cheaper, driving used cars instead of new ones, etc. The quantitative amount of consumption, measured in some real terms like "being a private house/two car family/going abroad every year" was kept, but in a cheaper version.

5. LONG - TERM REACTIONS TO THE ECONOMIC CRISIS

The period where minor changes in the consumption habits can solve the economic problems is, however, restricted. Sooner or later the car will break down or the refrigerator will stop cooling, and then a decision has to be made whether the item should be replaced. In this connection the consumer model developed in section 3 is important. A brief historical view upon the interaction between the different roles or spheres can explain how the model works dynamically.

At the end of the Second World War the economic sphere was bombed back to the stone age, but the three other spheres were intact in the Western World. Democracy, the family structure and the Christian model of man had won the war, and the reconstruction of the economic sphere started in the late forties on the ideology of the three other spheres.

Owing to foreign aid to Western Europe the production and distribution capacity of the economic sphere was increased enormously, and at the end of the fifties the markets became scarce causing the companies to stress the marketing functions. How did they persuade people to consume more than they could afford and they needed? They (the marketing managers) introduced some structural changes in society.

First the organized consumer credit schemes were introduced heavily around 1960, making it possible not only to borrow money for houses and cars but for all kinds of durables and in some cases also non-durables.

Next a heavy product development took place, inventing products that the consumers had never dreamed of but apparently had some Freudian hidden desire for (marketing managers explanation when they are accused of exploiting people). Shortly they invented the maxi stereo equipment, fine, but next they marketed the midi and mini racks for the individuals in the households and finally they invented the walkman for individual consumption outside the house.

Finally, they created the imaginary value added to the products. Through design and image advertising the fashions of the upper class were mass marketed causing ordinary people to buy new clothes before the old ones were worn out, to have the latest designs of tv sets, furniture, etc., as it became a lifestyle or identity to consume given products or brands, and consumers communicated their lifestyle through brands. What can be claimed is that while the three other spheres changed the economic sphere then the economic sphere started changing the three other spheres. That a number of Western countries have enormous foreign debts due to a too high consumption rate is a well known fact. It is also a well known fact that at a late stage in industrialization the birth rate starts to drop, because children prevent the parents from consumption.

What is not recognized as a consequence of the need for higher consumption is the household split process, where an increasing number of younger and younger people left their parents to live by themselves in hired rooms, on campuses or in small old-fashioned flats in the center of the city. They brought with them their parents tv set and old furniture or they bought them second hand, and this had an enormous effect on sales of durables as the number of households increased more than the population. These apparently demographical changes had, however, a tremendous influence on some of the more qualitative dimensions of the society.

First, the government did no longer govern the economy, the economy was governing the government. The majority of the issues dealt with by the government and the Parliament are economic problems, not how to avoid them, because they have already happened but how to solve them. Policies have shifted from trend setting to garbage collection.

Second, the individualization of the family life has caused some radical changes. Today 72% of families consist of only adults, as an increasing number of people have chosen the career instead of the children (the so-called Dinkies), and if the family has children it is only one. The consequences for the primary and secondary socialization of that child cannot be measured. However, the individualization of products, e.g. stereo equipment, tv sets, etc. has caused that a greater and greater amount of the leisure time is not spent doing things together with the family members, but it is done alone or with other children. The indus-

trialized society has created a man-machine socialization process for most children in the Western societies.

Third, the old ethics in the model of man have been substituted by the materialistic dimensions. You are no longer what you think or do, you are what you wear. Your self-esteem is created through your house, your car, your clothes, etc. etc. and your identity is obtained through other people's acceptance of you on the basis of your belongings (a trait in the narcissist culture of the West).

6. THE NEW SEGMENTS TO COME

The above process that has been going on for the last 30 years or so was based upon the exponential growth of the purchasing power of the household. As mentioned this increase was financed by

- women's participation in the working force, creating the two-pay-check family
- a well-developed credit scheme
- a deficit in the state budget
- a deficit in the trade balance

The consequence of the above mentioned tools was, of course, a high inflation rate and a negative real interest giving people no incentive at all for savings.

But all these factors have stopped working. We have no more women to send to work. The families cannot any longer borrow money, and they have no savings. The debts of the state are a heavy burden on the budget, and some new taxes have been imposed so the state can pay its debts. Finally, Denmark must borrow money abroad to pay the interest on its foreign debt.

Structural changes must therefore happen in the consumption habits of families, and some economists estimate that up to 100,000 families will go bankrupt because they cannot pay their mortgage and personal loans. But the structural changes will happen in the social and the intimate sphere, because these are products that gave the individual an identity and the family a structure that must be abandoned.

Therefore, it is believed that the lifestyle segments of the sixties and seventies, the Yuppies, the Dinkies, the Sinkies, etc. will diminish or die out, and other segments created on the basis

of qualitative changes in the intimate and social sphere will develop, and the consumption habits of these segments will be the future growing markets for the companies.

Søren Heede

ZACHOWANIE KONSUMENTÓW W WARUNKACH KRYZYSU GOSPODARCZEGO
W KRAJACH NADMIERNIE ROZWINIĘTYCH

Koncepcja nadmiernego rozwoju gospodarczego nie wywodzi się z teorii ekonomii lecz z innych nauk, w których oznacza ona zazwyczaj system, którego mniejsza część (podsystem) rozwinęła się tak bardzo, iż stwarza to szereg problemów dla systemu wyjściowego. W niniejszym artykule pojęcie nadmiernego rozwoju zostało użyte dla scharakteryzowania zmian strukturalnych zachodzących w konsumpcji jednostek oraz gospodarstw domowych. Źródłem obecnego kryzysu należy upatrywać w następujących przemianach. Konsumpcja utraciła częściowo swą rolę jako środka zaspokajania niektórych potrzeb; stała się ona częstokroć celem samym w sobie. Zależność przyczynowa pomiędzy potrzebami i konsumpcją została złamana. Proces konsumpcji zamiast zaspokajać potrzeby rodzi często stany niezadowolenia i frustracji. Konsekwencją nadmiernego rozwoju jest również zerwanie zależności pomiędzy konsumpcją i dochodami. Współczesna rodzina konsumuje bowiem najczęściej więcej niż zarabia. Osobnym problemem jest nierównowaga pomiędzy możliwościami wytwórczymi społeczeństwa oraz jego możliwościami konsumpcyjnymi. W społeczeństwie duńskim w wielu działach przemysłu zdolności wytwórcze producentów przewyższają pięcio- lub dziesięciokrotnie zdolności absorpcyjne konsumentów, stwarzając szereg problemów dla całej gospodarki.