

FASHIONOMICS

Fashion should be taken seriously, argues **Jason Potts**

The concept of fashion has long been a serious concern for scholars of culture.¹ However, economists have given it very little attention, tending to view it as, at most, a curious aspect of demand theory (occasionally interdependent preferences that sometimes shift randomly) rather than as an important and interesting phenomenon in its own right.² As a policy consideration, fashion is well down the list of things that matter, on par in the Treasury scheme of things, perhaps, with golf policy. As Luciano Andreozzi and Marina Bianchi observed recently, fashion is something that is seemingly everywhere except in economic theory.³

Yet is it possible that economists have missed something important, here? For fashion seems to be an expression of risk culture on the consumer side, just as entrepreneurship is on the producer side of the economy.⁴ Could it be, then, that a rational, open society not only accommodates fashion, but actually requires it as a mechanism of competitive advantage and productivity growth?

If so, fashion would be recognised as a valuable mechanism in an economy that is continually buffeted by new technologies (for instance, a Schumpeterian economy), and therefore continually faced with new opportunities for consumers to reorganise their systems of consumption. In this view, fashion would be good for the economy for the same reason that Friedrich Hayek first argued recessions are: by periodically liquidating capital asset positions, they provide a

kind of refreshment, or what Ricardo Caballero and Mohamad Hammour called a ‘cleansing effect’ that drives the re-coordination of asset positions and the uptake of new technologies by lowering the cost of structural adjustment.⁵ This is a significant cause of the productivity growth that results in economic growth.

Fashion fulfils a similar role in the consumer economy, by providing a mechanism to periodically liquidate certain elements of a consumer lifestyle, triggering the incentive to learn about new things and to demand new goods. Fashion cycles are wasteful in an equilibrium economy due to the artificially induced depreciation of otherwise functional assets such as clothes, cars, and furnishings, which implies random demand shocks to certain producers and a loss of consumer surplus. Yet they may have an overall role that is welfare-positive in an evolving economy, due to their role in facilitating structural change on the consumer side.

Jason Potts is a Principal Research Fellow at the ARC Centre of Excellence for Creative Industries and Innovation at Queensland University of Technology, and a senior lecturer in the School of Economics at the University of Queensland.

Endnotes for this article can be found at www.policymagazine.com.

If so, fashion might be less an anomaly of otherwise rational and independent preferences than it is an evolved sociocultural mechanism, an emergent institution, that functions to facilitate consumer learning and economic evolution. Fashions might be a significant subject not only for cultural analysis, but for economic analysis, too. Who knows what that might yet mean for fashion policy? In any case, this realisation would move fashion closer to competition than to golf on policymakers' lists of priorities.

Modelling fashion

When economists model fashion, they tend to frame it as problems of information cascades—feedback on social networks—resulting in destabilising dynamics.⁶ Fashion is a kind of amplified noise that is, from a welfare perspective, best minimised. The economics of fashion is, in essence, the analysis of an illogical instability best corrected. For economists, fashion is: (a) an inherent but unfortunate part of the cultural and economic condition of man, which is due to negative externalities from social learning and status signalling; (b) bad, because it is wasteful, irrational, and destabilising; and (c) not to be encouraged. However, the argument for a positive valuation of fashion derives not from comparison of economies with and without fashion, but from reconsidering the value of these destabilising dynamics and their value in a world of plenty and uncertainty.

There are many reasons why people follow fashion. First, they do so for attention, as a form of social communication through commodity signalling and demand for novelty.⁷ Second, following fashion is a cognitive efficiency, a way to economise on choices that are difficult or expensive to reverse.⁸ Third, it is fun, since being fashionable has its rewards when you get it right. These micro-motivations are much studied and well understood, albeit not by economists, and the individuals whose fashionable choices are most successful can be much-celebrated. Yet following fashion can still be messy and expensive, as fashion cycles cause the consumption abandonment of clothes, music, furnishings, appliances, cars, and so forth, long before those goods are physically worn out or fully depreciated. The practice seems like waste to the well-tempered economist.

Yet, considered at the levels of an individual's lifestyle and of the whole economy, this accelerated depreciation, which on a first look seems merely costly, may in fact be socially beneficial. In a world endowed with continual flows of new goods and technologies, and therefore with the presence of consumer mistakes where investments in physical or social capital are concerned, fashion may function as a mechanism that periodically and speculatively liquidates some elements of a consumer's lifestyle. It makes room for new ideas to be adopted, and allows past mistakes to be mitigated. As cruel as life can be within a fashion cycle, failure is more a

Fashion may function as a mechanism that periodically and speculatively liquidates some elements of a consumer's lifestyle.

variety of experience than a terminal blow. Fashion is a game played through multiple rounds; at the beginning of each, there is the opportunity to restack your deck in response to the cards played by others. It is best understood as the consumer side of entrepreneurship: a willingness to take risks and explore new consumer lifestyles.

In an evolutionary theory of fashion, the introduction of a novel fashion trend into an agent's environment can act as a trigger that causes them to reevaluate their consumption strategies in the face of the novel stimulus. The consumption strategies they adopt in response form the basis of new habits and routines. As the fashion trend becomes normalised, its sense of novelty dissipates to the point where a newer stimulus can induce consumers to revise their strategies yet again. Each fashion cycle begins with the origination of a novel, attention-arresting idea adopted by a network of individuals, which induces each to reorganise their own consumption systems. As the novelty of the initial stimulus inevitably declines, the resources associated with the fashion depreciate in value. This depreciation creates new opportunities for producers and consumers to enter or re-enter the market for those resources.

This process may sound like a lot of work, but it has important benefits—not just for those who

succeed in producing and consuming a fashion, but also for those who got it wrong last time by making bad investments in socially consumed assets. When a fashion cycle comes to an end, those who placed unfortunate bets during it are put back on a more nearly equal footing with those who were successfully fashionable. To be fashionable in the next cycle, fashion victor and fashion victim alike must pay the price of tooling up again in line with the latest trends.

Fashion cycles may, therefore, play a significant redistribution role in society that redeems their wasteful, throwaway aspect, which conservatives and Marxists alike abhor. Furthermore, the accelerated depreciation of fashionable goods enables them to be enjoyed secondhand by consumer subcultures whose members could not hope to purchase the goods if their early rates of monetary depreciation only reflected their physical depreciation. This point is true of both status redistribution and physical resource distribution. Just as entrepreneurship promotes economic and social mobility on the producer side, so too does fashion, in the same competitive way, on the consumer side. Fashion may be part of the open-system mechanism of economic growth.

Fashion victor and fashion victim alike must pay the price of tooling up again in line with the latest trends.

Fashion and growth

The demand-triggering role of changes in fashion potentially mitigates a problem for affluent economies where desires for progress and security clash. Rising incomes open up new consumption possibilities and, with them, new risks. Consumer choices become much more like investment decisions when unfamiliar, new, or previously unaffordable products are involved. So, too, when consumption has a social dimension and the reactions of onlookers must be taken into account. A key problem for sustaining economic growth in affluent economies is that income available for discretionary spending does not have to be spent. The affluent consumer may have the ability to spend, but demand may dry up if

they lack the will to do so. Keynesians supposed that government intervention was a way out of this trap. However, consumer fashion might be a better, and certainly more fun, mechanism for maintaining levels of discretionary spending as a proportion of rising incomes.

In an economic downturn, concerns about the security of income streams may make consumers unwilling to spend, but so, in more prosperous times, may the sense of overwhelming choice when attempting to select the right product in a functional or social sense. If one does not *have* to buy something, the problem of choosing what to spend one's discretionary income on can simply be left in the too hard basket. But by putting off the decision, one is taking away someone else's income flow and their inducement to invest. Government need not step in at this point—it is better that fashion does, exerting the pressure of social competition to overcome such weakness of the will to consume, and helping to keep the economy closer to its potential growth trajectory.

At the micro level of firms, fashion cycles are inherently disruptive. Attempts to insure against them by diversification, for example, carry costs in terms of forgone economies of scope.⁹ However, there are lessons to be learned from research on the effects of investment spikes at the macroeconomic level, such as those associated with tendencies of firms to invest in lumps and bumps, rather than in the small adjustments of capital stock that standard economic theory suggests they should make. The theme of lumpy replacement cycles has become increasingly popular amongst macroeconomists endeavouring to explain volatile investment patterns amongst firms.¹⁰ A number of conjectures have been made about a link between macroeconomic fluctuations and investment spikes, based around the recognition that times of economic downturn are the best times to replace capital stock.¹¹ Caballero and Hammour found that job destruction is much more responsive to business cycles than job creation. This led them to argue that recessions are a time of structural 'cleansing,' when outdated or unprofitable techniques and products are pruned out of the system.¹² The consequence of this is productivity growth.

Fashion may be conceived of as the same mechanism operating on the consumer side.¹³ It is irrational only in the sense that recessions are

irrational: they appear so from a static perspective that takes no account of the value of novelty and of the mechanisms that create and promote it. Recessions are dynamically valuable in the same sense that fashion is, in facilitating the adoption of new ideas and in triggering the re-coordination this requires. Without such mechanisms, aggregate economies and individual consumer lifestyles can become locked in to bad asset choices and the cumulative consequences of past mistakes. Fashion, like recessions, is a refreshing mechanism that forgives and annuls past mistakes. It is an ongoing dynamic good, not just transitory fun.

In this view, fashion is consumer entrepreneurship. Uncertainty about what will become the dominant standard in a market is good for productivity growth, as it promotes experimentation. This experimentation tends to slow once a standard has emerged and production becomes concentrated in the hands of those who have arrived at the least costly way of manufacturing particular goods. Yet the motivation to innovate is supplied by the rich pickings that await those who place their bets on the winning standard, and those who work out how to make their innovations win, by solving technological problems.

In the context of fashion cycles, this argument must be cast more in terms of uncertainty about aesthetic issues than technological ones. But, as such, it now properly involves both producers and consumers. When a product goes out of fashion, its producers and past consumers are forced into problem-solving mode: they must decide what to replace it with. Although it is costly to liquidate or discard some of their assets, dealing with this setback is likely to result in them emerging with enhanced knowledge about how to make optimal production or consumption choices. Furthermore, since the end of one fashion cycle is not the beginning of a clearly defined new fashion, but rather a time for experimentation within new parameters, there is everything to play for. It pays to be bold and creative, whether one is a consumer or a producer, given that there is the possibility of becoming a leader and also the fashion mechanism write-off if one happens to be wrong. Fashion incentives, in other words, may function as growth incentives.

Rather than being wasteful, fashion cycles and consumers' taste for novelty appear to play an important role in encouraging flexibility and

experimentation in consumption strategies, and in promoting the development of consumer knowledge and experience. Competition for social standing is always a more complex affair than simply displaying how much money one can afford to burn on a particular kind of consumption.¹⁴ It also involves the display of skill in making the right consumer choices, to avoid becoming a 'fashion victim' by failing to play along with a fashion rule also followed by the majority. It can also involve unusual strategies that convey status as the result of signalling that one is part of a 'hip' minority with expertise and insight ahead of the field.¹⁵ The fashion-leading consumer thus has many of the capabilities of an entrepreneur, as an agent alert to gaps in markets and to new opportunities for constructing connections.¹⁶

The extent of entrepreneurship in consumption is widely overlooked in modern economic and sociological analysis, yet if consumers were not occasionally moved by the 'animal spirits' of such

Fashion, like recessions, is a refreshing mechanism that forgives and annuls past mistakes.

risk culture, economic growth would be more limited, as would consumer surplus. Societies that focus on the comfort of everyone, rather than on the sublime pleasures of risk-taking, should therefore be expected to have relatively lower growth rates, due to low levels of entrepreneurial creativity in production and consumption. In turn, societies that systematically encourage and facilitate such seeming frivolity as fashion might actually turn out to be the most progressive.

Complexity and policy

A further issue here is the relation between fashion and the extent to which consumers are willing to adopt complex and challenging consumer lifestyles. Lifestyle complexity relates not just to the number of dimensions to a consumer lifestyle, but also to the rate at which it is updated. Consumers who choose complex lifestyles that present a relatively large number of problems will have less attention to dedicate to novel solutions to any particular

problem than consumers who choose simpler lifestyles. One would thus expect that consumers with complex lifestyles would display more herd-like behaviour, and that fashion would have a greater effect on them. Similarly, we would expect the more fashion-influenced consumers to more effectively adopt new ideas.¹⁷

Such consumers may have only small areas in which they can develop expertise to choose for themselves. They may serve in those areas as trendsetters for their peers, whilst following their peers in other respects.¹⁸ Yet the problem

Fashion is good for the economy because it is a mechanism to promote experimentation, learning, and re-coordination.

remains of how to coordinate the fashionable fit of different elements into an evolving lifestyle. Busy consumers might even delegate consumption choices to an outside authority—such as a stylist—with professional expertise in ruling on what fits together. So, although complex, busy lifestyles seem incompatible with long fashion cycles. The rapid convergence of consumer behaviour through externally supplied decision rules suggests that the greater the lifestyle complexity, the faster fashion cycles should run. Indeed, busy consumers may become exasperated by it.

In contrast, ‘classic’ styles of consumption that evolve slowly seem to be the prerogative of those whose wealth has given them a longstanding ability to consume at leisure. Such ‘old money’ consumers are rich enough to keep many problems at bay—often by following long established social rules—and, having not just ‘arrived’ (unlike the *nouveau riche*), they have built up the experience to know how to choose in novel domains. Their lack of experience outside their narrow range of deep expertise imparts a profoundly conservative bias to their choices, and their connoisseurship is such that relatively small changes in the products composing their lifestyles will be sufficient to attract their attention. Fashion will not affect them as much, indeed: they will be generally appalled by it.

Fashion effectively functions as a mechanism to induce and accelerate learning in complex lifestyles, enabling these lifestyles to become more complex still, thus improving their productivity in generating valuable consumption services. This raises an interesting policy point. There are many (especially those who subscribe to the ‘*affluenza*’ idea that the pursuit of material success is a disease) who argue that our lives are already too complex and that we would all be better off with less consumption and more simplicity. This line of thinking invariably concludes that government should, for the social good, seek to constrain the most egregious forms of consumption, which is presumed to be mostly what rich people (or, to a lesser extent, irresponsible teenagers) do. Fashion, in this view, is unsustainable consumption that ought not to be encouraged, as it gets in the way of rational economic progress by causing resources to flow to frivolous or experimental activity. This is the conservative or Marxist perspective, which to the libertarian is surely wrong; it fails to appreciate the dynamic benefits of fashion.¹⁹

Fashion is good for the economy because it is a mechanism to promote experimentation, learning, and re-coordination. It accelerates the adoption of new ideas, and mitigates the costs of bad ideas adopted in the past. It is expensive, of course, but it works in an emergent and self-organising way. The full complexity of economic growth is therefore rightfully the province of fashion as well as that of science. That should at least suggest a re-evaluation of the significance of fashion in a liberal economy, if not a change to our perspective on competition and industry policy.

Conclusion

In modern economics, the standard view is that fashion is irrational and inefficient. From a Schumpeterian or a Hayekian perspective, however, it seems to play a more positive role in stirring consumers to action that results in the growth of experience and knowledge. Fashion is consumer entrepreneurship, and has the same class of dynamic externalities as business entrepreneurship. Just as an increase in the strength of competition may prompt decision-makers to explore new ways of increasing productivity, so may a change in the relative competitive

strength between status-conscious consumers force them to rethink their consumption choices. Just as firms in featherbedded markets may fail to develop new knowledge, so may consumers who opt out of social competition for the 'quiet life' fail to develop their ranges of experience and capabilities. Fashion matters because competition is a consumer as well as producer phenomenon. The absence of fashion could well be worse than its presence. There are significant payoffs to being fashionable, especially for the young. And that is good, for the experimental adoption of new ideas by the young is, ultimately, what drives long-run economic growth.

Fashion not only enforces flexibility in consumer lifestyles, but also has a positive distributional effect on consumer welfare by erasing past consumer mistakes and minimising the opportunity cost of adopting novelty. Ongoing economic growth requires not just entrepreneurship and risk-taking from producers, but also from consumers, who must find the will to buy, learn, and risk. Risk-taking behaviour inevitably involves making mistakes. Yet fashion is not just an opportunity to make mistakes, but also a mechanism for correcting them.

Fashion facilitates economic growth by providing consumers twin opportunities: to periodically liquidate their dated fashion goods, especially those that may have been consumption mistakes, as they abandon old fashion rules and adopt new ones; and to consume alternative goods that, thanks to standardisation, cater for the varying risk preferences of consumers. This process may seem wasteful from a static account, but it

is dynamically efficient in the promotion change and re-coordination that eventually registers as economic growth. Rather than being merely a feature of bourgeois leisure, engaging with fashion trends might be better understood as a process of creative destruction that works through social pressure to provide a fresh and self-regulated impetus for consumer learning.²⁰ Fashion cycles

Fashion is not just an opportunity to make mistakes, but also a mechanism for correcting them.

work to periodically loosen accumulated constraints on the demand side, facilitating economic growth and personal development. Fashion is part of how economies evolve, not of how they decay. It is another name for consumer entrepreneurship: and the more we have of that, the better.

Thanks to Stuart Cunningham and John Hartley for helpful and insightful discussion of this article. Thanks also to an anonymous referee, who correctly pointed out many troubling things that have hopefully been corrected or at least appropriately signalled.

This article is based on Andreas Chai, Peter E. Earl, and Jason Potts, 'Fashion, Growth and Welfare: An Evolutionary Approach,' *Advances in Austrian Economics* 10 (2007), 187–207.