static nature of preferences in a world of change. This will involve me in taking the analysis one layer deeper than even Houthakker was proposing, for I will be attempting to shed new light on the reasons why consumers want particular characteristics in the things they choose. Marketing researchers are, of course, used to trying to penetrate this layer of decision processes, but they may none the less profit from my distinctive analysis.

3 The Enterprising Consumer

3.1 INTRODUCTION

If one intends to discuss the nature of consumer behaviour in terms of analogies with the behaviour of firms, it is vital that one uses an appropriate analysis of corporate behaviour as one’s reference point. In the previous chapter I examined previous attempts to examine households as if they were production systems; all these attempts sought to view consumers from the standpoint of the neoclassical theory of the firm. The neoclassical theory is concerned almost exclusively with optimal choices of production technology and product mix/scale of outputs, in particular with how these choices will change, in both the short and long run, following the addition of ‘new pages to the book of blueprints’ and changes in relative prices of inputs and/or outputs. Substitution possibilities are at all times the centre of attention. With such a theory of the firm as its inspiration, it is hardly surprising that the orthodox approach to household production theory takes the form it does, focusing on marginal changes in feasible and optimally preferred mixes of characteristics outputs that may follow changes in the list of technological possibilities and changes in relative prices.

As a way of seeing firms—let alone consumers—in a turbulent world, the neoclassical approach has major limitations. It does not take much thought to realise that there is more to running a firm than the reactive activity of making marginal substitutions amongst factor inputs and product outputs as relative prices change; yet this is about all that the decision maker in the neoclassical firms seems to do. Neoclassical economists typically do not concern themselves with problems of internal organisation and management in firms; with methods of discovering, creating and grasping opportunities for growth; or with managers’ strategic actions aimed at dealing with the possibility that they may be
mugged by sudden, discontinuous ('kaleidic') shifts in market demands for their products, in supplies of their inputs and in government regulations, by striking workers or by rivals' technological breakthroughs; and so on. (See Kay, 1982, 1984, for penetrating discussions of these omissions.) The neoclassical firm is not usually represented as something whose long-term ability to survive and grow depends crucially upon the entrepreneurial and judgemental skills of its leaders. Yet a firm directed by people who can neither anticipate nor control events—both in the marketplace and within the corporate organisation—will at least as much success as its rivals is going, sooner or later, to be driven out of business. To seek to justify ignoring such matters by saying that the market will eventually be populated only with skilled survivors seems a highly unconstructive stance to adopt if adjustment processes are long and painful and if the nature of the necessary skills is always changing.

The absence of any discussion of such issues in the neoclassical theory of the firm would not be significant in attempts to use the theory in relation to consumer behaviour if precisely the same issues did not arise in this context. However, it does not take much thought to realise that, in a turbulent world, there is much more to being a consumer than the reactive activity of making marginal substitutions in a household production system as opportunities change. If one is to be a consumer whose life involves non- abortive attempts to take on new activities and achieve enhanced social standing, one needs to possess considerable entrepreneurial, managerial and judgemental flair. Without it, one's life will get into a distressing mess or at best stagnate, as the following examples may serve to suggest (see also section 1.1). The fact that second-hand markets are highly imperfect means that products which fail to come up to expectations can only be exchanged to the accompaniment of a proportionately significant capital loss. A failure of one's supplies of finance to come up to expectations may result in a forced need to dispose of parts of one's wealth on highly unfavourable terms. A career choice based on a mistaken expectation can send one off towards a 'dead end' from which one may be unable to return, owing to having become 'too old' by the time one discovers the error. A choice of job or leisure activity may turn out to be a nightmare beyond one's control if one is unexpectedly unable to manage the events it entails. (Just think of executive stress and its accom-

panying ulcers, or the hazards of affairs of the heart and pursuits such as sailing, skiing, hang-gliding, bush-walking, and attending football matches, to name but a few.) Like firms, consumers risk being 'mugged', not merely in the conventional sense of the word, but also by unfaithful spouses, by used car salespersons, by government policies, by firms that introduce products which render previously purchased goods obsolete, out of fashion and/or less valuable in second-hand markets, and so on. If consumers are to be able to make anything at all out of their lives in a world of turbulence and surprises, they must, like firms, have at least some degree of control over the events they encounter, and to achieve this they must possess some degree of predictive competence.

In Chapter 4, I will be discussing the anticipation and control of events in relation to consumer motivation—what consumers are trying to produce with their choices—and later chapters will examine processes of expectation formation. In the present chapter, my intention is to show how a recognition of the 'entrepreneurial' facet of the business of being a consumer takes the focus of theoretical analysis away from relative prices and marginal substitutions. This will involve me in making considerable use of recent developments in behavioural approaches to the theory of the firm. The analysis is divided up into four main sections. Sections 3.2 and 3.3 are concerned with the various levels of abstraction and degrees of problem-solving activity in terms of which consumers try to cope with the complexity of their lives. These discussions involve a substantial departure from the philosophy of neoclassical consumer theory in both its Hicksian and 'new', production-theoretic guises; for orthodox analysis, in respect of consumers as well as firms, normally treats all choices as if they are essentially the same. (The 'utility tree' literature mentioned in section 2.4 is an important exception within the neoclassical paradigm that deserves to be more widely mentioned in intermediate microeconomics courses.) Section 3.4 examines how we would expect choices characteristically to be affected by perceptions of increased environmental turbulence. In the last section (3.5), there is a discussion of the question of household organisation and disintegration, something that warrants attention given changing male/female role expectations and the frequency with which marriages nowadays end in divorce.
mugged by sudden, discontinuous (‘kaleidic’) shifts in market demands for their products, in supplies of their inputs and in government regulations, by striking workers or by rivals’ technological breakthroughs; and so on. (See Kay, 1982, 1984, for penetrating discussions of these omissions.) The neoclassical firm is not usually represented as something whose long-term ability to survive and grow depends crucially upon the entrepreneurial and judgemental skills of its leaders. Yet a firm directed by people who can neither anticipate nor control events—both in the marketplace and within the corporate organisation—will at least as much success as its rivals is going, sooner or later, to be driven out of business. To seek to justify ignoring such matters by saying that the market will eventually be populated only with skilled survivors seems a highly unconstructive stance to adopt if adjustment processes are long and painful and if the nature of the necessary skills is always changing.

The absence of any discussion of such issues in the neoclassical theory of the firm would not be significant in attempts to use the theory in relation to consumer behaviour if precisely the same issues did not arise in this context. However, it does not take much thought to realise that, in a turbulent world, there is much more to being a consumer than the reactive activity of making marginal substitutions in a household production system as opportunities change. If one is to be a consumer whose life involves non-abortive attempts to take on new activities and achieve enhanced social standing, one needs to possess considerable entrepreneurial, managerial and judgemental flair. Without it, one’s life will get into a distressing mess or at best stagnate, as the following examples may serve to suggest (see also section 1.1). The fact that second-hand markets are highly imperfect means that products which fail to come up to expectations can only be exchanged to the accompaniment of a proportionately significant capital loss. A failure of one’s supplies of finance to come up to expectations may result in a forced need to dispose of parts of one’s wealth on highly unfavourable terms. A career choice based on a mistaken expectation can send one off towards a ‘dead end’ from which one may be unable to return, owing to having become ‘too old’ by the time one discovers the error. A choice of job or leisure activity may turn out to be a nightmare beyond one’s control if one is unexpectedly unable to manage the events it entails. (Just think of executive stress and its accom-

panying ulcers, or the hazards of affairs of the heart and pursuits such as sailing, skiing, hang-gliding, bush-walking, and attending football matches, to name but a few.) Like firms, consumers risk being ‘mugged’, not merely in the conventional sense of the word, but also by unfaithful spouses, by used car salespersons, by government policies, by firms that introduce products which render previously purchased goods obsolete, out of fashion and/or less valuable in second-hand markets, and so on. If consumers are to be able to make anything at all out of their lives in a world of turbulence and surprises, they must, like firms, have at least some degree of control over the events they encounter, and to achieve this they must possess some degree of predictive competence.

In Chapter 4, I will be discussing the anticipation and control of events in relation to consumer motivation—what consumers are trying to produce with their choices—and later chapters will examine processes of expectation formation. In the present chapter, my intention is to show how a recognition of the ‘entrepreneurial’ facet of the business of being a consumer takes the focus of theoretical analysis away from relative prices and marginal substitutions. This will involve me in making considerable use of recent developments in behavioural approaches to the theory of the firm. The analysis is divided up into four main sections. Sections 3.2 and 3.3 are concerned with the various levels of abstraction and degrees of problem-solving activity in terms of which consumers try to cope with the complexity of their lives. These discussions involve a substantial departure from the philosophy of neoclassical consumer theory in both its Hicksian and ‘new’ production-theoretic guises; for orthodox analysis, in respect of consumers as well as firms, normally treats all choices as if they are essentially the same. (The ‘utility tree’ literature mentioned in section 2.4 is an important exception within the neoclassical paradigm that deserves to be more widely mentioned in intermediate microeconomics courses.) Section 3.4 examines how we would expect choices characteristically to be affected by perceptions of increased environmental turbulence. In the last section (3.5), there is a discussion of the question of household organisation and disintegration, something that warrants attention given changing male/female role expectations and the frequency with which marriages nowadays end in divorce.
3.2 DELIBERATIVE AND ROUTINE DECISIONS

If a decision maker has easy access to information and is not prone to suffer from information overloading, and if her decision-making environment is relatively placid, then it would be natural to predict that she would think carefully about possible opportunity costs each time she needed to take a decision. On recognising a problem, she would seek information about potential solutions, evaluate them in detail and choose the seemingly best available option. Such a decision process seems plausible if the decision maker faces information problems, or if the environment is turbulent. First consider a situation where the environment is relatively stable but information is costly to obtain and process. Here, a decision maker who has evolved or has been given suitable simple selection rules as means of dealing with particular problems can rapidly 'decide' what to do without going through the process of seeking out and evaluating alternatives. Such decision rules we may term 'routines' or 'recipes for success'. Often they will simply involve repeating previous actions: for example, 'there is only one tin of baked beans in the cupboard, so I must get two tins of Heinz at K-Mart on Friday night'. (This is a five-element routine, for it involves consideration of neither (1) substitutes for baked beans, nor (2) alternative volumes of beans, nor (3) alternative brands, nor (4) alternative shopping venues, nor (5) alternative shopping times.) Sometimes a particular routine will be unworkable, so subsidiary ones may be brought contingently into play, as automatically as one changes down a gear when a slow-moving car thwarts one's progress when driving up a steep hill. (As an aside we might usefully note that driving routines can be economised upon at some cost by buying a vehicle with automatic transmission and thereby delegating the 'decision' to the car itself.)

In using any set of contingent routines, the decision maker is experimenting, for their success is not guaranteed. But if they usually enable her to keep things under control and there are no reasons to doubt they could continue to do so, the decision maker may feel confident in keeping in the set a rule of inertia: 'if it works, don't mess with it' (see Hoch, 1984, and, noting that a rule for keeping rules is an example of a 'strange loop', see sections 1.2 and 6.2). Thereby the hopeful consumer frees her mind for the task of deciding what to make of unfamiliar situations, albeit at the cost of not discovering the kinds of results that can be obtained by using routines which do not yet have proven track records. To make successful decisions, the chooser does not need to know how her recipes for success work; she merely needs to be in possession of a set that does work. In this respect, the image of a 'recipe for success' is a useful one to bear in mind; strictly speaking, cooking is chemistry of a somewhat complex kind, but a person armed with a recipe book of instructions on how to prepare meals for particular occasions may be able to impress her party or dinner guests despite having no knowledge at all of chemistry.

A turbulent environment would at first sight appear to be a place where such procedure-based forms of behaviour are not going to be viable. Certainly, there are many cases where decision makers can be seen to have got into difficulties because they tried to apply to newly turbulent environments routines that had worked very well in more placid times (see Earl, 1984). However, in many unfamiliar situations, a detailed evaluation of options may be precluded by complexity and ignorance. Hence, when trying to cope under pressure with surprises, the decision maker may be forced for want of any better ideas to seek out familiar patterns under the surface of her problem—patterns to which she has attached particular routines for making selections. What looks like agonised or cooly calculating deliberation may therefore actually end up reducing to a form of routine behaviour. Experimental investigations of ways in which people play chess—a game that is only fascinating as a result of bounded rationality allowing surprises within a well-defined rule structure—suggest such a view warrants serious consideration. This work (Chase and Simon, 1973a, b) suggests that 'good' chess players win more frequently not because they can think further ahead and over vastly more options than can novice players; rather, they have larger repertoires of 'successful' patterns to look out for and are often no more able to specify precisely what a particular move is expected to achieve in respect of the state of play some moves into the future. This is not to say that the expert players always reach snap decisions without looking at a variety of possibilities, but it could be taken to imply that they ultimately choose in a manner that might usefully be described as programmed or
3.2 DELIBERATIVE AND ROUTINE DECISIONS

If a decision maker has easy access to information and is not prone to suffer from information overloading, and if her decision-making environment is relatively placid, then it would be natural to predict that she would think carefully about possible opportunity costs each time she needed to take a decision. On recognising a problem, she would seek information about potential solutions, evaluate them in detail and choose the seemingly best available option. Such a decision process seems plausible if the decision maker faces information problems, or if the environment is turbulent. First consider a situation where the environment is relatively stable but information is costly to obtain and process. Here, a decision maker who has evolved or has been given suitable simple selection rules as means of dealing with particular problems can rapidly 'decide' what to do without going through the process of seeking out and evaluating alternatives. Such decision rules we may term 'routines' or 'recipes for success'. Often they will simply involve repeating previous actions: for example, 'there is only one tin of baked beans in the cupboard, so I must get two tins of Heinz at K-Mart on Friday night'. (This is a five-element routine, for it involves consideration of neither (1) substitutes for baked beans, nor (2) alternative quantities of beans, nor (3) alternative brands, nor (4) alternative shopping venues, nor (5) alternative shopping times.) Sometimes a particular routine will be unworkable, so subsidiary ones may be brought contingently into play, as automatically as one changes down a gear when a slow-moving car thwarts one's progress when driving up a steep hill. (As an aside we might usefully note that driving routines can be economised upon at some cost by buying a vehicle with automatic transmission and thereby delegating the 'decision' to the car itself.)

In using any set of contingent routines, the decision maker is experimenting, for their success is not guaranteed. But if they usually enable her to keep things under control and there are no reasons to doubt they could continue to do so, the decision maker may feel confident in keeping in the set a rule of inertia: 'if it works, don't mess with it' (see Hoch, 1984, and, noting that a rule for keeping rules is an example of a 'strange loop', see sections 1.2 and 6.2). Thereby the hopeful consumer frees her mind for the task of deciding what to make of unfamiliar situations, albeit at the cost of not discovering the kinds of results that can be obtained by using routines which do not yet have proven track records. To make successful decisions, the chooser does not need to know how her recipes for success work; she merely needs to be in possession of a set that does work. In this respect, the image of a 'recipe for success' is a useful one to bear in mind: strictly speaking, cooking is chemistry of a somewhat complex kind, but a person armed with a recipe book of instructions on how to prepare meals for particular occasions may be able to impress her party or dinner guests despite having no knowledge at all of chemistry.

A turbulent environment would at first sight appear to be a place where such procedure-based forms of behaviour are not going to be viable. Certainly, there are many cases where decision makers can be seen to have got into difficulties because they tried to apply to newly turbulent environments routines that had worked very well in more placid times (see Earl, 1984). However, in many unfamiliar situations, a detailed evaluation of options may be precluded by complexity and ignorance. Hence, when trying to cope under pressure with surprises, the decision maker may be forced for want of any better ideas to seek out familiar patterns under the surface of her problem -patterns to which she has attached particular routines for making selections. What looks like agonised or coolly calculating deliberation may therefore actually end up reducing to a form of routine behaviour. Experimental investigations of ways in which people play chess—a game that is only fascinating as a result of bounded rationality allowing surprising within a well-defined rule structure—suggest such a view warrants serious consideration. This work (Chase and Simon, 1973a, b) suggests that 'good' chess players win more frequently not because they can think further ahead and over vastly more options than can novice players; rather, they have larger repertoires of 'successful' patterns to look out for and are often no more able to specify precisely what a particular move is expected to achieve in respect of the state of play some moves into the future. This is not to say that the expert players always reach snap decisions without looking at a variety of possibilities, but it could be taken to imply that they ultimately choose in a manner that might usefully be described as programmed or
reducible to a system of principles. This is the essence of the thinking underlying the analysis of deliberation put forward in Chapters 6-8 of the present book.

The distinction between routine behaviour and deliberative choice (programmed or otherwise) has often been drawn in behavioural literature on corporate and bureaucratic decision making (see Cyert and March, 1963, Steiner, 1974, March and Olsen, 1976, and Nelson and Winter, 1982). Yet it is surprisingly infrequently encountered in non-neoclassical discussions of consumer behaviour. Up until about 1980, even marketing texts on consumer behaviour followed the economist's approach of depicting consumers as if they always reached decisions only after careful thought about possible options. This seems surprising, given that the marketing literature on industrial buyer behaviour carefully distinguished between 'new task', 'straight rebuy' and 'modifed rebuy' decisions and made much of limited search undertaken by firms (the paper by Cunningham and White, 1974, includes empirical material on the absence of careful search that neoclassical theorists might find rather disturbing). Things changed following the publication of a provocative paper by Obshwisky and Granbois (1979). They argued (1979, pp. 98-9) that:

For many purchases a decision process never occurs, not even on the first purchase... Purchases can occur out of necessity: they can be derived from culturally mandated lifestyles or from interlocked purchases; they can reflect preferences acquired in early childhood; they can respond from simple conformity to group norms or from imitation of others; purchases can be made exclusively on recommendations from personal or non-personal sources; they can be made on the basis of surrogates of various types; or they can even occur on a random or superficial basis...

...even when purchase behaviour is preceded by a choice process it is likely to be very limited. It typically involves the evaluation of few alternatives, little external search, few evaluative criteria, and simple evaluation models. There is very little evidence that consumers engage in the very extended type of search and evaluation a product testing organisation like Consumers' Union performs routinely.

So now marketing texts normally include at least one apologetic chapter that, despite the small volume of literature on simplifying choice behaviour, tries to correct the impression given in earlier editions.

Unfortunately, there are signs that marketeers have incompletely understood the nature of such behaviour. Typically they distinguish between 'high-involvement' and 'low-involvement' choices, arguing that if a choice matters a lot to a consumer she will go to a great deal of trouble in making her selection. However, a consumer may be so highly involved with a particular idea that she fails even to think of alternatives. For example, there can be few more important decisions in life than those concerning getting married and having children, yet Richards (1985) found that a majority of her sample of Australian couples had not considered the possibility of not marrying and having children (though many did consider alternative times for having children). There are many passionate believers in the conventional Western family who have never seriously examined its opportunity costs and who would find suggestions about other ways of life simply unthinkable (see sections 5.2 and 6.2).

Whilst marketeers may have missed some of the message that Obshwisky and Granbois sought to convey, orthodox economists seem utterly oblivious of it: they typically read neither the Journal of Consumer Research, in which the article originally appeared, nor marketing texts that have tried to grapple with it. Economists use routines themselves to avoid information overload and normally end up writing, suboptimally, as if consumers always consider opportunity costs prior to choice. (Many seem aware that Becker, 1962, once proposed an analysis of demand based on random behaviour, but few—Hey, 1983a, is an exception—have bothered to take such an idea at all seriously).

3.3 STRATEGIC PLANNING BY HOUSEHOLDS

The idea that households engage in strategic planning in a manner somewhat akin to corporations is one that I have yet to see an economist putting forward in a text on consumer behaviour. In high-level analysis, neoclassical economists typically follow Debreu (1959) in depicting the consumer as choosing, once and for all, between rival fully specified bundles of commodities; time and uncertainty are taken account of in these hypothetical acts of choice by defining commodities, not merely according to their physical characteristics and place of delivery, but also with
reducible to a system of principles. This is the essence of the thinking underlying the analysis of deliberation put forward in Chapters 6–8 of the present book.

The division between routine behaviour and deliberative choice (programmed or otherwise) has often been drawn in behavioural literature on corporate and bureaucratic decision making (see Cyert and March, 1963; Steinbruner, 1974, March and Olsen, 1976, and Nelson and Winter, 1982). Yet it is surprisingly infrequently encountered in non-neoclassical discussions of consumer behaviour. Up until about 1980, even marketing texts on consumer behaviour followed the economist’s approach of depicting consumers ‘as if’ they always reached decisions only after careful thought about possible options. This seems surprising, given that the marketing literature on industrial buyer behaviour carefully distinguished between ‘new task’, ‘straight rebuy’ and ‘modified rebuy’ decisions and made much of limited search undertaken by firms (the paper by Cunningham and White, 1974, includes empirical material on the absence of careful search that neoclassical theorists might find rather disturbing). Things changed following the publication of a provocative paper by Oshavsky and Granbois (1979). They argued (1979, pp. 98–9) that:

For many purchases a decision process never occurs, nor even on the first purchase... Purchases can occur out of necessity: they can be derived from culturally mandated lifestyles or from interlocked purchase; they can reflect preferences acquired in early childhood; they can result from simple conformity to group norms or from imitation of others; purchases can be made exclusively on recommendations from personal or non-personal sources; they can be made on the basis of surrogates of various types; or they can even occur on a random or superficial basis....

...even when purchase behaviour is preceded by a choice process it is likely to be very limited. It typically involves the evaluation of few alternatives, little external search, few evaluative criteria, and simple evaluation models. There is very little evidence that consumers engage in the very extended type of search and evaluation a product testing organisation like Consumers’ Union performs routinely.

So now marketing texts normally include at least one apologetic chapter that, despite the small volume of literature on simplifying choice behaviour, tries to correct the impression given in earlier editions.

Unfortunately, there are signs that marketers have incompletely understood the nature of such behaviour. Typically they distinguish between ‘high-involvement’ and ‘low-involvement’ choices, arguing that if a choice matters a lot to a consumer she will go to a great deal of trouble in making her selection. However, a consumer may be so highly involved with a particular idea that she fails even to think of alternatives. For example, there can be few more important decisions in life than those concerning getting married and having children, yet Richards (1985) found that a majority of her sample of Australian couples had not considered the possibility of not marrying and having children (though many did consider alternative times for having children). There are many passionate believers in the conventional Western family who have never seriously examined its opportunity costs and who would find suggestions about other ways of life simply unthinkable (see sections 5.2 and 6.2).

Whilst marketers may have missed some of the message that Oshavsky and Granbois sought to convey, orthodox economists seem utterly oblivious of it: they typically read neither the Journal of Consumer Research, in which the article originally appeared, nor marketing texts that have tried to grapple with it. Economists use routines themselves to avoid information overload and normally end up writing, suboptimally, as if consumers always consider opportunity costs prior to choice. (Many seem aware that Becker, 1962, once proposed an analysis of demand based on random behaviour, but few—Hey, 1983a, is an exception—have bothered to take such an idea at all seriously).

3.3 STRATEGIC PLANNING BY HOUSEHOLDS

The idea that households engage in strategic planning in a manner somewhat akin to corporations is one that I have yet to see an economist putting forward in a text on consumer behaviour. In high-level analysis, neoclassical economists typically follow Debreu (1959) in depicting the consumer as choosing, once and for all, between rival fully specified bundles of commodities; time and uncertainty are taken account of in these hypothetical acts of choice by defining commodities, not merely according to their physical characteristics and place of delivery, but also with
respect to their date of delivery and the ‘state of the world’ in which they are to be delivered. Thus ‘Economic Man’ orders a particular kind of child safety seat to be delivered for his car on a particular date ‘if and only if a baby has appeared in the household’ by that point. If that contingency has not arisen, the contract will not come into operation and other contracts will be invoked pertaining to the ‘no baby’ state of the world: for example, on the date in question, the person might have a claim to see a concert ‘if and only if there is no new baby and if I am not indisposed due to illness’. Economic Man does not face up to life with open-ended and incompletely mapped-out plans, the details of which are only inked in as and when particular contingencies arise. Rather, Economic Man is depicted as if he is able to insure himself against every possible eventuality and, having done so, able simply to go through life ensuring that the pertinent, and exactly appropriate, contracts are implemented.

In reality, many consumers may often devote a good deal of thought to methods of organizing their lives in a world of uncertainty and change, whilst making rather restricted use of insurance possibilities. (This is not to say that a good deal of their time is not spent simply carrying out routines; the use of routines gives them time to plan.) They try to plan their career paths, but do not make advance orders for goods to be delivered ‘if and only if I have been promoted to position P by date Q’; rather, they make the order of their acquisition of particular goods contingent on how their careers seem in fact to be shaping up. They also choose the order of their purchases with a view to the information that might become available about their possible needs for particular commodities, about what is likely to become available and about trends in relative prices (for example, ‘if I buy a compact disc player this week, it could be a mistake since prices may not yet have reached a floor level and next month’s car service could be horribly expensive; but now might be the time to get the extra fan heater while summer prices are lower—that should still leave me with enough room on the Visa card even if the worse comes to worst on the car front’). They may sometimes commit themselves to package tour holidays with detailed itineraries, as well as to travel insurance, but often they prefer to plan for themselves a loose timetable that gives them scope for lingering at places that take their fancy and for passing

swiftly through those that do not. In planning their families, they might sometimes insure against multiple births, but they do not insure against the disruption caused by any failure of their attempts to preclude children ‘for the time being’; rather, they set about revising their plans to cope with the reality of surprise. In planning their retirements they may seek to accumulate funds, and guard against dying and leaving their spouses in poverty, with the aid of life assurance policies. Having retired they may commit themselves to annuity policies on their long-dreamt-of retirement homes in Florida, Cornwall, Surfers Paradise, or wherever. But they will usually only take steps actually to create their retirement lifestyles in detail (or even plan broadly what they are going to do) when (or if) they get near to retiring at the planned point in their lives. In a turbulent world, redundancy may force them into early retirement, as may ill health, and if so, they will revise their expectations and plans, making fresh choices; they will not merely see to it that different sets of prearranged contracts come into operation.

To see why consumers opt to construct, and if necessary revise, their own rather loose plans of action for shaping their lives, instead of trying to insure against the vagaries of the world in which they find themselves, we need only consider how turbulence and complexity combine to produce many situations in which it may seem to pay not to organize one’s life via the use of contingent claims contracts. First, as Heiner (1983) has emphasized, the infinity of things which might happen means that it will be impossible to avoid being exposed to all manner of unpleasant possibilities, even if the costs of concluding any single insurance contract are small. One only needs to think of the behaviour of a hypochondriac to see how constraining it is to try to preclude undesired states, many of which will remain forever as mere imagined possibilities even if no precautions are taken. If Economic Man happens to be as sterile as the theories in which he is the central character, then all manner of baby-related contracts he might negotiate will turn out to be useless. On the other hand, if conception occurs at the first attempt, many such contracts aimed at later possible arrivals of children will also be redundant. It is likely to appear better to choose now with an eye to the possibility of a pregnancy if one is trying to start a family (for example, avoid buying a two-seater car that one would then have
respect to their date of delivery and the 'state of the world' in which they are to be delivered. Thus 'Economic Man' orders a particular kind of child safety seat to be delivered for his car on a particular date 'if and only if a baby has appeared in the household' by that point. If that contingency has not arisen, the contract will not come into operation and other contracts will be invoked pertaining to the 'no baby' state of the world; for example, on the date in question, the person might have a claim to see a concert 'if and only if there is no new baby and if I am not indisposed due to illness'. Economic Man does not face up to life with open-ended and incompletely mapped-out plans, the details of which are only inked in as and when particular contingencies arise. Rather, Economic Man is depicted as if he is able to insure himself against every possible eventuality and, having done so, able simply to go through life ensuring that the pertinent, and exactly appropriate, contracts are implemented.

In reality, many consumers may often devote a good deal of thought to methods of organizing their lives in a world of uncertainty and chance, whilst making rather restricted use of insurance possibilities. (This is not to say that a good deal of their time is not spent simply carrying out routines; the use of routines gives them time to plan.) They try to plan their career paths, but do not make advance orders for goods to be delivered 'if and only if I have been promoted to position P by date Q'; rather, they make the order of their acquisition of particular goods contingent on how their careers seem in fact to be shaping up. They also choose the order of their purchases with a view to the information that might become available about their possible needs for particular commodities, about what is likely to become available and about trends in relative prices (for example, 'if I buy a compact disc player this week, it could be a mistake since prices may not yet have reached a floor level and next month's car service could be horribly expensive; but now might be the time to get the extra fan heater while summer prices are lower—that should still leave me with enough room on the Visa card even if the worse comes to worst on the car front'). They may sometimes commit themselves to package tour holidays with detailed itineraries, as well as to travel insurance, but often they prefer to plan for themselves a loose timetable that gives them scope for lingering at places that take their fancy and for passing swiftly through those that do not. In planning their families, they might sometimes insure against multiple births, but they do not insure against the disruption caused by any failure of their attempts to preclude children 'for the time being': rather, they set about revising their plans to cope with the reality of surprise. In planning their retirements they may seek to accumulate funds, and guard against dying and leaving their spouses in poverty, with the aid of life assurance policies. Having retired they may commit themselves to annuity policies on their long-dreamt-of retirement homes in Florida, Cornwall, Surfers Paradise, or wherever. But they will usually only take steps actually to create their retirement lifestyles in detail (or even plan broadly what they are going to do) when (or if) they get near to retiring at the planned point in their lives. In a turbulent world, redundancy may force them into early retirement, as may ill health, and if so, they will revise their expectations and plans, making fresh choices; they will not merely see to it that different sets of prearranged contracts come into operation.

To see why consumers opt to construct, and if necessary revise, their own rather loose plans of action for shaping their lives, instead of trying to insure against the vagaries of the world which they find themselves, we need only consider how turbulence and complexity combine to produce many situations in which it may seem to pay not to organize one's life via the use of contingent claims contracts. First, as Heiner (1983) has emphasized, the infinity of things which might happen means that it will be impossible to avoid being exposed to all manner of unpleasant possibilities, even if the costs of concluding any single insurance contract are small. One only needs to think of the behaviour of a hypochondriac to see how constraining it is to try to preclude undesired states, many of which will remain forever as mere imagined possibilities even if no precautions are taken. If Economic Man happens to be as sterile as the theories in which he is the central character, then all manner of baby-related contracts he might negotiate will turn out to be useless. On the other hand, if conception occurs at the first attempt, many such contracts aimed at later possible arrivals of children will also be redundant. It is likely to appear better to choose now with an eye to the possibility of a pregnancy if one is trying to start a family (for example, avoid buying a two-seater car that one would then have
to trade in at some cost), but only to commit oneself to baby-specific goods once the baby's arrival seems guaranteed.

Second, we should note that amongst the infinity of things which could happen are possibilities which no one has yet imagined, either at all or in enough detail for them to be made the subjects of precise contracts. Thus while Economic Man might be able to order a 'hi-fi' system for delivery on a particular date, if and only if he has not lost his hearing, he is going to run into trouble if he starts insisting on entitlement to an as-yet-uninvented system as part of the contract: to specify the 'state of the art' at the date of delivery would open up all manner of scope for argument about what gets delivered, and it might not even be a system compatible with his existing recordings. Working out a deal to encompass as-yet-uncreated and unmentioned musical works would be even more problematical. If Economic Man tries to avoid keeping his life open ended, by concluding contracts in respect of what has thus far been envisaged, he may needlessly debar himself from great opportunities to take advantage of pleasant surprises or to cope with events that come 'like bombshells, out of the blue'.

Third, insurance markets are prone to failure due to (a) the phenomenon of 'moral hazard' (having insured themselves, some people are less than usually careful about trying to prevent the situation against which they have insured); and (b) the failure of low-risk groups to insure, which means that prohibitive premiums have to be quoted to the groups most at risk (see Akerlof, 1970). Finally, insurance and guarantee arrangements may founder in situations where it is difficult to establish what has happened (see Williamson, 1975, p. 24); for example, consumers may never be quite sure whether faulty workmanship is the cause of a breakdown, while firms may decline to offer guarantees if they find it difficult to police whether or not consumers act within the letter of such agreements. Either side could have powerful incentives to indulge in guileful, opportunistic behaviour at each other's expense. If sufficient trust cannot be engendered, any kind of transaction may be precluded.

If people have reasons for not trying to face up to the future via contingent claims contracts agreed to right now, then they will not be choosing amongst rival fully-specified bundles of commodities. Instead, they will choose first between rival plans of a strategic nature and will then try to implement them via a sequence of lower-level choices. These subsequent choices will be made in the light of how things actually seem to be shaping up, yet the options thus considered will be ranked with respect to their compatibility with the chosen plan given the commitments already made by way of implementing it. We might usefully regard the behaviour of consumers who have chosen particular plans as being programmed in a broad sense. They will only change their pathways (and often only after a good deal of heart searching—see section 6.6) if it becomes sufficiently obvious that events are not unfolding as broadly anticipated and that a better plan of action might be conceived and put into effect.

There are two senses in which we may regard households as making strategic choices amongst entire plans or in the process of executing their plans. The first is the meaning that Bausor (1982, 1984) attaches to the word 'strategy' in his looped, historical view of economic processes (see section 1.2, part (6)). Bausor's (1984, p. 366) idea of a strategy is that of a choice influenced by anticipations of what could happen, where the decision maker's preferences over rival schemes of action are not 'a simple translation of preferences over outcomes'. In other words, 'Pursuing a plan reveals nothing unambiguously about outcome preferences and attitudes towards surprise. It means only that the person judged the chosen strategy to be correct' (p. 367). A consumer's choice of a plan of action would be a strategic one in Bausor's sense if it were affected by her desire, for example, to stand prepared 'if something unexpected happens' or to be ready 'just in case X does happen'. On such an occasion the consumer would not be choosing a course of action (say, Y) in the belief that a particular state of the world (say, Z) will materialise, in which event Y would be the best course of action to have committed herself.

The second sense in which consumers may make strategic choices is one that we can generalise, to the context of household production theory, from Neil Kay's (1982, especially pp. 52-5, 1984) structuralist analysis of the firm. Kay conceptualises business 'strategy' as something distinct from 'tactics' in the light of the thinking of the nineteenth-century military strategist Carl von Clausewitz. In a war, the generals have two kinds of decisions to worry about. One is how to set up and win individual battles. The
to trade in at some cost), but only to commit oneself to baby-
specific goods once the baby’s arrival seems guaranteed.

Second, we should note that amongst the infinity of things
which could happen are possibilities which no one has yet
imagined, either at all or in enough detail for them to be made
the subjects of precise contracts. Thus while Economic Man
might be able to order a ‘hi-fi’ system for delivery on a particular
date, if and only if he has not lost his hearing, he is going to run
into trouble if he starts insisting on entitlement to an as-yet
uninvented system as part of the contract: to specify the ‘state
of the art’ at the date of delivery would open up all manner of scope
for argument about what gets delivered, and it might not even be
a system compatible with his existing recordings. Working out a
deal to encompass as-yet-uncreated and undreamt-of musical
works would be even more problematical. If Economic Man tries
to avoid keeping his life open ended, by concluding contracts in
respect of what has thus far been envisaged, he may needlessly
dehar himself from great opportunities to take advantage of
pleasant surprises or to cope with events that come ‘like bomb-
shells, out of the blue’.

Third, insurance markets are prone to failure due to (a) the
phenomenon of ‘moral hazard’ (having insured themselves,
people are less than usually careful about trying to prevent
the situation against which they have insured); and (b) the failure
of low-risk groups to insure, which means that prohibitive
premiums have to be quoted to the groups most at risk (see
Akerlof, 1970). Finally, insurance and guarantee arrangements
may founder in situations where it is difficult to establish what
has happened (see Williamson, 1975, p. 24); for example,
consumers may never be sure whether faulty workmanship is
the cause of a breakdown, while firms may decline to offer
guarantees if they find it difficult to police whether or not
consumers act within the letter of such agreements. Either side
could have powerful incentives to indulge in guileful, opportunistic
behaviour at each other’s expense. If sufficient trust cannot be
engendered, any kind of transaction may be precluded.

If people have reasons for not trying to face up to the future
via contingent claims contracts agreed to right now, then they will
not be choosing amongst rival fully-specified bundles of
commodities. Instead, they will choose first between rival plans of a

---

The Enterprising Consumer

... strategic nature and will then try to implement them via a
sequence of lower-level choices. These subsequent choices will be
made in the light of how things actually seem to be shaping up,
yet the options thus considered will be ranked with respect to
their compatibility with the chosen plan given the commitments
already made by way of implementing it. We might usefully
good the behaviour of consumers who have chosen particular
plans as being programmed in a broad sense. They will only
change their pathways (and often only after a good deal of heart
searching—see section 6.6) if it becomes sufficiently obvious that
events are not unfolding as broadly anticipated and that a better
plan of action might be conceived and put into effect.

There are two senses in which we may regard households as
making strategic choices amongst entire plans or in the process of
executing their plans. The first is the meaning that Bausor (1982,
1984) attaches to the word ‘strategy’ in his looped, historical view
of economic processes (see section 1.2, part (6)). Bausor’s (1984,
p. 366) idea of a strategy is that of a choice influenced by
anticipations of what could happen, where the decision maker’s
preferences over rival schemes of action are not ‘a simple transla-
tion of preferences over outcomes’. In other words, ‘Pursuing a
plan reveals nothing unambiguously about outcome preferences
and attitudes towards surprise. It means only that the person
judged the chosen strategy to be correct’ (p. 367). A consumer’s
choice of a plan of action would be a strategic one in Bausor’s
sense if it were affected by her desire, for example, to stand
prepared ‘if something unexpected happens’ or to be ready ‘just
in case X does happen’. On such an occasion the consumer would
not be choosing a course of action (say, Y) in the belief that a
particular state of the world (say, Z) will materialise, in which
event Y would be the best course of action to have committed
herself.

The second sense in which consumers may make strategic
choices is one that we can generalise, to the context of household
production theory, from Neil Kay’s (1982, especially pp. 52–5,
1984) structuralist analysis of the firm. Kay conceptualises business
strategy as something distinct from ‘tactics’ in the light of the
thinking of the nineteenth-century military strategist Carl von
Clausewitz. In a war, the generals have two kinds of decisions to
worry about. One is how to set up and win individual battles. The
other is which combinations of battles they should get involved with in order to win the war. The former, Clausewitz called tactics; the latter, strategy. In business behaviour, as depicted by Kay, tactical choices include pricing and output choices for a particular product that a firm makes, given the conditions and scale of production of the firm's other outputs—outputs that may be seen as linked together in particular ways with the product in question. Strategic choices, on the other hand, include questions about which choices of activity combinations to engage in, given apparent cost and revenue possibilities. A strategic question might then be does it make sense for us to start producing aluminum tennis racquets, given that we already produce aluminum skis, or would it be better to start producing ski-jackets and sell them under our brand name? But a tactical decision might be given the change in popularity of tennis whilst we've been getting our tennis racquets ready for production, how should we set our racquet prices? Some readers may have noticed that the orthodox analysis of the firm is essentially concerned with tactical choices of price and output, and even treats investment decisions in tactical terms, since linkages between different production activities are rarely mentioned. However, it should also be noticed that, even once investment decisions have been made, it is by no means always appropriate to treat the pricing of an individual product as a tactical decision, since its price may have repercussions for the sales of other products in the firm's catalogue. Wherever one activity is in some way linked to another, choice becomes strategic in Kay's sense of the word (see sections 4.5 and 6.5, as well as the next section).

It should be evident that the 'strategic' and 'tactical' kinds of decisions that Kay has in mind might both be addressed 'strategically' à la Bausor, since both could involve unavoidable uncertainties. It should also be evident that analogous strategic and tactical choices arise in the context of consumer behaviour. For example, a young professional couple may strategically decide to try to postpone starting a family until they have both got their careers established. Given this choice of lifestyle for the immediate future, they may then choose tactically between alternative contraception technologies. Similarly, a young graduate trainee who has committed herself to a city centre job may see herself as faced with a strategic choice between, say, (a) using an old car to commute into town from the suburbs where rents are cheaper (especially the rent her parents may charge if she lives at home), and putting much of her income aside towards a house deposit; (b) commuting from the suburbs but using much of her first few years' income to make repayments on a new car instead of rushing to save up a house deposit; (c) sharing a flat in the city centre, thereby saving travel costs and time but paying higher rent, and trying to accumulate money for a house deposit whilst relying on public transport; (d) sharing a flat in the city and making great use of the city's entertainment facilities, at the cost of accumulating little capital, on the ground that 'you're only young once'; and so on. If she chooses (b) over (a), she may be doing so because a new car seems to offer reliability, something which she sees as essential if she is to get to work on time and make a good impression. Her particular choice of type of new car may also be linked with her other activities: for example, she may strategically set out to look for a station wagon 'so that I can camp in it when I go off windsurfing at weekends', because windsurfing is a sport with which she has previously become heavily involved. (Such an involvement would pose a barrier to preferring strategy (c) or (d).) As Cairncross (1988, p. 16) has observed in an early plea for the integration of production and consumption theories (his paper is cited by Becker (1965, p. 496) but by neither Lancaster nor Muth, and is proposing a much more radical programme than neoclassical household production theory has delivered) 'each fresh purchase has to be fitted, not just into an existing pattern of consumption but also into an emerging way of life'. Only at the brand level—which new station wagon?—does the choice of car become a tactical one.

Kay's view of the distinction between tactical and strategic choices may be more clearly drawn in relation to the issue of system decomposability, mentioned in section 1.2. A purely tactical choice can be defined as one in which the set of rival possibilities has been preselected by the consumer to ensure that the choice of one option at the expense of its rivals has no impact on the payoff to other choices of activity, even if each member of the set of rivals is linked with other activities. For this kind of choice to be possible, the members of the set of possibilities must be linked with other activities in identical ways. Then, by taking these common binding properties for granted, the consumer is
other is which combinations of tactics they should get involved with in order to win the war. The former, Clausewitz called tactics: the latter, strategy. In business behaviour, as depicted by Kay, tactical choices include pricing and output choices for a particular product that a firm makes, given the conditions and scale of production of the firm's other outputs—outputs that may be seen as linked together in particular ways with the product in question. Strategic choices, on the other hand, include questions about which choices of activity combinations to engage in, given apparent cost and revenue possibilities. A strategic question might thus be 'does it make sense for us to start producing aluminium tennis racquets, given that we already produce aluminium skis, or would it be better to start producing ski-jackets and sell them under our brand name?' But a tactical decision might be given the change in popularity of tennis whilst we've been getting our tennis racquets ready for production, how should we set our racquet prices? Some readers may have noticed that the orthodox analysis of the firm is essentially concerned with tactical choices of price and output, and even treats investment decisions in tactical terms, since linkages between different production activities are rarely mentioned. However, it should also be noticed that, even once investment decisions have been made, it is by no means always appropriate to treat the pricing of an individual product as a tactical decision, since its price may have repercussions for the sales of other products in the firm's catalogue. Wherever one activity is in some way linked to another, choice becomes strategic in Kay's sense of the word (see sections 4.5 and 6.5, as well as the next section).

It should be evident that the 'strategic' and 'tactical' kinds of decisions that Kay has in mind might both be addressed 'strategically' à la Bausor, since both could involve unavoidable uncertainties. It should also be evident that analogous strategic and tactical choices arise in the context of consumer behaviour. For example, a young professional couple may strategically decide to try to postpone starting a family until they have both got their careers established. Given this choice of lifestyle for the immediate future, they may then choose tactically between alternative contraception technologies. Similarly, a young graduate trainee who has committed herself to a city centre job may see herself as faced with a strategic choice between, say, (a) using an old car to commute into town from the suburbs where rents are cheaper (especially the rent her parents may charge if she lives at home), and putting much of her income aside towards a house deposit; (b) commuting from the suburbs but using much of her first few years' income to make repayments on a new car instead of rushing to save up a house deposit; (c) sharing a flat in the city centre, thereby saving travel costs and time but paying higher rent, and trying to accumulate money for a house deposit whilst relying on public transport; (d) sharing a flat in the city and making great use of the city's entertainment facilities, at the cost of accumulating little capital, on the ground that 'you're only young once'; and so on. If she chooses (b) over (a), she may be doing so because a new car seems to offer reliability, something which she sees as essential if she is to get to work on time and make a good impression. Her particular choice of type of new car may also be linked with her other activities; for example, she may strategically set out to look for a station wagon 'so that I can camp in it when I go off windsurfing at weekends', because windsurfing is a sport with which she has previously become heavily involved. (Such an involvement would pose a barrier to preferring strategy (c) or (d).) As Cairncross (1988, p. 16) has observed in an early plea for the integration of production and consumption theories (his paper is cited by Beeker (1965, p. 496) but by neither Lancaster nor Muth, and is proposing a much more radical programme than neoclassical household production theory has delivered) 'each fresh purchase has to be fitted, not just into an existing pattern of consumption but also into an emerging way of life'. Only at the brand level—which new station wagon?—does the choice of car become a tactical one.

Kay's view of the distinction between tactical and strategic choices may be more clearly drawn in relation to the issue of system decomposability, mentioned in section 1.2. A purely tactical choice can be defined as one in which the set of rival possibilities has been preselected by the consumer to ensure that the choice of one option at the expense of its rivals has no impact on the payoff to other choices of activity, even if each member of the set of rivals is linked with other activities. For this kind of choice to be possible, the members of the set of possibilities must be linked with other activities in identical ways. Then, by taking these common binding properties for granted, the consumer is
able to decompose her choice problem. For example, the consumer may choose strategically 'to buy next week, if possible, a new station wagon within the price range of $1 - $4'. Her choice is strategic in that it relates to the activities of 'commuting into town during the week' and 'camping/wind surfing at weekends.' Her choice between the rival station wagons within her budget range and available for rapid delivery is then a tactical one, made with reference to characteristics that were not considered for their strategic significance—for example, features such as 'velour versus vinyl trim' or 'soft ride versus good handling'.

Complexity is likely to force consumers often to treat choices as tactical ones when there is, in principle, scope for looking at them in strategic terms: a series of partial choices may seem the only way of confronting an indecomposable problem. Consider the question of how much it might be worth spending within a particular commodity category. I have already mentioned the use of a 'budget range' as a device for selecting a tactical choice set in respect of a decision to purchase a car. Such a price range would have been an element in a budgeting plan chosen not merely with a view to technological spill-overs between expenditure categories in the possible combinations the consumer brings to mind (for example, living a long way from work at the mercy of an old car or public transport may be incompatible with punctuality), but also with a view to the fact that various activities may produce non-trivial amounts of some common characteristics, even if they are technologically independent (for example, the amount a person spends on clothes and the amount she spends on a car may both contribute to the image that she can establish of herself). These relationships may be hard enough in themselves to assess when the person contemplates the possible results of choosing one plan at the expense of the rival she is considering. However, once a budget range has been used to define a tactical choice set for a particular category, further opportunity cost issues arise.

For example, if the consumer buys a station wagon at the lower end of her budget range, she will have smaller monthly repayments and could use the money she avoids committing to motor ing in a huge variety of ways. In principle, she might ask herself, 'do I prefer vinyl trim and lower repayments plus more trips to concerts each month, to velour trim and higher repayments, to vinyl trim plus a better camera?' and so on. In practice it would be overwhelming to try to do this for a large array of specific possibilities. Plush upholstery may help establish one's status, as may one's camera or appearance at public concerts; but, then, what value might one place on musical aspects of live concerts as opposed to foregone automotive or photographic features? Each characteristic in one category that costs time or money to obtain could warrant consideration against the characteristics that would have to be foregone from any of the other expenditure categories. The potential trade-offs seem endless. If the consumer could deal with all of these trade-offs among different characteristics and among different ways of producing particular amounts of individual characteristics, and if she could take account of all the technological spill-overs she could see, she would have no need to form budgets or think in terms of a variety of levels of choice with varying degrees of abstraction. The Kay-type dichotomy between strategy and tactics would vanish.

In practice, bounded rationality will ensure that the consumer ignores many trade-offs; her high-level choices will focus on relatively basic characteristics and general classes of products, not on precise brands (though some brands occasionally may be used as reference points); low-level choices will focus on characteristics specific to the particular category of products. At either level, highly programmed choices may be made instead of deliberative ones. For example, lifestyle plans may include a strategic intention to get married that has been incorporated without consideration of the merits or otherwise of alternative household set-ups, and marriage partners may be 'chosen' not after a good deal of searching—is this person the one for me?—but by way of doing the 'done thing' following an earlier failure to think about the possible implications of a tactical action (for example, a decision about your place or mine? that was not preceded by the question 'should we take precautions?').

It should not be a cause for surprise to find that, in situations of novelty and complexity, as well as those of high passion, consumers only consider some significant strategic implications of their choices after they have acted upon their tactical decisions (see section 6.6). For example, suppose someone decides strategically to 'purchase a decent camera' to capture the sights she sees on hiking trips. Suppose further that she has little knowledge
able to decompose her choice problem. For example, the consumer may choose strategically to buy next week, if possible, a new station wagon within the price range of $1 - $50. Her choice is strategic in that it relates to the activities of 'commuting into town during the week' and 'cycling/longdistance at weekends'. Her choice between the rival station wagons within her budget range and available for rapid delivery is then a tactical one, made with reference to characteristics that were not considered for their strategic significance—for example, features such as 'velour versus vinyl trim' or 'soft ride versus good handling'.

Complexity is likely to force consumers often to treat choices as tactical ones when there is, in principle, scope for looking at them in strategic terms: a series of partial choices may seem the only way of confronting an indecomposable problem. Consider the question of how much it might be worth spending within a particular commodity category. I have already mentioned the use of a 'budget range' as a device for selecting a tactical choice set in respect of a decision to purchase a car. Such a price range would have been an element in a budgeting plan chosen not merely with a view to technological spill-overs between expenditure categories in the possible combinations the consumer brings to mind (for example, living a long way from work at the mercy of an old car or public transport may be incompatible with punctuality), but also with a view to the fact that various activities may produce non-trivial amounts of some common characteristics, even if they are technologically independent (for example, the amount a person spends on clothes and the amount she spends on a car may both contribute to the image that she can establish of herself). These relationships may be hard enough in themselves to assess when the person contemplates the possible results of choosing one plan at the expense of the rivals she is considering. However, once a budget range has been used to define a tactical choice set for a particular category, further opportunity cost issues arise.

For example, if the consumer buys a station wagon at the lower end of her budget range, she will have smaller monthly repayments and could use the money she avoids committing to motoring in a huge variety of ways. In principle, she might ask herself, 'do I prefer vinyl trim and lower repayments plus more trips to concerts each month, to velour trim and higher repayments, to vinyl trim plus a better camera?' and so on. In practice it would be overwhelming to try to do this for a large array of specific possibilities. Plush upholstery may help establish one's status, as may one's camera or appearance at public concerts; but, then, what value might one place on musical aspects of live concerts as opposed to foregone automotive or photographic features? Each characteristic in one category that costs time or money to obtain could warrant consideration against the characteristics that would have to be foregone from any of the other expenditure categories. The potential trade-offs seem endless. If the consumer could deal with all of these trade-offs among different characteristics and among different ways of producing particular amounts of individual characteristics, and if she could take account of all the technological spill-overs she could see, she would have no need to form budgets or think in terms of a variety of levels of choice with varying degrees of abstraction. The Kay-type dichotomy between strategy and tactics would vanish.

In practice, bounded rationality will ensure that the consumer ignores many trade-offs; her high-level choices will focus on relatively basic characteristics and general classes of products, not on precise brands (though some brands occasionally may be used as reference points); low-level choices will focus on characteristics specific to the particular category of products. At either level, highly programmed choices may be made instead of deliberative ones. For example, lifestyle plans may include a strategic intention to get married that has been incorporated without consideration of the merits or otherwise of alternative household set-ups, and marriage partners may be 'chosen' not after a good deal of searching—'is this person the one for me?'—but by way of doing the 'done thing' following an earlier failure to think about the possible implications of a tactical action (for example, a decision about 'your place or mine?' that was not preceded by the question 'should we take precautions?').

It should not be a cause for surprise to find that, in situations of novelty and complexity, as well as those of high passion, consumers only consider some significant strategic implications of their choices after they have acted upon their tactical decisions (see section 6.6). For example, suppose someone decides strategically to 'purchase a decent camera' to capture the sights she sees on hiking trips. Suppose further that she has little knowledge
of photography and opts for a good quality automatic camera as her tactical choice—say, a 'Canon Snappy'. She has now equipped herself with a camera that will not accept a variety of lenses and yet, if she ends up getting 'hooked' on photography, she will come to require the ability to switch lenses. Had she thought ahead and examined the activity of photography more carefully, she would perhaps have seen a strategic reason for buying a 35 mm reflex camera with 'breach-lock' fitting for its lens. Such a camera might be somewhat less simple to operate, but it would at least leave her options open. As it is, she may to her regret find it expensive to adapt to her growing area of interest.

3.4 WAYS OF LIFE IN INCREASINGLY TURBULENT SITUATIONS: THE EVOLVING CONSUMER (1)

A consumer's recognition that some areas of her life are more hazardous and prone to variability than previously she had imagined may reflect either changes in the nature of these areas (for example, higher risks of job losses due to technological change) or simply changes in her perception of how risky some parts of life actually are (for example, she may have learnt the hard way how dangerous solo bush-walking can be, or how much it can cost to run a particular kind of car). Either way, a variety of kinds of strategic shifts stand out as likely candidates for adoption. It will be seen that all involve some costs and/or risks of error; so it will not be surprising to find people choosing different strategies, or combinations of strategic responses, even if they have started out with similar combinations of interests and commitments and have reached similar conclusions about the need to change their behaviour.

3.4.1 Take out new insurance policies
In the previous section I discussed possible barriers to the use of insurance (contingent claims contracts) for coping with uncertain environments. But it would be foolish to claim that they rule out every kind of insurance: in affluent economies, where people have a lot of valuable property and income flows they stand to lose or have damaged, insurance is big business. However, if costs of insuring are significant for administrative and transactional reasons, and if she judges herself to be less at risk than other people assessed as being in her risk category, then the consumer is likely to investigate alternatives to using the insurance market to guard against undesirable eventualities, even if policies to cover them are actually available in the market. The incentive to investigate other possibilities is enhanced by the fact that, even where it can be arranged, an insurance policy may fail to offer compensation that covers fully the costs associated with the undesired outcome to which it pertains (see sections 7.4, 8.3, 8.5 and 9.5). For example, it is indeed difficult fully to restore a badly damaged car to its pre-accident condition; while holders of life assurance policies may hardly relish the prospect of themselves being dead even if their families are well provided for, and no amount of money might suffice to stop their families' grieving in the event of their deaths.

3.4.2 Move to relatively less risky environments and products
Examples of consumers pursuing a policy of 'flight' or 'playing safe' are easy to find. Reports about the dangers of high-cholesterol diets lead people to cut their consumption of eggs, meat and dairy products, and do wonders for the sales of 'flora' margarine. The spread of AIDS leads some of the 'dirty raincoat brigade' to indulge in their sexual fantasies with the aid of pornography, not prostitutes. Expensive mistakes by motorists who have tried to run out-of-the-ordinary vehicles result in some of them switching to more mundane cars: as Car Magazine ('The Good, The Bad and the Ugly', May 1984 issue, p. 147) notes, the Toyota Corolla 'sells in huge numbers because it offers no surprises'. However, the consumer is at best likely to find herself obtaining only relative security and giving up one risk for another. A striking illustration of this concerns the fortunes of a Canadian family who migrated to the Falkland Islands in the late 1970s. They have yet to observe quite how safe their haven is in the event of the nuclear war they foresee between the superpowers, but they have already found out what it is like to be mugged by invading Argentinians. Less dramatically, we can note that the bitter experience of disappointments as a result of 'leaving it to chance' in respect of finding accommodation on a touring holiday, or tickets 'at the door' of a concert, may lead a consumer unknowingly to make advance bookings of unattractive accommodation in
of photography and opts for a good quality automatic camera as her tactical choice—say, a 'Canon Snappy'. She has now equipped herself with a camera that will not accept a variety of lenses and yet, if she ends up getting 'hooked' on photography, she will come to require the ability to switch lenses. Had she thought ahead and examined the activity of photography more carefully, she would perhaps have seen a strategic reason for buying a 35 mm reflex camera with 'breach-lock' fitting for its lens. Such a camera might be somewhat less simple to operate, but it would at least leave her options open. As it is, she may to her regret find it expensive to adapt to her growing area of interest.

3.4 WAYS OF LIFE IN INCREASINGLY TURBULENT SITUATIONS: THE EVOLVING CONSUMER (1)

A consumer's recognition that some areas of her life are more hazardous and prone to variability than previously she had imagined may reflect either changes in the nature of these areas (for example, higher risks of job losses due to technological change) or simply changes in her perception of how risky some parts of life actually are (for example, she may have learnt the hard way how dangerous solo bush-walking can be, or how much it can cost to run a particular kind of car). Either way, a variety of kinds of strategic shifts stand out as likely candidates for adoption. It will be seen that all involve some costs and/or risks of error; so it will not be surprising to find people choosing different strategies, or combinations of strategic responses, even if they have started out with similar combinations of interests and commitments and have reached similar conclusions about the need to change their behaviour.

3.4.1 Take out new insurance policies

In the previous section I discussed possible barriers to the use of insurance (contingent claims contracts) for coping with uncertain environments. But it would be foolish to claim that they rule out every kind of insurance: in affluent economies, where people have a lot of valuable property and income flows they stand to lose or have damaged, insurance is big business. However, if costs of insuring are significant for administrative and transactional reasons, and if she judges herself to be less at risk than other people assessed as being in her risk category, then the consumer is likely to investigate alternatives to using the insurance market to guard against undesirable eventualities, even if policies to cover them are actually available in the market. The incentive to investigate other possibilities is enhanced by the fact that, even where it can be arranged, an insurance policy may fail to offer compensation that covers fully the costs associated with the undesired outcome to which it pertains (see sections 7.4, 8.3, 8.5 and 9.5). For example, it is indeed difficult fully to restore a badly damaged car to its pre-accident condition; while holders of life assurance policies may hardly relish the prospect of themselves being dead even if their families are well provided for, and no amount of money might suffice to stop their families' grieving in the event of their deaths.

3.4.2 Move to relatively less risky environments and products

Examples of consumers pursuing a policy of 'flight' or 'playing safe' are easy to find. Reports about the dangers of high-cholesterol diets lead people to cut their consumption of eggs, meat and dairy products, and do wonders for the sales of 'flora' margarine. The spread of AIDS leads some of the 'dirty raincoat brigade' to indulge in their sexual fantasies with the aid of pornography, not prostitutes. Expensive mistakes by motorists who have tried to run out-of-the-ordinary vehicles result in some of them switching to more mundane cars: as Car Magazine ('The Good, The Bad and the Ugly', May 1984 issue, p. 147) notes, the Toyota Corolla 'sells in huge numbers because it offers no surprises'. However, the consumer is at best likely to find herself obtaining only relative security and giving up one risk for another. A striking illustration of this concerns the fortunes of a Canadian family who migrated to the Falkland Islands in the late 1970s. They have yet to observe quite how safe their haven is in the event of the nuclear war they foresee between the superpowers, but they have already found out what it is like to be mugged by invading Argentinians. Less dramatically, we can note that the bitter experience of disappointments as a result of 'leaving it to chance' in respect of finding accommodation on a touring holiday, or tickets 'at the door' of a concert, may lead a consumer unknowingly to make advance bookings of unattractive accommodation in
relatively uninspiring locations, or for concerts that in the event she will be unable to attend. Mises (1966, p. 113) is by no means exaggerating wildly when he claims that 'Every action is speculative, there is in the course of human events no stability and no safety'. Moreover, the costs of trying to insulate oneself from life's risks through one's choice of activities may be considerable: like a firm which confines itself to its established market niche and so fails to grow very far, the consumer who seeks to avoid risks wherever she can is unlikely to accumulate great wealth or a wide range of personal experience. These factors will militate in favour of continuing to act in an enterprising manner — which by no means needs always to involve behaving recklessly, on impulse — when life seems to have become more problematical.

3.4.3 Devote more resources to trying to control environments newly perceived as hazardous

The idea that people spend a good deal of their lives trying to preclude counter-desired events without fleeing from risky areas is a major theme in the next chapter. New perceptions of risks may make them concentrate even more on keeping things under control. For example, reports about a high incidence of thefts of audio systems from cars may lead people to install burglar alarms, even if they continue to park in high-risk locations such as inner-city streets and long-stay car parks. More bizarrely, we can note how firms that produce male contraceptives may suddenly have a new market consisting of gay males fearful of catching AIDS and yet reluctant to abstain from their risky practices.

3.4.4 Seek more flexibility

This strategic response to increased perceptions of environmental turbulence is one to which Albert Hart (1940, 1942, 1945, 1947) devoted great attention in work on business and macroeconomic policy that deserves to be much better known. Hart argued that, in situations of perceived uncertainty, even a wise decision maker is unlikely to find herself using the production technology that is the least-cost way of dealing with the situation in which she has found herself. Looking forward, she might rationally prefer an (ex post) 'inefficient', but flexible, way of producing what she could wish to make, and might not choose something which is perfectly adapted to what seems the 'most likely' situation or the outcome equivalent to a weighted average of probable outcomes, and yet which is not easy to adapt to other, less likely, but seemingly possible states. In criticizing Keynes for his tendency to speak in terms of 'certainty equivalent' expectations, Hart (1947, p. 422-3) summed up as follows:

Generally speaking, the business policy appropriate for a complex of uncertain anticipations is different in kind from that appropriate for any set of certain expectations.... Flexibility (of which liquidity is an aspect) is worth incurring costs for, because it avoids wastage of information accruing between the date of planning and the date for which plans are made... Economists will be able to give better council if they form the habit of analysing contingencies and designing policies to hedge against uncertainties.

Hart's philosophy has been reinvented in business strategy literature on 'scenario planning' (for example, Jefferson, 1983) and is one I use in my own writings (see section 1.2, part (2), and Earl and Kay, 1985). I would expect to find many consumers unknowingly living by it as they choose adaptable plans and production technologies to insulate themselves against the vagaries of a world of turbulence.

Such consumption strategies are not without their costs. For example, a person who believes she could have to move house in the not-too-distant future would be likely to judge it unwise to commit herself to new furnishings specific to her present home. However, modular furnishings that are easily adapted to a variety of alternative housing conditions may not be available at the desired quality level or may be more expensive because, by their very nature, they will involve more edges than do integral systems. None the less, such decomposability costs may be seen by some consumers as well worth incurring. (This example is inspired by my own experience with a non-modular 'corner-unit' settee which was perfectly adapted to the shape of my first home but which could only be sited in one corner, and not the ideal one, of the lounge in my second: in retrospect, a three piece suite looks like it would have been a better idea.) Secondly, we may note that modular hi-fi systems give their owners flexibility in the event of technical progress—if I have a separate amplifier and AM/FM tuner, I need only replace the tuner when AM stereo is introduced.
relatively uninspiring locations, or for concerts that in the event she will be unable to attend. Mises (1966, p. 113) is by no means exaggerating wildly when he claims that 'Every action is speculative. There is in the course of human events no stability and no safety'. Moreover, the costs of trying to insulate oneself from life's risks through one's choice of activities may be considerable: like a firm which confines itself to its established market niche and so fails to grow very far, the consumer who seeks to avoid risks wherever she can is unlikely to accumulate great wealth or a wide range of personal experience. These factors will militate in favour of continuing to act in an enterprising manner—whereby no means needs always to involve behaving recklessly, on impulse—when life seems to have become more problematical.

3.4.3 Devote more resources to trying to control environments newly perceived as hazardous

The idea that people spend a good deal of their lives trying to preclude counter-desired events without fleeing from risky areas is a major theme in the next chapter. New perceptions of risks may make them concentrate even more on keeping things under control. For example, reports about a high incidence of thefts of audio systems from bars may lead people to install burglar alarms, even if they continue to park in high-risk locations such as inner-city streets and long-stay car parks. More bizarrely, we can note how firms that produce male contraceptives may suddenly have a new market consisting of gay males fearful of catching AIDS and yet reluctant to abstain from their risky practices.

3.4.4 Seek more flexibility

This strategic response to increased perceptions of environmental turbulence is one to which Albert Hart (1940, 1942, 1945, 1947) devoted great attention in work on business and macroeconomic policy that deserves to be much better known. Hart argued that, in situations of perceived uncertainty, even a wise decision maker is unlikely to find herself using the production technology that is the least-cost way of dealing with the situation in which she has found herself. Looking forward, she might rationally prefer an 'ex post' 'inefficient', but flexible, way of producing what she could wish to make, and might not choose something which is perfectly adapted to what seems the 'most likely' situation or the outcome equivalent to a weighted average of probable outcomes, and yet which is not easy to adapt to other, less likely, but seemingly possible states. In criticising Keynes for his tendency to speak in terms of 'certainty equivalent' expectations, Hart (1947, p. 422-3) summed up as follows:

Generally speaking, the business policy appropriate for a complex of uncertain anticipations is different in kind from that appropriate for any set of certain expectations... Flexibility (of which liquidity is an aspect) is worth incurring costs for, because it avoids wastage of information accruing between the date of planning and the date for which plans are made... Economists will be able to give better counsel if they form the habit of analysing contingencies and designing policies to hedge against uncertainties.

Hart's philosophy has been reinvented in business strategy literature on 'scenario planning' (for example, Jefferson, 1983) and is one I use in my own writings (see section 1.2, part (2), and Earl and Kay, 1985). I would expect to find many consumers unknowingly living by it as they choose adaptable plans and production technologies to insulate themselves against the vagaries of a world of turbulence.

Such consumption strategies are not without their costs. For example, a person who believes she could have to move house in the not-too-distant future would be likely to judge it unwise to commit herself to new furnishings specific to her present home. However, modular furnishings that are easily adapted to a variety of alternative housing conditions may not be available at the desired quality level or may be more expensive because, by their very nature, they will involve more edges than do integral systems. None the less, such decomposability costs may be seen by some consumers as well worth incurring. (This example is inspired by my own experience with a non-modular 'corner-unit' settee which was perfectly adapted to the shape of my first home but which could only be sited in one corner, and not the ideal one, of the lounge in my second: in retrospect, a three piece suite looks like it would have been a better idea.) Secondly, we may note that modular hi-fi systems give their owners flexibility in the event of technical progress—if I have a separate amplifier and AM/FM tuner, I need only replace the tuner when AM stereo is introduced.
However, separate casings, extra wiring connections, and so on are going to mean higher prices; a ‘receiver’ is usually cheaper than a comparable pair of tuner and amplifier ‘separates’. Even bigger savings can be made by choosing a ‘hard-wired’ integrated music centre, yet anyone who wishes to keep abreast of technical developments in sound reproduction will usually prefer to pay extra for a decomposable system.

Hart’s remark that liquidity is an aspect of flexibility is significant not merely because the extreme flexibility-seeking strategy is totally to avoid commitment and hold on to one’s purchasing power. If consumer durables could be traded in at little cost for replacements that were perfectly adapted to new requirements, then adaptability would not be a sought-after characteristic: easy marketability could seemingly substitute for physical adaptability. Unfortunately, many consumer durables are exceedingly illiquid, for reasons that are not hard to see. Indeed, the less adaptable something is in physical terms, the harder it is going to be to sell it in a hurry at a price anywhere near its new price, even if it is in excellent physical shape and has not been rendered less attractive by technological progress.

Consider furniture as an example once again, not forgetting that its colour may play a major role in determining its compatibility with existing systems. Its bulk prevents sellers from conveniently moving it from buyer to buyer until an acceptable offer is obtained. Its lack of standardisation makes it quality difficult to specify if one is trying to get would-be buyers to come to inspect it: for example, ‘a velour corner-unit’ might be exactly what a person is looking for but, then again, it might be in too bad a condition or the wrong shape, size or colour. Whether they are intermediaries or users, buyers of second-hand furniture require a good deal of know-how if they are to avoid paying inappropriate prices, and sellers, likewise, need to be well informed if they are to get a good deal (especially with antiques). Informational economies are clearly difficult to obtain if one is not a frequent participant in the market and products vary greatly. Taken together, these factors ensure that furniture, like most other consumer durables, is an illiquid asset (see Streisler, 1973, and Casson, 1982, Chapter 9). Most trade in second-hand furniture will therefore not involve people switching furniture that was ‘perfectly suited’ to their former home, for similar grade

furniture that is ‘perfectly adapted’ to their new home. Rather, it will be in furniture that is trickling down from affluent homes to poorer ones as affluent consumers renew their somewhat tattered furnishings or correct past mistaken choices of expensive inflexible items that do not suit their new houses.

3.4.5 Introduce bigger safety margins
This policy is a variant on (3) and (4) and is one that all drivers are trained to employ: the more hazardous the driving environment seems, the bigger the gap there should be between oneself and the car in front, so that one has ‘room for manoeuvre’ in the event of trouble. When consumers recognise they are moving into surprise-prone environments, we should expect them to choose budgeting plans that leave them with more spare time and money (or larger unused credit card balances) available for dealing with difficulties, anticipated or otherwise. They may also be expected to purchase greater quantities of inputs for tricky household production processes than they would actually need if everything worked out perfectly. (For example, the past experience of difficulty in cutting kitchen tiles may lead one to purchase an extra box of bathroom tiles, just in case one breaks some when decorating the bathroom—one is exchanging the risk that they may be unnecessary, for the risk of being unable to finish the job as planned without another trip to the hardware store.)

The ‘safety margin’ idea is another one that deserves to be associated in economists’ minds with the work of Hart, who, in discussing it, introduced the ‘principle of linkage of risks’ (Hart, 1948, pp. 198–202). Our lives are often organised in ways that ensure a chain of misfortunes will be set in motion if we allow ourselves to fall victim to a single unpleasant surprise. To demonstrate the role of a cash reserve as a buffer against such spillovers, Hart used the example of a motorist on a long business trip who has taken only just enough money to pay for petrol and meals. If the traveller is stopped for speeding and cannot pay on-the-spot fine, her trip turns into a disaster; she suffers a night in jail, the humiliation of having to call friends to ask them to send money, and perhaps fails to conclude the business deal as a result of failing to arrive on time. Similar unfortunate escalations could have arisen as a result of her car breaking down. In a turbulent world, the person who tries to run her life in a very laut
However, separate casings, extra wiring connections, and so on are going to mean higher prices; a ‘receiver’ is usually cheaper than a comparable pair of tuner and amplifier ‘separates’. Even bigger savings can be made by choosing a ‘hard-wired’ integrated music centre, yet anyone who wishes to keep abreast of technical developments in sound reproduction will usually prefer to pay extra for a decompensate system.

Hart’s remark that liquidity is an aspect of flexibility is significant not merely because the extreme flexibility-seeking strategy is totally to avoid commitment and hold on to one’s purchasing power. If consumer durables could be traded in at little cost for replacements that were perfectly adapted to new requirements, then adaptability would not be a sought-after characteristic; easy marketability could seemly substitute for physical adaptability. Unfortunately, many consumer durables are exceedingly illiquid, for reasons that are not hard to see. Indeed, the less adaptable something is in physical terms, the harder it is going to be to sell it in a hurry at a price anywhere near its new price, even if it is in excellent physical shape and has not been rendered less attractive by technical progress.

Consider furniture as an example once again, not forgetting that its colour may play a major role in determining its compatibility with existing systems. Its bulk prevents sellers from conveniently moving it from buyer to buyer until an acceptable offer is obtained. Its lack of standardisation makes its quality difficult to specify if one is trying to get would-be buyers to come to inspect it: for example, a ‘velour corner-unit’ might be exactly what a person is looking for but, then again, it might be in too bad a condition or the wrong shape, size or colour. Whether they are intermediaries or users, buyers of second-hand furniture require a good deal of know-how if they are to avoid paying inappropriate prices, and sellers, likewise, need to be well informed if they are to get a good deal (especially with antiques). Information economics are clearly difficult to obtain if one is not a frequent participant in the market and products vary greatly. Taken together, these factors ensure that furniture, like most other consumer durables, is an illiquid asset (see Streissler, 1973, and Casson, 1982, Chapter 9). Most trade in second-hand furniture will therefore not involve people switching furniture that was ‘perfectly suited’ to their former home, for similar grade furniture that is ‘perfectly adapted’ to their new home. Rather, it will be in furniture that is trickling down from affluent homes to poorer ones as affluent consumers renew their somewhat tattered furnishings or correct past mistaken choices of expensively in-flexible items that do not suit their new houses.

3.4.5 Introduce bigger safety margins
This policy is a variant on (3) and (4) and is one that all drivers are trained to employ: the more hazardous the driving environment seems, the bigger the gap there should be between oneself and the car in front, so that one has ‘room for manoeuvre’ in the event of trouble. When consumers recognise they are moving into surprise-prone environments, we should expect them to choose budgeting plans that leave them with more spare time and money (or larger unused credit card balances) available for dealing with difficulties, anticipated or otherwise. They may also be expected to purchase greater quantities of inputs for tricky household production processes than they would actually need if everything worked out perfectly. (For example, the post experience of difficulty in cutting kitchen tiles may lead one to purchase an extra box of bathroom tiles, just in case one breaks some when decorating the bathroom—one is exchanging the risk that they may be unnecessary, for the risk of being unable to finish the job as planned without another trip to the hardware store.)

The ‘safety margin’ idea is another one that deserves to be associated in economists’ minds with the work of Hart, who, in discussing it, introduced the ‘principle of linkage of risks’ (Hart, 1948, pp. 198–202). Our lives are often organised in ways that ensure a chain of misfortunes will be in motion if we allow ourselves to fall victim to a single unpleasant surprise. To demonstrate the role of a cash reserve as a buffer against such spillovers, Hart used the example of a motorist on a long business trip who has taken only just enough money to pay for petrol and meals. If the traveller is stopped for speeding and cannot pay an on-the-spot fine, her trip turns into a disaster; she suffers a night in jail, the humiliation of having to call friends to ask them to send money, and perhaps fails to conclude the business deal as a result of failing to arrive on time. Similar unfortunate escalations could have arisen as a result of her car breaking down. In a turbulent world, the person who tries to run her life in a very that
3.4.6 Seek greater diversity in one’s commitments and avoid making the viability of one dependent on the simultaneous success of another

With this strategy, the linkages theme is maintained — though with more of a synchronic than a diachronic emphasis — but we turn for inspiration back to Kay’s (1982, 1984) work on business policy, for once again his analysis is open to generalisation to the realm of consumer behaviour. Kay argues that, in a placed environment, a firm will choose additions to its product portfolio very much with a view to their complementary relationships with its existing activities. He identifies three main kinds of overlaps: (i) common requirements in respect of research and development, (ii) common production know-how requirements and facilities, and (iii) a common market. The firm’s existing commitments mean it has a head start in respect of common know-how if not also in the form of spare capacity (released by learning processes) and, by taking on related products, it can spread the costs of design, manufacture and marketing over a larger volume of output (see section 4.5). The new product may aid sales of existing ones, and vice versa, because of a shared brand name; for example, some of the image of an ‘up-market’ model rubs off on to less luxurious models, whilst buyers who entered the market by purchasing something from the lower-priced part of the firm’s catalogue may carry on buying the same brand as they move up-market. Hence by pursuing scope for linkages and exploiting complementarities amongst activities, the firm achieves synergy: the returns from undertaking the activities together are greater than the aggregate of returns that would be enjoyed if the products were designed, produced and sold entirely separately. However, Kay suggests that the firm will recognise that, as its environment becomes more turbulent, there are risks in concentrating on a few markets and technologies and exploiting synergy wherever possible. By increasing the number of markets in which it operates and the number of technologies in which it has expertise, the firm can try to insulate itself against an individual failure being a disaster for the corporation as a whole. By choosing activities that can stand on their own or which, if linked to other activities, are not dependent for their viability on the success of any single other line of activity, the firm may be forgoing short-run profits that might be generated from more synergy-rich activity combinations. But so long as its activities generate enough profits for it to be able to survive against firms that are surviving for the moment on the basis of highly synergistic activity combinations that give them lower costs, its long-run position may be more secure.

Although many lay consumers have not heard of the word ‘synergy’, they are normally very well aware of the risks of ‘putting all your eggs in one basket’ in hazardous environments and of the costs of spreading themselves thinly across a variety of activities. Consider how their choices of vacation strategies parallel corporate portfolio choices. A British family might normally take a holiday in Spain in a single fortnight and stay at a hotel they know well. But if taking their holidays in Britain “for a change”, they may choose to have two separate weeks to insulate themselves against the vagaries of British weather, even though this will mean two lots of packing and travelling. They may also hedge against unfortunate choices of holiday resorts and accommodation that they have not previously experienced by booking up for one week in one location and one in another, even though this will involve them in the cost of familiarising themselves with two places. Choices of skiing holidays might likewise differ from choices of holidays in familiar Spanish resorts, where the weather seems near-enough guaranteed to be fine. For example, the strategy of choosing adjacent weeks in separate resorts in the same country may enable the consumer to avoid a huge misfortune due to a single commitment to a resort where the weather turns out to be awful most of the time, the runs uninspiring and the accommodation below par. Weather risks may be reduced still further by including more widely separated resorts in the plan, but more time will then be lost in transferring between them.

But perhaps the most obviously synergistic activity a person
3.4.6 Seek greater diversity in one’s commitments and avoid making the viability of one dependent on the simultaneous success of another

With this strategy, the linkages theme is maintained — though with more of a synchronicity than a diachronic emphasis—but we turn for inspiration back to Kay’s (1982, 1984) work on business policy, for once again his analysis is open to generalisation to the realm of consumer behaviour. Kay argues that, in a placed environment, a firm will choose additions to its product portfolio very much with a view to their complementary relationships with its existing activities. He identifies three main kinds of overlaps: (i) common requirements in respect of research and development, (ii) common production know-how requirements and facilities, and (iii) a common market. The firm’s existing commitments mean it has a head start in respect of common know-how if not also in the form of spare capacity (released by learning processes) and, by taking on related products, it can spread the costs of design, manufacture and marketing over a larger volume of output (see section 4.5). The new product may aid sales of existing ones, and vice versa, because of a shared brand name; for example, some of the image of an ‘up-market’ model rubs off on to less luxurious models, whilst buyers who entered the market by purchasing something from the lower-priced part of the firm’s catalogue may carry on buying the same brand as they move up-market. Hence by pursuing scope for linkages and exploiting complementarities amongst activities, the firm achieves synergy: the returns from undertaking the activities together are greater than the aggregate of returns that would be enjoyed if the products were designed, produced and sold entirely separately. However, Kay suggests that the firm will recognise that, as its environment becomes more turbulent, there are risks in concentrating on a few markets and technologies and exploiting synergy wherever possible. By increasing the number of markets in which it operates and the number of technologies in which it has expertise, the firm can try to insulate itself against an individual failure being a disaster for the corporation as a whole. By choosing activities that can stand on their own or which, if linked to other activities, are not dependent for their viability on the success of any single other line of activity, the firm may be forgoing short-run profits that might be generated from more synergy-rich activity combinations. But so long as its activities generate enough profits for it to be able to survive against firms that are surviving for the moment on the basis of highly synergistic activity combinations that give them lower costs, its long-run position may be more secure.

Although many lay consumers have not heard of the word ‘synergy’, they are normally very well aware of the risks of ‘putting all your eggs in one basket’ in hazardous environments and of the costs of spreading themselves thinly across a variety of activities. Consider how their choices of vacation strategies parallel corporate portfolio choices. A British family might normally take a holiday in Spain in a single fortnight and stay at a hotel they know well. But if taking their holidays in Britain ‘for a change’, they may choose to have two separate weeks to insure themselves against the vagaries of British weather, even though this will mean two lots of packing and travelling. They may also hedge against unfortunate choices of holiday resorts and accommodation that they have not previously experienced by booking up for one week in one location and one in another, even though this will involve them in the cost of familiarising themselves with two places. Choices of skiing holidays might likewise differ from choices of holidays in familiar Spanish resorts, where the weather seems near-enough guaranteed to be fine. For example, the strategy of choosing adjacent weeks in separate resorts in the same country may enable the consumer to avoid a huge misfortune due to a single commitment to a resort where the weather turns out to be awful most of the time, the runs uninspiring and the accommodation below par. Weather risks may be reduced still further by including more widely separated resorts in the plan, but more time will then be lost in transferring between them.

But perhaps the most obviously synergistic activity a person
can enter into is that of an intimate relationship with someone else with whom she/he has much in common. By setting up a joint household, they reduce the costs of duplication in household equipment, of working out at whose place they will be spending time, and of reduced specialisation in performing household functions. By doing things together that they might hitherto have done within a larger circle of friends, they cut down the cost of cultivating and coordinating a number of continuing relationships that they exploit only to a limited degree. So long as the relationship lasts, they may also reduce their vulnerability to the risk of being individually unable to generate income (see Pollak, 1985). However, if a close relationship of this sort turns out to be a stormy one and culminates in a break-up—or if they find it impossible to reconcile their separate career ambitions—each of them will find themselves facing substantial start-up costs as they construct independent households once again. Such a split will be particularly painful if, in making the most of the relationship, they have lost touch with their former supportive acquaintances. To the extent that people anticipate difficulties in maintaining close personal relationships, we might thus expect them to avoid constructing ‘couple-centred’ ways of life, and either to forgo altogether the economies of a joint household or to try to obtain them via, for example, ‘apartment-sharing’ arrangements with others from whom they remain relatively detached.

3.4.7 Consider previously-avoided ‘institutional/transactional’ methods for attempting to produce particular kinds of outputs
This suggestion, opaque as it no doubt will initially seem, is inspired by literature on corporate behaviour that has recently grown up out of seminal contributions by Cote (1937) and, much later, Williamson (1975). This new body of ideas—known as internalisation theory—seeks to understand how perceptions of environmental turbulence bear upon the relationship between physical linkages between activities and the extent they are undertaken within firms or via transactions between firms. The ideas seem amenable to application in the context of consumer behaviour theory (or, more significantly, they can be seen to make the division between theories of the firm and theories of the household all the more artificial), but for now Casson (1982, p. 193) has noted this, and then only in passing.

In the corporate context the basic theme—which I have myself explored at greater length in Earl (1984, Chapter 2)—is simple: the choice between trying to get things done in the market-place or within a corporate organisation depends on the strategist’s perception of the different risks and costs (particularly transaction costs) associated with the rival institutional arrangements; neither mode is perfect, but the likely problems of using either vary with the state of the environment. Diachronic linkages between stages of production and distribution processes do not intrinsically involve the vertical integration of activities within the boundaries of a single firm, for subcontracting arrangements can in principle be used to handle every stage from retailing back to the extraction of raw materials. Similarly, synchronic linkages of risks and possible returns do not intrinsically require the horizontal integration of activities within a single corporate boundary. Synergy can in principle be traded amongst firms and investors can hedge their bets by buying shares in a variety of undiversified companies instead of a tranche of shares in a single diversified conglomerate corporation.

In earlier parts of this section, a number of my examples implicitly involved consumers in taking internalisation decisions that were affected by the extent of perceived environmental turbulence. Consumers insulate themselves against disasters not always via market-based insurance contracts and guarantees, but often by careful (though by no means costless) choices of activity mixes that limit their commitments and vulnerability. One obvious example was the choice between a couple-centred joint household, an apartment-sharing arrangement, and life as an independent single person living alone; this choice essentially concerned the question of how precisely, and where, household boundaries might be drawn. Readers may have noted that I did not tie the couple-centred joint household case to the formal institution of marriage. But marriage is not an intrinsic feature of such a system and marriage/living together choices may themselves not be unaffected by the turbulence of the environment. For example, the costs of dissolving a de jure relationship may deter a couple from entering into it if they were not confident of being able to keep their relationship viable (see Becker, 1974, p. 22, for some
can enter into is that of an intimate relationship with someone else with whom she/he has much in common. By setting up a joint household, they reduce the costs of duplication in household equipment, of working out at whose place they will be spending time, and of reduced specialisation in performing household functions. By doing things together that they might hitherto have done within a larger circle of friends, they cut down the cost of cultivating and coordinating a number of continuing relationships that they exploit only to a limited degree. So long as the relationship lasts, they may also reduce their vulnerability to the risk of being individually unable to generate income (see Pollak, 1985). However, if a close relationship of this sort turns out to be a stormy one and culminates in a break-up—or if they find it impossible to reconcile their separate career ambitions—each of them will find themselves facing substantial start-up costs as they construct independent households once again. Such a split will be particularly painful if, in making the most of the relationship, they have lost touch with their former supportive acquaintances. To the extent that people anticipate difficulties in maintaining close personal relationships, we might then expect them to avoid constructing ‘couple-centred’ ways of life, and either to forge altogether the economies of a joint household or to try to obtain them via, for example, ‘apartment-sharing’ arrangements with others from whom they remain relatively detached.

3.4.7 Consider previously-avoided ‘institutional/ transactional’ methods for attempting to produce particular kinds of outputs

This suggestion, opaque as it no doubt will initially seem, is inspired by literature on corporate behaviour that has recently grown up out of seminal contributions by Cuse (1937) and, much later, Williamson (1975). This new body of ideas—known as internalisation theory—seeks to understand how perceptions of environmental turbulence bear upon the relationship between physical linkages between activities and the extent they are undertaken within firms or via transactions between firms. The ideas seem amenable to application in the context of consumer behaviour theory (or, more significantly, they can be seen to make the division between theories of the firm and theories of the household all the more artificial), but so far only Casson (1982, p. 193) has noted this, and then only in passing.

In the corporate context the basic theme—which I have myself explored at greater length in Earl (1984, Chapter 2)—is simple: the choice between trying to get things done in the market-place or within a corporate organisation depends on the strategist’s perception of the different risks and costs (particularly transaction costs) associated with the rival institutional arrangements; neither mode is perfect, but the likely problems of using either vary with the state of the environment. Diachronic linkages between stages of production and distribution processes do not intrinsically involve the vertical integration of activities within the boundaries of a single firm, for subcontracting arrangements can in principle be used to handle every stage from retailing back to the extraction of raw materials. Similarly, synchronic linkages of risks and possible returns do not intrinsically require the horizontal integration of activities within a single corporate boundary. Synergy can in principle be traded amongst firms and investors can hedge their bets by buying shares in a variety of undiversified companies instead of a tranche of shares in a single diversified conglomerate corporation.

In earlier parts of this section, a number of my examples implicitly involved consumers in taking internalisation decisions that were affected by the extent of perceived environmental turbulence. Consumers insulate themselves against disasters not always via market-based insurance contracts and guarantees, but often by careful (though by no means costless) choices of activity mixes that limit their commitments and vulnerability. One obvious example was the choice between a couple-centred joint household, an apartment-sharing arrangement, and life as an independent single person living alone; this choice essentially concerned the question of how precisely, and where, household boundaries might be drawn. Readers may have noted that I did not tie the couple-centred joint household case to the formal institution of marriage. But marriage is not an intrinsic feature of such a system and marriage/living together’ choices may themselves not be unaffected by the turbulence of the environment. For example, the costs of dissolving a de jure relationship may deter a couple from entering into it if they were not confident of being able to keep their relationship viable (see Becker, 1974, p. 22, for some
evidence on the relationship between the incidence of marriage and the ease of divorce). On the other hand, however, fears about doing badly in the event of the break-up of a de facto relationship could make marriage an attractive institutional arrangement to insist upon if one were taking the risk of setting up a joint household; the willingness of the other party to agree to this could display much about his/her confidence in the relationship’s durability and about the genuineness of his/her commitment. Internalisation theory raises some question marks about the wisdom of the idea that love and marriage ‘go together like a horse and carriage’; true love is likely to be blind to strategic reasons for getting married or avoiding doing so, and hence likely to be indifferent between de facto and de jure arrangements. (These issues receive no attention in Pollak’s 1985 survey.)

Let us now move to two other kinds of internalisation questions that households may recognise. First we can note that, in stable environments, the costs of arranging and maintaining rental agreements for flows of services from durable goods may make consumers feel inclined to buy them outright. However, in turbulent situations, rental arrangements may have advantages. If video recorders seem likely to undergo rapid technological improvements, then to buy right now would seem to carry risks of capital loss. These risks are difficult to insure against in any other way than by renting (the forward market for used VCRs being conspicuous by its absence). Similarly, if a person is not sure that she will be staying for long in a particular area, she can try to avoid legal bills and reselling costs (including possible costs of a bridging loan to avoid having hurriedly to take a knock-down price if, at the time of moving, the market happens to be thinly populated with buyers) by renting accommodation instead of buying it—though at the cost of missing out on possible capital gains and security of tenure.

Secondly, we can note that if bitter experience leads a person no longer to trust garages, she can try to maintain her car herself instead of subcontracting the work out to garages. If she does so, she may need to incur great expense in terms of forgone leisure or income-earning time and by way of obtaining know-how and appropriate tools that will get used only occasionally. (She might be able to rent the tools, of course, but not necessarily just when she desperately needs them; or she might be able to rent out her own tools, at the risk of finding it difficult to get them back at the right moment. With lower-value tools, the costs of arranging rental agreements are easily likely to swamp their purchase prices after only a few hirings.) By internalising the maintenance of her car, she at least knows what has been done, but there is always the possibility that, despite the investments she makes in this activity, her own lack of expertise will result in her finding herself stranded at the roadside. ‘Do it yourself’ and ‘subcontracting’ strategies each involve set-up costs (which, it must not be forgotten, include costs of obtaining competitive quotations) and risks of unpleasantly surprising outcomes, and decision makers may assess these differently. So we should not be surprised to find a great variety of internalisation strategies being used even in situations where people have similar income-earning opportunities and are trying to produce similar end results. The risk-related and transactional aspects of the economics of ‘do it yourself’ warrant far more attention than they have hitherto received from consumer theorists.

### 3.5 HOUSEHOLDS AS ORGANISATIONS

Once one has devoted attention to issues that may bear upon the formation of multiperson households and on the internalisation by such households of activities that might be arranged via the market, some questions come to mind that economists normally do not bother to consider: how are households organised and what stops them from disintegrating when the going gets tough, given that their members are unlikely to have identical goals? In seeking to provide some answers, a potentially useful starting point is to characterise households as organisational coalitions. It is then possible to generalise some of the ideas of Cyert and March (1963), who depicted firms as coalitions of people with partly complementary and partly antagonistic interests. Members of such coalitions put up with the disadvantages of participation in the hope of meeting aspirations that otherwise they would be unable to meet. They exit from the coalition when the disadvantages of membership become intolerable and/or the payoffs insufficiently great.
evidence on the relationship between the incidence of marriage and the ease of divorce). On the other hand, however, fears about doing badly in the event of the break-up of a de facto relationship could make marriage an attractive institutional arrangement to insist upon if one were taking the risk of setting up a joint household; the willingness of the other party to agree to this could display much about his/her confidence in the relationship’s durability and about the genuineness of his/her commitment. Internalisation theory raises some question marks about the wisdom of the idea that love and marriage ‘go together like a horse and carriage’; true love is likely to be blind to strategic reasons for getting married or avoiding doing so, and hence likely to be indifferent between de facto and de jure arrangements. (These issues receive no attention in Pollak’s 1985 survey.)

Let us now move to two other kinds of internalisation questions that households may recognise. First we can note that, in stable environments, the costs of arranging and maintaining rental agreements for flows of services from durable goods may make consumers feel inclined to buy them outright. However, in turbulent situations, rental arrangements may have advantages. If video recorders seem likely to undergo rapid technological improvements, then to buy right now would seem to carry risks of capital loss. These risks are difficult to insure against in any other way than by renting (the forward market for used VCRs being conspicuous by its absence). Similarly, if a person is not sure that she will be staying for long in a particular area, she can try to avoid legal bills and reselling costs (including possible costs of a bridging loan to avoid having hurriedly to take a knock-down price if, at the time of moving, the market happens to be thinly populated with buyers) by renting accommodation instead of buying it—though at the cost of missing out on possible capital gains and security of tenure.

Secondly, we can note that if bitter experience leads a person no longer to trust garages, she can try to maintain her car herself instead of subcontracting the work out to garages. If she does so, she may need to incur great expense in terms of forgone leisure or income-earning time and by way of obtaining know-how and appropriate tooling that will get used only occasionally. (She might be able to rent the tools, of course, but not necessarily just

when she desperately needs them; or she might be able to rent out her own tools, at the risk of finding it difficult to get them back at the right moment. With lower-value tools, the costs of arranging rental agreements are easily likely to swamp their purchase prices after only a few hirings.) By internalising the maintenance of her car, she at least knows what has been done, but there is always the possibility that, despite the investments she makes in this activity, her own lack of expertise will result in her finding herself stranded at the roadside. ‘Do it yourself’ and ‘subcontracting’ strategies each involve set-up costs (which, it must not be forgotten, include costs of obtaining competitive quotations) and risks of unpleasantly surprising outcomes, and decision makers may assign these differently. So we should not be surprised to find a great variety of internalisation strategies being used even in situations where people have similar income-earning opportunities and are trying to produce similar end results. The risk-related and transactional aspects of the economics of ‘do it yourself’ warrant far more attention than they have hitherto received from consumer theorists.

3.5 HOUSEHOLDS AS ORGANISATIONS

Once one has devoted attention to issues that may bear upon the formation of multiperson households and on the internalisation by such households of activities that might be arranged via the market, some questions come to mind that economists normally do not bother to consider: how are households organised and what stops them from disintegrating when the going gets tough, given that their members are unlikely to have identical goals? In seeking to provide some answers, a potentially useful starting point is to characterise households as organisational coalitions. It is then possible to generalise some of the ideas of Cyert and March (1963), who depicted firms as coalitions of people with partly complementary and partly antagonistic interests. Members of such coalitions put up with the disadvantages of participation in the hope of meeting aspirations that otherwise they would be unable to meet. They exit from the coalition when the disadvantages of membership become intolerable and/or the payoffs insufficienly great.
In a turbulent environment, the disadvantages and payoffs to coalition membership would tend to be in a state of flux. But this does not necessarily mean that a coalition immediately becomes fragile if turbulence increases. Room for manoeuvre may be provided by the fact that, in order to economise on the costs of putting the coalition together, relationships between the coalition members will have been only partially specified. (Cousa, 1937, would argue that a 'firm' which involved fully specified relationships between participants, covering all possible contingencies, would not be a firm at all in an organisational sense: nothing would have been internalised, and there would be no need for managerial decision making as pre-specified contingencies arose.) The vagueness of the relationships between coalition participants permits them to engage in discretionary behaviour to economise on the disadvantages of their membership and improve their payoffs. Because coalition members are unsure of the conditions in which their fellow participants would exit from the arrangement, they will hold back from 'pushing their luck' so long as things seem at least adequate from their own standpoints. The result of this combination of moderation and the failure of all the parties to 'lay all their cards on the table' is the existence of a buffer of 'organisational slack'; in good times, some or all of the coalition members may be enjoying returns to membership in excess of their minimum acceptable targets. When the going gets tougher for some members of the coalition, other members may be prepared to contribute more to, or moderate their claims on, the coalition's various productive activities in order to keep the arrangement together. Even if the other members are not prepared to contribute enough to make good all of the shortfall suffered by those who are finding life more difficult, the relationship may still survive owing to the threatened attainments having hitherto been sufficiently in excess of minimum acceptable levels. Thus a measure of 'give and take' may enable the coalition to weather difficult periods.

Tensions in a household coalition may arise not merely as a result of shocks (for example, job losses, price rises, breakdowns) that make a given collection of aspirations more difficult to meet. They may also come about because of sudden shifts in aspirational targets and in perceptions of attainment possibilities outside the present relationship. Here we should take serious note of the social context in which household members live their lives: external reference standards will be used in the formation and reformation of aspirations; people will not simply adjust their criteria of adequacy into line with their own repeated attainments.

For example, consider the position of a wife whose rosy expectations of married life have been shattered; she now expects that, if she keeps her present relationship intact, she will be a victim of domestic violence on occasions when her husband finds his life is going badly and 'takes it out on her' in attempting to keep intact his own expectations (see the discussion of hostility in section 4.4). She may know about the fates of women like her with, say, small children, limited educational achievements and without established careers whose marriages have broken up. Their experiences may make the prospect of life outside the institution of marriage look even worse than life inside it. If many of the women she knows also confess to being tied to violent husbands, her chances of improving things via a change of partner may appear so slim as to make search seem worth while. Thus, despite periodic batterings, she may not take steps to terminate the relationship. Meanwhile, in material terms at least, there may be little to grumble about: her husband may normally be quite easy to bargain with in respect of household equipment and items of conspicuous consumption that will match the standards set by people in whose league she believes her household to be. However, suppose that, by one means or another (see section 5.2), she comes across feminist ideas. These could lead her to undertake a revolutionary reconstruction of her aspirations: the upshot of which is that she now ranks the avoidance of any domestic violence above the attainment of material security. Unless she can get her husband to change 'his ways', this household coalition is no longer going to be viable. Major changes in social service provisions, female employment prospects or in divorce laws with respect to maintenance payments might also produce household fragmentation by raising the opportunity costs for women of continuing to participate in unsatisfactory relationships.

In households, as in firms, a good deal of scope for tensions and possible disagreement is eliminated by the specialisation of individuals with respect to particular roles, including income-earning versus internalisation activities. If roles are agreed upon
In a turbulent environment, the disadvantages and payoffs to coalition membership would tend to be in a state of flux. But this does not necessarily mean that a coalition immediately becomes fragile if turbulence increases. Room for manoeuvre may be provided by the fact that, in order to economise on the costs of putting the coalition together, relationships between the coalition members will have been only partially specified. (Coase, 1937, would argue that a ‘firm’ which involved fully specified relationships between participants, covering all possible contingencies, would not be a firm at all in an organisational sense: nothing would have been internalised, and there would be no need for managerial decision making as pre-specified contingencies arose.)

The vagueness of the relationships between coalition participants permits them to engage in discretionary behaviour to economise on the disadvantages of their membership and improve their payoffs. Because coalition members are unsure of the conditions in which their fellow participants would exit from the arrangement, they will hold back from ‘pushing their luck’ so long as things seem at least adequate from their own standpoints. The result of this combination of moderation and the failure of all the parties to ‘lay all their cards on the table’ is the existence of a buffer of ‘organisational slack’; in good times, some or all of the coalition members may be enjoying returns to membership in excess of their minimum acceptable targets. When the going gets tougher for some members of the coalition, other members may be prepared to contribute more to, or moderate their claims on, the coalition’s various productive activities in order to keep the arrangement together. Even if the other members are not prepared to contribute enough to make good all of the shortfall suffered by those who are finding life more difficult, the relationship may still survive owing to the threatened attainments having hitherto been sufficiently in excess of minimum acceptable levels. Thus a measure of ‘give and take’ may enable the coalition to weather difficult periods.

Tensions in a household coalition may arise not merely as a result of shocks (for example, job losses, price rises, breakdowns) that make a given collection of aspirations more difficult to meet. They may also come about because of sudden shifts in aspirational targets and in perceptions of attainability possibilities outside the present relationship. Here we should take serious note of the social context in which household members live their lives: external reference standards will be used in the formation and reformation of aspirations; people will not simply adjust their criteria of adequacy into line with their own repeated attainments.

For example, consider the position of a wife whose rosy expectations of married life have been shattered; she now expects that, if she keeps her present relationship intact, she will be a victim of domestic violence on occasions when her husband finds his life is going badly and ‘takes it out on her’ in attempting to keep intact his own expectations (see the discussion of hostility in section 4.4). She may know about the fates of women like her with, say, small children, limited educational achievements and without established careers whose marriages have broken up. Their experiences may make the prospect of life outside the institution of marriage look even worse than life inside it. If many of the women she knows also confess to being tied to violent husbands, her chances of improving things via a change of partner may appear so slim as to make search seem worth while. Thus, despite periodic batterings, she may not take steps to terminate the relationship. Meanwhile, in material terms at least, there may be little to grumble about: her husband may normally be quite easy to bargain with in respect of household equipment and items of conspicuous consumption that will match the standards set by people in whose league she believes her household to be. However, suppose that, by one means or another (see section 5.2), she comes across feminist ideas. These could lead her to undertake a revolutionary reconstruction of her aspirations. the upshot of which is that she now ranks the avoidance of any domestic violence above the attainment of material security. Unless she can get her husband to change ‘his ways’, this household coalition is no longer going to be viable. Major changes in social service provisions, female employment prospects or in divorce laws with respect to maintenance payments might also produce household fragmentation by raising the opportunity costs for women of continuing to participate in unsatisfactory relationships.

In households, as in firms, a good deal of scope for tensions and possible disagreement is eliminated by the specialisation of individuals with respect to particular roles, including income-earning versus internalisation activities. If roles are agreed upon
in broad terms, along with pertinent allocations of broadly specified complementary resources, the designated individuals can then attend to the details of their tasks without persistent negotiation; special routines can be developed and more can be achieved, though on some occasions coordination problems may arise. Specialisation helps generate organisational slack, since the non-specialist is poorly placed when it comes to judge how easy it is to perform a particular task; husbands and wives playing traditional household roles may have very little idea what their spouses actually do during working hours. But, of course, role specialisation makes household members vulnerable in the event of the household’s disintegration. In turbulent times, feminist arguments against male/female role stereotyping, and in favour of the sharing of tasks, can be augmented with a strategic dimension; for by acquiring a broad range of domestic management skills and their own capacities to generate income, members of households can insulate against finding themselves all at sea in the event of separation, a partner’s disability, or bereavement.

Such a sharing of household roles would not merely reduce the vulnerability of individual household members. It would also help to remove the hierarchical characteristics that many households share with corporate and bureaucratic organisations. In the household context, and leaving aside the question of child/parent authority relationships, Galbraith (1975, Chapter 4) has argued that many women are reduced to the status of ‘crypto-servants’ who specialise in consumption administration under the authority of their husbands. For example:

The wife of the somewhat senior automobile executive need not be intellectually alert or entertaining. She need only be conventionally decorous on occasions of public ceremony. But she must cook and serve her husband’s meals when he is at home, direct household procurement and maintenance, provide family transport; and, if required, act as chauffeur, janitor and gardener. Competence here is not remarked; it is assumed (Galbraith, 1975, p. 48).

In such a household, the wife may exert a superficial control over the purse strings, yet the major decisions, the strategic moves, are made by the man who provides the money (Galbraith, 1975, p. 52). His wife is a doormat to be moved from place to place as his career demands and who is expected to undertake the duties of homemaker without questioning her role or status.

As with the ‘economics of do it yourself’, the economics of the household as an organisation appear as a field ripe for further research—indeed, internalisation and organisational issues tend to go hand in hand. Attention might usefully be devoted to the comparative strategy advantages of extended families, communal, Kibbutzim, and so on, as well as to marriage, living-together, flat-sharing and living-alone arrangements, and to the various organisational problems and possibilities associated with each (see Pollak, 1985, for a review of previous contributions). Clearly, more attention also needs to be given to processes of bargaining (see Earl, 1983c, pp. 184–8, for some of my earlier suggestions) and joint decision-making processes generally. Marketeers have for some time been exploring such issues (for example, see Curry and Menason, 1979), but economists have largely continued to treat household and individual choices as interchangeable. During the chapters that follow, readers should bear in mind that decision-making procedures may include criteria concerning the likely acceptability of an option to other household members, as well as criteria concerning characteristics in which the individual in question has a personal interest. Choices may be made by an individual on her own account, by an individual acting alone but on behalf of a multiperson household, or they may concern the acceptance or rejection of particular proposals made by a fellow participant in a joint decision.

3.6 CONCLUSION

In this chapter I have tried to show that there are gains to be had from extending the basic neoclassical picture of the household as a production system by introducing themes from recent behavioural contributions to the theory of the firm. Many of these themes were ones that I employed in my earlier (1984) work on the origins of corporate mistakes. In this earlier work, I argued that, although much of the new literature on corporate strategies has been presented as describing how companies in general do operate, it might often be better seen as analysing strategies that decision makers should consider employing in particular
in broad terms, along with pertinent allocations of broadly specified complementary resources, the designated individuals can then attend to the details of their tasks without persistent negotiation; special routines can be developed and more can be achieved, though on some occasions coordination problems may arise. Specialisation helps generate organisational slack, since the non-specialist is poorly placed when it comes to judge how easy it is to perform a particular task: husbands and wives playing traditional household roles may have very little idea what their spouses actually do during working hours. But, of course, role specialisation makes household members vulnerable in the event of the household's disintegration. In turbulent times, feminist arguments against male/female role stereotyping, and in favour of the sharing of tasks, can be augmented with a strategic dimension; for by acquiring a broad range of domestic management skills and their own capacities to generate income, members of households can insulate against finding themselves all at sea in the event of separation, a partner's disability, or bereavement.

Such a sharing of household roles would not merely reduce the vulnerability of individual household members. It would also help to remove the hierarchical characteristics that many households share with corporate and bureaucratic organisations. In the household context, and leaving aside the question of child/parent authority relationships, Galbraith (1975, Chapter 4) has argued that many women are reduced to the status of 'crypto-servants' who specialise in consumption administration under the authority of their husbands. For example:

The wife of the somewhat senior automobile executive need not be intellectually alert or entertaining, although she is required to be conventionally decorative on occasions of public ceremony. But she must cook and serve her husband's meals when he is at home; direct household procurement and maintenance; provide family transport; and, if required, act as chauffeur, janitor and gardener. Competence here is not remarked; it is assumed (Galbraith, 1975, p. 48).

In such a household, the wife may exert a superficial control over the purse strings, yet the major decisions, the strategic moves, are made by the man who provides the money (Galbraith, 1975, p. 52). His wife is a doormat to be moved from place to place as his career demands and who is expected to undertake the duties of homemaker without questioning her role or status.

As with the 'economics do it yourself', the economics of the household as an organisation appear as a field ripe for further research—indeed, internalisation and organisational issues tend to go hand in hand. Attention might usefully be devoted to the comparative strategy advantages of extended families, communal, Kibbutzim, and so on, as well as to marriage, living-together, flat-sharing and living-alone arrangements, and to the various organisational problems and possibilities associated with each (see Pollak, 1985, for a review of previous contributions). Clearly, more attention also needs to be given to processes of bargaining (see Earl, 1983c, pp. 184–8, for some of my earlier suggestions) and joint decision-making processes generally. Marketers have for some time been exploring such issues (for example, see Curry and Menasen, 1979), but economists have largely continued to treat households and individual choices as interchangeable. During the chapters that follow, readers should bear in mind that decision-making procedures may include criteria concerning the likely acceptability of an option to other household members, as well as criteria concerning characteristics in which the individual in question has a personal interest. Choices may be made by an individual on her own account, by an individual acting alone but on behalf of a multiperson household, or they may concern the acceptance or rejection of particular proposals made by a fellow participant in a joint decision.

3.6 CONCLUSION

In this chapter I have tried to show that there are gains to be had from extending the basic neoclassical picture of the household as a production system by introducing themes from recent behavioural contributions to the theory of the firm. Many of these themes were ones that I employed in my earlier (1984) work on the origins of corporate mistakes. In this earlier work, I argued that, although much of the new literature on corporate strategies has been presented as describing how companies in general do operate, it might often be better seen as analysing strategies that decision makers should consider employing in particular
situations. Very much the same remarks could be offered about attempts to construct an analysis of strategies of consumer behaviour. Although I have tried always to use examples from everyday experience to illustrate the theoretical analysis, I recognise that much of what I have argued may involve more subtle thinking than many consumers will undertake prior to making significant choice in turbulent environments. If companies get into trouble by, for example, tackling potentially strategic choices as if they are simple tactical ones, then we should not be surprised to find households getting into similar kinds of difficulties. By considering the arguments in this chapter and the ones that follow, consumers may find themselves able to improve the quality of their decision making.

Although the discussion has largely focused on reasonable strategies and routines for coping with anticipated turbulence, the arguments may easily be turned round to shed light on modes of behaviour in environments that are perceived as placid, either by nature or as a result of the consumer having implemented seemingly successful control measures. In such situations, consumers would be expected to settle down, in the sense of adapting precisely to conditions and committing themselves to inflexible, immobile, 'lumpy' activities from which it is difficult to switch without loss. They will combine these activities to form highly integrated, synergy-exploiting ways of life. Having done so, they will then largely be involved with simple routine choices. When turbulence appears unexpectedly in their lives, it will be particularly disruptive, not merely because of the integrated nature of their lifestyles and inflexibility of their commitments, but also because of the shortness of their menus of proven 'recipes for success' for coping with surprise-prone environments.

4 The Inquisitive Consumer

4.1 INTRODUCTION

Having first departed from orthodox analysis by highlighting the strategic dimension of consumer behaviour, I am now going to take an even more deviant step and consider from an explicitly psychological standpoint what consumers are trying to produce as they make their strategic and tactical decisions. The kind of psychology I will be employing is known as personal construct theory. It is an approach that is increasingly being used by clinical psychologists as a means for understanding why distressed patients are finding that life is getting on top of them, and for showing them how they might improve their situations. Personal construct theory is by no means the only kind of psychology that the economist might think of employing—for example, in trying to understand the problems of affluent consumers, Scitovsky made extensive use of behaviourist and physiological psychology in his (1976) work *The Joyless Economy*—but it will be seen to be a particularly natural one to employ, given our strategic perspective on consumer choice. Furthermore, its comprehensiveness enables it to offer as the prospect of being able to understand expectation formation and resistance to change (the subjects of Chapter 6) as well as motivation, and it also comes complete with a well-developed set of research techniques that can be used to map evolving consumer perceptions and preferences.

The chapter is divided up as follows. Section 4.2 introduces the main ideas of personal construct psychology, while section 4.3 shows in some detail how they relate to consumer choices. Section 4.4 presents an analysis of the significance of 'emotional' factors in decision making, and shows how they can be conceptualised in usefully precise terms. Before the conclusion (section 4.6), section 4.5 examines, in the light of the previous sections, why consumers may prefer some areas of activity to others.