

An Alternative Approach to Analysis of Consumer Behaviour: Need for Distinctive “Islamic” Theory

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Abstract

This paper starts with the claim that conventional theory of consumer behavior is based on a framework, which cannot be used to explain all aspects of consumer behavior. It suggests that consumer behavior is based on fulfilling needs and not on satisfying wants. And this is not merely semantic. It is a substantial difference and needs to be understood to properly explain the consumer behavior. It is also not a normative statement to say that consumer behavior is based on fulfilling needs. It is a positive statement reflecting reality. An alternative framework on this basis then has been developed for a more realistic analysis of consumer behavior. The proposed framework borrows elements from the methodological framework of Biology arguing that it provides more logical framework for analysis of consumer behavior. This framework allows us to analyze economic problem at micro level like *isrāf*, *tabzīr*, *itrāf*, wellbeing, consumer equilibrium etc. This framework takes the position that the economic problems like unemployment, poverty, underdevelopment, environment issues etc. are rooted in the consumer behavior and consumer decision-making. It has also been argued that the proposed framework provides a basis to make interpersonal comparison of wellbeing and hence provides objective basis for public policy choices. This is not yet a presentation on Islamic theory of consumer behavior. It is simply a proposal to see consumer behavior in a different perspective, which is claimed to be more realistic and more logical. A presentation will be made separately to use this framework to develop Islamic theory of consumer behavior, which will add the concept of ‘*Rushd*’ (as opposed to the concept of ‘Rationality’ in secular Economics) in understanding the consumer behavior in Islamic perspective.

Keywords: Consumer Behaviour, Objectives of Life, Sound Mindedness of Consumers, *Ḍarūrīyāt*, *Takmīlīyāt*, *Tahsīnīyāt*, Homeostatic Balance, Indifference Curve; Interpersonal Comparison, Work Force, Time Value of Resources.

JEL Classification: A1, A2, D1, D11, J2, J3, P1, P4, P5

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Introduction

This paper distinguishes between Theory of Islamic Consumer Behaviour and “Islamic Theory” of Consumer Behaviour. This is not merely semantic. I would consider theory of Islamic consumer behaviour as picking up various elements of Islamic teachings on consumption and incorporating them in conventional theory and conventional models to see what are the implications of these teachings on the economy or on the economic conditions of individuals. Several papers have been written in the past, in this respect, for different seminars and conferences. It only means treating Islamic economics as branch of conventional economics just as there is agriculture economics, labour economics, etc. But this is not what I mean by Islamic theory of consumer behaviour. I believe that there is strong basis to have our own framework to understand the consumer behaviour as well as to understand the Islamic teachings relating to consumption and this framework, once developed, can lead us to a theory called Islamic Theory of Consumer Behaviour.

There are three components of this theory. The First Component explains how to develop our own framework for economic analysis of consumer behaviour based on our own understanding of human nature and human behaviour. This component has already been discussed in a workshop organized in Jeddah in November 2012 by Islamic Economics Institute of King Abdulaziz University and published in the journal of the University (JKAU: Islamic Economics. Vol. 26; No. 1 – 2013 / 1434). Some main points of the discussion about ‘Our framework’ however have been included in this paper as **Part I** to serve as ready reference.¹ The Second Component discusses how this framework that I call as Our framework can be applied to get Our Theory of Consumer Behaviour as opposed to classical or neo-classical theory of consumer behaviour. This so-called Our theory will not be Islamic Theory of Consumer Behaviour. I simply call it Our theory that explains consumer behaviour of any society, Muslim as well as non-Muslims, without referring to Islamic teachings about Consumption and consumer behaviour. This part also explains the

¹ In this paper, where ever “Our” is used with capital ‘O’, it signifies special meaning referring to our (as a Muslims) approach as we understand it from Divine knowledge about human nature briefly speaking, I feel it is pre-mature to use the adjective Islamic with whatever we think is “Islamic” in our initial exploration of the theory of economic behaviour implicit in the system of life implicit in the Islamic teachings. And I feel the same way for all the theoretical work that is being presented as “Islamic” economics or Islamic finance or Islamic consumer behaviour. It should be referred to as Our Economics etc. and wait until it can be objectively referred to as “Islamic” Economics.

difference it would make using our framework for the analysis of consumer behaviour instead of using the classical or neo-classical framework. This is **Part II** of the paper. The **Third Component** then develops Islamic theory of consumer behaviour by incorporating the influence of Islamic values and teachings on human behaviour to explain consumption pattern and consumer behaviour in Islamic Economy. In this **Part III** of the paper I explain what type of economic problems of a society can be understood by using our framework of economic analysis and how Islamic theory of consumer behaviour can solve these problems (such as fighting hunger and extreme poverty, alleviating general poverty level, unemployment, income inequalities, diseases in young children and economic miseries of women).

One distinguishing outcome of this approach may be that we get Islamic Theory of Finance derived from the Islamic Theory of Economics. This would be unlike the prevailing paradigm in which financial theories and pricing of capital are discussed irrespective of the pricing of factors of production in Economic Theory. Money capital can serve as factor of production when it is subjected to risk bearing and hence can be priced like pricing an entrepreneur. Time value of money can also be derived from the factor pricing rather than determining artificially to balance supply and demand of money.²

Part - I

2. “Our” Framework for Analysis of Consumer Behaviour

The framework that we consider suitable keeping in view our understanding of human nature and human behaviour: The present theory of consumer behaviour despite its robustness and amenability to mathematical manipulations covers a very limited ground as far as understanding the consumer behaviour is concerned. The theory may have contributed substantially to understanding the consumer behaviour in some societies of the West but it hardly proves its relevance to understand the decision-making process of consumers in majority of the countries in the contemporary world. For example, why consumers prefer to spend on

² In my paper on “Factors of Production and Factor Markets in Islamic Framework”, Journal of Research in Islamic Economics, Vol., No., 1985, Jeddah, I defined only two types of factors of production, hired factors of production and entrepreneurial factors of production. Money capital is included in the later. In the Economic Theory (conventional), money capital is not considered and cannot be considered as factor of production because theory starts with assuming away uncertainty.

conspicuous luxury goods while their basic needs are unfulfilled; or what type of consumer choice it is to prefer leisure instead of working for contributing even a small income to the poverty stricken family; or how a consumer would objectively identify whether or not there is waste of resources in his consumption pattern; or why items like education of children and family health are low priority items in majority of the developing countries; or why sometimes consumers end up spending on items which otherwise have no attraction to them (do not have utility).

Veblen (1890) showed that patterns of consumption and work broadly conform to the boundaries set by class and culture. Veblen saw that it was impossible to understand individual economic choices without understanding the world in which those choices were made. The prevailing theory misses this point in its framework of analysis. It not only is limited in scope with respect to understanding of the consumer choice but also lacks the ability to understand and explain some of the contemporary economics problems that are directly the result of certain peculiarities in the consumer behaviour. Incidence of poverty has a lot to do with the consumer behaviour but this is not a subject of existing theory of consumer behaviour. Economic development also has strong roots in the consumer behaviour but the existing theory is not geared towards understanding consumer behaviour as a reason for development or underdevelopment. The world Summit on Sustainable Development held in Johannesburg, South Africa, from August 26 to September 4, 2002 recognized that changing consumption pattern is one of the essential requirements for sustainable development. But the theory of consumer behaviour has yet to recognize it. The sustainable development will remain a subject outside the mainstream economics unless there is a theory that identifies endogenous elements in consumer decision-making process that can help keeping consumer behaviour in line with the society's perception of sustainable development. Sustainable development is eventually a matter of observing certain ethics in economic behaviour.

A theory of consumer behaviour that ignores the role of ethics in consumer's decision making is bound to leave out such pressing economic problems like alleviation of poverty and sustainable development outside the mainstream of economics. These are the type of questions that lead us to develop an alternate framework that could be applied for economic analysis including that of consumer behaviour which would prove to be more realistic and more comprehensive in understanding economic behaviour and hence would provide better insight into the contemporary

economic problems and their solutions. Our framework has been developed with this perspective in view.

2.1 Elements of Our Framework

2.1.1 Consumer's Choice Related to Objective of Life

The first element of Our Framework is to relate economic activity of man to the objective of his life. Our Framework assumes that man, as a social animal, is geared towards achieving his well-being by his needs met making his life comfortable. A man will do all what will improve his well-being in this sense and will avoid anything that will create hardships for his life. He will not ignore his needs and will not make his living conditions bad for him. The society and social institutions provide an environment for him to do so. Our Framework allows the consumer behaviour to be analyzed in the context of objective of life which is derived from the worldview that consumer shares with the society. As a rational social animal he cannot be assumed to be living an aimless life. It is implicitly or explicitly the objective of life that guides consumer to choose what to consume and what not to consume. Consumer selects objective of his life to his own understanding of his life and the worldview that he acquires from his family, community society, religion etc. Our Framework, by relating consumption to objective of life requires us to focus on "need" rather than "utility" as the basis of consumer behaviour. This has been discussed in detail in another paper.³

Need is motivation of all human activities, the urge for a human being comes from inside the body as well as from outside (from family, society, religion etc). Consumer as an economic agent is confronted with following choices:

- a) What are his needs (and what are not);
- b) Resources are scarce to meet all needs. How to prioritize the needs;
- c) What to do with unfulfilled needs

The problem of consumer is:

- a) To know what determines his needs
- b) To distinguish his needs from his instinctive non-need desires
- c) To prioritize the needs

³ The paper submitted at the Islamic Economics Workshop held in Turkey on 2nd and 3rd March 2013.

- d) To know what would determines waste in consumption so that waste is avoided and resources are used in meeting needs

In the process of making his consumption decisions, a consumer is confronted with several dilemmas. Firstly, he has instinctive impulses forcing him to desire several things, which may not be his needs because they are not in line with what the objective of his life requires him to do. Secondly, he has to meet certain needs for which he may not have any psychological desires or instinctive impulses but he has to meet them to improve his well being and to achieve the objective of his life. Thirdly, being a social animal, he has to abide by the rules, norms and ethics, of the society he is living in, and has certain needs to be met as a part of social behaviour even if he does not perceive them to be his needs. Anne Mayhew recently observed that even consumers at the bottom of the wage scale, with absolutely no discretionary income, choose the necessities of life with a commonsense of awareness of how their choices will be perceived by neighbours, family, and the wider social world. Neoclassical economists too acknowledge that the wealthy some times buy things just to show off, but they insist that people in general under normal circumstances buy only what they intrinsically desire.

2.2 Our Analysis of Consumer Behaviour Focuses on The Following

- a) What makes the consumer to remain (or not to remain) on the track of meeting his needs only. What makes him to succumb (or not to succumb) to satisfying his non-need desires instead of meeting needs;
- b) What makes him (or does not make him) waste his resources;
- c) What makes him to continue to remain on the Track of Meeting Needs?

2.2.1 Sound Mindedness of the Consumer

Desires and needs may not often coincide. But Our Framework assumes that, as a social animal, endowed with power of reason to judge what is needed for his wellbeing and what is not, he, by and large, will often have to push aside his desires and pursue his needs. Because of multiplicity of needs and scarcity of resources to meet them, the desires that do not meet the criteria of "needs" will often have to go unsatisfied. This will be assumed to be a key element of rational consumer behaviour of man.

For a rational man:

- a) A large part of what he desires may also be his needs;

- b) There are a lot of desires, which are not his need;
- c) There are needs, which are not his desires but he still meets them as his needs;
- d) It is sound mindedness of consumer that requires him to pursue only his needs.

The (a) and (b) can be used as index of sound mindedness of consumer. The higher proportion of (a) and lower proportion of (b), higher would be the level of sound mindedness that requires him to pursue, by and large, his needs only. The capacity to identify desires from wants (maturity of mind) is part of the sound mindedness. Sound mindedness is thus a key factor in consumer decision-making process in our framework. This element enables the consumer:

- a) To rank his needs in descending order to allocate his resources starting from top to down the list as far as possible.
- b) To avoid waste in allocation of resources so that he does not allocate resources for goods that are not his needs or to the low priority needs, at the cost of ignoring high priority needs.

It may not be worthwhile to argue again in detail here that the conventional approach generally assumes a very restrictive form of preference orderings only for the sake of representing them by a utility function amenable to mathematical manipulations. Some remarks, however, will be in order here to refresh the focus for the present analysis. It will be pointed out later in this section that many important aspects of human behaviour cannot be analyzed within this restrictive formulation of the theory of consumer behaviour. Several of these aspects of behaviour, thus excluded, in fact happen to be important phenomenon in most part of the present day world. Such exclusions thus take much of the realism out from the theory.

It may be true that within the restrictive framework based on a set of axioms, it may not matter much whether utility means some subjective pleasure of wants or objective fulfilment of needs. Quite often, what gives subjective pleasure may also be simultaneously fulfilling some objective needs. But reverse is not true. Fulfilling some objective needs may not give subjective pleasure. And when it is not true then that is when it should matter to the economists most.

It is human instinct that man, imbued with reason and ability to judge good from bad for his life, makes efforts to develop him and to improve his welfare. He continuously seeks knowledge to do so. Humanity has never been void of credible sources and means of knowledge to increase

awareness about how to seek and improve welfare. It is this quest of knowledge and desire for improving one's welfare and life on earth that serves as a check to restricting the blind satisfaction of his wants that may happen to be contrary to his wellbeing. The instinctive urge to improve one's welfare forces him to screen his wants and give priority to those that would contribute to his welfare and improve his life on earth. This screening process is not recognised in the conventional framework whereas 'Our Framework' recognises this choice and allows us to include it in our analysis of consumer behaviour. The element in consumer behaviour that allows him to make this choice is recognized in 'Our Framework' as sound mindedness.

Difference between desires and needs is not merely a matter of semantics. What one needs may also be what one desires? This may often be true. But the reverse may not often be true. What one desires may not necessarily be his need. We, therefore, assume that a consumer will instinctively have a list of desires to satisfy. But before going ahead to satisfy these desires, the sound minded consumer will make a judgement which of his desires "need" to be satisfied first and which do not need to be satisfied at all.

How successful he is in allocating his budget to meet his needs to make maximum contribution to his wellbeing, what are implications if he fails to do so (meeting his needs less than what he could meet with his budget, due to wrong judgment), can he fail continuously; or is there a mechanism to bring him back to the need fulfilling path, are some of the crucial questions that a consumer theory needs to answer. These answers cannot be provided in the conventional framework, while Our Framework can help economists to seek answers to such question. Sound mindedness is different from right-mindedness as latter involves value judgment. For this we first discuss the relevant concepts.⁴

2.3 Categorization of Needs

The consumer's list of needs from where he has to choose for resource allocation is a prioritized list - the most important need on the top and the least important need at the bottom. The degree of importance of a need will depend on the perception of its significance for his well being. His perception of needs may have several categories. Top category would

⁴ The concepts of sound mindedness and right-minded have been explained in detail in the JKAU referred to above.

include the needs that he has to meet, by hook or by crook because they relate to his survival and basic protection of different aspect of his life. Availability of resources to meet them will be a secondary consideration. If resources are not available, he may use other means, even begging, stealing, snatching etc., if there is no other option. This category includes goods that Shatibi referred to as *ḍarūrīyāt*.

Second category is of those needs, which too have to be met but primarily from the legitimately available resources, not by begging, stealing, etc. This may cause him some suffering or deprivation but he may endure them. They have been referred to as *takmīlīyāt* (needs that complement *ḍarūrīyāt*) in the terminology of Shatibi.

The third categories may be those for which he can wait (without enduring substantial suffering or deprivation) until he has resources left from the upper categories of needs. They are meant to beautify life or relate to aesthetic sense to improve life style. In Shatibi's terminology, they are referred to as *taḥsīnīyāt*. In the bottom of the list there may be a category of needs that are not actually needs but the consumer may often get mixed up. The consumer may list as "needs" the things that do not contribute to his wellbeing, but he considers them as his needs.

For keeping this analysis simpler, let us define only two categories that a consumer is working with regard to allocation of his resources:

- a) Essential needs (to be abbreviated as S-needs), which would include the first two categories described above.
- b) Expendable needs (to be abbreviated as X-needs) which include the remaining categories of needs that a consumer may have in his needs list.

This framework allows us to define such concepts as waste of resources. To keep the volume of this section low, the definition of waste is skipped here.

2.4 Consumer's Decision Making Process

We start with the assumption that, by and large, a consumer is concerned with meeting his needs to improve his well being. These needs would refer to the sustenance of life, making it easy and comfortable and also making it attractive and beautiful to live. The needs, therefore, will be addressing different aspects of life such as protecting life from destruction; acquiring property to make life easy and comfortable; acquiring education to

improve capacity and to learn ways and means to improve quality of life; making and raising family as a source of happiness in life, accumulating assets to make future comfortable for self and for offspring and future generations, etc. Some of the needs may be very essential related to the very survival of life and its necessities. Others may be those required to make life comfortable and easy to live, and still others contribute to beautify and ameliorate life.

2.4.1 Equilibrium in Need Fulfilment

In this framework, it is natural to assume that the needs will have a clear hierarchy. Some needs are more pressing than others. Top most needs will be fulfilled first before going to the need next in the list. The consumer will continue on this prioritised list until he exhausts his resources. This will be an equilibrium situation for him and will often be stable too, though not always. He is in equilibrium because this allocation of resources maximizes his well being. Any other resource allocation would mean lower well being. The equilibrium is stable in the sense that any external influence or shock may change the resource allocation only temporarily but he will have an urge to come back to the original allocation to restore the wellbeing level. It may be termed as homeostasis (a term borrowed from Biology) as we will discuss in the following pages.

The disequilibrium arises if consumer happens to be distorting his list of needs and the hierarchy within the list. This may mean that the consumer is using his resources for satisfying some of his desires, which were not in his list of needs or he is not following the hierarchy that was meant to maximize his well-being. Since in this situation, he will end up not fulfilling some of his needs despite having capacity to do so and this will be treated as a disequilibrium situation. But he cannot remain in disequilibrium for long. Several pressures from inside or outside will work to put him back to the equilibrium position where he will be spending on consumer goods fulfilling his needs in right priority. The disequilibrium may persist, the internal and external pressures required to bring the desired correction are weak. Internal pressures will come from his own understanding of his needs while external pressures will come from family, friends and society, moved by their world view for their life.

We can elaborate this decision making process as below:

- 1) The objective of a consumer is to maintain a balance in meeting his needs to improve his wellbeing and improve his quality of his life.
- 2) A consumer may have unlimited desires to pursue but as a social animal with ability to judge good from bad willingness to pursue good

- and avoid bad, he would rather like to identify his needs and fulfil them rather and avoid satisfying his wants that which he cannot justify his need in terms of their contribution to his wellbeing.
- 3) A consumer thus has a list of needs, balanced in all aspects of life, which he has to fulfil. This list of needs is a result of his sound judgement and/or may have been necessitated by norms and moral values of the society he lives in.
 - 4) Needs have different intensities with respect to their contribution to consumer wellbeing and to improving his quality of life. They will be ranked with respect to their intensity in a scale starting from very essential needs to least essential needs.
 - 5) Consumers are assumed to be ‘Sound Minded’. Sound mindedness is by nature of being human. Human decision-making is assumed to be a result of sound judgement on the basis of sound mindedness. Factors like education, religion, social influences on the consumer etc. increase the commitment of consumer to base his behaviour and decision making on sound judgement. This sound mindedness leads the consumer to identify his needs and rank them and achieve a balanced choice.
 - 6) Consumer spends his resources on fulfilling the needs starting from the top of the list until his resources are exhausted. Some may have to stop in the very beginning of the list because of the resource constraints and some may go quite far down the list with more resources at their disposal, while some may have to be contented with the fulfilment of only a few needs on the top.
 - 7) In theory, the list of needs is exhaustible by definition for a particular consumer, at particular place and at a particular time. However, nothing precludes it from being a very large list and may remain inexhaustible for many or all of the consumers in a society. The length of the list may vary from person to person, from time to time and place to place.

Part - II

3. “Our” Theory of Consumer Behaviour

Our theory of consumer behaviour can be built around following parameters:

- 1) The economic problem of a consumer is how to achieve a balance in his consumption choice within the constrained resources.

- 2) Homeostasis and imbalance. A balanced choice of needs, made with sound judgement, to be met within the resource constraint is a stable balance in the sense known as homeostasis (as indicated earlier). However, changes in the environment may be so intense that homeostatic control mechanism may fail to restore the balance. This imbalance will need to be treated either by the consumer himself or by the society if the individual fails to achieve a new balance. If this is not treated, the individual will suffer seriously with respect to his economic conditions and if more and more individuals are allowed to stay off balance this may spread economy wide and put the entire economy off balance.
- 3) An important cause of imbalance that cannot be dealt with by the homeostatic control mechanism is when consumer ignores sound judgement or lacks it while making the choice. It is always possible that some consumers may not have capacity to make sound judgement or may not like to follow sound judgement and hence may allow some of their desires camouflaged as their "needs" while actually they do not qualify the criteria of being needs either in their own world view or in view of the social, moral and religious norms that they opted to follow. This is situation of disequilibrium because one is away from the balance.
- 4) Disequilibrium reflecting conscious or subconscious weakness of sound judgement triggers direct or indirect external pressure to come into force sooner or later to convince him to make the correction.
- 5) Internal pressure: A consumer has a pressure from inside to work for his well-being and use his sound judgement for this purpose. Any deviation from his sound judgement and commitment to fulfil the needs for his well-being may bring a pressure from inside to correct his behaviour. For example, if smoking bypasses his sound judgement and gets into the list of needs to be fulfilled, there will be pressures from inside to tell him not to do that on account of the knowledge that he has of the bad effects of smoking.
- 6) External pressure: A consumer faces external pressures if he does not feel any pressure from inside or does not yield to internal pressures to follow his sound judgement and improve his wellbeing. There may be several sources for such pressures. His family and well-wishers may force him to correct list of his needs. Some social institutions may create such pressures. Some public measures may also create pressures.

7) Temporary versus permanent disequilibrium and the Homeostatic Balance: The disequilibrium can be temporary or permanent. It will be temporary if internal and external pressures are operating to influence him to correct the list of needs and hence correct the resource allocation. It will be a permanent disequilibrium if the internal or external pressures are absent or weak to bring about the needed correction. It will be useful to note the distinction between temporary disequilibrium and homeostatic balance. They both are similar in nature in the sense that both refer to small deviations from the equilibrium/balance state temporary and they both can be conveniently corrected. They, however, are distinguished in following respects:

- a) The deviation from homeostatic state is not the result of lack of or ignoring the sound judgement. It is a result of external stimuli and in response, a homeostatic control system is triggered which makes the consumer to make necessary adjustments to restore the balance or achieve a new balance in the neighbourhood of the original balance. In case of disequilibrium, the deviation from balance is the result of lack of or ignoring the sound judgement. Here consumer consciously prefers non-needs over needs or distorts the priority while making the choice.
- b) Homeostatic balance is restored by the consumer's own adjustment by modifying his choices using his own sound judgement. No external pressure will be triggered because of his choice. The disequilibrium requires external pressure for its correction. If no external pressure is triggered then the disequilibrium will not be corrected and will become permanent disequilibrium.
- c) If homeostatic balance is disturbed it is not a reflection of an economic disease which can be treated at the consumer level without requiring any action at society or state level. However, if the disequilibrium takes place, which is already a disease, it cannot be treated at consumer level. It will require intervention by society, state or social institutions.

The homeostatic imbalance is a state, which cannot be treated at the level of the consumer because the stimuli were too strong that disturbed the balance at substantial level and the consumer does not have capacity to correct the balance despite having sound mindedness and commitment to sound judgment. This may become an economic disease if it spreads and society or state does not intervene. The disequilibrium is permanent, if society or state or social intervention is not strong enough to bring the correction.

- 8) Higher versus lower level equilibrium: Even if a consumer is in equilibrium, it does not mean that there is no economic problem. He may be in equilibrium with respect to his resource constraints in the sense that he is doing best to manage the quality of his life and level of his well being within the resource constraint faced by him. As opportunities become available or resources at his disposal improve, he fulfils more and more from his list of needs, improves his wellbeing, enjoys better quality of life and hence reaches higher levels of equilibrium.
- 9) Desirable or undesirable equilibrium: The equilibrium may be characterized as desirable or undesirable in reference to certain world view and the moral values of the society for the objective of life on earth. For example, the consumer may be on higher levels of equilibrium with respect to a certain worldview and system of moral values but that equilibrium may not be desirable with regard to another set of world view and moral and ethical values. If society gives priority to sustainable development in the socio-economic goals to be achieved and the equilibrium level, despite being at higher level, is not in line with this goal, then this equilibrium will said to be undesirable.

3.1 Difference that Our Framework Would Make

What difference does it make to analyse consumer behaviour in the above-mentioned framework? What new information do we get about consumer behaviour? How far is this information amenable to a processing that can yield results for improving the economic conditions of consumers in a society? We need to answer such questions if we propose to use an alternate framework to replace the conventional framework for the analysis of consumer behaviour.

The theory helps us understand additional aspects of human behaviour (not covered by the conventional theory) and raises new questions to be addressed for the sake of well-being of the consumer.

4. New Dimensions in the Analysis

Our framework allows us to understand some important aspects of consumer behaviour, which have important implications for consumer's well being and development of the economy but cannot be understood in the conventional/neoclassical framework. Some potentially useful aspects are as below:

4.1 Waste of Resources

In conventional framework of analysis of consumer behaviour at micro level, it is not possible to identify waste because a rational consumer always equates relative utility to relative prices. If he does not do so he is irrational and hence is not the subject of study in the conventional science of Economics. Waste is not a subject of Economics.

In Our framework waste would be recognized, if a consumer:

- a) Spends more on a commodity than needed, or
- b) Consumes more of a commodity than needed, or
- c) Spends on needs of lower order, at the cost of meeting higher order needs, or
- d) Spends on non need commodities, commodities that do not contribute positively to the consumer's wellbeing

In Our framework, consumers are assumed to avoid waste. This is not a normative statement. Avoiding waste is positive part of human behaviour. All societies abhor waste and so do individuals in the society. But defining waste requires a reference point. In our framework, 'need' is the reference point. Sound judgement on the part of consumer is expected to avoid waste. However, sound judgement may often be avoided. Avoiding sound judgment and/or lack of ability to make sound judgement may occur and may lead some or many consumers to indulge in wastes described above. This may occur in almost all societies. Several factors, can be identified that can lead to such a behaviour. These may be associated with education, culture, custom, tradition, etc. Waste thus will be an important topic in 'Our' study of economic behaviour of man.

4.2 Consumer's Well-Being

Consider consumer's choice between bread and drugs: In conventional framework, no one can challenge if consumer feels more satisfied using drugs than bread. His choice of more drugs, other things remaining the same, will be treated as increasing his welfare. The conclusion will remain same even if he decides to substitute part of his bread consumption for more drug. Such a tendency in society (where decisions are made on the basis of satisfaction rather than need) may generate a consumption pattern that, despite ability, the consumers do not pursue their well-being and their important needs get ignored while resources get overspent in meeting less important needs. It should be a concern of every society that their members meet their needs and improve their well-being as much as possible. Our framework would take care of this concern of the society.

4.3 Unhealthy Demonstration Effects

Conspicuous consumption of certain items by affluent class in a society may generate unnecessary emphasis on these items as they may become status symbol. Such tendencies, while may imply waste of resources in the affluent classes as they over spend than needed, these tendencies will be detrimental to the well-being of less affluent and low income consumers as well as to the sustainable development in the society.

Such information is useful for the society not only in the interest of sustainable development (to economize on the use of resources) but also for the development of individual consumers so that they are not ill-fed and different members of society do not create ill-effects on less affluent members of the society.

4.4 Labour Supply Distortions

A consumer's resource constraint is basically his time multiplied by his wage rate or earning capacity. He has 24 hours a day to allocate to meet his various needs. Part of his needs require him to work to earn an income that can enable him to buy the goods from the market to meet the needs. He thus has to allocate his time:

- (a) For work
- (b) For other needs

By working he will be earning an income to meet the needs some of which may be critical needs and some X-needs. The time other than allocated for work, is also devoted to meet various needs, which may include S-needs and X-needs. Let them be labelled as L_1 and L_2 needs respectively.

There may be a situation of lethargy. Several of his needs remain un-met. He has time to utilize to meet these un-met needs. But he just does not feel like doing so influenced by psychological desires rather than needs. Can this happen? It can and it does. It is observable in several parts of the world. Why this happens? Obviously sound judgment is not in effect here. His internal forces to press him to use sound judgment are weak. There is also no external pressure for him to correct his behaviour. The external pressure may be absent due to the fact that members of community may be doing the same. Thus there may be a plenty of human resources in a community but they are failing to get translated into economic force or work force or labour supply. This is a disequilibrium situation; needs remain un-met despite availability of resources. In several communities this disequilibrium can be seen as permanent disequilibrium.

The leaders of the society, the planners and policy makers would like to watch this phenomenon in consumer behaviour. They will need information on the incidence of such behaviour in the society so that they can remedy it before it becomes a permanent cause of disequilibrium for most members of the society through demonstration effect, and then it will become incurable disease for the whole society as society itself gets plagued by the disease.

There may be a situation of excess labour supply in relation to job opportunities in the community. This is neither due to the weak filter nor due to the weak internal pressures. The situation can be corrected by exogenous factors that can increase job opportunities. Until the job opportunities improve, social institutions will be needed to help individuals meet to seek work to meet their needs.

4.5 Interpersonal Comparison

Policy makers and social decision makers often need to make interpersonal comparison to assess social welfare effect of various policy options and decisions. In practice, such comparisons are made consciously or unconsciously and explicitly or implicitly in almost all policy decisions. The recognition of needs and their significance for different individuals and groups of individuals is made at various levels in government and other social organizations. All such policy decisions are made with well being considerations in mind for the members of society. A framework for analysis of consumer behaviour on the lines described in this study and generating necessary data in that respect would make decision making more objective, having a basis for interpersonal comparison to be made a part of the decision making process.

Though in economics literature, we may find making inter household comparisons, but such comparisons have been made beyond the assumption of the existence of utility function. These comparisons make reference to the needs of the households. Since the concept of utility and utility function relate to psychological satisfaction, they can represent only the underlying preference orderings of each individual separately, having no basis for making interpersonal comparisons of wellbeing. Meaningful interpersonal comparison will require consumer preference ordering built-up on some objective basis that can enable comparability of levels of wellbeing of individuals, households and group of households. Recognizing needs as the basis for consumer preference ordering provides this basis.

4.6 Incorporating Ethics in the Analysis

Conventional analysis is not capable of incorporating ethics. This constrains the capacity of policy makers to formulate policies for improving wellbeing of people in the society in line with the world view that society is committed to. Our framework for consumer analysis described above is based on the theory that consumer's decisions are made on sound judgment and that is an important element in the consumer behaviour. Ethics are important building block of the sound judgment.

5. Consumer Behaviour and Perception on Economic Problems: The Major Difference

Economic problems in the context of consumer behaviour are multidimensional. Consumer wants his S-needs to be met as well as X-needs as much as possible while successfully keeping aside such desires which do not qualify as his needs. He wants self-development, which not only requires correctly prioritizing his needs but also mobilizing and managing resources to pursue self-development in all aspects of his life. He wants to spare time for non-economic needs as well beyond the need of leisure/recreation, such as giving time to children, parents, worships and community works.

Consumer behaviour can be related not only to the above problems at micro level but also to the problems of society at macro level, like unemployment, poverty, income distribution, inflation and sustainable economic growth and development. The nature and dimensions of these problems arising out of consumer choice are described below.

5.1 Consumer's Economic Problem

Consumer's basic economic problem is how to improve wellbeing and quality of life within the resources he has access to. He has multitude of needs to meet with respect to his wellbeing. He has to prioritize them in order of their contribution to his wellbeing. His first problem is how to rightly prioritize them. He alone may not be the right judge. But he may not accept always anyone else's judgement too in respect of his personal needs. His sound judgement helps him screening his needs from his wants. He, however, needs a yard stick to measure that his judgement is really sound. His judgement may lead him to a choice that he may learn later on that it was not the correct choice and that his judgement faltered. He could do better. He goes back to review if he can make a better choice by reapplying his sound mindedness. Revision of a choice has a cost. He already wasted resources on what he did not need. How to minimize

alterations? How to avoid sticking to a choice which was, knowingly or unknowingly, not an optimal choice? Further, even if he has succeeded to correct his choice, how to make up on the scale of wellbeing over time? How to keep up pace with the dynamics in the society that are leading to improved quality of life and wellbeing or how to resist the dynamics of the society that are leading to reduce wellbeing? These questions may require action at the consumer level or at the society level or at the level of both. Economic problem of a consumer is not a matter of individual alone nor alone society can solve it.

5.2 The Issue of Development

Consumer behaviour has implications for self-development at micro level as well as for economic development of society at macro level. A consumer may be satisfied that his needs are appropriately prioritized and his allocation of resources is best for his wellbeing but still it does not mean that he has no economic problem. He might be satisfied that he has utilized his resources optimally from the resources he has access to. But this satisfaction is only in the static sense. In dynamic sense he may still be unsatisfied. To grow and develop and reach a higher level of wellbeing is instinctive desire. He needs to devote part of resources which may not fulfil any of his present needs, but may improve his well being later. Despite willingness, consumer may not get the opportunity to do so, for one simple reason and that relates to the time value of resources.

5.3 Time Preference, Time Value of Resources and Discounting of Future Flows

Future is uncertain, present needs are more pressings; allocating resources for future needs requires balancing the present needs with future needs while taking into account the uncertainty attached with accumulating and preserving present resources (by sacrificing some of the present need) for the sake of meeting the future needs).⁵ The balance of allocation of resources for present needs and future needs will depend on:

- a) How pressing are present needs compared to future needs (Time Preference)

⁵ Saving for future only makes sense in terms of needs for future for the sake of wellbeing and quality of life in future. It is only in this sense that the resources to be spent now and resources to be spent in future can be compared. Comparing utility of present consumption in terms of psychological satisfaction with the satisfaction that the resources saved now provide with the satisfaction that resources will provide in future will make no sense unless utility is interpreted in terms of needs of consumer.

- b) How much uncertainty is associated with the use of present resources for meeting future needs (Risk Factor)

5.4 How Pressing are Present Needs Compared to Future Needs

Future needs depend on several factors. It depends on the present socio economic status of the consumer. Low-income consumers need their resources more to meet their S needs and those X needs that are complimentary to the S needs than to save for their future needs. Time preference for such consumers will be very high for the use of their resources. Compared to this, the time preference for high-income consumers will be lower. It depends on educational status of the consumers too. Less educated and illiterate consumers may not make a sound judgement for balancing their future needs with the present needs and may have high time preference. Traditions and cultures may also have implications for time preference, where family/tribal traditions may require spending more on present needs than needed, which may come at the cost of reduced allocation of resources for future needs. Extended family systems in some societies may reduce the pressure of future needs because the family/tribe is committed collectively to take care of future needs of all members of family/tribe.

5.5 How Much Uncertainty is Associated With the Use of Present Sources for Meeting Future Needs?

This depends on the economy and the level of economic development in the society. Risk factor for the savings for future needs is high in low income developing or underdeveloped societies. It may also depend on how far the future is perceived to be for which resources are to be saved now. The uncertainty attached to needs in distant future is higher than needs not-so-distant in nature.

5.6 How to Balance Allocation of Resources for Present Needs and Future Needs

This requires discounting the future needs with respect to consumer's time preference and with respect to the uncertainty of meeting future needs from the resources saved from meeting present needs.

Let us assume, that p represents rate of time preference (reflecting how pressing present needs relative to future needs are) and k represents the risk factor reflecting the uncertainty of future and of meeting future needs. Both p and k together make a discount factor to make future needs comparable with present.

Let the discount rate be defined as $d = p + k$

Where d is the discount rate, p is rate of time preference and k is risk factor.

Once the effect of time preference plus the effect of uncertainty, represented jointly by d , are eliminated then it is merely a matter of placing future needs at the right priority in the prioritized list of needs for resource allocation.

The resource allocation for future needs will be distorted if future needs for resources is discounted but the resources saved for future are not invested to let them grow over time. The factor d will require more resources to be allocated to savings than necessary if the resources were made to grow over time. The higher the d factor the more distorted will become resource allocation; sacrificing present needs more than necessary. Some economies provide opportunities where the risk factor, k , is zero or almost zero. The resource allocation will improve if the resources saved to meet future needs can be made to grow at the rate of time preference, p .

5.7 Realising Time Value of Resources

Additional resources for allocation to present needs as well as future needs may be considered to be available if the resources saved for future needs can be made to grow overtime till they are used to meet the needs for which they were saved. No economy is void of opportunities where resources can be put to grow over time. This time value of resources can be realised in several ways. The consumer himself can take up the role of an entrepreneur and put the resources that he has set aside for future needs. He can purchase or build property and receive rent. The accumulated rent over life time of the property will not only recover the original investment but will also get him: a) time value of resources used by others; and b) a reward for his entrepreneurial risk bearing. There can be several productive opportunities to earn these two components.

The consumers often may not like to indulge in entrepreneurial activities either because they do not have the entrepreneurial skills or time to look for the opportunity or the resources they intend to allocate to meet future needs. The consumers then have a choice to find a partner to serve as entrepreneur to use their resources in order to allow them to grow over time. The economies may not be short of such entrepreneurs who have entrepreneurial talent but lack the resources to initiate profitable projects. Such entrepreneurial human resources will welcome the opportunity of

using the resources of those who lack the ability to use them and share the profit.

For some economies, particularly developing and underdeveloped, it may be difficult to realize the time value of money. Even if opportunities are available with sufficient risk premium, there would be consumers in the economy who would not like to take any risk with the resources meant for meeting their future needs. Whether it is a matter of lack of opportunities to yield desired risk premium to or it is a matter of consumers not willing to bear any risk with their resources, the allocation of resources will cease to be balanced. To overcome the problem, the economy normally can offer a host of opportunities to let the consumers have their saved resources grow over time. The efforts, to provide such opportunities, mainly concentrate on reducing cost of capital, so that more and more opportunities become attractive (as it will reduce the risk premium too). These efforts include developing appropriate legal system of property rights and hence introducing innovative business practices and business organizations that will help resource owners to minimize risk. One example is corporate structure, which provides opportunity for limited and reduced risk bearing through the stock market. This reduces the pressure on resources as discount rate is reduced.

5.8 Theory of Interest and Realization of Time Value of Resources

Another institution that helps in reducing the discount rate is the institution of interest based lending. Interest based lending and borrowing, where principle amount as well as interest amount is secured and guaranteed by collaterals, eliminates the need to compensate for moral hazard. This provides the consumer an opportunity to just balance all his needs, putting future needs too on equal footings in the same line as of present needs. And that is said to justify the interest. This is simply providing a legal structure to support interest based lending and borrowing based on collaterals and guarantees.

Some societies may abhor interest on religious or ethical grounds. This is probably because the presence of the institution of interest based borrowing and lending secured by collaterals and guarantees kills the spirit to help members in society who are in need and distress from those who have spare resources to do so. The spirit is needed to maintain harmony peace and brotherhood in the society. A legal coverage and support to interest based lending and borrowing will gradually drift resources away from such higher order social considerations to lower order mundane economic considerations of earning a small return to compensate for time

preference. There may be several others that can be ascribed to interest which not be preferred by a society on moral grounds. In economic sense, it will continue making sense.

It, however, does not mean that balanced allocation of resources may not be achieved by the consumer without the option of lending his resources, saved for the future needs, on interest. Economies normally have a spectrum of risk-return investment opportunities (interest based lending being the no risk-low return opportunity). Two points need to be noted in this respect:

- 1) Presence of interest based lending-borrowing option will tempt the consumers to go for the option despite that consumers needs in future do have risk factor and the balanced resource allocation requires his resources saved for the future needs to grow at a rate higher than interest rate. While economy offering opportunities to earn higher return by bearing comparable risk, choosing the option of interest would make interest rate r less than d , the discount factor. Allocating resources on this basis would distort the balance that consumers seek to achieve. Eliminating the interest option will expose the consumers only to risk bearing options and the consumer will make the choice according to their own risk-return preferences.
- 2) At economy wide level, the consumer's savings to meet future needs should go to increase the capacity in the economy to produce goods that would meet the future needs for which consumers have made the resource allocation. Presence of interest option may generate tendency and temptation to borrow to increase present consumption - increasing present consumption, which will be paid out of the future income. This may lead to the tendency to allocate more than necessary resources at the cost of depriving oneself form meeting future needs.

6. Theory of Finance and Consumer Behaviour

As an example, imagine a weaver working on a traditional spindle weaving cloth. He knows he has capacity to work on a more sophisticated machine and make more income. His allocation of resources has enabled him to save money to meet future needs. He will be able to make a balanced decision if he is able to purchase the machine that is expected to give a return that will make his resource allocation balanced. But the machine he needs to purchase with money to give him the desired rate of return is not available. The machine that is available is of higher capacity than what he needs and also cannot be purchased by the money he has. The acquisition of machine and its commercial use not only means a

balanced resource allocation to all his needs but also enables him to be at higher level of well being. He has capacity to do that but he needs some complementary resources for the purpose. How can he get the complementary resources? What options society provides to deal with such a situation?

Suppose there is another consumer with matching needs and has the resources when complemented with the cloth weaver resources to jointly purchase the machine and do a business in partnership; it will help this consumer too to meet his needs. Will this partnership take place? The enabling environment to materialize such a partnership will require that the society maintains a clearly defined system of property rights and rules of business and enforces them in letter and spirit. This alone, however, may not be sufficient. Consumer B should be willing to bear the risks also involved in the project of consumer A. This may particularly be true if the interest option is available. B may prefer to opt for extending an interest-bearing loan that needs his finances. His resource allocation will fail to be balanced. Resource allocations of consumer A will also fail to be balanced if he cannot have excess to capital with appropriate risk-return profile. The presence of interest thus can create imbalance in the resource allocation of majority of consumers in the economy hence creating an economy wide imbalance in resource allocation.

7. Economic Development and Consumer Behaviour

Entrepreneurial human resources (who are willing to take risks of productive activities) and the complementary risk bearing capital is an important factor in the economic development of a society and improve wellbeing of its members. Both these elements, entrepreneurial human resources and risk bearing capital, originate from the consumer behaviour. When consumers aim at balancing their present and future needs, the discount factor, d , which includes the elements of p and k , this balancing will not materialize if there are no corresponding opportunities where the investment of his saved resources could yield him a return equal to d . This return has to have not only the time value of resource v to correspond the time preference p , and risk premium m corresponding to the risk factor k associated with the future needs. The consumers will look for opportunities to deploy their saved resources or may try to exploit their own entrepreneurial potential to make productive use of their own savings. This phenomenon of generating risk bearing capital and entrepreneurial human resources at grass roots level creates a balanced growth of goods and services in the economy that will be consistent with the future demand at grass roots level. This process, however, may be thwarted by the

existence of interest based borrowing and lending option in the economy. The affluent members of the society who have already accumulated enough wealth, the uncertainty about future needs does not bother them, and they will be happy just to receive a return to offset their time preference p . They will look for those whom they can lend their resources with guarantee of principal amount as well as a guaranteed return v . There will be affluent entrepreneurs in the society who will be willing to borrow on interest to invest in a productive activity to yield a return v which may be less than the potential of higher return that he is capable of yielding. The following outcome is obvious.

- a) The wealth will tend to circulate among the affluent members of the society;
- b) The projects of lower return will get financed whereas the economy can support higher return projects;
- c) The resource allocation will cease to be balanced and the all consumers, affluent as well as others, will remain permanently in the state of imbalance and hence lead the economy to various economic diseases.

If this occurs, consumers may lose the urge to make a balanced allocation to future needs and improve future quality of life. They may allow their wants to slip away from the sound judgement. If consumers may stop making sound judgement in allocating their resources to improve their wellbeing then the society will stop creating environment that can enable consumer to make a balanced allocation of present and future needs. And those consumers who are willing to go to higher level of wellbeing through balanced resource allocation may not find environment suitable for this purpose as society is losing spirit of collective efforts to create such enabling environment.

The problem of lack of development thus will be a result of the following elements:

- a) Inability of consumers to make a balanced allocation of their resources between present and future needs according to their sound judgement because of the absence of institutional environment to do so.
- b) Weakness of internal and external pressures to stick to the sound judgement.
- c) Lack of collective spirit and initiative to respond to the consumers' need to move to higher level of well being by making collective effort to create enabling environment.

7.1 Unemployment

It has been mentioned earlier that consumer's basic resource constraint is time, which he allocates:

- a) For Work
- b) For meeting other needs

Work is a need in itself for a sound minded consumer. It is needed to generate other resources required to meet various needs. To meet needs without working is something, which is generally looked down as a waste of one's time. Consumer uses his sound judgement for making a balanced allocation of his time to work and time to meet other needs such leisure, family duties, social obligations, religious obligations, etc. The time that an individual, in socially acceptable working age,⁶ is willing to allocate to work determines the supply of work force in the society. This is what is referred to in conventional economics as "labour force".

In our framework, work force concept is different from labour force concept. Labour force means all population in working age that shows willingness to be economically active. In other words they are either reporting themselves as working or looking for a job. The concept of labour force does not make reference to the need to work but refer to only the utility of leisure and disutility of foregoing it. By working, an individual is assumed to be foregoing his leisure. The utility of leisure therefore is underlying concept in the labour supply.

In Our framework, an individual does not look towards utility of leisure or disutility of work in terms of his/her personal happiness. As a human being, need is his primary consideration. He decides how much time he needs to spend to work and how much time he needs to devote to other needs in the sense already explained. If an individual in a household has decided to stay home sharing the household income while devoting all his time to various family and social obligations and other needs, then according to conventional economic terminology this individual does not constitutes labour force, because he is neither working nor looking for work. Our framework classifies work force in three categories:

- a) Working
- b) Looking for work
- c) Potentially available for work whenever need arises

⁶ Working age is defined differently in different societies. In most contemporary societies, working age legally starts between 14 to 16 years of age.

The recognition of last category resolves one of the puzzles that conventional economics often tries to resolve. The puzzle is that why the unemployment rate reported in Labour Force Surveys is lower in many developing and poor countries than that reported for many developed countries. See the table below:

Table
Unemployment Rate in Selected underdeveloped and Developed Countries

Country	Unemployment Rate (2005)	
European Union	9.4 %	
France	9.9 %	11.6% (1995)
Netherlands	6.6 %	7.1% (1995)
USA	5.1 %	5.6% (1995)
UK	4.7 %	8.6% (1996)
Australia	5.1 %	8.5% (1995)
Japan	4.4 %	3.25 (1995)
Azerbaijan	1.1 %	
Burma	5.0 %	
Nigeria	2.9 %	
Thailand	1.8 %	1.5% (1993)
Uzbekistan	0.7 %	0.4% (1995)
China	9.0 %	2.8% (1994)
India	8.9 %	
Pakistan	6.6%	4.8% (1994)

(Source: CIA-The World Fact Bank-Unemployment Rate)

This is usually attributed to lack of reliability about the official statistics in developing countries or a large part of disguised unemployment reported as unemployment. However, if we compare the data over time the effect of these two factors should remain same. But we see that China's unemployment rate is reported to have increased from 2.8 percent in 1994 percent to 9 percent in 1995. This period of accelerated growth in China showed an increase in unemployment. Same is the case of Pakistan. There are several other developing countries which have shown increased unemployment rate over time despite registering respectable growth in the economy. The explanation lies somewhere else and not in disguised unemployed or unreliability of official statistics. This is more easily explained if we consider need as a basis of labour supply decisions. As needs increase, more and more individuals who previously did not need to look for a job are now looking for jobs.

Unemployment has micro dimension as well as macro dimension both having roots in consumers' choice. In conventional economic framework, unemployment occurs when any of the factors of production (labour, land, capital, and entrepreneurship) are not employed in production of goods and services. Unemployment occurs when labour, a factor of production, is not being fully utilized due to the unavailability of suitable jobs. It is defined as a situation where people who are willing and able to work cannot find employment. Within the context of the conventional framework for labour market, unemployment is seen as potential labour supply. The unemployed are those who want to supply their labour and are seeking work.

In our framework, we would define economic work force instead of labour force. Supply of work force means the time individuals need to put to be economically active. Employment, in our framework, means the time or number of hours that the consumer is economically active to get the desired resources to meet his needs and succeeds to get the work accordingly. Homeostatic balance with respect to employment would mean that any exogenous factor may increase or reduce the amount of the time that they are required to be economically active to meet all their needs within the time constraint but since it will disturb the balance in his needs, the forces will soon come into action to help him restore his balance. Assume that an individual is economically active for t hours per week at the current expected income of $\$w$ per week that would ensure him the fulfilment of a balanced mix of needs necessary for his overall well being.

Unemployment would mean inability to find work for the number of hours that an individual has earmarked to earn desired resources. This will be an involuntary unemployment, in conventional economic jargon. In Our framework, this will, however, be a situation that will call for homeostatic adjustment as his higher ranking needs will remain unmet and he will be forced to spend his time in meeting lower ranking needs if homeostatic adjustment does not come into force. However, if a consumer decides, by choice, to spend more time than needed on lower ranking needs than working for income to meet higher order needs then this would be a situation that is referred to as voluntary unemployment in conventional framework but in our framework it would be homeostatic imbalance reflecting only the lack of sound mindedness in making choice. It is possible that an individual having no work available to provide him the needed resources has no choice but to accept work which despite his capacity fails to yield him the required expected resources needed either because return on his work efforts is less than what he expected in the

market to use the time he has decided to spare to be economically active. He agrees to accept the work probably because the resources generated by work are required to meet essential needs and cannot be postponed or ignored. In conventional framework, this is called disguised unemployed but in our framework this too will be homeostatic imbalance the roots of which lie in the economy at macro level and not in the economic decision making of the individual.

At macro level, consumer behaviour may have different implications with respect to employment. If the consumers are in homeostatic situation but they are enjoying a lower level of well being as they are missing some important S needs despite their best work efforts and despite that they are making sound-minded judgement in making all their choices. In case a substantial proportion of population in the society is faced with this situation, then it would be a sign of bad economy and waste of its resources. The society has to find ways and means to create job opportunities. This may justify the state to play an economic role in the society to lead the consumers to higher level of well-being and move the economy. If the involuntary unemployment is not dealt with, the unemployed may get into socially and morally objectionable activities, which may lead to creating corruption in the society. The potential unemployment is less of a problem for a society with a growing economy. As economy grows it creates jobs even for those who have been out of job market because "suitable" jobs were not available. This potential lot of unemployed in fact may have internal pressures and may, with the passage of time, be willing to take up jobs which one previously did not like. Since now disliking from such jobs has subsided so taking up this job does not adversely affect his well-being. On the other hand increased income helps him meet his higher ranking needs in the S-category of needs, which have been unmet so far. He is thus able to substantially raise his level of wellbeing. Many of the lot of potential unemployed migrate to other places, preferably abroad if possible, and take up any available jobs. The self esteem element is no more powerful and is controllable. Many contemporary developing economies continuously report an almost constant or even increasing (open) unemployment rate despite that jobs in the economy are growing at a rate higher than the growth in the labour supply and large amounts of labour migrating abroad. It is this pool of potential unemployed that keeps absorbing the new opportunities.

The third category i.e. disguised unemployment is the worst for the society if it exists in substantial proportion in a society. It is result of faulty consumers' filters. They are misallocating their time. While there

are human resources available, the labour force participation remains low. The society continues to remain at low level of development because of low labour participation and population continues to remain satisfied with low levels of well being. Many contemporary world developing countries face this syndrome. No plans for job creation will remedy the situation. Efforts are needed to correct the consumers' filter to enable them to see their needs correctly.

7.2 Poverty

A consumer, in the present framework, is poor in own eyes if he is in equilibrium at a level where he is not to fulfil his essential needs, however decided by the society. Call them S-needs. In our framework they will be *ḍarūrīyāt* as defined earlier. A consumer is poor in the eyes of the society if he is not meeting his basic needs, however defined by the society. Call them B-needs. This may include all *ḍarūrīyāt* plus some part of *ḥājīyāt* as defined earlier. Assuming an individual in a society has a list of needs and has prioritized them, then if he is unable to meet at least his S-needs, he will consider himself poor. But if his S-needs do not include some of his B-needs as perceived by the society then he will be regarded poor by the society, even if he is meeting his S-needs as perceived by himself.

As in case of unemployment, we can define four dimensions of poverty also which have implications both at micro level as well as macro levels.

7.2.1 Involuntary Poverty

Consumers are unable to meet their B-needs or even S-needs. This may occur in two ways. Despite that all his time is devoted to meeting essential needs, time value of his efforts is not enough to get him resources sufficient to meet his S-needs. Lack of capital, human or physical, may often be the reason. He has no choice but to depend on the society either to give him capital or directly meet his needs. This is the category of poverty where consumer's choice does not play any role.

7.2.2 Voluntary Poverty

Consumers may assign their S-needs lower priority. This, of course, would be the result of lack of sound mindedness. Value of time that he puts in to make efforts to earn resources to meet his needs may not be sufficient to allow him to reach down the list where S-needs have been placed. This poverty results from consumer's own choice. It not merely means lack of sound mindedness, but also that external pressures too are weak. In this situation a person may remain happy with his economic condition and

spend most of the time in leisure or low priority needs instead of using his time to improve his economic conditions. Many developing countries will find this category of poverty prevailing there. Alleviating such poverty requires correcting the consumer behaviour rather than making physical or human capital available to them. Such a person is required to realise that he is wasting his time and that improving his economic condition is good for his well being than wasting time in leisure.

7.2.3 Potential Poverty

Consumers may have enough resources and they may be meeting their S-needs, plus some B-needs besides meeting a set of X-needs (dispensable needs). But they may be ignoring their self development needs. In a dynamic society where every body else is making efforts to self development, the group of consumers may lag behind and are likely to drift to poverty if they do not correct their priorities in their consumption. This may take the form of waste i.e. not spending more than needed on their needs, not spending on items that are not their needs and not placing items of self development at right priority in their list of needs. Demonstration effect of their consumption pattern may distort the consumption priorities of consumers in their neighbourhood and the snow balling effect may lead wide spread waste of resources as well as incidence of poverty. This will result due to corrupted homeostasis control mechanism and weaknesses of internal and external pressures.

7.2.4 Extreme Poverty

Situation where the consumers are hungry and starving and suffering from extreme malnutrition: their B-needs fall far short of being met; bulk of their S-needs remain unmet. Such poor have no choice except to beg, steal or snatch or rob. It is the duty of the society to ensure that no one is involuntarily hungry and starving. It is the duty of the society to locate and identify as extreme poor and make necessary arrangements, institutional or otherwise, to take care of them.

7.3 Sustainable Development

7.3.1 Waste of Resources and Pollution of Environment

A sound minded consumer who has rightly prioritized needs committed to his self-development and wellbeing is assumed to be using the resources judiciously. Sound minded consumers' behaviour only could ensure sustainable development of self and society. As the consumers' decision making process get corrupted and desires, not needs, get priority in their choice, the resources and environment become at stake. Sustaining

development is likely to become difficult. As sustainable development is needed for the well being of all, society is required to be on watch with respect to the consumer behaviour and taking steps to ensure that the consumer choices are sound-minded choices in the society's perspective. Since affluent members of society can easily slip away from sound-minded priority list of needs and since demonstration effect from the affluent section of society are strong in influencing the consumption pattern in the rest of the society, the sustainable development risk will be higher in societies that have highly skewed income distribution.

8. Application of Theory

Two basic questions need to be answered to complete this theory:

- a) One basic question is how to determine that the consumer is on the desirable equilibrium position and when community or government needs to do something to bring consumer to such equilibrium. This will require determining some benchmarks for various needs and spelling out some guidelines for consumption. Every society does have such benchmarks implicitly or explicitly. They will need to be identified explicitly for the purpose of analyzing consumer behaviour. This in turn may generate new ideas how to strength the benchmarks and guidelines in order to bring consumer closer to desirable equilibrium. As society commits itself to sustainability of its members as well as the society as a whole, more comprehensive bench marks and guidelines will need to be developed to give the society enough basis to devise strategies and plans for consumers to gear their behaviour towards attaining maximum well-being and sustainable development.
- b) If the society happens to be having no explicit or implicit benchmarks, then where to start with. Many countries already conduct household income – expenditure surveys and those who do not conduct may not find it difficult to start conducting such surveys. These surveys are already designed with the implicit objective of determining needs of the household without any explicit theory of consumer behaviour. These surveys can be specifically oriented towards explicitly determining benchmark for various needs too with explicit theory how to analyse them. Some countries use these surveys to prepare consumption plans for various food items, particularly for food grains. The concept of determining benchmark for various needs using household survey is, therefore, not a new concept.

No society is void of an ethical base that would leave consumer free to behave as he likes or leave market free to allow consumer to satisfy whatever desires he intends to satisfy. On the other hand, not all societies have same set of ethics and norms for its markets and the behaviour of its economic agents. Each society has a set of ethics and norms not only defining rules for behaviour but also reflecting the objective of life that society members are assumed to be pursuing.

Islamic system of life provides a unique and elaborate set of rules for market as well as for the behaviour of its economic agents. Consumer behaviour is particular focus of the Islamic system of life. There is specific divine guidance in the form of *sharī'ah* rules and ethics governing consumer behaviour. These rules and ethics lead to the development of such institutions that enable the individuals and society to continuously improve level of their well being on a path of sustainable development.

9. Conclusion on Our Approach to Analysis of Consumer Behaviour

Consumer behaviour is an important aspect of economic behaviour of man. It can lead the man and society to drift easily into such problems as unemployment, poverty, underdevelopment, exhaustion of natural resources, pollution of environment, etc. Two things can stop consumer to adopt a behaviour leading to such economic evils; a) filter inside him b) society's commitment to social responsibility. Market alone cannot correct consumer behaviour. Social institutions will be required to guide the market and sometime to regulate the market. The social institutions will emerge from the ethical base that society is committed to.

No society is void of an ethical base that would leave consumer free to behave as one likes or leave market free to allow consumer to satisfy whatever desires he intends to satisfy. On the other hand, not all societies have same set of ethics and norms for its markets and the behaviour of its economic agents. Each society has a set of ethics and norms not only defining rules for behaviour but also reflecting the objective of life that society members are assumed to be pursuing.

10. Is Conventional Theory of Consumer Behaviour Totally Irrelevant?

Even though need is the driving force for consumer behaviour, the instinctive desires too often remain a factor in consumer choice. The conventional analysis of consumer behaviour may still remain valid in all such situations where instinctive desires and not the 'needs' are the driving force. The conventional theory may still remain valid to study unusual,

undesirable, unhealthy patterns in consumer behaviour. It will still be relevant to study what may be called the dark side of human nature.

Consumption of alcohol and drugs, markets of pornography, money spent on illicit and abnormal sex activities, resources spent on criminal activities, economics of (professional) beggars, economics of prostitution, consumption of goods abhorred by society or prohibited by law, wasting money in funs and games and gambling, the excessive use of resources in glamorous sports, wrestling, and other glamorous entertainment and all such behaviour that cannot be analysed in the need based framework described above. The conventional utility-based approach will provide more suitable and convenient framework that can analyse such behaviour. Utility-based framework may not be irrelevant for the analysis of such aspect of consumer behaviour where needs and utility overlap. It has been mentioned earlier that the some needs of a consumer may appeal to instinctive desires as well, (e.g. some level of food, some level of clothing, some level of housing, etc). For such aspect of consumer behaviour it may not matter whether we are applying utility-based conventional approach or need based approach described above. But there are several needs that may not appeal to instinctive desire but have to be met (e.g. education, religious obligations, things needed by the society in general, etc) where instinctive desires may put resistance in meeting them, but instinctive desires have to be overruled in such cases; only need-based approach is relevant while utility-based approach will not make much sense.

The conventional analysis may also be relevant for making a choice among commodities that can fulfil same 'need'. For example, once a consumer decides to include some fruit in his basket, he may be faced with the choice how many oranges and how many apples to buy. The conventional analysis of consumer behaviour will be relevant here to understand his choice between orange and apple. The indifference curve will remain a valid concept. Marginal cost and benefit analysis will also remain valid. The only difference will be that underlying welfare or benefit will not be utility, but it will be wellbeing as described in this paper.

[The Part III on Islamic Economics and "Islamic Theory of Consumer Behaviour" will be published in the next Issue of the JIBM]

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