CONSUMPTION AS AN ACTIVE ELEMENT OF THE ECONOMIC PROCESS IN CONTEMPORARY ECONOMY

Summary

The goal of the article is to analyse consumption as an active element of the economic process. The considerations aim to show that consumption not so much concludes but rather initiates the economic cycle. Consumption determines the situation of individuals by influencing their work performance, its rate and intellectual efficiency. The satisfaction of needs, collection and allocation of consumption resources leads to specific effects (in this indirect effect of consumption). The considerations highlight that the development of productive forces is not a step process. Rather, it should be smooth and spread over time.

Key words: consumption, needs, consumption resources, effects of consumption

1. Introduction

In the last decade of the previous century and the first of the 21st century – in the time of spectacular technological developments, the changes of social, economic and political environment led to the change in perception of the importance of consumption. The purpose of the article is to analyse consumption as an active element of the economic process – consumption not so much concludes but rather initiates the economic cycle. During consumption, there occurs transformation of some resources and streams of goods and values. The individual is not only a user of goods and services, but also their creator – a direct factor of production, a creator of economic process. Man establishes the rate of socio-economic changes. The effectiveness of this process depends on man. From the participants of the economic process is requested:

- flexibility (propensity to change, cooperation) in adapting to the continuous and turbulent changes in the environment and the ability to function in chaotic and crisis situations;
- economic activity, based on sustainable assumptions (i.e. a holistic and ever-developing view on reality) and growing resources of knowledge (tacit and explicit);

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control and adjustment to the changing institutional factors both formal and informal (this means including in one’s economic activity such things as trust, ethics, values, afterthought).

Consumption determines the situation of individuals by influencing their work performance, its rate and intellectual efficiency. The satisfaction of needs, collection and allocation of consumption resources leads to specific effects. The effects are important for the development of human and social capital.

The considerations are theoretical. They collect observations and subjective opinions resulting from analysing other works in the subject. The author knows that these issues require deeper analysis. Meanwhile, in the presented work, she presents her synthesis in accordance with editorial requirements.

2. The system of consumption

Numerous social disciplines express an interest in consumption (e.g. sociology, psychology). Everyone intuitively feels the essence of consumption – we encounter it every day, from the day we were born. It seems to be easy to define, yet this is a false impression. Because of its multidimensional and multi-attribute nature, an intuitive attempt at finding the meaning of consumption gives only a superficial and usually narrow and imprecise definition: consumption means the satisfaction of human needs. The analysis of consumption involves four important segments: human needs, objects of consumption (the means for needs for satisfaction), consumption behaviour (the ways of needs satisfaction), and the effects (results) of needs for satisfaction.

Literature shows that consumption is a direct act of satisfying human needs by a full or partial usage of a given good or service. However, repetitiveness of the acts of consumption makes for a social process comprising of behaviours and actions of individuals which base on realizing one’s own needs, prioritizing them, choosing the means of satisfaction, as well as the act of needs for satisfaction along with their following results. Consumption includes also the conditions, phenomena, and processes taking place in a nation’s economy, having a direct or indirect relation to satisfying human needs. This last meaning sees consumption as a phase in the process of social reproduction, also called the consumption phase, or sphere of consumption [Bywalec, 2010, pp. 12-13; Malysa-Kaleta, 2010, pp. 15-16; Bywalec, Rudnicki, 2002, pp. 13-15]. Therefore, consumption is: an act, a social process, a sphere of consumption.

The whole of consumption processes create the system of consumption. It is believed that the system of consumption involves: subjective system, objective system, and a system of shaping consumption [Kramer, 1997]. A different approach says that apart from the subjective and objective systems, there are also the system of organizing consumption, and the spatial system of consumption [Kiełczewski, 2008, p. 54]. All authors agree that the unquestionable systems include the subjective and objective systems. The differences lie in soft conditionings of the system of consumption.

From the above-mentioned concepts of consumption systems, the latter seems better as it describes the nature of the process of consumption in greater detail. It is, however,
useful to change the organizational system with the institutional system, this being a far broader category. The institutional system shares popularity with the developing trend of institutional economics, i.e. on departing from T. Veblen’s institutionalism. Contemporary institutionalism (the so-called new institutional economics) distinguishes institutions and organizations as separate, and more importantly, it does not limit itself to describing them, but it also studies them. It involves not only the organizations responsible for implementing and coordinating formal and informal institutions but also the institutions themselves. Finally, it can be summed up that the system of consumption is comprised of: the subject system, the object system, the institutional system, and the spatial system.

The subject system of consumption includes the processes of consumption according to its subjects, i.e. the consumers. This gives high significance to: demographic structures (age variation, average life expectancy, birth rate, the scale and direction of migration), socio-professional structure (e.g. level of education, profession, relations with the internal and external business environment), as well as the budget and sources of consumer finance. These factors have decisive influence on the living standards, preferences, and behaviours of individuals. They shape the direction of consumption – its present scope and future development. The level of stability of consumer income influences his/her stability of life, thus increasing the chance of an intergenerational balancing of consumption processes.

The object system of consumption describes the character of human needs connected with the civilization level of the production processes for goods and services [Kiełczewski, 2008, p. 58; Kramer, 1997]. The objects of consumption may include: material goods which are physically used-up in the act of consuming (e.g. food, clothes), material goods of symbolic significance (works of art, religious items), immaterial social and cultural valuables (knowledge, information, safety, social acceptance), performed services (medical treatment, education, transport), [Bywalec, 2010, p. 15]. The shape of the subject consumption system and the level of economic development determine different structures of object consumption. According to the three-sector theory, in the higher stages of economic and social development the share of food sector decreases, the industrial sector starts to decrease after a certain point, and the service sector’s share increases. This situation is well illustrated in the sphere of consumption.

The institutional system involves: formal and informal institutions, and the organizations responsible for their introduction, coordination and execution. Informal institutions are the extralegal norms of behaviour, such as customs, traditions, beliefs, religious norms. They are sometimes referred to as “deeply rooted” or “socially rooted”. Formal institutions are the legal (regulated) norms of behaviour which function inside an institutional environment, i.e. in the sphere of tradition, culture, religious beliefs, all that builds a historical legacy of a nation. Formal institutions are characterised by higher changeability and shorter introduction time than informal institutions. Informal institutions are far greater in number than formal ones, and play a vital role in the life of a society. Yet, between both forms of institutions there is a correlation, transitivity. Both are developing, both control and regulate human activities in the sphere of consumption [Gardocka-Jałowiec, 2007, pp. 562-563].
The spatial system of consumption consists of the relations in and between the systems of consumption of economies. Their role is becoming more important under conditions of regional integration of various economies, and globalization of economy in general [Kiełczewski, 2008, pp. 58-60]. Favourable changes in consumer awareness include the shaping of a system of values connected with an increasing tendency to economise, to ensure the development of future generations (including the maintenance the natural reserves for future generations).

3. Consumption as a phase of an economic process

Consumption as a phase of the process of circulation of commodities in sequence: production – distribution – exchange – consumption was analysed by K. H. Marx [Marx, 1986, pp. 43-48]. He believed that consumption is a premise of production. It constitutes its cause. It is a motivation for engaging in economic activity. Production, on the other hand, creates consumption by providing items of consumption, determining the ways of consuming, and shaping (by producing commodities) consumer needs. K. H. Marx clearly indicated the higher role of production over consumption. Consumption concludes the economic cycle (production – distribution – exchange – consumption), but today it also provides the rationale for yet another cycle.

Realization of economic activities requires, from a praxeological perspective, the use of at least two productive forces: (1) people representing various cultural, psychological traits and having different interests, and (2) things characterized by different physical parameters. Both can be accumulated and used in a specific place and point in time. However, it is not products that shape an economy but rather people – and their actions. Every economic event is, in its nature, a specific social reaction. Every event or economic action performed seemingly by a single individual has a specific influence not only on the performer and his material environment, but also – most importantly – has a social resonance. Their effects are felt by other people, even though their relationships and correlations do not have material forms [Meredyk, 2007, pp. 27-34].

Consumption is a process of social communication of preferences and identity in which man’s pursuit of achieving an objective of satisfying one’s needs (existential, self-development, and social needs) by allocating limited consumption resources (financial and non-financial) ultimately leads to indirect effects (i.e. exceeding their spheres of benefits) important from the perspective of: (1) the desired model of social relations (including economic relations), (2) consistency and dynamics (rate) of development of productivity forces\(^2\). This view on consumption is based on a praxeological (efficiency) approach. Therefore, when considering consumption, as an active element of the economic process, it is important to illustrate:

- consumer needs as goals in a direct and future perspective;
- consumption resources, or the means necessary to satisfy the needs;
- allocation of consumption resources;
- effects (results) of consumption.

\(^2\) This definition is created for the purpose of present analysis.
**Consumption needs**

The aim of consumption is to satisfy needs. The appearance of a needs means a breach in the inner or outer balance of an individual. Breaching the outer balance means the relations between an individual and the outer physical or social environment. The restoration of thus balance is undoubtedly a dynamic and not a static phenomenon. The dynamics result from such features of needs as, renewability, limitlessness, intensity of experience, difference of degree of concentration, ability to develop and differentiate, seasonality, the relations and correlations between needs [Gajewski, 1994, pp. 39-41; Światowy, 2006; Zalega, 2008; Bywalec, 2010, pp. 14-19].

The synthesis of the features of needs entails their classifications. The hierarchization of needs was attempted by such figures as: W. S. Jevons, A. Marshall, C. Menger, E. Taylor, A. H. Maslow, C. P. Alderfer [Menger, 2007, pp. 52, 94-106; Maslow, 1990; Alderfer, 1972]. The differentiation of consumer needs, their permanent satisfaction is the fundamental reason for the difficulty of their general, objective hierarchization. The classification of needs presented in literature on the subject usually entails classification into lower and higher needs. One example of such division is the classification developed by United Nations Research Institute for Social Development for the Geneva method for studying the level of life.

Considering consumption as an activity which influences the shaping of social and human capital [Coleman, 1998; Schultz, 1976; Becker, 1975; Sirianni, Friedland, 1998; Fukuyama, 2007; Poskrobko, 2011] it is important to analyse the system of needs. By modifying C. P Alderfer’s hierarchy of needs [The ERG Theory, 1972] it is important to illustrate existential needs, self-development needs, and social needs (the need of relationships according to C. P. Alderfer).

Existential needs are necessary to keep an individual alive. They are objective and commonly satisfied. Characterized by a consistency of preferences, they are the most important ones in the hierarchy. They can be associated with a commonly used term of basic needs.

Self-development and social needs start to emerge in the process of learning of an individual, in the environment and culture in which the individual lives and functions. These needs are flexible and compete with each other. To individuals, their appearance and strength depend on particular, subjective psychological states of individual and the relations with their environment. These are often equalled with secondary or higher needs.

It is believed that the determination of relationships at the level of appearing and satisfying the needs in the three presented groups forms the basis for creation of social and human capital:

- the need for self-development, social needs appear at relatively varied levels of phylogenetic and onto-genetic development of individuals;
- the scale of dominance of social and self-development needs is determined by the level of education, influence of the environment, material status;
- self-development and social needs have a lower meaning for the biological survival of individuals, meaning that their satisfaction can be belated;
Consumption as an Active Element...

- the satisfaction of self-development and social needs leads to the intellectual and emotional development of individuals, increase of individuality, creativity, self-realisation (satisfaction of basic needs does not entail such effects).

Analysing needs as a category which specifies the consumer activity in an economy, the following must be considered:

- strength and intensity of experiencing the needs is determined by a combination of endogenous and exogenous factors;
- the specificity of needs is their correlation with each other, but is also connected with their civilisation and technology environment;
- factors determining the structure of needs are a source of information about the changes which are taking place, or will take place in the future, and on the direction of these changes, that is the increase or decrease of their appearance;
- the structure of needs is shaped by primary choices (which need will be satisfied in what order) and secondary choices (the degree of distribution of resources between the needs);
- the temporal character of the structure of needs determines the necessity of constant observations and interpretation of the changes taking place in the near and far environment of individuals. Businesses cannot ground their activity on existing structure of needs. Such attitude will lead to a discrepancy between the market offer and expectations of individuals.

**Consumption resources**

Consumption resources can be understood as streams or as resources. In the resource understanding, the time aspect of consuming activity is omitted. Consumption resources should include financial and non-financial means. The rationality of their distribution leads to specific consumption effects. Therefore, what is important here is: the value, accessibility, and rapidity of circulation of consumption resources.

Financial resources of consumption include financial means obtained from internal sources (current and future market activity) and external sources (extraneous financing). Financial means from internal sources include income and savings, whereas external sources include all debt obligations (loans). Such perception of resources and their streams available for individuals are the condition for realizing consumer objectives, that is, the satisfaction of consumption needs. However, it is believed that: (1) the limit of possible realization of structure and level of satisfaction of needs of households is determined by internal sources of financing, mainly incomes; (2) streamlining the path of consumption (in conditions of fluctuating level of income) is done with internal and external sources of financing, namely by savings and loans.

The level of financing of consumption from external sources is determined by the current value of human and social capital embodied in man. It means that the degree of internal financing is determined by the income individuals makes by selling their abilities and skills in the labour market.

External financing is a complementary source to internal financing of consumption and can, but not necessarily, appear in the budget of households. The measure of capacity
for the use of external financing sources is the amount of achievable income. One important reason for supporting consumption with external financial sources is the disorder of satisfaction of consumer needs resulting from the instability of the level of manageable income, or the intensity of the influence of the phenomenon of mimicry (interpersonal influences leading to ostentatious consumption).

Non-financial resources of consumption include material and intangible resources. Material resources comprise of [Bywalec, 2010, p. 15]:

- durable consumer goods,
- material goods with symbolic meaning (cultural, religious items, such as sculptures, paintings, religious symbols).

Durable material goods are often substitutes for particular services, mainly those connected with leisure. Symbolic material goods, although they have a material structure, are not consumer items through their physicality, but rather through their intangible attributes. Increased purchase of these goods results from the occurrence of self-development and social needs.

Intangible resources, as parts of non-financial consumption means of consumption, are knowledge, qualifications, experience, level of trust, creativity (that is, elements of human capital and social capital), and time.

Knowledge is a specific product of the human mind. It is created in the process of personal and social development. Individual knowledge is created by: information and skills acquired through education, professional and life experience, intuition, ability process information and solve problems. Individuals have at their disposal resources of explicit knowledge and tacit knowledge [Nonaka, Takeuchi, 2000, pp. 84-85; Poskrobko, 2011, pp. 27-41]. Explicit knowledge is formally codified knowledge that is made public in the form of laws, formulas, principles, and is attainable through education, experience and training. It is easy to convey to other people and later generations. Tacit knowledge is, as opposed to explicit knowledge, often unconscious and difficult to convey. It develops under the influence of information and experience collected in life [Smith, 2001]. Tacit knowledge cannot be conveyed to other people and later generations. According to E.A. Smith, individual knowledge (both explicit and tacit) is the foundation of creative cooperation of teams, that is, for joint discussion, exchange of ideas, experience, and suggestions. Development of knowledge facilitates the development of the intellectual potential of populations [Poskrobko, 2011, pp. 27-41]. Consequently, there is an ongoing process of achieving higher stages of economic development and social life. Technologies develop and, as a result, civilisation progresses.

**Allocation of consumption resources**

Allocation of consumption resources is the assignment of those resources for the satisfaction of various existential, self-development, and social needs. The allocation capacity of households determines the amount and structure of consumption resources. The limitedness of consumption resources causes individuals to make choices – they make decisions to allocate the for the best development of the individual and society.

Activity of individuals should be based or rational distribution of consumption resources. Rational management means a behaviour that leads to a determination of
Consumption as an Active Element...

A set of consumption resources that optimise the satisfaction, assuming that the information is full and knowledge is perfect. In reality, information and knowledge is limited. Depending on the degree of the limitedness, there are various levels of transaction costs. Each decision is influenced by: systems of values, customs, or non-economic factors. Pure economic rationality in the case of the activity of individual objects of consumption is difficult to achieve.

The measure of allocation of consumption resources are consumption expenses. These expenses demonstrate the rate and quality of satisfaction of needs and the differences in the scale and level of distribution of income by households.

Changes in the structure of consumer expenses are the basis for the evaluation of the level and structure of satisfaction of needs (existential, self-development, and social needs) of individual objects of consumption, but it also enables the assessment of the development phase of consumption in an economy. As C. Bywalec [2010, p. 128] indicates, “The first phase of development of a household (or a society), when the level of its wealth and stream of running income is low, the structure of expenses is dominated by expenses on food, followed by industrial goods, and a lowest share presented by the purchase of services. As wealth increases, the first place becomes occupied by purchase of industrial goods, with food expenses falling to the second position; this second phase of consumption can be called an industrial phase (the phase of industrialisation of consumption). Finally, in the third phase of development, the largest part of income is spent on the purchase of services (servitisation phase of consumption), and the food expenses fall to the third position”.

The phase of consumption may treated as a measure of the relative efficiency of the allocation of consumer resources. This means referring to other households and economies (in particular, those which are highly developed, whose consumption is a point of reference and aspiration for individuals and the society).

**Effects of consumption**

Effects of consumption should be understood as the consequences, results and roles of consumption. According to the criterion of the type of impact on the sphere of economy, there are direct and indirect effects of consumption.

Direct effects are felt during consumption or immediately after. They have a subjective character. The value of the effect is always assessed individually, and therefore has different amounts.

Indirect effects of consumption are further consequences of need satisfaction manifesting in the process of development of people – in their attitudes and behaviour. Indirect effects, as opposed to direct effects, are characterised by higher levels of development that renewal. They manifest in the process of development of individuals. In general, these do not activate immediately upon the conclusion of consumption. They are felt later, and longer, and, it can be said, between generations. The level of alternative costs therefore seem lower in the individual sphere, although it can be higher from the perspective of a society [Bywalec, 2010, pp. 16-17,108-115].

Consumption as an active element of the economic process generates indirect effects which have primary meaning for the environment manifested in the long term. These
include informative, motivation, and reproduction effects. Each of these effect has a direct and indirect influence on innovative activities.

When considering the reproductive effect of consumption, simple and expanded reproduction should be highlighted. The effects of expanded reproduction are the increase of qualifications, knowledge, and institutional conditions of economic activity of an individual and society. Growing intellectual potential of societies will increasingly influence faster achievement of higher stages of management stages (innovative activity), economic development, achieving the living standards by people, and widely perceived culture (including economic culture), and, ultimately, civilisation development [Olejniczuk-Merta, 2011, pp. 26-37].

The reproductive effect of consumption is strongly linked with the motivational effect of consumption. The development of needs, changes in their hierarchy resulting from the development of individuals (the want to increase their social status, level of life, or broadly perceived quality of life) motivate increased economic and social economy. High levels of motivational capital of individuals, societies translates into faster development of economic processes [Bywalec, 2010, pp. 108-115; Olejniczuk-Merta, 2011, pp. 26-37].

Informational effects of consumption should be mainly understood from the perspective of the effects consumption has on the market activity of businesses in this engaged in innovation.

4. Conclusions

Consumption as an active element of the economic process sets the conditions for the development of human capital and social capital. This means that it determines the condition of individuals – it impacts the efficiency of their work, the speed of work, intellectual efficiency, creativity, the ability to take risks. Moreover, it contributes to the formation and development of any type of relations between people based on institutional conditions (formal and informal). The process of consumption is always social in character, and particular acts of consumption should be perceived as a group of special social ties. Consumption is a social or a natural process, meaning that it is comprised both of the consciousness of the action and the action itself, independent from consciousness. At the same time, just like any other form of economic activity, consumption should be subjected to the influence of the rational factor, as much as possible.

A synthesis of the considerations shows that:

1. The key to the development of the economy is the identification and constant observation of needs, or specifically the determinants of exogenous and endogenous changes in the structure of needs. The identified exogenous and endogenous determinants are entry factors in the process of defining the opportunities and direction of the future activity in the private and public sector. And these should surely not be treated as constant, unchanged conditions.
Consumption as an Active Element…

2. Consumption resources in the possession of households determine the capacity of satisfying the existential, self-development, and social needs. These determine whether individuals stay alive, develop, and maintain interpersonal relations. The changes in the structure of consumption resources can have both a positive and negative influence on economic development. Increased saving, higher motivation for streamlining the consumer pathway, growing inclination for personal development, all these factors are favourable for economic development in the long-term. Opposite tendencies limit that development.

3. The allocation capacity of households result from the amount and structure of consumption resources. During consumption, available resources are transformed into values which facilitate the development of social and human capital. Therefore, managing limited consumption resources is mainly based on deciding about their allocation in the satisfaction of existential, self-development, and social needs. These decisions result from the hierarchy of needs that function in the consciousness of individuals, but also from their aspirations, expectations, and denials. In a household’s balance of accounts, both economic and non-economic (and subjective) factors connect.

4. Effects of consumption, such as reproductive, motivational, and informational effects (indirect effects) manifest themselves in the long term. They have a positive influence on economic development.

In the economic process it is important to include social rationality (meaning internal and trans-generational justice) and the involvement of the public sphere in shaping conscious consumption. In other words, there is the need for actions that include long-term consequences, and actions aimed at the non-material aspect of consumption. The abundance of consumer goods with inadequate activity in terms of forming the conditions for a strong, intelligent and healthy society is a threat to global economy. This is a significant issue in the face of an aging society and changes in the structure of the population.

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