

PEOPLE'S CONSUMPTION AND SAVINGS IN CORRELATION WITH THE INVESTMENTS FROM THE ECONOMY

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Abstract: In the present economies, especially in the developed ones, the saving process indisputably concerns the banking institutions, the private funds of pensions and the investment funds. Both the classics, and also J. M. Keynes, considered the individual saving as a primordial source of investments. The sacrificing of the present consumption was considered as the basis of the first stage of the investment process, respectively the savings stage. Nowadays, the main productive investments are constituted based on the credits which have been gotten from the banks.

Key words: investments; the income effect; non-placed economies; placed economies; investment consumption;

In the present, the big banks of the world are not depending anymore on the individual economies; these are only supplying liquidities. Because of the activities with a long duration, some own reserves have been constituted, for the banks, to which we add the resources attracted after the refinancing activities and the big deposits of the non-banking economic agents. These three resources of the funds have the main role within the banking liabilities.

If we would look inside the system, we could observe that any refinancing step means the payment or the cashing of an interest. A big number of steps would lead to a rise in the price of the credit, fact that enters in contradiction with the present tendencies on the financial banks of the world, of decreasing the interest. The fact that the effect of the multiplier for the money from the account is more reduced than the one which is allowed by the rate of the obligatory reserves is another economic reality. The reasons that lead to this result are different and they are presented in details, by the economic theory, so as their exposure within the present article is not considered to be necessary.

In our further analysis, the period taken into consideration is smaller than the individual's life period, so we are not interested in the relation between the level income-consumption-economy for all the life period of a person.

As far as the sacrifice of the present consumption is concerned, we can observe that there are more and more persons that should not be subjected to this „torment” in order to take benefit from the accumulated funds. In the modern economies we can find a big financial power governed by the rich people, by the financial corporations and groups; the individuals belonging to these categories have reached to this financial power not by a sacrifice of the consumption, but by an intense reinvestment activity. The sums which have been oriented towards the consumption by them are increasing in the same time with the increase of the investment activity, in order to keep and to

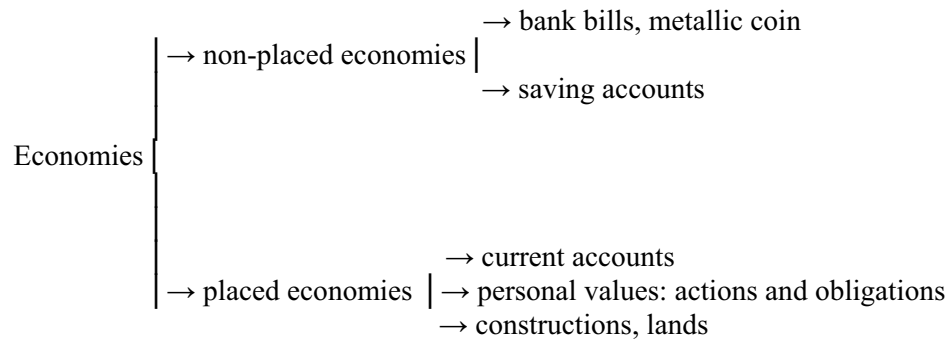
improve the public image, according to the legislations for the consumption which have been elaborated by E. Engel.

The passage from the primitive epoch from the antiquity led to the accumulation not only of the surplus of consumption, but also to the apparition of the saving phenomenon, of the delay for the consumption of some goods created in a given time horizon. This type of behavior has marked (as the specialists sustain in the history of the economy) the launching of the reasoning process in the economic activity.

Because of the so-called „income effect” (the increase of the real income is accompanied by the decrease of the interest as far as the acquisition of „inferior” goods is concerned and also by the increase of the interest for the actions of investment type and the vice-versa), the average increase of the economies usually advances the average increase of the incomes, and in the case of decrease of the incomes we can assist to the a bigger increase of the expenses for the consumption.

This correlation between the income-consumption and the economies was called by J. M. Keynes, „the fundamental psychological law of the consumer’s behavior”.

Generally, at the macroeconomic level, *the economies are transformed in investments*. Without taking into consideration if they belong to the population or to the economic agents, we can classify them in the following way:



The equilibrium level where the maximal of consumption and of investments is assured is called *the gold rule for the accumulation of capital*.

The determination of the accumulation level based on this rule supposes a first phase where the level of the individual consumption is determined in the settled equilibrium conditions. The second phase underlines the problem of finding that stable level of equilibrium where the individual consumption could be maximal.

We start from the relation:

$$Y = C + I \Rightarrow C = Y - I, \text{ where } Y - \text{income, } C - \text{consumption, } I - \text{investments;}$$

The status of stable equilibrium supposes that the request should be equal with the offer, so the incomes will be equal with the value of the production and the accumulation volume should remain the same, so the investments should be only for replacement.

As far as the *individual economies* are concerned, their main importance is represented by the fact that they are *suppliers of liquidities*, the population being the one that owns the greatest part of the currency mass from the economy. The supply of

liquidities is produced in the moment where the economies are handed in the banks; the currency being in this was used again without affecting the mass of the economies.

The economies of the population result from many *reasons*, such as: - *the precaution* (consists in the constitution of some immutable values for the unhappy events that could appear in time); - *the provision* (another reason of saving which consists in the anticipation of some dysfunctions between the level of the income and the level of the expenses); - *the multiplication of the accumulated funds* (is represented by the earning of some sums from the interests); - *the improvement of the life* (which means that we are saving money now in order to spend them in the future); - *independence* (to be able to freely act in the future without depending on the performance of an activity); - *the entrepreneurial spirit* (the possession of some savings in this situation gives the possibility for the owner to launch, in the case when he wants, some own investment actions, or some speculative acts); - *the pride* (this reason refers to the satisfaction of the self-pride and to reach to a better social position which is given by the fortune); - *the avarice* (for the satisfaction of some psychological reactions that are contrary to the rational behavior and the fear as far as the concurrence is concerned or the fear for the new).

When people save money, they accumulate in fact, to gather the sums that are necessary for a bigger consumption in the future.

In the modern society, any normal consumer will not sacrifice anything from his income, in some risking conditions, just to increase it in the future. In addition, in the developed countries, they succeed to have a sufficient income for a good life level. This would mean that a consumer would decide to decrease the level of utility under its equilibrium level from the practical theory, at the intersection of an indifference curve with the right of the budget.

The last theories of the consumer take into consideration *the psychological reactions* of this one in the moment of choice (the Nobel prize given in the year 2002 to Daniel Kahneman for the integration of the psychological studies in the economy especially in the study of the substantiation of the decisions in some uncertain conditions, as well as to Vernon L. Smith for the laboratory methods created for the empiric study of the mechanisms for the market).

This behavior is similar only to those moments when we can talk about a solemn constraint (term which defines an external restriction), those moments when a series of internal or external constraints of the consumer is launched. This would mean that we accept the fact that a consumer represents an anxious person whose rational character is restrained as it seems to be within the classical theory.

When, in the terms of the modern theory, the consumer is behaving more likely irrationally we cannot consider that he will consciously decide to launch some punitive restrictions in the consumption (but these are not required by a very low level of the income and they are governed by the conservation instinct), which is transformed in repressions by attracting some emotional reactions on the market, which are contrary to an efficient spirit.

By the sacrifice of the present consumption we should understand a rearrangement of the incomes for a longer period of time. These (big) sums which have been accumulated are finally used for the acquisition of some goods and services whose characteristics determine us to consider them as *investments*. Within the traditional economic theory, at the level of the individual consumer only *the acquisitions of real estates* were considered as investments. This thing was determined by the fact that a

building is a good with a bigger value than the other goods which have been currently acquired, also having a long period of use.

Indeed, the economic theory couldn't ignore such a big number of property acts. The main tendency of saving in the occidental economies is governed by the will of acquiring an own house, in Japan, in 1994 the people of over 60 years old were already owning an own house in a proportion of 90% (the own house is a very important element in the culture and in the way of life of the Japan people); in U.S.A. 80% of the same category of people has an own house (about 10% of the gotten income, as an average of the rates of saving for all the life period, they save money in order to buy a house); in Great Britain the percentage is of 60%.

Now, because of the technological explosion, we assist to the apparition of some goods whose complexity and value (quite bigger than that of the other goods which had been currently purchased) are not justifying the inclusion "within the consumption basket", but we could more likely register them in the sphere of the investments. For example, we can think to the *cars* or to the *electronic products of high performance* or to the *informatic products*. As far as the use period is concerned, such products have an exposure period which, in some cases, is longer than the period of a building. The constructive complexity, the facilities that these goods are offering, determine, beside the satisfaction offered when purchasing them (their total utility), the apparition of an amplification effect for the personal fortune.

The apparition of such a good with a long use within the house leads to the potential use of other goods; they can be used along with other perishable goods (morally or physically), by improving their qualities, but, by realizing, in the same time, an analysis in time, and by observing that, in fact, the goods with a relatively short lifetime are complementary for them; the amelioration of the image brought by the investment domestic goods is obvious. The potential operation of other goods refers to the improvement of the performances.

Concerning the use together with other perishable goods, we should say that such a good is always used together with the patrimony assets with a complementary character. Because of their technical quality, the first have a role of non-fungible goods, while the complementary goods have a fungible character.

The use of some goods with a long time of use cannot be done without the help of some direct goods, they not representing an effective consumption. Not even a building can be used in this form if it is used with furniture and with electric domestic devices.

We know that the material goods, according to their destination, are divided in goods or factors of satisfaction (consumption goods), which directly cover the human needs and in investment goods (material production factors or production means), which compete in the production of new economic goods. This „investment consumption" could be defined as being some economic goods that are answering to a human need, but which compete for the accomplishment of the satisfaction produced by other acquisitions.

We should mention that, we can beneficiate of the basic function of these goods not only by their acquisitions (for example, for the transport we can use the personal car and also the common transport), but also by the use of some immaterial goods, which are the services. Even one of these can be considered as an investment. The saving, for a period of a whole year, in order to beneficiate of a holiday, does not necessarily imply savings for the consumption. The aim of the saving is well defined, respectively the

payment and in this way the benefit of such services, which means a recovery of the work capacity, which means a certain type of investment which should „maintain the operation” of the human capital.

All these acquisitions of goods with a long period of use, as well as all the savings placed (in specialized funds or directly on different markets of the valuable documents, so not the ones which are placed in the banks), can be considered as an „investment consumption”; consumption, because the acquisition of some real assets is realized by an individual consumer; investment, because the acquisitions generally have the characteristics of an investment concept.

So we could try to rewrite *the equation of the income*:

$$V = C + E + C_i ; \text{ where } C_i - \text{ the investment consumption}$$

The orientation of the individuals towards the acquisition of goods with a long period of use corresponds very well to the *motivational theory of Maslow*. The usual consumption has the tendency of best satisfying its needs which are resulting from the normal course of the daily life (the foods, the needs of social security, of affection, etc), than the needs which are resulting from the practice of a business (needs of social recognition, of domination within a social group, etc). So, it is normal for him to try to purchase some goods which are more expensive, more complex, with a bigger intrinsic use, which could offer him additional satisfactions; and these are only some goods with a long use.

If the people are not saving money, how will they be able to afford these goods that are really expensive? The market has given an answer under the form of a simple solution: *the sale in rates*. This type of sale makes possible an advanced saving, the consumers do not have to wait in order to collect the sums that are necessary for the payments, but they will use the credit; in this way, we are more close to the financial behavior of the companies (the current account of the companies have a correspondence, for the individuals, in the people’s consumption accounts which had been opened at the economic agents that are realizing the final commercialization and in the banking accounts expressed by credit cards).

Many authors stress the problem of the substantiation for the economic increase in the conditions when the economies are decreasing, and in the same time, they observe some dimensions of the increase rates that they cannot explain; the saving behavior, oriented towards the investment consumption, intrinsically produces a balance of the increase and of the decrease, in the traditional terms, by the increase of the personal fortune and by the increase of the productivity, but also a series of collateral effect by which the increase processes, are sustained, in the classical sense.

It seems that this phenomenon „attacks” the basis for the economic development, but the true is that only the theoretical conditions of the development are changing, and the saving/ investment becomes the attribute of the companies; only these ones have the managerial capacity of administrating all the decisional restrictions that a more dynamic market situates in front of the entrepreneurial spirit.

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