



# Conspicuous consumption and “race”: Evidence from South Africa<sup>☆</sup>

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## ARTICLE INFO

### Article history:

Received 12 August 2010  
Received in revised form 18 July 2012  
Accepted 19 July 2012

### Keywords:

Conspicuous consumption  
Signaling  
Status  
South Africa

## ABSTRACT

A century ago, Thorstein Veblen introduced socially contingent consumption into the economic literature. This paper complements the scarce empirical literature by testing his conjecture on South African household data and finds that Black and Coloured households spend relatively more on visible consumption than comparable White households. Following the approach of Charles et al. (2009), this paper explores whether the differences in visible expenditures can be explained with a signaling model of status seeking. Moreover, it is assessed to which extent positional concerns motivate conspicuous consumption. Although the socially contingent share in visible consumption increases with income, different incentives to consume conspicuously seem to explain that, at every level of income, Black households spend relatively more on visible consumption than comparable White households. In contrast to the findings of Charles et al. (2009) where differential spending on conspicuous consumption can be found also within each group separately, the model's core hypothesis fails to hold within the group of White South Africans.

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## 1. Introduction

It is usually observed that expenditure patterns differ across as well as within countries. A large body of theoretical and empirical contributions to demand theory explains these differences in terms of variation in relative prices and income (see, e.g., [Blundell \(1988\)](#) for a survey and [Selvanathan and Selvanathan \(1993, 2004\)](#) for more empirical applications). An important assumption of this approach holds that the utility functions, and thus the underlying preferences, are similar. Nevertheless, anecdotal evidence shows that even at a given point in time and within the same country, some groups seem to spend more on certain types of goods.

In a recent study [Charles et al. \(2009\)](#) explore such a particularity as they empirically assess the differences in spending on conspicuous consumption across races. They study U.S. household spending on “visible consumption” using the Consumer Expenditure Survey (CES) database, an ongoing rotating panel data set, for the period of 1986 to 2002. Visible consumption is defined in terms of consumption items “that are readily observable in anonymous social interactions, and that are portable across those interactions” (*ibid* p. 426). Moreover, consuming more of these goods should signal “better economic

circumstances” (*ibid* p. 431). In line with anecdotal evidence, [Charles et al. \(2009\)](#) find a significant difference in spending patterns across races. After controlling for differences in permanent income and demographics, Blacks and Hispanics spend about 30% more on visible consumption than Whites.<sup>1</sup>

As visible consumption belongs to the realm of conspicuous consumption, it is straightforward to assume that the difference in spending is (at least to some extent) explained by social interactions with one's own reference group. Accordingly, [Charles et al. \(2009\)](#) use a signaling model of status seeking to explain the observed phenomenon. The authors show that the statistically significant difference in visible consumption vanishes after they control for mean own reference group income at the province level, indicating that expenditures on conspicuous consumption depend on a household's socio-economic position within the own reference group. To be consistent with the assumption of similar utility functions, the observed differential spending on conspicuous consumption should hold not only across but also within each social group. Even for each race separately, the model's hypotheses can be confirmed for the case of the U.S.

In light of the above, it would be especially useful to extend the analysis by [Charles et al. \(2009\)](#) to less affluent countries for at least three reasons. First, if individuals spend relatively more on visible consumption, (sooner or later) they will have to spend relatively less on other consumption categories. [Charles et al. \(2009\)](#) show that on average Black and Hispanic households in the U.S. seem to spend less on education, health, and food. Among households with

<sup>☆</sup> This paper would not have been possible without the support by Servaas van der Berg who kindly provided access to the data used. For helpful discussions and valuable comments I would like to thank Sascha O. Becker, Martin Binder, Tommaso Ciarli, Leonard Dudley, Leonhard Lades, Stan du Plessis, Alessio Moneta, Benjamin Volland, Dieter von Fintel, Simon Wiederhold, Ulrich Witt, and Derek Yu. Furthermore, I thank the Journal's co-editor, Dean S. Karlan, and two anonymous referees for their comments and suggestions, which significantly contributed to improving the quality of the paper. The usual disclaimer applies.

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<sup>1</sup> In this paper, households are referred to as Black, Hispanic, or White (for the U.S.) and Black, Coloured, White, Asian, or Indian (for South Africa) if the head of the household has reported one of these categories as her social affiliation.

less affluent reference groups in South Africa overproportioned expenditures on conspicuous consumption can have two effects. On the one hand spending on visible consumption potentially crowds out spending on future assets such as education and health which diminishes their chances to catch up to higher income levels. On the other hand overproportioned visible expenditures are likely to distract from saving commitments that are needed to realize investments in the future.<sup>2</sup> Both channels are important from a development economics perspective as they both contribute to the persistence of inequality and poverty of less affluent societal groups.

Second, testing the predictions of the signaling model of status seeking in a less affluent and economically more unequal country offers a more challenging environment for the underlying assumption of similar utility functions across different social groups. South Africa consists of social groups with different cultural backgrounds, showing different income distributions across groups and high inequality within groups. Although the utilized signaling model of status seeking does not explicitly incorporate the inequality dimension, the different setting allows assessing the extent of the model's external validity within as well as across social groups that show high inequality. South Africa, thus, appears to be exceptionally suited as a field of study.

Third, the results in Charles et al. (2009) are important to understand how social interactions shape consumption expenditures. Especially in less affluent social groups with high risk sharing, demonstrating one's socio-economic position might lead to higher demand from peers and therefore lower incentives to consume conspicuously. Whether the model holds also in such environments is thus a key question of external validity. More generally, good science requires replication in distinct settings that adds to the verification of any study.

This paper first assesses differences in spending on visible consumption across social groups in South Africa. Indeed, Coloured and Black households, whose mean income is much less than that of White households, are found to spend on average about 35 to 50% more on visible consumption than comparable White households.

Drawing upon a signaling model of status seeking by Charles et al. (2009) it is tested whether the social group differences in spending on visible consumption can be explained by socially contingent concerns for status.

Under the assumption that conspicuous consumption acts as a costly indicator of a household's socio-economic position, it is tested whether visible consumption decreases in mean group income, ceteris paribus. In line with the predictions of the signaling model, increases in mean group income are found to significantly decrease spending on visible consumption. Moreover, the introduction of the social contingency variable induces the initially found differences between social groups to diminish in magnitude and to lose significance.

For consistency, however, differential spending on visible consumption should be found for each social group separately too. As a significant negative relationship between mean group income and visible consumption cannot be shown for the White subpopulation, the model's underlying hypothesis of similar utility functions appears to be violated. Restricting the visible consumption basket to a set of representative items does not seem to fit in the South African case. The different results point to the fact that different groups may develop different ways to express their relative position within a society.

Second, the paper assesses whether the importance of positional concerns changes with income. With rising income, a higher share of visible consumption expenditures is found to be socially contingent among the Black population. Overall, the paper contributes additional evidence for the existence of socially contingent consumption

behavior as described by Veblen (1899). To the author's knowledge, this is the first paper that shows the validity of this behavior and assesses the extent of social contingency using consumer expenditure data in a less affluent country context.<sup>3</sup>

The remainder of the paper is organized as follows. The next section reviews the related literature on conspicuous consumption and describes the signaling model of status seeking as well as its predictions. Section 2 introduces the data set and definitions used in the paper. In Section 3, the between group differences in visible expenditures are assessed and the suitability of the signaling status model in explaining the between group differences as a socially contingent phenomenon is tested. Moreover, the results of the second prediction are explored in more detail to disentangle the socially contingent and the autonomous shares of visible consumption. The fourth and last section summarizes the results and concludes.

## 2. Related literature and model predictions

Veblen (1899) was one of the first economists to systematically introduce status considerations into economic theory. Fundamental to his "Theory of the leisure class" is the assumption that individuals compare to one another on the basis of their economic achievements. Moreover, he emphasized that these interpersonal comparisons are important for human behavior as they constitute the individual's recognition by others.

As, according to Veblen (1899, p. 24f.), esteem by fellow human beings is the basis for self-respect, missing recognition by them would lower the individual's self-assessment. To satisfy the need for self-respect, individuals aim to have at least as much as their own reference group. To be noticed by others and to satisfy the desire for social recognition, individuals show their wealth to others.

As wealth is usually unobserved, Veblen (1899) identifies two different ways to demonstrate one's position in society. One variant is conspicuous leisure such as demonstratively engaging in everything but productive work. The second variant investigated here is conspicuous consumption, where visible consumption of certain goods, signaling a higher position in interpersonal exchanges, is used to demonstrate one's status.

The type of behavior sketched so far may give rise to certain dynamics within a society. If individuals from lower income groups aspire to the living standard of higher income groups, the demand for the relevant goods increases. Higher income groups, however, have an incentive to distinguish themselves from lower income groups and thus direct their expenditures to more visible goods.

Furthermore, Veblen (1899) infers that conspicuous consumption is even more important as social cohesion decreases and mobility rises. The more anonymous and the more frequent individuals' interactions with others are, the more conspicuous consumption matters as a means to signal one's relative position. In more narrow economic terms, conspicuous consumption can be framed as an economic externality. A broad range of economic works have focused on economic implications and possible policy recommendations with regard to such an externality (see, e.g., Bagwell and Bernheim, 1996; Cowan et al., 1997; Duesenberry, 1949; Frank, 1985; Glazer and Konrad, 1996; Rizzo and Zeckhauser, 2003).<sup>4</sup>

Veblen's work was rich in illustrating manifold facets of status-seeking behavior. The present paper takes a more narrow approach to positional concerns by investigating the spending on highly visible

<sup>3</sup> This is not to disregard earlier works on certain facets of conspicuous consumption. See, e.g., Bloch et al. (2004) regarding spending on wedding celebrations as a means to signal status in rural India or Brown et al. (2011) on socially observable spending in rural China.

<sup>4</sup> The importance of relative income has also been demonstrated in the context of subjective well-being; see, e.g., Dynan and Ravina (2007) for evidence from a high income country (U.S.) or Fafchamps and Shilpi (2008) for evidence from rather isolated households in a less affluent country (Nepal).

<sup>2</sup> Investments to GDP ratio is the most robust determinant of per capita growth (Azariadis, 2006). Investments are naturally constrained by the individuals saving capability and commitment.

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