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Bachelor Thesis

“On conspicuous consumption and its impact on society”

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Abstract

This thesis is on the rounded description of conspicuous consumption that Thorstein Veblen introduced over a century ago. Firstly, we discuss the meaning of the term and what it reflects as well as its evolution in the modern societies. Then, we refer to the goods that are preferred for their conspicuousness and how conspicuous consumption affects the aggregate demand curve of products. Following, we present a comprehensive list of motivators and how they lead to vicarious spending. Lastly, we include the consequences of conspicuous consumption behavior regarding financial, environmental and societal sectors.

Keywords: conspicuous consumption, Veblen, veblen goods, status consumption, social status, social comparisons, socioeconomic pyramid.

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1. Introduction

1.1 Conspicuous consumption-The definition of Thorstein Veblen

The origin of the term conspicuous consumption dates back more than a century ago since it was coined by the economist and sociologist Thorstein Veblen in his book “The theory of the leisure class, 1899”. It is defined as vicarious spending on luxury items as a means to demonstrate one’s wealth and social ranking. As Veblen suggests conspicuous consumption is either observed through invidious comparison or pecuniary emulation. On the one hand, invidious comparison is related to excessive spending from the affluent to distinguish themselves from the poor. On the other hand, pecuniary emulation refers to the adopting of purchasing behaviors of the class above one’s in order to attain social status. Regarding the historical period Veblen lived (1857-1929) according to him, “the most obvious form of it (conspicuous consumption) is in the wearing of liveries and the occupation of spacious servant’s quarters”. Nowadays, a way conspicuous consumption could be observed is in visible spending, meaning consumption of high-end items that are easily recognizable in everyday interactions, anonymous or not, (Charles *et al.*, 2009). Another definition proposes that conspicuous consumption refers to the desire of consumers to show their wealth in public, enhance their image, and improve their social status through consumption behavior (O’Cass and McEwen, 2006).

1.2 Conspicuous consumption-Conspicuous leisure

Apart from conspicuous consumption as a way to achieve and maintain high social status Veblen also discussed conspicuous leisure. He referred to visible leisure as engaging in for the sake of displaying and attaining social status. In other words, the term describes the exhibition of someone’s hierarchy in the social pyramid as they indulge in non-productive yet lavish activities such as extended vacations or joining in exclusive clubs. For the economist both conspicuous consumption and conspicuous leisure serve their purpose to exhibit wealth but historically one follows the other. Specifically, from the archaic times until the quasi-peaceable stage the gentle men

used to consume what the ladies produced and indulge in gatherings and events of their cycle while they would never participate in the stage of production. On the other hand, for the rest of the population vicarious consumption was perceived as a taboo and would happen if only it benefited the master. Thus, Veblen points out that vicarious leisure from the superior class at the early economic history was necessary because of the surplus of product the slaves would produce but they could not take advantage of. This restriction starts to disappear when the industrial system based on wage labor is reached and everyone's desire is to increase their spending and acquire the most fine and lavish objects. From this time and beyond, failing to consume in due quality and quantity is a mark of inferiority and vicarious leisure is more often seen from the ladies of the family. When it comes to the comparison of conspicuous leisure and consumption, at the earlier stages of economic and social development when the environment of living is more compact and with less intercourses, both have the same impact since everyone's reputability is known from the rest. But, as economies become wider and mobility of human capital is taking place the need of vicarious spending to display wealth or supremacy is essential. Simultaneously, the instinct of workmanship on the later quasi-peaceable stage starts to grow and non-productivity would be depreciated from the public. According to the above, Veblen concludes that regarding the economic and social norm changes, conspicuous consumption is more efficient and substitutes conspicuous leisure.

1.3 References to the idea before Veblen

Despite the fact that, conspicuous consumption as a term was firstly reported by Veblen on 1899, the concept of this idea had been described even centuries before. The use of flamboyant displays of wealth from the upper classes of the early history to reflect dominance and segmentation from the crowd functioned as a custom. According to Cicero, since the existence of the Roman Empire, Mark Antony used to wander with the use of custom chariots and accompanied by actresses and wild animals in order to exhibit his social supremacy and power. But even in the more recent history before Veblen, economists and sociologists have mentioned spectrums of conspicuous consumption. Rousseau in his work "Discourse on the Arts and Sciences" (1750), suggested that as societies become more affluent they tend to use vicarious spending as a way to showcase class supremacy, leading to social

inequalities. Moreover, Adam Smith wrote in "The Wealth of Nations" (1776) that, as individuals are in desire for social esteem and admiration tend to adopt extravagant lifestyles. Furthermore, John Stuart Mill, in his work "Principles of Political Economy" (1848), discussed the emulation of consumption habits of those in a superior social rank, resulting in a competitive cycle of consumption. Lastly, a few years before the release of the "Theory of the Leisure Class", Alfred Marshall published the first edition of the "Principles of Economics" (1890), in which he recognized the psychological dimensions of consumption such as the status recognition, which can determine the purchases of goods.

1.4 Conspicuous consumption of the modern world

Despite the fact that Veblen described conspicuous consumption as a means for the affluent to showcase their wealth through vicarious spending on luxurious objects, nowadays its use does not always coincide with the purchasing of theoretically opulent items such as expensive clothing, jewelry or cars. It is easily observable, even from the early childhood that in order to impress upon their peers, kids beg their parents to buy them fancy crayons or backpacks (Harriger *et al.*, 2019). In general, according to the different types of socioeconomic environments around the globe, different types of consumption could indicate status and social superiority. For instance, based in survey data from South India, in the certain region, weddings are a much important event that showcases unobserved wealth. Specifically, in the life of an Indian's family the most expensive event is the daughter's wedding, which is often equal to six times the annual income of the family (Moav and Neeman, 2012). Moreover, in developing countries of the Eastern World, conspicuous consumption could be observed via the unsustainable consumption of red meat, which is perceived as opulence (Bogueva *et al.*, 2017). On the contrary, in reference to the culture of the industrialized Western World, a plant based or organic diet, second-hand purchasing and overall green consumption could signal elitism (Morison and Dunlap, 1986). Overall, the dimension of the term conspicuous consumption has expanded and evolved over the years, including what is perceived in different societies as signal of status and distinctiveness.

2. Conspicuous consumption and demand theory

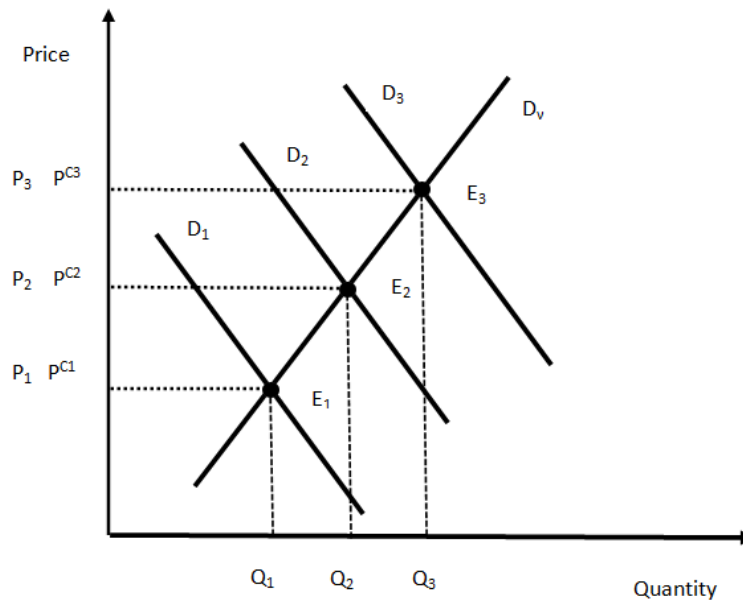
2.1 The Veblen good

According to Leibenstein (1950) there are two types of demands; the one that is functional and the non-functional. The functional demand is based on the tangible qualities of a product. In contrast, the non-functional demand is produced because of the external values, different from quality assurance, a product could provide. The latter, explains the conspicuous consumption of goods as a way to reflect social status (Madyibi, 2017). By the book, the aggregate demand curve of products has a negative slope, but regarding certain circumstances a positive slope could be produced. One of these cases is the one of the Veblen goods, named after Thorstein Veblen, for which their demand and price move in the same direction (Wood, 1993). These products are often of high quality as well as costly and exclusive used in order to showcase wealth and distinctiveness (Eaton and Eswaran, 2009). The phenomenon of the positive slope in their aggregate demand is observed because such good's utility for enhancing status, rises with its expensiveness (Nelissen and Meijeers, 2011).

2.2 The Veblen effect

The existence of the Veblen goods is often attributed to the influence of the Veblen effects (Wood, 1993). The Veblen effects are a branch of conspicuous consumption and “are said to exist when consumers exhibit a willingness to pay a higher price for a functionally equivalent good” (Bagwell and Bernheim, 1996). In other words, the eagerness to purchase a product is increased due to its higher price and the signaling value it reflects (Corneo and Jeanne, 1997). The Veblen effect keeps occurring as the signaling value of a product rises as its price increases (Madyibi, 2017). The Veblen effect could also imply higher quality, but this is mostly incident to the lack of market knowledge (Pollak, 1977). On the same note, Corneo and Jeanne (1997) argue that the increasing demand for products when their price rises does not signal the quality of the product but the quality of the consumer.

The way the Veblen effect influences the demand for a good could be depicted through the following graph:



Graph 1

Price is separated into two different sections; real prices (P_1 , P_2 , and P_3) as well as conspicuous prices (P^{C1} , P^{C2} and P^{C3}). Real prices depict the monetary value of the product, whereas conspicuous prices showcase the price assumed by others that was paid for the purchase. D_1 , D_2 and D_3 are the market demand curves when a real price exists but a conspicuous price is expected. These curves move to the right as the expected conspicuous price increases. The equilibria (E_1 , E_2 and E_3) are created when the conspicuous and real price are equal. These equilibria form the demand curve D_v . In case the price decreases from P_2 to P_1 , then according to the price effect the demand would increase to Q_3 (Q_2 - Q_3). But, because of the Veblen effect here, it is observed that the quantity decreases to Q_1 . That is because; the drop in price from P_2 to P_1 decreases as well the evaluation of the expected conspicuous price from P^{C2} to P^{C1} . As a result, the Veblen effect (Q_1 - Q_3) is generated since a lot of buyers leave the market due to the reduced assumed value of the good.

3. Antecedents of conspicuous consumption

3.1 The level of identification with low status groups

It has been shown that conspicuous consumption is more frequently observed by lower status groups (Charles *et al.*, 2009). But, solely the characterization of one being in a low status group or an out-group does not entail spending on high-end objects. In specific, it is the level of one's identification with low-status groups that increases their desire for high status goods, (Rucker *et al.*, 2012). Regarding to Armenta (2010), one's identification with their social group leads to stereotypical behavior of it. Thus, the higher the identification with a lower-status group would create the higher need to enhance social ranking through vicarious consumption (Rucker *et al.*, 2012). Furthermore, their research showed that one's perception on which social status they belong to would impact their spending on vicarious consumption. In other words, one's identification with a low status group, even temporally, would increase their purchases on high-end items, to enhance and restore their reputation. In conclusion, as noted it is more the level of identification to a low ranking status rather than the social categorization and perception that it enhances consumer's behavior for conspicuous consumption (Rucker *et al.*, 2012).

3.2 The effect of nonmaterial social comparisons

As mentioned by Corcoran *et al.* (2011) and Festinger (1954) social comparisons with superior subjects lead to the feeling of inadequacy and the motivation to improve. Superiority regarding consumption comparisons could be maintained or attained by the purchase and display of luxurious objects (Veblen, 1899). This kind of spending is referred as compensatory consumption, meaning the use of high-end products and brands that have a symbolic character and are used to reflect a certain identity (Rucker and Galinsky, 2008). In reference to the above Zheng *et al.* (2018) found that not only consumption comparisons result in conspicuous consumption but any kind of nonmaterial social comparisons could lead to it. Particularly, they proved that the upward social comparisons tend to stimulate vicarious consumption more than the downward or the no comparison. Moreover, this kind of behavior is enhanced or impaired by the type of relationship between the subjects in comparison as well as

by their self beliefs. In specific, when consumers are in a competitive relationship with their comparison target the consequence of vicarious spending would be amplified. While, when the in comparison consumers are in cooperative relationship the effect of conspicuous consumption would be attenuated. Furthermore, self-concept clarity affects conspicuous consumption triggered by nonmaterial social comparisons. Self-concept clarity (SCC) refers to “the extent to which the contents of an individual’s self concept are clearly and confidently defined, internally consistent, and temporally stable” (Campbell *et al.*, 1996). According to Zheng *et al.* (2018) low SCC, meaning a self concept that is not correctly articulated, acts as an enhancing factor on conspicuous consumption related to social comparisons. This happens because people with low self awareness engage more often in social comparisons with others so that they could attract information and have a better understanding of themselves (Pelham & Wachsmuth, 1995). On the other hand, high SCC or great self knowledge acts as a diminishing factor regarding vicarious spending from social comparisons. High self-consciousness repels people from needless social comparisons as well as comparative information is not often taken into account, (Pelham & Wachsmuth, 1995). Consequently, people with high SCC are not affected by social comparisons so that they would conspicuously consume (Zheng *et al.*, 2018).

3.3 The surrounding environment

Among different types of socioeconomic environments, spending habits and demand for specific objects vary in reference to relative prices and income (Blundell, 1988). In respect to luxurious high-end products, they are purchased in different quantities and serve different purposes, according to the size, the welfare and the estimated mean income of societies (Virginia Postrel, 2008). In small-scale social groups where the information of someone’s wealth is known by their surrounding environment conspicuous consumption is less needed to exhibit affluence (Veblen, 1899). But in larger-scale societies, with much more anonymity and less familiarity, consumers tend to spend conspicuously in order to gain acknowledge and establish their ground among the strangers (Veblen, 1899). Furthermore, irrelevant to the size of the society, high within-group income inequality has a positive effect on conspicuous consumption. According to Li *et al.* (2016), higher income variance in a community generates greater need to signal opulence since one’s income and social

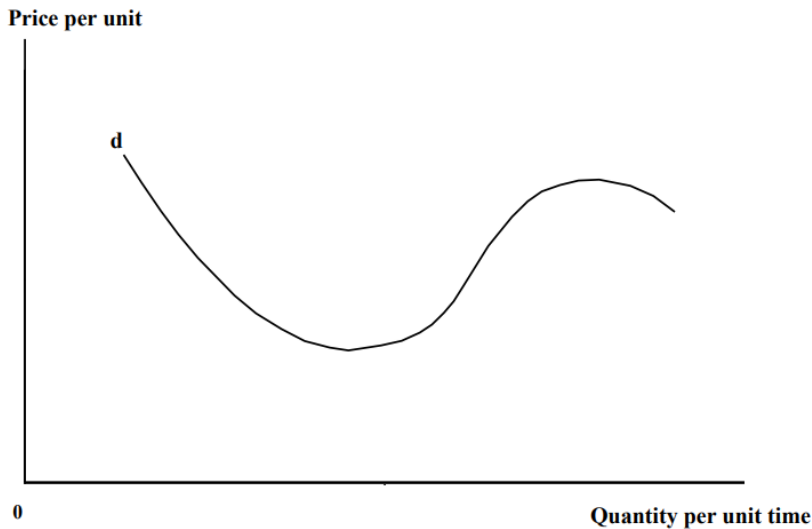
class is less transparent to the public. Moreover, it has been observed that in poorer societies the tendency to consume very expensive objects to impress upon others is higher (H. M. Senevirathne, 2015). As Virginia Postrel (2008) has put it into words *“displays of wealth in poor groups serve to combat the impression that a person is poor, often because they are a member of a group perceived by society as poor”*. A large amount of the income could be utilized for reputability purposes through conspicuous consumption even if this creates a lot of discomfort and dissatisfaction of everyday private needs (Veblen, 1899). When it comes to richer societies the opinions are divided to the point of the impact on vicarious spending. On the one hand, Veblen (1899) proposes that everyone wants to live and imitate the life of the class that compared to their, is one step upward on the socioeconomic pyramid, thus their consumption is based on that matter. For him, even then richest conspicuously consume just to maintain their dominance and gratification of their high status. On the other hand, Kaus (2013) as well as Virginia Postrel (2008) suggest that as the mean income of a social group increases, spending to showcase wealth decreases. In this scheme, luxurious consumption mainly happens for private pleasure and self comfort rather than boasting. Lastly, in reference to the study of Friedman and Ostrov (2008) pride and envy between the members of a society have an impact on observable consumption. According to them, envy is described as a feeling of being more upset by a shortfall compared to others rather than satisfied in case of superiority, whereas pride has the opposite definition. When envy prevails over pride in a community, dissatisfaction is inevitable, thus a vicious cycle of conspicuous consumption in an infinite game with multiple equilibria is generated (Friedman and Ostrov, 2008). In the case when pride excels envy consumers do not follow a specific consumption pattern. But, even if a small degree of envy does exist, the result of the total consumers' satisfaction would be inefficient and the only way for everyone to acquire higher utility would be by a proportionate reduction in vicarious spending (Friedman and Ostrov, 2008).

3.4 The bandwagon effect

The bandwagon effect is defined as an external factor which influences consumers' behavior, as they imitate the spending habits of others even if they disagree with them (Leibenstein, 1950). People comparing themselves to the average or upper social

groups purchase a good in order to conform to their consumption patterns (Leibenstein, 1950). In reference to conspicuous consumption the bandwagon effect is observed with spending based on popularity and social approval (Kastanakis and Balabanis, 2014). According to Amaldoss and Jain (2008) some luxury brands are preferred just for their widespread acceptance and are used to create assimilation to a certain group. Popularity has a heuristic aspect since the majority serves as a correcting factor and its dominance cannot be ignored (Parker and Lehmann, 2011). It determines at a significant point bandwagon behavior since it serves as a signal to the public and leads to further demand for certain objects. In the case of luxury items, popularity amplifies the purpose of their purchase, meaning social success and association to a certain status group (Han *et al.*, 2010). Apart from public recognition, bandwagon consumption could be triggered via fashion trends and celebrities' behavior (Amaldoss and Jain, 2008). In their study, Kastanakis and Balabanis (2014), propose that bandwagon consumption could also be affected by the Inter-Dependent Self-Concept (IDSC) as well as the Consumer Susceptibility to Normative Influence (CSNI). On the one hand, the inter-dependent self concept refers to individuals who tend to focus on the perspectives and reactions of others towards them rather than on their personal opinions. This group of people is more aware of how their persona would be seen by the society and behaves in compliance with the desired class of association. Thus, in the case of conspicuous consumption they adapt to certain spending patterns that through the bandwagon effect they adopt (Kastanakis and Balabanis, 2014). On the other hand, the Consumer Susceptibility to Normative Influence is defined as *"the need to identify or enhance one's image with significant others through the acquisition and use of products and brands, [and] the willingness to conform to the expectations of others regarding purchase decisions"* (Bearden, Netemeyer and Teel, 1989, p. 474). In reference to status products used for conspicuous consumption, normative behavior is very important (Bearden and Etzel, 1982). According to Park and Lessig (1977), consumers that have above average norm susceptibility, tend to indulge more in conspicuous spending on luxury brands. In particular, they take advantage of the value expressive reference group influence as well as the utilitarian normative influence. In more specific, the value expressive reference enhances the self-image by associating them with their aspired status groups, while the utilitarian influence expresses the compliance with certain status related behaviors, signaling as well association with the wealthy (Han *et al.*, 2010).

A significant economic aspect of the bandwagon effect is that it could possibly create a market demand curve with positive slope segments (Becker, 1991). In more specific, as show in figure 1, he hypothesized that for small quantities the aggregate demand curve is downward slopping, for larger quantities it is upward sloping and lastly for the largest quantities it is again downward slopping.



Graph 2

His hypotheses were based in the following market demand function: $Q = \sum_{i=1}^n q_i(p, Q_E) = F(p, Q_E)$ (1), where $q_i(p, Q_E)$ denotes the demand of the i^{th} consumer; Q denotes quantity demanded in the market; p denotes the relative price of the commodity; and Q_E denotes the market demand quantity expected by each consumer. In parallel, assuming that the change in price has a negative effect on quantity it is entailed that $F_p < 0$. Moreover, taking into account the presence of the bandwagon effect which positively associates Q and Q_E , it is implied that $\partial F / \partial Q_E > 0$. Also, it is supposed that, consumers' expectations converge with the actual aggregate demand immediately, leading to the equilibrium condition of $Q = Q_E$. According to that, the equation (1), is converted to $Q = F(p, Q)$ (2). In order to calculate the slope of the market demand we take the total derivative of the equation

(2): $d_Q = F_P d_P + F_Q d_Q$, which leads to the equation $(d_Q/d_P) = (1 - F_Q)/F_P$. In the case where $F_Q < 1$, then the slope of the market demand would be negative. But, as the bandwagon effect gets higher, it could possibly lead to an $F_Q > 1$, extracting an upward slope in the aggregate demand curve of a product.

3.5 Snob effect-limited supply

Many are the cases when, while salesmen are promoting a product, in order to make it more attractive to the consumers, they advertize it as a limited edition (Gierl and Huettl, 2010). Scarcity of products could result due to either low supply or high demand. When scarcity of a product is caused by high demand it could serve as a heuristic cue that signals high quality (Gierl and Huettl, 2010). Such a behavior is based on consumers' socialization and the common knowledge that scarce products exceed over non-scarce in quality (Cialdini, 1993). This type of scarcity is positively related with the consumption of non-conspicuous goods (Gierl and Huettl, 2010). On the opposite, scarcity due to limited supply has a positive influence towards conspicuous goods, since it symbols status, uniqueness and conformity (Gierl and Huettl, 2010). Firstly, they have found that items that are scarce could indicate a high status symbol, evoking simultaneously the feeling of being envied as well as respected. That is because, this type of objects are limited from the rest of the public and only very few have the capability to possess them, thus they reflect superiority. Secondly, scarcity due to supply could trigger snob consumption, meaning spending on luxurious items as long as they are limited and not adopted by the majority of the consumers (Berger and Ward, 2010). This consumption pattern is based on the Independent Self-Concept (ISC) which emphasizes in the freedom of expression and the distinctiveness (Kastanakis and Balabanis, 2014). As a result, consumer's need for uniqueness is met as well as the feeling of being the chosen one (Gierl and Huettl, 2010). Finally, the feeling of conformity to a certain preferred group could be signaled through consumption of exclusive products related to it (Gierl and Huettl, 2010). According to Burnkrant and Cousineau (1975), conformity is defined as a proneness to create and establish group norms to which the members or the one's that want to join the group comply with. Their research proposes that in order to show conformity, consumers purchase products that are related to specific groups and their members' perceptions to achieve the feeling of belonging. The more scarce and

difficult to find these products are, the more admired and respected would the individual be (Gierl and Huettl, 2010). Overall, scarcity in goods due to limited supply has an interpersonal reflect to the consumers and leads to conspicuous consumption (Gierl and Huettl, 2010).

3.6 Social media and Electronic Word Of Mouth (EWOM)

According to statistics, for the year 2023, the number of social media users around the globe was estimated at around 4.9 billion and this number is predicted to rise up to 5.75 billion until 2027 (Belle Wang, 2023). This should be expected, since this social networking allows its users to control the shared information among their acquaintances, leading to an increase in self-esteem (Gonzales and Hancock, 2011). In more specific, the individuals tend to portray the positive sides of them in the social media life, and such positive information entails positive feedback from their internet social circle. Such an approving interaction boosts one's confidence and enhances their well being (Ellison and Steinfield, 2007). Simultaneously, though, it makes the users more prone to losing self control, leading to more impulsive behavior such as excessive, luxurious spending (Wilcox and Stephen, 2012). In reference to their research, when people feel good about themselves have a tendency to react more on an impulsive rather than on a logical way, increasing conspicuous consumption. The higher the intensity of social media use, the more positive affect they have on one's vicarious spending, as a way to enhance their social media appearance (Thoumrunroje, 2014). Apart from the influence social media's positive feedback has on impulsive spending, also Electronic Word Of Mouth (EWOM) modifies consumers' behavior in the same direction (Thoumrunroje, 2014). In particular, a common friend in a social media platform could potentially become a source of effective information for consumption (Reingen *et al.*, 2011). The influence increases as the information though EWOM derives from individuals with whom consumers have strong ties, indirectly impelling conspicuous consumption (Wilcox and Stephen, 2012). In other words, an individual's displaying of luxurious products in social media platforms motivates users that are closely related to them to commit more expenses related to high-end goods (Thoumrunroje, 2014). Overall, it depends on the intensity someone encounters conspicuous consumption in social media as well as their reliance on EWOM that moderates their behavior towards vicarious spending (Thoumrunroje, 2014).

3.7 Narcissism

Narcissism is an individual's personality trait observed often in societies, especially in younger ages (Back *et al.*, 2013). Narcissists are characterized with egocentric behavior, social selfishness as well as in need for social appreciation and attention (Sedikides, 2021). In more specific, they have an overly exaggerated self-image, creating positive perceptions over themselves that are not corroborated by the society in reality. According to researches there are two main types of narcissism; overt and covert (Wink, 1991). On the one hand, overt narcissists are social creatures with an outgoing and independent personality. They have positive self concepts and are in search for success, public appreciation and envy (Zhu *et al.*, 2021). On the other hand, covert narcissists are portrayed as extremely sensitive, anxious and self-insecure. They often have inferiority complex syndromes even if they have misleading overly-positive self-awareness (Zhu *et al.*, 2021). For this type of individuals, conspicuous consumption is very important, since it covers their need for social approval and distinctiveness, materialism as well as helping overall with the search of their meaning in life. Firstly, through the buying of luxurious, status-symbol products narcissists have the possibility to acquire individuation (uniqueness) and elevation (status superiority) (Sedikides and Hart, 2022). In particular, their distinctiveness is satisfied through the purchase of limited edition items as well as personalized products, which their counterparts may not be able to afford or get access to (Tzemou *et al.*, 2020). Furthermore, it has been observed that narcissists are more prone to buying non-affordable goods to attain a superior class and signal status (Naderi and Paswan, 2016). Secondly, narcissists praise financial success and materialistic behavior (Roberts and Robins, 2000; Piltch and Górnik-Durose, 2016). Thus, since conspicuous consumption and materialism are positively related, narcissisms choose it as a type of compulsive consumption (Piltch and Górnik-Durose, 2017). Lastly, narcissists have the potential to obtain meaning in life through conspicuous consumption (Zhu *et al.*, 2021; Gordon *et al.*, 2019). In reference to Zhu *et al.* (2021) overt narcissism is positively related with meaning in life itself, while covert narcissism is generally negatively correlated directly with the meaning in life. This is generated because overt narcissists have great social skills and high self-confidence.

On the reverse, covert narcissists, suffer from nervousness, self-reproach and insecurity (Zhu *et al.*, 2021). Life satisfaction though conspicuous consumption is negatively correlated with overt narcissists, since their type of narcissism itself already provides them with the meaning in life. But, covert narcissism is positively related with the meaning in life through luxurious spending (Zhu *et al.*, 2021). These expenditures make covert narcissists gain external value, meaning social status, approval and importance, such traits that their type of narcissism does not contain. Thus, they could possibly gain meaning in and self- satisfaction though the external value conspicuous consumption provides to them (Zhu *et al.*, 2021).

3.8 Power

Power is often described as one of the most omnipresent psychological forces of behavior (Magee and Galinsky, 2008). A common definition refers to power as the ability to control one's own or other individual's resources and aftermaths (Keltner *et al.*, 2003). For individuals themselves, power has different meanings and in reference to different situations one can temporarily feel powerful or powerless, leading to propensity to take action (Galinsky *et al.*, 2003). One of the cases power influences behavior, is in consumption choices (Rucker and Galinsky, 2009). According to their research, Rucker and Galinsky (2009) found that the feeling of powerlessness tends to encourage conspicuous consumption, as a way to attain social status. Consumers that feel powerless are prone to luxurious spending not for the intrinsic value of the product, but as these purchases seem to potentially restore power through social recognition (Rucker and Galinsky, 2009). On the contrary, people who feel powerful use products just to maximize their utility and indulge less in products known to reflect status (Rucker and Galinsky, 2009). Their spending is solely influenced by the impact it will have on themselves, rather than the opinion of society (Rucker and Galinsky, 2009).

4. Consequences of conspicuous consumption

4.1 The financial impacts of conspicuous consumption

4.1.1 Reduction in savings

Over the past decades, a reduction in household and private savings has been observed in many areas around the globe. A salient example could be the United States since the bottom 90 percent of the households has a savings' balance close to zero (Thompson, 2016). Apart from the USA, also other countries with dominant economies such as Germany, Japan and Canada are subjected to lower saving amounts from the household sector (Thompson, 2016). This continuous downfall in the savings is very important since it could possibly have a great impact on these economies (Wisman, 2008). In more specific, the less amount of savings leads to either fewer investments and a sluggish growth rate or more foreign financing and debt. Moreover, it creates an issue of intergenerational fairness. In other words, future pensioners would rely more on Social Security as well as Medicare financially burdening the upcoming generations. Lastly, Bryant (2001) has found that low savings result in future financial distress for many households. Even if a lot of research has been conducted in order to investigate the reasons behind this phenomenon, according to Guidolin and Jeunesse (2007), at least for the United States, the changes in the personal savings rate remains a puzzle. In his research, Wisman (2008) proposes that a factor impacting the personal savings is conspicuous consumption, triggered by income inequality. Particularly, the broadening of income inequality among societies raises the standards of what is considered normal lifestyle, putting further pressure on households to spend on conspicuous consumption, resulting in a reduction in savings (Pybus *et al.*, 2022). Simultaneously, a higher inequality in the distribution of the income means that the gaps between the classes become wider, thus consumers in order to emulate the consumption behaviors of the class above them have to indulge in much more vicarious spending (Wisman, 2008). Furthermore, in reference to the paper of Moav and Neeman (2010), less savings are a consequence of conspicuous consumption which is negatively correlated to human capital. In more specific, the ones without certified accomplishments as well as the

nouveau riche in order to signal success are more prone to conspicuous consumption, neglecting personal savings. In reference to the above, conspicuous consumption could be characterized as an instrument that causes reduction in overall savings of the households globally.

4.1.2 Debt accumulation-bankruptcy

As recorded by the OECD, for many developed countries the ratio of individual household debt to disposable income remains in high standards. In particular, for Greece (2022) it is estimated at around 82%, for Germany (2022) at 100%, for the United States (2021) at 102%, for Japan (2021) at 122% and for Norway (2021) it soars at 247%. Although the standard economic theory of life-cycle hypothesis has been used to explain this phenomenon, it has not been consistent with the data and behavioral economists have questioned its adequacy. This theory proposes that young consumers, in order to maximize lifetime utility, borrow from their savings and use debt in order to maintain their lifestyle, based on the fact that their future income would counterbalance their indebtedness (Ando and Modigliani, 1963). But, according to Kotlikoff *et al.* (1988), the inherent cognitive limitations of individuals constrain the feasibility of on long-term utility maximization, thus the theory cannot stand for a lifetime utility optimization. A different approach to the issue suggests that, loan-taking and credit debt which in many cases result in bankruptcies, proceeds from conspicuous consumption (Banuri and Nguyen, 2022). In reference to Georgakos *et al.* (2014), increased borrowing of poorer individuals is a result of their trying to emulate the consumption patterns of one's with higher income. Also their study demonstrates that this type of behavior is observed in higher frequency and intensity in areas where ones' social interactions are with perceived higher earners. At the same time, the research of Lee and Mori (2021), reports that the choice of a conspicuous neighborhood results in more conspicuous consumption and more loaning, eventually leading to debt accumulation. But, it is not necessary for the general population of an area to have a high mean income in order to trigger the conspicuous consumption of the less fortunate. As mentioned by Agarwal *et al.* (2016), increasing just one peer's income by an exogenous factor such as a lottery prize, has a positive impact on the conspicuous consumption of the winner's surrounding, financed by unsustainable debt. The consequence of this behavior in

many cases is the filling of bankruptcies. In fact, the larger the lottery prize would result in larger amount of visible assets such as cars or houses, reported in the bankruptcy balance sheets possessed by the social cycle of the lottery winner (Agarwal *et al.*, 2016). Lastly, the need to sustain social status in societies with high income inequalities, leads to escalating household debt via vicarious spending (Morgan and Christen, 2002). In more specific, as the income of the higher earners enlarges, it forces the consumers of the lower layers in the socio-economic pyramid to consume conspicuously at a greater amount and use debt in order to accomplish such a behavior. Overall, the need for emulation with the higher standards set by the richer amplifies conspicuous consumption which is often financed by debt and in many cases leads in bankruptcies.

4.1.3 Income inequality- poverty trap

According to the World Inequality Report of 2022 “ The richest 10% of the global population currently takes 52% of global income, whereas the poorest half of the population earns 8.5% of it. ”. Over the last century not much progress has been made in the income redistribution, since the average income of the top 10% is 38 times higher than the average income of the bottom 50%, while in the early 20th century it used to be 41 times higher. In the previous sections, it has been shown that income inequalities in societies are associated with higher levels of vicarious spending (Pybus *et al.*, 2022). But, what is also important mentioning is that conspicuous consumption from the poorer parts of societies leads them to more economically unequal environments of living. In other words, income inequality and conspicuous consumption are mutually reinforced, creating a vicious cycle which leads to poverty traps (Moav and Neeman, 2010). Particularly, in communities with higher income inequality costly borrowings as well as less saving from poorer families are significant in order to consume vicariously, as a means to achieve certain consumption standards and emulate certain status qualities (Pybus *et al.*, 2022). Apart from that, these families usually spend a large fraction of their income on visible purchases to impress upon others rather than in education or health care (Lombardo, 2020). As a result, they are both indebted as well as fall behind in the accumulation of human capital, making it difficult to thrive economically (Moav and Neeman, 2010). On the other hand, the richer facilitate upper movements in the socioeconomic

pyramid since they have the affluence to spend more on human capital through education while in parallel they indulge in relatively less conspicuous spending behavior (Moav and Neeman, 2010). The overall outcome is an exacerbated income inequality which creates more opportunities for the affluent to accumulate wealth and less potential for the less fortunate to escape poverty traps (Banuri and Nguyen, 2022).

4.2 The environmental impacts of conspicuous consumption

4.2.1 Overexploitation of natural resources

In reference to “Nature Fund”, a non-profit German organization, it is evident that in order to support the increasing consumption patterns of humanity, the amount of natural resources being used in production is continually rising. In reference to Wackernagel and Beyers (2019), the humanity’s annual ecological footprint is estimated at 1.75 planet Earths, meaning that the demands in natural deposits were 1.75 times higher than what the ecosystems of Earth could renew. In specific, almost 60 billion tones of resources are annually extracted, an amount enlarged by around 50% compared to three decades ago. According to statistics, if this trend continuous, from 2030 and beyond, it is estimated that resource extraction may grow up to 100 billion per year. Such a deterioration of this situation is alarming for the sustainability of the natural resources on planet Earth. Some of its repercussions include freshwater reserves shrinking, deforestation, loss of biodiversity, air and water pollution and soil degradation (Ng and Wang, 1992). In particular, more than a half of the globe’s largest lakes, which provide nearly 90% of the humanity’s drinking water and irrigation, have lost immense amounts of water the past 30 years (Paddison, CNN, 2023). Furthermore, in order to meet the high demands for timber and urban settlements nowadays, the rate of deforestation per minute on Earth’s land surface is equal to 27 soccer fields (Earth.Org, 2023). One of the main drivers of this rising expenditure trend, which causes such environmental issues, could be considered conspicuous consumption (Urry, 2010). Specifically, in order to reflect status supremacy, consumers adopt certain consumption behaviors that often deplete some of the planet’s natural deposits (Sartzetakis *et al.*, 2023). For example, in the modern “mobilized” societies, travelling around the globe and getting access to products from

different parts of the world is perceived as honorific, since one's consumption patterns and social networking is becoming more elaborate (Urry,2010). This results in excess oil use, in order to support the aerial transportation as well as the overseas commute of foreign products (Urry, 2010). Along with that, status oriented consumption increases the purchasing of cars, real estate, apparel etc., multiplying the already extravagant amount of energy, raw materials and water demands (Garcia *et al.*, 2021). This type of conspicuous consumption occurs mainly in the richer, industrialized parts of the globe, which compared to poorer regions; consume 10 times more natural resources (Nature Fund). This need for overexploitation of natural deposits leads to consequences affecting everyone, but mainly impacting the developing countries, which lead in the process of resource extraction (Shwom and Lorenzen, 2012). Overall, this phenomenon will continue, as the Earth is consumed in excess in order to fulfill the modern demands of high vicarious consumption (Urry, 2010).

4.2.2 High CO₂ footprint

The global total carbon emissions for 2023 rose to 37.55 billion metric tons, which compared to 30 years ago is almost 60% extended (statista). In parallel, the carbon footprint accounts for almost 60% of the Earth's ecological footprint. For this state, significant is the participation of the wealthy around the globe, since the top 10% of the richest is responsible for half of the carbon dioxide emissions (Oxfam International, 2015). It is also observed, that controlling for trade, the different nation's environmental footprint is amplified in compliance with the society's income levels (Ivanova *et al.*, 2016). Bhar *et al.* (2024), also suggest that the intensity of carbon emissions increase with one's earnings and conspicuous consumption has an important impact on it (Bhar *et al.*, 2024). For the most affluent in specific, it is evident, that in order to demonstrate superiority they tend to consume excessively (Di Muzio, 2015). As Veblen (1899) also pointed out, acquiring of land and high luxurious consumption serves as a mark of distinction and appreciation of the affluent. A clear example showcasing the extravagant amount of carbon emissions the wealthy are producing is via the use of super cars (Lynch *et al.*, 2019). In particular, luxury vehicles, aside those that are electric or hybrid, consume more gasoline and tend to perform less effectively, leading to higher environmental footprints. In more

detail, in comparison with the top 10 selling cars, super cars produce almost 60% more gas emissions. On the same note, the use of super yachts by the rich pollutes the atmosphere with carbon emissions respective to 202 average cars (Lynch *et al.*, 2019). Lastly, for an average house to be built, the requirement for wood accounts for the harvesting of 20 trees, while for an opulent person's home a deforestation of 380 trees is needed. As a result, the carbon sequestration loss for the building of a luxurious villa is almost 20 times greater than for an average home (Lynch *et al.*, 2019). Although opulence does not always coincide with unsustainable environmental behavior, regarding the carbon footprints for the majority of the affluent, the use of high consumption as a way to attain social recognition serves as a fact (Sartzetakis *et al.*, 2023). It is obvious, that through their conspicuous consumption, the wealthy generate enormous amounts of carbon emissions, disproportionate to their population on Earth (Lynch *et al.*, 2019). The excessive consumption poses negative externalities to other status seekers, who in response raise their consumption creating a "rat race" (Frank, 1985). Meanwhile, as Veblen (1899) suggested, conspicuous consumption is based on the adoption of the purchasing behavior of the status class above one's in the socioeconomic pyramid. Thus, the high status consumption of the affluent triggers a general augmentation of vicarious spending which exacerbates the issue of high intensity of carbon emissions in the atmosphere (Podoshen and Andrzejewski 2012). Such pollution has a significant impact on the global warming, the climate change and their consequences on planet Earth (Kabir *et al.*, 2023).

4.3 The social impacts of conspicuous consumption

4.3.1 The individual level of happiness with purchase and self-representation

Regarding the constant mobility and progress of today's world, it is important for consumers to have a tool that allows them to define themselves in a way that is advantageous and convenient for them (Olsson, 2020). In particular, conspicuous consumption serves as a mechanism which gives the individuals the opportunity to reflect their ideal self image, even if this is an artificial one (Olsson, 2020). This includes the reformation of the self-identity in accordance with the society norms and

consumer expectations (Olsson, 2020). This reformation is based on the certain type of conspicuous consumption the individuals choose which provides them with social acceptance, sense of belonging and recognition (Olsson, 2020). Furthermore, the feeling of happiness is evoked through the purchases of conspicuous goods (Charoennan and Huang, 2018). In more specific, positive emotions, such as happiness, are stimulated through purchases when they serve as a way to construct a person's identity (Caprariello and Reis, 2013). That is because; through vicarious spending the presentation of the intended self is accomplished, advocating in life goal satisfaction and overall happiness stimulation (Duan and Dholakia, 2017). Conclusively, conspicuous consumption is a way that could affect positively the personal interactions and social acceptance of individuals as well as evoke emotions of happiness.

4.3.2 Overall societal happiness stagnation

Even though conspicuous consumption as mentioned above could have a positive impact on the happiness of individuals, on a broader societal scale its reflection on well being is discouraging (Cooper *et al.*, 2001). According to statistics, despite the continuous increasing economic growth and its impact on the rise of the per capita real incomes, the average subjective well-being rates remain almost stagnant over the years (Clark *et al.*, 2008). That is because; the relative income/consumption is in many cases more significant than the absolute income/consumption of individuals (Linssen *et al.*, 2010). For instance, the equal increase in both one's own income and the average neighborhoods' income seem to cancel out the impact on subjective happiness (Eaton and Eswaran, 2009). As conspicuous consumption is based on social comparisons to attain status, it also affects significantly the subjective well-being (Linssen *et al.*, 2010). To be more specific, conspicuous consumption decreases subjective happiness rates through an ever ending consumption antagonism and a turn to goods that affect negatively the utility growth (Eaton and Eswaran, 2009; Linssen *et al.*, 2010). Firstly, as mentioned by Frank (1999) consumers participate in a competition in consumption, similar to a position in a treadmill. One has to consume more conspicuous goods in order to keep up and surpass the other, leading to lower levels of subjective well-being because of the inflation of costs (Linssen *et al.*, 2010). Such a behavior leads to a zero sum game, as the capitalistic markets continue to

invent and supply goods for conspicuous consumption (Cooper *et al.*, 2001). Moreover, vicarious spending via the use of veblen goods has an important impact on the decrease of a society's happiness (Cooper *et al.*, 2001). These goods, contrary to normal goods confer utility not much from their intrinsic value, but mainly from the exception they transfuse to their consumers (Eaton and Eswaran, 2009). According to growth models, because of the importance of relative consumption nowadays, as the economy grows conspicuous goods will dominate the economies leading to negative utility growth and decreasing subjective well-being rates (Eaton and Eswaran, 2009). That is because; the use of veblen goods on the one hand poses a negative externality to the non-consumers and on the other hand stimulates a reflecting conspicuous consumption leading to a vicious cycle (Linszen *et al.*, 2010). Apart from that, conspicuous goods lack in the benefiting with direct utility that normal goods excel at. Overall, the effect on the total population's happiness regarding conspicuous consumption is negative and leads to stagnation of subjective well being rates.

4.3.3 Social segmentation

One of the main impacts of conspicuous consumption at a global spectrum is that it threatens the social cohesion (Jaramillo and Moizeau, 2003). As mentioned above, vicarious spending is often used in order to attain status and social approval from specific in preference socioeconomic groups. In order to gain recognition and acceptance from these clubs, individuals tend to showcase communal norms and ideals through their conspicuous consumption (Jaramillo and Moizeau, 2003). As Jaramillo and Moizeau (2003) wrote "In a world with incomplete information, conspicuous consumption serves as a signal of the unobservable quality of an agent to the financing of the local public good and justifies the acceptance or exclusion of any individual in a community". This type of conformist behavior enacts the ability to reap the benefits from communal interactions and club privileges, while it also excludes the "free-riders" (Jaramillo and Moizeau, 2003). The most important effect of this type of conspicuous consumption is that it alienates to a greater extent the affluent from the poor. Jaramillo and Moizeau (2003) found in their study that low levels of conspicuous consumption lead to an integrated society since ones income and social status is obscured. In contrast, higher levels of conspicuous consumption in

societies reveal easier the level of socioeconomic class of individuals, encouraging social segmentation.

5. Conclusion

On a final note, this thesis via the use of a variety of sources and researches tries to delve into the understanding of the term conspicuous consumption. As mentioned above, vicarious spending is used in most cases as compensatory consumption so that an individual attains social status, recognition and acceptance. We have captured, a plethora of factors that function as motivators for vicarious spending, making it a frequently observable phenomenon among societies. This should be concerning, since the consequences of conspicuous consumption have a negative affect both for individuals themselves and for society in general. On the financial sector, vicarious spending is correlated with reduction in savings, household debt and exacerbation of income inequalities. Simultaneously, the use of conspicuous goods puts greater pressure on environmental issues such as increasing carbon emissions and overexploitation of natural recourses. Lastly, conspicuous consumption has societal impacts, which despite the fact that in some cases affect positively an individual's happiness via the purchase, for the overall population create happiness stagnation and social segmentation. Conclusively, even if Thorstein Veblen coined this term over a century ago, it still remains as relevant as then and its broader understanding is significant, since it affects the societal cohesion and prosperity. Thus, it would be appropriate if more research is contributed to the matter so that it will shed light to its complexity and dimensions.

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