Conspicuous Consumption of Luxury Goods: Literature Review of Theoretical and Empirical Evidences

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Abstract—Developing countries may have relatively higher levels of conspicuous consumption, because of extreme income inequalities. In spite of the massive volume of “foreign” research, the exact nature of conspicuous consumption has not been fully investigated. Drawing upon existing relevant literature, this paper briefly discusses several aspects of the phenomenon. Changes in conspicuous consumption (and its definition) during time are presented. Some of the reasons behind conspicuous consumption and motivations that lead consumers toward it are explained, drawing upon relevant analyses made by researchers coming from economics, marketing, sociology and psychology. Identifying which factors may have an impact on the level of conspicuous consumption of a household, is maybe the main and the most difficult of the problems discussed below.

Index Terms—Conspicuous Consumption, Luxury Goods, Factors, History, Motivations, Signalling.

JEL Classification—D03, D12, Z13.

1 INTRODUCTION

The term conspicuous consumption is familiar to most economists, marketers, sociologists and psychologists and it has also become part of everyday language. This term is often used in a vague descriptive sense to refer to any non-utilitarian forms of consumption, or simply to that which is judged extravagant, luxurious, or wasteful.[5] Even though, the number of scientific studies conducted in this field is still relatively low, maybe due to the interdisciplinary character of the topic. The study of such a phenomenon may be a subject of common interest, especially in a developing country like Albania. Developing countries may have a relatively higher level of conspicuous consumption, because of extreme inequalities in income. The relatively frequent appearance of such a behavior in the Balkans in general, seems to confirm this idea. Thus, it sounds particularly fascinating to investigate reasons, factors and other aspects concerning this behavior. This may help to better understand the coexistence of the impossibility to fulfill sometimes even the basic needs and the insistence to buy extremely expensive products simply to show off, on the other side.

The concept studied here has its origins in the work of Thorstein Bunde Veblen (1857–1929), a Norwegian-American economist and sociologist, one of the founders of institutional economics. He wrote his “The Theory of the Leisure Class” more than one hundred years ago (1899), based entirely on observation. Even though, it still represents a powerful critique of the neoclassical theory of consumption. It contrasts the neoclassical approach, which assumes the individual's maximization of utility according to exogenous preferences, by developing an evolutionary framework in which there are also social factors. Thus, preferences are determined socially depending on the positions of individuals in the social hierarchy.[26] Veblen is one of the first theorists who argued that consumption is actually a process of socialization and goods have a function as markers of social class.[18] He argues that “wealthy individuals often consume highly conspicuous goods and services in order to advertise their wealth, thereby achieving greater social status.”[3] He named this kind of unnecessary and unproductive expenditures, as conspicuous consumption. Hence, he ignores that even those from the lowest scales of the hierarchy can also engage in conspicuous consumption. Therefore, conspicuous consumption is seen mistakenly as an exclusive instrument for the rich. Finally, even after a closed reading and analysis of the different arguments given in The Theory of the Leisure Class, the formulation of Veblen’s most famous concept is not sufficiently clear to permit any general agreement on its definition.[5]

Reformulating arguments given by Veblen, conspicuous consumption can be defined as the consumption of goods and services that is motivated mainly by secondary (conspicuous) utility, i.e. utility deriving by evidence or social confirmation of the consumer's relative ability to pay.[4] Consumers make their decisions to buy and consume “conspicuous” goods, paying attention not only to the material needs that these products can satisfy, but also to social needs such as prestige.[2] Hence, individuals (not only the rich ones, but also middle class and working class members) involve in a competitive race for gaining status or prestige. Examining modern relevant literature, Scheetz defines conspicuous consumption to be any consumption which purpose is that of showing off wealth to others when the good is publicly consumed, “ranging from applying an expensive lipstick in public to driving an expensive car”.[22] So, the concept created by Veblen, is generally seen by researchers (mainly economists) as a process or means to achieve or maintain status and other social benefits, mainly through the consumption of luxury goods. It is still almost impossible to give an exhaustive definition of it, maybe
due to the mix nature of the phenomenon, which brings the need of multidisciplinary analysis combining viewpoints from economics, marketing, sociology, psychology and even biology. “Consumer behavior is often too complex to be handled by economics alone and, if done, may severely limit the scope of findings.”[7]

Drawing upon existing relevant literature, this paper briefly discusses several aspects of the phenomenon. Changes in conspicuous consumption (and its definition) during time are presented. Some of the reasons behind conspicuous consumption and motivations that lead consumers toward it are explained, drawing upon relevant analyses made by researchers coming from economics, marketing, sociology and psychology. Identifying which factors may have an impact on the level of conspicuous consumptions of a household, is maybe the main and the most difficult of the problems discussed below. This study aims to be only the starting point of future more extended examinations in upcoming research. A questionnaire will be soon conducted to find out the main reasons and motivations lying beneath conspicuous consumption of luxury goods in the Albanian environment. Moreover, an econometric analysis of the level of such consumption in the Albanian households will be certainly developed, using data from the Living Standards Measurement Surveys, for more than 3500 households.

2 HISTORY OF CONSPICUOUS CONSUMPTION

“The wish to become proper objects of this respect, to deserve and obtain this credit and rank among our equals, may be the strongest of all our desires.”

Adam Smith

Veblen was not the first... Few of the concepts or theories of Thorstein Veblen figure in ongoing debates or are employed in contemporary research; the one obvious exception is his concept of conspicuous consumption.[5] Even though he is the creator of the concept, it is certainly not the first economist to write about such a behavior. Adam Smith argued that “it is not wealth that men desire, but the consideration and good opinion that wait upon riches”. Karl Marx already noted that ostentatious consumption can be seen as a business necessity and a signal of trust, to attract further capital.[14]

But, it must be mentioned that conspicuous consumption was not considered as an interesting area of study, for a long time. Even Veblen himself was first not considered as a “real economist” and his ideas related to the consumer theory were rejected as non scientific. Only in the XX century, mainly after the Great Depression, economists and researchers from other fields began to make efforts to explain such a phenomenon and its implications on the economy.

Seeing a woman all dressed up for a trip to the city, Socrates remarked: “I suspect that your trip is not to see the city, but for the city to see you…”

Socrates (470-339 B.C.)

A long story of...conspicuous consumption. Conspicuous consumption is not a recent phenomenon. The early civilizations were plentiful of material displays of power. The upper classes “decorated” themselves with jewelry that was fashioned from rare and exotic materials.[16] Rulers sponsored elaborate ceremonies, which often required special equipment and in which many people were employed as actors and participants. During them, large quantities of food and manufactured goods were destroyed as offerings or distributed among the participants. The fact that conspicuous consumption was satirized by Petronius, and mocked in several plays by Plautus demonstrates that these issues were not unknown to wider audiences of that time.[21] Attitudes and even laws concerning conspicuous consumption and luxury have been presented by Ray, demonstrating the various desires exhibited by some sectors of Roman society. He also makes comparisons, giving examples from the Ancient Greece world. Signs of similar wasteful consumption can be found even among ancient Polynesian.[13]

In the ancient civilizations large amounts of resources were also invested in elaborating and maintaining complex systems of writing, calendric systems, astrology, divination and other religious traditions, being that a large part of the “great tradition”. [27] This served to emphasize the cultural gap between the upper and lower classes, the social and political disadvantage of the subordinate ones. During the early phases of Egyptian civilization, for example, even royal effigies were some times placed where they could be seen by ordinary people, aiming through these means to give the message of differentiation and exclusion.

Monumental architecture in early civilizations is also a typical example of conspicuous consumption. Power was symbolized and reinforced by the large scale on which processional ways, palaces, throne rooms, temple platforms, and royal tombs were constructed.[27] Signs of such “wasteful” consumption can be easily found in the Aztec culture and the behavior of Aztec rulers. For example, pleasure parks and palaces and their role in courtly life can be described and interpreted as pure examples of conspicuous consumption and vehicles for status rivalry between the two great noble lineages of Aztec Mexico, rulers of the two major cities, Tenochtitlan and Texcoco.[9]

These are only a few examples showing the presence of conspicuous consumption and related phenomena in early civilizations all over the world. As it can be seen, these behaviors were strictly related to rulers and other members of the elite classes (nobility).

During the XVI-XVII centuries, in Europe production was considered to be the main economic mechanism and impulse behind the advancement of a wealthy nation and luxury consumption was therefore condemned.[18] However, a new reality was created because of developments made in communication, transportation and construction after the Industrial Revolution. In this new environment, increasing income, new employments and geographical mobility generated an ambitious middle class, whose members participated with enthusiasm in the game of ownership and ostentatious behavior, a privilege of the aristocratic elites until then.[17] This situation inspired Veblen later on to conduct research and to write his “theory”,

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aiming to explain and mainly criticize the behavior of the *nouveaux riches*.

### Table 1: Conspicuous consumption during time

<table>
<thead>
<tr>
<th>Social Structure</th>
<th>Primary Objects of Consumption</th>
<th>Drivers of Behavior</th>
<th>Consumers</th>
<th>Principal Behavior Dimensions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Precapitalist - Feudal</td>
<td>Slaves, Women, Food</td>
<td>Military and Political Powers</td>
<td>Nobility</td>
<td>Pure ostentation</td>
</tr>
<tr>
<td>Modern - Capitalist</td>
<td>Very expensive products (e.g. Diamonds)</td>
<td>Social power, Status</td>
<td>Nobility, Upper/middle Class</td>
<td>Ostentation, Signaling, Uniqueness</td>
</tr>
<tr>
<td>Post-Modern</td>
<td>Image, Experience</td>
<td>Self-expression, Self-Image</td>
<td>Middle-class, &quot;Masses&quot;</td>
<td>Uniqueness, Social conformation</td>
</tr>
</tbody>
</table>

In the modern societies, conspicuous consumption continued to be present, with periods of rising and falling down, related to social, economic and political background.[18] It is still present and even more discussed nowadays. Living in a “society of image”, consumers have even more incentives to conspicuously consume. Furthermore, this phenomenon is no more a privilege of the upper classes, but a common behavior even among the “masses”.[7] Maybe, one of the factors staying behind of the recent financial and economic global crisis can be found in behaviors related to this phenomenon, especially among consumers in the USA and West Europe.[29]

Chaudhuri & Majumdar propose a periodic analysis of conspicuous consumption behavior, “depicting its evolution, nature and character”. Table 1 summarizes the main ideas in the paper, concerning changes in objects of conspicuous consumption, motives, dimensions and classes engaged in it, during time.

### 3 Reasons and Motivations to Conspicuously Consume

In spite of the massive volume of research, the exact nature of the reasons behind conspicuous consumption and motivations that lead consumers toward it has not been fully investigated. Some of them are explained below, drawing upon relevant analyses made by researchers coming from different fields.

**Sexual signaling (evolutionary viewpoint).** De Fraja gives an interesting explanation for the universal human desire for increasing consumption, and the associated propensity of individuals to sacrifice survival activities (such as the acquisition of nutritious food, of adequate shelter, of health care, etc.), in order to buy other goods with zero or negative survival value (like luxury goods, leisure travel, entertainment, etc.).[8] He argues that this desire for conspicuous consumption was shaped during evolutionary times by a mechanism that biologists define as sexual selection. This occurs when an observable trait (in our case, conspicuous consumption) is used by members of one sex to signal their unobservable characteristics valuable to members of the opposite sex. Furthermore, it is explained that there is an analogy between the standard economics problem of utility maximization and the standard biology problem of the maximization of individual fitness (the ability to pass genes to next generations). A strict theoretical foundation is set up, to include conspicuous consumption in the utility function.

Similarly, Pollet & Thienpont manage to show that conspicuous consumption has its roots in sexual selection, following Darwin’s arguments and contrasting Veblen who stated that natural selection is unable to explain the persistence of “wasteful” behavior. They trace the origins of the phenomenon back to the theory of sexual selection, more particularly to the handicap principle.[19] According to these arguments, reliable and therefore costly signals (like conspicuous consumption) that signal a man’s mate value will be developed, to avoid the risk of deception.

Drawing on several theories of different disciplines Sundie et al. made a thorough investigation of the nature of this behavior, by examining both the display (communication) and the perception (interpretation) sides of conspicuous consumption. The conducted experiments demonstrate that the motivation to conspicuously consume and display, in a mating context, is evident among men.[24] Despite this, observed increases in conspicuous consumption in response to mating motivations are not universal among them. For example, when explicitly primed with a desire for long-term mates, these unrestricted men did not increase in their conspicuous consumption tendencies. Furthermore, men who purchase luxury goods are perceived as more attractive specifically as short-term (but not long-term) partners. The research suggests that “conspicuous products such as Porsches might serve, for humans, an analogous function to that served by conspicuous tails for peacocks”. Janssens et al. conducted other experiments with more than 100 male students participating, which further support the link between conspicuous consumption and male mating strategies.[10] Their study shows that exposure to a sexily dressed female experimenter increases single men’s attention to status products (and decreases the attention to simple functional products) displayed to them.

**Social signaling (emulation vs. conformity vs. uniqueness).** Maybe the most effective demonstration of political and economic power of a ruler is the ability to consume part of the energy he controls for non-utilitarian purposes.[27] Hence, this conspicuous consumption is the most basic way in which the power of leaders can be symbolically reinforced. That is why monumental architecture and the consumption of luxury goods are a commonly understood expression of the power of leaders in previous civilizations, as explained above. Further-
more, this kind of behavior is known even to modern rulers, just assuming characteristics which are different from them of their predecessors.

According to the concept of “pecuniary emulation” introduced by Veblen in his theory of conspicuous consumption, individuals tend to imitate the consumption habits of other ones, situated at higher positions in the social hierarchy.[26] The members of each stratum try to emulate the consumption patterns of the class above it, in order to appear to be a member of the upper class. The result is that pressures to engage in conspicuous consumption affect even the poorest classes of the society.

Veblen evidenced also a second type of conspicuous consumption, related to the desire for uniqueness. Members of the upper class conspicuously consume, in order to differentiate themselves from individuals of lower classes.[2] Knowing that costs related to this kind of consumption must be large, this behavior can reduce imitation and further signal their high status. But, according to Veblen, this occurs less frequently than the pecuniary emulation. Individuals follow a specific consume pattern in order to be more like members of a higher income group, rather than seeking social distance from lower classes, because the former brings them a higher utility than the latter.

There is another motive that leads individuals toward conspicuous consumption, different from the two social needs mentioned above. This is the desire for conformity. Consumers try to conform to social norms, expectations and personal desires of other members of their own group.[15] Hence, individuals can engage in conspicuous consumption not only to imitate members of higher classes, but also to conform to other similar consumers, to stress their belonging to a certain group.

Auto signaling. There is a common characteristic in the motives mentioned in the previous section: the purpose of conspicuous consumption is oriented toward the society, toward other individuals in the same or different classes. A recent study finds out another category of reasons to engage in such a behavior, related to the consumer himself. Consuming luxurious visible products provides individuals with feelings of achievement, success and pleasure.[15] Hence, conspicuous consumption is also a matter of self-image. This kind of consume can also be a means to fill social voids for members of marginal groups in the society.[20] Therefore, conspicuous consumption may be in fact a compensatory consumption. Racial differences found in the behaviors related to conspicuous consumption, which are explained in the next section, confirm this idea.

4 MAIN DETERMINANTS OF CONSPICUOUS CONSUMPTION

A 2008’s study conducted using USA representative data on consumption, show that Blacks and Hispanics spend larger shares of their total expenditure on conspicuous goods (clothing, jewelry, and cars) than do comparable Whites.[6] The observed differences are relatively constant over time, economically large and are associated with substantial diversion of resources from other uses, such as health care and education. Another similar study used South African household data and found that non-White households spend relatively more (between 30 to 50 percent more) on visible consumption than do comparable White ones.[11] Even in this case, this implies lower spending on other consumption categories, especially on health and medical services. The reasons of these racial differences can be found in the discrimination and the marginal position of non-White individuals, even in several modern societies. Thus, this is a case of conspicuous consumption playing the role of compensatory consumption for non-White individuals.

Gender is another factor that may affect the level of conspicuous consumption, in two different and dualist ways. As mentioned above, conducted experiments demonstrate that the motivation to conspicuously consume and display, in a mating context, is evident among men.[24] While conspicuous consumption may serve as a mating strategy for men, mating conditions are irrelevant for women. Hence, we should find relatively higher levels of this consumption among men. On the other hand, due to the stronger social links between women, conspicuous consumption as a means of social signaling must be more present among them.[1]

Shukla suggests (based mainly on a survey conducted with customers of the BMW, Mercedes Benz and Lexus dealerships) that middle-aged consumers, like the youth segment, are a significant target group that needs to be studied in the area of conspicuous consumption. Middle-aged individuals have relatively higher incomes, a more stable career and a higher access to credit and debit resources, which give them higher capacities to pay for conspicuous consumption.[23] Levels of conspicuous consumption should also be higher among young and middle-aged consumers, due to the higher propensity to engage in social and sexual signaling. Even education may have a similar influence on the levels of conspicuous consumption. Higher levels of education generally bring higher access to financial resources and a stronger need to signal the achieved wealth, status, prestige, etc.[2] Examples coming from the cosmetics market confirm this idea, with the demand for conspicuous cosmetics that increases with price for college educated individuals and a normal downward-sloping demand curve for the ones who have not graduated. Thus, we should generally observe relatively higher levels of conspicuous consumption accompanying higher levels of education.

Finally, there is an interesting relationship between advertising and conspicuous consumption. A recent research paper formalizes the idea that advertising creates the possibility of conspicuous consumption, because it is a source of the signaling power of brands.[12] Advertisements inform the public of brand names and render them a signaling device. In a price competition framework, the research shows that advertising increases consumers’ willingness to pay for these products. But this can lead the firm selling to the “conspicuous consumer” to increase its spending on advertising. The later serve as an incentive to further increase levels of consume, and so forth...
5 CONCLUSIONS

Conspicuous consumption is generally seen by researchers as a process or means to achieve or maintain status and other social benefits, mainly through the consumption of luxury goods. It is still almost impossible to give an exhaustive definition of it, maybe due to the interdisciplinary character of the phenomenon, which brings the need of multidisciplinary analysis combining viewpoints in economics, marketing, sociology, psychology and even biology.

Conspicuous consumption is not a recent phenomenon. It can be found even in the antique civilizations and has always been present with periods of rising and falling down, related to social, economic and political background. Nowadays, this phenomenon is no more a privilege of the upper classes, but a common behavior even among the “masses”.

Conspicuous consumption is essentially an instrument of signaling. Individuals use it to signal sexual or social relevant characteristics to others. It can also be a matter of self-fulfillment or just serve as a means to fill social voids. It is because of this, that marginal groups spend relatively more on conspicuous consumption.

Higher levels of education should generally bring higher levels of such consumption, due to a higher access to financial resources and a stronger need to signal social characteristics. Similarly, levels of conspicuous consumption should also be higher among young and middle-aged consumers, due to the higher propensity to engage in social and sexual signaling. Women play an important role in the field of conspicuous consumption. It seems that their “presence” is important both for their part as direct consumers and as an incentive for the opposite gender to conspicuously consume. There is an interesting relationship between advertising and conspicuous consumption. The former increases consumers’ willingness to conspicuously consume. This can lead the firm to increase its expenditure on advertising and therefore to cause a further increase in the level of conspicuous consumption, and so forth...

Limitations and possible directions in upcoming research.

This research paper aims to be only the starting point of future more extended examinations in upcoming research. A questionnaire will be conducted with students (at the Faculty of Economy, University of Tirana) to find out which are the main reasons and motivations laying beneath conspicuous consumption of luxury goods in the Albanian environment. Moreover, an econometric analysis of the level of such consumption in the Albanian households will be developed, using data of the Living Standards Measurement Survey (Albanian Institute of Statistics), for more than 3500 households. But, it must be mentioned that the level of conspicuous consumption is always difficult to be measured, because individuals generally tend to not admit they are conspicuously consuming. Finally, conspicuous consumption has important implications, in microeconomic and macroeconomic levels, which has not been studied in this paper. These implications will be analyzed in upcoming research.

REFERENCES