When Spending Hurts

By Nailya Ordabayeva and Pierre Chandon

Thorstein Veblen coined the term conspicuous consumption in 1899 to describe spending with the intention of gaining social status.[1] Back then, large estates, vintage silverware, and expensive clothes were the typical symbols of status and they were only available to the privileged few. With rising income and the emergence of a large consumer class, conspicuous consumption became a common phenomenon observed in all tiers of society. Today poor households spend a greater proportion of their budget on conspicuous consumption than richer households[2,3] and this conspicuous consumption often comes at the expense of spending on healthcare and education[4,5] and at the expense of saving, leading to increased household debt and bankruptcy.[6,7] For example, in the years leading up to the recession, the saving rate in the US was only 1% in the lowest income quintile as opposed to 24% in the highest quintile.[8] Still, we do not fully understand why people engage in conspicuous consumption and what could be done to encourage consumers to think more about their long-term needs rather than zero-sum status games. For example, an important question for social scientists and policy makers is whether increasing social equality would necessarily reduce status competition, and when it may actually backfire and encourage conspicuous consumption.

Why Do People Choose Conspicuous Consumption?

Designer bags, large homes, and expensive cars signal consumers' status and worth in the social hierarchy. One purpose that these signals serve is that they help consumers associate with desirable groups in their social environment.[9,10] When the gap with aspiration groups widens, consumers grow unhappy with what they have and envious of what others have. Many experts believe that this "associative" goal played a pivotal role in the recent boom in conspicuous consumption.[4,10] The argument is that, as income inequality grew and the gap between the rich and the poor widened, many consumers struggled to keep up with the Joneses' increasingly lavish lifestyles for fear of falling behind. As a result, it is widely believed that boosting equality, for example through taxes on consumption or luxury, should discourage conspicuous consumption and boost savings among low-status consumers.

In our own research,[11] we showed that this view of conspicuous consumption is incomplete. We found that people do not just want to have what the others have due to the "associative goal;" they also want to get ahead of the others in the social ladder, what we call a "dissociative goal."[12] When dissociative goals are at play, increasing equality can have the opposite effect and actually boost conspicuous consumption among relatively poor consumers. This happens because, as equality increases and more people become clustered in middle tiers, conspicuous spending allows low-status consumers to get ahead of *more* people and improve their social rank in an efficient way. In the race for status, when what matters is your rank, the benefits of conspicuous spending are higher when your rivals are close to you than when they are far ahead and you would not be able to outrun them. In fact, the benefits of conspicuous consumption are the highest when everybody is the same and spending a minimal amount on status symbols gets you ahead of everyone else.

To test our theory, we asked people to imagine that they were at the bottom of their social group on a particular dimension (e.g., their salary, the handbag that they would bring to a high-school reunion, the size of their flat-screen TV). The distribution of the comparison group was either relatively

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equal, with a large percentage of group members clustered in the lower and middle tiers, or relatively unequal, with fewer people in the middle and more people in the top tiers. We then asked people to choose between saving money and spending on products that would boost their social status by improving their rank in the distribution.

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Across all the studies, we found that people who started with the lowest salary in the study, the worst kind of handbag, or the smallest-size TV were happier and less envious when the distribution was more equal. This is not surprising given that the gap between what they had and what most other people had was smaller in the more equal distribution. Remarkably, the same individuals were more likely to spend on status—upgrade to a nicer bag or a larger TV—when others were more like them. Why? Because when everybody is about equal, the same amount of money spent on distinguishing oneself has a much greater status boost than when you are trying to compete with vastly better-off rivals.

When Do People Want to Stand Out or Fit In?

Our follow-up studies showed that the dissociative goal (standing out) and the associative goal (fitting in) are just a function of personality and are influenced by the consumption context. Dissociative motives drive purchases in environments that highlight status and competition, while associative motives emerge in environments that highlight possession gaps and cooperation with other people. As a result, the effects of equality vary depending on the nature of the social environment.

For example, we found that equality increases conspicuous spending for status-relevant product categories (basically, anything that is publicly observable such as one's brand of clothing or the landscaping in the front yard of the house). However, this pattern reverses and equality *reduces* spending for status-neutral unobservable products or attributes (e.g., the quality of clothing or landscaping in the backyard of the house). Similarly, equality makes people choose a fancier (but less-preferred) restaurant when inviting rival co-workers. However, it makes people choose a cheaper restaurant when inviting childhood friends.

What is striking is that it is relatively easy to change people's motivation to stand out or fit in. One simple way is to highlight either the possession gap (the difference between what you own and what other people own) or on the rank gains (how many notches up the social ladder you can climb by spending on conspicuous consumption). In one study involving the choice of a wedding gift, we either highlighted the gap between the cheap gift one originally chose and the gifts chosen by others, or we drew attention to the number of people that one could surpass by choosing a nicer gift. Equality reduced spending when people focused on the narrower possession gap but increased spending when people focused on the higher position gains. Simply asking people to unscramble sentences that emphasized social comparisons (e.g., "success is a relative concept") or downplayed social comparisons (e.g., "true happiness comes from within") flipped the effects in the similar way.

In more recent unpublished studies[13], we discovered that social competition becomes even fiercer and the positive effect of equality on spending becomes stronger, when rank information is explicitly available. For example, salespeople who perform poorly compared to others are going to be more competitive and more likely to engage in self-differentiating behaviors when they know their sales rank relative to others rather than their raw sales figure. Furthermore, the type of social comparison matters. Competition is stronger and getting ahead of others is more important when comparisons involve individuals in our immediate environment (co-workers from the same office with whom we interact every day) rather than distant individuals (employees of the same firm working in remote geographic offices). Finally, competition is only relevant when people have positive expectations about the economic future. Thinking of economic prosperity prompts competitive motives and increases conspicuous spending when equality is high. However, thinking of an economic recession fosters a sense of solidarity and reduces conspicuous spending, especially when equality is high.

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When Are Redistribution Policies Effective?

Based on these results, can we conclude that redistribution policies will effectively reduce consumption and increase savings at the bottom of the distribution? The answer is, it depends. It depends on whether the social environment encourages competitive or associative motives. When the context fosters competition through, for example, a highly competitive job market or education system, increasing equality will have the opposite effect and actually increase spending and reduce saving in the vulnerable consumer segment. On the other hand, redistribution measures should be effective in reducing spending when paired with policies that promote social cooperation and resistance to social pressure. In other words, policies that enhance the sense of solidarity and unity in society through social, educational, and cultural programs can foster affiliation motives and reduce the competition for status.[14]

Whereas equality boosting policies may indeed discourage consumption and increase savings among the poor in cooperative contexts or for status-neutral purchases, they may backfire and encourage consumption in competitive contexts and for status-enhancing purchases.

What Does This Mean for Practitioners?

This research offers interesting insights for marketers. First, it demonstrates that consumers have different motivations behind conspicuous purchases that marketers could appeal to. So when promoting the status benefits of their products, marketers could emphasize the products' status improvement benefits, and not just their exclusivity. Second, marketers could take into account the nature of the social environment before making promotion and pricing decisions. If the product's customer base is highly competitive and homogeneous, status symbols can be priced higher and advertised with slogans that emphasize social rank, rivalry, and local social comparisons. When the customer base is diverse, slogans that highlight the possession gaps among consumers may be more effective. Third, when devising their pricing strategies, marketers can match the highest profit margins with products that provide the greatest status improvements. Finally, while implementing these recommendations, practitioners should consider the economic profile of their consumer segment and balance the profit goals with the public policy agenda for promoting consumers' financial wellbeing.

Key Takeaways

Overall, this research enriches our understanding of equality and motivations behind conspicuous consumption. People do not only keep up with the Joneses in a particular domain because they are unhappy or envious. Sometimes people compete with the Joneses because it allows them to effectively improve their standing in the social hierarchy. This means that increasing equality may not always reduce social competition. If people care about what others have not because they want to be equal, but because they want to be first, equality can boost conspicuous consumption. In fact, it is when everybody is exactly the same that distinguishing oneself pays off the most because it guarantees the top status position. To summarize, our research shows that, whereas equality boosting policies may indeed discourage consumption and increase savings among the poor in cooperative contexts or for status-neutral purchases, they may backfire and encourage consumption in competitive contexts and for status-enhancing purchases.

About the authors

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