

The Thinning of Veblen's "Conspicuous Consumption" in the Modern Language of Economics

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Abstract The research question to be answered is whether or not the modern usage of Thorstein Veblen's "conspicuous consumption" as originally found in the *Theory of the Leisure Class* (1899) has been interpreted correctly over time in the most prestigious economic journals. We find that Veblen's theory of consumption in the economics literature has been so generalized and aggregated that it has lost Veblen's insight for describing a "starting point" for the introduction of consumption goods into society as well as the evolutionary nature of consumer behavior describing how these goods are then disseminated through society. We also find that although most economists may agree that conspicuous consumption can be immiserating, there is no such shared opinion on policy responses to address conspicuous consumption.

Keywords Conspicuous Consumption, Luxury Goods, Veblen Effects, Culturomics, Consumer Behavior, Sociology of Economics

JEL Classification D11, A14, B15, B25, Z13, Z11

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Of course, sociologists have for a long time emphasized the central role of interactions and their importance in the basic structure of wants or personality. Veblen's conspicuous consumption and conspicuous leisure (if for this purpose he is classified as a sociologist) have entered ordinary discourse.

Gary Becker 1974

This paper attempts to put Thorstein Veblen's concept of "conspicuous consumption" into a historical context, evaluating the term's inclusion into both popular language² and the scientific language of economics since its introduction in an 1894 *Popular Science Monthly* article called "The economic theory of woman's dress"³. This contextualization is not so easy because Veblen could at times be an obtuse, sophisticated, subtle and perhaps in the end an unconsciously satiric or ironic⁴ writer (which is maybe what many people most enjoy about his writing).

We shall find that conspicuous consumption has become part of both everyday language, whose use increased almost continuously in the 20th Century, and of the language of economics, whose influence has reached into many research agendas including overlapping and endogenous utility functions, consumption externalities, the economics of information and signaling, positional goods, growth economics, economic history, cultural economics, development economics, interdependent choice and game theory, inequality, feminist economics, and "happiness" research.

² Using "culturomics" we have traced Veblen as being the originator of the term "conspicuous consumption", see Appendix One: The Genesis of Conspicuous Consumption in Popular Language, found: cameroneconomics.com/veblen-app1.pdf.

³ Veblen is seen by some as a proto-feminist. "Still, even today, in spite of the nominal and somewhat celebrated demise of the patriarchal idea, there is that about the dress of women which suggest the wearer is something in the nature of a chattel" (Veblen 1894, 201).

⁴ "His satiric tone follows from his recognition that even the most strictly honored of our own usages are on a par with those habits of others that seem imbecilic to us" (Mayhew 1990, 215). Or for a different point of view, Veblen's then wife, Ellen Rolfe Veblen, reported that Veblen was shocked to be seen as humorist in *The Theory of the Leisure Class*. (Jorgensen and Jorgensen 1999, 73).

What is “Conspicuous Consumption”?

The institution of a leisure class hinders cultural development immediately (1) by the inertia proper to the class itself, (2) through its prescriptive example of conspicuous waste and of conservatism, and (3) indirectly through that system of unequal distribution of wealth and sustenance on which the institution itself rests (Veblen 2001 [1899], 150).

Before we can begin we need to define exactly what we mean when we say “conspicuous consumption” (which we note is of necessity a *subjective* re-reading) in order to be clear about our own understanding and interpretation of the influence of Veblen’s concept. Our interpretation⁵ and textual support for our interpretation (to be read and comprehended as a piece, not necessarily point-by-point) is as follows.

- 1) Conspicuous consumption is a subcategory of “conspicuous waste”. Conspicuous leisure and conspicuous consumption together make up the “canon of conspicuous waste”. This canon states that people consume certain types of goods, or appear to not need to work, in order to signal their wealth-status in society and therefore to gain the esteem of others.⁶

The basis on which good repute in any highly organized industrial community ultimately rests is pecuniary strength; and the means of showing pecuniary strength, and so of gaining or retaining a good name are leisure and a conspicuous consumption of goods (63-64).

⁵ This reading is from *The Theory of Leisure Class* (1899) alone, without secondary interpretations nor from any of Veblen’s later work. It is this work which made his name and to which those refer to (if they refer to Veblen at all) when referencing “conspicuous consumption”. All Veblen quotations from Veblen 2001 [1899] unless noted, from here-on-in I will only be giving page numbers from this edition.

⁶ Philanthropy is also part of leisure class behavior because they are able to “unfold their life activity on antepredatory lines without suffering as prompt a repression or elimination as in the lower walks of life....There is for instance, an appreciable proportion of the upper classes whose inclinations lead them into philanthropic work, and there is a considerable body of sentiment in the class going to support efforts of reform and amelioration” (170-171). (Andrew Carnegie’s *The Gospel of Wealth* was published in 1889, ten years before the *Leisure Class*.) Yet even here “honorific waste” is possible. When describing the philanthropic creation of libraries, hospitals and universities, “An appreciable share of the funds is spent in the construction of an edifice faced with some aesthetically objectionable but expensive stone, covered with grotesque and incongruous details, and designed, in its battlemented walls and turrets and its massive portals and strategic approaches, to suggest certain barbaric methods of warfare” (255).

- 2) Conspicuous waste only begins to manifest itself at the same time that societies developed property rights. Property rights create incentives for “invidious comparison” and “emulation”.

But it is only when taken in a sense far removed from its naive meaning that the consumption of goods can be said to afford the incentive from which accumulation invariably proceeds. The motive that lies at the root of ownership is emulation....The possession of wealth confers honor; it is an invidious distinction (20-21).

- 3) Veblen divided human behavior in modern industrial societies into two opposing categories, “pecuniary” and “economic”. Conspicuous waste is a pecuniary motivation whereas the instinct of workmanship (as manifested in industrial production), suppressed and in a dialectic with the pecuniary, is economical. There is a ‘survival instinct’ limit to the degradation of conspicuous waste.

These institutions – the economic structure – may be roughly distinguished into two classes or categories, according as they serve one of the other of the two divergent purposes of economic life. To adapt the classical terminology, they are the institutions of acquisition or of production; or to revert to terms already employed in a different connection in earlier chapters, they are pecuniary or industrial institutions (152).

With the exception of the instinct of self-preservation, the propensity for emulation is probably the strongest and most alert and persistent of the economic motives proper (82).

- 4) Outward-oriented societies, created with the advent of property rights, can create personal immiseration (poorly kept homes) as expenditures veer towards conspicuous consumption, which in turn increasingly atomizes individuals in modern society. This immiseration is exacerbated by a ‘status quo bias’ (today’s words) where conspicuous consumption is an institution of habit.

No class of society, not even the most abjectly poor, foregoes all customary conspicuous consumption. The last items of this category of consumption are not given up except under stress of direct necessity. Very much of the squalor and discomfort will be endured before the last trinket or the last pretence of pecuniary decency is put away (64).

Through this discrimination in favor of visible consumption it has come about that the domestic life of most classes is relatively shabby, as compared with the éclat of that overt portion of their life which is carried on before the eyes of observers....So far as

concerns that portion of their consumption that may be carried on in secret, they withdraw from all contact with their neighbors (83).

- 5) Conspicuous consumption is not confined to within the “leisure class”, and, there is both aspirational (again, today’s word) between-group (vertical) as well as within-group (horizontal) emulations. When a large leisure class has developed, status-signs become more subtle and the signals (“advertising”) with-in the leisure class becomes more important for within the leisure class than does recognition of distinction from ‘lower’ classes.

Those members of the community who fall short of this, somewhat indefinite, normal degree of prowess or of property suffer in the esteem of their fellow-men; and consequently they suffer in their own self-esteem, since the usual basis of self-respect is the respect accorded by one’s neighbors (24).

And, as this upper leisure class sets the pace in all matters of decency, the result for the rest of society also is a gradual amelioration of the scheme of dress. As the community advances in wealth and culture, the ability to pay is put in evidence by means which require progressively nicer discrimination in the beholder (137).

The accepted standard of expenditure in the community or in the class to which a person belongs largely determines what his standard of living will be (83).

The earlier and cruder method of advertising held its ground as long as the public to which the exhibitor had to appeal comprised large portions of the community who were not trained to detect delicate variations in the evidence of wealth and leisure. The method of advertising undergoes a refinement when a sufficiently large wealthy class has developed, who have the leisure for acquiring the skill in interpreting the subtler signs of expenditure (137).

- 6) The theory of conspicuous consumption is “dynamic” (evolutionary) where society’s search for newer and more subtle ways of creating and signaling wealth is continual.

But as fast as a person makes new acquisitions, and becomes accustomed to the new resulting standard of wealth, the standard forthwith ceases to afford appreciably greater satisfaction than the earlier standard did. The tendency in any case is constantly to make the present pecuniary standard the point of departure for a fresh increase of wealth; and this in turn gives rise to a new standard of sufficiency and a new pecuniary classification of one’s self as compared with one’s neighbors (24-25).

- 7) The evolutionary process means that, in the end, the “conservative” leisure class will be supplanted by new forms of economic institutions as the workmanship instinct surpasses the pecuniary habit, with lag time, because institutions do not keep up with “transactions”.

As fast as pecuniary transactions are reduced to routine, the captain of industry can be dispensed with. This consummation, it is needless to say, lies yet in the indefinite future. The ameliorations wrought in favour of the pecuniary interest in modern institutions tend, in another field, to substitute the “soulless” joint-stock corporation for the captain, and so they make also for the dispensability of the great leisure-class function of ownership (154).

But there is also among men of the leisure class a perceptible increase in the range and scope of activities that proceed from aptitudes which are not to be classed as self-regarding, and the end of which is not an invidious distinction. So, for instance, the greater number of men who have to do with industry in the way of pecuniarily managing an enterprise take some interest and some pride in seeing that the work is well done and is industrially effective, and this even apart from the profit which may result from any improvement of this kind (248).

- 8) A ‘Veblen good’ (today’s language) is something which has some type of perceived value beyond serviceability.⁷ It appears that this ‘aesthetic’ value are features added to the beauty of the commodity which signal expensiveness or a high cost.

In all such useful articles a close scrutiny will discover certain features which add to the cost and enhance the commercial value of the goods in question, but do not proportionately increase the serviceability of these articles for the material purposes which alone they ostensibly are designed to serve (85-86).

The superior gratification derived from the use and contemplation of costly and supposedly beautiful products is, commonly, in great measure a gratification of our sense of costliness masquerading under the name of beauty (94).

- 9) Veblen made it clear his “theory of the leisure class” was not a value-judgment on his part.

Indirectly their economic office may, of course, be of the utmost importance to the economic life process; and it is by no means here intended to depreciate the economic function of the propertied class or of the captains of industry. The purpose is simply

⁷ Ironically enough, given that a ‘Veblen good’ is seen as a price-based concept deriving from the ‘Veblen effect’ where expensiveness is seen as utility-creating, Veblen only mentions “price” one time in *The Theory of the Leisure Class*, and even then in unattributed quotes, ““Great as is the sensuous beauty of gems, their rarity and price adds an expression of distinction to them, which they would never have if they were cheap”” (96).

to point out what is the nature of the relation of these classes to the industrial process and to economic institutions (153).

All of this, of course, has nothing to say in the way of eulogy or deprecation of the office of the leisure class as an exponent and vehicle of conservatism or reversion in social structure. The inhibition which it exercises may be salutary of the reverse (151).

The “Most Prestigious Journals” and Conspicuous Consumption as Universal Knowledge

To conduct a study of the use of conspicuous consumption by economists I first create a list of the “most prestigious” economics journals over the last 30 years (the methodology used for this can be found in the Appendix Two: Methodology for Constructing the “Most Prestigious Journals” List⁸). Given this corpus, I take advantage of the digital search technology available to most research libraries⁹ to query for the appearance of “conspicuous consumption” anywhere in an article published by the journals, breaking 1981-2010 into three ten-year periods (I also use time intervals for the period prior to 1981). I then search for the use of “conspicuous consumption” both with and without concurrently referring to Veblen in a given article.

The results of the bibliometrics can be found in the table entitled “Conspicuous Consumption” Citations in Most Prestigious Journals in Appendix Two. We find that conspicuous consumption is referenced in 227 journal articles between 1894 and 2010, and, that Veblen was cited contiguously 85 times in relation to conspicuous consumption, or, only 37.4% of the time that conspicuous consumption was used did the writer (and their reviewers and editors) feel the need to attribute the concept to Veblen. This shows, for lack of a better phrase, that conspicuous consumption is part of the language users’ “universal knowledge”. We also find that as could be expected, the first few times conspicuous

⁸ Appendix Two can be found: cameroneconomics.com/veblen-app2.com

⁹ We are able to find back and current issues for all of our most prestigious journals (except *Econometrica* 2008-2010, see Table 1 in Appendix Two) using a combination of JSTOR, EBSCOhost, LexisNexis, ProQuest ABI-INFORM, University of Chicago Press, Gale Cengage, Google Scholar, and/or, Elsevier Science Direct and Web. (It took the combined on-line service subscriptions of NYU, SUNY and the New School for Social Research to make the journal research as complete as it is).

consumption appears in the journals, 5 times between 1894 and 1930, Veblen is cited more frequently than in subsequent usage.¹⁰

We discover that the *JEL* is by far the most frequent user of conspicuous consumption, referring to the term an average of 2.3 times per year.¹¹ For the *JEL* from 1981 to 2010, there are 49 total articles containing “conspicuous consumption”; 14 of these refer to Veblen in relationship to conspicuous consumption, 35 do not (for a ‘Veblen citation rate’ of 28.6%). The next most frequent user of conspicuous consumption is the *AER*, citing the term once every two years over the 99 years covered in the survey and with a Veblen citation rate of 26.1%. We find that 6 of the journals did not cite conspicuous consumption at all, including not surprisingly those dealing more with finance (*JFE*), accounting (*JAE*) and monetary issues (*JME*) as opposed to general economics.

Re-reading Veblen in the 21st Century

In this section we attempt to examine how close this universal knowledge follows a re-reading of Veblen’s original meaning. For this I created a spreadsheet (see Appendix Two, table entitled Sample of Journal Articles with “Conspicuous Consumption” in Most Prestigious Journals) which contains the first article, chronologically, referring to “conspicuous consumption” in each prestigious journal, as well as the most recent article using conspicuous consumption in each journal. In addition I search for any “prestigious” authors (winners of the Walker and Clark medals, and/or the Nobel Prize in economics) in these journals who use conspicuous consumption in their work. I also include any articles which appear to be “important” in the literature relating to conspicuous consumption.¹² There are 66 total articles, 9 of which are by prize-winners and with 14 deemed “important”

¹⁰ I searched through each article which contained both “Veblen” and “conspicuous consumption” and included a reference to Veblen only if the article tied Veblen to his authorship of conspicuous consumption. There are of course many instances where Veblen is referred to not in the context of conspicuous consumption.

¹¹ This finding should not be surprising in that *JEL* publishes abstracts from scores of monographs released each quarter.

¹² Needless to say there is some subjectivity involved when choosing “important” articles. I only included two articles which did not contain “conspicuous consumption” in the article; Frank 1985, who uses Veblen and conspicuous leisure and which is a seminal work in labor market signaling, and, Cole *et al* 1992 who create an again seminal work, with a “wealth-is-status” social norm. Both of these articles are frequently cited in the recent literature.

in the development of the literature, or, a total of 23 important articles referencing conspicuous consumption

In the spreadsheet I summarize the articles, and in relation to the authors' use of "conspicuous consumption", note whether or not they cite Veblen in relation to conspicuous consumption, and, where appropriate I leave room for personal comments of my own reading of the article in relation to others in similar research programs and in relation to Veblen's original conceptions as we derived above. We will approach the re-reading of the canon chronologically, under an implicit assumption that economics, as published in our most prestigious journals, is a "progressive" research program.

In reviewing the articles mentioning conspicuous consumption there appears a consensus that it was Duesenberry (1949) who first used the tools of orthodox mathematical economics to model the effect of status-seeking and relative consumption on aggregate economic activity.¹³ This necessitated not "an adding-up" of individual utilities, but rather modeling over-lapping or interdependent utility functions. Duesenberry made a clear reference to Veblen's use of "the interdependence of preference systems" however, he states that Veblen does not use the tools of neoclassical economics (which Duesenberry calls "analytical economics") and therefore Duesenberry finds his work a departure from Veblen.

In addition, Duesenberry proposes that socially-formed preferences can occur through habituation (demonstration), "This effect need not depend at all on considerations of emulation or "conspicuous consumption"" (28).¹⁴ He introduces the "demonstration effect" (27) to describe why as income (and income inequality) increases (and if the "rich" continue to save at the same rate) it is possible for national savings to fall. The reason is because the less well-off are consuming the same goods as the rich, and therefore have dissavings which then lowers the national savings rate. Although Veblen does not explicitly tie his theory of the leisure class and conspicuous consumption to national aggregates (which would be anachronistic as macroeconomics had yet to be formalized) we should note that

¹³ Prior to (the formalization of) "economics" we had political economy. Smith (1759), Rae (1834) and J.S. Mill (1847) all suggested signaling relative wealth was motivated towards seeking approbation or status. This present paper is only about "modern" economics and ignores for this reason work before Veblen.

¹⁴ Despite Duesenberry's protestations to the contrary, his book contains many of Veblen's concepts including status quo bias of consumption, signaling of status through consumption, emulation, and, immizerating consumption.

Duesenberry's 'demonstration effect' is functionally identical to our re-reading of Veblen.¹⁵

The "Veblen Effect"

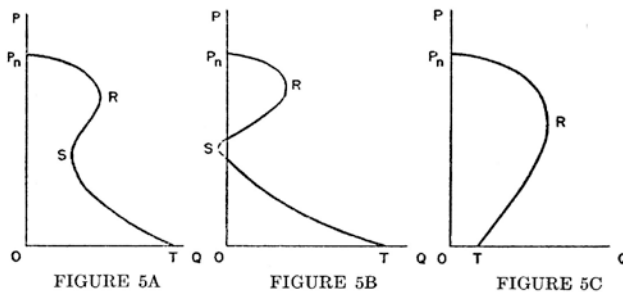
Almost concurrently with Duesenberry (1949), Leibenstein (1950) extended the general category of "conspicuous consumption" into more specific sub-classifications of "non-additive demand curves" depending on the consumer's signaling intent through conspicuous consumption; the "snob" effect, the "bandwagon" effect, and, the "Veblen" effect. This paper also included the first demand curve for what has now become known as a "Veblen good"¹⁶.

Although the theory of conspicuous consumption as developed by Veblen and others is quite a complex and subtle sociological construct we can, for our purposes, quite legitimately abstract from the psychological and sociological elements and address our attention exclusively to the effects that conspicuous consumption has on the demand function. The essential economic characteristic with which we are concerned is the fact that the utility derived from a unit of a commodity employed for purposes of conspicuous consumption depends not only on the inherent qualities of that unit, but also on the price paid for it. It may, therefore, be helpful to divide the price of a commodity into two categories; the real price and the conspicuous price. By the real price we refer to the price the consumer paid for the commodity in terms of money. The conspicuous price is the price other people think the consumer paid for the commodity and which therefore determines its conspicuous consumption utility. These two prices would probably be identical in highly organized markets where price information is common knowledge. In other markets, where some can get "bargains" or special discounts the real price or conspicuous price need not be identical. In any case, the quantity demanded by a consumer will be a function of both the real price and the conspicuous price. The market demand curve for commodities subject to conspicuous consumption can be derived through a similar diagrammatical method (Leibenstein 1950, 202-204).

¹⁵ The 'demonstration effect' is sometimes referred to as the 'Duesenberry effect', based on 'the relative income hypothesis' which describes the idea that the less well-off are spending a greater portion of their income on goods which the better-off have demonstrated to bring status. Again, this is functionally equivalent to Veblen's 'theory of the leisure class'.

¹⁶ I have not been able to ascertain definitively the origination of the "Veblen good" term of art. The first use of the term in our survey of the prestigious journals is Eaton and Eswaran (2009).

Below we find a facsimile of Figure 5 (we will discuss specifically 5A) from Leibenstein (1950, 204) which represents a demand curve, specifically what Leibenstein calls “ D_V ”.¹⁷ “It should be noted that unlike the D_S curve, the D_V curve can be positively inclined, negatively inclined or both. It all depends on whether at alternate price changes the Veblen effect is greater or less than the price effect,” and, “The Veblen effect is therefore RT”(204). We can see that from S to T demand is the traditional downward sloping demand curve (“the price effect”). Then from R to S we have what Leibenstein calls “conspicuous consumption utility” or the “conspicuous price”. The movement from the traditional demand to the backward bending demand (RT) is what Leibenstein calls the “Veblen effect”. At a price below S, “the commodity would cease to have any value for purposes of conspicuous consumption” (204). From our re-reading of the *Leisure Class*, we can note that Leibenstein’s ‘Veblen effect’ for a specific commodity is a reasonable manifestation of the “gratification of our sense of costliness masquerading under the name of beauty” (Veblen 2001, 94).



Leibenstein’s “bandwagon” effect is simply that as demand for a good increases by one’s peer group, individual demand for that good increases as well. This seems to fit with the horizontal emulation we found in our re-reading. Leibenstein describes the “snob” effect, “Here, too, we assume at first that the quantity demanded by a consumer is a function of price and of the total market demand, but that the individual consumer’s demand is negatively correlated with the total market demand. In the snob case it is rather obvious that the external consumption effect must reach a limit although the limit may be where one snob constitutes the only buyer” (199). This snob effect seems also congruent with Veblen’s between group “invidious distinction”.

¹⁷ In economics “universal language”, this is what has become known as the backward bending demand curve, or as well, the demand curve for a ‘Veblen good’.

What we examined so far might be classified as methodological individualism where we have seen an individual's signaling intent with conspicuous consumption and where that demand for conspicuous consumption depends on others. This idea took a turn with subsequent usage of Veblen effects in the literature. Specifically, next we will examine a seminal piece in the literature, Bagwell and Bernheim (1996)¹⁸ which extends, in addition to Leibenstein (1950) among others, Akerlof (1980), Frank (1985), Ireland (1992)¹⁹, Bernheim (1994), and Cole *et al* (1992), all of which are found in our survey.

The following passage typifies modern discussions of prestige goods. "Conspicuous consumption, or Veblen effects, are said to occur when individuals increase their demand for a good simply because it has a higher price (Creedy and Slottje, 1991)" (Bagwell and Bernheim 1996, 49, fn 2).

We find that conspicuous consumption is now the same thing as consuming goods which have backward bending demand curves and which contain Leibenstein's "conspicuous consumption utility" and "conspicuous price".²⁰ Veblen's ideas then on the social construction of demand, as encapsulated in Leibenstein's snob (between group) and bandwagon (in-group) effects have collapsed into the price effect alone. This seems almost a perversion of differentiated signaling, yet, is general enough to where we cannot say that it misrepresents Veblen's ideas (for example, decreasing availability of a snob good would also increase its price). Bagwell and Bernheim (1996) create a constrained optimization model of the economy, where the same good (a "qualitatively identical brand") serves as both the "luxury" and "budget" commodity, where "High" and "Low" types are

¹⁸ The Bagwell and Bernheim (1996) article in the *AER* is entitled "Veblen Effects in a Theory of Conspicuous Consumption". This work was originally part of a 1992 NBER working paper under a different title, then became a 1993 mimeo which was circulated with the same title as the *AER* 1996 article. It is because of this article's title that the attribution of conspicuous consumption to Veblen (what I have called the 'Veblen citation rate') increased from the 1990s onward. Or, one could speculate, citing this article might be an act of conspicuous publication given Veblen's almost mythical reputation for some economists.

¹⁹ Ireland 1992 is a pre-publication mimeo of Ireland 1994.

²⁰ Arrow and Dasgupta (2009) appear to use "Veblen effect" and "demonstration effect" interchangeably, with a meaning relating to a "rat race". "Although Veblen suggested that in advanced societies conspicuous leisure takes the form of elaborate and costly idleness, it has been widely argued in the literature that if conspicuous consumption matters to people, the economic distortion must take the form of a "rat race"; people work harder and consume more than they would if ideal public policies were in place" (4). This reading seems to be more accurate of the general theory outlined in Veblen's *Leisure Class* than are Bagwell and Bernheim (1996), but is not the same as Duesenberry's original definition of "Veblen effect", which we have found is close to "what Veblen meant" for certain goods containing aesthetically valuable features which correlate with a higher price.

introduced who have differing resource allocations and thus the L's have an incentive to emulate the H's for status-seeking, and where monopoly rents ("pure profits") accrue to the suppliers of the "luxury" brand.

Below we find the mathematical results of Bagwell and Bernheim (1996, Figure 3, 362) in diagrammatic form. The authors assume that a "separating equilibrium" is feasible based on the tangency property also introduced²¹. The H's (whose objective function is W_H) consume the conspicuous good at the monopoly price (where $s = p^*x$) whereas the L's, instead of purchasing the functionally equivalent good at a lower non-conspicuous prices (L's objective function is W_L and the marginal cost-based price is $s = c^F x$), choose to purchase some units of the good at a higher price, this then is the "Veblen effect", and is represented in aggregate by the shaded area in the graph. This is of course consistent with the immizerating effects (lower savings rate and higher status-led consumption by those less well-off) as proposed by both Veblen and Duesenberry. However, we know that what Duesenberry had called the 'Veblen effect', was on a good-by-good subjective demand basis, whereas this concept has now been generalized across the economy to a representative homogenous good.²²

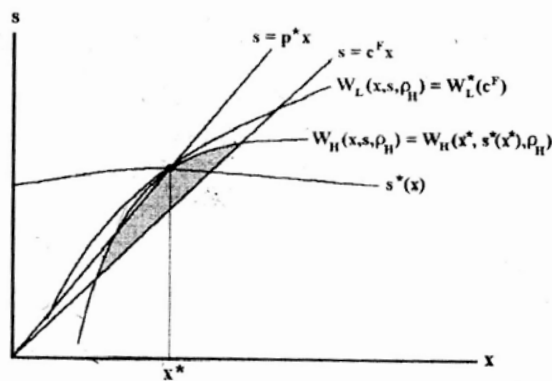


FIGURE 3. VEBLEN EFFECTS WITH THE TANGENCY PROPERTY

²¹ It is beyond the scope of this paper to describe in detail the mathematics involved in Bagwell and Bernheim (1996).

²² It is very easy, too easy, to criticize the applicability of Veblen's evolutionary ideas to mainstream mathematical economics in equilibrium. Veblen's ideas in fact are not reducible to equilibrium as invidious comparison is path dependent and continual and changes as a society develops culturally and economically. However, a categorical dismissal of equilibrium theory is not what we are after in this paper, what we are after is to see how true to Veblen's ideas those publishing in the prestigious journal have remained.

Veblen effects have become formalized as the same (identical) good purchased at a higher price. This seems to miss the subtlety of Veblen's original point, that in fact whereas conspicuous goods are indeed functionally equivalent, there is something about the conspicuous goods, some kind of perceived expensiveness, that a conspicuous good is perhaps functionally equivalent but has something added to it which signals refined aesthetic taste (or expensiveness masquerading as beauty). To reduce Veblen's concept of cost masquerading as beauty to cost alone, without those elements of the good which are added to the good to make the good 'conspicuous' does not seem to follow Veblen's narrative.

Let's compare a quote from *Leisure Class* with one from Bagwell and Bernheim (1996).

He makes an estimate of the value of the article chiefly on the ground of the apparent expensiveness of the finish of those decorative parts and features which have no immediate relation to the intrinsic usefulness of the article; the presumption being that some sort of ill-defined proportion subsists between the substantial value of the article and the expense of adornment added in order to sell it (Veblen 2001, 288).

In particular, the resulting equilibria are characterized by the existence of "budget" brands (sold at a price equal to marginal cost), as well as "luxury" brands (sold at a price above marginal cost). Luxury brands are purchased by consumers who seek to signal high levels of wealth. It is important to emphasize that, in equilibrium, the luxury brands are not intrinsically superior to budget brands – they are simply goods of identical quality, sold at a higher price (Bagwell and Bernheim 1996, 351).

Bagwell and Bernheim (1996) have reduced Veblen's idea of aesthetic beauty as expensive adornment ("decorative parts and features") to that of paying a higher price for the same thing. In effect we have removed 'market' dynamics from the analysis. One of the advantages of Veblen's narrative is that it can be used to describe why over time differentiated products enter the market and disseminate through society based on the theory of conspicuous consumption.²³

This larger concept contained in Veblen's "conspicuous consumption" where cultural and economic development imply more subtle signs of signaling is now absent for that part of the literature which concerns itself with inequality in

²³ Bernheim (1994), Pesendorfer (1996) and Matsuyama (2002) are examples of using Veblen's ideas of social constructed tastes to theorize how and why new goods are introduced and disseminated in society.

equilibrium. We note also that the “Veblen effect” is now also the same thing as ‘the demonstration effect’. Inequality means immiserating expenditures for those not of the ‘leisure class’.²⁴ This reading of Veblen is accurate, however does not quite go far enough, for Veblen the immiseration can also include the leisure class down on their luck, goods are not homogenous either at a given moment nor across time, and, classes themselves are amorphous over time.²⁵

In summary during our re-reading of conspicuous consumption as it has unfolded during the modern economics research program, we have found that in the prestigious journals the concept of the Veblen effect, conspicuous consumption and “prestige” goods have come to mean the same thing. We have lost some of the insights of Veblen during this process, but too have gained short-hand terminology which allows us to know what we mean when we say “conspicuous consumption” in the language of economics. Robert Frank (June 2005) laments the fact that James Duesenberry has more or less disappeared from the mainstream economic lexicon, we have seen that he has not really disappeared at all but has been

²⁴ Bowles and Park (2005) use empirics of income inequality and work hours to show consumption immiseration, or that work crowds-out leisure when inequality is greater. “These ‘Veblen effects’ are large and the estimates are robust using country fixed effects and other specifications” (F397). Eaton and Eswaran (2009) is not dissimilar from Bowles and Park (2005) on inequality and work hours and Bagwell and Bernheim (1996) on a homogenous good representing conspicuous consumption and inefficiencies due to monopoly profits. Instead of “Veblen effects”, however, the welfare loss creating conspicuous consumption occurs through consumption of a “Veblen good” which comes to dominate the economy.

²⁵ Veblen in *Leisure Class* mentions the following classes in no particular order: priestly class, learned class, lower-class, middle class, servile class, captains of industry, upper class, ruling class, upper-middle class, lower-middle class, and of course the leisure class. He also if you remember from our re-reading believed that the leisure class too would be replaced by a more economical form of institution. Interestingly enough, in an early reading of Veblen, Frisch (1959) we find an interpretation that conspicuous consumption is confined to the “rich”. This from Frisch (1959, 189), where it should be noted the smaller the “w” the larger is demand. Frisch is saying that conspicuous consumption limits choice for the “rich” and not for the rest of the economy.

Even if no independent information about any elasticities with respect to price were available, formulae (61) and (62) may provide some rough indications. We may, perhaps, assume that in most cases the money flexibility has values of the order of magnitude given below.⁹

(67)	{	$\tilde{\omega} = -10$	for an extremely poor and apathetic part of the population.
		$\tilde{\omega} = -4$	for the slightly better off but still poor part of the population with a fairly pronounced desire to become better off. ¹⁰
		$\tilde{\omega} = -2$	for the middle income bracket, “the median part” of the population.
		$\tilde{\omega} = -0.7$	for the better-off part of the population.
		$\tilde{\omega} = -0.1$	for the rich part of the population with ambitions towards “conspicuous consumption.”

It would be a very promising research project to determine $\tilde{\omega}$ for different countries and for different types of populations. A universal “atlas” of the values of $\tilde{\omega}$ should be constructed. It would serve an extremely useful purpose in demand analysis.

subsumed under the general category of conspicuous consumption commonly understood.

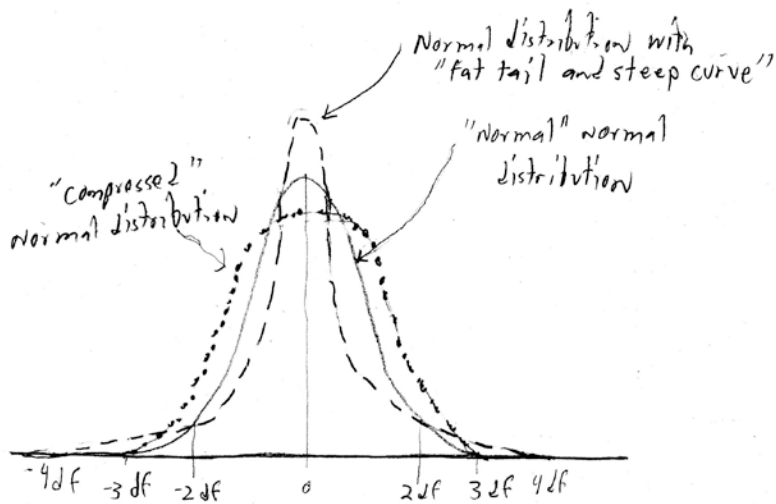
Why is Economics Not a Value-free Science

In this section we show that although most economists may have the same conception of conspicuous consumption, how this conception is applied to policy recommendations may be highly subjective based on what Schumpeter (1954) called “pre-analytical vision”. We will evaluate this claim by using the important articles Frank (1985), Samuelson (2004) and Hopkins and Kornienko (2004), and where we can find that using the same positive concept completely different normative proposals can be made.

Frank (1985) builds a story where conspicuous consumption means a divergence in individual and collective interests²⁶. Individuals have too much incentive to consume for status and therefore society as a whole consumes too many positional goods relative to nonpositional goods. “If consumption externalities do indeed motivate many of the command-and-control regulatory interventions we currently observe, then a simple tax on positional consumption expenditures might attenuate the need for these interventions”. Frank recommends that positional goods (conspicuous consumption) be taxed so that the state can provide more nonpositional goods (such as education, safety regulations and retirement programs).

We can visualize the effect of Robert Frank’s proposed redistributionist policies in the figure below. We begin with societal resources under an initial position of a “normal” normal distribution, then we tax and redistribute the resources from those better-off to those less well-off (the rich consume more positional goods per capita than the rest of society) to something closer to a “compressed” normal distribution. This then for Frank reduces the economic distortions due to conspicuous consumption by creating a better balance between consumption of positional and nonpositional goods.

²⁶ Frank (May 2005) maintains the same line of reasoning.



Let us then compare Frank (1985) with Samuelson (2004). Again we begin with a “normal” normal distribution, however contra Frank (1985) Samuelson makes the case that redistributing resources to a more “compressed” distribution (resulting in more compressed consumption levels) would in fact create more societal immiseration, assuming the existence of conspicuous consumption, because the new “compressed” distribution would result in a larger in-group. In turn this tighter distribution would mean that it is easier to “jump over” the peer group (there is now greater marginal returns to conspicuous consumption than there were prior to the redistribution) so redistribution of resources would actually increase society’s conspicuous consumption and not provide a better balance between conspicuous and inconspicuous goods as argued by Frank (1985).

Hopkins and Kornienko (2004) build a third and differing story using the same conspicuous consumption foundations.

We also analyze the effect of changes in inequality on conspicuous consumption and welfare. We find that the [remaining, *sic*] poor are made worse off by greater equality. Such an increase in equality will also increase conspicuous waste by those on middle incomes or low and middle incomes, while conspicuous consumption by the rich may decrease (1099).

Again using our distribution heuristic we note what would happen when “inequality” decreases, we move from a “normal” normal distribution, to a normal distribution “with a fat tail and steep curve”. This means a greater concentration (the “steep curve”) of income (or wealth) at the mean, but too at the same time implies “fat tails” of those remaining poor and rich. This means that the “rich” no longer have to signal to as many “rich”, whereas the remaining poor have to signal even more through conspicuous consumption to gain status. The logical tax policy then to reduce conspicuous consumption is to tax the consumption of the remaining poor (who spend more on “keeping up with the Joneses” in the middle²⁷) and to subsidize the consumption of the rich, who don’t need to spend on conspicuous waste. This is, obviously, socially “regressive” policy.

These opposing recommendations for public policy force us to ask, *so which is it?* Does inequality bring more conspicuous consumption or less conspicuous consumption? Using the same positive concept that conspicuous consumption is a waste of society’s resources (by definition) some economists (we shall label them “redistributionists”) argue that inequality increases waste and others (we shall label them “laissez-faire”) argue that inequality reduces waste. These opposing normative policy conclusions, stemming from the same positive view of conspicuous consumption as waste, is another example of why, as Schumpeter proposed, our value systems influence our economic analysis.

Summary and Conclusion

On the one hand, the accepted macro-structural formulation of conspicuous consumption in our most prestigious journals misses the within-group comparisons of the wealthy themselves, and, as we have learned from our re-reading of the *Leisure Class* that it is from this wealthy “class” that conspicuous consumption of differentiating products begins. In our equilibrium-based aggregations in the modern language of economics we have lost Veblen’s “starting-point” and his explanation of evolutionary change. *On the other hand*, we have found that

Furthermore, individuals with low income are “desperate” to avoid zero status and as the lowest level is reached, the proportion of income spent on the conspicuous good x approaches 100 percent (Hopkins and Kornienko 2004, 1090).

No class of society, not even the most abjectly poor, foregoes all customary conspicuous consumption. The last items of this category of consumption are not given up except under stress of direct necessity. Very much of the squalor and discomfort will be endured before the last trinket or the last pretence of pecuniary decency is put away (Veblen 2001, 64).

“conspicuous consumption” has become a long-lasting and continually relevant part of our common language and is an “efficient” way to describe a bias towards status-seeking consumption in modern societies.

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(In addition please refer to Appendix Two, spreadsheet entitled Sample of Journal Articles with “Conspicuous Consumption” in the Most Prestigious Journals, which contains journal articles not referenced below but found in the paper.²⁸)

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²⁸ Appendix Two can be found: cameroneconomics.com/veblen-app2.pdf.

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