Re-reading Veblen’s *The Theory of the Leisure Class* (1899) in the 21st Century

(work-in-progress)

Cameron M. Weber
Re-reading Veblen’s *The Theory of the Leisure Class* (1899) in the 21st Century

* Purpose of research is to examine how (and how well) “conspicuous consumption” has become part of both popular language and the language of economics.
“Conspicuous Consumption” in Popular and Scientific Language

Presentation outline:

1) *Culturomics* used as proxy for “conspicuous consumption” adoption in everyday popular language

2) *Most prestigious journals* in economics used as proxy for how “conspicuous consumption” has been adopted in scientific or term-of-art language

3) Comparison of evolution of economic science’s use of “conspicuous consumption” with re-reading of Veblen’s original meaning(s).
Thorstein Bunde Veblen (1857-1929)

New York: The Macmillan Company, 1899
“Conspicuous Consumption”

Motivation for the research

* Theories of cultural value and taste-creation
* Debate over consumer sovereignty versus experts on antitrust and advertising (economics of imperfect competition)
[from http://www.treehugger.com/conspicuous-consumption-fulfillment-curve.jpg]
“Conspicuous Consumption”

We use culturomics to analyze the introduction and dissemination of “conspicuous consumption” into popular language.
Culturomics is “quantitative analysis of culture”

Cultural Observatory at Harvard University created “N-gram” dataset with Google Labs

“N-gram” dataset is subset of Google Books Project at metadata level, approximately 500 billions words from 5 million books, about 4% of all books published in the English since the 1500s.
culturomics

- Culturomics uses up to “5-grams” in analysis
- A “n-gram” is a word combination used to measure language manifestation of culture
- For example, “conspicuous consumption is a “2-gram”
- “Marginal propensity to consume” is a “4-gram”
- “n-gram” word created when is greater than 1 part per billion published in corresponding period
Output from Google Books Ngram Viewer is for “conspicuous consumption” for “1450 to 2011”, from the “English” corpus using a “smoothing of 2”.
Origination of “Conspicuous Consumption”

Remaining activity before 1900:


and,

Origination of “Conspicuous Consumption”

“The economic theory of woman’s dress.” *Popular Science Monthly*, December 1894

There is also a second, very analogous class of persons, whose apparel likewise, though to a less degree, conforms to the canons of woman’s dress. This class is made up of the children of civilized society. The children, with some reservation of course, are, for the purpose of the theory, to be regarded as ancillary material serving to round out the great function of civilized womankind as the conspicuous consumers of goods. The child in the hands of the civilized woman is an accessory organ of *conspicuous consumption*, much as any tool in the hands of a laborer is an accessory organ of productive efficiency (205, *italics* added).
Output from Google Books Ngram Viewer is for “conspicuous consumption” for “1890-2000”, from the “English” corpus using a “smoothing of 2”.
“Conspicuous consumption” compared with some other common English economic “2-grams”

Note: J.B. Clark’s *The Distribution of Wealth* (1889) containing “marginal productivity” was published the same year as Veblen’s *The Theory of the Leisure Class*. Von Wieser’s *Social Economics* (1914) contained “opportunity cost”.
"Conspicuous Consumption"

Culturomics has shown

* Veblen indeed introduced “conspicuous consumption” into language

* “conspicuous consumption” in popular language has grown more or less steadily since its introduction in 1899 (1894, sic).
A Corollary to “Conspicuous Consumption” in Popular Language

Arthur (Pop) Momand's *Keeping Up With The Joneses* comic strip in the *New York Globe*. The strip was first published in 1913 and by the time it ended in 1938 was syndicated to hundreds of newspapers.
KEEPING UP WITH THE JONESES.

-BY POP.

COME IN HERE MY LOVE. I HAVE A NICE SURPRISE FOR YOU.

HERE'S SOME NICE PINK SOCKS AN' A RED NECKTIE TO MATCH.

- AND A PAIR OF LEMON COLORED GLOVES.

- AND A NICE PAIR OF GREEN SPATS AN' A NICE LIL FUZZY HAT.

Ah, now my love we will show that Jones woman that her husband is not the only one who can wear pink socks an' a fuzzy hat! Oh, how noble looking Aloysius!

CURSES ON THEM JONEYS AN' TH PINK SOCKS. GIVE ME ANOTHER BEER ONE PERRY!

IT ARE SIMPLY SMELLING.

KNIGHT FOR KNIGHT BEGINS.
“Conspicuous Consumption” in Language of Economics

We create a list of the “most prestigious journals” in economics, then find out how “conspicuous consumption” is used in these journals over-time.

We use four different sorting criteria until we have a list of 30 “most prestigious journals”.
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# “Conspicuous Consumption” in the Most Prestigious Economics Journals

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<td>29 J Public Econ</td>
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<td>2</td>
<td>6</td>
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<td>42.9%</td>
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<td>30 Rev Econ Dynam</td>
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<td>0</td>
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<td>27</td>
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<td>29</td>
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<td>15</td>
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<td>3</td>
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<tr>
<td>percent</td>
<td>22.9%</td>
<td>40.8%</td>
<td>68.1%</td>
<td>100.0%</td>
<td>60.0%</td>
<td>25.9%</td>
<td>21.1%</td>
<td>20.8%</td>
<td>37.4%</td>
<td></td>
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</tbody>
</table>
“Conspicuous Consumption” in the Most Prestigious Economics Journals

Low “Veblen citation rate” has shown that conspicuous consumption part of universal knowledge in economics.

Next step is to see how accurate this universal knowledge has remained to (a re-reading of) Veblen’s ideas.
"Conspicuous Consumption" in the Most Prestigious Economics Journals

<table>
<thead>
<tr>
<th>Journals</th>
<th>Founded</th>
<th>Title of Article</th>
<th>Author(s)</th>
<th>Year</th>
<th>Why Included</th>
<th>Veblen Cited?</th>
<th>Use of Conspicuous Consumption</th>
<th>Summary</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>J Econ Lit</td>
<td>1969</td>
<td>Reviewed work(s): A Theory of Wage Policy by A. K. Dasgupta</td>
<td>Whitehead *</td>
<td>1979</td>
<td>First</td>
<td>No</td>
<td>Dasgupta’s claim that Western capital accumulation was because conspicuous consumption goods (the &quot;rich man’s...love of display&quot;) had not yet been acculturated, and therefore today need &quot;compression of wage structure&quot; in order to reduce inefficiencies (is disputed by Whitehead).</td>
<td></td>
<td></td>
</tr>
<tr>
<td>J Econ Lit</td>
<td>2008</td>
<td>Relative Income, Happiness, and Utility: An Explanation for the Easterlin Paradox and Other Puzzles</td>
<td>Clar, Frijters and Shields</td>
<td>2008</td>
<td>Most Recent</td>
<td>No</td>
<td>Reviews literature, including that at certain level of development (&quot;rich&quot; countries), conspicuous consumption means &quot;keeping with the joneses&quot; and &quot;status races&quot; becomes main &quot;economic motive&quot;. Higher labor supply seen as part of status race, and 'mobility tax' is called for in order to restore balance between consumption and leisure.</td>
<td>Veblen too has conspicuous consumption as main economic motive, after self-preservation.</td>
<td></td>
</tr>
<tr>
<td>Econometrica</td>
<td>1933</td>
<td>Homogeneous Systems in Mathematical Economics</td>
<td>Tinter</td>
<td>1948</td>
<td>First</td>
<td>No</td>
<td>Price of good or service, in addition to quantity, determines value of the good or service. Differentiates (leaves out) income effect on demand in example of conspicuous consumption.</td>
<td>Veblen does not explicitly refer to income and it appears that status is wealth not income.</td>
<td></td>
</tr>
<tr>
<td>Econometrica</td>
<td>1959</td>
<td>A Complete Scheme for Computing All Direct and Cross Demand Elasticities in a Model with Many Sectors</td>
<td>Frisch</td>
<td>1959</td>
<td>Nobel Author</td>
<td>No</td>
<td>Includes &quot;rich&quot; only in conspicuous consumption</td>
<td>Veblen intended that conspicuous consumption applied to all classes in modern industrial societies.</td>
<td></td>
</tr>
</tbody>
</table>

Abstracts of 66 articles with “conspicuous consumption” in prestigious journals gives us an indication of the breadth and depth of the terms usage in language of economics.
“Conspicuous Consumption” in the Most Prestigious Economics Journals

* 14 articles in survey of 66 articles are “important” in development of literature on immobilizing conspicuous consumption.

* 9 additional articles are by Walker and Clark Medalists and/or Nobel Prize winners who use “conspicuous consumption” in their prestigious journal publications.
What is “Conspicuous Consumption”?  

Re-read the *Theory of the Leisure Class* (without using secondary literature) to have a base against which to compare Veblen’s conspicuous consumption with its modern usage in the most prestigious economic journals.
Conspicuous consumption is a subcategory of “conspicuous waste”. Conspicuous leisure and conspicuous consumption together make up the “canon of conspicuous waste”. 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.

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).
2) Conspicuous waste only begins to manifest itself at the same time that societies developed property rights. Property rights create incentives for “invidious distinction” 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 habit 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 immizeration (poorly kept homes) as expenditures veer towards conspicuous consumption, which in turn increasingly atomizes individuals in modern society. This immizeration is exacerbated by a “status quo bias” (using today’s words) where conspicuous consumption is an institution of habit.

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 than does recognition of distinction from “lower” classes.

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).
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).
The evolutionary process means that the “conservative” leisure class will be supplanted by new forms of economic institutions as the instinct of workmanship overcomes the pecuniary habit, and, with lag times, as institutions do not keep up with “transactions” (human interaction).

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).
8) A conspicuous commodity is something which has some type of subtle and perceived value beyond serviceability.

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 makes it clear his “theory of the leisure class” is not to be perceived as 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 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 or the reverse (151).
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.
“Conspicuous Consumption” in the Most Prestigious Economics Journals

Given this re-reading we can begin our analysis of “conspicuous consumption” in the modern language of economics.
Critique of modern usage of ‘conspicuous consumption’ in economics

* Duesenberry (1949) first to use orthodox mathematical economics to model the effect of relative consumption on aggregate economic activity

* Is not “an adding-up” of individual utilities, but rather modeling interdependent utility functions
Critique of modern usage of ‘conspicuous consumption’ in economics

Duesenberry (1949)

Reference Veblen’s “interdependence of preference systems” however, states his work a departure from Veblen because Veblen doesn’t use the mathematical tools of neoclassical economics.
Critique of modern usage of ‘conspicuous consumption’ in economics

Duesenberry (1949)

Proposes that socially-formed preferences can occur through familiarization (demonstration).

“This effect need not depend at all on considerations of emulation or ‘conspicuous consumption’” (28).
Critique of modern usage of ‘conspicuous consumption’ in economics

Duesenberry (1949)

* Introduces “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 stay the same or to fall.

* Less well-off are consuming the same goods as the rich, and therefore have low or dissavings which then lowers the average national savings rate. This is the “relative income hypothesis” or the “Duesenberry effect”.
Critique of modern usage of ‘conspicuous consumption’ in economics

* ‘Demonstration effect’ is functionally equivalent to our re-reading of Veblen’s conspicuous consumption as it relates to the theory of the leisure class.

* Both Veblen and Duesenberry use acculturation as reason for new consumer products entering and disseminating in the economy, the status quo bias of consumption, signaling of status through consumption, class as a unit of analysis and immizerating consumption.
Critique of modern usage of ‘conspicuous consumption’ in economics

We shall find that in the most prestigious journals, the “Duesenberry effect” becomes synonymous with the “Veblen effect”, both of which come to mean conspicuous and immizerating consumption. We shall also find that immizerating consumption becomes the same thing as consuming a “Veblen good”.

Critique of modern usage of ‘conspicuous consumption’ in economics

Concurrently with Duesenberry (1949), Leibenstein (1950) extended the general category of “conspicuous consumption” into specific sub-classifications depending on the consumer’s signaling intent.

1) “Snob” effect (other’s demand reduces own demand)

2) “Bandwagon” effect (other’s demand increases own demand)

3) “Veblen” effect (where quantity demanded for a good may increase with price)
Critique of modern usage of ‘conspicuous consumption’ in economics

Leibenstein (1950) also introduced the demand curve for what has now become known as a “Veblen good” (the backward-bending-demand-curve).
Using Figure 5A:

S to T is the “price effect” of traditional demand curve
R to S is the “conspicuous consumption utility” or the “conspicuous price”
R to T is the “Veblen effect”

“It all depends on whether at alternative price changes the Veblen effect is greater or less than the price effect,” Leibenstein 1950, 204.
Critique of modern usage of ‘conspicuous consumption’ in economics

* So far literature might be classified as a variant of methodological individualism where an individual’s signaling intent with conspicuous consumption and where demand for conspicuous consumption depends on subjective relationships with others.

* Took a turn with subsequent usage of “Veblen effects” and what has become known as the macro foundations of micro, where macroeconomic categories are used to backwardly impute individual behavior.
Critique of modern usage of ‘conspicuous consumption’ in economics

* Next we examine a seminal piece in the literature, Bagwell and Bernheim (1996) “Veblen Effects in a Theory of Conspicuous Consumption” in the *AER*.

Critique of modern usage of ‘conspicuous consumption’ in economics

Bagwell and Bernheim (1996)
* Started as a 1992 NBER working paper under a different title
* Then became 993 mimeo which was circulated with the same title as the AER 1996 article.
* It is because of this article’s title (“Veblen Effects in a Theory of Conspicuous Consumption”) that the attribution of conspicuous consumption to Veblen increased from the 1990s onward.
Critique of modern usage of ‘conspicuous consumption’ in economics

Bagwell and Bernheim (1996, 49, fn 2):

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)”. 
Critique of modern usage of ‘conspicuous consumption’ in economics

* Conspicuous consumption is now the same as consuming goods which have backward-bending-demand curves.

* Veblen’s ideas on the social construction of demand and as extended in Leibenstein’s snob (between group) and bandwagon (within group) effects, have collapsed into the Veblen effect alone.
Critique of modern usage of ‘conspicuous consumption’ in economics

We have lost the subtleties of Veblen’s “costliness masquerading as beauty” and the “close scrutiny” of conspicuous consumption as well the invidious in-group psychology within the leisure class itself.
Critique of modern usage of ‘conspicuous consumption’ in economics

Bagwell and Bernheim (1996) create a constrained optimization model of the economy,

* The same good (a “qualitatively identical brand”) serves as both the “luxury” and “budget” commodity
* “High” and “Low” types are introduced who have differing resource allocations
* The L’s have an incentive to emulate the H’s for status-seeking
* Monopoly rents (“pure profits”) accrue to the suppliers of the “luxury” brand.
The H’s (objective function is $W_H$) consume the conspicuous good at the higher monopoly price (where $s = p^* x$) in order to differentiate themselves from the L’s. The L’s, instead of purchasing the functionally equivalent good at a lower non-conspicuous price (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 immizerating “Veblen effect”, and is represented by the shaded area in the diagram.
Critique of modern usage of ‘conspicuous consumption’ in economics

The same type of “macro foundations of micro” are used in Bowles and Park (2005), Eaton and Eswaran (2009), Arrow and Dasgupta (2009) and Moav and Neeman (2010).

Eaton and Eswaran (2009) call the generic immizerating commodity a “Veblen good”.
Critique of modern usage of ‘conspicuous consumption’ in economics

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 [1899], 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).
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 we have lost Veblen’s “starting-point” and his explanation of evolutionary change.
Conclusion

On the other hand, we have found that “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.
China’s Rich Venture Where Few Have Dared: The Forbidden Sky

By MICHAEL WINES

WENZHOU, China — Here in this smoggy coastal metropolis, the nouveau-riche heart of entrepreneurial China, the latest sign that one has really made it is not a Benz, or even a Bentley. It is a helicopter. Perhaps 10 of Wenzhou’s super-rich have one.

Guan Hongsheng has three. Although, really, who’s counting?

“For us, a workweek is 80 hours or more. So you know what we need? Fast,” said Mr. Guan, a gold-necklaced, yacht-sailing titan who made a fortune as a trader. To relieve the stress of making vast sums of money, he said, there is nothing like zipping around in a copter.

“Only then can I truly relax,” he said. “It’s that simple.”

If only it were legal, too.

Mr. Guan and his friends are black fliers — part of a minuscule group of wealthy Chinese who fly, quite literally, in the face of the law. The first Chinese rich enough to own their own aircraft, they have collided in midair with the Chinese military, which controls the country’s airspace and never contemplated such a fantastic development, much less authorized it. Just asking for permission to take off can involve days of bureaucratic gantlet-running, and still end in rejection.

Getting permission to land can be another hassle altogether.

So black fliers take to the air clandestinely, flying where the authorities are unlikely to notice or care, occasionally causing havoc on the ground below, risking fines that would send an average Chinese to the poorhouse but which, for most of them, do not have much of a deterrent effect.

“It’s like this — your family, your wife, won’t let you go out and pick up girls. But you went out and did it anyway,” Mr. Guan said. “Secret flying is like secret love. You do it, you don’t tell people about it.”

Just how many pilots make

Continued on Page A3