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Relative status and interdependent effects in consumer behavior

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ABSTRACT

The current consumer culture, which associates the meaning of life primarily through the consumption of material goods and services, has brought many transformations in U.S. society. The purpose of this study is to examine the relative status and interdependent effects associated with consumer behavior, as developed by economists Veblen, Duesenberry, Frank, and Schor. Using the 2005 Consumer Expenditure Survey, several linear regression models have been conducted on four expenditure items including clothing, entertainment, home furnishings, and automobiles. While controlling for several demographic variables, a consumer's relative expenditure ranking emerges as the strongest substantive factor in determining clothing consumption and number of automobiles owned.

1. Introduction

In post-industrial United States, the contemporary consumer culture that essentially ascribes the meaning of life through consumption pervades the landscape (Belk, 2007). Yet, across the literature in the social sciences and humanities, consumption has meant more than buying and using goods and services simply for utility or enjoyment. It involves a social process as people interact with one another across various institutions, relationships, and walks of life. This paper will examine consumption as a social process, by way of relative expenditure patterns that underlie consumer behavior, a concept overlooked in economics. In addition, this study may ultimately encourage a more interdisciplinary paradigm for analyzing consumer behavior.

After World War II, the consumer culture played an unprecedented role in the lives of Americans. Consumption alone comprises two-thirds of the GDP, an amount nearing $8 trillion (Masci, 1999). However, this climactic force developed in tandem with economic restructuring, male's declining wages, the growth of single-parent families, and the movement of middle-class wives into the labor force. As a result, income inequality increased beginning in the early 1970s (Cherlin, 2008). Top earners gained a better material standard of living with a burgeoning stock market, rising real wages, and investment in securities (Masci, 1999). Middle-class Americans continued utilizing their stagnant purchasing power (Schor, 1998). Nevertheless, declining real wages persisted in recent years. According to Scheve and Slaughter (2007), in gathering evidence from the Bureau of Labor Statistics, between 2000 and 2005 average earnings of 96.6% of U.S. employees dropped across most educational groups including high school dropouts and graduates, some college educated, college graduates, and nonprofessional master's degree holders. Only professionals (i.e. M.B.A, J.D., and M.D.) and doctorates witnessed real earnings growth. Despite this increasing income inequality, mass consumption endured.

However, U.S.'s expanding economy led to a particular phenomenon in what economist Juliet Schor labels as the "work-and-spend cycle." Since the late 1940s, work hours increased an average of 9 h per year, a little more than one extra business day, across most occupations, income groups, marital statuses, and industries. Over the span of decades, such an increasing work length became considerable. While Americans worked longer and at the same time ran the consumerist treadmill leisure time dwindled. With the cycle being fueled by productivity growth, time became a scarce commodity (Schor, 1992). Time declined for sleep, vacation, exercise, travel, reading, and other mind and body-nourishing activities (Frank, 1999a). Increased working hours and stress resulted in decreased attention to spouses and children (Schor, 1992). Civic engagement and everyday socializing plummeted as well (Putnam,

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2000). Political scientist Benjamin Barber in *Consumed* (2007) affirms that consumerism has engendered a new cultural ethos of infantilization in society with its emphasis on teen celebrity, popular culture, sports, privatization, brand marketing, and the dumping down of goods and services. He even claims that the consumer culture is driving a wedge between democracy and capitalism.

Soon, heightened consumer norms and insatiable demands forced middle-class consumers to finance their elevated spending rates with lower savings, higher debt and credit card consumption (Frank, 1999a and Schor, 1998). Credit cards provided relative ease to consumers as they pursued the acquisition of goods. In 2003, consumer debt was just under $1 trillion (Bernthal et al., 2005). Eventually, households yielded to economic insecurity as more than a quarter lived paycheck-to-paycheck without an adequate cushion for emergencies (Schor, 1998). Families even became apprehensive about retirement and living standards (Frank, 1999a).

Furthermore, economist John Kenneth Galbraith (1958) illustrated the uneven distribution of public and private resources in what he termed "private affluence and public squalor." He pointed out that despite heightening levels of GNP, retail sales, labor productivity, and personal income, schools were growing old and overcrowded, police forces were underpaid, parks and playgrounds were deficient, streets were filthy, and sanitation staffs were under-equipped and underemployed. Lavishly designed cars drove on unpleasant roads. Children, products of inefficient schools, had nicely equipped television sets. Private companies grew and packaged food for the masses. Galbraith explained the growing imbalance between private and public sectors resulted in the increasing concentration of resources in private spending, forcing an inadequate support for public services (1958). Galbraith's argument extends to today with deteriorating roads, bridges, water systems, educational institutions, social services, and public funds for recreation and the fine arts (Frank, 1999a; Schor, 1998). According to U.K.'s Institute for Public Policy and Research, the United States leads most EU nations in GDP per capita at 155 and private consumption expenditure per capita at 181, but falls fifth in public consumption expenditure per capita at 114 (Robinson, 2001).

Another unfavorable ramification of consumer society involves ecological devastation. Here, environmentalists continually advocate for more sustainable lifestyles. High consumer demands require heavy manufacturing of products, buildings, and fuels. As the authors of *Affluenza: The All-Consuming Epidemic* point out: industries use up to 4 million pounds of earth material for one average middle-class American family's needs for a year, and an average American consumes up to 43 million gallons of water and 2500 barrels of oil in their lifetime (De Graaf et al., 2001). Without a doubt, natural environments are unable to keep up with the nation's accelerating consumerist lifestyle (Schor, 1998).

2. Literature review

2.1. Reasons for consumerism

Thorstein Veblen, an economist at the turn of the twentieth century, coined the term *conspicuous consumption* to describe the motivating factor among wealthy elites during the Gilded Age. As a growing segment of the population –Veblen's leisure class – became exempt from industrial occupations the consumption of goods became an alternative outlet to occupy their time. The rich spent to showcase their social position and defend the social structure that conferred to them their privileged position. The esteem of their neighbors became a basis for self-respect. It was not enough to just have wealth and power; the two had to be displayed ostentatiously. In other words, the opulent class consumed valuable goods in order to demonstrate their prosperity (Veblen, 1973).

Throughout the twentieth century, however, consumer behavior evolved. Economist Juliet Schor (1998) characterizes late twentieth century consumption patterns as the "New Consumerism." In post-World War II America, the middle-class began comparing themselves to certain groups of people they wished to emulate. Essentially, they tried "keeping up with the Joneses." These groups included relatives, co-workers, neighbors, and friends. With the advent of mass media advertising, standards were sharply raised. Consumers developed aspiration gaps, living beyond their means in order to stay in the race. Children needed expensive private schooling in high-cost residential areas. Career wardrobes had to reach high standards in order to stay competitive. Co-workers no longer had incomes in the same range. As a result, reference groups and consumer norms vertically stretched out, jeopardizing the quality and the social fabric of American life. Schor's reasoning of competitive consumption will help interpret this paper's data analysis on why relative ranking influences expenditure amount.

Similarly, economist Robert Frank acknowledges the competitive motive underlying contemporary consumerism. However, he does so using a different approach than Schor's. Frank (1999a) claims that the divergence of real wages, or income inequality, in the last two decades of America's economic growth substantially favored the top of the economic totem pole. Meanwhile, the middle of the income distribution gained virtually no ground, and the lowest quintile actually suffered declining real incomes. Such inequality bred *expenditure cascades* where the middle-class worked longer hours and spent more in order to keep up with the upper strata, as all competed for *positional goods* (Frank, 1999a,b and Kashdan and Klein, 2007). Positional goods, first defined by economist Fred Hirsch (1997)Hirsch in 1976, were goods whose value derived from their scarcity and relation to others who could not obtain such goods (1997). Quantity is never increased when demand rises. Examples include old paintings, top-level jobs, and houses with a scenic view (1997). Frank's reasoning will also support this paper's data analysis to explain the impact of consumer's relative ranking on expenditure of goods and services.

Still another approach, John Kenneth Galbraith (1958) reasoned instead that higher demands today were the consequence of manipulation from the supply side. As U.S. entered an age of affluence, individuals needed more enticing desires. Consequently, corporations stimulated consumer demand through persuasive advertising and salesmanship that allowed them to generate mass profits and minimize risk. Galbraith termed this occurrence the *dependence effect*, where wants were created and satisfied by the same process.

As columnist Patrick Marshall (2004) noted, "Americans are under siege by advertising." Commercialism has invaded virtually all institutions, disrupting people with telemarketing calls, long movie preview ads, cyberspace ads, and commercially-named stadiums. Advertising had reached nearly a quarter trillion dollars in 2003 with ads placed on parking lot tickets, paper cup insulators, gasoline pump handles, and garbage cans.

2.2. Response in economics

As consumerism spread rapidly throughout society, the discipline of economics has been slow to gauge the impact of the phenomenon on people's lives, particularly with its neoclassical theory of utility maximization. Schor (1999) questions the conventional theory's stipulations that consumers are rational, well-informed, and have consistent, independent preferences with no external effects. She concludes that this standard model deviates widely from the real world. Anthropologist Mary Douglas partnered with economist Baron Isherwood (1979) to argue that the rational