Consumption and social identity: Evidence from India☆

Melanie Khamis [a], Nishith Prakash [b], Zahra Siddique [c,*]

[a] Department of Economics, Wesleyan University, PAC 222, 238 Church Street, Middletown, CT 06459, USA
[b] Department of Economics and Human Rights Institute, Oak Hall (East SSHB) 365 Fairfield Way, University of Connecticut, Storrs, CT 06269-1063, USA
[c] Institute for the Study of Labor (IZA), Schaumburg-Lippe-Str. 5-9, Bonn D53113, Germany

ABSTRACT

We examine spending on consumption items which have signaling value in social interactions across groups with distinctive social identities in India, where social identities are defined by caste and religious affiliations. Using nationally representative micro data on household consumption expenditures, we find that disadvantaged caste groups such as Other Backward Castes spend 8 percent more on visible consumption than Brahmin and High Caste groups while social groups such as Muslims spend 14 percent less, after controlling for differences in permanent income, household assets and household demographic composition. The differences across social groups are significant and robust and these differences persist within different sub populations. We find that the higher spending of OBC households on visible consumption is diverted from education spending, while Muslim households divert spending from visible consumption and education towards greater food spending. Additionally, we find that these consumption patterns can be partly explained as a result of the status signaling nature of the consumption items. We also discuss alternative sources of differences in consumption patterns across groups which stem from religious observance.

© 2012 Elsevier B.V. All rights reserved.

1. Introduction

'Pramod: We were an underdeveloped country. Now we are a developing country. Since the last ten years, status is coming up: car, TV.

Ila: A car, bungalow, a lot of money. If you have a lot of money, then your status is high. Whether you have good children, a good wife, credit in the society, [all that] is secondary.

Pramod: Earlier, money was important, but it was spent on gold and land, not on luxury items.

Ila: Now, one should have a washing machine, a refrigerator, motorcycles, a nice house, decorations.' (Van Wessel, 2004)

Progress made towards achieving the Millenium Development Goal of reducing the number of people living under one and two dollars a day has been largely due to the rise in incomes that has taken place in India and China. Income growth in India has been consistently high since India's trade liberalization and opening of the economy. With changing income distributions, there may be a race towards consumption to signal status that has important and adverse welfare consequences (by causing negative externalities and leading to inefficient equilibrium outcomes as described in Frank (2005) or by its role in poverty traps as described in Moav and Neeman (2008)).

There is a well established literature within theoretical economics of consumption as a means to signal status, first described by Veblen (1899) and formalized in work by Basu (1989), Ireland (1994) and Bagwell and Bernheim (1996). A smaller but growing empirical literature tests for status signaling consumption. Some recent papers studying positional concerns in a developed country context are Kuhn et al. (2011) and Ravina (2007). Charles et al. (2009) examine status signaling consumption across racial and ethnic groups in the US. They find that African Americans, with lower incomes on average than whites, spend *more* on visible consumption and that these patterns of consumption spending can be completely described by status signaling.

Consumption to signal status is also undertaken by the poor in developing countries. Banerjee and Duflo (2006) show that median households in Udaipur spend 10 percent of their annual budget on festivals and 5 percent on tobacco and alcohol. This is despite that 86 percent of the population in this area lives below the poverty line. Bloch et al. (2004) provide evidence of status signaling consumption by rural Indian households in Karnataka by examining spending on wedding expenditures.

Our work draws inspiration from and uses a similar empirical strategy as that in Charles et al. (2009) (which examines conspicuous consumption across race in the US) to examine differential spending in conspicuous consumption across groups with distinctive social identities in India. While all empirical work on conspicuous consumption in a developing country context uses detailed village level data from a few villages in individual districts, our work uses nationally representative data which documents nationwide trends. Our contribution is to verify the existence of conspicuous consumptions at the national level lending external validity to current research on conspicuous consumption in developing countries. Our approach is also useful for devising policies at the national level in India since the trends we identify are nation-wide trends. Indeed, our study is the first to examine nation-wide visible consumption in India across a wide range of consumption items. We find large and significant differentials in visible consumption across groups with distinctive social identities. We also test the implications of models that describe such visible consumption as a means to signal status, and find that these implications are satisfied. However, we cannot explain all the patterns of consumption spending we observe across groups with status signaling alone. We discuss a number of alternative mechanisms which stem from religious observance and which could also be driving the consumption patterns we observe.

By their nature, status signaling consumptions depend on what others believe about an individual's income. The beliefs of individual income in turn depend on the income distribution of the reference group to which an individual is perceived to belong to. In the Indian context the relevant reference groups are those with distinctive identities defined by caste and religion which are visible in a variety of social interactions. Caste and religious affiliations prescribe customs, rules and norms of behavior, including naming conventions so that such affiliations (which religion or caste a person belongs to) are visible in all non-anonymous social interactions. An example is the Yadavs in Bihar and Uttar Pradesh who belong to the OBC groups. Caste and religious affiliations also prescribe group specific rituals and traditions such as wearing of turbans by Sikh men, wearing beards by Muslim men, as well as rules for purity in the caste system which necessitate that low caste status be apparent so that such affiliations are visible in anonymous social interactions as well. The Adivasi social group is similar to Native Americans in the US or Aboriginals in Australia. They are easily identifiable due to features such as geographical isolation, simple technology and condition of living, a general backwardness to the practise of animalism, tribal language, and physical features.

Given the Indian context and following a similar strategy as Charles et al. (2009), we define the relevant reference group for the study of status signaling consumption by space and social group, i.e. as others in the same district who belong to the same caste and religious group.

The focus of our study is spending on visible consumption items. These are items which are associated with high income and are easily observable in social interactions as a sign of luxury or a signal of wealth. The categorization of such items depends on the social context. All existing research on conspicuous consumption in developing countries assumes which consumption items are conspicuous (such as wedding expenditures or expenditures on social functions). Rather than take this approach, we categorize such items in the Indian context by carrying out a survey in India. The results of this survey give us a categorization which is consistent with common sense. We use nationally representative micro data on household consumption in the 2005 Indian Human Development Survey (IHDS) to study differences in conspicuous consumption across groups with distinctive social identities. We find that disadvantaged low caste groups also known as Other Backward Castes (OBC), spend significantly *more* on status signaling consumption than Brahmin and High Caste groups with a higher social standing in society. At the same time we find that Muslims, a social group very similar to the OBC in income and total expenditure distributions, spend significantly *less* on visible consumption items than Brahmin and High Caste households.

We find that OBC households spend approximately 8 percent more on visible consumption than comparable High Caste and Brahmin households. Muslim households spend 14 percent less on visible consumption than comparable High Caste and Brahmin households. While the magnitude of the difference varies within different sub populations, we find that the sign of the difference is fairly consistent. OBC households spend more on visible consumption whether we examine urban households only or rural households only. OBC households also spend more on visible consumption whether we examine