Leapfrogging Over the Joneses: Can Wealth Redistribution Reduce Conspicuous Consumption By Relatively Worse-Off Consumers?

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Economists have argued that welfare redistribution may be the solution to encourage poor people to save money rather than spend it on positional goods. In three studies, we show that a more equal distribution of endowment in which most people are clustered around the mean can actually lead to more conspicuous consumption by people who are worse-off than the majority in the society. We further show that this is because conspicuous consumption enables relatively worse-off consumers to jump ahead of more people (and hence gain more status) in equal societies than in unequal ones.

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and we will attempt to explore this. We also propose to explore the role of perceived authenticity of the sales associate as a moderator in this framework.

References

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It is a well-known and well-deplored fact that poor people spend more on status-enhancing positional goods and save less money overall (as a proportion of their income) than people who are better off (Bagwell and Bernheim 1996; Christen and Morgan 2005; Duesenberry 1949). Economists have argued that one solution to this problem would be to increase endowment equality by redistributing wealth through income or consumption taxation (Frank 1985, 1999). Although increasing endowment equality can undoubtedly reduce social envy and overall positional spending, this argument overlooks that it can increase the exclusivity benefits of positional spending (i.e., the improvement in people’s relative social rank) for relatively poor people. For this reason, raising endowment equality may have the unintended effect of actually encouraging poor people to choose conspicuous consumption over savings, especially for goods consumed in public and that enhance social status.

In this research, we examine how the distribution of endowment across people affects the spending vs. saving tradeoffs and the social envy of people in the lower tier of the endowment distribution. We make three key hypotheses. First, improving endowment equality (i.e., increasing the proportion of people with an average endowment) reduces social envy because an equal distribution reduces differences among people. Second, a more equal distribution of endowment increases the improvement in status brought about by positional spending because it enables the worse-off people to jump ahead of the now larger number of people with average endowment. Finally, raising endowment equality causes relatively worse-off people to prefer consumption over savings more when the product provides observable status-enhancing benefits (e.g., a prestigious brand) than when it provides unobservable personal benefits (e.g., a higher durability).

In contrast to welfare economics studies, which are either theoretical or rely on secondary data, we test these hypotheses in three experimental studies. The first two studies examine the effect of equality of endowment with a product, whereas the last third study examines the effect of equality of income on spending and saving decisions.

In the first study, we examine how endowment equality affects envy and spending by relatively poor people. We manipulate between subjects the distribution of a positional good, the number of rose bushes in people’s front gardens. In a scenario initially 10% of people have no rose bushes. In the equal distribution condition, 40% of gardens have two rose bushes. Buying three bushes enables the 10% of poor people (who initially have no roses) to be in the top 50% of gardens. In the unequal distribution condition, only 20% of gardens have 2 rose bushes and most gardens have a lot more. Buying three bushes therefore still leaves people with no rose bushes in the bottom 50% of the distribution. As expected, we find that poor people are less envious, yet spend more in the equal distribution condition than in the unequal distribution condition. Second, we find that the social comparison tendency of participants influences envy, but not their positional spending decision. This shows that envy and exclusivity gains are dissociated and that conspicuous spending decisions are driven by their status-granting effectiveness, not just by social envy.

In study 2, we distinguish between positional and non-positional spending and examine if exclusivity gains explain the effect of endowment equality on spending vs. saving decisions. We use a 2 (endowment distribution: equal or unequal) X 2 (positionality: high or low) X 2 (task: saving vs. spending decision or rating of exclusivity benefits) between subject design. The participants read 2 scenarios (house garden and ski trip) and judge how willingly a relatively worse-off person in an equal or an unequal distribution would spend on positional products (rose bushes and branded scarves for a ski trip) or non-positional products (pine trees and fabrics quality scarves for a ski trip) and to which degree each type of spending provides status gains. We find that positional spending is higher in an equal than in an unequal society, but only when the product is positional. We further show that endowment equality increases exclusivity gains for both positional and non-positional goods. This indicates that wealth equality leads relatively worse-off people to choose consumption over saving only for status-enhancing conspicuous goods.

In our final study, we examine the effect of the distribution of overall wealth, rather than the effects of the distribution of endowment with a particular product. We also study the moderating effects of social rivalry by manipulating whether the reference group consists of friends or rival co-workers. Finally, we manipulate the salience of self utility vs. status goals through a scrambled sentence manipulation. We use a 2 (wealth distribution: equal or unequal) X 2 (reference group: rivals or friends) X 2 (priming: status or personal utility) between-subjects design. After the priming task, participants are asked to evaluate their (low) salary by studying the distribution of salaries of either rival co-workers or childhood friends. In the final stage, participants read a scenario in which they have to choose whether to go to a lowbrow or highbrow fashionable restaurant with a friend or co-worker and whether to take a bus or a taxi to get home afterwards. We find a significant three-way interaction. Income equality leads to more conspicuous spending when people are primed with status than when they are primed with self-utility, but only in the rival co-worker condition. This result supports our thesis that the effect of endowment equality on spending is fueled by social rivalry and concern for status.