

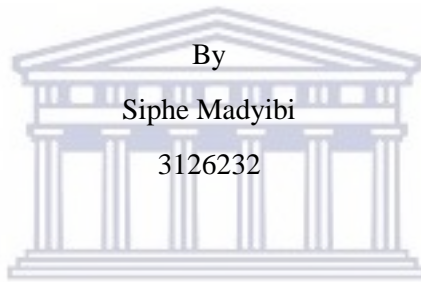


The Relationship between Conspicuous Consumption and Poverty in  
Developing Countries: Evidence from South Africa

By

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**A research assignment submitted in fulfilment of the requirement for the degree of Master of  
Commerce in the Department of Economics, University of the Western Cape**

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## **Declaration**

I declare that *The Relationship between Conspicuous Consumption and Poverty in Developing Countries: Evidence from South Africa* is my own work, that it has not been submitted for any degree or examination in any university, and that all the sources that I have used or quoted have been indicated and acknowledged by complete references.



Signature: S Madyibi  
Date: 14 December 2017

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I must first thank my supervisor, Dr Amiena Bayat. I cannot recall how many times I wanted to quit and how many times you convinced me otherwise. Everyone (family and friends) will think I did it – I wrote a full thesis – but I will always know we did it. So thank you ma'am.

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Finally to my Creator, my Saviour. ‘Truly You knit me together in my mother's womb’. You don't need words for You know my heart, but thank You.

## **Abstract**

For many years the word poverty was synonymous with deprivation and the inability to satisfy basic necessities. According to Alkire and Santos (2014:257), about 1.67 billion people in developing countries lived below the then poverty line of \$1.25 per day, while a staggering 2.74 billion lived on less than a higher poverty line of \$2 a day, using the US Purchasing Power Parity (PPP). In the midst of the hunger and constrained resources implied by these statistics, it is alarming that the poor allocate a significant share of their limited income to expensive visible consumption that does not effectively alleviate poverty or increase their well-being. This puzzling behaviour was first identified by Veblen (1899) as ‘conspicuous consumption’, and is described by Kilsheimer (1993:341) as ‘the motivational process by which individuals strive to improve their social standing through the conspicuous consumption of consumer products that confer and symbolise status both for the individual and surrounding significant others’.

Unlike the affluent, when poor households engage in conspicuous consumption they are forced to neglect basic needs such as education, nutrition and health care, as they are under severe monetary constraint (Linssen, Van Kempen & Kraaykamp, 2011:61). For this reason Moav and Neeman (2012:936) argue that conspicuous consumption by poor households in developing countries is to blame for persistent poverty as well as inequality. Against this backdrop, this study sought to determine the degree of correlation between conspicuous consumption and poverty. Specifically, to what extent does conspicuous consumption contribute to increasing poverty in South Africa?

In addressing this research question, the study used officially published data from the National Income Dynamics Study (NIDS), starting from the first wave in year 2008 to the last during 2014/2015. The study found that South African adults, including the poor, have gradually increased their household expenditure share on visible consumption (personal care, cellphones, shoes and clothing). This increase in visible consumption among the poor coincided with a decline in food consumption, suggesting that food consumption was reduced to engage in conspicuous consumption. This consumption behaviour is most prevalent among the poor and the African population group. Hence a correlation between poverty and conspicuous consumption in South Africa is postulated.

**Keywords: Conspicuous Consumption, Visible Consumption, Poverty, Izikhothane/Ukukhothane, Veblen, South Africa**

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# CHAPTER ONE: INTRODUCTION

## 1.1 BACKGROUND

The higher the price of a product, the lower the quantity demanded by the market. This fundamental market principle is among the first lessons in demand theory taught in first-year Economics. It emphasises the following factors as the core determinants of demand: price of the product, price of related products, household income, consumer taste and household size (Mohr & Seymore, 2012:52). A change in these factors will lead to a change in demand. For instance, an increase in income, which represents an increase in purchasing power, will cause a higher demand for the product, *ceteris paribus*, while low income translates into lower demand provided that the product is a normal good. In reality, the principle of this classic theory has been contradicted by the consumption behaviour of poor households. Their consumption behaviour shows a higher demand for visible expensive goods regardless of the high prices and their low income (Kaus 2013:65).

This puzzling consumer behaviour was first identified and documented by Veblen (1899) who termed it 'conspicuous consumption'. Conspicuous consumption is mainly expenditure on visible luxury products in order to signal unobserved income and gain social status. This means that individuals do not only derive utility or satisfaction from using the product but also from the status linked to owning that product (Burger, Louw, Barbara, De Oliveira Pegado & Van der Berg, 2015:42). The behaviour typically includes expenditure on items such as cars, clothing and jewellery (Burger et al., 2015:44). The product or service creates an image that relates the consumer to a certain affluent lifestyle. Kilsheimer (1993:341) defined the phenomenon as 'the motivational process by which individuals strive to improve their social standing through the conspicuous consumption of consumer products that confer and symbolise status both for the individual and surrounding significant others'. Considering conspicuous consumption is driven by a need to obtain status and recognition that is symbolised through possession, it cannot be achieved without the approval or observation of others (O'Cass & McEwen, 2004:35).

Since Veblen's first described it in 1899, the incentive or impetus to exhibit unobserved wealth by means of conspicuous consumption has diminished among the members of the more affluent stratum of society (which is designated the upper class in this study) but has trickled down to

the newly rich and the poor<sup>1</sup>. Moav and Neeman (2012:934) propose that certain groups, which include the poor, uneducated and newly rich, are more likely to be consumers of conspicuous products than established rich people. Moav and Neeman also argue that people with high human capital have other means of signalling wealth and gaining status, such as professional titles and educational certificates, hence they have less need to signal success through conspicuous consumption (2012:934). Also members of the upper class signal their status through a set of distinct habits and tastes they developed through their social upbringing (Burger et al., 2015:43). Consequently the poor, newly rich and the uneducated are eager to acquire status through peculiar consumption patterns.

In China, the middle class views the purchase of brand-name commodities as a demonstration of economic and social status (Xin, 2013:36). According to Rao (2001:3), Indians allocate 15% of household income to expenditure on festivals. The main motivation behind this large expenditure on festivals is to obtain a higher social status for the family. In similar vein, African families in South Africa are estimated to spend up to a third of household annual income on funerals, often borrowing money for this purpose (Case, Garrib, Menendez & Olgiati, 2008:20). This is done to maintain the social status of the deceased and the family.

According to Moav and Neeman (2012:933), so much of the poor's limited income is spent on visible goods that they cannot invest adequately in health care, education, nutrition and savings.

Burger et al. (2015) caution against haste in defining conspicuous consumption, mindful of the fact that even the poorest household has to spend part of its income on clothing and footwear. Therefore not all consumption of these goods should be considered conspicuous or extravagant. Consumption becomes conspicuous when the expenditure exceeds functional levels and is used as an attempt to signal wealth (2015:42).

## **1.2 PROBLEM STATEMENT**

According to Alkire and Santos (2014:257) about 1.67 billion people in developing countries lived below the then poverty line of \$1.25 (the World Bank has adjusted the poverty line since, but as this neither affects the thrust of this study nor impacts materially on the actual numbers

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<sup>1</sup> The 'upper class' or 'the rich', as opposed to 'the poor', representing the lower classes, with those materially in between designated the 'middle class'. It should be acknowledged here that this study did not discover thresholds or precise boundaries that define the dimensions of these classes but understood generalised defining dimensions, as based on criteria such as income, business ownership, occupations and property ownership, and social capital criteria such as education, and social and political networks. The use of poverty lines in this study however allows a more precise understanding of the meaning and dimensions of 'the poor' as a class.

of poor people in the world, the poverty line of \$1.25 that obtained at the beginning of this study was retained), while a staggering 2.74 billion then lived on less than a higher poverty line of \$2 a day, using the US Purchasing Power Parity (PPP). Against this high rate of poverty and constrained resources, it is alarming that members of the poor allocate a significant share of their limited income to buying expensive visible goods that do not effectively alleviate poverty or increase their well-being.

This tendency was found by Banerjee and Duflo (2007:145) in their research based on households living on less than a \$1 a day in 13 countries. Poor households situated in rural areas spent 56-78% on food, whereas those in urban areas spent 56-74% on food. The rest of their income was spent on festivals, tobacco and alcohol. In Indonesia 6% of income was spent on tobacco and alcohol, while in Mexico 8% was dedicated to this consumption. These figure may appear negligible compared with the percentage allocated to food but, as this population lived on less than \$1 a day, expenditure on anything not considered essential for human survival appears irrational. These findings are also supported by Moav and Neeman (2010:414) who argue that poor households often spend their limited income on purchasing visible expensive goods in order to appear more affluent than their poor counterparts. In South Africa, coloured and African households spend 35-50% more, proportionally speaking, on visible products compared to white households, whose average income is more than the aforementioned groups (Burger et al., 2015:43). This consumption is meant to suggest high unobserved income, so as to gain social status and recognition (O’Cass & McEwen, 2004:28).

Conspicuous consumption by the poor is often achieved at the cost of basic human goods (such as food and shelter) and human capital (such as education and health care). Excessive consumption on visible assets reduces the ability to spend on important basic needs that contribute to growing human capital, notably education and health (Kaus, 2013:64). Failure to invest in human capital diminishes the ability of the poor to acquire higher income levels. Parents in developing countries often allocate a large portion of their income to conspicuous consumption, consequently neglecting to invest in the human capital of their children (Moav & Neeman, 2012:936). Among the reasons that developing economies struggle to grow human capital is that they lag behind more developed economies in both health care and education spending and quality (Todaro & Smith, 2015:383). Child mortality is 10 times more prevalent in developing countries than in their developed counterparts (Todaro & Smith, 2015:383). What is more tragic in these frequent mortalities is that many could have been prevented with adequate health care and nutrition.

Moreover, a child who resides in Europe, North America or Japan is likely to receive more than 12 years of schooling, whereas a child who resides in either Sub-Saharan Africa or South Asia can expect to receive fewer than five years of schooling (Todaro & Smith, 2015:383). These five years of schooling are often characterised by absent teachers and lack of schoolbooks and other resources (Todaro & Smith, 2015:383).

Moav and Neeman (2012:936) argue that poor households are reluctant or unwilling to invest in human capital because human capital is a long-term investment, which means their returns would only be visible in the long run. Long-term investment delays the satisfaction they would obtain from impressing others (Moav & Neeman, 2012:936). Hence they opt to spend on short-term conspicuous goods. The authors further argue that ‘the very poor spend only 2-3% of their income on their children’s education, do not eat well, experience ill health and report that they are worried and anxious to the extent that it interferes with their sleep and work (Moav & Neeman, 2012:933). Clearly there is a trade-off between conspicuous consumption and basic human goods as well as human capital.

The main issue regarding conspicuous spending by the poor is that the choice of their consumption bundle does not seem to alleviate poverty. In fact conspicuous consumption by poor households in developing countries leads to poverty traps and persistent inequality (Moav & Neeman, 2012:936). The authors conclude that the poor could improve their long-term wellbeing if they spent less on visible goods and saved more for short and long-term investments.

### **1.3 RESEARCH QUESTION**

The study attempts to determine the degree of correlation between conspicuous consumption and poverty, and specifically examine the extent to which conspicuous consumption contributes to poverty in South Africa.

#### **1.3.1 OBJECTIVES OF THE STUDY**

In addressing the relationship between conspicuous consumption and poverty in South Africa, the following research objectives will be pursued:

- Provide an overview of conspicuous consumption in South Africa.
- Understand the extent to which conspicuous consumption is associated with poverty in South Africa.

- Identify the social groups that engage in conspicuous consumption.
- Measure the extent to which conspicuous consumption crowds out and reduces food consumption in South Africa.

#### **1.4 SIGNIFICANCE OF THE STUDY**

This paper was written at a time when developing economies such as China, India and South Africa showed a trend of increasing consumption of conspicuous visible goods, which is positively associated with the economic growth of these respective countries. One can impulsively interpret this increase in consumer spending as a sign of economic development which articulates to an improvement in people's well-being. Unfortunately, more people in developing countries live below the poverty line of \$1.25 per day, than in developed countries (Alkire & Santos, 2014:257). Van Kempen admits there has been reluctance among economists to carefully study the phenomenon of conspicuous consumption and incorporate it into a formal theory (2005:3). This knowledge gap has occurred more often in developing countries where conspicuous consumption by the poor has been judged on moral grounds and consequently placed within the confines of economic rationality (Van Kempen, 2005:3). The same author considers research on this topic as 'virtually unexplored'. Motivated by this knowledge disparity, this paper aims to contribute to the tiny but growing literature on conspicuous consumption in a developing country, South Africa. As opposed to only studying conspicuous consumption, this paper aims to examine the extent to which conspicuous consumption can be associated with poverty in South Africa.

The South African state has committed to eradicating poverty. This is made clear through its allegiance to the Sustainable Development Goals (SDGs) and the social assistance government provides citizens in immediate poverty relief. Given the challenges to poverty alleviation and eradication, not least of which have been years of persistent slow economic growth, it becomes of utmost importance to identify all possible impediments to poverty alleviation in the country. Proving a positive correlation between poverty and conspicuous consumption would provide insights for policy making in respect of poverty alleviation and the consumption patterns of the poor, as well as inform the state's approach to public life skills education.

## 1.5 THESIS OUTLINE

In pursuit of exploring and establishing the degree of correlation between poverty and conspicuous consumption, the thesis is segmented into six chapters. Chapter One provides the introduction, background and objectives of the study as well as the significance of conducting this study. Chapter Two consists of part one of the literature review, which reviews theoretical studies on conspicuous consumption. This is followed by a review of empirical studies in Chapter Three that validates the occurrence of this consumption phenomenon. Chapter Four discusses the methodology process and data employed in the study. Arriving at the crux of the thesis, the findings of the study are revealed in Chapter Five. The findings are supported by descriptive statistics, graphic illustrations and econometric regressions. Chapter Six provides a summary of the paper and identifies future research opportunities.





# CHAPTER TWO: THEORETICAL LITERATURE

## 2.1 INTRODUCTION

Conspicuous consumption is mainly understood as expenditure on visible luxury products in order to signal unobserved income and gain social status. Since the term was described by Veblen (1899), many theories have emerged to explain conspicuous consumption and the rationale behind it. Because conspicuous consumption is considered irrational consumer behaviour, various theories to explain it have emanated, with conspicuous consumption theories incorporated in economic, social and psychological rationales. These theories are explicated in this chapter.

## 2.2 THEORIES OF CONSPICUOUS CONSUMPTION

### 2.2.1 VEBLEN'S THEORY

It is impossible to discuss the socio-economic concept of conspicuous consumption without the mention of Thorstein Veblen's most recognised work titled '*The Theory of the Leisure Class*', published in 1899. Briefly, the author brings to light the extent to which individuals are conscious about their social status and are deliberate in the image they portray to society. They want to have, or at least appear to have, as much as other people in their reference group (Veblen, 2003:58). For that reason, they make an effort to obtain higher status and recognition through their expenditure patterns. Status signals unobserved wealth. It creates the illusion that one belongs to a certain economic class based on visible possessions and behaviour.

Veblen identifies at least two ways of signalling the presumed wealth. Firstly, individuals engage in every other activity except productive work, consequently spending time and effort on unproductive activities. This is known as conspicuous leisure (Veblen, 2003:25). This concept is linked with wealth because typically humans labour to earn income. Therefore, those who do not participate in labour but still spend exorbitantly are presumed to be wealthy. The second method of signalling unobserved wealth is through conspicuous consumption; expenditure on categories of goods that are typically associated with the lifestyle of the rich. Owning such goods portrays an image of wealth and prestige (Veblen, 2003:63). It is this latter method of signalling wealth that is the focal point of this paper.

The author identified two cognitive motives for conspicuous consumption: (i) invidious comparison and (ii) pecuniary emulation (Veblen, 2003:21-25). Invidious comparison motivates rich people to engage in conspicuous consumption so as to distinguish themselves from the poor through their ability to purchase expensive visible possessions. On the other hand, pecuniary emulation occurs when poor people emulate the behaviour of the rich by also purchasing expensive items so as to be identified as part of the elite group (Veblen, 2003:25). Both of these behaviours are status driven. According to Veblen's economic theory, the phenomenon of conspicuous consumption occurs irrespective of economic status. Hence it is found in developing countries as much as it is found in developed countries.

Although this theory was well received in the scholarly environment and later inspired many other similar theories on consumer behaviour and conspicuous consumption, Mason (1984:39) and Trigg (2001:99) indicate some inconsistencies in the theory. Veblen's theory holds that individuals want to out-compete one another through excelling in the accumulation of goods. This suggests that there is general awareness and consciousness – hence a deliberate endeavour – to achieve a particular end. An inconsistency is formulated when Veblen traces the origin of this competitive desire to a trait of human nature. That is, being competitive or wanting to be better than everyone else is inherent in all humans. Mason (1984:39) argues that it cannot both be a deliberate endeavour and inherent in human nature. As a result of this inconsistency in argument, the question remains unanswered: do human beings engage in conspicuous consumption because of external factors or internal factors? That is, does the phenomenon occur because of who they intrinsically are or because of what they become due to external influences?

Veblen's assumption that status can only be achieved through differences in wealth, whereby logically the one who has acquired the most wealth receives the higher status, has been questioned by Mason (1984:42), who asserts that this narrow view ignores other factors that can contribute to building status, such as the personal characteristics of an individual.

The Veblen theory relies heavily on the trickle down approach; the idea that the poor or those lower in the social hierarchy make every effort to emulate the consumption patterns of those in the higher social class (Trigg, 2001:99). Trigg argues against the fixed idea of the top-down approach with the view that the poor can also influence the consumption patterns and behaviour of the upper class. For instance, the modern culture and popularity of denim jeans is not a



legacy of the upper class (Trigg, 2001:103). It ascended from lower class to upper class. Clearly cultural influences can also emanate from the lower class.

The crux of Veblen's theory is that conspicuous consumption is used to signal unobserved wealth and consequently acquire status. Mason (1998) argues that since Veblen's wrote his theory, the dynamics of status have changed. People convey status in subtler ways as well as the public conspicuous consumption observed by Veblen (Trigg, 2001:99).

That being said, Trigg also admits that over time, Veblen's theory has been oversimplified and misrepresented in the literature (2001:104). Hence, the inspiration and arguments in this paper are primarily based on Veblen's ideology on conspicuous consumption.

### **2.2.2 CONFORMIST (BANDWAGON), SNOB AND VEBLER EFFECT THEORY**

In many cases, the rationale of purchasing a good cannot be adequately explained by the intrinsic qualities of a good. Instead its rationale is explained by what the good symbolises to others (Corneo & Jeanne, 1996:55). Conspicuous consumption behaviour has two competing desires, namely, the desire to be like everyone else – a conformist, and the desire to be different – a snob. Leibenstein (1950) formalised the two competing behaviours into formal theories and expanded on the work of Veblen (1899), by identifying a third rationale of conspicuous consumption, also referred to as the Veblen effect.

In Leibenstein's attempt to incorporate the phenomenon of conspicuous consumption into the traditional demand theory, the author decided to start by relaxing the controversial assumption of independent utility functions of consumers (1950:183). The author argued that consumers' demand can be classified according to their motivation, namely functional demand and non-functional demand (Leibenstein, 1950:188). Functional demand refers to the motive of purchasing a good for the tangible qualities inherent in the product. On the other hand, in the case of non-functional demand, a good is demanded for factors other than the use of the good (Leibenstein, 1950:189). Using a car as an example, the functional demand would be basic transportation, the ability to drive from one point to another. But non-functional demand considers the influence of externalities on one's demand. Still using a car as an example, one might consider how many people own the same car or what it symbolises in the society.

Hence, the theory of non-functional demand can be used to explain conspicuous consumption to signal wealth and gain status. Non-functional demand can further be classified into three external effects namely, the Bandwagon effect, the Snob effect, and the Veblen effect. As the

bandwagon effect is actually a result of conformism behaviour, the paper will discuss conformism prior to the bandwagon effect.

## **CONFORMISM**

Conformism is the desire to talk like others, dress like others, be like others and possess what others possess (Postlewaite, 1998:791). Conformists strive to maintain a socially appropriate appearance to the extent that, if the reference group prescribes or acquires expensive possessions or activities, then a good member must acquire those in order to fit in. Consequently, one can have a complete wardrobe that does not represent one's individual taste or preference but is just socially appropriate (Ahuvia & Wong, 1998:432). In practice, Asian communities have been linked the most to this behaviour, this assertion being qualified by clear evidence of their quest to adopt the Western culture (Postlewaite, 1998:791).

Ahuvia and Wong argue that people face social pressures in societies that force them to be conformists (1998:434). Societal values induce a fear of being identified with the poor and that leads to conformism behaviour (Corneo & Jeanne, 1996:63). Even if one wanted to resist the social pressure, one must consider the possibility of social exclusion and how that would reflect on one's family name, especially in the Asian cultures (Ahuvia & Wong, 1998:434). Thus it could alternatively be argued that the motive for conspicuous consumption is to avoid social ostracism rather than search for prestige (Corneo & Jeanne, 1996:56). This argument brings to light the possibility that people are compelled at times to conform to a socially appropriate standard in order to avoid social exclusion, rather than acting of their own accord. The resulting behaviour of conformism can be explained within the bandwagon effect.

## **BANDWAGON EFFECT**

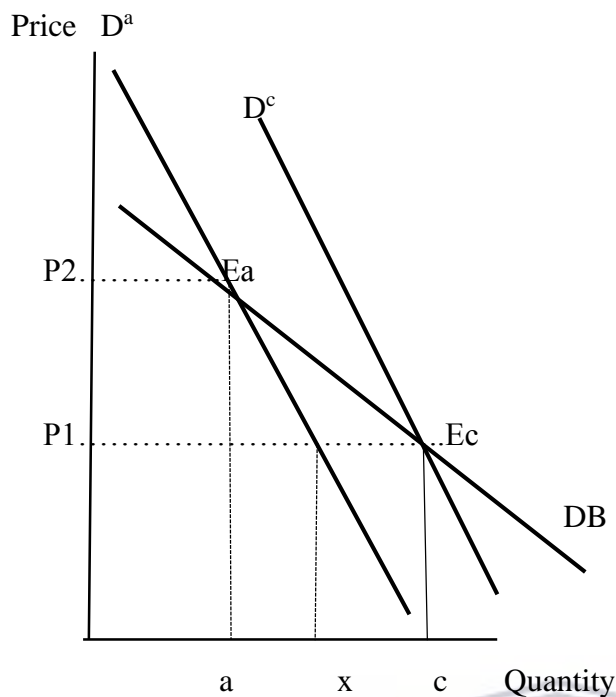
The Bandwagon effect is the extent to which demand for a good is increased as more people buy the good. People are motivated to purchase a good in order to conform to their reference group, which is the large number of buyers who purchased before them (Leibenstein, 1950:189). Consumers demand more of a good because others are demanding more, but they can also demand less of a good if others are demanding less. Therefore, demand for a good is predominantly the function of other people's demand. Corneo and Jeanne (1996:56) add that if the general society engages in conspicuous consumption so as to not be identified with the poor, bandwagon effects will then arise. Nearly everyone buys the good to fit in the general society and not be considered poor. Bandwagon effects greatly rest on the assumption of

knowledge symmetry among consumers regarding people's quantity demand at any given price (Leibenstein, 1950:190). Put simply, the theory assumes consumer A has perfect knowledge of the quantity demanded by consumer B, at each price. As a result of that perfect knowledge, consumer A can adjust his or her own demand to match consumer B's demand. The same principle applies to consumer B and all other consumers in the market.

A person's demand is a function of the quantities demanded in the market collectively (Leibenstein, 1950:191). Therefore in this theory, changes in quantity demanded can be due to either price effect, which is extent of the change in demand that is due to changes in price, or bandwagon effect, which refers to the change in demand that is due to consumers adjusting to each other's changed consumption (Leibenstein, 1950:195). This differs from the traditional demand theory which only accounts for changes in quantity as a result of a price effect. Below a demand curve is depicted that shows a bandwagon effect.



**Figure 2-1: Bandwagon Effect**



Source: Leibenstein (1950:195)

The price of the good is on the y-axis and quantity is on the x-axis.  $E_a \dots E_n$  represent virtual equilibriums, the amounts that consumers expected to be the total market demand. Tracing out the equilibriums leads to a market demand curve of DB.  $D^a \dots D^n$  are the individual demand curves. Suppose price decreases from P2 to P1. From the above graph, we observe that demand increases to ac. However, only a portion of that increase in demand is due to the price change (Leibenstein, 1950:195). To ascertain the demand increment that is purely due to price reduction, we go along the demand curve at P1. Should the consumers not have adjusted to each other's demand the increase in demand would be the area ax. But because of the bandwagon effect it has adjusted to c, which in excess of xc (Leibenstein, 1950:195). Therefore, consumers adjusted to each other's demand and felt socially pressured to increase their own demand.

### **SNOB EFFECT**

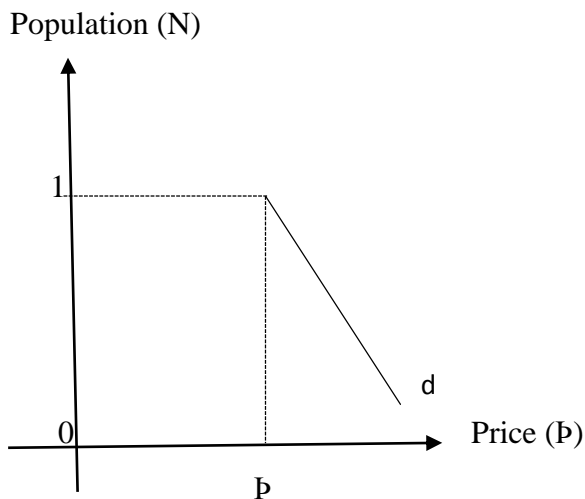
On the opposite end of the spectrum of externalities is the snob effect, whereby the demand for the product decreases due to the fact that many people already own the product. Consequently, snobs refrain from purchasing the product as they want to achieve exclusivity of what they possess. Snobs want to disassociate from the 'common herd' and stand out (Leibenstein, 1950:189). Hence the consumer's demand is negatively related with the aggregate market

demand (Leibenstein, 1950:199). The value and the attractiveness of snobbish products and services mainly rest on their exclusivity; that a selected few will have access to them, typically the affluent upper social group. Producers often capitalise on the consumers' desire for status achieved through exclusivity by emphasising the uniqueness and exclusivity of their particular brand. An example of this selling technique is the car manufacturing firm Ferrari. According to Bett (2002, as cited by Amaldoss & Jain (2005:1449), the car company historically promised that it will not produce more than 4 300 vehicles in a year despite the fact that it had a two-year waiting list for its cars. Zhan and He (2012:1458) dubs this occurrence a rarity principle – the good is held in great esteem and honour because few people own the good. Noteworthy to mention, the car company Ferrari later increased its supply, however by then it had established an image of exclusivity in the market of cars.

The strategy of making a good rare by limiting production is also found in the market for watches and jewellery (Amaldoss & Jain, 2005:1449). It is driven by the notion that some consumers may find less value in the product if it is widely available. For that reason, a good that typically symbolised wealth and conferred status can later lose its status and prestige owing to the fact that it became accessible to too many people. For instance, classical opera music was formerly the indulgence of the elite group of society, but gradually became accessible to the other classes. Consequently its status-conveying ability diminished significantly (Trigg, 2001:105). This example shows that the activity of status seeking through conspicuous consumption is a never-ending task as the status appearance of goods changes rapidly (Trigg, 2001:101).

According to Chaudhuri and Majumdar (2006:7), the literature has attached too much value to the status component in conspicuous consumption and as a result has neglected this desire to be unique or different. The authors argue that perhaps conspicuous consumption is motivated by the desire to achieve uniqueness rather than the usual argument of status or wealth. This suggests that consumers do not deliberately seek status. Instead they seek uniqueness which consequently leads to achieving status as well. They seek expensive items that general society cannot obtain. Finally, Chaudhuri and Majumdar claim that the desire to be unique has been re-enforced by the post-modernistic environment where consumers reject dominant values and everything normal or ordinary in search of doing 'their own thing' (2006:7).

**Figure 2-2: Demand for Conspicuous Good in the Case of Snobs**



Source: Corneo & Jeanne (1996:63)

$N$  on the vertical axis represents the richest population and  $P$  on the horizontal axis represents the threshold price. In figure 2-2, demand is zero as long as the price is lower than the critical level  $p$ . In other words, there is no demand for a price less than  $p$  by the rich population. This is owing to the fact that lower prices stimulate demand, hence everyone would buy the good and that will diminish its signalling value for the affluent. Therefore, the only possible equilibrium entails none of them buying the good. But when the price reaches the critical value (higher price) in the eyes of snobs, the good is very attractive because others cannot obtain it. Therefore, nearly all of the rich population will buy the good. However, even the affluent face monetary constraints. Upon the persistent increase of the price, demand declines.

### **PRICE EFFECT DERIVED FROM THE VEBLEN EFFECT**

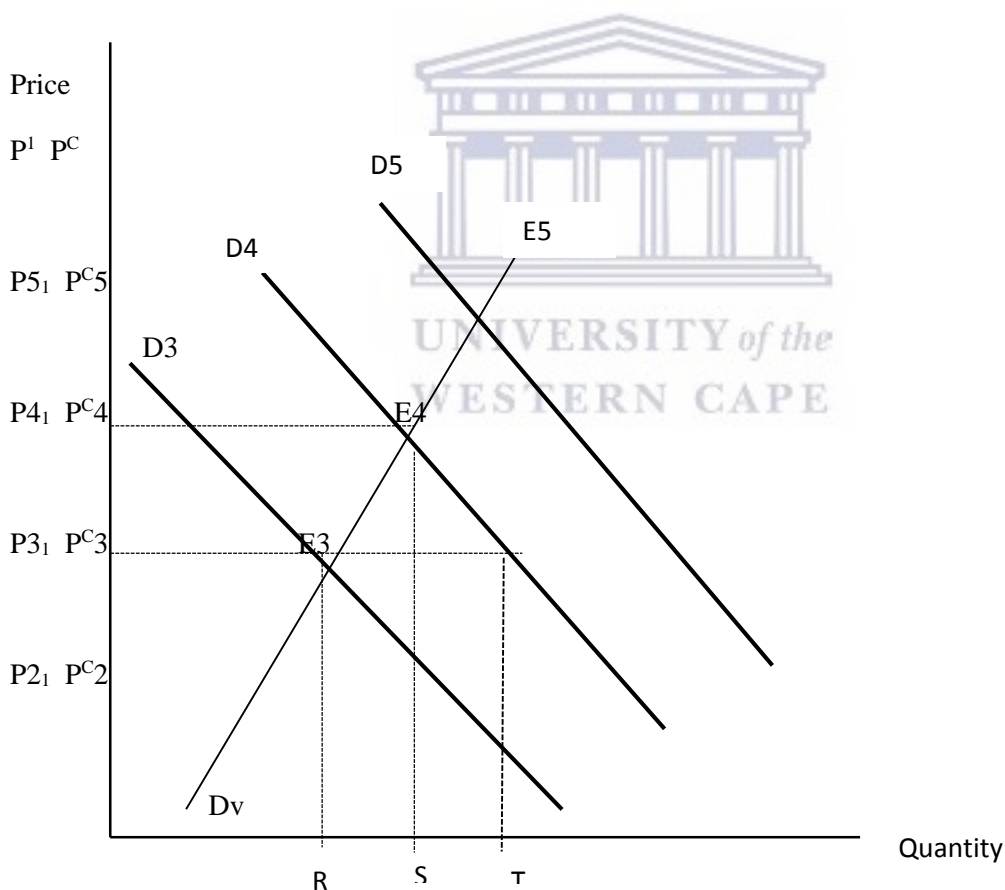
The Veblen Effect theory is a branch of conspicuous consumption theory that states that the appeal and demand of a good is increased because it bears a high price. Thus its demand is a function of price while the snob effect is a function of other people's consumption (Leibenstein, 1950:189). The willingness to pay for the good increases with its price and the willingness is determined by the product's signalling value (Corneo & Jeanne, 1996:63). It follows that the Veblen Effect will only occur if the signalling value increases as the price increases.

There is extensive evidence both in economic and social literature that show societies can be divided into status classes with the most obvious class determinant often used being income level. Members of the higher class are accorded greater prestige than members of other classes.

With income or wealth often not obvious to society, people judge others by their consumption patterns in order to identify their social class (Miller, 1975:142). Purely conspicuous goods are purchased to demonstrate that the buyer belongs to a certain class and can afford such expensive goods (Miller, 1975:141).

Likewise, Pollak (1977:64) presents an argument that preference for a good can depend on its price. People generally judge the quality of a good by its price. Intuitively, and in line with Veblen effects, higher price implies higher quality. Moreover, higher prices enhance the snob appeal and consequently, a good is accorded a higher status. Corneo and Jeanne (1996:56) present a similar argument but state that high price in this case signals the quality of a customer rather than the product. Using price as a signal for quality is most common in the light of limited market knowledge (Pollak, 1977:64).

**Figure 2-3: Veblen Effect**



Source: Leibenstein (1950:202)

Leibenstein (1950:203) argues that the attractiveness of a good for conspicuousness is its price, rather than the inherent qualities of a good. Due to the importance of price for the Veblen effect,



price is divided into two categories: real or actual prices denoted  $P_1, P_2 \dots P_n$  on the graph and conspicuous prices denoted  $P^c_1, P^c_2 \dots P^c_n$ . Real or actual price is the monetary value that the consumer paid for the product, whereas conspicuous price is the price that other people think the consumer paid for the product.  $D_1 \dots D_n$  represent market demand curves, which indicate quantities demanded at an alternative (real) price if all consumers expected a conspicuous price of  $P^c_1$ . These market demand curves will shift to the right as the expected conspicuous price increases. Equilibrium in the market  $E_1 \dots E_n$  is formed when real price is equal to the expected conspicuous price. Then a combination of these equilibriums forms the demand curve ( $D_v$ ). Suppose price declines from  $P_4$  to  $P_3$ . This reduces quantity demanded by  $RS$ . If it was not for the consideration of conspicuous consumption, quantity demanded would increase by  $ST$ . However, taking conspicuous consumption into account, when the price falls from  $P_4$  to  $P_3$ , there is a re-evaluation of the conspicuous price from  $P^c_4$  to  $P^c_3$ . Consequently, many buyers leave the market owing to the reduced value of the good. Thus the Veblen effect is  $RT$  and the price effect is  $ST$ . This means that a price reduction under the Veblen effect negatively affects demand. Instead of increasing it, as per demand theory, it decreases it.

Although Leibenstein (1950) provides a comprehensive study of conspicuous consumption that has subsequently been adapted or made reference to by other scholars, it is not without drawbacks. Mason (1983) identifies three limitations found in the Leibenstein analysis. Firstly, the analysis assumes perfect knowledge among buyers (Mason, 1983:9). This effectively means that a consumer knows with certainty what other people paid for a good at each quantity; hence they can adjust their own demand accordingly. Consequently, the analysis suggests real price is always equal to the conspicuous price at equilibrium points on each demand schedule. In real market situations though, there is always imperfect knowledge in one form or the other. Secondly, Leibenstein confines conspicuous goods to durable and semi-durable goods that are of relatively high cost (Mason, 1983:9). Confining conspicuous goods to only the two types of goods eliminates any possibility of non-durable low-cost goods, which are also socially visible, having the appeal of conspicuousness. Being based exclusively on durable and semi-durable goods, the entire analysis therefore only holds true for those types of goods. Finally, Leibenstein made an attempt at providing a detailed study of conspicuous consumption at the aggregate level and, possibly for the sake of simplicity, had to assume the motives of conspicuous consumers were identical for all consumers and therefore additive. However, in fact there are various unique motives behind conspicuous consumption and they cannot be explained in aggregate terms (Mason, 1983:9).



### 2.2.3 DEMAND CURVE OF A CONSPICUOUS GOOD

Mason (1983:3) admits it is not always easy to accommodate any explanation of consumer behaviour that contradicts the assumption in demand theory of a downward demand curve. Conspicuous consumption is chiefly motivated by social rather than economic or practical utility of the product. Satisfaction from consuming such goods is drawn from the reaction of others to the assumed wealth displayed associated with the goods. Therefore, only the price of the product is significant to the buyer (Mason, 1983:3). This implies a positive relation between price and demand. This is because a demand for conspicuous products is expected to increase for as long as there are no significant income or wealth constraints (Corneo & Jeanne, 1996:56). This notion calls into question the traditional downward sloping demand curve (Mason, 1983:4). The question therefore is, is the demand curve for conspicuous goods downward or upward sloping?

Corneo and Jeanne postulate an analysis in which demand is upward sloping (1997:64). The authors propose that demand can be upward if conformist behaviour generates a Veblen effect. With the Veblen effect, demand for a conspicuous good simultaneously increases with price. In this case, increasing the price of the conspicuous good raises both the number of consumers and its signalling value. Thus the demand curve will be upward sloping.

In contrast a snobbish behaviour with Veblen effects will generate the traditional downward sloping demand curve. This is because raising the price decreases the number of consumers, which is exactly what is required to increase the signalling value of a conspicuous good for snobs. The above argument contradicts the proposition put forward by Amaldos and Jain (2005:1452), who claim that only snobs can have a positively sloped demand curve on condition that the market comprises both positive and negative externalities; that is to say, conformists and snobs. The demand curve would be upwards if consumers expect aggregate demand to decline as price increases. Simultaneously, as quantity demanded decreases, the utility value of the good would increase with price (Amaldos & Jain, 2005:1452). Therefore, demand from snobs would grow as prices increase, on condition that there are enough conformists in the market.

Another theory used to explain this peculiar slope of the demand curve is the marginal utility theory (Mason, 1983:5). The theory suggests that price transforms the nature of the product in a perceptual sense. Therefore, it does not give rise to a single-product upward slope but the

nature of the good has been transformed. Thus it generates the upward sloping demand curves of new products that have been created.

Traditional economics is not entirely oblivious to the possibility of positively sloped demand curves (Alcaly & Klevorick, 1970:53). This idea of positively correlated price and demand relations already exists with Giffen goods (Mason, 1983:4). However, Giffen goods in economics have been recognised and treated analytically as part of the traditional consumer theory, unlike conspicuous goods (Alcaly & Klevorick, 1970:53).

#### **2.2.4 FACE CONSUMPTION THEORY**

Face refers to the prestige and social status that one wishes to communicate to others (Ahuvia & Wong, 1998, as cited by Lu Wang & Xiong Chen, 2004:394). It means upholding one's public dignity and standing (Le Monkhouse, Barnes & Stephan, 2012:650). Therefore, it is the ideal image that one wishes to project to society. The concept of face is most prevalent in China, where people are under pressure to meet the expectations of others in order to maintain face (Li & Su, 2006:240). East Asia is mentioned to have a greater need to maintain public face to the extent that consumers disregard their own taste, preference and feelings, because to them it is more important to consider what others think of them (Le Monkhouse et al., 2012:650). Li and Su define face consumption as a motivational process by which one attempts to enhance, maintain or save face, and also show respect to others' face through the consumption of goods (2006:424). Face consumption is closely associated with conspicuous consumption as it is directed at impressing others.

Face consumption has three characteristics, namely obligation, distinctiveness and other orientation (Li & Su, 2006:242).

1. Obligation – in order to fit into the relevant group, individuals are expected to mimic the face consumption of their respective social group. Failure to do so will cause them to lose face within the group. Thus they have to conform to the group's consumption.
2. Distinctiveness – to show uniqueness, a good purchased must be a name brand or expensive so that it is out of reach of the masses, and only accessible to the elite.
3. Other orientation – people must also take into account other people's face. Hence when they purchase gifts for others they must choose a product that is of a certain standard in order to feel 'full face', when the gift exchange process is completed.

Although face consumption can be considered an extension of conspicuous consumption, the two concepts have a few differences, as outlined by Li and Su, who argue that not all face consumption is used to demonstrate wealth and acquire status, but face consumption may be intended to maintain or save face (Li & Su, 2006:242). Also, those who engage in conspicuous consumption may pursue it of their free will whereas face-saving consumers are under pressure to do so (Li & Su, 2006:242). However, Ahuvia and Wong (1998:437) disagree here, arguing that people become conspicuous consumers due to social pressure and the fear of being socially excluded. Hence they may not do it entirely of free will. Finally, unlike status-led consumption, Li and Su note that face consumption can be oriented to others, for instance to show respect to others (2006:242). This theory has been used to explain the quest to buy expensive luxury products in the consumer patterns of East Asia. It follows that consumers who engage in face consumption, which is intertwined with conspicuousness, engage in the two to simply save or maintain face (Li & Su, 2006:237).

#### **2.2.5 COMPENSATORY CONSUMPTION THEORY**

Compensatory consumption occurs when individuals buy things to offset any deficiency they feel. It generally arises from a pre-cautious mindset to protect the self from self-deficiency (Kim & Rucker, 2012:817). Consumers will react favourably to consumption because it will act as a means of distracting the self from the perceived self-deficiency (Kim & Rucker, 2012:817). The rationale behind this form of consumption is that expensive products which signal success in a society can compensate for the perceived lack (Lisjak, Bonezzi, Kim & Rucker, 2015:1186). Compensatory consumption is aimed at protecting self-worth from a perceived threat prompted by a deficit between one's actual and ideal self (Kim & Gal, 2014:527). When self-worth is under threat people are known to sometimes engage in irregular consumption behaviour (Kim & Rucker, 2012:815). An everyday example would be the decision to accessorise with rarely worn jewellery before attending a social event (Kim & Rucker, 2012:816). This protects the self from any inner deficiencies. It protects the self from being socially judged as financially unsuccessful (Kim & Rucker, 2012:816). The further one is from the ideal self, the harder one will try to conceal that deficit through consumption. In modern times the function of conspicuous consumption transcends one of obtaining status. Conspicuous consumption is used to fashion new identities, gain desired associations and even fake success (Gudmunson & Beutler, 2012:389). This means if one contemplates lack in success, one can model success through consumption. People who perceive themselves to be powerless may attempt to change from the powerless state by drawing power from status, as

prior theories suggest. Therefore, because of the positive relationship between status and power, the feeling of powerlessness can be compensated for through acquiring status (Rucker & Galinsky, 2008:257).

As mentioned earlier, Moav and Neeman contend that the poor, uneducated and newly rich people are more likely to be consumers of conspicuous products than established rich people. This is because rich people with high human capital have other means of signalling wealth and gaining status such as professional titles and educational certificates. Hence they have less need to signal success through conspicuous consumption (2012:934). Put differently, they do not have to compensate for lack of success to prove success through conspicuous consumption. Gudmunson and Beutler (2012:390) add that young people who lack parental caring can compensate for it by developing consumption patterns aimed at securing admiration and attention from others. The outside admiration and attention would compensate those young people from the unfulfilled feeling of craving parental care.

Conspicuous consumption is considered a pseudo-satisfying method that acts as a surrogate to self-deficiency (Gudmunson & Beutler, 2012:390). It provides short-term relief to a distressed consumer. This is because it only covers feelings of self-deficit but does not directly address the source of the threatening information (Kim & Gal, 2014:527). The decision to avoid psychological discomfort through ostentatious consumption has both financial and psychological consequences (Kim & Gal, 2014:527). It is only a distraction from deeply embedded psychological issues – whether they be self-identity, respect and / or esteem needs. In the aftermath of conspicuous consumption, the issues would still remain.

#### **2.2.6 SECOND-PARTY PREFERENCES: EGALITARIANISM, AVARICIOUSNESS AND ALTRUISM**

There are three fundamental assumptions in the neo-classical theory of consumption (Ackerman, 1997:652).

1. Asocial individualism – consumers' preferences are exogenous in such a way that they are not influenced by interactions with others or the behaviour of a second party.
2. Insatiability – it is human nature to experience several desires and the only economically meaningful way of satisfying those desires is through more consumption.
3. Commodity orientation – consumer preferences are determined by well-informed desires for specific goods which are available in the market.

The assumption of asocial individualism has been subjected to much criticism in the literature. This principle assumes that one's utility function is not influenced by a second party's utility function. Whether the second party consumes more or less than you, you will be indifferent to that consumption. In this regard, the literature has argued differently. Corneo and Jeanne (1997) hold that in many instances of economic behaviour, people consider the behaviour of others and they rely on social norms to gain the approval of others. Moreover, Leibenstein (1950:188) argues there are two different utility functions as opposed to one, namely functional utility and non-functional utility, with the latter taking into account how second-party consumption influences one's own consumption rate, either positively or negatively.

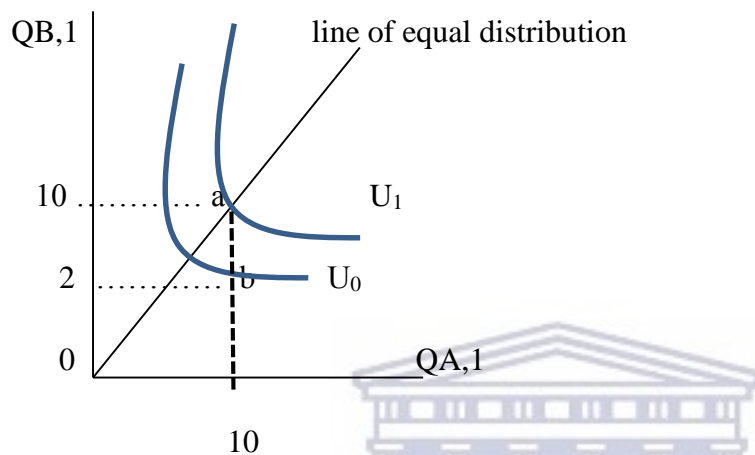
In this regard, Scott (1972) provides an alternative to the assumption of independent utility functions with the theory of second-party preferences, wherein an individual's utility does not only depend on his or her rate of consumption but also on the neighbour's consumption or reference group (Scott, 1972:1). In this theory, happiness is a function of being rich and displaying wealth through consumption of status goods. Therefore, an individual will be most happy if he or she excels in the consumption of status goods. The author postulates three unique consumption behaviours: Egalitarian, Avaricious and Altruistic (Scott, 1972:5).

1. Egalitarian – wants to consume at the same rate of consumption as others. Therefore, egalitarians become less happy when they observe others consuming more or less. In other words, their utility decreases, if the consumption rate is unequal.
2. Avaricious – this individual strives to consume more than others. This desire holds true even if they move from a point where they have equal amounts of consumption with their neighbour to a point where the neighbour has less and the avaricious person still has the same consumption. The utility of an avaricious individual will increase as a result of this move. Although their own consumption has not changed, their utility is nonetheless increased by the fact that their neighbour is consuming less than them. Put simply, they seek superiority in consumption.
3. Altruistic – their degree of consumption is increased when they observe others consuming more than them.

With respect to conspicuous consumption we use indifference curves to illustrate egalitarian and avaricious consumers, reflected in figures 2-4 and 2-5 respectively. Similar to most economic theory, we postulate an oversimplified economy with two consumers; consumer A

and consumer B, with a single good in the economy, housing. Consumer A's utility is given by  $U_A = f(Q_A, 1; Q_A, 2 \dots Q_A, N)$ . Applying Scott's (1972:2) theory of interdependent utility, it follows that consumer A's utility depends on the amount of housing he consumes and the amount of housing consumed by consumer B. Therefore, the utility function of consumer A becomes  $U_A = f(Q_A, 1; Q_A, 2; \dots Q_A, N; Q_B, 1; Q_B, 2 \dots Q_B, N)$ .

**Figure 2-4: Egalitarian**

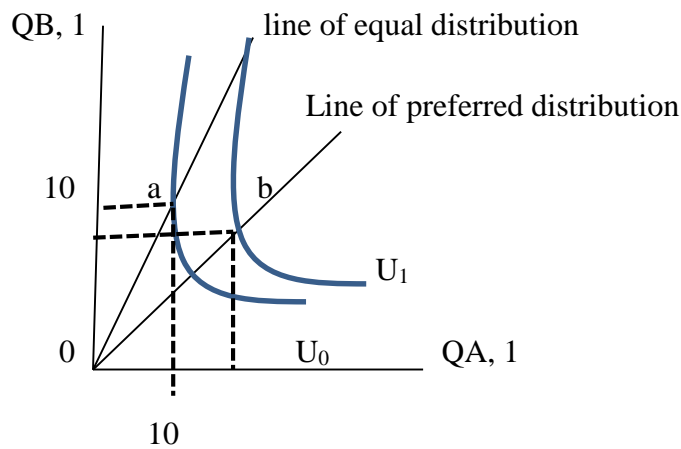


Source: Scott (1972:2)

The horizontal axis shows the amount of housing consumed by consumer A, with the vertical axis showing the amount consumed by consumer B. Moreover, on the graph there is a diagonal line, called the line of equal distribution. At every point on the line both consumers consume the same rate of housing. At point 'a' both consumer A and B consume 10 units of housing each and consumer A achieves a higher utility of  $U_1$ . However, because consumer A is an egalitarian, meaning he always wants to consume at the same rate as his neighbour, consumer B, his utility therefore declines when they consume at different consumption rates at point 'b'. At this point consumer B consumes a lower rate of 2 units. Although consumer A still consumes 10 units of housing, consumer A now lies on a lower indifference curve of  $U_0$ . Consumer A's level of satisfaction declines. This is because consumer A is a true egalitarian believing in the equal distribution of houses (Scott, 1972:3). Note that a movement to the right from any starting point leaves consumer A better off, contrary to the leftward movement that leaves consumer A worst off.



**Figure 2-5: Avaricious**



Source: Scott (1972:4)

Adding to the line of equal distribution, is a line of preferred distribution. If it lies below the line of equal distribution it describes a preference for superiority in consumption by consumer A. If it lies above, the opposite holds true. With avaricious behaviour (a brief reminder), the more they consume the happier they become (Scott, 1972:4). At point 'a' they each consume 10 units of housing; the utility function of consumer A is lower at  $U_0$ . However, when consumer A manages to consume probably three additional units of housing at point 'b', and consumer B consumes less, as a result of that redistribution consumer A then receives a higher utility at  $U_1$ . To be most happy, consumer A must maintain a superior position to consumer B. Thus consumer A chooses consumption bundles that lie on the line of preferred distribution rather than the line of equal distribution.

Scott's theory identifies a conspicuous consumer as an individual who is self-centred, focused on consuming the highest consumption compared to others with little social consideration. Therefore, a conspicuous consumer is predominately avaricious as opposed to altruistic. More consumption is always preferred to less. The only limit they face in the quest for status through superior consumption is wealth or income (Mason, 1983:11).

## 2.2.6 HUMAN BEHAVIOUR AND EVOLUTION

Despite the success of the study of economics as a social science, economics methodology is inadequate to comprehend some aspects of human behaviour, such as in areas where individuals are concerned about the opinions of others (esteem needs and status) to the extent

that they do not mirror expected consumer rationality as dictated by the economics methodology (Postlewaite, 1998:780). The prevailing consumer theory undervalues irrational consumer behaviour even though conspicuous consumption is mainly psychological in its motivation (Shukla, 2008:27). Even though there exists a general awareness among economists about the imperfections of these models and theories, there has been reluctance to incorporate such notions of human behaviour into economics models. Furthermore, Chaudhuri and Majumdar state economists have neglected the psychological constructs of conspicuous consumption and confined it to one explanation of signalling wealth in order to obtain status (2006:6). Therefore, literature has attached too much emphasis on the status component of conspicuous consumption and neglected other arguments.

According to evolutionary psychology, humans are born with a 'selfish gene' that is essential for survival (Jackson, 2002: 296). Generally, a human being is born with the desire to ascend to the top of a societal hierarchy (Postlewaite, 1998:781). Postlewaite further states that one is not only born with that desire but it originates from evolution. In attempting to clarify this premise, the author compares human behaviour with animal behaviour as per the theory of evolution. Making reference to apes and chimpanzees, animals that most resemble humans genetically, Postlewaite (1998:781) argues that they too have a hierarchical social structure with top-ranked members enjoying better access to food and mating opportunities than their lower counterparts. This resemblance is confirmed by Jackson (2002: 294). As humans share characteristics with other mammals and species, if humans are the end product of evolution, they ought to resemble such behaviour. They ought to compete to be on top of their environmental hierarchy. With income classes, a hierarchy is built into societies that determines how status and respect is given. Thus using conspicuous consumption, one can position oneself at the top of that social hierarchy.

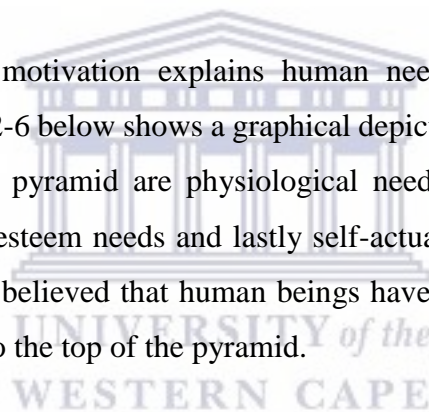
Borrowing from the words of Gumplowicz (1963, as cited by Jackson, 2002:292) 'for nature has provided that man's need shall not stand still, higher and nobler wants are constantly awakened.' With those words Gumplowicz (1963) puts forth an assertion that all humans desire to have more than others. They compete to be relatively better and that desire is within them and constantly yearns for more. Apart from desires, they also have needs which they have to satisfy. In satisfying those needs, at times individuals use pseudo-satisfiers; they use materialism to satisfy non-material needs such as affection, participation and creativity (Jackson, 2002: 296).



As it has been established, the utility calculus in economic models that aimed to capture human behaviour is ill-formed about the multiplicity of human behaviours. At times what is defined as rationality of utility maximisation in economics is challenged by evolutionary psychology (Jackson, 2002:296). In light of that view one must consider the question, is it possible to include all possible human behaviour, both rational and irrational, and still preserve the integrity of economic theories as well as the models? In this regard, Postlewaite argues that, if all of the different human behaviours would be included, this would enable a very broad range of behaviour with few restrictions so that the resulting model would be of no value in predicting behaviour (1998:791). Therefore, it is sensible to use the parsimony principle that states a model can never fully capture reality, hence some amount of simplification is necessary to construct a useful model (Gujarati & Porter, 2010:220). Thus most economic models, in their oversimplification, succeed in capturing only parts of reality.

### **2.2.7 MASLOW MOTIVATION THEORY**

Maslow's theory of human motivation explains human needs, typically illustrated in a hierarchical structure. Figure 2-6 below shows a graphical depiction of Maslow's Hierarchy of Needs. At the bottom of the pyramid are physiological needs, followed by safety needs, belongingness and affection, esteem needs and lastly self-actualisation needs, encompassing growth and purpose. Maslow believed that human beings have to satisfy the bottom or base needs first and then advance to the top of the pyramid.



**Figure 2-6: Maslow's Hierarchy of Needs**



Source: Maslow (1954:46)

Based on the foregoing discussion, conspicuous consumption is engaged in to gain social status and esteem. It is argued further that among poor people conspicuous consumption is realised at a cost of basic human goods (Moav & Neeman, 2010:414). Only the two concepts that strongly relate to conspicuous consumption, namely physiological needs and esteem needs, are discussed below.

Physiological needs are typically basic human needs necessary for survival, such as food, shelter and basic clothing. In Maslow's hierarchy of needs, physiological needs have to be met before one can pursue or fulfil needs such as esteem or self-actualisation. Maslow argues that a 'man' who is extremely hungry, 'dreams about food, remembers food, thinks about food, he perceives only food and he wants only food' (1954:37). Such a person is able to disregard all other human needs and seeks to fulfil physiological needs. With regard to the

fourth level of human needs, Maslow argues that all people in society have a strong need for self-worth, self-respect and a high evaluation of themselves (Maslow, 1954:45).

Self-esteem needs can be classified into two subsidiary sets:

1. Desire for strength, competency, adequacy, confidence in the face of the world, independence and liberation.
2. Desire for reputation, status, fame, recognition, dignity and importance.

Essentially the first subgroup is one's evaluation of oneself, how humans perceive themselves through self-love, self-respect and self-worth. The second subgroup concerns how the world perceives one. Hence satisfaction of esteem needs gives one a feeling of being useful and important in the world. When these needs are not met, it arouses discouragement and inferiority (Maslow, 1954:45).

A key implication of the Maslow hierarchy is the systematic approach people are to follow in satisfying needs and wants, in terms of which needs ought to be prioritised over wants and desires. Examining the consumption basket of the poor against Maslow's motivation theory, the poor should be concerned firstly with basic needs and only pursue status after adequately securing physiological needs. Hence Maslow's depiction of physical needs such as food on the bottom of the hierarchy and esteem needs three places higher shows the relative importance of physical needs over esteem needs.

At first glance, the act of conspicuous consumption among the poor appears to violate this theory. Poor people who are barely able to provide for physiological needs are still concerned with satisfying esteem needs. However, despite the hierarchically linear thinking presented by the theory, Maslow (1954:52) did explain that needs do not have to be completely met before advancing to the upper needs. Hence someone who has satisfied a minimum of physiological and safety needs can seek esteem needs.

## **2.3 CONCLUSION**

Starting with Veblen (1899), a plethora of strengthening theories emerged around conspicuous consumption, although few of them targeted conspicuous consumption directly. Leibenstein (1950:188) proposes the idea of non-functional demand, in which demand for a good is motivated by external influences. Those external influences are described in terms of

the bandwagon, snob and Veblen effect theories. Leibenstein's analysis deviates from the traditional consumer demand theory by taking into account how the demand of the market affects one's own demand. In that view of interdependent utility functions, Scott (1972:5) attempts to identify a conspicuous consumer as an avaricious person who always seeks superiority in consumption relative to others. This is discussed in conjunction with a relatively less intense conspicuous consumer, an egalitarian, who desires to always consume at the same rate of consumption with others. The idea of incorporating second-party preferences to determine one's own demand is foreign to traditional consumer theory. However, its existence is proven in all of the theories discussed above. Therefore, consumers do not make consumption decisions in isolation. Does that mean there are no independent utility functions?

After concluding that conspicuous consumption transcends the rationales and assumptions of traditional economics, other non-economic theories from psychology and social studies were consulted. Biology and psychology theorists traced the act of conspicuous consumption to the theory of evolution and human behaviour (Postlewaite, 1998:781), which challenges even the basic notion of rational behaviour emphasised by the study of economics. These views consider conspicuous consumption as part of the inherent quality in human beings, related to the desire to ascend to the top of the social hierarchy. The desire to be treated with respect among the relevant group and also keep up with what others have acquired was a consistent theme found in the various literature. This is described in East Asia as face consumption (Lu Wang & Xiong Chen, 2004:394), and conformism in the Western world (Postlewaite, 1998:791). At times individuals engage in conspicuousness in order to compensate for self-deficiency, within the self (Kim & Rucker, 2012:817).

All the aforementioned theories continued to have deep roots in the original Veblen theory. They preserved the original argument that conspicuous consumption is essentially expenditure on expensive goods or lifestyle in order to attain higher status and prestige. This does not mean the Veblen theory is flawless. On the contrary it has been criticised for having inconsistent arguments and a limited view by stating that status can only be obtained through consumption (Mason, 1984:42). Other theorists contended that in addition to seeking status, conspicuous consumption can be pursued to avoid social ostracism (Corneo & Jeanne, 1996:56; Ahuvia & Wong, 1998:434).

One question the review was not successful in answering was whether the demand curve of a conspicuous good sloped upward or downwards. Economics theorists provided varying

answers. Corneo and Jeanne (1996:64) postulated a scenario in which the demand curve for conspicuous goods is upward sloping; an idea with which Amaldos and Jain (2005:1452) disagreed.

Maslow (1954:46) attempted to explain a logical structure of human needs, stating that humans will generally pursue physiological base needs before attempting to pursue higher needs. This theory has been contested, as evidently people often seek higher social esteem and prestige at the cost of basic needs. It is this imbalance and seeming contradiction that inspired this study of conspicuous consumption and its role in perpetuating poverty.



# CHAPTER THREE: REVIEW OF THE EMPIRICAL LITERATURE

## 3.1 INTRODUCTION

Theorists often postulate an oversimplified world to explain their theories and forecast future behaviour. An abstract idea of what conspicuous consumption is and what gives rise to it can be extracted from studying theories. Building from those theories, empirical studies provide concrete evidence of conspicuous consumption in the real world. One is able to measure conspicuous consumption contextualised in the practices of those who engage in conspicuous consumption, as opposed to only predicting their behaviour from economic models. This chapter discusses incidences of conspicuous consumption among the poor in South Africa and elsewhere.

### 3.1.1 CONSPICUOUS CONSUMPTION IN SOUTH AFRICA

Using the Income and Expenditure Surveys (IES) gathered by Statistics South Africa (StatsSA), Kaus (2013:64) chiefly examined differences in spending on visible consumption across population groups in the country. Kaus (2013:68) found that both African and coloured households spent more on visible consumption than their white counterparts. Focusing on the differences in spending between white and African households, the study revealed that African households spent approximately 50% more on visible consumption in comparison to white households (Kaus, 2013:68). Kaus argues that since white households spent on average R21 932 a year on visible consumption, this suggests that African households spent approximately R10 966 more on visible consumption than whites. Inasmuch as African households spent comparatively more on visible spending, African households actually spent less on alcohol and tobacco compared to white households. Kaus (2013:68) could not interpret from the available data whether the data meant that there was a level of social unacceptability of drinking and smoking among Africans, cultural reasons, or unrecorded alcohol consumption. It is worth noting that in Kaus's paper, visible consumption was defined to include spending on personal care, clothing, footwear and cars, Kaus arguing that these categories of spending signalled unobserved wealth (Kaus, 2013:65).

Two years later Burger et al. (2015:6) conducted a similar study to Kaus (2013), using the Income and Expenditure Survey (IES) of 2010/2011 administered by Stats SA. The study

aimed to investigate why more vulnerable members of the middle class exhibit different spending priorities (2015:42). Within the middle class, a distinction was made between established middle class and emerging middle class, the latter also considered vulnerable to economic shocks. Consistent with the findings by Kaus (2013), the study affirmed that African and coloured households allocated significantly larger portions of their income to visible items that signal unobserved wealth (Burger et al., 2015:52). Within the black middle class, the paper found that the emerging middle class was most economically vulnerable as it spent considerable more on visible consumption<sup>2</sup>. This was because it had a greater need to signal its income (Burger et al., 2015:52). The high spending on visible consumption in the South African context is attributed mostly to asset deficits among black households. Owing to the unfavourable laws of the apartheid regime, blacks were constrained from owning valuable assets. Consequently, they lagged behind in the ownership of durable goods (Nieftagodien & Van der Berg, 2007:3). Burger et al. argue that the black middle class has an asset deficit since the generation before them did not own many valuable assets, while white households' assets were inherited from the previous generation, which benefited from apartheid (2015:53). It follows that black households are still playing catch up in household asset accumulation (Burger et al., 2015:53). For historical reasons, white households dominate asset ownership in the country (Nieftagodien & Van der Berg, 2007:6).

Bearing in mind the historical patterns of asset ownership in the country, the high consumption levels observed among black households can be explained as follows. They are spending conspicuously because economic and political transformation has provided opportunities to access markets previously denied under apartheid. It follows that as the income levels of black households increase, the gap in ownership will shrink since they are purchasing more assets (Nieftagodien & Van der Berg, 2007:4). Thus it is expected that as black asset ownership increases, their need to signal economic status will decline (Burger et al., 2015:54). In spite of the high consumption of visible goods, black households lag behind in recreational and travelling activities. This holds true even for affluent black households (Nieftagodien & Van der Berg, 2007:8).

Even poorer black households want to take advantage of the market access that the political transformation of the country allows (Nieftagodien & Van der Berg, 2007:7). A recent, somewhat baffling development in South African townships is the unique consumption

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<sup>2</sup> 'black' in this paper means African, excluding coloured and Indian population groups.



patterns of groups of African youth known as *izikhothane*. The Zulu word *izikhothane* is a noun that can be translated as ‘those who lick’ and as *Ukukhothane*, a verb, as ‘to lick each other’ (Mchunu, 2016:5). Its meaning when understood in township slang is ‘to compete with fashion, dance moves and trash talk’ (Mchunu, 2016:5). The *izikhothane* typically dress up in expensive brand name clothing such as Arbita, Carvela, Nike, Chinos, Adidas and Sfarzo, among other extravagant brands. These youths typically come from poor households in the townships and yet they spend extravagantly on branded items of clothing that they can ill afford (Mnisi, 2015:34). They compete with other crews in their township, with the crew that wears the most expensive clothes winning the ‘battle’. They bring to light a form of conspicuous consumption that is unique in South Africa and possibly the world.

I must not wear an item below R500, it must be over R500 so then I could qualify, so I went to buy, I bought it, it was R1800 I bought a Carvela [a brand of shoes] at Spitz (Howell & Vincent, 2014:66).

This statement clearly shows the strong correlation between high prices and conspicuous consumption. It is the re-enactment of the Veblen effect, in which the appeal and demand of a good is increased because it bears a high price (Leibenstein, 1950:189). The willingness to pay for the good increases chiefly because of its high price as this induces a high signalling value (Corneo & Jeanne, 1996:63). Moreover, the quoted *izikhothane* consumer bought expensive shoes to qualify, to be part of a certain crew and a sub-culture. This bears resemblance to the conformist behaviour explained earlier by Ahuvia and Wong (1998:432) that conformists maintain a socially appropriate appearance to the extent that, if the reference group prescribes expensive possessions or activities, a member must acquire those in order to fit in.

They then compete with another group of *izikhothane* either within or outside their residential area (Mnisi 2015:341; Mchunu 2016:6).

If I am wearing, my tag for the night is 4 000 [Rand] something, and his tag is 2 000 [Rand] something, he will respect me (Howell & Vincent, 2014:66).

The aggregate cost of the attire worn as one outfit is known as the ‘tag.’ As already stated, the crew with the highest value tag wins the battle (Howell & Vincent, 2014:66). Apart from the glamour of looking good, it appears the *izikhothane* use conspicuous consumption to seek respect.



This battle of opulence does not just end in wearing and showing off the clothes to your peers but another message has to be conveyed. ‘You do not just have enough of it but you do not need it’ (Jones, 2013:209). That message is communicated clearly when they set these expensive clothes on fire or tear them apart (Mnisi 2015:341). Once again this is to paint a picture of abundance in their lives although it well known that it is not so. Moral arguments against the *izikhothane* subculture notwithstanding, two questions need to be asked. Firstly, can one label their consumption behaviour as conspicuous consumption? Secondly, what motivates them to engage in this irrational consumer behaviour? It is a given that the practice is irrational, considering their expenditure against their economic background, as well as the fact that they destroy the items in the name of a fantasy that ‘you do not just have enough of it but you do not need it’ (Jones, 2013:209).

Based on the definition of conspicuous consumption parts of the behaviour of *izikhothane* conform to this definition. The *izikhothane* buy exclusively expensive brands which are associated with the upper class, thereby signalling higher social status. The practice also conforms to this definition because all of their consumption behaviour is publicly demonstrated to an audience when they hold their battles. Moreover, all their purchases are visible assets. Clearly this is an act of conspicuous consumption to change one’s image from deprived to that of higher status and prestige. Veblen (1899:33) better described it as pecuniary emulation, whereby poor people emulate the behaviour of the rich by purchasing expensive items so as to be identified as part of the elite group. Are these reasons sufficient to conclude that the act of *Ukukhothane* is conspicuous consumption?

Mnisi (2015) presented a different argument after interviewing *izikhothane*, arguing that the pattern of consumption of *izikhothane* shows their aspirations to escape poverty and live a better life (Mnisi, 2015:343). He argues that since it is well known that these youths come from impoverished backgrounds, even if they wear expensive clothes or waste food and alcohol, it fails to signal unobserved wealth because generally the society is aware of their true economic status. Instead the author classifies their consumption patterns as ‘aspirational consumption’ and the *izikhothane* as people who buy goods and services they would consume if they achieved a certain level of success in their lives. Their actions are in the same vein as someone who aspires to be a business person will wear an expensive business suit typically worn by a successful business person, although in reality the individual is still struggling. Such persons use material possessions to project their perception of success and the better life they want in the future. Clearly it is an image that is far from their reality.

The second question is what motivates them to do it, besides status? A self-identified *Isikhothane* gave this response (Mnisi, 2015:347):

You see, I'm a very important person and I still have a lot of potential to turn things around. And what makes me feel important, is when people notice me and feel my presence and through my lifestyle you see the clothes I wear and the alcohol I drink, really turns a lot of heads (Kagiso, 19 years of age).

Essentially it comes from a place of aspiration, wanting to feel important, to be treated as someone who is worthy of respect. Howell and Vincent (2014:72) further explain the significance of respect in such communities, whereby individuals from these communities have remained politically and economically marginalised even after the advent of democracy. Their communities are characterised by high poverty, low education, low social services support and high crime. Consequently, respect becomes the symbolic goal through which a new identity can be built. In the face of the poor and the powerless, respect becomes equated with wealth and power (Howell & Vincent, 2014:72). These youths have discovered a new way of camouflaging their economic struggle. Even when an individual is known to be poor, their respect should be preserved so that their poverty is not displayed to the outside world, as that might lead to social exclusion (Mnisi, 2015:347).

According to Mnisi, people use material objects to communicate a message to other people. The message could either be to reveal true identities or to conceal them (2015:349). The act of using material objects to disguise deprivation, low self-esteem or worth is not new in the black community. Before *izikhothane* there was *Oswenka*. Male miners during the apartheid era had been dispossessed of their physical wealth and thereby also dispossessed of their dignity and self-worth by the apartheid government. These men began to consume certain brands of clothing associated with the upper class that was out of their reach (Mnisi, 2015:349). Dressed in expensive suits, jewellery and shoes, these mineworkers used clothing to defy their true circumstances of deprivation, harsh working conditions and classification as third-class citizens (unlike the *izikhothane*, they took great pains to look after their goods).

### **3.1.2 CONSPICUOUS CONSUMPTION IN OTHER DEVELOPING COUNTRIES**

Consumers in developing countries such as India and China are now afforded the opportunity to choose between local and foreign brands (Kumar & Lee, 2009:521; Batra, Ramaswamy, Alden, Steenkamp & Ramachander, 2000:83). Evidently the market for luxury brands is thriving in emerging markets, owing to the growing appetite for goods which are typically

associated with higher social status and an extravagant lifestyle (Li, Li & Kambele, 2012:1516). A luxury good has distinct characteristics that distinguishes it from a basic normal good, hence it is most likely to be associated with conspicuous consumption. Borrowing from Zhan and He (2012:455), the word luxury by definition implies exclusivity. It thrives on the rarity principle, meaning that the value of the good is held in great esteem and honour because few people own the good. As more people have it, its prestige and honour diminishes (Zhan & He, 2012:1458). For reasons that at times transcend quality considerations, consumers in developing countries favour brands that originate from non-local sources instead of local brands. They perceive goods from developed economies to be of higher quality (Lu Wang & Chen, 2004:392). Moreover, Western products are perceived as being modern and tasteful (Xin, 2013:37). As a result, imported goods carry the symbolic meaning of higher social status and consequently confer higher social status and prestige. This is most prevalent for product categories that are high in social signalling value (Lu Wang & Chen, 2004:397). In the same manner, it is common for consumers who have high admiration for economically developed countries to prefer non-local goods to locally manufactured goods (Batra et al., 2000:93). Below we report conspicuous consumption as found in two developing countries, the People's Republic of China and the Republic of India.

## **CHINA**

Because of its rapidly growing economy and population, China has become one of the most attractive markets for luxury goods in the world (Zhan & He, 2012:1452). Historically, China was inaccessible to Western companies, owing to political and legal frameworks (Zhang & Kim, 2013:68). Today it has opened its doors to trade with the rest of the world. As a result, Chinese consumers have a myriad Western brands from which to choose. According to Zhang and Kim (2013:68), Chinese consumers have developed a strong aspiration towards luxury goods. They are faced with two competing forces, namely traditional values and modern Western culture (Zhan & He, 2012:1453). It is argued that the Chinese culture actually contributes in advancing conspicuous consumption. This is because it is especially concerned about the recognition of individual social standing and position (Zhan & He, 2012:1453). In other words, how an individual is perceived by others and how they can improve their image in the eyes of society. This elicits a desire to be held in great esteem by the society. At the same time, Western culture brings with it a level of materialism. Hence Chinese consumers are conflicted about whether to maintain loyalty to China's traditional foundation or to adapt

to the fast-formed modernised market (Zhang & Kim, 2013:69). However, both cultural influences contribute to conspicuous consumption.

In Chinese communities the concept of face is very important in social life (Lu Wang & Chen, 2004:394). Face means prestige and social status that an individual wishes to communicate to others (Ahuvia & Wong, 1998, as cited by Lu Wang & Chen, 2004:394). Therefore, consumption of visible luxury goods, including foreign-branded goods, is imperative for consumers who want to uphold a public self (Lu Wang & Chen, 2004:394). The concept of face is significant in explaining the strong desire of Chinese consumers to acquire luxury goods (Zhang & Kim, 2013:75).

In China, consumers are not only consumers of Western products but also consume the Western culture and lifestyle (Xin, 2013:37). This is evident in the fact that they now listen to Western music, watch foreign movies and drink coffee. Similarly, they have adopted Western opera, classical music and art. Even their apartments are decorated with trendy designs from the West and European furniture design (Xin, 2013:38). The way in which the new middle class in China decorate their homes with Western designs is intended to signify freedom and uniqueness but ironically, rather than the individualism they are intended to show, they seem to mimic similar tastes and preferences in designs (Xin, 2013:38).

Chinese consumers are brand conscious. Zhang and Kim (2013:75) observe that they pay special attention to luxury brands that other people easily recognise to show social status. Moreover, they draw their luxury goods aspirations from famous people. By observing so-called celebrities' latest fashions, they find ways to dress similarly. This is because when consuming luxury brands, people often compare themselves with a group of people they admire. Hence people imitate the style and fashion sense of celebrities, and the poor emulate the consumption patterns of the rich. Luxury retailers deliberately target the high-income group of Chinese consumers who appear to be successful, to lure other consumers who admire the upper group. People will absorb brand information and consumption patterns from the early adopters they consider to be well off (Zhang & Kim, 2013:75).

With regard to the premise that Chinese consumers prefer Western products, Laforet and Chen (2012:57) disproved it. The authors conducted face to face interviews with 400 Chinese and British consumers and found that Chinese brands are strong in their domestic market, specifically in durable goods, because of their affordability. The decline in Chinese preference for Western brands is owing to factors such as low income and low awareness of Western

brands among the less educated (Laforet & Chen, 2012:61). The study thus questions past literature associating a Chinese preference for Western brands with the concept of face (Laforet & Chen, 2012:63). However, they concede that Western and Japanese brands are perceived to be superior in quality, design and prestige (Laforet & Chen, 2012:58).

The need to signal wealth intensifies in developing countries because for most families, wealth is not inherited and so when a generation rises in economic status, conspicuous consumption becomes an important means of affirming the new status (Xin, 2013:36). Similar to the emerging middle class in South Africa, the Chinese middle class uses the purchase of brand name commodities to symbolise their newly acquired middle-class lifestyle (Xin, 2013:36). The middle class is fast becoming the main consumers of luxury goods (Zhang & Kim, 2013:46). Zhan and He (2012:1458) identify the middle class as the main engine of the luxury market. However, the luxury goods market is not limited to the middle and higher class (Zhang & Kim, 2013:69), but all classes participate to save and maintain face. Luxury brands are very popular even among less wealthy consumers (Zhan & He, 2012:1455). Education, which is regarded as part of social capital, is used to assert middle-class status (Xin, 2013:41).

In spite of the economic strides that the middle class has made in developing countries, they are under immense pressure. China's newly-emerged middle class shows a high level of stress in their social and economic life. Xin (2013:41) mentions they are 'slaves' for cars, social security and health care. Moreover, they struggle to understand their identity as middle class and what constitutes middle-class status (Xin, 2013:42).

## **INDIA**

In India the household-making process is often guided by the questions, what will others say and what will they think? Bloch, Rao and Desai (2004:677) state that Indians' identity is not only defined by their accomplishments and character but they are also defined by the circle of their acquaintances, how many influential people they know and the respect accorded to them by their social group. For an Indian family, a daughter's wedding is the most expensive and important life event. Consequently, parents end up indebted in their attempt to finance weddings, upholding its perceived importance (Bloch et al., 2004:675). Wedding expenses are estimated to sometimes be six times a family's annual income. Potentially this can force poor families into destitution, especially if the family has many daughters to marry (Bloch et al., 2004:675). However, a daughter often perceives a wedding as a great source of social mobility, because marrying into what is socially acclaimed as a good family brings prestige



for the family of the bride. Consequently, the family would be viewed in a better light by their peers (Bloch et al., 2004:677). It then becomes the responsibility of the family to demonstrate the newly acquired status derived from their new in-laws. This is especially the case if the socio-economic status of the new in-laws is not known in the village, perhaps because the groom lives in a different community. The most effective way of signalling this status is to host an elaborate wedding for their daughter. Such elaborate weddings signal the quality of the groom. The expenditure on the wedding is also positively related to the bride's educational attainment and age (Bloch et al., 2004:678).

Massive wedding celebrations in the Indian culture are said to be enforced by social norms influenced by the observation of and comparison with other grand weddings in the community (Bloch et al., 2004:676). Apart from social norms, families can also be influenced by the desire to imitate the extravagant consumption patterns of richer families (Bloch et al., 2004:676).

Rao (2001:3) attests that weddings in India are very expensive. However, they infrequently happen in the lifetime of a household, whereas festivals occur every few months. This brings to light another vehicle of conspicuous consumption in India. Money spent on festivals is the single largest, regularly scheduled expenditure made by these households (Rao, 2001:3). An average family can spend approximately 15% of its annual income on festivals, partly in the form of contributions to the temple committee and on goods such as special clothes and food for the events. However, the expenditure on festivals is often justified by returns of social status, and returns from expanded networks (Rao, 2001:9). Thus expenditure on festivals is considered social capital. Active participants who contribute and participate in festivals are treated with respect and admiration by the village, while those who choose not to participate tend to be disliked (Rao, 2001:9). Costly wedding celebrations and festivals are not only found in India but in this case they attract special attention, as the money spent is regarded as wasteful given its high opportunity cost (Bloch et al., 2004:676).

In addition to elaborate weddings and festivals, conspicuousness is also demonstrated through the traditional method of spending on highly visible and expensive items. Similar to the consumption trends found in Chinese communities, Indians have developed a taste for conspicuous goods. Indian consumers consider US brands to have high quality and emotional value (Kumar & Lee, 2009:525). It follows that local brands are then perceived to have low quality and emotional value. However, Indian consumers do not purchase US brands for their

perceived quality but rather for their emotional value. They are driven by a need for uniqueness that will distinguish them, thus US brands effectively confer higher status (Kumar & Lee, 2009:525).

### **3.1.3 CAN CONSPICUOUS CONSUMPTION BUY LOVE? TRANSACTIONAL SEX**

Transactional sex in the South African context mostly concerns older men known as *sugar daddies* or *blessers*, who engage in sexual relations with young, economically vulnerable women. The older men will give gifts in a form of cash and / or material possessions (Hunter, 2002:101). According to Hunter (2002:111), sex can be used as a commodity with two motives, namely subsistence and consumption. Women engage in transactional sex with older men to fund a subsistence livelihood, to pay for necessities such as rent, food and clothing. This is most prevalent among marginalised women living in the informal settlements. The culture of consumerism has also led youth to engage in sexual relations for fashionable clothing and an opulent lifestyle (Selikow, Zulu & Cedra, 2002:25). In a study conducted by Ranganathan, MacPhail, Pettifor, Kahn, Khoza, Twine, Watts & Heise (2017:6) through in-depth interviews and focus groups, the young women admitted to using the money received from romantic partners to buy cosmetics, shoes, body lotion and clothes.

Fashion is very important in the township (Hunter, 2002:114). Selikow et al. state that consumerism and poverty is a dangerous combination that is found in South African communities (2002:25). The interview below is extracted from Hunter (2002:112).

*Interviewer: How many boyfriends do you have?*

*Interviewee: Three.*

*Interviewer: Why do you have three boyfriends?*

*Interviewee: Because I have many needs.*

*Interviewer: What needs?*

*Interviewee: To dress, I don't work, a cellphone ... doing my hair so that I am beautiful for my boyfriends, they won't love an ugly person.*

*Interviewer: What do they give you?*

*Interviewee: One, money... another, Checkers groceries ...another buys me clothes.*

The above conversation typifies many relationships driven by both subsistence and consumption. Women even sleep with multiple partners in order to maximise their material



gains and favours (Selikow et al., 2002:27). Consequently, poor men are said to struggle to have relationships, because they simply cannot afford love on these terms (Hunter, 2003:109).

The idea of linking conspicuous consumption with sexual relations is cemented by the township environment, where male status is described in terms of *isithipha* and *ingagara*. *Ingagara* is someone who is associated with many girlfriends, and owns expensive visible assets such as cars or fashionable clothes. *Isithipha* means ‘a dumb person’, someone who does not have many girlfriends, wear fashionable clothing, or perpetrate crime but desires education. In the township culture, many youth aspire to be *Ingagara* (Hunter, 2002:24).

A youth quoted by Selikow et al. (2002:25) made this comment:

If you don't have money you are nothing. And secondly if you don't have a luxury car you are nothing.

In addition to clothes, a car is essential and it is prestigious for women to be seen occupying the front passenger seat of an expensive car (Selikow et al., 2002:26).

Although the nature of transactional relationships typically involves money or gifts in exchange for sex, Ranganathan et al., (2017:6) discovered that a majority of these women strongly believed in the ideology that money and gifts from a romantic partner, especially from the opposite sex are a natural component of a romantic relationship. This means that in their eyes it is not a transactional relationship but a standard relationship where a man has to bestow their spouse/partner with gifts and money. This ideology is strongly influenced by the long established belief of men being providers within a household.

The negative aspect of this trend is chiefly the health risk associated with transactional sex. Often it is presumed that if a man spends money on a woman he has power over the woman to the extent that the man can refuse to use precautionary methods during sex (Selikow et al., 2002:27).

If I buy something for my girlfriend, she's not independent... Buying some clothes, some food, everyday... you see that's where you control the girl...  
I don't want to use a condom, I will never use a condom.

Due to the risk behaviour of both men and women, they are vulnerable to HIV infection and other sexually transmitted diseases (Selikow et al., 2002:27). Even in situations where a woman is adamant on safe sex, it creates the perception among males that such a woman has been disloyal to their partner and likely to have been infected with HIV (Ranganathan et al.,

2017:11). In order to avoid this conflict some women will unwillingly agree to engage in unprotected sex. It appears in this case that the price of conspicuous consumption can easily include one's health.

In addition to transactional relationships between men and women Masvawure, Sandfort, Reddy, Collier & Lane (2015:4) conducted in-depth interviews with 81 black men aged 20-44 from four townships in Tshwane who admitted to having been engaged in sexual activities with other men in the preceding year to the interview. Twenty nine of these men admitted to having received money, gifts and /or alcohol in exchange for sex. Gifts and money were treated as a natural component of the relationship (Masvawure et al., 2015:7). The gifts and money were considered a symbol of love and commitment to the relationship (Masvawure et al., 2015:12). The men who gave gifts or money in exchange for sex or a relationship, indicated that these gifts and money were imperative to sustain their relationships because they feared that their partners would leave them, should they stop (Masvawure et al., 2015:13). Interestingly, we find that transactional relationships are just as complex to the sponsors as they are to the receiver since they too are under pressure to constantly sustain their relationships with more gifts and money.

#### **3.1.4 CAN CONSPICUOUS CONSUMPTION BUY LOVE? MATING GAMES**

According to Wang and Griskevicius (2013:4) luxury goods are often used as signals to potential mates. In this regard the authors conducted a study to prove that women often use luxury possession to signal to other women that their respective romantic partner is devoted to them. Such women are said to believe that luxury goods can signal the extent of their partner's devotion. This notion brings about the possibility that women's luxury goods can function as a signalling system for other women in the service of mate guarding. In a survey (Wang & Griskevicius, 2013:4), this question was asked: do you think some women might judge that your partner cares about you more when they see you wearing a designer outfit and jewellery? To which 61.8% of women in the survey indicated that other women would indeed infer that their relationship partner was specially devoted to them based on the luxury goods (Wang & Griskevicius 2013:9). It follows that the desire for conspicuous luxury goods is particularly strong when a woman's romantic relationship is threatened by another woman (Wang & Griskevicius, 2013:11). Therefore, women will demand conspicuous goods to signal to rivals that their partners are committed to them. In such cases, women will not simply desire any product but will demand goods that are both expensive *and* publicly visible (Wang &

Griskevicius, 2013:23). This would impress on the rival that the luxury goods were a gift from the romantic partner. Women may use conspicuous consumption to signal that their partners are committed to them.

On the other end of the spectrum, men may use conspicuous consumption to attract romantic relationships. According to Gudmunson and Beutler (2012:390) men at times conspicuously consume as evidence that they are able providers. When the opposite sex sees their material possessions, they will equate that to their unobserved income and consequently their ability to provide in a family setting. Therefore, in relationships, men may use conspicuous consumption to signal that they are good providers<sup>3</sup>.

### **3.1.5 HONOURING THE DEAD: CONSPICUOUSNESS IN FUNERALS**

Funerals in some African countries, particularly in South Africa and Ghana, although not limited to these two countries, have become extravagant events where families compete for status and prestige. With more people willing to spend large sums of money on funerals, funeral businesses are flourishing (De Witte, 2003:540). The elaborate expenditure on these funerals is strikingly noticeable since they greatly contrast with the economic struggles that these families face as they battle to provide basic necessities for themselves (Bonsu & Belk 2003:47).

#### **HONOURING THE DEAD IN GHANA**

Did you hear about the funeral of Kwaku's mother – it is better for you to have seen it rather than me telling you about it. It's been quite a while but everybody still talks about it. You could see throughout that “yes” this is a woman who “lived”. The hearse, the casket, the people, the music wow... (Bonsu & Belk, 2003:47).

In Ghana, people make a point to dress in fine clothes when they attend funerals (De Witte, 2003:531). Funeral guests expect to be entertained by the bereaved family with music, dance, poetry, food and drinks. Due to the advent of mortuaries, families are able to keep their dead for weeks or even months as they plan the perfect farewell (De Witte, 2003:534). In preparing for a funeral, the family house will be freshly painted, repaired and equipped with electricity if there was none, new curtains and other decorations (De Witte, 2003:535). Moreover, once the funeral date has been agreed, it will be communicated through mass media, typically

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<sup>3</sup> Note in this discussion, the gender relationships were as described by the authors in the sources cited, and the author of this study is aware of the implied assumption of heterosexuality unless otherwise stated.

newspapers and radio (De Witte, 2003:540). The newspaper will also publish the deceased's obituary. The obituary itself is centred on building the status of the family as well as that of the deceased. Evidently the obituary will typically include a list of names, titles and occupations of both the person announcing the death and the deceased. In order to attract a large crowd to the funeral, the obituary will mention influential people such as chiefs, pastors and political figures who are associated with the family or will be attending the funeral. Obituaries even mention relatives who reside outside of the country. This is because, as a result of the economic status of the country, not many people can afford to travel outside the country. Hence having relatives residing abroad inflates social status, prestige and the perception of wealth (Bonsu & Belk, 2003:47). Obituaries are used as marketing strategies to attract large crowds to the funeral and create anticipation of how big the funeral will be (De Witte, 2003:543). In the event that those attending the funeral did not know the deceased or the reputation of the bereaved family, they can infer the status of the bereaved family and that of the deceased based on the magnitude of the funeral (Bonsu & Belk, 2003:47).

Over the years the standard and social norms of dignified funerals have drastically increased, to the extent that previous practices are now considered social taboos. Previously families could serve home-cooked food now food has to be provided by professional caterers. Deciding not to serve food at a funeral would be considered a disgrace for the entire family and an obvious sign of poverty (De Witte, 2003:548). Following the argument of Veblen (1899), one of the motives for conspicuous consumption is people's fear of being identified with the poor. Hence the families spend conspicuously to prevent being labelled poor. It has become a social norm to hire an expensive hearse or a pick-up truck to transport the dead. It would be a disgrace to use cheap public transport (De Witte, 2003:544). While the entire family takes collective responsibility for these tasks, the children of the deceased are solely responsible for purchasing the coffin. Through the purchase of the coffin, children are able to gain prestige, hence the coffin has become essential in status seeking (De Witte, 2003:544). In a study conducted by Bonsu and Belk (2003:46), bereaved children decided to buy a US-imported suit for their father. This act was regarded as a sign from the spectators' perspectives that the children had had an excellent relationship with their father. The children's spending was justified as a fitting recognition and appreciation of the care they had received from their parent while alive (De Witte, 2003:533).

Funeral costs depend mainly on the social esteem of the deceased and the financial resources of the family (De Witte, 2003:531). There are several ways in which a family can raise

finances to cover the costs of the funeral. Firstly, family members contribute towards the funeral. People from the community and especially the in-laws come with donations of cash and goods (De Witte, 2003:535). In accepting the donations specifically from the in-laws, there is a gift ritual to be observed. The gifts typically include bottles of imported whisky, gin, crates of soft drinks, cloth, a pillow, a sheep, banknotes and imported consumer goods. These acts of kindness are rooted in building social status. Before presenting the gifts, a group of women representing the in-laws carry the gifts around the community accompanied by drummers and a dancer, with one woman proclaiming the gifts on a microphone for the entire community to note. The announcement of gifts, dancing, drumming and drinking are central activities of the funeral that can take two to eight hours to conclude (Bonsu & Belk, 2003:44). Bereaved families also expand their resources by exceeding their finances and incurring debt, which is divided between family members (De Witte, 2003:536). This method often results in conflicts. This is because families often judge a family member's responsibility by economic status as opposed to how close they were to the deceased. Consequently, those who are well off are required to pay large sums of the debt even if they were not close to the deceased (De Witte, 2003:535). Funerals can leave families in financial trouble, especially if they already have severely constrained finances (Bonsu & Belk, 2003:46). Bereaved families can spend the equivalent of US \$2 000 on activities associated with burying their dead one. This amount is extremely high, considering the annual GDP per capita of the country is among the lowest in the world, with the World Bank estimating it at \$1,514 for 2016 (<https://data.worldbank.org/indicator/NY.GDP.PCAP.CD>, accessed on 7 December 2017).

There are contradictory view on high funeral costs, with supporters arguing that such funerals stimulate the economy, while others contend that they divert money that is badly needed to improve the quality of people's lives, and ought to be used to provide proper health care, basic nutrition and children's education (De Witte, 2003:552).

A village resident commented:

Things have changed a lot... oh, funerals, today's funerals are very beautiful and very expensive. I think they do not reflect our culture (Bonsu & Belk, 2003:45).

Chiefs in Ghana have intervened to lower the high costs of elaborate funerals and the social esteem derived from funerals, through the introduction of regulatory laws such as reducing the time a body can be kept at a mortuary. However, without strict punishment for breaking



them, there is a high incentive to disregard these laws (De Witte, 2003:553). Funerals that fail to meet the social norms of a dignified funeral are subject to social stigmatisation as people might censure the family based on how they were perceived to treat their dead (Bonsu & Belk, 2003:46). Moreover, persons opposing this irrational expenditure on funerals and not participating will be accused of lacking respect and, once dead, their funeral will also be boycotted (De Witte, 2003:539).

## **HONOURING THE DEAD IN SOUTH AFRICA**

African South Africans commonly display conspicuous consumption on extravagant funerals that have become a familiar sight in the country's townships every weekend (Lee, 2011:226). This is being funded partly by the growth of both formal and informal funeral insurance schemes. Funeral insurance schemes have enabled even the poor to have access to capital to bury their deceased (Lee, 2011:226). Insurance scheme pay-outs are made with few restrictions on how the money paid should be utilised by the recipients. As in Ghana, there is social pressure to host what is considered a dignified funeral (Lee, 2011:226). Case, Garrib, Menendez and Olgiat (2008) have documented the expenditure on African South African funerals in KwaZulu-Natal (KZN) while Roth<sup>4</sup> (2000) conducted a similar study at Grahamstown in the Eastern Cape. This subsection will discuss their findings at length to illustrate conspicuous consumption in these poor communities.

The costs start almost as soon as the deceased has been pronounced dead. The death is typically announced on the regional Xhosa radio station to inform distant relatives and friends so they may attend the funeral (Roth, 2000:9). Thereafter people will start arriving to mourn with the bereaved family. Distant family and friends may arrive before the funeral and the bereaved family is expected to provide food for them until they leave, after the funeral. There will be daily prayer meetings held at the household of the deceased until the funeral. The prayer meeting could be attended by roughly 20 to 70 people, and the family is expected to serve refreshments (Roth, 2000:9). To accommodate the prayer meetings as well as other guests that will be present for the funeral, the family will hire and erect a tent (Roth, 2000:9). Other notable expenses include traditional burial blankets, food and livestock for slaughter (Case et al., 2008:5). On the day of the funeral, mourners travel to the cemetery by bus or taxis paid for by the family. At the cemetery, there will sometimes be a red carpet leading

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<sup>4</sup> Although outdated, the article demonstrates the importance of funerals in the Eastern Cape and the proportion of resources devoted to funerals rather than the actual monetary costs of funerals.

mourners to the grave site. Another tent will be erected just for the close family at the cemetery (Roth, 2000:10). All respondents in Roth's study expressed their desire to be able to buy the most expensive coffin.

After they have laid their loved one to rest, everyone goes back to the bereaved household for a feast, in which traditionally a cow is slaughtered (Roth, 2000:10). Specifically, in KZN, it is customary to slaughter a cow when an adult male dies and a goat if a female adult passes on (Case et al., 2008: 5). In the period in which the paper was written, a cow cost approximately R2 000, whilst median per capita income among Africans was around R400. In relation to household income, purchasing a cow is clearly a huge expense for at least half the African population (Case et al., 2008: 5). A goat, although less expensive, still presents a significant expense compared to household income.

Later on the funeral day another event takes place, called the after-tears, in which beer and brandy will be consumed, financed by the bereaved family. Finally, in officially bringing the grieving process to a close, a cleansing ritual will be performed a few weeks after the funeral, where a goat will be slaughtered and food and drinks consumed (Roth, 2000:10).

To supplement the pay-outs from funeral insurance schemes, approximately a quarter of the funeral cost has to be borrowed. Bereaved households borrowed from moneylenders, neighbours and family members. Taking a loan from moneylenders may mean that families will end up paying back the loan at a high interest rate over several years, draining the future income of the family (Case et al., 2008:8). Although uncommon, one of the respondents had to sell her husband's second car to finance his funeral, since they did not have insurance. The woman received a very small amount because the buyer knew it was a distress sale as she was desperate for cash (Roth 2000:17).

Although conspicuous consumption is undoubtedly present in these funerals, Roth (2000:13) identifies reasons for such funerals other than to display unobserved wealth. Firstly, there is a strong belief that the dead will transcend to become ancestors. Ancestors are believed to exert a powerful influence over the fate of the living. Therefore, families want to honour the dead to elicit good fortune. Secondly, funerals bring dignity for the family. A respondent mentioned, 'we are poor in life, let's not be poor in death.' Thirdly, due to the frequency of and the respect accorded to funerals, they have become important social gatherings in black communities, in which people can reconnect with friends from distant places that they have not seen in a long time. Case et al. (2008:5) add that funerals tend to strengthen relationship



ties with neighbours and distant relatives. Finally, there is fear among the bereaved families that people would speak ill of the bereaved family if they fail to meet the expected funeral standards, such as buying an expensive coffin.

Learning from both Ghana and South Africa, the importance of funerals in African communities cannot be understated. Funerals have numerous goals. Apart from just burying the dead, special attention is paid to how the dead was laid to rest, from how many livestock were slaughtered and how many people attended, to the price of the coffin paid. Therefore, behind the moral purpose of honouring the dead, funerals are used through conspicuous consumption to mark the status of the deceased as well as that of the family within the community (Case, Garrib, Menendez & Olgiati, 2008:5).

### **3.1.5 COLOUR OF CONSPICUOUS CONSUMPTION**

In researching conspicuous consumption, certain population groups constantly appear as the main consumers of conspicuous consumption today. In South Africa, the end of colonisation and apartheid is both victory and defeat in the eyes of society. It is a victory because the country proved to the world that eventually human race prevails over oppression. It is also tragic and somewhat a defeat because the after-effects of these systems refuse to be washed away. Hence the divides of poverty, unemployment, illiteracy and low incomes are defined by what used to be called race, with the most oppressed 'race' still the most affected by these consequences.

Black South Africans are still affected by 'asset deficit', a lack of asset ownership (Burger et al., 2015:46). Hence the historically disadvantaged groups (Africans, coloureds and Indians) are playing catch up with the established white middle class (Burger et al., 2015:43). Literally, black households are trying to keep up with white counterparts who have been accumulating their assets since the apartheid and colonial eras. In an ironic, persisting and undesirable legacy of apartheid, the black population groups view conspicuous consumption as proof that signals their political as well as economic liberation (Martínez-Roca & Vazi 2012:2).

In a somewhat critical view of how blacks currently define economic and political liberation, former South African president Thabo Mbeki has said:

The meaning of freedom has come to be defined, not by the seemingly ethereal and therefore intangible gift of liberty, but by the designer labels on

the clothes we wear, the cars we drive, the spaciousness of our houses and our yards . . . (Posel, 2010:159).

Clearly, in this view material possessions have become symbols of liberation in South African communities.

In a study conducted by Lamont and Molnar (2001) in the United States of America through interviewing marketing specialists, the authors found that African-American households also use expenditure to assert and obtain recognition of their membership in the US society (Lamont & Molnar, 2001:36). Their consumption patterns have been interpreted as strongly being guided by a need to be seen as equals in the societal sphere and to disprove the stereotype of African-American people being deprived and belonging to an underclass. Hence in pursuit of equality, respect and recognition, African-American people allocate a significant portion of their income to expenditure on visible goods. A strategic marketer affirmed this notion by simply stating that African-American people want to be viewed as good and worthy (Lamont & Molnar, 2001:36). The African-American society carries a stigmatised social identity, where they feel a need to prove their worth (Lamont & Molnar, 2001:37). Thus it is important for African-American people to acquire expensive visible goods that symbolise status so as to counteract presumed social discrimination and inferiority.

An African-American consumer made this remark about a top brand of car:

...You can afford it and you are worth it, you are worth the best. When your history tells you that you are less than and only worthy of the worst, it feels terrific to be able to say "I don't care what you might think, I know I am worth it." It feels very good (Lamont & Molnar, 2001:41).

In order to counter the feeling of being unimportant and belonging to an underprivileged race, it becomes almost necessary to demonstrate opulence that will counter all of the deprivation witnessed in the history books by African-American people. That is achieved by driving the best car and wearing known brands, especially in public settings (Lamont & Molnar, 2001:37). In the quest of African-American people wanting to be seen as equals with other ethnic groups, one might argue there is an underlying tone or intention of wanting to be equal with specifically white people. On this topic, a president of one of the advertising agencies interviewed by Lamont and Molnar (2001:41) stated:

We are not trying to impress white people anymore. We are not begging for acceptance. We just consume what we like. The attitude is I don't care if you

don't like me. But through my consumption I want to let you know that "I know." This is who I am. I want to be perceived as being in the know.

Evidently the consumption of African-American people has other intentions besides the basic function of the purchased goods. Their consumption is intended to affirm social status, self-worth and attempt to correct the many injustices of the past.

Although black people do appear to spend more on visible consumption when compared to white households, it is argued that, due to the historically high economic position of white people in South Africa and much of the rest of the world, being white is a powerful signal in itself and need not necessarily be accompanied by signalling items (Kaus, 2013:69). If the colour of one's skin already signals a higher status or higher income, then it is unnecessary to go the extra mile of demonstrating that.

### **3.1.6 CONSPICUOUS CONSUMPTION AND POVERTY**

Conventionally, conspicuous consumption was theorised and confined to occur among the upper class. Since then there has been a view that it might occur even among poor households, a belief substantiated by evidence (Gudmunson & Beutler, 2012:396). About 1.67 billion people in developing countries live below the poverty line of \$1.25, while a staggering 2.74 billion live on less than a higher poverty line of \$2 a day (Alkire & Santos, 2014:257). This means over 2.74 billion people are barely able to provide themselves with the basic goods and services necessary for survival. Yet surprisingly, many poor people do not spend all their income on purchasing the necessities for survival (Banerjee & Duflo, 2007:141). This premise was proven.

Instead, as shown by Banerjee and Duflo (2007:141), the poor spend a substantial portion of their income on alcohol, tobacco and festivals. The extremely poor in rural areas spent 4.1% of their income on tobacco and alcohol in Papua New Guinea; 5% in Udaipur, India; 6% in Indonesia; and 8.1% in Mexico (Banerjee & Duflo 2007;145). The average household spent 10% of its annual income on festivals. In Udaipur, approximately 99% of the extremely poor households, living on under \$1 per day, spent money on a wedding, a funeral, or a religious festival. In South Africa, 90% of the poorest people did the same (Banerjee & Duflo, 2007:146). Case et al. (2008:20) discovered that in a quarter of all funerals for individuals who died between 2003 and 2005 in KwaZulu-Natal, households borrowed money for the funeral, which can be expected to drain household resources well into the future. In Pakistan,

Indonesia and Cote d'Ivoire, more than 50% of extremely poor households spent of their incomes on festivals (Banerjee & Duflo, 2007:146).

According to Charles et al. (2008:14), intertemporal budget constraint theory dictates that higher spending on conspicuous products is often done at a cost of either reducing a component of another current consumption and / or a future consumption. It follows that there is a trade-off between human capital (education, health) and visible consumption. Households that spend relatively more on visible consumption have to spend less on other product categories (Kaus, 2013:68). For that reason, education and health care expenditure by poor households in developing countries is very low. For instance, the expenditure on education in Guatemala is 0.1%, and 0.8% in South Africa. The reason that education spending is low is that children in poor households typically attend public schools that do not charge a tuition fee. However, such schools are often dysfunctional (Banerjee & Duflo, 2007:50). Hence poor households in some of these countries have decided to invest in the education of their children; households in Pakistan spend 8% of their income on education.

Truly conspicuous consumption is not confined to the upper class but it can also be found among the poorer class (Lu Wang & Chen, 2004:392). Research evidence has proven that conspicuous consumption among the poor is not only a source of satisfaction and pleasure but, in light of restricted monetary resources, can cause distress, discontentment and absolute or relative deprivation (Noll & Weick, 2015:102).

### **3.2 CONCLUSION**

The literature has shown that conspicuous consumption is more than just an abstract theory founded by Veblen in 1899. Different social groups engage in conspicuous consumption for various reasons and those reasons typically transcend the primary function of the good. Poor households are likely to engage in conspicuous consumption to disguise their impoverished background and to compensate for lack of human capital. Hence, conspicuous consumption by the poor can be partially explained by the compensation consumption theory. This is further demonstrated by the subculture of *Izikhothane* who conspicuously consume clothing items that they may not afford. When poor households attempt to appear well off, they actually end up aggravating their poor welfare. Due to constrained monetary resources, there is a trade-off between human capital (education, health) and visible consumption. Hence households that spend relatively more on visible consumption have less to spend on other product

categories (Kaus, 2013:68). Therefore conspicuous consumption has a higher opportunity cost that exceeds the price tag. Conspicuous consumption does not only negatively impact on the welfare of the poor but also affects the relatively new middle class as well as the newly rich. These two groups have a greater need to signal wealth through conspicuous consumption as their wealth is not intergenerational wealth but was accumulated through work. Hence they consume with intentions of distinguishing themselves from the poor and to affirm their new social position in society. Although the middle class is relatively well off compared to the poor, the NIDS (Brown, Leibbrandt, Mlatsheni & Woolard, 2016:30) found that most of the middle class face high chances of falling into poverty. Should the middle class merely consume at current consumption without ample investment in human capital, savings and other productive activities, then they are likely to regress into a lower socio-economic position.

It also emerged that the act of conspicuous consumption is highly influenced by social interactions. People engage in conspicuous consumption to protect themselves and their families from being shunned by the relevant reference group. Consequently, the decision to irrationally spend on conspicuous goods becomes the reference group's prerogative rather than the buyer. This makes conspicuous consumption to be the social norm rather than the exception as each person is to an extent compelled to buy excessively or ostentatiously. Hence conspicuous consumption is fed by the fear of social ostracism rather than driven by free will.

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# CHAPTER 4: METHODOLOGY

## 4.1 INTRODUCTION

This chapter explains the methodology used in conducting the research. Chapter Four is structured as follows. It begins with background on the data source as well as a brief description of the data. Crucial in the study is the definition of conspicuous consumption and the measurement of poverty as both terms are widely used and can be loosely defined. Therefore, a second component of this chapter is dedicated to providing a definition of conspicuousness and the measurement of poverty applicable in this study. The main arguments of this paper are drawn from the original Veblen theory. However, in order to investigate the correlation between conspicuous consumption and poverty, the empirical framework presented by Charles et al. (2009:432) and Kaus (2013:67) is adapted, with some variation. To this end, the paper adapts a multivariate regression to estimate visible consumption as well as the status-seeking model to partly explain the rationale of conspicuous consumption. The chapter concludes by discussing the limitations of the data and the study.

## 4.2 DATA

In exploring the correlation between the incidence of poverty and expenditure on conspicuous consumption, this paper used the National Income Dynamics Study (NIDS) data. The NIDS dataset is the first national panel study in the country. NIDS is an initiative of the Department of Planning, Monitoring and Evaluation (DPME) and is implemented by the Southern Africa Labour and Development Research Unit (SALDRU), based at the University of Cape Town. It captures and monitors changes in the general well-being of households by continuously documenting the lives of nearly 12 000 households (Finn & Leibbrandt, 2017:5). In addition to the household sample, households are further split into three classes, namely children, adults and proxies. This influences the sample size beyond the original household sample, as they are also administered individual questionnaires. The child questionnaire is for all children in a household who are below the age of 15 years. All persons in a household above that age are considered adults and complete the adult questionnaire. Making provision for instances where an adult who initially agreed to partake in the survey is absent on the day of the interview, a knowledgeable household member will complete the survey on behalf of the absent adult using the proxy questionnaire. Finally, the household questionnaire is completed



by the oldest woman in the house or another member who is knowledgeable about the living circumstances of the household.

Drawing from these various questionnaires, this paper primarily used the adult, household and proxy data. This decision was motivated firstly by the content found in those questionnaires, which relate to the focus of this paper. Since expenditure and income data are found on the household and adult questionnaires, these give insights into income, and how is it distributed between visible and food consumption.

For example, table 4-1 below provides a glimpse of the many useful questions that are found on the household survey pertaining to expenditure. In answering a question on food spending, respondents have to provide figures or estimates of expenditure.

**Table 4-1: NIDS questionnaire**

Section E1: Food spending and consumption			
<i>INTERVIEWER READ OUT:</i> Now we would like to ask questions about some specific food that may have been eaten in the LAST 30 DAYS. It should not include food that has been bought for resale or exchanged for commercial purposes.			
E1.1		Amount	R
<i>fdtot</i>	What was the total food expenditure of this household in the last 30 days?	Refuse	-8
		Don't know	-9

Source: NIDS questionnaire

The questionnaire also enquires about other categories of spending such as clothing, durable goods and entertainment.

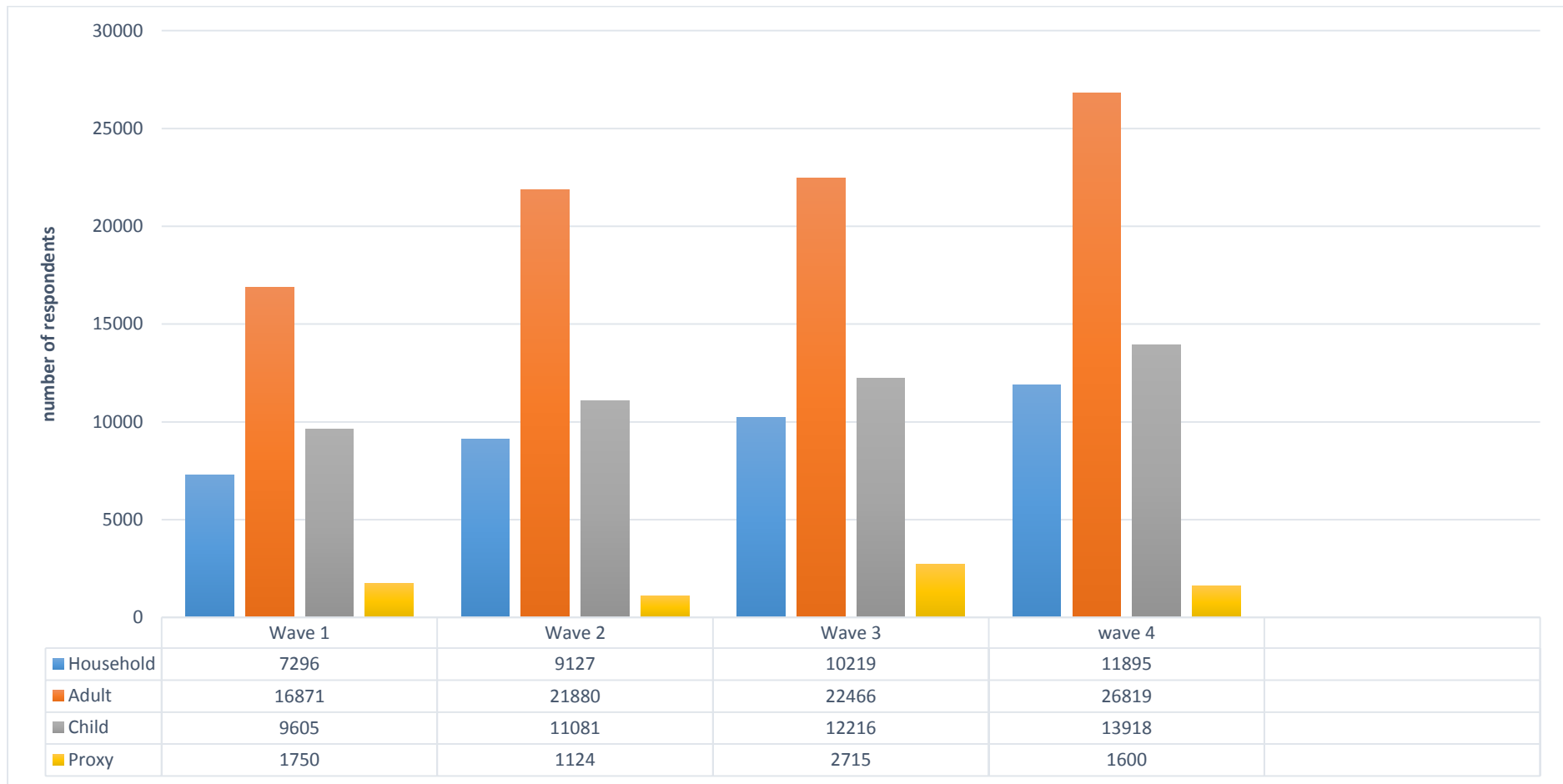
The second rationale considered, is the ability to recall and provide accurate information. Self-reported surveys rely on the ability of participants to utilise the best of their knowledge in answering questions. When it comes to aggregate expenditure and income, basic reasoning and the cultural context in the country lead to the conclusion that adult members of households, especially women, are most credible to possess such knowledge. Considering that the adult questionnaire or proxy is completed by both adult females and males, these sources are considered likely to be most accurate. Moreover, adults are most likely to contribute financially, be the household head or close to the household head and likely to make purchases themselves on behalf of the entire household. For those reasons adults are best able to keep track of total household expenditure and income.



Since its inception in 2008, NIDS has compiled and officially published four waves of datasets. The first wave had a sample size of 7 296 households and 16 871 adults. Thereafter wave two, conducted during 2010-2011, had a sample size of 9 127 households and 21 880 adults, wave three in 2012 interviewed 10 219 households and 22 466 adults and finally wave four during 2014-2015 interviewed 11 895 households and 26 819 adults. The figures of the sample sizes are depicted in figure 4-1, along with the sample sizes of the other questionnaires, child and proxy (Chinhema, Brophy, Brown, Leibbrandt, Mlatsheni & Woolard, 2016:6).



**Figure 4-1: Total Sample Wave One-Four**



Source: Chinhema, Brophy, Brown, Leibbrandt, Mlatsheni & Woolard, 2016:16

Adults and households make up the bulk of the sample size. This observation is consistent throughout the waves. This further supports the notion of using the aforementioned questionnaires. As the empirical section is divided between descriptive statistics and regression analysis, the former used all of the available waves from year 2008 to 2014/2015, while for econometric analysis only the 2014/2015 was used.

## **REPRESENTATIVE SAMPLE**

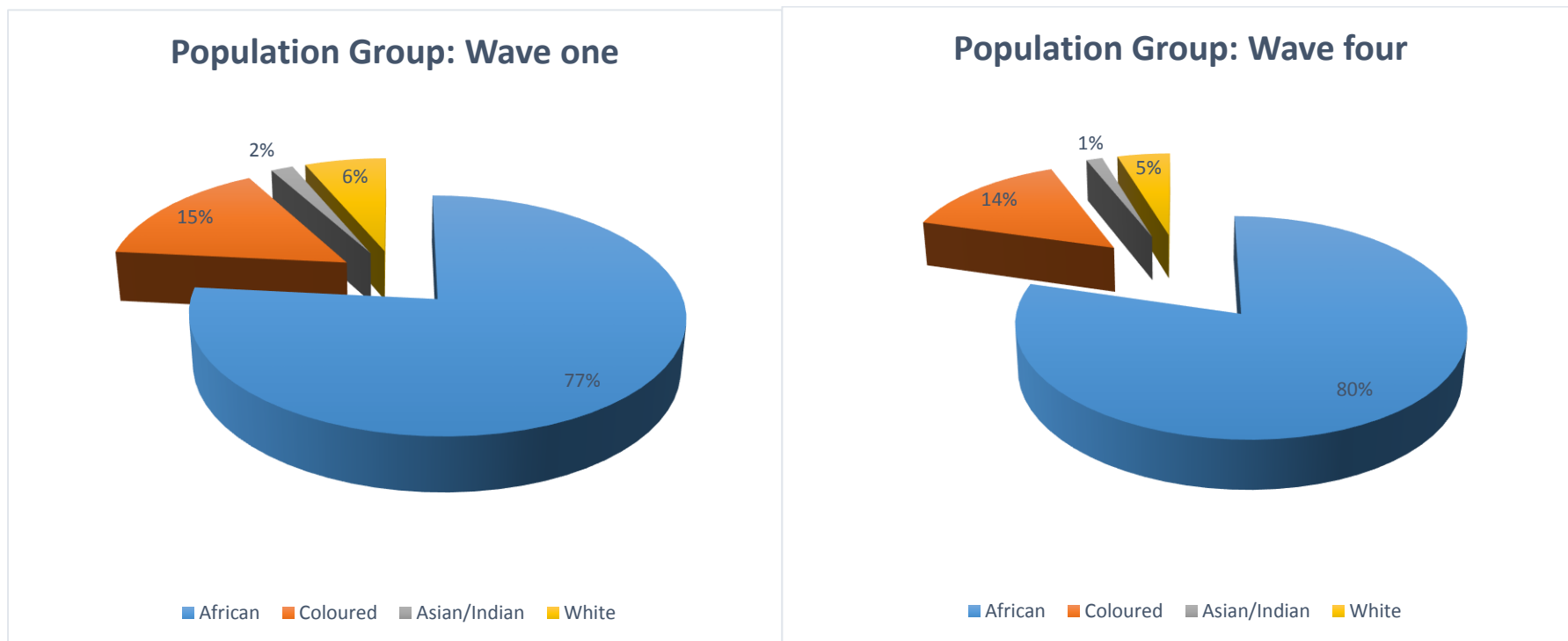
In a perfect world, researchers gathering data would consult the entire population in order to generate the most reliable results, which would be a true reflection of society. However while conceding the impracticality of that ideal situation, it is essential that precautions are taken to ensure that data lies close to reality. That is to say, data ought to be representative of the population. This enables us to infer the sample results to the entire population that was not part of the sample. It then follows that if the sample is not representative, it provides distorted results that are not a true reflection of the population. The extent to which the NIDS data is representative of the population is evaluated below.

According to Friedman (1972:15), the most common technique to ensure the sample is representative is to use random sampling. When using this technique each individual or household in the population has an equal probability of being included in the sample. In 2008, approximately 8 000 households were selected for the NIDS study. NIDS used random sampling for the areas and households were randomly selected (Leibbrandt, Woolard & De Villiers, 2009:9). In lay terms, households were chosen using geographical maps and formulae on a computer. This means that all households within the area had an equal chance of being chosen for the study.

The representativeness of the wave one and four sample was evaluated looking at the distribution of the data using these social indicators, namely, distribution by population group, province and sex.

The distribution by sex for adults in wave one and four is as follows: wave one male 43.75%, female 56.25%; for wave four male 43.97% and female 56.25%. Considering the slight imbalance in the favour of female that already exists in the country this appears to appropriately reflect the constant characteristic of the population.

Figure 4-2: Sample Distribution by Population Group

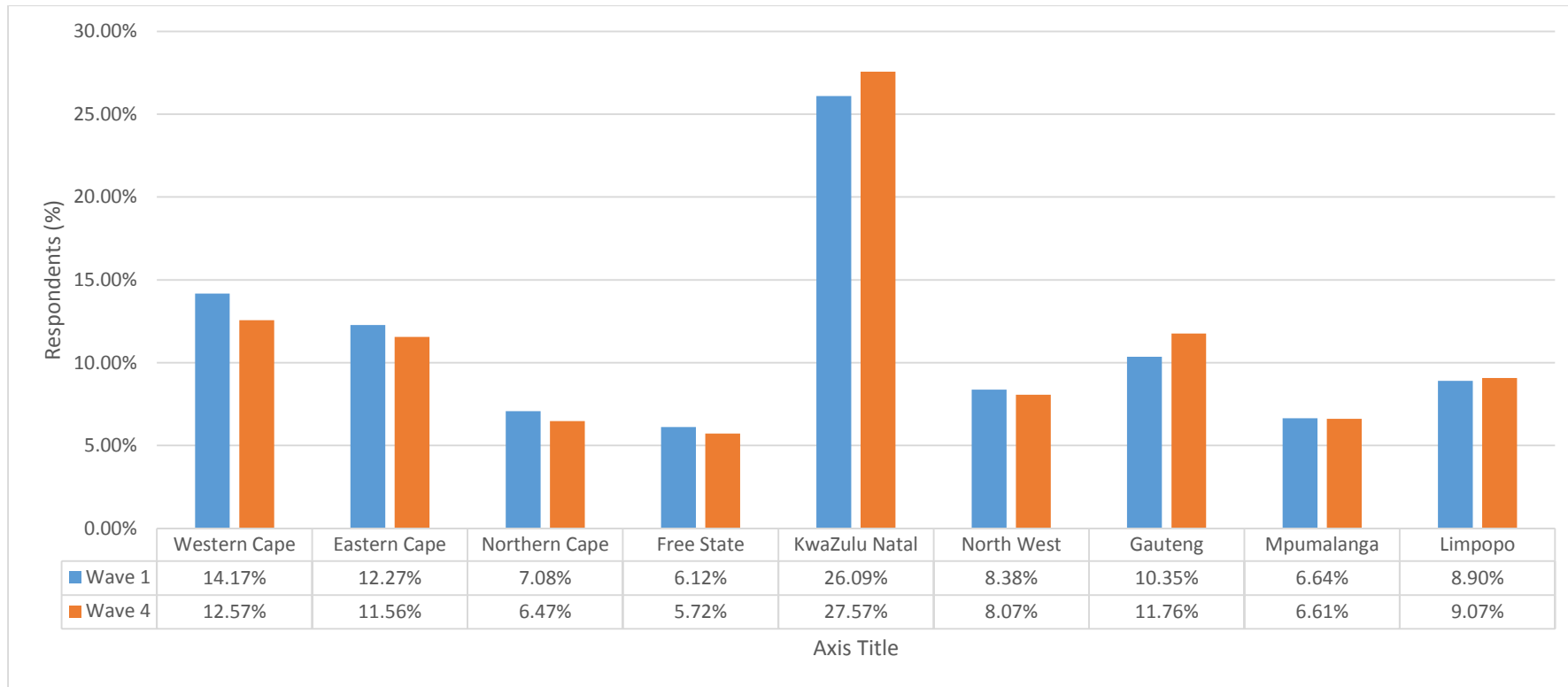


Source: NIDS 2008 and 2014/2015 (author's own calculations)

Figure 4-2 depicts the distribution of the sample of adults by population group. This is within the statistically acceptable outcome expected and observed in the country's population group spread. As expected, the African population group as numerically the majority group, occupies the largest share of the sample. Therefore the sample is consistent with the population ratio. From wave one to the last sample, distribution by population group did not change drastically. Due to the small sample size of both Asian and Indian population groups the two have been amalgamated. Even so the sample size remains comparatively low. For this reason, inference to the general Asian and Indian population might be inaccurate, as the sample may be skewed to a certain subgroup within that general population. This does not however affect the study. Moreover, sample representativeness was achieved by the inclusion of all the nine provinces.



**Figure 4-3: Sample by Provinces**



Source: NIDS 2008 and 2014/2015 (author’s own calculations)



Similar to the sample distribution by population group, sample distribution by province somewhat remained the same from the first wave to the last.

### **4.3 IDENTIFYING HOUSEHOLD CONSPICUOUS CONSUMPTION**

#### **GOODS AND FOOD CONSUMPTION**

As mentioned by Burger, et al. (2015:42) not all consumption on visible goods should be considered as conspicuous. At some point adults need to spend on clothing and footwear. It follows that even though these goods have the potential to portray or manipulate one's economic status in order to acquire status, their expenditure or purpose may not be conspicuous consumption. Therefore it becomes necessary to establish a criterion to identify conspicuous goods. Drawing from prior research, Charles et al. (2009:431) restricted the definition of conspicuous items to goods and services that are readily observable in anonymous social interactions, highly portable across those interactions and communicate better economic status about the owner. From this definition, three key words were derived to use in classifying a good as conspicuous, namely 'observable', 'portable' and 'signals better economic status'. Charles et al. (2009:431) then conducted an online survey with 320 students from the University of Chicago's Harris School and Graduate School of Business. Students were asked to identify items that were observable, portable and represented better economic status in anonymous situations. The following items were identified: expenditure on personal care, apparel, including accessories and especially jewellery, and vehicles, including maintenance of the vehicle.

This survey to identify conspicuous goods and services was conducted in the United States, a developed country, whereas the object of this study was conspicuous consumption in developing economies. Assuming a similar survey was carried out in South Africa, would South African consumers have identified the same visible goods and services as items reflecting conspicuous consumption? Regrettably, as mentioned by Kaus (2013:65) and confirmed by the extensive literature review conducted by the author of this study, no such survey has yet been done in South Africa.

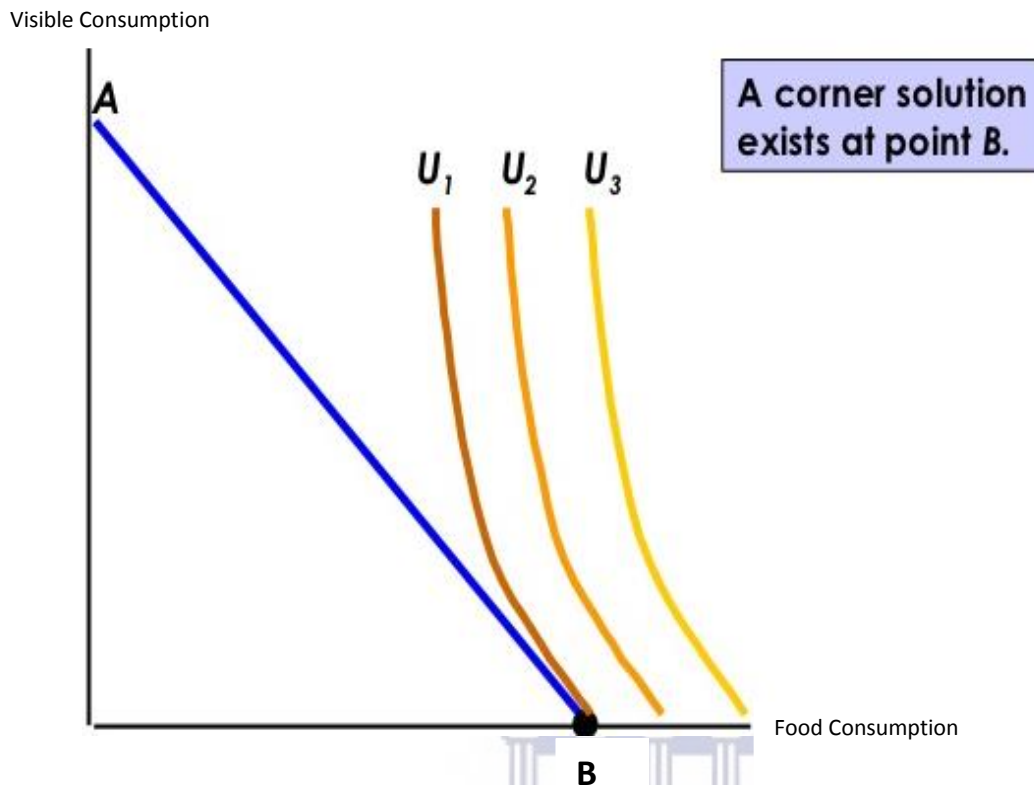
Given that the differences that exist between developed and developing economies go beyond the imbalance in the sizes of these economies, the fact that no study has been carried out to identify conspicuous goods in the South African context is a drawback. In addition to economic differences, South Africa exhibits considerable diversity in language, culture, ethnicity and

wealth within the country. These differences can indirectly shape what sub-groups define as conspicuous, based on their taste, culture and socio-economic status. Had a study to determine conspicuous consumption been undertaken, it would have taken account of all those differences and been beneficial to this study.

Faced with the same problem, when Kaus (2013:65) researched the topic of conspicuous consumption in South Africa, that author followed the same classification as that of Charles et al. (2009). Kaus (2013:66) used the following goods as visible consumption goods: expenditure on personal care, clothing and footwear, jewellery and cars. The criteria of observable, portable and signals better economic status have perforce been accepted in this study. In addition, availability of data was taken into account. In this study, visible consumption is represented by expenditure on personal care, cellphone expense and expenditure on shoes and clothing. Personal care includes items such as cosmetics, soap, shampoo and haircuts. Following the prior studies by Charles et al. (2009) and Kaus (2013), that used 'visible consumption' to describe goods which symbolise conspicuous consumption – assumed to be extracted from the criteria for conspicuous goods that advocate for visibility in the consumption in order for that status to be awarded – this study used the terms 'conspicuous consumption' and 'spending on visible consumption' interchangeably.

Taking into account the inclusion of poor households that are barely making ends meet, it is expected that not all poor households will engage in conspicuous consumption behaviour. While poor households could spend on clothing and shoes, the study did not consider them conspicuous until they spent in all of the categories that make up visible consumption. The consumption behaviour of those households that only spent on food consumption and spent nothing on visible consumption, are explained using the corner solution.

**Figure 4-4: Corner Solution for the Consumption on Visible Goods of Poor Households**



Source: Rubinfeld and Pindyck (2013:90)

A poor household is faced with a budget constraint of AB, with two categories of goods, namely food consumption and visible consumption. Given the budget constraint this household chooses to only consume food. At this point, point “B”, an x amount of food is consumed by poor households and zero of visible consumption is consumed. Also at this point, poor households have reached their maximum utility given their limited resources. In order for these households to engage in visible consumption, the price of visible consumption would have to drastically decrease (Rubinfeld & Pindyck, 2013:90). The above illustration makes clearer that many poor households would not engage in visible consumption. That said, the focus of this paper is not only the current poor but also the relatively new middle class that may fall into poverty without adequate investment. Thus the paper acknowledges that not all poor households consume visible consumption but a segment of the poor does.

Ideally, to represent human capital, it would have been preferable to combine household expenditure on health care, school and university tuition as well as food consumption. Due to insufficiency of data in NIDS, specifically regarding amounts pertaining to health care and education, a comprehensive analysis using these variables could not be conducted in this study.

Table 4-2 below shows the missing response rates which were extracted from NIDS, in respect of medical expenditure<sup>5</sup> and school fees, as well as tuition.

**Table 4-2: Households' Non-response Rates**

<b>Year/Wave</b>	<b>Medical expense: missing observations</b>	<b>School fees and tuition: missing observations</b>
2008	91%	81%
2010/2011	19%	19%
2012	91%	91%
2014/2015	94%	94%

Source: NIDS 2008, 2010, 2012 and 2014/2015 (author's own calculations)

As wave two appears to have relatively high responses, the study considered only using those data. But this was found to not be feasible for statistical analysis especially for inference purposes. Out of those many responses, approximately 65% of households reported having spent zero amounts on tuition and / or school fees. The reason for this was assumed to be that, as a large fraction of the population make use of the public sector for both health care and education, this means most of the population does not pay for these public goods. Hence they could not provide a monetary value as expenditure. This partly explains the insufficiency of data in health care and education expenditure. Therefore, in order to preserve the integrity of the paper, the study strongly relied on food consumption.

With poverty more severe in less developed and developing economies, food security remains a challenge to be addressed. Food consumption can be identified as part of human capital in the sense that nutrition extracted from food is necessary to undertake productive daily tasks and, without proper nutrition, particularly children are likely to face malnutrition, be underweight and prone to illnesses, and consequently perform poorly at school (Brown et al., 2016:19). Educational attainment has a long-term bearing on a person's economic future and well-being since it eventually determines labour outcomes as well as general welfare. In this sense, food consumption is considered an important component of achieving human capital.

All of the expenditure and income amounts were deflated using Consumer Price Index (CPI) for the prevailing years and the base year set at 2008 prices.

<sup>5</sup> Recorded in NIDS as "Amount spent on medical professionals in the last 30 days".

#### 4.4 MEASURING POVERTY

The NIDS data has a sample of roughly 12 000 households and 26 000 adults for the year 2014/2015. For the purpose of this paper, the poor must be distinguished from the non-poor. Because poverty is a relative and multi-dimensional concept, with various definitions and measurements both nationally and internationally, defining 'the poor' necessitates that a clear definition and measurement be adopted for the purpose of this research.

This paper used the income method to measure poverty. Whether to use income or expenditure as a method of measuring poverty has become a contentious issue in the scholarly world. In most cases, it is sensible to use total expenditure, which is the actual amount spent on acquiring goods and services. This is considered to be most reliable as an indicator of standard of living and what the household actually has access to as opposed to income (Ravallion, 1992:13). If only measuring poverty in the country, the expenditure method would have been sufficient and preferred by the author of this study. However, as this study was multi-faceted, households were firstly classified as poor or non-poor, based on income. Thereafter the study investigated consumption patterns, utilising the expenditure method.

The first step in determining the poor or non-poor is to have a poverty line. Adults that fall below the poverty line would be considered poor and those above it, non-poor. This simplistic approach to the study of poverty is somewhat contentious. A poverty line fails to show the severity of poverty and the vulnerability of those considered non-poor. Setting a poverty line of R100 per month for example, does not necessarily mean that those with an income of R101, effectively judged non-poor by the poverty line, have greater access to goods and services. Ravallion (1992:34) advocates the use of multiple poverty lines as this allows testing for the sensitivity of measures to variations. This paper has therefore adopted two poverty lines.

According to Statistics South Africa (2014:7), since 2012, South Africa has adopted the following poverty lines to measure the extent of poverty in the country: Food Poverty Line (FPL), Lower Bound Poverty Line (LBPL) and Upper Bound Poverty Line (UBPL). The FPL is the level of consumption below which individuals are unable to afford basic food that will provide them with an adequate diet. LBPL refers to individuals that do not have enough money to purchase both adequate food items and non-food items, so that they have to sacrifice food. UBPL also delineates people who are still poor but who at least are able to buy both food and

non-food items. Selecting from the above, we used FPL and UBPL for all the years as follows (figures represent income per capita per month).

FPL for the corresponding years: 2008 **R274**, 2010 **R320**, 2012 **R366** and 2014 **R417**. For UBPL: 2008 **R682**, 2010 **R733**, 2012 **R834** and 2014 **R942**. The yearly increments indicate inflationary adjustments.

## **4.5 ECONOMETRIC ANALYSIS**

### **EMPIRICAL MODEL**

This study emulated the multi log-linear regressions found in the works of Charles (2009:432) and Kaus (2013:67), with some variations in order to address the research question of this thesis. Particularly to this subsection, only wave four data obtained during 2014/2015, will be employed. The study used two dependent variables to measure conspicuous consumption represented by visible consumption, i.e. log of visible consumption and share of visible consumption. The latter was included to measure the proportion of expenditure that is allocated to visible consumption. In order to assess the anticipated trade-off between conspicuous consumption and food consumption, a third dependent variable was introduced, namely share of food consumption. These variables were estimated using the Ordinary Least Squares (OLS) method, which assumes a linear relationship between the dependent variable and a host of explanatory variables. This method was chosen to establish the correlation between conspicuous consumption and poverty. The regression was run using the statistical Stata software package. The dependent variables were converted into logarithms, as this allowed the co-efficient to be interpreted as a percentage, which is most informative.

Visible consumption was derived by the amalgamation of three items that were considered to fit the criteria of conspicuousness. These three goods were expenditure on personal care, cellphone and expenditure on clothing as well as shoes. The mean expenditure of these goods were taken and added together. This is summarised below as:

*visible consumption = ( $\mu$  of cellphone expense +  $\mu$  of personal care expense +  $\mu$  of cloth and shoes expense)*

However, conspicuous consumption was measured as a proportion of income spent on visible consumption, hence we derived share of visible consumption.



$$\text{visible share} = (\text{visible consumption}/\text{total household expenditure})^6$$

$$\log(\text{visible share}) = (\text{visible consumption}/\text{total household expenditure})$$

This is further estimated as follows:

$$\log(\text{visible share}) = \beta_0 + \beta_1*afri_i + \beta_2*col_i + \beta_3*Indi_i + \log x + \delta *Dem_i + \mu...(1)$$

On the right-hand side of the regression are the independent variables; *afri<sub>i</sub>* is a proxy for an African adult, *col<sub>i</sub>* is a coloured adult and *Indi<sub>i</sub>* represent both Indian and Asian adults in the country. White adults were omitted as the population reference group. Log of total expenditure written as *log x* represents aggregate household expenditure. *Dem<sub>i</sub>* is a vector of demographic indicators including household size, age of household head, sex of child in a household, sex of adults as well as pensioners. These social indicators are included based on the following rationales. According to demand theory, for a normal good, there is a positive relationship between household size and consumption, *ceteris paribus*. This means that bigger households spend more as compared to households with fewer members. Considering that conspicuous consumption is aimed at gaining social status, it was interesting to see if the demand theory would hold. Sex and age were included to see the effect and variation of these variables in visible consumption. Moreover Age refers to both age and age squared. The latter was included to prevent non-linear effects likely to be obtained had only age been included. Upon completion, consumers of conspicuous consumption were able to be described using age group, sex and household factors.

As mentioned by Charles et al. (2009:427), the intertemporal budget line that observes higher spending on conspicuous products is often done at a cost of either reducing another component of current consumption and/or future consumption. From this we expect a trade-off between expenditure on visible consumption and food consumption.

Share of food consumption is derived as:

$$\text{food share} = (\text{food consumption}/\text{total household expenditure})$$

It is regressed as follows:

$$\log(\text{food share}) = \beta_0 + \beta_1*afri_i + \beta_2*col_i + \beta_3*Indi_i + \log x + \delta *Dem_i + \mu...(2)$$

---

<sup>6</sup> Total household expenditure as derived by NIDS and labelled as "total household expenditure with full imputations".

The analysis of the share of food consumption was conducted frequently comparing it the share of visible consumption, so as to ascertain if household spent more on visible consumption or food consumption.

With respect to the poor, the following missing variables were observed with respect to the poor as classified by the UBPL, who also engage in visible consumption.

### **STATUS-SEEKING MODEL**

Generally, the author accepts the notion that different social groups, whether differentiated the form of population group, culture or socio-economic status, may exhibit stronger or weaker preference for goods classified as conspicuous than their counterparts, owing to differences in taste and preference or cultural difference. It is possible that Africans for example, may spend more on visible goods out of preference as opposed to status seeking, which triggers conspicuous consumption (Charles et al., 2009:444). This study has been guided by Veblen and other scholars to the view that goods that are visible, portable and indicate better economic status are purchased to signal unobserved wealth/income that eventually leads to higher social status. That being said, we cannot overlook the possibility of cultural differences by the poor and specific population groups. To eliminate the possibility of cultural difference, this paper used a simple static framework of status-seeking model by Charles et al. (2009:444).

Charles et al. (2009:444) present a signalling model of status seeking by postulating an economy in which economic agents belong to group  $K$ , they have income  $\gamma_i^k$ , drawn from a known distribution with density  $f_k(\gamma)$  and support on the interval  $[\gamma^{kmin}, \gamma^{kmax}]$ . Income is not publicly revealed but it is used to buy two types of goods, namely goods visible by society, denoted  $C$ , and goods which are non-visible by society, denoted  $(\gamma-c)$ . It should be mentioned that non-visible means not easily visible, rather than invisible. This study also refers to two types of goods.

Here non-visible is represented by food consumption within a household. Each agent derives the same utility given by:

$$V(\gamma_i^k - c) + U(c_i^k) + w(s_i^k)$$

In  $s_i^k$  denotes status which reflects society's inference about  $i$ 's income on things observed about the person. It follows that  $s_i^k = E[\gamma_i^k | c_i^k, k]$

$c_i^k$  is agent  $i$ 's equilibrium visible consumption and  $k$  is agent  $i$ 's reference group. Each agent chooses consumption status, subject to the budget constraint. Society's beliefs about income are correct for each individual given by  $s_i(c_i^k(\gamma_i^k)) = \gamma_i^k$ . Hence the reference group examines consumption and infers that to unobserved income.

The involvement of status draws the following implications:

1. Conspicuous consumption is higher than it would be in the absence of status consideration.
2. Conspicuous consumption increases with own income. There is a positive relationship with income and adult's own income (Charles et al., 2009:446).
3. Holding own income constant, conspicuous consumption decreases with an increase in mean group income and increases with a decrease in group mean income. This means that if people who share the same preferences and the same income come from different social groups with different group mean income, it follows that their consumption of visible goods will be different. It is then that Charles et al. (2009:451) predict that visible consumption will be lower for social groups that have higher group income than social groups who have lower group income.

Using this status-seeking model this study assesses whether the consumption difference across population groups can be attributed to status seeking as opposed to other relevant factors such as taste or own income.

## 4.6 LIMITATIONS OF THE DATA AND STUDY

Using the NIDS data presents the following limitations for the study.

### a. Self-reported

Individuals are given questionnaires relying on the confidence that respondents will answer the questions to the best of their knowledge and exercise absolute honesty, albeit that the response could still be inaccurate. Making reference to the component of knowledge in answering questions, NIDS uses the recall method. The data is collected in a day to make inferences to apply for an entire month. Respondents are required to recall expenditure and income patterns for the entire period being measured and provide what they are able to remember as the correct answers. Owing to this recalling and self-reporting technique, it was found that at times total expenditure was exactly the same as expenditure recorded for just food, although they also

reported expenditure on non-food items (Finn, Franklin, Keswell, Leibbrandt & Levinsohn, 2009:17). This shows that the self-reporting and recall method may prove problematic. To lessen the impact of this inconsistency in response, NIDS includes interview checks questions. Respondents are required to restate some answers at a later stage of the interview, to test consistency with their initial responses.

#### **b. Non-response**

Argent (2009:4) discusses three dimensions of non-response, after a household has consented to participate in the interview. Focusing on two, the author mentions item non-response and people being absent on the day of the interview. Item non-response refers to the respondent not providing answers to certain questions. This is more prevalent for questions that are considered sensitive and confidential such as being required to disclose the exact figure one earns. Hence NIDS uses earnings categories rather than the actual amount of income. Because a point figure is still required, NIDS then allocates the amount to a mid-point. That is to say, if a respondent mentions earning between R5 000 and R6 000, it will be rounded to the mid-point which is R5 500. Obviously that is not an exact accurate figure but it lies close to the correct figure. In dealing with the issue of missing data, NIDS imputes this data for important variables.

The issue of absenteeism on the day of the interview refers to people who agreed to do the interview but were not present for the interview. Consequently another adult completed the interview on their behalf, representing them as a proxy. This raises a few concerns, including that proxies are secondary sources and their answers may differ from the answers that the adult would have provided. Moreover proxy questionnaires are structured slightly differently from the adult questionnaires, informed by the unavoidable realisation that there are questions that the second party cannot answer (Argent, 2009:4). For wave one the proxy questionnaire had 1 750 observations which declined to 1 600 observations in wave four. Decline in proxies coupled with a rise in the sample size means that more people were present for their interviews. This to an extent improves the accuracy of the data.

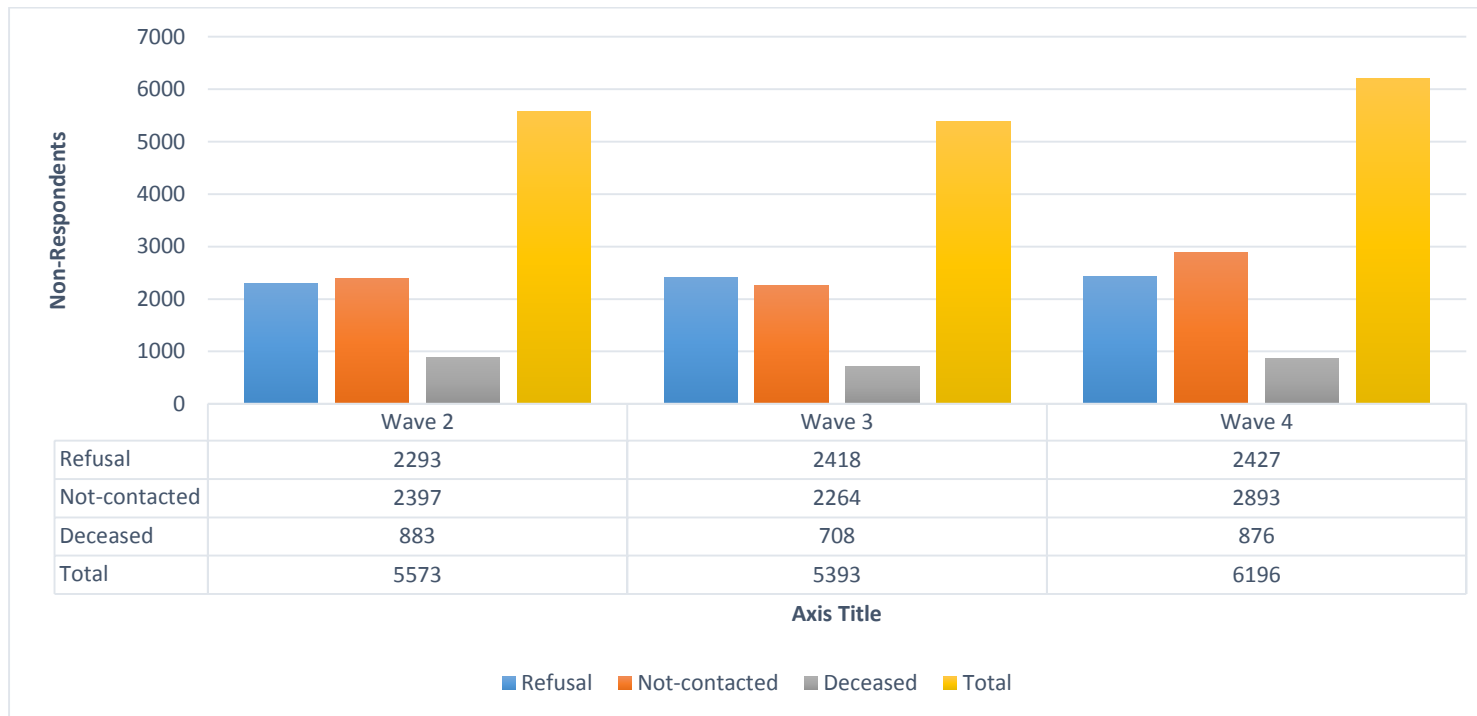
#### **c. Attrition**

A great advantage of NIDS data is that it is an ongoing panel study. Ideally, data was collected from the same households and individuals from 2008, the year of its inception, and expected to continue indefinitely. However in reality, over the years, there have been attritions and additions to the original sample. In NIDS attrition is defined by comparing the sample size of

a wave to its preceding wave. Hence wave two is compared to wave one and similarly wave four is compared to wave three. Attrition rates for NIDS were found to be relatively higher in comparison to other countries that have undertaken national longitudinal surveys. Many of those countries are developed nations (Finn & Leibbrandt, 2017:6), thus likely to have better resources to reduce attrition, such as tracking respondents. Attrition mainly occurs in NIDS owing to the following reasons. Firstly, in any survey participants are afforded the right to either consent or refuse to complete a survey. This means that individuals who completed the previous wave could simply have refused to participate in the subsequent wave. A second reason for attrition is the inability to reach contacts, known as ‘not-contacted’. These comprise individuals and / or households who had participated in one wave but could not be reached for the following wave interview, possibly due to relocation. Thirdly, attrition occurs through people who died between waves. Consequently this is not a balanced panel study. The attritions are graphically depicted below.



**Figure 4-5: Attrition Wave Two-Four**



Source: Chinhema, Brophy, Brown, Leibbrandt, Mlatsheni & Woolard (2016:4)

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It is noteworthy that the white population group consistently had the highest attrition percentage over the years. For wave two, three and four, this group had an attrition of 53.94%, 50.31% and 53.47% respectively. Attrition has been found to be particularly prevalent among white and relatively affluent respondents (Finn & Leibbrandt, 2017:6). To this end we use poststratified weights to reduce effects of attrition, since the descriptive analysis was done as a cross-sectional study.

Furthermore, as explained above, the inability to access all of the required data on visible consumption for the poor and human capital expenditure (household medical care and school fees) is emphasised.



# CHAPTER FIVE: CONSPICUOUS CONSUMPTION IN SOUTH AFRICA

## 5.1 INTRODUCTION

Thorstein Veblen (1899) was among the first to argue that even less privileged people in societies desire to have, or at least to appear to have, as much as other people in their reference group. It is partly out of this desire that the poor engage in conspicuous consumption that they can ill afford. This study explores the relationship between conspicuous consumption and poverty in South Africa and investigates to what extent the poor may use their limited funds to acquire goods and services – that are unlikely to lift them out of poverty – for the sake of appearing wealthier. This question calls for empirical facts that are independent of moral arguments. This question has become increasingly important to answer in the light of various poverty eradication policies implemented by governments, especially in developing economies. In South Africa for the year 2014/2015, government spent approximately R121 billion on social grants to provide immediate poverty relief to the impoverished (StatsSA, 2015). Clearly poverty alleviation is a priority for the South African government. Against this backdrop, it is important that all the hindrances to poverty eradication are identified.

Having carefully devised a methodology soundly based on a thorough review of the literature, the data of the National Income Dynamics Study (NIDS), which comprises a longitudinal survey study of almost 12 000 South African households from 2008 to 2015/16, was selected for analysis. This chapter describes the analysis of the data through which the research question will be answered.

While there are various goods and services on which households can spend their income, this study focused on determining household expenditure on food consumption and visible consumption, the latter identified as a proxy for conspicuous consumption. The objective was to ascertain how households distribute their income between visible consumption and food consumption. Secondly, a brief poverty analysis study was conducted to evaluate buying patterns of the poor, ‘the poor’ being classified as those who fall below the StatsSA-prescribed poverty lines, based on their per capita income. To further substantiate the findings, log multivariate regressions, regressing share of visible consumption and share of food consumption were included in the analysis.

## **5.2 EXPENDITURE IN SOUTH AFRICA**

Expenditure comprises household food consumption and visible goods, bearing in mind the latter is a proxy for conspicuous consumption. The analysis begins with the consumption of visible goods by households. When examining the changes between 2008 and 2014/2015, especially the snapshot between 2008 and 2014/2015, it is cautioned that the effect of the performance of the economy for those prevailing years should be taken into account.

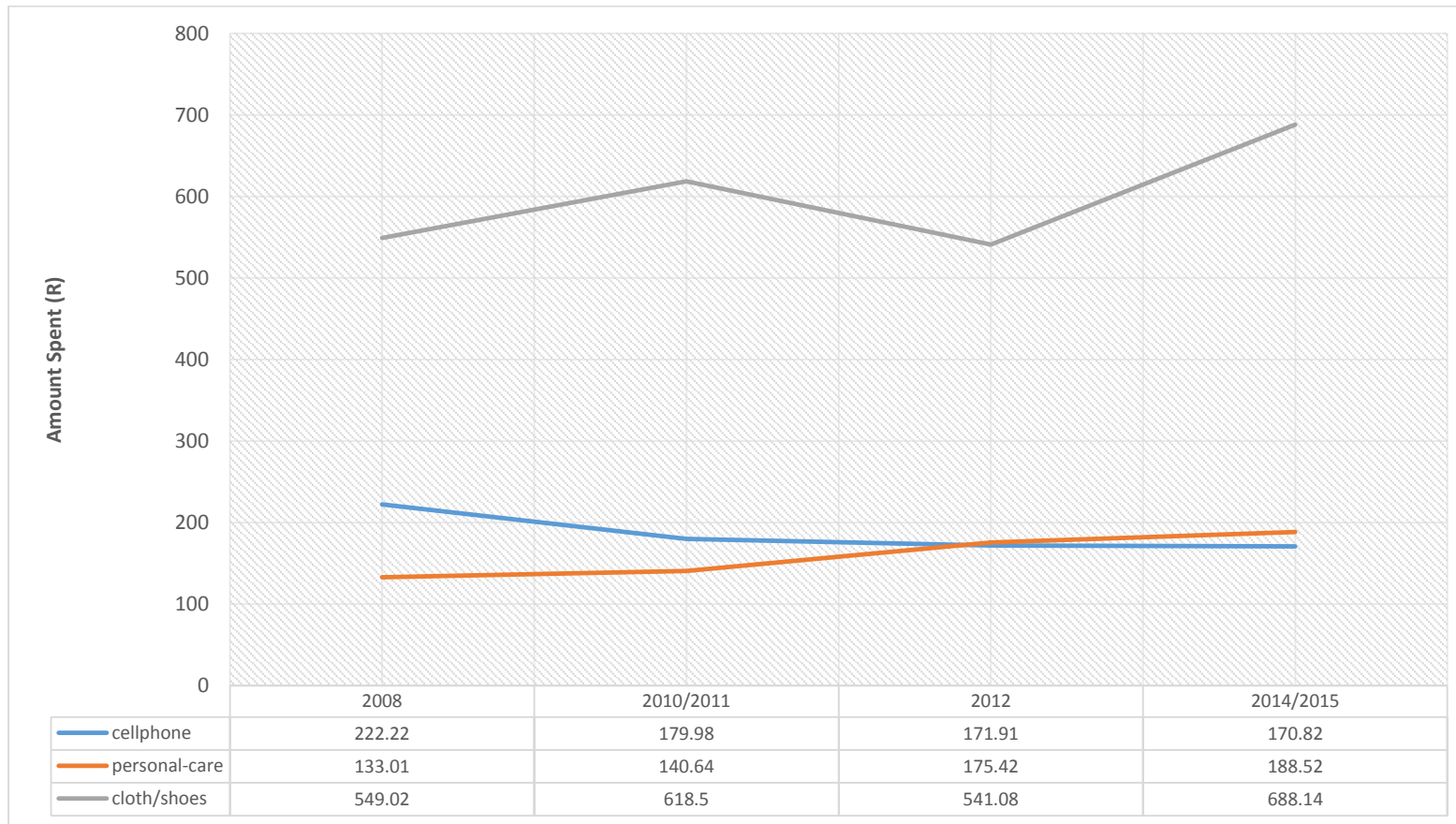
### **VISIBLE EXPENDITURE**

#### **VISIBLE EXPENDITURE CATEGORIES**

Prior to studying overall expenditure on visible goods, it is useful to review the different items that make up visible consumption. Restated, visible consumption comprises personal care, cellphone expense and expenditure on shoes and clothing. The mean expenditure by households on each category is depicted below.



**Figure 5-1: Household Visible Expenditure by Category: 2008-2014/2015**



Source: NIDS 2008, 2010, 2012 and 2014/2015 (author's own calculations)

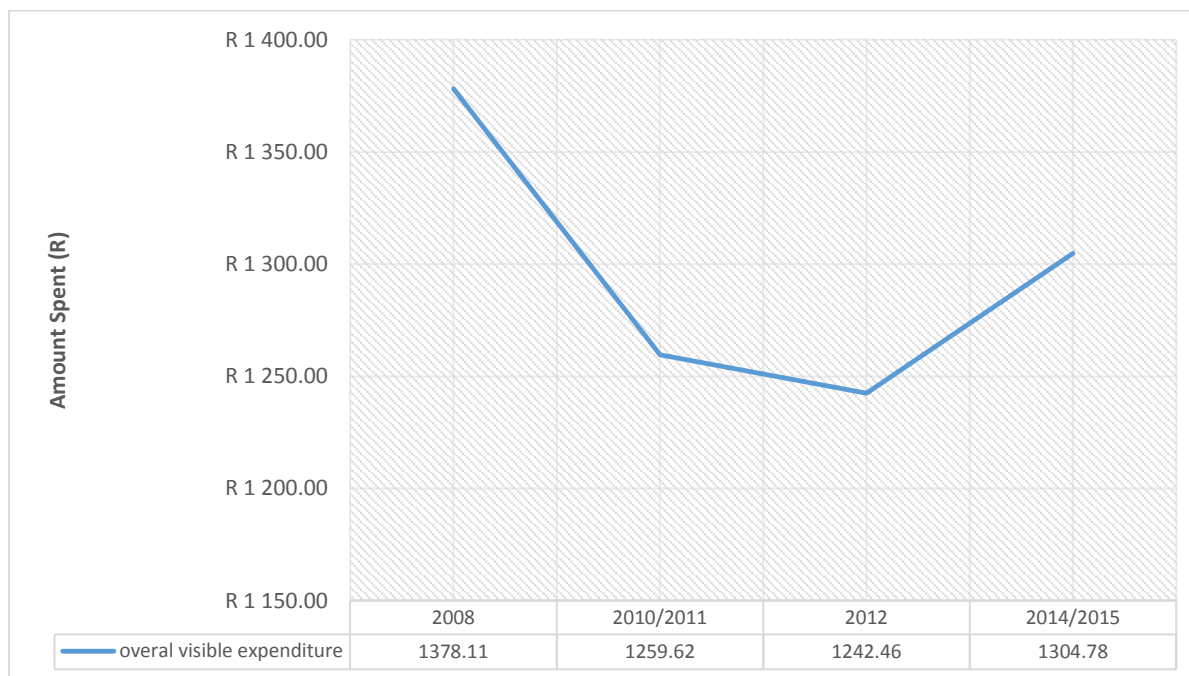
Expenditure on categories of visible goods has been generally inconsistent, shown by a fluctuating trend in figure 5-1. The graph also makes clear the most procured form of visible consumption is clothing and shoes. Spending on this category has been positive with a slight drop in 2012, whereafter expenditure rose to a peak in 2014/2015 with a mean expenditure of over R688 per month. Even during the drop in 2012, expenditure on clothing and shoes had the highest expenditure. This is not surprising in the light of the reviewed literature.

Hunter (2002:114) showed that fashion was very important in South Africa, especially in townships. This has clearly been demonstrated by the cultural phenomenon of *Izikhothane*. To recall, generally *izikhothane* refers to South African youths who typically come from poor backgrounds in the township, and spend extravagantly on branded items of clothing that they can ill afford (Mnisi, 2015:34). Clothing and shoes are the low-hanging fruits of branding. Well-established brands associated with prestige are able to charge premium prices for their products, effectively ensuring that those products are generally out of reach of the poor, and only accessible to the elite. This makes clothing and shoes ideal items for reveal conspicuous consumption.

### **HOUSEHOLD VISIBLE EXPENDITURE**

Overall visible expenditure comprises all the categories of visible expenditure together. Household visible expenditure is depicted in figure 5-2, this time using both the mean and the standard deviation. Standard deviation shows how the rest of the expenditure data is clustered around the mean; in other words, whether the rest of the data is closer or further away from the mean. Further away would mean most households do not spend the reflected mean expenditure.

**Figure 5-2: Household Visible Consumption: 2008-2014/2015**



Source: NIDS 2008, 2010, 2012 and 2014/2015 (author's own calculations)

**Table 5-1: Standard Deviations on Household Visible Consumption**

2008	2010/2011	2012	2014/2015
1702.11	1339.064	1287.53	1135.633

Source: NIDS 2008, 2010, 2012 and 2014/2015 (author's own calculations)



Figure 5-2 shows that overall visible expenditure was at its peak in 2008 and never returned to that peak. From 2010/2011 to 2012 visible consumption went on a downward spiral. Thereafter it improved in 2014/2015. The decline in visible consumption could be attributed to the aftermath of the global financial melt-down that begun in 2008 (StatsSA, 2017:16). With respect to the standard deviations, for the years 2008 and 2014/2015 the standard deviations are quite high. This suggests for those years that there were many respondents who had an expenditure different from the mean, hence not reflective of the mean. Upon studying the average expenditure towards visible consumption, it is relevant to ascertain the mean expenditure as a proportion of household realised income.

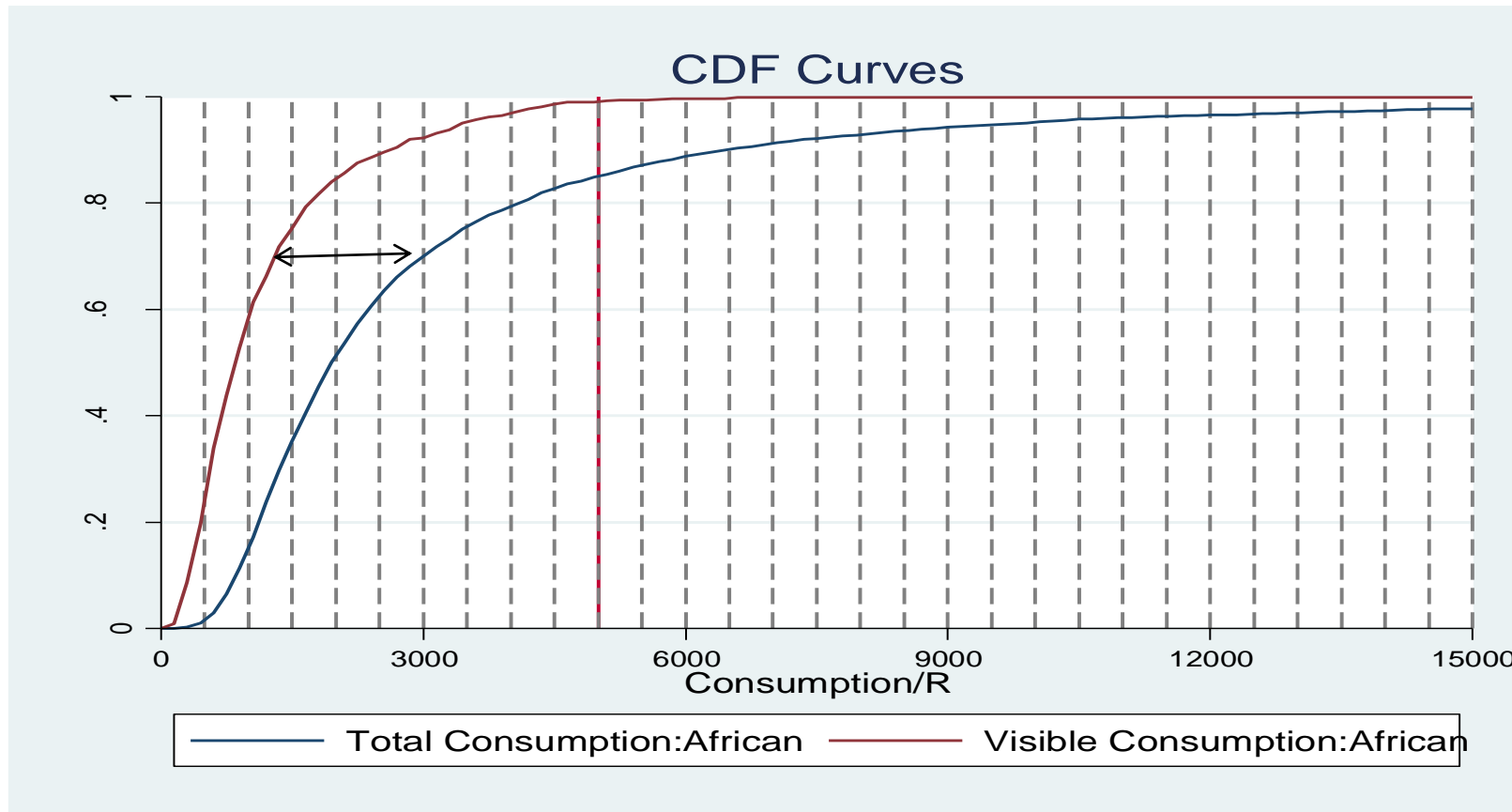
### **SHARE OF VISIBLE CONSUMPTION: SOCIO-ECONOMIC INDICATORS**

Assume two consumers. Consumer A earns R1 000 a month and consumer B earns R500 a month. Both consumers spend R250 on clothing. Consumer A spent 25% of their income on clothing while consumer B spent twice as much, 50% of its income. The expenditure is the same but consumer B incurred a higher price or opportunity cost. In the same way, the study wanted to reveal who was paying relatively more for visible consumption. Expenditure on visible consumption is studied as a proportion of total expenditure. Share of visible expenditure can also be interpreted as a proportion of income spent on visible goods. This analysis was carried out using the socio-demographics of population group, educational attainment, sex, geographic location and age.

### **SHARE OF VISIBLE EXPENDITURE BY POPULATION GROUP**

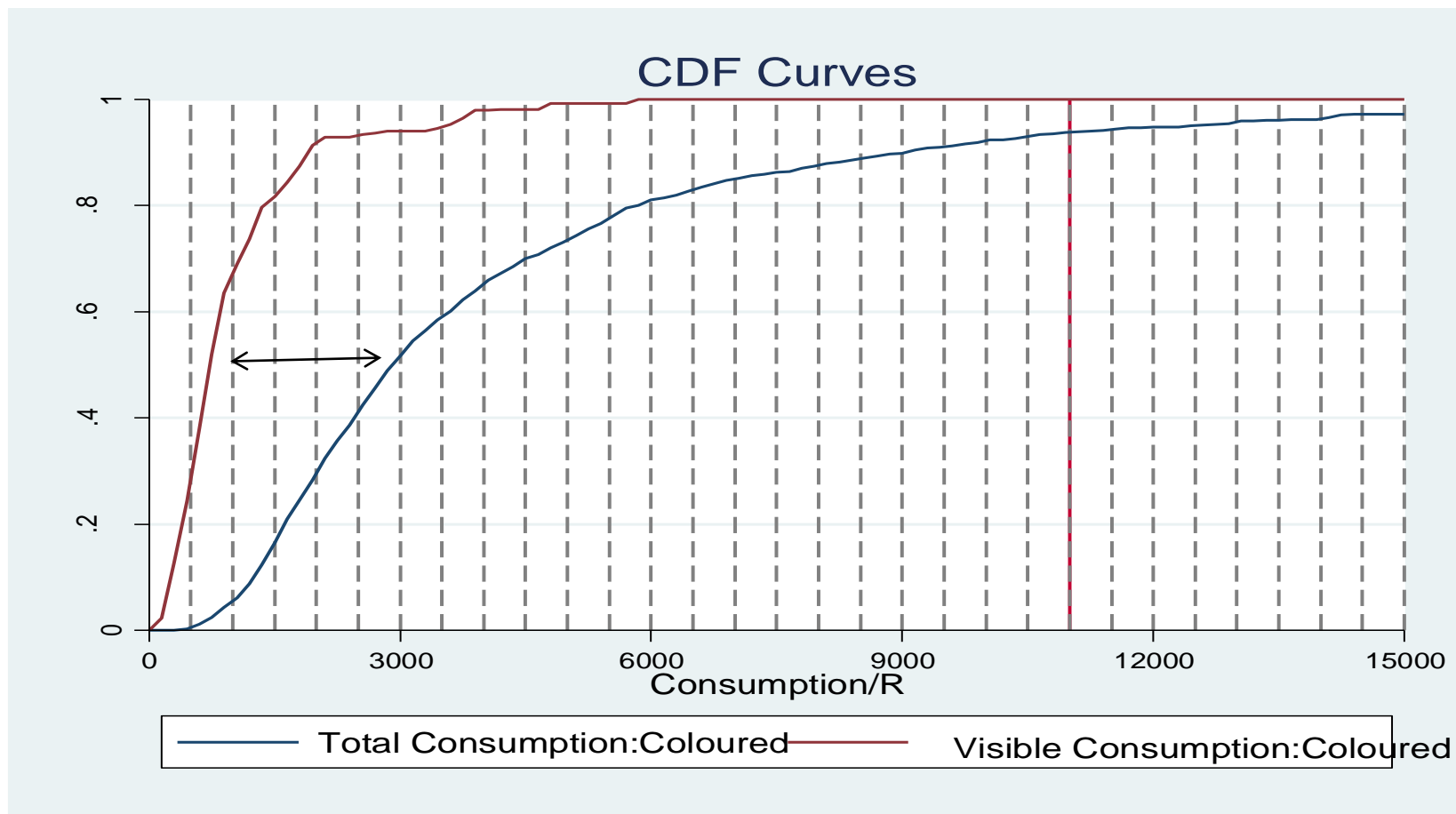
Ethnic classification in South Africa is problematic but unavoidable in the academic study of economics given the still close correlation of ethnic or population group and class in South Africa. While not homogenous, to a large degree one can still infer income, educational attainment, residential area, home language and other socio-economic indicators from the population group. The study assessed whether a person's assigned population group could be used to infer their consumption behaviour. For example, given the same income do households of different population groups buy the same basket of goods? This notion was tested using Cumulative Distribution Functions (CDF) curves. The CDF's show two curves – total consumption and proportion of consumption that is devoted to visible consumption.

Figure 5-3a: Comparison of Household Visible Consumption and Total Household Expenditure for Africans



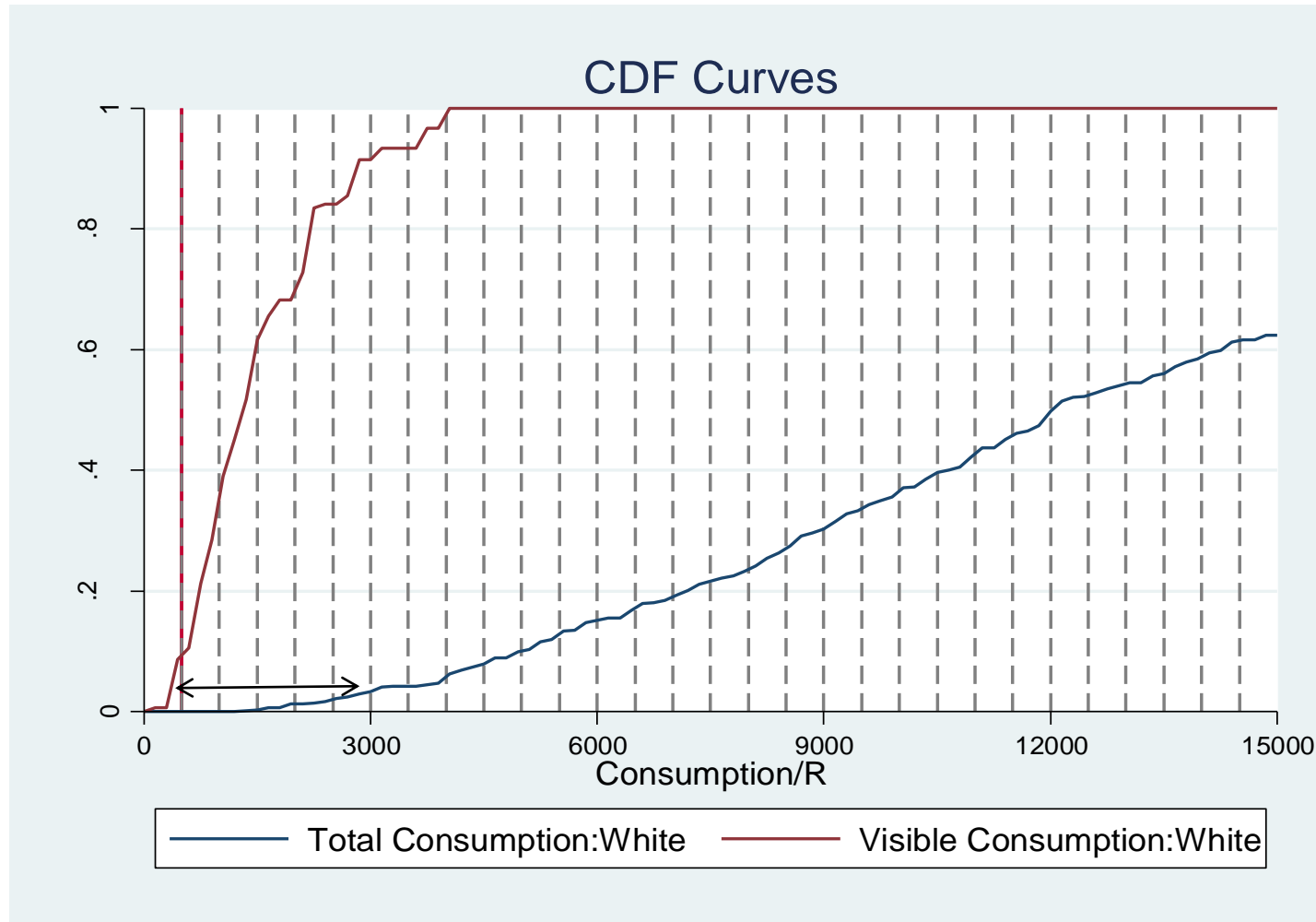
Source: NIDS 2014/2015 (author's own calculations)

Figure 5-3b: Comparison of Household Visible Consumption and Total Household Expenditure for Coloureds



Source: NIDS 2014/2015 (author's own calculations)

Figure 5-3c: Comparison of Household Visible Consumption and Total Household Expenditure for Whites



Source: NIDS 2014/2015 (author's own calculations)

Total consumption lies above and visible consumption lies below. This is owing to the fact that visible consumption is a fraction of total consumption. A large disparity between the two curves means that a small proportion of income is spent on visible consumption, whereas a smaller disparity means that a large share of income is spent on visible consumption by households. The above CDFs use a scale of R500. As we move from point zero horizontally, consumption amounts increase by R500 as indicated by the vertical lines. A total consumption of R3 000 is adopted for all population groups. This means that at this moment only adults from all population groups who have a total consumption of R3 000 are being studied. Tracing out the amount of R3 000 on the respective CDFs, the amount each population group will dedicate towards visible consumption is assessed, given the same total consumption of R3 000. Referring to figure 5-3a using R3 000 as total consumption, the corresponding consumption for visible goods is then identified. The graph shows that African households spend a little less than R1 500 of their realised income on visible consumption. This represents roughly less than 50% of African households' income spent on visible consumption. For coloured households shown in figure 5-3b, given the same total expenditure of R3 000, less than R1 000 is devoted to visible consumption. The share of visible consumption declines even further for white households in figure 5-3c. Given the same value of R3 000, the share of visible consumption is almost negligible for white adults, being less than R500.

These results can also be interpreted taking into account economic classes or an attempt can be made to arbitrarily divide the sample into socio-economic classes. All those adults with total consumption ranging from R0 to R3 000 are identified as the lowest economic class, as they are projected to have low income based on their low total consumption. The second class spends more than R3 000 but less than R6 000, adhering to the same scale of R3 000 as a width. The last class, deemed to comprise the highest income earners, have a total consumption that is above R15 000. The consumption behaviour of poor African households is also drastically different from the consumption of white poor households. In spite of the low income, kept constant at R3 000, African households allocate a greater share of their expenditure to visible consumption, whereas white households facing the same budget constraint, allocate significantly less to visible consumption.

Another disparity is the proportion of increase between the two expenditures, since all of the curves portray an upward trend. For African households, as total consumption increases, visible consumption also increases by nearly the same proportion. However for other population groups, as total expenditure increases, the proportion allocated to visible expenditure becomes

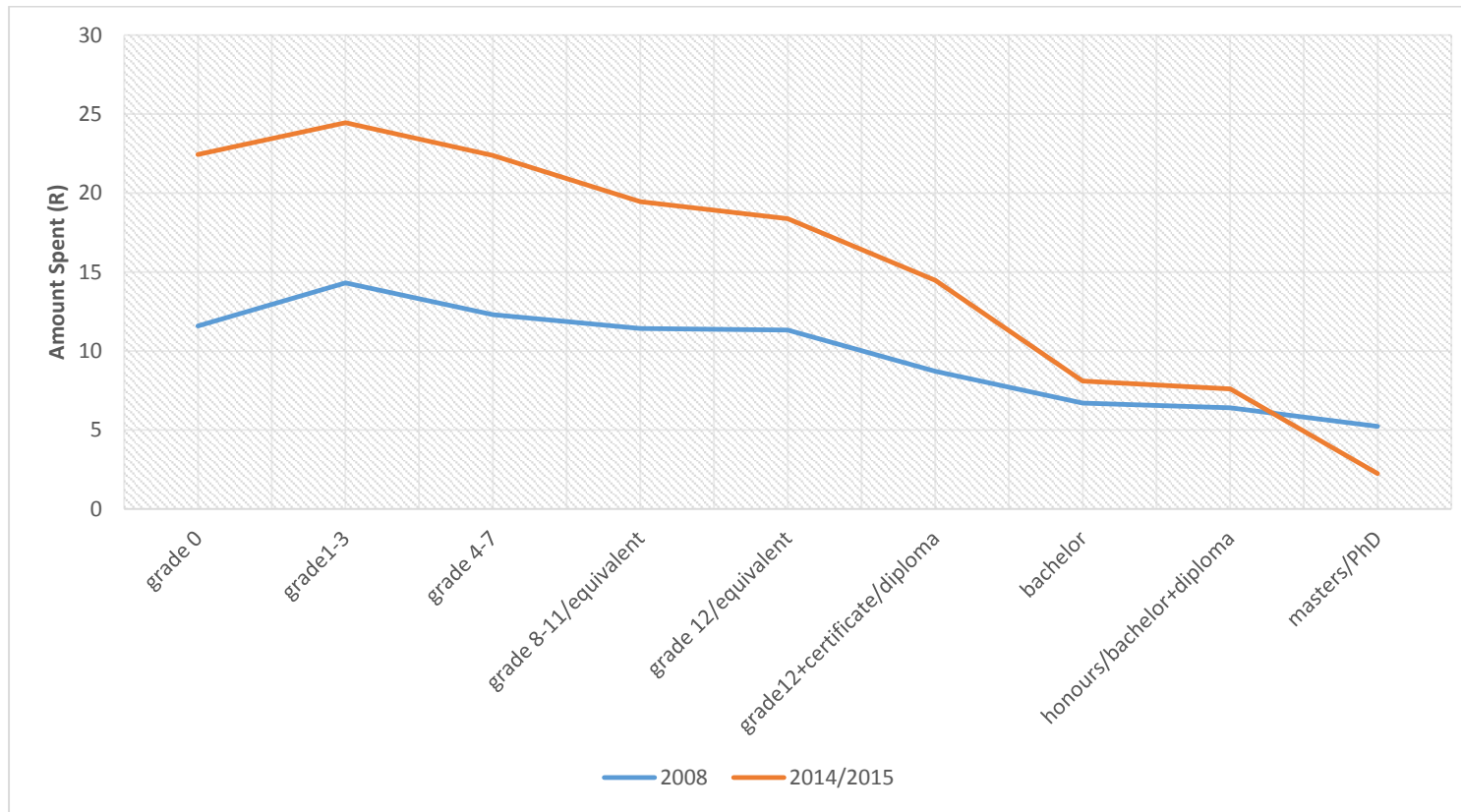
less and less. This suggests that when other population groups' total expenditure increases they apportion more resources or money to goods other than visible goods. This is clearly the case for white households.

### **VISIBLE EXPENDITURE BY EDUCATIONAL ATTAINMENT**

The human capital theory argues that education is a worthwhile investment that is beneficial for both societies and individuals undertaking this investment (Teichler & Kehm, 1995:116). Part of the returns of education is higher remuneration. Accordingly, adults with higher education will generally earn more than adults with only secondary education, and adults with primary education or no education at all are expected to earn the least. A graphical depiction of income by educational attainment would show an upward trend, as there is a positive relationship between years of schooling and income. This theory is supported by NIDS data. Higher income provides more room to spend on total consumption and of course visible consumption. Only considering income, it could be expected that higher income earners – the educated – would expend relatively more visible expenditure than the poorly educated who earn significantly less. That being said we cannot overlook prior studies on conspicuous consumption. With respect to the relationship between conspicuous consumption and educational attainment, Moav and Neeman (2012:934) argue convincingly that people with high human capital have other means of signalling wealth and gaining status such as professional titles and educational certificates; hence they have less incentive to signal success through conspicuous consumption. Thus there are two contradictory premises. The first being that higher income earners can spend more on visible expenditure as they can afford to do so. But since higher educational attainment suffices to indicate high unobserved income and attracts social status, more years of education will be associated with a lower share of visible consumption. The second contradiction is that lower income earners who lack human capital, compensate for that lack with peculiar visible consumption patterns that do not involve investing in human capital.



**Figure 5-4: Share of Visible Consumption by Educational Attainment: 2008-2014/2015**



Source: NIDS 2008 and 2014/2015 (author's own calculations)

Comparing share of visible expenditure from 2008 to 2014/2015, share of visible consumption increased, with the exception of adults with Master's/PhD. A greater share of income was spent on visible consumption in 2014/2015 than in 2008. With that being said, the growth of visible consumption by educational levels was not equal. Growth rates in the share of visible consumption are higher among the poorly educated, specifically adults with absolutely no schooling. Even in 2008, a higher share of visible consumption was reported among the poorly educated. Adults with higher educational attainment apportion comparatively less income to visible consumption. In both waves, more years of schooling are associated with a lower share of income being spent on visible consumption. The implications of these results are that adults with poor education and consequently low per capita income are spending more on visible goods than those with higher education, who although arguably in a better position of affordability, are actually spending less on visible consumption. This confirms the argument put forward by Moav and Neeman (2012:934), in which the authors argued that those with high educational attainment spend less on visible consumption, owing to the fact that their level of education sufficiently indicates unobserved income or wealth and therefore status. Perhaps the high expenditure on visible goods is to compensate for lack of education.

### **VISIBLE EXPENDITURE BY SEX**

Table 5-2 below shows that share of visible consumption does not differ significantly between males and females.

**Table 5-2: Share of Visible Expenditure by Sex 2008-2014/2015**

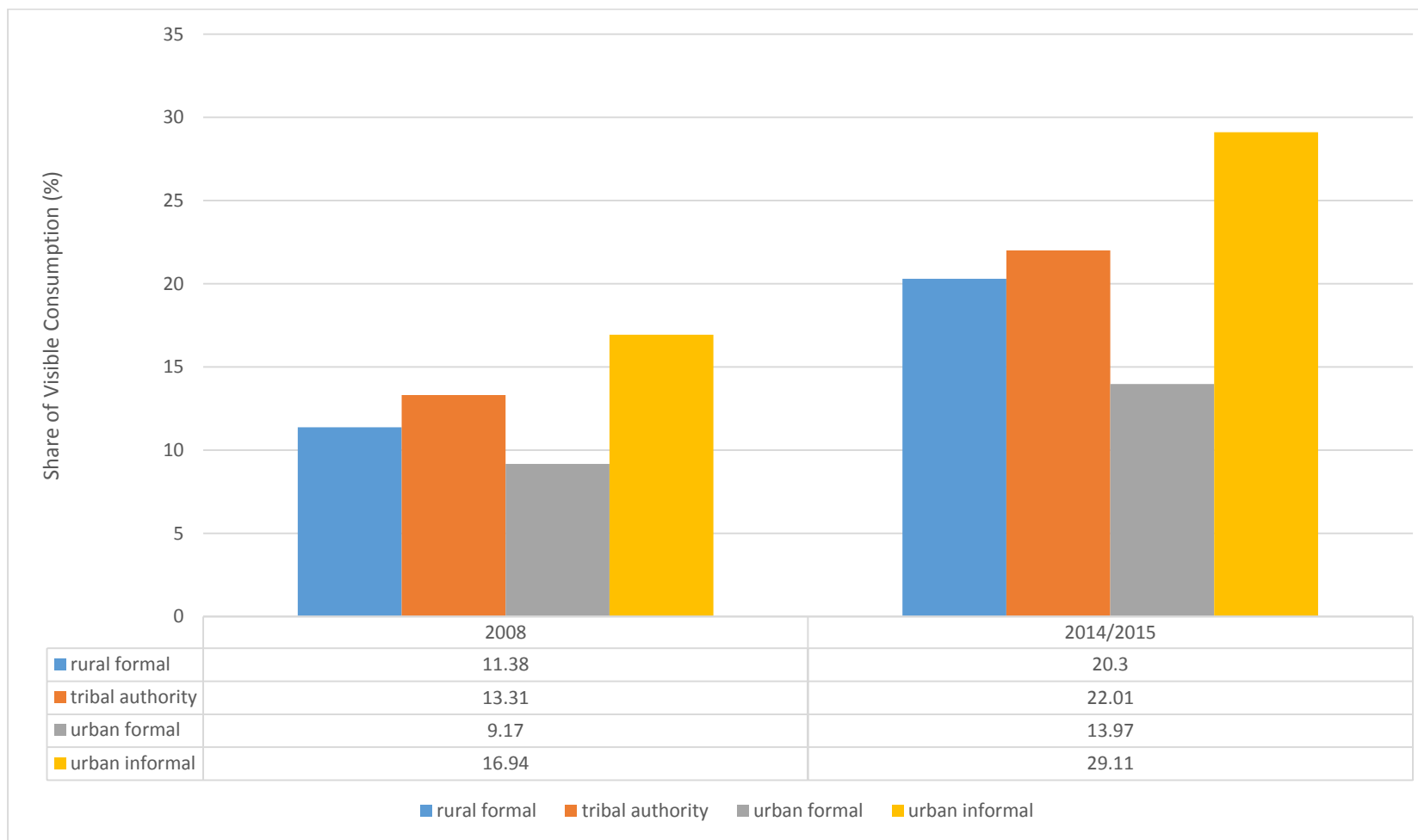
	<b>2008</b>	<b>2010/2011</b>	<b>2012</b>	<b>2014/2015</b>
Male	9.83	13.98	16.17	16.50
Female	10.54	11.80	17.01	17.18

Source: NIDS 2008, 2010, 2012 and 2014/2015 (author's own calculations).

### **SHARE OF VISIBLE EXPENDITURE BY TYPE OF GEOGRAPHIC DWELLING SETTLEMENT**

Figure 5-5 depicts share of visible consumption based on four dwelling settlement types, namely urban informal, urban formal, tribal authority and rural formal.

**Figure 5-5: Share of Visible Expenditure by type of Geographic Dwelling Settlement (%)**



Source: NIDS 2008 and 2014/2015 (author's own calculations)

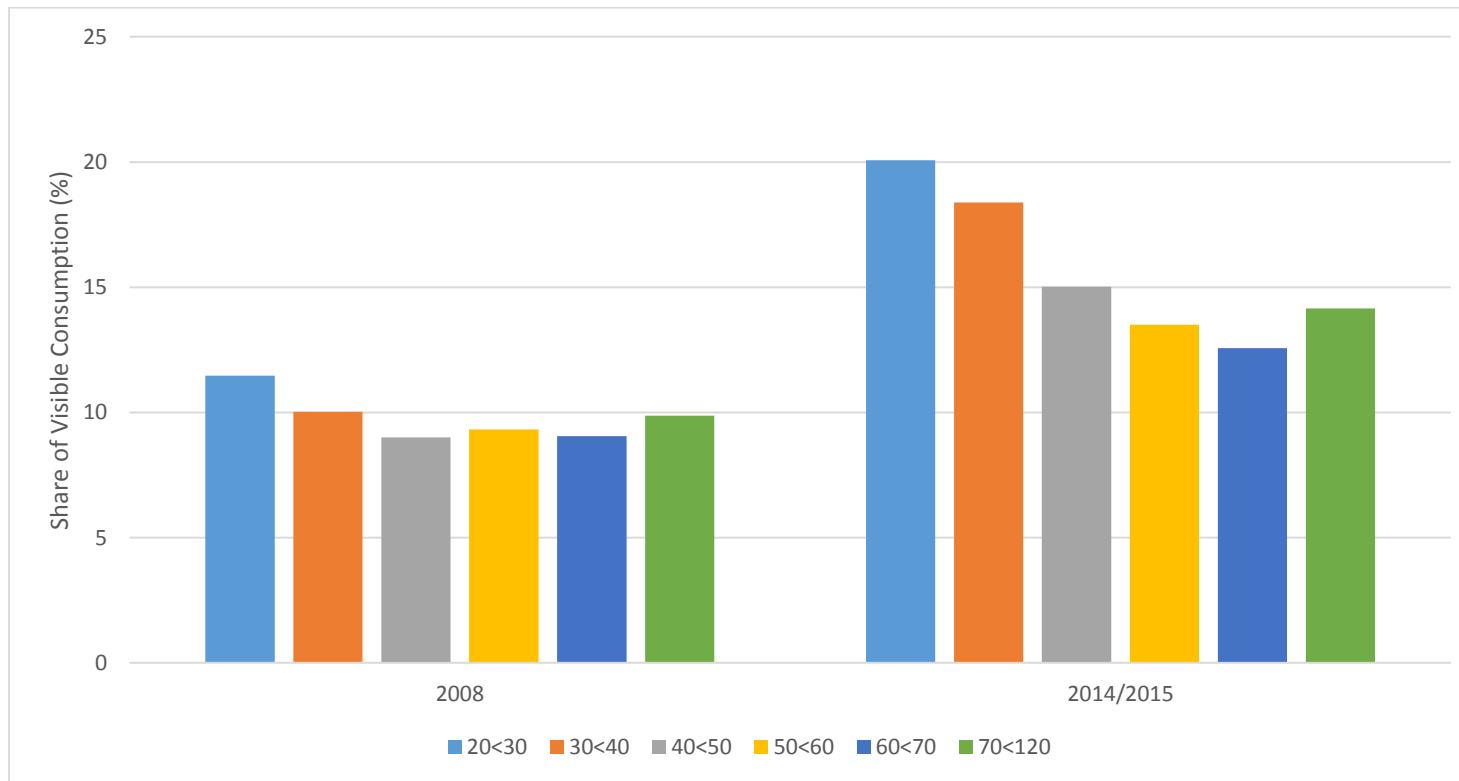
Out of the four dwelling settlement types in the country, assessing 2014/2015 against 2008, the results appear to be consistent. This is to say, for both periods, households located in urban informal dwellings spent comparatively more on visible consumption, with 16.94% in 2008 rising to 29.11% during 2014/2015. By contrast, households in urban formal settlements allocated the least proportion of their income to visible consumption with 9.17% in 2008 and 13.97% during 2014/2015. There was a general increase of the share of visible consumption from 2008 to 2014/2015. It can therefore be concluded that dwellers in urban informal settlements and tribal authority settlements are spending relatively more on visible consumption than residents of urban formal areas and rural formal residents.

As regards differences in visible consumption as a proportion of income by province, for the year 2008, residents of the Eastern Cape (EC) allocated the highest proportion of their income to visible consumption at 13.09%, followed by Northern Cape (NC) at 12.5% and North West (NW) with 12.34%. In the remaining provinces, adults in the Western Cape (WC) spent the lowest proportion of their income on visible consumption, at 8.5%. Moving to 2014/2015, adults in EC continued to spend the highest proportion of income on visible consumption at 21.37%, an increase of 8.28%. In second position is the Free State (FS) with 20.54%, recording a growth of 10.85% from 2008. It is closely followed by Mpumalanga (MP) at 20.49%, a rise of 10.58%. By contrast, Gauteng (GP) allocated the least proportion of income to visible consumption, at 12.81%. This is somewhat consistent with its consumption of 2008, in which the province ranked seventh lowest.

### **SHARE OF VISIBLE CONSUMPTION BY AGE**

Figure 5-6 depicts share of visible consumption based on age groups, to ascertain if conspicuous tendencies are likely in particular age cohorts.

**Figure 5-6: Household Share of Visible Consumption by Age**



Source: NIDS 2008 and 2014/2015 (author's own calculations)

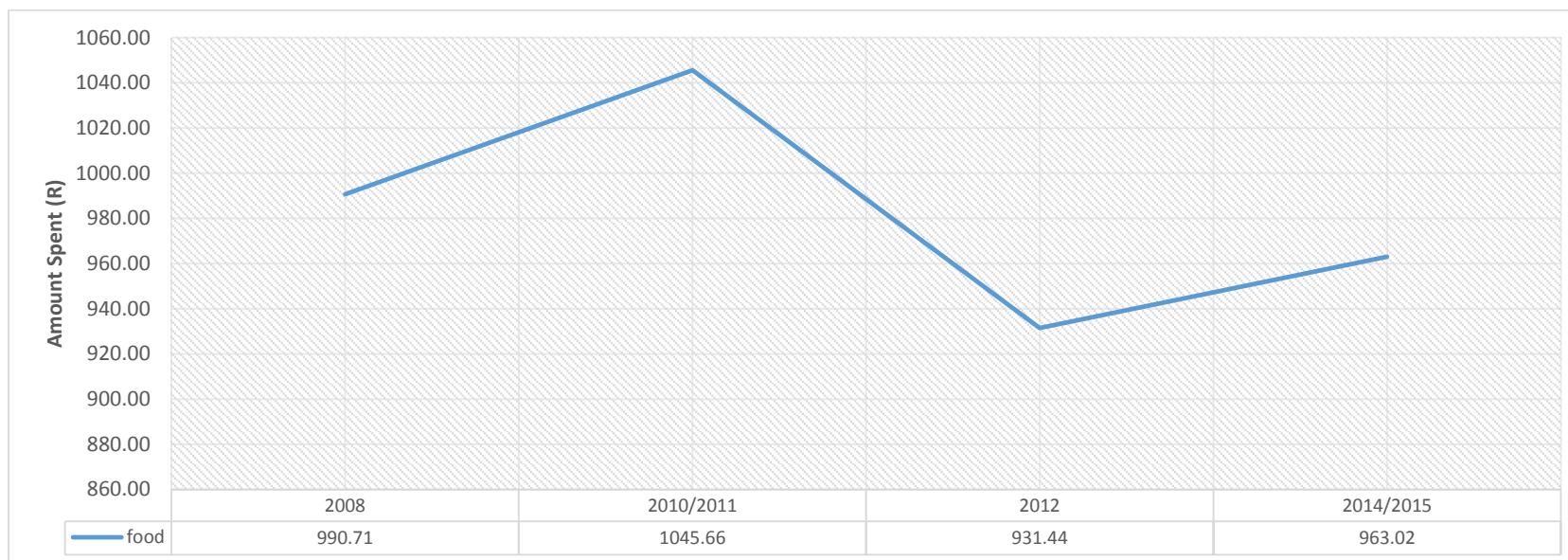
With few exceptions for both periods we observe a negative relationship between age in years and share of visible consumption. That is, as adults become older they allocate less of their expenditure to visible consumption. Young adults specifically around the ages of 20 and 30 years of age, allocate the most to visible consumption – for 2008 and 2014/2015, 11.47% and 20.07% respectively. As age increases, share of visible expenditure declines, with few exceptions. Possible the share of visible consumption is higher for young adults than older adults because the former have lower incomes. The life cycle theory was put forth by Brumberg, Modigliani and Brumberg (1954, as cited by Deaton, 2005:4). According to the life cycle theory, there is a positive relationship between age years and income until a turning point is reached. As people age while active in the labour market it is envisaged that they gather work experience which positively affects their income. Upon reaching the age of retirement, their income culminates. Applying this theory, young adults around the age of 20 to 30 earn significantly less than adults between 50 and slightly less than 60. Thus young adults with their comparatively small incomes still decide to apportion of that income towards visible consumption.

A recurring theme to emerge in this section is that low income earners allocate the most to visible consumption, compared with adults with relatively high incomes. Hence groups who are most vulnerable to constrained resources, namely the young adults, the poorly educated and Africans, are allocating a larger proportion of income to visible consumption. It was also found that adults from different population groups show marked differences in consumption behaviours even if having the same monetary resources.

### **5.3 HOUSEHOLD FOOD CONSUMPTION**

Excessive consumption on visible assets reduces one's ability to spend on basic needs, notably, education, health care and food (Kaus, 2013:64). As mentioned in the previous chapter, the study initially planned to investigate expenditure on all of the aforementioned categories, which positively contribute to human capital. Due to insufficient data, specifically amounts spent on health and education, it was not possible to conduct a comprehensive study of consumption of these goods, with the same depth as was conducted on visible goods. Therefore, only household food consumption was selected as an indicator of human capital in the study. Trends of food consumption dating from 2008 till 2014/2015 were depicted. Share of food consumption was also matched against share of visible consumption.

**Figure 5-7: Household Food Consumption Trends: 2008-2014/2015**



Source: NIDS 2008, 2010, 2012 and 2014/2015 (author's own calculations)

**Table 5-3: Standard Deviation on Food Consumption**

2008	2010/2011	2012	2014/2015
949.06	1311.47	989.61	1029.26

Source: NIDS 2014/2015 (author's own calculations)



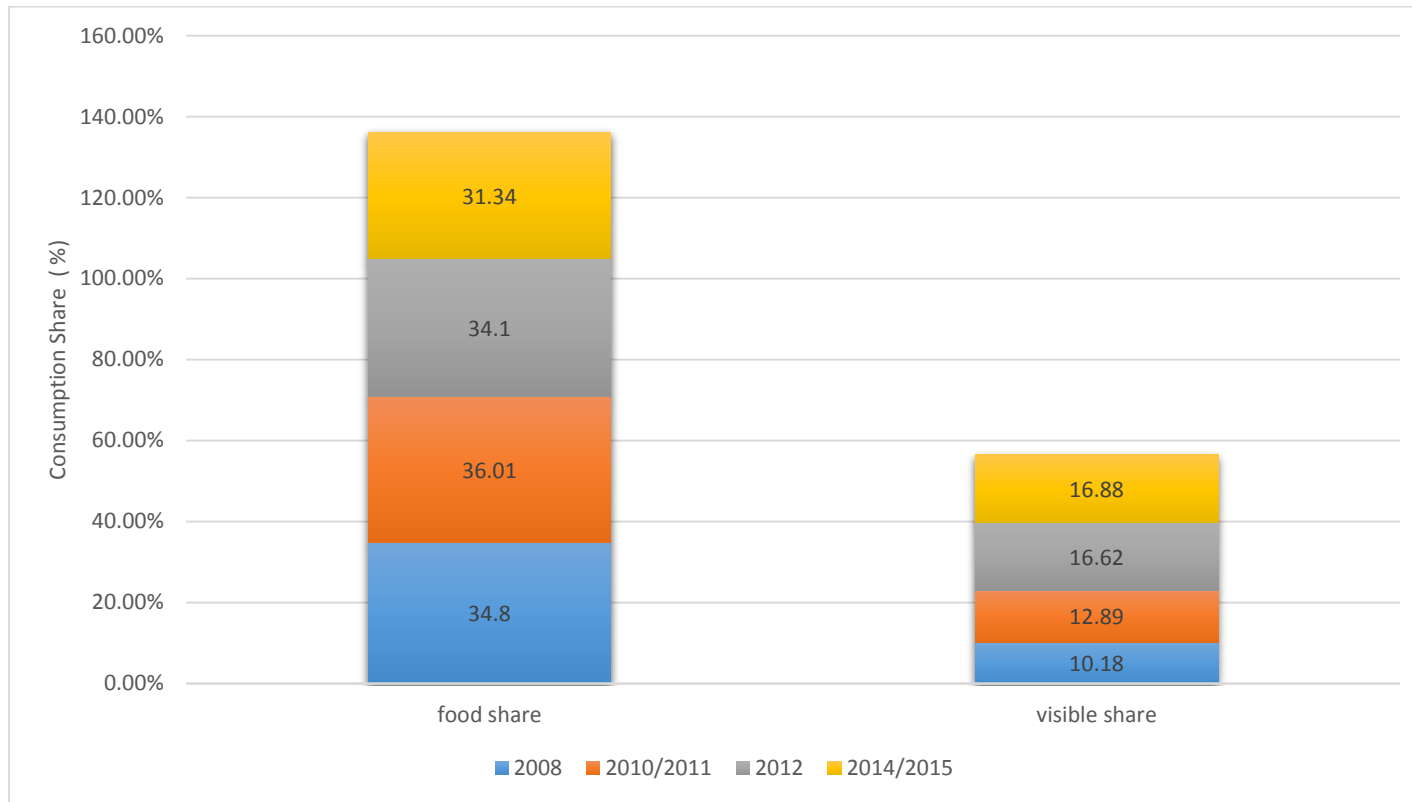
Food consumption has been consistently clustering around R900 per month. In this regard there was little change from 2008 to 2014/2015. The standard deviations for the prevailing years were quite close to the mean expenditures, which suggests that the means are reflective of household expenditure, with respect to food consumption.

### **FOOD CONSUMPTION SHARE AGAINST VISIBLE CONSUMPTION SHARE**

In the study, how total household expenditure was divided between food and visible expenditure was examined. The share of food consumption was compared with that of visible consumption for the period 2014/2015. Share of food consumption is derived as food consumption divided by total household expenditure. Likewise share of visible consumption is divided by total household expenditure.



**Figure 5-8: Food share and visible consumption share 2008-2014/2015 (%)**



Source: NIDS 2008, 2010, 2012 and 2014/2015 (author's own calculation)

Studying expenditure share of food consumption, it is deduced that food consumption has been fairly consistent over the years, clustering around about a third of total household expenditure. By contrast, share of visible consumption shows a marked increase from 2008 to 2014/2015. In the first wave, households apportioned 10.18% of total expenditure on visible expenditure. This steadily increased for each wave till it reached 16.88% during 2014/2015. Concurrently, share of food consumption declined from 2008 to 2014/2015 by 3.46%. A rise in the share of visible consumption accompanied by a decline of share of food consumption, instigates an argument that perhaps this rise in visible consumption was achieved at the expense of food consumption.

## 5.4 THE POOR IN SOUTH AFRICA

Using the money metric method, income per capita was used to derive economic status between poor and non-poor. Ravallion (1992:1) argues that the most important reason for measuring poverty is not the need to derive a figure but rather to conduct a poverty comparison, in which the poverty rate is compared in more than one situation or period to see movement. It is noteworthy to mention that although the poverty lines used in this paper were adapted from the poverty analysis report of StatsSA (2017) the absolute figures of poverty rates differ for several reasons. The first reason is the difference in how per capita incomes were constructed<sup>7</sup>. The difference in poverty rates between the Income & Expenditure Surveys (IES) and NIDS owing to the different categories of income sources was documented by Argent, Finn, Leibbrandt & Woolard (2008:11). Moreover the StatsSA report used 2015 as a base year as opposed to 2008. In spite of the absolute differences in figures a consistent conclusion was still expected.

The paper used two poverty lines developed by StatsSA, namely the Food Poverty Line (FPL) and the Upper Bound Poverty Line (UBPL). Restated, FPL is the level of consumption below which individuals are unable to afford basic food that will provide them with an adequate diet, excluding other necessities such as clothing and shelter. With UBPL, adults falling below the line are also poor but are able to buy minimum food and non-food items. The analysis will start with UBPL, followed by the most severe form of poverty measure, the FPL.

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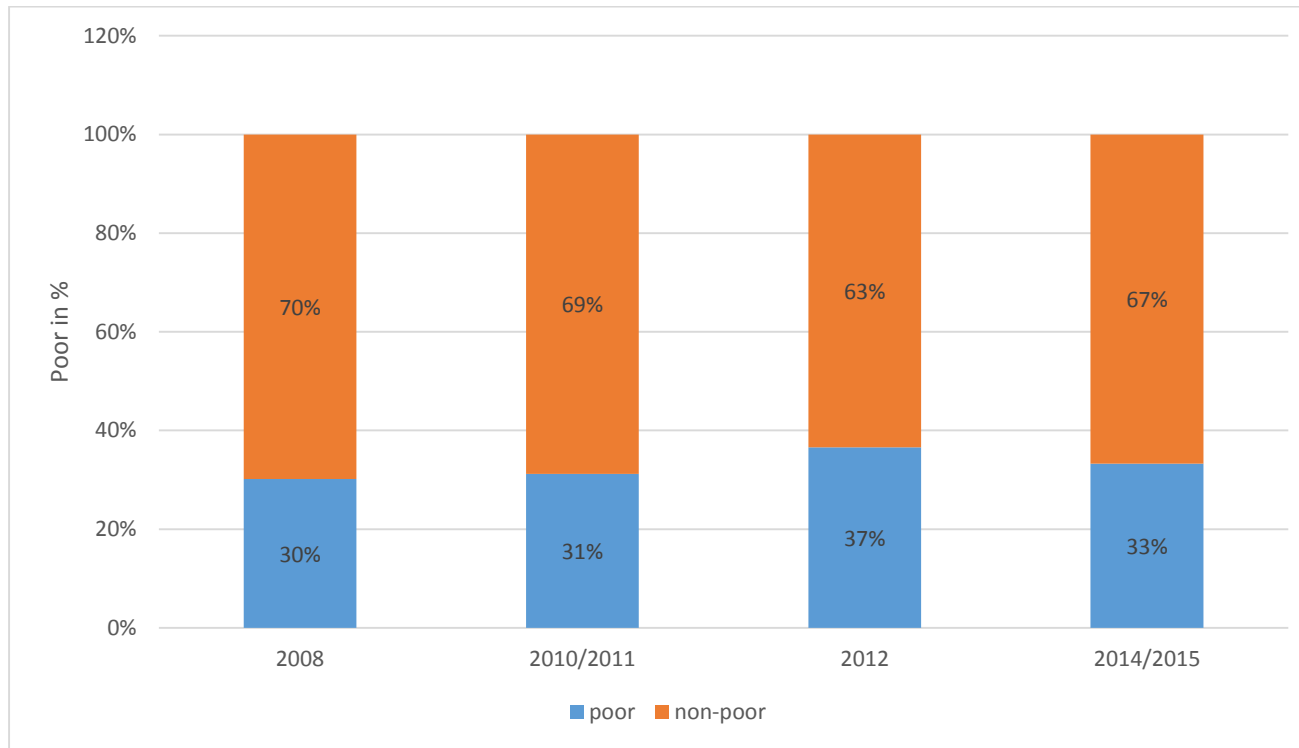
<sup>7</sup> Refer to Argent, J. & I. Woolard. July 2009. *Income: Report on NIDS Wave 1". Technical Paper no. 3 for income construction on NIDS*. See for the construction of household income and expenditure.

## UPPER BOUND POVERTY LINE

The Upper Bound Poverty Lines (UBPL) used for each year were: 2008 **R682**, 2010 **R733**, 2012 **R834** and 2014 **R942** (StatsSA, 2017:8). Using the above poverty lines, the following results were obtained.



**Figure 5-9: The Poor, using UBPL (%): 2008-2014/2015**



Source: NIDS 2008, 2010, 2012 and 2014/2015 (author's own calculations)

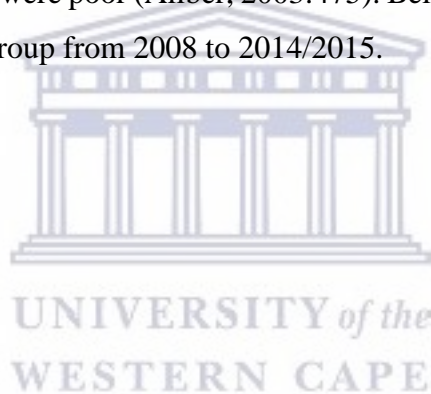
From 2008 to the year 2014/2015, the proportion of the poor fluctuated. In 2010/2011 it slightly decreased by a mere 1.03%, subsequently rose by 5.44% followed by another decline to 33.28%. These are the people who are barely able to buy sufficient food and non-food items. Overall, under the UBPL measure, the proportion of poor adults increased by 3.14% from 2008 to 2014/2015. Therefore, over this period of time most of the South African population have become worse off, poorer.

## **THE FACE OF THE POOR**

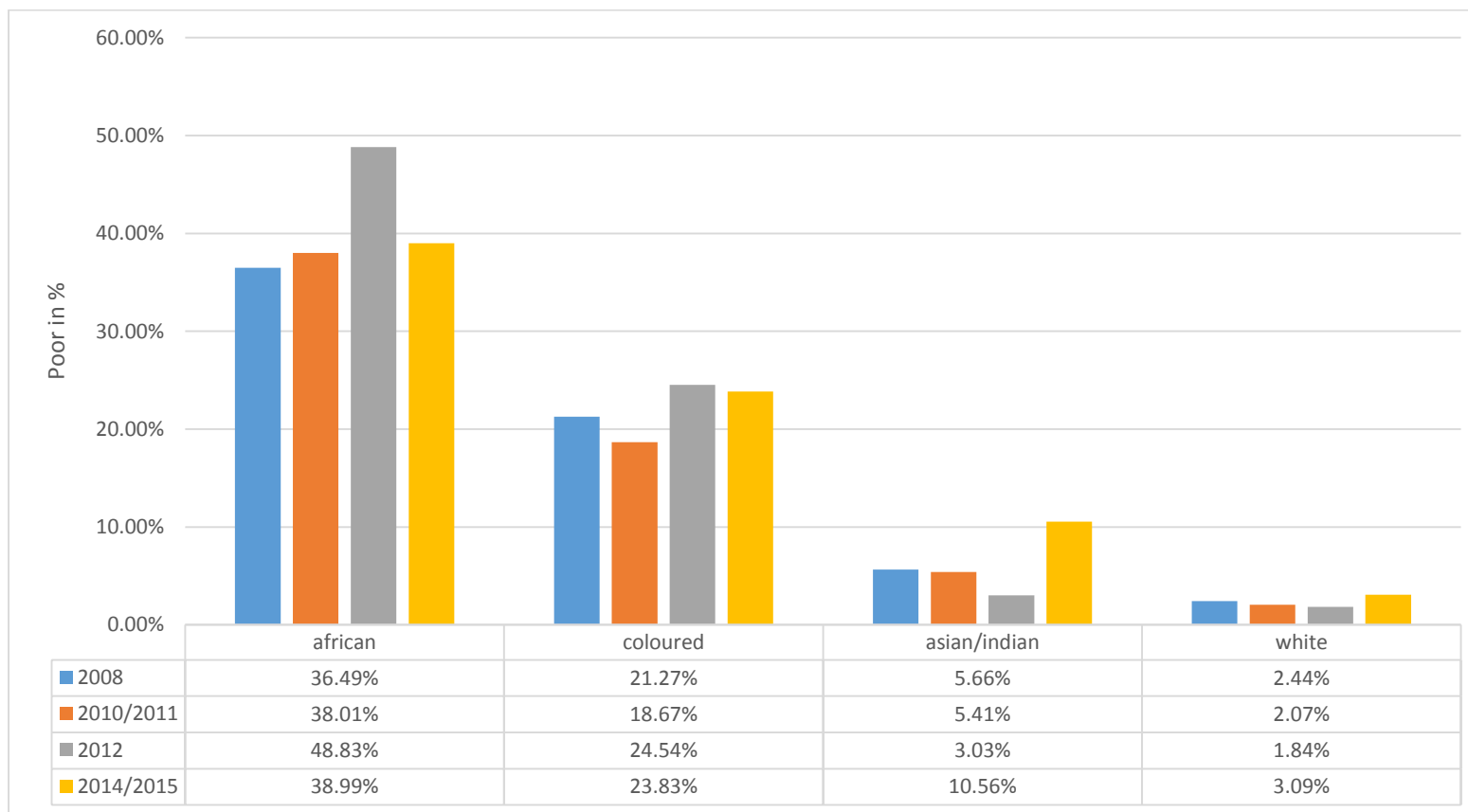
The analysis below provides a face to the roughly one-third of adults who are poor, using socio-economic indicators.

## **POOR BY POPULATION GROUP**

In 1995, using a poverty line of R352 per month, 61% of Africans, 38% of coloureds, 5% of Indians and only 1% of whites were poor (Aliber, 2003:475). Below is the summary of the poor in the country by population group from 2008 to 2014/2015.



**Figure 5-10: The Poor, using UBPL by population group (%): 2008-2014/2015**



Source: NIDS 2008, 2010, 2012 and 2014/2015 (author's own calculations)



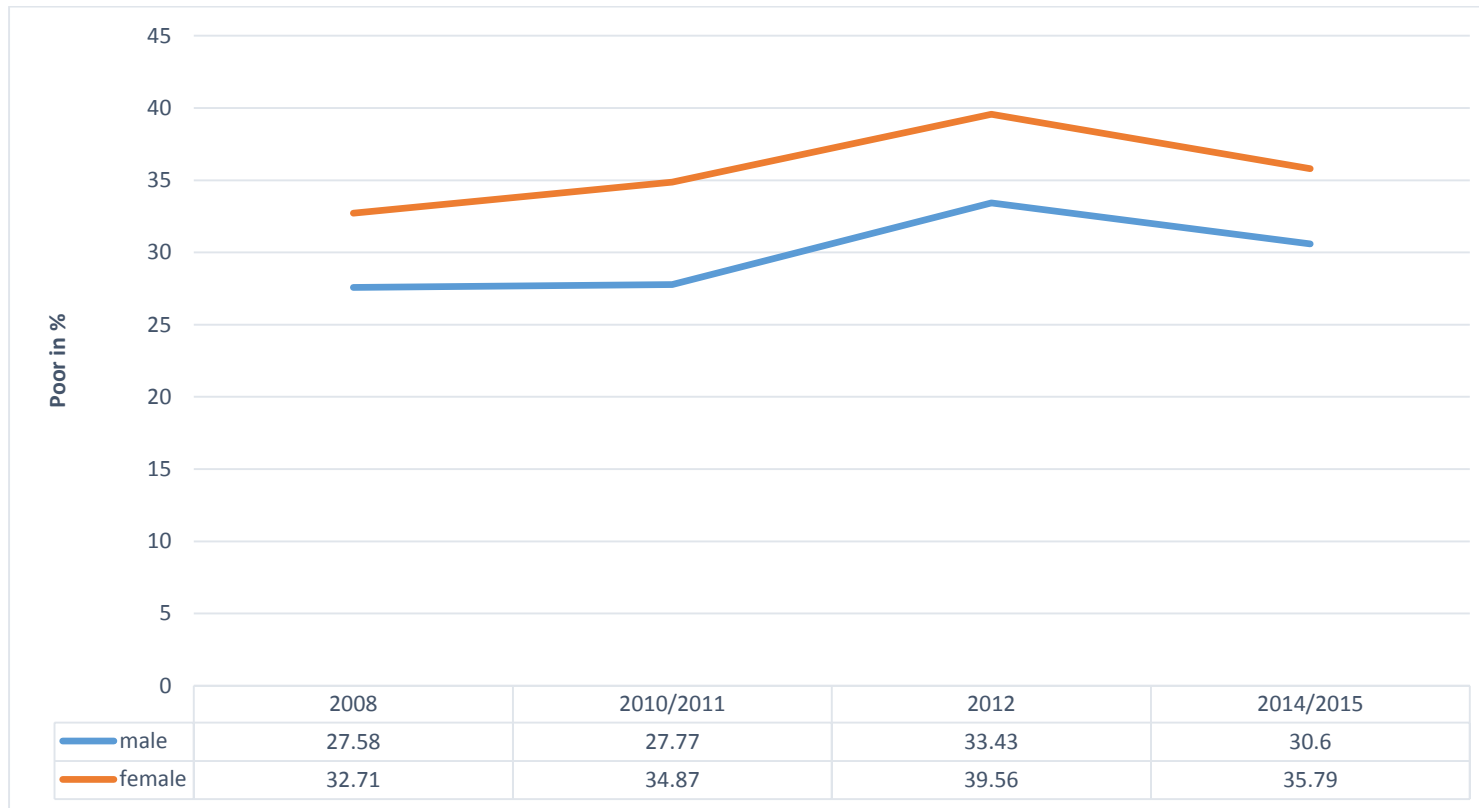
Focusing on the period 2014/2015, a closer temporal reflection of reality, Africans remain the highest proportion of the poor at 38.99%, coloureds were 23.83%, Asians/Indians were 10.56% and whites were barely affected at 3.09%. Note, with regard to Asians/Indians, as it is a fairly small sample the results could possibly be skewed in favour of a particular subgroup within the Asian/Indian community. Alternatively, the proportion indicated could be an accurate reflection of reality, consistent with high income per capita and high educational attainments. What is of concern for all population groups is that the proportion of the poor has increased from 2008 to 2014/2015. In this regard Asian/Indian experienced the highest increase of 4.9%, the rest experiencing percentage growths around 2%. Referring back to the year 1995 from 2014/2015, the absolute values have declined but the ranking has remained. Poverty ranking by population group in 1995 is the same as poverty ranking by population group in 2014/2015.

### **POOR BY SEX**

The figure below reflects the percentage breakdown of the poor between males and females.



**Figure 5-11: The Poor, using UBPL by sex (%): 2008-2014/2015**



Source: NIDS 2008, 2010, 2012 and 2014/2015 (author's own calculations)

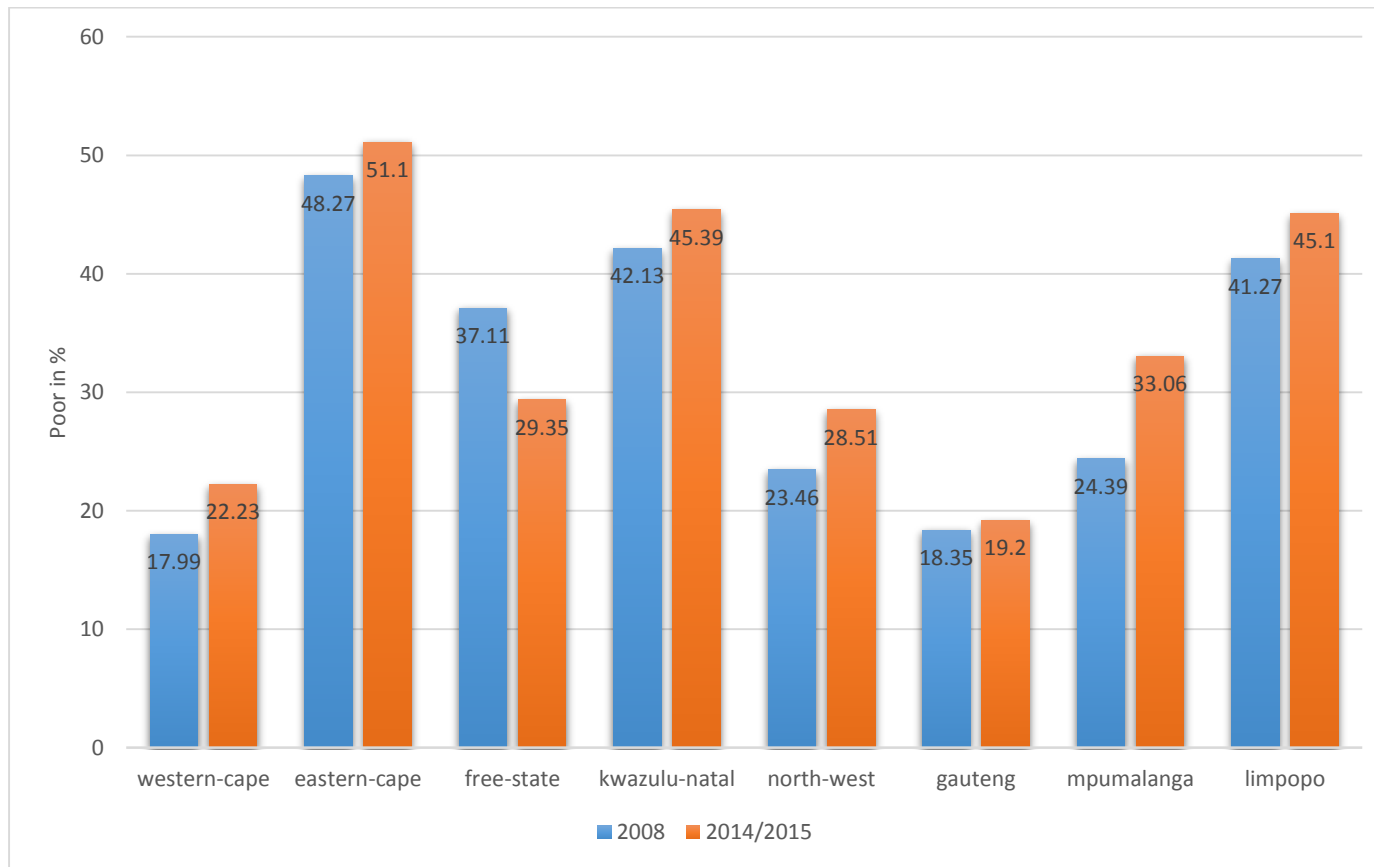
The dispersion of the poor by sex gives a very clear picture that females are most likely to be poor. For 2014/2015, 35.79% of female adults were poor and 30.6% of male adults were poor. Similar to poverty by population group, poverty by sex increased over the years, recording a percentage increase of 3.02% and 3.08% for male and female adults respectively.

### **WHERE DO THEY LIVE?**

Poverty levels differ significantly based on geographic locations. Adults in tribal authorities are the poorest in terms of the UBPL. In fact there are more adults classified poor in tribal authorities than non-poor adults. Evidently the poverty proportion is 55.46%, a slight increase from 53.42% in 2008. The second most affected areas are urban informal areas, where 36.95% of adults who reside in this type of settlement are poor, a decline of 6.43% from 2008. The least poor dwelling settlement areas are urban formal areas with 21.33% poor. However, this is an increase of 2.47% from 2008.



**Figure 5-12: The Poor, using UBPL by provinces (%): 2008-2014/2015**



Source: NIDS 2008 and 2014/2015 (author's own calculations)

In terms of provinces, the former homelands, which are also most likely to uphold the tribal authority structures, are the areas consistently affected by poverty. In the Eastern Cape 51.10% of adults are poor, Kwa-Zulu Natal (KZN) 45.39% and Limpopo (LM) 45.10%. These are the poorest provinces in the country, while WC and GP are consistently least affected with 22.23% and 19.20% respectively. Almost all of the provinces experienced an increase in adults considered poor from 2008 to 2014/2015. The only province that slightly cut its poverty rate was the Free State (FS), by 7.76%.

### **ARE THEY EDUCATED?**

Reverting to the initial argument put forward by human capital theory, we are led to conclude an inverse relationship obtains between years of education and poverty. That is to say, the more educated one is the less likely one is to be poor. This study confirmed that no schooling or a few years of schooling is associated with higher proportions of being poor, and that the proportion decreases each time the level of education increases. Evidently the percentage of the poor by educational attainment begins at its highest with those with no schooling at 30.84% and 0% with a master's or PhD. However, among those with honours or bachelor plus diploma, 1.15% were poor and none with a bachelor's degree was poor. Therefore, the 0% of poverty as a result of being educated starts to be in effect with a bachelor's degree. The paper concludes that the poor are also poorly educated.

### **POOR BY AGE**

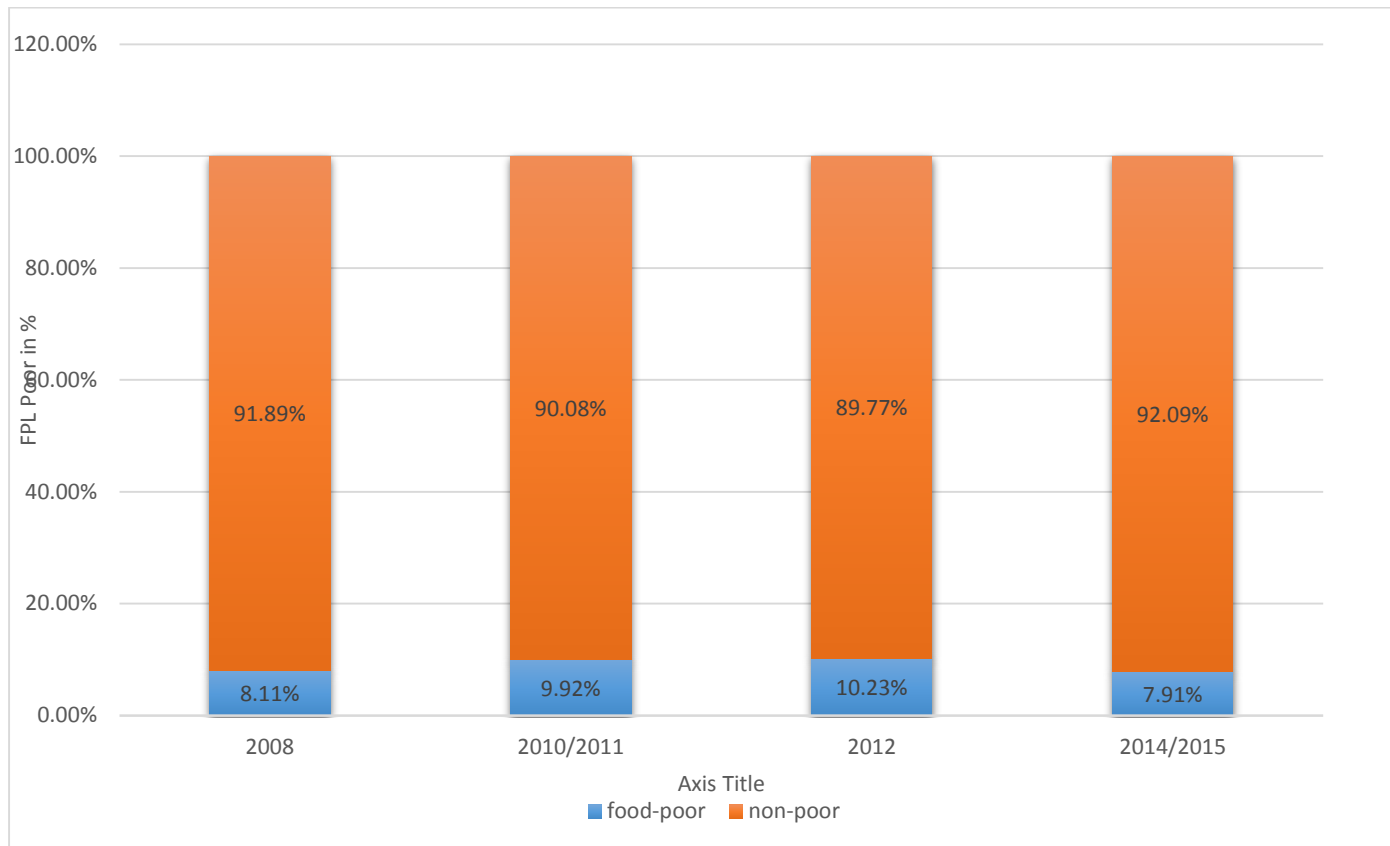
There are no significant changes between the poor in terms of age group. That being said, those between 20 and 30 years of age are most affected (17.98%), followed by adults between the ages of 50 and 60 years of age (15.73%).

### **FOOD POVERTY LINE TRENDS**

Food poverty line (FPL) is the severest measure for poverty in South Africa. Adults who fall below the FPL can barely afford to purchase food items, with the purchase of anything else theoretically unattainable. The following FPL were used: 2008 **R274**, 2010 **R320**, 2012 **R366** and 2014 **R417**.

Using the above poverty lines yielded the following results.

**Figure 5-13: The Poor, using the Food Poverty Line (%): 2008-2014/2015**



Source: NIDS 2008, 2010, 2012 and 2014/2015 (author's own calculations)

Arguably these adults are the poorest of the poor. The descriptive statistics of the severely poor are not that much different from those who are relatively poor. Between 2008 and 2014/2015, there was little change, a mere drop of 0.92%. They are predominately African women, residing in tribal authority areas, most found in the Eastern Cape, with poor education – the highest education class most affected is Grade 1-3. Moreover, such adults are between the ages of 20 and 30 years. Thus they are young African women in rural areas.

As expected, there is a relationship between earning less income and being classified poor. This means that individuals who earn less income do not only earn less but their income falls below the poverty line. Irrespective of whether the UBPL or the FPL is used, similar results are obtained: poor people are predominately women, of the African population group, poorly educated, residing in tribal authorities and rural areas, either young or retired. Despite the poverty relief programmes implemented in the country, such as the social grant, poverty has not been eradicated. This is supported by a rise of adults falling below the UBPL as well as a marginal drop in the FPL rate. Between 2008 and 2015, the South African economy was not favourable to the reduction of poverty. Even though it has been argued that the financial markets recovered in 2009 after the 2008 meltdown, economic growth thereafter in the country remained low (Finn & Leibbrandt, 2017:5). This low economic growth coincided with the data collection period for the NIDS waves. Hence it is possible, even likely, that the economic recession fed into the poverty rate as well as the decline in expenditure.

### **EXPENDITURE BY THE POOR: THE LAST RANDS**

Maslow argued that a person who is extremely hungry ‘dreams about food, remembers food, thinks about foods, he perceives only food and he wants only food’ (1954:37). Such a person is able to disregard all other human needs and seek to fulfil physiological needs. If this theory held universally, it would mean a hungry person – for which read, ‘the poor’ – would apportion a larger share of income or consumption to food.

UBPL was used to represent the poor and ascertain how much they spend on visible consumption, if they do. This decision was led by the fact that the sample studied was composed of adults who come from functioning households and thus cannot only be spending on food and nothing else. Therefore, the defined poor will be those who fall below UBPL rather than FPL. Burger et al. state that one should be cautious and not hasty (to form conclusions about whether the consumption is conspicuous), being mindful of the fact that even the poorest household has to spend part of its income on clothing and footwear. Therefore not all



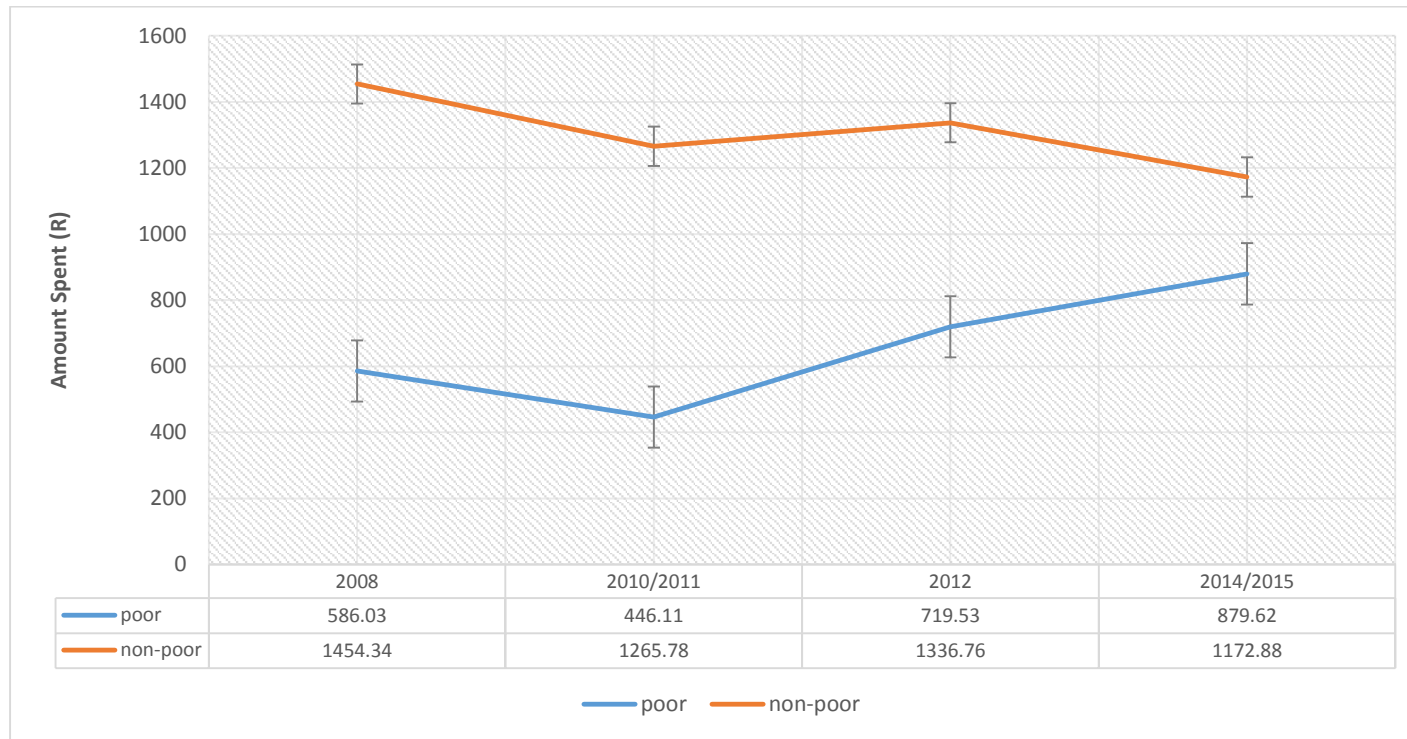
consumption of these goods should be considered as conspicuous or extravagant. It becomes conspicuous when the expenditure exceeds functional levels and is used as an attempt to signal wealth (Burger et al., 2015:42). It remains that the main concern with regards to the poor spending on visible expenditure is the trade-off; the more spent on visible goods, the less spent on human development goods (Kaus, 2013:64). Simultaneously the consumption patterns of the poor were compared to that of the non-poor.

### **VISIBLE EXPENDITURE BY THE POOR**

The expenditure of the poor on visible goods compared with that of the non-poor is analysed below.



**Figure 5-14: Household Visible Expenditure by the Poor using UBPL**



Source: NIDS 2008, 2010, 2012 and 2014/2015 (author's own calculations)

**Table 5-4: Standard Deviation of Visible Consumption poor and non-poor**

<b>Standard Deviation</b>	<b>2008</b>	<b>2010/2011</b>	<b>2012</b>	<b>2014/2015</b>
<b>Poor</b>	522.265	495.937	626.178	1172.651
<b>Non-poor</b>	1749.875	1230.903	1352.1	1172.88

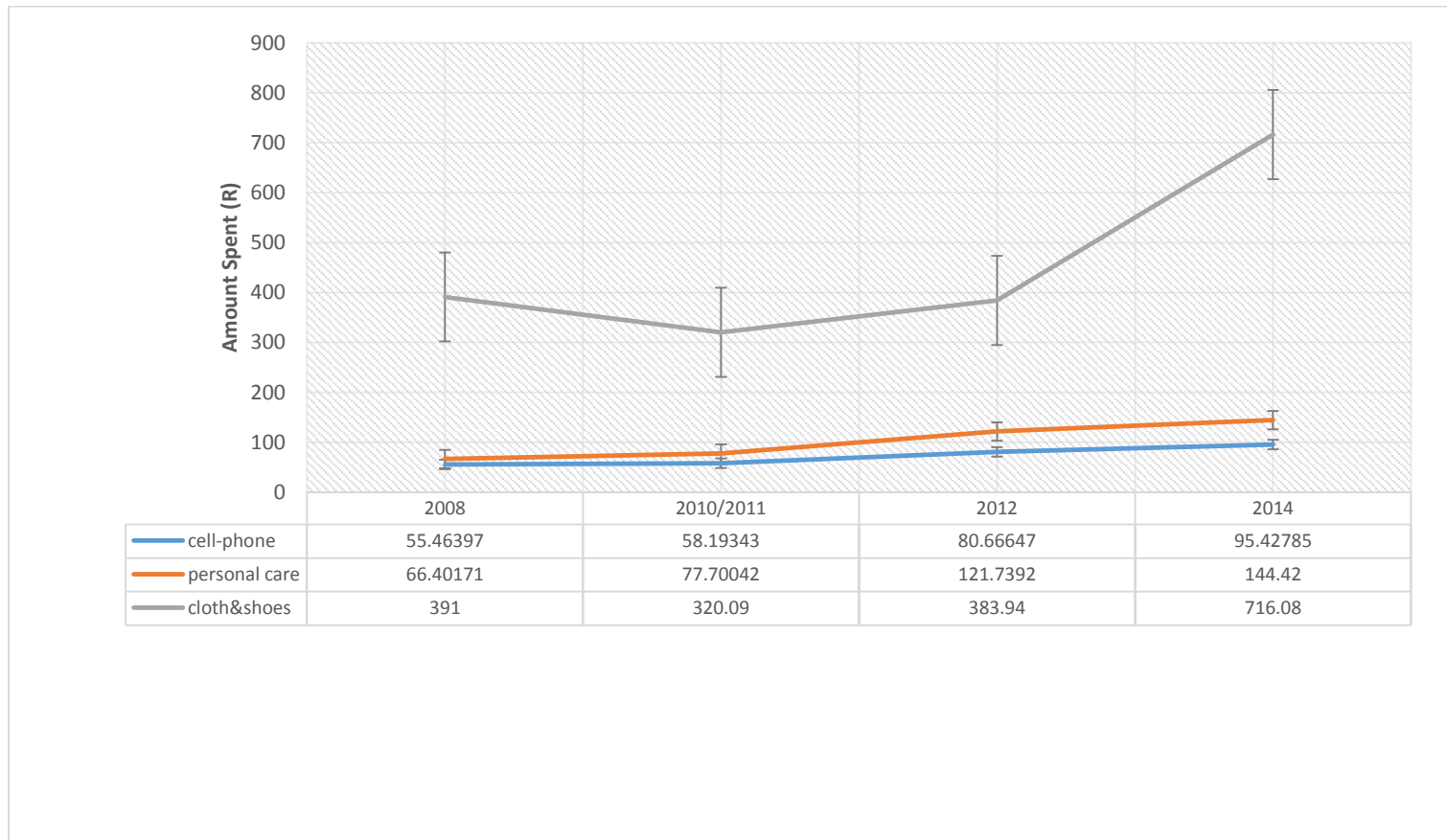
Source: NIDS 2008, 2010, 2012 and 2014/2015 (author's own calculations)

Considering that poverty is measured at individual level while all consumption is measured at household level, this analysis looked at poor individuals in relation to the consumption of their households. Spending by the non-poor is above that of the poor, who have less income at their disposal. This is confirmed in figure 5-13. That being said, it is interesting to note the gap of expenditure between poor and non-poor with the former group narrowing that gap. Effectively this means visible goods expenditure by the poor is growing at a higher rate than that of the non-poor. From 2008 to 2014/2015 spending on visible goods by the poor increased by 50.09%, while their non-poor counterparts decreased their spending by -19.35%. Looking at the standard deviations, with respect to the poor, standard deviations are somewhat close to the mean expenditures for each year. Likewise for the non-poor, standard deviation appear to be close to the mean, with the exception of 2008.

#### **Categories of visible expenditure goods bought by the poor**

Above we discovered that over the years the poor have allocated more money towards visible goods in comparison to the non-poor. The study investigate further the rise in visible expenditure. To recall, visible expenditure items comprise cellphone expense, personal care expenditure and expenditure on shoes and clothing. Did the expenditure by the less affluent group reflect a greater valued placed on particular items as opposed to others?

**Figure 5-15: Categories of Visible Consumption by the Poor**



Source: NIDS 2008, 2010, 2012 and 2014/2015 (author's own calculations)

Figure 5-15 uncontestedly indicates that clothing and shoes are the most bought and preferred form of visible expenditure by the poor. These results are similar to the results obtained when different categories of visible expenditure for the entire sample irrespective of economic status were studied. In one sense, it has already been suggested that clothing and shoes can be good examples of conspicuous consumption, for example when branding attracts premium prices that ensure exclusivity. Clothing and shoes also have outer visibility greater than personal care or cellphone expense. All of these factors, namely branding, premium price, exclusivity and visibility, solidify clothing and shoes as a means to acquire status. It is concluded that clothing and shoes are preferred irrespective of the buyer's economic status and are most effective for conspicuous consumption.

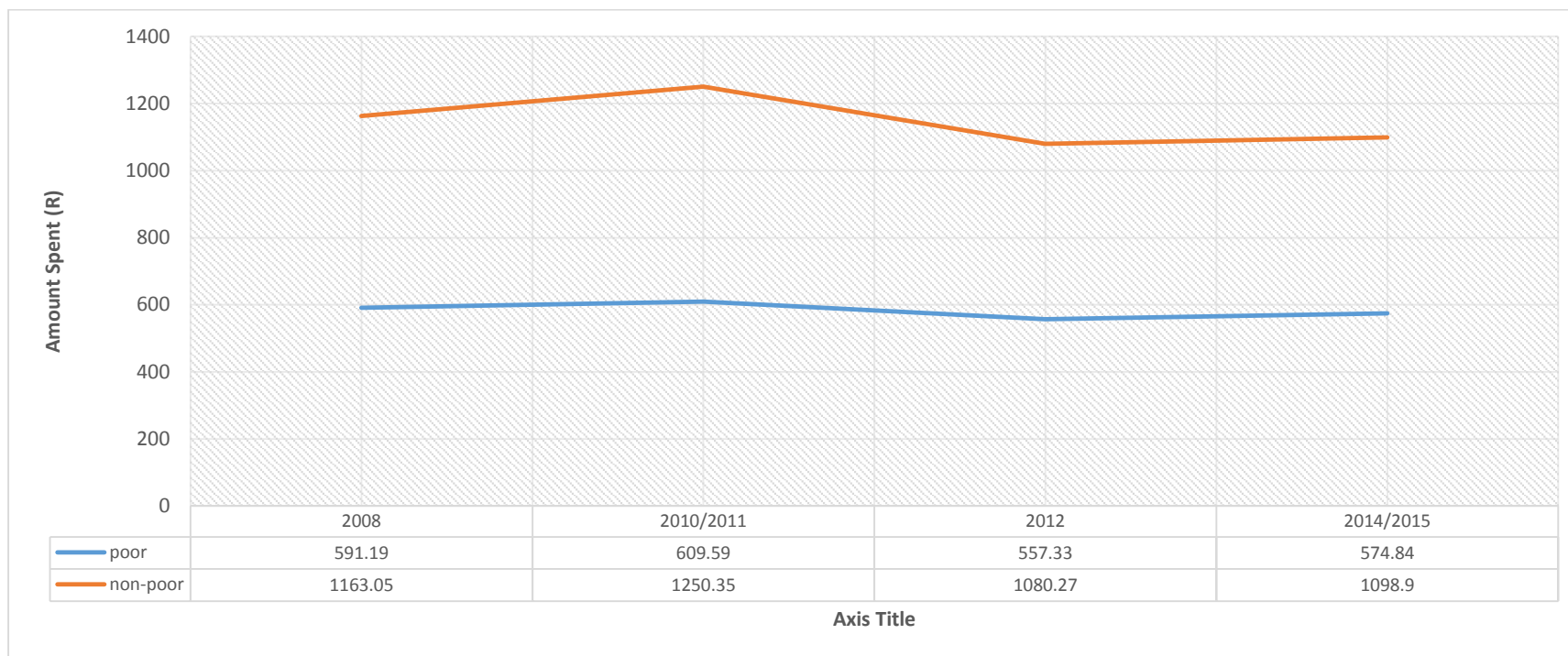
Reflecting on Maslow (1954), this means that a hungry person does not only think about food, dream about food and effectively buy only food. A hungry person also has other non-food wants and needs, such as cellphone expense, personal care and clothing and shoes.

### **FOOD CONSUMPTION BY THE POOR**

Using the Income Expenditure Surveys (IES), Aliber (2009: 404) found that the poorest South African households in rural areas consume on average 5.5 food groups while the richest households residing in both rural and urban areas consume 10 food groups out of 12. Of interest to this study was whether the intake disparity was entirely due to income difference or whether food consumption of the poor was compromised by visible consumption.

The consumption of food by the poor and non-poor from 2008 to 2014/2015 is shown below.

**Figure 5-16: Household Food Consumption by the Poor and Non-poor**



Source: NIDS 2008, 2010, 2012 and 2014/2015 (author's own calculations)

**Table 5-5: Standard Deviation of Food Consumption Poor and Non-poor**

Standard Deviation	2008	2010/2011	2012	2014/2015
Poor	446.7161	608.5852	453.6575	416.208
Non-poor	1051.051	1490.842	1099.681	1139.483

Source: NIDS 2008, 2010, 2012 and 2014/2015 (author's own calculations)

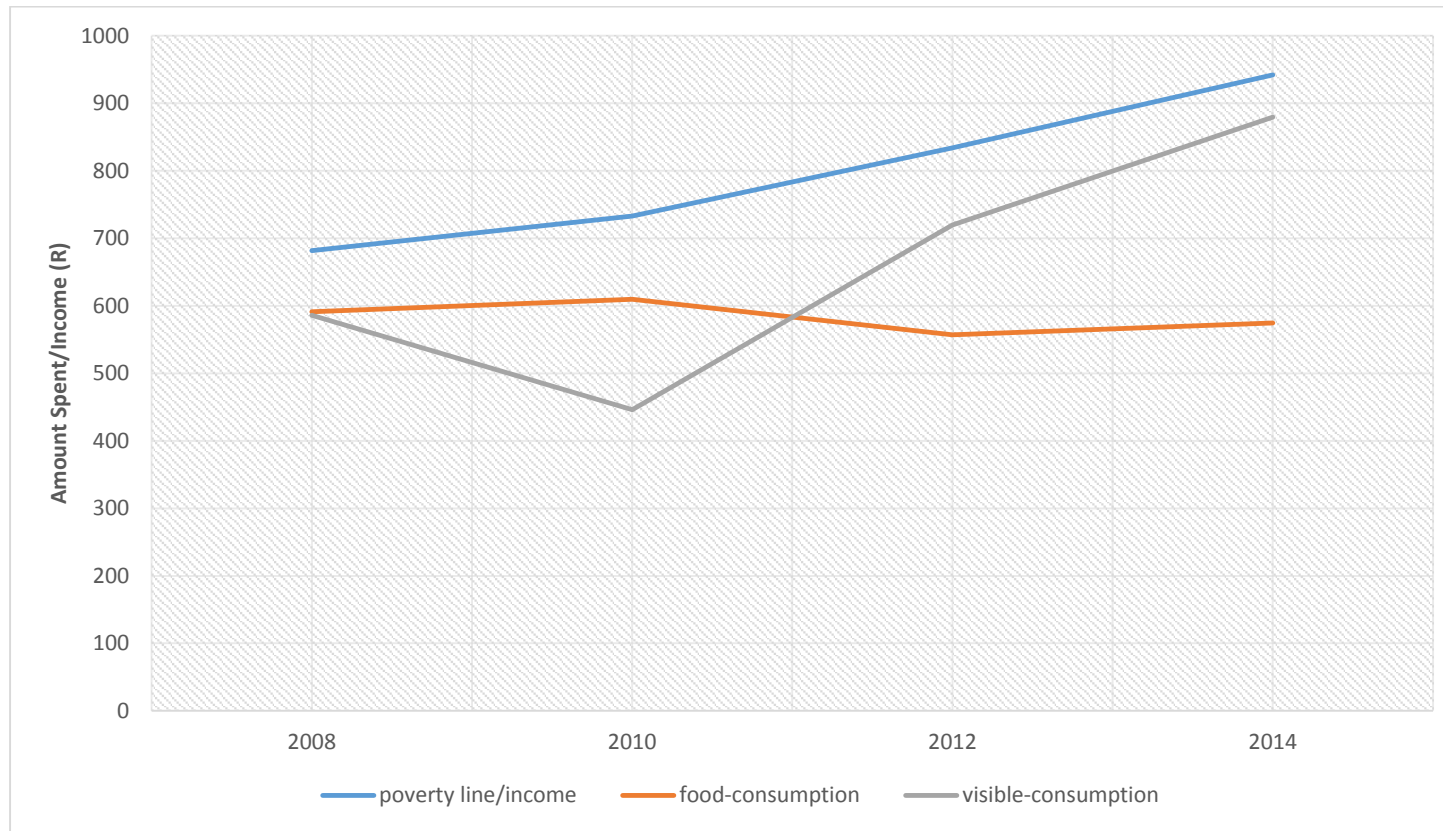
Food consumption of the non-poor has been fluctuating between periods of high and low consumption. However it did not dip lower than R1 000 in the NIDS study period. On the other hand the budget allocated by the poor drastically shifted from 2008 to 2014/2015, in terms of food. Over that period expenditure on food consumption by the poor decreased. Does this mean poor adults are eating less? According to StatsSA's 2013 General Household Survey, one in five South Africans skip meals and/or reduce the size of their meals on at least five days each month (Oxfam, 2014:28). The decline in food consumption is not great as it amounted to approximately 2%. A drop in household food consumption was observed even for the non-poor, of roughly 6%. The standard deviations for both the poor and non-poor are fairly representative of the reflected mean expenditure for both groups.

The two types of household expenditures are compared below.





Figure 5-17: Food Consumption and Visible Consumption by



Source: NIDS 2008, 2010, 2012 and 2014/2015 (author's own calculations)

Indicating the obvious, visible consumption is rising; the expense of food consumption is declining. What is of interest is the rate of increase in visible consumption. Over the years of the NIDS study the gap between poverty lines and visible expenditure has been narrowing. This means that visible consumption is increasing at faster rate than income or the proxy of income. The rise is such that for 2014, nearly all of the income was spent on visible consumption. There clearly has to have been a trade-off between visible and food consumption. In order for visible consumption to have risen, food consumption must have declined.

The expenditure of the poor, under UBPL, was analysed with that of the non-poor. As absolute values of the two cannot be compared as there are significant income inequalities, the analysis focused on the overall consumption behaviour of the poor in comparison to the non-poor. To this end it was found that visible expenditure by the poor is growing at a higher rate than that of the non-poor. In fact as the poor increased their consumption, the non-poor have decreased theirs. The rise in visible consumption by the poor was accompanied by a decline in food consumption for the corresponding period. When visible consumption and food consumption were modelled against the estimated income of the poor, it was found that expenditure on visible consumption is growing at a faster rate than income, while food consumption is declining. Similar to the general population, the poor apportion a higher share on clothing and shoes, out of the three forms of visible goods identified.

## **5.5 REGRESSION ANALYSIS**

As mentioned in the preceding chapter, this paper emulates the multi log-linear regressions found in the papers of Kaus (2013:67) as well as Charles et al. (2009:432), with some variation. Owing to the fact that a rather exhaustive comparison analysis between visible expenditure and food expenditure has already been carried out, regression analysis was utilised to offer a more robust statistical analysis that predicts behaviour and evaluates the role of specific regressors with respect to visible and food consumption. The following regressions were executed. Firstly, the share of visible consumption was investigated. Then a share of visible consumption was compared to the share of food consumption, in two separate regressions. This was followed by an investigation of the differences in the spending of visible consumption across population groups. Upon establishing that there were variations in visible consumption by population group, an attempt was made to explain that difference using the status-seeking model. In interpreting the regression outcomes, the following applies. Firstly, when explaining the interaction of a specific independent variable with a dependent variable, all other factors remain

unchanged. The principle of *ceteris paribus* is upheld throughout this section. Moreover regression outputs relating to Asians and Indians are confined to the sample subjects and are not to be inferred to the rest of the population.

**Table 5-6 <sup>8</sup>: Share of Visible Consumption**

Independent Variables	Dependent Variable: Log Share of Visible Expenditure Specification 1
African	.3181816 (.035682)***
Coloured	.1922155 (.0400729)***
Indian/Asian	.201241 (.0696134)**
Log of Group Income	-.0001305 (.0000293)***
Log of Household Size	-.1100818 (.0239126)***
Log of Total Expenditure	.7485473 (.0253987)***
Household Head Age	.0116733 (.0018185)***
Household Head Age Squared	-.0002382 (.000031)***
Female Adult	-.1920918 (.0844633)*
Male Adult	.0578428 (.0900083)
Male Child	-.1211593 (.1021776)
Female Child	.0432615 (.0989463)
Female Pensioners	.1396991 (.0521543)*
Rural Formal	-.3070679 (.0682272)***
Tribal Authority	-.3014954 (.0514489)***
Urban Formal	-.3279174 (.0460664)***
Constant	1.362975 (.1499991)***
Sample	2470
Adjusted R <sup>2</sup>	0.5243



Source: Author's own calculations using NIDS data

In the comparison of the South African population groups, namely Africans, coloureds, Indians as well as Asians, white households have been omitted as the reference group. The regression outcome reveals that all of the aforementioned population groups allocated greater proportions

<sup>8</sup> \*\*\* p<1%, \*\*p<5%, \*p<10%  
Standard errors in parenthesis

towards visible consumption, in comparison to white households. With one percent statistical significance, African and coloured households apportioned 32% and 19% more respectively to visible consumption than white households. Similarly, Indian and Asian households who responded also allocated a greater proportion, of approximately 20%, on visible consumption than white households, statistically significant at 5%. The influence of group income in the share of visible consumption appears to be negative. This means that as the average group income increased, the proportion of income expended towards visible consumption decreased. Therefore affluent social groups are likely to spend less on visible consumption than less affluent groups, who have greater need to signal wealth in attempts to distinguish themselves from the poorest group. Average group income is statistically significant at 1%. Also significant at 1% is household size. The negative relationship between household size and share of visible consumption indicates that for bigger households, less of the household income is apportioned to visible consumption. This is in line with the results of Burger et al. (2015:52) that showed bigger households are less likely to engage in conspicuous consumption. Total expenditure can be interpreted as a proxy for own income as it is realised income. As expected there is a positive relationship between own income represented by total expenditure and the proportion spent on visible consumption. This means that, as total expenditure increases or income increases, the share of visible consumption will also increase. Both age of household head and age squared of household head show a 1% statistically significant result. However, the two have contradicting effects on the share of visible consumption. Age indicates a positive relationship to a proportion of visible consumption while age squared shows a negative relationship. This reveals a convex relationship between age and share of visible consumption.

In terms of the effect of sex in the share of visible expenditure, only female adults can be explained as their male counterparts are not statistically significant. Female adults seem to allocate a lesser share of their consumption to visible consumption. Female adults allocated approximately 19% less to visible consumption from total consumption. This is statistically significant at 5%. Female pensioners seem to distribute 14.48% more to visible consumption than male pensioners. This is statistically significant at 10%. The sex of a child within a household seems to be insignificant in explaining the variation in the share of visible consumption.

With respect to settlement type, urban informal is omitted as the reference group. We find that adults who reside in urban informal settlements actually allocate a greater share of income to visible consumption. All the settlement types, namely urban formal, tribal authority and rural

formal, allocate a lesser share of their income to visible consumption by approximately 33%, 30% and 31%, respectively. Part of the reason that residents in rural settlements carried out less conspicuous consumption is attributed to low social pressure (Burger et al., 2015:52). Therefore in urban areas, there is high social pressure to possess what others possess. Possible this pressure is most intense in less affluent urban areas, where there is a greater desire to be distinguished from the poorest. Hence higher visible consumption is observed in urban informal settlements.

### **DIFFERENCE IN SPENDING BETWEEN VISIBLE CONSUMPTION AND FOOD CONSUMPTION**

The study now examines how households distribute their income between visible consumption and food consumption. This comparison is invoked by the theory of inter-temporal budget constraint which states that higher spending on conspicuous products is often done at a cost of either reducing a component of another component of current consumption and / or from future consumption (Charles et al., 2009:427). In terms of this theory the study aimed to find a trade-off between visible consumption and food consumption, as was shown by the descriptive statistics. Upon establishing the trade-off, an attempt was made to determine the degree to which visible consumption crowds out food consumption. In this regard we derived two regressions with two dependent variables, namely share of visible consumption as well as share of food consumption. The independent variables are uniform to ensure consistency in the analysis.

**Table 5-7: Difference in Spending between Visible Consumption and Food Consumption**

Independent Variables	Dependent Variable: Log Share of Visible Expenditure Specification 2A	Dependent Variable: Log Share Food Expenditure Specification 2B
<b>African</b>	.3719145 (.0344964)*** <sup>9</sup>	-.1128308 (.0201415)***
<b>Coloured</b>	.1726737 (.0403693)***	-.0178349 (.0255943)
<b>Indian/Asian</b>	.2283746 (.0702903)**	.0300505 (.0372816)
<b>Log of Expenditure Per Capita</b>	-.3788296 (.0142612)***	-.4635131 (.0060065)***
<b>Log of Household Size</b>	-.2771811 (.0253422)***	-.2848283 (.0115732)***
<b>Household Head Age</b>	.0117147 (.0018411)***	.0013216 (.0008185)
<b>Household Head Age Squared</b>	-.0002392 (.0000314)***	-.0000306 (.0000128)**
<b>Female Adult</b>	-.1787274 (.0853023)**	.0212006 (.0482009)
<b>Male Adult</b>	.0532769 (.0911725)	-.1483887 (.0518478)***
<b>Male Child</b>	-.1298078 (.1034257)	.2255512 (.0607661)***
<b>Female Child</b>	.0482708 (.1000339)	.0162662 (.058007)
<b>Female Pensioners</b>	.1448075 (.052739)*	.0404715 (.0236661)*
<b>Constant</b>	.981572 (.1409623)***	2.290253 (.0588384)***
<b>Sample</b>	2478	9603
<b>Adjusted R<sup>2</sup></b>	0.4386	0.4574

Source: Author's own calculations using NIDS data

Variables which were already covered under the first specification for share of visible consumption as well as outcomes that are not statistically significant will not be explained here.

Only for African households, could it be proved that a higher share of visible consumption was associated with a lesser share on food consumption. Although a positive relationship between the African population group and visible consumption was observed, with respect to food consumption as the dependent variable, a negative relationship was found. The share of food consumption if a household is African is by 11.28% than white households. This again awakes the argument of trade-off due to very limited resources in African households. These results are statistically significant at 1%. For both dependent variables, a negative relationship with

\*\*\* p<1%, \*\*p<5%, \*p<10%  
Standard errors in parenthesis

expenditure per capita or income per capita was observed. This means that as income increased, expenditure on food and visible consumption in relation to the rest of household expenditure decreased. However the magnitude of that decline was greater for food consumption. So as income increased, adults spent even less on food, compared to visible consumption. Thus the regression estimates that as income doubles, share of visible consumption declines by 37.88% and for food declines by 46.35%. Both results are statistically significant at 1%.

A trade-off between the dependent variables and household size was observed. It follows that bigger households spend less on both food and visible consumption. It is economically rational that bigger households would spend less on visible consumption and prioritise perhaps basic goods, if not expected for food. The results are statistically significant at 1%. Female pensioners devote more of their income to both visible and food consumption. The result is statistically significant at 10%.

### **DIFFERENCE IN VISIBLE CONSUMPTION BY POPULATION GROUP**

Preliminary results under descriptive studies and preceding regression analysis proved that Africans and coloureds spend significantly more on visible consumption as a share of total expenditure, compared to white adults. This subsection seeks to assess visible consumption differences across population groups.

Under specification 3A, we regress log visible consumption on a multivariate variable, indicating adult as being African, coloured and Asian/Indian. White adults are omitted as the reference group. With no other controls, this specification estimates unconditional differences in the consumption of visible goods. Regression outcomes are captured in table 5-8, row 1.

**Table 5-8: Differences in log visible consumption among Africans, coloureds and Asians/Indians compared to whites**

<b>Specification 3</b>	<b>Control Included</b>	<b>African</b>	<b>Coloured</b>	<b>Asian/India</b>	<b>Adjusted R<sup>2</sup></b>	<b>Sample Size</b>
3A	No control	-.4249009 (.0378297)***	-.3134015 (.0509064)***	.4859344 (.0954954)***	0.0746	2478
3B	Log of total household expenditure	.4319127 (.0338168)***	.245097 (.0396564)***	2877139 (.0708229)***	0.0743	

Source: Author's own calculations using NIDS data

Under specification 3A log of visible consumption is only explained by population group dummy variables. White remains the reference population group.



Relating to specification 3A, the regression outcome shows that on average, Africans and coloureds spent considerable less on visible consumption than whites. Visible consumption of Africans and coloureds were less by 42.49% and 31.24% respectively, in comparison to white adults. These results do not contradict our initial findings shown by regression specification 1. These results are to be expected considering that white adults generally earn significantly more than both Africans and coloureds. The outcome is statistically significant at 1%. The same results were obtained by Kaus (2013:67). Asians and Indians included in this sample spent 48.89% more on visible consumption than whites. This too is statistically significant at 1%.

For the second specification, we added total household expenditure to the population group dummy variables. The regression shows that Africans and coloureds spent 43.19% and 24.51% more on visible consumption respectively, in comparison to white households. In summary, without taking income into account, on average Africans and coloureds spent less than whites on visible consumption, because they had lower incomes. However, when total expenditure was added in the regression we find opposite results. Africans and coloureds spent more on visible consumption as compared to whites, although they have significantly lower incomes than the reference group.

### **STATUS-SEEKING MODEL TO EXPLAIN DIFFERENCES IN VISIBLE CONSUMPTION**

Accepting the notion that the main motivation for conspicuous consumption is to signal unobserved wealth, a negative relationship between average group income and visible consumption is expected. Particularly in developing countries with higher poverty rates, conspicuous consumption is used to signal wealth that hardly exists. Therefore when actual wealth exists, the need to signal it should decrease. Using a status-seeking model, Charles et al. (2009:444) predict a negative relationship between average group income and spending on visible consumption in terms of which an increase in the average income of the reference group ought to be followed by a decline in visible consumption, holding all other factors constant, even own income. In applying this principle using the African population group in South Africa as an example, should the average income of Africans increase, the status-seeking model predicts that their spending on visible consumption will decrease. This is because it is argued that visible consumption is used to signal unobserved income. Thus in a situation where the actual average income has increased for a specific reference group, the incentive to signal unobserved income decreases. On the other hand, if the average income of a reference group



has decreased, the incentive to consume visible consumption to signal unobserved income with the intention of avoiding being identified with a relatively poor reference group, increases. The study therefore tested to determine whether the difference in visible consumption can be explained by status seeking.

**Table 5-9: Assesses Difference in Visible Consumption Explained by Status-Seeking Model**

Specification	Control Included	African	Coloured	Asian/India	Adjusted R <sup>2</sup>	Sample Size
4	Log of group income	-.4223372 (.0387956)***	-.3142356 (.0509921)***	.4877544 (.0957067)***	0.0743	2478

Source: Author's own calculations using NIDS data

Consistent with the predictions of the status-seeking model, the average incomes of Africans and coloureds showed a negative relationship to visible consumption. Therefore, an increase in the average incomes of the aforementioned population groups led to a decrease in visible consumption. The outcome showed that 42% and 31% respectively of the spending of visible consumption of Africans and coloureds can be attributed to social dependency. These results partially weaken the possible argument that Africans and coloureds exhibit different consumption patterns based on difference in culture or taste. But it proves that seeking status is substantial in their consumption patterns. The sample of Indians and Asians shows a positive relationship between visible expenditure and their average group income. Hence, when their average income increases, their spending in visible consumption will also increase. This means their consumption is not driven by a status-seeking rationale. The conclusion is that high group income discourages spending on conspicuous consumption as there is less need to signal unobserved wealth to gain status. Status is already awarded on the merits of being part of the high-earning group.

## 5.6 CONCLUSION

Using the income approach the economic status differences between poor and non-poor was derived. The poor were further classified into being relatively poor, falling below UPBL, and severely poor, below FPL. Studying the trends of the poor from the period 2008 to 2014/2015, it was observed that UPBL has increased and FPL has barely reduced. This implies that South African adults became worse off financially, and consequently in terms of their welfare. Africans remained the most impoverished population group throughout the prescribed period.

With respect to expenditure, dividing it between visible and food consumption, the former comprises personal care, cell phone and clothing as well as shoes. Clothing and shoes are the most preferred types of visible consumption. Comparing visible consumption to food consumption, a trade-off in which visible consumption and food consumption were direct competitors was found. Hence as visible consumption increased, food consumption decreased. This is significant for poor households who have very limited funds. Taking limited income into account, it was expected that the poor would spend more towards food consumption and less on visible consumption. That was not the case. Instead, the poor decreased the share of expenditure on food consumption to be able to engage in visible consumption. It was found that groups who were most vulnerable to poverty were spending significantly and comparatively more on visible consumption, with the exception of female adults. The economically vulnerable groups in terms of population group are Africans and coloureds. The visible consumption of Africans and coloureds, despite their lesser income, exceeded the visible consumption of whites. This was proven by the CDF curve namely figures 5-3a, 5-3b, 5-3c and regression analysis.

Having statistical figures that prove the validity of conspicuous consumption among the poor and vulnerable groups is essential. However, these fail to tell the story behind the expenditure. Reviewed literature argues that conspicuous consumption, besides the main function of the good, typically represents wealth and an affluent lifestyle. Having such goods projects an image of being wealthy. That partially explains why Africans and coloureds who are most affected by poverty are also the main consumers of these visible goods that can signal wealth. This is in line with Veblen's theory of pecuniary emulation whereby poor people emulate the behaviour of the rich by also purchasing expensive items so as to be identified as part of the elite group (Veblen, 1899:33). The end is not to be rich necessarily but to be rich in appearance. Thus with appropriate consumption anyone can appear so. Clothing and shoes were the most preferred form of visible consumption. Since the poor can be prevented from obtaining clothing and shoes through charging higher prices, these goods are ideal to indicate unobserved wealth and acquire social status through the appearance of exclusivity.

If low income earners want to indicate unobserved wealth and appear wealthy, it follows that high income earners do not have an incentive to signal wealth. This is supported by the negative relationship between visible consumption and average group income. Hence educated adults and white adults spend less on visible consumption. It was interesting to note that even among the low income earners, expenditure patterns differs by population group. Shown in the CDF,

African low income earners spend more on visible expenditure than low income earners of other population groups.

Expenditure, especially conspicuous consumption, cannot only be explained by rationality. This outcome could perhaps be explained by compensatory consumption theory (Kim & Rucker, 2012:817). Apart from the obvious deficiency of financial resources, it could be argued that there is also a deficiency of both self and social respect, of education, of esteem, or of being deemed worthy. In a materialistic society that demands the accumulation of resources to gain respect, such social assets are rarely given to the poor. Conspicuous consumption is largely a psychological and emotional decision, as opposed to an economically rational decision. Returning to the initial sub-question – are the poor using their limited funds to acquire goods and services that are unlikely to lift them out of poverty? – the answer is a clear ‘yes’, proven by statistics and justified against the reviewed literature.



# CHAPTER SIX: CONCLUSION

## 6.1 INTRODUCTION

With an excess of resources, the world has come to expect and even embrace conspicuousness among the affluent but not the poor. It is expected that the rich will spend significantly on branded clothing and other luxury items, seeking uniqueness and status. This idea is mainly embraced because the rich do not face the same monetary constraints faced by the poor. The rich are not barely making ends meet, with prospects of going to bed hungry. Thus, unlike the poor, the rich can spend on conspicuous consumption without being compelled to forego basic goods.

Against that background, this study was conducted to investigate the correlation, if any, between conspicuous consumption and poverty in developing countries, particularly drawing empirical evidence from South Africa. The National Income Dynamics Study (NIDS), a national panel study starting from the first wave in 2008 to the last during 2014/2015, was used in this study. In answering the overarching question, the following research objectives were pursued: to measure the level of conspicuous consumption in the country; understand the extent to which conspicuous consumption influences poverty; identify social groups who engage most in conspicuous consumption; and, measure the extent to which conspicuous consumption crowds out private expenditure on food consumption. With these objectives in mind, the following findings were discussed.

## 6.2 SUMMARY

In Chapter Two various theories aimed at explaining conspicuous consumption were reviewed. From the perspective of economics, Leibenstein (1950:188) argues that at times demand for a good is motivated by external influences which transcend the basic function of the good. This assertion of external factors challenges a rethink of the classic demand theory, which overlooks the ideology of interdependent utilities. This is further supported by Kaus (2013:65), who puts forth an assertion that social interactions shape consumption behaviour, especially among less affluent social groups that have shared risk. Hence a demand especially for conspicuous goods is not only determined by income, taste, price of the product as well as price of other related goods, as per consumer theory, but consumption behaviour is mainly shaped by social interactions.

Another long-accepted ideology in economics is downward demand curves, chiefly as a result of the inverse relationship between price and quantity demand. With snobs and conformists in the market, it remains unclear in this study whether the demand curve will always be downward sloping, if we take into account conspicuous consumption. The theoretical literature also made clear that the decision to engage in conspicuous consumption transcends the principle of economic rationality. The study then turned to other branches of study to explain conspicuous consumption.

Kim and Rucker (2012:817) suggest that individuals engage in conspicuous consumption to compensate for deficiencies within themselves. The deficiency may be lack of education, low economic status or longing for affection. In order to suppress those deficiencies, one will consume conspicuously. Postlewaite (1998:781) argued that by design, humans strive to ascend to the top of the social hierarchy. Hence they always desire more and most importantly, more than others. The desire to have and consume more is not eliminated, even among the poor. This was proven in the subsequent chapter, where part of the empirical literature review showed the rise of conspicuous consumption in developing countries and among social groups that are considered vulnerable to poverty. This was confirmed in the findings of the study.

### **6.3 KEY FINDINGS**

Empirical analysis uncovered the following trends.

The level of visible consumption was found to have increased over the years of the NIDS study. For the period 2008-2014/2015, share of visible consumption increased by 6.7%, from 10.18% in 2008 to 16.88% in 2014/2015, as seen in figure 5-8. The upward trend in visible consumption is quite significant for a segment of the poor. Visible goods expenditure by a segment of the poor is growing at a higher rate than that of the non-poor. From 2008 to 2014/2015 spending on visible goods by the poor increased by 50.09%, while their non-poor counterparts decreased their spending by -19.35%, seen in figure 5-14. The increase in visible consumption happened concurrently with a reduction in food consumption. Figure 5-8 shows a reduction in the share of food consumption by 3.46% from 34.81% in 2008 to 31.34% in 2014/2015. The reduction in food consumption was also detected using regression analysis. The regression found that African households are estimated to have a lower share of food consumption by 11.28% than that of white households. Surprisingly, African households also have a higher share of visible consumption than white households. Using Cumulative Distribution Functions (CDF) curves

(figure 5-3a and figure 5-3c), keeping a total consumption for all population groups constant at R3 000, the study shows African households allocate a greater share of their expenditure to visible consumption, whereas white households facing the same budget constraint, allocate significantly less to visible consumption.

In identifying the consumers of conspicuous consumption, correlation was found between lower income and share of visible consumption. The paper established that low income earners apportion a higher proportion of their income to visible consumption than higher income earners. On establishing that the uneducated are prone to lower incomes, it was also found that this group allocates a higher share of their limited income to visible consumption. Hence the poor are deemed more conspicuous spenders than the educated. Adults who reside in urban informal dwellings were found to spend comparatively more on visible consumption. A recurring theme to emerge in this section is that low income earners allocate the most to visible consumption, compared with adults with relatively high incomes. Hence groups who are most vulnerable to constrained resources, namely the young adults, the poorly educated and Africans, allocate a larger proportion of income to visible consumption.

Finally, is there correlation between poverty and conspicuous consumption in South Africa? It is noted that correlation is distinct from causation. With correlation we only ascertain that two or more variables are related in such a way that they move together, whether increasing or decreasing. There is a positive relationship between conspicuous consumption and poverty. An increase in the share of visible consumption is associated with an increase in poverty, as seen by an increase of the poverty rate, measured by the UPBL. The relationship is that households who are most vulnerable to and affected by poverty are the same households who are spending comparatively more on visible consumption.

## **6.4 RESEARCH IMPLICATIONS**

Since 1994, government has declared its commitment to fight poverty. South Africa subscribed to the eight Millennium Development Goals in 2000, and the United Nation's Sustainable Development Goals in 2015 (UN, 2015:4). An integral part of those goals is the eradication of poverty in terms of which South Africa committed to halve its 2015 poverty rate by 2030. This background contextualises the importance of the findings.

Statistically, it appears that the country is not progressing towards achieving the poverty eradication goal. Upon establishing a correlation between conspicuous consumption and



poverty among the poor in South Africa, it is clear that conspicuous consumption is undermining government's plan to eradicate poverty. What is of equal concern in this regard is the consistent profile of the poor who are predominately women, of the African population group, poorly educated, residing in tribal authorities and rural provinces, either young or retired. It is alarming that despite 23 years of liberation, this profile also obtained during apartheid.

The correlation between conspicuous consumption and poverty must be especially understood by policy makers as conspicuous consumption has a bearing on the delivery and success of poverty alleviation programmes.

Although economic status was determined by income, the consequences of being poor transcends low income, especially in terms of conspicuous consumption as a response of the poor to low social status. This response has the effect of increasing marginalisation and non-income inequalities, by diverting income from human capital consumption that could lead to improvements in health care, education and financial security for the poor.

The findings also have implications for life skills education of the poor. As long as the poor continue to respond to poverty through visible consumption that they cannot afford, poverty is likely to remain. Since it has been clearly shown that the conspicuous consumption among the poor negatively affects poverty, it follows that the state's resources for education and influencing public opinion should aggressively target the fallacy of conspicuous consumption and educate the poor to invest in human capital instead.

This means that financial literacy and financial inclusion of the poor is paramount. Acquiring financial literacy would assist the poor to engage in responsible and rational consumption that would positively affect human development. Financial inclusion refers to access to banking services and savings mechanisms. Along with education, financial inclusion would enable the poor to better understand how to safeguard and grow capital.

However, while it is easy for a dispassionate observer to see the negative consequences of conspicuous consumption by a segment of the poor, as the study showed, conspicuous consumption among the poor cannot only be explained with rationality. The rationale of conspicuous consumption is to obtain the *appearance* of higher social status. To understand why the poor would attempt to satisfy their desire for status with the facade of the real thing, one has to understand the high value placed on social status which, it is argued, has more

advantages than merely being perceived to be better than others. Hopkins and Kornienko (2004:1091) argue that low social status has a far greater negative bearing on one's life, with low social status often associated with low marriage prospects, social ostracism and unemployment. A segment of the poor are thus under immense psychological and social pressure to avoid such status and even the poorest therefore have powerful incentives to strive to obtain higher social status, even to the extent of being willing to pay to fake having it. As succinctly phrased by 19-year-old Kagiso, the effect of the illusion makes it real:

You see, I'm a very important person and I still have a lot of potential to turn things around.

And what makes me feel important, is when people notice me and feel my presence and through my lifestyle you see the clothes I wear and the alcohol I drink, really turns a lot of heads. (Mnisi, 2015:347).





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