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HOUSEHOLD SAVING, CLASS IDENTITY, AND CONSPICUOUS CONSUMPTION

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HOUSEHOLD SAVING, CLASS IDENTITY, AND CONSPICUOUS CONSUMPTION[*]

By Jon D. Wisman[**]

> "In modern civilized communities the lines of demarcation between social classes have grown vague and transient, and wherever this happens the norm of reputability imposed by the upper class extends its coercive influence with but slight hindrance down through the social structure to the lowest strata. The result is that the members of each stratum accept as their ideal of decency the scheme of life in vogue in the next higher stratum, and bend their energies to live up to that ideal. On pain of forfeiting their good name and their self-respect in case of failure, they must conform to the accepted code, at least in appearance....No class of society, not even the most abjectly poor, foregoes all customary conspicuous consumption" (Veblen 1899: 84, 85).

> "There is much to be said for regarding the explanation of the content of preferences…as outside the economist's competence. Nevertheless, there is also a danger with such delimitation of responsibility, namely, that the problems excluded may not be studied at all" (Houthakker 1961: 734).

ABSTRACT

The saving rate for U.S. households has long been low relative to those in other wealthy countries and in recent decades this rate has plummeted. Most studies of household saving behavior are based on the life-cycle theory of saving. However, there is doubt as to whether these studies adequately explain the low and declining rate in the U.S. This study explores two hypotheses that depart from the life-cycle explanatory framework. The first hypothesis examines the possibility that the low rate of household saving in the U.S. is related to Americans' strong belief that vertical mobility in the U.S. is readily possible and hence their relatively weak sense of class identity. A second corollary hypothesis is that in an economy in which a high degree of vertical mobility is thought possible, a high degree of inequality in the distribution of income and wealth may reinforce the tendency to save little.

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The saving rate for U.S. households[1] has long been low relative to those in other wealthy countries and in recent decades this rate has plummeted, from 10.4 percent in 1980-84 to 7.7 percent in 1985-89,[2] to 6.5 percent in 1990-94, 3.8 percent in 1995-99, and 2.1 percent in 2000-04 (Garner 2006: 8). In 2005 and 2006, the rates were negative, -0.4 and -1.0 percent respectively, the lowest since the Great Depression years of 1932-33.[3]

Although the relatively low saving rate of Americans and the recent decline in saving rates have been extensively investigated by the economics profession, the explanations that have been generated have not been found adequate. After reviewing recent explanations of declining saving rates and finding none of them compelling, Massimo Guidolin and Elizabeth A. La Jeunesse conclude that “the U.S. personal saving rate remains a puzzle” (2007: 512).[4]

This article draws upon the work of Thorstein Veblen to suggest that a fuller understanding of the propensity to save requires that socio-cultural factors be taken into account. Accordingly, this article explores two hypotheses, both motivated by Veblen=s conception of conspicuous consumption, which holds that above a certain level of subsistence, humans consume in part to demonstrate social status.

The first hypothesis is that the low rate of household saving in the U.S. is related to Americans’ relatively strong belief that vertical mobility is readily possible and thus their relatively weak sense of class identity. To a lesser extent than in other relatively wealthy societies, Americans do not view their social status as given by their birth. They more strongly believe that if they are willing to put forth sufficient effort, they may improve their status. Through adequate dedication and effort, anyone can move up, even to the very highest levels of social status. It is the individual’s responsibility. It depends upon the individual’s willingness to study and work hard. One’s social status is not given, but earned.

However, how hard one works is generally not directly observable. What more readily catches attention is how much one can consume, which can stand, more or less, as a proxy for how hard one has worked. Thus, because Americans believe more strongly than do peoples of other wealthy nations that they are individually responsible for their own social standing, they feel more strongly compelled to demonstrate status and hence class identity through consumption.

The second and corollary hypothesis is that in an economy in which a high degree of vertical mobility is thought possible, a higher degree of inequality in the distribution of income and wealth may reinforce the tendency to save little. Great inequality means that consumers must stretch further to emulate the consumption standards above them.

Veblenian conspicuous consumption manifests itself in two dimensions. Consumption that permits "invidious comparison" is meant to demonstrate one's status to be above those below. "Pecuniary emulation," on the other hand, refers to the practice of imitating the consumption standards of those of higher status with the intent of appearing to also possess that status. Veblen claimed that AWith the exception of the instinct of self-preservation, the propensity for emulation is probably the strongest and most alert and persistent of the economic motives proper…[and] the propensity for emulation – for invidious comparison – is of ancient growth and is a pervading trait of human nature" (Veblen 1899: 110; 109).

Veblen believed that humans need the respect of others: "The usual basis of self-respect is the respect accorded by one's neighbors. Only individuals with an aberrant temperament can in the long run retain their self-esteem in the face of the disesteem of their fellows" (1899: 39). And, AIn order to gain and to hold the esteem of men it is not sufficient merely to possess wealth or power. The wealth or power must be put in evidence, for esteem is awarded only on evidence@ (Veblen 1899: 36-37). Veblen is hardly alone in identifying self-esteem as centrally important to humans. Indeed, John Rawls suggested that it is "perhaps the most important primary good" such that without it nothing else has much value (1971: 440).

This article examines the relevance of Veblen's theory of consumer behavior for understanding the relatively low and recently declining saving rate in the U.S.[5] The next section outlines the saving puzzle. Attention is then given to the historical evolution of the potential for vertical mobility and its social implications. This is followed by an exploration of the first hypothesis that the low rate of household saving in the U.S. is related to Americans' relatively strong belief that vertical mobility in the U.S. is readily possible. The following section examines the corollary hypothesis that in an economy in which a high degree of vertical mobility is thought possible, a high degree of inequality in the distribution of income and wealth may reinforce the tendency to save little, and thus help explain the recent collapse in saving rates.

The Saving Puzzle

The low and falling rate of personal saving has drawn a considerable amount of attention for four principal reasons: At the macroeconomic level, it is feared that too little saving will mean too little investment and thus sluggish growth in the future. A corollary of this concern is that the U.S. has become overly dependent on foreign financing of its investment needs. A shorter-term macroeconomic concern is that a sharp reversal in the saving rate could precipitate or deepen a recession.[6] At the microeconomic level, it is lamented that a low saving rate, and especially its decline, threatens future financial distress for many households (Bryant 2001). A fourth concern is the issue of intergenerational fairness. Due to the huge bulge of baby boomers entering retirement over the next 25 years, the rising costs of Social Security and Medicare programs will burden future workers with the earlier spend-thrift behavior of the retired.[7]

Most mainstream economic studies of households' decisions to save are based explicitly or implicitly on the life-cycle theory of saving, according to which households save or dis-save in order to even out their consumption over their life spans (consumption smoothing). However, these studies on saving behavior have generated little consensus and the very ability of this model to explain saving behavior has been challenged. Richard Thaler (1994), for instance, argues that the life-cycle models of saving fail to capture actual household saving behavior in three ways: It is unreasonable to assume that households possess adequate knowledge to solve a "multiperiod dynamic maximization problem." They have bounded rationality. Second, humans often lack self-control. And third, households react differently depending upon "the source or location of wealth" (whether coming in the form of current income or as changes in asset values).[8] Because of these inadequacies, and because the life-cycle theory of saving does not seem to accord well with recent experience, it has led to "an increasing frustration in the economics community about personal saving" (1994: 186). Axel Börsch-Supan concludes that "Household saving is still little understood" (2001: 1).

The life-cycle hypothesis views individuals (or households) as rationally allocating their lifetime income so as to maintain a consistent standard of living. In doing so, it abstracts from other social or cultural forces that might help explain the motivation to save/consume. This is in keeping with the general practice of mainstream economists of viewing the formation of preference functions as exogenous to the science.

The approach followed here, by contrast, is to view preference functions as at least partially endogenous -- to some extent, socially created. Preferences are a consequence of both our genetic heritage and our cultural conditioning. Thus any ability to rationally allocate our lifetime income so as to maintain a consistent standard of living would be genetically given.

That we would actually do so is likely a consequence of our particular culture. By viewing preferences as in part socially created, the arguments developed in this article are aligned with James Duesenberry's view that a "real understanding of the problem of consumer behavior must begin with a full recognition of the social character of consumption patterns" (1967: 19). It is also in keeping with Barry Bosworth's suggestion that because international differences in saving rates are not well explained by traditional economic variables, they may to some extent reflect differences in culture (1993).

The hypotheses explored here are cultural in the sense that ill-defined class distinctions and a socially generated view of a high degree of vertical mobility suggest that individuals are responsible for their social status. To demonstrate success, households emulate the behavior of those socially above them, thereby generating a high level of conspicuous consumption.[9] This seems to be precisely what Veblen had in mind when he wrote:

> "in any community in which class distinctions are somewhat vague, all canons of reputability and decency, and all standards of consumption, are traced back by insensible gradations to the usages and habits of thoughts of the highest social and pecuniary class -- the wealthy leisure class" (1899: 104).[10]

Moreover, Veblen viewed participation in conspicuous consumption as strongly socially compelled "though popular insistence on conformity to the accepted scale of expenditure as a matter of propriety, under pain of disesteem and ostracism." Thus the consumer's "motive is a wish to conform to established usage, to avoid unfavourable notice and comment, to live up to the accepted canons of decency..." (1899: 111; 115). So powerful is this motive that "No class of society, not even the most abjectly poor, foregoes all customary conspicuous consumption. [and] Very much of squalor and discomfort will be endured before the last trinket or the last pretence of pecuniary decency is put away (1899: 85). For Veblen, conspicuous consumption is not so much consciously pursued as undertaken to maintain respectability:

> "For the great body of the people in any modern community, the proximate ground of expenditure in excess of what is required for physical comfort is not a conscious effort to excel in the expensiveness of their visible consumption, so much as it is a desire to live up to the conventional stand of decency in the amount and grade of goods consumed" (1899: 102).

Curiously, the pursuit of status might be theoretically crafted to fit the life-cycle model. If, to acquire higher status, too much is spent on present consumption, then it could be difficult to maintain status in later years. However, current spending on status could also be seen as partially investment, insofar as greater present status might enhance future income and thus future status. Not only would such a model suffer from the same hyper-rationality of other life-cycle models, any promise for empirically testing it seems slim.

The Grounding of Social Status: From Ascriptive to Performative Status

In pre-agricultural (hunter-gatherer) societies, status was acquired by success in procuring food and skills in war. But with the adoption of agriculture and the subsequent evolution of highly organized societies, status became ascriptive, ascribed by birth, by one=s parents= status. Little vertical mobility existed in such societies. Everyone had their Aborn-to@ status. As Aristotle put it, AFrom the hour of their birth, some are marked out for subjection, some for command@ (*Politics* 1962, Book I). This was their identity. Not only were there practically no avenues for raising one=s status, but any attempt to do so was discouraged, if not punished. Conspicuous consumption did occur in such societies, but it would largely be within classes. And because only the very elite typically had significant discretionary income (more than required for mere subsistence), demonstrating status through luxury consumption was a privilege generally reserved to the aristocracy.

The rise and spread of capitalism created greater potential for vertical social mobility. As a rising commercial class, a bourgeoisie, began to accumulate wealth, it also sought social recognition commensurate with its new command on wealth. It began to petition for equal status with the aristocracy.[11] Its success in doing so entailed that the grounding for status was shifting from one=s birth to one=s achievement. Ascriptive status began to yield to performative status. Through diligent hard work and cleverness, one might rise in status. Vertical mobility became increasingly possible.

Vertical mobility would become most fully developed first in those capitalist countries that were essentially composed of immigrants who had left behind worlds of more rigid status barriers. Thus not surprisingly, considerable vertical mobility was found in countries populated by immigrants such as the U.S., Canada, Australia, and Israel (Tyree et. al. 1979: 415). But in terms of people's behavior, more important than the actual degree of vertical mobility is what is believed to be the case. That is, people's behavior can be expected to correlate more with their belief in the extent of vertical mobility than with what might actually exist. Accordingly, their perception of each individual=s potential for changing his or her social status is more a consequence of their understanding, regardless of whether true or false, of the degree of Aequality of opportunity@ in their society.

As Veblen pointed out (note epigram at the head of this article), in societies in which the potential for vertical mobility is believed to be relatively high, class distinctions become blurred. Although individuals may have a general sense of where they fall in terms of their society=s distribution of income or wealth, they have little sense of belonging to a class. Indeed, the extent to which this is true in the U.S. is suggested by the fact that most Americans describe themselves as middle class, "a concept that conveys not only one's economic status but also the sense of being a full participant in a fluid society" (Kuznet, et. al. 2006).

The perceived potential for vertical mobility inculcates a sense that one is responsible for one=s social status.[12] If one works hard and diligently, one might move up. Therefore, individuals are more prone to internalize responsibility for their successes or failures. This places considerable pressure on people to demonstrate high status. To the extent they succeed in doing so, they appear to possess the virtues of hard work. And the easiest and most practical way to signal this success is through one=s consumption, as Veblen noted: "To sustain one's dignity – and to sustain one's self-respect – under the eyes of people who are not socially one's immediate neighbors, it is necessary to display the token of economic worth, which practically coincides pretty closely with economic success" (Veblen, 1919: 393). Further,

> "One's neighbours, mechanically speaking, often are socially not one's neighbours, or even acquaintances; and still their transient good opinion has a high degree of utility. The only practicable means of impressing one's pecuniary ability on these unsympathetic observers of one's everyday life is an unremitting demonstration of ability to pay" (1999: 86-87).[13]

If a household consumes at the level of those with higher status, then it might acquire that status and the good reputation that accompanies it.[14]

Where income and wealth inequality are greater, the amount that must be consumed to create the impression of higher status is greater. But inequality would only have this effect where a belief in the potential for vertical mobility is strong. In societies where relatively little potential for vertical mobility is believed to exist, individuals understand their class status as more fixed and known. They possess the status of their parents, which was that of their grandparents and so on. Should their status be low, it is not the result of a personal failing. Moreover, if an individual were to attempt to show greater status through consumption, it would more readily be viewed as negative, as “show-off” behavior.[15] Rather than signaling virtue, it would signal a character flaw.

Also stimulating consumption is the fact that if identity is less given by inherited status (class membership, community, ethnicity, religion, and even gender), then individuals feel more responsible for their lives and self-identity. There is a greater sense of individuality, and self-identity becomes a project. Consumption acts as a signaling device for identity, a means to define one’s self and to project this definition to others. Maintaining if not improving this identity is a never-ending project.

Saving Rates and Perceptions of the Potential for Vertical Mobility in Various Countries

Alexis de Tocqueville and Karl Marx both noted an exceptionally high degree of vertical mobility in the U.S. and termed it “American exceptionalism.” Whatever might have been the case in nineteenth century America, today such exceptionalism no longer seems valid. A recent study (Jäntti, et. al. 2006) of vertical mobility in six wealthy countries (Denmark, Finland, Norway, Sweden, the United Kingdom, and the United States) has found that the U.S. has less mobility than the other five. This choice of countries is noteworthy in that it compares mobility in two of the most laissez-faire economies with that in four of the most social-welfare-oriented.

The authors conclude that “The only crystal-clear result is that there is less intergenerational mobility in the U.S. than in the other countries” (17). Middle-class mobility appears to be somewhat similar across all these countries, but there is higher probability in the U.S. that children of the fathers in the poorest quintile will remain in that quintile. Also, children of fathers in the highest quintile are more likely to remain there in the U.S. than in the other five countries.[16] The findings of Jäntti, et. al. are supported by a recent OECD (d'Addio 2007) study that finds upward mobility between generations to be lower in the U.S. than in Canada, Sweden, Germany, Spain, Denmark, Austria, Norway, Finland, and France. Yet other studies also lend support to the claim that the U.S. is no longer the exceptional land of great equality of opportunity (see Hertz 2007; Mishel, Bernstein, and Allegretto 2007; Mazumder 2005; Solon 1992). Nevertheless, the general view in the U.S. continues to be that it is the exceptional land of opportunity.[17]

This view has deep roots in the socio-cultural values of America's founding and subsequent history. Such deep-rooted socio-cultural values are resistant to change and may endure over very long periods of time (Dolfsma 2002; Campbell 1987), even when the conditions on which they were founded no longer exist.

Average household saving rates (saving as a percent of disposable household income) for the United States over the period 1988-2007 were lower, and in most instances far lower, than in sixteen other wealthy industrialized countries. Only three countries, two of them Scandinavian, had lower saving rates, and curiously, as noted earlier, actual vertical mobility is greater in these two Scandinavian countries (Denmark and Finland) than in the U.S. (Jäntti et. al.2006).

TABLE I

Household Saving Rate (% disposable household income)

Country	Average (1988- 2007)
Denmark (Gross Savings)	0.30
Finland	2.30
Australia	2.99
United States	**3.80**
Czech Republic	5.10

Norway	5.20
Sweden	6.36
Canada	6.71
United Kingdom (Gross Savings)	7.16
Japan	9.18
Austria	9.87
Switzerland	10.23
Portugal (Gross Savings)	10.47
Germany	11.03
France	11.42
Netherlands	11.47
Spain (Gross Savings)	13.01
Belgium (Gross Savings)	13.91
Korea	14.81
Italy	15.12

OECD Online Database

However, average household final consumption expenditures as a percent of GDP over the period 1988-2004 was higher in the U.S. than in all nineteen other wealthy countries in this sample. This likely reflects, at least in part, the fact that U.S. households must bear a greater share of education and health care costs.

TABLE II

Household Final Consumption Expenditure (% of GDP)

Country	Average (1988- 2004)
United States	**68.00**
United Kingdom	64.53
Portugal	62.91
Spain	59.91
Switzerland	59.66
Australia	59.26
Italy	59.14
Germany	58.25
Austria	56.93
France	56.52
Canada	56.50
Japan	55.16
Belgium	54.68
Finland	51.79
Czech Republic	50.85
Netherlands	49.66
Sweden	49.38
Denmark	49.29

Norway	47.71

OECD Online Database

Although no comprehensive international survey has been undertaken of peoples' beliefs as to the degree of vertical mobility in their respective societies, there are survey results on a number of other beliefs that are suggestive of views of vertical mobility and that might serve as proxies. A 1999 sample of 27 countries provides five such possible proxies (International Social Survey Programme 1999).

The first proxy shows that only in the Czech Republic and Canada was the view weaker than in the U.S. that to get ahead it is *essential*, *very important*, or *fairly important* to come from a wealthy family (See Table III below). A belief that family wealth is important for rising in status suggests that mobility is not thought to be highly fluid. The fact that relative to peoples in most other countries, Americans do not believe that wealth is so important for getting ahead suggests that they are more likely to believe that vertical mobility is possible.

TABLE III

Share of Respondents Saying It is "Essential", "Very Important", or "Fairly Important" to Come From a Wealthy Family to Get Ahead

Country	Essential	Very important	Fairly important	Total
Cyprus	22.3	38.5	26.9	87.7
Poland	18.3	38.9	25.5	82.7
Spain	7.9	45.4	26.5	79.8
Bulgaria	28.3	25.5	24.8	78.6
Slovakia	22.1	24.8	27.9	74.8
Portugal	19	35.8	18.8	73.6
Israel	18.6	32.2	22.7	73.5
Latvia	9.5	27.1	33	69.6
Russia	19.3	22.3	27.3	68.9
Germany East	4.1	26.8	37.2	68.1
Hungary	14.7	20.4	31.2	66.3
Philippines	13.6	30.8	19.8	64.2
Slovenia	5.8	20.4	35.9	62.1
Germany West	4.6	18.3	37.9	60.8
Austria	8.2	19.8	31.6	59.6
Australia	2.2	18	39.2	59.4
Chile	13	27.4	18.5	58.9
Sweden	3.1	14.9	39.4	57.4
Japan	1.8	9.7	42.5	54

North Ireland	5.2	18.6	28.2	52
New Zealand	3.6	12.8	35	51.4
Norway	0.9	9.7	39.9	50.5
Great Britain	3.3	15.4	30.6	49.3
France	1.9	8.1	37.8	47.8
United States	**2.8**	**16.2**	**26.6**	**45.6**
Canada	2.7	10.3	32.1	45.1
Czech Republic	8.6	10.4	23.6	42.6

Source: International Social Survey Programme 1999: Social Inequality III (ISSP 1999)

The second proxy examines the extent to which people believe that hard work pays off. Only in the Philippines do a larger percentage of people than in the U.S. *strongly agree* or *agree* that people are rewarded for effort (column two in Table IV below). A view that effort can make a difference in what one receives in society is suggestive of a belief that vertical mobility is possible.

The third proxy refers to the extent that people are rewarded in terms of their skill levels. It is widely believed in the U.S. that individuals are personally responsible for their own educational attainment. They are free to accumulate the level of human capital (skills) that they wish. Thus a view that individuals are rewarded for skills suggests that vertical mobility is possible. More people in the U.S. *strongly agree* or *agree* that people are rewarded for skill than do peoples in all other 26 countries in this 1999 sample (column 3 in Table IV below).

The fourth proxy addresses the extent to which people believe that material rewards in society are justly distributed. If it is believed that people receive in income what they deserve in terms of their efforts, then it is more likely that the distribution of income in that society will be viewed as appropriate or fair. People get their just desserts. In the above mentioned sample, fewer in the U.S. than in any of the other 26 countries *strongly agree* or *agree* that income differences are too high (column 4 in Table IV below).

The fifth and final proxy relates to whether government should play a role in making income distribution more just. If the distribution of income is viewed as just in terms of what people deserve for their productive contributions to society, then it may be less likely that they would wish their government to intervene to reduce income differences. And indeed, far fewer in the U.S. than in any of the other 26 countries *strongly agree* or *agree* that government should reduce income differences (column 5 in Table IV below).

These five proxies provide strong support for the contention that Americans believe their country provides greater potential for changing social status through personal effort than do peoples of other wealthy or moderately wealthy countries. To a greater extent than in these other countries, Americans believe their society is one of equal opportunity.

TABLE IV

Share of Respondents Who Say They "Strongly Agree" or "Agree" with the Indicated Statements, Referring to Their Own Country

Country	People get rewarded for their effort	People get rewarded for their intelligence and skills	Differences in income are too large	It is the responsibility of the govt. to reduce income differences
Australia	58.2	65.2	68.3	47.6
Austria	41.8	50.3	83.5	69.1
Bulgaria	5.4	4.9	94.7	81.4
Canada	48.2	54.2	68.5	45.6
Chile	36.9	39.3	90.4	74.7
Cyprus	29.5	33.9	64	56.3
Czech Republic	15.7	23	87.2	69.4
France	20.3	32.9	86.6	65.6
Germany East	40.1	56.3	91.6	73.2
Germany West	53.5	64.5	72.3	47.2
Great Britain	32.5	48	79.7	65
Hungary	9	24.4	92.3	78.4
Israel	35.8	37.6	89.4	80.5
Japan	41.1	54.5	63.8	47.4
Latvia	15	20.4	96	75.5
New Zealand	40.6	50.7	70.5	46.7
North Ireland	43.2	53.9	64.5	62.7
Norway	30.9	37.9	71.5	59.9
Philippines	63.2	69.3	64.8	58.4
Poland	21.8	31.9	84.9	80.3
Portugal	36.1	44.6	95.1	88.7

Russia	8	8.8	93	82
Slovakia	5.9	8.5	93.1	71.8
Slovenia	12.5	19.7	89.4	83.3
Spain	37.2	41.4	88.3	77
Sweden	34.1	38	70	57.4
United States	**60.7**	**69.4**	**61.7**	**32.6**

Source: International Social Survey Programme 1999: Social Inequality III (ISSP 1999)

Given the deep cultural embeddedness of Americans' belief in fluid status mobility, it is not surprising that it continues to find support in more recent surveys. A March 2005 *New York Times* poll found that whereas 82 percent of Americans identified themselves as working class, middle class, or lower class, 45 percent believed that *it is very or somewhat likely* that they will become wealthy in the future. A striking 80 percent believe it is possible to start out poor and become rich through hard work. Forty percent believe that it is easier to move up today than 30 years ago, whereas 23 percent believe it more difficult, and 35 percent believe there is no change. In 2008, in spite of negative views concerning the future of the economy, the majority of Americans remained optimistic concerning their own futures. For instance, according to a March 2008 Pew survey, whereas 56 percent of Americans rated the economy as poor, 55 percent believed that their own financial situation would improve over the coming year (Pew Research Center 2008). A June-July 2008 nationwide poll by the *Washington Post* found that low-wage workers (accounting for about one-quarter of all U.S. adults) "remain inspired by the American dream" (Fletcher and Cohen 2008: A1). Although nearly half believed that their financial situation deteriorated during the Bush administrations, 69 percent are hopeful of their financial situation. When asked, "What do you think is more likely over the next few years in terms of your social class?", 58 percent believe they will move up, versus 14 percent who believe they will slip backward and 24 percent who believe they will remain the same. Moreover, six out of 10 believe they are responsible for their own financial situation (Fletcher and Cohen 2008: A13).

Yet other evidence corroborates the contention that, more than their counterparts abroad, Americans see their country as offering the potential for upward mobility. It might be expected that in a nation in which there is a relatively strong belief in the possibility of vertical mobility and in which income distribution is highly unequal, individuals would not only readily take credit for their economic successes, but also readily view the less fortunate as responsible for their economic failures. This seems to be the case. Alesina, Glaeser, and Sacerdote report that the World Values Survey found that 71 percent of Americans versus 40 percent of Europeans believe that the poor could work their way out of poverty. "…54 percent of Europeans believe that the poor are unlucky, whereas only 30 percent of Americans share that belief." And "Sixty percent of American respondents, but only 26 percent of Europeans say that the poor are lazy" (2001: 237; 242; 243). These differences may also help explain Americans' stronger embrace of laissez-faire political ideology (see also, Lipset 1998). Alesina and La Ferrara find that in the U.S., those individuals who believe they will experience future income growth more readily oppose measures that would redistribute income in favor of the less-well off (2001). Other evidence also suggests that to a greater extent Americans hold individuals responsible for their own fates. For instance, Alesina, Glaeser, and Sacerdote report that they "find an extremely strong relationship in the United States between supporting capital punishment and opposing welfare" (2001: 242).

The data presented above (as well as that provided by Alesina and La Ferrara 2000) suggest that there is "American exceptionalism," but that it relates not to the actual degree of vertical mobility in American society, but Americans' exceptionally strong belief that they live in a land of highly fluid vertical mobility, a land of relatively equal opportunity. If they study, work hard and diligently, they can improve their social status. Each is responsible for his or her own status. Possessing high status is thus a consequence of virtue. This places a premium on showing higher status. One option for doing so is to struggle to consume at the level of those with higher status and thereby improve one's reputability. This special pressure to demonstrate higher status through consumption may help account for the exceptionally low personal saving rate in the U.S.

Thus, there seems to be considerable support for the hypothesis that the low rate of household saving in the U.S. is related to Americans' strong belief that vertical mobility in the U.S. is readily possible and hence their relatively weak sense of class identity.

It might be noted that the hypothesis explored above is not in conflict with a long-entertained cultural hypothesis constructed upon the fact that Americans have been targeted more than peoples of other cultures by advertising, and that this bombardment has become ever more intense.[18] For instance, Frank Levy and Richard C. Michel argue that our low savings is due to Aa culture that bombards us with messages to buy things – not save – every day. In this context, the key to increased savings is a change in national outlook@ (1990: C2). They go on to suggest that a national campaign such as that to reduce smoking or drunk driving or casual sex would work. This general thesis was suggested a half-century ago by John Kenneth Galbraith=s Adependency effect,@ advanced in his *The Affluent Society* in 1958. It was also the thesis of pop sociologist Vance Packard=s 1957 *The Hidden Persuaders*.

Clearly this Aadvertising-assault@ thesis is not in conflict with the hypotheses that are explored here. Any persuasive advertising would potentially guide and possibly augment a conspicuous consumption effect.[19]

This section has found substantial support for this paper's first hypothesis that the low rate of household saving in the U.S. is related to American's relatively weak sense of class identity, and their relatively strong belief that vertical mobility is readily possible. The next section will explore the second and corollary hypothesis that in an economy in which a high degree of vertical mobility is thought possible, a high degree of inequality in the distribution of income and wealth may reinforce the tendency to save little.

Increasing Inequality and the Collapse of Household Saving

The collapse in personal saving in the U.S. over the past quarter century has drawn a great deal of attention.[20] Most economists who have addressed the issue have done so by drawing upon the life-cycle model of saving. However, as noted earlier, this model has been found theoretically inadequate. It has also not fared well empirically (Courant, Gramlich, and Laitner 1984; Mokhtari 1990; Thaler 1990). After examining the major "theories/explanations" for the fall in saving rates (wealth effects, "new economy" effect, financial innovation, social security programs and macroeconomic stability, demographics, Ricardian equivalence, and trends in the way companies compensate shareholders), Guidolin and La Jeunesse conclude that "none of them provides a compelling explanation" (2007: 491; See also Attanasio and Paiella 2001: 110). Similarly, Munnell, Golub-Sass and Varani note that "Economists have spent a lot of energy attempting to explain the precipitous drop, but with little success" (2005: 2). Examining an earlier fall in the saving rate, Barry Bosworth concluded that "there is no simple explanation for the collapse in saving." He went on to suggest that to some extent some of the explanation may be found in culture.

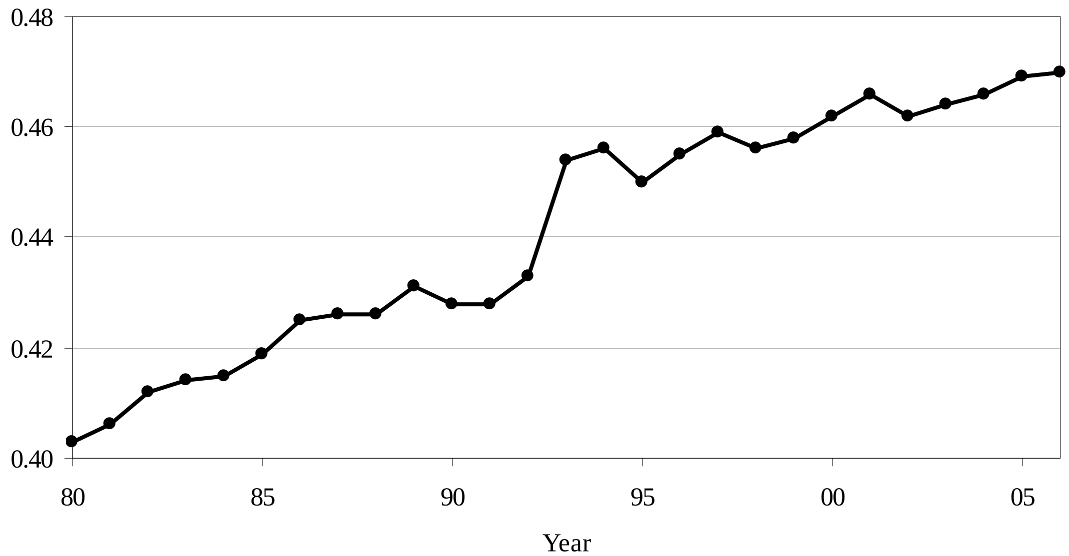
Consonant with Bosworth's suggestion, the culturally grounded hypothesis explored here is that if there is a strong, widespread belief that a high degree of vertical mobility is possible, then a high degree of inequality in the distribution of income and wealth may reinforce the tendency to save little as the distance between consumption levels is greater. And a further increase in inequality would put more pressure on individuals to consume yet more to attain their status targets, thereby saving less.

Keynes noted in the *General Theory* that personal saving is related to income and wealth distribution. However, the second hypothesis set forth here – that greater inequality increases consumption (lowers the saving rate) – is contrary to Keynes' view that increasing equality would raise consumption, by raising the average marginal propensity to consume (Keynes 1936: 372-75). The suggestion offered here is that the fact that the very wealthy have become so much wealthier has meant not only that they themselves have dramatically increased their own conspicuous consumption, but that because the gap between their incomes and those below them is so much greater, those below must spend ever-more to achieve their status goals.

Since the early 1970s, income inequality has become much greater in the U.S. The poorest 20 percent of Americans saw their share of total income decline from 5.5 percent in 1973 to 4.0 percent in 2005. Over the same period, the second poorest 20 percent saw their share drop from 11.9 to 9.6 percent, the middle 20 percent from 17.5 to 15.3. Meanwhile, the share of the richest 20 percent rose from 41.1 to 48.1 percent. And the richest five percent saw their share climb from 15.5 to 21.1 percent (Table 1.9, Mishel et. al. 2007). The rise in the Gini Coefficient depicted in the chart below provides a graphic glimpse of this growing inequality. Inequality in wealth ownership is yet far greater, and has also greatly increased (Wolff 2002).

Figure 1: Gini Ratio for U.S. Households

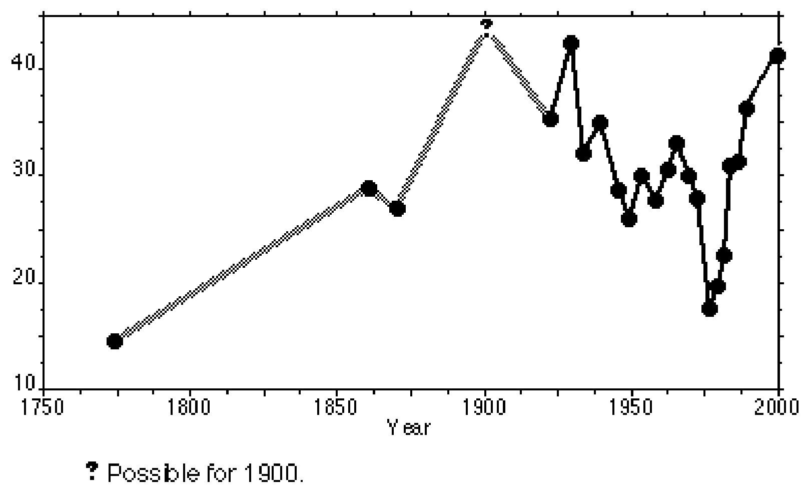
Source: Bureau of the Census, Historical Income Table H-4



http://www.census.gov/hhes/www/income/histinc/h04.html

It has been estimated that on the eve of the American Revolution, the top one percent of households held about 15 percent of all wealth. By the end of the Civil War, they may have held 25 percent (DeLong 1997). As the figure below indicates, there have been three major expansions in the share of wealth held by the super-rich: The first occurred between the end of the Civil War and lasted until about 1900. It was this explosion in inequality and the behavior that accompanied it that led Veblen to write his most noted work, *Theory of The Leisure Class*, in which he unfolds his theory of conspicuous consumption. The second major expansion in the share of wealth held by the super-rich occurred following World War I and lasted until the late 1920s. The last expansion began in the early 1970s and continues to the present. The first two periods of rapidly rising inequality were called, respectively, the "Gilded Age," and the "Roaring Twenties," suggesting the consumption orgies that accompanied these periods. The last period, the present one, has yet to acquire a sobriquet that has stuck. Like the two earlier periods, it has also witnessed extravagant consumption by the very rich, which has been emulated by those further down the ladder.

Figure 2: Crude Estimates of the Top 1% Share of National Wealth



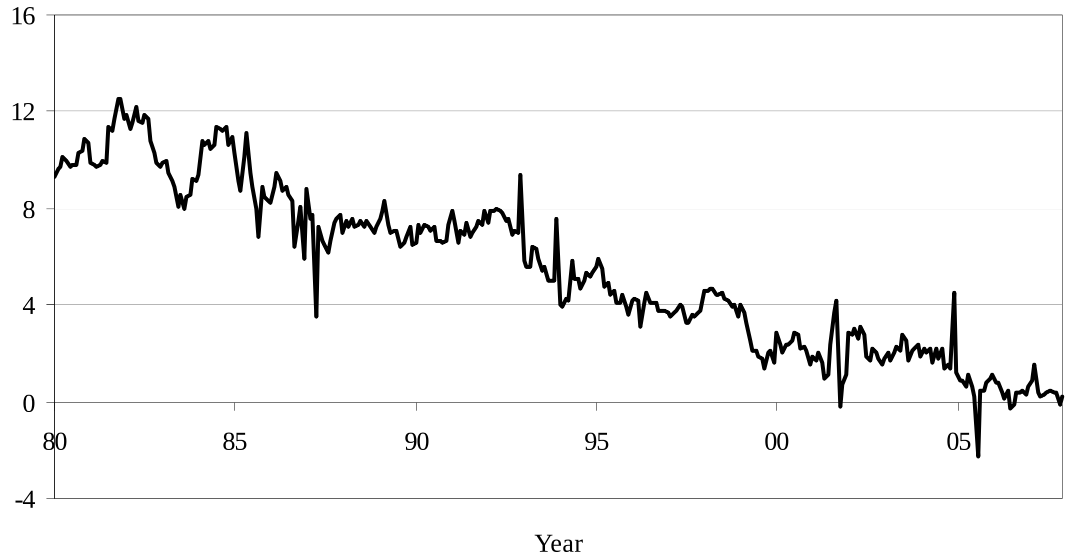
Source: DeLong, J. Bradford. 1997.

In a society in which individuals generally feel responsible for their own status and struggle to demonstrate status through consumption, this substantial increase in inequality might be expected to prompt households to potentially respond in three manners: People might consume more, forcing them to save less; they might become more indebted to enable greater consumption; and they might increase the hours they work to enable them to increase their consumption levels. Evidence indicates that U.S. households have done all three.

As inequality has increased over the past quarter century, the personal saving rate has fallen, as noted earlier, from 10.4 percent in 1980-84, to 7.7 percent in 1985-89, to 6.5 percent in 1990-94, to 3.8 percent in 1995-99, to 2.1 percent in 2000-04; and in 2005 and 2006, the rates were negative, -0.4 and -1.0 percent, respectively (See also figure 2 below). Where there is a strong perception that vertical mobility is possible, growing inequality might put additional pressure on households to struggle ever harder to demonstrate higher status through consumption. Increasing inequality means the status standard is ever higher.[21]

A “free-to-choose” interpretation would not adequately capture the dynamics of this intensified struggle. In his last major work, *The Revolt of the Elites* (1996), Christopher Lasch noted that as economic elites take an ever-greater share of income and wealth, they tend to isolate themselves in social enclaves such as gated communities, exclusive clubs, and private schools. They tend to work in jobs, live in neighborhoods, and move in circles where they literally do not see those struggling to stay on their feet in the economy. Because of elites' disproportionate political power, this withdrawal from wider society and from direct contact with the concerns of other citizens erodes support for public services on which those further down the economic ladder depend—services such as schools, parks, transportation, even public safety. The decay of public services encourages those beneath the elites to do what is necessary – reduce saving (see figure 2 below), become more indebted, or increase work hours – to enable them to send their children to decent schools or to safe country clubs.[22] And, of course, as those who can afford to consume the private provision of these services opt out of consuming the public ones, political support for, and the quality of, the latter continue to deteriorate. A vicious cycle appears set in motion promising increasingly inferior public goods and ever-greater pressure to increase consumption.

Figure 3: Personal Savings Rate
Source: Bureau of Economic Analysis



www.bea.gov/national/index.htm#personal

As inequality has increased, households have taken on more debt. Average consumer debt in 2003 dollars for Americans over 15 years of age has increased from $712 in 1980 to $3,261 in 2003 (Adkisson and McFerrin 2005: 447). This increased indebtedness holds for households in all income quintiles. However, the indebtedness of lower and middle income households has grown significantly more relative to income than has that of wealthier households (See Table V below). Although there are other hypotheses for why indebtedness of those in the lower part of the income distribution has increased (e.g., Weller 2007), the rise in indebtedness for the rich and poor alike fits the hypothesis set forth here, that in a society in which vertical mobility is believed to be highly fluid, increasing gaps in income all along the spectrum would stimulate everyone but those at the very top to struggle harder to meet their consumption status targets.[23]

It is noteworthy that increasing income and wealth inequality have occurred even in the highest income decile, with the consequence that even those in this decile have, on average, become increasingly indebted.[24] The greatest gains in wealth and income have been for the super-rich, the top 0.1 percent or one tenth of the top one percent (Wolff 2002), dramatically increasing the consumption of extremely expensive goods and services (private jets, mansions, Hirschian positional goods, etc.). These super-rich households are ever in competition with each other for the very pinnacle of status, with the consequence that "In the consumer race the finishing line always moves faster than the fastest of runners" (Bauman 2000: 72). This has put pressure on the lesser rich who also wish to be seen as at the very top. This pressure is likely reinforced by the advertising and programming that continually keep the consumption standards of the rich and famous on public display (See Schor 1998; Frank 1999).

TABLE V

Ratio of the Mean Value of Outstanding Debts to
Mean Family Income by Percentile

Income Percentile	Year					
	1989	1992	1995	1998	2001	2004
All Families	**0.88**	**1.08**	**1.09**	**1.20**	**1.05**	**1.47**
Less than 20	0.89	0.33	1.85	1.84	1.68	2.31
20-39.9	0.86	0.35	1.12	1.23	1.12	1.62
40.59.9	0.85	0.42	1.03	1.19	1.18	1.61
60-79.9	0.96	0.71	1.14	1.32	1.16	1.56
80-89.9	0.84	0.85	1.08	1.14	1.12	1.47
90-100	0.60	0.62	0.76	0.79	0.68	0.99

Source: *Survey of Consumer Finances*

If, as a consequence of rising inequality, individuals must spend ever more to attain their status targets, then it might also be expected that they would increase their work hours to be better able to do so. Indeed, during basically this same period – between 1970 and 2002 – work hours per capita rose 20 percent in the U.S. By contrast, in the European Union where income inequality has not much changed, work hours fell 12 percent (OECD 2004, Chapter 1). Indeed, a study by Samuel Bowles and Yongjin Park has found “that increased inequality induces people to work longer hours [and] …the underlying cause is the Veblen effect of the consumption of the rich on the behaviour of those less well off” (2005: F410). It is also notable that the U.S. is the only wealthy country that does not legally require employers to provide paid leave (Ray and Schmitt 2007: 1). Even when U.S. workers held far more political power than is the case today, they did not strongly pressure government to make leave mandatory. It is conceivable that the relatively high conspicuous consumption pressures in the U.S. may help explain why. This is conformable to Veblen’s contention that increased productivity would lead to greater conspicuous consumption rather than fewer work hours:

> “As increased efficiency makes it possible to procure the means of livelihood with less labour, the energies of the industrious members of the community are bent to the compassing of a higher result in conspicuous expenditure, rather than slackened to a more comfortable pace” (1899: 111). [25]

Summary

The low and falling U.S. personal saving rate has been an enigma within the economics profession. Attempts to solve this enigma, most drawing upon the life-cycle theory of saving, have not been successful.

This study has found considerable support for two hypotheses that may help explain both why U.S. household saving is low relative to rates in other relatively wealthy countries and why they have declined so radically over the past quarter century. The first is that the low rate of household saving in the U.S. is related to Americans’ relatively strong belief that vertical mobility is readily possible. Evidence strongly suggests that Americans believe status to be more fluid in the U.S. than do their foreign counterparts for their respective countries.

Consequently, Americans are more compelled to internalize responsibility for their own status. Their status is a consequence of their own actions. If they work hard and diligently they might move up. However, the most ready way to flash one's status is through consumption. A higher level of consumption generally correlates with a higher level of income which in turn can be understood to be the consequence of hard work. Thus, Americans feel more compelled to strive for status through conspicuous consumption than do people in other relatively wealthy countries in which belief in the potential for vertical mobility is weaker. The result is a lower rate of saving.

The second hypothesis is that in an economy in which a high degree of vertical mobility is thought possible, a high degree of inequality in the distribution of income and wealth can be expected to reinforce the tendency to save little. Great inequality means that consumers must stretch further in their emulation of the consumption standards above them. The evidence examined above demonstrates that this is indeed what they have done, resulting in a falling rate of saving.

These two hypotheses are founded upon the fact that social status is critically important to people and thus strongly affects their behavior, where social status is meant in the broad sense whereby an individual is motivated, as Karl Polanyi put it "to safeguard his social standing, his social claims, his social assets" (1944: 46). The human preoccupation with status or relative social position is understandable from an evolutionary perspective. Those with higher status, whatever its source, would possess disproportionate access to resources and members of the opposite sex, thus permitting more and better cared-for progeny. A proclivity for seeking status would thus be naturally selected. Or, as Robert Frank has put it, "falling behind one's local rivals can be lethal" (2005: 183).

Given the complexity of the motivation to save, it is not surprising that mainstream theories crafted to explain saving behavior have not been compelling, leaving the issue a "puzzle." Bosworth was right to suggest that we might well turn to culture for a fuller understanding. That is what this study does. Although the hypotheses explored here are not meant to fully explain saving behavior, they are strongly supported by the evidence examined above. The substantial support for these hypotheses also points to the continuing validity and fertility of Veblen's rich socio-economic theory of consumer behavior.

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NOTES

[1] The national income and product accounts (NIPA) personal saving rate is computed by the Bureau of Economic Analysis. It includes households and nonprofit institutions. It is the remainder of personal income after current outlays for personal consumption and taxes, non-mortgage interest payments, and net transfers to government or abroad.

[2] Curiously, for the five years following the 1981 tax cuts that were to spur personal and private saving, the average household saving rate continued to fall (Summers and Carroll 1987: 607). Summers and Carroll point out that "In 1986, American net national saving was below 2 percent of GNP, less than half the rate in Britain, less than 30 percent of the rate in France and Germany, and only 10 percent the rate in Japan" (1987: 607).

[3] This could also be seen in terms of the ratio of consumption to GDP. While roughly constant between 1950 and 1980, over the following two decades it rose by about six percent (Parker 1999: 1).

It should be noted that this negative savings rate is not fully representative of household conditions. Asset values have increased substantially in recent years, especially for real estate.

[4] Their use of the term puzzle is highly Kuhnian: "In economics, a phenomenon is said to represent a puzzle when standard and generally accepted economic principles and theories fail to provide a quantitatively satisfactory explanation for a set of empirical regularities" (2007: 508).

[5] Although Veblen's theory of consumer behavior has been the target of numerous attacks, Andrew Trigg argues convincingly that they "misrepresent Veblen's original conception of conspicuous consumption and take it out of context in relation to his overall framework" (2001: 100).

[6] This might be triggered by the collapse of real estate values that may have already begun. Sierminska and Takhtamanova speculate that because "the housing wealth effect dominates the financial wealth effect [on saving], at least in some countries, then the effects of a softening in the housing market in a number of industrialized countries could have effects more dramatic than the historic stock market declines that began in 2000" (2007: 20).

[7] A study by Douglas Bernheim (1993) finds that baby-boomers are saving only a third of what they will need to maintain their standard of living in retirement. Weller and Wolff (2005) find that over 20 percent of workers between the ages of 55 and 64 have no retirement savings other than Social Security.

[8] For a listing of other criticisms of the life-cycle model, see Starr 2006b: 1.

[9] The possible effect of conspicuous consumption on household saving rates does not appear to have been explored. It has, however, been noted. For instance, Lusardi, Skinner, and Venti, after recognizing that the wealth effect resulting from the surge in stock market values is only directly relevant to the well-off, speculate that "Conspicuous consumption of the rich may create imitation effects for the rest of the population" (2001: 9). They do not, however, follow up on this speculation.

[10] Duesenberry also identified a relationship between belief in social mobility and consumption: "…recognition of upward mobility as a social goal converts the drive for self-esteem into a desire for high social status [which] requires the maintenance of a high consumption standard" (1949: 31). He did not, however, develop this relationship in the direction of the hypotheses set forth here.

[11] Understandably, the aristocracy would struggle to block this quest, even in the domain of conspicuous consumption. Sumptuary laws B especially those laws proscribing lower classes from wearing the garments of those classes above them B proliferated in the late Middle Ages in Europe. There were even special courts enforcing these dress codes.

[12] By contrast, in traditional societies in which status was ascribed, high status individuals felt their status was their right. Indeed, they generally understood themselves to be in fact superior, whereas those below felt themselves to be in fact inferior. Note the extreme case of India=s Auntouchables,@ who, until fairly recently in their history, generally believed that their grim existence at the bottom of the social structure was just, due to poor karma in an earlier incarnation.

[13] There are, of course, other, aesthetically more sophisticated means by which those successful in earning a good deal of money can demonstrate their virtue and status. But, as Veblen noted, the "cultivation of the aesthetic faculty requires time and application, and the demands made upon the gentleman in this direction therefore tend to change his life of leisure into a more or less arduous application to the business of learning how to live a life of ostensible leisure in a becoming way" (1899: 75-75). The consequence, as Alan Shipman notes, is that "Those who have got rich quick have an understandably low tolerance for the time and tuition needed to gain cultural accomplishment. So they aim to let depth of pocket prevail over depth of discernment, and shift the battlegound from unearned income to unashamed expenditure" (2004: 279).

[14] It should be noted, however, that despite the decline in the Protestant ethic, status today is understood to be far more the consequence of hard work than was the case at the time Veblen was writing. Writing at the end of the 19th century, Veblen viewed people as struggling to exhibit leisure status, that is, to be above work. He noted, for instance, that "wealth acquired passively by transmission from ancestors or other antecedents presently becomes even more honorific than wealth acquired by the possessor's own effort." And, "The leisure class stands at the head of the social structure in point of reputability; and its manner of life and its standards of worth therefore afford the norm of reputability for the community" (1899: 29; 84). The reason for this, he claimed, is that "During the predatory culture labour comes to be associated in men's habits of thought with weakness and subjection to a master. It is therefore a mark of inferiority, and therefore comes to be accounted unworthy of man in his best estate. By virtue of this tradition labour is felt to be debasing, and this tradition has never died out" (1899: 36).

In the U.S. today, these attitudes toward work and leisure are no longer prevalent. Instead, everyone feels compelled to work. Even the very rich work. It is through work that social certification occurs. Some of this change has taken place over the past 40 years. In the 1960s, people revered the leisured so-called Ajet-setters.@ Today, they would be more readily looked upon as flawed, or even debauched.

[15] Note the negative judgment frequently made of the consumption practices of the self-made wealthy, the so-called *nouveau riche*. The French have an especially cutting and naughty put-down for such behavior: AIl pete plus haut que son cul.@

[16] Thus Gary Becker's view that "low earnings as well as high earnings are not strongly transmitted from fathers to sons" appears contradicted (1988:10). Other recent studies also challenge Becker's view. See Bowles, Gintis, and Groves, eds. 2005.

[17] Jäntti et. al. speculate that "One reason that may account for the widespread belief is that it is the middle classes who primarily hold this belief" and their data suggest that "the U.S. middle classes are quite as likely to be mobile as those in the U.K. or the Nordic countries" and "Because this substantial fraction of the U.S. population includes the median voter, such attitudes might help explain why there is not more political pressure for mobility-promoting

policies in the country" (2006: 28).

[18]The mainstream of the discipline has been reluctant to bring into their analysis any effect of advertising on consumer preferences. Indeed, some have gone so far as to deny any such effect (e.g., Stigler and Becker 1977).

[19] For recent analyses of the effect of advertising on consumption, see Dawson 2005, Twitchell 2002.

[20] Although personal saving rates have declined for a number of other wealthy countries (e.g., Canada, Germany, Japan, Italy, Australia), these declines have not been so pronounced as in the U.S. (Garner 2006; Table I; Starr 2006a: 4). Class identity is also weakening in these nations and it may be, as Roger Mason claims, that "modern-day consumer societies…are increasingly obsessed with status, identity, and style" (2000: 569).

[21] Schmidt-Hebbel and Servén contend that studies of the potential impact of inequality on saving have yielded highly inconsistent results (1999). Smith, by contrast, claims that "empirical results indicate that countries with greater measured income inequality have higher private saving rates, controlling for standard saving determinants" (2001: 123). However, these studies have not focused on the dynamic suggested here, that in a society such as the U.S. where a strong belief in the potential for vertical mobility is present, a rise in inequality might prompt households to increase consumption to attain their status targets.

[22] Robert Frank has also pointed to this dynamic:
"Increased spending at the top of the income distribution has not only imposed psychological costs on families in the middle, it has also raised the cost of achieving many basic goals. Few middle-income parents, for example, would be comfortable knowing that their children were attending below-average schools. Yet the amount that any given family must spend to avoid that outcome depends strongly on the amounts that others spend…. [Moreover], people cannot send their children to a public school of even average quality if they buy a home in a school district in which house prices are well below average" (2000: 258).

[23] Increased availability of credit instruments such as home equity loans and credit cards have greatly facilitated this emulative consumption. See Scott 2007.

[24] Houses and cars are principal symbols of status and in recent years there has been an explosion in the consumption of so-called McMansions and extremely expensive cars. Not surprisingly from the vantage point of the thesis set forth in this article, a February 2008 Pew survey found that "the proportion of wealthy Americans who say they are very satisfied with their housing and cars, in particular, has declined considerably since 2001" (Pew Research Center 2008).

[25] Keynes expressed a somewhat similar view in delineating two classes of human needs, "those needs which are absolute in the sense that we feel them whatever the situation of our fellow humans may be, and those which are relative in the sense that we feel them only if their satisfaction lifts us above, makes us feel superior to, our fellows" (1930: 365). However, his view that less inequality would increase consumption does not concord with this distinction between absolute and relative needs.