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History of Economic Thoughts

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Conspicuous Consumption: Economic Impacts and Expenditure Tax

I. Introduction

An iconoclastic economist and social theorist, Thorstein Veblen's *Theory of the Leisure Class* (1899) materialized amidst the growth of the disciplines of sociology, anthropology, and psychology (Hodgson 1998). Heavily inspired by Darwin's theory of evolution (Pressman 2014), Veblen presents a witty and eccentric critique of the neoclassical theory of consumption by arguing that "preferences are determined socially in relationship to the positions of individuals in the social hierarchy" (Trigg 2001, p. 99) rather than the intrinsic, practical utility of goods and services as posited by the neoclassical approach. Therefore, one of Veblen's main observations in his *Theory of the Leisure Class* (1899) was that people buy expensive items to display wealth and income rather than to cover their real needs, and that their economic behavior is a reflection of social status. Thus, social status is based largely upon relative wealth. Moreover, to transform one's wealth into social status, nonetheless, one needs to signal their wealth visibly. This signal was devised by Thorstein Veblen in his *Theory of the Leisure Class* (1899) as "conspicuous consumption".

This paper is divided into four sections. Section II will describe Veblen's theory of conspicuous consumption, and how it evolves over time. Section III will discuss the economic impacts of conspicuous consumption in the economy. Section IV will discuss an expenditure tax and its implications in an attempt to address some of the macroeconomic problems caused by conspicuous consumption in the economy. Section V will conclude a summary of the main points.

II. The Theory of Conspicuous Consumption

Conspicuous consumption is defined as a means to ostentatiously demonstrate one's pecuniary strength in their society (Veblen 1899). In addition, conspicuous consumption manifests itself in two dimensions. Consumption that permits "invidious distinction" is intended to exhibit one's status to be over those underneath (Medema 2003). In contrast, "pecuniary emulation" denotes the practice of imitating the consumption standards of those of higher status with the aim of appearing to likewise have that status (Medema 2003). Both terms were frequently mentioned by Veblen in his *Theory of the Leisure Class* (1899) to describe America's pecuniary culture, in which there was a sudden growth of living standards and the emergence of the leisure class during the Second Industrial Revolution, and it created the tendency of the working class to emulate the leisure class in order to claim the same social status. As a result, the theory of conspicuous consumption is derived from the advancement of a leisure class whose members are not required to work but seize a surplus produced by those who do work, the working class (Trigg 2001).

According to Veblen, the origins of a leisure class can be explained through the "habits of life" that differ throughout time and place. Veblen separates time into three periods, which are primitive, quasi-peaceful, and barbarism. He brands primitive and quasi-peaceful as "peaceful" periods where there was not much individual proprietorship but there was a lot of collaboration between people and their communities. On the other hand, the proceeding barbaric time is characterized by its warlike and competitive character through the practice of hunting and gathering (Veblen, 1899). However, as society advanced from the peaceable to barbaric time period, people were taking on a more exploitative outlook in the society. Instead of gaining possessions in the manners such as cooperation and actual labor, individuals, by the nature of their barbaric behaviors, accumulated their possessions through demonstrating tangible evidence of prowess and aggression that project honor and esteem:

> "The institution of leisure class is the outgrowth of an early discrimination between employments, according to which some employments are worthy and others unworthy. Under this ancient distinction the worthy employments are those which may be classed as exploit; unworthy are those necessary everyday employments into which no appreciable element of exploit enters" (Veblen 1899, p. 8).

Over time the trophies of exploit through hunting and gathering are no longer valuable as a sign of worthy employment. Thus, the competitive habit is now directed into private ownership, and household economy, where the individual is now honored by the accumulation of wealth instead of prowess and aggression. "Wealth is now itself intrinsically honourable and confers honour on its possessor" (Medema 2003, p. 616).

As private ownership becomes the basis of esteem instead of the exploitative frame of mind, the accumulation of wealth through private ownership such as acquiring and displaying of expensive, over-sized, and beautiful homes reflects the pattern of consumption. Conspicuous consumption comes to be the most practical way to demonstrate one's wealth to a transient population. As a result, Veblen stressed that the relationship between private ownership and social status is proportional, meaning that when one owns property their social status is perceptible, and the reverse is also true. "It becomes indispensable to accumulate, to require property, in order to retain one's good name" (Medema 2003, p. 615). Since one's wealth becomes widespread in their communities, such expenditure on conspicuous goods is now driven by invidious distinction. In this case, one would prodigally spend money in order to keep up with the spending of their neighbors, and to further deviate themselves from their neighbors in terms of social class (Pressman 2014).

The outcome of conspicuous consumption, which is motivated by invidious distinction is “conspicuous waste”. While individuals do not usually waste time and money intentionally, they do as such, in a desire to comply with the acknowledged standards of decency in society. Generally, the leisure class is related with waste, and it remains contrary to the requirements of industrial society to efficiently distribute goods:

> “From the foregoing survey of the growth of conspicuous leisure and consumption, it appears that the utility of both a like for the purposes of reputability lies in the element of waste of time and effort that is common to both” (Veblen, 1899, p. 85).

Conspicuous waste is basically devouring goods that one does not need, and squandering resources through conspicuous consumption. Thus, when members of a leisure class take part in wasteful activities, their social status is publicly established. An example of this observation is in regard to women’s dress. Because women are used as a display for the man’s wealth since the beginning of the barbaric period, women’s attire accentuates how unfit for a function it is. A huge closet of trendy clothing, including high heels, long dress, corset, and elegant hat is obvious that the lady’s display of conspicuous consumption is growing due to the exemption of productive labor from man. Thus, women engage in conspicuous waste not for themselves, but for the head of the household. Their nonappearance from productive work is essential for a man’s reputability, and therefore, reflects his substantial wealth (Veblen 1899).

According to Veblen all social classes participate in cultural habits like conspicuous consumption. Even the poor who consume everything on a subsistence level would not have any desire to consume goods which give signs of a lower societal position; one generally needs to engage in conspicuous waste in order to claim the highest of the social ladders:

> "the scheme of life in vogue in the next higher stratum, and ben their energies to live up 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, p.84, 85).

Since conspicuous consumption is motivated by invidious distinction, stemming from the conspicuous habit of the class above it, Veblen observed that even the ignoble savages who belong in the lowest of the social ladders were compelled to engage in conspicuous consumption. Thus, to be recognized, one must always display conspicuous consumption pending the accomplishment of social status.

III. The Economic Impacts of Conspicuous Consumption

Once a country achieves an optimum of living standards, consumption goes increasingly on status symbols with no intrinsic value. This section discusses negative and positive impacts of conspicuous consumption in the economy.

a. Negative Impacts

Conspicuous consumption can negatively impact the economy in numerous ways. One macroeconomic problem that often draws a great deal of attention in most mainstream economic studies is income inequality. Robert Scott (2007), Steven Pressman and Robert Scott (2009), and Jon Wisman (2009) argue that the rise in income inequality is due to the collapse of personal saving. Writing about the relationship between household savings and conspicuous consumption, Wisman noted that the collapse of personal saving is not well explained by the life-cycle hypothesis of saving[1] because it fails to capture actual household saving behavior in three ways. (1) households lack the knowledge to solve a utility maximization problem because they have

[1] The life-cycle hypothesis of saving is developed by Albert Ando and Franco Modigliani to explain the consumption patterns of individuals, in which households save or dis-save in order to even out their consumption over their life-cycle. Ando and Modigliani (1963)

bounded rationality[2]. (2) humans by their nature often lack self-control, and (3) households would choose to save or spend differently depending upon the source or location of wealth. Because of these limitations in the life-cycle hypothesis of saving, Veblen's theory of conspicuous consumption is more fitting in explaining the collapse of personal saving that results in income inequality in the economy.

As noted earlier, conspicuous consumption is driven by invidious distinction and pecuniary emulation, which holds that humans would consume just to demonstrate social status. Therefore, the collapse of personal saving results from the motive that individuals spend most of their income on conspicuous goods with little saving in order to keep up with the spending of their neighbors or in another word, to "keep up with the Joneses". In her book, *Do Americans Shop Too Much?* (2000), Juliet Schor observed this phenomenon in America's pecuniary culture by stating that "the rapid escalation of desire and need, relative to income, also may help to explain the precipitous decline in the savings rate-from roughly 8 percent in 1980, to 4 percent in the early 1990s, to the current level of zero" (Schor 2000, p. 10). The decline in saving can also draw a relationship between conspicuous consumption and the phenomena of hyperbolic discounting[3]. For the reason that humans lack self-control, the reward provided by buying goods today exceed the discounted displeasure of future payment. To illustrate, any gain in income will result with no saving because one must spend on conspicuous goods today in order to keep up with the spending of their neighbors to avoid the risk of falling further behind in terms of achieving social status.

[2] Bounded rationality is the idea that in decision-making, rationality of individuals is limited by the information they have, the cognitive limitations of their minds, and the finite amount of time they have to make a decision. Thaler (1990)

[3] Hyperbolic discounting refers to the tendency for people to increasingly choose a smaller-sooner reward over a larger-later reward as the delay occurs sooner rather than later in time. Frederick, S., Loewenstein, G. & O'Donoghue, T. (2002)

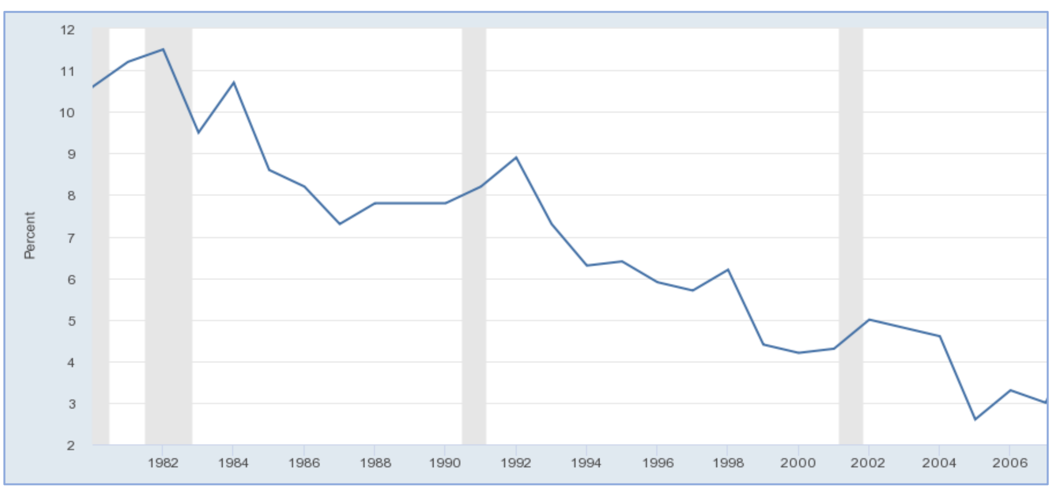
Conspicuous consumption, combined with hyperbolic discounting can also take advantage of the accessibility and availability of credit, and therefore, contributes to the collapse of personal saving. Prime example of this is credit card use. To demonstrate, one would use their credit card of a certain amount to buy goods today, and then only make minimum payments for that amount, but it will take a long time to pay it off with interest, even though they know that they will end up paying a lot more later on. With the effect of hyperbolic discounting, however, one only projects the short-term benefits but will have to endure the long-term repercussions in the near future. This is followed by (1) households lack the knowledge to solve a utility maximization problem because they have bounded rationality and (2) humans lack self-control. Thus, when the industrial class' incomes are insufficient to spend on conspicuous goods, they will likely rely on their credit cards to supplement their current incomes in order to keep up with the conspicuous consumption of their neighbors. Writing about credit card use and abuse, Robert Scott stated that "credit cards give people access to these items: expensive cloths, elaborate vacations, and expensive restaurants – whatever someone equates to higher-class living is often achievable now because of credit cards" (Scott 2007, p. 570).

Conspicuous consumption's effect on households' decision to spend rather than save, especially for those with lower incomes may help explain why America's pecuniary culture experienced negative savings. In an attempt to keep up with the conspicuous consumption of the leisure class, those with less incomes may have gone into debt. This transition can be explained by Hyman Minsky's financial instability hypothesis[4]. Although Minsky's financial instability hypothesis mainly argues that a key mechanism that pushes the economy towards a financial

[4] Financial instability hypothesis was developed by Hyman Minsky where he argued that financial crisis is endemic in capitalism because periods of economic prosperity encouraged borrowers and lender to be progressively reckless. This excess optimism creates financial bubbles and the later busts. Therefore, capitalism is prone to move from periods of financial stability to instability (Minsky, 1999).

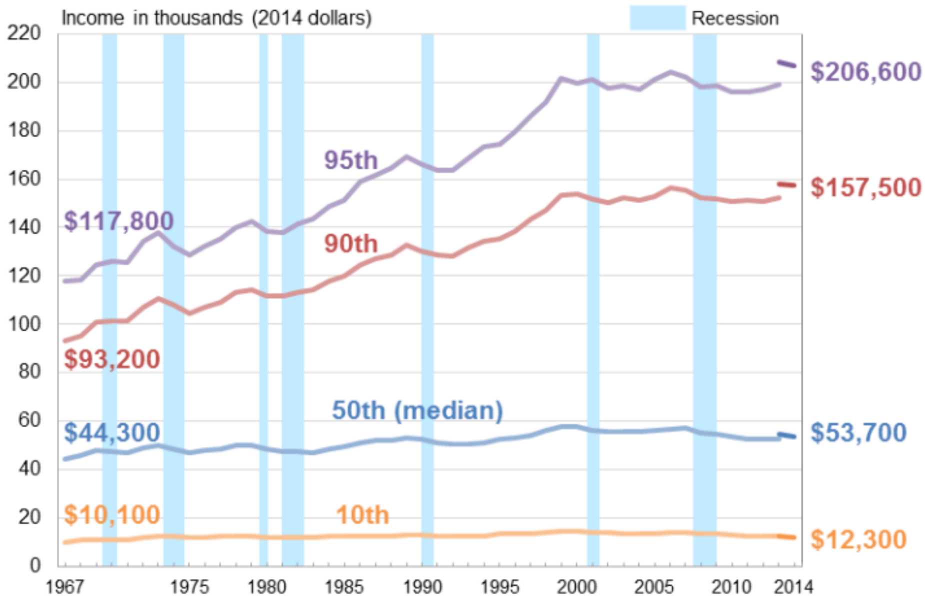
crisis is the accumulation of debt by firms, however, this hypothesis can also explain the accumulation of debt by households in the presence of conspicuous consumption. For example, in his financial instability hypothesis, Minsky distinguishes three types of borrowing that reflect a financial crisis in the economy. (1) hedge borrowing is when flow of funds allows firm to repay debt contracted, (2) speculative borrowing is when flow of funds allows firm to repay interest but not the principal amount, and finally (3) Ponzi borrowing is when firm cannot repay debt nor the principle amount. The last is relevant to this analysis in a sense that one of the long-term repercussions as a result of hyperbolic discounting on credit card use as discussed earlier is that households with lower incomes cannot repay their interests from credit borrowing because of negative saving, and therefore go into debt. In fact, Steven Pressman and Robert Scott (2009) argue that the rise in consumer debt such as credit debt reflects the decline in personal saving, and forces those with lower incomes to file for bankruptcy. Consequently, they further separate themselves from those who already accumulated enough wealth, and eventually income inequality rises in the economy.

Figure 1: Personal Saving Rate in the US 1980-2005



Source: Bureau of Economic Analysis

Figure 2: Real Household Income in the US 1967-2014



Source: Bureau of the Census

To fully understand that conspicuous consumption causes the rise in income inequality in the economy, the two figures above give a clear representation of the comparison between personal saving rate and real household income. According to Figure 1 & 2, the trends follow the results in previous literature as mentioned by Scott (2007), Pressman and Scott (2009), and Wisman (2009). For example, the real household income of the 10th and 50th percentiles of income groups appear to be stagnant, whereas the 90th and 95th percentiles of the income groups continue to increase over the 46 years period as the personal saving rate continues to decline from 1980 to 2006. Thus, the collapse of personal saving owing to conspicuous consumption, results with the lower and middle-income groups struggling to increase their consumption and pay off their debt, and therefore the gap of income inequality eventually starts to become wider.

Conspicuous consumption, combined with the collapse of personal saving results in rising inequality, which pressurizes individuals to spend even more than before to close the gap and attain their status targets. However, in order to spend more on conspicuous goods, one must increase their work hours to be better able to do so. Indeed, Linda Bell and Richard Freeman (2001) argue that increase income inequality induces longer work hours. By working longer hours for those with lower incomes make them to attain a higher percentile rank in the wage distribution. This is consistent with Veblen's contention that productivity gains would lead to greater conspicuous consumption, and longer work hours rather than the neoclassical approach, which implies that productivity gains in the economy make people work less hours:

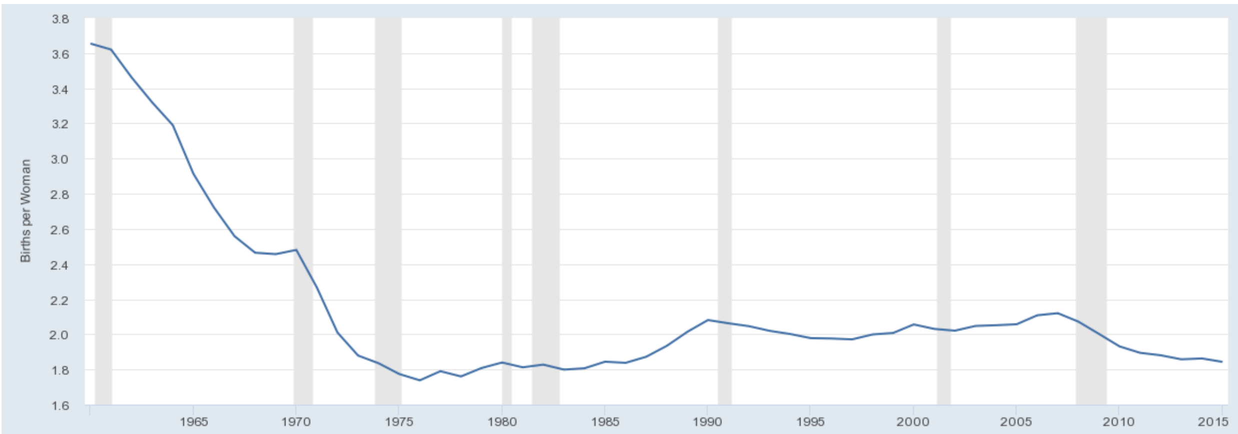
> "As increased efficiency makes it possible to procure the means of livelihood with less labour, the energies of the industrious members of the community are bent to the compassing of a higher result in conspicuous expenditure, rather than slackened to a more comfortable pace (1899 Veblen, p. 111).

Although conspicuous consumption can drive the economy to an increase in income inequality, it could also be an important driver of low population growth, in which Veblen suggests that the use of additional production for conspicuous consumption acts as a Malthusian check on fertility. If signals are truly wasteful, then some of these resources will not be available for increasing the number of offspring. However, to be evolutionarily stable, any reduction in conspicuous consumption by an individual would need to see them suffer a cost in the form of reputation and status, and in turn, mating opportunities:

> "The low birthrate of the classes upon whom the requirements of the reputable expenditure fall with great urgency is likewise traceable to the exigencies of a standard of living based on conspicuous waste. The consumption, and the consequent increased expense, required in the reputable maintenance of a child is very considerable and acts as a powerful deterrent" (Medema 2003, p. 645).

In a more contemporary case, the effect of conspicuous consumption that results in low population growth is down to one relationship, which is, as income inequality increases, the cost of achieving social status has gone up in order to keep up with Joneses. Indeed, Mary Shenk, Hillard Kaplan, and Paul Hooper (2016) argue that in the presence of conspicuous consumption, competition among all social classes becomes more focused on social climbing, as opposed to just procuring the necessities of life, people invest more in material goods and achieving social status. The consequence of this result is a trade-off between the cost of having more children in the household and keeping up with the spending of one's neighbors.

Figure 3: Fertility Rate, Total for the US (Births per Woman) 1960-2015



Source: World Bank

To illustrate, Figure 3 gives insight of the US fertility rate from 1960 to 2015, and it is clear that the US has experienced rapid decline in fertility rate, as it jumped from an average of about four children per woman in 1960 to only about two children per woman in 2015. This can be explained by various reasons. (1) more access to birth control and (2) the choice to delay childbirth to get a higher education for women. However, the decline in fertility is traced back to the post-WWII boom when the US experienced its longest uninterrupted period of economic expansion. During this time (1960s), the US economy began a shift from industrial base toward a service economy. This trend has caused a change in the mix of materials consumed and has provided more sophisticated technology, computerization, and automation. At the same time, the markedly improved efficiency and productivity of the US economy have led to an increase in economic growth, living standards, and consumer spending. This is conformable with Veblen's contention that conspicuous consumption might seem to be an obvious moral dimension of a declining fertility rate. Consequently, a decline in fertility rate causes a plummeting workforce in the economy in the future, which can slow down economic growth over time because the costs of having and raising children is high.

b. Positive Impacts

Although it is often that most main economic literature focuses on criticizing the concept of status consumption and have argued that conspicuous consumption is causing a stir in the economy, this is not always the case. There are times when an individual’s status consumption actually has a positive impact on the economic-growth potential of a society. Previous literature such as Michael Rauscher (1997), Walter Fisher and Franz Hof (1999), and Giacomo Corneo and Oliver Jeanne (2001) have found that status consumption is in fact beneficial to the economy. Indeed, Michael Rauscher (1997) held that the influx of demand for conspicuous consumption goods is the driving factor that determines the acceleration of economic growth, which can create jobs and other possibilities in the economy. This is conformable with demand-led growth theory built on the foundation of work by economists such as John Maynard Keynes, Michal Kalecki, Petrus Verdoorn, and Nicholas Kaldor, who argued that an increase in consumption spending can lead to the rise in aggregate demand which ultimately causes an increase in total output in the long run, and therefore, economic growth. In fact, Veblen considered that conspicuous consumption will put to use all future growths in production and efficiency. He states:

> “The need of conspicuous waste, therefore, stands ready to absorb any increase in the community’s industrial efficiency or output of goods, after the most elementary physical wants have been provided for” (Veblen 1899, p. 110).

Moreover, conspicuous consumption might provide an alternative solution to Marxian and Keynesian underconsumption problem. In the notions of underconsumption, recession and stagnation arise due to inadequate consumer demand relative to the amount produced. Therefore, conspicuous consumption provides firms an incentive to produce goods, and invest in new technologies to produce those goods.

c. Analysis

Thus far, the practice of conspicuous consumption produces both negative and positive effects on the economy. However, the most obvious question at this stage of discussion is: how does one know what the optimal conspicuous consumption required in order to achieve their status targets?

In order to answer this question, it is important to understand that conspicuous consumption is driven by invidious distinction and pecuniary emulation, which creates a voracious want that spans across all social classes. As mentioned earlier, in barbaric period, people engage in conspicuous consumption just to compare and keep up with the spending of their neighbors within their communities. However, in contemporary society, status consumption is seen as a total different dimension in a sense that people engage in conspicuous consumption not just to compare themselves with their next-door neighbors, but sport stars in flashy cars, reality television celebrities on social media sipping expensive champagne in a hot tub, and so on. For instance, high-paid soccer player like Christiano Ronaldo consumes conspicuous goods, as demonstrated through social media and television. This conspicuous consumption lends itself readily to product endorsement, in which Christiano Ronaldo's brand and image attributes are transferred to a product, and most soccer fans are now buying goods that Christiano Ronaldo consumes through the means of advertisement just to look like him. Thus, as society keeps progressing, conspicuous consumption is defined itself into a greater dimension, in which people are less likely to compare themselves to the conspicuous consumption of their neighbors but sport stars, and the similar trend will infinitely continue from one society to another. This search for status through conspicuous consumption is never ending, and therefore, one will never reach the optimal conspicuous consumption required to attain their status targets.

IV. Expenditure Tax and Implications

As discussed earlier, conspicuous consumption is driven by invidious distinction and pecuniary emulation, and the search for social status through conspicuous consumption is never ending. In addition, this search for newer and more subtle ways of creating and signaling wealth is continual and creates numerous undesirable economic problems, noticeably the rise in income inequality in the economy due to the collapse of personal saving. Therefore, it is essential to take the next step in this analysis by discussing Nicholas Kaldor's *An Expenditure Tax* (1955) and adopted by Robert Frank (1999) to address this problem. This section discusses the proponents of the replacement of an income tax by an expenditure tax that could reduce the practice of conspicuous consumption. Subsequently, the implications of an expenditure tax and its impact on the overall economy are discussed with the aid of recent literature.

An expenditure tax by definition is tax levied on the total consumption of an individual in the economy. Earlier advocates of an expenditure tax such as John Stuart Mill, Alfred Marshall, A.C. Pigou, and Irving Fisher provided a coherent argument of an expenditure tax against an income tax. Nicholas Kaldor in his book, *An Expenditure Tax* (1955) offered a broad case as of why an expenditure tax is a better taxing system than an income tax. Influenced by the time in which he lived and worked, which was post-WWII Britain, Kaldor was concerned with the injustice of a system that allowed those with high incomes to maintain high levels of expenditure on consumption goods by reducing saving, an option that was not ideal to those with lower incomes. To Kaldor, this means that the wealthy could maintain their consumption spending without paying any tax, and consequently, creates an unfair system among social classes. Therefore, he proposed an expenditure tax, not because it will lighten the tax load of the wealthy, but because he believes moving away from an income tax to an expenditure tax is a better measure of ability to pay than income, but also would reduce their consumption expenditures. “A changeover to an expenditure tax would undoubtedly have the most severe effect on the wealthy and not on the people who are moderately well-off” (Kaldor 1955, p. 50). To be more precise, Kaldor saw an expenditure tax as a way to raise savings and investment, which could improve productivity levels and the average standard of living in British economy, and that savings would not be taxed so there would be an incentive to do more of it.

In his time of writing, Kaldor’s main argument that taxation of individuals should be based upon their expenditure, not on their income should encourage people to save more offers implicit insight on how this tax reduces conspicuous consumption in the economy. He did not, however, explicitly discuss whether an expenditure tax could reduce not just consumer spending in general, but spending on conspicuous goods. Because of an expenditure tax, nonetheless, Kaldor predicted that we could move towards an egalitarian society and improve efficiency and the progress of the economy. More recently, however, the case for an expenditure tax has been made by Robert Frank in his book, *Luxury Fever: Why Money Fails to Satisfy in an Era of Excess* (1999), rather on a different ground with the stress that it is the best means to reduce the negative impacts of conspicuous consumption in the economy. For Frank, an expenditure tax can reduce consumer spending because the tax makes luxury goods more expensive, and therefore, households will consume less of it. This is after he argued against the proposed luxury tax that aims to diminish societal expenditures on high-status goods, by rendering them more expensive than non-positional goods. The problem of this tax, according to Frank, is that it is difficult to define what luxury goods is and that households will move to consume goods that are non-taxable. Furthermore, he also argued against sales tax on consumption goods that it will not solve the problem of conspicuous consumption because it is a form of a regressive tax that contributes to the rise in income inequality in the economy. In addition to his proposed expenditure tax, however, he argues that because savings are not being taxed, savings become more desirable and as a result, this will allow greater spending on more important non-positional goods than conspicuous consumption such as, education, healthcare, and infrastructure.

a. Analysis

As previously stated, conspicuous consumption allows for negative savings in households, and therefore, debt has increased for many families. As a result, income inequality rises. However, an expenditure tax is seen as a concrete and practical solution to cure this problem, but the questions remain to be answered here includes: (1) does an expenditure tax reduce the negative impacts of conspicuous consumption in the economy? And (2) what will it impact on the overall economy?

An expenditure tax is not a desirable policy that could reduce the negative impacts of conspicuous consumption in the economy. In contrast to Veblen, Frank (1999) argues that conspicuous consumption is caused by the nature of economic markets. Therefore, Frank bases his proposed expenditure tax on a condition that the decision for households to spend on consumption goods is rational. He writes, “the key to understand how this [expenditure tax] would work is the observation that when the price of good rise, we buy less of it” (Frank 1997, p. 1842). In other words, Frank assumes that households have the knowledge to solve a utility maximization problem. Thus, an expenditure tax could potentially be an effective policy if the assumption of rationality holds true.

However, this tax has received little consideration from the political discourse because: (1) the US tax system is too complex, and (2) it fails to circumvent the following problems in the economy. First, this tax would discriminate in favor of the rich since they have a tendency to spend a relatively small proportion of their income. Thus, a household with $300,000 in income who saves $40,000 would be taxed on a smaller proportion of one's true ability than would a household with an income of $20,000 who cannot save that large proportion of one's income.

Second, the rate of tax would have to be much higher because the consumption base is smaller than the income base in order to generate the same amount of government revenue. With the implementation of an expenditure tax, the gap between the consumption base and the income base would increase because the tax would decrease the incentive to spend, thus further decreasing the tax base. It is understood that no direct tax can serve as a solution to the inequities, and this leads to the conclusion that the current inequities would increase if there is a shift from an income tax to an expenditure tax (Garner 2005).

Third, because an expenditure tax reduces consumer spending, it will also reduce economic growth. Indeed, Christopher Carroll and David Weil (1994) examined the relationship between growth and saving using empirical evidence, and they found that growth leads to savings, but additional savings do not lead to more growth. This is because firms do not have the incentive to produce goods due to the lack of aggregate consumer spending in the economy.

Kaldor (1955) and Frank (1999) countered these objections by arguing that (1) the rates of an expenditure tax could be structured so that the rich would be taxed on a higher proportion of their expenditure than the poor. In another word, an expenditure tax should be progressive. This would be the case in the above illustration if a tax of 15 percent was applied to expenditures of $20,000 and a tax of 60 percent to expenditures of $260,000. (2) Less revenue is required with an expenditure tax because the focus on savings, and therefore, there is no effect on demand and hence future output. And (3) savings and investment would be increased, future output would be greater, eventually producing a larger growth.

However, Frank failed to recognize that an expenditure tax is not a desirable policy to reduce the negative impacts of conspicuous consumption in the economy. After all, the main reason that motivates Frank to consider this tax is followed by his previous book (Frank and Cook 1995), in which he blames increasing income inequality on the rise of winner-takes-all markets. Although Veblen did not provide any solutions to this problem, he recognized that conspicuous consumption is caused by cultural habits of life that change through time, and the drive to emulate and bypass each other by the means of conspicuous consumption for societal status is never ending. Thus, an expenditure tax will only increase the prices of consumption goods, especially positional goods. For example, when the prices of those goods rise, it motivates those who can afford it to price out those who cannot afford it. Consequently, an expenditure tax only exacerbates income inequality in the economy because households with lower incomes must borrow more in order to afford those goods.

Certainly, there are costs and benefits to an expenditure tax, but the obvious questions here are: (1) would an expenditure tax cause more harm than good in reducing the negative impacts of conspicuous consumption? And if so, (2) what are other alternative solutions to this problem? Although an expenditure tax forces people to respond to economic incentives by saving more, this tax contradicts itself in a sense that it promotes income inequality in the economy. An expenditure tax is not the real solution to this problem. To be more specific, it requires more than just government policies. Therefore, education might be the last hope to cure this problem. In addition, it can act as a catalyst in shaping the way people perceive social status in a different context that does not create the economic problems as discussed earlier. Indeed, school curriculum should accommodate the subject of conspicuous consumption. This, however, does not imply that education will cure this problem since conspicuous consumption seems to be a behavioral pattern that is inherently apart of human nature, but it is seen as a viable long-term solution.

V. Conclusion

As this paper has demonstrated, the first constituent discusses the origins of Veblen's theory of conspicuous consumption as it evolves from the primitive to quasi-peaceful and later to barbaric period. Through this evolution, we discover that conspicuous consumption has become the focal point in describing the habits of life that change through time and place. This change of habits of life reflects the degree of conspicuous consumption. Hence, conspicuous consumption is then driven by invidious distinction and pecuniary emulation, and has become the means to show one's pecuniary strength.

The second constituent analyzes the economic impacts of conspicuous consumption. We conclude that macroeconomic problems such as rising income inequality, and lower population growth are caused by conspicuous consumption. In contrast, however, conspicuous consumption is a positive drive to more jobs and other possibilities in the economy.

Finally, we also look at the cost-benefit analysis of an expenditure tax proposed by Nicholas Kaldor (1955) and Robert Frank (1999), and find that Robert Frank, in particular fails to acknowledge that the problem of conspicuous consumption is deeply rooted in the habits of life rather than the nature of economic markets. Therefore, an expenditure tax is not a viable option. However, changing the way people perceive conspicuous consumption through education might be a logical step toward reducing the negative impacts of conspicuous consumption in the economy in the near future. This then, however, has initiated an interesting research question that should be explored further: how does education reduce the negative impacts of conspicuous consumption in the economy?

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