

On conspicuous consumption in Albania¹

October 2008

The question is: Why does an Albanian who earns \$300 a month spend half of it on a pair of boots? The phenomenon is commonly referred to as conspicuous consumption, generally understood to mean the purchase of luxury items often beyond a person's purchasing power to convey status. In essence this is a form of peacocking on the part of the consumer, a way to send a signal to the world that the bearer of the product belongs to a certain strata of society. The simplest way to explain this phenomenon is to attribute it to the cultural desire of Albanians to belong to the European family. Given Albania's long history of isolation and cultural degradation, this explanation seems to be logically consistent. The inhabitants of "new Albania" strongly desire to be associated with a society they consider worth emulating, and thus far there seems to be little disagreement on the above line of thinking.

However, besides the obvious cultural explanation there is a more rational answer. In the economics literature, conspicuous consumption is treated as a signal with a tangible economic payoff. Furthermore, since business in Albania relies heavily on blood ties and social networks, belonging to a higher social caste is a tool that increases the probability of boosting one's income. Consider an example to illustrate this later point: Suppose a recent cohort of university graduates comes to the market to look for employment. Let's assume that ability cannot be inferred from their marks (given the chaos that reigns in Albanian universities this is not a far fetched assumption.) If an employer has no reliable signal to rank the candidates, he may turn to status as a good indication of a person's ability and hire the person whose signal (i.e. visible consumption) is more indicative of a better upbringing. In this instance, visible consumption is an investment in one's future and not simply a way to keep up appearances. In other words, consuming brand name clothing and accessories may be necessary for survival and the race becomes even fiercer if other signals of a person's ability become weaker or less decipherable.

Economists and sociologists have long been interested in the subject. Most notably Thorstein Veblen was the first to undertake a serious study of the phenomenon in his work "The Theory of the Leisure class". However, only recently have economists tried to empirically prove his assertion that people do indeed derive happiness from status. One recent such study by Hurst et. al.²

¹ This started as a response to [Xhaxhai's](#) recent invective on the disassociation of the Albanian peasant from his land.

² The paper can be found at http://faculty.chicagogsb.edu/erik.hurst/research/qje_published_version_final.pdf

looks at visible consumption, which they define as items that can be observed by anyone that comes in contact with the bearer, among blacks and Hispanics in the US. They assume that racial divisions are associated with different income reference groups. In this case, it would mean that blacks and Hispanics are perceived to have lower income in general than their white counterparts. In their study the authors find that the lower the income of the reference group (i.e. lower the average income of one's race in the state) the higher is the visible consumption of an individual, thus giving credence to the theory that status is valuable. In essence the paper empirically proves that "If your group is perceived as having low income, you counteract by increasing your visible consumption." Furthermore, they find that such behaviour is prevalent even *within* the reference group.

It is necessary to note that I am assuming conspicuous consumption to be a deep reality in Albania. By this I mean that conspicuous consumption is a significant proportion of disposable income for the average Albanian family. This is an assertion that has not been proven empirically, so any discussion on the subject is tentative given that we are dealing with stylized facts.

What does this imply for Albania? Within the country the race for status has become fierce and the consequences are visible in the proliferation of brand names in Tirana. In the early nineties capitalism found Albanians nearly devoid of distinction. Communism, whether intentionally or not, managed to compress differences in status and achievement, leaving behind a gray trail of homogeneity. Anyone who was old enough in the late eighties/early nineties has witnessed the painful similarities in modes of dress and decoration that were evident in any Albanian home. Therein lie the origins of the increase in visible consumption; the need to differentiate oneself from a largely uniform populace. Given that the socio-economic order was turned on its head in the nineties, methods of establishing worth or ability were either scarce or weak. Deducing ability from official channels such as place of employment or education became difficult and the market value of a degree from the University of Tirana plummeted, for bright as well as not-so-bright students. This meant that the adverse selection problem became especially acute. It seems that Albanians have adopted visible consumption as a signal of ability/pedigree because other, less expensive and more indicative signals are lacking. This is confirmed by the coveted positions foreign educated Albanians are being offered, indicating that their education is viewed as a clear signal of ability. Alarmingly, this is a race to the bottom; no matter how trendy you look, there will always be someone else to outdo you. Furthermore, it has raised the standard of acceptable consumption to a level that is unattainable by the average Albanian family; one has to spend generously just to stay in the race. In the West signals of ability (schooling/position and tenure), although they are far from perfect, have become clearer and a person's lineage is less of a determinant of

his/her success in life. This in the end should be the ultimate goal of any democracy.

In a larger European context, Albania's neighbourhood can certainly be considered the continent's ghetto, where any pragmatic EU diplomat or bureaucrat has learned to hold his nose while shaking hands. It is a region where one must break bread with Beelzebub himself to get anything done. In this unpleasant environment, countries are running over each other in a rush to disassociate from the Balkans and like their Western counterparts, be in a position to speak with a bewildered amusement about those 'hot-blooded people over there.' Even within this group we lag fairly far behind (notice that Albania's GDP is one of the lowest), which means that in the international context there is an undeniable gap that conspicuous consumption can easily fill. Witness the gleeful pride with which we view any Western newspaper article fawning over how metropolitan and European Tirana's youth is. In the meanwhile we forget that the same can be said of the Damascus, Cairo or Tehran youth. We also forget that what the cologne-drenched, freakishly hairless, Gucci wearing amoeba that lives at *Le Bloc*, has to say is painfully irrelevant to the larger discourse.

There is a rather tenuous argument that could be made against the existence of rampant conspicuous consumption in Albania: GDP/capita figures are imprecise because a large portion of the economy functions outside official channels. In practical terms this means that a family has supplemental income that goes unrecorded. It follows then that while it may seem extravagant to spend \$150 on a luxury item on a \$600 a month budget, unrecorded income may render the claimed "extravagance" moot. A simple back-of-the-envelope calculation can easily refute this argument. Suppose that instead of \$600, to account for unrecorded income, we double a family's income to \$1,200 a month, which amounts to \$14,400/year. In PPP dollars this sum comes to roughly \$26,640. Then this amounts to an American family of 4 earning \$26,640 per year spending \$278 for a pair of boots. As anyone who has lived in the US can attest, apart from conspicuous consumption, this is highly unlikely. However, the availability of cheap credit may have made such consumption possible in the US lately, although the current crisis will result in the mass bankruptcies that were the inevitable result of irresponsible credit markets.

Conspicuous consumption diverts resources from savings, thus directly affecting investment and capital so its overall effect on the economy is negative. In Albania's case it is a luxury that the country can ill-afford. A naïve and rather blunt response to conspicuous consumption would be to raise taxes on luxury goods to curb the phenomenon. Although this may yield immediate results, it would unfairly affect those who can indeed afford these items and reduce the profits of Albanian firms. A better answer would be to improve the country's educational institutions and the caliber of graduates that come out of

them. A recent surge in returns of foreign educated students will not necessarily help since it only reduces the value of an Albanian diploma while the effect will be negligible as the number is small and they will be quickly absorbed in the system. The government must break the monopoly it has on the labour market, thus allowing more incentive based payment schemes to take place. Competition for talent from NGO's and other international organizations needs to be curtailed if Albanian businesses are to have access to bright students; as of now most cannot compete in the labour market with deep pocketed NGO's. This would create a culture of on the job distinction and allow employers to discern between the truly talented and industrious and the laggards that are currently taking advantage of the confusion.

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