

Spending money or having money? Judging people's wealth from their spending habits

*People spend money on things that are conspicuous, or highly visible to others, to project wealth. But we shouldn't assume people are wealthy based on their spending habits. Some people prefer to save most of their income; others spend more than would be financially advisable. **Heather Kappes** warns us that when we infer people's wealth by what we see them consume we tend to spend more, leaving us more financially vulnerable in case of emergencies.*

As we move through the world, we observe people — what they're wearing, eating, doing, saying — and we make inferences about them. Most of these inferences are quick and automatic: what someone is interested in, what they might do for a living, how successful they are.

If we didn't make inferences about other people, then "conspicuous consumption" wouldn't be very effective. People spend money on things that are conspicuous, or highly visible to others, so that those others will know that they have resources. Seeing someone's spending leads us to make a guess about what's in their bank account.

The flipside of conspicuous consumption might be the behaviour of people who identify with the FIRE (Financial Independence, Retire Early) movement. These folks famously cut back their spending by an extreme amount, sock away their savings, and (plan to) retire quite early. As part of my research into consumer finance, I've spent a lot of time reading conversations on the forum sections of FIRE websites. Posters write about spending much less than their neighbours (sending kids to state school, driving an old car, not remodelling the house, taking few vacations), but also most likely having more accumulated wealth than those same neighbours. Forum posts say things like "my neighbours probably think I'm broke, but I have \$1 million in investments and I'm about to retire at 45." I got interested in what the neighbours actually infer, and what that says about their *own* finances.

So, do people think that spending *more* money implies *more* wealth? Or do they think instead that those who are frugal may be the richer ones?

A [recent paper](#) I wrote with Joe Gladstone and Hal Hershfield looks at this question. We found that about a third of respondents in the US and UK agree that "I think people who spend more are wealthier than people who spend less." People who agree seem to be focusing on the ability to spend: if you're spending a lot, you must be *able* to spend a lot, and hence be (relatively) wealthy. People who disagree seem to focus on the consequences of spending: if you're spending a lot, you're probably not saving much, and may be (relatively) poor.

But what do such assumptions say about one's own finances? To try to get at an answer, we asked about 2000 UK consumers how much they agreed that "I think people who spend more are wealthier than people who spend less," and then looked at their bank transactions. We found that people who agreed that spending implies wealth did more of their spending in categories that observers rated as less frugal – categories like antiques, jewellery, flights, and designer clothes. They had less money in savings and investments than people with comparable income who disagreed that spending implies wealth. These findings suggest that using spending to infer wealth might lead people to spend in ways that leave them more financially vulnerable in case of emergencies.

In follow-up studies, we showed that believing that spending implies wealth isn't the same as being materialistic (you can see material possessions as the key to happiness without believing that spending on them means you're actually wealthier). And we also found that giving information that changed beliefs about whether or not higher spending implies more wealth (in the form of newspaper articles) changed people's intention to spend versus save.

This sort of information might be a useful addition to messaging that encourages people to save—assuming their income allows, of course. The apparent unhappiness — a low financial well-being score — that goes along with believing that spending implies wealth (and the associated higher lavish spending) is a potential target of policy. Policymakers are increasingly concerned with tackling financial vulnerability, and for people with moderate and high incomes, this vulnerability often comes down to how people balance spending and saving.

Existing policy initiatives, such as increasing financial literacy, don't seem to have had a big impact on personal savings behaviour. Because decisions about how much to spend or save are driven in part by the inferences people make about what high spending means, our research suggests policy nudges focused on spending beliefs might be useful. Changing the link that some perceive between high spending and wealth might make spending less, and saving more, more appealing.



Notes:

- *This blog post is based on [Beliefs about Whether Spending Implies Wealth](#), by Heather Barry Kappes, Joe J Gladstone and Hal E Hershfield, *Journal of Consumer Research*.*
- *The post expresses the views of its author(s), and do not necessarily represent those of LSE Business Review or the London School of Economics.*
- *Featured [image](#) by [Mister Mister](#) from [Pexels](#)*
- *When you leave a comment, you're agreeing to our [Comment Policy](#)*