

On conspicuous consumption in post-soviet Ukraine

or

Why are there so many Lexuses in our streets?

Europeans coming to Ukraine are often surprised with the great amount of expensive cars in our streets. Really, Ukraine occupies the third place (after Germany and Russia) in the rating of European countries with the largest number of luxurious cars («Украина – одна из лидеров по количеству дорогих авто», 2011). In 2010, Ukrainians bought 2117 Lexuses from 17857 Lexuses that were sold in Europe. Besides, Lexus is one of the 20 most often purchased cars in Ukraine («Дорогие автомобили: в Европе любят Audi, в Украине – Lexus», 2011). Many luxury brands such as Chanel, Tiffany&Co have recently opened their shops in Ukraine, which proves growing demand for luxury goods in our country (Ukraine - a promising platform for luxury brands expansion, 2010). However, Ukraine is considered to be one of the poorest countries in Europe. Data provided by the Swiss bank “Credit Suisse” in its Global Wealth 2010 report shows that according to the level of welfare of its citizens Ukraine occupies 39th place out of 40 European countries with only Moldova left behind (Eurostat назвав найбагатшу і найбіднішу країну ЄС, 2011). This disagreement between low living standards and high luxury goods consumption proves the existence of conspicuous consumption in modern Ukrainian society. In order to find the roots and reasons for this phenomenon we need to analyze economic development and social structure of independent Ukraine as well as values and beliefs of its citizens. That analysis will enable us to discover the future effects of Ukrainians conspicuous consumption on our economy.

Scholars say that conspicuous consumption usually appears during the period of primary accumulation of capital, which leads to further social differentiation and emergence of a new class – so-called nouveau rich, who are people that managed to accumulate large capitals in a short period of time. Having achieved material success, these nouveau rich also seek to gain esteem, recognition or envy of others and consequently demonstrate their financial well-being by consuming luxury goods. Western societies went through the stage of primary accumulation in the 19th century (Ильин, 2000). But in Ukraine (as well as in other post-USSR countries) primary accumulation occurred only in 1990-s after the collapse of Soviet Union and privatization of state property. Besides, because of some features of privatization in Ukraine many of modern oligarchs got their capital not as a result of successful business decisions but due to fraud and machinations. Having owned this “easy money” without many risks involved, Ukrainian oligarchs are more likely to waste it on conspicuous consumption than real entrepreneurs who earned their money because of hard work and innovative approach. These characteristics of social and economic development of independent Ukraine are one of the reasons explaining the existence of conspicuous consumption in our society.

The fact of Ukraine being a part of USSR for 70 years resulted into the absence of the representatives of so-called “old” bourgeoisie (i.e. members of families that run their business during many years and therefore own large money capital) in our society. Conversely, in western societies we can divide all the representatives of the upper classes in “new” and “old” bourgeoisie. The significant difference between members of these two groups is that the representatives of “old” bourgeoisie do not have to prove their high financial and social rank with the help of conspicuous consumption. Furthermore, they can afford themselves to buy clothes of democratic brands and drive middle-class cars without being concerned about their reputation because their family name speaks for itself (Потребление социально-экономических групп и слоев. Демонстративное потребление, n. d.). The situation is different with those belonging to “new” bourgeoisie. They have just become rich and therefore have a need to demonstrate their new social status. Conspicuous consumption is one of the easiest ways to prove their success to others. That is why the absence “old” bourgeoisie in Ukraine is another reason for widespread consumption of luxury goods in our country.

Social structure is one more factor to consider when it comes to conspicuous consumption. The famous economist T. Veblen who started the study of conspicuous consumption said that one of the forces that make people consume luxury goods is the “invidious comparison” (Веблен, 1984: 68), which occurs when the representatives of higher classes try to distinguish themselves from others by buying goods that the representatives of lower classes cannot afford (Bergman, 2010: 15-16). In welfare states middle class is powerful and numerous and social differences are not so noticeable; as a result, there is less stimulus for the rich to try to show their difference from the vast majority of citizens. Conversely, in societies where most of the citizens are poor, the rich people are more likely to separate themselves from the rest of the members of this society. In Ukraine the middle class is very small and makes up less than 20% of all citizens. Furthermore, the representatives of Razumkov research Center say that the amount of middle class representatives in Ukraine has decreased from 17% to 10-12% after the crisis in 2008 (Чисельність середнього класу в Україні скоротилася з 17% до 10-12%, 2009). Since nowadays most of Ukrainians belong to the lower class, the rich members of Ukrainian society are eager to distinguish themselves from poor majority by buying really expensive goods and services, which also leads to conspicuous consumption.

Speaking of consumption, we need to take into account the factor of savings. It is clear that the more we save the less we consume. The chart below, which is based on the data from National Statistics Committee of Ukraine, shows the percentage of income that Ukrainians save and spend on consumption.

Year	Income, mln. UAH	Consumption, mln. UAH	Savings, mln. UAH	Percentage of consumption, %	Percentage of savings, %
2002	185073	168015	17058	90,78%	9,22%
2003	215672	199395	16277	92,45%	7,55%
2004	274241	242607	31634	88,46%	11,54%
2005	381404	335753	32824	88,03%	11,97%
2006	472061	427858	44203	90,64%	9,36%
2007	623289	575510	47779	92,33%	7,67%
2008	845641	793630	52011	93,85%	6,15%
2009	894286	813909	80377	91,01%	8,99%

As we see, Ukrainians save about 10% and spend about 90% of their income. To compare, in 2007 (the year before crisis) Ukrainian households have saved only 7,67% of their income while this figure was equal to 16,7% in Germany and to 15,6% in France (Household saving rate, 2009). Since the total amount of household income in Germany and France is much higher than in Ukraine, the absolute sum of savings in these European countries is much higher too. Low savings rates in Ukraine can be partly explained by the low living standards, which means that many Ukrainians have to spend all the money they earn in order to satisfy their basic needs (e. g. food, clothes etc). However, it is not the only reason. Ukrainians also have little trust to their government as well as to banks and other financial institutions (Кому довіряють громадяни?, 2009). It causes uncertainty in the future that forces our compatriots to consume now instead of making savings for the future. As a result, when Ukrainians receive more money it is more likely that they will spend it on buying more expensive than invest it or simple place on deposit. So, the fact that Ukrainians are unwilling to save a lot is one more reason why conspicuous consumption is widespread in our society.

Finally, we need to take into account that consumer behaviour is driven by a number of subjective factors so that it is impossible to discover the reasons for conspicuous consumption without investigating the norms, values and beliefs of the society consumers belong to. In modern Ukrainian society status-symbol goods play a great role. One can really benefit from the fact of owning visible items that show their high income. For example, in the shops consumers who are stylishly dressed usually get more shop assistant's attention than those who do not look so presentably. Besides, in our country nobody will believe you that you are a successful businessman if you do not wear expensive clothes or drive expensive car. In other words, we use luxury goods as standards defining esteem and recognition of others. It also forces Ukrainians to spend more on conspicuous consumption.

All in all, conspicuous consumption has become really widespread in post-soviet Ukraine due to a number of social, economic and moral reasons. Our likelihood to spend heaps of money on luxury goods

creates numerous threats to the further development of our country. Firstly, demonstrative luxury of lifestyle of a small group of oligarchs compared to very poor living conditions of the majority of citizens may increase social tension. Secondly, conspicuous consumption forces many people to spend far beyond the limits that they can afford. As a result, these people take loans and start to live on tick; however, if their expenses on consumption will not decrease, they will not be able to pay money back, which can lead to non-payment crisis. Thirdly, spending lots of money on conspicuous consumption we make little savings, which might result into the lack of money for investments. All things considered, it is clear that on the way to social stability and economic prosperity Ukraine needs to get rid of the phenomenon of conspicuous consumption.

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