

# **Conspicuous consumption and car loans: Is debt a new social habit? (Evidence from Rostov region of Russia)**

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## *Abstract*

Financial inclusion and affordable credit as elements of the financialization narrative are associated with presumably beneficial practices stimulating economic growth and development and reducing poverty and inequality. The financialization narrative is supported by development policies recommended by international organizations (World Bank, 2017; UNCDF). However, a number of influential publications of essentially ethical nature (Stiglitz, 2019; Chesney, 2015; Sachs, 2012) as well as empirical nature (Soederberg, 2014; Hembruff, Soederberg, 2019) emphasize negative socio-economic impacts of financialization.

Our empirical research focuses on the institutional dynamics of consumer lending in Russia seen as a part of the financialization process, and its effects on household well-being. The main research objective is to identify new institutions that have emerged and taken root due to the increasing affordability of consumer credit. We rely on statistics and qualitative data on car loans in Rostov region, one of the largest regions in the South of Russia.

The motivation for this paper came from two streams of literature. Literature on financial inclusion and credit affordability provides empirical evidence of the positive (Deeming et al., 2011; McKenzie-Mohr, 2000; Kern, McGuigan, 2010; Ikechukwu, 2012), conditionally positive (Green et al., 2005; Rao, 2003; Demirgüç-Kunt et al., 2011; Kempson et al., 2000; Meyer, 2018) or negative (Klein, 2015; El-Shagi et al., 2019; Rajan, 2010; Latinovic, Milosevic, 2019; Nivorozhkina, 2014) relationships between consumer credit and household well-being, with social position and relative consumption becoming increasingly important as income inequality grows (Frank, 2007). Sociological and socio-economic studies (Lea et al., 1995; Burton, 2008; Shishkina, 2020; Strebkov, 2004; 2007) interpret the observable trends in terms of underlying beliefs and values, putting household borrowing (as a component of consumer behavior) into an institutional context.

Empirical evidence in this paper includes official statistics on household debt available from the Central Bank of Russia, CBR (1999–2019 for the country-level and 2001–2020 for the Southern Federal District and Rostov Region). Data on household income, expenditures, breakdown of household consumption come from the Federal State Statistics Service, Rosstat; data on motor vehicle registration, including regional-level statistics, are available from Rosstat and the Ministry of Internal Affairs (2008–2019). To analyze statistics on new passenger cars and car loans available for Russia in general and for the Rostov region in particular, we use reports of the National Bureau of Credit Histories, United Credit Bureau, CBR, Sequoia Credit Consolidation, Association of European Businesses, Autostat analytical agency, Russian Automotive Market Research, EY Global, Banki.ru, NAFI Research Centre, Rostov Regional Division of the Southern Branch of the CBR (2012–2019).

We analyze the trends featuring consumer lending (the change in the structure of household debt and banks' earnings from personal loans), as well as the structure of household incomes and spending (the spending of funds borrowed from banks). We treat these trends as manifestations of socially conditioned household consumption habits, i.e., institutions that are empirically observable as socio-economic practices, habitualized and mutually typified by the members of particular social groups, with specific beliefs and values underlying them (Berger, Luckmann, 1995; Inshakov, 2003; 2007). In order to interpret the research findings, we develop an explanatory hypothesis that views the financialization narrative from the household perspective. Institutions describing the social identity of private debtors are explained with the help of a number of constructs borrowed from the sociological and socio-economic literature, such as the concepts of conspicuous consumption, status-oriented consumption, or "investment myopia" (unproductive spending of borrowed resources). One of the identified empirical effects indirectly confirms that the "debt habit" has been institutionalized, promoting "status-oriented consumption" and "symbolic consumption" behavioral patterns. We argue that this effect distorts household budgets because household debt increase reduces the share of disposable income used to improve the quality of life of the household. Furthermore, we find that since the Federal Law No. 353 dated 21 December 2013 "On Consumer Credit (Loan)" the trends have not changed, i.e., the social habit of debt-promoting "symbolic" and "status" consumption had been already sufficiently embedded by then.

The contribution of our research in terms of theory is that we suggest an integrative framework combining elements from different narratives such as conspicuous consumption (Veblen, 1899), credit view of money, with money as a "social accounting" system and banks as "social accountants" (Schumpeter, 1970; Lakomski-Laguerre, 2016; Festré, Nasica, 2009), financialization (Epstein, 2005; Krippner, 2005; Assa, 2012; Marois, 2012; Sawyer, 2013), functional differentiation of credit (Schumpeter, 1934; Bezemer, 2014; Vernikov, Mamonov, 2016), etc.

The empirical contribution of the paper relates to our attempt to operationalize theoretical constructs using statistics and other data on a specific type of consumer loans, namely car loans, for a particular region of Russia that is quite representative for the economy as a whole.

**Keywords:** Russia; financialization; institutional dynamics; institutional design; applied institutional analysis; consumer lending; conspicuous consumption

We request that this paper be placed in the program of the section "**Sociology**".