

## Tilburg University

### Status consumption and poverty in developing countries

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**Status Consumption and Poverty  
in Developing Countries**



# **Status Consumption and Poverty in Developing Countries**

PROEFSCHRIFT

ter verkrijging van de graad van doctor aan de Universiteit van Tilburg, op gezag van de rector magnificus, prof.dr. F.A. van der Duyn Schouten, in het openbaar te verdedigen ten overstaan van een door het college voor promoties aangewezen commissie in de aula van de Universiteit op

maandag 25 april 2005 om 16.15 uur

door

*Lucas Adrianus Cornelis Marinus van Kempen,*

geboren op 14 juli 1976 te Berkel-Enschot

PROMOTOR: Prof. Dr. M.J. James

*Only intellectuals like misery.*

*What poor people go for is luxury.*

— Joãozinho Trinta

(cited in Guillermoprieto, 1990, p. 90)

*To Don Sandro and Doña Sandra*

*(and all other informal producers in the  
Third World that offer cheap status to the poor)*



## Preface

A doctoral title supposedly has high prestige attached, which according to the literature on status that I have been reading for this thesis, should boost my self-esteem and ensure my personal happiness. With these bright prospects for the future, I feel obliged to thank those who, in one way or another, have contributed to its realisation (and by naming them at least confer some status on them as well).

Above all, I want to thank my promotor professor Jeffrey James, for teaching me the tricks of the trade and for giving me the freedom to go with my comparative advantage (i.e. leaving modelling to my colleagues). His work on consumption inspired me to study consumer behaviour among the developing country poor, which even after five years remains a fascinating area. I benefited greatly from the numerous discussions we had on the topic. I particularly enjoyed our brainstorm sessions on how to test for status consumption in the field. At one point we even came up with an experiment in which I would put me –among thousands of other vendors- on the informal market in Bolivia, trying to sell plastic bags with a brand logo to Bolivian shoppers, an idea which (if not only for legal constraints) we fortunately dropped. I am convinced that his bright ideas on development will have a long-lasting influence on me and I can only hope they be reflected in my future research.

I am also heavily indebted to Dr. Wim Pelupessy for his continued interest in my research and for sending me to Bolivia about seven years ago. I very much admire his optimistic view on things, despite the fact that development economics is not precisely the most uplifting field of the economics profession. I am looking forward to continue our research cooperation at the Development Research Institute (IVO), where I was given the opportunity to work on a number of other development issues over the past few years. The flexibility that I was granted at IVO during the final stages of writing my thesis is greatly acknowledged.

I would also like to thank professor Jan Potters, who has aroused my interest in behavioural economics and has kindly assisted in the design of the experiments. Moreover, I am very grateful to professor Frances Stewart, Director of the Centre for Research on Inequality, Human Security and Ethnicity (CRISE) at Oxford University and Dr. Geske Dijkstra from the Erasmus University Rotterdam for their willingness to read the manuscript and join my defence committee.



The Ph.D. students and staff at the Department of Economics should be thanked for providing a very pleasant working atmosphere, judging from the almost empty ADV-cards that I handed in each year. Sharing the office with Jeroen van de Ven was a particularly rewarding experience. Despite our acquisition of an impressive collection of encyclopediae, the office still looked more like a football canteen or a weird candy shop. This did not, however, prevent Jeroen from teaching me some rudimentary Kwakiutl (our favourite tribe) and bringing up serious research questions like: Why don't zebras get ulcers? It is still not clear to me, but if I get an ulcer, it is because of the loads of coffee we drank (and Jeroen managed to eat some as well!). His extraordinary drive for (talking about) research has been a great source of inspiration.

As the only native from Tilburg, it was not always easy, however, to put up with colleagues from places and countries that supposedly were more beautiful and exciting than Holland's "moderne industriestad", such as Breda, Rotterdam, Belgium, Italy, Rumania, Eritrea, India and Costa Rica (in order of distance from Tilburg). Despite being poorly integrated labour migrants at times, they became dear friends. I thank all of them for organizing and assisting the (small and large) social events that I very much enjoyed and for providing the necessary gossip, the best remedy against boredom. A special thanks to Theo Leers, who always managed to cheer me up after a depressing day of coursework during our bus rides from the university to the station. I just feel sad that I cannot show him the evidence that his pep talks were effective. I also should thank my friends outside the university, who kept asking me when I would enter the Dutch economists top 40. Although I did not make my appearance in "Nova" as an expert on something, they took me out for regular drinks anyway. In particular, I would like to thank Jos Vingerhoets for being one of my paranymphs.

The most exciting parts of the research were my field trips to Bolivia. For this I have to thank above all my local respondents, who not only unwittingly provided me with interesting research material, but also taught me some valuable survival tactics in slum areas. For instance, they let me experience personally that drinking beer is a much safer option than lemonade, as the alcohol in the beer kills at least some of the bacteria in the contaminated water that they have to use to prepare their drinks. They also advised me to choose buses in the most dreadful state rather than the newer, better-looking ones, since drivers who can work with such run-down material must have extraordinary driving skills and therefore, on net, give a higher chance of getting safely over the crazy hillside roads that separated the interview spots from the city centre. To be honest, nothing at the Tilburgse Kermis can provide a similar thrill. I am also thankful to Eli and Roberto for local research assistance, the IESE Institute at the University of San Simón in Cochabamba for logistical support, and the Netherlands Foundation for the Advancement of Tropical Research (WOTRO) for providing a travel grant.

My wife Helen is to thank for turning me into an expert on Bolivian culture (especially on wedding ceremonies and traditional dancing). I was happy though that I could show here some parts of her own city that (for very good reasons) she had never been to. She is also

responsible for most of the editing of the manuscript. Her patience with me fighting the computer (not a very civilized affair) is truly remarkable. Helen, “*¡sin ti estaría frito!*”.

Finally, I am most grateful to my parents and my sister Addy for keeping a close watch on my physical condition (my mother’s tomato soup deserves special mention) and, more important, for doing everything possible to support me in my education and professional career, so that I do not have to rely (purely) on status consumption for my self-esteem and can live happily without the fancy sports car that my poor neighbour drives (although I have to admit that I was delighted when my parents brought me some fake designer stuff from their holidays in Turkey). Thanks a lot!

Luuk van Kempen  
Tilburg, February 2005



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## Introduction

*Consider the spending patterns of Cruz and Felícita, two sisters from a poor Puerto Rican family:*

*Cruz: “How can I spend money on a dress if I don’t even have food? If I have a dollar I’d rather eat with it and go on wearing what I have. Not Felícita. She wants nice clothes, so it’s dresses for ten dollars or five or eight, and nothing for food. She prefers throwing her money on luxuries”.*

*(Lewis, 1965, p. 647)*

*Whereas the priority of Cruz is with securing food, her sister Felícita prefers to dress well at the cost of foregoing food. This is confirmed by a third sister who comments the following on Felícita’s house: “Her house was real pretty. She had furniture, a small bed, a table and a refrigerator, but there was nothing in the refrigerator” (p. 240). We also learn from the author that Felícita’s children do not regularly eat nourishing meals. However, each of them has a pair of Levi’s jeans. The sisters’ mother has an explanation for Felícita’s spending pattern. Speaking with Felícita, “[My mother] says I spend every cent I get on clothes for myself and for my children to make people think I’m better off than I really am” (p. 356). She suspects that Felícita tries to convey a false impression about her economic position to others.*

This very simple anthropological account brings out several intriguing possibilities: 1) *The poor in developing countries consume status goods even though they have difficulty in procuring basic necessities.* Felícita buys Levi’s jeans for her children, while at the same time she cannot provide adequate nutrition for them. 2) *The developing country poor pursue status at least partly by individual consumption instead of by other types of status seeking.* Rather than spending her money on status in a traditional way, such as by sponsoring a religious festival or by throwing an expensive wedding party, Felícita buys a nice dress for herself. 3) *The strategy of status consumption does not apply to all poor individuals.* Cruz clearly does not opt for a conspicuous consumption pattern like her sister does. Even in a small social unit as a single family, therefore, individuals may markedly differ in their propensity to engage in status consumption. 4) *The goal of consuming status goods among the poor in developing countries is based on deception.* Felícita sends out a false message about her economic prosperity to others.



These possibilities form the basic ingredients of this thesis, which takes status consumption by the poor in developing countries as its overarching theme. They pose several researchable questions, which are formulated in Section 1.1. Before explaining why these questions are important and how we go about researching them, we first purport to show that by addressing these questions we might help to fill a gap in the existing economics literature. Section 1.2 indicates that our contribution lies partly in taking up issues that, so far, have been relatively neglected in economics. The source of this neglect is uncovered in Section 1.3. Next, we provide arguments in Section 1.4 for why, we feel, this neglect is unjustified, i.e. why the phenomenon of status consumption by the poor warrants attention. To this purpose, we include a brief general discussion of how status may positively affect personal well-being. The need to study status-driven consumption under conditions of poverty raises the question how the issue can be tackled methodologically. In Section 1.5, therefore, we consider related strands of literature in the broad area of economics that may inform our analysis. The most important analytical and empirical insights from these bodies of literature are discussed. Subsequently, the choice of methodology is defined in Section 1.6. Here we also indicate the novel elements in our approach and introduce Bolivia as a case study. Finally, Section 1.7 presents the structure of the thesis and provides an overview of the different chapters.

## 1.1 Research Questions

We aim to address three broad questions in the thesis. The first concerns the extent to which the developing country poor spend on status consumption in ways similar to those frequently encountered in developed countries, even though they have not satisfied basic needs. For this purpose, we define the poor as those whose per capita consumption falls below the absolute minimum standard of living, which, according to the World Bank, corresponds to \$1 a day in low-income countries and \$2 a day in middle-income countries.<sup>1</sup> Conventional wisdom holds that this group is overwhelmingly made up of people like Cruz and persons like Felícita to be rare exceptions. There is anecdotal evidence, however, suggesting that the consumer behaviour displayed by Felícita is more representative for the poor in developing countries than is commonly supposed. The question is therefore whether status consumption is more than a marginal phenomenon among the poorer sections of the population in developing countries.

The second question follows directly from the observation that not *all* poor individuals exhibit a propensity for status consumption. On what characteristics do those who engage in

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<sup>1</sup> Since Bolivia is classified as a (lower) middle-income country, the term “poor” in the empirical chapters of the thesis refers to those living on less than \$2 a day. However, when talking about the “poor” in examples concerning low-income countries, e.g. India or most of the Sub-Sahara African countries, we have in mind those earning less than \$1 a day, unless indicated otherwise. The World Bank estimates that 21.3 per cent (52.8 per cent) of the population in developing countries, or 1,1 billion (2,7 billion) people, earned less than \$1 (\$2) a day in 2001.

status consumption differ from those who do not? Is it simply a matter of the *degree* of poverty or do other factors play a role as well? Do the sisters differ in their propensity for status consumption because of individual differences in, for instance, skin colour, education level, or perhaps the frequency of watching soap operas on television? The identification of the determinants of status consumption among the poor, inevitably, has an explorative character, since little research has been done on this particular question.

Third, the question is posed whether status consumption is a good or a bad thing for the developing country poor. Note that this is a normative question, whereas the previous two were of a positive nature. The welfare analysis takes as a starting point the idea expressed in the initial quotation that status seeking by poor consumers relies on deception. We examine under what conditions deceptive status signalling improves or reduces the welfare of low-income consumers. Apart from scrutinizing the effects on the well-being of the consumers themselves, we also analyse the welfare implications for those who *observe* status consumption. Is Cruz made worse off by Felícita showing off status goods? Does she suffer from envy if her sister manages to make others believe that she is less poor than she really is? At this stage of the analysis we also consider the possible interaction between status consumption and more traditional forms of status seeking, as this interrelation is crucial for the welfare outcome.

In sum, the purpose of the thesis is to shed light on the extent of the phenomenon of status consumption by the poor, to identify some of its most important determinants, and, finally, draw out the welfare implications.

## **1.2 What Does the Thesis Add to the Existing Bodies of Knowledge?**

The questions we pose in this thesis have been comparatively neglected, either wholly or partly, in the economics literature. In a sense, by addressing them, we are therefore breaking new ground. Several reasons, we feel, are responsible for the neglect of these issues. In part, it is a corollary of the fact that, historically, mainstream economists have been reluctant to deal with status consumption even in affluent societies. Until the 1970s, status-seeking consumer behaviour received little attention by economists because it

was motivated by considerations of social standing and prestige rather than by any classical or neo-classical notions of value and utility. It, therefore, followed that the exploration and understanding of motives underpinning consumer choices which were clearly social or psychological in origin were the proper business of other behavioural sciences and not of economics. Conspicuous consumption, moreover, did not lend itself easily either to quantification or to mathematical precision and so lacked any potential for economic (i.e. econometric) rigour.

(Mason, 2000, p. 131)

## Chapter 1

After the 1970s, economists have taken status consumption more seriously and applied rigorous analytical methods to understand some of its ramifications.<sup>2</sup> However, the analyses exclusively aim to shed light on status consumption in more affluent societies, whereas virtually no effort has been made to assess their validity in poorer ones. While the historic conviction that status consumption on the part of the rich could be discarded as a trivial phenomenon has now been abandoned, this belief still dominates with regard to status-directed consumption on the part of the poor. Poverty and status consumption are often considered an awkward combination. As long as the poor have not fulfilled their essential needs, they cannot reasonably have a demand for status goods. This view is implicit, for instance, in Galbraith's assertion that the poor are not responsive to promotional efforts for goods that do not satisfy basic needs:

A man who is hungry need never be told of his need for food. If he is inspired by his appetite, he is immune to the influence of Messrs Batton, Barton, Durstine, and Osborn. The latter are effective only with those who are so far removed from physical want that they do not already know what they want. In this state alone men are open to persuasion.

(Galbraith, 1962[1958], p. 135)

The view that the poor are exclusively preoccupied with basic needs satisfaction, which will be discussed in more detail in Section 1.3, may partly explain the lack of interest shown by economists in status-led consumption by the poor.

This is not to say that economists have been completely blind to the phenomenon. Occasionally, they have raised questions on the causes and welfare consequences of status consumption in poor areas. Although they have been intrigued by it, they have not been able to formulate adequate answers to these questions based on compelling empirical material. We believe this is due, in large part, to methodological problems. It has proven difficult to find suitable empirical methods to tackle status consumption by the poor due to the scarcity and inappropriateness of existing data. This thesis, we hope, will help to break this methodological deadlock. A major novel element is the use of experimental economics as a methodological tool for understanding conspicuous consumption under conditions of poverty.

In sum, our contribution lies not just in addressing questions that have been relatively neglected, which could be done in ways that are far from satisfactory. The contribution rather is to come up with results, based on a variety of acceptable scientific methods, to questions that have perplexed sociologists, anthropologists and economists alike.

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<sup>2</sup> See e.g. Robert Frank's (1985b) article on the welfare consequences of status consumption in the *American Economic Review*.

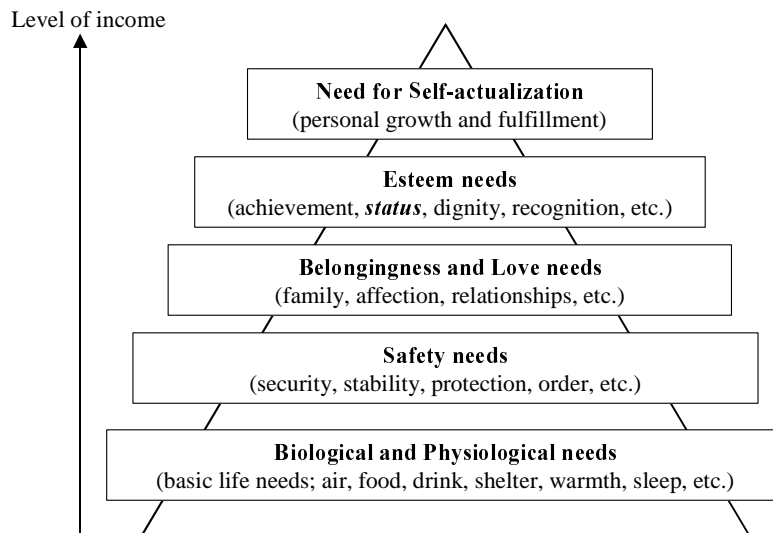
### 1.3 Why the Issue Has Been Neglected

The phenomenon of status consumption by the developing country poor is virtually unexplored in the development economics literature, despite scattered bits and pieces of evidence confirming its existence. One of the scant contributions on the topic by Poirier (1968) provides an explanation for the lack of interest shown by development economists. Ostentatious consumer practices by the poor have been judged on moral grounds as bizarre, if not absurd, and have been placed outside the confines of economic ‘rationality’. This effectively released economists from the task to deal with the issue. It was left to social anthropologists instead. However, anthropologists have shown a disproportionate interest in ‘exotic’ forms of status consumption in traditional small-scale societies, such as the well-documented destruction of valuable goods in the *potlatch* rituals performed by the Kwakiutl people of the Pacific Northwest, rather than in the manipulation of ‘modern’ consumer goods for status purposes. The latter, they believed, was food for economists (Poirier, 1968, pp. 4-5). Although we touch upon traditional forms of status consumption, the main focus in the thesis is on modern status consumption, understood as status seeking through the display of modern (read: Western) goods. Despite the fact that modern goods have been spreading rapidly to the Third World in the process of globalisation after the 1960s, Poirier’s observation that modern types of conspicuous consumption by the developing country poor are largely ignored by development economists is still remarkably accurate today (Ackerman, 1997, p. 653).

In order to understand the neglect of the topic by development economists it is important to know why they consider status consumption by the poor to be ‘irrational’. We believe that Maslow’s influential hierarchy-of-needs, shown in Figure 1.1, lingers in the background. Maslow (1954) distinguishes between five different classes of human needs, which are arranged in a hierarchy. The hierarchical ordering indicates the sequence in which these needs are fulfilled, which is assumed to be fixed and starts from the bottom of the needs pyramid. The basic idea is that a higher-order need emerges if, and only if, lower-order needs have been satisfied. As can be observed in Figure 1.1, the need for status is a higher-order need. It is included in the class of “esteem needs”, which are located close to the top of the needs pyramid. At the very bottom of the hierarchy figure “physiological needs”, which, among others, include the need for adequate nutrition, shelter and potable water. Absolute poverty in developing countries is often defined as the incapacity to fulfil exactly these needs. Those classified as poor, therefore, tend to suffer from physiological deprivation. According to Maslow, this means that their consciousness is completely pre-empted by such physiological needs and almost all effort is directed at fulfilling them. Higher-order needs become simply non-existent or are pushed into the background until these lower-order needs are near full gratification. Maslow mentions, for instance, that a hungry man forgets about his desire for a new pair of shoes. In the minds of those who are hungry, “no other interest exists but food. ... Anything else will be defined as unimportant. Freedom, love, community feeling, respect, philosophy, may all be waved aside as fripperies that are useless, since they fail to fill

the stomach” (Maslow, 1970[1954], p. 37). This implies that the poor do not have a need for status, as long as they struggle to meet lower-order needs.

Figure 1.1 Maslow’s Hierarchy of Needs (original five-stage model)



As a consequence, it is widely believed that the great majority of poor inhabitants of the Third World spend their entire budget on basic needs and do not engage in conspicuous consumption. The few who do are considered foolish outliers. In the thesis we will present evidence that contradicts this view. It will be demonstrated that the idea that the poor do not have a need for status as long as they have not fulfilled their basic needs, is, for the most part, a misconception.

## 1.4 Why the Issue Is Important

### 1.4.1 Basic needs at risk

The few studies that touch upon the welfare effects of status-led consumption stress the negative impact it may have on the satisfaction of basic needs. The tension in the allocation of scarce household resources between conspicuous and basic needs consumption has been noted by those who have studied the impact of the introduction of Western goods in the Third

World as part of the globalisation process and have stumbled on status-oriented consumer behaviour by the poor. Belk (1988), for instance, observes that the conspicuous consumption of Western goods may crowd out expenditure on nutrition:

Third World consumers are often attracted to and indulge in aspects of conspicuous consumption before they have secured adequate food, clothing and shelter. The most dramatic instance of such 'premature' consumer culture involves sacrificing nutrition for what might well be regarded as the superficial luxury of Western consumption items.

(Belk, 1988, pp. 103-104)

Ger (1992, p. 238) remarks in a study on low-income consumers in Turkey that "people buy the latest appliances and fashionable items, such as stone washed jeans, yet cut down on basic nutritional items, education, and health-related expenses". Apart from substitution *between* product categories, a similar effect may occur *within* product categories, as suggested by James (1987), who provides the most comprehensive welfare analysis of the introduction of Western goods in developing countries. The argument is that globalisation instils a taste for status in low-income people in the Third World through demonstration effects. As a consequence of this taste transfer, poor consumers start consuming products that embody a higher amount of status characteristics than the products they consumed before, which results in a "squeeze on essential characteristics" (James, 1987, pp. 458-459). They switch, for instance, from basic foods to food products that display a prestigious brand name or come in an attractive package, but at the same time contain fewer nutrients per unit of money spent. Again, conspicuous consumption is assumed to have a detrimental effect on basic needs satisfaction.

#### *1.4.2 Status: an 'ego-reward'*

Comparatively little attention has been paid to the potential benefits of status consumption for poor individuals, which in part is a reflection of the Maslow view that the poor attach little value to status. However, the literature on status stresses its importance for the well-being of an individual. It is, therefore, worthwhile at this point to take a closer look at this literature and bring out the rewards from status.

Status is broadly defined as "the position of an individual relative to other individuals" (Hyman, 1942, p. 5). It refers to a person's *relative* rather than his *absolute* position in a social system. Although this is a neutral definition, in sociology 'status' generally also connotes evaluation; status is a gratification and its loss a deprivation (Zelditch, 1968, p. 253). Experimental research has shown that a gain in status evokes positive emotions in subjects, while a decline in relative standing engenders negative feelings (see Kemper, 1991). Higher social status is desirable because it implies prestige, which is defined as the respect and

approbation accorded to an individual by other individuals. High-status individuals are admired and capture a disproportionate share of others' attention. For groups of primates as well as for groups of children, it has been found that the amount of visual attention a particular group member receives from its group mates is an almost perfect indicator of this member's social rank in the group (Csikszentmihalyi and Rochberg-Halton, 1981, pp. 29-32; Wiessner, 1996, p. 2). Prestige is closely related to self-esteem, which results from an internal assessment of how much prestige one is granted by others (Barkow, 1989, p. 203). This assessment is not necessarily an objectively correct one.<sup>3</sup> Self-esteem is in turn positively associated with personal well-being (see Leary *et al.*, 1999). Throughout the thesis we will use the terms 'status' and 'prestige' interchangeably, and it will be assumed that the ultimate gratification at the psychological level lies with the enhancement or protection of one's self-esteem and thereby of one's personal happiness.

There is compelling evidence from biology and psychology that status seeking is a deep-seated and ineradicable element of human nature (Frank, 1999, p. 145). A drive for status appears to be hard-wired in human beings, which makes sense from an evolutionary point of view. In the animal kingdom it has been observed that chickens high in the 'pecking order' or high-ranked chimpanzees (so-called alpha males) enjoy privileged access to food, mates and other resources, which raises their reproductive fitness (Wright, 1994). Since the competition for status in animal species is ultimately determined by physical dominance, it is not surprising that natural selection has favoured genes that produce such dominant behaviour. In human beings, however, the drive for prestige has taken on a much more complex form. Physical prowess as the main determinant of status has been largely replaced by other qualities. Barkow (1989, p. 187) explains this transformation in an evolutionary context by stressing the preference of females in mate choice for males with a high ability to invest in their offspring, enhancing reproductive success. Parental investment requires skills in hunting and gathering, tool making, and selecting a safe place to live, for instance. These activities involve cognitive abilities rather than pure physical aggression. The increasing complexity of society has gradually led to the wide variety of prestige strategies that we presently observe, where the role of physical strength has been reduced to a strategy of last resort, except maybe for young children.<sup>4</sup>

Apart from preferential access to important resources, status also generates an emotional pay-off, caused by a biochemical process in our brains. It has been established that dominant vervet monkeys have more of the neurotransmitter serotonin than subordinate ones and the same has been observed in human beings, for example, among members of college fraternities (Wright, 1994, pp. 242-243). Serotonin is released when experiencing a gain in status and, similar to the effect of alcohol, it boosts self-esteem. People that suffer from depression

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<sup>3</sup> Psychological research shows that people's self-evaluations are typically more favourable than the judgements made by others about them (Taylor, 1989, p. 11).

<sup>4</sup> Physical dominance still seems to have some advantages among adults today. Studies have shown that tall men are listened to more, are more respected and have more reproductive success than short men (Huberman *et al.*, 2004, p. 105).

reportedly have very low levels of serotonin. It is believed that all individuals have a latent capacity for high serotonin rather than serotonin levels being genetically determined at birth. Given this biochemical disposition, it makes sense to seek status in the abstract, as an ‘ego-reward’, even if no direct material benefits are attached to high rank.

A recent experiment by Huberman *et al.* (2004) has shown that people are even willing to give up some material gain in order to reap the emotional reward from status. The experiment consisted of a two-stage game, played with groups of students in various countries. In the first stage subjects had to choose a level of investment from their endowment, which determined their chance of winning \$20 in a lottery in the second stage of the experiment. On the one hand, higher investment increased the chance of winning the money, because only the subject with the highest investment in a group was allowed to the second stage. On the other hand, once in the second stage, the chance of winning the money in the lottery was declining in the investment made by the subject in the first stage. Two conditions of the experiment were designed; a status and a non-status condition. In the status condition the winner of the first stage was publicly announced, received a small tag saying “winner” and was congratulated by the other subjects with an applause, whereas in the non-status condition the winner’s identity was not revealed and did not receive any recognition from others. The average first round investments turned out to be systematically higher in the status condition than in the non-status condition, which suggests that subjects became more eager to win the first round if they knew they could gain public recognition from peers, even though this reduced their likelihood of winning the money prize in the second round. The results support the notion that status is sought as an emotional end in itself, not just as a means to a further end, i.e. for personal resource gain.

## **1.5 Related Literature in Economics**

In order to situate the thesis into the economics literature broadly construed, it is useful to define the subject area as the overlap of three core concepts, that is, poverty, status and consumption. This is visualised in the Venn diagram in Figure 1.2. Let us consider whether the economics literature that deals with each of these concepts can provide some insight in how to approach, either empirically or analytically, the issue of status consumption by the poor. First, the study of poverty is the domain of development economists. For the reasons outlined in Section 1.3, the development economics literature has paid scant attention to status consumption, so that it offers little guidance on how to tackle the issue.

Status is another basic ingredient of the thesis. Although it is a sociological concept, the behavioural economics literature addresses one question that is directly related to status, viz. whether people care about their relative economic position. This question has received attention from behavioural economists interested in social preferences, who examine interdependencies in people’s utility functions. Status may give rise to negative

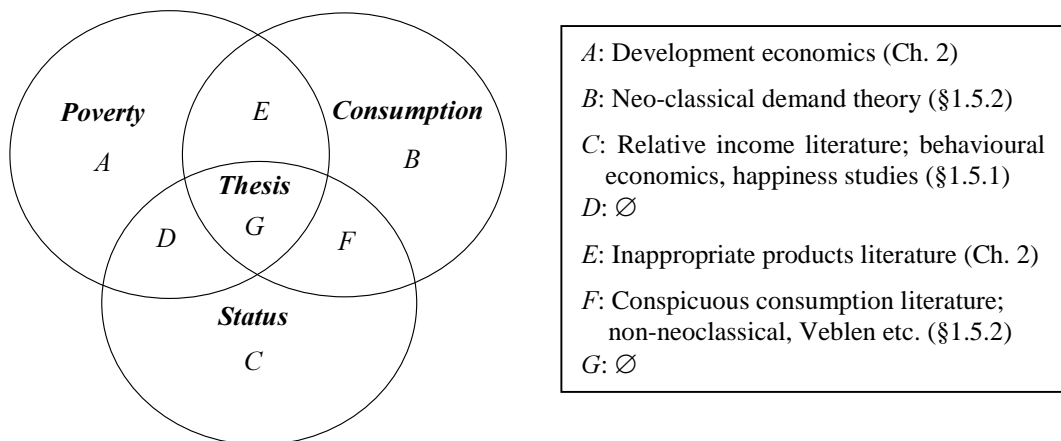


interdependent preferences. This has been tested by investigating whether people compare their own income invidiously with incomes earned by others. Furthermore, so-called happiness researchers have paid attention to inter-individual income comparisons. Since absolute income levels have proven a poor predictor of people's subjective well-being, they have made attempts to include relative income in their happiness equations and test for its importance empirically. A selection of the main insights from the relative income literature is discussed in Section 1.5.1.

The third building block of the thesis is consumption. The dominant paradigm in the economics literature on consumption is neo-classical demand theory. As will be shown in Section 1.5.2, one of its basic assumptions rules out status consumption. Although the phenomenon of status consumption has repeatedly received attention by economists in the past, attempts to incorporate it into conventional demand theory have not proven very successful. A coherent framework for dealing with conspicuous consumption has not been developed. This notwithstanding, it is worthwhile to review some of the most important contributions on conspicuous consumption to highlight some of its crucial features.

Note that the relative income literature and the conspicuous consumption literature pay little attention to poverty. They are mainly concerned with relatively affluent people in the developed countries. To what extent these analyses are valid for the developing country poor will be discussed in Chapter 2.

Figure 1.2 Location of thesis in economics literature



### 1.5.1 Interdependent preferences: does relative income matter?

Economic position is an important ingredient in a person's general social standing in most, if not all, societies. Although the criteria on which status is based vary widely across, and even

within, cultures, economic position is one of those criteria that are recognized to be near universal, together with beauty (for women), athletic ability (for men), and intelligence (Wright, 1994, p. 261). The fact that the term ‘status’ is often equated with relative *economic* position in the literature testifies to this. A desire for status should instil in people a preference for high *relative* income, in addition to a preference for a high *absolute* level of income. Therefore, individuals may be expected to maximize a utility function of the following form:

$$U = sv(y - y^*) + (1 - s)u(y)$$

The function  $v$  captures the utility from comparing one’s own income ( $y$ ) to that of others ( $y^*$ ), which is increasing in the difference between the two.<sup>5</sup> Note that the income earned by others enters negatively into the utility function. The  $u$ -function represents the ‘standard’ utility obtained from own income, where  $u'(y) > 0$ . The parameter  $s$  is a preference parameter for status. If  $s=0$ , an individual only cares about absolute income, whereas relative income becomes the sole determinant of utility if  $s=1$ . These two extreme cases are depicted in Figures 1.3a and 1.3b, respectively.

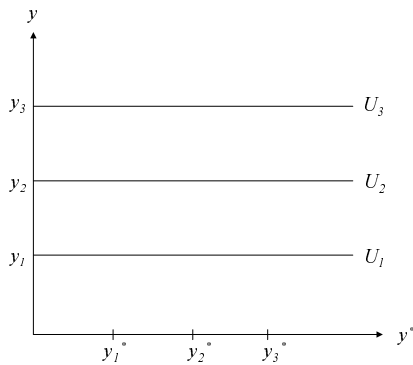


Fig. 1.3a Only *absolute* income matters

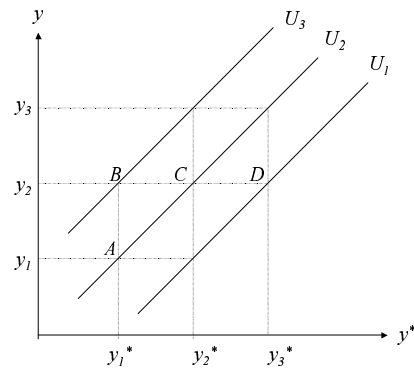


Fig. 1.3b Only *relative* income matters

The utility functions in Figure 1.3a are horizontal, as utility is independent of  $y^*$ . If an individual experiences an income gain, say from  $y_1$  to  $y_2$ , a higher utility level is attained ( $U_2 > U_1$ ). In Figure 1.3b, where  $y^*$  enters as a ‘bad’, the same income gain only increases the individual’s welfare if it lifts his income above that of referent others, such as represented by a move from  $A$  to  $B$ . If others experience a similar increase in income, however, one remains at the same utility level ( $A \rightarrow C$ ). If the income gain of others exceeds one’s own, say from  $y_1^*$  to  $y_3^*$ , one suffers a welfare loss ( $A \rightarrow D$ ), despite the improvement in own absolute income.

<sup>5</sup> Alternatively, this  $v$ -function can be modelled as depending on the *ratio* of own income and others’ income ( $y/y^*$ ) rather than as an additive comparison (Clark and Oswald, 1998).

By now, there is ample empirical evidence that relative income matters. We will only briefly review some of the evidence here. A first impression of the relevance of relative income concerns can be obtained from a hypothetical choice question that Solnick and Hemenway (1998) presented to 257 students and staff at Harvard University. The respondents were asked in which of the following two hypothetical states of the world they would prefer to live:

A: Your current yearly income is \$50,000; others earn \$25,000.

B: Your current yearly income is \$100,000; others earn \$200,000.

A majority of 56 per cent of the respondents chose A, the high relative income scenario, whereas 44 percent indicated they would rather live in B, the world with high absolute income. Hence, the most frequently held belief is that an extra \$50,000 would not be sufficient compensation for occupying the lowest rather than the highest income position in society. Nonetheless, a substantial share of the respondents believes to be happier earning \$100,000, despite the unfavourable comparison with others. This indicates that the weight attached to relative income may vary considerably across individuals. At least more than half of the respondents, however, care about relative economic position ( $s > 0$ ).

Other studies have matched survey data on individuals' subjective well-being (happiness) with information on individuals' absolute and relative incomes in order to test for interdependent preferences in income levels. For instance, Clark and Oswald (1996) examine whether self-reported levels of job satisfaction among 5,000 British employees are influenced by the difference between own income and that of employees performing a similar job. They find that, controlling for other aspects that determine happiness at work, job satisfaction is more strongly correlated with 'comparison income' than with own income. The earnings of similar others turns out to have a significant negative effect upon workers' self-reported levels of happiness.

Luttmer (2004) examines whether the average income level in the locality in which one resides affects one's general life satisfaction, using survey data for the United States. It results that people's subjective well-being varies inversely with the incomes earned by 'neighbours'. People report being less happy if their neighbours' income has increased, while theirs has remained unchanged. This negative effect is of the same magnitude as the positive effect of higher absolute income, which implies that if both own income and neighbours' income rose to the same extent, people would not feel any better or worse off. This corresponds to the situation depicted in Figure 1.3b.

Finally, Easterlin (1995) analyses the effect of the average income level in a country, rather than the average living standard that prevails in the own neighbourhood, on long-run trends in subjective well-being. Time series data reveal that the average happiness levels in various industrialized countries have remained fairly stable over time, despite robust increases in absolute income. In the United States, for instance, happiness has not improved over almost half a century even though real per capita income more than doubled. In Japan, a fivefold

increase in income between 1958 and 1987 has not resulted in higher average life satisfaction. In sum, no positive happiness-income relationship is present in the data. According to Easterlin (1995, p. 36), the increase in happiness that one might have expected from the growth in absolute income is offset by a decrease in happiness due to the rise in the average level of income in society. Apparently, raising the incomes of all fails to bring happiness to all. This implies that people care about how their living standard compares to that of others in society and take the society's average as a reference for this comparison. The empirical finding that, within countries, people at the bottom of the income ladder consistently report being less happy than those at the top, adds further credence to such an explanation. Although people with low incomes set lower reference standards than do high-income people, the dispersion in reference norms is typically smaller than is the dispersion in the actual income levels between a society's rich and poor.<sup>6</sup> At all income levels reference norms are pulled toward the country average (Easterlin, 1995, p. 37). Since happiness depends on the gap between achievements and aspirations (Lane, 1991, p. 455), those who earn above average are more satisfied in life than those whose income is below the mean.

If surpassing others in income brings happiness, it is important that these 'others', whether they are co-workers, neighbours or the public at large, are informed about one's income level. Otherwise, the psychological benefit that a high status position engenders may fail to materialize due to a lack of admiration and respect by others. In societies where one's economic position is readily observable for others, for instance if the number of cattle owned is the main source of prestige, there is no such problem. In most societies, however, people have incomplete information about the economic prosperity of others. Under such circumstances, a concern for relative income differences can lead individuals to opt for demonstrating their wealth in the consumption domain.

### *1.5.2 The economics of consumption: traditional versus heretic approaches*

Consumption is defined as *the utilization of economic goods to satisfy needs*. 'Rational economic man' is assumed to do so in an optimal way. He chooses a mix of goods available in the marketplace that maximizes his utility for given preferences, budget constraint and prices of goods. He solves this maximization problem by equating relative marginal utilities to relative prices. This neoclassical view of consumer behaviour is often criticized for offering a very narrow and hardly exciting view on consumption, which is ascribed to the fact that "people's tastes, the way they spend their money and arrange their lives, are matters economists have always regarded as something they should observe, but must not poke their noses into" (Scitovsky, 1976, p. xii). Fine (2002, p. 125), for instance, argues that consumers

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<sup>6</sup> A common assumption in models of relative comparisons is that people's reference standards are exogenously given. Falk and Knell (2004) argue that reference norms are in fact endogenous and show in a model how people choose their optimal reference standard.

are treated in conventional demand theory as “automated subjects relating hedonically to unspecified objects, with little context and content other than the constraints imposed by prices and income”. Ackerman (1997) identifies three fundamental assumptions underlying the neoclassical theory of consumption. The first two are “commodity orientation” and “insatiability”, which presuppose that consumers enter the market with well-informed, insatiable desires for specific goods. The third assumption is that of “asocial individualism”, which holds that consumer desires are unaffected by interactions with others, or observation of the behaviour of others (Ackerman, 1997, pp. 651-652).

This latter assumption implies that there is no overlap between consumption on the one hand and status seeking on the other, since status is based on interdependent rather than independent preferences. However, various economists have highlighted status as a driving force behind certain types of consumption, which has given rise to the concept of “conspicuous consumption”. Conspicuous consumption refers to the purchase and display of socially visible consumer goods that, apart from serving some functional purpose, demonstrate the consumer’s wealth and thereby contain a claim on higher social status for the owner. In this section we will briefly review some of the major contributions to the understanding of conspicuous consumption in the field of economics.<sup>7</sup> Contributions from other disciplines, such as sociology and anthropology, will be discussed in later chapters when relevant.

### *Conspicuous consumption*

[T]here is no cheaper way in which man can write, “I am rich, or at least, I am not absolutely poor,” than to carry a gold watch. It is ready to meet all occasions, and all persons.

(Rae, 1905 [1834], p. 261)

John Rae (1834) is one of the first to draw attention to the phenomenon of conspicuous consumption. He acknowledged that the utility people derive from luxury goods stems almost completely from their high price, rather than from their intrinsic qualities. As an effective signal of wealth, the show of luxury serves to gratify the “desire of appearing superior to others” (Rae, 1905 [1834], p. 245). Veblen developed a similar argument in *The Theory of the Leisure Class*, published in 1899, which has become the classic work on status consumption. According to Veblen, things that serve a useful purpose by definition have low prestige value. In order for something to carry prestige it needs to have an element of ‘waste’ in it, either a waste of time, as in conspicuous leisure, or a waste of goods, as in conspicuous consumption. As for Rae, the ostentatious display of ‘wasteful’ goods serves to demonstrate one’s

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<sup>7</sup> See Mason (1998) for a complete historical review of the theme of conspicuous consumption in economic theory.

‘pecuniary ability’ to others. It is the concern for relative income, or ‘invidious pecuniary comparisons’, that drives conspicuous consumption.

Veblen’s ideas have found little resonance in neo-classical economic theory. Whereas Veblen stressed the existence of interdependent preferences in consumption, a basic tenet of conventional consumer theory is that the consumption bundle chosen by an individual is independent of the consumption choices made by others. James Duesenberry (1949) and Harvey Leibenstein (1950), however, have made subsequent attempts to incorporate the idea of interdependencies in consumption into mainstream consumer demand theory. Duesenberry introduces the concept of “demonstration effect” for this purpose, which refers to a process in which the expensive goods consumed by the rich become, upon demonstration, desired by those lower on the income ladder. Although Duesenberry believes that demonstration effects may occur even in the absence of status motivations, because expensive goods tend to be of higher quality, he acknowledges that “impulses to consume ... arise when an individual makes an unfavourable comparison of his living standard with that of someone else” and that the need for self-esteem, as expressed in a desire for high social status, is an important driving force behind demonstration effects (Duesenberry, 1949, pp. 31-33). He formulates the following utility function in which the utility of the  $i$ th consumer depends positively on his own consumption level and negatively on that of people with whom this consumer associates:  $U_i = U_i(C_i / \sum \alpha_{ij} C_j)$ , where  $\alpha_{ij}$  is the weight applied by the  $i$ th consumer to the consumption of person  $j$ .

Leibenstein (1950) distinguishes between three different types of interdependencies in consumption, which he labels “bandwagon”, “snob” and “Veblen” effects, respectively. The bandwagon effect refers to a positive interdependency, where the demand for a certain good increases because others are also consuming this good. This effect is attributed to conformist preferences, generating herd behaviour.<sup>8</sup> The snob effect is the mirror image of the bandwagon effect. The demand for this good falls, owing to the fact that others are consuming the same good, which is caused by a desire to set oneself off from the ‘common herd’. Finally, Veblen effects occur if consumers demand more of a certain good than others due to the fact that this good has a higher price. It is not the *actual* price of this good that matters, but the good’s “conspicuous price”, the price other people *believe* a consumer paid for the good. According to Ackerman (1997, p. 654), each of the three effects identified by Leibenstein could be explained along Veblenian lines, despite the fact that only one of them bears his name.

If, as shown by Leibenstein, Veblenian consumer practices can be made to fit the neo-classical framework of rational choice, does this imply that it is a smart thing to engage in conspicuous consumption? Robert Frank (1985a, 1985b, 1999) shows that while conspicuous consumption is perfectly rational from an individual point of view, it can be collectively self-

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<sup>8</sup> Clark and Oswald (1998) show in a mathematical model that bandwagon effects, and following behaviour in general, need not stem from conformist preferences, but can also be generated by a concern for status or relative position if an individuals’ utility function is concave in interpersonal comparisons.

defeating. Frank's argument draws heavily on the concept of "positional goods", introduced by Fred Hirsch (1976), which refers to goods that are desired only because they imply high relative position. Goods become positional if their supply is fixed, either physically, such as in the case of antiques (e.g. a Rembrandt painting), or socially, such as for leadership jobs. According to Hirsch (1976, p. 52), competition for positional goods is, at best, a zero-sum game, because it "yields gains for some only by dint of losses for others". If a person manages to acquire a positional good, unsuccessful competitors experience a welfare loss because they are forced into an inferior social position. Frank uses this feature of positional competition to demonstrate that conspicuous consumption is unwise from a collective point of view. For this purpose, he broadens the definition of positional goods to include goods whose value depends relatively strongly, though not necessarily completely, on how they compare with things owned by others. Frank demonstrates that the consumer's choice for positional (conspicuous) or non-positional (inconspicuous) consumption is essentially a prisoner's dilemma.

Consider, for instance, a society consisting of two individuals  $A$  and  $B$  who care about their relative position and face a choice between spending their money on health insurance or, alternatively, on a swimming pool. Assume that in this society one's income and thereby one's social status is judged on whether one owns a swimming pool or not, whereas health insurance is completely inconspicuous. The payoff matrix for  $A$  and  $B$  is shown in Table 1.1. We assume that health insurance would be the preferred purchase option in the absence of the other person, but that the positive (negative) utility from being in the higher (lower) status position compared to the other person outweighs this difference in 'intrinsic' utility between being medically insured and owning a swimming pool. Let us consider the strategic choice for  $A$ . If  $A$  believes  $B$  to buy the insurance, the optimal strategy for  $A$  is to buy the swimming pool, as it gives the best possible outcome due to the fact that it places  $A$  in the higher relative position. Alternatively, if  $B$  is believed to purchase the swimming pool, the best response for  $A$  is to do the same in order to avoid ending up in the inferior status position, which is the worst possible outcome. Since the payoff structure is symmetric, the same strategic considerations hold for  $B$ . Hence, the dominant strategy for both  $A$  and  $B$  is to purchase the swimming pool. The corresponding Nash-equilibrium is the bottom-left cell in Table 1.1, where both realize their third-best outcome. This is sub-optimal, however, because they could have reached their second-best outcome if both would have opted for health insurance. The reason is that after both have acquired swimming pools, their relative position is the same as before. Hence, conspicuous consumption has a "smart for one, dumb for all" character. Frank draws a parallel with standing up from your chair to get a better view at a concert. This pays off if you are the only one standing, but your view does not improve if all rose to their feet in response to a fear that their view would deteriorate if they remained seated.<sup>9</sup> Consumers face a similar individual-group conflict. They are trapped in what Frank terms a "positional treadmill", which implies ever-increasing levels of positional consumption at the cost of expenditure on non-positional goods.

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<sup>9</sup> See Schelling (1978) for an economic analysis of a wider range of individual-group conflicts.

Table 1.1 The conspicuous consumption game

		<b>B</b>	
		<i>Purchase health insurance</i>	<i>Purchase swimming pool</i>
<b>A</b>	<i>Purchase health insurance</i>	Second-best for each	Best for B, worst for A
	<i>Purchase swimming pool</i>	Best for A, worst for B	Third-best For each

To date, conventional consumer theory has proven little receptive to theories on negatively interdependent preferences, such as the ones discussed in this section (see Ackerman, 1997; Fine, 2002, Ch. 7). It has rather rigidly maintained the “asocial individualism” assumption as one of its basic premises. For instance, Mayhew (2002, p. 46) points out that “[t]hough it has been accepted by economists that there may be *some* portion of consumption that is ‘conspicuous’ or non-functional, consumer demand theory has continued to be based upon the assumption that it is the individual who determines what to consume”. The message that “no consumer is an island” has been largely ignored. Although more radical departures from orthodox consumer theory can be found in institutional economics, drawing heavily on Veblen’s original ideas (e.g. Hamilton, 1987), a coherent and widely accepted alternative theory of consumption that gives due attention to status consumption has not, as yet, been developed.

## 1.6 Choice of Methodology

Since an appropriate alternative framework for status consumption is not available, our conceptual analysis adopts the basic tenet of neo-classical demand theory that consumers maximize their utility by matching marginal utilities to relative prices. However, we replace the standard assumption of “commodity orientation” for a “characteristics orientation”, where consumers are assumed to have well-informed preferences for product characteristics rather than for products themselves (cf. Lancaster, 1966). This allows us to deal with products that



provide both utility in the standard sense, independent of the presence of others, as well as status utility. Negatively interdependent preferences are therefore implicitly incorporated.

We agree with the critics, however, that neo-classical consumer theory sketches too narrow a picture of consumption. It is simplistic in the sense that it does not try to understand people's motivations behind consumption, which are often "devilishly complex" (Ritzer, 2001, p. 70). Throughout the thesis, therefore, extensive reference is made to insights from disciplines other than economics. We draw heavily on studies from other social sciences, in particular from social psychology, the sociology of consumption, and social anthropology, which gives the thesis a distinct interdisciplinary flavour.

The empirical contributions in the thesis reflect a search for suitable methods to reveal preferences for status consumption among the poor. We start in a fairly traditional way by exploring the potential of household survey data. It appears that the possibilities for carrying out rigorous empirical tests of status consumption on the basis of household surveys are rather limited, because of the high level of aggregation in the consumption data. In order to overcome this limitation, we make use of experimental economics. An 'economic' experiment, different from a typical experiment in psychology, offers subjects a material incentive, often a monetary one, to reveal their true preferences. In our experiments we use the acquisition of a particular status good as the main stimulus. A discussion of the central advantage of economic experiments over survey questions in measuring status preferences is postponed to Sections 4.3 and 6.3.

### *1.6.1 Economic experiments in developing countries*

Despite the fact that experiments have been added to the economist's toolbox only recently, the field of experimental economics has expanded rapidly. Although an overwhelming majority of the experimental games have been played with subjects in developed countries, the most popular ones, such as the dictator game, ultimatum game, public goods game and trust game, are now frequently being played with subjects from developing countries. The main goal of taking these games to the developing world is to perform cross-cultural tests of the results obtained with Western subjects. Do behavioural traits like altruism or trust vary across cultures? As in developed countries, experiments in developing countries typically use undergraduate university students as subjects.<sup>10</sup> However, Henrich (2000) performed a more rigorous cross-cultural test by taking the ultimatum bargaining game, one of the most popular of experimental games, to the Machiguenga, a tribe in the Peruvian Amazon. Contrary to expectations, the Machiguenga behaved more like 'rational economic man', i.e. more selfish, in the ultimatum game than Western subjects. The intriguing results triggered a broader experimental project, conducted by a team of economists and anthropologists, into the social

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<sup>10</sup> See for instance Cameron (1999), who reports on ultimatum bargaining experiments with university students in Indonesia.

preferences in fourteen other isolated, small-scale societies in the developing world (see Henrich *et al.*, 2004, for an overview).

Despite the growing popularity of experimental games in the economics discipline, its potential as a methodological tool remains virtually unexplored in the field of development economics. A notable exception is a recent study by Barr *et al.* (2004), in which an economic experiment has been devised to gain insight in a specific development problem. In Ethiopia corruption has been observed to be a huge problem among workers in the public health sector. Equipment and drugs are often stolen from public hospitals for sale or use for private purposes, and absenteeism is common because workers can increase their income by providing healthcare in the private market. In order to identify the most important causes of this type of corruption, Barr *et al.* play a game with close to two-hundred Ethiopian nursing students in which the subjects' inclination to embezzle public resources is measured under different conditions.

The foregoing shows that conducting an economic experiment in a developing country, as we do, can hardly be considered 'new'. The novelty we introduce in this thesis is the application of experimental economics to the issue of status consumption by the poor. We design two new experiments that may help to overcome the methodological problems that have prevented researchers from studying the issue in other than an anecdotal fashion.

### *1.6.2 The case of Bolivia*

The empirical contributions in this thesis focus on Bolivia as a case study.<sup>11</sup> It is difficult to denote an 'ideal' developing country for studying status consumption. The author's previous research in the country and his familiarity with the context in which status seeking occurs, motivate the choice for Bolivia. For the remainder of the thesis, it is important to keep in mind that our results from Bolivia do not easily extend to other Latin American countries due to economic and cultural disparities. Bolivia is poor compared to other countries in the region. It reports the lowest level of GDP per capita, PPP US\$ 2,460 (2002), in the whole of Latin America only after Haiti. Its per capita income level is similar to that of Zimbabwe and even slightly lower than India's. It should be noted, however, that Bolivia has a large informal economy compared to most other developing countries. Schneider and Klinglmaier (2004) estimate the size of Bolivia's shadow economy to be equal to 67.1 per cent of official GDP, one of the highest relative shares in the world. On the scale of human development, which includes per capita GDP, life expectancy, adult literacy and education enrolment, Bolivia ranks 113th out of 177 countries surveyed, which corresponds to a position in the lower half of the "medium human development" category. Although Bolivia fares somewhat better in terms of human development than its income level would suggest, it is surpassed by all other Latin American countries except for Guatemala, Haiti, Honduras and Nicaragua (UNDP,

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<sup>11</sup> Bolivia is situated in the Andes region of the South American subcontinent (see Annex I).

2004a). According to Bolivia's National Statistics Institute, 58.6 per cent of the population earns an income below the poverty line, which roughly corresponds to a per capita consumption of \$2 a day. In the rural areas the poverty rate stands at 90.8 per cent, whereas in the urban areas 39.0 per cent lives on less than \$2 a day (INE, 2001b).

Bolivia also makes an extreme case in cultural terms, as it is the most 'Indian' of the Latin American countries. Over 70 per cent of the population is of indigenous origin (De Ferranti *et al.*, 2004, Ch. 3). Traditional Indian dress is still widely worn by indigenous women, even in the cities, and monolingual speakers of Spanish remain a minority to the present day (Klein, 2003, p. xi). The highland part of the country is often considered a stronghold of traditional Andean culture. On the other hand, Bolivia has been far from immune to Western cultural influences. Especially the material culture of the United States forms an important pole of attraction. Today, modern consumer goods are widely available in Bolivian markets. For instance, in the highland city of El Alto, where over 90 per cent of the people are of indigenous origin, one can find "the latest in the realm of computers, mobile phones, and portable music equipment is also for sale, as are the latest New York fashions for youngsters, and the latest fashionable (and often pirated) logos and labels" (Guaygua *et al.*, 2003, p. 291). The appeal of North American popular culture extends even beyond the urban centers. Bauer (2001, p. 202), for example, observes that "in the most remote district of Bolivia one can find sports jackets and T-shirts displaying the logo of North American teams". For the majority of Bolivians, therefore, their culture is a blend of traditional (pre-Columbian) and modern (post-Conquest) norms and beliefs (Klein, 2003, p. xi). Since Bolivia retains a relatively strong traditional cultural identity, it can serve as a "critical case" (cf. Flyvbjerg, 2004, pp. 425-426). If we find that modern status consumption is more than a marginal phenomenon among the poor in Bolivia, this is likely to be the case as well for countries where traditional, non-Western value systems do not form such a strong countervailing power to modern consumerism.

## 1.7 Outline of the Thesis

The thesis consists of two main parts. In Part I the focus is on the positive aspects of status consumption by the poor, whereas the normative aspects are the central concern in Part II. The order in which the chapters are laid out follows the logic of the research questions formulated in Section 1.1. Table 1.2 provides an overview of how the different chapters relate to the research questions.

Chapters 2 to 4 address the first two research questions, i.e., how pervasive is status consumption among the poor and what type of individuals is most likely to engage in it. They present evidence of conspicuous consumption under conditions of poverty. The bits and pieces of evidence of status consumption by the poor that can be found in the existing literature are compiled in Chapter 2, whereas the evidence presented in Chapters 3 and 4 is

based on our own empirical work. These two chapters also test the importance of a set of variables that are identified as potentially relevant determinants of status consumption at the bottom of the income pyramid. Chapters 5, 6 and 7 make up the welfare part of the thesis. Chapter 5 brings out the welfare effects for status-seeking consumers in a conceptual framework, whereas Chapter 6 contains an empirical test of the welfare effects for observers. In Chapter 7 several policy prescriptions are discussed that aim to minimize the negative welfare effects identified in Chapters 5 and 6.

Table 1.2 Overview of research questions and methods

<i>Research questions</i>	Part I			Part II		
	Ch. 2	Ch. 3	Ch. 4	Ch. 5	Ch. 6	Ch. 7
<i>Do the poor engage in status consumption?</i>						
• Evidence in literature						
• Survey evidence (Bolivia)						
• Experimental evidence (Bolivia)						
<i>What are the determinants of status consumption by the poor?</i>						
• Ethnicity						
• Education level, relative income, age, TV-exposure, etc.						
<i>What are the welfare effects of status consumption by the poor?</i>						
• Welfare effects for consumers						
• Welfare effects for observers (incl. traditional status seekers)						
• Reduction of negative welfare effects						
<b>Research methods</b>						
Literature survey						
Product characteristics approach (graphical)						
Regression analysis (OLS, ordered probit)						
Discriminant analysis						
Experimental economics (BDM procedure)						

The bottom part of Table 1.2 indicates the research methods used in the different chapters. Chapters 2, 5 and 7 are mainly conceptual and based on literature surveys, except for Chapter 5, which employs Lancaster’s product characteristics approach as a conceptual tool. Chapters

3, 4 and 6 are empirical contributions. A different statistical method is used in each of the chapters. Finally, experimental techniques are applied in Chapters 4 and 6.

Although the different chapters in the thesis follow a logical sequence, they are fairly self-contained pieces that can be read independently as well. An abstract of each individual chapter is given below.

## **Part I: Evidence of Status Consumption under Conditions of Poverty**

**Chapter 2:** In this chapter we aim to show that the relation between status consumption and absolute poverty is misconceived. We critically assess the inappropriate products literature, which argues that Western goods are too status-intensive for the poor and blame the modern market economy in general, and deceptive marketing efforts by Western multinationals in particular, for luring poor consumers into status consumption. We bring together existing pieces of evidence that seek to contradict this conventional view on two counts. First, evidence is presented showing that the poor care about status despite their absolute deprivation, casting doubt on Maslow's hierarchy of needs theory that has been uncritically accepted by the inappropriate products literature. Second, we re-evaluate the role of the market economy and that of advertising by multinationals in creating a false need for status goods among the developing country poor.

**Chapter 3:** The 'compensatory consumption' hypothesis advanced by Caplovitz (1967) predicts that households facing racial or ethnic discrimination tend to spend heavily on socially visible consumption goods to make up for their low status position in society. This chapter provides an empirical test of this prediction in Bolivia, where people of indigenous origin face social exclusion. Using recent household survey data, we examine whether low-income households of indigenous origin overspend on socially visible durable goods relative to equally poor, non-indigenous households. We find a marked difference in the propensity for compensatory consumption between the two largest indigenous groups in Bolivia.

**Chapter 4:** This chapter reports on an empirical test of whether consumers in developing countries who live under conditions of poverty are prepared to pay a premium for products that feature a designer label, not because these are perceived as being of higher quality but for symbolic reasons. For this purpose a field experiment has been conducted among urban, low-income consumers in Bolivia. An incentive-compatible procedure was used to elicit willingness-to-pay for a designer brand perfume and an intrinsically equivalent non-branded perfume. After correcting for possible 'quality illusion', we find that poor consumers, as a group, are willing to pay a positive premium on the designer label as a symbol. This willingness to pay for a designer logo depends on respondents' relative economic situation, education level and the frequency of watching soaps on television.

## **Part II: Welfare Effects of Status Consumption under Conditions of Poverty**

**Chapter 5:** Poor consumers in the developing world use a variety of status signalling devices that rely on deception of the observer. A frequently used deceptive strategy is the consumption of counterfeit instead of original status-intensive goods, mainly cheap copies of expensive brand-name goods from developed countries. The choice for such deceptive modes of conspicuous consumption is analysed within a product characteristics approach as developed by Lancaster and compared to non-deceptive alternatives. Under the controversial assumption that the poor care about status, it is shown that counterfeit goods embody a more ‘appropriate’ combination of status and functionality than original goods. It appears that the consumption of counterfeits potentially enhances the welfare of low-income consumers, depending on the extent to which the eye of the relevant beholder is effectively deceived.

**Chapter 6:** This chapter provides an experimental test of whether the poor experience envy when they observe peers displaying Western goods. Western goods may provoke envy because they are a signal of higher wealth and thereby of higher social status. The experiment is performed with a sample of the urban poor in Bolivia and tests for envious behaviour by giving subjects the opportunity to reduce another person’s probability of acquiring a Western brand-name shirt rather than a local brand shirt. In addition, we try to explain individual behaviour in the experiment on the basis of subjects’ characteristics. We find that the extent to which a person has gained status through another type of conspicuous consumption, that is, by spending on public celebrations such as religious festivals and weddings, is a significant predictor of whether this person is envious of others acquiring a Western good.

**Chapter 7:** In this chapter we examine the role that governments and the private sector could play in lowering the cost of status seeking for the developing country poor. We argue that private sector initiatives are more likely to be effective in achieving this goal than government interventions. Currently, informal businesses in developing countries already perform a vital function in this respect, as they employ various tactics to make status-intensive goods available at lower cost. According to a new strand of business literature instigated by Prahalad, however, multinationals could serve the poor more efficiently than the informal sector. Moreover, this would be profitable for the multinationals themselves. We evaluate the potential of multinationals to come up with both efficient and profitable products that can help to minimize the cost of conspicuous consumption for the poor. A review of recent pro-poor innovations by multinationals shows that this potential is promising, but, at the same time, we signal barriers that need to be overcome in order to realize this potential.

After the two main parts of the thesis (Chapters 2 to 7), we conclude with some final reflections on the implications of our results for the study of poverty and indicate directions for further research.



## **PART I**

### **Evidence of Status Consumption under Conditions of Poverty**





## Absolute Poverty and Status Seeking in Developing Countries: A Relationship Misconceived

*The desire of the esteem of others is as real a want of nature as hunger*

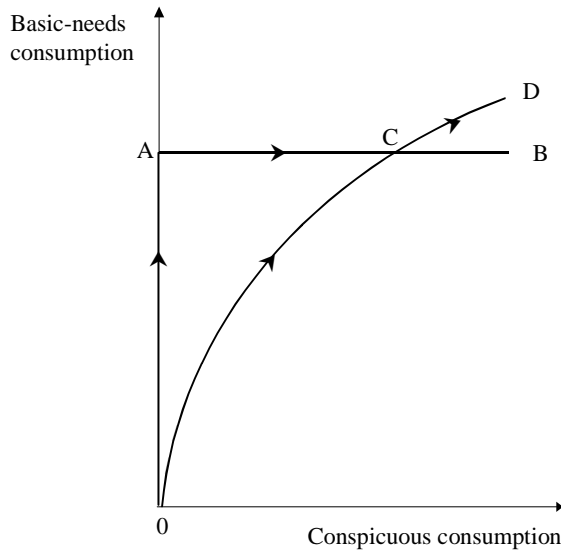
— John Adams (1805)

### 2.1 Introduction

Most of the empirical evidence showing that people have a preference for high relative position, a selection of which has been discussed in Section 1.5.1, stems from rich countries. There is little evidence of the importance of this form of negatively interdependent preferences in poor societies. This raises the question whether status preferences enter into the utility function of the poor as well. Conventional wisdom holds that they do not. It is widely believed that the structure of the utility function of the poor is different from that of the rich. The poor are too preoccupied with procuring absolute necessities, such as nutrition, basic clothing, shelter and clean water, in order to care about their relative standing in society. This view that poverty puts status preferences on hold has its origin in Maslow's hierarchy-of-needs. The hierarchy suggests that status needs lie dormant as long as people's physiological needs are not met (recall Figure 1.1).

The implications of this conventional view for the consumption pattern of the poor are shown in Figure 2.1. The vertical axis measures the level of basic needs consumption, while the level of conspicuous consumption is depicted on the horizontal axis. Income is projected on to the plane, such that income increases as we move out of the origin. The segments  $OA$  and  $AB$  in Figure 2.1 represent what is considered the 'appropriate' path of needs satisfaction for the poor. At low levels of income all additional income is channelled into basic needs satisfaction. Only when the point of basic needs saturation is reached at  $A$ , additional income may be spent on status consumption. The consumption path indicated by the curve  $OCD$  is considered 'inappropriate', if not irrational, as this consumption pattern does not satisfy basic needs in an efficient manner. The area  $OAC$  indicates the degree of inefficiency.

Figure 2.1 The 'appropriate' and 'inappropriate' path of needs satisfaction



(adapted from Fig. 1.3 in Van Ginneken and Baron, 1984, p. 10).

In this chapter we aim to show on the basis of a literature review that the consumption of status goods when basic needs are not yet satisfied, such as is the case on the *OCD* curve, is not necessarily inappropriate nor irrational. We are concerned with rationality from the individual's point of view only. Whether status consumption among the poor is *collectively* rational is a different issue and will be discussed in Chapter 5.

By drawing on existing literature from various fields of study, we suggest that the existing view of the relationship between absolute poverty and status is misconceived. Before presenting evidence against this view, we first show how influential Maslow's theory has been in the way development economists have treated the subject of consumption by the poor. Maslow's influence is most salient in the so-called "inappropriate products" literature, which will be reviewed in Section 2.2. It should be noted that this literature focuses on Western versus local goods rather than on status versus non-status goods. However, these distinctions partly overlap. Western goods are often regarded as status symbols among the poor. Section 2.3 presents the case against Maslow. The collected evidence concerns a broad range of poor societies, both through time and across space. In Section 2.4 we explain why the conventional view, which denies that the poor have a need for status, has been able to persist, despite the evidence of status consumption in poor societies. The main reason for its tenacity is that international demonstration effects and advertising from Western companies are believed to have lured the poor into conspicuous consumption by creating an artificial need for status-

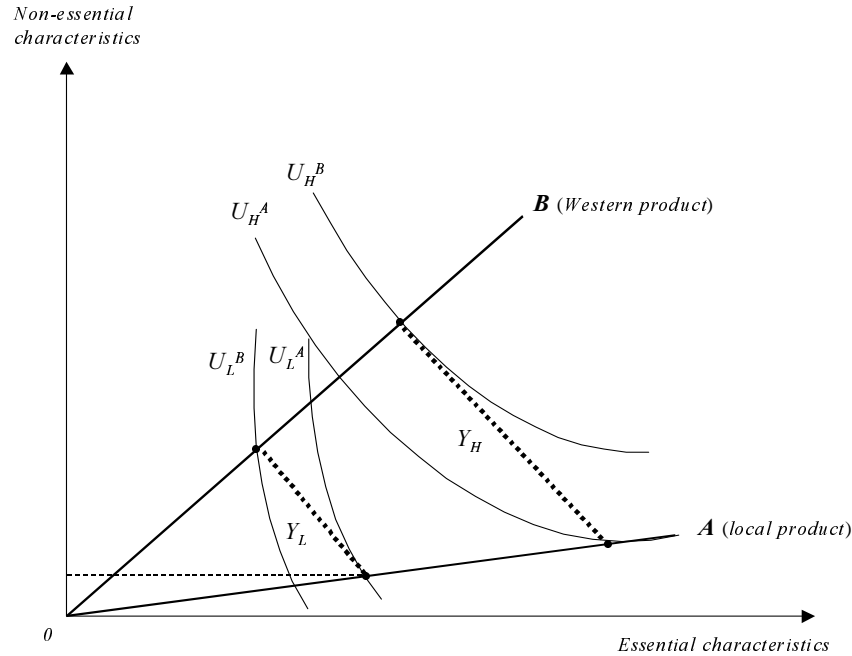
intensive Western goods. Due to this distortion, the poor no longer act upon their true preferences. In Section 2.5 we assess the validity of this argument. The discussion will cast a different light on the role that demonstration effects and advertising have played in stimulating status consumption among the poor. Finally, Section 2.6 concludes.

## **2.2 Maslow's Legacy**

The way we currently think about consumption in developing countries shows clear traces of the Maslow view. Its influence is most tangible in the literature on “inappropriate products”. In a seminal contribution, Stewart (1972) draws attention to the inappropriateness of Western products for the developing country poor. She argues that Western products tend to be inappropriate for poor consumers because they have originally been designed for affluent consumers and, therefore, reflect high-income rather than low-income needs. An example of an inappropriate product is a nylon shirt. Nylon shirts “are not essential for adequate clothing in a very poor country, and indeed are probably very uncomfortable in the heat” (Stewart, 1972, p. 113). The crucial assumption behind the inappropriateness of Western products is that the preferences of low-income consumers are different from those of high-income consumers. They want different things from products.

The inappropriate products literature demonstrates this mismatch between what Western products offer and what poor consumers demand by using Lancaster's (1966) product characteristics approach (e.g. Helleiner, 1975; James and Stewart; 1981). In the Lancaster approach products are perceived as bundles of different characteristics and consumers' utility is defined over these characteristics rather than over products directly. An analytical distinction is made between “low-income” or “essential” characteristics on the one hand and “high-income” or “non-essential” characteristics on the other. But what distinguishes essential from non-essential characteristics? The concept of “appropriate products”, which has been developed in response to the observed inappropriateness of Western products, is helpful in this respect. As defined by Van Ginneken and Baron (1984, p. 7), *appropriate products are those among alternatives, which given their price, satisfy basic needs most efficiently*. As formulated by the International Labour Office in 1976, “basic needs” include both minimum requirements of private consumption, such as adequate nutrition, shelter and clothing, as well as essential community services, such as clean drinking water, sanitation, access to health and basic education. Hence, essential characteristics are product features that contribute to basic needs satisfaction, whereas non-essential characteristics serve other, less pressing, needs and can therefore be referred to as “luxury” characteristics (Kaplinsky, 1990, p. 34). This distinction between essential and non-essential characteristics can be used to show graphically that Western products are inappropriate for low-income consumers in developing countries.

Consider product characteristics space in Figure 2.2, where essential characteristics are measured on the vertical axis and non-essential characteristics on the horizontal axis.

Figure 2.2 *The inappropriateness of Western products for the poor*

Consumers in a developing country can choose between spending their money either on a local product  $A$  or, alternatively, on a Western product  $B$ . Both products are assumed to be divisible. For simplicity, it is assumed that consumers cannot buy combinations of  $A$  and  $B$ . In the Lancaster approach, a divisible product is represented by a ray from the origin which reflects the mix of characteristics it contains. The flatter (steeper) the product ray, the more intensive the product is in the characteristics measured on the horizontal (vertical) axis. The Western product  $B$  is relatively intensive in non-essential characteristics, as it was designed for developed country consumers, while the local product  $A$  is assumed to be relatively intensive in essential characteristics. Consider two types of developing country consumers, high-income and low-income ones. The budget constraints are given by  $Y_H$  and  $Y_L$ , respectively. The slope of the budget restrictions reflects a common assumption in the inappropriate products literature, i.e., the Western product provides less (more) essential (non-essential) characteristics than the local product for any given level of expenditure. Apart from having a different budget constraint, high- and low-income consumers also have a different utility map, denoted by  $U_H$  and  $U_L$ , respectively. The preference map of the poor is skewed towards essential characteristics, while the rich attach higher utility to non-essential characteristics. Since  $U_H^B > U_H^A$ , the Western product  $B$  is the optimal purchase option for better-off consumers in the developing country. However, product  $B$  contains an excessive

amount of non-essential characteristics to be welfare-maximizing for low-income consumers ( $U_L^B < U_L^A$ ). The local product is the more appropriate one for the poor.

A number of case studies have been conducted in various product categories to show that Western products are indeed inappropriate in the sense that they do not contribute in an optimal way to the satisfaction of essential needs for a given amount of money spent. Langdon (1981), for example, considers the case of soap in Kenya. He compares locally produced soap bars to those produced by Western multinationals. The essential characteristic of soap is “washing power” and the inessential characteristic is “appearance”. The Western soap bars score high on “appearance”, because they come in an attractive brand-name package, while the local soaps are, at best, wrapped in ordinary paper. However, the local hand-made soaps turn out to outperform the Western machine-made soap bars in terms of washing power per unit cost.<sup>12</sup> Under the assumption that the poor care more about washing quality than about fancy packaging, the Western soap is considered to be the inappropriate product. The message from this and similar case studies is that Western products contain excessive characteristics from the viewpoint of the poor, who would be better off consuming products that are stripped of all redundant characteristics.

In accordance with the Maslow view, status-enhancing product attributes fall into this category of redundant characteristics. James (1987, p. 457) uses the term “positional” characteristics to indicate product attributes that are not only superfluous but also visible to others and, therefore, add to the consumer’s social status. A shoe made out of crocodile leather is clearly positional, for instance. Non-positional characteristics, on the other hand, are product features that do not meet Veblen’s criterion of “conspicuous waste” and include both basic needs characteristics, such as food nutrients, as well as superfluous characteristics that are not readily observable for others. Examples of the latter are product attributes that provide comfort, such as an extra soft sole in shoes. These are superfluous in the sense that the particular good can perform its basic function without them, but they cannot be readily observed by others. These characteristics are, therefore, ineffective in improving the consumer’s social position. According to James (1987, p. 459), Western products embody a disproportionate amount of positional characteristics for the poor. In analogy to Figure 2.2, they would be better-off consuming products that are more intensive in non-positional characteristics. Hence, status-enhancing product characteristics are believed to fit in with high-income rather than with low-income tastes.

The influence of Maslow’s hierarchy-of-needs in the inappropriate products literature is evident. Product characteristics that satisfy physiological needs, such as nutrition, are considered appropriate for the poor, whereas product attributes that serve higher-order psychological needs, such as positional characteristics contributing to the consumer’s social status, are believed to be inappropriate. In the next section we bring together scattered pieces of evidence that challenge this accepted wisdom.

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<sup>12</sup> The local product was functionally superior in the sense that it contained more washing power per unit of soap and, in addition, its purchase price was almost 10 per cent below that of Western soaps.

## 2.3 The Case against Maslow

Our critical evaluation of the conventional view is in two steps. First, we discuss evidence that contradicts the assumption implicit in Maslow's motivation theory that basic needs precede status needs at low levels of income. Note that critique on the Maslow hierarchy as such is not new. Earlier studies have already shown that "Maslow's needs do not always emerge in the proposed hierarchical order" (Diener and Lucas, 2000, p. 45). However, the earlier empirical evidence against Maslow concerned individuals in developed rather than in developing countries.<sup>13</sup> Second, this chapter seeks to demonstrate that conspicuous consumption is not the exclusive domain of affluent consumers. Poor people sometimes engage in status consumption as well, even at the cost of basic needs. The evidence reveals that a common strategy to free up scarce resources for status expenditure among the poor consists in compromising on nutrition.

### 2.3.1 *Do the poor exhibit a preference for status?*

Happiness studies have found a robust positive relation between relative income position and subjective well-being in developed countries (recall Section 1.5.1), but is there any evidence that relative income matters for the developing country poor as well? Although empirical studies into the determinants of subjective well-being in developed countries have been around for decades, we know relatively little about the structure of the "happiness equation" in developing countries due to a lack of reliable data. Some pioneering work will be discussed below. Namazie and Sanfey (2001) analyse data on subjective well-being for Kyrgyzstan. The data refer to 1993, when living conditions were extremely difficult for the great majority of the Kyrgyz population. Nearly two-thirds of the sample population reported to be dissatisfied with life. On the basis of the Maslow hierarchy, one would expect absolute income to be an important determinant of happiness in such a poor country, whereas relative income should not matter at all. The study confirms that personal well-being depends strongly, and positively, on the absolute level of income of the household to which one belongs. In addition, the importance of relative income is examined by using people's assessments of their rank in the income distribution of the country as a whole. It turns out that those who place themselves at the bottom of the income distribution (poorest 30 per cent) are significantly less happy than those who rank themselves higher up the income ladder, independently of their absolute income level. The authors conclude, therefore, that relative position is important.

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<sup>13</sup> An exception is an empirical study by Hagerty (1999), who analyses whether trends in countries' needs satisfaction levels follow the sequence prescribed by Maslow as they grow richer. This is tested by comparing needs satisfaction indicators for a cross-section of countries with different income levels, including some of the world's poorest. However, Hagerty does not include an indicator for the level of satisfaction of status needs in a country. He focuses exclusively on other "esteem needs".

A recent study by Powdthavee (2003) tests for the importance of relative income in post-apartheid South Africa. Instead of using perceptions on how one's income compares to the national average, Powdthavee considers relative economic standing among 'neighbours'. People's incomes are compared to the average income in their own community. Around 70 per cent of the households in the sample are classified as poor. Almost all of the poor households are deprived of access to basic services such as running water and electricity, and lack decent education and secured employment. Inadequate nutrition is also mentioned as a common problem among poor families. The results show that absolute income matters significantly in the evaluation of well-being. However, when relative consumption is controlled for, relative income enters positively into the individual's assessment of well-being as well. The relative income effect is significant for the whole sample, although relative income concerns are stronger in urban than in rural areas. Interestingly, black Africans appear to care more about relative income than non-blacks, despite the fact that the latter tend to enjoy higher levels of absolute income.<sup>14</sup> These results suggest that relative income enters into the happiness equations of people in rich and poor countries alike. This is not to say that relative economic standing is equally important for poor and rich. The point is that the poor attach *some* weight to relative income, whereas it is often believed that relativities do not appear at all in the happiness equation of the poor.

Additional evidence that absolute income is not the sole determinant of satisfaction among the poor can be found in a study by Graham and Pettinato (2002) in Peru. The survey asks respondents how satisfied they are with their economic situation compared to 10 years earlier. Those individuals who experienced an increase in absolute income of 30 per cent or more over this ten-year period are singled out. When these "high achievers" are broken down by income group, it turns out that 36 per cent of those who belong to the poorest quintile and 45 per cent of those in the second-poorest quintile report being *less* satisfied with their economic position than 10 years ago, despite this substantial gain in absolute income. According to Graham and Pettinato (2002, p. 117), "relative income differences are, no doubt, influencing these assessment of well-being". It should be noted that these "frustrated achievers" are concentrated in urban areas. The explanation is that urbanites tend to have higher reference norms than people in rural areas. This implies that the urban poor suffer more from low economic standing than the rural poor, as they compare their income with groups higher up the income ladder. For this reason, we are mainly concerned with the urban poor in the remainder of the thesis.

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<sup>14</sup> We should interpret these results with some caution. Kingdon and Knight (2004), using the same data set for South Africa, find that relative income matters for non-poor Blacks, but not for those below the poverty line. A possible explanation for these contradictory results is that Kingdon and Knight do not control for relative consumption, which seems crucial since status evaluations are, first and foremost, based on observable consumption as a signal of income.



2.3.2 *Do the poor engage in status consumption?*

The evidence showing that the welfare of the poor depends in part on their relative economic position is insufficient to rebut the Maslow view. Even though the need for status is being felt, it may be overruled by more pressing needs. The litmus test is whether the poor allocate resources to the goal of attaining higher status, i.e., engage in conspicuous consumption, even though basic needs are not completely satisfied.

Let us start with some historical evidence. The phenomenon of conspicuous consumption by the poor has been observed in today's developed countries at times when poverty was still pervasive in this part of the world. Mandeville's (1714) *Fable of the Bees* reveals a strong desire of people in early 18<sup>th</sup> century England to be judged "not as what they are, but what they appear to be". The wish to gain status through deception was shared by rich and poor alike. The poor might even sacrifice nutrition for this purpose: "The need for respect and acceptance was so strong that it often encouraged the very poor to go without food in order to be 'properly' dressed" (Mason, 1998, pp. 4-5). The strength of the desire for status among the poor has also been witnessed in the classic works on conspicuous consumption by Rae (1834) and Veblen (1899), despite their heavy focus on the ostentatious consumption by the rich of their times:

The expenditure occasioned by this desire [to appear rich] falls on all classes of society, ... even those who have difficulty in procuring absolute necessities.

(Rae, 1905 [1834], p. 251)

No class of society, not even the most abjectly poor, forgoes all customary conspicuous consumption. The last items of this category of consumption are not given up except under direct stress of the direst necessity. Very much of squalor and discomfort will be endured before the last trinket or the last pretence of pecuniary decency is put away.

(Veblen, 1953 [1899], p. 70)

The wish to avoid a display of poverty not only found expression in the consumption of typical luxuries, but also manifested itself in the consumption of the more expensive types of daily necessities. Mason (1998, p. 57), for instance, observes a "strong preference of the nineteenth-century poor for more expensive white bread rather than for the equally nutritious, yet socially inferior, black variety". Clearly, poverty did not rule out status-oriented consumption in the past.

Let us now turn to the question whether the poor in today's developing societies are willing to give up much-needed resources to secure status. Household survey data provide some indirect evidence. Data on durable goods ownership in India, for instance, show that in 1994 more than half of the 90 million lowest-income households in the country, which are concentrated in the rural areas, owned a wristwatch. Two-thirds of them had incomes below

the official poverty line (UNDP, 1998, p. 47). This means that at least 15 million households that lacked basic needs did own a wristwatch, which easily qualifies as a luxury item in rural India. However, the problem with this type of evidence is that we do not know anything about the motives behind the purchase of a wristwatch. Nor do we learn what type of basic needs expenditure was sacrificed to finance this luxury. Few studies have examined the consequences of the consumption of Western luxuries for basic needs consumption in developing countries. An exception forms a study by Wells (1977) using survey data on Brazilian households. He found that over the period 1961/62-1971/72 the increased expenditure on consumer durables such as televisions and refrigerators by low-income households in Brazil produced an absolute deterioration in their nutritional and housing standards. This suggests that luxury consumption crowds out expenditure on basic needs. However, the survey does not identify whether status played a major role in the acquisition of durables in the first place. Let us, therefore, consider some evidence from anthropological studies, which pay more attention to the motivations of consumers.

In a study on prestige among the Hausa in Niger, Barkow (1975, p. 387) notes that in Africa it is not uncommon to find “individuals who stint on food to the point of malnutrition in order to purchase garments dreadfully unsuited to the local climate”. Therefore, consumption in developing countries, he argues, is best understood in the light of a psychology of self-esteem and social prestige rather than by using a Maslow-type psychological model based on the concept of subsistence, as prevails in economics. In defence of his position he makes the following statement: “It is true enough that a man without material goods is hungry. But a man without self-esteem is mad” (Barkow, 1975, p. 387). Striking examples of ‘inappropriate’ consumption have also been observed in a poor fishing community in Sri Lanka. Despite the fact that the village boasted no electricity, roads, or piped water supply, some of the fishermen have been observed to use their earnings “to purchase unusable television sets, to build ‘garages’ onto houses to which no automobiles had access, and to install rooftop cisterns into which water never flows” (Gell, 1986, pp. 113-114). The author acknowledges that “it is easy to laugh at such crass conspicuous expenditure, which by its apparent lack of utilitarian purpose makes at least some of our own consumption seem comparatively rational”. He feels that this would be short-sighted, however, as it may serve certain important psychological functions, one of these being status.

Other authors have also condemned a scornful attitude towards such apparently irrational consumer behaviour. Wilson (1973) agrees that it is tempting to moralise about the seemingly ‘misplaced’ priorities of poor consumers, but argues that “it is no good criticising habits or arguing against the importation of luxury goods without coming to grips with the values that direct these habits and create the demands for these goods” (Wilson, 1973, p. 226). He regrets the fact that many observers have written about the ‘wasteful’ spending patterns of the Caribbean poor in a sarcastic voice. In an anthropological study on the isolated society of Providencia Island, he shows that conspicuous spending patterns should be explained against the background of a struggle for social standing that is going on among the inhabitants of this

Caribbean island, who are in majority poor. Similarly, Scitovsky (1976) criticizes economists for their paternalist attitude when confronted with spending patterns by the poor that seem at odds with basic needs satisfaction:

The very universality of the custom of feasting among the poor peoples of so many different cultures is evidence that the pleasures of a good meal for those who seldom taste one are very great and weigh heavily against the biological needs of survival. For the economist to condemn such behavior by the standards of the affluent consumer's rationality is presumptuous and wrong-headed.

(Scitovsky, 1976, p. 66)

The economist's disdain for conspicuous consumption by the poor can be explained by the implicit idea in economic theory that physical needs are more important than psychological ones. According to Douglas and Isherwood (1996, p. 4), economists "allow it [the physical] the dignity of a necessity, while they downgrade all the other demands to a class of artificial wants, false, luxurious, even immoral". Drawing on a wide array of anthropological evidence, Douglas and Isherwood show that this "hygienic" or "materialist" view on human needs is untenable. A related point of criticism is the idea of absoluteness in the economist's definition of 'basic needs'. According to Mayhew (2002, p. 51), in all societies subsistence needs are *socially* constructed and, therefore, can only be defined in a relative sense, with the exception of a minimum of caloric intake. Social rather than natural imperatives determine which consumer goods are necessities and which are luxuries.<sup>15</sup>

Status is an important social factor in defining what constitutes an essential expenditure for the poor, as illustrated by Krishna *et al.* (2003) in their study on poverty in rural villages in Gujarat, India. They use a so-called "stages-of-progress" approach, where the poor are asked in what sequence they would satisfy certain needs on their pathway out of poverty. Early in the sequence of needs they would satisfy if they would experience an income improvement we find the patching of leaky roofs. Although this is a basic need in the sense that it contributes to adequate shelter, the high priority that the villagers attach to this need compared to other basic needs stems from a concern about their social status: "Even as it [fixing leaky roofs] is a relatively modest expense, ... its most critical significance is in terms of status and recognition: people who are not poor in this region do not have leaky roofs" (Krishna *et al.*, 2003, p. 5172). The authors conclude that "social status matters as much as economic conditions in defining the shared understanding of poverty" (*ibid.*).

Aryee (1984) provides a more direct critique on the traditional view by questioning the usefulness of the notion of inappropriate products in a case study on the consumption of footwear in the city of Kumasi, Ghana. He analyses what characteristics in footwear are

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<sup>15</sup> For example, a study among slum-dwellers in Bangkok reveals that a colour television is considered a "common necessity for day to day life" (UN-Habitat, 2003, p. XXX). All but one of the surveyed slum households own a colour TV-set, despite the fact that they lack adequate shelter.

preferred by different income groups. Two types of characteristics are distinguished; essential characteristics (durability and low purchase price) and prestige characteristics (fashion appeal and good finish). The study asks 109 household heads to specify the most important characteristic of the footwear they possess. The results show that low-income consumers tend to purchase footwear that scores high on fashion and good finish, while durability and low purchase price are valued highly by high-income consumers. Hence, prestige characteristics turn out to be more important in the selection of footwear types for the poor than for the rich. The author comments the following on his findings:

These results are unexpected. One would have expected that the poor would appreciate durability and low purchase price more than the rich. Prestige and status-enhancing characteristics could be regarded as redundant, whereas durability and low purchase price are characteristics that are essential to 'appropriate' footwear needed to satisfy the needs of the poor. Thus, surprisingly, the poor seem to prefer 'redundant' characteristics even more than the rich. The finding throws into doubt the wisdom of attempting to develop 'appropriate' footwear products (or any similar product) by removing excess or redundant characteristics from existing ones to satisfy the needs of the poor.

(Aryee, 1984, p. 134)

The consumption of status-intensive footwear by the poor is not the only case that has been identified as causing problems to the inappropriate products framework. Another example is the purchase of an expensive sound system by a family in which the basic needs for food, housing and education are not yet satisfied. Van Ginneken and Baron (1984) recognize that "the purchase of a relatively expensive hi-fi set may lead to benefits other than good music. It may also give the consumer a feeling of dignity and status which in some cultures may be of greater importance than the physical and physiological needs of the individual concerned" (Van Ginneken and Baron, 1984, p. 9).

The evidence of conspicuous consumption by the poor has not gone unnoticed in the inappropriate products literature. Several studies observe (and deplore) the fact that the poor in developing countries consume 'inappropriate' products. Occasionally, this had led to a critical reflection on the basic assumptions of the framework. James and Stewart (1981, p.106), for instance, are aware of the fact that their analysis is limited in the sense that they assume that consumer welfare is solely a function of own consumption. They admit that if they would allow for negative interdependencies in consumption, the picture could change dramatically. However, the conventional view that status goods are inappropriate for the poor has proven remarkably persistent, despite the fact that its supporters "have been accused of an arrogant and paternalistic approach to consumers in less developed countries and of wishing to ram down the throats of poor countries second rate products that they themselves would not look at" (Helleiner, 1975, p. 172).

## 2.4 Why the Traditional View Has Persisted

How does the inappropriate products literature explain the fact that the poor sometimes buy inappropriate products from the West, even though local products would seemingly produce higher welfare? A first explanation is that the poor do not have a choice, because the more appropriate good is no longer available. This occurred, for instance, with laundry detergents in Barbados, as studied by James (1984). The laundry soap produced by a local firm disappeared from the market after the introduction of synthetic detergents by international firms, not because there was no longer a demand for the more appropriate local detergents, but because synthetic detergents presented a strong technical advantage for the local firm (James, 1984). In most case studies, however, the choice for inappropriate products does not stem from a change in supply conditions. Instead, rich-to-poor demonstration effects and multinational advertising are held responsible for creating a demand among poor consumers for inappropriate products.

### 2.4.1 *Demonstration effects*

Nurkse (1957) was the first to stress the importance of rich-to-poor demonstration effects. He argued that contact with the consumption patterns in rich countries arouses desires for Western products among consumers in poorer countries. This “international demonstration effect” occurs because developing country consumers become informed about superior ways to satisfy existing needs and their imagination is stimulated through these previously unknown opportunities. Demonstration effects can operate through several channels. Among the most important ones are exposure to Western consumer goods through the global media, employment in local subsidiaries of Western multinationals, labour migration to developed countries and through contact with Western tourists.

Although the possibility that demonstration effects stimulate status consumption in developing countries is explicitly ruled out by Nurkse (1957, pp. 61-62), others believe status motivations to play an important role in rich-to-poor demonstration effects. Hoyt (1951) argues that the adoption of a specific Western good by developing country consumers not only depends on whether this good serves a practical purpose for them, but might also occur if the good fits into their prestige system. She gives the example of the introduction of alarm clocks to Mongolian nomads. International traders gave several alarm clocks to the nomads’ chiefs, and the pure fact that the chiefs owned them made the clocks a prestige object that all nomads wanted to have, even though “there was nothing ... in the background of the people to give them a sense of the value of keeping time. The clocks were either not kept wound or, if wound, they ran without any regard to the time of the day” (Hoyt, 1951, p. 198). Also, James (1987) criticizes Nurkse’s eschewal of status seeking as an element in demonstration effects. He argues that exposure to high-income consumption patterns triggers a transfer of

“positional” tastes to poor consumers. However, the main culprit of shifting preferences in the direction of Western status goods in the inappropriate products literature is the advertising carried out by multinational corporations for such goods in the Third World.

#### *2.4.2 Multinational advertising*

Multinational firms are believed to manipulate the preferences of the poor through their promotional efforts. They consciously shape the tastes and values of poor consumers towards the brand-name products they are selling by persuasive, and sometimes even misleading, advertising (Chudnovsky, 1979). This stimulates the consumption of inappropriate products at the cost of basic needs satisfaction. An oft-cited case in this respect is the introduction of infant formula in the developing world. Aggressive advertising campaigns by multinationals have been blamed for causing a drastic decline in breast-feeding in favour of powdered baby milk, which has led to an increase in infant mortality and malnutrition due to a lack of clean water and refrigerators (Sklair, 1991, pp. 175-177). The critique on multinationals not only concerns the provision of false information about the functional benefits of their products, but also the fact that they highlight a product’s status-enhancing attributes rather than its functionality. Langdon (1981, p. 61), for instance, notes that advertising for Western brand-name products in Kenya emphasizes the status that can be obtained by consuming them, while little information is provided on price and function of the products.

The view that advertising lures poor people into inappropriate consumption patterns presupposes that the developing country poor are receptive to such advertising messages. This is an interesting assumption, since Galbraith (1952), who originally developed the idea that advertising has the power to create previously non-existing wants, rules out the possibility that the developing country poor are open to persuasion (Galbraith, 1963 [1952], p. 114). Only affluent consumers are vulnerable to persuasive advertising, while the absolute poor retain their consumer sovereignty. In line with Maslow’s theory, Galbraith assumes that the preferences of poor consumers are independent of the consumption choices of others. However, many have argued against the view that the poor are immune to advertising pressures. For instance, Barnett and Müller (1975, p. 184) argue that “[c]ompany campaigns have succeeded in increasing consumption of white bread, confections, and soft drinks among the poorest people in the world by convincing them that status, convenience, and a sweet taste are more important than nutrition”. They believe that multinational advertising in poor corners of the world has resulted in what has been termed “commerciogenic malnutrition”. The problem is that it is difficult to empirically substantiate the claim that multinational advertising has a real impact on the poor. Still, if the poor would be immune to promotional campaigns, it is hard to explain why multinationals spend substantial amounts of money on advertising in poor places (James, 1993).

The preference shift in favour of Western products, either because of demonstration effects or under the influence of multinational advertising, does not render Western goods ‘appropriate’ for the poor. The reason is that utility in the inappropriate products literature is not, as in most branches of economics, defined in terms of *actual* preferences. Rather than taking people’s actual preferences as a criterion on which to evaluate welfare, the inappropriate products literature seems to implicitly embrace the notion of *informed* preferences as developed by Harsanyi (1992). Informed preferences are the hypothetical preferences people would have if they had all relevant information and made full use of this information. Informed preferences differ from actual preferences if the latter are based on distorted information or when information-processing errors are committed. Hence, informed-preference theory allows for the possibility that actual preferences are mistaken in the sense that they run against one’s own interest. Harsanyi contends that people’s utility functions should be defined in terms of their more fundamental informed preferences, although he acknowledges the problem that these are not directly observable. The dominant belief in the inappropriate products literature is that the preferences of poor consumers for Western products are mistaken desires rather than a reflection of their true interests, caused by premature contact with consumption patterns in the West and the lack of objective product information in the marketing by multinationals. In the next section we examine the validity of the assumption that desires for Western status goods are artificially created preferences rather than genuinely informed preferences that stem from an innate need for status.

## 2.5 Creating a Need for Status Goods

First, the role of rich-to-poor demonstration effects in creating a desire for conspicuous consumption among low-income consumers in the developing world is considered. Since international demonstration effects are, in essence, about integration of developing country consumers in the modern market economy, we pose the question whether status consumption is inherent to the market. Next, we reflect on the power of advertising by multinationals to shift the poor’s preferences in favour of the status-intensive goods they produce.

### 2.5.1 *Is the market to blame?*

It is widely believed that conspicuous consumption in the West has only arisen in the time of Veblen, together with the advent of the modern market economy (Mayhew, 2002, p. 50). It is not surprising, therefore, that contact with the capitalist market system through demonstration effects is believed to have triggered the phenomenon of conspicuous consumption among the developing country poor. The market’s strong emphasis on self-interest and competition may have contributed to this belief. The implicit assumption is that the poor did not engage in

status consumption before they came in contact with consumption pattern in the capitalist West. However, this overlooks the existing evidence of the manipulation of goods for status purposes in non-market societies. Herskovits (1952, Ch. XXI) provides ample evidence of status consumption from a host of primitive cultures in his classic work on economic anthropology. It contains telling examples of specific goods being used to secure prestige. One of these is particularly interesting because it casts further doubt on the Maslow view. In the preliterate society of Ponape, an island in the Micronesian archipelago, yams constitute the most important prestige commodity. The highest status position is reserved for the individual that can offer the largest yam to the community for consumption. For this reason, it has been observed that “families not infrequently go hungry at home when they have large yams in their farms ready for harvest” (cited in Herskovits, 1952, p. 462). Hence, the status competition for yams explains why the Ponapean household head is not simply preoccupied with what seems his most essential task, i.e. “to provide enough food to keep himself and his family from hunger” (ibid.). On the basis of this and similar examples, Herskovits concludes that

Veblen ... hit upon one of those principles which, in generalized form, are applicable to human societies everywhere. For in the vast majority of cultures the position of those in power is established, continued, and constantly strengthened by the prestige that derives from elaborate display and consumption of economically valuable goods.

(Herskovits, 1952, p. 462)

This is not to say that status consumption takes the same form in market and non-market societies. Undeniably, the social norms that govern status consumption in primitive societies are quite different. An individual often gains status by sharing prestige commodities with other members in society or by giving them away as gifts, rather than through individual consumption. Furthermore, ostentatious consumption in tribal cultures is restricted to specific goods and special occasions and boasting is considered highly inappropriate. Violations of these norms are risky, as they may invoke envy by fellow tribesmen. (We will discuss the role of envy in shaping social norms regarding conspicuous consumption in more detail in Chapter 6). Despite these different manifestations of conspicuous consumption, the basic principle is the same, i.e., goods are “accumulated and utilized solely to the end of attaining prestige” (Herskovits, 1952, p. 469). The evidence that material goods play an important role in status seeking in non-market societies invalidates the idea that conspicuous consumption is tied up with capitalism. Although the market may intensify status consumption, it cannot be blamed for creating it. According to Mayhew (2002, p. 50), “consumption has been conspicuous as far back as we can trace it” (p. 50). In fact, it is not even clear whether capitalism stimulates concerns for relative position. Lane (1991, p. 224) notes that “there is very little evidence that, compared to traditional villages, ... markets encourage more social comparisons”.



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The misconception that people in non-market societies do not engage in status consumption may stem in part from the fact that anthropologists have often depicted primitive cultures as egalitarian societies whose members do not compete with each other for a higher position in the social hierarchy, either because there is none or because status is ascribed rather than achieved. Famous twentieth-century anthropologists such as Boas, Benedict and Mead were struck by the apparent lack of economic and social inequality they encountered in some of the tribal cultures they studied.<sup>16</sup> Consequently, they failed to recognize status seeking altogether. Barkow (1975, p. 374) provides the following example: “Rather than the ethnographer speaking of an individual following a prestige-strategy of hunting and distributing large amounts of game, he describes the culture as having the value of ‘generosity’”. Later anthropological work has discovered status distinctions and status-seeking strategies even in primitive cultures that were first described as truly egalitarian (Wright, 1994, p. 238). The re-evaluation of non-market societies in the light of status seeking leads Schoeck (1966, p. 39) to conclude that “the myth of a golden age, when social harmony prevailed because each man has as little as the next one, the warm and generous community spirit of simple societies, was indeed for the most part just a myth”.

Why do we tend to overlook the importance of status in poor societies? Wright (1994) provides a clue when explaining why Charles Darwin failed to perceive status distinctions among tribal Indians living on the southernmost tip of the South American continent:

Naturally, to an affluent Englishman, reared amid servants, a society never far from starvation will seem starkly egalitarian. There will be no opulent displays of status, no gross disparities. But social hierarchy can assume many forms, and in every human society it seems to find one.

(Wright, 1994, p. 237)

Hence, perceptions may be biased due to the difference in living standard between developed and developing societies. It is difficult for people at the top of the income pyramid to perceive income differences among people at the bottom. In addition, status-led consumption by the poor may go unnoticed because the particular goods consumed to secure status would not contribute to prestige in affluent societies. However, when demonstration effects prompt developing country consumers to use status symbols that are familiar to us, conspicuous consumption is easily perceived. The market is then falsely blamed for creating a desire for conspicuous consumption, while it has only made it more recognizable.

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<sup>16</sup> See, for instance, the ethnographic description of the Zuni Indians of New Mexico in Mead (1961[1937], pp. 313-353).

### *2.5.1 Is marketing to blame?*

The idea that the preferences of the poor are manipulated by advertising rests on Galbraith's assumption that marketing can create previously non-existing wants. This unflattering view of advertising has sustained fierce criticism from neo-classical economists, most notably from Milton Friedman and Gary Becker. Friedman wonders whether it is rational from a business point of view to spend money on creating artificial wants. Would it not be more cost-efficient to appeal to the real wants of consumers rather than to manufacture artificial ones? He believes that advertising is treated with scorn for a different reason: "The real objection of most critics of advertising is not that advertising manipulates tastes but that the public at large has meretricious tastes –that is, tastes that do not agree with the critics" (Friedman and Friedman, 1979, p. 225). The critics of advertising are, thus, accused of paternalism.

Gary Becker (1996) also disputes the view that advertising provokes shifts in tastes. In fact, the stability of tastes forms the core of his "new theory of consumer choice", which is based on the idea that consumers are not passive maximizers of utility from goods purchased in the market but actively maximize the "production" of a set of needs, which he calls "commodities". Market goods are just one input in this "production" process. Another important input is the consumer's knowledge on efficient "production" techniques, that is, knowledge on how to satisfy a certain need efficiently. In this framework Becker shows that the demand shifts across different market goods as a consequence of advertising stems from the fact that advertising increases consumers' knowledge on efficient "production" technologies rather than from shifting people's basic preferences. Advertising primarily serves an information function. This information function is not restricted to informing consumers about product characteristics that serve functional needs, such as "toothpaste X contains enzymes and is thus more effective in preventing tooth decay than toothpaste Y". Advertising that primes attention on non-functional product attributes, which is often referred to as persuasive rather than informative advertising by its critics, informs consumers on the effectiveness of particular market goods in satisfying social needs, such as 'belongingness' or 'status'. As Ackerman (1997, p. 661) puts it, "advertising, unfairly accused of manipulating consumer preferences by Galbraith and others, actually provides information about new technologies that have become available to produce commodities such as 'prestige'". This benign view of advertising implies that consumer sovereignty is not undermined, or, as expressed by Lane (1991, p. 466), "there is not the loss of autonomy that the theory of want-creation implies".

It should be noted that Friedman and Becker do not make special reference to advertising in developing countries. There is reason to believe, however, that the marketing by multinational corporations performs a less benign function in poor than in rich societies. Companies are more likely to exaggerate the positive aspects of their products and to play down or even ignore the negative ones, because consumer protection laws in Third World countries tend to be either weak or poorly enforced. Moreover, consumers themselves,

especially the poor and uneducated, are less able to evaluate claims by producers. Silverman *et al.* (1982, p. 85), for example, reveal that producers of medicinal drugs have distorted product information when introducing drugs in poor countries that were ousted from developing country markets. The degree to which advertising in developing countries can be harmful varies strongly with the specific product that is marketed, however. Sklair (1991, p. 174) argues that we should not fall into the trap of regarding all advertising by multinationals in developing countries as manipulative, even though this is clearly the case for products such as pharmaceuticals and infant formula. He identifies the presumed loss of consumer sovereignty as one of the flaws in the argument of those who criticize multinational corporations for luring developing country consumers into the consumption of inappropriate products. The uneasiness with marketing by multinationals, he feels, is partly inspired by paternalism, especially if it concerns products that do not meet basic needs. This view is shared by Belk (1999) who argues that the marketing of Western luxury goods in poor places is no more problematic, and arguably less so, than marketing them in rich ones. The reason is that the desire for Western luxuries performs an important psychological function for the developing country poor. It provides them with hope and increases their motivation to attain a better life. Therefore, Belk (1999, p. 51) believes it would be “small, paternalistic and wrongheaded” to try to subdue these desires by banning marketing from poor areas.<sup>17</sup>

The preceding discussion opposes the view that multinational corporations can be held responsible for creating artificial wants for prestige goods among the developing country poor. While persuasive advertising is admittedly more of a problem in developing than in developed countries, promotional efforts by multinationals inform poor consumers that the consumption of particular Western products constitutes an alternative strategy to gain prestige, which is an innate rather than a contrived need. The relevant question is whether multinational advertising may be blamed for persuading developing country consumers that Western goods are *more* effective in “producing” prestige than local goods. There is overwhelming empirical evidence from developing countries that local goods are often considered inferior to Western goods as a status symbol (Batra *et al.*, 2000; Van Lijstelaar, 2003). In a study on the introduction of Western goods in a rural province of Niger, Arnould (1989, pp. 247-249) observes how local goods are gradually being displaced by Western goods as status markers in marriage affairs. While the groom’s family used to purchase silver bracelets for the bride’s mother as a signal of their wealth, digital wristwatches replaced these. The electronic watches served purely as an ornament, as the peasants did not keep time. Also, leather sandals were substituted for plastic shower shoes as a marriage gift.

It is unclear, however, to what extent advertising contributes to the preference for Western products over locally produced ones. There is evidence from societies untouched by advertising that imported, non-local goods have a special status appeal. Bauer (2001, p. 152)

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<sup>17</sup> Note that this is in sharp contrast to Belk’s earlier contribution on the subject, in which he qualifies the sacrifice of nutrition by the poor for the superficial luxury of Western consumption items as “dramatic” (Belk, 1988, p. 104).

mentions, for example, that the primitive Melanesian peoples of the Trobriand Islands already attached high status value to certain objects precisely because they came from distant lands. Also, Rae (1905[1834], p. 248) has drawn attention to the fact that a good becomes prestigious “if carried a sufficient distance from the place of its manufacture”. He illustrates this with the observation that “London porter was largely consumed in Spain by the very classes who, in England, reckon it a mark of vulgarity to drink it at all”. The “allure of the foreign” is also held responsible for the prominent role of imported alcohol as a marker of wealth and status in isolated Indian communities in the Andes (Orlove, 1997, p. 50). These observations suggest that, in the worst of cases, advertising of multinationals has accelerated the substitution of local prestige goods by global ones, but is unlikely to have set this substitution process in motion.

## **2.6 Conclusion**

The evidence presented in this chapter seeks to contradict the conceived wisdom that absolute poverty eliminates preferences for status. Even though basic needs are not fulfilled, the poor may care about their relative income and engage in conspicuous consumption. Some qualifications should be made, however. First, the observation that Western goods tend to have a strong status appeal among the developing country poor does not always imply that local alternatives are doomed to lose the competition with prestigious global products. The case of Inca Kola, a locally produced soft drink in Peru, is a striking example. A survey among 1,500 Peruvian consumers in 2002 revealed that more people consumed Inca Kola than Coca Cola in the week before the survey (Soong, 2003).<sup>18</sup> A second qualification concerns our argument that poverty and status consumption are not mutually exclusive. We hereby do not wish to argue that Maslow is completely wrong. In fact, Maslow himself (1970[1954], pp. 53-54) acknowledges that higher-order needs may come into play even before lower-order needs are satisfied a full hundred per cent. Moreover, it cannot be denied that extremely destitute people, such as those on the verge of starvation, could not care less about status. The point is rather that status needs come in earlier and are more powerful than is commonly assumed.

The inappropriate products literature seems to have missed this point and has adopted a rather strict interpretation of Maslow’s hierarchy-of-needs. When confronted with evidence of status consumption by the poor, the supporters of this view have been able to hold on to the romantic view that the poor only care about basic needs by arguing that the poor may act upon induced rather than upon their true preferences. Capitalism and, in particular, deceptive marketing practices by Western companies are often blamed for creating this distortion in

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<sup>18</sup> In line with our argument, however, the data show that the consumption of Coca Cola exceeds that of Inca Kola among the lower socio-economic classes as well as among those with low education levels (primary education or less). Inca Kola owes its success mainly to the middle classes and the higher educated.

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preferences. This view ignores, however, the evidence that status consumption is not a new phenomenon and, therefore, is not inextricably bound up with the modern market experience. Also, it overestimates the power of marketing to shape consumer tastes and undervalues its information function in less developed countries. This is not to say that advertising by multinationals in less developed countries is harmless in all product categories. Nor do we deny that the scale of status consumption by the poor may have increased due to demonstration effects and advertising, but we believe this to be simply a matter of degree.

An ethnocentric view on the needs of the poor has been identified as the ultimate source of the widespread fallacy that status consumption is welfare-reducing for the poor. Maslow's hierarchy-of-needs has been criticized for being "ethnocentrically Western" (Belk, 1988, p. 116). As a consequence, the notion of inappropriate products seems to be based on "what we believe they need" rather than on "what they want". The overall picture that emerges from the literature in which the poor speak for themselves is that their desires are not as different from those of the rich as is often believed. Douglas and Isherwood (1996, p. 108) may thus be right in stating that "there is little hope of understanding how poverty arises or what it feels like if we do not understand the rich".

## Status Consumption and Ethnicity in Bolivia: Evidence from Durables Ownership

### 3.1 Introduction

Contrary to what one would expect given their economic situation, low-income households tend to purchase new, rather than used, as well as expensive, rather than low-cost, durable goods. This was one of the main conclusions of a seminal study by Caplovitz (1967) entitled *The Poor Pay More* on the consumer practices of low-income families in the United States in the early 1960s. He described their behaviour as follows:

Not only do they [*low-income families*] strongly prefer new appliances, but they are inclined to buy the more expensive models. Seventy-two per cent of the TV sets, for example, are the more costly consoles rather than table or portable models. Almost two thirds of the phonographs are also the most expensive consoles.

The preference for new and more expensive models points toward something more than a strictly utilitarian interest in these appliances. ... Their usefulness matters of course, but beyond that these appliances evidently express their owners' aspirations for status. We see this motive, for example, at work in the case of a Negro housewife explaining that her very new \$500 stereophonic hi-fi console was a "piece of furniture, not just a phonograph".

(Caplovitz, 1967, p. 41)

Caplovitz coined this type of consumer behaviour 'compensatory consumption', because he believed the purchase of material status symbols by low-income families to serve as a compensation for their low occupational status.<sup>19</sup> In addition, Caplovitz observed racial differences in compensatory consumption. Non-white low-income families showed a stronger tendency to engage in compensatory consumption than white families with a similar income level, which he attributed to the fact that "non-white low-income families, particularly Negroes, are doubly disadvantaged; their poverty is compounded by racial discrimination, and they have comparatively few opportunities to improve their social standing in the community.

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<sup>19</sup> The concept of 'compensatory consumption' has found its way into many introductory textbooks on consumer behaviour (see e.g. Hoyer and MacInnis, 2000, p. 344).

... The sphere of consumption is one of the few that is open to them” (Caplovitz, 1967, p. 127). Thus, non-white low-income families spend heavily on durables such as televisions and hi-fi sets, because racial discrimination prevents them from gaining status in other spheres of life. A study by Pellerin and Stearns (2001) provides more recent, though somewhat circumstantial, empirical evidence for such a tendency. They find that members of racial minorities in the United States report to be more concerned with ‘having nice things’ than whites with similar characteristics. The explanation is that “people in non-dominant, relatively-deprived positions (minority, lower-income, or lower-education) are likely to experience threats to their status honor. Because of these threats, they will experience a more critical need to make status claims than those in dominant, relatively-advantaged positions” (Pellerin and Stearns, 2001, p. 2). The research reveals that being a member of a racial minority leads to a stronger compensatory urge for material goods than having low income or low education.

This chapter investigates empirically whether a similar pattern can be found among non-white low-income families in Bolivia. Although just 2 per cent of the Bolivian population is black (Afro-Creole), Bolivia is an interesting case in this respect because it is the country with the highest share of indigenous people, mainly of Indian descent, in the Western hemisphere (De Ferranti *et al.*, 2004). Moreover, there is clear evidence that people of indigenous origin in Bolivia face social discrimination. Following Caplovitz’s reasoning, therefore, we expect low-income families of indigenous origin to overspend on status-intensive durable goods compared to equally poor, non-indigenous families. We will test this hypothesis by analysing recent survey data on durable goods ownership in Bolivia. Our test for status consumption is based on the idea that the status-intensity of a consumption good increases with its degree of social visibility. Although Caplovitz does not mention this explicitly, his examples make clear that compensatory consumption only applies to consumer goods that are readily observable for others. Compensatory consumers are expected to pay more for socially visible durables, such as cars and televisions, but not for durables that others cannot easily observe.

So far, the question of whether compensatory consumption patterns also prevail among low-income households in developing countries has received scant attention. There is only indirect evidence suggesting that the tendency to compensate for low occupational status through the consumption of expensive durables is at work in poorer countries as well. For instance, with regard to the purchase of television sets in Brazil, Wells (1977, p. 266) found that the poorest 74 per cent of the households in the city of Rio de Janeiro, which represented only 41.9 per cent of total disposable household income, were responsible for 47.0 per cent of the total expenditure on televisions and owned 52.5 per cent of the total stock of televisions. Wells does not investigate to what extent this relatively high expenditure on televisions is motivated by status considerations, however. Nor is the expenditure on televisions broken down by race or ethnicity. To our knowledge, the racial or ethnic dimension of compensatory consumption has not, as yet, been analysed in a developing country context.

The chapter is structured as follows. Section 3.2 provides a brief overview of ethnicity and discrimination in Bolivia. Against this background, we introduce the sample population and describe its ethnic composition in Section 3.3. Next, the attention shifts to the issue of testing for compensatory consumption. First, the importance of the social visibility of consumer goods for status seeking is highlighted in Section 3.4. At this point we also select the visible and non-visible durable to be used in the test for status consumption. In Section 3.5 we analyse the ownership patterns of these durables across the different ethnic groups. To what extent the findings fit the Caplovitz story is discussed in Section 3.6. In Section 3.7 we identify some limitations of survey data for the purpose of detecting status consumption. Finally, Section 3.8 concludes.

### **3.2 Ethnicity and Discrimination in Bolivia**

The share of indigenous population in a country can vary substantially with its measurement. The pre-eminent approach currently in use to identify ethnic background is to take a person's *language learned when infant* as a criterion (Zoninsein, 2001, p. 16). In Bolivia, 50.7 per cent of all household heads indicate that their mother tongue is an indigenous language rather than Spanish (INE, 2001a). An alternative criterion that is frequently used is *language spoken more often* but, according to a study on ethnicity in Latin America by Flórez *et al.* (2001, p. 42), this generally tends to underestimate the share of indigenous population in urban areas, where indigenous languages are increasingly being replaced by Spanish. Since we will deal in this chapter with urban families only, the use of a person's mother tongue is preferred. Still, classifying individuals by ethnicity on the basis of mother tongue is a rather conservative measure of the share of indigenous population because of the gradual disappearance of traditional languages. This problem could be circumvented by counting indigenous people on the basis of auto-classification rather than by language. However, there is strong evidence for most Latin American countries that individuals tend to 'whiten' themselves when self-identifying in surveys in order to improve socio-economic opportunities and recognition, which may lead to an even more serious degree of underestimation (Flórez *et al.*, 2001, p. 41). A study by Andersen *et al.* (2003) reveals that 8.2 per cent of the Bolivians who classified themselves as not belonging to an indigenous group turned out to have an indigenous language as their mother tongue. The use of the mother tongue criterion, therefore, seems more appropriate.

The largest indigenous groups in Bolivia are the Quechua<sup>20</sup> and the Aymara<sup>21</sup>, to which respectively 57.4 and 39.3 per cent of the indigenous families belong. A large number of smaller indigenous groups account for the remaining 3.3 per cent. Indigenous households are

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<sup>20</sup> Today's Quechua speakers are descendents of the Quechuans, better known as the Incas by the name of their rulers, which were conquered by the Spanish in the 1530s.

<sup>21</sup> The Aymara are descendents of a pre-Inca culture that dominated the central highlands of Bolivia from the end of the twelfth century until they were defeated by the Incas in the late fifteenth century.



concentrated in the rural areas of Bolivia, where they make up 67.3 per cent of all households, whereas their share in urban areas is 34.3 per cent. However, there is a wide variation across cities. In La Paz, situated in the Bolivian highlands, the percentage of indigenous households is over 50 per cent, while in the tropical lowland city of Santa Cruz their share is below 20 per cent. Non-indigenous families, headed by an individual whose mother tongue is Spanish or some foreign language, are generally of European (mainly Spanish) descent, or of mixed European and Indian descent (*mestizo*). Since the process of intermixing between European descendants and the indigenous population (*mestizaje*) has produced a wide shade of skin colours in Bolivia, we prefer to use the term ‘Hispanics’ rather than ‘whites’ for the non-indigenous population in the remainder of this chapter.

Does membership of an indigenous origin group also imply blocked social mobility due to ethnic discrimination? The fact that a substantial proportion of those who have Quechua or Aymara as their mother tongue classify themselves as non-indigenous suggests as much. Also Merkle (2003, p. 207) indicates that indigenous people try to conceal their identity in order to avoid discrimination. He observes that Aymara parents in the city of El Alto are inclined to give their children a Spanish-sounding name rather than a traditional one. Even surnames are changed, transforming the indigenous surname *Quispe* into the Spanish *Quisbert*, for instance. According to Andersen *et al.* (2003, p. 8), it is perfectly rational for indigenous people to hide their origin, because of stereotyping that negatively affects their process of educational formation (discrimination in school), their insertion in the labour market, as well as their social relations. This finds expression in the wide disparity in education and income levels between non-indigenous and indigenous families, as shown in Table 3.1.

Table 3.1 Bolivia: Education and poverty indicators by ethnic origin, 2001<sup>a</sup>

	Area	Origin of family head	
		Hispanic	Indigenous
Average no. of years of schooling of family head	Urban	10.2	5.8
	Rural	5.6	4.1
% of family heads with less than 5 years of schooling	Urban	14.9	43.9
	Rural	44.2	60.6
Incidence of poverty (%) <sup>b</sup>	Urban	42.2	67.0
	Rural	55.0	75.5
Incidence of extreme poverty (%) <sup>b</sup>	Urban	13.6	27.3
	Rural	25.4	49.5

<sup>a</sup> Own calculations based on INE (2001a).

<sup>b</sup> Poverty measured by expenditure per household member.

Zoninsein (2001) has made an attempt to measure the economic costs of ethnic discrimination in Bolivia's education system and labour market. He calculates the potential gains in aggregate production and income in Bolivia that would accrue from making full use of the existing education, skills, and experience of indigenous individuals in the jobs that they actually hold, and from increasing the education and skills of indigenous individuals to levels similar to those of the non-indigenous population. Zoninsein finds that "the economy of Bolivia would potentially expand at least by 36.7 per cent as a result of ending the long-term social exclusion of indigenous groups" (p. 7). These gains from eradicating ethnic discrimination are much higher than for other ethnically diverse countries in Latin America, such as Brazil, Guatemala and Peru, which would experience an economic expansion of 12.8, 13.6 and 4.2 per cent, respectively, if the productivity and human capital gaps between groups of different racial and ethnic origin would be closed.

Apart from being disadvantaged economically, indigenous people in Bolivia face discrimination in social life. An anthropological study by Gill (1993) on Aymara women in the city of La Paz states that "many seek to avoid the stigma attached to being Aymara, a stigma that is strongly felt in all public places. ... On city buses, women who wear the pollera [*traditional indigenous dress*] are insulted; in offices, they are not attended to or are forced to wait and generally treated as second-class citizens" (Gill, 1993, p. 80). Hence, despite the fact that in the post-colonial period, and especially after the 1950s, the position of indigenous people in Bolivian society has improved, economic and social discrimination remain a reality for ethnic origin groups till the present day.

### **3.3 The Sample**

Our sample consists of 634 households that are a sub-sample of a total number of 5,845 households included in the MECOVI household survey of the National Statistics Institute of Bolivia (INE, 2001a), which has been carried out in the period October/November 2001. The selected sub-sample consists of low-income households residing in the urban centres of the La Paz, Cochabamba and Chuquisaca departments. The selection criteria are briefly discussed below.

First, only urban households are considered. A family's decision to purchase a certain durable, as well as what model or type to buy, may be governed by different factors in rural and urban areas. In remote rural areas certain types of durables may simply not be available or only at a very high cost when compared to urban areas. Moreover, there is a wide rural-urban gap in the provision of basic amenities that are a complementary input in the use of certain durables, such as electricity, gas and telephone lines. Hence, the possibilities for a rural family to indulge in their preferences for certain durable goods, including preferences of the compensatory type, are limited by supply factors. Rural households are therefore excluded from the sample.

Second, we only include the urban population of the departments of La Paz, Cochabamba and Chuquisaca. Other departments either have relatively little ethnic variation in the population (e.g. Santa Cruz) or do not host a major urban centre (e.g. Potosí). In total, the three selected departments contain 51 per cent of the total urban population in Bolivia.<sup>22</sup>

Third, only low-income households are included in our sample, because we aim to test whether ethnicity has an impact on a family's propensity to engage in compensatory consumption, a phenomenon that has been observed for families whose income is low compared to other families in society. Here we consider a household to be low-income if its income per household member is below the urban average of Bs. 520 per month, which roughly corresponds to US\$3 per day and cuts off the top 26.6 per cent of the income distribution in the selected urban areas. The income threshold is 50 per cent above the official poverty line for urban Bolivia, so that our sample does not only include families officially classified as income poor. In total however, the non-poor account for only 10.6 per cent of the sample. Over half the sample (55.5 per cent) is moderately poor, while the remaining 33.9 per cent live in conditions of extreme poverty. Not surprisingly, the incidence of poverty is higher among indigenous households than among families of Hispanic origin, i.e., 92 and 85 per cent respectively.

The ethnic composition of the sample is as follows. Hispanics make up 37.1 per cent of the sample, 24.6 per cent is Quechua and 38.3 per cent is of Aymara origin. Note that Aymara families are somewhat over-represented in the sample compared to their share in the national population, which is due to the fact that 60 per cent of the families in the sample live in one of the urban centres in Bolivia's highland region (mainly La Paz and El Alto), where Aymara-speakers outnumber Quechua-speakers. By contrast, Quechua-speakers are the dominant indigenous group in the valley region where the rest of the sample resides. The major urban centres in this region are Cochabamba and Sucre. There is sufficient ethnic variation within both the highland and the valley region, however, to analyse the effect of being of Aymara or Quechua origin, independent of the effect of living in either one of these regions.

### 3.4 Social Visibility and Durable Goods

#### 3.4.1 *Status and social visibility*

Compensatory consumption is a special form of status-oriented consumption, viz. status consumption by those who have a relatively low standing in society. For consumption to be status-intensive, whether compensatory in nature or not, others must be able to observe it.<sup>23</sup>

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<sup>22</sup> The major urban centres are La Paz (793,293 inhabitants) and its satellite El Alto (649,958), Cochabamba (767,136) and Sucre (193,876). See Annex I for their location in the country.

<sup>23</sup> This has been recognized, among others, by Frank (1985b), who argues that status competition is played out with observable consumption goods only, such as cars and swimming pools. He uses this fact to explain the under-consumption of unobservable commodities such as life insurance and work safety.

Chao and Schor (1998) explain why consumer goods need to be socially visible in order to be prestigious:

[S]ocial visibility is important because of the moral hazard problem associated with non-visible goods. Moral hazard arises because individuals have an incentive to exaggerate their consumption in order to gain social position. If consumption is not externally verifiable, self-reported levels of consumption are not credible. A second issue is that self-reporting about consumption patterns (i.e., boasting) reveals the individual's concern with status, which in some contexts undermines status. (Appearing not to care too much about status is often necessary to attaining it.) For these reasons, social visibility is a key dimension of status consumption.

(Chao and Schor, 1998, p. 111)

In a study on the purchase of cosmetics among female consumers in the United States, Chao and Schor (1998) use the fact that goods differ in their degree of social visibility to test for the presence of status motivations. Cosmetics such as lipsticks are considered to rank high on visibility as they can easily be taken out in public (e.g. in restaurants, meetings and public transport), whereas for instance facial cleansers, which are ordinarily left at home, have a low visibility rank. If status motivations would be absent, prices for different brands of lipsticks or facial cleansers should increase with higher intrinsic product quality to more or less the same extent, since the difference in social visibility should be irrelevant. However, while such a positive correlation between quality and price is observed for different brands of facial cleansers, no such price/quality correlation exists among different brands of lipsticks. The disconnection of price from quality for highly visible cosmetics is taken as evidence that status motives play a role in cosmetics purchases.

Can durable goods also be meaningfully ranked on their degree of public visibility? One might argue that most durables are placed inside the house and are therefore not readily visible for the general public, so that the status intensity of durables is negligible compared to, say, clothing. Although it is true that the *number* of people who observe a family's in-house durables may be small, their *weight* in this family's peer group is likely to be high, since people's closest associates matter most in interpersonal social comparisons (Coleman, 1990, pp. 130-131; Frank, 1985a, p. 30). Guests who are invited into the house, such as neighbours or relatives, are generally people with whom one directly enters into competition for status.<sup>24</sup> Chao and Schor (1998) implicitly acknowledge that in-house durables can be status-intensive when they illustrate the importance of social visibility with the observation that "households spend much more money furnishing public rooms (living and dining rooms) than private ones

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<sup>24</sup> One might argue that attempts to impress close acquaintances with expensive visible goods are likely to fail, since they are well-informed, relative to complete strangers, about the consumer's true living standard. Recall, however, that individuals tend to be too optimistic in their assessment of what others think of them (Taylor, 1989, p. 11). Hence, some kind of self-deception on the part of the status-seekers possibly plays a role here.

(bedrooms)” (p. 111). Hence, durable goods may differ in the degree to which they can be observed by others, depending on whether they are placed in a public or private space of the house. Foster (1967) notes that in the Mexican village of Tzintzuntzan shower baths have been installed in fewer homes than one might expect, since they are less visible than other material possessions and, concomitantly, have lower prestige value (p. 314).

Our expectation is, therefore, that a status-minded family overspends on durables that are placed in a public space of the house relative to durables that are hidden from the prying eyes of guests in a more private part of the house. In order to test whether low-income families of indigenous origin in Bolivia have a stronger tendency to show such a consumption pattern than poor families of Hispanic origin, appropriate durables have to be selected that differ markedly in their degree of social visibility in the Bolivian context.

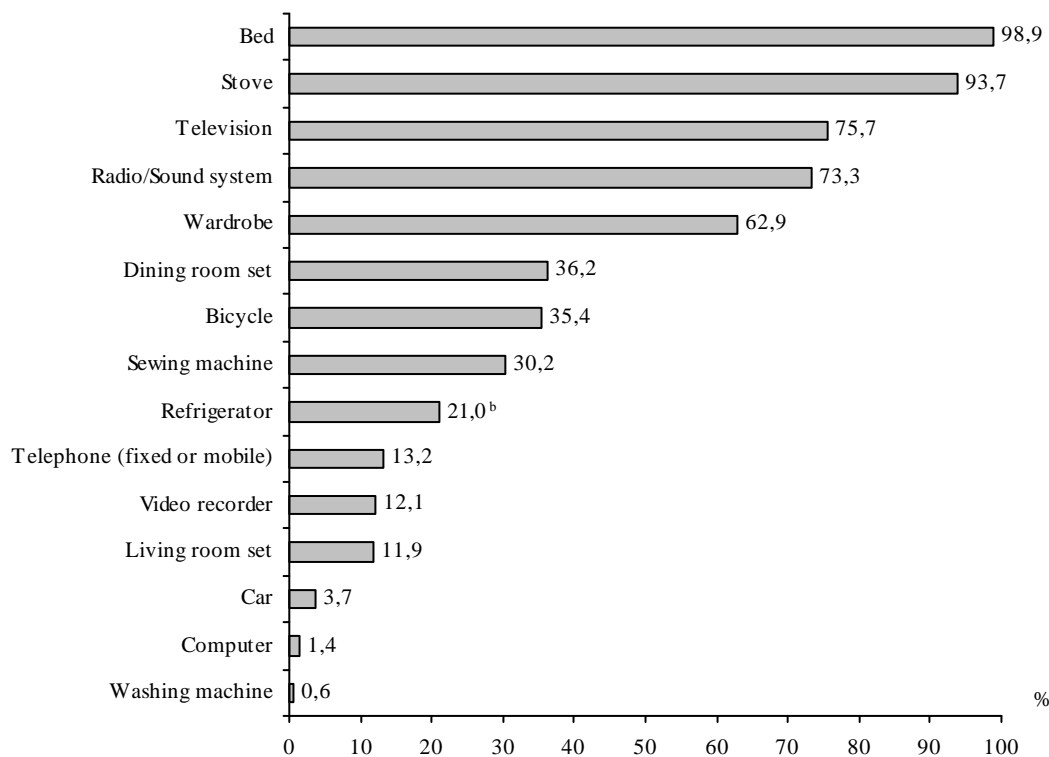
### 3.4.2 *Choice of durables*

Figure 3.1 shows the possession of various durable goods among the families in the sample. Interestingly, it appears that more families possess a television set than a radio, whereas earlier studies on durables ownership in developing countries typically found that a radio precedes a television in the order of acquisition of durables. For instance, Wells (1977, p. 262) reports that of the poorest 75 per cent of the households in urban Rio de Janeiro in 1968 only 56.4 per cent owned a television, while 77.9 per cent had a radio. Only in the upper quartile of the income distribution television ownership exceeded radio ownership. Also, a more recent study by Potter (2000) on durables ownership in Barbados shows that in 1990 a radio was a more common possession than a television among families in the lowest income group, which are identified in the study as those who live in wooden houses rather than in concrete, or mixed wood and concrete, houses. However, with 72.6 and 85.2 per cent, respectively, “ownership of television and radio receivers is near universal among even low income households” (Potter, 2000, p. 120). The data for Barbados also show that a surprisingly high proportion of low-income households owned a video recorder. Video ownership was as high as 27.8 per cent for the occupants of all-wood houses. It can be observed in Figure 3.1 that video ownership is also high in our sample; 1 out of every 8 low-income households owns a VCR. They are almost as common as telephones (including mobile phones) and slightly more common than living room furniture.

In order to check for compensatory consumption, we need to select durables that are widely diffused among the sampled households, so that the number of observations does not fall drastically. As can be observed in Figure 3.1, the durables with the highest degrees of ownership are beds, stoves, televisions, radios and wardrobes. In order to assess their respective degrees of social visibility, their place in the house is crucial. Chao and Schor mention the bedroom as an example of a private space, which would imply that beds and perhaps wardrobes are non-visible durables. This is not so clear for our sample, however,

because 35 per cent of the households indicate in the survey that their living room serves as bedroom as well, which means that beds and wardrobes may be visible for guests. Although curtains are sometimes used to hide them from view, beds and wardrobes do not qualify as good examples of non-visible durables for this reason. A purer example of a durable good that is rarely observed by visitors is a stove. Close to three out of four households in the sample have a separate room for cooking and those who lack such an extra room tend to cook outside at the back of the house in order to prevent smell and humidity inside. Furthermore, social custom in Bolivia prescribes that guests do not enter the kitchen. We therefore select the stove as the low-visible durable in the analysis.

*Figure 3.1 Ownership of selected durables, 2001<sup>a</sup> (n = 634)*



<sup>a</sup> Own calculations based on INE (2001a).

<sup>b</sup> Due to climatic differences refrigerator ownership is considerably lower in the highland region, 9.8 per cent, than in the valley region, 36.8 per cent.

With regard to high-visible durables, the choice is between a radio and a television. The problem with using radios is that these may include small, portable radios that can be used anywhere and do not necessarily have a fixed place in the living room. Moreover, the survey counts radios together with sound systems, which renders a comparison across families difficult. Although the functions of radios and sound systems partly overlap, these are in fact different durables that sell in different price ranges. The television is a more narrowly defined durable and almost invariably enjoys a prominent place in Bolivian living rooms. Furthermore, there is some evidence that the developing country poor tend to attach

significance to their television that goes beyond its merely functional value and spend heavily on them relative to other durables. In a study on the material culture of low-income households in a marginal neighbourhood of Mexico City, Lewis (1973, p. 254) reports that these families consider television sets important pieces of ‘furniture’. He also finds that the “value of the least expensive TV in the neighbourhood is greater than the total combined value of all the other possessions owned by the TV-possessing families” (Lewis, 1973, p. 265). For these reasons, the television is selected as the high-visible durable to be compared with the less visible stove.

*Table 3.2 Housing conditions of TV-owning families (n = 466)*

<i>Predominant material used in .. of the house</i>		<i>%</i>
Walls	Adobe (sun-dried clay)	63.5
	Brick	36.5
Roof	Corrugated iron	80.9
	Cement or clay tiles	12.8
	Reinforced concrete	6.3
Floor	Earth	17.0
	Cement	61.8
	Wood	12.8
	Other	8.4
<i>Basic needs facilities</i>		
Access to potable water	No	17.8
	Yes, tap outside the house	55.3
	Yes, tap inside the house	26.8
Availability of toilet or latrine	No	27.5
	Yes, shared with other families	29.6
	Yes, for own family only	42.9
Type of drainage used by families that have or share a toilet/latrine	Street, river or canal	2.3
	Cesspit	25.4
	Septic tank	8.7
	Sewer system	63.6

Own calculations based on INE (2001a).

Before concentrating on the value of the stoves and televisions owned by households in order to reveal potential ethnic differences in the propensity for status consumption, let us consider the level of diffusion of both durables in each ethnic group. As far as stoves are concerned, the degree of ownership is highest among Hispanic and Aymara families (95 and 94 per cent,

respectively), while this is only 88 per cent among Quechua households. Televisions show a somewhat different picture. The level of diffusion is substantially higher among Hispanic households than for both indigenous groups. About 88 per cent of the families of Hispanic origin own a TV set against only 69 and 68 per cent of Quechua and Aymara families, respectively.

It should be stressed that television-owning families are a very heterogeneous group in terms of living standard. If we examine the housing conditions of television owners, as reported in Table 3.2, wide differences can be observed. It is remarkable that some households deprived of even the most basic of amenities such as a toilet or latrine own a television. Out of every four televisions, one stands in a house without a toilet, not even a cesspit.<sup>25</sup> Moreover, one out of every six televisions is owned by a family that lacks access to safe drinking water. A similar picture arises with regard to the type of materials used in various parts of the house. Over 60 per cent of the televisions stand in houses with walls made of dried mud rather than out of brick and only 20 per cent of them in houses with a decent roof. One out of every six televisions is even placed on a dirt floor. If families who live in such poor conditions, of which some can be readily observed by outsiders, own a television, it is unlikely that television ownership in itself carries much prestige. Status, therefore, has to be derived from the *type* of television a family owns.

### **3.5 Do Indigenous Households Pay More than Hispanic Households for Visible Durables?**

In order to test this hypothesis, we make use of the following question from the 2001 household survey: “What do you think is the current value of your [*television / stove*]?”<sup>26</sup> It is not clear how respondents exactly interpreted this question, but it seems plausible to assume that they took the price at which they acquired the durable in the past as a reference point and corrected this price upwards for inflation and downwards for depreciation, depending on the age and current condition of the durable. According to Caplovitz (1967), compensatory consumers tend to buy relative expensive models of visible durables and, in addition, replace them relatively quickly for newer ones. Both tendencies should increase the current market value of the visible durable. One might argue, therefore, that it would be sufficient to compare the values of televisions and not bother about unobservable ones. However, if a household owns both an expensive television and an expensive stove, this may point at a preference for high-quality products or for being ‘modern’ rather than for status. The comparison with the non-visible good is indispensable to rule out motivations that increase the value of durables across-the-board and are not status-motivated. Therefore, we take as a

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<sup>25</sup> Also in Brazil, “[i]t is not uncommon to find households with a television or refrigerator yet lacking basic infrastructure, such as toilets” (Prahalad, 2004, p. 119).

<sup>26</sup> Durables obtained as gifts or inheritances are not taken into account in the survey.



measure of a household's propensity for compensatory consumption the current market value of its TV divided by the current market value of its stove. The higher this ratio, the stronger the propensity to compensate for low social standing in the realm of consumption. Since we hypothesize that households of indigenous origin have a stronger need for this, we expect the Quechua and Aymara to have higher TV-to-stove ratios than Hispanics. It is important to point out that we only examine the degree of status consumption of low-income, indigenous households *relative* to that of low-income, Hispanic households. We do not know, however, to what extent the latter group engages in status consumption. This would require a comparison with high-income households, but since wealthier families often own more than one television, the data do not allow for this.

First, in Section 3.5.1 we will analyse the extent to which the value of TV sets, stoves and, most importantly, their ratio differs between the different ethnic groups. Subsequently, Section 3.5.2 investigates whether it is ethnicity per se that drives these differences rather than other variables on which the ethnic groups differ.

### 3.5.1 Univariate analysis

Over the whole sample, the average value of a stove is US\$30, while the average television set is worth US\$79.<sup>27</sup> The distributions for both stoves and televisions are heavily skewed to the left. The median values, US\$17 for stoves and US\$52 for TVs, are much lower than the average values. The most valuable stove owned by a household in the sample is worth US\$500, whereas the highest reported value for a television set is US\$650.

Figures 3.2a and 3.2b show the median value of stoves and televisions for Hispanic, Quechua and Aymara families. In Figure 3.2a it can be observed that the median value of the stove is much lower for Quechua and Aymara families than for Hispanics. Televisions, on the other hand, show a very different picture, as depicted in Figure 3.2b. Both Hispanic and Quechua households have more expensive televisions than Aymara households when comparing group medians. The non-parametric Mann-Whitney test has been performed to test whether these differences are significant. The first two rows of Table 3.3 show the difference in mean rank for the value of stoves and televisions in a pair-wise comparison of ethnic groups. The difference in average rank should be close to zero if two ethnic groups own durables of similar value. In the first row it can be observed that with regard to stoves the mean ranks of both Quechua and Aymara families are over 40 points apart from that of the Hispanic families. Since these differences are negative and significant at the 1 per cent level, it can be concluded that both indigenous groups have cheaper stoves than Hispanics. There is no significant difference in the value of stoves between households of Quechua and Aymara origin. As far as televisions are concerned, the second row of Table 3.3 shows that Aymara

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<sup>27</sup> Respondents report amounts either in local currency (Bs.) or in U.S. dollars. For comparison we converted all amounts stated in Bs. into U.S. dollars at the exchange rate prevailing at the time of the survey.

households possess significantly less valuable TV sets than both Quechua and Hispanic households. The Quechua own slightly more expensive televisions than Hispanics, but this difference is not significant.

A comparison of durables in terms of absolute dollar values can be misleading, however, if the ethnic groups strongly differ in their level of income. The fact that Quechua and Aymara families have cheaper stoves than Hispanic families, for instance, may reflect the lower incomes of indigenous households. Let us consider, therefore, the value of a durable as a percentage of monthly income.<sup>28</sup> Figures 3.2c and 3.2d show the group medians for stoves and televisions. The picture is strikingly similar to that in 3.2a and 3.2b, which is confirmed by the Mann-Whitney test statistics in the third and fourth row of Table 3.3. The value of stoves as a percentage of a family's monthly income is significantly lower among Quechua and Aymara families than among Hispanics, whereas with regard to televisions this is only true for Aymara families. The current market value of their TV sets is significantly lower than that of Hispanic and Quechua families, even when corrected for income differences.

*Table 3.3 Univariate results: Mann-Whitney test<sup>a</sup>*

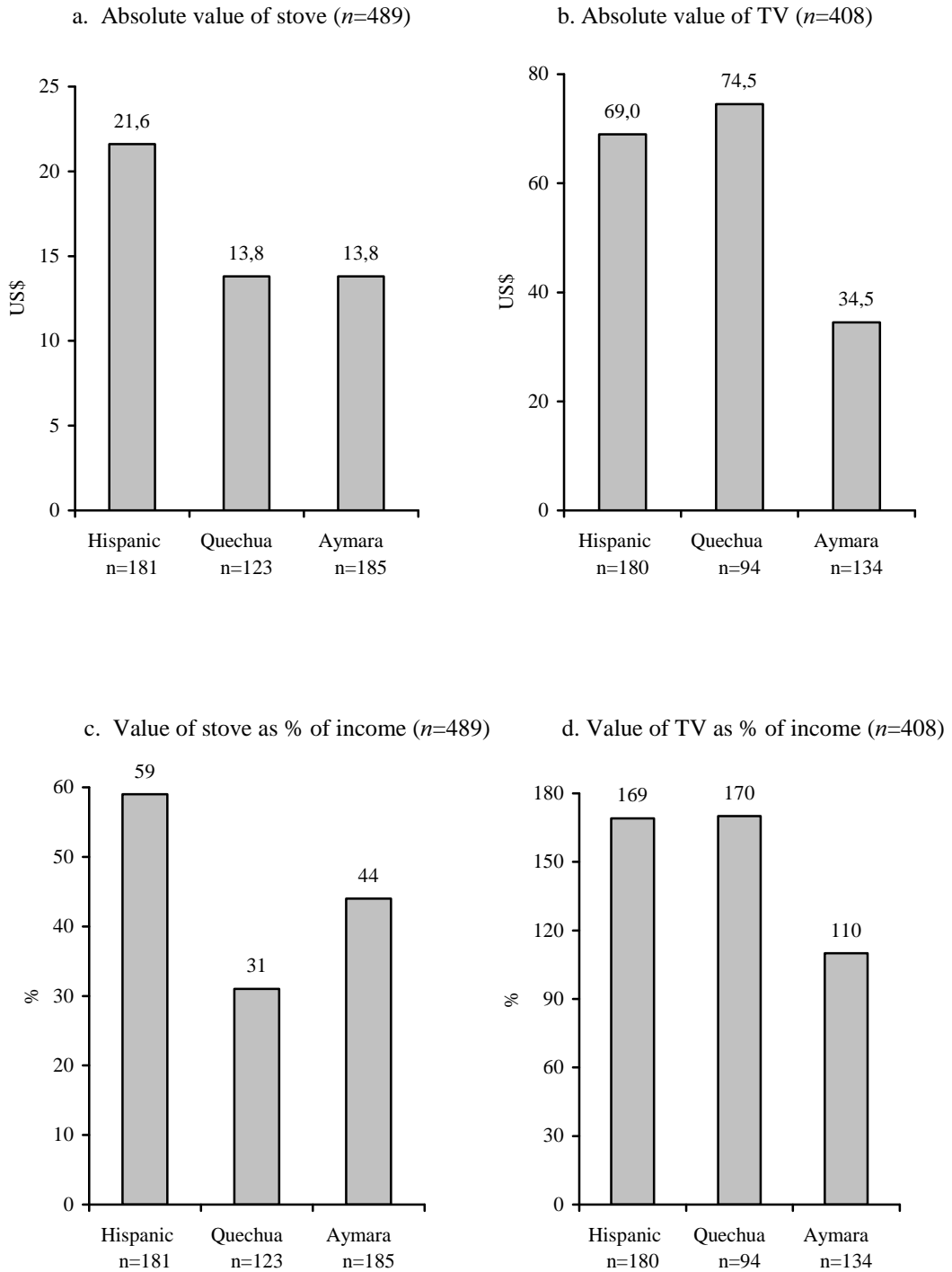
	<i>Quechua-Hispanic</i>		<i>Aymara-Hispanic</i>		<i>Quechua-Aymara</i>	
	Difference in mean rank	Z-statistic (p-value)	Difference in mean rank	Z-statistic (p-value)	Difference in mean rank	Z-statistic (p-value)
Stove (\$)	-40.88***	-3.94 (.000)	-44.00***	-3.94 (.000)	-6.37	-0.61 (.540)
Television (\$)	2.26	-0.22 (.823)	-51.16***	-4.91 (.000)	40.13***	-4.48 (.000)
Stove (% of income)	-37.15***	-3.57 (.000)	-28.98**	-2.59 (.010)	-15.04	-1.44 (.149)
Television (% of income)	6.69	-0.66 (.509)	-35.88***	-3.44 (.001)	33.64***	-3.75 (.000)
Ratio TV to stove	21.19**	-2.26 (.024)	-13.61	-1.40 (.161)	29.23***	-3.43 (.001)

<sup>a</sup> Own calculations based on INE (2001a).

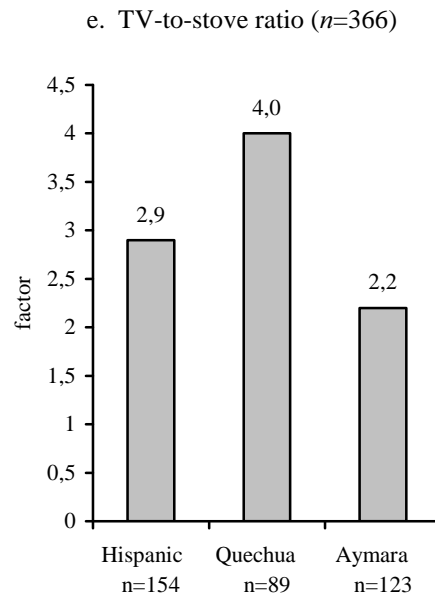
This univariate analysis suggests that the buying pattern of Hispanic and Aymara families is fairly consistent across durables with a different degree of social visibility. Hispanics own relatively expensive stoves as well as televisions. The Aymara on the other hand own both cheap stoves and televisions. The pattern of the Quechua families is particularly interesting, because they own expensive televisions (even slightly more expensive than the ones owned by Hispanics), but at the same time have cheap stoves (even slightly cheaper than those of the

<sup>28</sup> Income refers to total family income divided by the number of family members.

Figure 3.2 Current market value of durable by ethnic origin: group medians<sup>a</sup>



<sup>a</sup> Own calculations based on INE (2001a).



Aymara). The propensity of the Quechua to overspend on the highly visible TV set compared to the less visible stove can be observed more clearly in Figure 3.2e, which shows the ratio of the value of a family's TV set to that of its stove at the median for each ethnic group. Note that the number of observations is lower than for the other two regressions, as households that own only one of the two durables are excluded as well as those for which the value of either the stove or television is missing. This is therefore a more direct test for compensatory consumption. Figure 3.2e shows that the ratio is highest for the Quechua, whose TV-sets are 4 times as expensive as their stoves at the median, whereas this is only 2.9 and 2.2 times for Hispanics and Aymara, respectively. A similar picture arises if the average rather than the median ratios are considered. On average, the Quechua spend 8.8 times as much on their TV as on their stove, against 5.2 times for the Hispanics and 4.2 times for the Aymara. In the bottom row of Table 3.3 it can be observed that the difference in ratio between the Quechua and Hispanic group is significant at the 5 per cent level, and that between the Quechua and Aymara at the 1 per cent level. The Aymara do not have significantly lower ratios than Hispanics. Thus, our hypothesis that indigenous families have a stronger tendency to engage in compensatory consumption than non-indigenous families seems to apply to Quechua families only.

### 3.5.2 *Multivariate analysis*

In this section we examine whether the previous results are corroborated in a multivariate analysis. Since ethnicity is likely to be correlated with other variables such as education and income, it is not clear whether belonging to a certain ethnic group is the ultimate cause of the

observed differences in durables consumption. Straightforward OLS regression analysis is performed to check whether a family's ethnic background has an independent effect on durables ownership or whether it dissipates when other family characteristics are controlled for. First, we try to explain the current market value of stoves and televisions as well as the ratio of the two (regression 1 to 3 in Table 3.4). Subsequently, the current market value of televisions is decomposed into age and original purchase price (regression 4 and 5 in Table 3.4). The dependent variables of the first three regressions are the absolute dollar value of stoves, the absolute dollar value of television sets and their ratio. The variables are transformed into logs in order to reduce the weight of outliers. The number of observations is the same as for the corresponding variables in the univariate analysis. Before turning to the impact of ethnicity, the effect of other family characteristics will be briefly discussed.

#### *Control variables*

A first household characteristic that is identified in previous empirical studies on durables ownership as a relevant explanatory variable is the number of household members.<sup>29</sup> Hispanic families consist on average of 4.5 members, whereas the average Quechua and Aymara family tends to be larger, with 4.9 and 4.8 members, respectively. As shown by the reported standardized coefficients for family size in Table 3.4, the value of both stoves and televisions increases significantly with the number of household members. The effect on stoves is stronger than for TV sets, which may be due to the fact that the increase in functionality that a relatively expensive stove entails for a large family (e.g. more gas burners) exceeds the functional gain from having a more expensive television. As a result, family size tends to decrease the TV-to-stove ratio, although this effect is not significant at the 10 per cent level.

A second explanatory variable is the age of the head of the household, which ranges from 15 to 80 years in the sample. The average age of the family head is 40 years and does not differ substantially between the different ethnic groups. One would expect age to have a negative effect on the value of durables, as older family heads are likely to have acquired their durables, on average, a longer time ago than younger ones, especially compared to those of recently established households. Although the age coefficient has a negative sign in both the stove and television regression, it is only significant with regard to television sets. The TV-to-stove ratio also tends to fall with age, but the effect is very weak.

In addition, a dummy variable indicating the sex of the household head is included in the analysis. It measures the effect of the household head being a woman as compared to male-headed households. Female-headed households account for nearly a quarter of all households and for 96 per cent of all single-parent households in the sample. It can be observed that the standardized coefficients for the sex dummy are small and insignificant in

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<sup>29</sup> See e.g. Fishelson (1970).

Table 3.4 Multivariate results: OLS regressions<sup>a</sup>

Dependent variable	(1) Log (value of stove)		(2) Log (value of TV)		(3) Log (ratio TV to stove)		(4) Age of TV (in years)		(5) Log (value TV)	
	Standardized coefficients	<i>t</i> -statistic ( <i>p</i> -value)	Standardized coefficients	<i>t</i> -statistic ( <i>p</i> -value)	Standardized coefficients	<i>t</i> -statistic ( <i>p</i> -value)	Standardized coefficients	<i>t</i> -statistic ( <i>p</i> -value)	Standardized coefficients	<i>t</i> -statistic ( <i>p</i> -value)
Family size	0.15***	3.14 (.002)	0.10*	1.91 (.057)	-0.08	-1.29 (.198)	0.04	0.82 (.413)	0.11**	2.33 (.020)
Log (age of family head)	-0.06	-1.29 (.196)	-0.13**	-2.55 (.011)	-0.04	-0.70 (.483)	0.31***	6.21 (.000)	-0.06	-1.17 (.244)
Female family head	-0.02	-0.44 (.658)	0.01	0.30 (.766)	0.04	0.78 (.435)	0.11**	2.25 (.025)	0.04	0.82 (.416)
Average years in school	0.06	1.04 (.300)	-0.07	-1.22 (.225)	-0.10	-1.54 (.124)	0.11*	1.90 (.059)	-0.05	-0.88 (.378)
Moderately poor	-0.16**	-2.32 (.021)	-0.02	-0.28 (.782)	0.14	1.65 (.101)	-0.03	-0.04 (.968)	-0.03	-0.43 (.670)
Extremely poor	-0.27***	-3.69 (.000)	-0.23***	-3.15 (.002)	0.05	0.54 (.587)	0.04	0.56 (.574)	-0.23***	-3.20 (.001)
Number of durables	0.20***	4.13 (.000)	0.30***	5.97 (.000)	0.13**	2.24 (.025)	-0.06	-1.18 (.241)	0.29***	5.92 (.000)
Highland region	0.02	0.31 (.757)	-0.06	-1.06 (.292)	-0.01	-0.11 (.915)	0.05	0.89 (.376)	-0.04	-0.80 (.423)
Age of TV (in years)	-	-	-	-	-	-	-	-	-0.26***	-5.86 (.000)
<b>Quechua</b>	<b>-0.15***</b>	<b>-2.66 (.008)</b>	<b>0.01</b>	<b>0.14 (.885)</b>	<b>0.12*</b>	<b>1.82 (.069)</b>	<b>-0.11**</b>	<b>-1.97 (.050)</b>	<b>-0.03</b>	<b>-0.62 (.535)</b>
<b>Aymara</b>	<b>-0.13**</b>	<b>-2.31 (.021)</b>	<b>-0.16***</b>	<b>-2.82 (.005)</b>	<b>-0.04</b>	<b>-0.59 (.557)</b>	<b>-0.03</b>	<b>-0.61 (.541)</b>	<b>-0.18***</b>	<b>-3.31 (.001)</b>
<i>R</i> <sup>2</sup>	0.18		0.22		0.06		0.11		0.29	
<i>F</i> -statistic ( <i>p</i> -value)	10.25 (.000)		11.47 (.000)		2.41 (.009)		5.48 (.000)		14.34 (.000)	
No. of obs.	489		408		366		472		408	

<sup>a</sup> Own calculations based on INE (2001a).

both the stove and television regression. Female-headed households tend to have slightly higher stove-to-TV ratios than male-headed ones, but this effect is highly insignificant. Hence, we do not find a strong gender effect on the value of the durables under study.

A particularly interesting variable with regard to compensatory consumption is education. According to Caplovitz (1967, p. 128), “those who have managed to achieve a relatively higher status in the occupational sphere should presumably have less need for compensatory consumption”. He finds that the incidence of compensatory consumption is higher among low-skilled than among higher-skilled workers. If educational achievements are a reasonably good proxy for occupational status later in life, we would expect families with a poor education profile to have a higher TV-to stove ratio. The education variable in the regression measures the number of years of education completed by the family head for single-parent families, while for two-parent families we take the parents’ average school attendance. Considering only the household heads of the families that are included in at least one of the regressions, the education profile by ethnicity looks as follows. Hispanic household heads have been in school for 9.7 years on average, while this is much lower for indigenous groups, 5.6 and 6.5 years for Quechua and Aymara family heads, respectively. This wide educational gap also finds expression in the share of household heads that have not completed primary school (< 5 years). This share is only 12 per cent for Hispanics, whereas it is as high as 32 and 48 per cent for Aymara and Quechua family heads. Still, a substantial proportion in each indigenous group has an education level well above the average level of education in their own group. For instance, 29 per cent of the Aymara and 22 per cent of the Quechua household heads have been in school for 10 years or more. Table 3.4 shows that the signs for the coefficients of the education variable are in line with Caplovitz’s argument. The value of stoves tends to increase with education, whereas the value of TVs tends to fall with higher educational accomplishments. Although these effects are not significant, the overall effect on the TV-to-stove ratio is close to significance at the 10 per cent level. Lower-educated families in the sample show a tendency to overspend on the more visible television when compared to households whose adult members have a better educational record.

Another potentially important variable is a family’s economic situation. In the household survey, a family is either classified as non-poor, moderately poor, or extremely poor, depending on its monthly income as measured by expenditure per family member. The moderately poor earn an income between fifty and hundred per cent of the official urban poverty line, whereas extremely poor families earn less than half the poverty line. In the regressions two dummy variables are included that represent these income categories. Omitted is the category of non-poor. Income categories rather than the absolute levels of family income are used because the ordinal measure turned out to outperform the continuous measure in all three regressions. The relation between income and the dependent variables is either non-linear or measurement error is reduced by categorization. Not surprisingly, the values of both stoves and televisions tend to be lower, the poorer the family. However, a striking difference in the magnitude of this negative income effect between the two durables

can be observed for the moderately poor. They own significantly cheaper stoves than the non-poor, while the value of their television is not significantly different from that of families earning an income above the poverty line. By contrast, the negative coefficients for the extremely poor group are similar in magnitude and highly significant for both stoves and televisions. This pattern is confirmed when considering the TV-to-stove ratio. Although extremely poor families tend to have slightly higher ratios than the non-poor, this effect is small and insignificant, whereas the positive coefficient for the moderately poor has the highest absolute value of all independent variables and is close to significance at the 10 per cent level. This means that the moderately poor are inclined to overspend on the more status-intensive durable relative to the non-poor, as the compensatory consumption hypothesis would predict. At the same time, the results suggest that the extremely poor cannot afford such a status-intensive pattern of durables consumption. Hence, there appears to be a threshold level of income close to the extreme poverty line below which the costs of compensatory consumption become prohibitive.

A related independent variable is the number of durables owned by a household. The survey reports ownership data for a total number of 15 durables, as listed in Figure 3.1. Hispanic families own 6 of them on average, while this number equals 5 for both indigenous groups. This variable reflects a family's wealth as embodied in durables ownership, which is rather different from current income. Although the correlation between the two variables is positive and significant, the absolute value of the correlation coefficient is not particularly high ( $r = 0.29$ ). Owning more durables than the average family in the same income category is likely to carry prestige in itself, especially when it concerns durables such as a living room set or a video recorder. This variable may therefore indicate a family's concern for status through the acquisition of material goods. The regression results are in line with such an interpretation. Although the value of both stoves and TV sets increases significantly with the number of durables owned, this effect is stronger for televisions. The number of durables turns out to be the most important explanatory variable for the value of televisions. Also, families with more durables have, *ceteris paribus*, higher TV-to-stove ratios. The coefficient for the durables ownership variable in regression 3 is high and significant at the 5 per cent level.

Finally, a regional dummy is added to the list of control variables in order to examine whether there are region-specific factors influencing the market prices of stoves and televisions. The dummy variable measures the effect of living in the highland region as compared to the valley region. It turns out that this regional dummy has weak explanatory power in all three regressions, both in terms of magnitude and significance. Hence, there are no important regional factors that cause durable prices to differ between the highland and valley region. This is not surprising, since the major urban centres of both regions are located at roughly the same distance from Bolivia's main point of entry of imported durables on the Chilean border, so that transport costs and therefore selling prices should not vary widely.



Moreover, both regions host informal markets where durables obtained from contraband trade as well as second-hand durables are readily available.

### *Ethnic origin*

Let us now turn to the impact of ethnicity. Two dummy variables measure the effect of being of Quechua and Aymara origin respectively, as compared to having Hispanic roots, which is the omitted category. First, it can be observed in Table 3.4 that the coefficients for both the Quechua and Aymara dummy are negative and significant in the regression for stoves, which means that being of indigenous rather than Hispanic origin reduces the value of the stove. This negative effect is slightly stronger for Quechua than for Aymara families. As far as televisions are concerned, the regression results show a very different but equally familiar picture. Being of Aymara origin has a highly significant negative impact on the value of TV sets, whereas the coefficient for the Quechua origin dummy is insignificant and has a positive sign. This difference between the Quechua and Aymara origin groups is also borne out in the TV-to-stove regression. With 90 per cent confidence it can be concluded that Quechua families have higher ratios than families of Spanish descent. By contrast, being of Aymara origin tends to reduce a family's TV-to-stove ratio compared to being of Hispanic origin, although the effect is rather weak.

The results are strikingly similar to the univariate results in Table 3.3. Most importantly, the earlier finding that Quechua families overspend on TVs compared to Hispanic and Aymara families is corroborated. Ethnic origin drives this result rather than some other characteristic on which the ethnic groups differ. No interaction effects between the independent variables were identified. Moreover, there does not exist serious multicollinearity between the explanatory variables.<sup>30</sup>

Compensatory consumers are expected to own both relatively new as well as expensive durables, at least when it concerns socially visible ones such as a television. Let us check to what extent Quechua families fit this description by decomposing the current market value of televisions in age and original purchase price. With regard to age, the household survey reports the number of years that a TV is owned by a family. Hispanic and Aymara households own their TV for 6.3 and 6.1 years on average, while the average Quechua family acquired its television only 4.9 years ago. If we run a regression on the number of years of ownership, controlling for the age of the household head and other family characteristics, it can be concluded with 95 per cent confidence that Quechua households acquired their television more recently than Hispanics (see regression 4 in Table 3.4). The Aymara do not differ significantly from Hispanics in terms of ownership length. This indicates that Quechua families replace their TV more quickly than the other two groups and thus show off relatively new TV sets. The Quechua do not owe their high TV-to-stove ratios purely to this higher

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<sup>30</sup> The variance inflation factors (VIFs) of all independent variables are below 3.0, whereas VIFs > 5.0 are conventionally considered problematic.

replacement rate of televisions, however. They also buy relatively expensive ones, which can be observed in regression 5 of Table 3.4. This regression is identical to regression 3, with the exception that the age of a television has been added as an explanatory variable. Differences in current market values between televisions that are acquired at the same point in time should give a rough indication of differences in original purchase price. Although the sign for the Quechua dummy in regression 5 is negative, the coefficient is small and insignificant, which means that Quechua families did not buy significantly cheaper televisions than Hispanics. Again, this pattern is different for the Aymara, who own televisions whose purchase price is significantly below that of Hispanics. Table 3.5 summarizes the main results of this section.

*Table 3.5 Overview of results*

<i>Origin</i>	Purchase price television	Replacement rate television	Current market value		Ratio TV to stove
			Television	Stove	
<i>Hispanic</i>	High	Low	High	High	Low
<i>Quechua</i>	High	High	High	Low	High
<i>Aymara</i>	Low	Low	Low	Low	Low

### **3.6 Discussion of Results**

The results in Section 3.5 only partly confirm our hypothesis that households of indigenous origin have a higher propensity to engage in compensatory consumption, as reflected in a higher TV-to-stove ratio. While the consumption pattern of Quechua families is clearly in line with this hypothesis, it needs to be rejected for Aymara families. How can this difference between Quechua and Aymara households be explained?

One possibility is that our assumption that the choice for more expensive TVs is status-motivated is incorrect. Quechua households may buy more expensive TVs simply because they watch more television. This explanation cannot be tested directly, because the household survey does not report data on how much time families spend watching TV.<sup>31</sup> However, there is no obvious reason why Quechua families would watch more television than Aymara. First, there are more Aymara-spoken than Quechua-spoken television programmes and, second, there is no difference in the degree to which both ethnic groups understand Spanish, which is

<sup>31</sup> Data collected from 262 respondents, mainly of Hispanic and Quechua origin, during fieldwork in Cochabamba in 2003 indicate that the average adult member of a low-income family watches television for 2 hours and 40 minutes per day. Over 10 percent of the respondents watch 5 hours or more per day. Women tend to watch slightly more than men.

by far the dominant language on Bolivian television. The survey data show that virtually all members of low-income families in urban La Paz, Cochabamba and Chuquisaca are bilingual. Of those who learnt an indigenous language when infant, 98 per cent also speaks Spanish, which leaves little room for ethnic variation. Hence, there seems no compelling reason to believe that the intrinsic utility of a television is higher for Quechua than for Aymara households, which could justify why the former buy more expensive sets. As will be argued below, there is a more plausible explanation for the difference between the Quechua and Aymara, which is consistent with our assumption that high TV-to-stove ratios are a signal of status-led consumption.

In ethnically stratified societies people who belong to socially excluded groups can aspire to higher status by trying to ‘pass’ or integrate with the dominant ethnic group. Bauer (2001) provides a telling example of such attempts in Bolivia during the colonial period. In the early 18<sup>th</sup> century several hundred people in the city of Cochabamba presented themselves to the colonial authorities as *mestizos*, but officials of the Spanish Crown believed they were actually Indians who had exchanged their indigenous dress for Western clothing (Bauer, 2001, p. 80). Wearing the same type of clothing as ‘whites’ was just one element of a broader imitation strategy. According to Bauer (2001, p. 81), “the most obvious and effective way of changing identity was to change one’s material culture: what and the way one ate, one’s fabric and dress, the very rituals of consumption, the nature of houses and furniture”. Still today, changing one’s consumption pattern is one of the few strategies open to social climbers, because the possibilities to change one’s physical appearance are limited.<sup>32</sup>

Successful assimilation with the dominant ethnic group generates both psychological and material benefits. A person’s self-esteem may increase when discrimination in public places is avoided and income may rise due to improved opportunities for education and employment. Changing identity also involves costs, however. Akerlof and Kranton (2000, p. 738) argue that ‘passing’ with the dominant culture entails a psychological cost in the form of a *loss of identity*. People who identify with the higher-status group rather than with their own ethnic group often feel alienated from their ‘true’ self. This loss of identity is larger, the stronger the sense of identity of the own ethnic group. This raises the question whether the Aymara and Quechua differ in their sense of identity and, therefore, in the cost of assimilation.

The history of the Aymara people reveals a remarkably strong cultural identity:

The arrival of the Incas in the second half of the fifteenth century, surprisingly, changed little of the social, economic, and political organization of the Aymara kingdoms. ... That the Aymara retained their languages and autonomous social, economic, and even political structures to such an extent is a tribute to their wealth and power in the pre-Incaic times

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<sup>32</sup> An interesting example of trying to change physical appearance is the custom among Aymara women in the city of El Alto to drink beer during pregnancy in the belief that this increases the chance that the child will have blond hair. Source: *La Razón* (Bolivian newspaper), May 16, 2004.

as well as their *sense of powerful ethnic identity*. Even the Spanish Conquest, with its deliberate support for increased “Quechuanization”, could not wipe out the Aymara culture.

(Klein, 2003, pp. 17-18, emphasis added)

In order to see whether the Aymara have been able to preserve such a strong sense of identity till the present day, we can use our survey data. If the Aymara take more pride in their own ethnic identity than the Quechua, this difference should show up in the percentage of Aymara and Quechua that also auto-identify themselves as Aymara or Quechua in the survey. If we consider the household heads of low-income, urban families in the La Paz, Cochabamba and Chuquisaca departments whose mother tongue is Aymara ( $n=354$ ), it turns out that 9.9 per cent of them deny their Aymara origin in auto-classification. By contrast, of those household heads that learnt Quechua during childhood ( $n=224$ ), a much larger fraction, 22.3 per cent, denies being Quechua. These figures suggest that Aymara are less likely to hide their indigenous origin than Quechua, which is confirmed by a recent UNDP study in which respondents were asked whether they considered themselves *mestizos*. At the national level, 36 per cent of those who classify themselves as Aymara reject the term *mestizo*, whereas this is only 11 per cent for those who self-identify as Quechua (UNDP, 2004b, p. 105). Due to this powerful sense of ethnic identity of the Aymara, their psychological cost of changing identity is likely to be high, which would make assimilation with the dominant Hispanic culture a less attractive option. The cost-benefit analysis of changing identity seems more favourable for Quechua. Since an important strategy of assimilation consists of having the same consumer goods on display as Hispanic families, this may explain why Quechua households have higher TV-to-stove ratios than Aymara families.

This does not necessarily imply that Aymara spend less on status consumption than Quechua, however. Aymara families may spend more on consumption items that are status markers within their own culture rather than on Western status symbols. The outlay of Aymara women on traditional dress suggests as much.<sup>33</sup> They easily spend between US\$160 and US\$220 on a single outfit and for special festivities Aymara women may spend over US\$900 for their *pollera* (traditional skirt), manta, bowler hat and jewellery.<sup>34</sup> In general, traditional Aymara dress is more expensive than the traditional dress worn by Quechua women, and also more costly than imported Western-style clothing commonly sold in street markets (Gill, 1993, p. 79). Since the household survey does not contain data about expenditure on ‘indigenous’ status symbols, however, we cannot test for the existence of such a trade-off between expenditure on Western and traditional status markers. The field experiment discussed in Chapter 5 will examine the relation between traditional and modern forms of status seeking more closely.

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<sup>33</sup> The quality of traditional dress is an expression of wealth for urban indigenous women and indicates the hierarchy among them (Van Dam and Salman, 2003, p. 28).

<sup>34</sup> Source: *La Razón* (Bolivian newspaper), July 14, 2002.

Although assimilation with the dominant culture through the consumption of Western goods may not be an attractive option for the current generation of Aymara family heads, this need not be true for the next generation. In fact, there is evidence that Aymara parents encourage their children to commit ‘identity suicide’ early in life, so that the psychological costs of changing identity are reduced. As reported in Guaygua *et al.* (2003, pp. 297-298), Aymara women in El Alto prefer that their children wear Western-style clothing rather than the *pollera*, which they regard as an emblem of discrimination, even though they keep wearing it themselves. Moreover, parents discourage the use of the Aymara language by children and feel proud, rather than offended, when their children mock their parents’ deficiency in Spanish. With regard to the strategy of assimilation of the young urban generation of Aymara, Guaygua *et al.* (2003) make the following observation:

The search for new identity parameters seems to take place in the realm of consumption. ... The belief that one can become integrated through work and education is low, although it is their parents’ exclusive strategy. To buy or to feign shopping is more effective, and highly approbated by current symbolic standards.

(Guaygua *et al.*, 2003, p. 298)

It is conceivable, therefore, that the future generation of Aymara family heads will show a stronger tendency to compensatory consumption.

### **3.7 Limitations of Survey Data**

Our measure of compensatory consumption, i.e. the current market value of a family’s television as compared to that of its stove, is admittedly a crude one. A more precise measure would require additional information on the characteristics of these durables as well as their exact place in the home. Household surveys do not generally provide such detailed information. For instance, the Bolivian household survey does not report whether a durable has been bought new or second-hand, which is an important factor in determining its prestige value. With regard to stoves, the only clue in the household survey as to what types of stoves are owned by households in the sample, consists in information about the fuel used for cooking. The dominant fuel used to prepare food is liquid gas (92.0 per cent), followed by firewood (5.9 per cent) and kerosene (1.2 per cent). Apart from the fact that a large majority of the households apparently own a gas stove, no further information about the characteristics of these stoves is supplied. It might have been interesting to know, for instance, the size of the stove and whether it includes extra features such as an oven, as these may add prestige value. Although guests do not generally observe such features, the owners may serve an oven-prepared meal to demonstrate the extra expense.

A more precise assessment of the prestige value of a TV set would require information on whether the TV has a colour or a black-and-white image, whether it has a large screen, a remote control, a stereo sound system, etc. Also, the brand of the television would be informative in this respect. An indication for this is the widespread sale of fake brand-name protection cases for remote controls in Bolivia's informal markets, displaying prestigious brand names such as *Sony* and *Philips*. These allow households owning a television of a cheap Asian brand to give their TV some social cachet, provided that observers are taken in. Survey data do not pick up such subtle attempts to increase the status value of durables.

Household surveys are even less helpful in detecting status-motivated consumer behaviour with regard to non-durable goods. Take clothing, for instance, which is a consumption category where status plays an important role due to its high degree of social visibility. Surveys typically report a household's total expenditure on clothing or, at best, on a sub-category of clothing. In the Bolivian household survey, for example, a family's total expenditure on clothes is only subdivided into expenditure on clothing for men, women and children. This high level of aggregation is problematic, as is easily demonstrated. One of the low-income households in our sample has spent US\$36 on women's clothing in the three months prior to the survey. What does this tell us about this family's propensity for status consumption? The amount may have been spent on a single prestigious brand-name dress or, alternatively, on two or more ordinary-looking, non-branded dresses. Information on the number of clothing items and on brands is therefore essential. It would also be interesting to know whether this family spent their money on traditional or modern clothing. Wearing jeans, for example, is a sign of upward social mobility among indigenous women who migrated to the city.<sup>35</sup> In sum, household surveys generally do not provide enough detailed information to test for the presence of status motivations in the consumption of non-durable goods such as clothing.

In developed countries this data problem can often be circumvented by using more disaggregated consumption data from market research firms.<sup>36</sup> For developing countries, especially the poorer ones, such data often do not exist or, if so, they are unlikely to cover the poorer sections of the population. The poor heavily depend on informal markets for their consumption, whereas market research data tend to include only formal market channels. With regard to status consumption by the developing country poor, therefore, an alternative method of data collection has to be used. One option consists of what Lewis (1973, p. 254) has called an "archaeology of living peoples" approach, where the researcher goes out to observe a family's material possessions directly in their homes and questions the family members about them. The drawback of such an approach is that the number of observations is likely to be low compared to surveys, because it requires extensive field research to establish

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<sup>35</sup> Source: *La Razón* (Bolivian newspaper), August 5, 2003.

<sup>36</sup> Chao and Schor (1998), for instance, use data on brand-buying patterns of cosmetics consumers from a market research bureau to test for status consumption.

contacts with poor households and to gain their confidence.<sup>37</sup> Moreover, poor families get little in return, at least in a material sense, for their willingness to cooperate. An alternative method, which gives people a material incentive to participate, consists of conducting a field experiment with consumer goods and will be explored in the next chapter.

### 3.8 Conclusion

For low-income households, according to Caplovitz (1967, p. 48), “consumer activity is not only a matter of need but also one of embellishing their status by consumers’ goods. In place of actual movement up the social ladder, they turn to symbols of status in a pattern of ‘compensatory consumption’”. In this chapter we analysed the effect of ethnicity on a low-income family’s propensity to engage in such compensatory consumption in Bolivia, a developing country with a strong degree of ethnic stratification. The analysis unequivocally shows that ethnicity matters. The purchase patterns of stoves and televisions differ markedly between ethnic groups. With regard to the hypothesis that being of indigenous rather than Hispanic origin reinforces the need for compensatory consumption, however, mixed results are obtained. The consumer behaviour of the Quechua supports this hypothesis, whereas that of the Aymara does not.

The main conclusion is that the Caplovitz story is too simplistic for a multi-ethnic developing country like Bolivia. While blacks in the United States may have tried to acquire status exclusively by imitating whites, members of at least one indigenous group in Bolivia seem to seek higher status mainly within the group’s own ‘traditional’ prestige system. The existence of such a system reduces the need to acquire the same status symbols as members of the dominant culture. A straightforward model of emulation ignores this and thus cannot explain the observed differences in consumer behaviour across indigenous groups.

We believe our analysis has explored very much the limits of what can be done with household survey data to test for status consumption among low-income households in Bolivia. Apart from comparing ownership data across durables that differ in their degree of status intensity, household surveys offer very limited opportunities to perform a convincing test for status-motivated consumer behaviour, at least in their current design.

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<sup>37</sup> The study by Lewis (1973) using this “living-archaeology” approach covers only 14 poor households in Mexico City.

## Are the Poor Willing to Pay a Premium on Designer Labels?\*

### 4.1 Introduction

... People in every age and culture have always hunted for ways to acquire social cachet. For medieval European grandees, it was the details of dress, and sumptuary laws sought to stamp out imitations from the lower orders; now the poorest African country has its clothing markets where second-hand designer labels command a premium over pre-worn No Logo.

*(The Economist, 2001, p. 9)*

The observation that designer brand clothing commands a price premium over non-logo garments in African second-hand markets suggests that even poor consumers in developing countries, despite their economic hardship, are willing to pay a premium for designer labels. The parallel with aristocrats in medieval times trying to set themselves off from the crowd through conspicuous dress suggests that they might do so for social reasons. The existence of a price premium for designer brands in poor countries' second-hand markets, or in markets for brand-new products for that matter, is in itself not sufficient proof for these assertions.

First, developing country consumers who do not live in poverty may be responsible for the price premium. Hansen (2000, p. 91) notes that in Zambia, for instance, with the exception of the very wealthy, the attraction of second-hand clothing extends across the socio-economic spectrum, so there is a possibility that relatively well-to-do middle-class consumers cause the price difference rather than the poor. Second, even if poor consumers pay a higher price for designer label products than for non-logo products, it is not necessarily the status value or -to use a somewhat broader term- the symbolic value of a designer logo they are after. An alternative explanation for the price premium may simply be that poor consumers take the designer brand as a signal of higher intrinsic product quality. It remains to be seen whether a designer logo, beyond being a quality cue, entails symbolic utility in the eyes of low-income consumers in developing countries that is worth spending scarce resources on.

This chapter tries to shed some light on this issue, which has so far received little attention.<sup>38</sup> Despite the phenomenal spread of Western brand-name products to the developing

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\* A slightly adapted version of this chapter has appeared in *Oxford Development Studies* 32(2), June 2004, pp. 205-224.



world, empirical research into the spending patterns of the poor is still predominantly focused on ‘basic needs’ consumption. Relatively little is known about low-income consumers’ preferences for, and expenditure on, consumption items that are generally considered ‘luxuries’. This may in part be a consequence of the oft-assumed view, challenged in Chapter 2, that the poor do not spend on luxuries and are not responsive to multinational advertising. However, a recent empirical study by Batra *et al.* (2000) has shown that foreign brand names, in addition to suggesting high product quality, are desired for symbolic reasons by a large sample of Indian consumers. The study does not, however, provide an answer to the question of whether the *poor* are willing to pay extra for a designer label, since it was conducted among consumers who were “mostly middle-class” (Batra *et al.*, 2000, p. 89). Moreover, the survey reveals that brands perceived as having a non-local origin, especially from the West, are *attitudinally preferred* to local brand products in India, but it does not tell us to what extent this preference translates into higher willingness to pay (WTP) for foreign brands.

This chapter attempts to fill this gap by reporting on a field experiment conducted on a sample of low-income, urban consumers in Bolivia. An incentive-compatible procedure was used to elicit their WTP for a product with a designer logo, viz. a sample of Calvin Klein perfume, and an intrinsically equivalent non-logo product. The goal of the experiment was to test whether, and to what extent, the subjects were willing to pay for the designer label, before and after correcting for possible ‘quality illusion’. Subsequently, we tested whether individual differences in WTP for the logo could be explained by differences in respondent characteristics.

The analysis is a positive rather than a normative one. We do not, at this point, address the question of whether paying extra for a designer label is a ‘wrong’ or ‘right’ thing for the poor.<sup>39</sup> Neither does the experiment provide a direct test for *why* poor consumers might obtain symbolic utility from the acquisition or display of a designer logo, although some of the motivations identified in the social psychology literature as important drivers of ‘symbolic’ consumption are discussed.

The outline of the chapter is as follows. Section 4.2 reviews the symbolic role of designer labels in the context of poverty. The choice of methodology is explained in Section 4.3. The details of the field experiment follow in Section 4.4. In Sections 4.5.1 and 4.6.1 two sets of hypotheses are formulated, which are tested in Sections 4.5.2. and 4.6.2, respectively. Some problems of the experimental design are discussed in Section 4.7, and Section 4.8 concludes.

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<sup>38</sup> This relative neglect only applies to developing countries. See, for instance, Chao and Schor (1998) for empirical tests of status premiums paid on designer brand cosmetics in the United States.

<sup>39</sup> See James (2000b) for an extensive discussion on the welfare effects of the consumption of global products by low-income consumers in developing countries.

## **4.2 The Symbolic Meaning of Designer Labels for the Poor**

Consumers have long tended to regard brand names as guarantees of product quality and reliability: this explains why brand-name products have always been able to command a price premium. The role of brands has changed dramatically over time. Today, consumers increasingly pay a higher price for a brand because it represents a way of life or a set of ideas (*The Economist*, 2001, p. 9). Put differently, brands have taken on an increasingly *symbolic meaning*. What could the possession of a designer brand product possibly symbolize for the poor in developing countries? Before turning to this question, let us first briefly review the symbolic role of consumer goods in a more general context.

### *4.2.1 Material goods as symbols of identity*

According to Khalil (2000, p. 53), goods do not only confer utility to consumers in the sense of standard want satisfaction, but may also accord symbolic or *self-regarding* utility, satisfying people's pride or desire for self-identity and prestige. The social psychology literature on material possessions highlights this symbolic role. Material objects are primarily *symbolic expressions of identity* rather than functional objects that serve purely instrumental goals (Dittmar, 1992, pp. 88-89). They express aspects of the owner's identity, both to the 'self' and to others. Since material objects are symbolic mediators of identity between the 'self' and others, they may be used to gain or maintain a sense of identity, which enhances self-esteem and thereby personal well-being. The identity and the material possessions of a person are so closely linked in this view that the latter are regarded as an extension of the person's 'self'.

A relevant distinction here is whether material possessions further the owner's *differentiation* from others or promote *integration* with them (Csikszentmihalyi and Rochberg-Halton, 1981, p. 38). A relatively large body of literature on goods as status symbols stresses the importance of material objects in social differentiation processes. Status-signifying material possessions claim a superior position in the social hierarchy for the owner, as they command the respect and admiration of others and provoke envy among them. Status symbols may thus serve to lift a person 'above the crowd'. However, material goods are not just used for purposes of social distinction. They may also fulfil the opposite function of symbolizing similarities between the owner and others, such as a common religion, descent or lifestyle. Symbolic expressions of shared social identity may provide individuals with a *sense of belonging*, either to a specific group or to a larger whole. This distinction between the differentiating and integrating role of material goods is an analytical rather than an absolute one. A material object that symbolizes a certain group is an integrating symbol among its members, but may well be regarded a symbol of social differentiation by those who are excluded from this group.

The social psychology literature on the symbolic meaning of goods finds it difficult to establish what aspects of identity are being symbolized by material objects and for what specific purposes. This does not detract, however, from the central message that material possessions are intimately linked to identity.

#### 4.2.2 *Designer Labels as Constituents of Social Identity under Conditions of Poverty*

Do designer brand goods carry symbolic meaning for the poor in developing countries and, if so, of what does it consist? Let us consider the example of *les sapeurs* in the Republic of the Congo, a group of poor people that are eager consumers of Western designer-labelled goods. Their interest in designer labels is analysed in an anthropological study by Friedman (1990). The term *les sapeurs* refers to poor urban slum dwellers in Congo-Brazzaville, whose main dedication in life is the acquisition and display of designer clothes from France and Italy, obviously at tremendous expense:

Living in squalor and eking out a bare subsistence, all and any cash is channelled into the instalment purchase of the great names in menswear, from shirts to socks, to trousers, suits and shoes. ... The [demonstration of the famous labels acquired] is accomplished by sewing the labels onto the jacket lapel where they can be exhibited for others.

(Friedman, 1990, pp. 316-317)

Friedman argues that the goal of such conspicuous consumption of designer labels is to gain social status and that the satisfaction obtained from such “lumpenproletarian dandyism” ultimately lies in “the constitution of self for others” (Friedman, 1990, p. 317). This fits perfectly the notion in social psychology that “signs of status are important ingredients of the self” (Csikszentmihalyi and Rochberg-Halton, 1981, p. 17). Since the symbolic use of Western designer brands by this group of Congolese is explained as status seeking by Friedman, the role that designer labels assume for the poor seems to be mainly one of social differentiation.

Others tend to view Western brand-name goods primarily as vehicles of social integration for the developing country poor. For instance, Stearns (2001, p. 106) argues that the purchase of second-hand Western clothing offers African consumers a sense of belonging to a larger global world by gaining access to the up-to-date and the modern.<sup>40</sup> This may be important because studies into the ‘culture of poverty’ (e.g. Lewis, 1965) typically find that people who live in poverty suffer from a lack of ‘belonging’, i.e. they feel socially marginalized. This can in turn be connected with low self-esteem and feelings of inferiority among the poor. Psychological research has established that an individual’s self-esteem is

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<sup>40</sup> See Bauer (2001) for similar remarks in a Latin American context.

negatively affected by perceived social exclusion (Leary *et al.*, 1999). The observation in the 1998 *Human Development Report* that “the failure to consume a symbolic brand of goods can lead to social exclusion” (UNDP, 1998, p. 45) is therefore not very relevant for the developing country poor, since they tend to find themselves already on the margins of society. Rather, the consumption of symbolic brands can help them to mitigate feelings of social exclusion and to overcome a lack of belonging by integration at the symbolic level, though not in substance, with groups higher up the social hierarchy. For instance, Barnet and Müller (1975, p. 177) report that in Venezuela the by-product of advertising for Western brand-name goods is “to give families without the bare necessities of life a spurious feeling of being middle-class”.

Thus, designer labels appear to carry symbolic meaning for the developing country poor in that they are potential elements of their social identity. Whether social identity is mainly gained by differentiating oneself from other poor people by using designer labels as status symbols or by integrating with the non-poor by signalling a modern, middle-class lifestyle remains unresolved.

### **4.3 Methodology**

To discover whether the poor pay a symbolic premium for designer labels, ideally one should use *revealed* WTP in the marketplace. However, this requires controlling for possible quality differences between a designer label product and its non-logo counterpart. Although this could be done in principle by using laboratory testing or consumer ratings on product quality, quality differences as *perceived* by the individual buyer need not necessarily coincide with *actual* quality differences. Consumers may mistakenly believe the designer label product to be of higher quality. Conducting a consumer experiment can circumvent this problem. The major advantage of an experiment is that it offers the possibility of ‘creating’ a non-logo product that is intrinsically identical to the designer label product. Such a non-logo product may be obtained simply by removing the designer label from the branded product. This procedure can be explained to the subjects.

A problem arises with regard to eliciting WTP for the two products in a non-market setting. Simply asking subjects to state their WTP for both products is likely to produce biased responses. Because social norms are often condemnatory of poor people spending money on non-functional, prestige-enhancing product attributes, respondents may consider it socially correct to understate their true WTP for the designer logo. Therefore, an incentive has to be offered so that respondents have a stake in revealing their WTP truthfully.

In our experiment we use a Becker-DeGroot-Marschak (BDM) (Becker *et al.*, 1964) elicitation scheme to give such an incentive. Experimental researchers in behavioural decision theory have often used BDM-type elicitation procedures with product stimuli (Wertenbroch

and Skiera, 2002, p. 230).<sup>41</sup> It is simple to use relative to alternative incentive-compatible schemes. Even subjects who have received little formal education should be able to understand the procedure. Moreover, BDM does not require a sophisticated research facility, which is a clear advantage in a developing country setting.

The BDM variant used in the experiment consists of the following mechanism. First, the subject states his/her WTP ( $\varpi$ ) for a certain product from a given price range  $[\underline{a}, \bar{a}]$ , where  $\underline{a}$  and  $\bar{a}$  are the lower and upper bound of this range. Subsequently, a random device picks a price  $p$  from the set of numbers  $[\underline{a} + x, \underline{a} + 2x, \dots, \bar{a} - x, \bar{a}]$ , where  $x$  represents the step size that is used to subdivide the range  $[\underline{a}, \bar{a}]$ . Then if  $p \leq \varpi$ , the subject wins the product, whereas he/she wins the amount  $p$  in cash if  $p > \varpi$ . This procedure ensures that subjects do not have an incentive to under- or overstate their WTP. This is easily demonstrated. Let  $w$  be a subject's *true* WTP and  $\varpi$  his/her *stated* reservation value. In case of understatement ( $\varpi < w$ ), a sub-optimal outcome arises if  $\varpi < p < w$ . Since  $\varpi < p$ , the subject wins the amount  $p$  instead of the product, although the latter is in reality worth more to him/her. Thus, the subject's 'loss' from understating equals  $w - p$ . The reverse holds true in case of overstatement ( $\varpi > w$ ). If  $w < p \leq \varpi$ , the subject receives the product because  $p \leq \varpi$  and thereby reduces his/her gain by an amount equal to  $p - w$ . Hence, stating one's true reservation price ( $\varpi = w$ ) is always the first-best option.

The experiment described in more detail in the next section features a within-subjects design. Subjects are requested to reveal their WTP for both the designer label and the non-logo product, so that for each subject the premium on the designer product can be observed directly.

## 4.4 The Field Experiment

### 4.4.1 Details of the experiment

The designer label product used in the experiment, henceforth referred to as *DL*, is a Calvin Klein perfume sample.<sup>42</sup> The choice of a perfume sample is motivated by its low unit cost. Low-income consumers can generally afford original designer label products only if the unit cost is small. According to perfume vendors, original brand-name perfume samples serve low-income consumers particularly well, because the sample bottles can later be refilled with cheaper imitation perfume. A Calvin Klein product was chosen because it is one of the best-known designer brands in Bolivia.<sup>43</sup>

<sup>41</sup> See, for instance, the experimental work of Kahneman *et al.* (1990) on the 'endowment effect' and that of Bateman *et al.* (1997) on reference-dependent preferences.

<sup>42</sup> Although designer houses prohibit the sale of their perfume samples, in Bolivia they are widely sold in urban informal markets.

<sup>43</sup> In the sample of low-income Bolivians that was used for the experiment in Chapter 6, over 70 per cent of the subjects recognized the *CK* logo as the logo of a prestigious Western brand (see Figure 6.1).

The non-logo product used in the experiment, henceforward referred to as *NL*, was obtained as follows. Calvin Klein perfume samples were available in cartons featuring the *CK* logo, each carton containing two identical bottles. One of these bottles was taken out of each carton and repackaged in a carton without a brand name. Hence, any perceived difference on the part of the subjects between the fragrance of *DL* and *NL* was illusory.

After a brief introduction, the BDM mechanism as outlined in the previous section was explained to the subject. Since it was crucial that the participant understand the incentive-compatibility of the BDM mechanism, an example was used to show that lying about true WTP was against the participant's own interest. Where possible, elements of the game were visualized and the wording of the instructions was kept simple. (See Appendix 4.A for the exact oral instructions given during the experiment). The randomness of the roulette wheel used to draw the price  $p$  from the specified price range was demonstrated.

After confirmation by the subject that the rules of the game were understood, *DL* (marked with a green sticker) and *NL* (marked with a blue sticker) were shown simultaneously to the subject. They are introduced as the 'green product' and the 'blue product', respectively. At this point the subject was not informed about the equivalence of both products, but was allowed, and even encouraged, to examine and smell both products. The subject was then asked to state his/her WTP for both the green product ( $\varpi_{DL}$ ) and the blue product ( $\varpi_{NL}$ ). The price range in which  $\varpi$  can be stated was bounded between 1 and 6 units of local currency (Bs.), which seems reasonable given a market price of Bs. 4 (US\$0.60). The roulette wheel displayed prices ranging from 1.50 to 6.00, with increments of 0.50. The subjects were informed that eventually the game would be played for either the green or the blue product, randomly determined by throwing a dice.

After this first round of WTP elicitation, the subject was told that both perfume samples were identical and that only the presentation differed. The subject was then asked to rethink the reservation prices stated earlier. Again, the WTP for both the green product ( $\varpi_{DL}^*$ ) and the blue product ( $\varpi_{NL}^*$ ) was elicited. The asterisk indicates that WTP is stated in the absence of any possible 'quality illusion' in the subject's mind. After the final reservation prices were checked with the subject, the game was played and, depending on the outcome, the product was handed over to the subject or the amount  $p$  paid out in cash.

#### *4.4.2 Sampling of poor subjects*

The experiment was carried out in August 2002 in Cochabamba, the third-largest city in Bolivia. One third of the city's population is classified as poor (INE, 2001b). A direct way to identify poor subjects for the experiment would have been to distribute survey questions on income to potential participants. In order to get an accurate picture of a person's economic situation, however, a large number of questions, often quite sensitive ones, would have had to be answered by the respondent. It was feared that this might reduce people's willingness to

participate in the experiment. Therefore, an indirect method was used to recruit poor subjects. Five deprived neighbourhoods that lacked basic services were selected as locations for the experiment, the underlying assumption being that in neighbourhoods where basic services were absent, people were not only poor from a basic needs perspective, but also in terms of private income.<sup>44</sup>

The lack of safe water and inadequate sanitation facilities were used as the dominant criteria in the selection of neighbourhoods, since these two factors weigh heavily in measures of basic needs satisfaction. In all selected neighbourhoods the supply of safe drinking water was problematic. A piping system for water distribution was absent in all but one and water was bought from informal water vendors instead. Because public health authorities did not control these vendors, the consumption of water from them was open to health hazards, in particular gastrointestinal diseases. One neighbourhood had recently been connected to the municipal water distribution system, but according to its residents water supply was still scarce and erratic. In all neighbourhoods from which subjects were recruited, a sewerage system was absent. Septic tanks were used instead, which produced unpleasant odours during hot weather. Sanitation facilities, which often consisted of one single latrine, were mostly shared among seven to ten families. Given that the level of basic needs satisfaction in these neighbourhoods was clearly low, the experiment provided an implicit test of Maslow's (1954) hierarchy-of-needs, which suggests that people do not indulge in symbolic consumption, i.e. the acquisition of goods that satisfy belongingness and status needs, as long as 'basic needs' are not satisfied.

The question remains of whether it is reasonable to assume that a lack of access to such public goods as safe water and a sewer system is highly correlated with income poverty. A household survey from 2001 by the Bolivian National Statistics Institute provides some insight into this matter, because data on both basic needs satisfaction and private income were collected for individual families. The sample contained 446 households from urban Cochabamba, 75 of which lived in similar conditions to our respondents. Their homes were not connected to the water system or, alternatively, water supply was limited and irregular, a sewer system was absent and sanitation facilities were shared with other families. According to the survey, 87 per cent of these families earned an income per head below the national poverty line of Bs. 348 a month (about US\$1.80 a day) and were classified as income poor.<sup>45</sup> Hence, these data suggest that a lack of access to basic services is a reasonably good proxy for income poverty in urban Cochabamba.

The experiment was carried out in public meeting places in the selected neighbourhoods, such as a school or a market, where passers-by were invited to participate. It was checked with the participants whether they actually resided in one of the selected neighbourhoods. In total, 104 persons participated in the experiment, 84 women and 20 men.

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<sup>44</sup> The neighbourhoods selected were Ch'ampa Rancho, Huayra K'asa, Villa Candelaria, Villa Guadalupe and Villa Sebastián Pagador. See Annex II and III for the exact locations of the experiment.

<sup>45</sup> Own calculations based on INE (2001b).

The lop-sided sex ratio is due to the fact that initially only women were targeted as participants. It was expected that men would not be interested in the perfumes for their own use, even though the Calvin Klein perfumes used in the experiment were advertised as unisex products. Consequently, it was feared that they might state the *resale value* of the perfumes rather than their *own* reservation value. However, some men showed genuine interest in the perfumes for their own use and were therefore allowed to participate.

## **4.5 The Logo Premium: Do the Poor See Beyond Their Nose?**

### *4.5.1 Hypothesis*

Along with price and store reputation, a brand name serves as an extrinsic cue that positively affects consumers' perceptions of product quality.<sup>46</sup> This may even cause buyers to rate a branded product higher on intrinsic quality than an identical product without a brand name, as shown by Davis (1985) in an experimental setting. Such 'quality illusion' is ascribed to the fact that a brand name is a 'halo' construct; people who like a product tend to rate it consistently high across all attributes. Hence, a positive opinion of a product's symbolic attributes may spill over to its quality-related aspects, even if this is not justified on factual grounds. Poor consumers in developing countries may be especially prone to such quality illusion, because they tend to have relatively little experience of the consumption of brand-name goods and consumer education tends to be weak. Kaplinsky (1990) provides some anecdotal evidence on quality illusion from Kenya:

In the bakery industry a great premium has been placed ... on the Elliots' brand names and its wax wrappers. ... One peri-urban baker in Eastern province complained about this with particular bitterness ... and faced with the reluctance of locals to eat his bread he went into a café to enquire the reason. They responded by saying that his bread was not up to Elliots' standards, so he left the café, bought an Elliots' loaf, and transferred its wax wrapper to his own product. He re-entered the café with this Elliots' loaf, the customers opened it and told him that this was the proper way for bread to be cooked.

(Kaplinsky, 1990, p. 69)

If foreign brand names in developing countries give rise to such distorted perceptions on product quality, we might expect that our subjects prefer the fragrance of *DL* to that of *NL* in a smell test, which in itself may result in a higher WTP for *DL*.

The experiment was designed so that this quality illusion effect could be measured by comparing a respondent's premium for *DL* in the first round of WTP elicitation, where

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<sup>46</sup> See Rao and Monroe (1989) for a meta-analysis of studies that investigate the impact of brand names on quality perceptions.



subjects were not informed about the equivalence of the products, with the stated premium for *DL* in the second round, after they have been given this piece of information. Let us denote these individual premiums as  $\pi_i$  and  $\pi_i^*$ , respectively, where  $\pi_i = [(\varpi_{DLi} - \varpi_{NLi}) / \varpi_{NLi}]$  and  $\pi_i^* = [(\varpi_{DLi}^* - \varpi_{NLi}^*) / \varpi_{NLi}^*]$ . It was expected that, due to quality illusion in favour of *DL*,  $\pi_i$  would on average exceed  $\pi_i^*$ , which implied that  $(\sum_i \pi_i) / N > (\sum_i \pi_i^*) / N$ . Note that the premium for *DL* was measured in relative terms, as a ‘mark-up’ on  $\varpi_{NL}$ , rather than in absolute money terms. A proportional premium is more informative, because if the absolute amounts that subjects are prepared to pay extra for *DL* were to be compared, the premium measure would pick up individual differences in WTP for perfume as such.

The principal conjecture is that designer labels, beyond being an extrinsic quality cue, are valuable symbols in the eyes of poor consumers for the reasons outlined in Section 4.2, and for which a substantial number of them are willing to sacrifice resources. In order to accept this hypothesis for our sample, the proportion of subjects for which  $\pi_i^*$  is positive should be reasonably large and the average premium corrected for quality illusion over the whole sample,  $(\sum_i \pi_i^*) / N$ , should be significantly different from zero and positive.

#### 4.5.2 Results

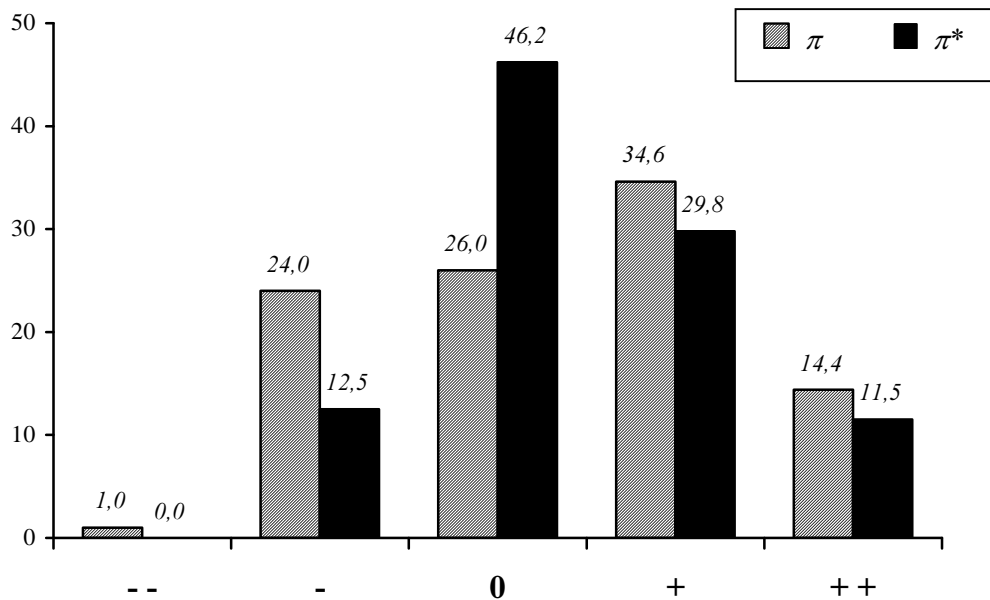
Let us first consider the results for  $\pi_i$ , the premium on the designer label product *uncorrected* for possible quality illusion. The values for  $\pi_i$  are ordered into the following five categories: a *strongly negative* premium (--) if  $\pi_i < -0.5$ , i.e.  $\varpi_{DLi}$  is more than 50 per cent lower than  $\varpi_{NLi}$ , a *moderately negative* premium (-) if  $-0.5 \leq \pi_i < 0$ , a *zero* premium (0) if  $\pi_i = 0$ , a *moderately positive* premium (+) if  $0 < \pi_i \leq 0.5$ , and a *strongly positive* premium (++) if  $\pi_i > 0.5$ . The shaded bars in Figure 4.1 show the frequency distribution of the subjects over these categories.

The solid bars in Figure 4.1 show the proportional distribution of the subjects over the same categories for  $\pi_i^*$ , the premium on *DL* after the subjects had been told that the fragrance of both samples was identical. It turned out that none of the subjects was willing to pay a large negative premium any longer and the proportion in the sample that paid a moderately negative premium fell by almost half, from 24.0 to 12.5 per cent. The fraction of respondents that was indifferent increased sharply from 26.0 to 46.2 per cent. A moderately positive premium was now paid by 29.8 per cent against 34.6 per cent in the previous round. There was also a slight reduction, from 14.4 to 11.5 per cent, in the proportion of respondents prepared to pay a large positive premium. Still, 41.3 per cent of the respondents stated a higher WTP for *DL* than for *NL*. Note that in six cases no difference between  $\varpi_{DL}^*$  and  $\varpi_{NL}^*$  could be observed, because the upper bound of the WTP range was stated for both products.

Let us first check the prediction of quality illusion in favour of *DL*, which requires that  $(\sum_i \pi_i) / N > (\sum_i \pi_i^*) / N$ . The average premium on *DL* in the second round was 21.5 per cent, not significantly lower than the 26.4 per cent from the previous round ( $t = -0.823$ ,  $p = 0.413$ ).

Hence, there was no significant quality illusion effect in favour of *DL*. In fact, a headcount of those subjects who fell prey to quality illusion suggests that the illusion effect worked in the opposite direction. In reaction to the information that both fragrances were identical, only 12 subjects changed their premium in favour of *NL* as one would expect, whereas a higher number, 18, changed their premium in favour of *DL*. Apparently, this latter group initially liked the smell of *NL* better. Since the 12 persons who changed their premium in the predicted direction made larger adjustments than the 18 who did not, the average premium was slightly lower in the second round.

*Figure 4.1 Sample distribution of premium on designer label product*



As far as our central hypothesis is concerned, the results for  $\pi_i^*$  in Figure 4.1 support the conjecture that a substantial fraction of the poor is willing to pay a premium on the designer label for symbolic rather than for quality-related reasons. If symbolic considerations did not play a role at all in the consumer's mind, one would expect the frequency of those who were indifferent between *DL* and *NL* to be close to 100 per cent in Figure 4.1, while the figure is only 46.2 per cent. A fraction almost as high, 41.3 per cent, was willing to pay a positive premium on *DL*. About 70 per cent of them paid a moderately positive premium [ $\pi_{median}^*(+) = 0.33$ ], whereas 30 per cent paid a strongly positive premium [ $\pi_{median}^*(++) = 1.00$ ]. Hence, the median subject in the latter group was willing to pay twice as much for *DL* as for *NL*.

It is odd that 12.5 per cent of the subjects reported a higher WTP for *NL* than for *DL*, even in the absence of quality illusion. A possible explanation may be that these consumers generally bought non-logo products, manifesting what McCracken (1988) called the “Diderot effect”. This effect “works to prevent an existing stock of consumer goods from giving entry to an object that carries cultural significance that is inconsistent with that of the whole” (McCracken, 1988, p. 123). Attaching a negative premium to the designer label product reduced the chance of winning *DL* and thereby the probability of sending a culturally inconsistent message about identity to others and to oneself.

This notwithstanding, the average premium on *DL* was 21.5 per cent over the whole sample, which is significantly higher than zero ( $t = 3.58$ ,  $p = 0.001$ ). Hence, our subjects would, as a group, offer a price premium for designer label perfumes over non-logo perfumes because they valued the designer logo *as a symbol*.

Finally, let us consider the results for the *absolute* values of  $\varpi_{DL}^*$  and  $\varpi_{NL}^*$ . Interestingly, 54 per cent of the subjects stated a reservation price for at least one of the products that exceeded the market price of *DL* [ $\max(\varpi_{DL}^*, \varpi_{NL}^*) > \text{Bs. } 4$ ]. This suggests that more than half the sample would actually buy a perfume sample in the marketplace, spending money on a ‘luxury’. However, this percentage is likely to be inflated by the fact that in the experiment subjects did not pay out of their own pocket for the perfume samples.<sup>47</sup>

## 4.6 Pro Logo versus No Logo: Who Pays a Premium?

We now analyse whether the variation in respondents’ propensity to pay a premium for the designer logo can be explained by respondent characteristics. Table 4.1 provides an overview of these characteristics: age, education level, economic situation, migrant status (rural origin), television ownership and the frequency of viewing soap operas. We first discuss whether each variable is expected to increase or decrease a person’s premium on the designer label. We then run regression analysis to test the hypothesized relationships.

### 4.6.1 Hypotheses

For some variables the direction of influence is fairly obvious and these are therefore elucidated only briefly. For other variables the expected impact is less clear-cut and a more extensive discussion is warranted.

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<sup>47</sup> Such ‘inflation’ could have been prevented by using the following alternative incentive scheme (see, e.g. Wertenbroch and Skiera, 2002): If  $p \leq \varpi$ , the subject is required to buy the product out of his/her pocket at price  $p$ , whereas if  $p > \varpi$ , he/she is not allowed to buy the product. Although this procedure gives subjects a stronger incentive to reveal their true WTP because there are no windfall gains, the out-of-pocket obligation seems problematic from an ethical point of view if subjects are poor.

*Are the Poor Willing to Pay a Premium on Designer Labels?*

Let us first consider the age variable. The sample includes respondents between 17 and 55 years, of which 40 per cent is young (17-25 years). We hypothesize that young subjects pay a larger symbolic premium on designer labels than older respondents, because Western consumer goods may serve developing country consumers' needs to distinguish themselves not only from poorer, lower-status individuals, but also from older generations (Stearns, 2001, p. 97). The fashionable and trend-setting image of the Calvin Klein brand seems particularly suitable for this purpose.

*Table 4.1 Respondent characteristics and corresponding dummy variables<sup>a</sup>*

<b>AGE</b>			<b>EDUCATION</b>			
	<i>YOUNG</i>	%	(level completed, (yrs.))	<i>LOW-EDU</i>	<i>INTM-EDU</i>	%
17-25 years	<i>1</i>	39.4	Primary or less (0-7)	<i>1</i>	<i>0</i>	28.9
26-35 years	<i>0</i>	31.7	Intermediate (8-11)	<i>0</i>	<i>1</i>	36.5
36-55 years	<i>0</i>	28.9	Secondary ( $\geq 12$ )	<i>0</i>	<i>0</i>	34.6
		100.0				100.0

<b>INCOME</b>			<b>ORIGIN</b>		
(within own neighbourhood)	<i>LOW-INC</i>	%	(place of birth)	<i>RURAL</i>	%
Above average	<i>0</i>	6.7	Rural area	<i>1</i>	22.1
Average	<i>0</i>	67.3	Small urban centre	<i>0</i>	21.2
Below average	<i>1</i>	26.0	Large urban centre	<i>0</i>	56.7
		100.0			100.0

<b>TV-OWNERSHIP</b>			<b>TELENOVELA</b>		
	<i>TV-OWNER</i>	%	(frequency of watching)	<i>NOVELA</i>	%
Colour TV	<i>1</i>	53.8	Almost never	<i>0</i>	42.3
Black and white TV	<i>1</i>	35.6	Once in a while	<i>0</i>	36.5
No television	<i>0</i>	10.6	Almost every day	<i>1</i>	21.2
		100.0			100.0

<sup>a</sup> Names and coding of dummy variables in italics.

As far as education is concerned, it is expected that the more formal schooling a respondent has received, the lower the premium. This may appear somewhat counterintuitive, as schools are often considered as an important institution in developing countries through which modern, middle-class values are instilled.<sup>48</sup> Since designer labels are symbolic expressions of such a modern mentality, this should result in a higher premium. On the other hand, Caplovitz's (1967) compensatory consumption hypothesis would predict that less rather than more education increases the need for symbolic consumption. Those with low education would be the most avid consumers of goods that express their owners' aspirations for status in an attempt to offset the lack of status that goes with limited educational and occupational

<sup>48</sup> See Inkeles and Smith (1974, Ch. 2) for a discussion of the role of schools as modernizing institutions in developing countries.

achievements.<sup>49</sup> Since we found moderate support for such a negative relation between education level and status consumption in Chapter 3, we expect respondents with relatively low education levels, other things being equal, to pay a higher symbolic premium on the designer logo than those with a better educational record. In our sample, almost 30 per cent did not receive formal education beyond primary school, and within this group the majority dropped out before completion. The other subjects either had a secondary education degree (34.6 per cent) or completed an intermediate level of education (36.5 per cent).

Another variable that may partly explain the observed variance in  $\pi_i^*$  is a person's economic situation. It should be noted that this variable is not measured objectively. Instead, respondents were asked to evaluate how their family was doing financially in comparison with other families in their own neighbourhood. Only 6.7 per cent reported that their economic situation was better than average, whereas 26 per cent rated themselves as below average in this respect. Those who were in this latter group may find themselves in such precarious economic conditions that securing economic survival was their main preoccupation and, as a consequence, symbolic needs were pushed into the background. Therefore, the expectation is that subjects in this latter category are less inclined to pay a premium on the designer logo.

Respondents were also asked whether they were born in a rural or an urban area. Rural migrants, which make up 22.1 per cent of the sample, may cling more to traditional values and have less understanding of the symbolic meaning of global consumer goods than those who have been exposed to urban, consumerist lifestyles for a longer period. Hence, it is anticipated that rural origin negatively affects the propensity to pay a symbolic premium on the designer logo perfume.

Another indicator of the degree of exposure to global consumer goods is TV-ownership. Close to 90 per cent of the respondents had a television set in their home. The effect of TV-ownership on the designer label premium is expected to be positive because of the advertising for branded products that appears on the screen.

Besides direct exposure through commercials, television watching may also enhance the familiarity of the poor with Western brand-name icons more indirectly. The display and use of Western goods in American movies, series and soap operas may have a demonstration effect on developing country consumers, fuelling the desire to acquire status-intensive goods (James, 2000a, p. 44). The role of imported soap operas is often highlighted in this respect. For instance, Miller (1995, p. 224) has studied the impact of American soaps on consumption behaviour in Trinidad and concludes that "the link often supposed between the popularity of soap opera and the desire for certain commodities certainly operates in Trinidad".

Today, American soaps are, to a large extent, displaced by *telenovelas* in Latin America, which are produced in the region itself. The popularity of this Latin American counterpart of the soap opera, however, does not necessarily reduce exposure to Western brands.

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<sup>49</sup> Lewis (1965, p. xxxvii) also hints at this "reparative" role of consumption when analysing expenditure patterns of poor families in a Puerto Rican slum.

*Telenovelas* are full of merchandising for Western brand-name goods and their effect on developing country consumers may be even stronger than that of American soaps. According to Ritzer (2001, p. 171), the transfer of American values and lifestyles to non-Western countries is “far greater if it infiltrates a local culture and becomes a part of it than if it remains perceived as an American phenomenon superimposed on a local setting”. Almost 60 per cent of the subjects in the sample were *telenovela* watchers. We expect those who watch practically every day (21.2 per cent) to pay a higher symbolic premium for *DL* than non-viewers and occasional viewers.

The hypotheses drawn up in this section can be summarized as follows. The propensity to pay for a designer label as a symbol is relatively strong for the young, the low-educated, those who own a television and for frequent *telenovela* watchers, whereas it is relatively weak for rural migrants and for those whose economic situation is worse than average.

#### 4.6.2 Results

An ordered probit regression analysis was performed in order to test whether the variations in the designer label premium could be explained by the various respondent characteristics discussed above. The dependent variable is  $\pi_i^*$ , a proxy for an individual’s propensity to pay a symbolic premium on designer labels in general. Since the respondents revealed their premium for a particular type of product and one specific designer logo only, we were hesitant to use the absolute values for  $\pi^*$ . Instead,  $\pi^*$  is treated as an ordinal variable. The position of negative premium payers on the latent dependent variable is somewhat unclear, because they do pay a symbolic premium, but not for the designer product. Therefore, let us first consider only the other three groups distinguished in Figure 4.1. The dependent variable has three possible outcomes:  $Y_i = 0$  if a respondent is indifferent between *DL* and *NL*;  $Y_i = 1$  for a moderately positive premium; and  $Y_i = 2$  in the case of a strongly positive premium.

Each respondent characteristic enters the regression as a single dummy variable, except for education, for which two dummy variables are used (see Table 4.1 for details). One might expect multicollinearity between the predictors to be a problem, because low education and low income often go together and both may in turn be highly correlated with rural origin. However, inspection of the collinearity statistics shows that the degree of multicollinearity among these variables is well below the acceptable level.<sup>50</sup> The reason is that the rural origin group includes a considerable number of migrants from Bolivia’s mining areas. Children of miners enjoyed subsidized education from the state mining company, so that their educational profile is relatively good, and this may have positively affected their economic situation once they settled in the city.

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<sup>50</sup> The variance inflation factors (VIFs) for the variables *LOWEDU*, *LOWINC* and *RURAL* are 1.6, 1.1 and 1.3, respectively, whereas serious multicollinearity implies  $VIF > 5$ .

Table 4.2 Ordered probit regression results<sup>a</sup>

Independent variable	Expected sign	Regression 1		Regression 2 <sup>b</sup>	
		Coefficient (std. error)	z-statistic (p-value)	Coefficient (std. error)	z-statistic (p-value)
<i>YOUNG</i>	+	0.138 (0.276)	0.500 (0.617)	0.198 (0.267)	0.744 (0.457)
<i>INTMEDU</i>	+	0.237 (0.318)	0.746 (0.456)	0.342 (0.303)	1.130 (0.259)
<i>LOWEDU</i>	+	0.993** (0.386)	2.576 (0.010)	0.749** (0.353)	2.121 (0.034)
<i>LOWINC</i>	-	-0.936*** (0.326)	-2.870 (0.004)	-0.791** (0.312)	-2.537 (0.011)
<i>RURAL</i>	-	-0.522 (0.354)	-1.476 (0.140)	-0.400 (0.333)	-1.202 (0.229)
<i>TV-OWNER</i>	+	-0.537 (0.420)	-1.280 (0.201)	-0.512 (0.399)	-1.283 (0.199)
<i>NOVELA</i>	+	0.628** (0.312)	2.010 (0.044)	0.613** (0.299)	2.051 (0.040)
<i>CK/ONE</i>	-	-0.675** (0.288)	-2.345 (0.019)	-0.485* (0.265)	-1.828 (0.068)
Log likelihood		-76.202		-85.923	
LR statistic (prob.)		24.393***	(0.0020)	20.116***	(0.0099)
Pseudo R <sup>2</sup>		0.138		0.105	
No. of obs.		91		104	

<sup>a</sup> The dependent variable is the premium  $\pi_i^*$  on *DL*, which is ordered into three categories:  $Y_i = 0$  if  $\pi_i^* = 0$ ,  $Y_i = 1$  if  $0 < \pi_i^* \leq 0.5$  and  $Y_i = 2$  if  $\pi_i^* > 0.5$ , where  $\pi_i^* = [(\varpi_{DLi}^* - \varpi_{NLI}^*) / \varpi_{NLI}^*]$ .

<sup>b</sup> In regression 2 respondents who pay a negative premium on *DL* ( $\pi_i^* < 0$ ) are included, so that  $Y_i = 0$  if  $\pi_i^* \leq 0$ .

\*\*\*, \*\* and \* indicate significance at 1, 5 and 10 per cent, respectively.

Not related to respondent characteristics is the dummy variable *CK/ONE*, indicating the treatment in which the subject has taken part. Half the subjects were shown samples of the Calvin Klein perfume 'One', in which case the dummy takes on the value 1, while the other half were shown samples of the Calvin Klein perfume 'Be'. The only difference, apart from the fragrance, was that the 'One' bottles were silver-coloured and those of 'Be' were dull black. We expected that subjects who were shown 'One' would state a lower premium for *DL* than those in the 'Be' treatment. The reason being that the 'One' bottles as such, that is even without the designer logo attached, may carry symbolic value in the sense that they signal status because of their conspicuous appearance. In the case of 'Be', on the other hand, the designer logo is definitely needed to give the ordinary-looking bottle social cachet.

The regression results are shown in the third and fourth columns of Table 4.2 (regression 1). Except for the TV-ownership variable, all coefficients have the predicted sign. Moreover, the coefficient estimates for four of the eight explanatory variables are significant at standard confidence levels.

The age variable is not significant, which means that younger subjects did not show a higher propensity to pay a premium on the designer logo than older subjects. This suggests that the *CK* logo is equally attractive across age groups, despite the fact that the ads for the Calvin Klein perfumes mainly target young people.

With regard to education, the coefficient for *INTMEDU* is positive but not significant. Respondents with an intermediate level of education show a slight tendency to pay a larger symbolic premium on the designer logo than their highly educated counterparts. Clearer support for Caplovitz's 'compensatory consumption' hypothesis is found in the low education group. The *LOWEDU* variable is significant at the 5 per cent level and, as hypothesized, has a positive sign. Hence, respondents with a low level of education have a stronger propensity to pay a symbolic premium on the designer label than those with higher educational accomplishments.

The income variable is also a significant predictor of symbolic consumption patterns. In line with expectations, those who rate their family's economic situation as worse than average (26 per cent) are, *ceteris paribus*, less inclined to pay a symbolic premium. This hints at a threshold level of income below which the indulgence in symbolic consumption becomes unaffordable. Because the private incomes of the respondents are unknown, it is not possible to define this threshold value exactly. However, an indication can be obtained by looking at the bottom 26 per cent (in terms of private income) of the families with similar living conditions from the household survey discussed in Section 4.4.2. Interestingly, the bottom quartile roughly coincides with those families who are classified as indigent in the survey, earning an income per head that is below the level of extreme poverty of Bs. 176 per month (US\$0.90 a day). This income threshold is only an 'educated guess', however, because sample sizes are small and a possible sample bias in the experiment is not corrected for.

The regression does not show strong evidence of origin effects. Although rural origin seems to affect the readiness to pay a premium negatively, it is not significant. A reason might



be that rural people in developing countries understand very well the symbolic value of designer brand goods. In addition, most of the respondents who were born in a rural area migrated to the city during the mid-1980s, so they had resided in the city for quite some time already.

The coefficient for the TV-ownership variable does not have the predicted sign. It is negative but not significant. The poor performance of this variable is not surprising, given the small fraction of non-owners in the sample. Moreover, those who do not own a television may still watch television elsewhere. Television ownership is nevertheless useful as a control variable when examining the effect of *telenovela*-watching on  $\pi^*$ . In accordance with predictions, the *NOVELA* variable has a positive sign and is significant at the 5 per cent level. Those who watch *telenovelas* on a daily basis are more likely to pay a premium on designer labels than those who do not.

Finally, we find that subjects who were shown the ‘*One*’ perfume paid lower premiums than those who were shown the ‘*Be*’ perfume. This confirms the hypothesis that the symbolic value of a designer label is reduced when the product itself already looks prestigious.

The question remains of how the group of negative premium payers fits into this picture. One possibility is that they are convinced ‘anti-logo’ consumers, which can be tested by assigning a lower score on the latent variable to them than to those who are indifferent between *DL* and *NL*. It turns out that this drastically worsens the fit of the model, so this possibility should be discarded. Alternatively, the relevant distinction may be between those who pay a positive premium on *DL* and those who are not willing to do so. This latter group includes both the zero and the negative premium payers. This is tested by joining the two groups in a second regression, where  $Y_i = 0$  if  $\pi_i^* \leq 0$ . The results are presented in Table 4.2 (regression 2) and turn out to be very similar to the results obtained earlier. The only difference is that the *LOWINC* and *CK/ONE* variable come out less strongly, but are still significant. The data fit of regression 2 is slightly worse than that of regression 1, as can be observed from the likelihood ratio statistics at the bottom of Table 4.2, but the explanatory power of both regressions is significant at the 1 per cent level. This indicates that the negative premium payers are not markedly different from the zero premium payers. The general conclusion to be drawn from the regression analysis is therefore that a poor consumer’s propensity to pay a symbolic premium on a designer label product is relatively strong for respondents with low education levels and for those who watch *telenovelas* regularly, whereas it is relatively weak for respondents whose family income is below average.

#### 4.7 Caveats

This section identifies two possible flaws in the experiment design and their implications for the validity of the study are discussed briefly.

The first caveat concerns *aesthetics*. Aesthetic product attributes provide utility in the standard sense rather than symbolic utility, because they do not contribute to self-identity (Khalil, 2000, p. 53). Since the Calvin Klein packaging is visually more attractive, it could be argued that some subjects were willing to pay more for *DL* for aesthetic reasons rather than for its symbolic value. Although the colour that was chosen for the packaging of *NL* was identical to that of *DL* in order to minimize the influence of aesthetics, *NL* was relatively 'empty' in the sense that it lacked any logo or text. It is not possible to verify to what extent aesthetic aspects played a role, but it is hard to believe that the letters *CK* would command such a substantial price premium if they were not the initials of a well-known designer brand. Even if aesthetics did play a role in the subject's mind, our results would still fit in awkwardly with Maslow's hierarchy of needs, in which aesthetic needs are considered to be of an equally high order as the need for belongingness and status, which should lie dormant as long as basic needs are not gratified.

The second, and arguably more serious, flaw is that the participants may have been subject to *cognitive dissonance*, which could have caused quality illusion effects to persist even after the experimenter told the subject that both fragrances were identical. This problem stems from the within-subjects design of the experiment. Assume that subjects were willing to pay more for one of the two perfume samples in the first round of WTP elicitation because they believed it smelled nicer. Suddenly they are told by the experimenter that the two fragrances are identical, which is clearly inconsistent with the subjects' belief that one product is intrinsically better. Such 'cognitive dissonance' creates psychological discomfort, which puts pressure on people to reduce or eliminate dissonance (Festinger, 1957, p. 18). Changing beliefs entails psychological costs and some subjects may therefore have ignored the new information or made up other quality-related arguments in support of their initial belief. This would result in a reluctance to change reservation prices, which would erroneously be taken as evidence for symbolic consumption.

We do not believe cognitive dissonance to be a serious problem in our experiment, however. First, the use of the BDM procedure implies that ignoring information is costly for the subjects because it lowers their potential winnings in the game, which has to be weighed against the psychological costs of changing beliefs. Moreover, the psychological costs of modifying a cognitive element are likely to be small here, because the initial choice for one of the products was reversible. Dissonance would be more problematic if a consumer received negative information about a certain purchase *ex post*. Also, cognitive dissonance cannot explain the observed asymmetry in reluctance to change WTP between those who initially stated a higher WTP for *DL* and those who initially stated a higher WTP for *NL*. Figure 4.1 shows that 84.3 per cent of those who paid a positive premium in the first round continue to do so in the second round, whereas this percentage is only 50 per cent for those who paid a negative premium. Finally, it is not clear why feelings of dissonance would be systematically correlated with education level, economic situation and frequency of *telenovela* watching.

## 4.8 Conclusion

The result that more than 40 per cent of our subjects were willing to pay a symbolic premium for a designer label supports the hypothesis that a substantial proportion of the urban poor in developing countries is willing to pay for a designer label as a symbol. It has not explicitly been tested in the experiment whether designer labels help the poor to gain social identity through differentiation from, or integration with, other members of society, but the regression results may give some clues.

First, there seems to exist a threshold level of income below which individuals can hardly afford to spend resources on symbolic product attributes. This implies that those who earn an income above this level, although still poor, have the opportunity to differentiate themselves from the poorer group by consuming designer products. Hence, there is room for status seeking based on wealth disparities. Second, the support given to the compensatory consumption thesis by the data is a direct indication of status-oriented consumer behaviour. Subjects who are unable to gain status because of their poor educational profile pay a relatively high symbolic premium on the designer label. On the other hand, the positive impact of *telenovela* watching on the logo premium suggests that designer labels serve the purpose of integration rather than differentiation. According to Tufte (2000, p. 230), *telenovela*-watching promotes a sense of 'belongingness' among the poor through identification with *novela* characters with middle-class lifestyles. Possessing the same designer label products as the actors on the screen facilitates such identification, which may be a welcome escape from reality, which is typically one of social exclusion. In sum, a mixed picture arises from the experiment as to whether status or belongingness is the overriding motivation for poor people to pay a symbolic logo premium.

Finally, the experiment reveals that a designer brand logo primarily serves as a symbolic expression of social identity for the poor, not as an extrinsic quality cue. This may explain the popularity of second-hand designer clothing in low-income markets. The symbolic utility gain offsets the loss in quality due to wear and tear. It also provides an explanation for the consumption of low-quality imitations of designer brand products by the poor, which will be discussed in Chapters 5 and 6. The intrinsic quality of the product to which a designer label is attached becomes of secondary importance when poor consumers value the logo itself.

#### **Appendix 4.A Experimental instructions**

*(Translation of original instructions in Spanish)*

I am a researcher from The Netherlands and conducting a consumer survey here in Cochabamba. In particular I would like to know how much money people are willing to pay for two different perfumes by means of a lottery-type of game. In this lottery you can win a small prize, you do not lose anything. Before playing the lottery, I need some personal data from you. It is important to know that the survey is anonymous and that all information will be used for academic purposes only. The survey takes only 10 minutes. Are you willing to participate?

*[Subject first answers a set of survey questions]*

In a minute I will show you two samples of perfumes and I will ask you to state the maximum price that you are willing to pay for each of them. To give you an incentive to think about it carefully, we will play a small lottery in which you can win one of the two perfume samples or, alternatively, a small amount of cash. I will explain how it works by means of an example [*subject is shown a 30ml package of Nivea skin cream with a market price of 5 Bs.*]. Please indicate the maximum price you would be willing to pay for this product. The price you state should be between 1 and 6 Bs. [*Subject states a certain amount, say 4 Bs.*]. Now you spin the roulette and a certain amount in bolivianos will appear. As you can see, the roulette contains 10 stickers, each with a different amount, from 1.50 Bs. (minimum) to 6 Bs. (maximum) in steps of 0.50 Bs. The rules of the game are the following: If the amount that turns up on the roulette is equal to or less than the price you are willing to pay for the product, you win the product. However, if the amount is higher, you win that amount in cash instead of the product. Let me show you how it works.

You indicated that you would be willing to pay 4 Bs. for this product, right? Now if the amount of 2 Bs. turns up on the roulette for instance, which is lower than 4, you win the product instead of 2 Bs. in cash. But if the amount of 6 Bs. results for example, which is higher than 4, I will pay you 6 Bs. in cash. The game is such that is always in your own interest to truthfully state your willingness-to-pay for the product as precise as possible. I will show you what happens if you understate your willingness-to-pay for example. Say that in fact you would pay 4 Bs. for this product, but instead you tell me that you would pay only 2 Bs. Now if the amount of 3 Bs. turns up on the roulette for instance, which is higher than 2, you win 3 Bs. in cash instead of the product, which would have in fact been better for you, because in reality it is worth 4 Bs. to you. So you could have won one boliviano more. Now let us see what happens if you overstate your willingness-to-pay. Say that you state a price of 6 Bs., although in reality you would only want to pay 4 Bs. Now if the amount of 5 Bs.

#### Chapter 4

appears on the roulette for example, which is less than 6, you win the product which in fact is only worth 4 Bs., instead of 5 Bs. in cash. Again, you could have won an extra boliviano. Do you understand the rules of the game? Are you sure?

*[Subject is shown the two perfume samples; the DL product is marked with a green sticker, the NL product with a blue one].*

Here you see two samples of perfumes, to which we will refer as the “green product” and the “blue product” respectively. Note that both perfumes are unisex, they are used by both men and women, and they contain equal amounts of perfume. You have 30 seconds to check both products and compare their fragrances. *[Subject examines both products]*. In a minute we will decide with a dice for which of the two products we will play the lottery. So we will play for one product only, but we do not know yet for which. Note that the probability is fifty-fifty. First, I would like to know the following: What is the maximum price you would be willing to pay for the “green product”? The price you state should be between 1 and 6 Bs. Please think about it carefully. *[Subject states  $WTP_{DL}$ ]*. And what is the maximum price you would be willing to pay for the “blue product”? Again the price should be between 1 and 6 Bs. *[Subject states  $WTP_{NL}$ ]*.

Now I inform you that the fragrances of the two products are identical. There is absolutely no difference as far as the fragrance is concerned, the samples are filled with perfume from one and the same big bottle. Given this information, try to think again about your willingness-to-pay for each of the two samples. Would you like to adjust one or both of the amounts you stated earlier? *[Subject reveals  $WTP_{DL}^*$  and  $WTP_{NL}^*$  by adjusting one or both of the amounts or by confirming that one wants to keep them unchanged]* Are you sure about the amounts you indicated? Please throw the dice to decide whether we will play for the green or the blue product. *[Subject throws dice, which is half green, half blue]*. Now we are ready to play the lottery. Please spin the roulette.

*[Subject plays lottery and receives winnings]*.

That’s all. Thanks for your cooperation. Please do not inform others about the details of the game.

## **PART II**

### **Welfare Effects of Status Consumption under Conditions of Poverty**



## **Fooling the Eye of the Beholder: Deceptive Status Signalling among the Poor in Developing Countries\***

### **5.1 Introduction**

A recent police checkpoint in the posh Vitacura neighbourhood [*Santiago de Chile*] found that a high percentage of drivers ticketed for using their cell phones while in motion were using toy -even wooden- replicas. Other middle-class motorists bake with their windows closed pretending they have air conditioning. Workers at the ritzy Jumbo supermarket complain that, on Saturday mornings, the dressed-to-kill clientele fill their carts high with delicacies, parade them in front of the Joneses, and then discretely abandon them before having to pay.

(Cooper, 2001, pp. 85-86)

Such peculiar human actions resemble acts of conspicuous consumption, as described in the writings of Veblen (1899) and, even earlier, Rae (1834). Unlike the conspicuous consumers in these classic works however, the ‘actors’ in the examples above do not actually buy expensive consumer goods to signal wealth and thereby status to others, but intentionally act *as if* they do. Such *deceptive* status signalling is the central theme of this chapter.

Deceptive status signalling, henceforth abbreviated as DSS, is an umbrella term encompassing a wide variety of misleading strategies that in principle may be applied to signal status. Some of these strategies are zero-cost strategies from the viewpoint of the deceiver, that is they do not require any substantial outlay –some acting talent suffices. Other strategies cannot be applied without incurring costs, such as the consumption of counterfeit versions of prestigious brand-name goods for instance, which is perhaps the most frequently used DSS strategy.<sup>51</sup> The point is that status-signalling costs are lower when deception is relied upon, provided that observers are duly (but mistakenly) impressed.

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\* An earlier version of this chapter has appeared in the *Journal of International Development*, **15**(2), March 2003, pp. 157-177.

<sup>51</sup> Following the definitions of the World Trade Organisation (WTO), counterfeit goods are “any goods bearing without authorisation a trademark which is identical to -or in its essential aspects indistinguishable from- the trademark validly registered in respect of such goods”, where a trademark refers to “any sign, or any



Deceptive status signalling devices have received scant attention in economics. Although trademark counterfeiting has been analysed by Higgins and Rubin (1986) and Grossman and Shapiro (1988), these studies mainly focus on the supply side of this phenomenon and take a developed country rather than a developing country perspective. Moreover, they fail to regard the consumption of counterfeits as part of a broader phenomenon, i.e. deceptive status signalling.<sup>52</sup> To our best knowledge, DSS and its welfare implications have not as such been dealt with in economics, despite anecdotal evidence of deceptive status signalling, both in recent and in earlier times.<sup>53</sup>

The DSS examples from Chile might suggest that deceptive status signalling is the exclusive domain of snobbish middle-class consumers. This would be a misconception, however. Even the poor in developing countries engage in DSS, as will be illustrated by examples from Bolivia and other poor countries.<sup>54</sup> Although the treatment of DSS in this chapter is fairly general in the sense that we provide insight into the welfare effects of the DSS phenomenon, whether it occurs in a developed or a developing country, or for that matter among the poor or the rich, we take prime interest in DSS practices by the poor in developing countries. This is motivated by the fact that the welfare implications of DSS are most pronounced for the developing country poor, because of their relatively high marginal utility of income. One extra dollar spent or saved on status consumption is likely to impact more heavily on the welfare of poor consumers than on the well-being of rich ones, as it may directly affect their expenditure on important non-conspicuous consumption categories such as basic nutrition, housing conditions and education. In particular, we will concentrate on the consumption of counterfeit versions of prestigious brand-name goods by the developing country poor. The reason is that counterfeits are popular in developing countries, judging from their omnipresence in low-income markets. Moreover, this type of DSS involves substantial costs for deceivers, which makes a more interesting welfare analysis than zero-cost DSS strategies.

The aim of the chapter is to analyse the welfare effects that deceptive status signalling engenders for low-income consumers in developing countries, assuming that they care, *inter alia*, about their position in society.

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combination of signs, capable of distinguishing the goods of one undertaking from those of other undertakings". The intentional production of a counterfeit is known as "product counterfeiting" and is defined as the "unauthorized use of a registered trademark on a product that is *identical* or *confusingly similar* to the product for which the trademark is registered".

<sup>52</sup> The term "deceptive counterfeiting" used by Grossman and Shapiro (1988, p. 80) should not be confused with any form of 'deceptive status signalling'. Deceptive counterfeiting refers to cases in which a consumer *unwittingly* purchases a counterfeit instead of an original good, i.e. the consumer is deceived by the seller of the good. This chapter only deals with *intentional* purchases of counterfeits, so that the consumer himself is not deceived, but tries to deceive observers instead.

<sup>53</sup> Historical evidence shows that the consumption of 'counterfeit' versions of status goods was once common practice among the poor in 18<sup>th</sup> century France. In 1785, cheap copies of aristocratic luxury items such as gold watches, fans, snuffboxes and umbrellas frequently figured in the post-mortem inventories of lower-class Parisians (Fairchild, 1993, p. 230).

<sup>54</sup> The examples from Bolivia are personal observations in the city of Cochabamba.

In analysing the welfare implications of DSS, the first task is to find an appropriate analytical framework, which is undertaken in Section 5.2. Subsequently, consumer choice between deceptive and non-deceptive modes of status consumption, more in particular between counterfeit and original goods, is analysed. Section 5.3 builds a framework in which counterfeits are distinguished from original goods in terms of status and functionality. Next, the analysis turns to the issue of deceiving the observer and the inherent risk of detection. Section 5.4 scrutinises the various stages of the deception process and traces its welfare effects. In Section 5.5 we discuss how the welfare effects of DSS compare to those of non-deceptive status signalling. Finally, Section 5.6 concludes with some policy reflections.

## **5.2 An Analytical Framework for DSS**

In order to find a framework for status signalling through consumption -whether deception is involved or not- it is required that we depart from the narrow neo-classical view on consumption as simply the fulfilment of a particular concrete need. Although consumption may gratify concrete needs that originate from physiological deprivation (e.g. cold or hunger), often this is just an accidental by-product (Corrigan, 1997, p. 32). Primarily, consumption is a communicative act (e.g. Douglas and Isherwood, 1996; McCracken, 1988). As such, it offers the possibility of signalling personal characteristics to others, not in the least social standing.

### *5.2.1 Status-game models*

Since status seeking is at the forefront of the DSS phenomenon, a logical candidate for a framework is the ‘status-game’ model (see Congleton, 1989; Rauscher, 1993; Cooper *et al.*, 2001; Brekke *et al.*, 2003). In this type of models, consumers allocate their budget optimally between two goods, a pure status good and a non-status good. If deception allows consumers to give the impression of owning the status good at low cost, this lowers the price of the status good relative to the non-status good and thereby affects the equilibrium outcome of the model. The assumption in these models that the status good is ‘pure’, in the sense that it does not entail any utility other than that derived from its status appeal, poses problems, however.

The idea of pure status goods is borrowed from Hirsch (1976), who distinguishes between two types of goods; material goods (zero-status) and positional goods (pure status). The satisfaction derived from positional goods stems from relative position alone. However neat this distinction between material and positional goods may be for analytical purposes, in reality it is extremely difficult to come across pure status goods (Hamilton, 1989, p. 1101). Even caviar has some nutritional value. Veblen (1953 [1899], p. 80) already acknowledged this:

Even in articles which appear at first glance to serve for pure ostentation only, it is always possible to detect the presence of some, at least ostensible, useful purpose.<sup>55</sup>

Status goods tend to have a 'functional alibi'. For this reason, it cannot simply be assumed that these goods are bought for status signalling purposes only.

The 'pure status' idea makes more sense when we turn to deception. Some DSS actions are purely status-oriented and do not entail any functionality whatsoever for the deceiver. For instance, a toy phone is completely useless for making calls. Apart from displaying toy versions of prestigious consumption items, one can think of other DSS devices that are entirely non-functional. First, people may use the fact that some goods are not visible in their entirety and, therefore, the mere display of parts of the real thing suffices to impress outside observers. A ballpoint pen top, when inserted into the pocket, may effectively suggest the presence of the whole thing. A similar type of deceptive strategy has been observed with regard to the choice of building materials for housing construction in a region near Buenos Aires: "Efforts were made to give the impression of brick construction . . . by constructing the front wall which faced the roadway of bricks, and making the others, which were out of public view of mud" (MacEwen, 1974, p. 212). Another related strategy is the display of a prestigious good which is no longer functional. People might go around ostentatiously with an expired credit card or keep run-down consumer goods in a visible place rather than throwing them away.<sup>56</sup> The display of empty packaging of a status-intensive good is an alternative strategy. A family taking out an empty *McDonalds* bag into the street for mere display would be a striking example. A related DSS strategy is the display of a cheap item that is complementary to a prestigious consumer good. Since complements are generally bought in combination with each other, demonstration of the cheap item presupposes ownership of the more expensive one. Examples are the display of a *Ray-Ban* case without the real sunglasses in it or that of a TV antenna on a shack's roof without actually owning a television set.<sup>57</sup> The display of logos or symbols of well-known Western brands on items other than those pertaining to these brands is still another DSS device.<sup>58</sup>

There is a problem analysing pure DSS strategies in a status-game model, however, because these are often zero-cost strategies. To pick up a discarded pencil top or fast-food bag does not entail any significant outlay. Because the prestige associated with the status good can now be obtained for free through deception, the consumer's budget allocation decision between status and non-status consumption in the status-game model is no longer of interest.

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<sup>55</sup> Also Rae (1905 [1834], p. 269) notes that "there are few commodities . . . in which utility, as well as vanity, has not a considerable share".

<sup>56</sup> Steen *et al.* (2002, p. 1) provide an example of this strategy: "In the villages of Mali, digital wristwatches are status symbols. Those who take a closer look can discover, however, that these seldom keep time and are more used as jewellery than a watch".

<sup>57</sup> Lauterbach (1972, p. 273) has observed that in a typical South American urban slum there are more TV antennas than TV sets to be found.

<sup>58</sup> In Bolivia, for instance, people may wear T-shirts and caps with the *Eurocard/Mastercard* logo, not sponsored by the credit card company itself.

Costly DSS strategies, such as the consumption of counterfeit goods, would be more interesting in this respect, but here the problem of mixing up status and functionality arises again, as these strategies tend not to be ‘pure’. Counterfeits generally entail a certain degree of functionality, albeit typically less than originals because of supposed lower quality. On the one hand, cheap imitations of brand-name jeans, for instance, protect the body from cold and provide some degree of wearing comfort. On the other hand, imitation jeans probably have a worse fit than authentic ones and are less durable due to the use of lower-grade materials. Counterfeits that are completely non-functional are rare, however.<sup>59</sup>

Status-game models suppose a clear demarcation line between status consumption and non-status consumption. In reality, however, original and counterfeit goods have both status and non-status components -albeit in different proportions.

### *5.2.2 The Lancaster framework*

The essence of costly DSS is that the acquired status goes with lower functionality, when compared to the non-deceptive case. In counterfeit goods, for instance, the functional and the positional, which are inextricably bound up with each other in authentic brand-name goods, are to a certain extent ‘unbundled’ (Grossman and Shapiro, 1988, p. 82). This suggests that the product characteristics approach as developed by Lancaster (1966), in which goods are treated as bundles of characteristics, is an appropriate framework to tackle DSS. It enables us to separate, analytically, the functional from the positional attributes in counterfeit goods.

The Lancaster approach has basically the same logic as standard neo-classical consumer theory. The only major conceptual difference is that the analysis centres around *product characteristics* rather than *products*. The Lancaster framework has already been applied to analyse the choice faced by consumers between original goods embodying different mixes of status and functionality (see James, 1987; 2000a). Building on this idea, the product characteristics approach will be used in this chapter to analyse a situation in which consumers choose between an original good and a counterfeit.

## **5.3 Original versus Counterfeit Goods in Characteristics Space**

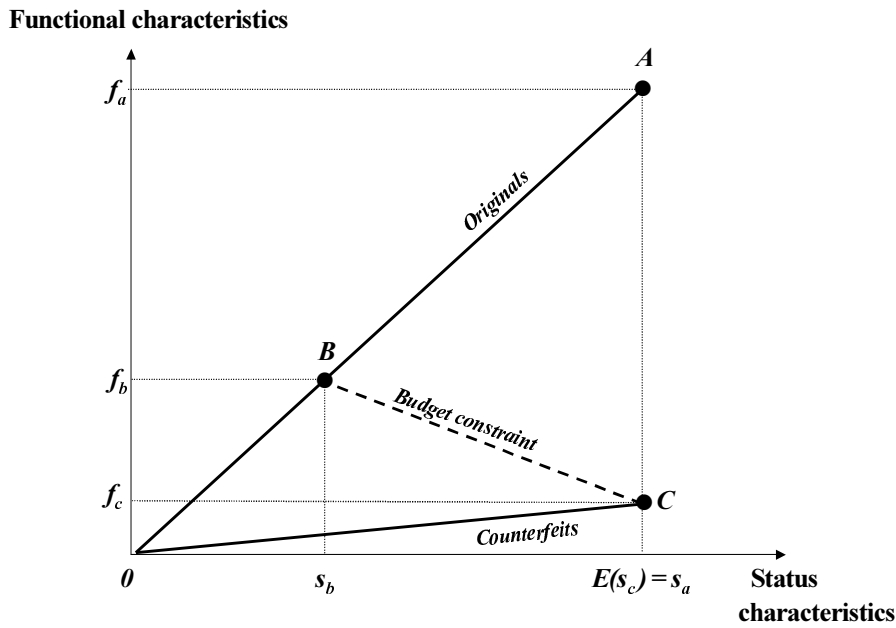
As a first step to see why some people may choose counterfeits, it has to be shown that originals and counterfeits constitute different purchase options from the consumer’s point of view, which cannot be done in all-too-familiar product space. Instead, we use two-dimensional product characteristics space, with functional characteristics measured on the

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<sup>59</sup> The fake *Ray-Ban* sunglasses sold in Bolivia are an example of a counterfeit with minimal functionality, as these tend to have neutral lenses. In spite of a sticker saying “UV-filter”, they do not offer protection against ultraviolet radiation.

vertical axis and status characteristics on the horizontal axis (see Figure 5.1). The analysis that follows is limited in two respects. First, it is a partial equilibrium analysis, since one product category is considered in isolation. For illustrative purposes, the analysis is tailored to the product category of wristwatches, in which counterfeiting is rampant. However, the framework is also applicable to a wide range of similar goods such as jeans, shoes or sunglasses. A second limitation consists in the fact that generic products, i.e. non-branded goods, are not considered. In fact, generics are the mirror image of counterfeits in the sense that they are the functionality-intensive low-cost alternative to brand name originals, whereas counterfeits are the status-intensive low-cost alternative. Generics are not taken up in the framework (although in principle they could), because counterfeit products tend to crowd out generic ones in markets where fakes abound.

Figure 5.1 Original and counterfeit goods in characteristics space



Consider Figure 5.1 and let point  $A$  represent an authentic and highly prestigious brand-name good, say an original *Rolex* watch, with status characteristics to the amount of  $s_a$  and functional characteristics equal to  $f_a$ . Note that consumers have a demand for one single watch only, which seems a plausible set-up, since both the functional and the status characteristics in timepieces are generally non-additive.<sup>60</sup> Let point  $C$  represent a counterfeit *Rolex*, embodying

<sup>60</sup> Status characteristics in watches may be additive to some extent, however, as suggested by Bagwell and Bernheim (1996, p. 358): “Someone possessing many expensive watches can wear a *Rolex* on Monday, a *Patek Phillippe* on Tuesday, a *Cartier* on Wednesday, and so forth”.

an *expected* amount of status characteristics  $E(s_c)$ . The addition ‘expected’ is necessary because the amount of status consumers eventually obtain by displaying the counterfeit is uncertain to them at the moment of purchase, as this depends on whether they manage to deceive the beholder. Until Section 5.4, in which the beholder enters the stage, only the consumer’s *expectation* about the status content of the counterfeit matters. In Figure 5.1 we assume that consumers anticipate that the beholder will be fully deceived by the counterfeit  $C$ . If the counterfeit is expected to be taken for a genuine *Rolex*, then  $E(s_c) = s_a$ . With regard to functionality, the counterfeit  $C$  is supposed to have less functional characteristics than the original ( $f_c < f_a$ ). The performance of a fake *Rolex* will be relatively poor in terms of time-keeping precision, water-proofness, shock-resistance et cetera. Due to this lower degree of functionality, the counterfeit is the more status-intensive purchase option from a consumer’s point of view, which can be observed in Figure 5.1 by the fact that point  $C$  is closer to the status axis than point  $A$ .

As in goods space, a budget restriction determines the feasibility set of the consumer. Since a fake *Rolex* only costs a fraction of an original one, let us consider a consumer that can afford the counterfeit  $C$ , whilst the authentic watch  $A$  is out of his financial reach. If product indivisibility is assumed, the choice problem for the consumer then consists in either buying the counterfeit watch or none at all. This is too simplistic, however, because the alternative of buying an original watch of a less prestigious, and thus cheaper, brand than *Rolex* is also open to the consumer. Let point  $B$  therefore represent a legitimate watch of a lower-status brand that sells at the same price as the counterfeit *Rolex*, say a *Citizen* watch. The budget constraint of the consumer thus coincides with the line  $BC$  in Figure 5.1.

The watch represented by point  $B$  does not only entail lower status than the genuine *Rolex* ( $s_b < s_a$ ), but is also assumed to be functionally inferior ( $f_b < f_a$ ). The underlying idea is that brands entail higher status, the higher the intrinsic quality of their products.<sup>61</sup> Long-standing brand prestige is not ‘hollow’, but is a result of functional excellence. The superlative chronometric performance of a *Rolex* watch may serve as an illustration. It is hard to conceive that a *Rolex* would be the same status symbol as it is today, if its time-keeping precision were to be unreliable. Pure fashion goods, which do not derive their status appeal from high-class craftsmanship, form an exception.<sup>62</sup> They do not fit in the framework of Figure 5.1 and, therefore, fall beyond the scope of this chapter.

In addition to the assumption that status is functionality-based, we conjecture that *status and functionality go together in a fixed proportion* in all original brand-name goods. Hence, the ray  $OA$  in the figure, which starts out from the origin and reaches out towards the top

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<sup>61</sup> Here we depart from the signalling model of conspicuous consumption as developed by Bagwell and Bernheim (1996), who assume luxury brand products to be intrinsically equivalent to products of more ordinary brands.

<sup>62</sup> The status appeal of fashion goods stems from the fact that they convey information about people’s *current* economic position rather than their past wealth. According to Hamilton (1987, p. 1543), “[s]tyle is a necessary part of conspicuous consumption; without style there is the suspicion that today’s suit may have been purchased with yesterday’s income”.

status-brand watch *A*, captures all originals. Although original watches from different brands may not, in reality, embody exactly the same proportion of status and functionality, for analytical purposes it is assumed that all original brand-name goods are exactly on the ray *OA* rather than scattered around it. Since there are numerous brands of watches and, in addition, various models per brand, the ray *OA* can be viewed as a continuum of originals. A shift along this ‘originals’ ray entails a change in the absolute amounts of status and functional characteristics (and thereby in the price of the good), but the status-to-functionality ratio remains constant.

In analogy, the ray *OC* in Figure 5.1 is assumed to capture all counterfeits available in the market. Status and functionality are supposed to go together in a fixed proportion in counterfeits as well, albeit in a more status-intensive combination. This assumption seems less plausible for counterfeits than for originals, since it is not obvious that status is positively related to functionality. The counterfeiter may simply associate his product with a top-status brand by putting the brand name on it, regardless of its functional quality. In order to see that status and functionality are in fact related even in counterfeits, it is important to know how the amount of status characteristics a certain counterfeit embodies is determined in the mind of the consumer.

First, the status appeal of a counterfeit depends on the prestige of the brand name that it displays. If point *B* represents a *Citizen* watch, for instance, a fake *Citizen* cannot entail more status than  $s_b$ , the amount of status embodied in the original. A second determinant of the status content in a counterfeit is its resemblance to the brand-name original it tries to imitate. So far, it has implicitly been assumed that counterfeits targeting a specific brand are identical. It is fallacious, however, to view counterfeits that imitate the same brand as homogeneous products. In markets where counterfeits abound, fakes come in many different qualities. Apart from differences in functional quality, counterfeits can be distinguished on the basis of an extra quality dimension, viz. their degree of resemblance to the original, which could be referred to as *imitative quality*.

A clear signal of low imitative quality of a counterfeit is misspelling of the brand name (see Appendix 5.A). This is only one of many aspects affecting the imitative quality of counterfeits, however. For the sake of illustration, consider the case of fake designer jeans in Bolivia.<sup>63</sup> First, the labelling of the jeans can provide clues about imitative quality. Some labels are clearly counterfeit (wrong colours or spurious typesetting), while others are original but do not belong to the item to which they are attached.<sup>64</sup> In addition, the logo does not always correspond to the brand name or one might observe labels of more than one brand on a single pair of jeans.<sup>65</sup> Second, the type of accessories used by the counterfeiter can be informative. High-quality copies tend to have brand-name buttons, either original or imitation

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<sup>63</sup> Virtually all informal jeans producers in Cochabamba make illegitimate use of designer brands, sometimes alongside the production of own-brand jeans (source: interview with anonymous informal jeans producer, Cochabamba, August 20, 2002).

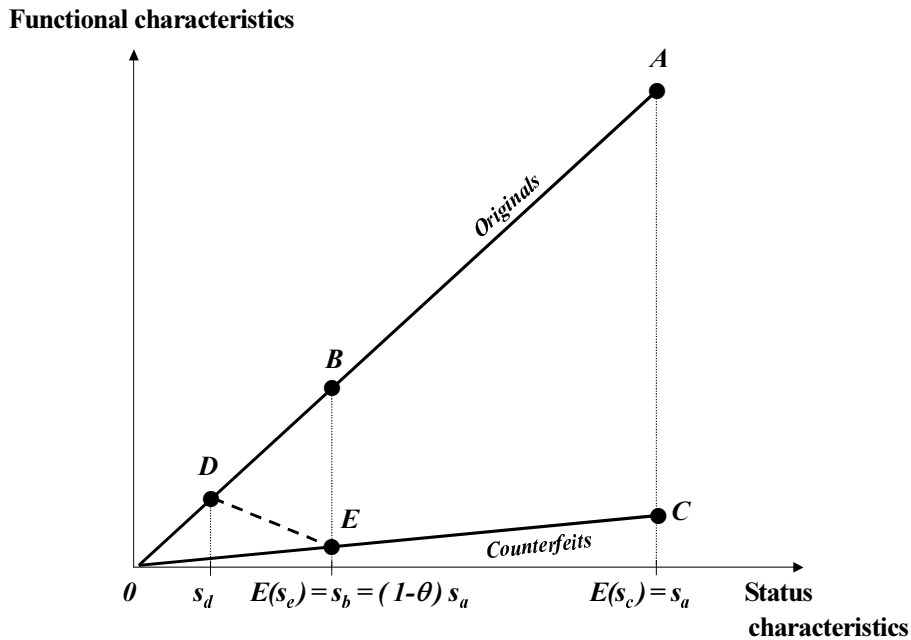
<sup>64</sup> e.g. a label saying “*Levi’s* underwear” attached to a pair of jeans.

<sup>65</sup> e.g. a *Tommy Hilfiger* label on the waist and a *Calvin Klein* label on the pocket.

ones, whereas most fakes have generic buttons. The model or cut of the jeans provides yet another indication of imitative quality. Some counterfeiters produce exact copies of certain models through ‘reverse engineering’ of originals, while others simply stitch brand-name labels onto generics.

Poor imitative quality entails a higher risk of detection for consumers of counterfeits. Observers are more easily deceived if the counterfeit closely resembles ‘the real thing’. Hence, the status obtained from a counterfeit is contingent on its associated risk of detection, which is decreasing in the quality of imitation. In order to incorporate this in our product characteristics framework, we assume that consumers assess the risk of detection inherent in a particular counterfeit ( $c$ ) on the basis of its perceived degree of resemblance to the original ( $o$ ) and use this information to make the following expected value type calculation of the amount of status the counterfeit embodies:  $E(s_c) = (1 - \theta) s_o + \theta * 0$ , where  $\theta$  denotes the expected probability of detection. Hence, we treat the status obtained from a counterfeit ( $s_c$ ) as a contingent commodity. It varies with the state of the world, which is either ‘deception’ or ‘detection’. Since we assume that the consumer does not acquire any status in the case of detection, the amount of status associated with a counterfeit equals that of the original it tries to imitate ( $s_o$ ), weighted with the probability that deception will be successful ( $1 - \theta$ ).

*Figure 5.2 Counterfeits with high and low imitative quality*





Since  $s_c$  depends on both  $s_o$  and  $\theta$ , a single point on the ‘counterfeits’ ray  $OC$  may represent different counterfeits. In order to see this, consider a consumer with a budget constraint given by  $DE$  in Figure 5.2. This consumer can either choose an original watch  $D$ , which is of a lower-status brand than  $B$ , say a *Casio*, or point  $E$  on the counterfeit ray  $OC$ . Point  $E$  can represent a fake *Citizen* of high imitative quality with an expected probability of detection equal to zero ( $\theta = 0$ ), so that  $E(s_e) = s_b$ . Alternatively, point  $E$  could also be a fake *Rolex* of low imitative quality, with a positive expected probability of detection  $\theta$  such that  $(1 - \theta) s_a = s_b$ . Hence, in our set-up consumers face a trade-off between the potential status in a counterfeit and the risk of being discovered as a deceiver.

Whereas the status embodied in counterfeits is very much a subjective matter (being a function of people’s personal expectations about the detection risk), the functional quality of counterfeits is, at least in principle, objectively measurable. In the jeans case, for instance, counterfeits embody functional characteristics in accordance with the quality of yarn that is used for stitching, the quality of the stitching work itself, the quality of the fabrics used, et cetera. At first sight, the functional and imitative quality of counterfeits may seem completely unrelated. It is conceivable that a counterfeiter uses cheap, low-quality materials and still produces a fake that closely resembles ‘the real thing’. However, close inspection of imitation jeans available in the Bolivian market learns that copies of high imitative quality also tend to score high on functional quality and vice versa. A possible explanation is that some counterfeiters have better skills or more capital than others, which positively affects both quality dimensions. We therefore believe the assumption of counterfeits embodying similar status-to-functionality ratios to be a reasonable one, so that the ray  $OC$  can be viewed as a continuum of fakes of different quality.

#### 5.4 Status Acquisition through Deception: A Four-Stage Process

In order to map out the welfare effects of counterfeits versus originals, we first need to introduce consumer preferences into Figure 5.1. Assume that the utility an individual obtains from a wristwatch has two constituent parts, functional utility and status utility.<sup>66</sup> Based on our findings in Chapter 4, we assume that ‘nature’ has endowed society with two types of individuals, functionality-minded and status-minded ones. The first type has a weak preference for status and mainly cares about functionality. The corresponding indifference map is given by the curves  $U^f$  in Figure 5.3. By contrast, the preferences of the other type are heavily skewed towards status, represented by the  $U^s$ -shaped indifference curves.

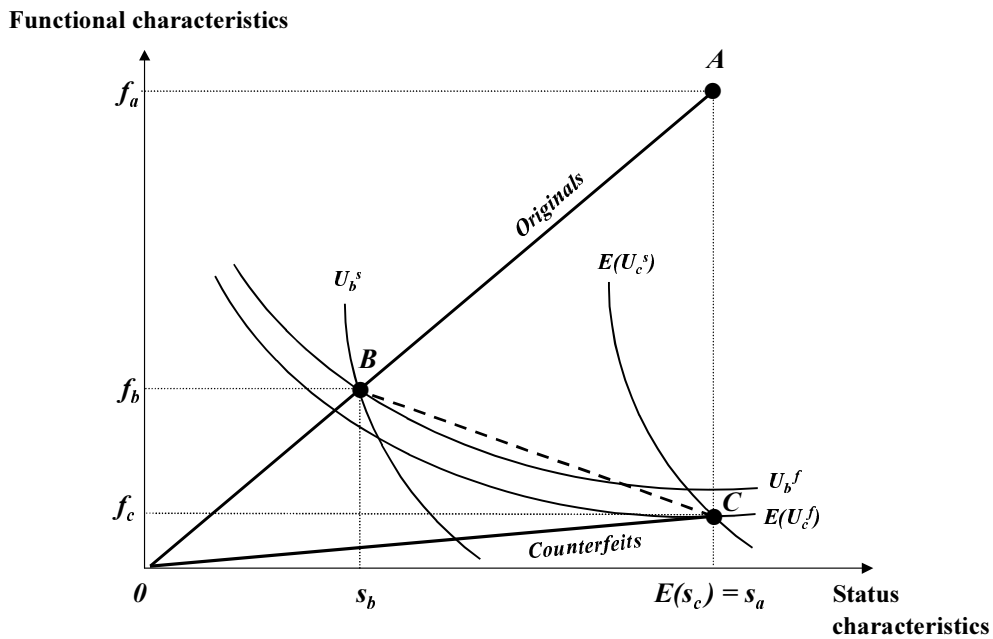
In Figure 5.3 it can now be observed that the optimal choice for functionality-minded consumers with budget constraint  $BC$  is the original watch  $B$ , since  $U_b^f > E(U_c^f)$ . On the other hand, status-minded consumers are better off with the counterfeit  $C$ , since  $E(U_c^s) > U_b^s$ .

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<sup>66</sup> This distinction is similar to that of Khalil (2000), who distinguishes between “substantive utility” and “symbolic utility”, although “symbolic utility” is a somewhat broader notion than “status utility”.

Hence, in our framework individuals either prefer originals or counterfeits depending on the relative weight they attach to status as compared to functionality in their utility function. This implies a departure from the earlier model by Grossman and Shapiro (1988), in which the income level of the individual consumer is assumed to be the principal factor governing the choice between original and counterfeit goods.

*Figure 5.3 Consumer choice between original and counterfeit goods*



Unlike the usual good or service, one cannot buy status directly. A person's status is a function of beliefs that others hold about him and is bestowed rather than bought (Fremling and Posner, 1999, p. 2). The purchase of a counterfeit is, therefore, only the starting point of DSS. For the status potential in counterfeits to materialise, the consumer needs an observer who is to be deceived. In this section we take a closer look at the process of status acquisition through deception, which consists of four different stages. The entire process is shown in Figure 5.4. Each panel in the figure corresponds to a separate stage. Figure 5.4 depicts the benchmark case in which the deception process works out exactly as anticipated by the consumer, who expects the observer to be fully taken in by his deceptive act. More interestingly, Figure 5.5 delineates a partial deception scenario, where some unanticipated detection occurs.

Figure 5.4 Full deception scenario

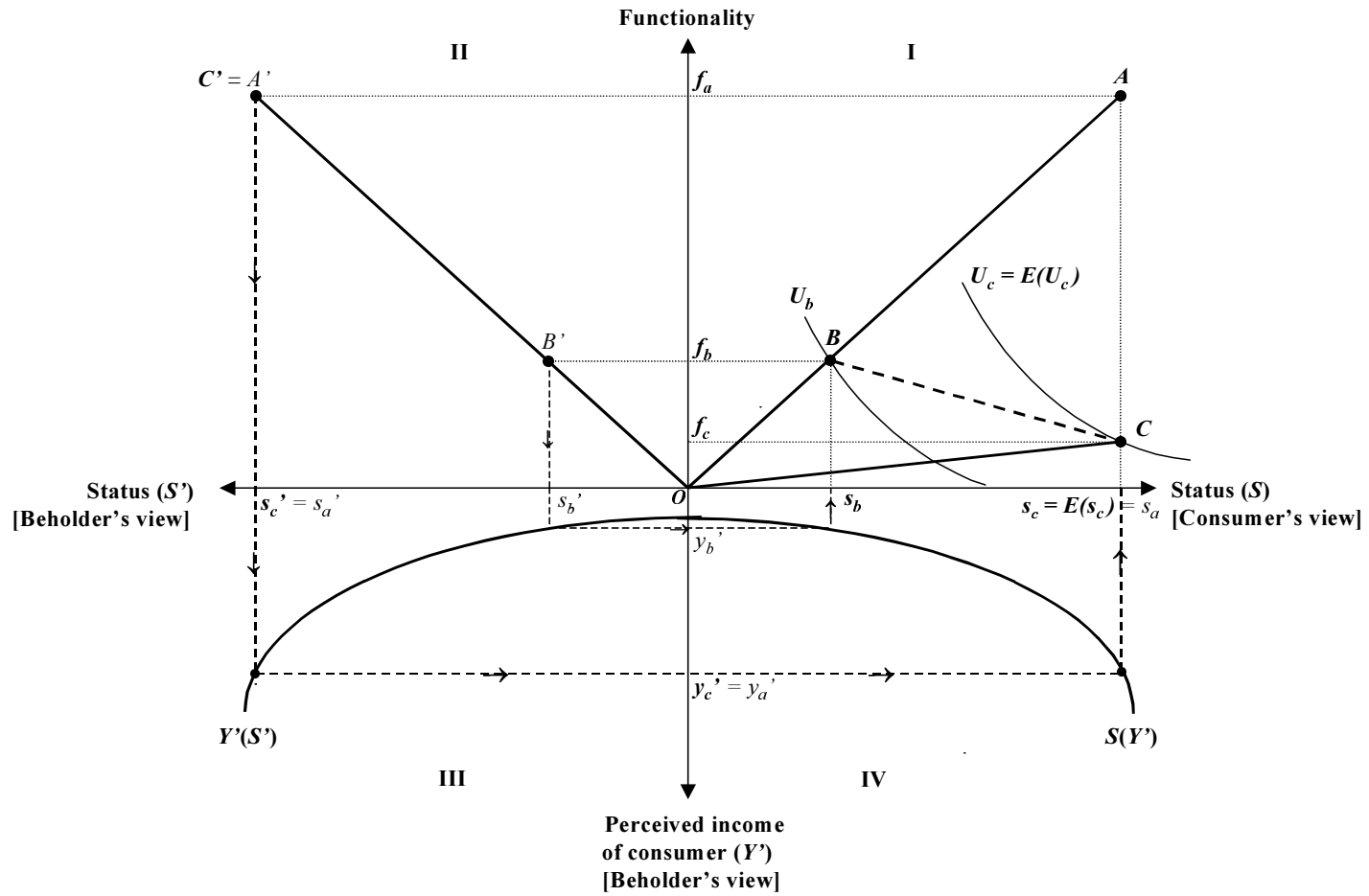
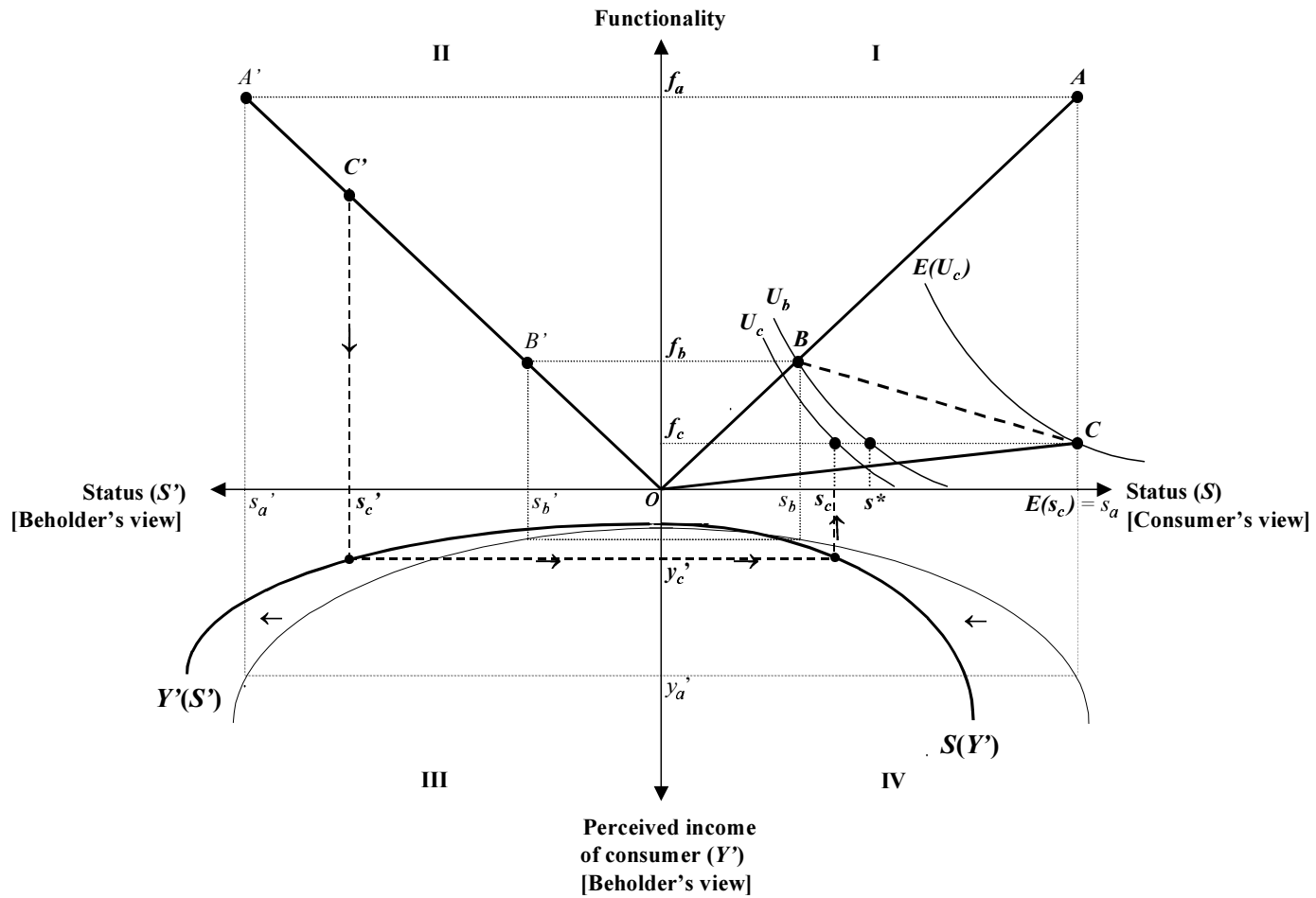


Figure 5.5 Partial deception scenario



*Stage I: Purchase of counterfeit by consumer*

The first stage consists of the consumer's choice between a counterfeit and an original, as discussed above. The first panel in Figure 5.4 is therefore simply a reproduction of Figure 5.3. In the remainder of this section we consider a status-minded consumer with budget constraint  $BC$  who prefers the counterfeit  $C$  to the original  $B$  and, consequently, ends up in point  $(E(s_c), f_c)$  in characteristics space. Whether the expected amount of status  $E(s_c)$  will indeed be acquired is determined in the three subsequent stages.

*Stage II: Beholder's perception of counterfeit*

The second panel in Figure 5.4 represents the stage in which the beholder observes and judges the consumption good that is put in evidence by the consumer. The panel has been obtained by mirroring the first panel in the functionality axis. The new horizontal axis measures the amount of status characteristics embodied in goods as before, but now as perceived by the beholder ( $S'$ ). The perspective has thus switched from the consumer to the spectator. The ray  $OA'$  in the second panel, which is the reflection of the 'originals' ray  $OA$  from the first panel, captures all possible observations of the beholder. The 'counterfeits' ray  $OC$  from the first panel has disappeared from the second panel, because it is supposed that the only socially accepted way in which status can be acquired is through the display of *original* consumer goods. The high status-to-functionality ratio in counterfeits only exists in the consumer's mind, since it is based on deception.

As a point of reference, let us first consider the case in which the consumer would have purchased and displayed the original  $B$  in the first stage. It is conjectured here that the authentic product is recognised as such ( $B' = B$ ) and that the observer is able to 'read' the amount of status characteristics it embodies. The beholder and the consumer agree on the prestige that the original brand-name product entails ( $s_b' = s_b$ ). This is a reasonable assumption, at least for widely advertised brands. On the prestige of some high-class brands, even worldwide agreement exists.<sup>67</sup>

If the consumer chooses the counterfeit  $C$ , as depicted in the first panel, perceived status depends on whether the eye of the beholder is fooled. In the full deception scenario (Figure 5.4), the counterfeit is completely mistaken for an original ( $C' = A'$ ) and the observed level of status characteristics  $s_c'$  equals  $s_a'$ , which exceeds  $s_b'$ . In the case of partial deception (Figure 5.5), however,  $C'$  coincides with a point lower on the  $OA'$  ray, so that  $s_c'$  falls below  $s_a'$ . The intuition is that the observer makes an expected value calculation of the status amount embodied in the displayed good similar to the one made by the consumer when evaluating the

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<sup>67</sup> According to Ger and Belk (1996, p. 282), "The world's consumers might now chant a consumer creed of *Gucci, Rolex, Armani, BMW, Johnny Walker*. . . . Such brands are members of the global pantheon of 'quintessential brands' that speak the multinational language of status".

option of purchasing a counterfeit in the first stage. The beholder visually assesses the probability that the displayed good is a counterfeit rather than an original and uses this probability to calculate  $s'$ . If  $\theta' \in [0,1]$  denotes the beholder's expected probability of being deceived, the status awarded to the demonstrated good equals  $(1 - \theta') s_a'$ . The interpretation of  $\theta' = 0.2$ , for instance, is that the beholder is only eighty per cent sure that the good he observes is indeed the original  $A$ . The higher the imitative quality of the counterfeit, the lower the value of  $\theta'$  and, consequently, the higher  $s'$ . The full deception scenario in Figure 5.4 is in fact the special case in which the beholder is fully convinced that the consumer displays the original  $A$  ( $\theta' = 0$ ). With partial detection, however, the spectator harbours at least some suspicion with regard to the authenticity of the observed good ( $0 < \theta' < 1$ ).

If the consumer from the first panel in Figure 5.4 is a poor consumer, whom does the beholder entering the stage in the second panel represent in this case? Are all members of society considered potential targets for deception by low-income consumers, including the rich? Sociological research has established that an individual tends to care most about his social standing in relation to people with whom he competes most directly for important resources, although more 'distant' interpersonal income comparisons may matter as well (Coleman, 1990, pp. 130-131; Frank, 1985a, p. 30). Therefore, deceptive attempts by the poor are most likely, though not exclusively, directed at people with similar levels of income, that is other poor people.

The success of deception hinges upon the relative sophistication of both perpetrator and victim. The sophistication of perpetrators depends partly on their deception skills. Goffman (1959, p. 15) argues that it is critical for deception to be effective that deceivers believe in their own act. A capacity for self-deception, therefore, is a useful trait for deceivers, since it adds credibility to the act of deception. As Wright (1994, p. 264) puts it, "we deceive ourselves in order to deceive others better". Second, the success of deception depends on the imitative quality of the counterfeit displayed by the deceiver. The sophistication of victims is partly determined by their degree of acquaintance with original brand-name goods. The more familiar the observer is with 'the real thing', the sooner doubts will arise in his mind when a counterfeit is demonstrated to him. The poor consumer trying to deceive the wealthy consumer suffers from the problem of being able to afford only counterfeits of low imitative quality, while at the same time the rich observer is likely to be relatively well acquainted with authentic goods. The degree of familiarity with expensive Western consumer goods will generally be higher for the rich than for the poor. The latter have the disadvantage that relatively few people with whom they interact can afford 'the real thing'. This does not only concern distinctly elitist products like a *Rolex* watch or a pair of *Ray-Ban* sunglasses, but also holds for less extravagant items like a pair of *Levi's* jeans or *Nike* shoes. The small size of the middle classes in many developing countries might play an important role here. As a result, the poor do not frequently encounter people showing off originals, which makes it more difficult for them to detect fakes. The heavy advertising of Western brand-name products to which low-income consumers are exposed may to a certain extent act as a countervailing

power. Since Western brand-name goods have been introduced in poor areas only recently, however, the risk of detection is probably much lower when trying to impress a poor than a rich beholder. Therefore, it is more likely that a low-income deceiver has a low-income observer in mind when going around with a counterfeit.

Consumers in developed countries on the other hand, including those with low incomes, have been in contact with status-intensive brand-name products for much longer and have had the opportunity to acquaint themselves with such goods in a more gradual fashion. This implies that for a given counterfeit, the probability that it will be discovered as such by the beholder ( $\theta'$ ) is higher, which may be one of the main reasons why the consumption of counterfeits is a less frequently observed phenomenon in the developed than in the developing world.

*Stage III: Beholder's inference about consumer*

The good that is observed in the second stage contains a claim about the social position of its owner, but the observer still has to honour this claim. The status embodied in the good has to be projected onto the consumer in the mind of the beholder. The third panel in Figure 5.4 depicts this transformation process of product attributes into personal characteristics. The process works as follows: The higher the status appeal of the displayed good, the higher its perceived price and thereby the perceived income of the consumer. For example, if the counterfeit  $C$  is taken for the original  $A$  ( $s_c' = s_a'$ ), the observer believes the income of the deceiver to be equal to that of consumers who can afford to buy top-status brands in all product categories ( $y_c' = y_a'$ ). The intuition behind the shape of the 'transformation' curve  $Y'(S')$  in Figure 5.4 is that prices tend to explode as one reaches the top-status brands within a certain product category. Since the counterfeit  $C$  entails a higher status claim than the original  $B$  ( $s_c' > s_b'$ ), the consumer's income as perceived by the beholder is higher with the counterfeit than with the original ( $y_c' > y_b'$ ). Even though the *actual* prices of  $B$  and  $C$  are the same,  $C$  has a higher *perceived* price. The deceiver thus manages to signal higher-than-actual wealth, or as far as the poor are concerned, lower-than-actual poverty.

In Figure 5.4 it is assumed that once the counterfeit has successfully fooled the beholder's eye, the observer naively believes that the consumer earns an income corresponding to  $s_a'$ . In reality, however, the beholder might entertain doubts as to the credibility of the income claim. In analogy to the interpretation of the detection probability  $\theta'$  in the previous section, the observer might believe with a certain probability that the income claim is false, which lowers the expected value of  $y'$ . Such a situation is depicted in the third panel of Figure 5.5 by a shift in the  $Y'(S')$  curve, such that for each value of  $s'$  a lower perceived income  $y'$  results.

There are several reasons why  $Y'(S')$  may shift in this direction. First, the beholder does not observe the displayed good in isolation, which allows the spectator to check the credibility

of the consumer's income claim by observing his entire consumption set. If the different consumption items that make up this set are highly inconsistent, i.e. when they do not send out the same message about their owner, the claim is not credible. A set of consumer goods needs to be internally consistent in order to be socially meaningful. For instance, a *Rolex* and a *BMW* occupy the same relative position in the respective product categories of 'watches' and 'cars' and, therefore, go together (McCracken, 1988, p. 120). If a consumer displays a counterfeit *Rolex* and at the same time drives an inexpensive car, he runs a serious risk of being detected as a deceiver.

Second, a false income claim may be discovered in case the beholder does not have to rely on inferences from consumption for information about people's actual income. Among members of rural communities, for instance, the occupational status and thereby the income position of people tends to be common knowledge. If information about people's income has such a public good character, the beholder can easily check the credibility of a status claim, which leaves little room for successful deceptive status signalling in societies with such a tightly-knit social fabric. By contrast, in urban areas, which are generally characterized by a higher degree of anonymity, there is more scope for successful DSS, since it might be very costly or even impossible for beholders to check potential deceivers' actual income. The idea that living among strangers increases the propensity to engage in DSS has already been acknowledged by Rae (1905[1834]):

In proportion to the populousness of towns, the inhabitants are filled with notions of vanity, and actuated by an ambition of distinguishing themselves by trifles. If they are numerous, and most of them strangers to one another, their vanity redoubles, because there are greater hopes of success. ... In the country it is different; every one is known, and no one can succeed in passing himself off for other than he is.

(Rae, 1905[1834], p. 262)

This may partly explain why the consumption of counterfeits is more prevalent in urban than in rural areas of the Third World. Another potential explanatory factor is the stronger degree of income inequality in cities than in rural villages, which raises the status aspirations of urbanites.

#### *Stage IV: Advance in social rank and feedback to consumer*

In this final stage, the beholder bestows a certain amount of status to the consumer on the basis of perceived income  $y'$ , as shown in the fourth panel of Figure 5.4. Since status is a hierarchical concept, however,  $s$  is not directly inferred from  $y'$ , but rather depends on the rank in society that an individual with an income equal to  $y'$  holds. It is important to consider, therefore, which factors influence how higher perceived income translates into higher social



rank. There are two main determinants, which are beyond the control of the individual deceiver.

First, the increase in social rank depends on how the income hierarchy in a society looks like, which is represented by the shape of the curve  $S(Y')$  in Figure 5.4. The curve has been drawn in accordance with the observation by Frank (1985a, p. 145) that “people are bunched together more closely nearer the bottom of the economic ladder”. While it is lonely at the top of the income hierarchy, it is relatively crowded at the bottom. According to Frank, this implies that a given increase in (perceived) income produces a stronger advance in rank at low than at high levels of income. Since status is increasing in the number of people that are surpassed in rank, the social gain from a given outlay on conspicuous consumption is assumed to be larger in the lower than in the upper reaches of the income distribution.

Second, the advance in social rank is highly contingent on the behaviour of other consumers. So far, it has been assumed that other members of the deceiver’s peer group have not been trying to fool the eye of the beholder with counterfeits. If some have followed a similar deceptive strategy, however, their perceived income  $y'$  has also risen in the observer’s mind, which reduces the individual deceiver’s advance in the rankings. This case is depicted in the fourth quadrant of Figure 5.5, where the  $S(Y')$  curve has been shifted such that each value of  $y'$  now corresponds to a lower  $s$ . Hence, even if deception has been successful up to the final stage, the desired status position may fail to materialise because other consumers have done the same.

### *Disappointment after deception*

Having gone through the different stages of the deception process, we can now evaluate the welfare outcome that results for the deceiver. For simplicity, it has been assumed in our framework that the process of deception does not entail any surprises for consumers with regard to the functional utility embodied in goods. Consumers get what they thought they would get. In Figure 5.4 this is also true for status utility. The counterfeit turns out to deliver exactly the amount of status that was anticipated by the consumer at the moment of purchase ( $s_c = E(s_c)$ ), so that there is no discrepancy between total utility *ex ante* and *ex post* ( $U_c = E(U_c)$ ). This is a special case, however. The amount of status eventually obtained by the deceiver may well be different from what is expected beforehand. The most interesting scenario is that in which status falls short of expectations ( $s_c < E(s_c)$ ), such as depicted in Figure 5.5. As a consequence, the anticipated level of welfare is not attained ( $U_c < E(U_c)$ ), which is likely to give the deceiver a feeling of disappointment after deception.

There are two sources of disappointment to be distinguished during the deception process. One source of disappointment for the individual deceiver is simultaneous deceptive status signalling by others. If the possibility that other consumers may also rely on deception to acquire higher social status has not been considered by deceivers at the outset of the

deception process, they will tend to feel disappointed afterwards. But even if all others refrain from deceptive status signalling, disappointment can still be the deceiver's dominant sentiment if the degree of detection turns out to be higher than expected ( $\theta' > \theta$ ). Disappointment arises from this second source when the particular counterfeit displayed turns out to be more easily identifiable as a fake than originally foreseen by the deceiver or when the claim about the consumer's income is less credible in the eye of the beholder than anticipated.

In order to see whether, *ex post*, the counterfeit  $C$  is still the optimal choice for a status-minded consumer with budget constraint  $BC$ , we have to compare the resulting welfare outcome to the level of utility that would have been obtained with the original good  $B$ . If the deception process works out as expected (see Figure 5.4), there is no reason for deceivers to regret their initial choice, since  $U_c > U_b$ . In case the purchase of a counterfeit eventually leads to disappointment with regard to the acquired amount of status, however, it is no longer evident that the counterfeit is welfare-superior to the original. This rather depends on whether the obtained status  $s_c$  is above or below a certain critical value of  $s$ , which is denoted by  $s^*$  in Figure 5.5 and corresponds to the point where the  $U_b$ -curve and the  $f_c$ -line intersect. If  $s_c > s^*$ , then  $U_c > U_b$ , so that the counterfeit remains the optimal choice, despite its failure to deliver the anticipated increase in status. If  $s_c$  falls below  $s^*$ , as depicted in Figure 5.5, however, the consumer would have been better off with the original ( $U_b > U_c$ ). Hence, imperfect foresight with regard to the outcome of the deception process may lead to sub-optimal consumption choices.

So far, we have assumed that the consumption of original status goods does not entail any disappointment. However, the literature on conspicuous consumption has drawn attention to the possibility that all forms of status-oriented consumption, whether they involve deception or not, lead to disappointment *ex post*. This possibility, which is crucial in assessing the welfare effects of counterfeits, is considered in the next section.

## **5.5 Reducing the Stakes in the Status Game**

Although rational for the individual consumer, status consumption is often believed to be collectively self-defeating. Rae (1905 [1834], p. 262) already made note of this particular feature of conspicuous consumption: “[E]ach man assumes the marks of a superior condition. But, by endeavouring thus at distinction, every one becomes equal and distinction ceases: as all are desirous of respect, nobody is regarded”. As discussed in Section 1.5.2, the collective irrationality of status consumption is central in the analyses of both Hirsch (1976) and Frank (1985a, 1985b, 1999). Any kind of positional competition has a ‘smart for one, dumb for all’ character and its participants are trapped in a negative sum game. Easterlin (2003) provides empirical support for this view. Data on subjective well-being from the United States reveal that the consumption of positional goods, such as a swimming pool, does not make people

happier in the long run (about 15 years in the study). According to Easterlin (2003, p. 22), people fail to recognize, when deciding on the purchase of positional goods, that the positional consumption levels of others will improve correspondingly. Therefore, the satisfaction anticipated *ex ante* from a given positional expenditure turns out, *ex post*, to be less than expected. In the long run, they are no happier than before, because their relative position has not changed. Wilson (1973) nicely foreshadowed this empirical result by drawing a parallel between human efforts to gain status and crab antics. He described status seeking among individuals as behaviour that

resembles that of a number of crabs who, having been placed in a barrel, all try to climb out. But as one nears the top, the one below pulls him down in his own effort to climb. Only a particularly strong crab ever climbs out -the rest, in the long run, remain in the same place.

(Wilson, 1973, p. 58)

Several objections can be raised against the view espoused by Hirsch and Frank that status consumption does not entail any welfare gain. First, the well-being of status seekers may be temporarily enhanced, as others are unlikely to acquire a particular status good at the same point in time. Rather than viewing status seeking as a simultaneous process, it seems more realistic to assume that there are leaders and followers in status consumption (Becker and Murphy, 2000, Ch. 7). Leaders may enjoy higher status for some time before followers have caught up. Second, the possibility of long-lasting welfare gains cannot be completely discarded. Lane (1991, p. 455) suggests that the pursuit of status goods in itself entails an intrinsic pleasure, which is “not wholly accounted for in final consumption nor dissipated by later disappointment”. With regard to the poor in developing countries, there is an additional reason to believe that status consumption may bring welfare gains that endure. The results of the perfume experiment described in Chapter 4 pointed at the existence of a threshold level of income below which people’s willingness to pay for status is significantly reduced. Those who live in extreme poverty are likely to drop out in an early stage of the conspicuous consumption game. Moderately poor status seekers that can afford to stay in the race, therefore, can distinguish themselves from those left behind.

If we accept the view, however, that both deceptive and non-deceptive status consumption fail to deliver any status utility *ex post*, what does this imply for the welfare effects of the consumption of counterfeit status goods? Is the availability of counterfeits a good or a bad thing for low-income consumers? There is no clear-cut answer to this question. All depends on the counterfactual, i.e. the way in which consumers would fulfil their need for status if imitations were not available, which is unknown. The evidence from Part I, however, in which the poor are observed to engage occasionally in the consumption of original Western brand-name goods, suggests that a scenario in which people would shift their attention to originals and purchase ‘the real thing’ in the absence of counterfeits is a plausible one.

Another possibility is that people might switch to more traditional types of status consumption instead of pursuing status through the display of Western goods. We will consider this latter possibility in more detail in the next chapter. The availability of counterfeits is arguably a good thing if low-income consumers would play the status game with original Western goods in the absence of imitations (Mason, 2000, p. 130). Even if counterfeits are assumed equally ineffective in delivering lasting status gains as original status goods, fewer resources are wasted in the process. Since counterfeits are cheaper, they allow poor consumers to play the conspicuous consumption game at a lower level. Put differently, they reduce the stakes in the status game for the poor.

## **5.6 Concluding Remarks**

In this chapter we analysed the welfare effects of deceptive status signalling, in particular the consumption of counterfeit brand-name goods. It has been shown that counterfeits are potentially welfare-enhancing, because they offer status-conscious consumers with limited resources a more optimal combination of functionality and status than original goods, provided that the degree of *ex post* disappointment with regard to the amount of status that is eventually obtained is not excessive. Since there seems to be repeat buying of counterfeits, such an extreme degree of ‘buyer’s remorse’ is unlikely to prevail, however.

The welfare effects of the consumption of counterfeit status goods for the poor is of interest to policy makers in developing countries, because counterfeits infringe on legally established trademark rights and developing country governments are currently under increasing international pressure to commit themselves to developed country standards of intellectual property rights (IPR) protection, including trademark protection.<sup>68</sup> The question whether Western standards of IPR protection are good or bad for the poor in developing countries is hotly debated. An important study by the Commission on Intellectual Property Rights has recently shown that rich-world systems of IPR protection are often in conflict with matters of public interest. The issue of patent protection of pharmaceuticals and its negative impact on poor people’s access to medicines against life-threatening diseases such as HIV/AIDS is a clear case in point. The Commission concludes, therefore, that poor countries should refrain from committing themselves to such IPR protection systems, unless they offer clear benefits (*The Economist*, 2002, p. 79).

Such a cautious policy stance may also be recommended to poor countries with regard to the adoption of trademark laws that are drawn up along developed country lines. A strong commitment on the part of developing country authorities to protect the rights of foreign trademark holders, implying a crackdown on counterfeits, is likely to be detrimental to the

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<sup>68</sup> Important in this respect is the TRIPS (trade-related aspects of intellectual property rights) agreement, which lays down global minimum standards for IPR protection. Even some of the world’s poorest countries are required to comply with these standards by 2006 (*The Economist*, 2002, p. 79).

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welfare of poor consumers, at least as long as these rightful owners of prestigious brands do not supply low-cost alternatives for the poor (see Chapter 7). If the poor turn to expensive original brand-name goods to play the status game, this may draw valuable resources away from non-conspicuous consumption and over time produce a decline in their nutritional, health and education standards.

**Appendix 5.A The imitative quality of counterfeits in Bolivia**

Cartoon in *La Razón* (Bolivian newspaper), April 14, 2004.



*“Of course it’s original, Sir!”*

NB: “Huascar de la Renta” is a corruption of “Huascar”, a popular first name of indigenous origin, and “Oscar de la Renta”, a prestigious Western designer brand.



## Are the Poor Envious of Others Acquiring Western Goods?

### 6.1 Introduction

This chapter concerns the welfare effects of the consumption of Western goods by the poor in developing countries. So far, research on this topic has mainly focussed on the welfare implications for low-income people in their role of *consumers* of these goods. Several authors have addressed the question whether the poor are better or worse off consuming Western goods, often compared to cheaper local alternatives.<sup>69</sup> However, relatively little attention has been paid to the potential welfare effects for low-income people in their role of *observers* of others consuming Western goods. An indication that these may be important can be found in Belk (1988), who argues that one of the motivations of the poor to buy Western goods is to provoke envy in others (p. 116). The main reason why observers may be envious of peers owning Western goods is that they are generally more expensive than local goods and are therefore a signal of the owner's wealth. Since wealth is an important determinant of one's social status, observers may experience envious feelings, as envy is commonly understood as the negative emotion that occurs in situations of social comparison where a person holds an inferior position when compared to others (Feather and Sherman, 2002, p. 953).

This chapter aims to test empirically whether poor consumers who buy Western goods impose a negative externality on their peers by provoking envy in them. We do not consider the envy that the poor may experience when observing Western goods acquired by the rich. This is motivated by the fact that "overwhelming and astounding inequality, especially when it has an element of the unattainable, arouses far less envy than minimal inequality" (Schoeck, 1966, p. 77). Thus, envy is likely to be strongest with regard to Western goods acquired by people who rank just above the envier in terms of wealth. Small differences in material possessions can cause considerable envy among the developing country poor, as vividly described by Lewis (1965) in his study on the culture of poverty among Puerto Rican slum families. Soledad, one of the sisters from the opening quotation of this thesis, for instance, makes the following complaint:

And the envy that exists among the poor! If you have two dresses, they wish you had only one and they begrudge you that. ... If you happen to have a small farm or a little shack,

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<sup>69</sup> See e.g. Wells (1977) and James and Stewart (1981) for early contributions to this debate.



## Chapter 6

they'd like to see you lose it and become a pauper. Little do they care that you sacrificed your whole life to get it.

(Lewis, 1965, p. 147)

This portrayal of envious peers perfectly fits the definition of envy as the state of mind of a person who cannot bear someone else possessing something which he himself lacks, and who will therefore rejoice should the other lose his asset, although that loss will not mean his own gain (Schoeck, 1966, p. 12).<sup>70</sup> In order to reveal the extent to which the poor suffer from such a mental state when observing peers acquiring Western goods, an experiment has been performed with a sample of low-income city-dwellers in Bolivia. The experiment consists essentially in the following. In a first stage, two subjects play a simple lottery game against each other, which only serves to pick a loser and a winner. In the second stage of the experiment the loser is given the option to manipulate the winner's relative probabilities of winning a T-shirt with a logo of a well-known Western brand versus winning a shirt with a logo of an unknown local brand that is otherwise identical. Manipulation of the odds by the loser such that the other player is *less* likely to win the Western brand shirt, is taken as evidence of envy of the Western brand-name good, since there is no *material* benefit for the loser in changing the relative probabilities. In short, subjects in our experiment can avoid envy by reducing the other player's chance to acquire a Western brand-name good.

We will analyse whether the sample as a whole exhibits envy and, in addition, scrutinize individual behaviour in the experiment and try to identify what type of people is most likely to suffer from envy. To our best knowledge, there are no empirical studies that have addressed this question, so inevitably our analysis is explorative in nature. Since envy of material possessions is believed to arise from situations of unequal social status based on wealth disparities<sup>71</sup>, we are particularly interested in the degree to which our subjects have demonstrated their wealth through other channels than the conspicuous consumption of Western goods. As will be shown in Section 6.5, an important alternative avenue for gaining prestige among the developing country poor is to spend on public celebrations such as religious festivals and wedding ceremonies. A proxy for the level of prestige that individual subjects have obtained by expenditure on such ritual celebrations is included in the analysis as a potential determinant of envy, together with a set of other variables that may affect subject behaviour.

The chapter is structured as follows. First, in Section 6.2 we review the anthropological literature on envy in developing societies and its consequences for conspicuous consumption. Section 6.3 describes the experimental protocol and relates it to other experiments that test for

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<sup>70</sup> This definition refers to 'invidious' envy or 'malign' envy, which is sometimes distinguished from 'benign' envy that does not involve the desire on the part of the envier that the rival lose his coveted possession, although there is controversy about whether 'benign' envy should be termed envy at all (D'Arms, 2002).

<sup>71</sup> According to Eves (2000), for instance, "envy is concerned ... with the distribution and exchange of wealth" (p. 459).

negatively interdependent preferences. It also contains a brief description of the sample. In Section 6.4 the results of the experiment are presented. Subsequently, several potential determinants of envy of Western goods are discussed. Section 6.5 focuses exclusively on the measurement of ritual prestige, whereas the other explanatory variables are described in Section 6.6. This section also contains the results of the discriminant analysis that is performed to test whether the selected independent variables can predict individual behaviour in the experiment. Finally, Section 6.7 concludes.

## **6.2 From Envy Avoidance to Envy Provocation in the Developing World**

This section aims to put our research question in a historical perspective. Whereas conspicuous consumption, i.e. advertising one's wealth by displaying expensive consumer goods, is a long-standing and widely accepted way of status seeking in the developed world<sup>72</sup>, this is not true for the majority of the population in the developing world. Anthropological evidence shows that in fact many developing societies were, and in some cases still are, governed by social norms that are diametrically opposite to the value system that allows for the flaunting of wealth through the ostentatious display of individual consumer goods.

### *6.2.1 Tribal societies*

Let us start with evidence from tribal societies, which are the least influenced by Western culture. Ethnographic descriptions of tribal societies often draw attention to the fact that individual wealth acquisitions tend to be carefully hidden from view rather than being put on display. An extreme example of such hiding can be found with the tribal Siriono in Bolivia, where meat is the most valuable asset. A returning Siriono hunter sometimes hides his quarry outside the village, feigning to his fellow tribesmen that the hunt was unsuccessful, rather than proudly showing his catch to them. In the night his wife will return to the hiding place and take the meat home, where they eat it secretly in the dark. Also, if women have meat in the house, they will never admit it and try to hide it by covering the meat with leaves or even by pushing morsels of meat up their vagina (Holmberg, 1969, p. 62). Anthropologists explain such hiding as a strategy to avoid others' envy, which is strongly feared in most, if not all, tribal societies (Douglas and Isherwood, 1996, p. 6). Another envy-deflecting strategy is to give valuable assets away to others, as observed among the Bushmen in the Kalahari desert:

A Bushman will go to any lengths to avoid making other Bushmen jealous of him, and for this reason the few possessions the Bushmen have are constantly circling among

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<sup>72</sup> See Veblen (1899).

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members of their groups. No one dares to keep a particularly good knife too long, even though he may want it desperately, because he will become the object of envy.

(Thomas, 1959, p. 22)

The possession of a coveted object may induce envious community members to cast spells or use other types of witchcraft and sorcery against the owner. Among the tribal Lovedu in South Africa, for instance, “any conspicuous gadget, such as a sewing machine acquired in town by a neighbour, is especially calculated to cause envy and hence black magic” (Schoeck, 1966, p. 49).<sup>73</sup> Also, a leader in the Massim society of Melanesia should not give in to a desire for conspicuous consumption, or he will invite envious sorcery. Apart from small luxuries in the home, such as a higher proportion of bought foods in his diet, a leader’s living standard does differ in no ostensible way from that of his people (Belshaw, 1955, pp. 60-61). Hiding one’s possessions from the prying eyes of others, or, alternatively, not acquiring or keeping any in the first place, are therefore sensible strategies for those who are relatively prosperous. Doing otherwise is likely to invoke hostilities on the part of the less prosperous, which may lead to losing the acquired wealth, if not life and limbs. In a recent study by Eves (2000) on envy and modernity among the Lelet in Papua New Guinea, it is unequivocally stated by a Lelet man that if a wealthy fellow tribesman would dare to buy a Western car, he would almost certainly be killed by sorcery (p. 456). Hence, as suggested by Belk (1988, p. 109), the strong fear of envy constitutes an effective barrier for the introduction of modern consumer goods in small-scale societies.<sup>74</sup>

The social sanctions on the ostentatious display of material possessions in tribal societies do not imply, however, that those who are relatively prosperous are unable to demonstrate their wealth to others and thus unable to obtain status from it. They can exchange their wealth for prestige by ostentatiously redistributing it, generally by sponsoring costly public celebrations. Often social norms exist that require the wealthy to do so. It is *sharing* wealth that bestows status upon the owner rather than hoarding it, as witnessed by the following anthropological accounts from the Massim of Melanesia and the Ifugao of the Philippines, respectively<sup>75</sup>:

Prestige ... accrues from sharing wealth, bringing the leader face to face with the necessity of increasing the level of living of those about him, through sharing, almost *pari passu* with his own. ... Wealth is either hoarded quietly, or, more commonly, used in the

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<sup>73</sup> The original ethnographic source is Krige, E.J. and Krige, J.D. (1943, p. 269), *The realm of the rain-queen: A study of the patterns of Lovedu society*.

<sup>74</sup> In one particular case the fear of envy seems to have had the opposite effect. Among the Hadza in Tanzania, the introduction of modern-style pants was particularly welcomed, because the pockets of these pants substantially increased people’s possibilities for hiding (Henrich *et al.*, 2004, p. 29).

<sup>75</sup> See Sahlins (1972, pp. 246-275) for similar evidence from a large number of other primitive societies. The strategy of exchanging wealth for prestige, which stems from the basic tenet in the field of economic anthropology that surplus wealth equals prestige, can still be found in our modern societies, most notably in the form of donations to charity (Barkow, 1989, p. 195; Van de Ven, 2003, pp. 71-72).

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generous giving and the ceremonial which are the established forms of commanding the respect and adherence of a band of followers.

(Belshaw, 1955, pp. 60-61)

The man of wealth ... must not be stingy. If he is to maintain his status, he must continually redistribute some of his wealth in a series of elaborate and costly feasts to the populace.

(Mead, 1961 [1937], p. 175)

Such sharing of wealth mitigates envy for two reasons. First, it ensures that all enjoy something of the accumulation and, second, it also tends to ensure that excess wealth is burned off (Douglas and Isherwood, 1996, p. 21). An extreme instance of the latter is the well-known ritual of *potlatching* among the Kwakiutl Indians. High-ranked Kwakiutl are required to ostentatiously distribute large quantities of valuable goods such as blankets, boxes, oil and coppers to others during *potlatch* festivals. The most prestigious act, however, is to actually destroy such goods during these feasts, for instance literally burn off wealth by pouring a number of boxes of valuable oil onto a fire or by throwing precious coppers into the sea (Codere, 1950, pp. 76-78).

The foregoing does not imply that there are no opportunities at all for the display of individual prestige goods in tribal societies.<sup>76</sup> However, such wealth display is heavily regulated and can only occur in certain appropriate contexts and is often restricted to very specific items. For instance, on the Indonesian island of Alor, where so-called *mokos* (metal kettledrums) are the most prestigious symbol of wealth, people make sure to give a feast directly after large displays of their personal wealth as an antidote to the envy of others (Dubois, 1944, pp. 188-189). Among the Lelet, individuals are only allowed to display prestigious shell valuables during mortuary feasts, and even this is not without risk of inviting envy (Eves, 2000, p. 460). After a mortuary feast, shell valuables are hidden in the owner's house. The problem with Western symbols of wealth, however, is that they can be displayed outside these contexts and thereby undermine the strict social norms regarding ostentatious display. Among the Lelet, therefore, the introduction of Western goods has been accompanied by an increase in sorcery.

### 6.2.2 *Traditional peasant societies*

The two envy-deflecting strategies found in tribal societies, i.e. the concealment of individual wealth acquisitions as well as the conspicuous sharing of wealth, are also commonly found in

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<sup>76</sup> See Herskovits (1952, Ch. 6) for some examples of individual wealth display by high-ranked individuals in various tribal cultures.

non-tribal peasant societies in the developing world. With regard to eschewing the ostentatious display of individual wealth acquisitions, clear examples can be found in the peasant community of Tzintzuntzan, Mexico, which has been studied by Foster (1967). In order to camouflage their prosperity, families in Tzintzuntzan continue to wear ragged clothes, abstain from making visible improvements to their homes, ensure that the quantity and quality of food they eat remains unobserved, and build high walls around their patios to be out of sight of envious neighbours (p. 138). In case a new possession cannot be hidden from view, the owner often publicly deprecates its value or, alternatively, the custom of *el remojo* is applied:

When friends note that someone has a new possession such as a garment, a kitchen utensil, a household furnishing, or a piglet, they may shout *el remojo, el remojo*, which means “You must give us something to make up for the new possession you have”. ... The owner is careful to acknowledge the request by saying *A sus órdenes*, thus symbolically placing the object at the disposal of those demanding the *remojo*, who can now have no reason to be envious. For more striking acquisitions, owners may forestall action by offering something before being asked.

(Foster, 1967, p. 157)

The other envy-controlling mechanism found in tribal societies, i.e. the existence of public rituals that require sponsoring by the wealthy in exchange for personal prestige, has taken a highly sophisticated and intricate form in Mesoamerican rural communities like Tzintzuntzan, which is known as the ‘cargo’ system.<sup>77</sup> An individual can gain prestige by taking on a cargo, which consists in performing a prescribed religious service to the community. Apart from taking part in certain rituals, cargo-holders must provide food and drink for the villagers during religious fiestas. In addition, they often need to arrange musicians and fireworks for such occasions. Together with expenses on Masses, candles and other religious paraphernalia, this adds to the cost of holding a cargo. A complex hierarchy of different cargos exists, where the prestige of a certain cargo rises with the cost involved for the cargo-holder, which can be very substantial. A study by Cancian (1965) on the cargo system in the Mexican village of Zinacantan reveals that the costs that have to be incurred to pass the most prestigious cargo amount to more than ten times the annual income of a relatively prosperous community member (p. 81). Zinacantecos believe it is proper for individuals to be made poor by holding a cargo.<sup>78</sup> It is considered appropriate that cargo-holders go heavily into debt (preferably for an amount that more or less equals half of the cargo’s total cost) in order to meet the obligations connected to their cargo (p. 100). Although the cargo system has undoubtedly a ‘levelling

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<sup>77</sup> Cargo systems are also common to Indian communities in the Andes. See e.g. Buechler and Buechler (1971, Ch. 6) for a description of a cargo system in a Bolivian Aymara community.

<sup>78</sup> Klein (2003, pp. 42-43) notes that “ritual impoverishment” of its participants is also the ultimate goal of cargo systems in Bolivia.

effect', it does not wash out wealth differences altogether (p. 140). Rather, the cargo system legitimises existing wealth disparities and thereby controls envy:

The expenditure of great amounts of money in the cargo system, especially by the rich, reduces considerably the envy of the rich by the poor. Envy, because of the attendant danger of witchcraft practiced on the envied by the envious, is a potentially disruptive force. ... The cargo system assuages this envy very effectively by allowing, and in fact requiring, the rich to make the greatest contribution for community religious observances.

(Cancian, 1965, p. 135)

Foster (1967, pp. 122-24) provides an explanation for why small-scale rural societies tend to be envy-ridden. People who depend on subsistence agriculture often face a shortage of land, the most important source of wealth, which leads them to believe that all sources of wealth (and in fact all desired things in life) are in fixed supply. An important corollary of such a cognitive orientation, which Foster coins the "Image of Limited Good", is that an individual or a family can improve its position only *at the expense of others*. Since they do not have the notion of economic growth, anyone that prospers must have done so at the cost of the rest of society, which fuels envy.

An important phenomenon that reduced the fear of envy and opened up possibilities for displaying material possessions in Tzintzuntzan was migrant labour. The wealth brought in by migrant labourers was recognized as not having been acquired at the expense of others, since it was earned outside the village. Migrant labourers could therefore demonstrate their wristwatches and modern clothes from the US without having to fear others' envy (p. 315). Consequently, the display of expensive modern consumer goods gradually gained acceptance and became the focal point of what Foster interprets as a new, secular form of status competition. He notes, for instance, that owning a blender with a handle had enormous prestige value (p. 314). Reduced forms of the religious cargo system continued to exist alongside the new prestige system, however, and partially merged with it.<sup>79</sup> Under the influence of the new value system that was based on openly trying to surpass neighbours, expenses on religious rituals increasingly became a form of conspicuous consumption. Some of the relatively prosperous villagers chose to participate in both prestige systems simultaneously. For them holding a cargo was "simply one more conspicuous expense, like a gas stove or a second story on a house, an additional brick in a new status structure" (pp. 319-20).

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<sup>79</sup> The assimilation of modern consumer goods into traditional prestige systems is a common occurrence in the developing world. Consider, for instance, the use of Western symbols of wealth into traditional death rituals in Asante, Ghana. In the traditional fashion, individuals make contributions to the bereaved to cover funeral expenses, which are publicly announced over loudspeakers during the funeral, but the bereaved may spend the money on an imported *Armani* suit for the deceased or a Western car to transport the body (Bonsu and Belk, 2003).

Spending on public rituals is still an important form of conspicuous consumption among the developing country poor today, as shown by Bloch *et al.* (1999) and Rao (2001a, 2001b) who have analysed expenditure on religious festivals and wedding ceremonies among households in rural South India. They find that families that can barely scrape out an existence spend on average no less than 15 per cent of their total expenditure on festivals and spend up to 6 times their annual income on a daughter's wedding ceremony (excluding dowry), which often leaves them destitute and heavily indebted (Rao, 2001b, p. 2). These large investments are partly explained as conspicuous consumption that serves to gain or maintain social status. Rao (2001a) shows that a family's expenses on religious festivals generate tangible social returns. At the median income level, a 1000 rupee increase in festival expenditures places a family 0.39 standard deviations higher on a status ladder that is constructed by the villagers themselves (p. 92). With regard to money spent on wedding ceremonies, Bloch *et al.* (1999) state that their results are "consistent with the notion that wedding celebrations are a form of conspicuous consumption that signal the family's social status to the community where it is resident" (p. 18). Hence, public celebrations are an important arena for status seeking in South India. As will be shown in Section 6.5, this is also true for Bolivia.

The foregoing illustrates a key change in Third World consumer culture, which is the dramatic shift from envy avoidance to envy provocation (Belk, 1988, p. 116). Where members of developing societies used to carefully hide their valuable possessions such as expensive consumer goods from view, today they are often eager to flaunt them. Second, where ritual expenses used to serve as a mechanism to reduce envy of the rich by the poor, they became a device for conspicuous consumption similar to Western goods and may thus provoke envy as well. Note that the anthropological evidence presented in this section concerned rural communities in the Third World rather than urban ones. Envy provocation is even more likely to occur among the urban poor, as "the anonymity provided in larger cities is one safeguard from the envy that might otherwise curb invidious distinction seeking through consumption" (Belk, 1988, pp. 111-12). The participants in our experiment, which is described in the next section, belong to the urban poor.

### **6.3 The Experiment**

According to Schoeck (1966, p. 36), envy can be assumed to be present if a person wants other people to have less than he has or nothing at all, instead of granting others the right to have more, or if he inflicts damage on another without himself benefiting thereby. Simply asking people whether they would engage in such malicious behaviour is unlikely to produce reliable answers, because people may not admit, either to themselves or to others, that they are envious persons. An experimental procedure has the advantage that envious behaviour can be observed directly by deliberately putting subjects in a situation that is potentially envy-provoking and giving them the opportunity to act upon it. There are surprisingly few

experimental studies that explicitly test for envy.<sup>80</sup> However, two recent economic experiments that shed more light on this dark side of human nature are briefly discussed below.

### *6.3.1 Experimental tests for envy*

An experiment by Beckman *et al.* (2002) with university students from the US, Russia, Taiwan and China, measures envy of money gains accruing to others. Subjects are randomly assigned a position in an income distribution and subsequently have to vote in favour or against an income improvement that benefits a subject that occupies a higher position in this distribution. The income gains are Pareto efficient; they do not reduce other subjects' incomes. It is found that the "effect of envy emerges quite clearly and strongly" (p. 364). Close to half of the subjects oppose income improvements that benefit those who are higher up the income distribution. However, there is substantial cross-cultural variation. Opposition is as high as 66 per cent in China, but only 19 per cent in the US.

An even stronger experimental test of envy of others' income has been conducted by Zizzo and Oswald (2001) with British students. Acting upon envy is costly in terms of one's own material gain in the experiment. After a betting stage, where subjects earn certain amounts of money that are public knowledge, subjects can anonymously reduce ('burn') part of others' money earnings by giving up some of their own earnings. It turns out that no less than two-thirds of the subjects spend some of their own money to hurt others, as long as the marginal 'burning' price does not exceed 0.25 (I give up \$0.25 for 'burning' \$1 of another subject). Richer subjects, those that earn relatively high wealth in the first stage, are burnt significantly more often than poorer ones.

The design of our envy experiment is similar to that of Zizzo and Oswald in the sense that a game stage precedes a second stage in which the loser of the game can anonymously hurt the winner. However, some subjects in the Zizzo and Oswald experiment received an unfair advantage in the game stage in the form of a gift whereas others did not, which introduces fairness issues and thereby feelings of unfairness as an alternative explanation of subject behaviour. In the game stage of our experiment there is no such procedural unfairness, so that envy is not confounded with fairness concerns. On the other hand, our envy test is weaker than Zizzo and Oswald's, because envious acts are costless in terms of the envier's own material pay-off, as in the experiment by Beckman *et al.* (2002). An aspect in which our experimental design differs from both experiments, apart from the radically different subject

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<sup>80</sup> Kirchsteiger (1994) argues that the observed behaviour in ultimatum bargaining experiments, which is generally believed to be driven by fairness motivations, might in fact be evidence of envy. In a theoretical model Kirchsteiger shows that envy is able to explain the most important anomalies observed in ultimatum game behaviour. So far, no ultimatum game experiment has been conducted that clearly isolates envy-motivated behaviour from fairness considerations, however.



pool (see Section 6.3.3), is that the potential object of envy is not wealth in the form of a sum of money, but wealth embodied in a Western good.

### 6.3.2 *Experimental procedure*

The experiment has been carried out in selected low-income neighbourhoods of the city of Cochabamba, Bolivia, during the period July-August 2003. It has been set up in public meeting places in these neighbourhoods, where people are invited to participate on the spot.<sup>81</sup> The experiment consists in an anonymous two-player game, where the winner receives a T-shirt and the loser gets nothing (except for a very small consolation prize). Player 1 is in a different location than player 2 and identities of the players are not revealed in order to prevent that personal relations influence their behaviour in the experiment.<sup>82</sup> The only information provided by the experimenter is that the other player lives in the same neighbourhood. The reason is that social proximity stimulates envy (Schoeck, 1966, p. 22). Throughout the experiment, player 1 and 2 cannot communicate with each other, but the walkie-talkie communication between the experimenters in the two locations can be overheard. The first stage of the game merely serves to pick a winner and consists in both players spinning a roulette wheel. The player who draws the highest number wins the game. In the second stage the *loser* is shown three different shirts, two with a Western brand logo and one with a local brand logo, which are the winner's potential prizes. Before explaining how the loser can influence which of these shirts the other player will win, the selection of shirts and brands will be discussed.

Conspicuous consumption requires that the acquired goods are observable for others. Clothing items are perfectly suitable in this respect because of their high degree of visibility. T-shirts have been chosen because they are unisex and are not exclusively worn by a specific age group. The two Western brands selected are *Nike* and *Polo Ralph Lauren*. The *Nike* brand has been chosen because its logo, the *swoosh*, is recognized as the symbol of a prestigious Western brand even in remote parts of the Third World:

The value of the *swoosh* now runs so deep that visitors to remote, rural and impoverished regions of the Third World report finding peasants sewing crude *swoosh* imitations on to shirts and caps, not for the world market but for local consumption. Even in the hinterlands of places like Jamaica and Guatemala, the *swoosh* symbol carries recognition and status.

(Goldman and Papson, 1998, p. 2)

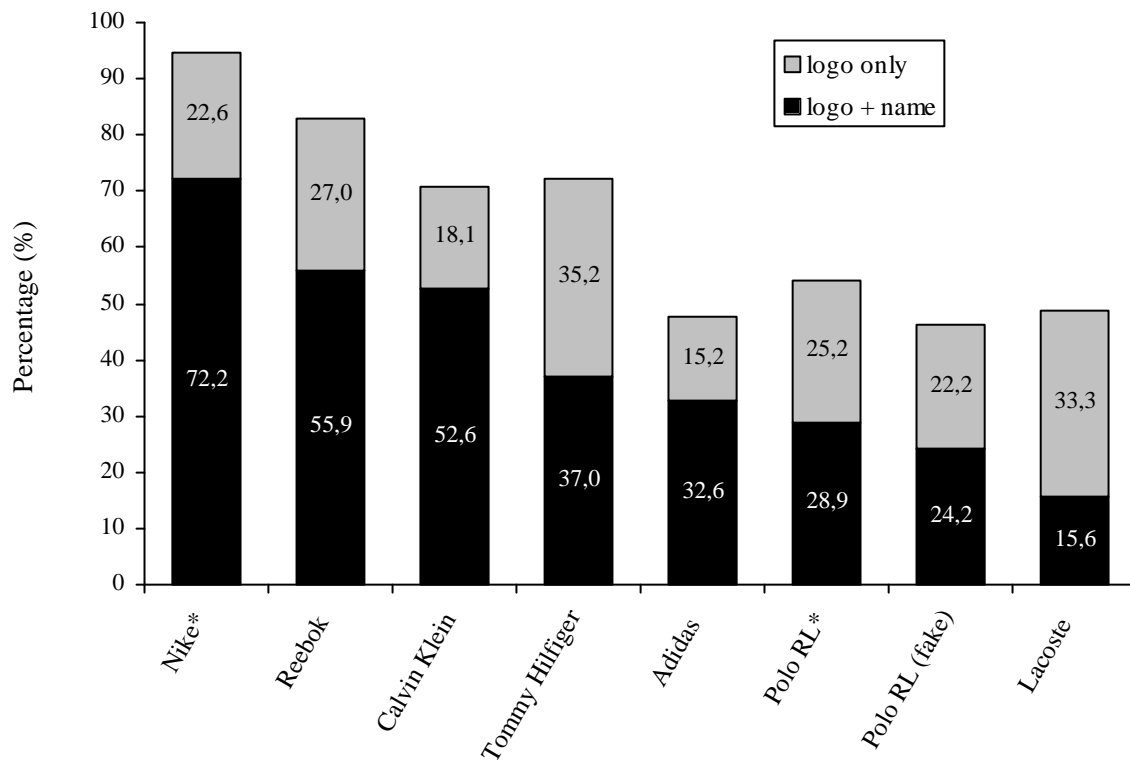
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<sup>81</sup> The experiment has been conducted in the following neighbourhoods: Barrio Minero/Villa Alalay, Barrio Universitario/Barrio San Miguel, Central Taquiña/Villa Guadalupe, Ciudad del Niño, Huayra K'asa, Molle Molle, Villa Candelaria, Villa Mejico, Villa S. Pagador and Villa Santa Cruz/Villa Jerusalén. See Annex II and III for the exact locations where the experiment was carried out.

<sup>82</sup> See Appendix 6.A for the oral instructions given during the experiment.

The *Polo Ralph Lauren* brand has been selected for the experiment as it was widely imitated by local informal producers at the time of the research. The two brands strongly differ, however, in the degree to which they are known. The logos of these two brands, along with those of five other Western clothing brands, have been shown to 270 respondents from neighbourhoods where the field experiment is conducted in order to assess the respective degrees of recognition. The results are summarized in Figure 6.1.

*Figure 6.1 Relative frequency of logo and name recognition of selected Western brands (n = 270)*



Not surprisingly, the *swoosh* turns out to be the best-known logo. It is recognized by 95 per cent of the respondents as the logo of a prestigious Western brand and 72 per cent correctly associate it with the *Nike* brand. By contrast, the *Polo* logo looks familiar to only 54 per cent of the respondents and no more than 29 per cent are able to match it with the right brand name. Including both brands in the experiment, therefore, allows us to assess the extent to which envy of a Western brand depends on its degree of recognition.

Although in principle original *Nike* and *Polo* shirts could have been used in the experiment, we use local imitations instead. This is motivated by the fact that counterfeits are

the more realistic alternative for low-income consumers. They are more likely to show off counterfeits than originals. Counterfeits are sold at a slightly higher price in informal markets than local brand goods of the same quality. Hence, the experiment uses a relatively weak stimulus for envy, as the price premium for counterfeits over local brand goods is much smaller than that for originals.

The three shirts used for the experiment have been obtained from the same local informal clothing producer in order to ensure that the design, colour, size and the quality of the materials are identical. The only difference between the shirts is the logo embroidered on the pocket and the brand label sewn into the collar. One displays the *Nike* logo, one the *Polo* logo and the third displays the informal producer's own logo (*S&S*). The *S&S* logo, which has a reasonably attractive design, is unknown to most locals. The fake *Nike* and *Polo* logos and labels closely resemble the original ones. The shirts sell in the local street market at a price between 30 and 40 Bs. (about US\$5).

The three shirts are shown to the *loser* of the game only, who is informed that the shirts are identical in all respects except for the brand logos. The experimenter identifies the logos of the shirts as *Nike*, *Polo* and *S&S*, respectively. In addition, the loser is told that the first two are well-known Western brands and the latter a local brand that is not sold in other countries. Finally, the experimenter reveals that all three shirts are bought from the local street market at a price of around Bs. 35. This should serve as a strong clue for the loser that the Western brand-name shirts are locally made counterfeits rather than original ones.

In the second stage of the experiment the loser can influence which of the three shirts the other player will win, without the other player knowing this. The procedure is as follows. The loser is told that the winner will spin a roulette wheel and draw a certain number between 1 and 36. He receives a sheet on which the roulette numbers are divided into six equal groups and receives 6 *Nike*, 6 *Polo* and 6 *S&S* tokens, which represent the three different shirts (see Appendix 6.B). The task for the loser is to set a token for each of the six groups of numbers, where the token represents the shirt the winner will receive if he draws a number from the corresponding group. Hence, in total the loser has to pick six out of his eighteen tokens. Putting more tokens of a certain brand increases the probability of the winner receiving the shirt of this particular brand. If a loser sets 3 *S&S*, 1 *Nike* and 2 *Polo* tokens, for instance, as shown in Appendix 6.B, the corresponding probabilities for the other player to win the *S&S*, *Nike* and *Polo* shirt are  $1/2$ ,  $1/6$  and  $1/3$ , respectively. Any combination of tokens is allowed. Putting six tokens of the same brand means that the other player will win this brand with probability one, whatever the number he draws.

After verifying whether the loser has understood the procedure, he is asked to think carefully about his decision and it is stressed that the winner will not find out what combination of tokens the loser has set. The winner will only observe the T-shirt he wins and does not know there are actually three different prizes. When the loser has set his tokens, the roulette number drawn by the winner is communicated to the loser's side and the brand that

corresponds to the number drawn is communicated back. Finally, a shirt of this brand is handed over to the winner.

### *6.3.3 The subjects*

The total number of participants in the experiment is 170. Because only the envy of the loser of each subject pair can be measured, this results in 85 independent observations. This section briefly presents some basic demographic characteristics of the 85 losers that make up our sample.

The sample contains almost equal proportions of male and female subjects, 50.6 and 49.4 per cent, respectively. With regard to age, 31.8 per cent of the subjects are younger than 25 years, 36.5 per cent fall in the age category 25-35 years, and the remaining 31.8 per cent are above 35. The youngest subject is 17 and the eldest 58. Their educational profile can be summarized as follows. More than 80 per cent of the subjects have completed primary education (5 years of schooling) but only 35 per cent have completed secondary education (12 years). On average, subjects spent 8.6 years in school. Only 2 out of the 85 subjects have a university degree. Since Bolivia has the highest share of indigenous population in South America, ethnic background is also a variable of interest. The degree to which indigenous languages are spoken by our sample gives some information on this aspect. A majority of 64 per cent is able to speak an indigenous language. Indigenous language speakers are heavily concentrated in the higher age groups. Among those above 30, their share is 85.7 per cent, whereas this is only 39.5 per cent for the younger generation. However, 75 per cent of those who are able to communicate in an indigenous language state that they speak Spanish more frequently. With regard to religion, a majority of 74 per cent is Roman Catholic, whereas 26 per cent attends a Protestant church.

The living standard of the subjects is typically low. All subjects live in neighbourhoods where the provision of arguably the most important basic service, i.e. access to safe water, is deficient. None of the neighbourhoods has a reliable and continuous supply of safe drinking water. People who live in recently established settlements or in hillside settlements often have no access to safe water altogether. Also, these settlements lack other basic amenities such as a sewer system, paved roads and electricity. The question is whether the absence of such public services implies that subjects are poor in terms of private income as well.

Respondents have not been asked for household income directly, because reliable income estimates require detailed information on various sources of income, which would substantially increase the list of survey questions and might therefore reduce willingness to participate in the experiment. However, a rough indication of the degree of income poverty among the subjects' families can be obtained by matching them with families with similar characteristics from a recent household survey that includes private income information. The matching criteria are limited access to safe water, from which all subjects in the sample suffer,

and ownership of two durable goods, a refrigerator and a living room furniture set. In Bolivia, a refrigerator typically precedes a living room set in the order of durables acquisition. Based on durables ownership, three groups are distinguished in Table 6.1.

Table 6.1 *Income proxies for subjects in the sample*

Own sample ( $n = 85$ )				Household survey sample with matching characteristics (2001) <sup>a</sup>		
Basic needs	Durables ownership		%	Median income level <sup>b</sup>		
24-hour access to safe water	Refrigerator	Living room set		Bs. per month	US\$ per day	Obs.
No	No	No	44.7	247	1.30	$n=130$
No	Yes	No	43.5	354	1.80	$n=78$
No	Yes	Yes	11.8	662	3.40	$n=71$
			100.0			

<sup>a</sup> Own calculations based on data on 446 surveyed households from urban Cochabamba. Source: INE (2001a).

<sup>b</sup> Income measured by expenditure.

The first group (44.7 per cent) owns neither a refrigerator nor a living room set. Households in this group are likely to be income poor, as the median household in the matching group from the survey has a monthly income of Bs. 247, which is well below the official poverty line of Bs. 348 for urban Cochabamba. A second group of 43.5 per cent owns a refrigerator but no living room furniture. Among these households the incidence of poverty may still be substantial. The median income of Bs. 354 reported for the corresponding households in the survey is only slightly above the poverty line. Finally, a small group of 11.8 per cent owns both durables. They are much less likely to be poor in terms of private income, as the median income in the matching group is almost twice the poverty line (Bs. 662). The sixth column of Table 6.1 shows the income equivalents in dollars per day. Note, however, that the data in Table 6.1 may somewhat overstate the income level of the subjects in the sample, because many of them live in neighbourhoods where basic needs provision is distinctly worse than a less than 24-hour supply of safe water.

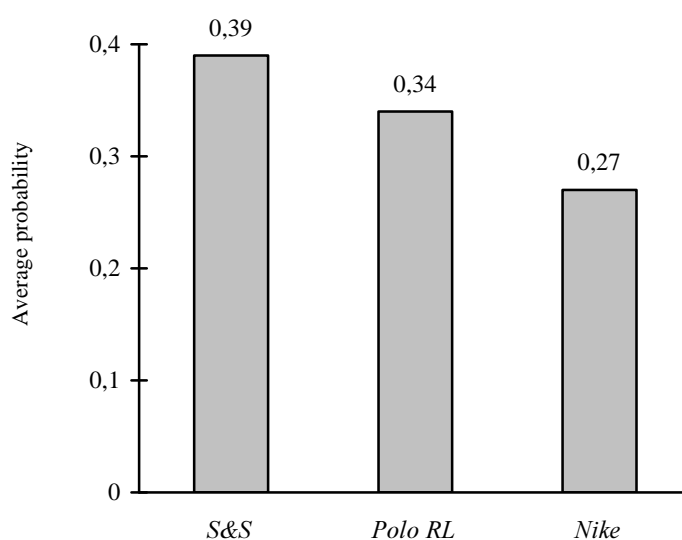
#### 6.4 Evidence of Envy

Envy of other people acquiring a *Nike* or *Polo* labelled shirt is assumed present in the experiment if losers systematically reduce the other player's chance of winning these shirts compared to the *S&S* shirt. Figure 6.2 shows the average probabilities of winning a certain

*Are the Poor Envious of Others Acquiring Western Goods?*

brand in the experiment after manipulation by the losers. It results that winners are most likely to receive the *S&S* shirt, followed by the *Polo* shirt, while *Nike* is the brand they are least likely to win. The respective probabilities are 0.39, 0.34 and 0.27. This suggests that, on average, subjects in the experiment are envious of others acquiring the *Nike* brand and, to a much lesser extent, of others winning the less familiar *Polo* brand. A two-tailed paired-samples T-test confirms this picture. Subjects put significantly more *S&S* tokens than *Nike* ones (*mean difference* = 0.67,  $t = 3.47$ ,  $p < 0.01$ ). Although they also put more *S&S* tokens than *Polo* ones (*mean difference* = 0.28), this difference is not significant at 10 per cent ( $t = 1.36$ ,  $p = 0.18$ ). A clear result is the difference in envy provocation between the two Western brands used in the experiment. The mean difference between the number of *Polo* and *Nike* tokens is positive and significant at 1 per cent ( $t = 2.81$ ,  $p < 0.01$ ).

*Figure 6.2 Average winning probability set by losers (n = 85)*

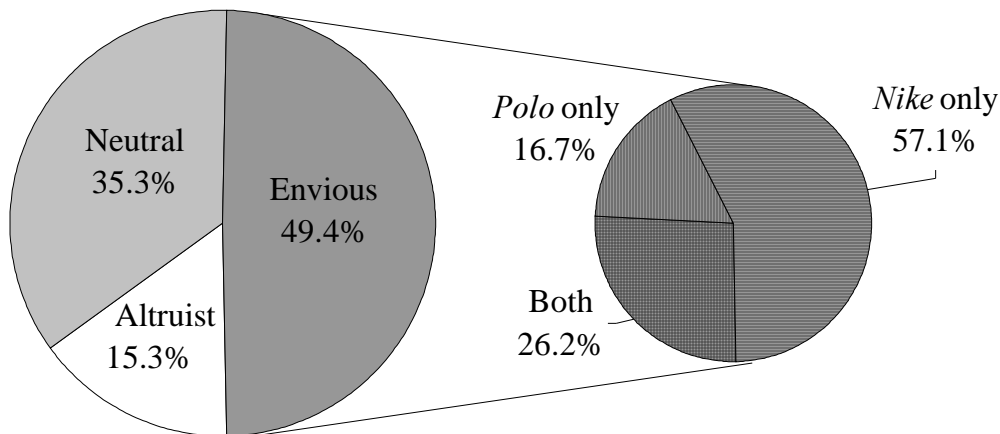


Note that envy is unlikely to be caused by anticipation of a status loss directly from individual encounters with the winner in the future, then the loser knows that the Western brand shirt does not bear any relation to the winner's wealth as it has been won rather than bought. However, the loser may anticipate that *others* who observe the winner wearing a Western brand-name shirt award higher status to him than if he would wear a local brand shirt, provided that they believe the *Nike* or *Polo* shirt to be more expensive. The latter is likely to be the case, as the perfume experiment in Chapter 4 showed that, on average, low-income consumers in Cochabamba are willing to pay more for a good that displays a famous Western brand name than for a non-logo good which they know is identical in all other aspects. Put differently, a prestigious Western brand logo commands a price premium in the market as a

symbol rather than as a signal of high product quality. This means that even if observers recognize the winner's shirt as being a counterfeit of low intrinsic quality, the fact that it displays a Western brand-name logo signals higher price. Even though they are fake, the *Nike* and *Polo* logo are likely to be associated with prestigious Western brands. This has been tested by showing a fake *Polo* logo, consisting of a polo-player that bears little resemblance to the original logo, to our respondents. As can be observed in Figure 6.1, the fake logo was only slightly less frequently recognized than the authentic logo (46.4 versus 54.1 per cent). To the extent that this weak capability of detecting fake logos leads observers to believe that the Western brand shirt worn by the winner is an original shirt, its perceived price and thereby its prestige further increases.

Higher status for the winner may entail a decline in relative position for the loser, because the latter is likely to regard the winner as one of his peers, since he knows that they live in the same neighbourhood. The fact that envy in the loser is provoked indirectly through the presence of outside observers may also explain why *Nike* provokes more envy than the *Polo* brand. *Nike* is recognized as a famous Western brand by virtually everybody in the community, so that a larger number of people can be impressed by it and, consequently, the social return of wearing *Nike* is high. By contrast, even if the loser himself is familiar with the *Polo* logo but believes that many other people are not, he estimates the status gain of wearing *Polo* for the winner to be relatively low and, consequently, less envy is aroused.

Figure 6.3 Behavioural types in experiment



Let us now turn to individual subject behaviour in the experiment and classify subjects according to their observed strategy. Figure 6.3 presents a graphical breakdown of the sample into various behavioural types. A strategy applied by 35.3 per cent of the subjects is to set equal winning probabilities for the three shirts, that is a winning probability of 1/3 each. These subjects are apparently indifferent as to which shirt is won by the other player, because

they do not make use of the opportunity to manipulate the odds in either direction. Their behaviour is, therefore, considered to be neutral. A second strategy is to *increase* the relative chance of the other winning a brand-name good rather than reducing it. A relatively small proportion of the subjects, 15.3 per cent, apply such a strategy. They set the winning probability for *S&S* below 1/3, but those for the Western brand shirts equal to or above 1/3. This group might either have truly altruistic preferences or, alternatively, experience some kind of ‘warm glow’ feeling from granting the other player a Western brand shirt. The most commonly observed strategy, however, is to do the opposite, which is to set a winning probability of less than 1/3 for at least one of the Western brands. Such envious behaviour is observed for 49.4 per cent of the sample. Out of this envious group, 57.1 per cent target only *Nike*, 16.7 per cent only *Polo* and 26.2 per cent target both brands. Few subjects apply an extremely envious strategy. Out of those who target *Nike*, for instance, 85.7 per cent set a probability of 1/6, whereas only 14.3 per cent set this probability to 0 and thereby prevent the other from winning the *Nike* shirt altogether. The result that the average subject behaves enviously is driven by a large share of subjects with moderately envious behaviour rather than by a small group that acts in an extremely envious way.

For the remainder of this chapter it is important whether a subject is correctly classified as envious or not in Figure 6.3. Let us therefore consider possible classification errors. First, there may be a type I error because quite a number of subjects who set equal winning probabilities for the three shirts, and are therefore classified as ‘neutral’ subjects, expressed overt disappointment when their opponent happened to win a brand-name shirt, especially if it was the *Nike* shirt. Hence, they seem to suffer from envy *ex-post*, but did not try to prevent this when they were given the opportunity. Insofar as acting upon envy requires that the degree of envy exceed a certain threshold, this does not pose a problem. The envious category in Figure 6.3 only includes the ‘strongly envious’ rather than all subjects that are bothered by envy in this case. A possible type II error consists in the following. Subjects who are indifferent about which shirt the opponent takes home, may have picked randomly 6 tokens out of the total set. If this random draw happens to contain few *Nike* or *Polo* tokens, this is erroneously interpreted as a sign of envy. We believe very few subjects behaved in such a fashion, however. Subjects generally selected their tokens carefully rather than blindly picking some. Moreover, the comments given by subjects during the experiment suggest that the equal probabilities strategy was considered the ‘natural’ thing to do in case of indifference and deviations from this benchmark were considered intentional.

The classification of individuals in three behavioural types in Figure 6.3 raises the question whether the subjects in these groups differ from each other in terms of their characteristics. Why do some subjects behave enviously, whereas others are indifferent or altruistic? Before testing the explanatory power of several potential determinants of envy in Section 6.6, we dedicate a separate section to the measurement of one particular independent variable, i.e., a subject’s degree of ritual prestige. This requires some background information



on the ritual celebrations in Bolivia that serve status-seeking purposes and the types of expenditure they involve.

### 6.5 Ritual Prestige and Public Celebrations in Bolivia

As shown by Rao (2001b), a family's social status in rural India is positively correlated with this family's expenditure on ritual celebrations. Similarly, in the Bolivian context the following three expenditure categories are generally considered important arenas for ritual status seeking: *i*) traditional dancing, *ii*) sponsoring of religious celebrations, and *iii*) patronage of life-cycle events (e.g. wedding ceremonies). Expenditure in these categories has high prestige value, because the public rituals involved tend to be high-impact events involving a large number of people. Their low frequency further enhances the prestige value of the expenses (Douglas and Isherwood, 1996, p. 83). We assess the subjects' degree of prestige gained by such expenditure in order to analyse the impact of investments in these ritual celebrations on behaviour in the experiment.

Subjects are scored according to their relative expenditure on each of the three status-intensive categories separately, which will be combined into a single overall score. These scores increase with the amount spent either by the subject or by family members. The expenses of family members are weighted according to the kinship distance of these family members to the subject. The larger the distance, the lower the weight.<sup>83</sup> The underlying assumption is that the social position of an individual is positively affected by status-seeking efforts of his family members, because these efforts may reflect upon him in the perception of outsiders. However, this positive spill-over effect is assumed to be smaller, the more distant the individual's relation to these family members.

Within each area of ritual status seeking certain activities are more prestigious than others, depending on the costs involved.<sup>84</sup> The ranking of these activities in terms of cost and prestige is common knowledge, even for those who do not directly compete for status in this area. For this reason, a subject's level of prestige obtained through ritual expenditure can be estimated on the basis of information about the specific activities in which this subject has engaged. The three selected areas of status competition are briefly discussed below. By emphasizing their status-enhancing potential, we do not wish to suggest that expenditure on these categories is exclusively motivated by status seeking, however.

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<sup>83</sup> The following weights have been applied: 1.0 for husband or wife of the subject, 0.8 for nuclear family members that are part of the same household as the subject (e.g. parents of subjects who do not live independently), 0.6 for nuclear family members outside the household (e.g. brothers and sisters who live independently), and 0.4 for all other family members (e.g. uncles or cousins).

<sup>84</sup> In analogy to Cancian (1965), who finds for the religious cargo system in Zinacantan that "cost is the most important factor in determining the prestige of most cargos" (p. 88). The ranking of the different cargos in terms of cost largely overlaps with their prestige rank. This is also true for cargo systems in Bolivia (Buechler and Buechler, 1971, p. 69).

*Traditional dances*

The observation by Kroeber (1925, p. 161) among the tribal Yurok Indians in California that “dances are displays of ... wealth as much as they are song and step” perfectly applies to traditional dances in Bolivia. During important religious festivals, street parades are held where folkloric dancers impress the public with their elaborate costumes, the most extravagant ones costing up to US\$1,000 and weighing over a hundred kilos. In our sample 47.1 per cent of the subjects either dance themselves or one of their nuclear family members do. With regard to measuring prestige, however, participation in itself is not very informative. The cost and thereby prestige varies widely from dance to dance.<sup>85</sup> Table 6.2 classifies the traditional dances mentioned by the respondents according to the outlay required for the costume.

*Table 6.2 Traditional dances: Classification of outlay*

Outlay	Prestige score	Type of dance
	10	Morenada (men), Caporales
	8	Morenada (women), Diablada, Kullawada
	6	Tinku, Tobas, Antawaras, Salay, Pujllay, Tarqueada, Chacarera, Tapayas, Intiwayras, Suri Sicuris

The most expensive costumes are those of the *Morenos* (males dancing the *Morenada*) and of those who dance *Caporales*. Their outfits generally cost between 180 and 250 US dollars.<sup>86</sup> In the hierarchy of dances these are the most prestigious ones, since they provide the strongest signal of economic success (Feldman, 2002). Only 9 subjects in the sample have been able to participate in these dances. One step lower on the prestige scale we find the *Morenada* for

<sup>85</sup> Ideally, to assess the prestige gained by a dancer we should not only have information about the type of dance but also about this person’s dancing position in the group. The further at the rear, the lower the prestige. Again, there is a link with economic position. It is more expensive to dance in the front rows, as observed by Buechler and Buechler (1971, p. 70) in the Aymara village of Compi: “The cost of the brass band is shared by all [dancers] in proportion to their dancing position in the customary two row formations. The first two pay the highest rate, the second two pay somewhat less and so forth, while the last two are usually exempted altogether from sharing the cost since their position has very little prestige attached”.

<sup>86</sup> Source: *Correo del Sur* (Bolivian newspaper), February 3, 2002.

women, requiring an investment between 150 and 180 US dollars, followed by the *Diablada* and the *Kullawada*, which both cost around \$100. All other dances require substantially smaller, though still considerable, sums of money and are therefore clustered together at the bottom of the prestige scale. For subjects who participate in dancing themselves, the prestige scores are shown in the second column of Table 6.2. Only the most prestigious dance in which a subject has participated is taken into account. If family members dance, the scores for the particular dances are weighted according to these family members' distance to the subjects.

### *Sponsorship of religious ceremonies*

A second category of prestigious spending concerns the sponsorship of religious ceremonies. The sponsors are known as *pasantes*, whose duty consists in staging the annual fiesta of a local patron saint. Their expenses generally consist in buying new clothes and adornments for the saint or virgin, paying for the Holy Mass and providing food, drink, fireworks, and most expensively, hire a band of musicians for the party. Religious duties are continuously passed on from one person to another. In most cases *pasantes* serve for one year after which someone else takes over. Some *pasante* cycles cover longer time spans, however. The decision to take up the role of *pasante* is not always a purely voluntary matter. One subject told that she had been forced to be *pasante*, because village custom prescribed that she would lose her piece of land otherwise. In order for *pasantes* to obtain prestige, it is necessary that their identity is revealed to others. This is always ensured by the protocol of the festivities, for instance by starting the procession from the house of the *pasante*.

Participation in *pasante* cycles is 51.8 per cent in our sample, taking into account the subjects and their nuclear family. Most of them served only one year as a *pasante*, but 27.3 per cent has done so for a longer period, often fulfilling a three-year cycle. Because of the multitude of local patron saints, it is difficult to compare costs and prestige across different *pasante* cycles. Therefore, the prestige score is based on the number of years during which a person has been *pasante*, assuming that costs rise proportionally with the length of the cycle, but are roughly comparable across cycles of equal length.

Donations to the church are another type of conspicuous expenditure in the religious domain. Almost one third of the families in the sample have made such a financial contribution. Examples are gifts to be spent on construction materials, flower arrangements, candlesticks and pews. The names of the donors, including the amounts, are generally published in a place that is readily visible for fellow parishioners, for instance on the church doors. Contributions in dollars receive special attention in such announcements, because larger amounts of money are typically paid in foreign currency. Because of their conspicuousness, church donations are also taken up in the subjects' prestige scores. Donations in dollars are awarded a higher score than donations in local currency.

*Patronage of life-cycle events*






A third category of expenses that clearly serves status-seeking purposes consists in acting as a *padrino* for life-cycle events. A *padrino* covers all or part of the costs of the corresponding celebration. Especially wedding ceremonies and celebrations of a girl's fifteenth birthday (*quinceaños*) rely heavily on the use of *padrinos*, as these are by far the most expensive events. Families that have a life-cycle event coming up select one or more *padrinos* from their relatives and acquaintances. Personal wealth is one of the most important selection criteria, which means that relatively prosperous individuals are more likely to be appointed *padrino* (UNDP, 2000, p. 102).

In order to see that prestige gains from being a *padrino* are potentially large, consider the following characteristics of wedding parties. Information on 246 wedding parties that our subjects (including the winners in the experiment) either threw themselves or attended, reveals that a typical wedding party hosts around 200 guests and lasts for three days. Close to 20 per cent of all wedding parties accommodate a number of guests well over 200. One respondent even invited more than thousand guests for his wedding celebration. Considering the cost of hosting such a large number of guests, it is not surprising that 94 per cent of all marrying couples appoint at least one *padrino*. The average number of *padrinos* per wedding is 4.9. One out of every four weddings has even more than 6 sponsors, while the maximum number reported is 15.

Over 80 per cent of the subjects in the sample state that either they themselves or one of their nuclear family members has acted as a sponsor for at least one life-cycle event. The level of prestige conferred to *padrinos* is mainly determined by two factors. First, prestige varies across life-cycle events, because some require the *padrino* to incur higher cost. Being *padrino* of a baptism is generally cheaper than sponsoring a wedding, for instance. Second, if more than one *padrino* has been appointed for a single event, prestige depends on the cost of the specific element of the celebration for which the *padrino* is appointed. For example, being the *padrino* of the wedding cake entails higher prestige than that of the wedding invitations, since the former is more expensive. Table 6.3 presents the prestige scale of life-cycle patronage, both across and within life-cycle events. This hierarchy has been constructed in consultation with the respondents and contains all forms of patronage mentioned by them.

The most prestigious *padrinos* are the ones sponsoring a religious wedding ceremony in church. They typically cover the church fees, pay for live music on the first day of the party and give the newly wed couple an expensive present, often a household durable such as a television or a dining room table. Second in prestige comes the *padrino* of the civil wedding ceremony, who is responsible for the music on the second day of the wedding party, followed by the *padrino* of the wedding rings. To the same prestige category belongs the principal *padrino* of a *quinceaños* celebration, who buys the 15-year-old girl a ring as a symbol of having reached marriageable age. All other *padrinos* are ranked lower on the prestige scale and will not be discussed here, as the nature of their expenses is straightforward. The names

Table 6.3 Patronage of life-cycle events: Classification of outlay

Outlay	Prestige score	Life-cycle event	Padrino of ...
	10	Wedding	Religious marriage ceremony
	8	Wedding <i>Quinceaños</i> (15 <sup>th</sup> birthday, girls)	Civil marriage ceremony / Rings Ring
	6	Wedding + <i>Quinceaños</i> Graduation (of male student)	Cake / Music / Party location Ring of min. 4 grams of gold
	4	Wedding Wedding + <i>Quinceaños</i> Graduation (of female student)	Bridal gown / Flowers / Altar / <i>Cuentaregalos</i> <sup>#</sup> Photos / Video / Beer / <i>Chicha</i> (local maize beer) / Champagne Ring or necklace of min. 1½ grams of gold
	2	Wedding Wedding + <i>Quinceaños</i> Baptism* Newborn's First Haircut* First Holy Communion* Confirmation* Safe Return from Military Service*	Veil / Invitations / Bouquet Surprise / Keepsakes / <i>Cotillones</i> (straw party hats) Clothing Cash and clothes Rosary and religious images Religious images Suit

<sup>#</sup> The person assigned the task of *cuentaregalos*, literally 'the one who counts the presents', has to guess the number of presents (which has to be an even number) at the end of the wedding party. If the actual number of presents is lower, he has to make up for this by giving extra presents until the estimated number is reached.

\*Only 1 *padrino*.

of the *padrinos* and their specific contributions are disclosed during the ceremonies. At weddings, for example, the Master of Ceremonies repeats at auspicious times the names of the *padrinos*, who also have the honour to dance with the bride and groom in declining order of importance. Moreover, the keepsakes (*colitas*) that guests take home generally contain a list of the *padrinos*.

A subject's level of prestige is calculated using the prestige scores for the different types of patronage as shown in the second column of Table 6.3. Again, the same weights apply in case the subject does not coincide with the *padrino*. If a person has acted as a *padrino* on more than one occasion, only the most prestigious form of *padrinazgo* is taken into account.

## **6.6 Determinants of Envy**

Discriminant analysis is used to examine whether envious, neutral and altruistic subjects in the experiment differ from each other in terms of the following characteristics: ritual prestige (RP), traditional dress, income, age, gender and religion. Discriminant analysis is a statistical tool that is able to investigate which of these independent variables discriminate meaningfully between the groups. Before presenting the results in Section 6.6.2, the various discriminator variables are briefly described below.

### *6.6.1 Discriminator variables*

The first predictor included in the analysis is a subject's overall RP score, which is a weighted average of the three sub-scores on the status-intensive categories of ritual expense discussed in the previous section. Equal weights have been applied because none of the categories seems clearly superior or inferior in terms of prestige. Our results are robust to moderate changes in these weights, however. The correlations between the three sub-scores of RP are positive, but only sponsorship of religious ceremonies and patronage of life-cycle events are correlated significantly ( $r = 0.32$ ,  $p < 0.01$ ). Over the whole sample the average RP score is 3.97 on a scale from 0 to 10, with a standard deviation of 1.98. The maximum score obtained by a subject is 8.78, whereas the lowest score observed is 0. The direction of the impact of RP on envy of Western goods is *a priori* unclear. On the one hand, people that enjoy high social status through expenditure on public rituals may hardly consider someone wearing a Western brand shirt a threat to their social position and, consequently, would be less likely to behave enviously in the experiment. This presupposes that conspicuous expenditure on ritual celebrations and on Western goods are substitutes. On the other hand, those with higher RP scores may be the more status-minded ones, i.e., persons who are relatively sensitive to status distinctions. If so, they may be more rather than less likely to suffer from envy in the experiment.

The second explanatory variable is a subject's type of dress. People who wear traditional rather than Western dress are expected to be less envious of Western brand-name clothing, irrespective of their social standing. We suspect that their social comparisons are limited to those who also dress in the traditional fashion, since traditional dress is governed by its own set of status markers. A discriminator variable is included that scores subjects on a ten-point scale with regard to the degree that their dress features traditional characteristics. High (low) scores indicate traditional (modern) dress.

Women's traditional dress consists in a *pollera*, an indigenous pleated skirt below which multiple layers of petticoats are worn, and a typical white hat made of straw or plastic (*sombrero blanco de copa*). Women that use the *pollera* are referred to in Bolivia as *cholitas*. Men do not have such an unmistakable traditional outfit, but the use of *abarcas*, a type of open sandals worn in the countryside, is clearly traditional. Using these criteria, 13 per cent of the subjects dress in a traditional way. A second group of 44.8 per cent consists of subjects whose dressing style could be described as semi-modern. This group includes, for instance, women that have abandoned traditional dress, but whose appearance still shows features characteristic of *cholitas*, such as hair worn in two long tresses, typical gold jewellery and one or more conspicuous gold teeth.<sup>87</sup> The remaining 42.2 per cent have a modern appearance and wear Western-style clothing.

In addition, the discriminatory power of a subject's income, age, sex and religion is tested. It is difficult to hypothesize in what direction these variables affect envy, except for age. We expect that younger subjects are more likely to be in the envious group because they tend to be more influenced by Western consumer culture than older generations. With regard to income, two different variables are included in the analysis. The first consists in respondents' subjective evaluation of the economic situation of their household compared to other households in the same neighbourhood. Only 7.1 per cent state that their relative economic position is 'above average', 67.1 per cent believe it is 'average' and 25.9 per cent feel they are 'below average' economically. The second variable is a proxy for absolute income based on durables ownership, as discussed in Section 6.3.3.

Education is not included as an independent variable in the analysis. A valid discriminant analysis requires that discriminator variables are not too strongly correlated, which holds if correlations do not exceed an absolute value of 0.3 (Brown and Wicker, 2000, p. 215). The correlation matrix (see Appendix 6.C) shows that adding education to the model would violate the assumption of independent observations in four cases. In particular, the correlation between education and traditional dress is strong ( $r = -0.65$ ,  $p < 0.01$ ). Subjects that wear relatively traditional dress tend to have lower education. Since empirical research by Inkeles and Smith (1974) in six developing countries has established that education is by far the most important determinant of individual modernity (p. 284), subjects who *look* traditional in terms of dress are also likely to *be* traditional in the sense that they have personal traits that

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<sup>87</sup> Gold teeth fillings are a status symbol in Bolivia's rural areas. Source: *La Razón* (Bolivian newspaper), November 30, 2003.

are characteristic of traditional rather than modern man. More traditional subjects do not have significantly higher RP scores than their modern counterparts, however. Although the association of RP with both traditional dress and education is positive, the degree of correlation is extremely weak. This indicates that the RP scores and the traditional dress variable capture distinct respondent characteristics. RP is significantly correlated only with age and durables ownership. Older subjects have higher RP scores as well as those who own more durables. The correlation coefficients do not exceed 0.3, however, so that a valid discriminant analysis can be performed.

### *6.6.2 Results*

In order to separate altruistic, neutral and envious subjects, we start out with a three-group discriminant analysis. The analysis produces two discriminant functions, which are linear combinations of the independent variables that best discriminate between groups. The first function, which discriminates the envious group from both the altruists and the neutrals, is close to significance at the 10 per cent level (Wilks' lambda = 0.82,  $p = 0.12$ ). The second function, which tries to differentiate the altruist group from the neutral group, has extremely weak discriminatory power (Wilks' lambda = 0.97,  $p = 0.64$ ). This suggests that subjects classified as either altruistic or neutral are very similar in terms of the independent variables. We therefore proceed with a two-group discriminant analysis, where those with altruistic and neutral preferences are grouped together. Hence, subjects belong either to the envious or the non-envious group, consisting of 42 and 43 subjects, respectively.

The discriminant function separating the two groups now reaches significance at 10 per cent (Wilks' lambda = 0.85,  $p = 0.07$ ). Inspection of the structural coefficients, which show the degree of correlation of the various discriminator variables with the function, reveals that both sex and durables ownership do not meaningfully contribute to group separation. Because their structural coefficients are below 0.3, these variables account for less than 10 per cent of the variability in the function (Brown and Wicker, 2000, p. 221). Deleting these two variables from the analysis improves the performance of the discriminant function and raises its significance to the 5 per cent level (Wilks' Lambda = 0.86,  $p = 0.03$ ). Hence, the discriminant function successfully separates the envious from the non-envious. The results for this reduced model are reported in the first four columns of Table 6.4. The group centroids, which represent the mean discriminant score of the members of a group on the discriminant function, indicate that the envious (non-envious) subjects scored at the positive (negative) end of the bipolar function.

The relative importance of the independent variables to the discriminant function is indicated by the standardized discriminant coefficients, which are similar to beta weights in multiple regression analysis. The second column of Table 6.4 shows that the RP variable makes the largest contribution to the discrimination between envious and non-envious



subjects, as its standardized coefficient has the highest absolute value. Religion and traditional dress are also important in predicting group membership, whereas the importance of age and relative income is comparatively low. The structure coefficients reported in the third column confirm this picture. Ritual prestige has a stronger correlation with the discriminant function than the other predictors. Finally, the fourth column shows whether the independent variables have equal group means. It appears that the mean RP score in the envious group is significantly different from that in the non-envious group (Wilks' lambda = 0.94,  $p = 0.03$ ). This is not the case for the other discriminators, except religion. In sum, ritual prestige turns out to be the most powerful discriminator.

Table 6.4 *Determinants of envy: Results of discriminant and probit analysis*

Discriminant Analysis				Binary Probit Analysis	
		Group Centroids			
Envious	$n=42$	0.41		Envious = 1	
Non-envious	$n=43$	-0.40		Non-envious = 0	
<i>Discriminator Variables</i>	Standardized discriminant coefficients	Structural coefficients	Wilks' lambda ( $p$ -value)	Coefficient (std. error)	$z$ -statistic ( $p$ -value)
Ritual prestige	-0.56	-0.61	0.94** (0.03)	-0.15** (0.07)	-2.31 (0.02)
Protestant	0.49	0.55	0.95** (0.04)	0.54* (0.33)	1.66 (0.09)
Traditional dress	0.50	0.34	0.98 (0.20)	0.09* (0.05)	1.78 (0.08)
Relative income	0.34	0.31	0.98 (0.25)	0.34 (0.24)	1.41 (0.16)
Age	-0.33	-0.36	0.98 (0.18)	-0.38 (0.31)	-1.22 (0.22)
<i>Discriminant function</i>					
Canonical correlation	0.38			Log likelihood	-52.07
Wilks' lambda	0.86**	$\chi^2 = 12.64$	$p = 0.03$	Akaike info crit.	1.34
Box's $M^{\#}$		$M = 11.3$	$p = .783$		

\*\* and \* indicate significance at 5% and 10% respectively.

<sup>#</sup> Box's  $M$  tests whether the assumption of equal covariance matrices holds, which is the case for our sample.

The signs of both the discriminant and structure coefficients provide information about the direction in which the independent variables affect envy. A positive (negative) sign indicates

that subjects with high scores on this variable are likely to be envious (non-envious), whereas those with low scores tend to be non-envious (envious). The sign for RP is negative, which means that subjects who enjoy relatively high ritual prestige are *less* likely to be envious of Western brands than those who have spent relatively little on ritual celebrations. Put differently, ritual prestige tends to reduce envy of Western goods, which points at some degree of substitution between the two prestige systems. This result does not depend heavily on one particular type of ritual expense. If one category is left out of the overall prestige score, similar results are obtained.<sup>88</sup>

With regard to religion, the discriminant analysis reveals that Protestants are more likely to be envious of Western brands than Catholics. There is no obvious reason for this, but a tentative explanation is that a given amount of ritual expenditure generates a smaller status gain in protestant than in catholic circles, because of the lower degree of conspicuousness of this expenditure. Donations to protestant churches are typically anonymous and during wedding ceremonies the identity of the *padrinos* receives less attention. The use of *colitas*, which list the names of the *padrinos*, is uncommon in protestant weddings, for instance. This would imply that Protestants effectively obtain lower prestige from ritual spending than suggested by our measure and thus feel more threatened by others gaining prestige.

Contrary to expectation, subjects who wear traditional dress are, *ceteris paribus*, more likely to be envious than those who dress in a modern fashion. Apparently, being traditional does not make people immune to envy of others displaying a Western brand, even though this is a clear sign of modernity. Although this result is somewhat counterintuitive, it accords well with earlier observations on modernity in developing societies. For instance, Rudolph and Rudolph (1967) found that people are influenced by modernity before tradition has been destroyed or superseded (p. 3). They reject the widespread idea of a clear dichotomy between tradition and modernity and rather claim that they infiltrate and transform each other. Moreover, Inkeles and Smith (1974) report the following finding in their study on individual modernity in developing countries: “The men who were classified by us as more modern were less rather than more prone to believe that [*material*] possessions insure personal happiness” (p. 296). This belief may explain why traditional people are more likely to behave enviously in the experiment.

In line with expectations, older subjects tend to be less envious of Western brands than the younger generation, although the effect is surprisingly small. Finally, we find that the better a subject’s economic position compared to others in the same neighbourhood, the more likely this subject is to belong to the envious group. Hence, higher relative income weakly tends to fuel rather than to assuage envy.

Because the dependent variable in our analysis is membership in either one of two groups, the discriminant analysis results can be checked by performing a binary probit

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<sup>88</sup> Leaving out traditional dancing results in a standardized discriminant coefficient for ritual prestige of -0.37 and a structural coefficient of -0.5. These coefficients are -0.45 and -0.61 if patronage of life-cycle events is excluded and -0.54 and -0.63 if religious sponsorship is taken out. All discriminant functions are significant at the 5 per cent level.

analysis. The probit results are shown in column 5 and 6 of Table 6.4. It can be observed that only the RP variable reaches significance at 5 per cent. The impact of both traditional dress and religion is significant at 10 per cent, whereas age and relative income are not significant. Moreover, the beta coefficients are of the same sign as in the discriminant analysis. The probit results thus corroborate our earlier findings.

Ritual prestige, and to a lesser extent religion and traditional dress, are relevant discriminators, but the question remains what percentage of total variance they account for. The canonical correlation, equivalent to  $R$  in multiple regression, is 0.38, which means that the discriminant function explains about 15 per cent of total variance. The fact that there is substantial unexplained variance could partly be due to measurement error, but it is likely that unobserved respondent characteristics are important as well, such as a person's innate predisposition for envy. Still, our model is helpful in predicting whether a subject will behave enviously or not in the experiment. It classifies 67 per cent of the subjects in the correct group. In a jack-knife cross-validation, this success rate is still as high as 65 per cent. Without information on subject characteristics, in particular on their degree of ritual prestige, the probability of correctly classifying a subject would be 50 per cent, as the proportions of envious and non-envious in the sample are almost equal.

## 6.7 Conclusion

The results of our experiment show that a well-known Western brand such as *Nike* provokes substantial envy among the urban poor in Bolivia, even though it concerns a counterfeit that is only slightly more expensive than a local brand good. Over the whole sample, losers set a significantly lower winning chance for the *Nike* shirt in the experiment. This nasty behaviour on the part of the losers is believed to be motivated by a looming status loss, as a consequence of others showing off a prestigious Western brand to outside observers. By taking the losers' systematic bias against *Nike* as evidence of envy, however, we implicitly discard the possibility that subjects are just bad losers and harm their opponent without any obvious justification, that they are simply spiteful.<sup>89</sup> Although subjects can only minimally reduce their opponent's monetary pay-off because of the small price difference between the shirts, a Western brand shirt has a higher *social* pay-off, so that losers can harm others by making it harder for them to obtain such a shirt. However, the finding that the degree of ritual prestige is a significant predictor of behaviour in the experiment, is a strong indication that malign behaviour on the part of the subjects is motivated by a fear of status loss rather than by spiteful preferences.

Our result that a Western brand provokes envy is disconcerting if we consider the welfare implications of the advance of modern consumer culture in the developing world.

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<sup>89</sup> Spite involves "harming others without good reasons" (Dufwenberg and Güth, 2000, p. 147).

Experiencing envy is a negative emotion that reduces psychological well-being.<sup>90</sup> The discriminant analysis reveals that among the urban poor in Cochabamba those with low levels of ritual prestige, those who wear traditional dress and Protestants are most likely to be hurt in this respect. In addition, if envy of Western goods induces poor people to consume such relatively expensive goods, this may crowd out productive expenditure. The extent to which the consumption of Western brand-name goods crowds out non-conspicuous expenditure is unclear, however. The finding that higher ritual prestige reduces the likelihood of being envious of Western goods provides a strong clue that there exists some degree of substitution between status obtained by displaying Western goods and status acquired through spending on public celebrations. This opens up the possibility that an increase in the consumption of prestigious Western goods crowds out expenditure on public rituals, or expenditure on other status-intensive categories for that matter, rather than basic needs. We therefore contend that the welfare implications of the consumption of Western goods cannot be mapped adequately if such consumption is studied in isolation from more traditional types of status expenditure.

More generally, when assessing the welfare effects of a specific type of status consumption, non-conspicuous consumption is often taken as the counterfactual, whereas in fact the money might have been spent on another status-intensive category. For example, Rao (2001b) argues that “money spent on celebrations is, after all, money not spent on food, education, health, and other productive inputs” (p. 2). The possibility that this money might have been spent on Western consumer goods displaying prestigious brand names is overlooked. More research into the interaction between ritual and non-ritual prestige systems is therefore needed to enhance our understanding of the welfare implications of status consumption by the developing country poor.

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<sup>90</sup> Belk (1985) found a negative correlation between envy of others’ material possessions and feelings of happiness among consumers in the US. In a later paper he argues that there is reason to believe that this relation might be even stronger in the Third World (1988, p. 121).

## Appendix 6.A Experimental instructions

*(Translation from original instructions in Spanish)*

I am a researcher from Tilburg University in the Netherlands and, together with my colleague from the Universidad Mayor de San Simón, we conduct a research project that tries to provide insight in the cultural practices that exist in different neighbourhoods of Cochabamba. Do you live in this neighbourhood? [*If not, person is not allowed to participate*]. We will first ask you some questions about cultural habits in your family (for instance, how weddings look like in your family and whether you participate in traditional dances) and, after that, we play a simple game. As far as the game is concerned, you play against another person who is now with my colleague in another place nearby. I cannot tell you who the other person is. The only information I can give you is that the other player also lives here in this neighbourhood. Please note that the other person also does not know against whom he or she is playing. He or she does not know that *you* are here, OK? The communication with the other side will be between my colleague and me only, using this walkie-talkie. The prize for the winner of the game is a T-shirt worth around 35 Bs. If you lose the game, there is only a small consolation prize. Now I will explain the game to you, which is very simple. You spin this roulette wheel, which displays numbers from 0 to 36, and the other player on the other side is going to do exactly the same. The one that draws the highest number of the two wins the game. Is this clear?

*Instructions for loser of the game:* I am sorry, you have lost the game. The other player has drawn a higher number, namely  $x$ . Therefore, the other player wins one of these shirts [*Subject is shown the three different shirts*]. The three shirts are for sale in the *Cancha* [*huge open-air market in Cochabamba*] at a price of around 35 Bs. As you can observe, the only difference between the shirts is their brand logo. One shirt has a *Nike* logo, one has a *Polo* logo and one has a logo that says *S&S*, which is a local brand that is not sold in other countries. You can influence which of the three shirts the other player will win, but the winner does not know this. In fact, the winner does not know that there are three different shirts and will only see the one that he or she eventually wins. [*Game sheet and tokens are handed out to loser, see Appendix 6.B*]. It works as follows. The winner on the other side is going to spin the roulette wheel and draws a certain number between 1 and 36. On this game sheet we have divided the numbers of the roulette in six groups (1-6, 7-12, ... , 31-36). You can set a prize, one of the three shirts, to each group of numbers. Here you have 18 tokens, 6 with a *Nike* logo, 6 with a *Polo* logo and 6 with the *S&S* logo, which represent the different shirts. On the game sheet you can put one token for each group of numbers. So in total you pick 6 tokens out of these 18 tokens. Let me give you an example [*example 1: experimenter puts a combination of three S&S tokens and three Nike tokens on the game sheet*]. If you would put

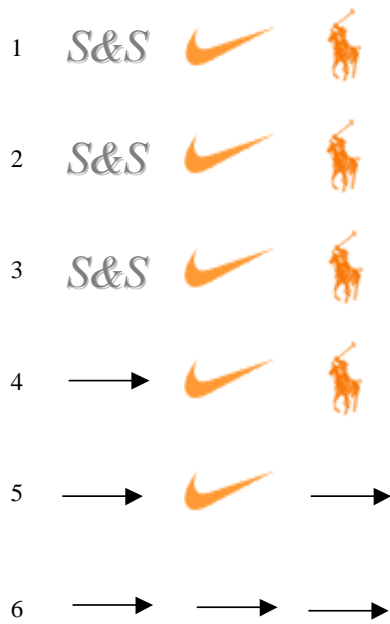
*Are the Poor Envious of Others Acquiring Western Goods?*

the tokens like this and the winner draws the number  $x$  for instance, he or she wins the S&S shirt. But if he draws the number  $y$  for example, the prize for the winner is a Nike shirt. You are completely free to put whatever combination of tokens you like. It is also allowed to put for example six tokens of the same brand. [*example 2: experimenter puts the 6 Polo tokens on the game sheet*]. In this case, whatever the number drawn by the winner, the prize is always the Polo shirt. Please keep in mind that the other player will not find out how you put the tokens. My colleague will only communicate the number the other player has drawn and I will tell my colleague what T-shirt is the winner's prize, which the other player then will receive. Do you understand how it works? Please think about your decision carefully. [*Loser sets tokens and winner's prize is determined*]. In order to thank you for your participation, you can win a small amount of money by spinning the roulette wheel. If you draw a black number, you receive Bs. 1. If you draw a red number, you receive Bs. 2. [*Money is paid out to the loser*].

*Instructions for winner of the game:* Congratulations, you have won the game. The number drawn by the other player is  $x$ , which is lower than your number. Your prize is a T-shirt. Before handing it over to you, I would like you to ask to spin the roulette wheel again. This we will need for playing a consolation game with the other player who lost the game. [*T-shirt is handed over after loser has set the tokens and the winner's prize is decided*].

Please do not tell others how the game works. Also, you can only participate once. Thanks for your cooperation!

Appendix 6.B Game sheet (losers)



S&S	1	2	3
	4	5	6
S&S	7	8	9
	10	11	12
S&S	13	14	15
	16	17	18
Nike	19	20	21
	22	23	24
Polo	25	26	27
	28	29	30
Polo	31	32	33
	34	35	36

*Are the Poor Envious of Others Acquiring Western Goods?*

**Appendix 6.C Pearson correlation matrix of discriminator variables**

	Ritual prestige	Traditional dress	Relative income	Durables ownership	Age	Sex <sup>a</sup>	Religion <sup>b</sup>	Education
Ritual prestige	1.00							
Traditional dress	0.01	1.00						
Relative Income	0.09	-0.12	1.00					
Durables ownership	0.21*	-0.23**	0.15	1.00				
Age	0.27**	0.29***	-0.17	0.02	1.00			
Sex <sup>a</sup>	-0.12	-0.25**	0.08	0.10	-0.04	1.00		
Religion <sup>b</sup>	-0.11	-0.12	0.06	-0.05	-0.01	-0.11	1.00	
Education	0.09	-0.65***	0.39***	0.34***	-0.32***	0.20*	-0.13	1.00

<sup>a</sup> Dummy variable; Female = 0, Male = 1

<sup>b</sup> Dummy variable; Roman-Catholic = 0, Protestant = 1

\*\*\*, \*\* and \* indicate significance at 1%, 5% and 10% respectively.





## **Positional Goods and Envy Effects: Reducing the Cost of Status Consumption by the Poor**

### **7.1 Introduction**

In the previous two chapters we have demonstrated that the welfare gains of status consumption, either with counterfeit or original goods, may in part turn out to be illusory (Chapter 5) and, second, the display of status goods may detract from the welfare of observers in the form of envy (Chapter 6). What is more, the costs of status consumption tend to grow over time. Several authors have pointed at the tendency for status expenditures to escalate. For instance, Becker and Murphy (2000, Ch. 7) show in a model where consumers have a demand for distinction that the price of status goods grows exponentially over time, even though the quality of these goods improves only marginally. Hence, the competition for social position tends to use up more and more resources in the process.

Historically, this has given rise to attempts by governments to eliminate status consumption altogether. Such interventions were based on the belief that status seeking is bad in itself, denying its positive effects on self-esteem and personal happiness. The biological and psychological evidence discussed in Section 1.4.2 rather suggests that status should be considered a legitimate need, which does not imply that policy prescriptions are needless, however. The cost of pursuing status can still be lowered. In this chapter we will review several options to minimize the cost of status consumption for the poor. As such, this chapter can be regarded as the policy conclusion to the previous two chapters.

We only consider options that aim at a reduction of the deadweight loss associated with status seeking within the area of consumption. Mason (2000, p. 129) mentions the desirability of redirecting status seeking based on comparisons of consumption levels to status seeking on the basis of individuals' relative holdings of productive capital. In this view, status should be conferred, for instance, on poor individuals who invest in a private phone for their informal business or a new display cabinet for their shop rather than on those who buy brand-name clothes or spend excessively on public celebrations. Mason does not discuss, however, what type of policies would be needed to establish such a status-awarding culture that stimulates the accumulation of productive wealth. Although the promotion of investment as a criterion for prestige is an intriguing option, a discussion of the emotional or financial rewards that

should be held out to achieve the required shift in status-orientation falls beyond the scope of the thesis.

We proceed in the following fashion. First, Section 7.2 reviews the policy instruments applied by governments to curb status consumption. The experience with these policy prescriptions learns that these are unlikely to be effective in scaling down the cost of status consumption for the poor. Therefore, we turn our attention to private sector initiatives aimed at making status goods available at a lower cost in Section 7.3. The debate revolves around the issue whether the informal sector or, alternatively, the formal businesses sector is better equipped to serve the status needs of the poor. In Section 7.4 we discuss some of the barriers that private sector companies face when devising low-cost status goods. Finally, Section 7.5 recaps the argument.

## 7.2 Government Interventions

Throughout history, governments have tried to curtail conspicuous expenditure. The most commonly applied interventions are sumptuary laws and luxury taxes. Sumptuary laws were first introduced in classical Greece, where they mainly targeted excessive expenditure on funerals and weddings, especially dress, food and gifts. In later periods sumptuary regulations broadened in scope and were no longer restricted to life-cycle celebrations. The consumption of status-enhancing goods was often prohibited for those below a certain income level. In early 16th century England, for instance, a law was issued that forbade those with an annual income below £20 to wear garments of prestigious materials such as gold, silver, satin, silk, velvet or fur (Hunt, 1996, pp. 314-315). Such sumptuary regulation was, in part, inspired by a “concern for the ‘ruin’ of the lower orders trapped into competitive consumption that they could ill afford” (Hunt, 1996, p. 78). Ruling out conspicuous consumption by decree has rarely proven effective, however. Take, for instance, the sumptuary regulation enacted by the Spanish Crown in Peru in 1723, which tried to prevent ordinary people, especially black and mulatto women, from wearing silk clothes and jewellery of gold, silver and pearls. Two years later, the Crown discovered with dismay that its royal order had produced little effect (Bauer, 2001, p. 112).

Similar to the earliest forms of sumptuary regulation, some of today’s developing countries have made attempts to put a ceiling on expenditure for certain life-cycle events, such as weddings, but without notable success (Schoeck, 1966, p. 266). Arnould (1989) provides some evidence from Niger, where a poor rural family typically spends an amount in excess of the country’s annual per capita income on prestige goods for wedding ceremonies: “Players in the marriage game have become trapped in an escalating, inflationary cycle of expenditure that the rural poor can ill afford *and that even the Nigerien state has sought unsuccessfully to suppress*” (Arnould, 1989, p. 249, emphasis added).

History has shown that people are creative in evading the restrictions applied. Voltaire already acknowledged that “vanity will always invent more ways of distinguishing itself than the laws are able to forbid” (quoted in Hunt, 1996, p. 358). Frank (1999) argues, therefore, that

[s]umptuary laws were among the earliest and most ill-advised forms of collective action to curb conspicuous consumption. Perhaps the most obvious problem with them is that whenever they prevented escalation in one form of spending, they almost always stimulated evasive actions that were at least as costly.

(Frank, 1999, p. 199)

Another common policy prescription to discourage excessive expenditure on status consumption is the taxation of luxury goods. Many countries in both the developed and the developing world impose luxury taxes. A recent survey by Cnossen (2003) of luxury taxation in Sub-Saharan African countries reveals that perfumes and cosmetics, jewellery, leather and fur products, watches, TVs and VCRs are among the products that are frequently targeted. For example, Mozambique currently applies a special excise tax of 20-35 percent on perfumes and cosmetics and a 50 percent tax on jewellery and furs.<sup>91</sup>

Analytical contributions on status consumption tend to argue in favour of luxury taxes in order to internalise the negative externalities that status consumption entails (e.g. Miller, 1975; Ireland, 1994; Schor, 1998).<sup>92</sup> In practice, however, the application of luxury taxes is cumbersome, as they have to be set on a case-by-case basis. Policy-makers have to decide what particular goods are singled out as ‘luxuries’, which may lead to arbitrary choices. A first problem is that a particular good may be a status signifier among certain groups in society, while the same good mainly serves a functional purpose for others. Or, as Mankiw (1998) puts it, “what looks conspicuous to one person is just a good value to another”. He gives the example of a Mercedes, which may be a status symbol for some, but simply a safe and comfortable car for others. Hence, the *perceived* mix of status and functional characteristics in a particular good may differ across consumers. Moreover, the perceived status-intensity of a good can change quickly over time. A good that carries status today may no longer do so tomorrow and vice versa.

Another drawback of setting taxes for individual goods is the influence of vested interests on the decision process. Luxury taxes are vulnerable to pressure from lobby groups, not in the least from the producers of luxury goods themselves (Frank, 1999, p. 205). Also, paternalism is a potential problem, as policy-makers may target certain goods on moral grounds rather than on the basis of a neutral assessment of their degree of sumptuousness.

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<sup>91</sup> Bolivia has also identified a list of “sumptuous goods” that are subject to a special tax regime, which includes a 20 per cent tax on perfumes and a 30 per cent tax on cosmetics, among others. Source: Country Commercial Guide 2002: Bolivia, U.S. Department of Commerce.

<sup>92</sup> An exception is the model of conspicuous consumption by Corneo and Jeanne (1998), in which sumptuary laws turn out to be welfare-improving, whereas luxury taxes decrease welfare.

This may explain why alcohol and tobacco are often subject to luxury taxation, for instance. Even if the decision-making process is unbiased, luxury taxation is unlikely to be effective. As with sumptuary laws, evasive actions tend to undermine their efficacy (Frank, 1999, p. 205). In addition, the fact that a tax raises the price of the good in question, paradoxically, increases its attractiveness for Veblen-type consumers (Mason, 2000, p. 125). Not surprisingly, therefore, Schoeck (1966, p. 261) observes that the effectiveness of luxury taxes has almost invariably been limited, irrespective of the state of development of the economy in which they have been imposed.

Even though luxury taxes are preferred to outright legal prohibitions because they constitute a less serious violation of consumer sovereignty, both types of government interventions are generally considered failed remedies when it comes to curbing conspicuous consumption. The desire for status always seems to find a way around the regulations that aim to restrict the choice of status goods for consumers. Therefore, we believe that the goal of reducing the cost of status consumption for the developing country poor is best pursued by *expanding* the set of status goods rather than by restricting it. The reason is that the status goods currently available on the market in developing countries tend to be relatively high-cost. As will be shown below, there is a need for status goods that sell at lower unit cost, which would enable the poor to play the conspicuous consumption game with lower stakes. This requires, however, that existing products are adapted and new ones designed, which is a task that falls primarily to the private sector rather than to the state.

### 7.3 Private Sector Initiatives

In Chapter 2 we critically assessed the assumption in the inappropriate products literature that goods originally designed for high-income consumers contain an excessive amount of status characteristics for the poor. It was argued that the mix of characteristics in Western products is not necessarily inappropriate from the viewpoint of the poor, since the poor are not exclusively concerned with ‘essential’ (read: basic needs) characteristics. However, the same strand of literature has identified other inappropriate aspects of Western goods, such as their indivisibility (e.g. James and Stewart, 1981). Developed country products tend to come in large, multi-serve packages, which is convenient for affluent consumers but inappropriate for consumers with limited discretionary incomes and little storage space. The unit cost of developed country products is often too high for the developing country poor whose shortage of cash forces them into a “pattern of frequent buying of small quantities” (Lewis, 1965, xlvi). In the Lancaster framework presented in Chapter 5 this means that in many product categories the lower part of the ray representing original goods (the ray *OA* in Figure 5.1) tends to be non-existent.

### 7.3.1 *The informal solution*

This mismatch between what developed country firms offer and what developing country consumers demand, has been partly solved by the informal sector in developing countries. Informal markets have increased the divisibility of Western products as well as of that of locally produced goods designed for the middle- and high-income classes.

Informal vendors in Bolivia, for example, sell individual units of an endless variety of products whose original package contains multiple units, such as cigarettes, sweets, razor blades, aspirins, batteries, teabags, balloons, diapers, condoms and floppy disks. It is also possible to buy individual sheets of paper from a note-block or a single section of a newspaper. Another interesting example in this respect is the service provided by informals at public telephone booths. Informal vendors rent out telephone cards so that one does not need to buy an expensive telephone card for a single phone call. Such informal activities that increase the divisibility of products can reduce the cost of status consumption by the poor. A good example is the illegal sale of the brand-name perfume samples used for the experiment in Chapter 4. Their price is only a fraction of that of a standard-sized bottle of perfume. In such cases, Western products remain unaltered except for divisibility. They are simply made available in smaller quantities and, thus, at lower cost.

Another way in which the informal sector offers cheap status to low-income consumers without product alteration is the sale of second-hand versions of Western goods (James, 2000a, p. 24). Examples of used goods that may confer status are durable goods with a relative high degree of visibility, such as TV and stereo sets, and imported Western clothing. Although we find second-hand markets in developed countries as well, the magnitude of the phenomenon is of a different order in many developing countries. In Bolivia, an estimated 50,000 tons of used clothing enter the market each year and in the city of Cochabamba alone there are around 2,500 sellers of second-hand clothing.<sup>93</sup> Although part of it concerns clothing items that do not entail status, such as underwear or non-branded sweaters, Western brand-name items constitute a substantial portion of the garments offered in second-hand markets.

Finally, the informal sector provides most of the goods used for the deceptive status signalling strategies considered in Chapter 5. The production and sale of cheap counterfeit versions of Western goods is most salient in this respect. As discussed in Section 5.5, cheap imitations can reduce the amount of resources absorbed in the process of status seeking. Note that in the case of counterfeits, unlike in the previous examples, the mix of functional and status characteristics in original Western goods is altered. Counterfeit goods tend to be more status-intensive than the originals they resemble.

In sum, the informal sector plays a vital role in lowering the cost of status consumption for the poor. Informals have been creative in satisfying those needs of the poor that multinationals and large domestic enterprises have not been able, or willing, to serve. The question recently posed is whether the supply of low-cost status goods for the poor can be left

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<sup>93</sup> Source: *Los Tiempos* (Bolivian newspaper), June 18, 2003.

to the informal sector or whether this task should be taken on by the formal business sector. Recent work by Prahalad, a leading business professor, on the role of multinationals in low-income markets argues for the latter.

### 7.3.2 *Can multinationals do better?*

Prahalad starts out from the assertion that multinationals have not been willing to invest in the design of products that are appropriate for the world's poor, whom he defines as those who live on less than \$2 a day. The disinterest in serving the needs of the poor is attributed to the erroneous belief that they do not constitute a viable market:

Companies assume that people with such low incomes have little to spend on goods and services and that what they spend goes to basic needs like food and shelter. .. But such assumptions reflect a narrow and largely outdated view of the developing world. .. It is also incorrect to assume that the poor are too concerned with fulfilling their basic needs to “waste” money on nonessential goods. In fact, the poor often do buy “luxury” items.

(Prahalad and Hammond, 2002, p. 50)

Hence, companies tend to neglect the bottom of the income pyramid because they hold the traditional view discussed in Chapter 2 that the poor only care about basic needs. Prahalad's argument is that companies should invest in the design of pro-poor products for two reasons. First, the poor are a profitable market. The sheer size of it makes up for low product margins and, in addition, it has a high growth potential. Second, the poor would gain because multinationals have the potential to satisfy their needs more efficiently than informals. According to Prahalad and Hammond (2002, p. 51), “the informal economies that now serve poor communities are full of inefficiencies and exploitive intermediaries”. One such inefficiency is the premium charged by informals for making developed country products available in smaller quantities. Arellano (1994, p. 29) observes in Peru that “itinerant merchants who sell cigarettes (one by one) at the entrance to movie theaters will charge up to twice the regular store price”. An additional problem is that the health warning on the package does not reach the consumer if cigarettes are sold individually. De Soto (1989) lists still other drawbacks of buying products from informal businesses:

They [informal vendors] rarely give credit and do not offer repairs or guarantees. They have no special facilities for testing products and cannot give their customers specialized information. They suffer from the absence of proper storage areas and safety systems. All of this prevents them from selling sophisticated goods which require offering the customer-related services.

(De Soto, 1989, p. 72)

The lack of adequate product information is a particularly serious problem in the case of pharmaceuticals, as exemplified by the practice of itinerant medicine sellers in West Africa described by Steen *et al.* (2002). Tablets and ampoules are sold without packaging, so that it is impossible for consumers to check expiry dates or read the user instructions. In fact, most clients do not know what they are buying, or which illnesses the medicines intend to treat. They trust in the seller who is completely ignorant of medical issues.<sup>94</sup> Although this is a rather dramatic case, the evasion of health and safety regulations in the informal sector entails risks for consumers of a host of products, including status-intensive ones.

Imported second-hand clothing, for example, may present health hazards. In Bolivia most of the used clothing escapes sanitary control and reaches the final consumer without having been adequately fumigated.<sup>95</sup> In Zambia the lack of control on the informal clothing market has led to a situation in which “dead men’s clothing”, clothing robbed from graves of recently buried affluent Zambians, is sold as ‘freshly’ imported used clothing from the West (Hansen, 2000, p. 172). Product counterfeiting may also jeopardize the consumer’s health, such as in the case of alcoholic beverages. Even though consumers wittingly buy cheap alcohol that falsely bears a prestigious brand name, they do not know its exact composition. In Bolivia adulterated drinks are detected regularly, some of which turn out to contain methanol, which can provoke blindness and even cause death.<sup>96</sup> Despite the earlier observation that informals perform a useful service for the poor, these examples illustrate that there is room for improvement.

Prahalad believes that multinationals can outperform informals in delivering appropriate products to the poor. Large Western companies are regarded as the solution rather than as part of the problem. This implies a radical break with the inappropriate products literature, which believed that local, small-scale companies are best suited to supply pro-poor products. In Prahalad’s view, multinationals have the potential to deliver better products at lower cost to the poor because of their state-of-the-art knowledge, provided that they invest in understanding the needs of the poor. Pro-poor product adaptation does not simply mean stripping existing products of their ‘non-essential’ characteristics, such as removing their fancy packaging or their brand image. According to Prahalad (2004, p. 17), “the poor are just as brand-conscious as the rich”. Rather, innovations in distribution and marketing can improve the appropriateness of products. In the next section we will review a number of examples of such appropriate products ‘new style’.

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<sup>94</sup> A related case is the reliance of poor slum-dwellers in New Delhi on informal doctors, known as *jhuggies*. Although these ‘neighbourhood doctors’ have never gone to college, patients unquestionably accept their medical treatments (James, 2000a, pp. 74-75).

<sup>95</sup> Source: *El Deber* (Bolivian newspaper), February 10, 2004.

<sup>96</sup> Source: *La Prensa* (Bolivian newspaper), December 31, 2003.



### 7.3.3 *Appropriate product innovations*

The provision of appropriate products to the poor may require the adaptation of Western products in a number of aspects, including changes to the products' constituents, aesthetics, labelling and degree of divisibility. By far the most striking advance by multinationals in the direction of more appropriate products has been on the aspect of divisibility. In a survey of 61 subsidiaries of multinationals selling packaged consumer goods in a host of developing countries, Hill and Still (1984) found that in 53 per cent of the cases package sizes were adapted to developing country conditions. The trend towards miniature packages was set by Nirma, a local Indian firm, which introduced laundry detergents in a special package for daily purchasing in the 1980s. The rapid growth of Nirma prompted its foreign competitor in the Indian detergent market, Hindustan Lever, a subsidiary of Unilever, to adopt a similar strategy (Prahalad and Hart, 2002, p. 5).<sup>97</sup> The success of the strategy triggered no less than a "single-serve revolution". Today, low-cost packages have become the norm for a wide range of products in India. Single-serve sachets of shampoo, for instance, reached a market share of 60 per cent in the total Indian shampoo market in 2002 (Prahalad, 2004, p. 18). Even a high-end product as Proctor & Gamble's *Pantene* shampoo is available in a single-serve sachet. Unilever has started to export its Indian experience to other developing country markets. Since 1999 it sells branded laundry soap "in small units for a few dollar cents" in Tanzania, where half the population earns less than a dollar a day. A year after its launch its market share had already grown to 10 per cent.<sup>98</sup> Also, Unilever's mini-deodorants of the Rexona brand, selling for only 16 dollar cents, have captured large market shares in the Philippines, Bolivia and Peru (Kripalani and Engardio, 2002).

Although Prahalad does not attribute the runaway success of single-serve packages of Western brand-name products to the fact that they offer cheap status to the poor, status motivations are likely to play a role. Small packaging does not seem to work for products where the status is not in the brand name, but in the quantity consumed, such as in the case of cement. This was experienced by the cement manufacturer CEMEX, Mexico's largest multinational corporation, who designed smaller bags of cement for low-income house-builders in Mexico. They found that the "introduction of easy-to-carry small bags of cement ... failed because customers wanted to have large bags of cement sitting in front of their house as a status symbol" (Herbst, 2002, p. 18).

A more creative method to increase the affordability of brand name luxuries for the poor has been invented by Arvind Mills, an Indian multinational that ranks fifth in the world in jeans production. They realized that the jeans they were selling in the Indian market at a price between \$40 and \$60 a pair left the demand for denim among the poorer section of the

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<sup>97</sup> Nirma not only adapted package size to increase the affordability of its detergents. The company also removed the optical whiteners and scents as well as the ingredients designed to reduce the harshness of the product on hands and fabrics. Moreover, they used less costly packaging (James, 2000a, p. 116).

<sup>98</sup> Source: Unilever's submission to the House of Lords Select Committee on Economic Affairs - An Inquiry into the Impact of the Global Economy, May 13, 2002.

population untapped. In order to extend their market beyond the top of the income pyramid, they introduced a novelty in the world of jeans marketing in 1995. Instead of selling the jeans as a finished product to retailers, they devised a ready-to-make jeans kit. The kit includes a pant-length denim of high quality, a pouch of rivets, buttons, a zip, a leather label displaying the brand name “Ruf & Tuf”, and an instruction booklet that explains in different regional languages how to make a classic five-pocket jean. The do-it-yourself kits sell around \$6 only and are distributed through a large network of local tailors throughout India. The actual retailing of the kits to the final consumer is left to the local tailors whose self-interest stimulates them to market them actively, as the jeans components still need to be stitched together. The kits have become a blatant success, as “Ruf & Tuf jeans are now the largest-selling jeans in India, easily surpassing Levi’s and other brands from the U.S. and Europe” (Prahalad and Hart, 2002, p. 9). This success is due -apart from a clever marketing campaign featuring Indian filmstars- to the fact that Arvind Mills managed to lower the price of its brand name jean to only 20 per cent of that of an original Levi’s.

The pro-poor product adaptations made by pioneering multinationals like Unilever and Arvind Mills mainly concern a reduction in cost through changing the way the product is marketed rather than through a radical change in its mix of characteristics. In some cases the product is altered such that its functionality is increased through adaptation to the circumstances prevailing in the developing country. For instance, Unilever reduced the ratio of oil to water in its low-cost laundry detergent in order to enhance its cleansing ability for the poor who tend to wash their clothes in rivers (Prahalad and Hart, 2002, p. 5). However, the products designed for the bottom of the pyramid are not, as was envisaged by the inappropriate products literature, necessarily simpler or less frivolous than the original developed country products. Apart from the quality of stitching perhaps, the Ruf and Tuf jeans of Arvind are basically the same thing as the ready-to-wear jeans they are selling at a multiple of the price to high-income consumers. This is not to say that the poor want the same balance of status and functionality as the rich. In fact, they may well prefer a different balance, but this is unlikely to be the status-extensive one propagated by the appropriate products movement.

So far, the examples of low-cost product innovations benefited low-income consumers that are willing to give up resources to buy status goods. Relatively little attention has been paid to reducing the negative externality of status consumption for observers, as discussed in Chapter 6. We found one case, however, in which a multinational has recognized the problem of envy among the poor and has actually tried to curb it. The Mexican multinational CEMEX, the third-largest cement manufacturer in the world, launched an innovative experiment in 1998 that aimed to assist low-income Mexicans in improving their homes. They found that it took people in the informal and self-construction segment on average 4 years to build an extra room to their house. The company set up a programme that would reduce the time to complete a room to only 1,5 years through the provision of credit and technical support to self-builders. Interestingly, when a low-income family that is enrolled in the program finishes

a room, it receives from the CEMEX company a so-called “celebration kit”, a box containing family-size soft drinks and a bowl with tacos, with which the family can throw a party for its neighbours. This serves to assuage the neighbours’ envy, as it

bridge[s] the gap between the traditional value of maintaining social status by contributing to communal celebrations, and the desire to get ahead in life. Traditionally, the latter attitude has been viewed with suspicion and envy, and seen as weakening the community fabric.

(Herbst, 2002, p. 15)

The idea of providing the consumer of a potentially envy-provoking good with an extra item that fits into the traditional status system is an intriguing one. Both the status-seeking consumer as well as envious peers would benefit.

#### **7.4 Barriers to Pro-Poor Product Innovation**

The design of appropriate products, whether it concerns status or non-status goods, is no easy task for multinational corporations. In-depth knowledge of the culture and lifestyle of low-income people in developing countries is indispensable for coming up with creative solutions. Since multinationals are conditioned by their knowledge of and familiarity with high-income consumers, this requires that companies invest in understanding the poor. If companies do not make a serious effort to get to know consumers at the base of the income pyramid, their products will simply be a reflection of our Western value system and may disrupt local cultural practices (Prahalad and Hart, 2002, p. 11). Some multinationals have taken initiatives to get acquainted with poor consumers. Hindustan Lever, for instance, sends its executive managers for a minimum of eight weeks to a rural village in India to talk to (potential) customers and participate in a community project (Prahalad and Hammond, 2002, p. 54). With regard to devising low-cost status goods for the poor, it would also be recommendable that managers of multinationals stroll urban informal markets in the Third World. The informal marketplace is a hotbed for pro-poor product and marketing innovations, from which formal firms can learn (Robles and El-Ansary, 1988, p. 226). It may provide clues as to how the stakes in the status game could be reduced for low-income people. This is not to say that all informal sector solutions are equally helpful in designing pro-poor products. A formal producer of timepieces cannot be expected to sell wristwatches that do not work, even though the poor may only be interested in watches as a piece of jewellery.

Apart from the low degree of familiarity with local needs, Western companies that own designer brands face an additional obstacle when trying to launch low-cost products for the poor. If a prestigious brand is brought within the reach of low-income consumers, this may reduce the brand’s status appeal in the eyes of high-income customers and, thus, eat into

profits in the top segment of the market. This has been a concern in developed markets as well, as witnessed, for example, by the opposition of the Lacoste company to the sale of their shirts in discount stores unless the well-known alligator insignia were removed (Becker and Murphy, 2000, p. 99). The brand's exclusivity would be reduced through mass sales at cheaper outlets. The loss of exclusivity constitutes an inherent risk to a designer company trying to devise a pro-poor product that features its brand name. One may think of putting one's brand name on accessories that are more affordable for the poor instead of selling the more expensive product for which the brand name was originally created. In fact, informal producers in developing countries often apply this tactic without permission of the trademark owners. In Bolivia's informal markets, for instance, one can find shoelaces with Nike's *swoosh* logo. If the Nike company would decide to sell authentic Nike shoelaces to the poor in an attempt to redirect their status expenditure from shoes to cheaper shoe accessories, the company runs the risk of declassifying its brand. The possibilities for a company to extend its brand to other products are limited. This was experienced by the Gucci company, for instance, which lost much of its status appeal because it gave its name to some 14,000 different products, including low-cost items such as key-chains and coffee mugs (*The Economist*, 1992, p. 98).

Hence, research is needed to assess the extent to which the presence of a brand in low-income markets spoils its status allure. If catering for the poor turns out to be a real threat to profits in the top segments of the market, it might be difficult to persuade designer companies to design low-cost items for low-income markets. Designer companies should take into account, however, that they are already facing a decline in exclusivity as a result of counterfeiting practices. According to Grossman and Shapiro (1988, p. 98), low-income consumers who buy counterfeits "impose a negative externality on other individuals who purchase genuine merchandise, the status of which is degraded by the presence of imitations". A survey by Nia and Zaichkowsky (2000) among owners of original status goods in Canada, however, suggests that this external effect is rather small. Seventy per cent of the respondents indicate that the value, satisfaction, and status of original luxury brand names is not decreased by the wide availability of counterfeits. Unfortunately, no such data exist for developing countries.

## **7.5 Conclusion**

In this chapter we examined the role that governments and the private sector can play in mitigating the negative welfare effects of conspicuous consumption for the poor. Direct government interventions in the form of luxury taxes or, more drastically, absolute prohibitions on the consumption of certain status goods have proven ineffective measures to curb conspicuous consumption in poor and rich societies alike. Even if their effectiveness could be increased, the desirability of government intervention in matters of conspicuous

consumption is questionable. Policy-makers may fall prey to paternalism, especially when it concerns the spending patterns of the poor. For this reason, we believe, private sector solutions are the best bet.

Multinational companies have long ignored the needs of the developing country poor in the belief that they do not constitute a profitable market. As a result, Western products are seldom offered in an appropriate (read: low-cost) format for the poor. The informal sector in developing countries has partly filled this void by creative, though often illegal, adaptation or imitation of Western products. While acknowledging the useful role of informals, it cannot be denied that consuming in the informal sector entails risks, since consumer protection is virtually non-existent. We therefore agree with Prahalad that there are possibilities for formal enterprises to outperform informals, provided that they take the needs of the poor seriously and are willing to invest in the development of products that effectively meet these needs. The pro-poor innovations that have recently been introduced by some pioneering multinationals are promising. This notwithstanding, we feel that the question whether the needs of the poor are better served by either the formal or the informal sector is too simplistic. One suspects that the answer to this question may depend partly on the type of good under consideration. The risks associated with the informal sale of pharmaceuticals are clearly larger than with that of perfumes, so it is conceivable that some products are most efficiently supplied by the informal sector while others require the involvement of multinationals. In the latter case, it is crucial that multinationals believe the bottom of the pyramid to be a lucrative market. The examples discussed above seem to support Prahalad's claim that serving the poor is profitable. In the case of status-intensive goods, however, this is less clear-cut. The complication is that by offering cheap status to the poor, a designer company may risk losing upscale customers, as its exclusivity falls.

Although the provision of low-cost status goods is a task for the private sector, governments as well as non-governmental organizations could play an indirect role by stimulating companies to invest in the development of pro-poor products. They may exert pressure on companies to take up this task as part of their social responsibility. Over the past decade, multinationals have become increasingly responsive to the demands from civil society to act as a responsible global 'citizen'. However, the debate on corporate social responsibility has focussed mainly on issues related to production in developing countries, such as the use of child labour, the low remuneration of workers and negative environmental impacts. The provision of affordable products for low-income consumers should be added to the list of criteria on which the ethical performance of a multinational is evaluated in order to promote innovations that may cut the cost of conspicuous consumption for the poor.

## Final Reflections

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In this thesis we have ventured into almost virgin territory. Our analysis is only a first step towards a full understanding of the scope, nature and welfare effects of status seeking under conditions of poverty. We do not, therefore, pretend to have provided definitive answers to the various positive and normative questions posed in the different chapters. Moreover, the thesis raises a number of new questions regarding the consumption of modern status goods by the developing country poor. Before indicating which of these questions, we believe, should receive special attention in further research, some implications of the thesis for the study of poverty in general are briefly discussed.

### *Implications for poverty assessment*

The contributions in Part I of the thesis provide evidence that people may engage in conspicuous consumption even if their basic needs are not yet satisfied. This questions the validity of the commonly held view that basic needs dominate status needs at low levels of income. Although this view may not be far off the mark with regard to people who live in extreme poverty, our results suggest that it does not apply to the broader category of people that suffer from an inadequate level of basic needs satisfaction. This finding sheds a somewhat different light on the long-standing debate about whether poverty should be regarded as absolute or relative deprivation.

Townsend (1983) and others have argued that poverty is best understood as a relative deprivation. Members of a certain society may feel deprived if their living standard is substantially below the standard common to this society, regardless of the absolute level of this standard. Such 'relative poverty' is closely related to the concept of status, as it captures the idea that the degree of satisfaction people obtain from their own living standard depends inversely on the living standard enjoyed by others. The interpretation of poverty as a relative deprivation, however, has been rejected by Amartya Sen, who argues that "there is an irreducible core of *absolute* deprivation in our idea of poverty, which translates reports of starvation, malnutrition and visible hardship into a diagnosis of poverty without having to ascertain first the relative picture" (Sen, 1981, p. 17). The notion of absolute poverty is compelling. As Streeten (2002, p. 23) points out, "everyone in a society can be equally starving, and we would not want to say that they are not poor". The fact that the developing country poor, except for the extremely destitute, sometimes engage in status consumption indicates that absolute deprivations do not necessarily prevent people from being concerned about their relative standing in society. Hence, the dichotomy between absolute and relative poverty may be somewhat misleading. Those who live in absolute poverty may, at the same

time, suffer from relative poverty. To the extent that status consumption goes at the expense of basic needs consumption, relative poverty may exacerbate absolute poverty and, in extreme cases, even push people into it.

The fact that absolute and relative poverty can coexist complicates the measurement of poverty. As the empirical contributions in this thesis show, poor individuals may differ sharply in their propensity for status consumption. Some are more concerned about their relative social position than others. This heterogeneity in preferences may lead to very different consumption patterns across individuals with a similar level of income. Therefore, consumption-based measures of poverty are tricky. They need to take into account both basic needs consumption and status-based consumption. To illustrate this point, recall the two Puerto Rican sisters from the introduction to this thesis. Felícita was the status-minded consumer owning a refrigerator but unable to provide nourishing meals for her children, while Cruz preferred to do without a refrigerator if this would mean that she had to skip meals. Assume that both have the same income. An exclusive focus in poverty assessments on basic needs satisfaction, say nutritional intake, would classify Felícita's household as poor and that of Cruz as non-poor. By contrast, if the lack of durable goods, say a refrigerator, would be the sole criterion for poverty (a method sometimes used in rapid poverty appraisals), exactly the opposite result would be obtained. Hence, it is important to keep in mind that the poor do not necessarily share the same consumption priorities.

This is also crucial in measuring people's mobility in and out of poverty. A study by Sumarto *et al.* (1998) on the impact of the Asian crisis in Indonesia can serve as an illustration. In order to assess the number of households that have fallen into poverty, they ask respondents to indicate whether they have made use of one or more of the following coping strategies:

- a) Selling valuable possessions (e.g. jewellery, TV)
- b) Reducing frequency of traditional/religious ceremonies
- c) Reducing the amount contributed for traditional/religious ceremonies
- d) Reducing frequency of eating
- e) Lowering quality of food
- f) Telling children to quit school

The strategies *a*, *b* and *c* are able to capture those households that attach a relatively low value to status and prefer to sell off status-intensive goods or cut back on traditional prestige in reaction to the economic crisis. The strategies *d*, *e* and *f* on the other hand serve to identify relatively status-minded households for whom selling their TV-set or scaling down their competitive display in communal celebrations would entail too large a status loss and, therefore, prefer to cut back on basic needs such as nutrition and education. In the presence of heterogeneous preferences for status, leaving out one of these two types of coping strategies

## *Final Reflections*

would likely result in an underestimation of the number of households affected by the economic crisis.<sup>99</sup>

### *Directions for further research*

Since the consumption of modern status goods by the poor is only likely to grow in importance in the near future due to ongoing rural-urban migration and improved access to global mass media in the developing world, further research on the phenomenon is warranted. In particular, there is a need for more empirical research on the issue. The current paucity of data is a major obstacle in the formulation of satisfactory answers to both the positive and normative questions that the phenomenon raises. In our positive analysis in Part I we have explored the relevance of several variables in determining a poor individual's propensity for status consumption. Although this propensity is likely to be determined in part by biological factors (some may have a stronger innate need for status than others), our empirical contributions suggest that social factors matter as well. The data reveal that the tendency to seek status in the consumption domain is particularly strong in individuals that have relatively bleak prospects of gaining status in other ways, which may be due to their low level of education, low-status occupation, disadvantaged ethnic background, or their lack of success in traditional prestige systems. More empirical research in the social factors that underlie such a tendency for compensatory consumption could provide better insight in what type of poor households are likely to compromise on basic needs and run a disproportionate risk of becoming chronically indebted. Institutions such as micro-credit organizations may benefit from risk profiles based on this type of research.

With regard to the welfare effects of status consumption by the poor, additional empirical research is needed to shed more light on the trade-off between status-led consumption on the one hand and basic needs consumption on the other. The welfare implications hinge upon the extent to which status expenditure crowds out basic needs expenditure. Our results in Chapter 6 suggest that the consumption of Western status goods may also substitute for more traditional types of status expenditure. If it is mainly a matter of shifting resources between different status-intensive spending categories, the welfare outcome of the consumption of Western status symbols is not necessarily a gloomy one, even if the display of such goods does not result in higher status for the consumer *ex-post*. In order to come up with a more accurate welfare analysis, therefore, the interaction between modern and traditional prestige systems should be high on the research agenda.

A final remark concerns the method of empirical research. As long as household surveys do not provide more disaggregated consumption data, we feel that the possibilities for desk research are limited and that the topic is best studied in the field. In order to recognize the

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<sup>99</sup> We cannot give accurate numbers for the Indonesian case, since the authors do not report frequencies for individual coping strategies.



### *Final Reflections*

often subtle and resourceful status signalling strategies applied by the poor, field visits are important. For instance, Belk's (1999) observation that people in the Third World sometimes put up unconnected television antennas on huts lacking both electricity and televisions cannot be inferred from survey data. In order to go beyond observations, the potential of experimental methods has been explored in this thesis. In particular, we have devised entirely new forms of experiments that incorporate the circumstances prevailing in the specific markets under consideration. However, there is plenty of scope for improving upon these. New experiments need to be designed to test for status consumption in other parts of the developing world and to address the questions that our experiments have left unanswered as well as the new ones they have raised.

## Summary in Dutch (Samenvatting)

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### *Statusconsumptie en Armoede in Ontwikkelingslanden*

Reeds in de 19<sup>e</sup> eeuw heeft de econoom Veblen gewezen op het feit dat individuen status kunnen verwerven via de aanschaf van goederen die een zekere mate van verspilling in zich dragen. Hoe nuttelozer het goed in praktische zin, hoe hoger de statuswaarde (voor een gegeven prijs). In tegenstelling tot wat vaak wordt aangenomen, is de aanschaf van dit soort statusintensieve goederen niet het exclusieve domein van het welvarende deel van de wereldbevolking. Er is anekdotisch bewijs dat ook arme individuen en gezinnen in ontwikkelingslanden zich in hun consumptiegedrag soms laten leiden door statusmotieven. Bepaalde consumptiebeslissingen laten zich moeilijk verklaren op basis van puur functionele overwegingen. Extreme voorbeelden zijn de aanschaf van een digitaal horloge dat niet werkt (zoals op het platteland van Mali) of van een televisie terwijl men niet over elektriciteit beschikt (Sri Lanka). Het intrigerende aan statusgedreven consumptie van individuen onder de armoedegrens (in dit proefschrift hanteren we een besteedbaar inkomen van minder dan \$2 per dag als criterium van armoede) is dat deze schijnbaar overbodige luxe veelal gepaard gaat met, zoniet resulteert in, onvervulde basisbehoeften. Het is niet ongebruikelijk om een televisie aan te treffen in een woning waar essentiële basisvoorzieningen zoals stromend water of riolering ontbreken (Brazilië). Een ander voorbeeld is het zodanig bezuinigen op voedsel dat men op de rand van ondervoeding balanceert, teneinde Westerse (merk)kleding, een statussymbool bij uitstek in ontwikkelingslanden, aan te kunnen schaffen (Kongo). Dergelijke uitingen van statusgedreven consumptie onder armen in ontwikkelingslanden staan centraal in dit proefschrift.

In het onderzoek trachten we antwoorden te formuleren op de volgende drie hoofdvragen. Een eerste vraag betreft de mate waarin armen in ontwikkelingslanden hun schaarse middelen opofferen aan vormen van statusconsumptie die we ook in ontwikkelde landen veelvuldig aantreffen. Is de consumptie van moderne (lees: Westerse) statusgoederen meer dan een marginaal verschijnsel onder deze groep consumenten? Ten tweede proberen we te achterhalen welke sociale factoren invloed hebben op de bereidheid van arme consumenten om te betalen voor statusintensieve goederen. Wat is het effect van variabelen als etnische afkomst, scholingsniveau en de mate van blootstelling aan Westerse media op deze betalingsbereidheid? Tenslotte besteden we in dit proefschrift aandacht aan de welvaartseffecten van statusconsumptie voor individuen op of onder de armoedegrens. Onder welke omstandigheden leidt statusconsumptie tot een verbetering dan wel verslechtering van de welvaart voor arme statuszoekers? We bekijken tevens de welvaartseffecten voor armen die afzien van statusconsumptie, maar wel getuige zijn van statusconsumptie van anderen met een vergelijkbaar laag inkomensniveau.

Bovenstaande vragen zijn door economen tot op heden onbeantwoord gelaten. Hoewel het fenomeen statusconsumptie zich sinds de jaren '70 in een toenemende belangstelling van economen mag verheugen, beperkt de analyse zich tot statuszoekers in ontwikkelde landen (en de elite in ontwikkelingslanden). Aan statusconsumptie onder armen is nauwelijks aandacht besteed, waarvoor grofweg twee redenen aan te geven zijn. Ten eerste is het vaak beschouwd als een irrationeel randverschijnsel. De veronderstelde irrationaliteit heeft zijn oorsprong in de invloedrijke motivatietheorie van Maslow. Deze theorie onderscheidt verschillende categorieën menselijke behoeften en rangschikt deze in een hiërarchie (de bekende behoeftenpiramide van Maslow), die verondersteld wordt universeel te gelden. De rangschikking geeft de volgorde aan waarin individuen hun behoeften bevredigen, te beginnen bij behoeften aan de basis van de piramide. Op de onderste trede van de piramide staan biologische en fysiologische behoeften, zoals de behoefte aan voedsel en beschutting. Zolang deze 'basisbehoeften' in onvoldoende mate bevredigd zijn, beheersen zij de psyche volledig en verdringen zij behoeften van een hogere orde, waaronder de behoefte aan status die, evenals andere 'ego-behoeften', in de top van de piramide figureert. Aangezien armen in ontwikkelingslanden veelal niet over adequate voeding, huisvesting en sanitaire voorzieningen beschikken, worden deze basisbehoeften zo dominant geacht dat hun consumptiegedrag hierdoor volledig wordt bepaald en de behoefte aan status effectief onderdrukt. Onder deze veronderstelling is er redelijkerwijs geen ruimte voor statusgedreven consumptie in een situatie van armoede. Het verschijnsel staat derhalve op gespannen voet met de premisse in de economische wetenschap dat individuen rationele keuzes maken, waarmee het buiten het terrein van de economie wordt geplaatst.

Een tweede vermoedelijke reden voor de geringe aandacht voor dit verschijnsel is van methodologische aard. Waar statusconsumptie in zijn algemeenheid reeds lastig meetbaar is, geldt dit in versterkte mate wanneer deze plaatsvindt in ontwikkelingslanden. Betrouwbare consumptiedata zijn schaars en bovendien vaak ongeschikt voor het meten van de statusintensiteit van consumptie. Dit proefschrift is een poging om op innovatieve wijze deze methodologische impasse te doorbreken.

Het proefschrift bestaat naast een inleidend en afsluitend hoofdstuk, respectievelijk hoofdstuk 1 en 8, uit twee delen die elk een ander type vragen tracht te beantwoorden. De analyse in Deel I (hoofdstuk 2, 3 en 4) concentreert zich op de eerste twee onderzoeksvragen die positief van karakter zijn. Middels het samenbrengen van bestaand bewijs in de literatuur en het aandragen van nieuw bewijs wordt aangetoond dat statusconsumptie onder armen daadwerkelijk plaatsvindt (en op een wellicht grotere schaal dan vaak wordt aangenomen). Tevens wordt een aantal verklarende factoren geïdentificeerd. Deel II van het proefschrift, bestaande uit hoofdstuk 5, 6 en 7, behandelt de normatieve vragen die het verschijnsel oproepen. Speciale aandacht wordt besteed aan de welvaartsconsequenties die verbonden zijn aan de consumptie van namaakgoederen (goedkope imitaties van prestigieuze Westerse merkartikelen), wat een veelvoorkomende strategie is onder arme consumenten in ontwikkelingslanden om een (valse) claim op hoger sociaal aanzien te leggen.

*Overzicht van de hoofdstukken*

De thematiek van het proefschrift raakt aan drie omvangrijke studiegebieden, te weten dat van 'status', 'consumptie' en 'armoede'. In **Hoofdstuk 1** bespreken we enkele belangrijke inzichten die de literatuur op deze gebieden heeft voortgebracht, met name waar het gaat om de relaties tussen de verschillende thema's. We beperken ons tot de literatuur in het brede veld van de economie. Daarnaast komt in dit inleidende hoofdstuk een aantal methodologische aspecten van het proefschrift aan bod.

Het begrip 'status' refereert aan de sociaal-economische positie van een individu ten opzichte van andere individuen in een maatschappij. Een stijging (daling) in status, d.w.z. een verbetering (verslechtering) van de relatieve positie van een individu, heeft een positief (negatief) effect op de eigenwaarde van dit individu en daarmee op zijn of haar psychologisch welbevinden. Er is overtuigend bewijs verzameld in de biologie en psychologie dat status een diepgewortelde menselijke behoefte is die naast materiële voordelen ook een emotionele beloning in zich draagt. In het economische domein uit de behoefte aan status zich bijvoorbeeld in het belang van 'relatief inkomen', het inkomen van een individu ten opzichte van dat van anderen in zijn of haar referentiegroep, voor persoonlijk welzijn. Economische studies tonen bijvoorbeeld aan dat de tevredenheid van werknemers sterk afneemt wanneer andere werknemers in vergelijkbare posities meer verdienen en dat mensen minder gelukkig zijn wanneer de burens een hoger inkomen genieten. Het belang van inter-individuele vergelijking komt ook tot uitdrukking in de bevinding dat individuen in landen met een sterke inkomensgroei nauwelijks een grotere mate van persoonlijk geluk ervaren als gevolg van deze stijging in hun absolute inkomensniveau. De verklaring is dat wanneer vrijwel iedereen in een maatschappij een vergelijkbare inkomensstijging ervaart, het relatieve inkomen van individuen, en daarmee hun statuspositie, onveranderd blijft. Hierbij moet wel aangetekend worden dat deze studies betrekking hebben op ontwikkelde landen.

De relatieve inkomensstudies laten zien dat individuele preferenties onderling afhankelijk zijn. Daar het dominante neo-klassieke paradigma in de economie juist gebaseerd is op de veronderstelling van onafhankelijke preferenties, is de integratie van statusmotieven in 'mainstream' consumptietheorie een moeizaam proces geweest. Sinds de jaren '70 is de analyse van de rol van statusmotieven in consumptiegedrag echter in een stroomversnelling beland, met name door het werk van Hirsch (1976) en Frank (1985). Hirsch introduceert de term 'positionele goederen', waarmee goederen worden aangeduid die hun waarde volledig ontlenen aan het feit dat ze voor de bezitter een hoge relatieve positie impliceren. Tevens wijst hij op het 'zero-sum game' karakter van de wedijver tussen individuen voor het verkrijgen van dergelijke positionele goederen. De winst voor de een is namelijk gelijk aan het verlies voor de ander. Ook Robert Frank benadrukt de *collectieve* irrationaliteit van positionele consumptie. De sociale welvaart daalt als gevolg van de concurrentie voor een hogere sociale positie, omdat deze leidt tot excessieve consumptie van positionele goederen (zoals een zwembad of een luxe auto) en suboptimale uitgaven aan niet-positionele

categorieën (zoals gezondheid en veiligheid). Frank laat echter tevens zien dat de aanschaf van positionele goederen volledig rationeel is vanuit het perspectief van de *individuele* consument. Rationele consumenten zitten dus als het ware gevangen in een positionele tredmolen die op den duur leidt tot een lager welvaartsniveau.

Ondanks de toenemende erkenning van het belang van status in de conventionele consumptietheorie en het voortschrijdend inzicht in de hieruit voortvloeiende welvaartseffecten, is de neo-klassieke theorie van consumptie niet uitgerust om onze onderzoeksvragen adequaat te beantwoorden. Ten eerste is de aanname dat consumenten de markt betreden met voorkeuren voor specifieke goederen problematisch (zie hoofdstuk 5). We maken daarom gebruik van de theorie van Lancaster (1966), waarin de goederenoriëntatie wordt losgelaten en de preferenties van consumenten gericht zijn op specifieke *productkarakteristieken*. Daarnaast gaan studies geïnspireerd op de neo-klassieke consumptietheorie grotendeels voorbij aan het sociale karakter van consumptie en de complexe motieven die achter consumptiebeslissingen schuilgaan, wat vraagt om een meer interdisciplinaire benadering. In het onderzoek maken we daarom intensief gebruik van inzichten verkregen in de sociologie, sociale psychologie en antropologie.

De empirische bijdragen in het proefschrift zijn gebaseerd op verschillende onderzoeksmethoden, waaronder regressieanalyse van survey data en discriminantanalyse van experimentele data. Een innovatief element in het onderzoek is het gebruik van technieken uit de experimentele economie voor het meten van statusconsumptie in ontwikkelingslanden. Het proefschrift bevat twee nieuwe economische experimenten (hoofdstuk 4 en 6). Deze zijn uitgevoerd in Bolivia, wat als case studie voor het onderzoek dient.

**Hoofdstuk 2** brengt een wijdverbreide misconceptie aan het licht waar het gaat om de relatie tussen statusconsumptie enerzijds en armoede anderzijds. De conventionele idee ten aanzien van deze relatie is dat, conform de Maslow theorie, arme consumenten in ontwikkelingslanden volledig gericht zijn op het veiligstellen van basisbehoeften en derhalve uitsluitend producten vragen die voor een gegeven prijs een zo efficiënt mogelijke bijdrage leveren aan de bevrediging hiervan in vergelijking tot alternatieve producten. Producten die aan dit criterium voldoen staan te boek als ‘geschikte’ producten in de ontwikkelingseconomie. Westerse goederen worden in de literatuur algemeen als ‘ongeschikt’ beschouwd, omdat de eigenschappen van deze goederen zijn afgestemd op de wensen van relatief welvarende consumenten en daarom te veel overbodige luxe bevatten. Met andere woorden, Westerse goederen zijn te statusintensief voor de smaak van arme consumenten die geen boodschap hebben aan niet-functionele producteigenschappen.

Deze conventionele visie valt moeilijk te rijmen met zowel historisch als recent bewijs uit tal van samenlevingen gekenmerkt door een lage levensstandaard, dat individuen behoefte hebben aan status, ondanks het feit dat ze in absolute armoede leven. Het hoofdstuk bevat een overzicht van dit bewijs, waaruit blijkt dat armen soms producten prefereren die relatief statusintensief zijn, terwijl meer ‘geschikte’ producten voorhanden zijn. In de conventionele

visie zijn dergelijke consumptiekeuzen te wijten aan distorsies in hun preferenties in plaats van aan een innerlijke behoefte aan status. De moderne markteconomie en, in het bijzonder, de marketingactiviteiten van Westerse multinationale ondernemingen worden verantwoordelijk gehouden voor het opwekken van een kunstmatig verlangen naar Westerse goederen onder arme consumenten. Onder invloed van demonstratie-effecten en de moedwillige manipulatie van Westerse ondernemingen ontwikkelen zij preferenties die afwijken van hun daadwerkelijke voorkeuren.

We onderwerpen de idee dat statusconsumptie onder armen het gevolg is van de creatie van artificiële preferenties voor statusintensieve goederen aan een kritische analyse. Is het inderdaad aannemelijk dat blootstelling aan de Westerse consumptiecultuur en reclameuitingen van Westerse ondernemingen leidt tot een verlies aan consumentensoevereiniteit? Allereerst tonen antropologische studies aan dat statusconsumptie een bekend verschijnsel is in primitieve samenlevingen die vrijwel onaangeroerd zijn door de moderne markteconomie, hetgeen impliceert dat het verschijnsel geenszins onlosmakelijk is verbonden met de opkomst van het moderne kapitalisme. Deze zorgt veeleer voor een verschuiving van traditionele naar moderne (en daardoor voor ons beter herkenbare) vormen van statusconsumptie dan voor het creëren van een drang om via consumptie status te valideren. We werpen tevens een ander licht op de rol van marketing in ontwikkelingslanden. Hoewel er soms ontegenzeggelijk sprake is van misleidende reclame, wordt de informatiefunctie van reclame die zich niet beperkt tot de functionele eigenschappen van een product in de traditionele visie onderschat. Dergelijke reclame geeft informatie over de statusintensiteit van een product, hetgeen niet noodzakelijkerwijs de soevereiniteit van arme consumenten aantast wanneer we het bewijs dat status een legitieme behoefte is van arme consumenten serieus nemen.

**Hoofdstuk 3** onderzoekt het effect van etniciteit op de neiging tot statusconsumptie onder arme gezinnen. Hiervoor maken we gebruik van een recente enquête onder stedelijke lage inkomenshuishoudens in Bolivia, die data bevat over de consumptie van duurzame gebruiksgoederen. Onderzoek in ontwikkelde landen heeft uitgewezen dat binnen de groep van gezinnen met lage inkomens, huishoudens die behoren tot een etnische minderheid een relatief sterke drang vertonen naar statusverhogende consumptie in vergelijking tot gezinnen die onderdeel uitmaken van de dominante cultuur. De verklaring hiervoor ligt in het feit dat etnische minderheden vaak te kampen hebben met discriminatie in het onderwijssysteem en de arbeidsmarkt, waardoor de mogelijkheden voor opwaartse statusmobiliteit via deze kanalen beperkt zijn. Ter compensatie voor dit gebrek aan status, richt men zich sterk op consumptie voor het veiligstellen van hun sociale positie, hetgeen als ‘compensatoire consumptie’ wordt aangeduid. We testen deze hypothese in Bolivia, dat gekenmerkt wordt door een hoge mate van etnische verscheidenheid. Ongeveer de helft van de Boliviaanse gezinnen is van Indiaanse origine en behoort ofwel tot de Aymara of de Quechua. Deze twee inheemse bevolkingsgroepen kampen met sociale discriminatie door de dominante cultuur van ‘blanken’ en mestiezen. Om te testen of Aymara en Quechua gezinnen een sterkere

neiging tot statusconsumptie aan de dag leggen dan niet-Indiaanse huishoudens met een vergelijkbaar laag inkomen, zetten we de waarde van hun televisie, een sociaal zichtbaar goed met een hoge statusintensiteit, af tegen dat van hun fornuis, een goed dat nauwelijks zichtbaar is voor anderen en daarmee niet statusgevoelig.

Uit de data blijkt dat de televisies van Quechua huishoudens gemiddeld even duur zijn als die van niet-Indiaanse gezinnen, maar dat zij significant minder uitgeven aan hun fornuis. De Quechua hebben derhalve een relatief statusintensief consumptiepatroon en bevestigen daarmee eerdergenoemde hypothese. Het gemiddelde Aymara gezin voldoet echter niet aan dit beeld. Zowel hun televisie als hun fornuis is significant goedkoper dan die van niet-Indiaanse families en de Aymara vertonen derhalve geen tekenen van ‘compensatoire consumptie’. Dit roept de vraag op waarom de Aymara en Quechua in dit opzicht van elkaar verschillen. Een mogelijke verklaring ligt in het feit dat het aanschaffen van de statussymbolen van de dominante cultuur assimilatie met deze cultuur betekent en *de facto* een verlies van de eigen etnische identiteit. Aan het opgeven van de eigen identiteit zijn echter psychologische kosten verbonden. Aangezien de Aymara gekenmerkt worden door een sterk besef van etnische identiteit in vergelijking tot de Quechua, is statusverwerving via de acquisitie van moderne statusgoederen voor hen een minder aantrekkelijke optie. Dit hoeft echter geenszins te betekenen dat de Aymara minder geld uitgeven aan status. Een dergelijke conclusie vereist onderzoek naar de uitgaven aan meer traditionele vormen van statusconsumptie die specifiek zijn voor de eigen etnische groep.

Het markante verschil tussen de Aymara en Quechua in de consumptie van duurzame gebruiksgoederen maakt echter duidelijk dat het effect van etnische afkomst op (moderne vormen van) statusconsumptie niet eenduidig is. De hypothese van compensatoire consumptie geformuleerd op basis van onderzoek in ontwikkelde landen is derhalve te simplistisch voor een multi-etnisch ontwikkelingsland als Bolivia.

In **Hoofdstuk 4** testen we middels een veldexperiment of arme consumenten in Bolivia bereid zijn te betalen voor een bekend Westers merklabe. Sociaal-psychologisch onderzoek benadrukt de rol van merken als symbool van sociale identiteit. Het bezit van een designer merk stelt consumenten in staat om status te signaleren richting anderen en/of geeft hen het gevoel ‘erbij’ te horen. We richten ons specifiek op de vraag of ook arme individuen een dergelijke symbolische waarde ontleen aan een merklabe en daarvoor bereid zijn te betalen.

Voor het experiment maken we gebruik van parfummonsters van het merk *Calvin Klein*. We houden participanten twee monsters voor, één met het *Calvin Klein* logo en één waarvan dit logo is verwijderd. Beide monsters zijn anderszins identiek. De participanten wordt gevraagd aan te geven welke prijs ze maximaal bereid zijn te betalen voor elk van beide monsters. We gebruiken hiervoor een procedure uit de experimentele economie die participanten een prikkel geeft om hun ware reservatieprijs kenbaar te maken. Het is in hun eigen nadeel indien zij hun betalingsbereidheid overdrijven of juist een te lage reservatieprijs opgeven. Het experiment is uitgevoerd met 104 respondenten in een aantal geselecteerde

sloppenwijken van Cochabamba. Deze wijken worden gekenmerkt door een hoge armoedegraad en inadequate basisvoorzieningen, zoals een gebrek aan schoon drinkwater en sanitaire voorzieningen.

In een eerste ronde van het experiment wordt voor de participanten verborgen gehouden dat, afgezien van het logo, de twee monsters in feite identiek zijn. Dit resulteert over de hele steekproef gemeten in een gemiddelde premie van 26 procent ten gunste van het monster mét logo. Echter, de mogelijkheid bestaat dat participanten in de illusie verkeerden dat het merkparfum intrinsiek beter is dan het merkloze parfum, aangezien een merknaam tevens een kwaliteitsindicatie is. Om te corrigeren voor dergelijke ‘kwaliteitsillusie’ worden de participanten in een tweede ronde geïnformeerd over de intrinsieke gelijkwaardigheid van beide monsters en hen de mogelijkheid geboden hun betalingsbereidheid te wijzigen op basis van deze nieuwe informatie. Het blijkt dat de respondenten in de steekproef gemiddeld nog altijd bereid zijn 22 procent meer te betalen voor het monster met het *Calvin Klein* logo. Ruim 40 procent van de participanten is bereid om voor het merklablel als symbool een premie te betalen, die soms zelfs hun reservatieprijs voor het monster zonder logo met meer dan 50 procent overstijgt. Dit suggereert dat een designer label een symbolische waarde vertegenwoordigt voor een substantieel deel van de stedelijke armen in Cochabamba. We vinden dat de betalingsbereidheid voor een merklablel als identiteitssymbool het hoogst is onder respondenten met een relatief laag opleidingsniveau (zoals de hypothese van ‘compensatoire consumptie’ voorspelt), alsmede onder hen die niet in een situatie van extreme armoede verkeren en onder de groep van respondenten die aangeeft regelmatig naar soaps op televisie te kijken.

Tot dusverre hebben we geen waardeoordeel uitgesproken over het fenomeen statusconsumptie in ontwikkelingslanden. Een prangende vraag is echter onder welke condities de consumptie van statusintensieve goederen schadelijk dan wel bevorderlijk is voor de welvaart van individuen met lage inkomens. In Deel II van het proefschrift trachten we inzicht in deze condities te verwerven. In **Hoofdstuk 5** staan de welvaartseffecten van een speciaal type statusconsumptie centraal, te weten bedrieglijke statusconsumptie. Armen in ontwikkelingslanden maken gebruik van een breed scala aan strategieën om in de statushiërarchie te klimmen die gebaseerd zijn op misleiding van het oog van de waarnemer. Sommige zijn vrijwel kosteloos voor de bedrieger (bijvoorbeeld het paraderen met een gevonden *McDonalds* zak), maar de meest voorkomende strategie, te weten de consumptie van namaakgoederen, brengt wel kosten met zich mee en is derhalve interessant om te analyseren vanuit een welvaartsperspectief.

Economische studies modelleren de welvaartsconsequenties van statusconsumptie door een analytisch onderscheid te maken tussen pure statusgoederen enerzijds en volledig statusloze goederen anderzijds. In werkelijkheid zijn pure statusgoederen echter zeldzaam, aangezien deze hun bezitters gewoonlijk tevens een ‘functioneel alibi’ verschaffen. Zowel originele als nagemaakte statusgoederen bevatten een zekere mate van functionaliteit, hetgeen



onze keuze voor een Lancaster benadering, waarin een product opgevat wordt als een specifieke bundel van verschillende productkarakteristieken, motiveert. Goedkope kopieën van prestigieuze merkartikelen kunnen in een Lancaster raamwerk beschouwd worden als relatief statusintensieve bundels in vergelijking tot de originelen waarvan ze zijn afgeleid. De onderliggende veronderstelling is dat een namaakgoed *potentieel* eenzelfde mate van status geeft als het origineel, maar door de bank genomen minder functionaliteit biedt ten gevolge van lagere intrinsieke productkwaliteit. De mate waarin een namaakgoed de status van de consument, en daarmee zijn of haar welvaart, verhoogt, hangt echter af van hoe succesvol de poging tot misleiding verloopt. De consument maakt *ex ante* een verwachting ten aanzien van de kans op succes in de verschillende fasen van het misleidingsproces en de daarbij behorende statuswinst. De realisatie *ex post* van deze verwachting hangt echter af van verschillende factoren.

De beoogde toename in status kan lager uitvallen dan verwacht wanneer de waarnemer twijfels heeft over de echtheid van het goed dat wordt getoond. Zelfs indien de waarnemer de kopie voor een origineel aanziet, kan er teleurstelling bij de bedrieger optreden. Dit is het geval wanneer bijvoorbeeld de waarnemer de prijs van het origineel te laag inschat, maar ook indien de overige goederen die de bedrieger tentoonspreidt een dergelijke inconsistentie vertonen dat de waarnemer niet gelooft dat de bedrieger het inkomensniveau geniet dat hij met het namaakgoed tracht te suggereren. Een zekere mate van anonimiteit is cruciaal voor het welslagen van deze fase in het misleidingsproces, aangezien het daadwerkelijke inkomen van de bedrieger anders eenvoudig geverifieerd kan worden (zoals bijvoorbeeld in een rurale setting). Tenslotte kan de bedrieger zich verkijken op het gedrag van andere consumenten. Indien deze zich in eenzelfde mate van bedrieglijke statusconsumptie bedienen, verbetert de relatieve positie van de individuele bedrieger niet. Statuscompetitie heeft tenslotte een ‘slim voor één, maar dom voor allen’ karakter.

Concluderend stellen we dat namaakgoederen in potentie een idealere combinatie van producteigenschappen belichamen dan originele goederen voor statusgevoelige consumenten met een laag inkomen, maar dat de realisatie van de beoogde welvaartsverbetering afhangt van een complexe interactie tussen bedrieger en waarnemer.

In **Hoofdstuk 6** verschuift de aandacht naar het welzijn van *waarnemers* van statusconsumptie. We stellen specifiek de vraag of de tentoonspreiding van (namaak)goederen van bekende Westerse merken door arme individuen afgunst bij arme waarnemers oproept. Afgunst is de negatieve emotie die individuen ervaren wanneer een ander iets bezit wat zij zelf begeren en er behagen in scheppen als de ander dit bezit verliest, ook al levert dit hen zelf geen winst op. Van oudsher zijn statuszoekers in traditionele maatschappijen zeer terughoudend met het openlijk tonen van prestigieuze goederen, omdat het opwekken van afgunst bij anderen kan leiden tot serieuze vergelding. Een veelgebruikte strategie om afgunstige reacties af te wenden is het opzichtig delen van de eigen welvaart met andere leden in de maatschappij. Tegenwoordig hebben individuen in met name stedelijke

gebieden in ontwikkelingslanden beduidend minder scrupules met betrekking tot het opzichtig etaleren van statusintensieve goederen.

We meten in hoeverre de acquisitie van een bekend Westers merk afgunstig gedrag oproept onder individuen met lage inkomens in Cochabamba. Hiertoe voeren we een veldexperiment uit met 170 respondenten in 11 krottenwijken. Voor het experiment gebruiken we drie identieke T-shirts, waarvan twee met een namaak logo van een bekend Westers merk (*Nike* en *Polo Ralph Lauren*) en één met het logo van een onbekend lokaal merk (*S&S*). In een anoniem spel met twee spelers ontvangt de winnaar één van deze shirts. Echter, de verliezer kan de kans manipuleren welke van de shirts de winnaar zal ontvangen. Als verliezers systematisch de kans reduceren voor de winnaar om een T-shirt met een Westers merk te winnen, vatten we dit op als een signaal van afgunst.

Het blijkt dat winnaars een significant lagere kans hebben om het *Nike* shirt te winnen dan het shirt van het lokale merk na manipulatie van de verliezers. Verliezers zijn dus als groep afgunstig op het *Nike* logo. Hoewel de kans op het winnen van het *Polo Ralph Lauren* shirt ook lager ligt dan dat van het *S&S* shirt, is het effect van afgunst hier minder sterk. Dit valt wellicht te verklaren uit het feit dat ruim 90 procent van de deelnemers het *swoosh* logo van *Nike* herkent als zijnde het logo van een prestigieus Westers merk, terwijl slechts de helft van de respondenten het *Polo Ralph Lauren* logo associeert met een bekend designer merk. In het experiment vertoont bijna de helft van de verliezende deelnemers gedrag dat als afgunstig aangemerkt kan worden.

Uit de resultaten blijkt tevens dat individuen die relatief weinig prestige hebben opgebouwd via de traditionele weg, zoals via het optreden als sponsor voor religieuze festivals of 'rites de passage' (bijvoorbeeld een bruiloft) of via het participeren in traditionele dansen, vaker afgunstig reageren in het experiment. Dit suggereert een bepaalde mate van substitutie tussen traditionele en moderne vormen van statusverwerving in de consumptieve sfeer. Tenslotte vinden we dat protestanten meer afgunstig zijn dan katholieken, hetgeen ook geldt voor individuen die traditionele kleding dragen in vergelijking tot diegenen die een Westerse kledingstijl hebben aangenomen.

**Hoofdstuk 7** behandelt mogelijke oplossingen om de kosten van statusconsumptie voor armen in ontwikkelingslanden te reduceren. Overheidsingrijpen, bijvoorbeeld via het instellen van weeldebeperkende wetten of het heffen van belasting op luxe goederen, is in het verleden geen effectief instrument gebleken om escalatie van de kosten verbonden aan statusconsumptie te voorkomen. De oplossing moet dan ook veeleer gezocht worden bij de private sector, temeer daar zij tevens onderdeel van het probleem zijn. Westerse multinationals hebben bij de ontwikkeling van hun producten nauwelijks oog gehad voor de wensen van consumenten aan de onderkant van de inkomenspiramide in de veronderstelling dat zij geen lucratieve markt vormen. Statusintensieve goederen zijn bijvoorbeeld vaak alleen verkrijgbaar in grootverpakkingen, waardoor ze voor veel armen onbereikbaar zijn.

De informele sector in ontwikkelingslanden is op deze onvervulde statusbehoeften ingesprongen, bijvoorbeeld door statusgoederen in kleinere en dus betaalbare eenheden aan te bieden. Echter, consumptie in de informele sector brengt risico's met zich mee voor de veiligheid en gezondheid van consumenten ten gevolge van het gebrekkige toezicht op deze sector. Prahalad (2004) stelt derhalve dat multinationals potentieel in staat zouden moeten zijn om arme consumenten beter (lees: effectiever) te bedienen dan de informele sector, mits deze ondernemingen zich serieus verdiepen in hun wensen en behoeften. Dit zou niet slechts de armen tot voordeel strekken, maar ook de multinationals zelf zouden hier profijt van ondervinden. Volgens Prahalad is het een misvatting dat er geen winst te behalen zou zijn aan de onderkant van de inkomenspiramide en wijst bijvoorbeeld op het commerciële succes van mini-verpakkingen van Unilever producten (zoals merkshampoo) in India en tal van andere ontwikkelingslanden. We bespreken in het hoofdstuk een aantal voorbeelden van multinationals die op dit gebied vooroplopen en er recentelijk in zijn geslaagd om via product- en marketinginnovaties statusintensieve goederen tegen een sterk gereduceerde prijs in ontwikkelingslanden op de markt te brengen. Deze voorbeelden zijn enerzijds hoopgevend, maar tegelijkertijd identificeren we een aantal obstakels. Een belangrijke belemmering is de angst onder multinationals dat de verspreiding van hun merkproducten onder minder welvarende lagen van de wereldbevolking de exclusiviteit van hun merk aantast en daarmee leidt tot een lagere winst in welvarende markten.

**Hoofdstuk 8** bevat enkele finale bespiegelingen, die met name ten doel hebben om de bredere implicaties van het onderzoek voor de studie van armoede te schetsen. Zo maakt het bestaan van statusconsumptie in ontwikkelingslanden duidelijk dat de veelgebruikte dichotomie tussen relatieve armoede enerzijds en absolute armoede anderzijds tot op zekere hoogte een schijntegenstelling is. Daarnaast compliceert de geconstateerde heterogeniteit in statuspreferenties tussen individuen de meting van armoede en kan zelfs leiden tot een arbitraire classificatie van individuen of huishoudens als zijnde arm of niet arm. Tenslotte benadrukken we de behoefte aan vervolgonderzoek op het terrein van statusconsumptie in ontwikkelingslanden en geven aan welke onderzoeksvragen naar ons idee speciale aandacht verdienen.

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## Annex I

### Map of Bolivia



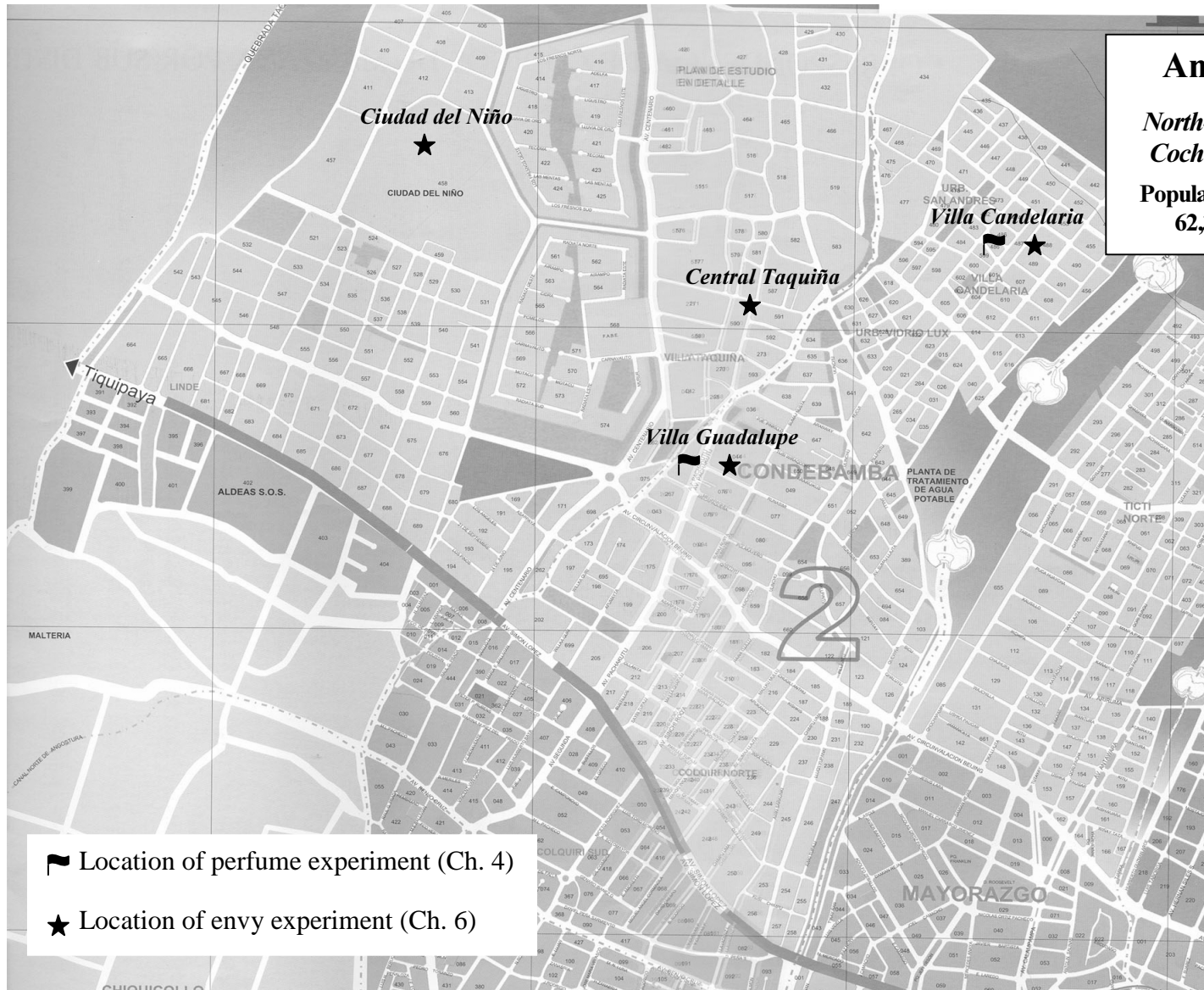
Source: Central Intelligence Agency, *The World Factbook 2004*











**Annex III**  
**North-west zone of Cochabamba city**  
**Population estimate: 62,343 (2001)**

- 🚩 Location of perfume experiment (Ch. 4)
- ★ Location of envy experiment (Ch. 6)

