

My Research about Concerns for Status

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Standard neoclassical economics assumes that people are self-regarding. The alternative assumption is that people are other-regarding. Concerns for status – namely the fact that individuals are interested in consumption, income or wealth relatively to others' consumption, income or wealth – are a specific type of other-regarding preferences. Generically, concerns for status introduce a negative externality in individual behavior and therefore standard efficiency results of neoclassical economics fail to hold.

Together with E. Bilancini (University of Modena), I have focussed my attention on the notion of status, in particular on the distinction between ordinal status – when people are only concerned with their rank in the relevant distribution – and cardinal status – when people also care about how much ahead or behind others they are. Our main message is that the definition of status – which have so far received little attention from the literature – plays a big role in the type of results that can be derived. In order to illustrate the importance of the distinction between cardinal and ordinal status, I briefly summarize the content of Bilancini and Boncinelli (2008b).

There are two types of individuals – rich and poor – differing only for the endowment of resources. Resources are allocated either to the consumption of a useful good or wasted in signaling. People have concerns for being recognized as rich or poor, however both the endowment of resources and the consumption of the useful good are unobservable, while the signal is observable. Under standard assumptions, this is a simple signaling model *à la* Spence, with infinitely many pooling and separating equilibria. We employ the *intuitive criterion* (Cho and Kreps, 1987) in order to restrict out-of-equilibrium beliefs and obtain a unique prediction for the model, namely the best separating equilibrium, where the poor spend nothing on signaling and the rich spend just enough to make emulation not convenient for the poor. We use this equilibrium in a comparative statics exercise in the endowments of resources. In particular, we consider the effects of a rank-preserving balanced-budget redistribution from the rich to the poor. When the poor are richer their opportunity cost of signaling decreases (under the assumption of concavity of the utility from consumption), therefore the rich must spend more in order to discourage the poor from emulation. This effect is what in a different

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setup Hopkins and Kornienko (2004) call “increase in the social competitiveness”. If status is ordinal, this is the only effect, so that a redistribution increases the waste in signaling. If status is cardinal instead, there is an additional effect. A redistribution reduces the relative value of being recognized as rich instead of poor – an effect that we labeled “decrease in the prize for competition” – and makes the poor less willing to spend on signaling. If the latter effect is larger than the former, then a redistribution reduces the waste in signaling. Moreover, if such saving on signaling for the rich is larger than the resources lost in the redistribution so that they end up consuming more of the useful good, and if the additional utility from consumption more than offsets the decrease in the status of rich, then a redistribution leads to a Pareto improvement.

We are aware that the above results are derived in a stylized framework, and we do not claim they are general. However, we think to have made our point: the definition of status matters and its specification must be chosen with care since it affects substantially the model predictions. This conclusion reinforces the message conveyed by Bilancini and Boncinelli (2008a), where we have shown that two well-known findings in the literature are not robust to the substitution of ordinal status with cardinal status (Frank, 1985b) and vice versa (Clark and Oswald, 1998). Several joint works with E. Bilancini are currently in progress within this research line.

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