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How much do others matter? Explaining positional concerns for different goods and personal characteristics

Inga Hillesheim [a], Mario Mechtel [b,*]

[a] Berlin Chamber of Commerce and Industry, Fasanenstr. 85, 10623 Berlin, Germany
[b] IAAEU Trier & University of Trier, Behringstr., 54286 Trier, Germany

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ABSTRACT

We test concerns for relative standing with respect to private consumption, income, leisure, savings, and personal characteristics, using data from a classroom survey. Our results show highest degrees of positionality for personal characteristics and income. In order to explain positionality, we employ survey participants' ratings of items with respect to (i) observability and (ii) non-psychological negative externalities on others. Based on these ratings, our results show that non-psychological externalities play an important role for an item's degree of positionality. In contrast to previous research, we find that there is no statistically significant effect of an item's observability on its degree of positionality.

1. Introduction

In recent years, a number of scholars have investigated individual concerns for relative standing with respect to different goods and personal attributes using survey data (see Alpizar, Carlsson, & Johansson-Stenman, 2005; Carlsson & Qin, 2010; Carlsson, Johansson-Stenman, & Martinsson, 2007; Hillesheim & Mechtel, 2011, 2012; Johansson-Stenman, Carlsson, & Daruvala, 2002; Solnick & Hemenway, 1998, 2005; Solnick, Hong, & Hemenway, 2007). These papers examine whether participants are willing to sacrifice consumption in absolute terms in order to advance their consumption rank in comparison to others. Based on this research, the present paper aims to answer the question of whether different categories of items, namely *income*, *leisure*, *personal characteristics*, *private consumption*, and *savings* differ with respect to their degree of positionality.[1] Furthermore, we test possible explanations for these differences.

Our paper provides two contributions to the literature. Firstly, we cover a wide variety of different categories in one single study, including the category *savings*, which has to our knowledge not yet been investigated. Including all these different

* Corresponding author. Tel.: +49 651 201 4757; fax: +49 651 201 4742.
E-mail addresses: Inga.Hillesheim@berlin.ihk.de (I. Hillesheim), mechtel@uni-trier.de (M. Mechtel).

[1] A good or personal characteristic is referred to as being positional, if the relation between individual consumption/endowment and the amount that others consume/are endowed with has an impact on individual utility.

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categories enables us to make comparisons between them. Recent papers have restricted their analysis to two or three different types of items. Comparisons are made, for example, between *personal characteristics* and *income* (Solnick & Hemenway, 1998), *private* and *public goods* (Solnick & Hemenway, 2005), *private consumption* and *leisure activity* (Alpizar et al., 2005), or *income*, *leisure*, and *private consumption* (Carlsson et al., 2007). By introducing two questions regarding private pension schemes and interest-paying investments, we fill the gap with respect to *savings*. From a theoretical point of view, there are at least two reasons to expect a positive degree of positionality for *savings*: If individuals make comparisons among themselves with regard to their wealth, it will be particularly relevant to save more than others (see Veblen, 1997), implying a positive degree of positionality. In addition, today's *savings* increase the future budget for consumption. As *consumption* has already proven to be positional in previous studies, this could imply that *savings* are positional as well.

Secondly, and most importantly, we explicitly examine two explanations for individual choices regarding relative standing: items' association with non-psychological negative externalities on others[2] (Frank, 2008) and items' observability for others[3] (Frank, 1985). In contrast to other authors, who have already argued that observability (Alpizar et al., 2005; Carlsson et al., 2007) and non-psychological effects (Hillesheim & Mechtel, 2011) play a role regarding positionality, our classification of items' characteristics is based on the assessment of our survey participants. Besides not having to rely on our own evaluation of items' characteristics, this approach offers another important advantage: we can directly use a participant's rating to explain the participant's individual answers which allows for an analysis on the micro-level.

In order to clearly identify an item's degree of positionality correctly, we apply the modified survey methodology proposed by Hillesheim and Mechtel (2012), which requires that participants are divided into a treatment and a control group. Our results show strongly pronounced differences between different groups of items. Relative standing turns out to be highly relevant for *personal characteristics* and *income*, and at least partially for *savings*. However, it is less pronounced for *private consumption* and *leisure*. Regarding the explanations for these differing degrees of positionality, our results indicate that non-psychological negative externalities are an important driving force behind positional concerns. This finding supports the results of Hillesheim and Mechtel (2011). Surprisingly, we find that an item's observability does not have a statistically significant impact on its degree of positionality. Whereas in previous research (Alpizar et al., 2005; Carlsson et al., 2007) items classified as easily observable turn out to have a higher degree of positionality, this is not the case in our survey, which relies on participants' perceptions of these attributes.

The paper is organized as follows: in Section 2, we describe the related literature with respect to survey methodologies and explanations for participants' choices. Detailed information about our survey structure and descriptive statistics are provided in Section 3. We present and discuss our results and explanatory approaches in Section 4. Our conclusion is provided in Section 5.

2. Related literature

Our work is based on the literature that analyzes positional concerns for different goods and personal characteristics as well as relative income concerns (see, e.g., Alpizar et al., 2005; Carlsson & Qin, 2010; Carlsson et al., 2007; Hillesheim & Mechtel, 2011, 2012; Johansson-Stenman et al., 2002; Solnick & Hemenway, 1998, 2005; Solnick et al., 2007). These papers test for positional concerns using two-states-of-the-world surveys. Participants are asked to choose between (*a*) a low individual endowment while others have an even lower endowment, or (*b*) a high individual endowment while others have an even higher endowment. Thus, they face a trade-off between a low individual endowment in absolute terms associated with a high individual rank and a high individual endowment in absolute terms associated with a low individual rank in society. Typically, the first scenario (*a*) is referred to as the *positional scenario*, whereas the latter scenario (*b*) is considered the *non-positional scenario*. The share of positional answers is interpreted as the degree of positionality.

Using this technique, Zeckhauser (1991), Tversky and Griffin (1991), Solnick and Hemenway (2005), and Alpizar et al. (2005), among others, find that participants not only care about absolute levels of income, but also about their relative income. Solnick and Hemenway (1998) illustrate that concerns for relative standing are not limited to income only. They include different personal characteristics in their analysis, providing evidence for strong positional concerns regarding a person's attractiveness and intelligence. Solnick and Hemenway (2005), Carlsson et al. (2007), and Hillesheim and Mechtel (2011) show that positional concerns also play a role for the consumption of private goods. In respect to public goods, Solnick and Hemenway (2005) and Hillesheim and Mechtel (2011) come to different conclusions. Based on a survey conducted in the US, Solnick and Hemenway (2005) find that public goods are more positional than private goods, whereas Hillesheim and Mechtel (2011) find the opposite using a survey conducted in Germany. All these studies based on discrete choice experiments point to the importance of comparisons with others for individual consumption choices.

[2] Non-psychological negative externalities occur if the possession of a good or the endowment with a personal characteristic causes disutility for others that goes beyond envy. Here, the endowments of other agents do not enter the utility function directly: individuals do not need to have a taste for being "better" than others for the sake of being better. Instead, relative standing affects individual utility in an indirect manner, for example in terms of competitive (dis) advantages which can, in a second step, be reflected in a lower relative consumption position in the future. For instance, having a worse education than the average person might, on the one hand, directly decrease individual utility if one compares in this dimension (psychological effect). On the other hand, it might be a relative disadvantage as it decreases one's probability of finding a good job and therefore having a secure and high income in absolute terms (non-psychological effect).

[3] An item's observability depends on whether it is easy for other persons to observe an individual's personal characteristics or that individual's consumption levels of a particular good.