



Is the positional bias an artefact? Distinguishing positional concerns from egalitarian concerns

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ABSTRACT

This paper shows that the positional bias underscored by Solnick and Hemenway (1998, 2005, 2007) is an experimental artifact. Quoted authors highlighted the importance of positional concerns by finding that people prefer to earn a fewer absolute amount of income but to earn a higher income than others. Why do people prefer to earn more than others? The proposed explanation is that people have a preference for status. This conclusion might be wrong due to their particular design. We conjecture that subjects, by indicating to prefer a state of the world in which they earn more than others, in reality signal a preference for equality. We replicated the same design as in Solnick and Hemenway (1998, 2005, 2007) and added a new option so as to disentangle positional concerns from egalitarian ones. We observe that most subjects express egalitarian preferences rather than positional ones.

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1. Introduction

Standard economic theory relies on the basic model of the *Homo Economicus* which assumes that an agent's utility depends exclusively on his own level of consumption and leisure. In other words, an agent's satisfaction is entirely determined by one's own income and not by others' income or possessions. According to standard economic theory, subjects will always choose options and decisions that maximise their own utility.

This hypothesis was severely debated. Scholars argue that others' situation affect individual satisfaction and may orientate subjects' choices and actions. To underscore the importance and influence of others' situations on individual satisfaction, scholars mentioned the existence of positional concerns. A subject is said to manifest positional concerns when his utility conferred by many goods depends not only on the amount the subject consumes but also on the amount others' consume (Duesenberry, 1949; Frank, 1985; Solnick and Hemenway, 1998, 2005, 2007; Veblen, 1909).

Solnick and Hemenway (1998) examined the existence of positional concerns by asking subjects to answer the following question:

Indicate which of the two states of the world you would prefer to live in. (Note that prices are what they are currently and prices (therefore the purchasing power of money) are the same in states A and B). Others refer to the typical other person living in society.

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

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

State A represents the positional state. In that state, the respondent has a higher amount of good than others in society. State B represents the absolute state. In state B, the status changed: the respondent has now a fewer relative amount (few goods than other members in society) but a higher absolute amount (more goods than in state A). Since standard economic theory predicts that subjects prefer states of the world that offers the highest amount of good regardless the situation of other members in society, subjects will choose the absolute state (i.e. state B). Conversely, Solnick and Hemenway (1998, 2005, 2007) reported that more than half of the subjects chose the positional state (i.e. state A). By doing so subjects clearly indicated that they preferred to earn more than others even by incurring a personal cost (see also Carlsson et al., 2007).

Why subjects chose the positional state? To explain their results, Solnick and Hemenway (1998, 2005, 2007) suggested that subjects, by caring about their relative position, exhibit preferences for status (i.e. they prefer to be above average) and refer to the emotion of envy. Nevertheless, preferences for status cannot be considered

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as the unique responsible for leading subjects to choose the positional state. People can also opt for the positional state not because they prefer to live in a world in which they have more than others but because they possess egalitarian preferences: they prefer to live in a world that minimises inequalities (or maximises equality) among its members. Albeit the positional state offers a superior position to the respondent (i.e. whereas the subject incurs a loss he now has more than others) it also describes a world in which inequalities measured in absolute terms are the lowest. There are two alternatives when measuring inequalities: absolute or relative inequalities. On the one hand, absolute inequalities represent differences between the subject and others' situations measured in absolute terms (e.g. F  hr and Schmidt, 1999).¹ On the other hand, relative inequalities refer to differences captured by the ratio between the subject's situation and others' situations (e.g. Bolton and Ockenfels, 2000). Although in both states, relative inequalities are kept constant (in the absolute state, the respondent's allocation is half as much as others' allocation and in the positional state, the respondent's allocation is twice as much as others' allocation) absolute inequalities are lower in the positional state. Relying on their design, Solnick and Hemenway (1998, 2005, 2007) cannot conclude whether subjects chose the positional state because they possess egalitarian preferences or status ones. Indeed, by choosing the positional state, subjects may signal their willingness to minimise inequalities within members of a society. There is a growing literature conveying the importance of inequity aversion and subjects' preference for equality (Ferrer-i-Carbonell and Ramos, 2010; Senik, 2005; Senik and Grosfeld, 2008). In a recent survey, Norton and Ariely (2011) observed that subjects, when asked about their ideal world, pictured a world in which the rich still be richer than the poor but the discrepancy between the rich and the poor was reduced. Did subjects opt for the positional state because they exhibit preferences for status (i.e. they enjoy having more than others) or because they possess egalitarian preferences (i.e. they care about inequalities within a society)?

This paper aims at disentangling status preferences from egalitarian ones. More precisely, we conjecture that subjects choose the positional state not because they want to be above average (as formerly suggested) but rather because they are motivated by reducing inequalities. To fulfil that purpose, we replicated the procedure used by Solnick and Hemenway (1998, 2005, 2007) except that we added a new option for subjects. This new option allows us to disentangle status preferences from egalitarian considerations. We observe that most subjects exhibit egalitarian concerns rather than status ones.

2. Method

We conjecture that subjects chose the positional state because they exhibit egalitarian preferences rather than status ones. To test our hypothesis, we implemented a new survey based on the one used in Solnick and Hemenway (1998). We distributed this survey to students and faculty of the Burgundy School of Business in fall 2010.² The survey consisted of eleven questions in the same format (see Appendix A).³ Each question presented three states of the world. Each respondent had to indicate which state of the world he

preferred to live in.⁴ Each state of the world indicated how much the respondent and the typical other person in the society (referred to "the others" in the survey) had of a certain good.

One state of the world represented the positional state (state A in the example). In that state, the respondent had a superior amount of good than others in the society. In another state of the world, representing the egalitarian state (state B), the respondent had the same amount of good than in the positional state and so had others in the society. Finally the last state of the world pictured the absolute state (state C below). In that latter state the respondent had a higher absolute amount of good (i.e. the subject has more goods than in the two previous states) but few goods than others. A subject preferring a situation that maximises his payoff regardless the situation of others should select the absolute state. Standard economic theory predicts that subjects will choose the absolute state since it allows the highest absolute amount of goods.

Below we provide an example.

State A. Your current monthly income is 1500  ; others earn 750  .

State B. Your current monthly income is 1500  ; others earn 1500  .

State C. Your current monthly income is 2000  ; others earn 4000  .

Why did we implement state B? In states A and C, relative inequalities are identical: in state A the subject receives an allocation that is twice as much as others' possession of that good, whereas in state C the subject's allocation is now half as much as others' possession of that good. Nevertheless, absolute inequalities are lower in state A than in state C; in state A the subjects receives an allocation that is 750   higher than others whereas in state C the absolute difference between subjects' allocation equals 2000  . Then a subject caring about inequalities may choose state A since it minimises absolute inequalities within a society. By adding state B (i.e. egalitarian state), we could disentangle a subject having status preferences from a subject having egalitarian preferences. A subject having egalitarian preferences should prefer state B since it allows the same allocation for every person in the society. Conversely, a subject having status preferences (i.e. having a preference for being above others) is ought to opt for state A since it allows the latter to have more goods than others. Note that in state B and A the subject received the same amount of good. The only difference between these two states relied on the amount of goods possessed by others.

As in Solnick and Hemenway (1998, 2005, 2007), each question concerned a different good or attribute (see Appendix A).⁵ We implemented two questions about income: one question with low incomes (Low Income afterwards) and another with high incomes (High Income hereafter). We chose to do so in order to investigate the existence of a *positional threshold*. According to Hirsch (1976), the portion devoted to positional goods increases with wealth. Then we should observe more subjects choosing the positional state in the high income version. There are few empirical evidence on the existence of such threshold. Grolleau and Said (2009) using the same method as in Solnick and Hemenway (1998, 2005, 2007) implemented two questions relative to income: a low income question and a high one. The authors observed significantly

¹ For illustration, absolute inequalities equal \$25,000 concerning State A (positional state) and \$100,000 concerning State B (absolute state).

² The administration of the survey was based upon voluntary participation.

³ The original survey used in Solnick and Hemenway (1998) included twelve questions. We chose to exclude the question relative to the number of papers a subject had to write each week because it was irrelevant to students and faculty from the Burgundy School of Business. Besides we also changed some parameters (e.g. wages levels) so as to fit with real-life conditions in France (as in Grolleau and Said, 2009).

⁴ A subject can indicate to be indifferent between two states of the world (or three) by choosing the two (resp. three) states.

⁵ Again, as in Solnick and Hemenway (1998, 2005, 2007) and because subjects tend to perceive losses differently from gains (Tversky and Kahneman, 1981), we administrated two versions of the survey. The two versions were identical except that the states of the world were presented in a different order. As in Solnick and Hemenway (2005, 2007), we cumulated answers from both versions.

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