How status seeking may prevent Coasean bargaining[1]

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Abstract

Even in a world with zero transaction costs, status seeking can prevent efficient Coasean bargaining. Using simple illustrations and various examples, we show that ignoring this impediment can explain the failure of some negotiations where an efficient bargaining seems a priori reachable and expected. Rather than just emphasizing this neglected issue, we discuss various institutional and behavioral strategies by which this impediment can be overcome and even strategically used in socially desirable directions, such as bargaining over status.

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JEL classification

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"Apart from economic payoffs, social status seems to be the most important incentive and motivating force of social behavior." (John Harsanyi)

1. Introduction

One of results put forward by Ronald Coase in his 1960 article, "The Problem of Social Cost" was that, under certain conditions, individuals can and will bargain whenever gains from bargaining exist. Hence, no external intervention is necessary to lead – or force – individuals to cooperate.[2] This was perfectly summarized by Calabresi (1968, p. 68; emphasis in original), when he wrote that "[i]f people are rational, bargains are costless, and there are no legal impediments to bargains, transactions will *ex hypothesis* occur to the point where bargains can no longer improve the situation; to the point, in short, of optimal resource allocation". A few years later, Ellickson (1986, 1991) gave empirical flesh to this theoretical claim in his study of the relationships between farmers and ranchers in Shasta County, California. He demonstrated that the way disputes are settled in this area evidence that

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2 Others who insisted on the importance of bargaining and negotiation were Buchanan (1959), Buchanan and Tullock (1962), Buchanan and Stubblebine (1962), and, with important differences, Calabresi (1965, 1968).

individuals "are strongly inclined to cooperate" (1991, p. 4) and "achieve cooperative outcomes" (1991, p. 4) through bargaining. He therefore concluded that farmers and ranchers in Shasta County do reach a result that Coase had predicted: "coordination to mutual advantage without supervision by the state" (1991, p. 4).[3] This is what matters for our analysis: Coasean bargaining between private individuals leads to agreements that are beneficial to them.[4]

By contrast, certain obstacles may prevent Coasean bargaining to function properly. The main obstacle, that was precisely put forward by Coase in his article, is transaction costs. Other forms of legal constraints may also and may prevent individuals from bargaining and from exploiting potential gains. However, transaction costs are not the only obstacle to direct coordination via bargaining. In this paper, we study another problem that, to our knowledge, has never been discussed before in this context, namely status seeking and positional concerns (Hirsch, 1976, Franck, 1985a). Our claim is that status seeking might also be an obstacle to a Coasean bargaining and an impediment to implementing the Coase theorem even in the absence of transaction costs or other form of legal impediment.

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3 Ellickson demonstrated that "legal entitlements do not function as starting points for bargaining" (Ellickson, 1991, p. viii) but by developing their own norms – "by developing and enforcing adaptive norms of neighborliness that trump formal legal entitlements" (Ellickson, 1991, p. 4). Indeed, "[t]he Shasta County evidence indicates that people are aware that the legal system is a relatively costly system of dispute resolution and therefore often choose to turn a deaf ear to it" (Ellickson, 1991, p. 281).

4 This result is also confirmed by the huge literature that now exists on private orders and private governance.

One could argue that, at first glance, status falls outside the scope of the Coase theorem.[5] The first reason would be that status is not about dividing the already given pie: if two people are bargaining over the price, any unfair division of the surplus can be the outcome of asymmetry of power, which in turn makes such asymmetry more entrenched. This gives rise to resentment and even revolt against price gougers, rather than according status to such price gougers. Another reason is that status is not the outcome of bargaining. However, our claim is the reverse: individuals concerned with their position or status will have an incentive to prevent the spontaneous internalization of externalities and even behave in a way that will generate social arrangements that are detrimental to the society. In this paper, we model the behavior of an individual who is looking for status to show that win-win arrangements can fail because of positional considerations or status variations.[6] There is a tradeoff between having more in monetary absolute terms and status evolution, and, a given individual might prefer having less in absolute terms on the money dimension to keep his status unchanged or even enhanced.

In the next section, we provide a theoretical discussion of status seeking and positional concerns and overview the already sizeable literature that exists on this question. We also characterize goods according to their money and status conveying properties and illustrate the

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5 We thank a referee for pointing out this argument.

6 In certain circles, it is intuitive that behaving pro-environmentally or prosocially generates status. Nevertheless, since our purpose is precisely to analyze how status seeking can block certain pro-environmental or prosocial innovations, we assume at first glance that this is not the case. In this situation channeling the status concerns in socially desirable directions makes sense, as discussed later in this paper.

issue at stake, i.e., how positional concerns may prevent win-win arrangements. In section 3, we develop a simple example to illustrate how status seeking can negatively affect situations where Coasean bargaining is *a priori* reachable and expected. Section 4 is devoted to the strategies that can be used to reconcile positional concerns and Coasean bargaining. Section 5 concludes and provides theoretical and policy implications.

2. How status matters

> *"In his journey, as he was crossing the Alps, and passing by a small village of the barbarians with but few inhabitants, and those wretchedly poor, his companions asked the question among themselves by way of mockery, if there were any canvassing for offices there; any contention which should be uppermost, or feuds of great men one against another. To which Caesar made answer seriously, "For my part, I had rather be the first man among these fellows than the second man in Rome." — Plutarch, 100-44 B.C, Caesar*

A fundamental premise of neoclassical economics is that individuals' preferences are independent and each individual strives to maximize his own net utility regardless of others' utility. Nevertheless, several human behaviors that can at first glance seem irrational by the standard of neoclassical economics become understandable when the desire to gain social status is taken into account (Frank, 1985a, 1985b). Rogers (2003) reports an interesting example of investments, notably Harvestore silos in rural U.S., which were both unprofitable and harming the landscape, but were strong status symbols. Many other examples illustrate how gaining social status can modify expected outcomes. For instance, as reported by Loch et al (2001) some alliances that were economically profitable failed because the two chief executive officers (CEOs) could not decide who would get the top job. Hayward and Hambrick (1997) showed that corporate acquisitions tend to produce too big firms, because

CEOs are motivated by status conferred with presiding over a bigger company, beyond efficiency considerations. Maug et al. (2011) found empirical support that the boards of more prestigious companies extract pay concessions and their CEOs accept to earn less because they derive an enhanced social status if they work for companies that enjoy public admiration. Another particularly interesting example is related to the bidding war in the late 1980s between businessmen R. Campeau and R.H. Macy for the acquisition of Bloomingdale's stores, for which R. Campeau made a so high offer that he went into bankruptcy, partly due to his pursuit of status (http://www.pon.harvard.edu/daily/business-negotiations/status-anxiety/).

The literature devoted to the relevance of positional concerns or relative standings is becoming increasingly rich. Among recurrent studies we can cite the works of Sara Solnick and her colleagues about positional concerns, particularly in the US (e.g., Solnick and Hemenway, 1998, 2005), and those by Fredrik Carlsson, Olof Johansson-Stenman and their colleagues (e.g., Johannsson-Stenman et al., 2002; Alpizar et al., 2005; Johansson-Stenman and Martinsson, 2006; Carlsson et al., 2007). Other contributions encompass, among others, Neumark and Postlewaite (1993), Easterlin (1995), Van Kempen (2003), and more recently the works by Gilles Grolleau and his co-authors in various contexts (e.g., Békir et al., 2011; Salhi et al., 2012; Grolleau et al., 2012b).[7] These studies often refer to the works of Duesenberry (1949), Hirsch (1976), and Frank (1985a, 1985b), who pointed out the relevance of status and relative preferences, and, attribute the origin of such devices to earlier prominent economists, such as Adam Smith, John Maynard Keynes, and Thorstein Veblen.

7 We caution the reader to not consider the mentioned literature as exhaustive neither the most important/influential.

Moreover, these studies generally use a quite similar approach, based on hypothetical questions and other experimental settings among convenience samples.

Rather than seeking exhaustiveness, let us stress some outstanding lessons drawn from the aforementioned important literature about status. First, there is ample anecdotal and empirical evidence that in many situations, position matters, that is, individuals are interested by what they get *per se* but also what they get in comparison to others. The actions undertaken by an individual concerned with his[8] position and who is looking for status is motivated by the gap that exists between his gains and others' gains, and, his objective is to maintain a certain gap between him and others. In other words, positional concerns imply that individuals become better off when the amount they have relatively to others increase. This is how literature characterizes status, in terms of relative incomes.

One needs to be more precise about who are the others from whom individuals seek status. Sometimes, individuals may have a taste for self-aggrandizement as Julius Caesar (as quoted at the beginning of this section). In that case, people seek status as an end in itself[9]

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8 For sake of exposition, we use the pronoun "he" for the status-seeker and "she" for the other individual, without claiming that men are more status-seeking than women.

9 Even if we seem to treat status as 'a good', we do not argue that status is similar to normal goods and recognize that status exhibits several unique features (see Khalil, 2000, 2004 for a discussion). This is particularly important from the perspective of side payments that we discuss below (see 4.1). Moreover, unlike most of the literature that just treats status as a preference, we recognize that status actually is a complex matter that involves productive (and sometimes unproductive) behaviors and that people generally do not blindly seek praise from any one.

and are willing to give up money to get a better relative position (Anderson et al., 2015). For instance, the experiments conducted by Charness et al (2014) reveal that some individuals are willing to incur a cost (e.g., by sabotaging others) in order to improve their rank. Most of the time, however, status is conveyed by *relevant* others. An individual frequently seeks status from people he aspires to resemble and does not enjoy the praise of people who are outside his reference group (e.g., colleagues, family members, neighbors, etc.).

This is why status seeking relies on the postulate that individuals' utility functions are interdependent. This means that "an agent's preference ordering over the alternatives in his choice set depends on the actions chosen by other agents" (Manski, 2000). Sometimes, interdependent preferences are positive and generate positive feedback.[10] Sunstein and Ullmann-Margalit (2001) introduced "solidarity goods" as goods that "have more value to the extent that other people are enjoying them". Some examples are wearing same clothes to a

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10 By contrast, if utility interdependence is positive – as with altruism – individuals do internalize external effects spontaneously or voluntarily contribute to the provision of public goods. Many economists (e.g., Buchanan, 1965; Becker, 1974) have stressed and demonstrated this result (Marciano, 2015, 2016). In his economic analysis of social interactions, Becker (1974) argued that an altruistic head of a family would not only "automatically" (p. 1077) but also "*fully*" (p. 1078, italics in original) "internalizes the "external" effects of his actions on other family members" (p. 1077). This is where lies the "Rotten Kid" theorem, "when one member cares sufficiently about other members to be the head, all members have the same motivation as the head to maximize family opportunities and to internalize fully all within-family "externalities", regardless of how selfish (or how envious) these members are" (Becker, 1974, p. 1080).

party, eating in company of other people, mob behavior, fashion, or attending a party. In such cases of interdependence, as one's enjoyment rises, the enjoyment of others rises as well, which leads to positive feedbacks. Nevertheless, status seeking involves *negative* interdependence (Hirsch, 1976) or corresponds to 'exclusivity goods' in the Sunstein and Ullman-Margalit (2001) terminology.[11] Status races are frequently considered as negative or at best zero-sum games: what is gained by an individual corresponds to an equivalent loss by another individual (see also below, footnote 16). When an agent raises one place in the ranking, another necessarily goes down one place.

Second, positional concerns impact several crucial life dimensions, such as longevity and subjective well-being or happiness (Easterlin, 1995). Interestingly, however, Charness and Grosskopf (2001) did not find a strong relationship between happiness and relative payoffs, but showed that willingness to reduce others' payoffs below one's endowment, which constitutes an "unethical" way to improve one's position, may be related to unhappiness. Third, positional concerns are more relevant for some goods than others (Solnick and Hemenway, 2005), but status markers are frequently culturally determined and evolving over time (Salhi et al., 2012). In other terms, according to context being considered, some goods convey more status than others –for instance, income is frequently considered more positional than health – but a given good is not equally positional across cultures.

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11 Negative utility interdependence does not only come from status seeking. Malice or malevolence could obviously be cited. Individuals who gain utility from the pain others receive (Abbink and Sadrieh, 2009; Abbink and Hermann, 2011) have a vested interest in generating negative externalities rather than trying to internalize them. This seems straightforward.

To go further, some goods, labeled negative positional goods, can even destroy status in a given reference group (Orbach, 2006; Salhi et al., 2012). As mentioned in the introduction, this category of goods is of particular interest in this paper. These goods can convey indisputable monetary benefits, but displaying them is likely to generate judgement of disapproval in some reference groups and be counter-productive in terms of status seeking. More concretely, if we consider that goods or situations can be characterized on a two dimensional space, namely regarding the net effect in terms of monetary benefits and status seeking (Table 1), we can argue that initiatives recommended on the wealth maximization standard may be short-sighted and fail to deliver the expected benefits if the effects in terms of social status are ignored.

Table 1: Characterizing goods according to their money and status conveying properties

	Status-destroying	Neutral in terms of status-seeking	Status-enhancing
Wealth destroying	--	-	?
Neutral in terms of monetary gains	-	=	+
Wealth enhancing	?	+	++

The signs "-", "--", "+", "++", and "=" refer respectively to the destroying, enhancing nd neutral property either on the status or wealth dimension for a given good. When the net outcome cannot be clearly predicted, it is represented by the sign "?".

3. The negative impact of status: a simple illustration

Let us now model the behavior of an individual whose motive is to gain status, and let us start with a simple illustration. Consider two individuals *A* and *B* and the following situations regarding their payoffs (Table 2):

Table 2: Individuals' payoffs and social wealth without status seeking

	Gain for *A*	Gain for *B*	Social Wealth
Initial situation	10	20	30
Alternative 1	15	25	40
Alternative 2	25	25	50
Alternative 3	30	25	55

These situations describe four possible social states in which the same two individuals are involved. All the situations are win-win arrangements and each situation represents a Pareto improvement compared to the preceding one since the increase in *A*'s wealth or payoff does correspond to a decrease in *B*'s wealth. However, the increase in social wealth also goes along with a greater payoff increase for *A* than for *B*. Then, the gap between *A* and *B* decreases and even becomes negative –*A* eventually becomes richer than *B*. Which situations both individuals should prefer? The answer obviously depends on whether or not one of these individuals is a status seeker or not. Then, if *A* and *B*'s utility functions are perfectly independent –i.e., there is no status seeker – and if there are no transaction costs, the choice to maximize the social wealth without decreasing the wealth of any agent would be the third alternative. However, if one of the two individuals is status seeker, the choice changes. How and how far?

Let U_A and U_B be the utility functions of *A* and *B*, respectively. In addition, let us assume that the status seeker is the wealthiest among the two individuals, namely *B*. This means that we distinguish "status" from "envy" –it is not the low-ranked individual who envies the other and therefore would get status from a reduction of the gap that exists between them.[12] The utility of the status seeker does not only depend on his own payoffs but also depends on the payoffs of the other individual: $U_B = U_B(\pi_B, \pi_B - \pi_A)$, with the following first-order derivatives: $\partial U_B\,(\pi_B, \pi_A)/\partial\,\pi_B \geq 0$ and $\partial U_B\,(\pi_B, \pi_A)/\partial\,(\pi_B - \pi_A) < 0$. This captures the idea that *B* wants to maintain a certain gap between him and *A*, that is, the idea that status-seeking is *anti*-egalitarian.[13]

In this paper, we use a linear form of this utility function, which represents B's updated utility function as follows:

$$U'_B = (1 - \alpha_{\mathrm{BA}})U_B + \alpha_{\mathrm{BA}}(U_B - U_A).$$

Where α_{BA} measures how *B* is motivated by the gap that separates him from *A*. Thus, the less individual *B* is motivated by his position or status, the lower is α_{BA}. By contrast, a pure status seeker would be an individual for whom $\alpha_{BA} = 1$, and therefore who is not interested at all by the payoff he gets and who is only affected by the difference $(U_B - U_A)$ that exists between him and the other individual.

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12 Envy frequently arises when a social comparison reveals a disadvantageous inequality, that is, the envious discovers that someone from his reference group has something he desires, making the envious person likely to undertake (destructive) efforts in order to reduce the gap between himself and the envied person. Status-seeking does not always imply a disadvantageous comparison, because even the high-status individual is willing to undertake efforts in order to keep or increase the gap between himself and the envious individual.

13 This assumption is made to capture one important element of status, precisely that status seekers are motivated by the differences that exist with others (see Loch et al., 2011; Schoeck, 1969).

Here, we also observe another important feature that characterizes a status seeker: he is not motivated by the outcome of his action but only how he stands compared to others or signals himself. In other words, the status seeker is not interested in efficiency and may sacrifice efficiency if a social change either increases or reduces his status. To better characterize this result, let us assume, for instance, that $\alpha_{BA} = 0.5$. The utilities and social wealth are what the individuals would perceive if *B* was not a status seeker. But, how does status seeking affect the four situations described above? For example, in the initial situation, *B* perceives the utility he receives with a payoff of 20 as $(0.5 * 20) + (0.5 * 10) = 15$. Thus, social wealth equals 25. Repeating the same reasoning for the four situations, the perceived game by the status seeker becomes as presented in Table 3.

Table 3: Individuals' payoffs and social wealth with *B* being status seeker

	Gain for *A*	Gain for *B*		Gap with *A*	Perceived Social Wealth
		Objective	Perceived		
Initial situation	10	20	**15**	+5	**25**
Alternative 1	15	25	**17,5**	+2,5	**32,5**
Alternative 2	25	25	**12,5**	-12,5	**37,5**
Alternative 3	30	25	**10**	-20	**40**

Even though all alternatives correspond to an *objective* increase in *B*'s wealth, as well as an *objective* increase in social wealth, they are not perceived as such by an individual who is concerned with his status. What matters is not the objective gain of *B* but how he compares to *A*. With the utility function we chose to represent this concern for status. What matters is therefore the gap between the payoffs of each individual. From this perspective, it appears that alternatives 1, 2 and 3 do not really mean an increase in wealth but also a reduction of the gap that exists between the two individuals. This means, to put it more clearly, that *B*'s status decreases.[14] Even in alternative 1 –in which *B*'s perceived payoff increases – the gap between *B* and *A* decreases and *B*'s status decreases too, compared to the initial situation. Alternatives 2 and 3 even imply a reversal in the "rank" of each individual –i.e., *A* becomes richer than *B*. Interestingly, although *B* is richer than in the initial situation, he has also lost all his status. In other words, *A* becomes wealthier –and the society is also wealthier in objective terms – but it is only by making *B* worse off that *A* is made better off. The improvement of *A*'s situation is obtained at *B*'s expense. This simply means that, although, in objective terms, each alternative represents a Pareto improvement compared to the initial situation and compared to the preceding alternative, this is no longer the case if one reasons in the subjective terms of a status seeker: none of the 3 alternatives proposed to move away from the initial situation represent a Pareto improvement. In line with Grolleau et al (2012a, p. 464), "any gain experienced by an individual is necessarily counterbalanced by a similar loss incurred by another participant". Or, at least, *B* does not perceive those changes as Pareto improvements.

More precisely, these changes are not Pareto improvements because, as stressed above, the increase in social wealth corresponds to a reduction of the relative inequality between *A*

14 As stressed by a referee, given that status races are considered as zero-sum games, when *B* loses status, it automatically implies that *A* gains status. It does not really make sense to say that *B*'s status is becoming lower than *A*'s one without also entailing (by definition) that *A*'s status is becoming higher than *B*'s. The only way to get the illustration going is to assume heterogeneous agents (as we do), where one's taste for status is greater (*B*) than the other (*A*).

and *B*, which progressively disappears before being reversed. It can also be said that the "society" or group or club that both individuals belong to is not only more egalitarian but also more homogenous. As the social situation gets globally better and the society wealthier, the gap between *A* and *B* decreases and, accordingly, *B* is less and less able to distinguish himself from *A* and signal his standing. He no longer enjoys a high position and feels worse. Now, from the perspective of status seeking, it is well known that individuals prefer to be richer in a poorer society. In societies or groups in which some of the members are concerned by their status, egalitarianism or homogenization produces counter-productive effects.

This corresponds to the *big-fish-in-a-little-pond effect* put forward by Marsh (1987), an expression he used to explain that black students prefer to be in predominantly black schools because they compare themselves with other black students, rather than in a predominantly white schools (see also Marsh and Parker, 1984; Marsh and Smith, 1982; Marsh et al., 1985). The same kind of phenomenon, but in a different context, was put forward by Frank (1985b, pp. 45-46) when he explained that individuals prefer to work with less productive workers rather than more productive ones because it enhances their status. In a wealthier society, or in a firm with more productive individuals, *B* loses his capacity to signal his standing and get distinguished –which is what matters to him.

Therefore, it is no surprise if *B* has an incentive to block any departure from the initial situation, that is, to favor the *status quo*. This is not due to positive transaction costs, but the simple fact that *B*'s status is affected. Hence, the main lesson from the previous simple illustration can be formulated as follows: *rather than guaranteeing a win-win arrangement in conventional economic terms, it is crucial to take into account how the arrangement will modify the status of the targeted individuals*. Accordingly, we believe that policies promoting development in some countries sometimes fail because they ignore the status consequences of the undertaken initiatives. These *a priori* win-win initiatives threat the status of some strategic groups and can ultimately feed veiled opposition and resistance to social changes. Moreover, because of the specific nature of status (Khalil, 2000, 2004; see footnote 9), these groups may justify their resistance under false pretenses.

4. Strategies to reconcile positional concerns and Coasean bargaining

In this section, we develop four strategies likely to mitigate the (negative) impact of status seeking and hence favor a Coasean solution: (i) bargaining over status in order to increase (or decrease) B's status, (ii) increasing the dimensions on which individuals compare, (iii) institutional solutions and (iv) changing individuals' preferences.

4.1. Bargaining over status[15] – encouraging or discouraging status seeking

Let us start our discussion by considering the results stressed in the previous section. It is not fully exact to say that individual *B* will block *any* move away from the status quo, and therefore that status is necessarily an obstacle to bargaining. Even if *B* is concerned with his status, gains from trade remain possible for both players. Let us therefore introduce the possibility for *A* to "compensate" or "bribe" *B* to see if and how it changes the situation.

We should start by noting that the money *A* can transfer to *B* should be viewed as a form of side payment. As mentioned above (footnote 9), status is not a good that could be bought out. These transfers are a means to maintain a certain distance between *A* and *B*. These are means to allow A to maintain B's status.

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15 Some authors argue (e.g., Marglin, 2002) that "[t]he desire to improve one's relative status is the engine that drives the economic train (. . .). Envy [is] functional in promoting hard work, accumulation and economic growth."

These transfers can be monetary or in-kind. From the perspective of monetary transfers, one can notice in Table 3 that individual *A* sufficiently wins from the changes in her wealth to compensate or bribe *B* and try to induce him to accept the new situation. Thus, in the alternative 1, *A* can pay 2.5 to *B* which added to the perceived 17.5 may lead to change his mind and makes him accept the new situation. Similarly, in the alternative 2, *A* must give *B* at least 7.5 and 10 in the alternative 3. In other words, what is important here to mitigate the impact of status is that, first, there are possible gains from trade and, second, individuals *A* and *B* can negotiate to improve their respective situations. Coasean bargaining with the status seeker is not impossible and may even be efficient. To some extent, here, status seeking can simply be interpreted as a form of transaction cost that does not prevent bargaining because individuals perceive the possible gains. If the gains are greater than the costs of status, then the transaction is possible.

Rather than trying to compensate *B*'s loss of status, *A* can also try to alter or decrease the value attributed to status.[16] *A* may for instance try to send signs or messages of disapproval about activities related to status seeking. Such messages would imply symbolic costs that *B* would have to incur if the difference between him and *A* is too important. This may counter status seeking. *A* may also try to, or engage in activities that would stigmatize the pursuit of status. Given the power of stigmatization, it can discourage status seeking and lead the status seeker to devalue the expected status benefits, making bargaining over monetary and status dimensions more likely succeed. According to Kim and Pettit (2015) while status-striving is regarded as a fundamental drive, and thus engaged in by many, pursuing status is also

16 We can mention again the case of the detrimental acquisition of Bloomingdale's stores where status seeking can be branded as utter stupidity.

stigmatized.[17]

However, the impact of bribery or compensation –even if combined with stigmatization – on *B*'s status is hard to predict. *B*'s status can be restored if he perceives that the amount transferred by *A* effectively increases the gap between them. But, it is also likely that *B*'s status does not change if *B* still reasons with the difference of income that exists with *A* before the bribe or compensation. In that case, *B* would accept the new situation because he is wealthier even though his status has been damaged. One cannot even predict that *A* will be really able to bribe or compensate *B*. A monetary gain (or loss) can be probably not the same as a gain (or loss) in status.[18] The main issue is that a loss of status may be more damageable or the damages may be durable. Therefore, *A* may be obliged to bribe *B* over many periods to allow *B* to get over the loss of status. Finally, the monetary compensation or bribe has to be up-front. This means that *B* may not find a monetary compensation from *A*, who is a low-ranked individual with whom he wants to maintain a certain social distance, status enhancing

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17 We do not discuss counter-measures that can be undertaken by both individuals. Despite their interest, such counter-measures are beyond the scope of this paper.

18 Given that the dynamics of status or money acquisition and destruction are not similar, we can suppose that the coefficients of loss aversion (Kahneman et al., 1990) for status and money differ. For instance, a monetary loss can be easily compensated by a monetary gain while a status loss can be difficult to reverse. In addition, if one assumes (see Khalil, 2004) that symbolic utility – the utility obtained when one receives gifts – differs from substantive utility – which results from the consumption of substantive goods –, then the consequence is that gifts do not increase substantive utility (and substantive goods do not increase symbolic utility).

at all.

This raises the question of in-kind transfers from *A* to *B*,[19] which may be less up-front. What is interesting here is that *A* can choose to give status-enhancing goods to *B*. This may work, because the very fact of a gift coming from a low-ranked individual to a high-ranked one may be viewed by the latter as status enhancing. However, once again, the impact is not clear: in certain groups or societies, a gift from a low-ranked individual may be viewed by the high-ranked one as nothing but normal and therefore does not have any positive consequence in terms of status. Alternatively, *A* may choose to finance a device that will make *B* feel better. For instance, using data of merging firms for more than 400 mergers and acquisitions, Illoong and Meyersson-Milgrom (2010) analyze how changes in workers' relative wages (or status) in the workplace affect their turnover decisions. The results provide strong evidence that people care about their status primarily for social reward reasons and the authors argue that there exists a market for status, where *the loss of status can be compensated by pecuniary*

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19 Our analysis relates but differs from the analyses that have been developed around in-kind (versus cash) transfers and status. Usually, those analyses bear on the possibility to use in-kind transfers to avoid conspicuous consumption – the beneficiaries of transfers may have the temptation to use the cash they receive to buy status-enhancing goods rather than useful ones. For instance, parents may be tempted to pay toys to their children rather than to pay for their health or education (Blackorby and Davidson, 1988; Besley, 1988; Munro, 1992; Ireland, 1994). Since we are discussing a negotiation between two individuals, the situation is different. In particular, here, in-kind transfers are not made by one of the individuals involved in the negotiation. However, there is a similarity in that it can be said that *A* uses in-kind transfers to avoid *B*'s status seeking.

rewards.

4.2. Increasing the number of dimensions

Our (simple) model captures an important aspect of status seeking: status is problematic as long as individuals can compare themselves on one dimension only –here, the payoff – or adopt a meta-ranking. There are two ways to interpret this model. Either we consider that there is only one dimension and thus the homogenization of the group –the equalization of the situations of *A* and *B* – affects only that dimension. This implies that there are other dimensions that *B* could use to compare him with *A* or that *A* could use to increase *B*'s status. Or, alternatively, we interpret it as representing a meta-ranking. From this perspective, what is destroyed is *B*'s general perception of himself and not simply his feeling regarding one dimension. Although these interpretations relate to the same problem, they are totally different in terms of how to solve it.

In our model, one of the reasons *B* has to block any improvement is that he has only one way –either one dimension or an overall comparison – to compare with *A*. Therefore, once his position has been damaged, he can no longer enjoy any status. The homogenization of the group and the egalitarianism imposed by the shift from the initial situation to the third alternative in Table 3 above robs him from any means to signal his standing. Thus, to put it differently, the lesson that can be drawn from our analysis is that individuals who have only one way to signal themselves will block any social improvement and will adopt anti-social behaviors. Complementarily, the solution is either to avoid meta-rankings or overall classification or to give (or create) the opportunity to individuals to signal themselves on many dimensions. Typically, as reported by Grolleau et al. (2012a), modern societies have increased the number of dimensions over which individuals can compete. Even in egalitarian societies –from this perspective, kibbutzim are a perfect example – which therefore supposedly destroy any possibility for status-seeking, the means to signal one's standing are actually reintroduced.[20]

4.3. Institutional solutions

Another way to overcome the negative impact of status seeking relates to institutional solutions that can be envisaged to actively channel such an 'energy' in positive directions (i.e., towards socially desirable activities or behaviors), notably if status cannot be bought off, and given that status-seeking is irrepressible. For instance, in their above-mentioned study, Illoong and Meyersson-Milgrom (2010) also show that workers derive their valuation of status from more than one reference group, i.e., at least coworkers in the same occupation and coworkers in other occupations within the firm. This means that the loss of status can also be compensated *by working with high-performing workers in other occupations* within the firm. This illustrates that clubs or groups are institutions that allow individuals to signal themselves; clubs are a means that allow individuals to obtain or increase their status (Ireland, 2001; Jaramillo et al., 2001).[21] Thus, for *B*, being a club member is important because it allows him to signal his standing as a person of a special quality; by contrast, not being a club member will not allow him to send any signal. Therefore, a particularly

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20 Actually, it is virtually impossible to completely prevent individuals to signal themselves. For instance, children who are obliged to wear uniforms can also wear jewels, coats, hats, watches, and so on, to show they are wealthy or wealthier than others.

21 This is also what is put forward by the literature on the expressive function of crime, according to which crime is status enhancing. From this perspective, being the member of a gang or a criminal organization is also clearly a means to increases one's status.

important element has to be taken into account, namely using club or group membership as a means to enhance *B*'s status and solve the problem we are analyzing. But, what matters here is whether individuals *A* and *B* belong to the same group (or society or club) or not.

However, if *A* also belongs to the same club, and even if the club becomes wealthier, the possibility to distinguish oneself disappears for *B* as the group becomes more egalitarian and homogenous. In that case, one may expect that the big-fish-in-a-little-pond effect mentioned above will lead *B* to reject or oppose any change that destroys or reduces his status. If it were the case, we would be back to the initial problem –status seeking is an obstacle to reach an optimal situation. This means that an institutional solution might not work if *A* and *B* belong to the same group.[22] And the same strategies as the ones already mentioned are necessary. For instance, one way to mitigate this problem might consist in increasing the number of dimensions, as mentioned above, on which individuals compare or increasing the value of the dimension on which the individual excels within an appropriate reference group (Grolleau et al, 2012a). Also, as mentioned above, allowing transfers to enhance *B*'s status or using mechanisms to stigmatize his behavior can change his status within the group and modifies his behavior.

Nevertheless, if *A* does not belong to the club, then *B* still has the possibility to signal his standing by being a club member. Thus, even if the individuals not in the club become wealthier, *B* has still his membership to enhance his status. In that case, one solution to reduce the impact of status consists in symbolically reward club membership in order to compensate the loss of status that results from the economic change. This could take the form of an increase in the visibility of the group or an increase of the visibility of some desired

22 Another option not examined in our study is the psychological counseling for *B*.

behaviors to increase their potential in delivering status for a considered community. The strategy can be adopted by the group itself or by an external actor (the State, for instance). In that case, *B* may still perceive the utility he receives from his comparison with *A* as low, and lower than before, but he gets other rewards that increase his status. One may envisage, for instance, that the situation that corresponds to the third alternative in Table 3 above could be promoted by the government and become gratifying for *B*.

4.4. Changing individuals' preferences

Another insight that was not initially considered by Coase among the richness of social alternatives is the possibility to change people's preferences. Even if traditional economic analyses assume that behavior is driven by stable underlying preferences, behavioral sciences frequently consider that preferences are constructed in the moment and are susceptible to fleeting situational factors (see, among others, Ariely and Norton, 2008).[23] Hence, the context of the decision and previous actions can provide a lever to influence current preferences. If actions can change preferences, then changing preferences can constitute in some plausible circumstances the way to reduce harm at lowest cost, e.g., by reducing the propensity of

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[23] To make justice to this issue, it seems necessary to mention the fascination of Gary Becker for the treatment of preferences. Even if he adopted various positions on preferences over his lifetime, he has constantly rejected tautological explanations of behaviors only based on differences in preferences or on changes in tastes (Becker and Stigler, 1977). In his 1996 book (Becker, 1996), he allowed for "changes in preferences", but he clearly limited the meaning of this expression and provided a sophisticated defense of the conventional economist approach, with the assumption that the underlying utility function is stable and identical between persons.

status seeking or to redirect and align these status concerns with socially desirable directions. In some cases, previous actions can be used to help an individual decreasing or redirecting his status-seeking taste. For example, the meat-day free intended to reduce CO2 emissions may encourage individuals to become vegetarians, which can ultimately become a crucial component of their identity (Rozin et al., 2007), but this result is far from automatic (Morris et al., 2014). Religious switching also constitutes an interesting example of preferences' change that can reformat status seeking preferences.

5. Conclusion

Transaction costs are usually viewed as the main obstacle to the internalization of externalities. We examine another obstacle: the individuals' desire or pursuit of status. Thanks to a theoretical discussion of relative preferences and using simple illustrations and various examples, we show how interactions between monetary calculus and status concerns can explain how individuals might act to prevent arrangements that could be beneficial for the entire society, including themselves. It thus appears that characterizing goods, innovations, policies, etc. according to their status conveying properties constitutes a crucial issue. Hence, it does not only matter to take transaction costs into account but it is also of paramount importance to identify how institutional, legal or social arrangements can modify the status of the concerned individuals. Moreover, considering the case of negative positional goods, that is, goods destroying status for a given individual or entity, our contribution provides several strategies that can be used to reconcile positional concerns and Coasean bargaining.

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