

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

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Abstract

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.

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1. Introduction

“A recent police checkpoint in the posh Vitacura neighborhood [*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, 2001:85-6). Such peculiar human actions resemble acts of conspicuous consumption, which serve to signal wealth and thereby social status to others, a well-known phenomenon ever since 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 put their pecuniary strength in evidence, but intentionally act *as if* they do. Such *deceptive* status signalling is the central theme of this paper.

Deceptive status signalling, henceforth abbreviated as DSS, is an umbrella term encompassing a wide variety of deceptive 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. The point is that status signalling costs are lower when deception is relied upon, provided that observers are duly (but mistakenly) impressed.

Deceptive status signalling devices have received scant attention in economics. Although product counterfeiting has been analysed in Higgins and Rubin (1986) and in 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. 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.¹

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. This will be illustrated throughout the paper by examples from Bolivia, a typical low-income country.² Although the treatment of DSS in the paper is fairly general in the sense that it provides insight into the DSS phenomenon, whether it occurs in a developed or a developing country, or for that matter among the poor or the rich, the paper takes 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 impacts more heavily on the welfare of poor consumers than on the well-being of rich consumers, in the sense that it directly affects 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 this paper is to improve our understanding of deceptive status signalling by the poor in developing countries and to analyse the welfare effects it engenders for low-income consumers. The first task is to find an appropriate analytical framework for DSS, which is undertaken in section 2. Subsequently, consumer choice between deceptive and non-

deceptive modes of status consumption, more in particular between counterfeit and original goods, is analysed. Section 3 builds a framework in which counterfeits are distinguished from original goods in terms of status and functionality. In section 4 the preferences of poor consumers are introduced, which raises the controversial question whether the poor, despite their physiological deprivation, care about status in the first place. Next, the analysis turns to the issue of deceiving the observer and the inherent risk of detection. Section 5 scrutinises the various stages of the deception process and traces its welfare effects. Finally, section 6 concludes.

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 and hardly exciting 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: 32). Primarily, consumption is a communicative act (e.g. Douglas and Isherwood, 1979; McCracken, 1988). As such, it offers the possibility of signalling personal characteristics to others, not in the least social standing.

2.1 Status-game model

Since status-seeking is at the forefront of the DSS phenomenon, a logical candidate for a framework is the 'status-game' model (see e.g. Congleton, 1989, Rauscher, 1993, and Cooper et al., 2001). 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 affect 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). Positional goods owe their existence fully to the fact that they are socially scarce. 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. Veblen already acknowledged this:

Even in articles which appear at first glance to serve for ostentation only, it is always possible to detect the presence of some, at least ostensible, useful purpose (Veblen, 1953 [1899]: 80).

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.³ Another strategy is the display of a broken or expired version of a prestigious good. People might keep run-down consumer goods in a visible place

rather than throwing them away or go around ostentatiously with an expired credit card.⁴ 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. An example is 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.⁵ 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.⁶

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 consumers' budget allocation decision between status and non-status consumption in the status-game model is no longer of interest. 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 the authentic and are less durable due to the use of lower-grade materials. Counterfeits that are completely non-functional are rare.⁷

Status-game models suppose that a clear demarcation line exists 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.

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: 82). This suggests that the product characteristics approach as developed by Lancaster (1966), in which goods are treated as bundles of characteristics, might be an appropriate framework to tackle DSS. It enables us to separate the functional from the positional attributes in counterfeit goods analytically.

An advantage of the Lancaster approach is that it is a tool rather than a theory, so that a neutral framework can be built. Another appealing feature of the Lancaster approach is that it basically has the same logic as standard neo-classical consumer theory. The only major conceptual difference is that the analysis centers around *product characteristics* rather than around *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 and 2000). Building on this idea, the product characteristics approach will be used in this paper to analyse a situation in which consumers can choose between an original good and a counterfeit.

3. Original versus counterfeit goods: A product characteristics approach

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, two-dimensional product characteristics space is used, with functional characteristics measured on the vertical

axis and status characteristics on the horizontal axis (see figure 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 wrist-watches, in which counterfeiting is rampant. However, the framework is also applicable to a wide range of similar goods such as jeans, shoes and 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 1. Original and counterfeit goods in characteristics space>

Consider figure 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 is a plausible set-up since both the functional and the status characteristics in timepieces are generally non-additive.⁸ Let point C represent a counterfeit *Rolex*, embodying an *expected* amount of status characteristics $E(s_c)$. The addition ‘expected’ is necessary because the amount of status that the consumer eventually obtains by displaying the counterfeit is uncertain to him at the moment of purchase, as this depends on whether he manages to deceive the beholder. Until section 5, in which the beholder enters the stage, only the consumer’s *expectation* about the status content of the counterfeit matters. In figure 1 it is assumed 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 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* is much cheaper than an original one, let us consider a consumer that is just able to afford the counterfeit C , whereas the authentic A is out of his financial reach.⁹ If product indivisibility is assumed, the choice problem for this consumer then consists in either buying the counterfeit or not buying anything. 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 for instance a *Citizen* watch. The budget constraint of the consumer thus corresponds to the line BC in figure 1.

The watch represented by point B does not only entail lower status than the genuine *Rolex* ($s_b < s_a$) but is at the same time assumed to be functionally inferior ($f_b < f_a$). The idea is that brands entail higher status, the higher the intrinsic quality of their products.¹⁰ 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. An exception are pure fashion goods, which derive their status appeal from the whims of fashion rather than from high-class craftsmanship. As a consequence, pure fashion goods do not fit in the framework of figure 1 and fall beyond the scope of this paper.

In addition to the assumption that status is functionality-based, it is conjectured here that *status and functionality go together in a fixed proportion* in all original brand-name goods. Hence, all originals are captured by the ray OA in the figure, which starts out from the origin and reaches out towards the top status-brand watch A . Although it is unlikely that in reality original watches from different brands 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. The further a consumer goes out on this ‘original’ ray, the absolute amounts of status and functional characteristics increase (and thereby the price of the good), but the status/functionality ratio remains constant.

In analogy, the ray OC in figure 1 is assumed to capture all available counterfeits in the market. Status and functionality are supposed to go together in counterfeits as well as in originals, albeit in a more status-intensive combination. This assumption may seem less plausible for counterfeits than for originals, then it is not clear why status should be positively related to functionality. The counterfeiter can simply associate his product with a high-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 the extent to which the fake resembles the brand-name original that it tries to imitate. So far, it has been implicitly assumed that counterfeits targeting a specific brand are identical. It is fallacious however to view counterfeits that imitate one and

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, namely their degree of resemblance to the original or their *‘imitative’ quality*.

A clear signal of low imitative quality of a counterfeit is misspelling of the brand-name. This is just one of many ways in which the resemblance of counterfeits to the original is lowered however. For the sake of illustration, consider the case of fake designer jeans in Bolivia.¹¹ With regard to labelling, many mistakes are made by counterfeiters. For instance, 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.¹² Also, one might observe two labels of different brands on one and the same pair of jeans.¹³ Besides, the used logo not always corresponds to the brand-name that is displayed.¹⁴ Apart from labelling, the type of accessories that are being used are an indication of the quality of the fake. High-quality fakes have brand-name buttons, either original or imitation ones, whereas most fakes have generic buttons. Additional information on quality may be obtained from the model or cut of the jeans. Some counterfeiters produce exact copies of certain models through ‘reverse engineering’ of originals, while others simply put brand-name labels to generics. The packaging and marketing of the jeans provides yet another quality indication.

Consumers assess the amount of status characteristics in counterfeits on the basis of perceived ‘imitative’ quality. Low-quality fakes have less status appeal than fakes that are hardly distinguishable from the ‘real thing’. The reason is that consumers run a higher risk of being detected as a deceiver with a low-quality counterfeit, which they take into account when forming expectations about the level of status that could be obtained from a particular counterfeit. In fact, consumers assign probabilities of detection to fakes of different qualities and use these probabilities to make the following ‘expected value’ type of calculation for

$E(s)$: $E(s_{counterfeit}) = (1 - \theta) s_{original}$, where $\theta \in [0,1]$ denotes the expected probability of detection.

<Figure 2. Counterfeits with high and low ‘imitative’ quality>

Consider for instance a consumer who cannot afford the counterfeit watch C in figure 1. Instead, his budget constraint is given by DE in figure 2. The consumer can either choose an original watch D , which is of a lower-status brand than B , a *Casio* for instance, or he can choose point E on the counterfeit ray OC . Point E can represent a good-quality fake *Citizen*, of which the expected probability of detection is zero ($\theta = 0$), so that $E(s_e) = s_b$. Alternatively, point E could also be a low-quality fake *Rolex*, with an expected probability of detection θ such that $(1 - \theta) s_a = s_b$. Thus, the only option for poor consumers who are interested in a counterfeit of a prestigious brand is to buy a cheaper but lower-quality fake, which entails a relatively high risk of being discovered.

Whereas the status embodied in counterfeits is to a large extent 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 seem completely unrelated. A counterfeiter may use cheap, low-quality materials and still produce a fake that closely resembles the ‘real thing’. However, close inspection learns that, generally speaking, the two quality dimensions are positively correlated. A possible explanation is that some counterfeiters have better skills and/or more capital than others, which benefits both types of quality. This suggests that indeed the ‘counterfeit’ ray OC can be viewed as a continuum of fakes of different quality.

4. The poor consumer's preferences: Status utility versus functional utility

The next step in the analysis consists in the introduction of indifference curves in our framework. Since consumer preferences are defined over product characteristics rather than directly over products in the Lancaster approach, the controversial question arises how consumers who live in poverty trade off functionality and status in their utility functions. Are poor people concerned about their social standing in the first place?

From a strict interpretation of Maslow's hierarchy-of-needs theory (1954), it follows that poor consumers cannot have a need for status, at least as long as lower-order needs such as food, clothing and shelter are not met. In this view, the actual consumption by the poor of status-intensive goods -often expensive Western brand-name goods- has to be explained otherwise. The 'cultural imperialism' thesis provides such an explanation. The poor are being lured into a status-intensive consumption pattern by seductive advertising campaigns of multinationals and other types of exposure to Western lifestyles, such as through imported soap operas, tourism and labour migration.¹⁵ In a similar vein, Sklair (1991: 149) argues that Western consumer goods mostly satisfy 'induced wants' rather than real needs of developing country consumers.¹⁶ Indisputably, advertising by multinationals exerts a strong influence on the buying pattern of the poor in developing countries.¹⁷ It is questionable however whether advertising is such a powerful tool that it can create *false* needs and that poor consumers are effectively manipulated to indulge in them.

An alternative view is that Maslow is wrong and that, despite their physiological deprivation, the poor have a *genuine* need for status. In this view, advertising only serves to arouse an already latent need rather than to create a new one (Lane, 1991: 464). The question is therefore whether the poor have some kind of 'natural' demand for status or that this demand is artificially forced upon them by unscrupulous marketeers.

There is compelling evidence from psychology and biology that status-seeking is a deep-seated and ineradicable element of human nature (Frank, 1999: 145). Also, recent economic experiments in developed countries have shown that status is not just sought as a means to a further end, i.e. for personal resource gain, but as an emotional end in itself as well (see e.g. Solnick and Hemenway, 1998, and Huberman et al., 1999). Remains the question whether people also care about relative standing under conditions of poverty. Does poverty push status needs into the background, as consciousness is completely pre-empted by securing economic survival?¹⁸

Contrary to what one would expect on the basis of Maslow's needs pyramid, status considerations can be so powerful that they override even the most basic of needs, such as hunger and cold. Supportive evidence is to be found across space and time. For instance, Herskovits (1952: 462) reports that in the preliterate society of Ponape, an island in the Micronesian archipelago, the highest status position is reserved for the farmer that produces the largest yams and that because of this "families not infrequently go hungry at home when they have large yams in their farms ready for harvest". Historical evidence from developed countries is also available. Bernard Mandeville, an early 18th century scholar interested in conspicuous consumption, points out that in the England of his time the wish of people to be judged "not as what they are, but what they appear to be" extends across the social spectrum, and that the need for respect and acceptance is so strong that it often encourages the very poor to go without food in order to be 'properly' dressed (Mason, 1998: 4-5).¹⁹ The same phenomenon is widely observed among the poor in today's developing countries.²⁰ For instance, Belk (1988):

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: 103-4).

However tempting it might be to moralise about the apparently misplaced priorities of poor consumers, it is important not to fall into this trap. Wilson (1973) 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” (1973: 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 convincingly 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.

In addition to empirical evidence that the poor are sensitive to status considerations, Frank (1985) provides a theoretical argument for why this might be true. He even argues that the incentives to seek status are stronger for the poor than for the non-poor. The explanation lies in the fact that in a societal status hierarchy the different ranks are typically drawn closer to each other at the bottom than at the top. Since “people are bunched together more closely nearer the bottom of the economic ladder, a given positional expenditure will generally produce a larger change in rank for low-income than for high-income persons” (1985: 144-5). Because it is lonely at the top, the utility gain from a fixed outlay on conspicuous items is larger in the lower than in the upper reaches of the income distribution, as utility increases with the number of people that are surpassed in rank. This argument suggests that status competition among the poor is bound to be fierce.

The preceding discussion is highly supportive of the view that the poor have a genuine need for status. This is not to say that Maslow is completely wrong however. In fact, Maslow himself acknowledges that higher-order needs may come into play even before lower-order needs are satisfied a full hundred per cent (1954: 53). 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 here is that status needs come in earlier and are more powerful than is commonly assumed.

Let us now revert to the consumer's choice between originals and counterfeits in product characteristics space. Assume that the utility function of a low-income person with regard to wrist-watches has two constituent parts, 'functional utility' and 'status utility' and suppose 'nature' has endowed society with two types of individuals, functionality-minded and status-minded ones.²¹ 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 3. By contrast, the preferences of the other type are heavily skewed towards status, represented by the U^s -shaped indifference curves.

<Figure 3. Consumer choice between original and counterfeit goods>

In figure 3 it can now be observed that the optimal choice for functionality-minded consumers with budget constraint BC is the original watch B , say a *Casio*, since $U_b^f > E(U_c^f)$. On the other hand, status-minded consumers are better off with the counterfeit C , i.e. the fake *Citizen*, since $E(U_c^s) > U_b^s$. Hence, on the basis of diverging preferences for status, it can be explained why some low-income consumers buy counterfeits, whereas others do not.

5. Status acquisition through deception: A four-stage process

Since one cannot buy status directly, as one can the usual good or service, the purchase of a counterfeit is only the starting point of DSS. A person's status is a function of beliefs that others hold about him and is bestowed rather than bought (Fremling and Posner, 1999: 2). For the status potential in counterfeits to materialise, the consumer needs an observer who is to be deceived. This section takes a closer look at the process of status acquisition through

deception, which consists of four different stages. The entire process is shown in figure 4, each panel of which corresponds to a separate stage. Figure 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 delineates a ‘partial deception’ scenario, where some unanticipated detection occurs.

<Figure 4. Full deception scenario>

<Figure 5. Partial deception scenario>

Stage I: Purchase of good by consumer

The first stage is that of consumer choice between a counterfeit and an original, as discussed in the previous section. The first panel in figure 4 is therefore simply a reproduction of figure 3. Consider a status-minded consumer with budget constraint BC . Since $E(U_c) > U_b$, this consumer purchases the counterfeit C , which corresponds to point $(E(U_c), f_c)$ 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 good displayed by consumer

The second panel in figure 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 it did 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 simply the reflection of the 'original' ray OA from the first panel, is supposed to capture all possible observations of the beholder. The 'counterfeit' ray OC from the first panel has disappeared from the second panel, because the only socially accepted way in which status can be acquired is through the display of *original* consumer goods. The combination of functionality and status that is represented by the 'counterfeit' ray OC only exists in the consumer's mind, since it is based on deception. The only relevant ray is therefore OA' .

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. Note that in figure 4 the consumer and the beholder 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 there even exists world-wide agreement.²²

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, the counterfeit is completely mistaken for an original, so that $C' = A'$ in figure 4 and the observed level of status characteristics s_c' equals s_a' , which exceeds s_b' . In the case of partial deception however (see figure 5), 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 option of purchasing a counterfeit in the first stage. By observation the beholder 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 θ' and, consequently, the higher s' . The 'full deception' scenario in figure 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 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 as potential targets for deception by low-income consumers, including the rich? This is unlikely to be the case. The fact that some Peruvian Indians carry small, rectangular rocks painted to look like transistor radios, as reported by Arnould and Wilk (1984: 748), may serve as an illustration. Since nobody outside the indigenous community can reasonably be expected to be deceived by this, deceptive attempts are most likely directed at members of the own community, i.e. other poor people. It is a well-established fact in the social sciences that a person cares most about his social standing in relation to people with whom he competes most directly for important resources (Frank, 1985: 30).

The success of deception hinges upon the relative sophistication of both perpetrator and victim. The sophistication of the perpetrator depends on the imitative quality of the counterfeit that he displays, while that of the victim is to a large extent dependent on his 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 much higher for the rich than for the poor in the developing world. The latter have the disadvantage that relatively few people in developing countries 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. However, taking into account that the introduction of Western brand-name goods in developing countries has taken place only in the recent past and in a rather abrupt manner, 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 in mind a low-income observer when going around with a counterfeit.

Consumers in developed countries on the other hand, including those with low incomes, have had the opportunity to acquaint themselves with status-intensive brand-name products in a much slower pace and have been in contact with such goods for over a longer period. This implies that for a given counterfeit, the probability that it will be discovered as such by the beholder (θ') is generally higher. This 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 the consumer

The good that is observed in the second stage contains a claim about the status of the owner of the good, but this claim still has to be honoured by the observer. The status embodied in the good has to be projected onto the consumer in the mind of the beholder. The third panel in figure 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 the higher the perceived income of the consumer. If the counterfeit C is taken for the original A for instance ($s_c' = s_a'$), the observer believes that the income of the deceiver is 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 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 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 θ' 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 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. This 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, that is 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 *Rolux* and a *BMW* occupy the same relative position in the respective product categories of ‘watches’ and ‘cars’ and therefore ‘go’ together

(McCracken, 1988: 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, so that there is little room for successful deceptive status signalling in societies with such a tightly-knit social fabric. By contrast, the anonymity that prevails in urban areas precludes such checks on the actual income of potential deceivers, who are often perfect strangers. This explains why the consumption of counterfeits is predominantly an urban rather than a rural phenomenon.

Stage IV: Advance in social rank and feed-back to the consumer

In this final stage, the beholder bestows a certain amount of status s to the consumer on the basis of perceived income y' , as shown in the fourth panel of figure 4. Since status is a hierarchical concept however, s is not directly inferred from y' , but rather from the rank in society that is attained with it. It is important to consider therefore 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 4. The curve has been drawn in accordance with Frank's notion that a certain increase in (perceived) income produces a stronger advance in rank at low than at high levels of income, since people are more closely bunched together at the bottom of the income hierarchy than at the top. A

similar increase in (perceived) income thus results in a larger status gain for poor than for non-poor consumers.

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, where the $S(Y')$ curve has shifted such that each value of y' now corresponds to a lower s . So, even if deception has been successful up to the final stage, the desired status position may fail to materialise because other consumers pull down the deceiver in their own efforts to climb the social ladder. This shows that deceptive status signalling, although rational for each individual consumer, is collectively self-defeating. This 'smart for one, dumb for all' character is a typical problem for participants in any kind of positional competition, regardless of whether these involve deception or not (Hirsch, 1976; Scitovsky, 1976; Frank, 1985 and 1999).

Disappointment after deception

What welfare outcome results for the deceiver after the deception process has been completed? With regard to functional utility, the process of deception does not entail any surprise. The consumer gets what he thought he would get. In figure 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 that is 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. As a consequence, the hoped-for 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 take the same deception-based consumption route towards higher social status has not been considered by the individual deceiver at the outset of the deception process, he 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 displayed counterfeit appears to be more easily identifiable as a fake than originally foreseen by the deceiver and when the claim about the consumer's income is less credible in the eye of the beholder than anticipated by the deceiver.

In order to see whether, *ex-post*, the counterfeit C is still the optimal choice for status-minded consumers with budget constraint BC , the welfare level U_b that would have been obtained with the original good B is the appropriate point of comparison. If the deception process works out as expected (see figure 4), the *ex-ante* and the *ex-post* consumer choice between counterfeits and originals are identical, so that the counterfeit remains the option that provides the highest utility ($U_c > U_b$). In case the purchase of a counterfeit leads eventually 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 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 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 despite the disappointment the counterfeit C is still optimal compared to the original B . If s_c falls below s^* as in figure 5 however, the consumer would have been better off with the

original since $U_b > U_c$. Hence, imperfect foresight with regard to the outcome of the deception process may lead to sub-optimal consumption choices.

So far, it has been incorrectly assumed that the consumption of original goods does not entail any disappointment. However, a consumer that uses an original brand-name good to signal status will end up with a lower-than-expected amount of status as well, if it turns out that others have done the same. As a result, s_b falls below $E(s_b)$, which reduces the likelihood that consumers mistakenly prefer counterfeits to originals in the first stage.

6. Concluding remarks

There is substantial evidence that the consumption of counterfeit goods -a costly and non-pure status signalling device- is popular among low-income consumers in developing countries. This paper has made an attempt to explain this popularity within an analytical framework. It has been shown that counterfeits can offer consumers with limited resources a more optimal combination of status and functionality than original goods, provided that the ex-post disappointment with counterfeits is not extreme. Since there seems to be repeat buying of counterfeits, the latter case is not very likely.

Hence, it can be contended that the availability of counterfeits potentially enhances the welfare of low-income developing country consumers, because it gives them the opportunity to acquire status at relatively low cost.²³ If cheap copies of prestigious brand-name goods would no longer be available -due to an effective crackdown on counterfeiters for instance- status-minded low-income consumers would suffer a welfare loss. The nature of this welfare loss depends on the consumer's response to the non-availability of counterfeits. If non-branded goods are bought instead, frustration results as status needs remain unsatisfied. Alternatively, if expensive original status goods are bought, valuable resources are drawn

away from non-conspicuous consumption, which might over time produce a decline in the nutritional, health and education standards of the poor.

Notes

1. Historical evidence shows that the consumption of “counterfeit” versions of status goods was once common practice among the poor in 18th century France. In 1785, cheap copies of aristocratic luxury items such as gold watches, fans, snuff boxes and umbrellas frequently figured in the post-mortem inventories of lower-class Parisians (Fairchilds, 1993: 230).
2. The examples from Bolivia are personal observations in the city of Cochabamba, with 600.000 inhabitants the country’s third-largest city. According to data from the Bolivian National Statistics Institute (INE), the incidence of urban poverty in the Cochabamba region is close to 50 per cent (1999).
3. A similar 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” (MacEwan, 1974: 212).
4. Southall (1961: 21) mentions “the broken wireless or gramophone, the sunglasses without lenses and the shirt with no back”. Also, in Bolivia wristwatches are for sale that do not work.
5. Lauterbach (1972: 273) has observed that in a typical South American urban slum there are more TV antennas than TV sets to be found.
6. For instance, some Bolivians wear T-shirts and caps with the *Eurocard/Mastercard* logo, not sponsored by the credit card company itself.
7. One example of a counterfeit with zero functionality is the fake *Ray-Ban* with neutral glasses, which is sold in Bolivia. In spite of a sticker saying ‘UV-filter’, it does not offer protection against ultraviolet radiation.
8. There exists a possibility of enhancing status by buying more than one watch, that is of different luxury brands, as suggested in Bagwell and Bernheim (1996: 358): “Someone possessing many expensive watches can wear a Rolex on Monday, A Patek Phillipe on Tuesday, a Cartier on Wednesday, and so forth”.
9. High-quality fake *Rolex* watches sell at around 5 per cent of the genuine retail price.
10. This in contrast to the signalling model of conspicuous consumption as developed by Bagwell and Bernheim (1996), where luxury brands are assumed to be intrinsically equivalent to more ordinary brands.

11. A survey among 42 informal jeans producers in Cochabamba, Bolivia, has revealed that 71% of them makes illegitimate use of foreign brand-names (Montano Alcaez, 1996: 107).
12. e.g. a label saying '*Levi's underwear*' attached to a pair of jeans.
13. e.g. a *Tommy Hilfiger* label on the waist and a *Calvin Klein* label on the pocket.
14. e.g. a *Nike* symbol with the text '*Adidas*' below it, as found on a sports shoe.
15. See Tomlinson (1991) for a critical discourse on the 'cultural imperialism' thesis.
16. According to Galbraith (1962 [1958]: 133), this is equally true for developed country consumers.
17. A well-known case is the introduction of infant formula in the developing world. Aggressive promotion efforts of multinationals have contributed to the drastic decline in breast-feeding in favour of powdered baby milk, often engendering a negative impact on the health status of infants because of a lack of clean water and refrigerators (James, 2000: 548).
18. Maslow argues that for a hungry person the only thing that counts is food: "He dreams food, he remembers food, he thinks about food, he emotes only food, and he wants only food. [...] The urge to write poetry, the desire to acquire an automobile, the interest in American history, the desire for a new pair of shoes are forgotten" (1954: 37).
19. A similar remark is to be found in Veblen's *Leisure Class*: "No class of society, *not even the most abjectly poor*, foregoes all customary conspicuous consumption. The last items of this category of consumption are not given up except under stress of direct necessity. Very much of the squalor and discomfort will be endured before the last trinket or the last pretence of pecuniary decency is put away" (1975 [1899]: 85, emphasis added).
20. Wells (1977) has found that over the period 1961/62-1971/72 the increased expenditure on status-intensive consumer durables by low-income households in Brazil has been accompanied by an absolute deterioration in their nutritional and housing standards.
21. Similar distinctions are that between 'substantive' and 'symbolic' utility (Khalil, 2000) and between 'utilitarian' and 'hedonic' utility (e.g. Dhar and Wertenbroch, 2000). However, both 'symbolic' and 'hedonic' utility are broader notions than status utility.
22. According to Ger and Belk (1996: 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".

23. This only refers to counterfeits that are knowingly bought by consumers like fake designer sunglasses, imitation jeans, etc. Counterfeits that are unwittingly consumed, such as fake prescription drugs and bogus aircraft parts, are not considered here.

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Functional characteristics

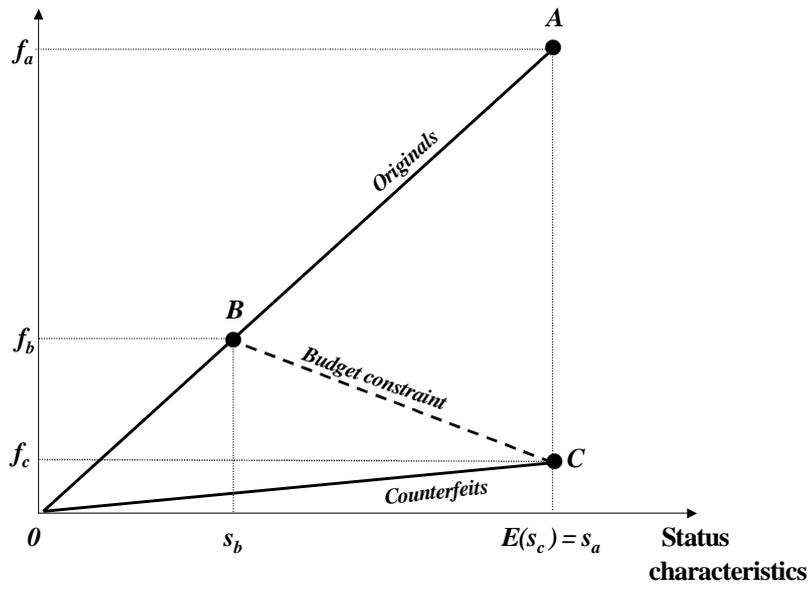


Figure 1. Original and counterfeit goods in characteristics space

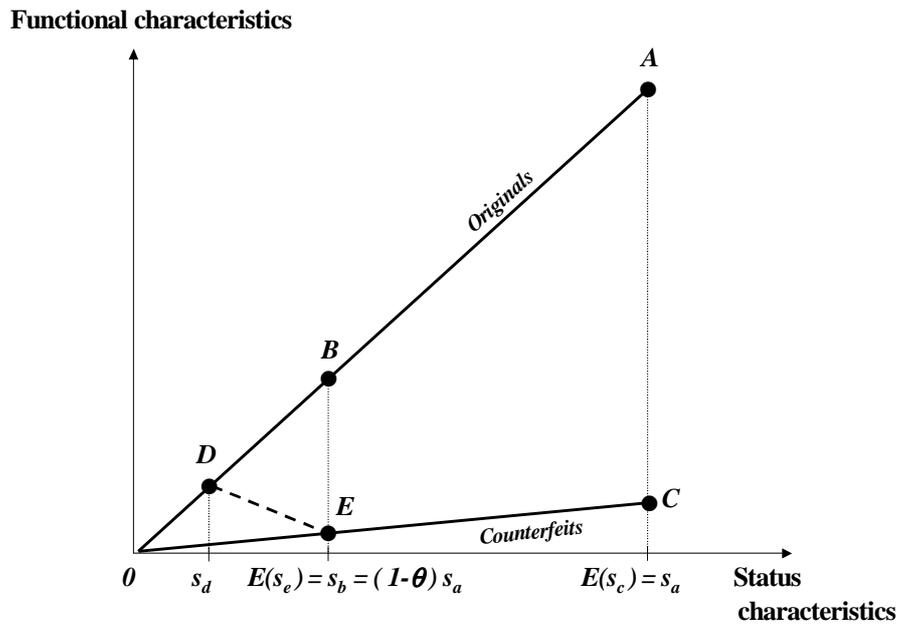


Figure 2. Counterfeits with high and low 'imitative' quality

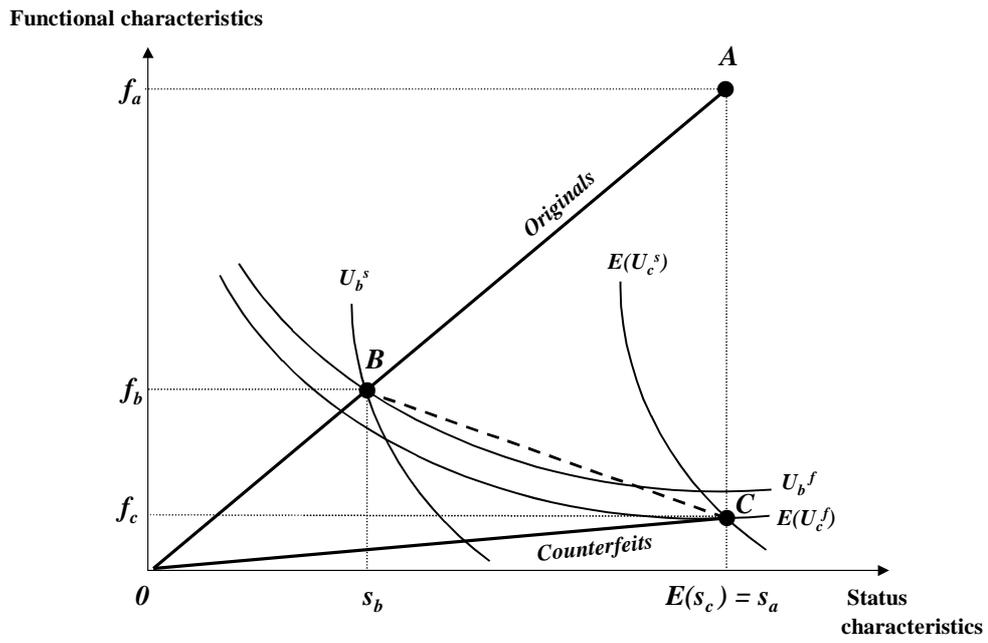


Figure 3. Consumer choice between original and counterfeit goods

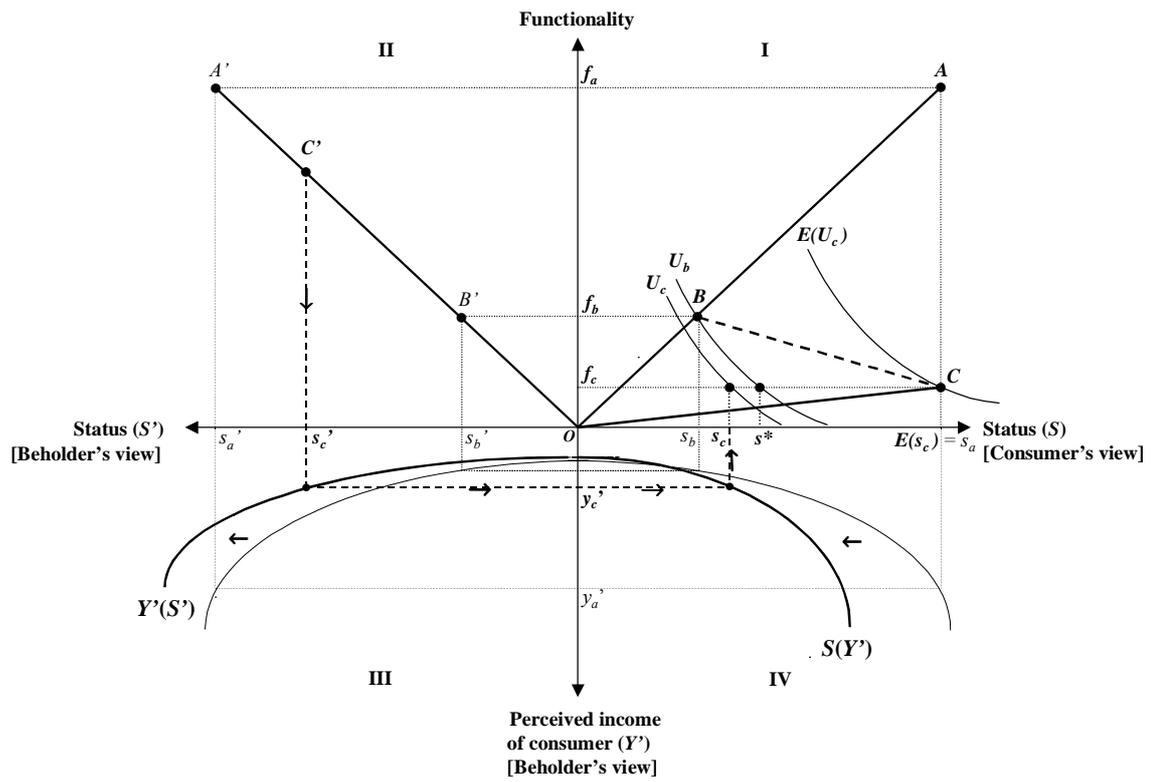


Figure 5. Partial deception scenario