When Diamonds Are Not the Poor’S Best Friend: How the Poor Deal With Unaffordables

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In three studies we show that poor consumers devalue luxury products but only after autonomously refraining from purchasing them. We demonstrate that this devaluation is attribute rather than product driven. This suggests that exposure to luxury products may help the poor's resistance under some circumstances.

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At the Bottom of the Pyramid: How Consumers Cope with Low Status
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Paper #1: Status, Race, and Money: The Impact of Racial Hierarchy on Willingness-to-Pay
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Paper #2: When Diamonds are not the Poor’s Best Friend: How the Poor Deal with Unaffordables
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Paper #3: I’ll Sell That for a Dollar: How Social Status Threats Devalue One’s Possessions
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Paper #4: When Improving Equality Promotes Selfish Behavior
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SESSION OVERVIEW
Record numbers of consumers found themselves at the bottom of the pyramid in the past few years. Job loss, foreclosures, and wage cuts in the recent economic recession drove countless middle-class families below the poverty line (Yen, 2011). In 2009 alone, more than 170,000 US families were pushed out of their homes and into the homeless shelters. At the same time, the amount of time spent at the shelters and the number of consumers moving into shared dwellings with other families soared compared to the preceding years (Pugh, 2010). In the midst of these alarming trends a question that is often raised is, what is the reality of being at the bottom of the distribution?

Previous research found that low-status individuals—those who are inferior to others on a socially relevant dimension (Ridgeway & Walker, 1995)—often feel shame, dissatisfaction, and envy towards others (Frank, 2007; Goffman, 1982). As a result, they save less (Dynan, Skinner, & Zeldes, 2004), spend more (Charles, Hurst, & Roussanov, 2007), eat more high-calorie foods (McLaren, 2007), and take more risks (Haisley, Mostafa, & Loewenstein, 2008) than high-status individuals. This limits their ability to accumulate wealth and to improve well-being in the long run (Bagwell & Bernheim, 1996). Such troubling patterns of behavior, paired with increasing numbers of low-status individuals in the population (Cohen, 2010), have made it critical for researchers and policy makers to understand how consumers experience and cope with low status. This session addresses these issues.

Four papers examine the strategies that consumers use to cope with low status and ways to mitigate their negative outcomes. Ivanic, Overbeck and Nunes start off by showing that African Americans, assumed to have lower endowed status than Caucasians, will pay more voluntarily for certain products in order to assert status. The saliency of race during the transaction and the strength of one’s racial identification moderate this tendency. De Boer, Dewitte and Vanhouche continue by arguing that low-status consumers do not always give in to the temptation to spend money on high-status products. In fact, individuals, who have low status due to their restrained financial resources, may strategically reduce the attractiveness of unaffordable products after autonomously refraining from purchasing them.

Next, Dubois, Denton and Rucker find that a similar devaluation effect extends to consumers’ valuations of owned possessions, leading low-status consumers to sell their possessions for less than their actual value. Finally, Ordabayeva and Chandon find that low-status individuals are motivated to improve their rank even if it means demoting others and hurting the welfare of the group, especially when equality is high. This effect disappears when the status gain is costly.

These findings advance our understanding of relative deprivation in several important ways. First, they demonstrate the diverse nature of behaviors that individuals adapt in response to low status (all papers). Second, they show that the effects of low status extend far beyond simple spending decisions (all papers) and consumers’ individual welfare (all papers), but that they also impact the welfare of the group (papers 1 and 4) and efficiency of market transactions (papers 2 and 3). Third, the papers propose strategies to curb the negative outcomes of low-status responses (papers 3 and 4), and in doing so uncover surprising findings that suggest some effects established in the previous literature do not hold at the bottom of the pyramid (e.g., endowment effect and benefits of equality in papers 3 and 4).

The papers complement each other and respond to the call for diversity in many ways. First, the papers draw on diverse theories (status, stereotypes, self-determination theory, attitude change, behavioral decision theory, group processes). Second, they employ complementary views of status (perceived and actual availability of financial resources, the endowed status of race, relative position within a group), and consequently examine diverse samples of low-status individuals (those who actually experience low status due to their resource constraints or race as well as unsuspecting individuals who are put in a low status position in an experimental task). Finally, the papers demonstrate the effects of low status on a diverse set of outcomes (willingness to pay, product attitudes, purchase decisions, the endowment effect, other-directed behaviors within a social group). Needless to say, the session brings together scholars with diverse backgrounds in terms of geography as well as stage in the career.

Overall, the session offers novel insights on status processes and encourages a debate on the rationality of compensatory behaviors and their effectiveness as coping mechanisms. The session will appeal to a vast audience interested in consumer psychology, stereotypes, group processes, and behavioral economics.

Status, Race, and Money: The Impact of Racial Hierarchy on Willingness-to-Pay

EXTENDED ABSTRACT

Status affects one’s opportunities, relationships, and self-concept. Regardless of whether people choose to acknowledge this, society is vertically stratified on several dimensions (e.g., income, education, race), and status hierarchies persist. Whether based on achievement (merit) or endowment (birth), status hierarchies are socially imposed, and manifested in the way certain groups are treated. Consequently, status perceptions affect how group members behave. We examined how the ingrained status hierarchy between African Americans and Caucasians affects individuals’ spending behavior. Specifically, we explored whether, when, and why African Americans willingly pay more for products and services than they would otherwise, and more than Caucasians.
Historically, African Americans have had lower endowed status than Caucasians, which has led to persistent discrimination. African Americans are often stereotyped as being poor, lazy, and uneducated and thus treated as inferior (Wittenbrink, Judd, & Park, 1997). In the marketplace, African Americans feel categorized as “low value” customers because of the perception that they cannot afford purchases at upscale stores (Ainscough & Motley, 2000) and frequently report being skipped over by sales associates who serve Caucasian customers first.

Past work has demonstrated that members of racial minorities respond by consuming status-related goods as a way of asserting high status (Fontes & Fan, 2006). More generally, individuals purchase products that convey high status to restore a sense of power or to repair self-integrity (Rucker & Galinsky, 2008). Our work goes beyond high-status goods as we propose paying more money itself constitutes a strategy for asserting status.

The ability to spend money represents success, wealth, and high social status (Veblen, 1899). Spending money engenders feelings of equality because money begets respect (Goldberg & Lewis, 1978). In the early 1980s, the NAACP created “Black Dollar Days,” encouraging African Americans to spend money to demonstrate the strength of African Americans’ purchasing power (Boyer, 1985). By extension, we predict that African Americans would increase their WTP (for both status- and non-status-conveying products) in an attempt to assert high status. We expect this would be particularly true for African Americans who are concerned that their social standing is seen as inferior—a concern that may arise from a chronic sense of status disadvantage or from explicit awareness of race (and associated low-status stereotypes).

We also propose that the manner in which race, or endowed status, is made salient can affect African Americans’ WTP. When a stereotype is implicitly activated, the automatic response is to confirm the stereotype (Baron & Pietromonaco, 1982). With explicit activation, individuals become more mindful of the stereotype and may behave in stereotype-inconsistent ways (Wheeler & Petty, 2001). We argue, when race is explicitly activated, African Americans are reminded of the stereotype that they are poor and low status. Consequently, they elevate their WTP to fight against the stereotype and assert high status—particularly if they perceive themselves to be disadvantaged with regard to status. Conversely, implicit activation should lead African Americans to decrease their WTP, because implicit activation occurs outside awareness and thus does not prompt stereotype resistance. We anticipated that individual differences in racial identification might moderate the effect of identity salience: More highly identified African Americans who feel a greater sense of pride in group membership may counteract societally imposed status stereotyping reducing their need to pay more to assert status.

We tested our predictions in several studies. Study 1 examined the differential effect of race salience on WTP for African Americans versus Caucasians. The study used a 2 (race: African American, Caucasian) × 3 (race salience: explicit, implicit, control) between-subjects design. When the concept of race was not activated, the difference between African Americans’ and Caucasians’ WTP was not significant. When the concept of race was activated explicitly, African Americans were willing to pay significantly more than Caucasians as well as more than in the control condition. Conversely, African Americans were willing to pay less in the implicit activation condition than in the control condition.

The data suggest that when the concept of race is explicitly activated, African Americans become sensitized to stereotypes of being poor and inferior, and hence increase their WTP in what we argue is an attempt to assert their status. Conversely, these stereotypes and related behaviors are so ingrained that implicit activation of the concept of race leads African Americans to decrease their WTP, as they do not feel a need to assert their status.

Study 2 examined the role of two possible moderators of this effect: perceived status disadvantage (PSD) relative to others and racial identification. We reasoned that greater PSD should heighten WTP, given the greater experience of threatened status. Conversely, we expected that stronger racial identification would lower WTP. As predicted, PSD and racial identification yielded opposing effects on WTP. Greater feelings of status disadvantage resulted in a higher WTP as African Americans tried to assert high status when race was salient. In contrast, stronger racial identification resulted in a lower WTP among African Americans when race was salient.

In Study 3, we explored how differences in WTP result from feelings of threat, by introducing a common overt status threat and examining its interaction with race and race salience. Key findings include: African Americans who received inferior treatment in the marketplace and for whom race was made salient reported higher WTP than poorly treated African Americans whose race was not salient, and well-treated African Americans whose race was made explicitly salient. They also reported higher WTP than did Caucasians in any of the conditions in this study.

Findings from the three studies support our claim that African Americans who feel disadvantaged use payment behavior as a way to assert high status. Additional studies underway explore how racial diversity in the presence of others at the time of purchase impacts willingness to pay. Our work raises awareness that some individuals may sometimes support an unfair system through their own behavior. By underscoring how an entrenched status hierarchy can create internalized imperatives for African Americans to pay more, our studies provide insight into race-based status dynamics and how they affect consumption patterns.

When Diamonds are not the Poor’s Best Friend: How the Poor Deal with Unaffordables

EXTENDED ABSTRACT

Governmental, judicial, and bank policies tend to reduce the poor’s financial freedom by either giving them allowances for specific purchases or by limiting their credit options (Ruehlens & Nicaise, 2002). The rational for the autonomy reducing approach is endorsed by research suggesting that the poor lack sufficient regulatory skills to control their expenses (Green et al., 1996), which might boost excess spending behavior as a way to attenuate their lower class status. We question if autonomy reducing measures help consumers to deal with, and resist, luxury products. We explore how the degree of autonomy shapes attitudes of luxurious products. The term “luxury” is taken to refer to the situation in which buying a certain good, although physically possible in some circumstances, would put undue strain on the buyer’s budget.

A wide array of research suggest that (high) autonomy increases a consumer’s ability to deal with challenging situations (Ryan & Deci, 2001), and one way to deal with the temptation of luxury products, is to downplay their value (”The grapes are too sour”). Importantly, research in the self-control domain suggests that self-control is exerted only when external control is absent (Fischbach & Trope, 2005), i.e. when autonomy is high. Findings in the food domain suggest that exposure to food without consumption leads to a reduced attractiveness of the tempting food items (Dewitte et al., 2009). Reduced attractiveness seems to be observed under high autonomy conditions. Hence, this evidence suggests that high autonomy can decrease the attractiveness of luxury products. But, as people are
motivated to regulate their behavior in function of the necessity of that behavior (Vohs et al., 2008), the effect should be specific to the poor or to people harboring another self-based motivation to refrain from buying the luxury product.

We distinguish three possible processes that may be responsible for attitude changes. Attitude reduction may be product specific, implying a devaluation that is limited to the currently encountered luxury product (Mysrø et al., 2009). Attitude reduction can also be attribute specific, implying that the attitude reduction of the luxury product spreads towards related products (e.g. from candies to M&Ms, Geyskens et al., 2008). Lastly, attitude reduction, may be driven by a generalized inhibition effect (Tuk et al., 2011), implying that after encountering a luxury product all attractive products devalue. We test these hypotheses in three studies.

In the first experiment we explored the influence of autonomy and financial scarcity (both manipulated) during restrained purchase of a luxury product (a concert ticket) on one’s subsequent attitude toward that product. We asked participants about their finances by means of 3 questions on a 10-point scale and varied the scale anchor points to manipulate financial scarcity (Nelson & Morrison, 2005). Participants then read a scenario where they had the opportunity to buy a concert ticket of their favorite band. In the low autonomy condition, it was announced the concert tickets were sold out. Participants then rated the attractiveness of the concert ticket (4 items on a 7-point scale). The attitude towards the luxury product, the concert ticket, was significantly lower among the autonomous poor (M = 3.48) relative to non-autonomous poor (M = 4.02, p < .05). For the non-poor, no differences between the autonomous and the non-autonomous were obtained (respectively, M = 3.87 vs. 3.73, p > .05).

The second study aimed at testing whether devaluation is driven by a product specific, attribute specific, or generalized devaluation process. We pre-exposed participants (all in financial scarcity conditions) to a physically present gadget (a penguin fan) and either helped them decide not to buy it or made the “not buy” decision for them (high versus low autonomy). We then had them rate the gadget and products that varied in relatedness to the gadget (strong relation: ice bear headphone, an igloo tent, and refrigerator poetry; weak relation: an egg cup, an i-pod holder, and a small helicopter with remote control). We replicated the devaluation of the target product in the autonomous group (M = 3.31) relative to the non-autonomous (M = 4.64, F(1, 60) = 11.87, p < .01). Devaluation expanded only to products related to the non-purchased item: The related products were considered as significantly less attractive in the autonomous group (M = 2.90) relative to the non-autonomous group (M = 3.58, p < .05). For the unrelated products no significant differences emerged between the autonomous and non-autonomous (M = 4.46 vs. 4.35, p > .05). Both study 1 and study 2 demonstrated the causal relationship between autonomy refraining from the purchase of a luxury product, and its subsequent devaluation. Study 2 extends these findings by illustrating how this devaluation might be attribute specific.

To complement the internal validity of our lab study, we conducted a field study with actual poor consumers, who had either a history of high or low financial autonomy. We compared them to a matched sample of non-poor consumers. Assuming that pre-exposure is cumulative and that the devaluation operates via attribute attitudes, we predict that the autonomous poor will devalue luxury products more than non-autonomous poor. We don’t expect this difference for the moderately expensive and cheap products. A significant interaction between poverty category and price level emerged (F(4, 60) = 2.62, p < .05), and was consistent with the predicted pattern. Attitudes towards the products did not vary much, except for the attitude towards luxury products among the autonomous poor, which were significantly lower than the other attitudes.

Together, the results suggest that the poor, provided that they autonomously manage their budget, may develop a coping mechanism that helps them deal with products that are not within their budget. The findings suggest that if public policy wants to help the poor to resist luxury products, it may be unwise to deny poor consumers access to luxuries or to control their expenses for them.

**I’ll Sell That for a Dollar: How Social Status Threats Devalue One’s Possessions**

**EXTENDED ABSTRACT**

One feature of many unprivileged consumers’ daily experience is their repeated encounter with psychological threats in social situations (Marmot, 2004). And, it is well documented that a variety of status threats to consumers have far-reaching effects on consumer behavior (for reviews see Lee & Shrum, in press). The majority of this literature, however, has focused solely on consumers as buyers and investigated how threats impact consumers’ willingness to spend on products based on whether they have the potential to alleviate the threat or not.

This research investigates how status threats affect consumers as sellers. Specifically, we propose that experiencing a threat has the potential to spillover to the valuation of one’s possessions. Past research has posited that one’s possessions are often evaluated in relation to the self (Belk, 1988). For example, an individual for whom football is a large part of his identity is likely to value an autographed football more than an individual who has little passion for the game. Building on this idea, we propose that when the self is threatened, changes to the self may affect the value of one’s possessions. Specifically, when threats diminish social worth or status—one’s value relative to others—we hypothesize that the experienced loss in social worth might spillover onto their possessions. Consequently, although past research on the endowment effect has shown that owning an object increases its value (Kahneman, Knetsch, & Thaler, 1990), this work proposes that threatened sellers might price owned possessions as lower than objects they do not own.

Furthermore, we propose our devaluation effect should be moderated by whether people encounter a social status vs. personal threat. For example, an individual’s intelligence might be under threat because she is focused on the fact she performed poorer than her classmates (i.e., a social status threat) or because she received a grade on a test that was below her own personal standard (i.e., a personal threat). Although each instance reflects a threat to one’s intelligence, the loss in social worth, and subsequent devaluation of one’s possessions should be greater when the threat is social in nature.

Finally, we predict that social status threats do not devalue every possession an individual owns. In particular, when possessions have the potential to help alleviate the threat, we hypothesize that its value to cope with the threat increases the product’s value in the eyes of the consumer. For example, an individual whose intelligence is threatened may part with their favorite science fiction novel for less, but sell their encyclopedia collection for even more.

We test these hypotheses across three experiments.

**Experiment 1: Can Social Status Threats Devalue One’s Possessions?** Undergraduates were randomly assigned to a 2 (mug ownership: owned, non-owned) × 2 (threat condition: none, social) between-subject design. Participants were first given a mug to own or to use just for the session. Threat was manipulated by instructing participants to recall a time they went to the grocery store (no threat) or performed poorly relative to others (social status threat).
Subsequently, all subjects were asked at what price they would sell their mug. A significant interaction emerged, \( p < .01 \). In the no threat condition, participants owning the mug set a higher selling price than participants who did not own the mug, \( p < .01 \), consistent with findings from the endowment literature. Of greater novelty, threatened participants set a lower selling price when they owned the mug than when they did not own the mug, \( p < .01 \).

Experiment 2: Social Status Threats versus Personal Threats. Undergraduates were randomly assigned to a 2 (ownership: owned, non-owned) \( \times \) 3 (threat condition: none, social, personal) between-subject design. Participants were given a pen to own or simply to use for the session. Threat was manipulated using a recall task, where participants were asked to recall a list of items they purchased the last time they were at a grocery store (no-threat), performed poorly relative to others (status threat), or performed worse than their personal standard (personal threat). Finally, participants had the opportunity to set the price of the pen. An ANOVA revealed a significant 2-way interaction, \( p < .001 \). Replicating Experiment 1, participants in the social threat condition set a lower selling price when they owned the pen compared to when they did not own the pen, \( p < .05 \). However, participants in the personal and no-threat conditions set higher prices when they owned the product compared to when they did not. Furthermore, participants’ loss of social worth mediated the effect of social status threat on selling price.

Experiment 3: The Value of Possessions that Alleviate Threat. Undergraduates were assigned to a 2 (ownership: owned, non-owned) \( \times \) 2 (threat condition: none, social) \( \times \) 2 (product relevance: threat irrelevant, threat relevant) between-subject design. Participants were given a new pen to own or to use momentarily. The pen was described to participants as an opportunity to display one’s intelligence to others in the threat relevant condition (i.e., it was capable of alleviating the threat), and as just a pen in the threat-irrelevant condition. Threat was subsequently manipulated using the recall task in former experiments. Finally, participants were asked to set the price they would sell the pen for. An ANOVA revealed a significant 3-way interaction, \( p < .01 \). When products were threat-irrelevant, threatened participants devalued products they owned. However when products were threat-relevant, there was a significant ownership \( \times \) threat interaction, \( p < .05 \). Threatened participants owning the threat-relevant pen set an even higher selling price than threatened participants who did not own the pen, \( p < .01 \).

Conclusion and Contributions: Social status threats led consumers to set the selling price of an item they owned lower than non-threatened consumers. This effect was moderated by whether threats were personal versus social, and reversed when the owned product had the potential to alleviate the threat. Implications for the threat and endowment literatures, as well as for social policy as discussed.

When Improving Equality Promotes Selfish Behavior

EXTENDED ABSTRACT

Increasing equality is expected to bring a host of social benefits in a group (Frank, 1985). In particular, it is expected to reduce conspicuous consumption by people who feel threatened by their low status (Becker, Murphy & Werning, 2005). More generally, equality is expected to improve social cohesion and cooperation and to promote welfare-enhancing behaviors within a group (Zizzo, 2003). However, recent research has demonstrated that increasing equality may not always be beneficial. Ordabayeva & Chandon (2011) showed that greater equality actually increases, rather than decreases, conspicuous consumption among people at the bottom of the hierarchy because it increases the status gains (the number of people that can be surpassed) provided by consumption. Interestingly, much of the previous literature focused on conspicuous consumption as a means to enhance status, thus overlooking other methods that individuals may use to improve their relative position. We propose that aside from conspicuous consumption, which improves one’s rank by enhancing own performance, people may also improve their rank by pulling other people down. For example, they can “burn” other people’s money (Zizzo, 2003) or sabotage others’ performance in order to improve rank. Whereas conspicuous consumption directly affects only one’s own well-being, demoting others hurts the well-being of others and the total welfare of the group.

This research therefore examines whether, counter to existing arguments (Wilkinson & Pickett, 2010), equality promotes selfish behaviors that low-status individuals use to cope with a status threat. We hypothesize that increasing equality will increase status-seeking among low-status individuals by encouraging behaviors that demote others and the group. Furthermore, the effect should be moderated by status level (low vs. high) and status desirability. We expect that equality effects should be stronger for low-status individuals than for high-status individuals (because for high-status individuals, increasing equality has the opposite effect of reducing position gains) and when status gain is positive (vs. negative). We tested our hypotheses in four studies, which measured selfish tendencies of low-ranked individuals in the context of salespeople. This context was chosen because salespeople are commonly assessed based on their ranking and low ranking poses tangible threats such as withheld commissions and job loss.

A pilot study examined whether a low-status individual was evaluated more negatively and hence had stronger reasons to engage in status-seeking behaviors when the distribution of performance was equal (vs. unequal). A group of MBAs read a scenario about managing 20 salespeople at an electronics store. They read that to evaluate the salespeople’s performance they monitored the distribution of monthly sales. They saw an equal or an unequal distribution of previous month’s sales and indicated how likely they would be to fire a salesperson with a low sales rank (19th out of 20). The results indicated that the low-ranked salesperson was evaluated more positively and faced a lower threat of being fired in the equal than in the unequal distribution.

In study 1, we examined whether equality would encourage selfish status-seeking behaviors among low-ranked individuals despite higher performance evaluation by managers. The participants read the same scenario as in the pilot study, except that they imagined that they were a salesperson (vs. a manager in study 1). The participants imagined having attained low rank (19th out of 20) or high rank (9th out of 20) in the equal or the unequal distribution of sales. They were then asked to indicate how likely they would be to help a new colleague, who could improve the store’s overall sales, but reduce the performance of individual salespeople. The results revealed that the low-status salesperson was less likely to help a new colleague than the high-status salesperson. More importantly, equality reduced the likelihood of helping among low-status salespeople but not among high-status salespeople.

Study 2 examined the moderating role of individual selfish tendencies. The participants read the same scenario as in the low-status condition of study 1 and answered three questions about the low-ranked individual’s selfish status-seeking behaviors. The first behavior involved refusing to train a new colleague (as in study 1). The second behavior involved directly sabotaging a colleague’s sales, and the third behavior involved directing customers to the competing store in exchange for a higher commission from the competitor. We measured the individual propensity to endorse selfish, devious,
and manipulative behaviors using the Machiavellian attitudes scale (Christie & Geis, 1970). Whereas people with strong Machiavellian attitudes indicated high likelihood of engaging in selfish status-seeking behaviors regardless of equality, individuals with weak Machiavellian attitudes were more likely to engage in selfish behaviors when the distribution of performance was equal (vs. unequal).

Study 3 sought to replicate the findings in the context of real behaviors and tested the moderating role of status desirability. Throughout the experiment, the participants earned tickets for a lottery that was conducted at the end of each session for a €10 cash prize. In the first stage, the participants earned tickets in a general knowledge test. At the end of the test, everyone was assigned low performance rank (2 correct answers out of 10 = 10 tickets) and saw the distribution of everyone’s test scores (high vs. low equality). In the second stage, the respondents participated in a public goods game (in which they could multiply everyone’s tickets by initially contributing tickets to the common pool) and a burning game (in which they could spend some of their tickets to burn the tickets of others). Status desirability was manipulated by informing half of the participants that the winner would pay a tax on the lottery earnings and help a research assistant, which reduced the benefits of ticket accumulation. The results showed that high equality reduced contributions to the common pool and increased spending to burn others’ tickets when the lottery earnings were free, but not when the lottery winnings were taxed.

Overall, our findings demonstrate that the effects of equality go beyond consumption decisions and may encourage status seeking so much that people resort to selfish behaviors that hurt others and the group. More generally, the results have implications for understanding the adverse effects of equality and the dark side of social comparisons.