

Demand for Positional Goods in Africa

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1 On Social Scarcities and Status competitions

Economists have long considered relative prosperity as a determinant of personal happiness. A challenge to rational expectations comes when despite being richer in absolute terms, a young adult in a poor urban neighborhood in the developed world may be unhappier than the elite in many developing countries. Discussing necessities in the context of relative poverty, Sen points out that television is a need for the school education of a British child in a way it isn't for a Tanzanian child[1]. The resolution of relative poverty, he finds, does little to address absolute poverty. The resolution of relative poverty is nevertheless important - if not for the evasive goals of happiness then for the risk-aversions and social concerns that severe economic inequalities can bring.

Taking a rather centrist position on such issues, Robert H Frank had argued that status competitions are ingrained in our hormones. Exploring incomes amongst professors competing for grants - he noted that neither the Permanent Income model nor the productivity models explains the distribution of income. What offers a better explanation is the presence of status competition among the professors. Focusing primarily on crowding in the Western society, Fred Hirsch had given similar forewarnings for the effects of intensifying status competitions [2, 3].

In modern society, Hirsch argued, the needs have expanded manifolds since the time when Adam Smith's invisible hand had worked. In Europe of the eighteenth century, rich could pursue their interests while the poor gained mobility in exchange of their participation. By twentieth century, capitalism had achieved its success and this exchange seemed no longer appealing[4, 5]. In the absence of social mobility to offer for exchange, the distribution of resources had to occur through status competitions - a process where positional goods and advertisement had a major role to play.

There are two key terms in Hirsch's terminology that are particularly relevant to this note - **scarcity** and **congestion**. With physical scarcity of goods largely conquered (food and amenities), scarcity is largely social in the developed countries. More commercialization leads to more scarcities and more competitions - hence congestion for goods can provide a measure of social scarcity. Hirsch had went on to predict that the rationing of living spaces and public goods is more likely to occur through status competitions.

The difference between physical and social scarcities seems unclear in this analysis - not only because it is a difficult classification problem in practice but also because - according to Hirsch - the boundary between physical and social scarcity can get blurred. This occurs since positional goods create a market for themselves. In the context of the developing world, the creation of scarcity through "overuse" (which Hirsch stresses as the engine of social scarcity) makes the distinction even less relevant as physical scarcities are severe in the developing world. With recent develop-

ments in the underdeveloped world however, what one is likely to find is a mixed effect of commercialization and physical scarcities.

Frank's interpretation of scarcity is a relevant extension of this model. He considers social interaction amongst participants as the proxy of congestion. Focusing primarily on income distribution, one of his axiomatic claims is that in the absence of monopolies, corporations cannot survive by rewarding talent alone and are compelled to depend on status competitions for income distribution. The role of social interaction is equally relevant in the developing countries - where industrial development and societal competitions have interacted and clashed very recently.

2 Social Scarcity in Africa

Hirsch, like Schumpeter, had viewed industrial revolution as a legacy of liberal capitalism - a race amongst the middle classes to achieve the higher social positions once held by the feudal elite[2, 5]. Developments of the last century in Africa and Asia have similarly created a working class that has clashed with feudal and colonial systems of the century before. The growing status competitions amongst the nascent working classes have been evident. In India of the 1950s, this was termed as Sanskritization when erstwhile lower classes emulated higher classes with economic freedoms[6].

However, the status competitions as well as the collective defense of non-positional goods¹ in the developing world has hardly followed the route of Georgian England. The industrial class in the countries is indeed small in size and poor in absolute terms. The problems of extreme poverty have remained largely unresolved in swathes of Asia and Africa.

It would be incorrect to draw wide conclusions based on economic poverty. The administrative successes and stabilities of post-colonial governments are varied and depended largely on the extent of agrarian empires which had existed before. The extractive administrative frameworks of Ottoman or Moghul empires could be adapted by European colonists much easier in some Asian countries than the administrative units created in sub-Saharan Africa.

Despite regional differences, the political landscape of Asian and African economies is dominated by effects of decolonization - a process that encompasses the loosely similar post-war political voices in Asia and Africa wanting to establish nation-states. While centralization was attempted for decades in both Asia and Africa - often curtailing local-level status competitions and individual freedoms alike - their limited reach and success, has prevented

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Both Hirsch and Frank have argued for policy to stoke status competitions for positional goods. Hirsch speaks of adding-up problem - when a set of individuals cannot pursue a common goal since the larger goal (e.g. defence of public goods) isn't broken down into individual responsibilities ("when everyone stands on tiptoes, no one sees better").

the institutional expression of such status competitions. It remains to be seen whether countries under conflict have higher degrees of status competitions or not, but there is little doubt that government-driven resettlements and urban movements have had an effect on the dynamics of status competitions - which may have otherwise been limited to tribal or local levels[7]. The study of urban vs rural communities in Africa (see later section) - esp in the context of BoP initiatives is therefore of particular interest to this study.

3 Political Economy and Status Competitions

3.1 Nigeria

Differential access to education because of varied success of missionary education has created regional disparities in current education levels between North and South of Nigeria. North has had a higher Islamic influence and the uniformity desired by government had initial challenges.

The participation of native authority had been an essential part of British rule - under which the market forces were left relatively untouched. The wage labour surviving on the peasantry was a trend that continued well into the post-colonial era. With the movements of African socialism, the power of merchant class was became limited. At a times, MNCs could bring more power to a working middle class, their presence hasn't changed the state of capital being controlled by a small minority - an environment where only state monopolized industries and an informal sector seem to have expanded[8].

While the BoP initiatives may not have created sufficient base for entrepreneurs, they have revived a focus on education and expanded the market for industrial goods since the 80s. An average of 42 per cent have secondary education or higher. Even in survival activities, 28 per cent have secondary school certificates, and 12 per cent have post-secondary qualifications [9]. Newly urbanized indigenous tribes and newly educated classes are crowding for occupations earlier performed by those with lower education. The crowding has hardly resolved underlying problems with the economy - the formal sector is in doldrums and the rapid population rise and migration from rural areas has contributed to scarcities[9].

3.2 Tanzania

Tanzania was no less than an epicentre for the African socialism movements. In 1974, it was even interested in Mozambique to assist in liberation movements. Planned economy seemed the way forward under influence of Nyrere. However, once the political independence was the membership of nationalist parties declined and the separation of civil service from political institutions became less important.

The reduction of private sector didn't experience much opposition under leadership of Nyrere. With lack of support from workers and ban of producer-consumer societies, inconsistencies surfaced in the socialist model. The industrial sector also suffered because of import subsidies. The approach of ISI (import substituting industrialization) led to oversubsidizing when capital flows had to be adjusted to prevent starvation. The rent-seeking in bureaucracy and usage of a capital-intensive technology soon resulted in oversubsidizing, overreliance on capital and consequent decline in capacity utilization[10].

Tanzanians seemed to have moved to subsistence through cultivation approach. Only public officials seemed to have had the advantage in becoming entrepreneurs. Spurred imports could have improved the exchange rate - but problems around corruption have always posed limitations to trade reforms in Tanzania (particularly in the energy sector)[10]. The state regulated has had no ways to expand and hence the growth of parallel economy has been unavoidable. The parallel illegal markets that expanded in the Tanzania in late 80s and 90s as well as the rampant corruption has produced a disconnect between parallel markets and the protectionist trade policy.

Firms from South Africa and China in the more recent past have increasingly participated in Tanzania. While many Tanzanians are sent to South Africa for training and conflicts have developed between miners and SA migrant labour[11]. The infrastructure problems are still severe in Tanzania - electricity is only available to 10% of the population (10% of their household income in rural countries is spent on electricity). The use of internet communications is higher in Tanzania than in Africa's average but access to finance is low (albeit rising) for the private sector. Quality of life differs significantly between urban and rural regions (higher infant mortality due to relatively improved health facilities in the urban areas). The size of the informal sector (60%) is thus significant[12] and there is a clear trend of migration to urban areas.

3.3 Angola

Angola achieved independence from Portugal in 1975, after which the competition between different movements that were vying to lead the country descended into civil war. The Popular Movement for the Liberation of Angola (MPLA), a Marxist-oriented group that included urban intellectuals, nominally led the country[13]. Similar to the other post-colonial developments, state-controlled companies were to thrive. Sonagol, the state oil company, seems to play a quasi-fiscal role according to economists from the Western economies. The economy's dependence on oil revenues also makes economic diversification difficult[13]. Business with China is booming and it could be interesting to look at proliferation of industrial goods in Angola.

3.4 Kenya

The politics in Kenya often appears to be an equilibrium of multiple ethnicities - where clan dynamics are of significant importance. When resettlement was attempted under Kenyatta's leadership, the non-Kikuyu population was quick to express their discontent. Other attempts at nationalization - taking control of foods sales and establishment of purchase centres - have met with similar disappointments.

The economic data recorded (by surveys like IRS) had severe shortcomings that led to overstated improvements in household rights, womens' conditions and the overall health of economy. The prevalence of small-scale independent works and lack of support offered to them has not been addressed either by the socialist governments or the growing private sector[14].

4 Characteristics of Social Scarcity in Developing countries

The outreach and resources of the governmental institutions in the developing world are limited and a large industrial sector at the scale of China has been out of reach for most African countries[15]. The small-scale private enterprise - which forms the majority of non-agrarian workforce in sub-Saharan Africa - receives little governmental assistance. The expansion of informal economy has thus continued and the migration to urban areas multiplied. Urban migration is often seen as a necessary phase of urbanization which is followed by the competition between industrial and agricultural sectors for labour and food [16]. The side-effect of this development we're concerned with is the complex interaction between tribal identities and economic developments.

On one hand, with investments from South Africa and Western countries in Tanzania for example, education has become part of a healthy competition. The increased trade is also expected to homogenize identities - as the indigenes displace the non-indigenes and the newly educated displace the less numerous previous workforce. But on the other hand, new entrepreneurial energies and consumerism instilled through Base of the Pyramid (BoP) initiatives can magnify status competitions[17]. The political institutions with limited control risk letting business initiatives constrain themselves to the informal sector or to increase of demands in micro-credit and mass education. The deeper problems of poverty, unemployment and economic exclusion may often be left unaddressed due distribution through status competitions [9]².

4.1 Urban Migration

The dynamics of the migration serve as a field-study for consumption patterns. A flight to urban areas is often an escape from despondent circumstances as well as an opportunity of improbable social mobilities. Thus a model where migrants move for rational expectations seems inadequate. Cities provide a range of products that are not matched in the agrarian rural settings. It is expected that the micro-dynamics of migration to urban centres would be signaled through consumption of available goods in the rural areas. Overcrowding and massive informal sectors in the urban can also exhibit certain irrational obsessions with industrial goods and a global lifestyle.

4.2 Economic and Spatial Exclusion

The choice of a signaling product is driven by particular socio-cultural circumstances, including among other things - the perceived hierarchies in the society. While studying the effect of social interaction on income distribution, Frank measures the degree of status competitions by observing social interaction[18] - which is likely to lead to more competition and thus more signaling needs. This is particularly relevant in the urban settlements in the developed countries, where those in the lower status are huddled together and are likely to have more signaling needs[18]. In the developing economies, it is possible to argue that more interaction in an early phase of urbanization in developing countries can let physical needs to cause the different group identities to stick together (purportedly more so when countries have toyed with socialism and rural utopias). A study on the effect of **social interaction** in status competitions for non-positional goods is one of the goals of this study.

²Hirsch describes this as an adding-up problem.

{How does Exclusion matter in social interaction}

The consumption differences between more economically excluded societies vs less excluded societies can provide some insight into to what extent physical scarcity matter in the consumer group. The differences between consumption of signaling products between physically or economically excluded regions and the more connected urban centres can be explored to understand the effect of social interaction (and thus ways to control status competitions).

4.3 Positional Consumption

The classification of a signaling product is a non-trivial exercise - but in simple terms, a signaling product indicates status to the immediate surroundings. That said, if only the rich can afford electricity in a society, electricity is not said to have signalling qualities. While some consumers may indeed be getting signaling needs fulfilled by choosing electricity (and thus pay a higher budget share), the equilibrium consumption values can easily shift when a higher supply is provided (more electrical power plants or cheaper electricity would reduce the budget share). Whereas in the case of conspicuous consumption, the budget share is less susceptible to increased supply. Higher budget shares are needed for signaling needs despite the availability of cheaper alternatives.

In the Hirschian terminology, electricity is a direct physical scarcity. One could argue that the rich spending more on electricity can potentially fund employment and other opportunities (including expansion of power plants) - and thus enable the invisible hand to work. In the world that Hirsch had explained, conspicuous consumption became relevant only when the differences between the rich and poor was reduced to a level that the exchange between rich and the poor could not be made lucrative. In other words, the price of luxuries exceeded the opportunity cost to the rest of the society³. So although the status competitions had been there for a long time, their importance in allocation of income become relevant only when the physical scarcities had been conquered in the Western societies. Developing countries, having followed their own paths in achieving goals of nationalism have had a different experience. Although social scarcity does not seem so relevant to the conditions in sub-Saharan Africa (where the physical scarcity is stark), the formation of monetary and governmental institutions has created an environment where status competitions can cause the distribution of resource out of favour with Adam Smith's principles. That the marketable goods create a market of their own is after all a maxim equally relevant to the developing countries.

5 Measuring Status Competition

A measurement of positional consumption isn't possible without the classification of positional items - a judgment which is entirely socio-cultural. The criterion of classification we choose is congestion - which in Hirschian terms is caused by either physical scarcity or social scarcity. For the current study, the difference between physical and social scarcities is one based on price differentiation. For items that are physical scarce, the price differences between commodities is less likely (still possible due to distribution and

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To quote from Wicksteed, trinkets could be turned into bread[19]

storage costs involved). Other the other hand, every product where price differences exist is a potential signaling product that creates congestion. As a positional product can create a market of its own, the marginal effect of a new product of over time, can provide a further test for signaling capabilities. A clear distinction between physical and social scarcity is hardly a goal of this exercise. If anything, this approach acknowledges the blurring of physical and social scarcities. Note that Hirschian overuse is not considered particularly relevant in the context of developing economies.

Environments conducive for status competitions are then sought for data experiments. A spatially or economically exclusive area can be compared with denser urban areas. Indicators of social interaction (family members etc.) are noted further. Once we have a measure of the social interaction within these communities (let χ = level of interaction within communities), then one needs to understand how income dispersion within the group of interaction (i.e. $quantile(I_i)$ or any other indicator of income differences where consumer $i \in N$ belongs to the group N and I_i denotes the income of consumer i) affect the choice of commodities that have major price differences ($range(price_j)$) arising due to the status market⁴ If consumption pressures are explained by the level of urbanization, population density and interaction (family members etc.) then we can understand conspicuous consumption better.

6 Research Objectives

Just the way investing in modernization of agricultural sector (instead of investing more in industrial employment) has a significant impact on decreasing of informal -sector[20], addressing consumption pressures for industrial goods can have a positive impact on migration pressures and reduction of informal sectors.

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It is assumed that the commodities of different prices are accessible to everyone in the group N (a condition imposed through selection of group N).