

Status Signalling and Conspicuous Consumption: The Demand for Counterfeit Status Goods

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“Think how you can get the eye of the rich folk with your wonderful Louis Vuitton bag. They’ll think you fit right in when all the while, you are, in actuality, carrying around a mere replica.”

Quote from Impursenator.com, an “authentic replica handbag” seller.¹

The Internet is full of sellers offering “authentic” Louis Vuitton handbags, designer “inspired” clothing and “replica” wristwatches. In flea markets, tourist areas and even, allegedly, WalMart², counterfeit versions of status goods³ can be purchased at prices significantly below their full priced inspirations. In addition to threatening the business of legitimate⁴ producers, trade in these goods is illegal.

The manufacture of counterfeit status goods is based on the premise that consumers may desire a copy of an authentic status good at a lower price. These consumers desire the image of conspicuous consumption but without the financial outlay of purchasing a true status good. This is where the counterfeit enters, offering the image but not the price. What drives consumers to send status signals? What utilities does the consumer derive from this fake good? How does the counterfeit status good function as a status signal?

This paper seeks to profile the demand for fake status goods beginning with the legal protection of status goods. In section two, the characteristics of counterfeit goods and their utilities are discussed. The third section presents Veblen’s concept of conspicuous consumption and status. The fourth section examines the interdependent demand curves for status goods and their relation to counterfeit status goods in the snob market. The fifth section returns to Veblen’s status arguments and examines deceptive status signalling. In section six, the effects of the consumption of counterfeit status goods on the producers of authentic goods are discussed. Finally, section seven concludes.

1) Intellectual Property and Status Goods

The distinction between counterfeit and original status goods is made possible by intellectual property rights (IPR).⁵ These rights grant the original creator of the status good the right to exclude others, including counterfeiters, from using the rights associated with the status goods. The enforcement of these rights is imperfect, as evidenced by the presence of counterfeits. Intellectual Property (IP) laws grant the creator of status goods IPR to allow the creator to appropriate the returns from their innovation. The innovations associated with status fashion goods may be functional (e.g. a better zipper) or status related (e.g. more fashionable). This paper is most concerned with the status function of these goods. The intangible, status related aspects of the fashion good are protected by a variety of IPR including, but not limited to, copyright, trademarks and design rights (Ellis, 2010).

The advent of the digital era has spurred international debates on IP and, in particular, copyright law. Status goods and counterfeiting are part of this debate. In the UK, the Hargreaves Review (2011) notes that, “It is striking that the debate around counterfeiting – a very longstanding problem – provides such strong echoes of the debate about online copyright piracy, which is a fairly new problem.”⁶ Hargreaves also calls for empirical investigations into design rights. More relevant to status goods, in the U.S., the Council of Fashion Designers of America (CFDA) has supported recent legislation that would expand the IP protection of fashion designs (Blakely, 2010). This legislation would expand copyright protection to include fashion items, as supported by authors including Tu (2009) and Ellis (2010).

However, authors including Raustiala and Sprigman (2006) and Blakely (2010), note that the fashion industries have flourished for years without strong copyright protection and that copying is an established practice. Furthermore, the need for some status items to be fashionable, and others unfashionable, necessitates a business cycle which relies on change. Raustiala and Sprigman (2006) refer to this process as anchoring in which designers create and accelerate identifiable trends. These authors argue in contrast to Tu (2009) and Ellis (2010); hence, the literature provides conflicting views with regards to change in the IP protection of status fashion goods.

A key theory supporting IP is the social contract theory⁷, in which the innovator receives rights to exclude others from the use of the innovation in the form of a temporary monopoly. In return, society pays higher prices for the innovation, but benefits from continued innovation and the eventual reversion of the innovation into the public domain. The consumption of counterfeit goods represents a violation of this social contract in that society does not pay the higher prices nor reward the innovator with the temporary monopoly. However, while the social contract theory clearly applies to the temporary monopolies granted by copyright and design rights, it is less clear with respect to trademarks⁸, which theoretically do not expire. In this case, the societal benefit of trademarks is primarily through reduced information gathering costs for consumers and sustained innovation for producers as in Economides (1997) and Barnes (2006). Nonetheless, an examination of the demand for counterfeit goods – goods which, by definition – flaunt the IP protection of original goods, illuminates the social welfare and policy debates surrounding IP.

2) Counterfeit Status Goods

A counterfeit good is one that seeks to imitate through the use of trademarks or other protected properties without the permission of the owner.⁹ Given that the cost of reproducing a brand image on a particular product is fairly low, counterfeit producers can easily duplicate the brand image to send the same signals. The scale of global counterfeiting is difficult to determine given its black market nature. The oft-quoted estimate of 5-7% of global trade lacks a solid statistical basis.^{10, 11}

A discussion of the demand for counterfeit status goods necessarily includes an analysis of the consumption of status goods. Status goods are goods which convey status onto the consumer of the good. Status goods have two aspects which provide utility to the consumer: the functional aspects and the status aspects. The functional aspects are the characteristics of good that serve a particular physical or tangible purpose. Status aspects are intangible utilities that the good contains such as its exclusivity, price etc. In the case of a Rolex watch, the functional utility it provides is ability to keep time. The status utility it provides is the aura of wealth and taste associated with the Rolex brand.

The high price of status goods actually increases their appeal to consumers. Given that the originals are sold at above marginal cost, counterfeiters are natural entrants to the market. Counterfeit producers have lower costs of production than the original producers due to the inferior quality of counterfeits, avoidance of taxes and the lack of costs associated with brand development (e.g. advertising.) Counterfeit producers sustain costs arising from attempts to circumvent criminal prosecution (e.g. shipping goods unassembled and using inefficient distribution networks) and costs associated with creating copies (e.g. reverse engineering or incorporating brand labels into the goods.)

Original status goods producers typically use high quality materials in the manufacturing of their goods. Counterfeit goods, on the other hand, do not necessarily have the same quality standards. Grossman and Shapiro (1988) argue that counterfeit status goods allow for the unbundling of the status goods' functional and quality aspects. With original status goods, these two aspects are inseparably combined; however, the counterfeit good permits consumers to separate the two.¹² For example, the counterfeit Rolex allows the consumer to sacrifice some of the functional utility (e.g. the perfect timekeeping, soft watch strap etc.) while maintaining much of the status utility (e.g. the Rolex name.) Counterfeit status goods allow consumers to enjoy the status value of a good¹³ without paying the high prices.¹⁴

Counterfeit goods are generally sold at prices lower than that of their legitimate counterparts. This arises from a combination of the above-mentioned lower production costs and a more elastic demand curve. Grossman and Shapiro (1988) demonstrate that the price of counterfeit status goods is less than the original status good and more than the generic good.¹⁵ Numerous studies cite the relatively low price of counterfeits as a strong motive in consumer demand.¹⁶ Fav-Tsoin and Shih-Ying (2005) argue that consumers may purchase a cheaper counterfeit as a means of protecting themselves against losing the original. Counterfeiters recognize that consumers expect a significant discount from the original good. In fact, studies by Cordell et al (1988) and Harvey and Walls (2003) find that, independent of the relative price, preference for counterfeit goods over original goods decreases as the absolute price of the counterfeit good increases.

Cordell et al (1996) note that the counterfeit good's price must compensate for the increased risks associated with its purchase and quality. The authors' study argues that the lower price of counterfeit goods is a purchase determinant when the investment-at-risk is low but less so

when the investment-at-risk is high.¹⁷ In absolute terms, the price of the counterfeit good and its demand are inversely related. As in Ang et al (2001), consumers begin to prefer the original product as the absolute price of the counterfeit increases.

Noting that not all counterfeits are created equal, Van Kempen (2003) highlights the importance of the imitative quality of a counterfeit status good. The imitative quality is the degree to which the counterfeit successfully imitates the original status good.¹⁸ Typically, low-quality counterfeits are easily distinguished from high-quality counterfeits in their use of inferior materials. A higher quality counterfeit which more successfully apes its original counterpart will convey more status onto the consumer. However, counterfeit status goods are often trendy copies and consumers may seek have lower quality requirements and seek only short-term consumption. Again, counterfeit goods provide a lower cost option to satisfy this demand.

This section has presented an overview of the production and characteristics of counterfeit status goods which are generally cheaper and poorer quality than authentic status goods. In the next section, the consumption of status goods is examined.

3) Conspicuous Consumption and Status

In 1899, Veblen introduced the concept of conspicuous consumption which is the consumption of status goods primarily for their status qualities. Veblen traces the roots of modern society from its “savage” beginnings when men sought to demonstrate their prowess and efficiency through displays of workmanship. As society develops economically, Veblen argues that a “leisure class” develops in which an elite group in society emerges that has accumulated enough wealth and resources to allow it to enjoy increased leisure¹⁹ time in comparison to less wealthy classes. The leisure class seeks to assert its superior status through displays of wealth to demonstrate their distinctiveness and superiority through excessive, wasteful consumption. Veblen’s conspicuous consumption focuses on the utilities this consumption provides beyond its functional alibi.²⁰

Veblen further develops these theories with the concept of invidious comparison, which is the systematic rating of persons with respect to their worth. It is the comparison of the individual

to the group and their respective ranking within the group. As civilization moves towards industry, wealth becomes the primary means of determining status. Wealth, and its complementary conspicuous consumption, becomes the tool of invidious comparison. Individuals rank themselves and others in status levels on the basis of inferred wealth.

Invidious comparison leads to pecuniary emulation, the act of seeking to improve status by raising personal standards of living, primarily through greater display of consumption, to those of higher rank individuals. Veblen argues that personal self-esteem is largely based on status as seen by a group. The group defines a certain standard and those below this standard will seek to rise above it. As individuals strive to increase their wealth/status above the standard level, this new level becomes the standard. In the ultimate keeping-up-with-the-Joneses, individuals emulate the wealth of higher-status members of the group and, upon reaching that level of status, continue to seek to increase their relative status and define a new group to emulate.

Status derived from the consumption of status goods arises from the signalling mechanism in Veblen's invidious comparison and pecuniary emulation. In the signalling interaction, the sender (consumer) publicly consumes the status good which is observed by the receiver. The receiver, noting the status aspects of the good, then denotes a level of status to the sender. This is an inherently social interaction and can be reinforced through group approval or disapproval. The functional alibi created by the functional aspects of status goods makes their consumption socially acceptable; society would not tolerate members who walked around with literal signs indicating their net worth. The signalling process extracts the status level of the good and increases the sender's utility by conferring that status to the sender.

Collectively, status signalling provides the instrument in which individuals engage in Veblen's conspicuous consumption, pecuniary emulation and invidious comparison to determine relative status. In the next section, we examine the relative aspects of the consumption of status goods.

4) Consumer Behaviour: Snob, Aspiration and Bandwagon Effects

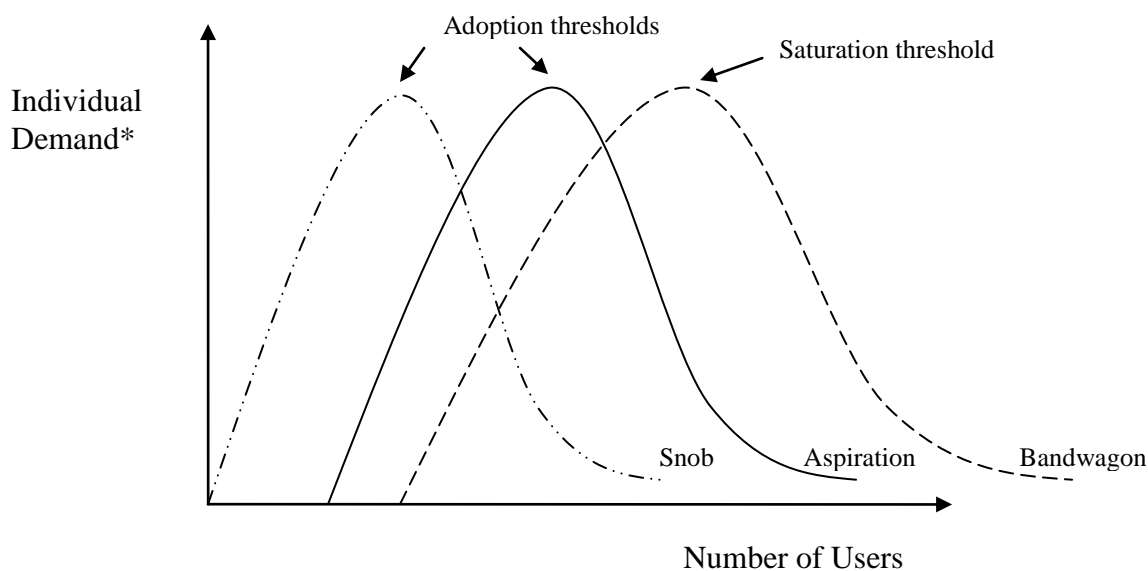
The consumption of status goods in signalling is characterised at the aggregate level by bandwagon, snob and aspiration effects. Leibenstein (1950) develops the concepts of snob and bandwagon effects, which are, essentially, polar opposites. The snob effect, related to the human desire for exclusivity, is when demand decreases as consumption of the good increases. The bandwagon effect, which stems from a need to conform, is an increase in demand as the number of consumers of the good increases.²¹

The aspiration effect is somewhere between bandwagon and snob effects and stems from pecuniary emulation. It is the consumption of goods associated with snob consumers of higher socio-economic strata. Initially, aspiration consumers exhibit the bandwagon effect, but as consumption of the good becomes too common, the snob effect develops and their demand increases. In this pecuniary emulation, aspiration consumers imitate the consumption of those social strata to which they aspire.

Status Goods Demand Cycle

For authentic status goods, the demand cycle begins with early adoption by snob consumers. Emulating the snob consumer's consumption, aspiration consumers demand the good which attracts bandwagon consumers. Given that snob consumers value the exclusivity of the good in question, their demand declines once the good reaches an adoption threshold.²² As snob consumers exit, aspiration consumers eventually follow them as bandwagon consumers enter. Finally, once the good reaches a saturation threshold²³ the bandwagon consumers will demand the good less. This is best reflected as seen in the graph below (figure 3a) based from Barnett (2005).²⁴

Figure 3a: Interdependent Demand Cycle Curves for Status Goods

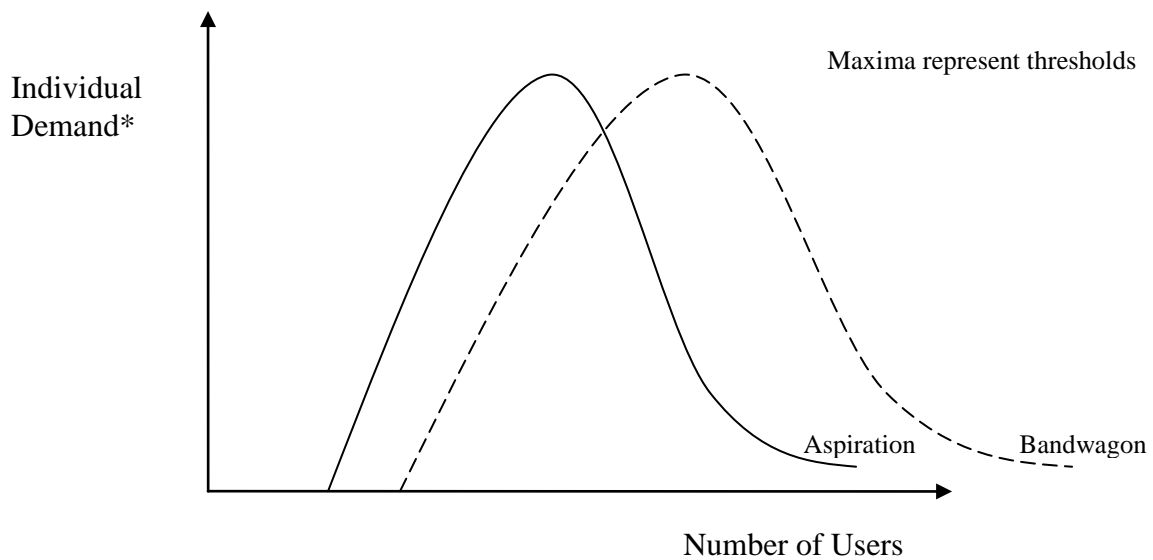


*Demand of the individual, based on type (snob, etc)

Counterfeit Status Goods and the Demand Cycle

By definition, a counterfeit status good imitates an original status good. This paper works from the premise that the counterfeit goods capitalise on the snob premium commanded by the original status good. Demand for the original good is a necessary precondition for demand for the counterfeit in the first stages. Once counterfeiting begins, the demand for the counterfeit will likely follow a similar demand path as the original good, but without the snob consumer. See figure 3b.

Figure 3b: Interdependent Demand Cycle Curves for Counterfeit Status Goods (Following Original Good)



*Demand of the individual, based on type (snob, etc)

Using a strict definition of the snob consumer, the interdependent demand curves for the counterfeit will not include snob consumers.²⁵ The snob consumer values exclusivity and has a demand curve negatively correlated to total demand. However, aspiration consumers are more likely to embrace the counterfeit status good. Not as exclusivity-sensitive as their snob counterparts, aspiration consumers will be less influenced by the presence of counterfeiting. In their emulative consumption, aspiration consumers may choose to consume the counterfeit status good as a cheaper alternative.

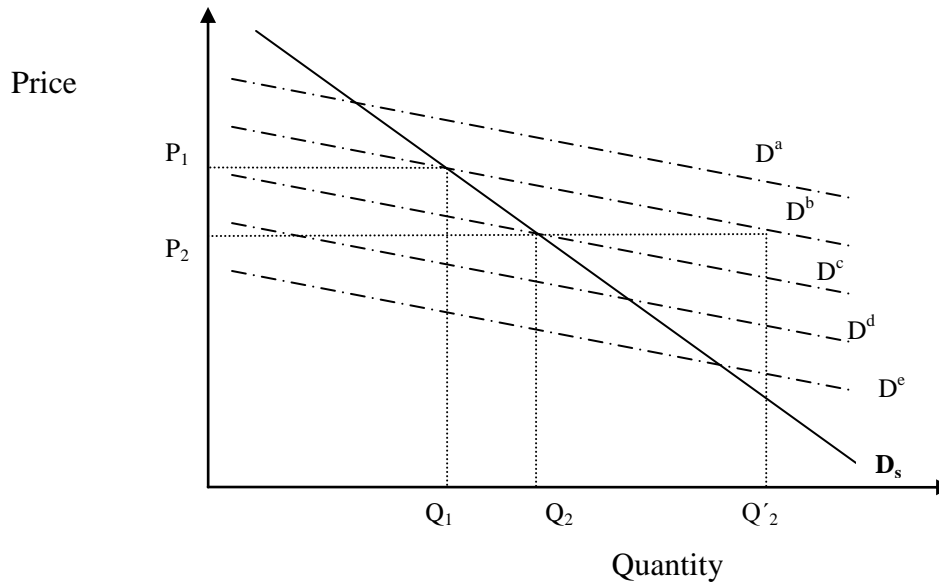
Finally, the counterfeit status good will enter the bandwagon phase where consumers whose demand is positively correlated with overall consumption enter the market. The snob and aspiration consumers will have demonstrated sufficient demand for the good to encourage the bandwagon effect. As with aspiration consumers, bandwagon consumers will choose between counterfeit and original goods.

Snob Market Equilibrium Model

In order to demonstrate the effects of snob consumers in a market, Leibenstein describes snob demand curves as being negatively correlated with total demand over the lifetime of the good. Each individual snob demand curve is a function of *expected* total demand and price.

Assuming perfect information, the individual snob consumer correctly bases consumption on expected demand. The aggregate of the individual demand curves is reflected at each expected total demand level and price by curve (D^a, b, \dots, e). The total demand curve (D_s) represents the line created by the equilibrium of these demand curves at given prices.

Figure 1: Leibenstein’s Snob Mark Effect: Snob Demand Curves



The graph demonstrates that a decrease in price from P_1 to P_2 would, in the absence of the snob effect where demand is based primarily on the functional utility of the good, result in an increase in quantity sold to Q'_2 (continuing along demand curve D^b). However, because snob consumers will re-adjust their demand curves to the new level of total consumption, the demand curve will shift in to D^c and the new equilibrium will be at Q_2 . As Leibenstein points out, the price still plays a part. This is distinct from the Veblen effect in which the effects of price are outweighed by the snob effect (i.e. consumers demand more at higher prices.)

The producers of status goods seek to cultivate and profit from the status qualities of their goods. Producers of status goods walk a fine line between maximizing profits and maintaining the status of a brand. Dubois and Paternault (1995) highlight the paradox between maximising brand revenue and maintaining its exclusivity:

“The path is narrow between the sterility of Malthusianism and the excesses of mass marketing... The best-managed companies learn how to turn the paradox to their advantage. They position themselves at the intersection of two segments, one of authenticity and the quest for absolute quality, and the other of role models and social

codes. Their brand draws its fascination for one group from the legitimacy given it by the other.²⁶

The interdependent, aggregate demand curves for the market for status goods demonstrate the application of Veblen's conspicuous consumption and explain the high status commanded by status goods. In the next section, we return to the individual's consumption as it relates to determining status within the group.

5) Status Signalling

In this section we return to the status aspects conferred on the consumer of counterfeit goods via status signalling. Status signalling is often modelled as a game between senders and receivers in which players send status signals to indicate their relative wealth as noted earlier. In deceptive status signalling, the consumer or sender sends false status signals through the use of counterfeit status goods.

Status signalling provides a solution to the market failure of imperfect information. Players cannot have direct knowledge of status and must instead infer status. In status signalling games, the status goods serve as a substitute for "other information" regarding a player's status. This supports the observation that status signalling is more often seen in urban areas, which have limited social context and high mobility, than rural areas, where background information is more readily available.²⁷

If, through status signalling, a player can increase their payoffs, then maximizing perceived status by sending less costly or false signals is logical. The process of sending false status signals is called deceptive status signalling. Deceptive status signalling can involve many strategies such as displaying the cap of a pen to imply ownership of the whole pen or using a toy cell phone as if it were real.²⁸ The consumption of counterfeit status goods is a form of deceptive status signalling and, as the counterfeit good costs less than the original status good, is a cheaper alternative

Collectively, however, status signalling decreases overall welfare. The zero-sum²⁹ nature of the status game means that society does not benefit. The costs associated with status

signalling, such as the diversion of resources from productive means to non-productive (signalling) means, decreases overall welfare. Frank (1985) argues each offensive signal is countered with a defensive signal, and the two work against each other to cancel the other out.³⁰ In addition, lower income populations devote portions of their limited budget to status signalling, often at the expense of satisfying other basic needs. As Frank notes, “Demonstration effects weigh relatively more heavily on people with lower incomes, causing them to consume higher fractions of their incomes than do people with higher incomes.”³¹

Reference Groups and Deceptive Status Signalling

Status signalling occurs in the context of a reference group, that is, the social group with which a person identifies. Reference groups provide members with a framework of social norms and values, can arise from a variety of sources (e.g. from socio-economic classes to online communities) and are self-governing. Within a reference group, the deceptive status signaller directs the signal at other member whom will have certain levels of knowledge (e.g. brand awareness) involved in the observation of the status signal. As Shibutani (1955) notes, “the reference group of the socially ambitious is said to consist of higher strata whose status symbols are imitated.”³² Van Kempen (2003) points out that while lower income populations care mostly about their perceived status from other poor, they also direct their deceptive status consumption at higher status/income levels.³³ Given that the goal of deceptive status signalling is to increase the consumer’s status, impressing higher status levels can have great status payoffs to the consumer

Context

The success of deception depends on the environment in which the receiver sees the good. Lemon laws, context and psychological factors all affect the visual observances of the consumption of these counterfeit status goods. The consumption of counterfeit status goods is subject to the same conditions of the market for lemons³⁴; the higher the prevalence of counterfeits, the higher is the likelihood a receiver observes one. In this case, the receiver becomes more likely to doubt a good’s authenticity and the probability of detection increases.

As mentioned earlier, the context of the consumption of the counterfeit will also affect the success of deception. The receiver does not observe this consumption in a vacuum; other

information and signals also influence the receiver's assessment. In the halo-effect (Perez et al, 2010) this can decrease the likelihood of detection; but if the receiver notes dissonance between these observed attributes, detection can increase. However, the receiver may engage with the human tendency to detect co-variation where none exists. Under the influence of powerful visual schemata, the receiver may choose to see co-variance between the status of a counterfeit status good and other observed signals. Thus, if there is sufficient surrounding evidence of a level of status, the receiver will view the counterfeit good to be of a similar level.

Van Kempen's Model

Van Kempen (2003) develops a four-stage process of deceptive status signalling which analyses the use of counterfeit status goods. In the first state, consumer consumes the counterfeit good and the receiver observes. The receiver assesses the signal and determines the good's status qualities. This is the stage where the deception begins; the receiver is tricked into believing that the counterfeit good is an authentic good and hence has the same status level. In the third stage, the receiver derives a perceived level of income from the observed status. Finally, in the fourth stage, this observed status/income combination is endowed to the sender.³⁵ Assuming successful deception, the sender achieves the high status level that, without deception, would have been beyond more costly.

The interaction between sender and receiver demonstrates the social context of deceptive status signalling and underlines the importance of perceived status. The success of the process for the sender will determine the utility of the counterfeit status good. As Van Kempen points out, the expected utility of the counterfeit status good is dependent on the expected status payoff and the probability of detection. A 100% probability of successful deception implies that the perceived imitative quality of the counterfeit good is high; a lower probability of successful deception reduces the sender's payoffs.³⁶ The status payoff will also be dependent on the status structure of the sender's social group.

This section has brought together the themes of conspicuous consumption, status signalling and the role of counterfeit status goods to analyse deceptive status signalling. As noted earlier, there are no winners or losers in the zero-sum game of status signalling. While at the

individual level, the consumer may successfully engage in Van Kempen's model to raise their status; at the aggregate level, all status remains relative.

6) Effects of Consumption of Counterfeit Status Goods

In this final section, the effects of the consumption of status goods are analysed with respect to effects on producers and the overall impact on welfare.

Effects on Consumption of Authentic Goods

The presence of counterfeit status goods can decrease demand for the original by either competing with the original or decreasing the status level of the original. Marginal consumers, who, in the absence of counterfeit would purchase originals, will choose counterfeits when presented with a choice. Additionally, the prevalence of counterfeits increases the likelihood that an observed status signal is actually a deceptive status signal (the lemon law.) Counterfeits increase the overall supply of the good, and may cause the thresholds of each type of consumer to be reached prematurely, making the cycle of the good unnaturally short.

However, under certain conditions, counterfeits could increase demand for originals. Barnett (2005) presents the case that counterfeits actually increase the status premium by acting as advertising for the original good. The status of the original is enhanced by the prevalence of the fashionable fake, as the low imitative quality counterfeit is unlikely to be mistaken for the real thing.³⁷ Additionally, many authors argue that the experience of consuming a counterfeit serves to whet the appetite for consumption of the original.³⁸

One argument is that the demand curves of the counterfeit and original are not interdependent. As Nia and Zaichkowsky (2000) argue, "many owners of original luxury brands believe in the inferiority of counterfeits and perhaps, therefore, have less demand for them."³⁹ The authors examine counterfeit purchase intentions and find that the overriding positive image of the high quality of originals makes it difficult for the counterfeits to damage demand for originals. Their study, along with Qian (2008) and Gossline (2009), highlights the fact the counterfeiting may not be as damaging to demand for the original good as other authors purport.⁴⁰

As this discussion demonstrates, it is very difficult to determine the interdependence of the demand for counterfeit and original goods. The many combinations of reference group knowledge, consumer preferences, and imitative quality etc. present endless scenarios for analysis.

Effects on Legitimate Producers

As noted above, counterfeit goods can have varying effects on the demand for the legitimate good. Obviously, when demand is negatively affected, the legitimate producer suffers. In the case that Barnett describes, where counterfeits increase demand, the producer benefits. However, in the long run the presence of counterfeits may damage the status of the original.

Grossman and Shapiro (1988) use a theoretical model to conclude that the entrance of counterfeits negatively affects a monopolist. If the original producer sets the status level of the good high by limiting quantity, it maintains a high status price premium but attracts counterfeiters. If the producer sets the status level of the good low, it will deter counterfeiters but move the price of the good down the demand curve and decrease profits. Assuming all brands have the same status appeal in equilibrium, counterfeiters will limit the ability of individual firms to increase their status appeal. “Any effort by [a firm] to increase the snob appeal of its products will simply call forth additional counterfeits of its label until the status of [its brand] is equal to that of the others.”⁴¹

Qian (2008) uses a natural experiment of a sudden increase in 1996 of the production of counterfeit shoes in China to test effects on legitimate producers. Qian notes that legitimate producers increased their enforcement expenditures as counterfeiting grew. Qian argues that counterfeiting exerts a downward pressure on prices of authentic goods in the short-run but producers of legitimate goods respond by increasing the quality of their goods. This product innovation and differentiation reduces the sales of counterfeit goods and increases the price of authentic goods. Furthermore, producers of authentic goods spend more on enforcement and the integration of vertical production methods in order to reduce competition from counterfeiters.

In the long-run, counterfeiting of status goods potentially erodes the status qualities of the goods. When the counterfeits are of low imitative quality, this is less of a concern for legitimate producers. Gossline (2009) finds that counterfeit status goods allow consumers to develop relationships with the original good and may encourage consumption of the original goods. However, the possibility of higher quality counterfeits presents a threat to the owners of the original trademarks. In the short-run, the effect of counterfeiting may be limited. However, long-term status brand success relies on successful status signalling; which may be undermined by the presence of counterfeits.

Welfare Effects of Counterfeit Status Goods

The consumption of counterfeit goods presents ambiguous welfare effects. On one hand, counterfeiting in general is said to damage IPR and the counterfeiting of status good can damage the producers of legitimate goods. On the other hand, counterfeiting of status goods allows for lower income populations to address their status needs.

Scandizzo (2001) argues that, especially in the case of income inequality, counterfeiting benefits consumers by increasing the overall quality of goods available. Focusing on counterfeiting in general and ignoring status, she argues that the counterfeit provides a lower cost, lower quality alternative to state-of-the-art goods while decreasing the price of the still lower quality older generation good. The closer the counterfeit is to the state-of-the-art good, the more the overall quality of goods available increases. In countries of high income inequality where few can afford the state-of-the-art good, the majority of consumers will choose between counterfeits and older generation goods. In this case, the counterfeit good increases overall quality and reduces prices of lower quality goods available to lower income populations. Under these circumstances, counterfeiting can increase total welfare.⁴²

As noted earlier, Van Kempen (2003) argues that counterfeits serve the status needs of lower income populations and increase their individual welfare through deceptive status signalling. In this case, Scandizzo's argument can easily be adapted to include status preferences. As new status goods appear, older status goods lose some of their status qualities; for example, older fashion goods are deemed less fashionable as newer goods replace them. The counterfeit allows the consumer to capture some of the new status qualities at a cheaper price. Thus, the individual can improve their welfare through the consumption of the counterfeit.

However, at the aggregate level the welfare effects may be negative. While counterfeit goods may provide short-term benefits to individuals, the long-term social cost may negate these gains. Deceptive status signalling remains a zero-sum game and inevitably involves the diversion of resources away from more productive ends.

7) Concluding Remarks

When Veblen described conspicuous consumption in the late 1800s, he anticipated the status consumption we see today. Consumers throughout the world purchase counterfeit status goods at a fraction of the price of originals. These consumers, motivated primarily by price, seek to capture the status qualities of legitimate goods and are willing to sacrifice the functional qualities. This unbundling of status and functional utilities, and subsequent lower price, allows status-conscious consumers to maximise their utility. Demand for counterfeit status goods feeds into the economic behaviour of snob, aspiration and bandwagon consumers. This behaviour, with its focus on relative consumption, exhibits invidious comparison. The status competition presents a never-ending cycle of status signalling with each consumer trying to increase their relative status through pecuniary emulation.

Status signalling, both deceptive and non-deceptive, serves as a substitute for direct information about an individual's status. Successful deceptive status signalling offers the consumer a lower cost alternative to non-deceptive status signalling and can be achieved through the consumption of counterfeit status goods. Social feedback from reference groups determines the success of these signals. Reference groups themselves provide the consumer with an external framework for status and dictate the yardstick for relative consumption and wealth. Enhancing status increases complementary interaction and can result in preferential treatment for the individual. However, the collective search for status, Frank's (1999) *luxury fever* remains a zero-sum game.

This paper joins other papers⁴³ in analysing the demand side of the market for IP infringing goods. This paper has outlined the existing literature for empirical and theoretical analyses of the demand for counterfeit status goods. A next step in this line of research is to test these theories empirically.

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Endnotes

¹ Impursenator, "Louis Vuitton Replica Purses" 18/6/2006.

² "Wal-Mart sued over Fendi copies," [BBC News Online](#) 11/06/2006.

³ This paper will use both "status goods" and "status fashion goods" as terms. While the status fashion goods are a proper subset of the more general concept of status goods, much of the arguments could use the two terms interchangeably.

⁴ This paper will use “legitimate” and “authentic” interchangeably to indicate that the good or producer in question has ownership or license of the rights associated with the good and is not an unlicensed copy.

⁵ The Hargreaves (2011, p. 11) review defines key IPR as follows.:

“Patents protect technical features and processes, ie inventions. They reserve to the patent owner the right to make, use, import or sell the invention. They last up to 20 years, subject to payment of an annual renewal fee. Copyright gives automatic protection (i.e. registration is not necessary) to original written, dramatic, musical and artistic works, published editions of works, sound recordings, films and broadcasts. Creator’s copyright generally lasts until 70 years after death.

Trade Marks protect any sign that distinguishes goods and services from competitors’. They can be maintained indefinitely subject to renewal every 10 years.

Design rights protect the physical appearance and visual appeal of products. Registered designs can be maintained up to 25 years subject to the payment of a renewal fee every five years. Unregistered designs are automatic and only protect three dimensional aspects of a design, excluding surface ornamentation. They last for up to 15 years.”

⁶ Hargreaves (2011) p. 83.

⁷ The social contract theory of IP frames IP law as a contract between the state (society) and innovators. As Denicolo and Franzoni (2002) note, contract theory argues that the goal of IP is to “promote the diffusion of innovative knowledge.” The property right is granted in exchange for disclosure and, eventually, the transfer of the right to the public domain.

⁸ Hargreaves (2011) notes that the evidence for positive innovation aspects of trade marks is increasing (p. 17).

⁹ Counterfeit goods are sold either deceptively, where the consumer unknowingly buys the counterfeit, or non-deceptively, where the consumer knowingly buys the counterfeit. This paper will instead address non-deceptive counterfeiting where the consumer is aware the good is fake.

¹⁰ Salmon, “All counterfeiting statistics are bullshit” 09/05/2005.

¹¹ Hargreaves (2011) also notes the difficulty in accounting for counterfeits.

¹² Analysis of the criminal aspects of counterfeit goods are best addressed by other authors including Ablers-Miller (1999) and Cordell et al (1996)

¹³ Much of the literature on counterfeit goods treats all counterfeit goods as being of equal, typically poor, quality. While studies recognize that this may not be the case in reality, for analytical purposes it provides a useful simplicity. However, counterfeit status goods vary widely in quality and some can even be difficult for the producer to distinguish from the original.

¹⁴ Grossman and Shapiro (1988) p.79-100.

¹⁵ Grossman and Shapiro (1988) p. 79-100.

¹⁶ For examples, see Nia and Zaichkowsky, Albers-Miller or Cordell, Wongtada and Kieschnick.

¹⁷ Cordell et al, (1996) p. 50.

¹⁸ Van Kempen, (2003) p. 164.

¹⁹ Veblen defines leisure as “non-productive consumption of time.” Veblen, 1899, p. 21.

²⁰ In this case, the functional alibi is the functional elements of the good which provide the user with an excuse which covers the status elements of the good.

²¹ Leibenstein (1950) p. 190-200.

²² Barnett(2005) p. 1392.

²³ *Ibid*, 1393.

²⁴ Barnett’s uses utility on the vertical axis. *Ibid*, 1395.

²⁵ An exception would be the limited case where the counterfeit good, in and of itself, is considered a status good as in McCartney (2005).

²⁶ Dubois and Paternault (1995) p.76.

²⁷ Frank (1985) p.108.

²⁸ Van Kempen (2003) p. 160.

²⁹ A situation (game) where the losses of some players equal the gains of others; that is, there is no aggregate gain or loss through the game.

³⁰ Frank,(1985). p. 108.

³¹ *Ibid* 109.

³² Shibutani (1955) p. 563.

³³ Van Kempen (2003) p.171.

³⁴ The market for lemons refers to asymmetric information in bargaining situations. It refers to “lemons”, an American expression for a bad car, in which the presence of lemons brings down the price of used cars. Owners of good cars are less likely to place the car on the used market, hence buyers may assume that a used car for sale is more likely to be a lemon and will reduce his willingness to pay accordingly.

³⁵ *Ibid*, 161-173.

³⁶ *Ibid*, 164.

³⁷ Barnett (2005) p. 1381-1423.

³⁸ E.g. Harvey and Walls (2003), Fav-Tsoin and Shih-Ying (2005) or Perez et al (2010).

³⁹ Nia and Zaichkowsky (2000) p. 494.

⁴⁰ *Ibid*, 485-497.

⁴¹ Grossman and Shapiro (1988) p.88.

⁴² Scandizzo (2001) WP/01/13.

⁴³ Such as Andersen and Frenz (2007)