The Nature, History and Significance of the Concept of Positional Goods

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***Abstract*:** Reflecting its title, this article is divided into three sections. The first section outlines the contrasting ways in which the term 'positional goods' has been defined since it was first coined by Fred Hirsch in 1976. It is argued in this section that whereas Hirsch was thinking of goods of which it is true that for some of the members of a society part or all of the satisfaction derived from possessing them is the enhancement of social status due to the fact that such satisfaction is possible only for a minority, R. C. O. Matthews, Robert Frank and Ugo Pagano each defined the term in a substantially different way, so as to support his particular line of argument. The second section assesses the extent to which Hirsch's concept was anticipated by earlier writers, including Adam Smith, John Rae, Nassau Senior, Augustin Cournot, Karl Marx, John Stuart Mill, Thorstein Veblen, Philip Wicksteed, A. C. Pigou, James Meade, James Duesenberry, Harvey Leibenstein, Roy Harrod, W. G. Runciman and Staffan Linder. The third section discusses the significance of recognition of the existence of positional goods for the predictive and policy analysis of markets, inequality, and economic growth.

1 Introduction

A graduate of the University of Adelaide, where he wrote his Ph.D. thesis on Marx's theory of surplus value under the supervision of Geoff Harcourt, Allen Oakley had already begun his academic career at the University of Newcastle when I first met him, in 1982, at Flinders University, where he presented a paper on Marx to the Conference of Economists session on the History of Economic Thought. Having subsequently made a formidable contribution to Marxian scholarship, Allen had just moved on from Marx to Joseph Schumpeter when in association with his colleague Barry Gordon he convened the fourth HETSA conference, at Newcastle. While Marx plays only a minor role in this article, and Schumpeter makes a mere fleeting appearance, I am very pleased to be able to dedicate 'The Nature, History and Significance of the Concept of Positional Goods' to Allen.

2 Nature of Positional Goods

We all know what is meant by the term 'positional goods'. Or do we? The term was coined just over thirty years ago, by Fred Hirsch, in *Social Limits to Growth* (1976). Hirsch's neologism quickly became part of an economist's lexicon. What has until now been overlooked in the literature, however, with one exception[1], is the fact that Hirsch's failure to provide a succinct and logically consistent definition of 'positional goods' left a vacuum that economists subsequently attempted to fill in widely differing ways.

Positional goods are a sub-set of those things whose utility to an individual depends on the behaviour of others. As Irving Fisher noted in the published version of his Ph.D. thesis, entitled *Mathematical Investigations in the Theory of Value and*

Price, among the 'limitations' of his analysis of consumer demand was abstraction from the fact that the utility of good A to an individual could be treated, in a general equilibrium fashion, as we would put it now:

> as a function of the quantities of each commodity … consumed by *all persons* in the market. This becomes important when we consider a man in relation to the members of his family or consider articles of fashion [such] as diamonds … (Fisher 1892, p. 102)

Taking up the narrower case of the utility derived from the consumption of one commodity in isolation from other commodities, Hirsch argued that what 'is generally referred to as private or personal consumption is nonetheless affected in its essence—that is, in the satisfaction or utility it yields—by consumption of the same goods or services by others' (Hirsch 1976, p. 3), not just in the case of articles of fashion, but in all but 'relatively few' cases. This view led Hirsch to coin the term 'positional goods'. The question to be addressed here is: how are 'positional goods' to be defined?

A good starting point for an answer to this question is to be found in Hirsch's reference to 'two divisions of the economy' (Hirsch 1976, p. 27). One division, 'the material economy', 'is defined as output amenable to continued increase in productivity per unit of labor input' (Hirsch 1976, p. 27), enabling per capita consumption of a material good to increase over time. By contrast 'the positional economy … relates to all aspects of goods, services, work positions, and other social relationships that are either (1) scarce in some absolute or socially imposed sense or (2) subject to congestion or crowding through more extensive use' (Hirsch 1976, p. 27).[2]

In the positional economy 'goods, services, work positions, and other social relationships', generally referred to in this article hereinafter simply as 'goods', are valued by actual and potential possessors, at least in part, because the satisfactions they yield 'are possible only for a minority' (Hirsch 1976, p. 23). In the case of physical (though not necessarily natural) scarcity (examples provided by Hirsch include Old Masters as well as the natural landscape), '[c]onsumers derive at least part of their satisfaction just from the inherent characteristics' (Hirsch 1976, p. 20), but 'to at least some people, part of the attraction of a Rembrandt, or of a particular natural landscape, is derived from its being the only one of its kind' (Hirsch 1976, p. 21). And '[w]here the sole or main source of satisfaction derives from the symbol rather than the substance, this can be regarded as pure social scarcity' (Hirsch 1976, pp. 20-1); though the amount of satisfaction derived from a symbol, Hirsch added, is subject to variation due to changes in fashion. Similarly, work positions are positional goods in those cases where the work is 'of fixed quality for some reason, for example, a particular leadership position or favored job' (Hirsch 1976, p. 29); these are sometimes referred to by Hirsch as 'positional jobs'.

Given his focus on the social limits to economic growth, Hirsch saw the positional economy as encompassing not only such 'direct social scarcity' but also what he called 'incidental social scarcity', where a social limitation is 'derived from influences on individual satisfaction that are independent of the satisfaction or position enjoyed by others and that are yet influenced by consumption or activity of others' (Hirsch 1976, p. 22); here he cited leadership positions as a social example, the splitting of the top leadership position reducing an institution's efficiency, and traffic congestion as a physical example, use by more people of a previously uncongested road reducing driver satisfaction.

It is confusing, however, to assign to 'the positional economy' a form of scarcity where individual satisfaction is 'independent of the satisfaction or position enjoyed by others'. Thus putting to one side incidental social scarcity and drawing only on Hirsch's description of direct social scarcity, in an attempt to remedy Hirsch's failure to provide a succinct and logically consistent definition, I propose the following: 'positional goods' are goods of which it is true that for some of the members of a society part or all of the satisfaction derived from possessing them is the enhancement of social status due to the fact that such satisfaction is possible only for a minority. Thus a necessary condition for a good to be a positional good is that the satisfaction it offers is available only to a minority; this carries with it the implication that a sufficient increase in its supply may disqualify it from continuing to be a positional good. And a second necessary condition for a good to be a positional good is that at least part of the motive for possessing it is consequent enhancement of social status; this carries with it the implication not only that possession of it is observable by others, but also that a sufficient change in fashion may disqualify it from continuing to be a positional good. The extent to which one or more of these aspects of the concept of positional goods was described before Hirsch published *Social Limits to Growth* is explored in the 'History' section of this article.

A strongly contrasting definition of positional goods is to be found in the *Oxford English Dictionary*. This definition comes not from *Social Limits to Growth*, but from the review of that book by R. C. O. Matthews, who asserted that '[p]ositional goods are defined as those to which access is a function of an individual's income relative to other people's' (Matthews 1977, p. 574). This definition is narrower than Hirsch's, since in confining the concept to the position of an individual on the income scale it excludes cases where access is a function of either an individual's personal qualities and/or qualifications ('leadership jobs' being an example provided by Hirsch), or an individual's social status (a royal crown is an example). It is not clear from Matthews' review whether he overlooked these cases, or whether he thought income is the overwhelming determinant of access to positional goods. Matthews' definition also fails to make any explicit reference to the motive for possessing positional goods.

By contrast with Matthews' definition, definitions subsequently proposed by Robert Frank centre on motive, focusing on the position of a good on a quality scale. In *Choosing the Right Pond* Frank defined positional goods as 'goods that are sought after less because of any absolute property they possess than because they compare favorably with others in their own class' (Frank 1985a, p. 7). This definition is broader than Hirsch's, since it applies to all goods characterised by quality differences to which individuals attach sufficient importance, confining Frank's category of 'nonpositional goods' to goods characterised by quality differences, if any, to which individuals attach relatively little importance; in 'The Demand for Unobservable and Other Nonpositional Goods' Frank offered leisure as an example of the latter (see Frank 1985b, p. 101), thereby anticipating the survey findings cited by Richard Layard in *Happiness: Lessons from a New Science* (2005, p. 47) discussed below in the 'Significance' section of this article. In the same article, in a 'simple model' (see Frank 1985b, p. 103), Frank expanded the category of positional goods still further, confining the category of non-positional goods to unobservable goods and goods not characterised by quality differences to which individuals attach *any* importance. Frank later defined a positional good, less specifically, as 'one whose utility depends on how it compares with others in the same category' (Frank 2004, p. 1).

Like Matthews' definition of 'positional goods', Frank's definitions are quite different from Hirsch's. This is most easily seen by looking at the contrast between their definitions of the category of goods other than positional goods. Hirsch's 'material' (counterpart to Frank's 'nonpositional') goods comprise the numerous goods where labour costs fall over time because of increased labour productivity; Frank's 'nonpositional' goods comprise the few goods which are either non-observable or not characterised by quality differences. Definitions often reflect purpose. While Hirsch was concerned with the limit to economic growth imposed by social scarcity, Frank's purpose was to emphasise the widespread importance of socially perceived quality as a basis of individual choice.

Use of the phrase 'compare favorably with others in their own class' in one of Frank's definitions raises two further problems. First, it excludes anything which is 'the only one of its kind', as Hirsch put it; for example, Rembrandt's 'The Night Watch' could be argued to be a positional good because it is the only one of its kind, belonging to no class, as could Kirribilli House on Sydney Harbour. Second, strictly speaking, Frank's definition excludes only the worst of any 'class' of goods differentiated by quality; this leads to the perverse conclusion that the worst of the (class of) Rembrandts is not a positional good, or the worst of the (class of) Old Master paintings is not a positional good, or ultimately only the worst of (the class of) all goods differentiated by quality is not a positional good.

Yet another definition of positional goods was advanced by Ugo Pagano, whose focus of interest was not economic goods, but political and social 'goods'. Pagano defined a positional good as a zero-sum good, one of which it is true in a two-person society that if one individual 'consumes' x_i, the other individual 'consumes' $-x_i$. Such goods include power and status, two examples of the 'social relationships' included in Hirsch's definition of 'goods'; positive power or status possessed by one individual implies negative power or status for the other. Pagano contrasted a positional good with both a public good (where x_i consumption by one individual implies x_i consumption by all individuals), and a private good (where x_i consumption by one individual does not of itself carry any implication for consumption by other individuals). As Pagano explicitly admitted, his definition differs from Hirsch's in that absolute scarcity in the physical sense (fixed supply) is not a sufficient condition to categorise a good as positional, it being a necessary condition that consumption of the good involves 'externalities' in the sense that positive 'consumption' by one individual implies negative 'consumption' by another (see Pagano 1999, p. 81). Moreover, Pagano's definition also differs fundamentally from Hirsch's in that it is not true of Hirsch's positional 'goods, services, work positions' that positive consumption by one individual implies negative 'consumption' by another; it is true of them, rather, that 'consumption' is possible only for a minority.

Pagano came closer to Hirsch's definition when he introduced a category named 'semi-positional goods', defined as goods of which it is true that if one individual 'consumes' an amount x_i, other individuals in total 'consume' less but not as much less as $-x_i$, his sole example being status-yielding luxury cars; presumably what he had in mind is the idea that possessing a luxury car may result in two 'goods', namely status and comfortable transport. Nonetheless, it would have been less confusing if in discussing power and status Pagano had wholly eschewed the term 'positional goods', confining himself to the term 'zero-sum goods', and perhaps substituting the term 'externality goods' for 'semi-positional goods'.

In sum, all definitions of positional goods can be regarded as a subset of those things whose utility to an individual depends on the behaviour of others. The broadest subset is that described by Frank, whose definitions tend to confine non-positional goods to goods which are either non-observable or not characterised by quality differences. Hirsch's positional goods in an economy characterised by 'direct social scarcity', namely those available only to a minority, are a subset of Frank's. In turn, Matthews' positional goods are a subset of Hirsch's, being confined to goods where access is dependent on income. Pagano's so-called positional goods belong to a different domain, applying only to political and social 'goods'.

While the following section of this article focuses on the pre-history of Hirsch's concept of positional goods, it also covers to a considerable extent the pre-history of positional goods as defined by each of Frank and Matthews.

3 History

To what extent was Hirsch's concept of positional goods, defined as goods of which it is true that for some of the members of a society part or all of the satisfaction derived from possessing them is the enhancement of social status due to the fact that such satisfaction is possible only for a minority, anticipated by earlier writers? Or, to put it more succinctly: to what extent did earlier writers describe the category of goods which are desirable because only a minority could possess them?

While Aristotle was the first to set out a remarkable number of the ideas basic to modern economics, to assert even that 'Aristotle's writings *approach* the concept of positional goods' (Ancil and Hakes 1991, p. 267, italics added) is to draw a long bow. Correctly noting both that positional goods are an example of the fallacy of composition (the proposition that what is true of a part is true of the whole—for example, the proposition that as one may have superior rank, all can) and that Aristotle provides many examples of the fallacy of composition, Ancil and Hakes drew the illegitimate conclusion that Aristotle consequently 'approached' the concept of positional goods. Nor does it follow that merely because Aristotle included prestige in 'the three prizes of fortune', thereby citing an example of a positional good, that he can be credited with 'approaching' the concept of positional goods.

Ancil and Hakes were on firmer ground when they cited H. W. Spiegel's observation that the Stoic philosophers recognised that '[n]othing can prevent some seats in the theatre from being better than others' (Spiegel 1991, p. 36) in order to conclude that the concept of positional goods goes back to the Stoics. Chrysippus, whom Spiegel was quoting, at least implied that sitting in one of the best seats was a pleasure open only to a minority; I return to the significance of the Stoics with respect to positional goods in the last section of this article.

Compared with the Stoic Greeks, the Romans of sybaritic classical times made much more frequent reference to the concept of positional goods. The first to recognise the significance of this was John Rae, in chapter XI (entitled 'Luxury') of his *Statement of Some New Principles on the Subject of Political Economy* (1834), where Hirsch's concept was anticipated to a remarkable extent, including even its association with economic growth. Rae's principal objective in this book was to attempt to remedy what he saw as a gap in Adam Smith's *The Wealth of Nations* by demonstrating that the principal determinant of growth in the wealth of a nation is the extent to which there is investment in instruments whose returns double their costs slowly rather than quickly; this is a forerunner of Böhm-Bawerk's distinction between non-capitalist and capitalistic methods of production. In investigating the obstacles to investment in more slowly doubling orders Rae gave pride of place to vanity, which he defined as:

> the mere desire of superiority over others, without reference to the merit of that superiority. … a purely selfish feeling; its pleasures centre in the individual; and if it does not endeavour to diminish the enjoyments of others, it is never directly its object to increase them. … Its aim … is to have what others cannot have. (Rae 1834, pp. 265-6)

Rae added that he would 'wish to apply, to the expenditure occasioned by the passion of vanity, the term luxury' (Rae 1834, pp. 271-2), even though 'luxury' has a 'wider signification'; by the latter Rae presumably meant that 'luxuries' include not only goods desirable because of the social status they bestow but also goods other than necessaries which yield satisfaction unrelated to social status. He went on to state that apart from silver, 'a very large share of other departments of the expenditure of the wealthy consist of *mere* luxuries,- articles, the sole gratification afforded by which is, that they alone can afford to possess them' (Rae 1834, p. 274, italics added). Rae did not, however, confine the passion of vanity to the wealthy, arguing that while the poor spend less on luxuries, their poverty and accompanying lack of good taste leads them to satisfy their vanity by seeking out commodities whose intrinsic qualities offer no enjoyment, but which are 'mere luxuries'. Anticipatory also of the concept of positional goods is Rae's comment with respect to vanity that '[a]rticles of which the consumption is not conspicuous, are incapable of gratifying this passion' (Rae 1834, p. 267); could this have provided a cue for another North American heterodox economist, namely Veblen?

Citing as a prime example of 'mere luxury' the case of a precious pearl dissolved in vinegar and drunk by Cleopatra, who, given that the resulting liquor must have been rather disagreeable, could have obtained gratification from it only because no one else could have afforded it, Rae added a number of other examples. Many of these come from writings by the Romans. Those cited include Pliny, who stated that imitation of Cleopatra's feat 'became a sort of fashion at Rome' (Rae 1834, p. 266). Pliny is also the original source, Adam Smith being the immediate one, for Rae's statement that in Roman times the price paid for a single nightingale was about £66, in spite of the fact that '[a] dish of nightingale's brains could scarcely be a very delicious morsel' (Rae 1834, p. 266), and that for a surmullet £80, while the assertion that 'no meal cost Vitellius less than £2000' (Rae 1834, p. 267) is ascribed to Suetonius, though no Roman source is given for Adam Smith's reckoning that in Roman times 'the cost of some cushions of a particular sort used to lean on at table' (Rae 1834, p. 267) was £30,000;[3] Rae concluded that such enormous prices could be explained only by the fact that 'such extravagances of the table' are pure or almost pure examples of cases where 'feeling fixes itself … on objects solely desirable from the difficulty of obtaining them, and from the consequent superiority which their possession implies' (Rae 1834, p. 266). Rae (1834, p. 269) went on to quote examples of Horace and Juvenal satirising such behaviour.

Returning in the latter part of his chapter 'Of Luxury' to his discussion of economic growth, Rae explored the effects of 'improvements' that lower unit cost. He concluded that in the case of useful commodities such improvements would simply increase consumption, notably by making them affordable to a larger number of people. In the case of 'mere luxuries', on the other hand, while a halving of the price would require a doubling in the number of units purchased so as to satisfy vanity to the same extent, a reduction in price to a small fraction of its previous level would reduce demand to zero, 'because it is not the thing itself, but merely the quantity of labor embodied in it that vanity prizes' (Rae 1834, p. 285). Here Rae implied an intriguing parallel between 'mere luxuries' and what were to become known as 'Giffen goods'; a sufficient decrease in price leads not to an increase in demand, but to a decrease.

While concluding with respect to vanity that 'its direct operation is always to dissipate a part of the national funds proportioned to its strength' (Rae 1834, p. 292), thereby retarding the accumulation of capital, Rae admitted that vanity stimulates accumulation in so far as the spread of inventions is facilitated by the imitation it generates; Rae viewed inventions as a key factor in making further economic progress possible once the rate of return on capital has fallen to the populace's rate of time preference, or, as he put it, level of desire of accumulation.

As already noted, in discussing mere luxuries Rae on occasion drew on *The Wealth of Nations*. Indeed, Adam Smith to some extent anticipated Rae's development of the subject, notably in the following passage:

> With the greater part of rich people, the chief enjoyment of riches consists in the parade of riches, which in their eye is never so compleat as when they appear to possess those decisive marks of opulence which nobody can possess but themselves. In their eyes the merit of an object which is in any degree either useful or beautiful, is greatly enhanced by its scarcity, or by the great labour which it requires to collect any considerable quantity of it, a labour which nobody can afford to pay but themselves. (Adam Smith 1776, vol. 1, p. 190)

Examples of such objects offered by Adam Smith include the above-mentioned dish of nightingale's brains, and diamond buckles. Adam Smith had also anticipated Rae in pointing out that even when a formerly scarce commodity becomes plentiful, it can still be used to parade riches provided it is displayed in sufficient quantity or variety, the latter often manifesting itself in the form of fashion.

Alexis de Tocqueville provided a supplement to Rae's analysis of positional goods in his *Democracy in America*, which appeared the year after Rae's *New Principles*. In a chapter entitled 'Why the Americans are often so Restless in the Midst of their Prosperity', which dealt with some of the consequences of the relative equality he saw as characteristic of the United States, de Tocqueville provided a partial description of the 'work positions' component of Hirsch's positional economy. As de Tocqueville put it:

> When all prerogatives of birth and fortune are abolished, when all professions are open to all and a man's own energies may bring him to the top of any of them, an ambitious man may think it easy to launch on a great career and feel that he is called to no common destiny. But that is a delusion which experience quickly corrects. …
>
> When men are more or less equal and are following the same path, it is very difficult for any of them to walk faster and get out beyond the uniform crowd surrounding and hemming them in.
>
> This constant strife between the desires inspired by equality and the means it supplies to satisfy them harasses and wearies the mind.
>
> … men will never establish an equality which will content them. (1835, pp. 509-10)

The year after *Democracy in America* was published, Nassau Senior in his *Outline of the Science of Political Economy* drew attention to what he called 'the desire for distinction'. Having discussed the desire for variety, and having attributed to it the diminishing utility to be gained from each additional unit of a particular commodity consumed, Senior unequivocally declared it to be less powerful than the desire for distinction:

> But strong as is the desire for variety, it is weak compared with the desire for distinction: a feeling which, if we consider its universality and its constancy, that it affects all men and at all times, that it comes with us from the cradle, and never leaves us till we go to the grave, may be pronounced to be the most powerful of human passions.
>
> The most obvious source of distinction is the possession of superior wealth. (1836, p. 12)

Senior argued that to achieve distinction it is necessary not only to possess wealth but for this wealth to be apparent, and that '[t]he only mode by which wealth can be exhibited is, by the apparent possession of some object of desire which is limited in supply' (1836, p. 12). What makes a commodity desirable cannot however be determined objectively, there being nothing 'more trifling or more capricious than the circumstances which may make a thing an object of desire, and therefore, in our extended use of that word, give to it utility when its supply is narrowly limited' (1836, pp. 12-13), an example being a diamond.

Senior regarded 'limitation in supply' as the most important determinant of the value of one commodity compared with that of another. It is thus surprising that despite making the link between limitation in supply and the desire for distinction, he made no reference to the latter in his discussion of value, or indeed in any other section of his major work.

Two years later Cournot, in his *Recherches sur les principes mathématiques de la théorie des richesses*, elaborated on an element in the concept of positional goods already noted by Rae. Acknowledging the law that the quantity demanded increases when the price decreases is only generally true, Cournot admitted that:

> there are, in fact, some objects of whim and luxury which are only desirable on account of their rarity and of the high price which is the consequence thereof. If any one should succeed in carrying out cheaply the crystallization of carbon, and in producing for one franc the diamond which to-day is worth a thousand, it would not be astonishing if diamonds should cease to be used in sets of jewellery, and should disappear as articles of commerce. In this case a great fall in price would almost annihilate the demand. (Cournot 1927, p. 38)[4]

The concept of positional goods resurfaced in lectures given by Marx in 1847, published in 1849 under the title *Wage Labour and Capital*, when Marx wrote: 'let a palace arise beside the little house, and it shrinks from a little house to a hut' (1849, p. 216). This comment is one of the sources which could have been drawn on by those who argue that Marx's 'Verelendung' (immiserisation)[5] theory was intended to describe a situation in which over time wages decline not absolutely, but relative to profits and rent. Marx may have been referring to immiserisation in a relative sense when he stated that 'in proportion as capital accumulates, the lot of the labourer, be his payment high or low, must grow worse' (Marx 1857, p. 639), Sam Hollander commenting that '[i]t is sometimes said that this statement allows one to conceive of increasing 'immiseration' [sic] despite rising real wages' (Hollander, 1984, p. 146).[6] Reference to immiserisation in a relative sense also seems to have been Marx's intention when he stated that '[i]f the extremes of poverty have not lessened, they have increased, because the extremes of wealth have' (Marx 1867, p. 646).

John Stuart Mill too, in his *Three Essays on Religion* (1874), drew attention to the role of positional goods in human behaviour, attaching prime importance to it, as the following passage demonstrates:

> Through all departments of human affairs, regard for the sentiments of our fellow-creatures is in one shape or other, in nearly all characters, the pervading motive. … When once the means of living have been obtained, the far greater part of the remaining labour and effort which takes place on earth, has for its object to acquire the respect or favourable regard of mankind; to be looked up to, or at all events, not to be looked down upon by them. The industrial and commercial activity which advance civilisation, the frivolity, prodigality, and selfish thirst of aggrandizement which retard it, flow equally from that source. (Mill 1874, p. 411)

Like Rae, Mill saw the existence of positional goods as a two-edged sword; unlike Rae, he believed it on balance to be favourable to the advance of civilisation.

The first attempt to illustrate diagrammatically the effect of incorporating dependence of one individual's demand for a good on that of others is to be found in Henry Cunynghame's 1892 article entitled 'Some Improvements in Simple Geometrical Methods of Treating Exchange Value, Monopoly, and Rent'. In introducing this new diagram, Cunynghame observed:

> … almost the whole value of strawberries in March, to those who like this tasteless mode of ostentation, is the fact that others cannot get them. As my landlady once remarked, 'Surely, sir, you would not like anything so common and cheap as a fresh herring?' The demand for diamonds, rubies, and sapphires is another example of this. As the number increases, not only does the price go down, but the very pleasure of those who already have them is decreased by their becoming common. (Cunynghame 1892, p. 37)

Cunynghame's diagram showed a consumer surplus curve lying below the commodity demand curve, but shifting upwards for every reduction in the quantity supplied.

The second substantial demonstration of an understanding of the concept of positional goods, following that by Rae, is to be found in Thorstein Veblen's *The Theory of the Leisure Class* (1899). It is not clear whether or not Veblen had read Rae's work—he made no reference to Rae in *The Theory of the Leisure Class*. Veblen's purpose in this book was to propose an alternative to what he was to dub 'neoclassical economics' (see Aspromourgos 1986, p. 266). The economic theory of his time, said Veblen, was based on the idea that, in a private property society, once economic activity produces more than a bare livelihood the struggle for wealth takes the form of 'competition for an increase of the comforts of life,-primarily for an increase of the physical comforts which the consumption of goods affords' (Veblen 1899, p. 25). On the contrary, Veblen argued:

> The motive that lies at the root of ownership is emulation; and the same motive of emulation continues active in the further development of the institution to which it has given rise and in the development of all those features of the social structure which the institution of ownership

> touches. The possession of wealth confers honour; it is an invidious distinction. Nothing equally cogent can be said for the consumption of goods, nor for any other conceivable incentive to acquisition, and especially not for any incentive to the accumulation of wealth. … the end sought by accumulation is to rank high in comparison with the rest of the community in point of pecuniary strength. So long as the comparison is distinctly unfavourable to himself, the normal, average individual will live in chronic dissatisfaction with his present lot; and when he has reached what may be called the normal pecuniary standard of the community, or of his class in the community, this chronic dissatisfaction will give place to a restless straining to place a wider and ever-widening pecuniary interval between himself and this average standard. The invidious comparison can never become so favourable to the individual making it that he would not gladly rate himself still higher relatively to his competitors in the struggle for pecuniary reputability. … It is owing chiefly to the presence of this element in the standard of living that J. S. Mill was able to say that "hitherto it is questionable if all the mechanical inventions yet made have lightened the day's toil of any human being". (Veblen 1899, pp. 25-6, 31-2, 111)

The 'pecuniary reputability' which is struggled for takes two forms, named by Veblen 'conspicuous leisure' and 'conspicuous consumption'.

With respect to the first of these, while admitting that for 'the superior pecuniary class …the incentive to diligence and thrift is not absent', Veblen countered by adding that the action of this incentive:

> is so greatly qualified by the secondary demands of pecuniary emulation, that any inclination in this direction is practically overborne and any incentive to diligence tends to be of no effect. The most imperative of these secondary demands of emulation, as well as the one of widest scope, is the requirement of abstention from productive work. (Veblen 1899, p. 36)

Those who succeed in meeting this demand of pecuniary reputability make up what Veblen named 'the leisure class', the characteristic feature of whose life is 'a conspicuous exemption from all useful employment' (Veblen 1899, p. 40), examples being the occupations of 'government, war, sports, and devout observances' (Veblen 1899, p. 40). One way of making leisure conspicuous is to employ others to do the necessary productive work. Leisure becomes even more conspicuous if some of these employees themselves are largely exempted from useful employment, examples being found in high-class servants whose activities are largely ceremonial. 'In this way, then, there arises a subsidiary or derivative leisure class, whose office is the performance of a vicarious leisure for the behoof of the reputability of the primary or legitimate leisure class' (Veblen 1899, p. 59). Veblen included among the vicarious leisure classes many of those involved in what he called 'the higher learning', which he categorised as 'being in some sense a by-product or by-occupation of the priestly classes' (Veblen 1899, p. 367), contending that 'so soon as wealth begins appreciably to accumulate in the community, and so soon as a given school begins to lean on a leisure-class constituency, there comes also a perceptibly increased insistence on scholastic ritual and on conformity to the ancient forms as regards vestments and social and scholastic solemnities' (Veblen 1899, p. 371).

Pecuniary reputability alternatively takes the form of conspicuous consumption, namely consumption of luxuries that is observed by others, sometimes by these others participating in it; like conspicuous leisure, conspicuous consumption may be vicarious. Conspicuous consumption is not confined to the leisure class, extending to those who are not well enough off to enjoy conspicuous leisure:

> [n]o class of society, not even the most abjectly poor, foregoes all customary conspicuous consumption. … There is no class and no country that has yielded so abjectly before the pressure of physical want as to deny themselves all gratification of this higher or spiritual need. (Veblen 1899, p. 85)

Veblen also discerned a recent trend away from conspicuous leisure in the direction of conspicuous consumption, due to an increasing tendency for neighbours who lived next to each other not to mix with each other socially, thereby making leisure less conspicuous. Similarly he observed conspicuous consumption to be not so prevalent in the country as in the city, those living in the country knowing each other well enough not to be fooled by conspicuous consumption.

Given that pecuniary reputability is the basis of economic behaviour, Veblen concluded, the present nature and future prospects of human life differ fundamentally from what conventional economic theory leads one to believe. First, from the point of view of human life conspicuous expenditure involves what for want of a better term Veblen called 'waste'. As Veblen put it:

> In the view of economic theory the expenditure in question is no more and no less legitimate than any other expenditure. It is here called "waste" because this expenditure does not serve human life or human well-being on the whole, not because it is waste or misdirection of effort or expenditure as viewed from the standpoint of the individual who chooses it. … As seen from the point of view of the individual consumer, the question of wastefulness does not arise within the scope of economic theory proper. … [But] … [t]he question is … not whether, under the existing circumstances of individual habit and social custom, a given expenditure conduces to the particular consumer's gratification or peace of mind; but whether, aside from acquired tastes and from the canons of usage and conventional decency, it is a net gain in comfort or in the fulness [sic] of life. (Veblen 1899, pp. 97-8, 99-100).

Second, the future of mankind is very different from one possibility predicted by conventional economic theory. To quote Veblen again:

> … the desire for wealth can scarcely be satiated in any individual instance, and evidently a satiation of the average or general desire for wealth is out of the question. However widely, or equally, or "fairly" it may be distributed, no general increase of the community's wealth can make any approach to satiating this need, the ground of which is the desire of every one to excel every one else in the accumulation of goods. If, as is sometimes assumed, the incentive to accumulation were the want of subsistence or of physical comfort, then the aggregate economic wants of a community might conceivably be satisfied at some point in the advance of industrial efficiency; but since the struggle is substantially a race for reputability on the basis of invidious

> comparison, no approach to a definitive attainment is possible. (Veblen 1899, p. 32)

The 'work positions' aspect of the concept of positional goods exposed for the first time by de Tocqueville was revisited in Wicksteed's *The Commonsense of Political Economy* (1910), in a discussion of the distribution of wealth. Wicksteed argued that even if command over material resources were indefinitely extended, there would still be some things that not everyone could possess. By way of illustration he cited Napoleon's declaration that every French soldier carried in his knapsack a marshal's baton, and pointed out that while this might be true of any soldier, it could not be true of all, as 'the existence of one marshal implies the existence of a number of soldiers who are not marshals' (1910, p. 657), adding a warning of 'the necessity of constant vigilance against the tacit assumption that what is possible to any one is possible to every one' (1910, pp. 656-7), that is, a warning against the fallacy of composition. Thus if the conception of wealth includes the keeping of servants, it is impossible for everyone to be wealthy. In addition, the more equal the distribution of wealth, the fewer who can become wealthy in this sense, because of the higher wages that would have to be paid to induce people to become servants. Wicksteed, however, did not allow these acute observations to intrude on his exposition of neoclassical economic theory elsewhere.

Three years later Pigou published a brief article that attempted to deal theoretically with the case in which the demands of consumers are not additive, under the title of 'The Interdependence of Different Sources of Demand and Supply in a Market'. In this article Pigou introduced the speculation that 'the price at which anybody demands … a given quantity of commodity is made up by the addition of two parts, one depending on the quantity that the person in question himself demands … and the other upon the quantity that the whole market collectively demands' (Pigou 1913, p. 21), only to reject it. He argued that:

> the formula implies that the "part" of a man's demand price, which does not depend on the quantity of a commodity that he is purchasing, depends simply on the aggregate quantity that the market is purchasing. This condition would be fulfilled in respect of a commodity that was partly desired for the distinction of being "in the swim" in general (*e.g.* top hats), or for that given by being out of the swim in general (*e.g.* diamonds). In fact, however, distinction is usually to be found, not in being in the swim in general, nor yet in being out of the swim in general, but in a combination of resemblance to certain persons and of difference from certain other persons. If the consumption of a commodity increases among those classes with whom I wish to be associated, my demand for it increases, but if the consumption increases among those from whom I wish to separate myself, it decreases. (Pigou 1913, p. 23)

Of the two cases of consumer-demand interdependence enumerated by Pigou, only the 'out of the swim' case satisfies the positional goods characteristic of being available solely to a minority.

Pigou returned to what he named the 'in general' case, in *The Economics of Welfare*, most comprehensively in the fourth edition (1932), where he substituted for the terms 'out of the swim' and 'in the swim' respectively 'desire for the uncommon' and 'desire for the common'. Here he argued with respect to a commodity that if:

> [t]he purchase of the marginal unit indirectly increases or diminishes the desiredness of their holdings to the purchasers of other units, the marginal demand price and the demand price will be different. For commodities the desire for which is partly a desire for the uncommon the curve of marginal demand prices, which, for a nil purchase, coincides with the demand curve, will fall further and further below it as purchases increase; for commodities the desire for which is partly a desire for the common the opposite of this is true; … (Pigou 1932, p. 808)

Assuming that welfare is maximised when the marginal demand price equals the demand price, Pigou drew the conclusion that for:

> every industry, the desire for whose products is enhanced if they become less common, there must be certain rates of tax, the levy of which on the industry would increase economic welfare; and for every industry, the desire for whose products is enhanced if they become more common, there must be certain rates of bounty, the imposition of which would produce a like effect. (Pigou 1932, p. 226)

He thus implied that a tax on positional goods would increase welfare.

James Meade (1945) made reference to consumption externalities, including those connected with positional goods, in the course of reviewing Abba Lerner's *Economics of Control*. He criticised Lerner's failure to recognise the fact that:

> [i]ndividual A's increased consumption of commodity X may increase or decrease the satisfaction of individual B. When a man spends money on beautifying his house, this may give pleasure to his neighbours as well as to himself. When he wears a top-hat[7] or displays his diamond ring, his display may cause his neighbours deep dissatisfaction. Broadly speaking, there are external economies connected with any individual consumption which beautifies or otherwise improves conditions for others, and external diseconomies with forms of luxurious consumption which people desire only because it is the fashion, so that each consumer would feel the loss less acutely if all restricted their consumption simultaneously. (Meade 1945, pp. 53-4)

This consideration, taken in conjunction with others, led Meade to the idea that '[m]oral and psychological training might in some respects (*e.g.*, by diminishing the envy which people feel at others' good fortune) remove external diseconomies in private consumption' (Meade 1945, p. 55). That this well-meaning suggestion is utopian can be concluded from the near-universal role of competition for status in human societies from time immemorial (see Sahlins 1972; see also Sen 1983, p. 15, where it is pointed out that Hirsch argued not that individuals should change their goals, but that '[s]elf-interest-based objectives are achieved better for the group as a whole by the individuals *behaving* differently, *as if* they are maximizing some other objectives').

Macroeconomic implications of the concept of positional goods were first explored by James Duesenberry, in *Income, Saving, and the Theory of Consumer Behaviour* (1949), where what was to become known as the 'relative income hypothesis' was put forward. In an introductory chapter Duesenberry referred to Veblen, and Frank Knight as well, as having made a useful but limited contribution to the explanation of consumer behaviour, stating that:

> [b]oth Veblen and Knight made real contributions to our understanding of consumer behaviour problems. But because their interest lay in other fields they did not try to develop a positive analytical theory of consumption—one which would take into account the interdependence of preferences and still be useful in connection with the problems traditionally called economic. The negative character of their comments on "orthodox" demand theory explains, in large measure, their lack of influence on it. Most people would rather have a bad theory than no theory at all. (Duesenberry 1949, p. 15)

Central to Duesenberry's alternative to 'bad' orthodox theory was what he termed the 'demonstration effect', best described in the following passage:

> In given circumstances, … individuals … come into contact with goods superior to the ones they use with a certain frequency. Each such contact is a demonstration of the superiority of these goods and is a threat to the existence of the current consumption pattern. It is a threat because it makes active the latent preference for these goods. A certain effort is required to resist the impulse to give up saving in favor of higher quality goods. (Duesenberry 1949, p. 27)

The 'demonstration effect' phenomenon led Duesenberry to the hypothesis that 'the frequency and strength of impulses to increase expenditures for one individual depend entirely on the ratio of his expenditures to the expenditures of those with whom he associates' (Duesenberry 1949, p. 32). Assuming that each individual associates most with those on similar incomes, and that those on any given income try to emulate those on higher incomes by consuming as high a proportion of their income as they can, Duesenberry concluded that '*in equilibrium, consumption is proportionate to income and the savings ratio is independent of the absolute level of income*' (Duesenberry 1949, p. 37), a conclusion that was consistent with the evidence provided by time series data for the United States economy.

It was in the following year that Harvey Leibenstein, in an article entitled 'Bandwagon, Snob, and Veblen Effects in the Theory of Consumers' Demand', made an attempt to develop a rigorous theory covering those aspects of consumer behaviour involving the interdependence between the consumption of a good by one individual and the consumption of it by other individuals. Leibenstein explained the distinctions implied by the title of his article as follows:

> By the bandwagon effect, we refer to the extent to which the demand for a commodity is *increased* due to the fact that others are also consuming the same commodity. … By the snob effect we refer to the extent to which the demand for a consumer's good is *decreased* owing to the fact that others are also consuming the same commodity (or that others are increasing their consumption of that commodity). … By the Veblen effect we refer to the phenomenon of conspicuous consumption; to the extent to which the demand for a consumer's good is increased because it bears a higher rather than a lower price. We should perhaps emphasise the distinction made between the snob and the Veblen effect—the former is a function of the consumption of others, the latter is a function of price. (Leibenstein 1950, p. 189)

The bandwagon effect clearly corresponds to Pigou's 'in the swim' case of interdependence between individual and communal demand, and the snob and Veblen effects to his 'out of the swim' case. While the bandwagon effect clearly does not apply to positional goods 'available only to a minority', the snob and Veblen effects obviously do.

In the case of the bandwagon effect the demand curve will be more elastic than would have been the case if the demand for the commodity had been purely 'functional', to use Leibenstein's term. The 'snob effect' is the reverse of the bandwagon effect, the individual consumer's demand being 'negatively correlated with the total market demand' (Leibenstein 1950, p. 199), resulting in 'an opposite but completely symmetrical relationship to the bandwagon effect' (Leibenstein 1950, p. 199); this is the positional good case that Cunynghame earlier attempted to illustrate diagrammatically. Leibenstein concluded that the demand curve for a commodity to which a snob effect attaches will be less elastic than would have been the case if the demand for it were purely 'functional', though by definition it can never slope upwards to the right; this contrasts with the demand curve for a commodity to which a 'Veblen effect' attaches.

In the case of the 'Veblen effect':

> [t]he essential economic characteristic with which we are concerned is the fact that the utility derived from a unit of a commodity employed for the purposes of conspicuous consumption depends not only on the inherent qualities of that unit, but also [positively] on the price paid for it. It may, therefore, be helpful to divide the price of a commodity into two categories; the real [sic] price and the conspicuous price. … The conspicuous price is the price other people think the consumer paid for the commodity and which therefore determines its conspicuous consumption utility. (Leibenstein 1950, p. 203)

Leibenstein separated the consequences of a change in price into two effects, which he named the price effect and the Veblen effect. Where the price effect dominates, the demand curve, while less elastic than would have been the case in the absence of any Veblen effect, will still slope downwards to the right in the conventional way. However, where the Veblen effect dominates the price effect, the demand curve will slope upwards to the right. As Leibenstein pointed out, even in the presence of a Veblen effect it is possible for a demand curve to be negatively sloped at some stage or stages, while being positively sloped elsewhere.

Roy Harrod, though not making any reference to Wicksteed, expanded on the element of the concept of 'positional goods' to which Wicksteed had already drawn attention, namely the idea that what is possible for one person is not necessarily possible for all. Harrod's contribution was made in a paper written for a United States Committee for Economic Development symposium held in 1958, and subsequently published under the title of 'The Possibility of Human Satiety' (1961). In this paper Harrod argued that '[t]he minimum level of income, if any, that can give satisfaction to a minority, *i.e.* its satiation point, is necessarily far above the satiation point of the majority' (Harrod 1961, p. 8), because there 'is an unbridgeable gulf between the nature of what may be called oligarchic wealth and democratic wealth' (Harrod 1961, p. 8). By this Harrod meant first that, while a member of the wealthy minority can and often does allocate much of his income to the purchase of personal services, it is impossible in a perfectly egalitarian society for one man to 'engage in any one year the services of more than one man-year of the labour of others' (Harrod 1961, p. 8). Harrod meant, second, that democratic wealth can never include commodities that are naturally or artificially scarce, because it is impossible for everyone to 'live in the choicest part of New York, have good seats at all the best plays and operas, go to the most select night clubs, buy fine old masterpieces or patronize the best living artists' (Harrod 1961, p. 9).

W. G. Runciman's objectives in writing *Relative Deprivation and Social Justice* (1966) were to assess the available evidence on attitudes towards inequality of class, status and power in twentieth-century England, and to develop a theory of justice that could be applied to such inequality. In order to develop this theory, which largely involved the application to 'relative deprivation' of John Rawls' theory of justice, it was obviously necessary for Runciman to be precise about the meaning of 'relative deprivation'. In moving towards such precision he put forward the idea that an individual's perception of inequality depends not on his actual position in society, but on his position relative to a 'reference group', a concept which Runciman divided into three categories. 'A "comparative" reference group is a group whose situation or attributes a person contrasts with his own. A "normative" reference group is the group from which a person takes his standards. … [A] "membership reference group" is, as it were, the starting-line for the inequality with the comparative reference group by which a feeling of relative deprivation is engendered' (Runciman 1966, pp. 12-13).[8] Runciman went on to define 'relative deprivation' as follows:

> … A is relatively deprived of X when (i) he does not have X, (ii) he sees some other person or persons, which may include himself at some previous or expected time, as having X (whether or not this is or will in fact be the case), (iii) he wants X, and (iv) he sees it as feasible that he should have X. (Runciman 1966, p. 10)

The concept of 'relative deprivation', which Runciman used to apply both to a feeling of envy and to a perception of injustice, can be seen as the polar opposite of the situation of those who possess 'positional goods'.[9] Extending Runciman's analysis to cover positional goods, we could define 'relative approbation' as follows:

> A is relatively approbated when (i) he has positional good X, (ii) he sees some other person or persons, which may include himself at some previous or expected time, as not having X (whether or not this is or will in fact be the case), (iii) these other person or persons want X, and (iv) he sees it as undesirable that they should have X.

For individual A, in Runciman's terminology, those who do not have X make up a contrasting comparative reference group.

Staffan Linder's *The Harried Leisure Class* (1970), which was inspired by Harrod's 1958 paper, 'resurrected Harrod's theme and developed it in a number of directions' (Hirsch 1976, p. 23, n. 8). Departing somewhat from Harrod, however, Linder argued that not even those enjoying Harrod's 'oligarchic wealth' could ever reach satiety, because even they are subject to the limitation of time. More specifically, Linder divided the use of time into five categories, namely working time, time for personal work (defined as time spent in maintenance of both person and personal possessions), consumption time, time devoted to the cultivation of mind and spirit, and free time. All but the first of these categories of time could be regarded as positional goods; only a minority can enjoy large amounts of them, and an individual's social status varies directly with the amount of such time he or she enjoys.

Following this outline of the history of the concept of positional goods, I turn to a discussion of its significance.

4 Significance

Recognition of the fact that positional goods play a substantial part in human behaviour entails changes to economists' analysis of microeconomics, inequality and economic growth. I start with the implications for neoclassical microeconomics.

One might assume that the concept of positional goods, with its emphasis on the social context of individual behaviour, had its origins in the classical economists' focus on groups, notably classes, as opposed to individuals. Our outline of the history of the concept, however, suggests that this is not the case. Of the classical economists, only Adam Smith came at all close to defining the concept. The reason is not far to seek. The concept of positional goods focuses on individual behaviour. It is thus not surprising that those initially responsible for exploring the concept, notably John Rae, while contemporaries of classical economists, were in some respect or respects forerunners of neoclassical theory.

On the other hand, it is also not surprising that many of those who expanded on the positional goods concept, notably Veblen, while contemporaries of neoclassical economists, were critics of neoclassical theory, often on the ground that it fails to take into account the social context of individual behaviour. The neoclassical idea that individuals seek to maximise the value of absolute variables, such as consumption and leisure, at least implicitly assumes that both the sense of well-being and the consequent economic behaviour of each individual does not depend on the behaviour of other individuals. A Robinson Crusoe economy provides the basis for much of neoclassical microeconomics. Such an economy cannot accommodate the concept of positional goods.

From the points of view of both prediction and policy,[10] acknowledgment of the importance of positional goods would require standard neoclassical microeconomics to be amended so as to take into account the following facts. First, not just a few but many, if not most, goods are desired not only because of their intrinsic qualities, but also because of their position in a social hierarchy. Second, and consequently, following Veblen, both Frank (1985a) and also Rick Tilman (1999, p. 209) have stressed that some consumption is wasteful. Third, also consequently, a good's demand schedule may be flatter than neoclassical theory assumes, or even, without being a Giffen good, may conceivably have a positive slope. Fourth, as Frank demonstrated in *Choosing the Right Pond* (pp. 45-8), high status may lead a productive individual to accept less than their marginal product, and low status may lead a less productive individual to insist on being paid more than their marginal product.

More fundamentally, as Layard (2005, p. 44) put it:

> at work, I compare my income with what my colleagues get, in so far as I hear about it. If they get a raise above inflation and I get inflation only, I get mad. This obvious piece of psychology is unknown to standard economics, which says that if one person's income rises and nobody's falls, things have improved because no one has suffered. But boy, have I suffered.

Although not explicitly saying so, what Layard was presumably drawing attention to here was the contradiction between the Pareto criterion for improvement in an economy on the one hand, and real life on the other, a serious problem given that the Pareto criterion provides the basis for most of neoclassical welfare economics.

Further, drawing on an article entitled 'Is More always Better? A Survey on Positional Concerns' by S. Solnick and D. Hemenway (1998), Layard cited surveys that showed that whereas the majority of the respondents treated income as a positional good, only a small minority regarded leisure as a positional good. From this, Layard drew the three conclusions that some of the effort expended on earning income is futile, in that not all can have more income than others; that little of the sacrifice in obtaining leisure is similarly futile; and that assuming the current income tax rate is set without reference to the existence of positional goods, an increase in the income tax rate would lead to greater happiness.

Some common assumptions about inequality also need to be changed if the importance of positional goods is to be taken into account. Pagano (1999, p. 64) argued that by contrast with public goods, of which we must consume equal amounts, '[o]nly zero consumption of the positional good is compatible with its egalitarian consumption'. This is true not only of Pagano's zero-sum 'positional' goods (namely power and status), but also of positional goods in the sense of Hirsch, which by definition are available only to a minority. Somewhat paradoxically, however, it can also be argued along the lines of de Tocqueville that as a society becomes more egalitarian its demand for positional goods actually increases; in a status-ridden society only those of high status aspire to possess positional goods, whereas in an egalitarian society all have such an aspiration.

It was not a concern with either microeconomics or inequality that led to the term 'positional goods' being coined, but a concern with economic growth. In *Social Limits to Growth* Hirsch took issue with the central argument put forward in the Club of Rome's *The Limits to Growth* (1972), on the ground that it focuses on 'distant and uncertain physical limits and overlooks the immediate if less apocalyptic presence of social limits to growth' (Hirsch 1976, p. 4). Such 'social scarcity' occurs, he argued, when 'consumer demand is concentrated on particular goods and facilities that are limited in absolute supply not by physical but by social factors, including the satisfaction engendered by scarcity as such' (Hirsch 1976, p. 20). An example is to be found in the case of 'an imposed hierarchy that confines socially scarce goods to those on the highest rungs of the distributional ladder, disappointing the expectations of those whose position is raised through a lift in the ladder as a whole' (1976, p. 6).

Hirsch's view was that economic growth leads to increasing social scarcity because '[a]s demands for purely private goods are increasingly satisfied, demands for goods and facilities with a public (social) character become increasingly active' (Hirsch 1976, p. 4). And where market forces prevail, if 'positional goods remain in fixed supply while material goods become more plentiful, the price of positional goods will rise, as consumers' relative intensity of demand for them increases in terms of material goods' (Hirsch 1976, pp. 27-8). If for some reason prices do not rise, excess demand for positional goods may either be relieved through screening (for example, setting a higher minimum credentials requirement for a leadership position), or remain unrelieved (resulting in either congestion or quality dilution), Hirsch contending that both of these involve social waste, on the ground that they result in a less efficient outcome than if the market mechanism is allowed to operate.

These ideas were extended by Tibor Scitovsky, in the Fred Hirsch Memorial Lecture entitled 'Growth in the Affluent Society' given in London on 7 October 1986. In this lecture Scitovsky distinguished between 'unlimited' demand for material goods and 'unfillable' demand for positional goods, arguing that economic growth brings about a faster increase in the latter than in the former, with a consequent rise in the prices of positional goods, leading in turn to a fall in both the demand for material goods and employment. He saw this as one of the causes of stagflation.

Criticisms of what Hirsch had to say on the relationship between positional goods and economic growth are to be found in Ellis and Heath (1983). Ellis and Heath's most fundamental point is expressed in their observation that while 'snob goods are luxury goods *within a given income structure* (i.e., as one's income rises relative to other people's, one's demand for snob goods increases), it is not at all obvious that they are luxury goods *over time* (i.e., as the society as a whole gets richer, demand throughout the population increases)' (Ellis and Heath 1983, p. 7). For this to be the case, Ellis and Heath (1983, p. 9) argued:

> it would have to be demonstrated first that the individual's assessment of his needs is growing more slowly than the command over resources that economic growth provides him with, and that, within the freedom which this shortfall of needs over resources provides, there is an increasing tendency for individuals to opt for the pursuit of snob goods rather than other luxury goods.

Neither of these propositions seems to have been demonstrated to be true of growing economies so far.

5 Conclusion

Recognition of the importance of positional goods leads to two pessimistic prophecies relating to the future of mankind. It suggests, first, that even if an infinite quantity of consumer goods could be produced in an infinitesimally short period of time, individual human beings would not be happy with their economic lot; Veblen can be 'credited' with being the first to have implied this prophecy. It suggests, second, that even if the rate of growth of the world's population were zero the world's non-renewable resources would ultimately be exhausted, due to human beings' infinite pursuit of status; the 'credit' for being the first to imply this prophecy goes to Hirsch. All is not lost, however. We could all become stoics, accepting that status is available only to a minority. This does not imply the abolition of ambition, however. To adapt Alain de Botton, Stoicism does not recommend inferior status; 'it recommends that we neither fear nor despise it' (de Botton, 2000, p. 98).

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Notes

1 The exception is Pagano (1999, p. 81, Note 3), where there is discussion of some of the various attempts to fill the vacuum.

2 Hirsch's distinction bears some similarity to that made by David Ricardo between on the one hand commodities whose value was determined solely by their scarcity, and on the other hand commodities whose quantity could be increased by the application of human industry, to which his labour theory of value applied. As Geoff Harcourt (1981, p. 274) pointed out, 'Ricardo, of course, thought that in maturing capitalism the latter would dominate the former, at least until the stationary state was reached. Hirsch is examining the consequences in modern economics of the former tending to reach parity with the latter'.

3 Adam Smith (1776, vol. 2, p. 685) actually commented on some prices being said to be above £30,000, and others above £300,000, that such a high price paid by Romans for Triclinaria, 'a sort of woollen pillows or cushions made use of to lean upon as they reclined on their couches at table, passes all credibility'.

4 Following Cournot, William Whewell, after stating that he supposed 'there are no commodities of which a greater quantity would be sold if the price were increased, and a less quantity sold if the price were diminished', added that nonetheless:

> [i]t is conceivable that this might be, as a matter of caprice or fashion. For instance, we might conceive that diamonds might in some way (by the discovery of abundant mines or the like) become so common as to grow out of use, so that a less quantity might be sold than at present. (Whewell 1850, p. 7)

For the inclusion in his analysis of positional goods Whewell may well have been indebted, as White (1987, p. 17) pointed out, not only to Cournot, whose 'little book' he knew of by 1849, but also to Rae, whose 1834 book was praised by John Stuart Mill in his *Principles* (1848).

5 The first to translate '*Verelendung*' as 'immiserization' was Joseph Schumpeter, in his *Capitalism, Socialism and Democracy*. Schumpeter (1942, p. 22) wrote of 'immiserization' 'this is probably the best way to render the word *Verelendung*, which is no more good German than that English monster is good English. It is *immiserimento* in Italian'. Further, Schumpeter (1942, p. 34) made reference, to 'Marx's theory of *Verelendung* or, to use the English equivalent I have ventured to adopt, of immiserization'. The *Karl Marx Friedrich Engels Collected Works* translate *Verelendung* as 'impoverishment'.

6 Given its context, Marx's statement could alternatively be interpreted as referring not to the lower relative remuneration of workers, but to what Sowell (1960, p. 112) called the 'noneconomic dimension of misery', notably absence of work satisfaction.

7 Unlike Pigou, Meade seems to have viewed the wearing of a top hat as being 'out of the swim'.

8 The normative reference group is comparable with the impartial spectator in *The Theory of Moral Sentiments*, where Adam Smith argued that in his behaviour each individual is guided by the judgements of an impartial observer.

9 The concept of relative deprivation can also be seen as providing sociological backing for Duesenberry's 'demonstration effect', though Runciman made no mention of Duesenberry's work, perhaps because economic inequality was not included in the inequalities covered in his study.

10 See Solnick and Hemenway (1998, p. 381), who give as examples the unpredicted failure of fiscal incentives to pursuade surburbanites to narrow the education gap by helping rural and inner-city schools, and the failure of policies designed to make the distribution of looks, income and education more equal.

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