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Taking Libertarian Concerns Seriously: Reply to Kashdan and Klein

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I WANT TO BEGIN BY OFFERING MY SINCERE THANKS TO Andrew Kashdan and Daniel Klein for their spirited critique of my work. They have read me carefully and raised many important questions. But before responding to them in detail, I want to say something about what they perceive as my shortage of "libertarian sensibilities about politics, government, and society."

This charge has been leveled at me by other readers of my work. One of the earliest reviews of *Luxury Fever* posted on Amazon.com, for example, said simply, "Good morning, comrade! All the world needs is one more socialist with a Ph.D." It is a frustrating charge because it is one that no one who knows me well would make. As my friends can attest, I would place near the top of any reasonable scale of libertarian sensibilities.

A profound reluctance to surrender personal autonomy is perhaps the most widely shared personality trait among libertarians. This trait is well represented among academics. Indeed, many of us became professors precisely because it is one of the few jobs where we work for no one and no one works for us.

But no matter how strong their preference for personal autonomy, libertarians with even a modest capacity for reason are forced to retreat from the most extreme versions of libertarianism. Some versions, for example, insist that all taxation is theft. But because of the free-rider

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problem, a nation in which tax payments were purely voluntary would be unable to field an army. It would eventually be invaded by some other country's army, and its citizens would then be forced to pay taxes to the government of that country. So even people with the most extreme libertarian sensibilities generally concede the necessity of empowering government to collect taxes by force of law. They don't like taxes but recognize that the alternative is clearly worse.

Taxes are not the only issue on which most libertarians have felt the need to compromise. They must also make reasoned judgments about the conditions under which the state can restrict the individual's freedom of action in other ways. And most are prepared, for example, to concede the state's right to prevent them from driving 90 miles per hour in school zones.

Yet there remain a small number of extreme libertarians who reject all compromise. They denounce all taxation as theft and reject any attempt by the state to restrict their behavior as an infringement on their individual rights to do as they please. These libertarians are really just crybabies. Having long since forfeited any claim to be taken seriously in debate, they wield no power in defense of liberty.

Professors Kashdan and Klein are not extreme libertarians, and neither am I. Each of us accepts that the state may tax us and enforce various laws that prevent us from doing as we please. So where do we differ?

My own account of libertarianism holds that the state can restrict someone's freedom of action only if it can be shown that failure to do so will result in unacceptable harm to others. Kashdan and Klein counter that libertarianism is rooted in property ownership and freedom of contract, "not guarantees against any kind of harm." Well, yes, but the two statements are completely compatible. Kashdan and Klein are right, for example, that property ownership and freedom of contract permit business owners to inflict extreme economic hardship on competitors. But the laws of property permit this only because preventing owners from competing vigorously would cause even greater harm to them. In my account of libertarianism, preventing harm to others is a necessary, but not sufficient, condition for restricting behavior.

Kashdan and Klein do not dispute that positional arms races can lead to welfare losses for reasons precisely analogous to those we see in the case of military arms races. In each instance, the necessary condition for welfare losses is that context, or relative position, matter more for some expenditure categories than others. Too much is spent on military arms, for example, because relative position matters more for bombs than for most consumption goods. Likewise, too much is spent on positional goods because context matters more for such goods than for nonpositional goods. Of course, the mere fact that an allocation is imperfect is hardly sufficient to justify restricting individual behavior. Perhaps, for example, we have little reliable information on the extent to which evaluations depend on context in different domains, in which case we would not know which goods to promote with collective action and which to inhibit.

Certainly, it would be fair to describe research on how context shapes evaluation as being in its infancy. Yet we are almost always forced to act on the basis of less than complete information. Conventional economic models entail a very specific, if implicit, assumption about the extent to which context sensitivity differs across domains: they assume that context doesn't matter at all. It is thus little wonder that researchers who employ these models are reluctant to state this assumption explicitly. It is one that cannot withstand even minimal scrutiny, for although we do not know the precise extent to which context influences evaluation in different domains, evidence suggests not only that it matters, but also that it matters much more in some domains than in others. There is persuasive evidence, for example, for the proposition that safety is less positional than other consumption categories as a whole.[1] I know of no evidence at all supporting the contrary proposition. The claim that positional concerns in unregulated labor markets will produce an equilibrium in which workers choose inefficiently low levels of safety is thus completely consistent with all available evidence.

But as Kashdan and Klein are correct to point out, even this conclusion does not ensure that we would do better by enacting safety legislation. After all, even the most well-intentioned laws and regulations sometimes do more harm than good. For some reason, Kashdan and Klein consider me insufficiently attentive to this possibility. As my students can attest, however, I take great pains to emphasize it, not just in my writings, but also in my courses. Merely discovering that an unregulated market allocation is inefficient, I tell them, provides no assurance that a regulatory solution will be better. I stress this point repeatedly. In the safety domain, I often illustrate it with examples like the following passage on requirements for ladders, taken verbatim from the U. S. Occupational Safety and Health Administration's 1976 manual of workplace safety standards:

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[1] For a survey of this evidence, see Frank (2007, chapter 7).

> The general slope of grain in flat steps of minimum dimension shall not be steeper than 1 in 12, except that for ladders under 10 feet in length the slope shall not be steeper than 1 in 10. The slope of grain in areas of local deviation shall not be steeper than 1 in 12 or 1 in 10 as specified above. For all ladders, cross grain not steeper than 1 in 10 are permitted in lieu of 1 in 12, provided the size is increased to afford at least 15 percent greater strength than for ladders built to minimum dimensions. Local deviations of grain associated with otherwise permissible irregularities are permitted. (Quoted by R. Smith 1977, 11-12)

This befogged passage appeared in a section of the OSHA manual devoted to ladders that is 30 pages long, two columns to the page. It is easy to imagine that after having read this passage, many managers decided to eschew any attempt to master these regulations and instead simply abandoned any activities that required ladders. That step, needless to say, would have been unlikely to make the workplace any safer.

In short, I am happy to stipulate that the existence of a market imperfection does not guarantee that regulation will improve matters. But neither does the mere possibility of counterproductive regulation constitute a persuasive case against all forms of regulation. In the environmental domain, for example, we have discovered that requiring marketable effluent permits often reduces cleanup costs to only a fraction of what they were under heavy-handed, prescriptive regulation. Similarly, it may be that injury taxes would be both more efficient and less coercive than many forms of prescriptive safety regulation. But these are empirical questions, not questions of ideology.

Kashdan and Klein also emphasize, and I agree, that private solutions to externalities are often sufficiently compelling to render governmental intervention unattractive. Here they follow the trail blazed by Ronald Coase, who pointed out that if transaction costs were sufficiently low, private parties could negotiate efficient solutions to problems caused by externalities. As Coase emphasized, the efficient solution in general is to place the burden of adjusting to an externality on the party who can do so at the lowest cost. In some cases, for example, it might be more efficient to install a filter on a factory's smokestack, while in others it might be cheaper for downwind residents simply to move.

It is this line of thinking that has provoked many of the most vehement objections against legislative action to curb positional externalities. Such objections typically come from those who believe that positional concerns are rooted in negative emotions like envy and jealousy, and are hence an illegitimate basis for restricting anyone's behavior. In their eyes, shaping public policy on the basis of positional concerns would be like giving policy weight to the preferences of sadists.

This objection has considerable rhetorical force, for society has a strong interest in discouraging envy and jealousy. Indeed, it would be difficult to find anyone who would endorse preventing someone from building a larger house merely because it might make his neighbors feel bad. But as Kashdan and Klein acknowledge, I have taken pains to emphasize that the cost of having inferior relative position typically has nothing to do with envy.

The most vivid example involves the link between relative position and the cost of providing a good education for one's children. In the United States, as in most other countries, the perceived quality of local schools closely tracks local real estate prices. If you want your child to attend a public school of average quality, you must therefore spend roughly the median price for houses in your area. But a "good" school is an inherently positional concept. It is simply one that compares favorably with the relevant local alternatives. And because school quality is defined in relative terms, the logic of musical chairs implies that half of all students must end up in bottom-half schools, no matter how much everyone spends.

The median family on the income scale rationally believes it can do better by increasing the amount it spends on housing. But when all families follow suit, the effect is merely for everyone to have spent more on housing. No one moves forward in relative terms. And if their bidding is financed in part by sacrificing nonpositional items such as safety, leisure, and savings, the result is inefficient.

Admonishing people to ignore their feelings of envy is a productive step, to be sure. But one cannot realistically expect parents to abandon their goal of sending their children to the best schools they can afford. If mobility were completely costless, it might be possible for them to persuade like-minded others to form new communities with modest houses and generous school budgets. But given that most people also value living in reasonably close proximity to where they work, forging a private solution of this sort would be difficult at best. And so the practical choice confronting families almost always entails a dilemma: buy an expensive house in a neighborhood with good schools, or a cheaper house in a neighborhood with bad schools.

Like expenditures for schooling, expenditures for a host of other goods entail positional components that have nothing to do with envy. When a couple goes out to dinner for their anniversary inducing envy in their friends and neighbors is almost certainly not their aim. Rather, they just want to share a memorable meal. But a memorable meal is a quintessentially relative concept. It is one that stands out from other meals. Thus, beyond some point, additional expenditures do not augment the number of memorable meals.

It is the same with cars, which are judged according to how their characteristics compare with those of other cars in the same local environment. The same car that would have been experienced as having brisk acceleration and sure handling by drivers in 1950, for example, would be much less charitably evaluated by most drivers today.

There are of course some people who buy things in the hope of making others feel envious. And there are others who buy things in order to assuage their own feelings of envy. But examples of both types are relatively rare. In portraying positional arms races as entailing purchases primarily driven by such motives, Kashdan and Klein consign them to the periphery. Such arms races, they conclude, are not only unimportant, but also not legitimate grounds for policy intervention. But positional externalities are really just context externalities. And in varying degrees, context matters everywhere.

Given their professed libertarian sensibilities, I am puzzled that Kashdan and Klein take such an uncharitable view of my proposal to use tax policy for reducing the costs that arise from positional arms races. My own libertarian sentiments dictate that if the goal is to alter our behavior for common good, the instrument we choose should afford people as much flexibility as possible. Compared to the alternative of prohibiting specific behaviors, it is generally far less coercive simply to tax them.

This, as noted, is the central lesson of our experience with policies aimed at reducing environmental pollution. Early policies required across-the-board reductions in effluent discharges, an approach that proved grossly inefficient, because it made no allowance for the fact that it costs some firms far more than others to curtail pollution. Effluent taxes or marketable permits generally work much better, because they concentrate pollution reduction in the hands of those who can accomplish it at the lowest cost.

The same principle is directly relevant for changing behavior in other domains. Consider, for example, the laws in many states that require cyclists to wear helmets. These laws have been defended on grounds that injured cyclists often impose heavy costs on others. But that goal could be achieved more directly by the less intrusive step of requiring cyclists to carry adequate insurance. The actual reason for helmet laws is that legislators believe they should prevent cyclists from taking the irrational risk of riding bareheaded.

New York State requires bicyclists 16 and under to wear helmets, a law that almost surely saved the life of one of my sons, who was involved in a serious bicycle accident when he was 13. Such laws enjoy broad support. But many libertarians oppose similar laws for adults, as I once did, in the belief that people of voting age should be free to make such decisions for themselves. With additional exposure to the relevant social science literature, however, I have become persuaded that many adults are no more rational than most children when deciding whether to wear a helmet. And even fully rational adults may experience collective action problems when confronting this decision. They might be concerned, for example, that a voluntary decision to wear a helmet would signal fearfulness or a poorly developed sense of fashion.

Suppose, for the sake of discussion, that for these or other reasons, the vast majority of adult cyclists favored a law requiring helmets. Libertarians would still have intelligible reasons for objecting, for there are at least some cyclists who insist they feel deprived of the essence of a cherished experience if they are forced to wear helmets. For these people, riding without them is probably rational. To require them to wear helmets just because others might choose irrationally has always seemed illegitimate to me.

But requiring helmets for all is not the only policy option. Alternatively, we could permit cyclists who feel strongly about riding bareheaded to exempt themselves from the requirement by purchasing medallions that could be displayed on their license plates. If the fee were, say, $300 a year, most of the people for whom riding bareheaded was in fact an irrational decision would start wearing helmets. And those who felt strongly about riding without one would retain the option to do so. Revenues from the sale of medallions could be used to offset other taxes.

Taxation as an instrument for curbing positional arms races is attractive for exactly parallel reasons. Rather than outlaw socially costly forms of consumption, we can achieve the same result more cheaply and less coercively simply by taxing them. Kashdan and Klein complain that taxation is a blunt instrument because it "brings force against the guilty and innocent alike." Would they offer a similar complaint about effluent charges? The optimal effluent tax depends on the aggregate harm caused by the pollutant in question, not on the motives of polluters. It would make no sense to exempt a specific firm from an effluent tax on the grounds that it had no intention of harming others. Similarly, it would make no sense to exempt a consumer from a consumption tax merely because it was not his intention to harm his neighbor. Positional externalities impose costs on others, irrespective of people's intentions. If feelings of envy were the only such cost, the best policy response might be simply to exhort people to suppress those feelings. But, as noted, the primary costs associated with positional externalities have nothing to do with envy. And those costs are not so easily avoided.

The progressive consumption tax that I have proposed is relatively simple. Taxpayers would report their incomes to the IRS just as they do now. They would also report how much they had saved during the year, much as they do now to exempt money saved in IRAs and 401(k) accounts. People would then pay tax on their "taxable consumption," which is just the difference between their income and their annual savings, less a standard deduction. Rates at the margin would rise with taxable consumption.

If the tax were revenue neutral, marginal rates at the top would be significantly higher than current marginal tax rates on income. Such a tax would thus alter the incentives confronting wealthy taxpayers as they decide how much to spend and save. One direct effect of this change in tax policy, then, would be to reduce current expenditures on mansions. But the policy change would also have indirect effects. If housing is, as evidence suggests, a strongly positional good, the fact that people at the top save more and spend less on it will shift the frame of reference that influences the housing expenditures of those just below the top. So they, too, will spend less on housing, and so on all the way down the income ladder.

By all available evidence, that would be a good thing. In 2005, the aggregate household savings rate in the United States was negative. Americans spent more than they earned during a full calendar year for the first time since The Great Depression. Liberals and conservatives alike agree that our failure to save has had damaging macroeconomic consequences, that we would all be better off if we all spent less and saved and invested more. But no individual has the power to alter the aggregate savings rate, which shares many characteristics of traditional public goods.

Perhaps Kashdan and Klein believe that our current lack of savings rates is not a proper object of social concern. If so, it would be interesting to hear why. But if, more plausibly, they believe that saving more would be better, on what grounds might they object to my proposed switch to a progressive consumption tax? One could always trot out the "taxation as theft" objection, but as noted earlier, that objection has been long since abandoned by serious libertarians. Given that we must tax something, what should we tax?

By taxing income, we tax both consumption and savings. But given that we save far too little, what possible sense does it make to be taxing savings? In a paper published in 1943—another time when Americans needed to save more—Milton Friedman suggested the progressive consumption tax as the best instrument for raising the revenues needed to pay for the war effort. His argument in that paper is just as compelling now as it was then.

Kashdan and Klein are also critical of the happiness literature I cite. But I have criticized this literature in very similar ways (Frank, 2005). The two central findings reported by happiness researchers are that 1) beyond some point, when everyone's incomes grow in tandem in a given country, measured happiness levels do not rise; and 2) in a given country at a given point in time, high-income people are happier, on average, than low-income people. Many conclude from the first finding that economic growth is not welfare-enhancing. But as I have argued elsewhere, this conclusion is highly suspect (Frank, 2005). Existing happiness measures clearly fail to capture much that we value. Even so, these measures are strongly linked to a variety of objective indicators of human well-being. And not even the fiercest critics of the happiness literature question the importance it assigns to relative income (see, for example, Kahneman et al., 2006).

The positional arms race model does not require that utility be independent of absolute consumption levels. As discussed earlier, the critical assumption is that context matters more for the evaluation of some goods than of others. The fact that existing happiness measures fail to capture all important aspects of human welfare does not imply that context does not matter, or that its importance does not differ across domains.

Kashdan and Klein also question my claim that much high-end consumption is wasteful. Thus, they write, "if the standard for luxury spending has risen, so that the rich must buy ever more expensive cars to achieve elite status, the amount of waste may not be very significant . . . [because] much of the premium they pay ends up as producer surplus." This claim rests on the implicit assumption that producers need not compete for the patronage of high-end consumers. This seems a strange position indeed for free-market economists like Kashdan and Klein to defend. After all, the most important difference between the wealthy and others is that the wealthy have more money. Like everyone else, they want good value for their outlays. They may be willing, even eager, to pay top dollar; but in return, they want the best products available. And improvements in quality cost real resources.

As the upper echelons of the relevant quality distributions are approached, the cost gradients often rise steeply. For example, the Porsche 911 Turbo, which accelerates from zero to sixty in 3.9 seconds, sells for about $150,000. Until recently, it was difficult to find another car with clearly better handling and performance. Then Porsche's own Carrera GT, introduced in 2004, raised the bar slightly. In the zero-to-60 sprint, it beats the Turbo by two-tenths of a second, and it is slightly more sure-footed on the track. To get these improvements, however, Carrera GT buyers must shell out nearly three times as much as for the Turbo. Some of that money is producer surplus, but only a small fraction. The lion's share of the company's revenue is paid out to its factors of production. It is a fundamental misunderstanding of the competitive process to believe that high-end consumption dollars end up largely as producer surplus.

Kashdan and Klein also argue that the waste of luxury spending is circumscribed by the ability of sensible people to choose their friends and co-workers. They note, for example, that "An investment banker may feel pressure to wear an expensive suit and consume other conspicuous goods. It is easy to call this socially wasteful spending, but, as natural primps and popinjays, those self-selecting into such a career may aspire to enter this contest, and the contest may have little impact outside this circle."

All that may be true, but how does it speak to the question of whether such spending is wasteful? I stress again that by wasteful I mean inefficient from the collective, as opposed to the individual, vantage point. Many high-end purchases are wasteful in this sense because they are driven largely by their functions as signals—both of ability and of the importance of specific relationships. First impressions are often important in competitive environments, for example, and are often influenced in subtle but powerful ways by the kinds of clothing or jewelry people wear. Thus, as a Madison Avenue retailer described a conversation he overheard between two men, each wearing a five-figure wristwatch, "It's all about who has what. The friend sees his friend has a [Patek Philippe] Pagoda, and these are people who have a certain intuitiveness; they know how much things cost. They ascertain what a guy's capability or monetary status is by looking at his watch. They know if he's a player. Or they think they know" (Kuczynski 1998, 3).

A wealthy businessman recently spent $10 million on a coming-of-age party for his daughter. He was undoubtedly motivated in part by a sincere wish to make her feel special. It was probably not his intention to raise the bar that defines what counts as special.

Most of us will of course never spend millions on a party for a loved one or own a Patek Philippe watch. Yet such spending by top earners has spillover effects. Oogles-N-Googles, a company described as an over-the-top event planner for children's parties, has been in such demand that it recently announced that it would begin licensing franchises. Few middle-income families purchase the services of this company. But median expenditures on children's parties and on gifts more generally have been growing rapidly. Even in middle-income families, for example, a $200 wristwatch is no longer viewed as a suitable gift to mark a spouse's promotion. When signal strength and subjective evaluations depend heavily on relative expenditure, little would be sacrificed if all spent less on expensive wristwatches and birthday gifts.

Kashdan and Klein write as if such waste were a matter of social indifference. This is a strange belief indeed for economists to hold, for if we had additional resources, there would be innumerable ways in which we could spend them to mutual advantage. For example, budget deficits have compromised our national security, as when the Bush administration reduced financing by 8 percent in 2004 for the Energy Department's program to secure loosely guarded nuclear stockpiles in the former Soviet Union. Sam Nunn, the former United States senator, now heads a private foundation whose mission is to raise private donations to expedite this effort. And despite the rational fear that terrorists may try to detonate a nuclear bomb in an American city, most cargo containers still enter our ports without inspection.

Budget deficits have also led to cuts in federal financing for basic scientific research, even as our comparative advantage in the scientific domain has continued to dwindle. Describing these cuts as a threat to our long-term economic prosperity, Senator Pete Domenici, Republican of New Mexico, said: "We thought we'd keep the high-end jobs, and others would take the low-end jobs. We're now on track to a second-rate economy and a second-rate country."

Citing revenue shortfalls, we have postponed maintenance of our streets and highways, even though doing so means having to spend two to five times as much on repairs in the long run. In the short run, bad roads cause thousands of accidents each year, many of them fatal, and an annual average of $120 in pothole damages per vehicle.

Revenue shortfalls and low household savings rates have also forced us to borrow hundreds of billions of dollars each year, primarily from

China, Japan, and South Korea. These loans, which must be repaid in full, with interest, create additional risk of international monetary instability in the meantime.

The revenue shortfalls that have precipitated these spending cuts are in large measure a consequence of tax reductions enacted during George W. Bush's administration. Those tax cuts, which put more money in my pocket, were marketed with libertarian slogans. Representative Tom Osborne of Nebraska, for example, defended them on the House floor by saying, "The bottom line is that it's your money, and you know how to spend it much better than anyone in Washington, D.C." As a libertarian, however, I cannot see how the resulting public and private expenditure shifts have increased my personal autonomy.

Kashdan and Klein voice concern that to increase funding for government activities would create positional waste of its own. They cite unproductive arms races among civil servants seeking advanced degrees, thereby to increase their salaries under government pay formulas. Having worked in government, I have witnessed government waste at close range. But wouldn't it be better to attack such waste directly, rather than by cutting funds for both wasteful and efficient programs alike?

Kashdan and Klein also accuse me of being insufficiently sensitive to the positive externalities generated by high-end consumption. Clearly they are correct that many of the technological innovations that were originally developed for the luxury market find their way over time into products bought by others. And such spillovers are clearly a good thing. But on what grounds would it be reasonable to expect that a progressive consumption tax would stifle innovation on balance?

In the short run, the tax would not change the total level of spending. Rather, it would shift the composition of spending in favor of investment. Innovation is hardly confined to the consumption sector. Producers of capital goods also have strong incentives to come up with useful innovations. And with the greater aggregate investment spending caused by a consumption tax, more resources than before would be available for research and development. There is thus no reason to expect innovation to slow down, even in the short run.

In the long run, which is what really counts for the point Kashdan and Klein are attempting to make, their argument collapses completely. Higher rates of investment mean a higher rate of income growth, which means that consumption along the high-savings trajectory will eventually exceed what it would have been had we remained on the low-savings trajectory. From that point forward, there would be more expenditure on innovation in both the consumption and capital goods sectors.

Kashdan and Klein also question my claim that leisure is broadly nonpositional. Certainly there could be circumstances in which this claim would be false. For instance, in societies in which the greatest concentrations of wealth resulted not from earnings but from inheritance, leisure could even be highly positional—a relatively pleasant way of signaling one's material standing. But when income and wealth depend largely on personal effort, compelling evidence suggests that leisure will be highly nonpositional. Historically, position in human societies has always been strongly associated with control over material resources. In a famine, for instance, whether a person got fed depended on relative wealth, not relative leisure. Similarly, in a polygynous society, whether a man was able to marry depended on his relative wealth, not his relative leisure. And although most societies are no longer polygynous, relative wealth levels remain an important determinant of sexual attractiveness.

Elsewhere, I have motivated the claim that leisure is nonpositional with a pair of thought experiments. In the first, most respondents are willing to accept smaller absolute house size in return for larger relative house size. In the second, most respondents are willing to sacrifice relative advantage on the leisure scale in order to obtain absolute advantage on that scale.

Kashdan and Klein offer what they apparently believe to be a competing interpretation of the latter choice pattern. Thus, they write that "One reason you might not be embarrassed at having two weeks less vacation than everyone else is . . . that having less vacation can signal that you are too important at your workplace to disappear for weeks at a time. Also, long spells of vacation can signal that you do not like your work—a condition that no one can envy." What can their aim possibly be here? These observations not only do not challenge my characterization of leisure as nonpositional, they directly support it.

The key point is that if leisure is nonpositional, work becomes misleadingly attractive to individuals. Each person sees a chance to get ahead in relative terms by working a little harder (thereby, as Kashdan and Klein point out, seeming to be more important or more committed). Yet when all work harder, relative position remains unchanged—and hence the potential attraction of collective steps to limit work.

Surveys of associates in large law firms, for example, confirm that most respondents would prefer to work fewer hours at lower pay, but only if other associates also did so (Landers, Rebitzer, and Taylor 1996). Findings in the happiness literature also support the characterization of leisure as nonpositional. Even after controlling for other factors, higher happiness levels are consistently associated with higher absolute levels of leisure (Kahneman et al., 2006).

The categories of behavior that society chooses to regulate reflect social judgments about the relevant deficits and excesses. Patterns of regulation are thus another source of evidence with respect to leisure's nonpositionality. Almost all countries encourage leisure through regulation and social norms. Long before governments became involved, religions attempted to encourage leisure by designating Sabbath days on which work was forbidden. In the United States, the Fair Labor Standards Act encourages shorter working hours by its provision requiring premium pay for labor performed in excess of 8 hours per day, 40 hours per week, or on national holidays. European regulations are even stricter in their support of shorter hours. And many jurisdictions continue to enforce Blue laws, which make it unlawful for establishments to remain open during certain periods.

If so many countries actively intervene to constrain the number of hours that people would otherwise have chosen to work in unregulated markets, people must believe that working longer hours would reduce welfare. The conventional explanations offered for these regulations are completely unpersuasive. For instance, although France defended its recent requirement of a 35-hour workweek on the grounds that it was needed to stimulate jobs, such stimulus effects have never been demonstrated. Similarly, although many have defended hours regulations as needed to protect workers from employers with market power, the constraints imposed by such regulations bind most heavily for hourly workers in low-wage labor markets, which are among the most highly competitive by conventional yardsticks. In contrast, salaried workers in high-wage labor markets are relatively unconstrained by hours regulations, even though their employers are much more likely to occupy dominant market positions. The observed patterns of regulation are consistent with the hypothesis that leisure gets short shrift because of positional concerns. And contrary to what Kashdan and Klein suggest, support for such regulations does not signal any lack of commitment to excellence.

I once participated in a debate with a University of Chicago economist on the question of whether public policy should attempt to curb positional arms races. My opponent argued that it should not. In my opening presentation, I used the example of how perceptions of automobile performance are sensitive to context. Thus, for a car to be experienced subjectively as fast, it must accelerate more rapidly than most other cars in the same local environment. If people enjoy fast cars, the result is often an arms race focused on engine displacement. From the vantage point of motorists collectively, this arms race is wasteful for the reasons discussed earlier. The taxes that many European countries impose on engine displacement might thus enhance welfare by inhibiting this arms race. And again, because we must tax something, only crybabies would think it relevant to object that taxation is coercive. Do Kashdan and Klein really believe that there are much better things to tax than engine displacement?

My Chicago opponent conceded that positional externalities might be important. But he argued that because we know so little about the specific ways they might matter, we are unable to predict even the direction, much less the size, of any distortions they might cause. To make his point, he asked the audience to imagine a community in which everyone valued having not a fast car but a slow one. To gain positional advantage, people in this community would then compete by buying automobiles with ever smaller engines. In equilibrium, cars would be "too slow" from the collective vantage point.

This argument is an example of what my former colleague Richard Thaler has called "sufficiency bias." When economists afflicted with this bias confronts an argument they do not like, they rebut it by offering an argument that demonstrates the logical possibility of the opposite result. And having done so, they seem to consider the issue settled.

My Chicago opponent's argument was logically impeccable but empirically absurd. Under his assumptions, the equilibrium automobile would indeed have been too slow. The only problem is that the kind of community he assumed does not exist. If we are looking for the right answers to important questions, that matters.

To their credit, Kashdan and Klein raise objections that are generally more thoughtful than those raised by my Chicago critic. But in fairness, I must also report that I detect a hint of sufficiency bias in many of them. Thus they claim, on the basis of no evidence other than some trend data on the amount of leisure in the US in recent decades, that we shouldn't encourage leisure consumption because we don't really know whether leisure is nonpositional.

Even in a state of imperfect information, however, it makes no sense to base policy on the assumption that we know nothing. The best available policies are those based on the best information we have. Positional externalities have been around for as long as animals have inhabited the planet. The historical record of human societies is replete with detailed information about them. Economists have been studying positional externalities formally for only a few decades. Even so, however, we already know quite a bit about them.

On conservative interpretations of the relevant evidence, the welfare losses from positional externalities are enormous, easily hundreds of billions of dollars a year or more. Savings of that magnitude could alleviate much human misery. Under the circumstances, it is a bold step indeed to counsel inaction on the basis of ignorance.

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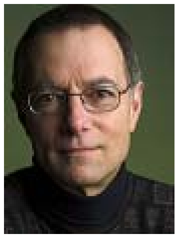

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