



*Econ Journal Watch,  
Volume 3, Number 3,  
September 2006, pp 412-434.*

---

## Assume the Positional: Comment on Robert Frank

ANDREW KASHDAN AND DANIEL B. KLEIN\*

[Abstract](#)

**THE INDIVIDUAL SPECTATOR IN A STADIUM CAN IMPROVE HIS OR** her view by standing on tiptoe. But when everyone does likewise, everyone is worse off. As Fred Hirsch (1976, 5) notes when introducing this example, “the preferred outcome may be attainable only through collective action,” which could mean an explicit or implicit agreement. Economists will recognize it as a prisoner’s dilemma. Hirsch and Robert Frank extend the idea to a wide variety of consumption decisions involving what Hirsch called positional goods, whose value depends relatively strongly on position in relation to others. Certain luxury goods are the classic examples, but other prominent examples include education and certain jobs or leadership positions. Essentially, Frank sees competition for positional goods as wasteful, and wants higher taxes to discourage it. We argue that he overstates the problem, overlooks various voluntary solutions, overlooks unintended consequences of using taxation, and neglects the Smithian incumbency on those proposing coercion.

---

\* Department of Economics, George Mason University. Fairfax, VA 22030.  
The authors would like to thank workshop participants at the Mercatus Center at George Mason University.

We have great admiration for Robert Frank—for his breadth of insight, his industrious service to economic education, his focus on important policy issues, his exemplary participation in public discourse, his habits of plain language, and his important illumination of issues of status and positionality (and here his place is pre-eminent!). We regret, however, that he does not combine these virtues with more libertarian sensibilities about politics, government, and society.<sup>1</sup>

Frank summarized his work on positional goods in an *American Economic Review* article “Positional Externalities Cause Large and Preventable Welfare Losses” (2005). As in his books *Choosing the Right Pond* (1985a), *The Winner-Take-All Society* (Frank and Cook 1995) and *Luxury Fever* (1999), Frank argues that positional goods are creating negative externalities and inefficiency that can be reduced by higher taxes. In an earlier paper on positional externalities, Frank argued that “The apparent strength of consumption externalities suggests that supply siders are barking up the wrong tree when they say that income and consumption taxes introduce distortions into important economic decisions. Rather, such taxes alleviate existing distortions in those same decisions” (Frank 1985b, 102).

Frank follows Hirsch in his conception of the problem, and Hirsch has a clear discussion of the issues at stake. A public-goods element can be attributed to a wide range of private expenditures. Hirsch writes the following of education and job seeking: “the utility of expenditure on a given level of education as a means of access to the most sought after jobs will decline as more people attain that level of education” (Hirsch 1976, 3). Since the benefits of education depend at least partly on relative position rather than absolute skills or learning, “the possibility of a general advance is an illusion,” and “the distributional struggle returns” (Hirsch 1976, 6). Both Hirsch and Frank emphasize that at least some positional externalities are independent of psychological considerations or envy.<sup>2</sup> What people get depends to an increasing extent on their relative position in the economic

---

<sup>1</sup> Incidentally, Frank (2003, 2) claims that his tax plan accords with the “classical libertarian criterion” that the state may interfere in actions that bring “harm to others.” But Frank should know that the liberty idea is rooted in property ownership (and freedom of contract), not guarantees against any kind of harm. Just as a competitor might harm you, your neighbor’s ownership of a fancy car might harm you because of positional rivalry. But under no jurisprudence, much less a classical liberal jurisprudence, does it tread on any of your property. Moreover, as a supposed punishment or deterrent of positional crimes, Frank’s taxation is indiscriminate, as it brings force against the guilty and innocent alike.

<sup>2</sup> See Frank (1985a, 114; 2003, 13-14; 2005, 141) and Hirsch (1976, 8).

hierarchy, a factor separate from the level of satisfaction in their consumption.

Another way to think of the concept of positionality is that certain goods are characterized by some type of absolute scarcity, because of physical or social limits (hence Hirsch's "Social Limits to Growth"). A particular natural landscape—the heights—is physically scarce, and leadership positions are socially scarce. All economic goods are scarce, but, while the supply of regular goods can be increased by production over time, supplies of other goods are fixed (Hirsch 1976, 22). Builders can build more skyscrapers, but there can only be one tallest building. In such cases, free competition will involve wasteful social climbing. For highly positioned jobs, the credentials required might increase, and the resulting resource utilization might be wasteful overall.

Frank advocates taxation to reduce spending on positional goods and encourage consumption of less positional goods, such as vacation time (2005, 137). The exact form of taxation has varied in Frank's writings. He advocated taxing specific categories of consumption goods in *Choosing the Right Pond* (1985a, 231-232), a general progressive consumption tax in *The Winner-Take-All Society* (1995) and *Luxury Fever* (1999), and a steeper progression in the income tax in an unpublished paper (2003). We suspect that Frank (2003) returns to an income tax, even though he earlier (1999) gave reasons for the superiority of consumption taxes, because it is more feasible politically. He continues to note the objective of "raising the price of consumption relative to leisure" (2003, 25).<sup>3</sup>

According to both Hirsch and Frank, the reason that such externalities have become increasingly important is that the social "heights" remain fixed while the material purse continues to grow, increasing relative demand for positional goods. Hirsch published his book in 1976 and wrote that the positional economy had not become a significant issue until "recent times." Frank's *Luxury Fever* was published in 1999, and mostly focuses on spending patterns of the 1990s. Much earlier, Thorstein Veblen wrote about "conspicuous consumption" partly in response to the houses built by millionaires in the late 19th century, and in the same period Walter Weyl wrote of "new types of destitutes—the automobileless, the yachtless, the Newport-cottageless."<sup>4</sup> Still earlier, Adam Smith wrote about the poor man

<sup>3</sup> As in Frank (1985a), Hirsch favors more targeted policy solutions, including reducing pay for positional jobs and having government allocate positional goods (Hirsch 1976, 183-185).

<sup>4</sup> Quoted in Hofstadter (1955, 147). Frank claims the Gilded Age was different because most families still had to tend to their basic material needs and the latest boom affects a much larger number of people (1999, 15).

who sees the conveniences of the rich, and who, “devotes himself for ever to the pursuit of wealth and greatness . . . at last to find [they are] mere trinkets of frivolous utility” (Smith 1982, 260-61). It is likely that, in one form or another, satiation of non-positional material goods and the onset of positional strivings have been claimed for other periods as well.

For Frank, increased income inequality means that the rich are spending more money on luxury and other positional goods, and this spending affects the group slightly below them, setting off an “expenditure cascade.”<sup>5</sup> In order to keep up, the middle class must spend more and, therefore, work more hours and save less. Such a confluence of factors describes the “luxury fever” of the 1990s. “The basic question,” Frank writes, “is whether society should attempt to limit the consumption expenditures of top earners in the interest of constraining expenditure cascades that impose costs on families farther down the income scale” (2003, 23).

To head off objections about the illegitimacy of envy, Frank points out that “Expenditure cascades would continue to occur and would continue to impose large and tangible economic costs on middle-income families even if everyone were completely free of envy” (2003, 28). One of Frank’s prominent examples is spending on a bigger house to give your child a place in a better school district, which then leads to his or her gaining access to the top jobs. Because positions in a top school are scarce, the externality would occur even if parents were not concerned with comparing the house itself to those of their neighbors.<sup>6</sup> The result is a prisoners’ dilemma:

---

<sup>5</sup> Income inequality in turn, according to Frank, has been exacerbated by the growing importance of winner-take-all markets. In these markets, small differences in relative performance give rise to large differences in income, increasing the degree of scarcity for top positions (Frank and Cook 1995). We will not address this aspect of Frank’s argument in detail, but we can see that, to the extent he and Cook overstate the existence of winner-take-all markets, competition for these scarce jobs will be less wasteful. Cowen (2000, ch. 5) has incisively criticized Frank and Cook on winner-take-all markets in the context of top performers in media, sports and other areas of achievement. Cowen argues that in such contexts the winner-take-all aspect is diminishing rather than increasing. Cowen focuses on fame seeking, but many of his criticisms have broader application to Frank’s fretting about positional “arms races.”

<sup>6</sup> Incidentally, Benjamin Friedman (2005, 93) argues that peoples’ aspirations for their children are likely to have an even more powerful effect on their behavior than aspirations for themselves.

When each family saves less to buy a house in a better school district, the net effect is merely to bid up the prices of those houses. Students end up at the same schools they would have attended if all families had spent less. (Frank 1999, 159)

And waste results in choosing to work more hours:

The person who stays at the office two hours longer each day to be able to afford a house in a better school district probably has no conscious intention to make it more difficult for others to achieve the same goal. Yet that is an inescapable consequence of his action. The best response available to others may be to work longer hours as well, thereby to preserve their current positions. (Frank 1999, 270)<sup>7</sup>

But even if Frank is right that some positional striving does not involve envy, much of it does and is perceived to do so, so Frank's imposition would tend to liberate and embolden envy as a political force.

### **EXPLAINING MARKET FAILURE**

Can excessive spending to get your child into a top school be considered a market failure? Part of what makes education valued on a relative basis is that schools provide a signal apart from the actual skills and knowledge learned (Frank 1985a, 195-96; Spence 2002). Yet government interventions including compulsory attendance, free government schooling, and tough restrictions on opening and operating a private school have worked to lock in the reliance on the standardized signal and crowd out and hobble private solutions. Education delivers benefits beyond that of signaling, benefits that the substitutes to the top government schools can deliver. Home-schooled students compete very successfully for Ivy League

---

<sup>7</sup> For other mentions of the housing and school district example, see Frank (2003, 13; 1995, 142).

spots.<sup>8</sup> Perhaps the benefits of going to a highly ranked government high school derive largely from government intervention, and freedom would lead to less signaling waste and more real gains from education.

Frank acknowledges distortions created by government subsidies when it comes to state universities competing for elite status (Frank and Cook 1995, 222), but doesn't extend the idea to the broader education market. Frank descends into pulp economics when addressing voucher proposals, saying that they might unleash "an educational rat race of unprecedented proportions" (1985a, 196). He apparently means that parents would have more purchasing power to spend on private school tuition. Frank fails to consider the competitive aspect of a private school system in comparison to a standardized government system. Private schools disciplined by the voluntary funding decisions of customers are likely to deliver a range of options, just as the home-schooling success illustrates in the current system. Frank's argument for preventable externalities is about resources being wasted, not about the fairness of the distribution of income or consumption. Yet Frank neglects the inefficiency of a uniform system in which taxpayers pay for schools that their children do not well fit into. If schooling were debundled from residence and politics, the major example of positional "arms race" would largely disintegrate. But Frank never looks to depoliticization for a solution.

Neither is Frank's argument for inefficient luxury spending convincing. 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. If status is the motivating factor, then much of the premium they pay ends up as producer surplus. Similarly, in the housing example, it is not clear how much of the "arms race" is actually wasteful. (Frank routinely writes of expenditure or positional "arms races," as though social standing were a matter of war.) The bidding up of housing prices is not wasteful in itself, since those resources are not lost. Frank never dwells on how the price increase ought to induce new houses and new schools, nor does he acknowledge the waste arising from government land-use and housing restrictions. The waste, according to Frank, is the misallocation of the consumer's labor hours, and the various decisions she makes in order to enhance her current income. Frank must have some benchmark in order to evaluate these decisions, and this is where the literature on happiness comes in.

---

<sup>8</sup> See e.g. Golden (2000).

## HAPPINESS, INCOME, AND LUXURY GOODS

If the evidence showed that, despite the onset of positional externalities and the zero-sum nature of many consumption decisions, people were increasingly happy, Frank would have a much harder time in questioning the status quo. However, the data does not show increasing happiness (Frank 1999, ch. 5; 2003, 3-6). In developed countries, real income has increased significantly, but based on survey evidence, happiness has not increased. People's satisfaction adapts based on a rising reference point or a rising aspiration level (Frey and Stutzer 2002, 78). The results of happiness research can be criticized in a variety of ways (Coyne and Boettke 2006), but one big problem is comparing self-reported happiness over long periods of time.

Economists and psychologists have devised many methods to conduct and analyze happiness surveys,<sup>9</sup> but we believe the problem with such evidence is simple and intuitive. If we were to ask people a hundred or a thousand years ago to fill out a happiness survey, it does not seem surprising that we might find similar answers to today, despite the increase in material well-being since that time. The respondent's notion of what qualifies as "happy" is context specific, which relates to the point about adapting to material conditions. But few would suggest that economic growth did not better the lot of humankind.<sup>10</sup>

If someone had asked Adam Smith to self-report his tallness, he probably would have said that he was average or medium. But today he would be short.

Was George Washington happy? During the course of his life he suffered from diphtheria, malaria, smallpox, tuberculosis, dysentery, quinsy, carbuncles, and pneumonia. From our perspective, much of the time he must have been quite miserable for those reasons, not to speak of his lack of cable TV and other modern components of home entertainment.

Spending on virtually any good could be considered wasteful because the individual is simply going to adapt to having it. And while critics of standard economic assumptions point out the problems with GDP as a

---

<sup>9</sup> For recent examples, see Kahneman and Krueger (2006), and Di Tella and MacCulloch (2006).

<sup>10</sup> Frey and Stutzer (2002, 87) describe the evidence for people being on a "hedonic treadmill," in which each person's ability to experience satisfaction is mainly inherited. They also discuss evidence in which adaptation to circumstances is not as complete as some have claimed, so that absolute conditions matter.

measure of well-being, most measures of non-material goods that are generally considered to contribute to well-being—such as health, leisure, and the environment—tend to be correlated with GDP (Di Tella and MacCulloch 2006, 32-33).

There are two benchmarks that people use to infuse their context-specific meaning of “happy”: other people’s experience and their own past experience (Frey and Stutzer 2002, 78ff.; Friedman 2005, 81). Frank wants to focus on the comparison to others, but as Benjamin Friedman argues, economic growth provides the potential for everyone to gain in comparison to his or her own experience—and to focus less on relative position (2005, 91). That is why Joel Mokyr suggests that “we should not . . . underrate the capacity of technology to satisfy some of the needs underlying the demand for positional goods” (Mokyr 1990, 303).

### THE INVISIBLE HAND LIVES

Because of positional externalities, according to Frank, the invisible hand of Adam Smith breaks down:

Far from being a principle that applies in most circumstances, the invisible hand is valid *only in the special case* in which each individual's rewards are *completely independent* of the choices made by others. In the rivalrous world we live in, precious few examples spring to mind. (Frank 1999, 271, emphasis added)<sup>11</sup>

For Hirsch, Adam Smith’s “generally benign invisible hand was a favorable inaugural condition of liberal capitalism,” when most consumption was not positional in nature (1976, 11).

---

<sup>11</sup> In finding market failure in such a wide number of transactions, Frank is similar to Joseph Stiglitz, who argues that relaxing the stringent information assumptions of the Arrow-Debreu framework means that the invisible hand is “palsied” at best (Stiglitz 2002, 2). And, similarly, Stiglitz asserts that Arrow-Debreu is “the model that seemingly provides the intellectual foundations of whatever belief one has in the market economy” (1994, 16), ignoring or dismissing the tradition following Adam Smith that does not employ a double standard when considering the reality of government and politics; see e.g. Hayek (1979, 74) on the comparative real-world achievements of free enterprise.

It was not lack of imagination or modern welfare economics that prevented Smith from considering a coercive solution to positional rivalry, but rather the implicit realization that some effects on others are not the proper aim of public policy. Smith was critical of luxury and the vanity of the rich, but his approach was to enlighten people by showing them that their self-interest broadly conceived resided in liberal virtues and the market order. Smith argued that “little else is requisite to carry a state to the highest degree of opulence from the lowest barbarism but peace, easy taxes, and a tolerable administration of justice: all the rest being brought about by the natural course of things.”<sup>12</sup>

When many of these positional arms races are viewed in a standard prisoner’s dilemma framework, it seems that we are stuck in an inferior equilibrium. A collective agreement is necessary, and since it cannot be achieved within the structure of the game as stated, government action as an exogenous factor is necessary. But voluntary agreement can often lead to a spontaneous solution. Efficiency opportunities are not always or necessarily realized, but voluntary incentives (in the broad sense of the term) are more powerful than Frank gives them credit for.

Regarding Hirsch’s tiptoe example, it is noteworthy that we usually don’t see an equilibrium where everyone remains on their feet, although in Frank’s version of it, everyone remained standing at a Diana Ross concert (1999, 152). In many cases, however, norms exist as to proper behavior, and the guy who yells at others to take their seats may not realize his role as an entrepreneur helping to coordinate a superior equilibrium. Other mechanisms might be used by owners with a stake in satisfying their customers. Theaters and sports arenas are usually privately owned, and the owners have an incentive to establish and enforce rules that customers find beneficial on the whole (after all, there are some benefits from getting the audience off their butts). There is of course an extensive literature on how neighbors and even strangers cooperate (a classic work being Ellickson 1991). Research strongly suggests that private ownership conduces to cooperation (Beito et al. 2002).

Frank recognizes the potential for social norms to mitigate positional externalities and conspicuous consumption, but he argues they are inadequate and the government needs to step in (1999, 168-169, 201-203). Larger temptations for defection have caused some of these norms to break

---

<sup>12</sup> The quote is taken from a 1755 lecture quoted by Dugald Stewart. See Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*. Library of Economics and Liberty. Retrieved May 3, 2006 from <http://www.econlib.org/library/Smith/smWN0.html>

down (Frank 2004, 133). Unilateral action by some people who want to live a simpler life is not a viable option, according to Frank. “There are many instances in which spending differently would improve matters if everyone did so, yet would make matters worse for any individual who acted alone” (Frank 1999, 190). That may not ring true to many people in middle-class jobs and neighborhoods who are probably unaware of being involved in a positional “arms race” of all against all.<sup>13</sup> The existence of such a middle class would also be evidence against the all-or-nothing implication of winner-take-all markets. Frank emphasizes the data on inequality to support his argument, but the question is whether we view such a trend in inequality as zero-sum or whether incentives for wealth creation among the upper class have some invisible-hand aspect to them.

Frank does not make a convincing case that norms against positional spending have undergone such a significant change—hasn’t the Internet flattened private institutions and fragmented culture?—or that luxury spending inevitably results in an expenditure cascade among all income groups. He opens *Luxury Fever* with an example of his buying a new gas grill; he marveled at high-end models costing \$5000 but admits that most grills sold are priced below \$700 (1999, 1-2). So what are the implications of such an example? Rich people spend a lot on seemingly frivolous extras, but it is not clear that it has much effect on others; if you have to buy a new grill to impress your friends, you may want to find new friends, or to grin at your friends’ petty vanities. If you are not capable of such solutions, will facing Frank’s high tax rates save you?

Frank writes how he turned down a cheap Porsche because of social norms against conspicuous consumption in a small town, but that since then such norms have broken down (1999, 168-169). It is far from obvious that such a claim can be generalized, and it seems that conspicuous consumption can just as often earn ridicule among your peers instead of esteem or admiration. In our casual estimation, popular films and TV shows are quite effective in disapproving of ostentation, snobbery, and wasteful rivalry. The snob is never the good guy and pretension is made comic. *Seinfeld* and *The Simpsons* are part of the invisible hand—as expounded in *The Theory of Moral Sentiments*.

---

<sup>13</sup> According to *The Economist*, middle-class shoppers are “trading up and trading down” at the same time. Consumers are becoming more cost-conscious for some goods, and using some of the savings for buying the occasional luxury. See “The disappearing mid-market,” 2006.

No one claims that markets work perfectly or that all Pareto-improving transactions will be made. Yet, a snapshot view of markets that appear to be winner-take-all or plagued by positional concerns misses some of the ways that people spontaneously adjust. Workers might gravitate to careers in which the importance of relative rankings is consistent with their preferences. 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 of this circle. It is not as if those in investment banking suddenly find themselves in a mutually self-destructive positional arms race and wish for a collective solution so they can all drive perfectly serviceable Hondas and wear sweatshirts to work. And to the extent that there is such an urge, as economists we should recognize how the moral culture tends to evolve so as to approve of and accommodate mutual gains—as witnessed in “casual Fridays” and telecommuting.

### THE UPPER CLASS AND ECONOMIC GROWTH

Even critics of a free society are likely to admit, as does Frank (e.g. 1999, 6), that spending on today’s luxuries lead to innovation and higher standards of living for all income groups. The poor in the United States are at the bottom of the status scale, despite their material condition above their ancestors or their counterparts in other countries. Frank’s major point is that positionality is ineluctable. But when the people have means beyond their perceived needs, there is a demand for innovation. As Frank himself notes (2003, 8), Adam Smith was familiar with the type of context-sensitive consumption at issue here. Greeks and Romans, according to Smith (1981, 870), lived comfortably without linen shirts, but now laborers would be ashamed to appear without one; the example closer to Smith’s time was leather shoes. Before Smith, Mandeville wrote of such goods as beer, a plain dress made of cloth, and feather pillows,

[M]any things were once looked upon as the invention of luxury, are now allowed, even to those that are so miserably poor as to become the objects of public charity,

may counted so necessary, that we think no human creature ought to want them. (Mandeville 1714, 110)

When construction using steel was beginning to see widespread adoption, Andrew Carnegie offered the maxim: “Capitalism is about turning luxuries into necessities” (Johnson 1998, 551). Frank uses these observations as examples of the importance of relative position and comparison with contemporary standards. They are perhaps more usefully considered as examples of the achievements of economic growth.

In the dynamic of a growing economy, the wealthy provide a market for goods that must be expensive in order for supply to be viable. The wealthy pay extra to enjoy the benefits of new goods, which, *if* suitable to human existence, will later become inexpensive and widely adopted. F.A. Hayek saw this clearly, and even attributed the rapid economic advance that we have come to expect in large measure to inequality: “What today may seem extravagance or even waste, because it is enjoyed by the few and even undreamed of by the masses, is payment for the experimentation with a style of living that will eventually be available to many” (Hayek 1960, 44). Hayek also offered the primary insight about happiness: “The pleasure may be solely in achieving what we have been striving for, and the assured possession may give us little satisfaction” (41). Thanks to economic growth, one’s comforts today exceed those of three years ago.

Of the splendid houses of the late 19<sup>th</sup> century, historian Paul Johnson wrote, “the overwhelming majority of the men who built these houses were not leisured; they were fanatical hard workers.” In Frank’s view it would seem such hard work was wasteful. But “the houses they built tended, in both construction and functioning, to advance the cause of high technology,” including such innovations as laundry rooms, ice-freezing rooms, central heating and air conditioning (Johnson 1998, 593). Today, Bill Gates’s home uses technology that has not yet reached the upper-class market, let alone the masses. Government advocates are often ready to propose that the government spend taxpayers’ money to advance science and technology. But what better way is there to advance technology for human existence than for wealthy entrepreneurs to experiment with their own money in building laundry rooms, ice-freezing, and central heating that they themselves have to live with?

Frank argues that higher consumption taxes would reduce positional externalities and encourage savings, thereby increasing growth. So for him there is no necessary tradeoff to be made. Frank argues that, living under the proposed consumption tax, top earners would have to make only trivial

sacrifices. Frank suggests that they will have to content themselves with a Ferrari rather than tomorrow's supercar (Frank, 1999, 221). The rich will still be paying a status premium, but what some of these examples miss are goods that haven't been invented yet, or that haven't yet become mass-produced and will eventually be considered commonplace. Moving beyond yesteryear's Ferrari is part of that process.

### THE HOUR LIVED: CHOOSING WORK AND LEISURE

A large part of Frank's argument relies on the pursuit of luxuries and positional goods such as advantaged residence at the expense of leisure activities that would have more happiness "bang" per hour lived. However, some evidence indicates that the decline in leisure may largely be a myth.<sup>14</sup> Aguiar and Hurst (2006) find that leisure increased significantly between 1965 and 2003. The conclusion is robust to various measures of leisure. While market hours of work were relatively constant over the period, average leisure per week increased by about 6 to 8 hours for men, and 4 to 8 hours for women. Yet Frank buys into the false impression. *The Economist* suggests that the false impression arises from rising incomes, which make time worth more, improving technology, which make people available on short notice even when not working, and increasing competition, which makes people less secure in their jobs ("The land of leisure," 2006).

The amount of leisure taken by most workers in the U.S. is often compared unfavorably to Europe. Alesina et al. (2005) conclude that the fewer hours worked in Europe result from government regulation, including union privileges. The authors refrain from any conclusion about whether the policies decrease or increase welfare. The increase would come by coordinating what Frank would call a positional arms control "agreement"—"I won't earn much during the summer if you don't"—even though this arrangement comes by way of government force.

---

<sup>14</sup> Frank notes the debate over trends in leisure and work hours (1999, 48-51).

### HOW MUCH LESS POSITIONAL ARE “LEISURE” ACTIVITIES?

Frank’s big plan is to lay more taxes on the cash nexus—either at receiving income or expenditure—because many of the things we obtain with money are positional. The whole scheme implies that the cash-oriented activities are significantly more positional than the non-cash-oriented activities, which are left untaxed. If, instead, the two realms of activities were in fact equally positional—if positionality in fact characterized human pursuits quite universally—then Frank’s plan would make no sense.

Suppose an economist decided that human beings were causing global warming by exhaling carbon dioxide, and proposed that taxes be increased, on the reasoning that, since people breathe while they work for the money, we should tax the cash nexus. One of the big flaws in such a proposal is that, although the new taxes would shrink the cash nexus, they would not reduce breathing, since during time spent “off the job” people do not breathe any less. Even if we grant that the carbon dioxide in this story or that the positional striving in Frank’s story is a negative externality, we should be mindful of the fundamental issue of whether the tax-discouraged activities are more externality intensive than the untaxed (or less taxed) activities. Maybe Frank can make a good case that the cash-oriented activities are more positional than the non-cash activities, but the major arguments given for this assumption are thought experiments about vacation time, commuting time and other hypothetical tradeoffs (1999, 79-90; 2005, 137). In Frank’s analysis, what really matters in the end is hours of life experienced, and whether positionality is being pursued with them. He presumes that cash activities are especially positional. Should we accept that presumption? What about cash expenditure that is not especially positional? Is the positionality of cash-oriented hours lived obviously greater than of non-cash hours? In their “leisure” people may be educating their children to compete in the positional “rat race,” improving their golf game, getting a sun tan, working out to look better than the competition, or reading books to be more clever and worldly than their associates.

Moreover, the cost of a positional good consists of the price paid to the seller *and transaction and shopping costs*. To acquire a gas grill, a sports car, or a house in a good school district, one typically visits vendors, discovers the offerings, researches the characteristics, compares quality, gets

assurances, wrestles with the decision, negotiates and scrutinizes the deal, attends to delivery, and learns how to use, enjoy, and flaunt his new positional good. If Frank raises income-tax rates, people will to some extent substitute into these “leisure-time” inputs that remain untaxed, with the result that hours devoted to positional climbing have declined less than Frank might have expected. People work less and shop more carefully. If Frank’s imposition takes the form of consumption taxes, then people might substitute into tax evasion and avoidance.

Frank places great emphasis on vacation as an example of a good that is nonpositional. He even uses it to illustrate the meaning of positionality (Frank 2005, 137). However, as a kind of “anti-work,” vacationing may be tied up with positionality. One reason you might not be embarrassed at having two weeks less vacation than everyone else per year (as in Frank’s thought experiment) is that having less vacation time 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. Taking little vacation can signal that you love your work, which is probably the condition most correlated to true happiness. The upshot is that it is not easy to draw a line between activities that are positional and activities that are nonpositional. In terms of positional goals, activities inter-relate as complements and substitutes, and who knows how people will respond after “the man of system” tries to rearrange “the great chess-board of human society” (Smith 1982, 233-234).

Again, maybe Frank can make a case that positionality waste is more pronounced in cash-oriented activities, to be subjected to proposed new taxes, than non-cash activities, but the case is yet to be made. Adam Smith strove to establish a presumption of liberty, to place the burden of proof on the coercionists. Frank certainly has not lived up to the Smithian incumbency.

### EXCELLENCE IS ABOUT EXCELLING

In *The Theory of Moral Sentiments*, Adam Smith says that if “a man of humanity in Europe” had to sacrifice his pinky to prevent a terrible earthquake in the far-off land of China, he would do so. Smith explains:

It is not the love of our neighbour, it is not the love of mankind, which upon many occasions prompts us to the

practice of those divine virtues. It is a stronger love, a more powerful affection, which generally takes place upon such occasions; the love of what is honourable and noble, of the grandeur, and dignity, and superiority of our own characters. (Smith 1982, 137)

According to Smith, cultivating our duty to humanity serves our sense of superiority. Although our moral acts might be “seen” only by the impartial spectator, that judge flows in Smith’s theory directly from actual observation and social propriety, where people witness and esteem moral action. Would Robert Frank contend that magnanimity is a positional arms race?

To clarify the meaning of positionality, Frank (2005, 137) gives a thought experiment: “[Y]ou must choose between two worlds that are identical in every respect except one. The . . . choice is between world A, in which you will live in a 4,000-square-foot house and others will live in 6,000-square-foot houses; and world B, in which you live in a 3,000-square-foot house, others in 2,000-square-foot houses.” Frank reports (without citing any evidence) that “most people say they would pick B.” We are skeptical. Not only does choice A afford one an additional 1,000 square feet, but it serves one’s concern for the grandeur, dignity, and superiority of his or her own character, particularly if the choice is made public. Indeed, to choose B, putting everyone else in 2,000-square-foot homes rather than 6,000 just so you can be on top, is downright malicious. Were this type of choice to be a genuine human regularity, it is likely that voluntary institutions would evolve to make the choice subject to approbation and disapprobation and arrive at the better outcome.

Just about every form of excellence, every aspiration, can be said to contain an element of positionality. Striving for better skill in hockey, horseback riding, or hopscotch is a positional arms race. In Smith’s theory of moral evolution, practically every form of human meaning and significance comes by way of the “looking glass” that is the societal reaction to our conduct.

Desires that do not involve positionality would perhaps be comforts and sheerly sensuous pleasures that do not entail any kind of striving. Conformity to routine and stasis would seem to be the activities that best avoid positionality. Frank wants us all to take longer vacations, but what if, rather than traipsing through tourist destinations, lying around in the sun, or reading unexceptional novels, we instead take the opportunity to retool and learn, in striving to be better than we are, and, perforce, better in relation to others?

To judge whether individual instances of positionality are pernicious or ameliorable, we need to develop some sense of positionality as it manifests itself in the wide array of human activities. Here, again, we feel that Frank's treatment is unsatisfactory. He argues as though it is sufficient to identify some element of positionality in the activities he proposes to tax.

### **HOW MUCH LESS POSITIONAL ARE GOVERNMENTAL ACTIVITIES?**

Since Frank never speaks of making the tax proposal revenue-neutral, it presumably would have the consequence of transferring additional resources to the government. Implementing Frank's progressive consumption tax "will free up literally trillions of dollars each year to spend in ways that will create lasting improvements in the quality of our lives" (1999, 279).

By scaling back on the rate at which luxury consumption has been growing we could drink safer water, breathe cleaner air, and eat food that is less likely to make us seriously ill. We could have more autonomy, variety, and safety in the workplace. We could fill the potholes in our streets, fix our crumbling bridges, and provide more help for people with serious drug problems. We could save enough to retire with complete financial security. (Frank 1999, 107)

Once again, Frank makes a basic assumption without even pausing to point out that he is doing so. Government—the "we" filling the potholes etc.—supposedly avoids the positionality problem.

Consider again the analogy of taxing breathing. If the tax revenue is going to augment other human activity that involves just as much breathing, then the policy is obviously getting nowhere in terms of its stated objectives, not to mention the collateral losses it entails.

Maybe Frank could make a case that political society is less positional than civil society, but he has not even attempted to do so. It is by no means obvious that political society is less positional. Frank's proposal would surely expand government employment. At George Mason University, which

is situated in northern Virginia near Washington, D.C., the Masters level economics classes are populated by many federal government employees who are looking to move up. The GS-5s want to become GS-6s, and so on. They need a Masters degree to do so, so the Masters level classes are filled with students who often have little real interest in the subject matter. The promotion is not merely an increase in pay but a gain in position and prestige. Much of federal government employment is organized in this fashion, like one great military organization. The emphasis on rank and position seems to us to be more uniform, conspicuous, and pronounced in the government sector than in the private sector.

Besides the matter of employment rank, we may ask about other positional contests in the government arena. Politicians compete for fame and celebrity, administrators compete for rank, influence, and power, and grant recipients compete for prestige and honors. People compete for the favor of the powerful, and not just for material purposes. It may be a genetic tendency to strive for the favor of the group's leader or "alpha male."

Again, our point is not that government is more positional than civil society. It is merely to point out that Frank has been remiss in not even bothering to justify his crucial assumption that it is less so.

### **Other Realities about Government**

Frank might say that positional goods are zero-sum. But much of what happens in politics and government is negative-sum. Instead of politicians competing to provide a needed public good, competition in the political sphere can get us a statue of Robert Byrd in the West Virginia Capitol,<sup>15</sup> the infamous "bridge to nowhere" in Alaska in 2005 (Grunwald 2006), rail transit systems that few people use, the public school system, and mass incarceration for consensual crimes. Such political externalities, which are more or less inherent in majoritarian politics, have far less scope for corrective mechanisms than in the voluntary sector. Frank does not seem to be impressed with theories of resource utilization that maintain that

---

<sup>15</sup> Byrd was the first politician to obtain more than \$1 billion in pork for his state, according to the Citizens Against Government Waste, [www.cagw.org](http://www.cagw.org).

efficiency usually flows best from private ownership, residual claimancy, and voluntary choice.

### **Taxes and Distortions**

Despite research purporting to show otherwise (e.g. Lindert 2004), there is still significant evidence of distortions and deadweight losses from taxes. Davis and Henrekson (2004) find that a tax rate difference of 12.8 percentage points (one standard deviation across countries) leads to 122 fewer market work hours per adult per year, a drop of 4.9 percentage points in the employment-population ratio, and a rise in the shadow economy equaling 3.8 percent of GDP. Frank would like to use taxes specifically in order to reduce hours of employment, but the disemployment in Europe is probably welfare-decreasing.

## **CONCLUSION**

Robert Frank has greatly illuminated the importance of relative position. However, he has taken his insights in nefarious directions—namely, justifying institutionalized coercion. As Stiglitz can for information problems, Frank can find externalities in a wide range of market transactions, and any externality leads to the theoretical possibility of a beneficial government intervention. But transactions costs in the real world prevent many of these exchanges, and there should be no presumption that government can do any better, particularly when we are talking about curtailing a preference that is inherent in human nature. In this case, the relevant transactions costs should also include the effects of a significant increase in taxation to curtail the positional “arms race.”

The plausibility of Frank’s arguments for extensive market failure requires various assumptions, including the usefulness of happiness comparisons over time, the widespread existence of winner-take-all markets, the failure of voluntary evolution to internalize and mitigate externalities, and significantly less positionality in both “leisure” and governmental activities than in the full range of activities Frank proposes to tax.

Throughout history, observers have in one form or another lamented the positional “arms race” and the seemingly wasteful spending on luxury

goods. But one era's luxuries are another's commonplace goods. A significant increase in tax revenue in order to transfer resources from luxury spending to government spending could lead to the disincentive effects and waste that high consumption taxes are attempting to avoid. It's not clear what kind of society Frank envisions, but it seems to be one where policy tries to dampen the private striving for eminence and expand the role of government. To the extent that we do climb over each other in the contest for positional goods, the disease may be less bad than the supposed cure. Buying expensive gas grills is a relatively harmless way for people to flatter the will to eminence.

## REFERENCES

- Aguiar, M., & Hurst, E.** 2006. Measuring Trends in Leisure: The Allocation of Time Over Five Decades. NBER Working Paper #12082.
- Alesina, A. F., Glaeser, E. L., & Sacerdote, B.** 2005. Work and Leisure in the U.S. And Europe: Why So Different? Harvard Institute of Economic Research Discussion Paper No. 2068.
- Beito, D. T., Gordon, P., & Tabarrok, A.** 2002. *The Voluntary City: Choice, Community, and Civil Society*. Ann Arbor: University of Michigan Press Independent Institute.
- Cowen, T.** 2000. *What Price Fame?* Cambridge, MA: Harvard University Press.
- Coyne, C. J., & Boettke, P. J.** 2006. Happiness and Economics: Insights from Austrian and Public Choice Economics. In *Happiness and Public Policy: Theory, Case Studies, and Implications*, ed. Ng, Y.-K., & Ho, L.-S. Palgrave Macmillan.
- Davis, S. J., & Henrekson, M.** 2004. Tax Effects on Work Activity, Industry Mix and Shadow Economy Size: Evidence From Rich-Country Comparisons. NBER Working Paper #10509.
- The disappearing mid-market.** *The Economist*, May 20, 2006, p. 68.

- Di Tella, R., & MacCulloch, R.** 2006. Some Uses of Happiness Data in Economics. *Journal of Economic Perspectives*, 20(1): 25-46.
- Ellickson, R. C.** 1991. *Order Without Law : How Neighbors Settle Disputes*. Cambridge, Mass: Harvard University Press.
- Frank, R. H.** 1985a. *Choosing the Right Pond: Human Behavior and the Quest for Status*. Oxford: Oxford University Press.
- . 1985b. The Demand for Unobservable and Other Nonpositional Goods. *American Economic Review*, 75(1): 101-16.
- . 1999. *Luxury Fever: Money and Happiness in an Era of Excess*. Princeton: Princeton University Press.
- . 2003. Are Positional Externalities Different From Other Externalities? Draft for presentation at The Brookings Institution.
- . 2004. *What Price the Moral High Ground?* Princeton: Princeton University Press.
- . 2005. Positional Externalities Cause Large and Preventable Welfare Losses. *American Economic Review*, 95(2): 137-41.
- Frank, R. H., & Cook, P. J.** 1995. *The Winner-Take-All Society: Why the Few At the Top Get So Much More Than the Rest of Us*. New York: Penguin Books.
- Frey, B. S., & Stutzer, A.** 2002. *Happiness and Economics : How the Economy and Institutions Affect Well-Being*. Princeton, N.J: Princeton University Press.
- Friedman, B. M.** 2005. *The Moral Consequences of Economic Growth*. New York: Knopf.
- Golden, D.** 2000. Class of Their Own: Home-Schooled Pupils Are Making Colleges Sit Up and Take Notice—They're Among Top Scorers On the SAT, and They Defy Certain Stereotypes—The 'Twins' Academic Rivalry. *The Wall Street Journal*, February 11, A1.
- Hayek, F. A.** 1960. *The Constitution of Liberty*. Chicago: The University of Chicago Press.
- . 1979. *Law, Legislation and Liberty, Volume 3: The Political Order of a Free People*. Chicago: The University of Chicago Press.

- Hirsch, F.** 1976. *Social Limits to Growth*. Cambridge, Mass: Harvard University Press.
- Hofstadter, R.** 1955. *The Age of Reform; From Bryan to F.D.R.* New York: Knopf.
- Johnson, P.** 1998. *A History of the American People*. New York, NY: HarperCollins Publishers.
- Kahneman, D., & Krueger, A. B.** 2006. Developments in the Measurement of Subjective Well-Being. *Journal of Economic Perspectives*, 20(1): 3-24.
- The land of leisure.** *The Economist*, February 4, 2006, pp. 28-29.
- Lindert, P. H.** 2004. *Growing Public: Social Spending and Economic Growth Since the Eighteenth Century*. Cambridge, UK ; New York: Cambridge.
- Mandeville, B.** 1714. *The Fable of the Bees, Or Private Vices, Publick Benefits*. New York: Capricorn Books.
- Mokyr, J.** 1990. *The Lever of Riches : Technological Creativity and Economic Progress*. New York: Oxford University Press.
- Smith, A.** 1981. *An Inquiry Into the Nature and Causes of the Wealth of Nations*. Indianapolis: Liberty Fund.
- . 1982. *The Theory of Moral Sentiments*. Indianapolis: Liberty Fund.
- Spence, M.** 2002. Signaling in Retrospect and the Informational Structure of Markets. *American Economic Review*, 92 (3): 434-59.
- Stiglitz, J. E.** 1994. *Whither Socialism?* Cambridge, Massachusetts: The MIT Press.
- . 2002. Information and the Change in the Paradigm in Economics: Prize Lecture. In Frangsmyr, T. (Ed.), *Les Prix Nobel: The Nobel Prizes 2001*, Stockholm: The Nobel Foundation.

### ABOUT THE AUTHORS



**Andrew Kashdan** is a Ph.D. student at George Mason University. His email address is [akashdan@gmu.edu](mailto:akashdan@gmu.edu).



**Daniel Klein** is professor of economics at George Mason University, and associate fellow at the Ratio Institute in Stockholm, Sweden. He is the chief editor of *Econ Journal Watch*. His email address is [dklein@gmu.edu](mailto:dklein@gmu.edu).