



“Summary of article by Fred Hirsch: The Neglected Realm of Social Scarcity” in Frontier Issues in Economic Thought, Volume 2: The Consumer Society. Island Press: Washington DC, 1997. pp.214-218

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Economic growth is commonly justified as a means of overcoming scarcity and providing more of the goods and services that people want. But scarcity can have many causes, and some are much easier to eliminate than others. These chapters analyze the increasingly important category of "positional" consumption, in which commodities are valued, directly or indirectly, because they are scarce. No amount of growth can satiate the desires for social distinction, exclusive access, and leadership positions -- and as these and other positional motives rise in importance, additional economic output becomes less and less effective in providing the things people want.

A DUALITY IN THE GROWTH POTENTIAL

The familiar process of adding up economic activity into a single measure of output has yielded powerful insights, but it has also obscured the limits to the potential benefits of economic growth. The problem is not just that a number of significant technical questions can be raised about the standard measures of output. Even if all the technical questions were resolved, the deeper problem would remain: some goods that individuals desire, and from which they derive satisfaction, are inherently scarce, making expansion of consumption impossible in principle.

Some desirable consumption goods are absolutely scarce for physical reasons, as in the cases of unique natural landscapes or paintings by a particular famous artist. Far more important are the cases in which scarcity results from social factors. Envy, emulation or pride may create a psychological basis for scarcity; this occurs if, for instance, the owner of an original painting finds his satisfaction diminished by the existence of good copies. Changes in fashion, and the valuation of antiques, also reflect socially created scarcity. In such examples of pure social scarcity, satisfaction is derived from the scarcity itself.

Scarcity may also be a byproduct of social and institutional processes; for example, congestion or crowding limits the enjoyment of many urban and even suburban environments. Leadership positions in any hierarchy are intrinsically scarce, and gain their meaning from scarcity. Unlike material goods, positions at the top do not become more abundant over time as production increases.

References to absolute scarcities in consumption are rare in the economic literature. Philip Wicksteed recognized the concept in 1910, but discussed it only briefly¹. Roy Harrod addressed the issue in a 1958 essay, drawing a distinction between democratic wealth, which is available to all and rises with the average level of productivity, versus oligarchic wealth, which is possible

for the few but never for all, regardless of productivity increases.² Oligarchic wealth, for Harrod, was defined by: 1) command over other people's labor, and 2) access to a disproportionate share of the goods and facilities available to society. Harrod was concerned with the possibility of economic satiety, and argued that economic wants as well as cultural and spiritual values would not be met by economic growth, even if the growth was sustained. However, Harrod did not pursue the analysis beyond his initial essay on the subject.

THE MATERIAL ECONOMY AND THE POSITIONAL ECONOMY

The material economy embraces production of Harrod's democratic wealth, i.e. output amenable to continued increases in productivity without deterioration in quality. The positional economy, the basis of Harrod's oligarchic wealth, includes products and relationships that are either scarce or subject to congestion through extensive use.

As material goods in general increase in availability, while the supply of positional goods remains constant, the price of the latter will rise. This increase in the price of positional goods is reinforced as rising income increases the demand for them compared to material goods; expenditures on education, vacation housing, and personal services are examples of such a phenomenon.

Excess demand for positional goods leads to one of three responses: 1) an increase in prices, in effect auctioning off these goods; 2) congestion or crowding, which reduces the perceived quality of the goods; or 3) increased screening or queuing requirements, such as increases in the credentials needed for a job. Price increases cause no loss of efficiency, but simply transfer claims to resources; the two remaining alternatives absorb resources and thereby involve potential social waste. Three examples will illustrate the three methods of allocating scarce positional goods.

The auction mechanism can be seen in the case of scenic or leisure land. Before the twentieth century, only the very rich could afford second homes. More recently, as incomes have risen, ownership of vacation properties has spread into the upper middle class. Rising demand for leisure land bids up the value of this scarce resource, often benefiting the old rich, who acquired their land many years ago at lower prices. The existing concentration of wealth is thereby reinforced.

Suburbanization is a classic example of rationing by crowding, and of the waste of resources that can result. Suburban locations initially allow enjoyment of certain aspects of both urban and rural living. But as the move to the suburbs continues, the character of a suburb will be changed, sometimes even destroyed. Crowding destroys what brought people there in the first place, and at some point those who can afford to will move on to greener pastures. When suburbs employ zoning regulations to preserve the community's quality of life, they raise the price of suburban land, yielding capital gains for existing landowners and replacing some of the crowding with an auction mechanism.

Leadership jobs in any hierarchy are necessarily scarce, and can be regarded as positional opportunities. They are frequently allocated by increased screening, as the proportion of these

positions does not necessarily increase as economic growth continues. The structural shift toward service employment often involves new forms of bureaucratization and routine. Yet over time the labor force as a whole becomes better equipped to occupy superior jobs.

The market model suggests that an excess supply of labor seeking superior jobs should lead to a reduction in pay and fringe benefits for those jobs; this outcome, of course, is rarely observed. Factors inhibiting such a reduction include conventional pay norms, high "transaction" costs involved in filling senior positions, and the ability of incumbents in superior jobs to influence their own pay scales.

In general, positional competition - the struggle for a higher place within an explicit or implicit hierarchy - is at best a zero-sum game in which one participant can only win at another's expense. If resources are wasted through crowding or screening, the competition may actually be a negative-sum game for society as a whole.

THE AMBIGUITY OF ECONOMIC OUTPUT

Positional competition reveals a flaw in the common measures of economic output. Some purchased goods and services are desired not for themselves but as means to other ends. Home heating fuel is desired in order to maintain a warm house; if more fuel is required due to colder weather, the increased purchases do not make households better off; rather, the heating fuel is an intermediate good, and satisfaction of the ultimate objective is made less efficient by the change in weather. The same is true of increased educational costs required to qualify for a job; as a result of positional competition, educational expenditure becomes less efficient in producing the desired credentials.

Such intermediate goods can be thought of as "defensive" goods or "regrettable necessities." Since the lines between categories of goods are not clear-cut, there is a continuum or hierarchy of consumption, with regrettable necessities at the bottom and ultimate goals at the top. Travel to a holiday destination is largely an intermediate good or regrettable necessity, while expenditures of time and money at the beach may be more closely tied to the holiday's ultimate objectives.

This hierarchy of wants forces us to consider questions long banished from economic discussion. The relevant problem is not only how much is the individual willing to spend on an activity or purchase, but for what? Additional expenditures on positional competition create increased needs for defensive expenditures on the part of others. The resulting growth of output leaves no one better off, distorting the usual measures of welfare. The larger the role of positional competition, the more serious the distortion.

The evolution and development of human wants, as part of the process of economic growth, was addressed not only by Marx but also by Alfred Marshall and Frank Knight. Yet although Marshall and Knight formed part of the mainstream of economic liberalism, their philosophical reflections remained essentially asides to their systematic exposition of economics. The mainstay of classical and neoclassical economics has always been market valuation, which assumes "consumer sovereignty" and remains blind to any hierarchy of more or less important

wants or needs; established theory can see only the extent to which a given set of wants have been satisfied.

The appearance of more refined wants may increase welfare; this has become a standard response to Galbraith's criticism of the continual production of new wants. But the neoclassical presumption in favor of market choice breaks down as soon as endogenous changes in wants are recognized. In particular, defensive consumption involves new "wants" which are solely a response to the change in the physical or social environment. Once the possibility of defensive consumption is admitted, the signals of market demand become ineffective guides to welfare.

In Adam Smith's analysis of eighteenth-century Britain, conspicuous consumption of "baubles and trinkets" by the rich provided employment for others who supplied these goods. The rich were in this way "led by an invisible hand ... and thus without intending it, without knowing it ... advance the interest of society."³ The exchange was beneficial for both the poor and for society as a whole, as the price for luxuries paid by the rich exceeded their opportunity cost to the rest of society. However, this was true because the positional sector of the economy remained relatively uncrowded; the needs of the poor (who supplied the luxuries) remained concentrated on basic material goods. As standards of living rise and demand for luxuries becomes more extensive, positional competition absorbs more and more resources, with less and less scope for beneficial side effects in the nonpositional sector.

What the wealthy have today can no longer be delivered to the rest of us tomorrow; yet as we individually grow richer, that is what we expect. The dynamic interaction between material and positional sectors becomes malign. Instead of alleviating the unmet demands on the economic system, material growth at this point exacerbates them. ... The intensified positional competition involves an increase in needs for the individual, in the sense that additional resources are required to achieve a given level of welfare. (67)

Notes

1. Philip H. Wicksteed, *The Common Sense of Political Economy* (1910) (London: Routledge and Kegan Paul, 1933), II, 657.
2. Roy Harrod, "The Possibility of Economic Satiation - Use of Economic Growth for Improving the Quality of Education and Leisure," in *Problems of United States Economic Development* (New York: Committee for Economic Development, 1958), I, 207-213.
3. Adam Smith, *The Theory of Moral Sentiments* (1759), 65.