



Positional Goods:

New inequalities and the
importance of relative position

Outline

- Conspicuous consumption in 21st century Britain
- Fred Hirsch's theory of positional goods
- *Case study 1: Gated Communities*
- *Case study 2: SUVs*
- *Case study 3: luxury fashion*
- *Case study 4: luxury tourism*

Why the interest in positional goods now?

- Growing inequalities and more signs of conspicuous consumption (eg Robert Frank's work on luxury fever &c)
- Growing interest in happiness/well-being, and the importance of relative as well as absolute position (eg Andrew Oswald and Richard Layard)
- Ecological aspects of positional goods coming to the fore (eg John Adams)
- Relevant to long-term tax policy: should positional and non-positional goods be taxed differently? (eg Fredrik Carlsson, Olaf Johansson-Stenman and Peter Martinsson)

Conspicuous consumption

- Consumption beyond need is not a new phenomenon.
- In 1889 Veblen wrote about luxury or conspicuous consumption: the construction of large holiday mansions and villas; the acquisition of artifacts; an interest in elite sports and a tendency to accumulate a staff of servants. All used as social markers.
- Today the markers have changed: big families for the wealthy rather than the poor; being thin not fat; working hard rather than a life of leisure.
- But conspicuous consumption has also become more accessible.



UK Consumption Trends

- People have incomes nearly three times higher, in real terms, than in 1950.
- But more than 60 % of people say they could not afford to buy everything they really need.
- Under half of people who earn more than £35,000 believe they do not have enough money for essentials, while 40 % of those in the £50,000+ salary bracket feel similarly deprived.



Keeping up with the Beckhams

- Preoccupation with celebrity lifestyles – as promoted by magazines like Hello and OK!
- Better spending power means people are more able to aspire to celebrity lifestyles, fancy weddings and Gucci sunglasses.
- It is now possible to buy a Mercedes for £13,000 and a new Jaguar for less than £20,000. The number of households that can boast two or more rooms per occupant has risen from 37% in 1971 to 57% in 2001.



Social Motives

A greater proportion of consumption becomes motivated by relative or positional effect



"Oh, you mean those dolphins"



MASERATI
EXCELLENCE THROUGH PASSION

What price exclusivity?



"The Pininfarina-designed Quattroporte is perhaps the epitome of chic but muscular automotive understatement."
CAR magazine

**The search
for
exclusivity**

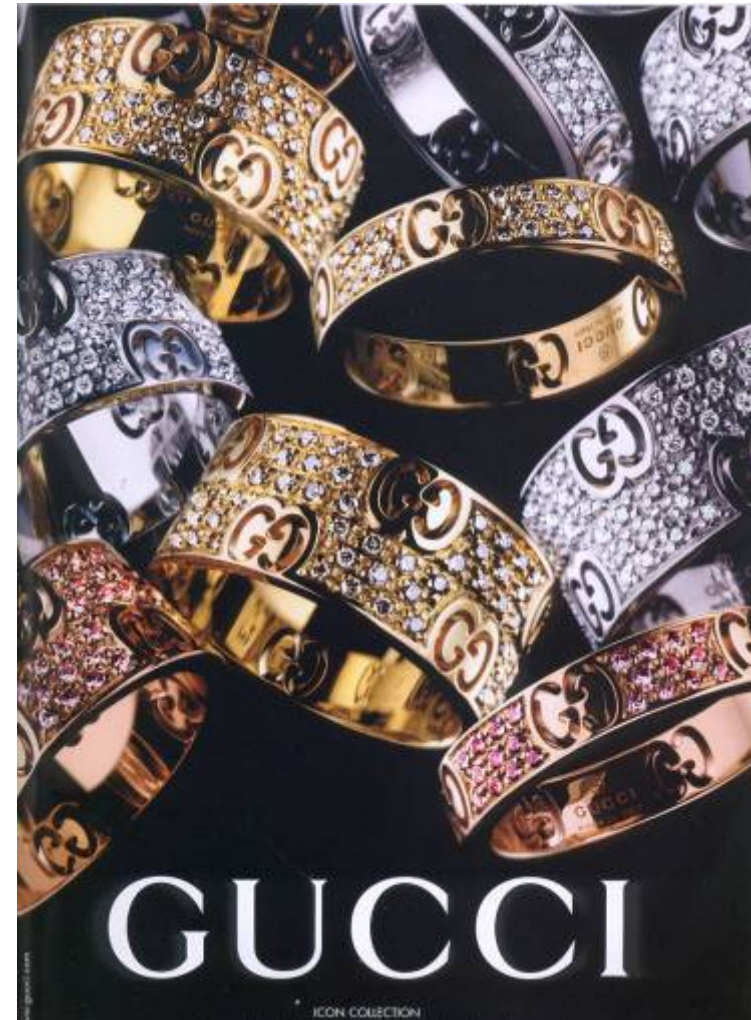
...



And envy...

Luxury Fever

- Luxuries are now more visible, actively promoted
- Robert Frank's argument that this encourages 'luxury fever' as people at every income level aspire upwards, focus efforts on relative consumption (size of homes, cars, designer clothes)
- Modern consumer markets offer ladders up to the previously unreachable rich



One side effect is debt

- US and UK evidence of rapid rise of debt. The average household debt in the UK is approximately £7,821 (excluding mortgages).
- 3.8m people admit money worries have caused them to take time off work and more than 10.76m people suffer relationships problems because of money worries.
- A quarter of those in debt are receiving treatment for stress, depression and anxiety from their GP.



Positional Goods theory

- 30 years on, Fred Hirsch's positional goods theory provides a useful explanation of this modern day consumption treadmill.
- A positional good is an intrinsically scarce good that can provide social status:
 - Scarcity can be **physical** – meaning that a good is scarce in some absolute or socially imposed sense (i.e. a land used for pleasure and personal enjoyment)
 - Scarcity can be **social** – meaning that can be subject to congestion or crowding through more extensive use (i.e. a privileged education).
- Once our material needs are met, we seek to consume more of these **positional goods**

Positional goods theory

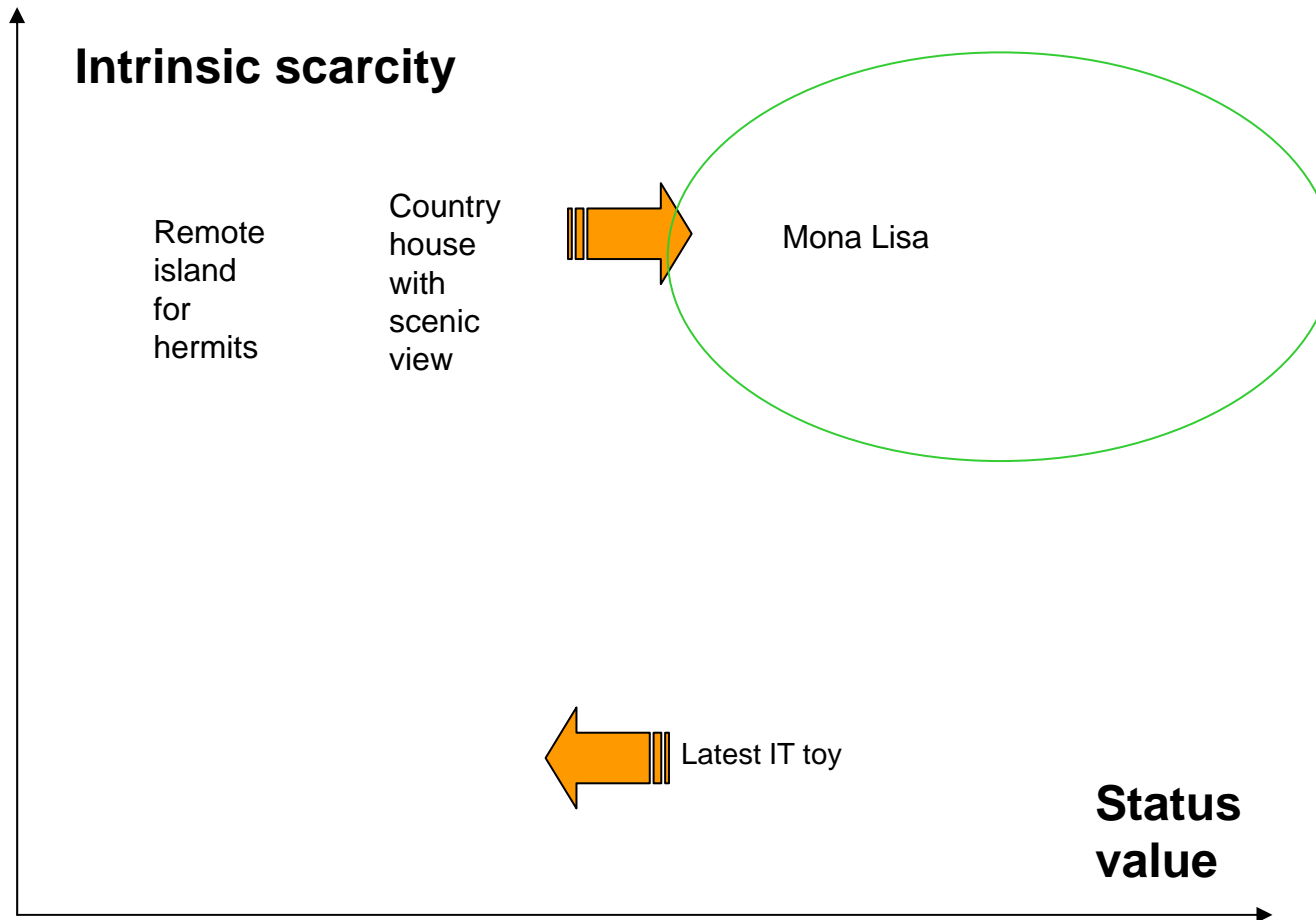
'It is a case of everyone in the crowd standing on tip toe and no one getting a better view'. However, 'if all do follow...everyone expends more resources and ends up with the same position'. (FH)

The never ending pursuit of positional consumption, turns out to be a **zero sum game**.

To stay ahead of the game, people need to run faster and faster to stay in the same place



Positional goods combine two dimensions



Four types of good

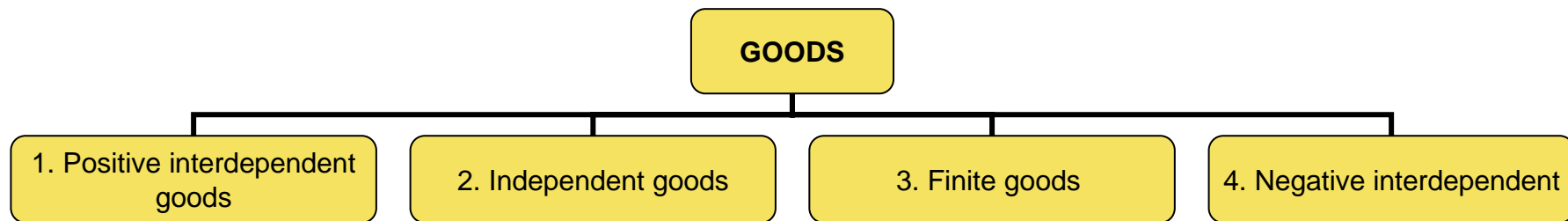
Positive interdependent goods: goods that have positive externalities; the more people consume them, the more everyone benefits (eg mobile phones).

Independent goods: goods where consumption does not directly affect others except through price effects (eg eggs).

Finite goods: Goods where greater demand does not elicit more supply (eg Georgian terraced houses)

Negative interdependent: Goods whose consumption can cause negative externalities for everyone; the more I consume, the less there is for other people, creating a net reduction for all (eg traffic)

GOODS AND CONNECTED CONSUMPTION



+

-

Our interest is in the positional aspects of 3 and 4 where there are strong socio-cultural reasons for demand and where there are significant negative externalities ...

Externalities from competition for relative position



Key concern

- All positional goods are characterised by excludability, interdependence and positional value.
- But: the key policy concern is those goods that have a large negative interdependence

What has worked in the past in reducing the negative externalities associated with positional goods?



Reducing excludability for PGs as an answer ..

Interventions can be **politically driven**:

- Rights of way to private land
- Honours system based on meritocracy rather than bought peerages
- Mass higher education, quotas for Oxbridge

...Or they can be **market driven**:

- Cheap air travel
- Fake designer products

Case studies

- In what follows we explore four areas using these ways of looking, to ask: is there a public problem/issue? Are there any plausible answers?
 - Gated communities
 - SUVs
 - Luxury fashion
 - Luxury tourism



CASE STUDY
1: GATED
COMMUNITIES

Gated Communities

- *Ghettos of the rich; fortress neighbourhoods; security villages; Laagers for toffs (The Guardian).*
- Particularly popular in the United States, they focus on exclusiveness, and emphasize security and safety. Children can play freely outside the home, cars are safe and neighbours are all part of a 'club'.
- The more security and privacy, the more expensive and exclusive the gated community. If you get less crime, others get more.



GERALD .. YOU'RE LETTING THIS SECURITY
THING GO TO YOUR HEAD.

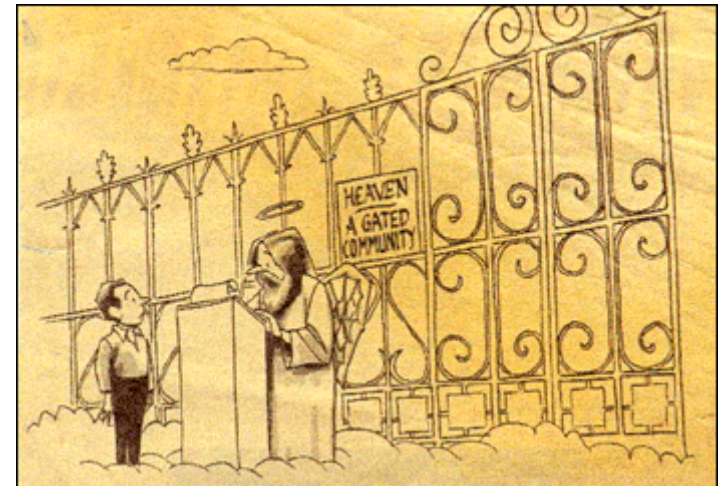
GCs around the world

- Gated enclaves have always existed – for royalty in the Renaissance and Middle Ages for example. Fortified with towers, moats, and drawbridges.
- In the US, there are well over 20,000 gated communities, mostly in metropolitan areas such as Los Angeles, Phoenix, Dallas, and Miami.
- They are still primarily occupied by the the top one fifth of Americans.
- Activities inside these communities can include golf courses, shops, horseback riding, and many other "leisure" activities for residents. One gated community in Nevada included a shooting range.
- Security is a primary concern: surveillance cameras, infrared sensors, motion detectors, armed guards but also canine and helicopter patrols are part of the service.

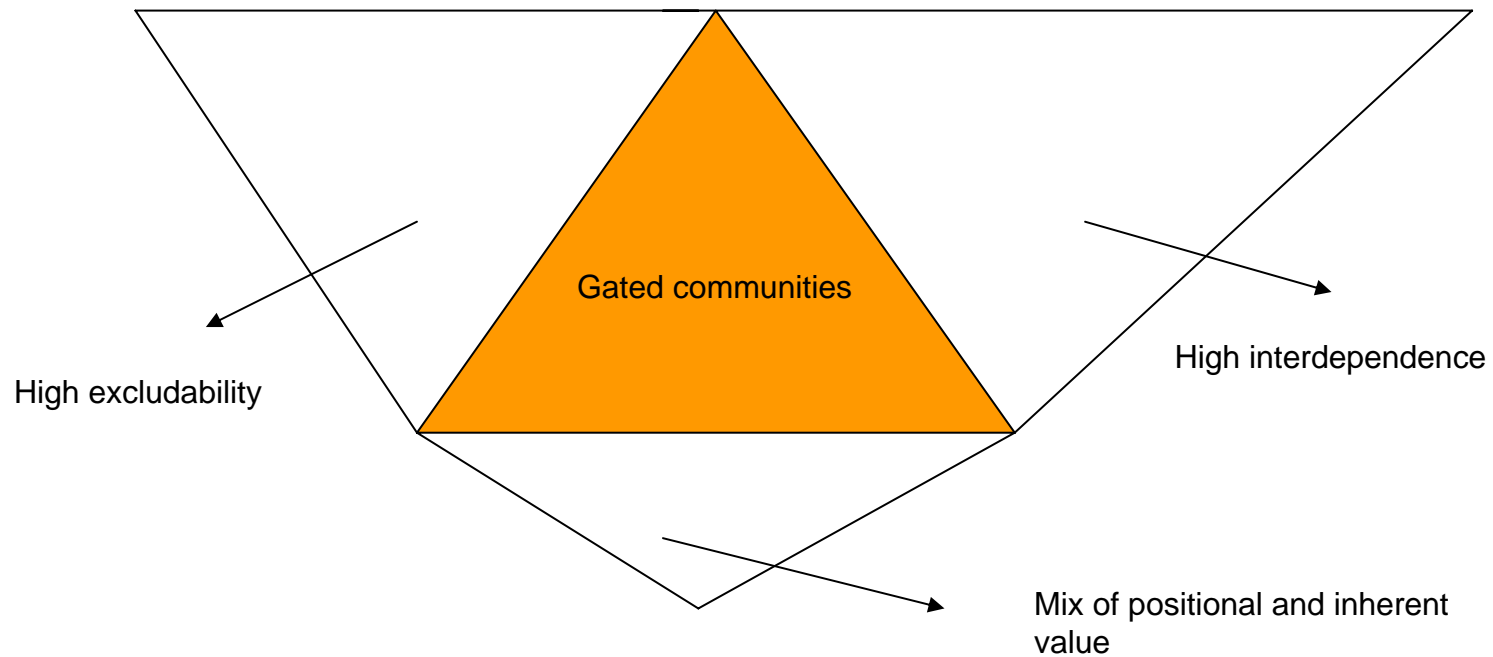


GCs in England

- In England in 2004 there were about 1000 gated communities but demand is rising.
- These developments are generally small (most are less than fifty units) but are spread well across the country, though they are clustered and more extensive in the South East.
- Buyers of GCs pay more for their relative security and status – about 10% more than comparable properties with open access.
- Policy issue – do they have an effect on the distribution rather than the volume of crime, ie displacing crime onto others.



Gated communities as positional goods



Practical implications

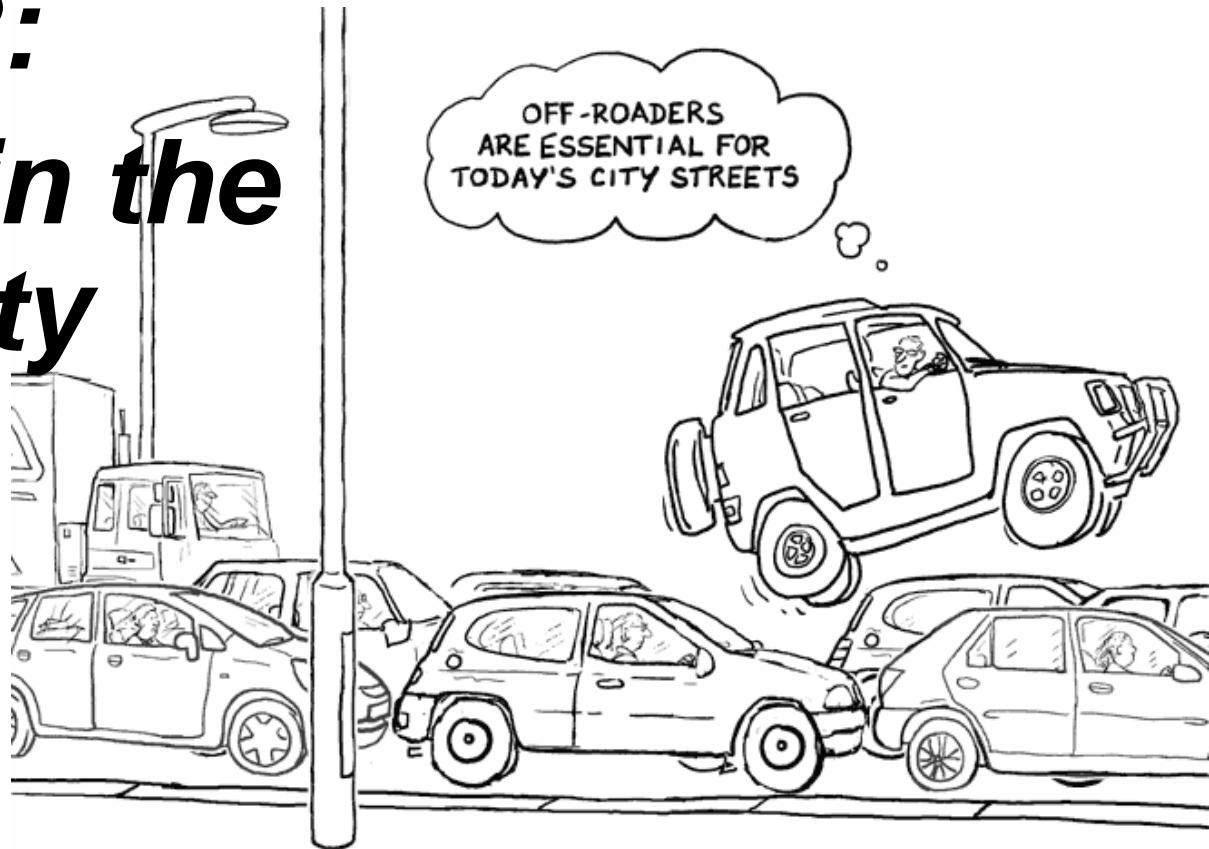
- How can one reduce excludability?
- Could one open access to gated communities to street residents?
- Are enhanced security measures for the whole area the only plausible alternative?



CASE STUDY

2:

SUVs in the city



SUVs consumption

- Strong trends driving up purchase of SUVs - sports utility vehicles.
- Big SUVs are the chosen form of transport for Premier League footballers and rap stars, with the 2.5 ton Cadillac Escalade, imported direct from the US, particularly popular. Also, Queen Elizabeth's traditional flagship transportation is a Range Rover.



Where is it written that an SUV can't perform? Where is it written that an SUV can't have an aggressive, sculpted body? Where is it written that an SUV can't occupy all five senses or, perhaps, introduce evidence of a sixth? Show us where it is written. And we'll show you the SUV inspired by sports car design. We'll show you the Infiniti FX.

YOU COULD'VE BEEN HERE.

 LEXUS

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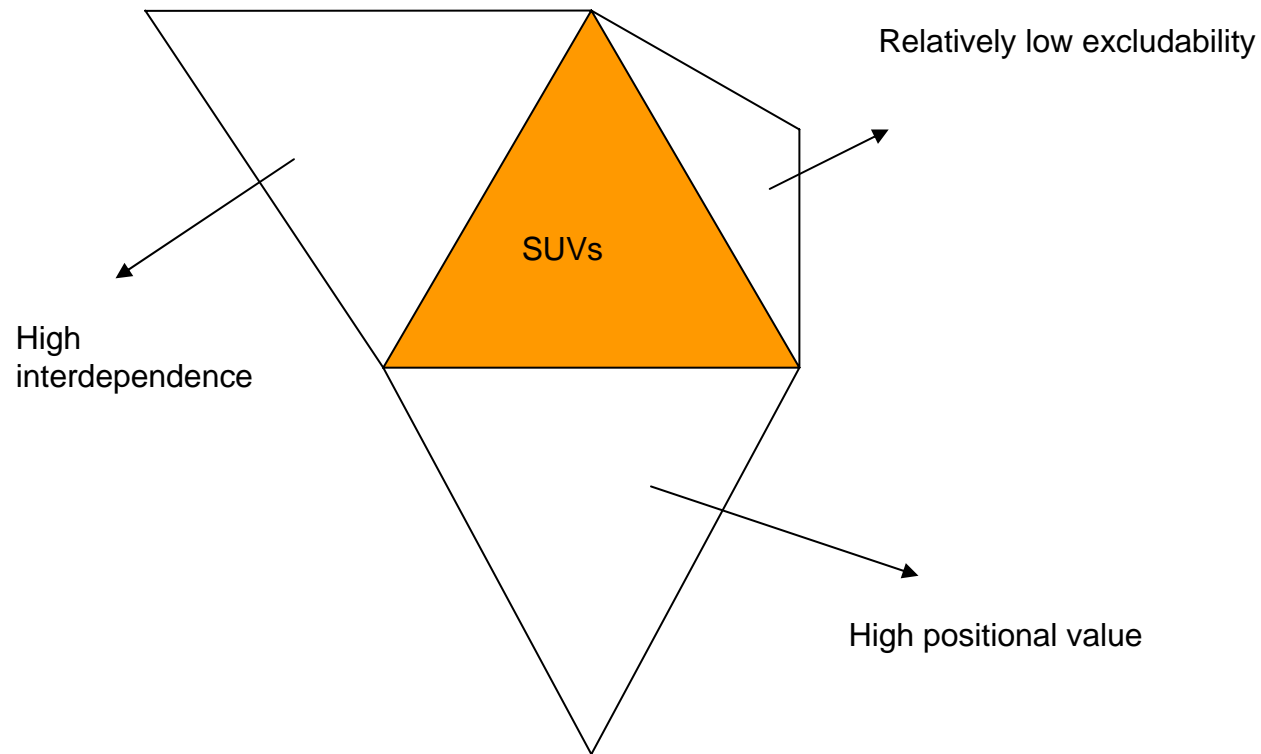
Your commute just got significantly shorter. Introducing the 2007 Lexus RX 350, the latest in the revolutionary RX series. Harnessing a new 3.5-liter V6 engine with 270 horsepower* and dual VVT-i, it has the uncanny ability to transform any route you're on into the shortest one. And the most luxurious one, as you'll find the kinds of features that have become synonymous with Lexus. Such as an available backup camera, heated seats and rear-seat entertainment system. Experience the RX 350. And see what it's like to arrive in style a few minutes early.



SUVs in Britain

- One in every seven cars bought in London is a SUV. Designed for rough terrain rather than urban tarmac, SUVs sales are up by 84 % nationally over eight years but demand has doubled in the capital.

SUVs as a positional good

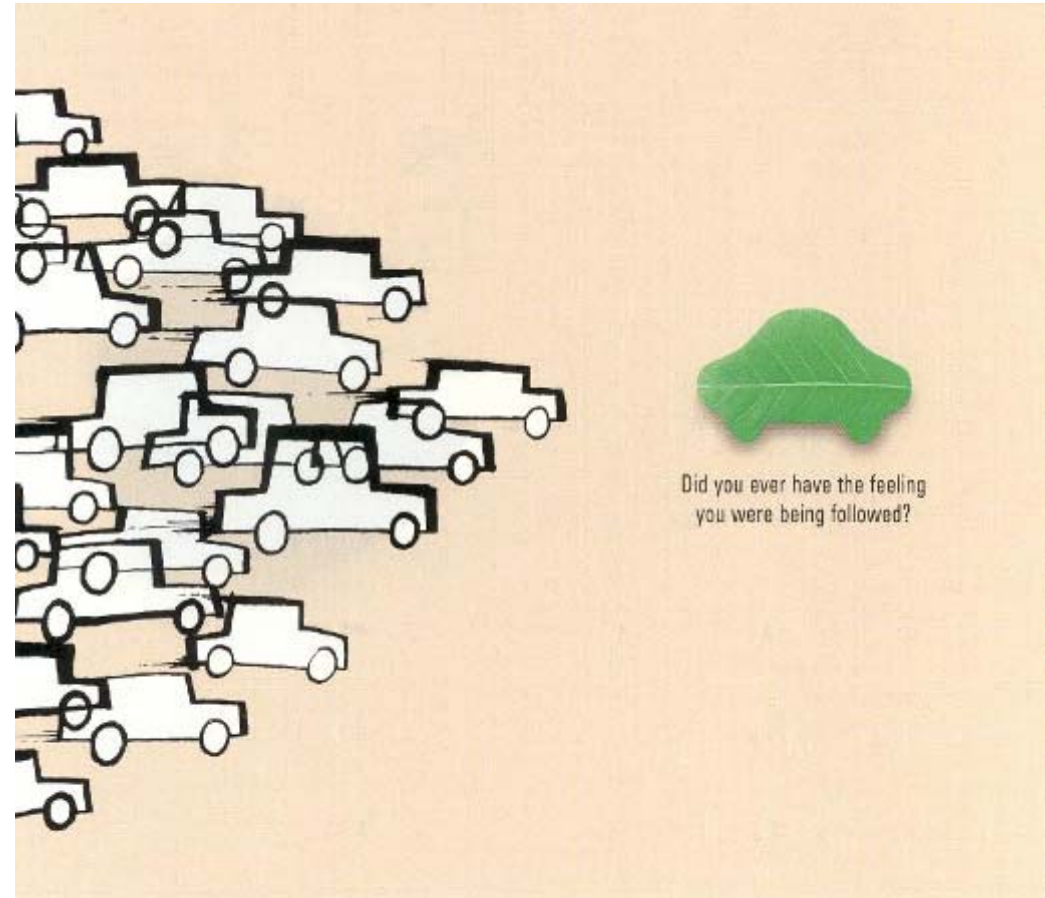


Value, excludability and interdependence

1. ***The value of SUVs is more positional than inherent.*** In cities, the actual need for a SUV is limited and its demand has more to do with status, perceived safety and image than with actual need.
2. ***SUVs have a relatively low excludability.***
3. ***SUVs have a very high interdependence.*** In terms of:
 - *Traffic* - the more people use SUVs, the more traffic there is for everyone.
 - *Safety* - For large SUVs, the occupant death rate is 8% higher than minivans and mid sized cars.
 - *Pollution* - They emit up to 4 times more CO2 than cars only doing approximately 12mpg in city traffic.
 - *Separation from others.*

Policy Implications

- Internalising externalities via tax?
- Campaigning?

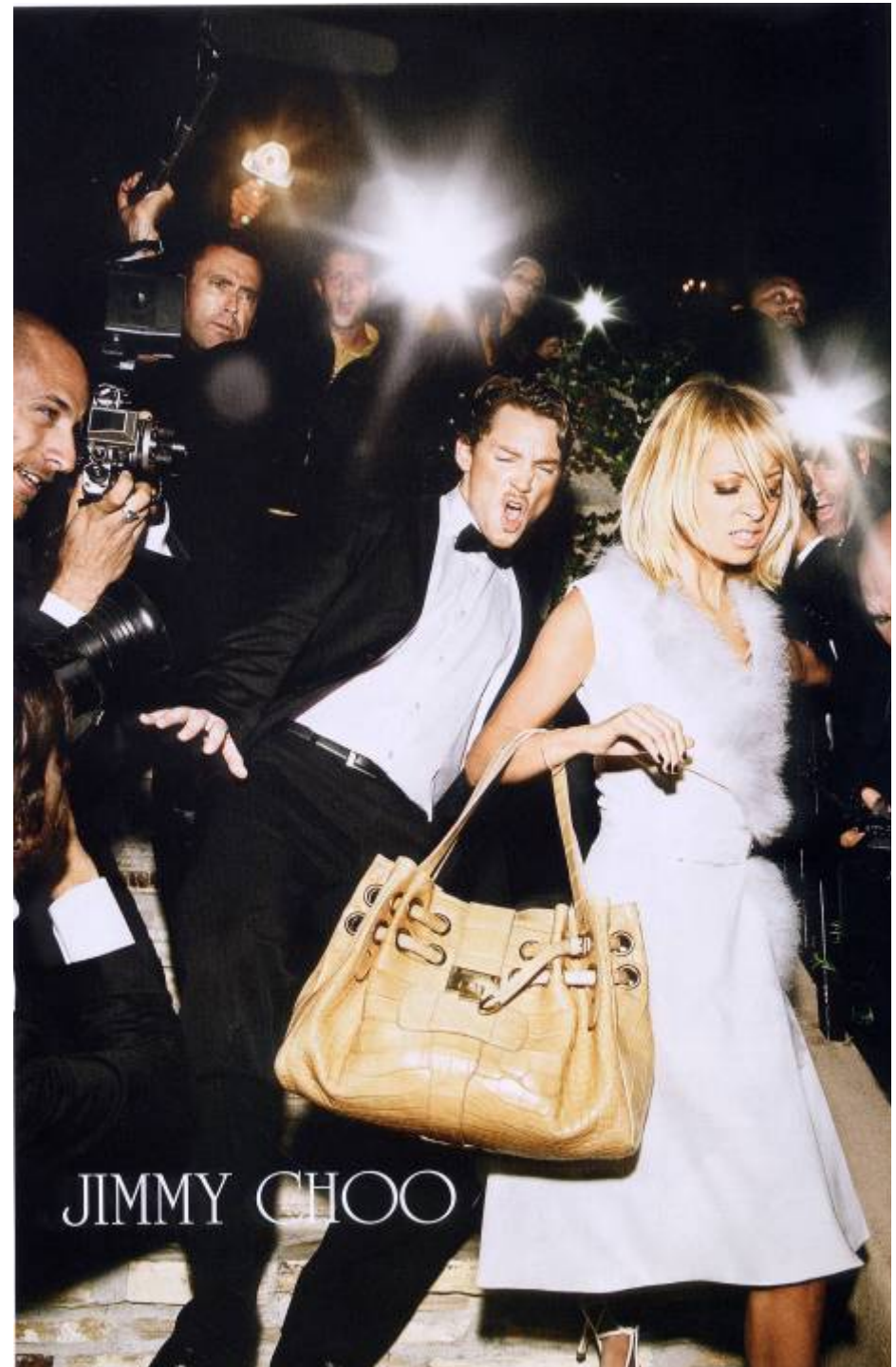


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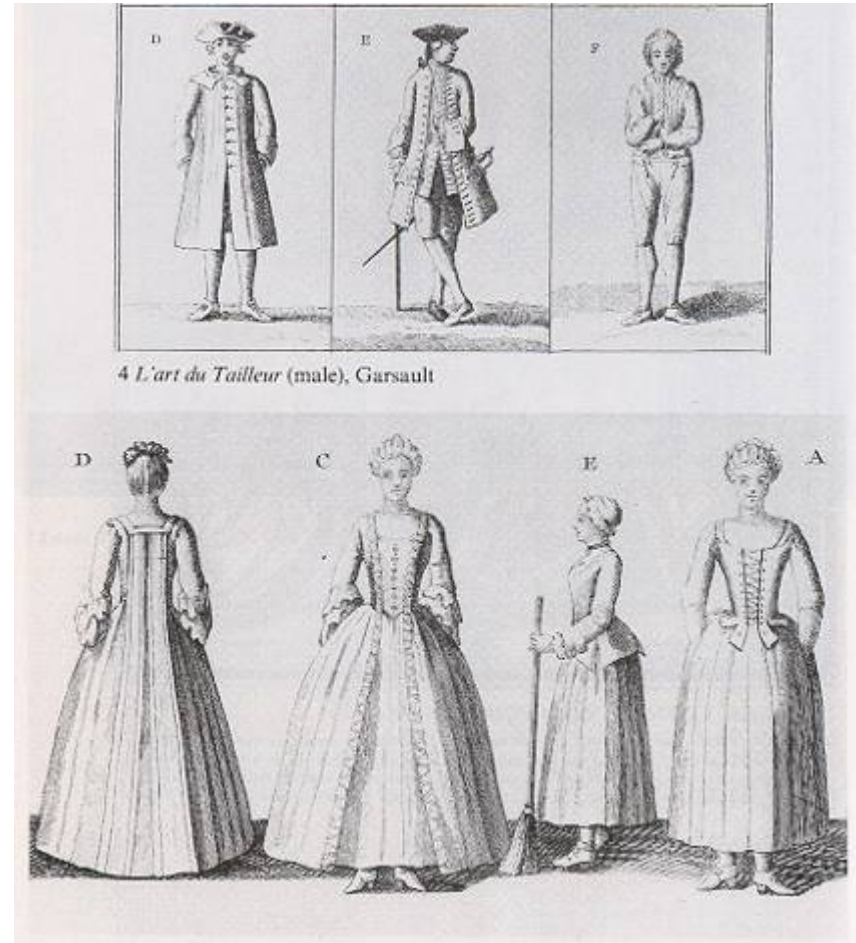
TODAY TOMORROW **TOYOTA**

CASE STUDY
3:
Luxury Fashion



Luxury Fashion as a positional good

- Since ancient times, people have sought luxury.
- Status and luxury fashion have always been connected – although their positionality often regulated by sumptuary laws.
- Only high-ranking Hawaiian chiefs could wear feather cloaks and palaoa or carved whale teeth. In China before the establishment of the republic, only the emperor could wear yellow.



Fashion and Status

- In 17th Century England, trade and new wealth brought new aspirations and social identities ('I must have a pair of Damascus spurs')
- Today, luxury consumption is more visible and more in reach

Haute Couture

- Haute couture represents the ultimate positional good. It is scarce – it is exclusive and extremely expensive.
- It is made by hand, to the exact measurements of those who can afford it. There are only a few thousand women world-wide buying haute couture today - Christian Dior, Guccio Gucci or Chanel



The Competition treadmill

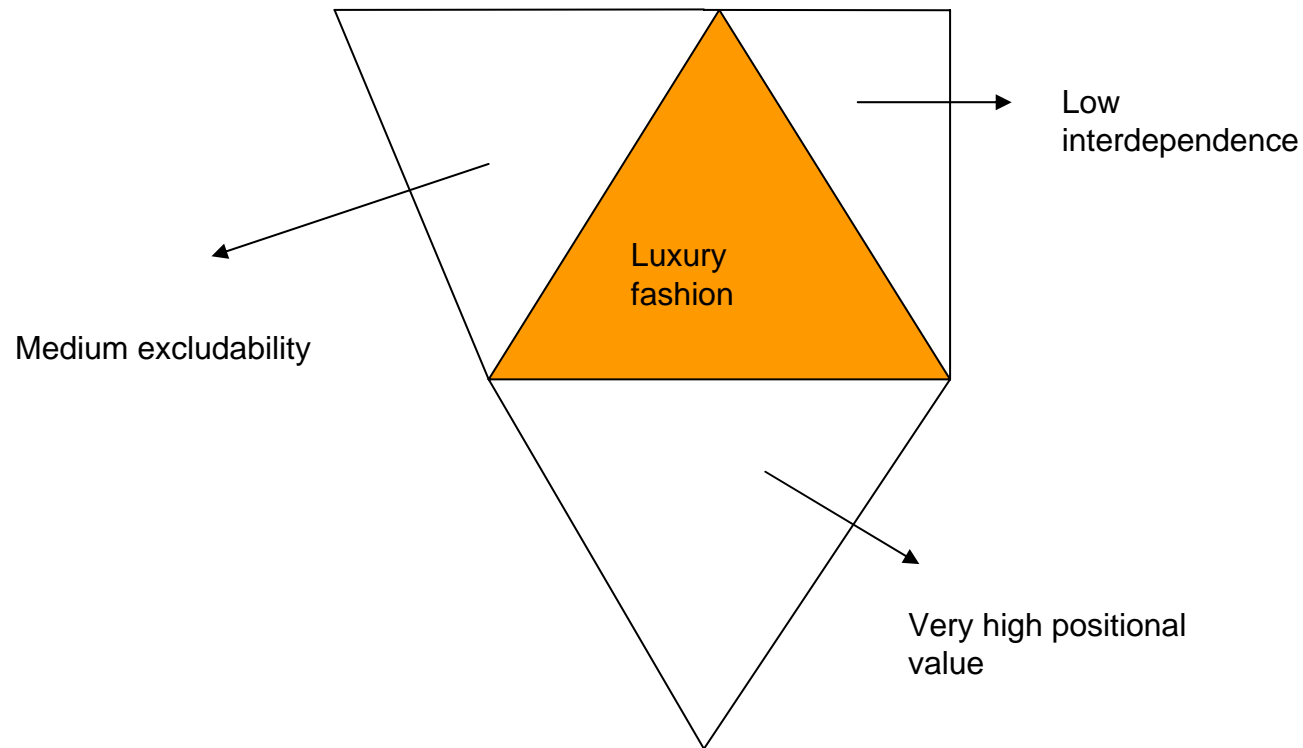
- Around the world 800 million people watch the Oscars: 63% of American women between the ages of 18 and 49 who are watching television that night tune into the ceremony.
- Despite the very prohibitive prices of haute couture, aspiration for premium luxury fashion is on the rise. The global luxury market is growing by 10 to 20% annually.
- Expensive brands offer affordable versions (Sportmax; Armani Jeans) of their brand while a significant number of Gucci handbags will be purchased by women who make less than £18K annual income.



The competition treadmill

- According to Virginia Postrel, author of “The Substance of Style”, conspicuous consumption is much more important when people are not far from being poor.
- It allows people to attempt to stand on ‘tiptoes’ and maintain their relative position compared to others. However, because of the constantly changing trends of the world of fashion, relative position becomes harder to maintain.

Luxury fashion as positional good



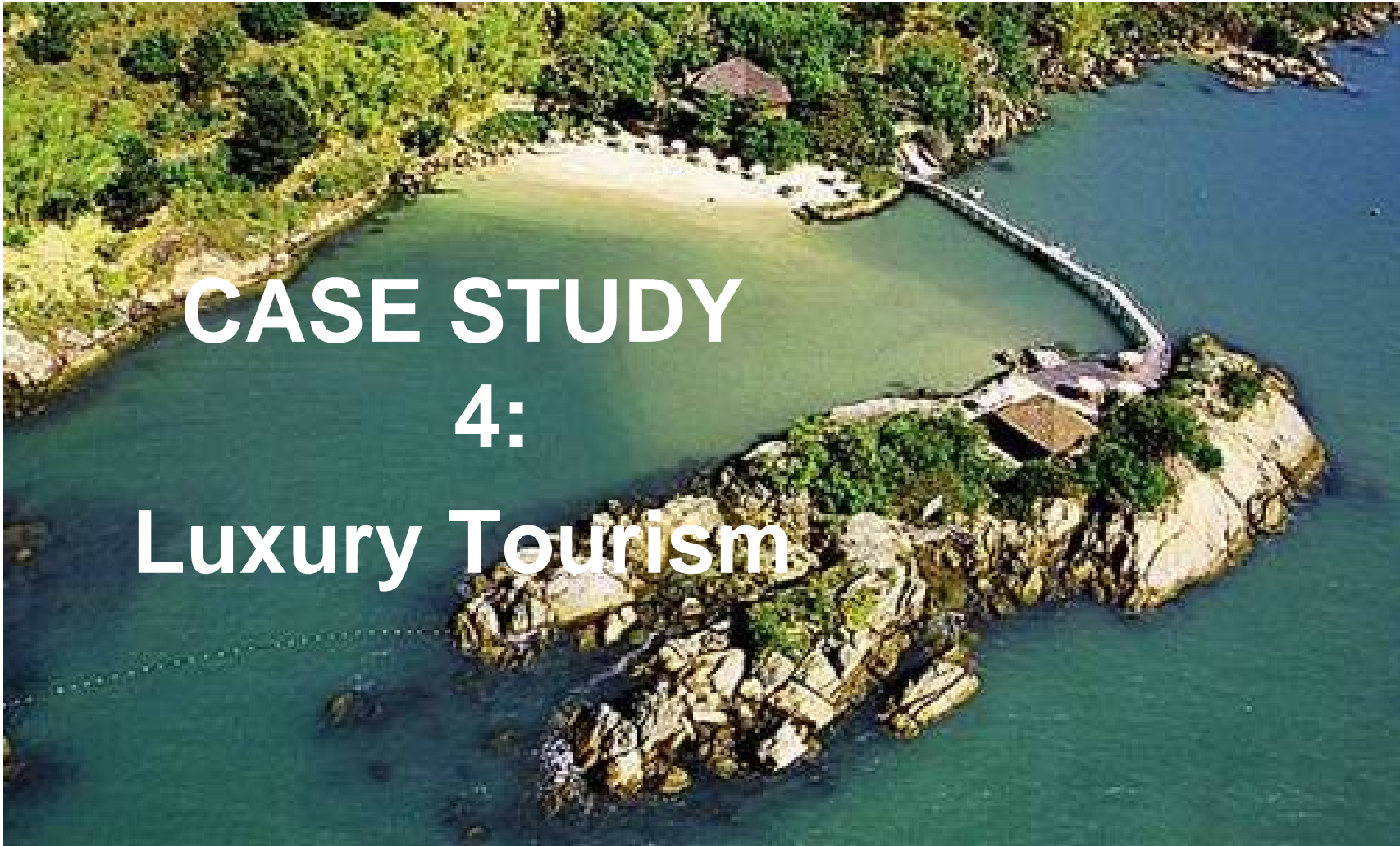
Value, excludability and interdependence

- **Luxury fashion has an *almost fully positional value*.** While buying luxury fashion may have a strong element of enjoyment, its value is still predominantly positional.
- **Luxury fashion has a ‘*medium*’ *excludability*** – The essence of luxury is its exclusivity and uniqueness. If I have it, you can’t.
- **Luxury fashion, however, has little if any negative interdependence.**

Practical Implications

- Promote non-exclusive fashion as fashionable?
- Create exclusivity around inexpensive fashion – for all ages?
- Create non-exclusive feel good NPG factor around ethical fashion (Gap and RED)?





**CASE STUDY
4:
Luxury Tourism**

Travel trends

- In 2003 UK residents made a record 41.2 million holiday trips - 3% more than in 2002. A continuation of the rise in overseas holidays over the last three decades from 6.7 million in 1971.
- About half (47%) of the holiday trips abroad in 2003 were package holidays.



The boundaries of luxury

- Mass tourism has pushed the boundaries of tourism further into exclusivity, privacy and lifestyle choice.
- Creation of six star (i.e. Le Touessrok Resort in Mauritius with two private islands, a golf course and a Givenchy spa) or even seven star hotels for the super rich (i.e. Dubai's Burj Al Arab)
- Small luxury hotels with character have bloomed in recent years and have become the retreat destination of many celebrities and new rich in search for style, barefoot luxury, pampering and nature.
- The top 3% of tourists spends 20% of total tourism expenditure. This 3% is however increasingly looking for exclusivity, for small luxury hotels that make a lifestyle statement.
- Brings jobs and prosperity to many areas – but along with exclusive places; high ecological damage &c

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Cayman Brac
Little Cayman

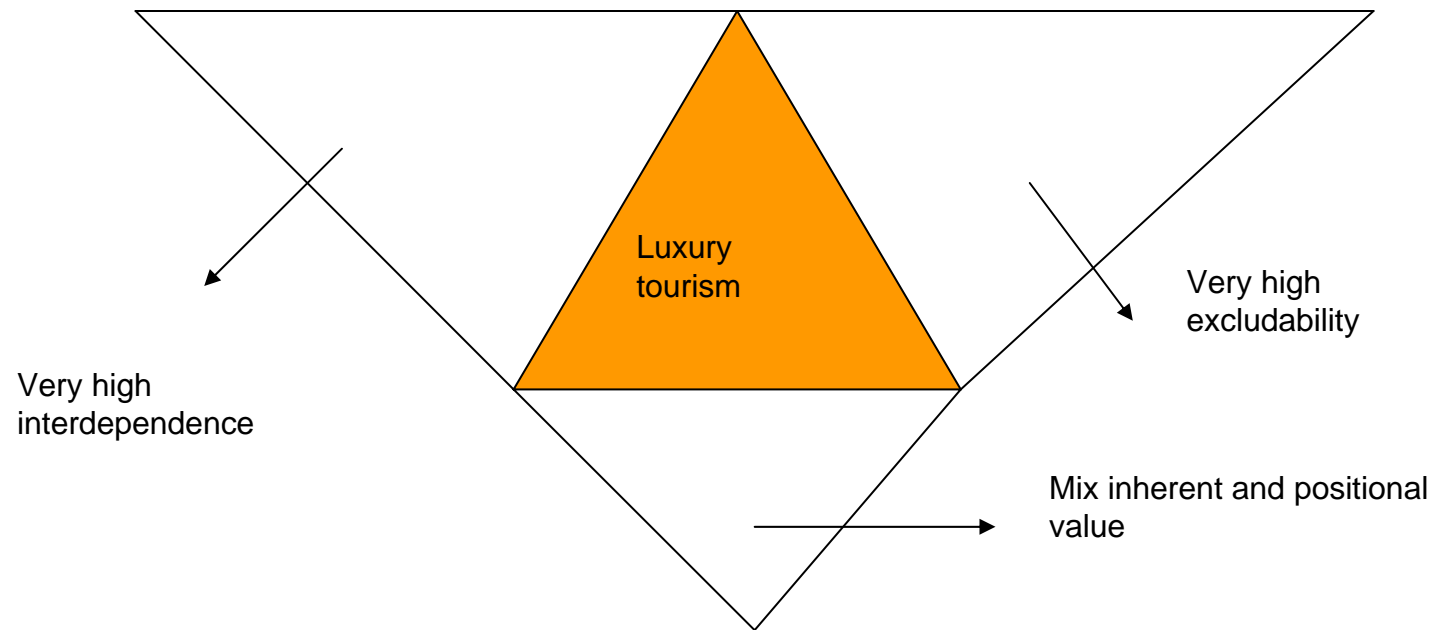
Caribbean Sea

Just Van Dyke
Culebra
Saba
St. Eustathius
Barbuda
Montserrat
Terre-de-Haut
Bequia
Carrizacou
Canouan
Petite Martinique

Competition treadmill

- Today's career starters anticipate spending close to £22,000 going away on as many luxury holidays as possible
- 32% of British people rate luxury holidays as essential to our quality of life. Once people get on the treadmill, there is no obvious stopping point, and soon they find themselves spending large amounts for goods that give them little, temporary or no pleasure.

Luxury tourism as a positional good



Practical Implications

- Campaigning around norms – eco, ethical tourism etc
- Full cost air travel



What next?

- Seminar and lecture in September with Prof. Robert Frank, Cornell University, and Oliver James, clinical psychologist.
- Publication of report in early 2007
- Contact: Alessandra.BuonfinoATyoungfoundation.org

