



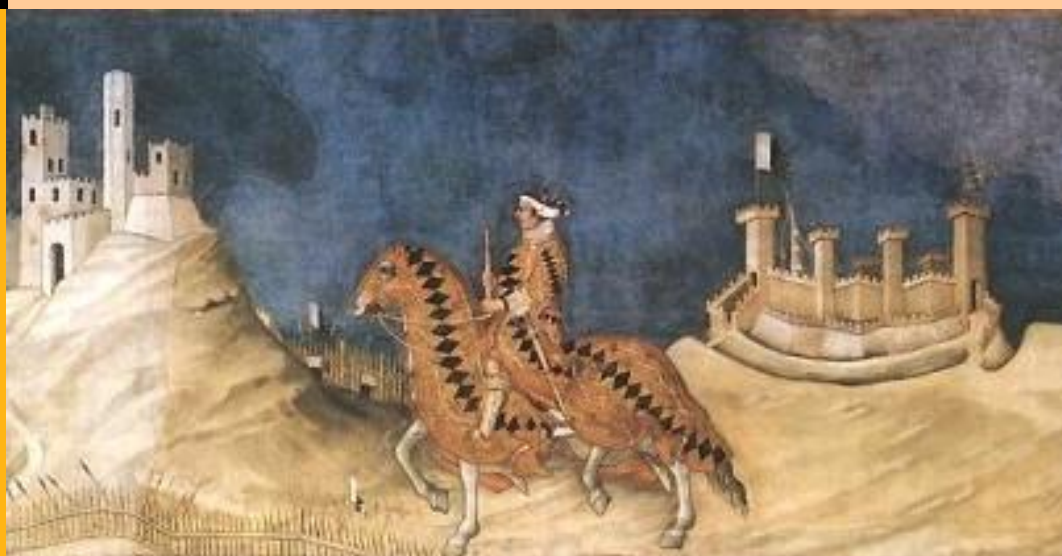
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Positional Goods and Social Welfare:
A Note on George Pendleton Watkins' Neglected Contribution

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**Positional Goods and Social Welfare:
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ABSTRACT

This paper deals with the analysis on adventitious utility—that contains many aspects that are connected to the contemporary debate on positional goods—of the early twentieth century American economist, largely forgotten today, George Pendleton Watkins. According to the author, adventitious utility emerges from a process of social exclusion which can create negative externalities, in the sense that positive consumption of one individual implies negative consumption by another individual. Interestingly, a similar notion of positional competition as a zero-sum game has gained some consensus among contemporary authors (Pagano 1999; Hopkins and Kornienko 2004). In addition, for Watkins striving for adventitious utility does undermine social welfare. Not only it worsens both individual and social well-being by generating social waste, but it also disrupts the integrity of the social fabric. In discussing possible remedies, Watkins pointed out the necessity of a more egalitarian distribution of income and postulated a dichotomy between goods and services possessing adventitious utility and those possessing what he defined as multiple utility. In the latter group Watkins included public goods as well as those dimensions in human consumption that depend on social interaction and can be enjoyed only if shared in community.

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Many of the “higher” wants are keenly satirized in Veblen's *Theory of the Leisure Class*. A sober discussion of the problems involved, of much greater scientific significance, is found in the later chapters of G. P. Watkins's volume on *Welfare as an Economic Quantity*. (Knight 1923, 593 n5)

1. Introduction

Although formally introduced by Fred Hirsh in 1976, the notion of positional goods has a long and honorable pedigree.² Forerunners of the idea that certain goods are desirable because they confer status on the owner include classical writers like Adam Smith, John Rae, Nassau Senior and Augustine Cournot; early dissenters like Thorstein Veblen; and, for the last century, a rather heterogeneous group comprising (among others) Philip Wicksteed, Arthur C. Pigou, James Meade, James Duesenberry, Harvey Leibenstein, and Roy Harrod.³ The scope of this brief note is to add a further name to this list, namely that of the early twentieth century American economist George Pendleton Watkins. Largely forgotten today, at his time Watkins was quite an influential figure.⁴ Born in Fall River, Massachusetts, in 1876, Watkins studied at Cornell, receiving a BA in 1899 and a PhD in 1906. His dissertation, *The Economic Causes of Large Fortunes in the United States*, a pioneering study on wealth concentration in the United States, was published in 1907 as a monograph for the *Publications of the American Economic Association* (Watkins 1907). In 1908 Watkins joined the staff of the New York Public Service Commission, shortly becoming its assistant chief statistician. In 1918 he moved to the Federal Trade Commission, where he was appointed chief statistician in 1927—a position he held until his sudden death in 1933. During the years at the Commission, Watkins associated his name to several important investigations, such as those on the grain and cotton trades, wheat prices, open price trade associations, and interstate transmission of electric power (Blaisdell 1932).⁵

Watkins, however, was not just a fine statistical analyst. While at the New York Public Service Commission he published a small theoretical volume, *Welfare as an Economic Quantity* (1915), which was awarded the prestigious Hart, Schaffner & Marx Prize. As we will discuss below, the book—which was intended to be a “study in the neglected field of economic consumption” (vii)—contained a rather detailed analysis of a special form of utility called “adventitious” utility, which anticipates many features of the contemporary debate on positional goods and their effects on social welfare. Although, especially in the 1920s, the field of consumption became a trademark of institutionalism (Rutherford 2011; Trezzini 2016), Watkins moved from neoclassical (admittedly, a rather loose term at the time) premises. In this connection, he (viii) expressed gratitude to John Bates Clark, “for encouraging me to complete and publish this little book, which was first presented on somewhat the present plan as a paper in his seminar.”⁶ As importantly, as it will be documented below, although Watkins was primarily interested in theory, he did not shy away from the normative implications of his analysis. As he stated in the opening sentences of the book, “the writer ... would not appear to hesitate to draw any legitimate

² Several definitions of positional goods can be found in the literature. Probably the most comprehensive is the one provided by Michael Schneider (2007, 62) who describes positional goods as “goods of which it is true that for some of the members of a society part or all of the satisfaction derived from possessing them is the enhancement of social status due to the fact that such satisfaction is possible only for a minority.”

³ See the historical survey in Ancil and Hakes 1991 and Schneider 2007.

⁴ Our biographical sketch of Watkins is based on two obituaries that appeared on the *New York Times* (Dr. George P Watkins 1933) and on the *Journal of the American Statistical Association* (Stevens 1934).

⁵ Watkins was also known as an expert in public utility ratemaking, and his volume on electric rates (Watkins 1921) was regarded as one of the most authoritative works in the field (Bauer 1922).

⁶ Watkins (viii) also acknowledged that “the manuscript has been subjected to the criticism of Professor Alvin S. Johnson, who acted in place of Professor Clark as a judge of the papers submitted to the Hart, Schaffner & Marx Committee.” Albeit a pupil and a follower of Clark, Johnson was somewhat sympathetic to institutional economics.

conclusions that follow from the explanatory principles discussed. He does not suppose that, because his purpose is to explain, and not to justify or to rectify, he can therefore avoid moral issues" (xxiii).

2. The Nature and Significance of Adventitious Utility

In the Preface of his *Welfare as an Economic Quantity*, Watkins warned his readers that "though much that is characteristic of the Austrians—Menger, Wieser, and Böhm-Bawerk—is not accepted here, my point of departure is obviously the same as theirs" (viii). In many respects, in fact, the book was both a contribution to—and a departure from—marginal utility analysis. By his own admission, Watkins moved from explicitly hedonistic premises. Economics, he stated, is "the study of the means of welfare, that is, of goods and services, or of things and processes having utility" (1). By utility, in turn, he referred to "the capacity in greater or less degree to satisfy wants" (1).⁷ The consumption of a good then may be related to the satisfaction of wants in three distinct ways. First, a good may possess certain intrinsic qualities that constitute the object of desire so that "the relation ... is simple and direct between the qualities of the good and the wants of its consumers" (12). This is for Watkins utility properly conceived ("utility proper"), i.e., the case in which the principle of diminishing utility applies in its traditional form with no need of further qualifications.⁸ Second, a good may be wanted in conjunction with some other specific good or set of goods. In this case, the complementary relation becomes the determining factor in setting the value of the good and this may require important amendments to the principle of diminishing marginal utility.⁹ Third, a good may be desired chiefly for the advantages they confer in terms of social recognition and prestige. This is the realm of adventitious utility, which Watkins defined as "that part of the utility of a good which is attributed to it on account of the distinction that its consumption or enjoyment is felt to confer on the possessor or consumer by comparison with others apparently or constructively not equally well able to pay" (141). Interestingly enough, albeit in no way directly involved to the early developments of institutionalism, in his discussion of adventitious utility Watkins acknowledged his intellectual debt to Thorstein Veblen.¹⁰

To Watkins's eyes, adventitious utility differs from utility proper in several respects. First, wherever the latter is "individualistic," adventitious utility is inherently social, in the sense that it is not dependent on certain intrinsic qualities of the good but on "a conventional social significance, in the view of the possessor and others, attaching to the possession and use of certain goods" (17). Ultimately, adventitious utility is a "product of social relations and of feelings of invidiousness and emulation" (142). It should be noted that Watkins did not consider proper and adventitious utility as mutually exclusive. That is, a good generally exhibits characteristics of both categories. Adventitious utility, he stated, "is difficult to observe clear of entanglement with real utility, and is in fact entirely separable only by abstraction" (161). Just as important, Watkins confined adventitious utility to goods where access is dependent on income and he did not discuss other modes of exclusion, social or individual. "In the case of adventitious utility,"—he wrote—"its very existence is dependent upon price or, strictly speaking, upon high price. A free good, or an abundant good, cannot possess it" (143).

Differently from utility proper, also, adventitious utility is largely unconscious, in the sense that its enjoyment "need not consciously be accompanied by social reference" (143). The high value of a good may be transferred from its adventitious character to its intrinsic (often aesthetic) qualities. According to Watkins in fact, "the individual thinks he values for itself the thing possessing adventitious utility, but he really values such an article as highly as he does only because of insidious associations and suggestions." In this way, "either by transference of feeling within the consumer, or because of

⁷ Watkins was adamant in emphasizing the quantitative dimension of utility. In his view, "utility is always thought of quantitatively," in the sense that "there is always present at least an implied or latent quantitative comparison with the utility of other goods" (2).

⁸ Interestingly, Watkins (26)—like Francis Y. Edgeworth (1881), but without referring to him—considered diminishing marginal utility as a "corollary" of Weber and Fechner's law of psycho-physical relations. By postulating a logarithmic connection between physical stimuli and corresponding sensation, the law implied that the rate of increase of a sensation decreases as the stimulus increases.

⁹ See Watkins's (83-90) discussion of complementary utility.

¹⁰ Watkins wrote: "In the chapters on adventitious utility the writer is greatly indebted to Thorstein Veblen's brilliant contribution to sociology as well as to economics, *The Theory of the Leisure Class*, which develops the theory of adventitious utility in a different way and under other names" (146 n1).

incomplete subjective imitation of its originator, adventitious utility becomes psychically an immediate utility" (143). The whole process is mainly unintentional and involves no form of social hypocrisy: "those who actively foster adventitious utility are more deceived than anybody else" (155).

Adventitious utility, finally, differs from utility proper in two other important respects. For Watkins the positive enjoyment of adventitious utility by some consumers involves a negative consumption of it by some other members of the society. In Watkins' own words: "From the point of view of the sum of the individuals who compose society and as measured subjectively, on the other hand, the net amount of adventitious utility is and remains at zero or thereabouts. The gain of one is the loss of others" (154). This implies, to put it in modern jargon, that adventitious competition among consumers is always a zero-sum game (or something close to it).¹¹ In addition, whereas utility proper depends on material scarcity and its derived demand for goods and services can reach a point of saturation, adventitious utility "is capable of any degree of expansion" (154). As Watkins explained:

There will come a stage when a greater quantity, not only of food, but also of most other goods, cannot to advantage be used, though changes in quality may still be valued. The appetite for adventitious utility, on the contrary, is quantitatively insatiable. The increase of the amount of adventitious utility is limited only by the increase of riches, that is, of large private fortunes. But adventitious utility will attach itself to different objects as man's powers of production increase. (154)

The fact that positional goods are inherently incapable of saturation, Watkins (18-19) reiterated, is merely a consequence of the different nature of utility proper and adventitious utility: "the former being based on the relation of the qualities of goods to men, the latter on the qualities of men and the relations between them."

3. Social Welfare

Although competition for status had existed since the very beginning of civilization, Watkins considered the dominance of "adventitious practices and institution" (179) mostly a product of modern conditions. The advent of the "political theories of the Revolutionary Era" and, still more important, the "enlarged influence of the middle class" resulting from the Industrial Revolution, had dissolved the traditional marks of class appurtenance (148). In the increasingly impersonal modern societies of the nineteenth century, displayed wealth became the principal indicator of economic success, and was used to secure personal status with people who were not immediate neighbors. Such a close association of reputation with appearance, Watkins wrote, encouraged emulation among other social groups: "the lower classes are now able to imitate their 'betters,' and do." Continual change in modes of adventitious consumption becomes so necessary "in order that the upper class be enabled to possess marks of distinction that those below them in the social scale have not yet imitated ... Prompt imitation compels rapid changes in the garments of society" (148).

This emergence of positional competition as a large-scale collective phenomenon has crucial effects on social welfare. Watkins' condemnation of adventitious utility is net and unconditioned: "Adventitious utility is one of the most conspicuous phases, if not the most conspicuous, of the waste of surplus socio-psychic energy and of pecuniary means" (153). Watkins discussed at least three kinds of social costs related to positional competition. First, competing for adventitious utility diverts resources away from welfare-enhancing uses, wasting them from the point of view of society as a whole. Waste, Watkins (153-154) wrote, is a "question of the proportion of results to means," but "it is obvious that the greatest significance of adventitious utility is not in relation to the variation of utility, in the sense which makes that the genus of which diminishing utility is a species." Positional competition implies a departure from the economic principle of efficiency. "Searching out and competing for the 'best,' as

¹¹ Hirsch (1976, 52), the father of the notion of positional goods, made a strikingly similar point: "By positional competition is meant competition that is fundamentally for a higher place in society within some explicit or implicit hierarchy and that thereby yields gains for some only by dint of losses for others. Positional competition, in the language of game theory, is a zero-sum game: what winners win, losers lose." Watkins and Hirsch, however, move from somewhat different premises. Watkins emphasizes the rival nature of adventitious utility while in Hirsch is the inherently hierarchical nature of status that makes positional competition a zero sum game.

conventionally understood,”—Watkins insisted—“constitutes one of the most serious of economic wastes, and therefore a grave moral wrong” (162).¹²

A second kind of social costs is directly connected to Watkins’ notion (discussed above) that an increase in one’s adventitious utility always imposes a corresponding negative externality on others. As he put it in a salient passage: “Adventitious utility ... cancels out in the social summation of welfare; that is, the enjoyment of it by one member of society is accompanied by actual or presumptive subtraction from the enjoyment of others. The enjoyment of the one is on the whole proportional to the disagreeable feelings of envy and humiliation excited in others” (150-151). But the idea of adventitious competition as a zero-sum game has also an important consequence. If the total social amount of adventitious utility is zero, Watkins (160) implied, those “invidiously ambitious” who try to “surpass competitors on their own ground” will find themselves in a situation by which each strives to gain advantage, but since all are trying to get ahead, all remain in the same relative position.¹³ In this connection, Watkins (147) described the waste involved in the continuous “keeping up appearances” which he considered “the controlling factor in the consumption of the families that would in England be called ‘middle class.’”

Third, striving for adventitious utility violates the Kantian imperative that it is immoral to use another individual merely as a means to an end, and that individuals must, under all circumstances, be treated as ends in themselves.¹⁴ Here is where Watkins’ analysis acquires a distinctly normative flavor. In his view (149), “running through all adventitious practices is the subordination of others to serve the exaltation of the ego.” This led him to point out the similarity between cruelty and ostentation—“both depending for the enjoyment they yield on the opposite effect upon others, thus being anti-social, and objectively, if not subjectively, malicious” (150). Moreover, not only positional consumption is morally condemnable, but it also degrades the moral character of those who suffer its negative effects. In Watkins’ (188) words, “the ambition to be and ‘to do’ rich ... puts the one so absorbed into the same class morally with those who are successful in this ambition.” In some passages, then, Watkins seems to go a step further, hinting at the negative consequences of positional competition on social cohesion. “Social atomization,” which he saw as a consequence of adventitious practices, “is destructive of both moral and economic standards” (96). In the final analysis, Watkins (150) asserted, “the element of adventitious utility is to be condemned also from a socio-economic point of view... It is a parasitic aftergrowth that should be pruned away from economic practice.”

Watkins considered several possible remedies to mitigate the effects of adventitious competition on social welfare. Following John Rae (1834), he discussed the possibility of a tax on articles of luxury on the ground that “since the consumption of articles of luxury is favored by increase of cost, a tax on luxuries might be used to obtain public revenue without sacrifice to the consumer” (153). Such measures as sumptuary laws, however, “would be but palliatives” (185).¹⁵ For Watkins, in fact, “legislation would do better to attack the root of the evil, that is, the inequality in the distribution of wealth” (185-186).¹⁶ Equality should be achieved by the state “largely through its fiscal policies and through reformation of the laws of inheritance” (186). Only a more egalitarian distribution of wealth

¹² In discussing the inefficiencies generated by adventitious utility Watkins (143-144) referred to the “small feet of Chinese women” as “an adventitious by-product of civilization.” Watkins’s example comes very close to Darwin’s male peacock tail. While the tail might indeed draw the attention of females, it also cost precious resources that could help its owner survive in a harsh environment. We thank one referee for pointing out to us this parallel.

¹³ This phenomenon is referred to by Robert H. Frank (1985) as the “positional treadmill.”

¹⁴ Watkins (149) referred to Immanuel Kant (1909, 47) asserting: that “so long as human nature remains what it is, some men, if they have the pecuniary wherewithal, will seek to make others mere means to their ends.”

¹⁵ Differently from Watkins, several authors have advocated Pigouvian taxation as a way of limiting positional externalities, for essentially the same reasons that effluent taxes may mitigate the costs of pollution (e.g. Boskin and Sheshinski 1978; Frank 2009; Ng 1987; Hopkins and Kornienko 2004).

¹⁶ According to Watkins (147), “inequality in the distribution of income is very clearly the foundation for the sort of adventitious utility that depends upon a class standard.” Over the last years, the idea that conditions of high levels of income inequality cause greater attention to positional goods has received both theoretical and empirical support (Bowles & Park, 2005; Wilkinson & Pickett, 2009). More recently, advocates of the so-called “social-rank hypothesis” (see, among others, Walasek and Brown 2015) have argued that greater concern with apparent status may be a rational response to higher income inequality. Visible cues, such as ownership of positional goods, provide more reliable signals of social rank in more unequal societies, leading to a rationally greater concern about maximizing apparent income-related social status when income inequality is high.

would in fact favor the development of that special category of goods and services providing what Watkins called “multiple utility:”

Adventitious utility flourishes best in an atmosphere of inequalities... Economic equality would, on the other hand, favor as much as possible cooperative enterprises in consumption and the cultivation of multiple utility. In fact, it is to be doubted whether any better use could be found for greatly increased individual means than to turn the surplus over to voluntary associations or to the community for expenditure upon objects of multiple utility. (181)

By multiple utility Watkins meant several things. First, in stressing the non-rival and non-excludable character of multiple utility consumption, Watkins come close the idea of public goods:

A good or service collectively enjoyed has the character of utility simultaneously in relation to two or more consumers. The appropriate name for this capacity is multiple utility. Such institutions as the theater, the museum, the public park, and the public library possess multiple utility. Most means of instruction and amusement either have or are capable of having this character. (163)¹⁷

In so far as the state can act as a “vicar or surrogate” for all the members of society in respect to adventitious expenditures, “luxury loses its egoistic and invidious character and receives enhanced social importance by acquiring multiple utility” (170). Interestingly, Watkins considered the provision of goods and services possessing multiple utility as a case of market failure, in the sense that its profitability should not be confined to “the consideration of merely economic or market values.” In discussing education, for instance, he stated explicitly that it should not be rationed on the basis of ability to pay by the consumers: “Utilities below the margin—which in the case of the poor are by no means necessarily small—should have weight ... The extent and importance of the benefit, with little reference to ability or inclination to pay for it in the concrete details of its supply, are the things to be considered” (165). Exclusion of the poor from the consumption of education would reduce both efficiency and equity in society:

To consider the educational activity of the state merely from the point of view of direct marginal utility to the individual does it great injustice. By affording through its schools some approach to equality of opportunity, the state intensifies the effectiveness of that competition which is, in the conception of individualistic economics, the chief means to maximum production. Education is therefore not only of direct and immaterial utility, but it is highly productive of wealth, and the more so if it is free. A mistaken economic individualism in such matters is thus met and overcome on its own ground. But it is a poor conception of the duty of society that allows one to assume commercial advantages to constitute the adequate and only justification for the policy. The furnishing of educational opportunities in the broadest sense may well be considered the great positive function of the state. (166-167)

In other passages, Watkins added a further element, suggesting a definition of goods possessing multiple utility akin to the contemporary notion of relational goods, i.e. goods which are intrinsically linked to forms of social relationships and interaction.¹⁸ The passage below is particularly enlightening:

The inducement to socialization of enjoyment is the increase of its amount thereby effected. The cost of goods to a circle of consumers constrains to the socialization of enjoyment, in so far as the nature of the utility permits. In strictly multiple utility there is no appreciable diminution of enjoyment for one person by the simultaneous enjoyment of the same object on the part of others. The enjoyment is as often increased for the individual by reason of its sociality or group character as it is diminished by the breaking over of individual exclusiveness. Unless physical conditions require exclusiveness of use, the utility due to this condition is in fact as much apparent as real, for the exclusiveness is often

¹⁷ Generally attributed to Samuelson, who mathematically formalized it (1954), the standard definition of public good in terms of nonrivalry in consumption and nonexcludability in access was first carved by Musgrave (1941). See Desmarais-Tremblay 2017.

¹⁸ Benedetto Gui (1987, 37) defines relational goods as “non-material goods which are not services that are consumed individually but are tied to interpersonal relations.”

not the means of enjoyment but its adventitious end. So far as it is adventitious it should of course have no weight with the economist. (164-165).

Thus, while adventitious utility denotes a zero-sum game, multiple utility leads to a super-additive game, namely a condition in which one's utility has a non-negative or even positive impact on utility of others (as in the cases of public goods and relational goods, respectively). Interestingly, Watkins advances the idea that policies which encourage multiple utility, namely a type of utility with opposite features to adventitious utility, may reduce adventitious utility concerns. This is confirmed by his repeated reference (164; 165; 172) to the "inducement to socialization of enjoyment" brought about by multiple utility as contrasted to the social "atomization" caused by adventitious practices. This point, clearly discernible in Watkins, is in line with a recent literature for which the production and consumption of goods with public and relational features represent an effective antidote to problems arising from positional competition.¹⁹

4. Conclusions

Watkins's analysis of adventitious utility contains many aspects that are connected to the contemporary debate on positional goods. First, Watkins understood that a strictly individualistic economy cannot accommodate the concept of adventitious utility. As Watkins put it in, "the material for a comprehensive analysis of adventitious utility ... could not be supplied by the experience of a Robinson Crusoe" (18). Adventitious utility emerges from a process of social exclusion and—this is Watkins' second point—this process can create negative externalities, in the sense that positive consumption of one individual implies negative consumption by another individual. Interestingly, a similar notion of positional competition as a zero-sum game has gained some consensus among contemporary authors (Pagano 1999; Hopkins and Kornienko 2004). Finally, for Watkins striving for adventitious utility does undermine social welfare. Not only it worsens both individual and social well-being by generating waste from "expense masquerading as utility" (152), but it also disrupts the integrity of the social fabric. In discussing possible remedies, Watkins pointed out the necessity of a more egalitarian distribution of income and postulated a dichotomy between goods and services possessing adventitious utility and those possessing what he defined as multiple utility. In the latter group Watkins included public goods as well as those dimensions in human consumption that depend on social interaction and can be enjoyed only if shared in community.

¹⁹ Stefano Zamagni (1999, 119), for instance, has pointed out that "the most effective antidote to positional competition is to expand the production and consumption of relational goods." See also Bruni and Zamagni 2007, and Gui and Sudgeen 2005.

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