

CLASSICAL ECONOMIC MAN: WAS HE INTERESTED IN KEEPING UP WITH THE JONESES?

BY

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I. INTRODUCTION

One of the significant contributions of the *The Wealth of Nations* was to bring to the consciousness of economists the centrality of the pursuit of self-interest in economic affairs. Following the publication of the *The Wealth of Nations*, economists increasingly assumed that the pursuit of self-interest was the prime psychological drive of mankind. As economics developed, modifications of the self-interest postulate occurred. Economists began to formally model the pursuit of self-interest and a specific form of the pursuit of self-interest ultimately came to dominate economists' thinking. Specifically, economists have taken a methodologically individualistic approach to this question. With rare exception, economists presume that the individual pursues self-interest more or less in "isolation." As Frank Knight pointed out, the purely rational action of the economic man requires the complete absence of personal relations, in effect requiring persons to treat each other as vending machines (Knight 1960, p. 73). Robinson Crusoe alone on his island is thus the epitome of the economic man assumed by neoclassical economic theory.

Economists are largely silent as to the source of the given wants they assume that economic agents attempt to satisfy. The source of such wants is taken to be the domain of psychology, not economics. In any event, economists have generally presumed that the utility that individuals derive from their consumption is a function of the individual's level of consumption of goods and is independent of the utility function or levels of consumption or incomes of other persons (Frank 1985, p. 37). Though economists are aware that people's tastes and motives are formed by social interaction, by culture and religion, and status, these are considered to be noneconomic factors (Stigler 1987, p. 19), and as such play little active role in the formal analysis. As an example, Arthur Denzau argues that "a tenant farmer might be subservient to his landlord, doffing his cap as they begin negotiating next years rent. This might be important to the sociologist, but of little or no consequence to the economist" (1992, p. 9).

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However, as David Colander has recently observed, though individualism is still the principal approach, it has been subject to attack not only from heterodox writers but also from economists identified with the mainstream (2000, p. 136). The work of Robert Frank is a notable example. In *Choosing the Right Pond* (1985), and *Luxury Fever: Money and Happiness in an Era of Excess* (1999), Frank has incorporated into his analysis the assumption that persons are concerned not only with their own levels of consumption and wealth, but with those of others as well. Specifically, Frank hypothesizes that people have a taste for status and thus the pursuit of relative position in the social hierarchy is a substantial part of the pursuit of self-interest. Frank proceeds to demonstrate that a number of facts not explainable by traditional theory are understandable once one incorporates a taste for status into the analysis.

Frank's recognition of a desire for status is not entirely new in economics. He cites Fred Hirsch's concept of positional goods as an important antecedent to his own views. Those familiar with the work of Thorstein Veblen are also aware of the role that invidious comparison and conspicuous consumption played in his work. As a consequence, recognition and incorporation of status concerns has thus become largely associated with heterodox analysis. However, what has been much less recognized is that the classical economists also incorporated concerns about status into their analysis. What we will demonstrate is that a number of the classical economists assumed that the quest for status was an important component of the pursuit of self-interest and that their respective views as to the strength of this desire underlies their views on the limits to economic progress and the possible advancement of the poor.

II. THE CLASSICAL'S VIEWS ON THE DESIRE FOR STATUS AS A MOTIVE

In his *Lectures on Jurisprudence*, which preceded *The Wealth of Nations*, Adam Smith observed that "One of the chief studies of a man's life is to obtain a good name, to rise above those about and render himself some way their superiors" (1982, p. 13). In *The Wealth of Nations*, Smith argues that mankind is primarily motivated in its economic dealings by "the desire of bettering our condition." This desire, he asserts, is innate. It "comes with us from the womb and never leaves until we go into the grave" (1776, p. 324). The primary manifestation of the desire to better our condition, he informs us is, in the majority of cases, through the "augmentation of fortune" (1776, p. 325). This is, he tells us, "the means most vulgar and the most obvious" of achieving this goal.

But why are we desirous of "bettering our condition," of augmenting our fortunes? It is not primarily to satisfy our bodily desires which, Smith asserts, can very easily be supplied by the wages of the meanest laborer (1759, p. 112). Instead, as Smith explains in the *Theory of Moral Sentiments*, what humans most desire is the approval of their fellow man.

But how does the acquisition of fortune contribute to that goal? Smith explains that it is because our fellow man is more likely to sympathize with our successes than our failures and acquiring a fortune is the most obvious means

of demonstrating one's success. An individual's economic success "draws upon him the attention of the world" (1759, p. 113). He explains the connection between the approval of one's fellow man and economic success in the following passage:

Though it is in order to supply the necessities and conveniences of the body that the advantages of external fortune are originally recommended to us, yet we cannot live long in the world without perceiving that the respect of our equals, our credit and rank in the society we live in, depend very much upon the degree in which we possess, or are supposed to possess, those advantages. The desire of becoming the proper objects of this respect, of deserving and obtaining this credit and rank among our equals, is perhaps the strongest of all our desires; and our anxiety to obtain the advantages of fortune is, accordingly, much more excited and irritated by this desire than by that of supplying all the necessities and conveniences of the body, which are always very easily supplied (1759, pp. 348–49).

Smith also observes that a change in one's status in the social hierarchy is not symmetrical with regards to its impact on one's well-being. The gains from an improvement in one's status are not the equivalent of the impact, which a decline in the social hierarchy would produce. "We suffer more . . . when we fall from a better to a worse situation, than we ever enjoy when we rise from a worse to a better" (1759, p. 349). The prudent man, who occupies a key position in Smith's theory of economic progress, is therefore likely to be risk averse (1759, p. 349).

Lest we conclude that only Smith held the view that status was an important motivator, consider the views of some other members of the classical tradition such as Richard Whately, J. S. Mill, Nassau Senior, J. R. McCulloch, and John Rae. Whately informs us that "as wealth increased, the continuous stimulus of emulation would make each man strive to surpass, or at least not fall below his neighbors" (1831, p. 157). One's perception of wealth is, according to Whately, largely determined by one's status relative to others of his class. Though one might possess great wealth and property, "he will be more likely to complain of his poverty than to be filled with self congratulations at his wealth, if most of those in his own class are as rich or richer than himself" (1831, p. 55).

J. S. Mill asserted that the primary desire of the English middle class was to "get out of one rank in society into the next above it, . . . and the acquisition of wealth the means. And inasmuch as to be rich without industry has always constituted a step in the social scale above those who are rich by means of industry, it becomes the object of ambition to save not merely as much as will afford a large income while in business, but enough to retire and live in affluence on realized gains" (1848, p. 174). The consumption habits of the middle class were, he claimed, also explained largely on these grounds. He complained that "pitiful vanity" was "the presiding motive of three-fourths of the expenditure of the middle class" (1848, p. 808).

Mill also felt that public opinion exercised a strong influence on behavior. He described it as "the most universal, and one of the strongest, of personal motives" (1848, p. 206). He argued that "the power also of emulation, in exciting the most strenuous of exertions for the sake of the approbation and admiration

of others, is borne witness to by experience in every situation in which human beings publicly compete with one another” (1848, p. 206).

Nassau Senior’s discussion of value was based upon consideration of the influence of “two of the most powerful principles of human nature, the love of variety and the love of distinction” (1836, p. 11). Of these two, he claimed that the desire for distinction was the stronger (1836, p. 12). In a passage which echoes Smith’s discussion of the desire “to better our condition” from *The Wealth of Nations*, Senior proclaims that the desire for distinction is “a feeling which, if we consider its universality and its constancy, that it affects all men and at all times, that it comes to us from the cradle, and never leaves us until we go to the grave, may be pronounced to be the most powerful of human passions” (1836, p. 12). He also follows Smith in asserting that the most obvious manifestation of this desire is the pursuit of fortune, for its achievement is the thing most likely to be admired by one’s fellow man. He therefore concluded that “To seem more rich . . . to keep up a better appearance, than those within their own sphere of comparison, is, with almost all men who are placed beyond the fear of actual want, the ruling principle of conduct” (1836, p. 12).

John Rae asserted that there “is a propensity among men to attain superiority over one another” (1834, p. xix). To this propensity he applied the term vanity. The desire for vanity, he claimed, could only be satisfied by what today we refer to as conspicuous consumption: “by the evident possession of things which others have not the means of acquiring; and therefore by the possession of commodities of which the consumption is conspicuous . . .” (1834, p. xix). To illustrate this he cites the example of Cleopatra, who was reputed to have consumed a drink in which an expensive pearl had been dissolved. The gratification it produced must, he hypothesizes, have derived largely from the fact that she alone could afford it (1834, p. 266).

John R. McCulloch claimed that a “deep, lasting, and universal interest . . . is created by the desire to mount in the scale of society, and to attain the same elevation in point of fortune that has been attained by the richest individuals, or by those at the summit of society” (1864, p. 198). He also argued that we are motivated as much by the fear of the loss of position as we are by the desire to rise above others. “The sense of inferiority as compared to others, is, next to the pressure of want, one of the most powerful motives to exertion” (1864, p. 197).

III. THE ROLE OF STATUS SEEKING IN THE CLASSICAL’S ANALYSIS OF GROWTH AND THE PROBLEM OF THE POOR

What role, if any, did these economists’ assumption of a desire for status play in the development of their analysis? As we have seen so far, the writers we have cited regarded the quest for status as motivation toward further acquisition of wealth and income. What, if anything else, does the assumption of a desire for status add to their analysis? What novel conclusions or insights follow from this assumption?

The Classics’ views on the quest for status influenced their analysis of a central issue of classical economics—the possibility of economic progress and

particularly that of the poor, and the appropriate policies necessary to ensure such progress. In one camp I would place Smith, Whately, Senior, and McCulloch. The members of this group held the view that emulation was a powerful engine of economic advancement, including that of the poor. In the other camp I would place T. R. Malthus, J. S. Mill, and probably David Ricardo.¹ The members of this group either did not recognize the quest for status as an important factor (Ricardo), or did not feel its effects were sufficiently strong (Malthus), or felt it was true of only a portion of society (Mill). This group concluded that without strong policy measures being undertaken a “poverty trap” would likely result. John Rae’s position is a curious combination of the two, and thus he occupies his own camp.

Smith, Whately, Senior, and McCulloch felt the desire to rise in status was an inherent part of human nature and as such was true of all social classes. Smith tells us that “the uniform, constant, and uninterrupted effort of everyman to better his condition” is the source of both private and national wealth. It is such a powerful force, in his estimation, that it “is frequently powerful enough to maintain the natural progress of things toward improvement, in spite both of the extravagance of government and the greatest errors of administration” (1776, p. 326).

Smith’s view of the universality of this motive is also evident in his criticism of the mercantilist view that low wages were necessary to motivate the working class. As a consequence, the mercantilists held out little hope for the advancement of the economic condition of the poor. They had argued that, given the habits and mores of the poor, wages above subsistence would be spent in mere physical gratification including drunkenness, debauchery, and idleness. Low wages were thus necessary to induce workers to be industrious (Furniss 1957).

Smith took a very different view. The “liberal reward of labor,” while it encouraged population growth, also increased worker effort and productivity (1776, p. 81). Higher wages were also the means to provide the poor with the opportunity to better their condition and the hope that it could happen: “A plentiful subsistence increases the bodily strength of the labourer and, the comfortable hope of bettering his condition, and of ending his days perhaps in ease and peace . . .” (1776, p. 81). And though the increase of wages might simply be spent in conspicuous display, Smith concluded that it largely manifests itself in saving and accumulation, for amongst the majority of men “the principle of frugality seems not only to predominate, but to predominate very greatly” (1776, p. 325).

¹ There is little evidence that Ricardo recognized vanity or social climbing as an important social force. The one exception to this is noted in the conclusion. In part, this is why the title of this paper is in the form of a question, in that we wish to ascertain to what extent the Classics did recognize the desire for status as important. That is not surprising since the Classics, though forming a school, did not all agree on many questions

Roger Mason also draws the same conclusion about Ricardo in his survey of conspicuous consumption (1998, p. 11). He argues that this is because Ricardo and Malthus felt these issues were irrelevant to the economic concerns of their era (1998, p. 11). As the debate between Malthus and Senior indicates, it was relevant to the issues of the day. The possible reasons for not incorporating status concerns into their analysis are explored in the conclusion.

The role of status and the pursuit of vanity also played a substantial role in Smith's discussion of the transition from feudalism. In Chapter 4, Book III of *The Wealth of Nations*, he demonstrates how the pursuit of vanity by the feudal lords was the cause of their loss of power and its transfer to those who would generate growth.

In the days before the development of significant commerce in the towns, the feudal lords demonstrated their social superiority by employing large numbers of tenants, retainers, and servants. Their dependency upon the feudal lord for access to land and employment was the basis of the lord's power. With the introduction of international trade and the development of domestic manufacturing they were afforded an alternative means of demonstrating their wealth. They could now consume it themselves without sharing it with those in their employ. The landlords could now spend on conspicuous consumption of goods an amount equal to that spent employing a thousand men.

But Smith claimed that in doing so they gave up more than their money. To "gratify the most childish vanity" they were forced to raise productivity on their farms to finance these expenditures. As a result, they adopted more efficient practices such as extending longer leases to their tenants, which gave the tenants independence from the landlords and the incentive to generate larger surpluses. As a result the lords "were no longer capable of interrupting the regular execution of justice, or of disturbing the peace of the country" (1776, p. 391), two conditions necessary to the process of economic growth.

Whately, like Smith, declared that with regard to the desire to raise one's status "the poor are not at all less liable to this than the rich" (1831, p. 56). The effort of each man "to rise, or at least not to sink, in society, causes, when it becomes general, the whole society to rise in Wealth" (1831, p. 158). Furthermore, he argued that the process of economic advancement resulting from each attempting to rise above the others would proceed indefinitely:

because the object aimed at by each of a great number, *vis* superiority to the rest, can never be attained by all of them. If men's desires were limited to the supply of the necessaries and commonest comforts of life, then efforts to attain this would bring society up to a certain point, but would not necessarily tend to advance it any further; because it is conceivable that this object might be attained by all; and if it were, the society might thenceforward continue stationary; but when a great proportion of its members are striving, each to attain not merely an absolute, but a comparative degree of wealth, there must always be many, who, though they do not advance, will yet remain in the same position relative to their neighbors, who are generally advancing; and thus the same stimulus will continue to operate from generation to generation. The race never comes to an end, while the competition are striving, not to reach a certain fixed goal, but each either permanently to keep a-head of the rest, or at least not to be among the hindmost (1831, pp. 159–60).

That "the most sordid selfishness" might further economic progress caused some moral consternation for Archbishop Whately. Thus he found it necessary to reconcile this process with his Christian beliefs. He therefore claimed it was an example of "the wise arrangements of Providence" in that even the pursuit of "mean and silly" objectives was made "to conduce to public prosperity" (1831, p. 160).

In 1829 Senior initiated a debate with Malthus. At the heart of the debate was the relative strength of two opposing forces: the desire to procreate and the desire to better one's condition. In the *Essay on Population*, Malthus declared that the desire to better one's condition was "the best stimulus to industry" (1798, p. 382) and "the master spring of public prosperity" (1798, p. 434). He also indicated that concerns about the loss of one's rank did prevent "a great number of persons in all civilized nations from pursuing the dictates of nature" (1798, p. 7). However, these statements were qualified by Malthus in that this was true only "among a class of people above the class of the wretchedly poor" (1798, p. 382).

Senior had argued that the desire to improve one's status was as natural a desire as the desire for marriage. But of these two desires, Senior considered the former to be stronger than the latter (McCleary 1953, p. 122). Senior argued that as wages rose above subsistence, the working class had access to goods which previously had been considered luxuries. But with the passage of time such goods came to be considered decencies—"things which an individual must use in order to preserve his existing rank in society" (1928, p. 91). Senior argued, "As wealth increases what were the luxuries of one generation become the decencies of their successors. Not only a taste for additional comforts and conveniences but a feeling of degradation in their absence becomes more and more widely diffused" (1928, p. 97). This operated as a powerful preventive check to population growth, given the relative strength of the desire to preserve one's position. Thus, a rising living standard provided an automatic preventive check to the growth of population (Blaug 1996, p. 71).

Malthus denied this conclusion. The strength of the desire to better one's condition he claimed, "is perfectly feeble compared to the tendency of population to increase" and "operates in a very trifling degree upon the great mass of the labouring class" (McCleary 1953, p. 116). As a consequence, Malthus and Senior disagreed as to the steps necessary to raise the economic well-being of the poor.

Because the desire to procreate trumped the desire to better one's position, at least amongst the poor, Malthus concluded that drastic measures were necessary to improve their lot. The poor must be educated as to the cause of their condition and they must be given strong incentives to change their behavior. This was to be primarily accomplished by a repeal of the poor laws and curtailment of private charity, both of which in Malthus's opinion, afforded the laboring classes "a direct, constant, and systematic encouragement to marriage by removing from each individual that heavy responsibility which he would incur by the law of nature for bringing beings into the world he could not support" (1798, p. 416). Senior, on the other hand, concluded that at most, the poor laws needed to be reformed in such a manner as to prevent the undue encouragement to childbearing produced by the poor laws. This could be accomplished by offering relief in accordance with the principle of less eligibility.

As we have seen J. S. Mill held the view that concerns about status were an important motivator. But this was so primarily among the upper and middle classes. Among these groups the desire of improving their condition acted as a strong restraint upon the decision to procreate (1848, p. 159). Conversely, the laboring classes might feel apprehension at the loss of "the decencies of their

station in life,” but the desire of improving it “is rarely found, or rarely has that effect, in the labouring classes” (1848, p. 159). Mill’s concern was that the middle class was too ready to emulate the consumption habits of the rich, and the poor too little inclined to emulate the prudential habits of the middle class. The poor’s lack of ambition was not inherent in their nature, but rather a product of their poverty and lack of education: “leaving them neither the fear of worse, nor the smallest hope of better, makes them careless of the consequences of their actions, and without thought for the future” (1848, p. 380).

On the other hand, Mill saw little value in the social climbing he felt characterized the lives of the non-poor. The desire to increase one’s wealth to provide evidence of one’s status in society, Mill felt, was a “disagreeable symptom” of industrial progress. He did not think it a matter of congratulations that the already wealthy could increase their wealth merely for the purpose of demonstrating that wealth to others (1848, p. 749).

The advancement of the middle class to the next highest rung on the social ladder, was not, for Mill, an indication of social improvement, as he argued in his consideration of the nature of life in the stationary state (1848, p. 749). In that commentary he claimed that “the best state for human nature is that in which while no one is poor, no one desires to be richer, nor has any reason to fear being thrust back by the efforts of others to push themselves forward” (1848, pp. 748–49). In Mill’s opinion, industrial progress had proceeded sufficiently far to make that state of affairs possible for the upper and middle classes. Thus the increase in output that might result from the efforts of all but the poor to rise in status would make little contribution to social welfare, given the existing distribution of property. What was really needed was a more equal distribution of output and property (1848, p. 749).

Mill’s negative attitude toward conspicuous consumption and social climbing was very much in evidence in his criticism of McCulloch’s attempt to defend primogeniture on emulative grounds. McCulloch argued that the practice of granting the bulk of the father’s estate to the eldest son placed the younger sons in an inferior position. But this inferiority and the desire to rise to a position similar to that of their brother “inspires them with an energy and vigour they would not otherwise feel” (1864, p. 197). This he argued, would benefit not only the younger siblings, but the community as a whole:

It raises universally the standard of competence, and gives new force to the springs that set industry in motion. The manner of living among the great landlords is that in which everyone is ambitious of being able to indulge; and their habits of expense, though sometimes injurious to themselves, act as powerful incentives to the ingenuity of other classes, who never think their fortunes sufficiently ample, unless they will enable them to emulate the splendor of the richest landlords; so that the custom of primogeniture seems to render all classes more industrious, and to augment, at the same time, the mass of wealth and the scale of enjoyment (1864, p. 198).

But Mill was not impressed with this argument. While he conceded that large fortunes might have a demonstration effect upon the poor, it was not the sort of which he could approve. He argued that “it is not therefore necessary that society

should provide a set of persons with large fortunes, to fulfill the social duty of standing to be looked at, with envy and admiration by the aspiring poor” (1848, p. 892). He claimed that those who had earned rather than inherited fortunes would provide a better example for the poor. They would provide examples of the reward to prudence, frugality and industry, while the rich often set an example of “profuse expense, which spreads, with pernicious effect, to the very class on whom the sight of riches is supposed to have so beneficial an influence” (1848, p. 892).

Mill’s attitude toward social climbing is also reflected in his tax policy recommendations. Proportional taxation had been criticized on the grounds that it had the effect of reducing persons of moderate income to a lower social rank. Mill questioned this conclusion but argued that even if it was true, it was not something that should influence tax policy. Government ought not to set an example of valuing things on the basis of their impact on the status of different groups. It was not, he argued, incumbent on government “to recognize the notion that social importance is or can be determined by amount of expenditure” (1848, p. 807). Government ought to value all things at what Mill expressed as their “true value,” which was a function of the comfort or pleasure they afforded; though how this might be determined he did not explain. But government “ought not sanction the vulgarity of prizing them for the pitiful vanity of being known to possess them . . . the presiding motives of three fourths of the expenditure of the middle classes” (1848, p. 808). Government should instead attempt to apportion sacrifices as equally as possible without consideration of the impact of its actions on the “imaginary dignity” of different groups of taxpayers.

Mill also applied this principle in his endorsement of taxation of luxury items. Taxes upon luxury items were “a most desirable subject of taxation” because taxes on luxuries did not fall on the poor and because these items were not consumed by the higher and middle classes “for the sake of the pleasure afforded” but rather “from regard to opinion, and an idea that certain expenses are expected from them as an appendage of station” (1848, p. 869). Luxury taxes were a source of public revenue different than others because in this case “nobody loses” by virtue of the fact that the higher price due to taxation increases its value to those purchasing it for the sake of vanity (1848, p. 869). As a result, Mill offered as the first of his practical rules of taxation that maximum revenue should be derived from the taxation of “luxuries which have the most connection with vanity and the least with positive enjoyment” (1848, p. 870).

What did Mill believe was the answer to improving the condition of the poor? Mill held the view that the poor, given their situation, were not inclined to take the necessary steps to better their condition. The solution, Mill theorized, was to raise their wages for a considerable time until the poor would become accustomed to the new standard of living. Because he did not believe in the automatic checks to population of the sort theorized by Senior, Mill, therefore, took a position similar to that of Malthus—that education, which strongly inculcated the principle of population control, was necessary to achieve a permanent improvement in wages. Education, combined with a program of emigration, might manage to improve the way of life of the poor sufficiently to “raise up from childhood a labouring population with a really higher permanent standard of requirements and habits” (1848, p. 371).

While John Rae clearly accepted the idea that men had a desire to achieve superiority over one another, he concluded that the pursuit of vanity had a largely negative impact on economic development. Like Whately, Rae also viewed the pursuit of position as a form of prisoner's dilemma in that the contest for position would compel each person to produce and consume more positional goods to maintain one's position in the social hierarchy (1834, p. 281). But doing so leaves each person in much the same relative position as before. Unlike Whately, Rae did not believe that this process advanced the real economic welfare of society. The expansion of production to satisfy the demand for positional goods was a zero-sum game. Thus efforts to expand production of luxury items yielded no overall social benefit. In fact he felt it occasioned a loss to society. What one person might gain by increased consumption of these goods reduced the well being of others. Thus the use of scarce resources and the accumulation of capital in luxury-producing industries siphoned off capital that might have been used to expand the production of goods that would generate real increases in social welfare. If production was expanded it simply increased the amount one must spend on that good to maintain one's relative rank. As a consequence he concluded:

All luxuries occasion a loss to society, in proportion to their amount. The industry employed in their formation, generates no provision for future wants, and may be said to be expended in vain. Taking the whole society as a body, it supplies no wants. It gives no absolute enjoyment, it is all relative, as much as one is raised by it, another is depressed, the superiority of one man being here the equivalent to the inferiority of another. To increase the facilities of production of luxuries, therefore brings no addition to absolute capital (1834, p. 290).

Though reduction in accumulation was the predominant result, Rae also notes two positive indirect effects of vanity. The first of these is its tendency to stimulate the spread of inventions. Inventions were regarded as foreign rarities and as such served the interests of vanity. As a consequence they spread throughout the globe more rapidly. In addition, some goods that were regarded as luxuries did contain some elements of "extensive utility." Their luxury status might stimulate the production of the goods to such an extent that they might lose their value as marks of distinction and ultimately be to the benefit of the masses (1834, p. 291). Glass was an example, and he thought that diamonds would be another if the production of artificial diamonds could be perfected.

Because the production of luxuries produced a diminution in economic welfare, Rae concluded as did Mill, that it was desirable to tax luxuries. Such a tax afforded an important source of revenue while costing society nothing (1834, p. 372). Government's reallocation of these resources to other uses was a means by which the legislator might "advance the general stock" of the nation and reduce the drag on capital accumulation resulting from the pursuit of luxury (1834, p. 378). Thus though Rae shared the view with Smith, Whately, Senior, and McCulloch that status seeking was a significant force, he concluded that it had a negative impact on a nation's growth process.

IV. WAGE DIFFERENTIALS, POSITIONAL GOODS, AND SIGNALING

The recent work of Robert Frank has called attention to the fact that the assumption of a desire for status allows us to better understand various labor market phenomena. For example, Frank reports that there is a vast literature documenting the widespread existence of attempts to limit the earnings of a firm's most productive workers through limitations on piece-rate earnings (1985, p. 90). He notes that from the standpoint of the marginal productivity theory, the various practices employed by firms to achieve this result "appear completely incoherent." Frank's explanation is that profit-seeking firms would choose to abandon piece-rate systems despite the extra output they produce because the high earnings of these most productive workers would upset the social hierarchy of workers sending "costly ripple effects throughout the lower reaches of their wage structures" (1985, p. 94).

Both Smith and Mill incorporated the role of status into their analysis of compensating wage differentials. In *The Wealth of Nations*, Smith discusses the causes of wage differentials. He identifies the agreeableness of labor, including the honor and dishonor associated with the profession, the cost of training and education for the profession, the constancy and inconstancy of employment, the degree of trust required in that form of employment, and the probability or improbability of success in various professions, as the cause of wage differentials (1776, p. 100). In the course of discussion of the last of these, Smith notes that the remuneration of some occupations, in particular, that of lawyers, can't be explained solely by the logic of the probability of success. He estimates that but one in twenty seeking careers as lawyers are able to make a living at it. Reasoning from the logic of probability he concludes that the successful lawyer ought "to gain all that should have been gained by the unsuccessful twenty" (1776, p. 106). But the earnings of successful lawyers, he observes, and of many other "liberal and honourable professions," are never near that implied by the ratio of the successful to unsuccessful in these professions.

In spite of this, the wage received in these professions is an equilibrium wage (1776, p.106). There are still many aspirants to these professions though they appear to be underpaid. This Smith attributes to two causes: the desire for the reputation and public adulation afforded by success in them, and the propensity to overestimate one's chances for success. On the first of these factors Smith remarks that:

To excel in any profession, in which but few arrive at mediocrity, is the most decisive mark of what is called genius or superior talents. The public admiration which attends upon such distinguished abilities, makes always a part of their reward; a greater or smaller in proportion as it is higher or lower in degree. It makes a considerable part of that reward in the profession of physic; a still greater perhaps in law; in poetry and philosophy it makes almost the whole (1776, p. 107).

He proceeds to argue that there are many other professions requiring considerable skill and abilities in their execution for which the opposite seems to be the case. In the case of entertainers, he remarks that the high wages they earn must be

accounted for not only as due to scarcity of their talent, but also due “to the discredit of employing them in this manner” (1776, p. 107). The talents of such persons, while rare, are not that rare. He argues that some that possess them fail to do so because of the stigma associated with certain occupations. If public perception of the status of these occupations would change, they would receive lower wages since many more would enter the profession (1776, p. 107).

Smith also remarks upon the curious fact that armies appear to have no difficulty in attracting recruits even in times of impending conflict. He argues that the motive of soldiers enlisting in time of war arises from the tendency of young men to imagine that war will present them with “a thousand occasions of acquiring honour and distinction.” As a consequence, soldiers earn wages less than those of common laborers, though it is more difficult and dangerous work (1776, p. 109).

Smith also attributed the tendency of workers employed in piece-rate systems to overwork themselves in part to their desire to preserve their rank. He cites the example of soldiers, who ordinarily were not considered as having a strong work ethic, yet when paid by the piece often tended to overwork themselves. Smith indicates that their officers often found it necessary to stipulate to their employers that an upper limit be imposed on their daily wages. “Till this stipulation was made, mutual emulation and the desire of greater gain, frequently prompted them to over-work themselves, and to hurt their health by excessive labour” (1776, p. 82).

Though Adam Smith’s analysis of wage differentials incorporated the role of status as an explanation for the wages of lawyers, J. S. Mill claimed that Smith’s analysis did not take sufficient account of the fact that the incomes of lawyers included “the places of emolument and honour to which their profession gives access, together with the coveted distinction of a conspicuous position in the public eye” (1848, p. 390). Mill went on to describe how this factor influenced the recompense of practitioners of the literary arts. He explained that they attracted those who “had vanity to gratify.” This motive drew to this profession persons who did not need the income derived from its practice and would probably do it for free. This had the effect of depressing the incomes of the profession generally, making it very difficult for most writers to make a living. The exception was the more troublesome and disagreeable forms “and those which confer no personal celebrity” (1848 p. 397). In these instances, such as in the case of newspaper writers, one could make a decent living since it did not attract the attention of vanity-seeking amateurs who would compete with professional writers.

Frank notes that the contests for position, which he argues characterize much of life, are often contests for what Fred Hirsch referred to as “positional goods” (1985, p. 7). These are goods “that are sought after less because of any absolute property they possess than because they compare favorably with others in their own class” (1985, p. 7). Such goods are limited in supply, and their possession is an important signal to one’s fellow man about one’s position in the social hierarchy. Goods such as diamond jewelry and Harvard educations provide observable evidence of one’s relative position. Such goods are therefore consumed “conspicuously.” Other goods, such as insurance and health expenditures, are

not readily observed by others and, therefore, have little value as positional goods.

Recognition of the positional goods notion is clearly evident in the work of Smith, Whately, and Rae. Smith argues that the motive for acquisition of riches is largely derived from their ability to distinguish their possessors from others (1776, p. 172). Smith also notes that the value of certain goods derives from that fact—their ability to give evidence of place—in contrast to the principles which determine the value of other goods which provide no status value:

With the greater part of rich people, the chief enjoyment of riches consists in the parade of riches; which, in their eyes, is never so complete as when they appear to possess those decisive marks of opulence which nobody can possess but themselves. In their eyes, the merit of an object, which is in any degree either useful or beautiful, is greatly enhanced by its scarcity, or by the great labor which it requires to collect any considerable quantity of it; a labor which nobody can afford to pay but themselves. Such objects they are willing to purchase at a higher price than things more beautiful and useful, but more common (1776, p. 172).

Whately claims nearly the same thing in arguing that some goods are valued not only for their innate beauty or utility but also because “they are also reckoned a sign of wealth in the person who wears them” (1831, p. 28).

Rae notes that a variety of goods perform the function of indicating one’s relative status. He tells us a gold watch is, in North America, the easiest way in which a man can indicate to others that “I am rich, or at least, I am not absolutely poor” (1848, p. 280). In Britain, he observes, luxuries that exhibit one’s capacity for hospitality such as serving rare wines and delicacies to one’s guests are more common means of expression of one’s status (1848, p. 280). Pearls, he argues, derive nearly the whole of their value from their ability to signal one’s wealth. He notes that if peasant girls could afford a string of them, no lady would wear them, and if no lady would wear them they would cease to be worn by peasant girls! “It is the same with all other articles that are mere luxuries. As they only serve for marks of the riches of the individuals possessing them, every diminution made in the labor embodied in them diminishes, in a proportionate degree, their fitness for the purpose for which they are employed” (1848, p. 286).

Frank also demonstrates that positional goods are an important signaling mechanism in the labor market and in numerous professions. He explains that one’s expenditures on positional goods may allow us to infer something about the individual’s productivity level or competency (1985, p. 149). Thus a person who does not keep up with rising community consumption standards runs a risk of causing others to underestimate his true abilities or standing in their profession. This is particularly true in situations where there is a strong connection between earnings and abilities (1985, p. 150). Rae also recognized the ability of positional goods to signal competence. He cites the observances of a Jesuit missionary who had shown compassion in giving aid to two unfortunates: a mechanic whose home and tools had been lost in a fire and a physician who had suffered the loss of his wardrobe as a result of a theft. The priest remarks that

with regard to the physician “they might have well have stolen his profession and his reputation; for here a physician, unless dressed in silk and cow’s hair, passes for ignorant, and is employed by no one” (1834, p. 282). Rae remarks upon this arguing that “the doctor who had lost his silken robes was probably worse off than the mechanic; the former was still in a condition to find work, the latter was not” (1834, p. 282).

IV. CONCLUSION

Frank tells us that he wrote *Choosing the Right Pond* in the hope “that it will help persuade my fellow economists, or at least some of them, that we have all too often neglected fundamental elements of human nature in our study of the ways people behave” (1985, p. vi). Our examination of the ideas of the classical economists reveals that some of them shared Frank’s view that a quest for status was a significant source of motivation. If, as Frank suggests, this is a “fundamental element of human nature,” why was it neglected or its significance downplayed by other writers?

One possible answer is that perceptions of human nature and concerns about methodological issues vary amongst thinkers. Compare, for instance, the degree of attention paid to matters of motivation and characterization of human nature by Smith and Ricardo. Smith is continually making observations about human propensities. On the other hand in Ricardo’s *Principles* there is little in the way of inquiry about human motivation and its intricacies.

A second hypothesis is that the some Classicals were willing to incorporate concerns about status into their analysis because it reinforced their policy positions. Perhaps others neglected it or downplayed its importance because it undercut their policy stance. Consider the case of Adam Smith. His views about the role of status in worker motivation were, as we have seen, useful in his critique of mercantilist low wage policies. Similarly, Senior’s belief in the strength of emulation was a key part of his criticism of Malthusianism and its related policies. If Malthus and Ricardo had taken concerns about status more seriously it would have undercut their positions on the question of population policy and the poor laws, as Senior’s analysis demonstrated. The only instance in which Ricardo does incorporate concerns about status occurs in his discussion of taxation when he recognizes “the desire which every man has to keep his station in life and to maintain his wealth at the height which it has once attained” (1817, p. 96). This observation becomes the basis on which he opposed taxation of capital. Why didn’t Ricardo further explore the implications of this desire on the procreative habits of the working class? Perhaps because had he done so it would have implied that workers were likely to limit their numbers and, hence, the population pressures producing diminishing returns would not exist. Thus much of Ricardo’s system would have been called into question. It is therefore not surprising that he gave this issue so little attention except when it fit his needs.

Mill’s bifurcation of the attitude of the poor vs. non-poor on the question of status merged nicely with his view that distribution was a matter solely of human institutions. His belief that social climbing was not a universal trait allowed him

to both criticize the upper and middle classes for their excessive concerns about status and at the same time maintain his Malthusian agenda towards the poor. These instances suggest that there may be something to the hypothesis that the use of the assumption of a desire for status depended on whether the implications of that assumption were consistent with the policy aims of that writer.

This connection with policy orientation also speaks to the issue of Frank's attempt to revive the view that status seeking is an important component of self-interest and reorient mainstream economics toward that view. In the classical era concerns about status were most evident in their analysis of economic growth and population. With the emergence of neoclassical economics, sustained economic growth, and the ebbing of concerns about population, focus shifted away from these issues and toward the problem of constrained maximization, which is closely linked to the assumption of methodological individualism (Colander 2000, p. 134). As a consequence, status seeking lost its relevance both because it no longer fit methodologically with the emerging neoclassical paradigm, and because the issues with which it was connected were no longer of policy relevance. Concerns about status survived, but only amongst heterodox economists such as Veblen, who accentuated its negative aspects. Perhaps mainstream economists' hesitancy to follow Frank's lead is a consequence of the fact that it is now associated with heterodoxy.

However, as this paper demonstrates, concerns about status once occupied a position of acceptance by the mainstream. Our survey of the significance of the role of status in classical economic analysis and policy reveals that some of the Classics were willing to incorporate the assumption of a desire for status into their analysis. One suspects that at least some of them would have been willing allies in Frank's attempt to get his fellow economists to incorporate a desire for status into their analysis. In particular, the Classics' views on the possibility of sustained economic growth and the economic advancement of the poor depended, in part, on their assessment of the strength of the desire to better one's condition and to rise above one's fellow man.

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