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Interdependent Preferences: Early and Late Debates on Emulation, Distinction, and Fashion

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Introduction

The social dimension of consumption – how consumers interact through market and non-market relations – is as important as the interdependencies among decisions taken by firms. As important, that is, but more difficult to analyse since subjective and objective behavioural features inevitably intermix in social forms of consumption (as in consumption in general).

Its complexity might explain why this dimension of economic behaviour has been largely neglected in economic theory. Perhaps this complexity also accounts for the fact that when economists have taken notice of the problem they have tended to do so using borrowed models, mainly from sociology. Yet the challenge that the problem of interdependent preferences might pose to economic theory has surfaced often in economic debates.

Tracts on trade of the late seventeenth and early eighteenth centuries were full of discussions as to what form consumption should take if it was to stimulate economic growth[1]. In these debates luxury and ostentatious display were condemned (with the exception of the expenses of the very rich), while frugality and temperance were promoted as desirable private virtues that would promote public benefits. There were also discordant voices. First Barbon (1690) and then Mandeville (1714) saw in consumption, especially of non-essentials, the great propulsive force that spurred both enterprise and innovation[2]. Through the multiplicity and flexibility of the wants of the mind (Barbon) and through the individual "vices" of self-love, pride and prodigality (Mandeville) societies, it was urged, would flourish. For both, cities provided the ideal social space for consumers to engage in emulation and to compete on novelties.

Some decades later Hume would stress that the cultivation of the arts (manufactures) and the consequent refinement of tastes would foster civilizing social virtues at the expense of warlike tendencies. Hume's friend Adam Smith made consumption even more central, by reminding readers of the *Wealth of Nations* that consumption, ultimately, is what gives point to production, and by stressing to his law students that without knowing what people wish to consume we would not even know what to produce. In the latter connection Smith analysed in a general way the pleasure-yielding properties of goods. What these Scottish analyses in fact unveiled were also the motivational underpinnings in terms of individual well being that (social) consumption practices were able to deliver.

1 For a detailed analysis and discussion of these debates (and in particular on the different meanings and role of luxury) see Perrotta 2004, ch.11

2 See Bianchi 1993 and 2001.

This line of thinking was interrupted by John Stuart Mill who, by giving primacy to distribution, relegated consumption to the intermediary role of supporting production. Nonetheless at the end of the nineteenth century and the beginning of the twentieth there was a recurrence of interest in the problem of consumption, and more particularly the social dimensions thereof. The debate began in the pages of *The Economic Journal* where Henry Cunynghame (1892) tried to analyse the effects that an increase in the supply of goods might have on individual utility when this includes also a desire for display and distinction. The point was taken up by Pigou who, in successive articles in the same journal, showed how social interaction could make problematic the derivation of an aggregate demand function. For, when commodities are desired for their reputation and distinction value, individual demands respond not only to price but also to the quantity of the commodity consumed by others. Pigou observed that when these mutual interdependencies of demands arise their summation becomes difficult if not impossible. However, the challenge was not taken up by Marshall, and Cunynghame's and Pigou's concerns were more or less forgotten.

Since then several authors have gone back to the problem, either to re-emphasize its importance and warn against the limitations of traditional demand theory (Knight 1925, and later Morgensten 1948) or to downplay it (Viner 1925). Yet these too were isolated interventions and no systematic analysis was produced. In the 1940s the debate re-emerged in a different fashion. Mainly due to the work of Duesenberry (1949), social influences – via demonstration effects – were thought to affect the dynamics of aggregate consumption and saving expenditures and provide a possible explanation of the apparent paradox that people seem to save less when income declines than when it rises. It was, however, the radically orthodox approach of Modigliani and Friedman with their life cycle and permanent-income theories of saving that prevailed and dispensed with any suggestion that there were social determinants of consumption.

Only quite recently, in the 1970s and 1980s, has the problem of the social aspects of consumption generated new interest among economists. Drawing mostly on the work of Leibenstein (1950) who first introduced these distinctions, economists have tried to model interactive consumption by distinguishing a "bandwagon effect", whereby people conform to what the majority of their peers are doing, a "snob effect", when people prefer to do the opposite of what the majority of their peers are doing, and a Veblen effect, which stresses purely pecuniary display[3].

In what follows I will focus more extensively on the earlier, less known, debate in *The Economic Journal.* The exchanges published there are of particular interest, for several reasons:

- the explanations that emerge in the debate contain all the elements that would reappear in subsequent, more rigorous analyses.
- among the authors involved there was an awareness of larger theoretical implications, including those involving the meaning of utility and its measurement.
- still the model of consumption that emerges – and remains dominant – is one that completely misses the innovative process that occurs when consumption involves social interactions (Sections 1, 2, and 3).

The pleasure in novelty and variety that Mandeville and Smith thought essential in consumption is no longer part of Cunynghame's or Pigou's discussions. Only one author, Caroline Foley, who wrote on the topic of fashion in *The Economic Journal* in

[3] These models are discussed in Andreozzi and Bianchi 2007.

1893, gave it pride of place, but she was largely ignored by the economists of the time. Today too, though she is invariably quoted as the first economist to have addressed seriously the topic of fashion, her arguments continue to be neglected (Section 4).
The final section of the paper discusses how this model of consumption has been re-established in the recent literature on the positional economy. Here, however, social influences find a consumer depicted as substantially unable to escape the boundaries of established social hierarchies of position and wasting resources in the vain attempt to do so. I take issue with this tacit premise.

1. Being in the swim or out of it

In the first edition of his *Principles* (1890) Marshall devoted more than one passage to discussing the role that social influences may have in shaping individual patterns of consumption. He was perfectly aware of their importance, especially in establishing the prevailing rules of social propriety. Moreover, he was distressed at the increasing pace at which ostentatious forms of consumption –according to him tasteless forms – were spreading across both England and newer countries. Yet, despite these acknowledgments, Marshall expressly avoided drawing any analytical consequences that would disturb his main structure. His reasons were methodological – no theory can be all-encompassing – and empirical: the phenomenon was important but not dominant in society[4].
Marshall's student Henry Cunynghame took a different and more critical tack. In his 1892 article in *The Economic Journal* he questioned Marshall's treatment of consumer surplus because it did not take into account the social dimension of individual consumption. According to Cunynghame, it is possible to draw a market demand curve and to measure total consumer surplus in terms of money only insofar as the monetary value of the article bought is independent of whether the same article is or is not possessed by others. Marshall's measure may work, he noted, for necessities: a man who is eating bread is not more satisfied if he knows that his neighbour has none. But that is not the general case. The value of strawberries in March, he notices, to those who like this form of display, lies precisely in the fact that others cannot afford them. And the same is true for such categories of goods as diamonds and other precious stones; these are liked because of the distinctive properties bestowed on them by their rarity. With all such goods, as supply increases and they become more common, not only does price fall but so too does the pleasure of those who already have them.
What are the analytical consequences of these interdependencies in consumption? If an initially distinctive good is in larger supply, consumers will find themselves unexpectedly with goods they own or have purchased that have lost their original value. To this will correspond, though as yet unregistered, a leftward shift in the market demand curve so that, at any given price of the distinctive good, consumers will obtain a lower surplus.
Obviously, the opposite is also true. When the utility of a commodity depends not on the desire for distinction but on a desire to belong and to be "in the swim," an increase in supply also increases individual utility and willingness to pay for the good. The process set in motion in this case will cause consumer surplus to expand.
In more modern parlance, the problems of measurement that Henry Cunynghame's analysis of consumer surplus uncovered can be read as an instance of conflict between

[4] See Mason 1998: 34-35.

anticipated and realized preferences. Recent analyses of why preferences may differ from choices explain the possibility of mis-predicting future preferences as due to the several effects that include, importantly, those linked to social influences[5].

2. In the swim, but only with the people I like

Marshall was rather annoyed at Cunynghame's remarks, as his correspondence with Edgeworth shows (see Mason 1998, 37). He tried to handle them simply by insisting that in the short period other people's consumption could be taken as given. Only in the long run, when many forces might occasion changes in short period choices, is one's consumption influenced by that of others. This trivialized Cunynghame's objections. Pigou, on the other hand, took Cunynghame more seriously. In a 1903 article, also in *The Economic Journal*, he sought to define the different determinants of utility. Drawing directly on Cunynghame, Pigou insisted that the utility U of commodity A to individual I depends not only on the quantity of that commodity in I's possession but also on the quantity of it that other people have. Take, for example, diamonds and top hats. It is clear, asserted Pigou, that the utility of diamonds – demanded because they are rare – varies *inversely* with the amount of them in circulation, while that of top hats – demanded because they have become of common use – varies *directly* with the extent to which they are in use. However, for Pigou it is not the mere quantity possessed by others that is relevant but, and more importantly, its *distribution*.

Let's imagine, he argues, that by some magical process a single individual came into possession of a million extra diamonds or top-hats. These are a permanent gift, and cannot be rented to others. The effect on any other I's utility would be so tiny that it would be "pedantic not to neglect" it (Pigou 1903, 60). The same would happen if the million extra-hats went to the normally top-hatted class allowing its members to own three rather than two each. Things would be different, however, if the miracle benefited the lower classes. In this case I's utility would be negatively affected if top-hats are worn by I as a mark of distinction from these classes. Similar reasoning applies if two thirds of all the existing top-hats were to be destroyed: I's utility would be differently affected according to whether the destruction is spread evenly upon all who are used to wear this headgear or if it were concentrated exclusively upon those who are part of I's society (ibid.: 60). The upshot is that it is not the absolute quantity of goods possessed that matters but the quantity relative to that possessed by proximate or distant others in the social hierarchy.

A consequence of these interactions is that the individual's utility function can no longer be written in the traditional way but has to incorporate both the number of individuals consuming a particular commodity and their proximity or social distance from each I. The utility function becomes $U= F\{Q, K(a,b)\}$ where U depends on the quantity Q consumed but also on variables a and b, representing a compound $a_1, a_2 .. a_n$ of the quantity consumed by I's first, second…nth neighbour, and $b_1, b_2\dots b_n$ their social distance from him or her.

What are the theoretical consequences in terms of the market demand curve? Can we continue to make the traditional assumptions that allow us to measure the consumer surplus? Pigou's answer is that we can as long as K(a,b) is sufficiently small, or as long as the fluctuations of consumption are small enough not to alter individual

5 See Lowenstein and Angner 2003, and Kahneman and Thaler 2006.

perceptions of the degree of commonness. In those cases we can continue safely to assume that an increase of consumption does not affect the utilities of earlier increments. Yet Pigou is sceptical about this possibility. Element K(a,b) in fact cannot be thought of as trivial. If commodities like diamonds, used to advertise wealth, are indeed exceptional, that is certainly not the case with goods such as top-hats. For goods of this sort position requires one to live in such and such a style, where position means doing what other people in that class are accustomed to doing.

Note that in Pigou's analysis the problem of the measure of utility is associated with that of the meaning of the measure. Does this measure, expressed as a monetary amount, represent the strength of pleasure or that of desire? Following Marshall, and his non- utilitarian approach, Pigou treated utility as a measure of desires. Yet if the area of the surplus captures the intensity of desires, this does not mean that desires coincide with the actual pleasure experienced. His previous analysis had shown that desirables can be not as pleasurable[6].

Does this involve that the practical usefulness of the notion of consumer surplus is lost?[7] Not necessarily, provided we limit its application to those material commodities that are intended for direct personal use. Since these commodities are consumed as a means to pleasure the intensity of desires can be safely assumed to vary in proportion to the pleasure one expectse to obtain from them (1903:68).

Pigou is here struggling with the meaning of utility, unveiling many if the problems that would bring about its future abandonment in favour of an axiomatic approach[8]. Yet, by restricting its safe use only to necessities where it was supposed no interfering element would invalidate the theory, he opens the question of the extent and relevance of its practical applicability.

Both in 1910 and again in 1913, in *The Economic Journal*, Pigou returned to these matters. These further treatments were less directed to defending the traditional apparatus than to identifying issues that made things even more problematic than formerly. When goods are desired not merely for their own sake, he argues again, but mainly for the reputation and distinction that their possession might bring (as for example the desire for personal adornment, or expenditures on pictures for the home or even the desire for political success in England and business success in America) price is not the only variable of significance; much more relevant becomes the extent to which it is "the thing" to buy. But when this is the case something similar to what happens to the aggregate supply curve happens to the market demand curve. Interdependent motivations in consumption work as do external economies in production; both prevent the simple addition of the separate components that make up the market demand. Yet for Pigou, in the case of the market supply function this difficulty can be circumvented, at least partially, since we can continue to assume a decreasing marginal productivity for the single separate sources even in the presence of

6 Desires, Pigou insists, are indeed larger than pleasures. One engages oneself in a problem in order to solve it, not (solely) for the pleasure of finding the solution; a game is played just to win, not for the pleasure of winning. Moreover there exist also disinterested desires with no direct connection to individual pleasure (1903:67).

7 Pigou also recalls how any attempt to treat the summation of individual surpluses as a measure of total happiness had failed for other reasons, namely the false belief that individual utilities could be cardinally measured.

8 Fabio Ranchetti (1998) discusses how in 1899 Pareto abandoned utility because of its vagueness and non-measurability and opened the way to the standard modern theory of choice without motives.

overall increasing returns. However, nothing comparable is available to save the demand function. In this case, not only we may not impose any homogeneity upon individual demanders, but the effects on utility of interdependencies of desires, unpredictably, may be either positive or negative. This is because, as we have seen, the desire for distinction is to be found not in being in the swim in general or out of the swim in general, but in a combination of resemblance to certain persons and of difference from certain others, so that it is difficult to predict how any change in quantity will affect these contrasting forces. Needless to say the existence and unpredictability of externalities in consumption made equilibrium solutions very difficult to obtain.

3. Is the problem really relevant?

In between Pigou's first and later articles both Marshall and Edgeworth entered the debate.

Though critical of Pigou, Marshall recognized the existence of the interpersonal dimension of consumption. In a paper delivered at a dinner of the Royal Economic Society in January 1907, subsequently published in *The Economic Journal*, Marshall asked whether present society should be more proud of the ways wealth is made than of the ways it is used. Well-to-do classes, he noted, spend large sums on things that are considered necessary for their social position but which add little to their higher well-being. A man with £50,000 a year would hardly be considered to be so much happier than a man with only 1,000, yet to climb from a position in society that belongs to 1,000 to one that belongs to 50,000 is considered a source of constant delight to nearly every man (and to his wife) (Marshall 1907: 8). But this source of delight is not, he added, a net social gain, because of the disappointment of all those in the 50,000 class who have lost some of their original distinction in the process[9]. He continued to suggest, however, that in the economic world there is much more nobility and chivalry than might appear from the above wasteful desires. Free enterprise and entrepreneurial inventiveness supply an opposing example; and promoting the chivalrous in the matter of gaining wealth would hopefully change the way public opinion regards the use of wealth. Gradually, expenditure for the sake of display, however disguised, would come to be thought simply vulgar (ibid. 27).

In a 1907 piece in *The Economic Journal* Edgeworth too commented on the problem raised by Cunynghame, though in an unusual way for an economic theorist of the time. He reported an experiment he himself had made to verify whether Cunynghame's proposition that the amount that any person demands is influenced by the amount that other persons demand. Usually, he suggested, it is supposed that the consumption of alcoholic beverages at social gatherings is affected by the size of the party. Sunday dinners at "a certain Oxford college" supplied him material with which to test this supposition. The observations came from dinners during term-time. The size of the group varied from 7 to 42, and Edgeworth assembled data on both the total amount of wine drunk and its total cost for the period 1903-06. He first calculated the average size

[9] Exactly the same types of argument ere to be found in the literature on positional competition and more recently in the literature on happiness and economics. Marshall even opts for some forms of social redistribution when he says that we could have a net social gain if part of the private expenditure of those in the £50,000 class could be diverted into more social uses without causing real distress to those from whom it is taken.

of the parties over this period and then, as a monetary proxy for the quantity consumed, the cost per head as a percentage of the average cost over the period. Finally, he compared cost per head for parties below and above average size. No correlation was found between cost (cf. consumption) and the size of the group.
Edgeworth's experiment was too primitive to carry weight – too few observations of a special occurrence whose context was not fully specified, not to speak of his having chosen a good that has some addictive properties. Yet both Marshall's and Edgeworth's interventions are interesting in that they expose a resistance to including the topic of interrelated preferences in economic theory. Marshall did acknowledge the problem, in terms that are very similar to those found in current discussions of the paradox of happiness. But his acknowledgement did not translate into a new or deeper analysis. Yet Marshall's decision to set aside the issue as of minor importance, and certainly too insignificant to warrant any new theoretical effort, was made easier in part by the way the debate had evolved. In fact, by discussing social interdependencies chiefly in terms of the desire for display and ostentation, only one aspect of social interdependencies was emphasized. It would not have been so easy, had he bothered, to counter Foley's explanations of the more general phenomenon of fashion. But these, as noted, were simply ignored.

4. *Fashion: the pleasure of the swim.*

Caroline Foley published her analysis of the features of fashion in *The Economic Journal* the year after Cunynghame's paper, but her focus and approach were completely different.
She started by recalling how the study of consumers' behaviour is rarely free from negative comments and rebukes. Starting with the first economic tracts, less than two centuries earlier, these were directed against the consumption of foreign, and especially French, wares, the seductiveness of which, says Foley, was considered doubly dangerous and condemned as both unpatriotic and improvident. Yet, even if only for reasons of policy, the early tracts on trade did not neglect the role that wants and tastes as shaped by society might have on stimulating demand and growth. Later on, "peace, steam, and factory" diverted attention to production and population, and the fluctuations of demand due to the powerful force of fashion were forgotten (Foley 1893: 459)[10]. In fact, in modern economic treatises, she notes, we find no more than passing comments on the topic: Mill, Cairnes, and Fawcett "do not condescend to the economics of fashion", while Professors Sidgwick and Marshall "graze the fearful subject with hasty comment" (ibid.: 460).
Yet fashion, according to Foley, should not be classified – or easily dismissed – as just another form of want, under the headings of necessities, comforts, or luxuries, but as a co-efficient of any of these, as *a want[with]in wants*. Therefore, even if there is less scope for variety in strictly necessary goods, there is no commodity (except pure water or air) that does not allow for more that one *mode* of production. And fashion in fact is essentially the love of variety, of changing modes and creating new ones. This, inevitably, tends to involve *all* goods.
Nor this is a recent phenomenon: the love for variety and change that expresses itself in fashion has existed in every age and defeated repeated impositions of sumptuary laws,

[10] In a protest against this Foley insists that the worker too has tastes and embraces fashion often despite even the fact that its variability may cause him harm.

denunciations, and complaints, a fact that shows how the stability and permanence of tastes are more the ideal of the few than the habit and tendency of the many (ibid.: 464). For this reason, even if often attacked for generating unreal wants, fashion has been also defended: for promoting cleanliness and refinement, for stimulating inventiveness and the art and facility "*de bien tourner les choses"* (ibid.: 463)

Fashion, however, is not random change. If, Foley insists, the desire for novelty and distinction, on the one hand, affects demand in the direction of contrast, the resisting force of habit, on the other, directs change to take more the form of slow development, of variations along a given line of choice (ibid.: 465-6)[11]. The power of fashion in affecting the quality, quantity, and rapidity of consumption is therefore limited by what Foley calls the forces of beauty and comfort, of fitness and custom (as in uniforms) as well as of morals and religion. Nonetheless, fashion is able to sidestep and circumvent these limits, always inventing new solutions, to satisfy the desire for novelty[12].

Having characterised fashion as the reign of mutability and variety (within recognizable limits), Foley notes that the fashion industry, unsurprisingly, is characterized by greater uncertainty but also by greater profits for those who are able to anticipate and adapt, both through technology and the correct use of stocks and by avoidance of over-specialization. Nor, Foley reminds us, is fashion just the province of the rich. Fashion was democratized by the *Grands Magasins* that catered head to foot for a general public[13].

Foley's stress on the role of uncertainty and change in fashion did not make her contribution easily translatable within the current economic theory. On the contrary, her treatment showed clearly how any attempt to eliminate fashion's impact on individual choices, either by downplaying its role or by restricting the scope of economic theory to the choice of necessities, did not solve the problems it raised. Fashion is a general phenomenon simply because it expresses individual desire for variety and this involves every good from food to gold. Discovering, testing, and diffusing this desire inevitably involves social exchange and interaction.

5. Consuming conspicuously: Veblen

Thorstein Veblen's *The Theory of Leisure Class* represents a view that is the direct opposite of Caroline Foley's. Published in 1899, it has become the classic text on status-led consumption, on consumption as the ostentatious display of wealth[14]. In a society in which the distribution of wealth had become more unequal, for Veblen, spending to secure social position and rank counted with many for more than outlays on necessities (Veblen 1892). And, as it happened, visible signs of wealth were necessary to improve social standing, especially those costing enough to impress and to distance oneself from the less wealthy (see Mason 1998, 51).

11 For a discussion of the mixture of permanence and change that we find in fashion, see Bianchi (2002 and 2007). What Foley here stresses is strikingly in line with recent psychological findings (see Berlyne and Madsen 1973).

12 Attending religious meetings might become fashionable, she wryly observes.

13 This, however, was a process that started long before, see the revealing analysis and data provided by deVries 2008 for the period of late seventeen and eighteen centuries.

14 Veblen was critical of contemporary consumer theories because they failed to recognize the influence that society had in shaping individual choices. He was also critical of the socialist idea that capitalism produced poverty. Individual wealth, on the contrary, had gradually increased under capitalism. What had worsened was the gap between the rich and the poor.

Besides conspicuous leisure it was above all conspicuous consumption, things bought because expensive, that was the visible mark of one's relative position in society. Gifts, feasts, and entertainments, where the man of leisure consumed vicariously for his host, were crucial for establishing and reinforcing comparisons. And, despite the fact that increased wealth tended to blur social and class distinctions, still, according to Veblen, the aesthetic codes governing consumption continued to be those of the leisure class, which stamps its standards on those of lower social standing (Veblen 1899)[15]

Veblen was not appreciated by the economists of his own time and was placed among the radicals (who did appreciate him). This dismissal is not surprising: not only was the claim of the strength of interpersonal comparisons difficult to incorporate into the contemporary economic models, as we have seen, but Veblen's dark representation of consumption as unproductive because purely pecuniary and ostentatious introduced an element of value judgement that was difficult to accept as part of a theory aspiring to be objective.

Yet it was fundamentally Veblen's model of social interaction in consumption that ended up prevailing in the following debates.

6. Veblen's imprint on economics

The relevance of the social dimension of consumption re-surfaced in the1920s and 1930s in connection with empirical and theoretical studies on trends of American family budgets. In a little known debate that saw mainly women economists as protagonists (see the extensive and detailed analysis by Trezzini 2005), consumption expenditures were shown to be very sensitive to the specific standards of living associated with belonging to a particular group or social class. The strength of these standards made demands for consumption less responsive to changes in budget constraints, since people, in periods of recession, only very reluctantly lowered their standards. Indeed, these studies stressed that both the desire to emulate the superior classes and to distinguish themselves from the inferior classes made consumers behave asymmetrically with respect to income changes: in other words, people tended to decrease consumption less when income fell than they increases it when income rose (see Trezzini 2005, p. 9).

With the publication of Keynes's *General Theory*, attention shifted to the macro-features of consumption. Keynes himself recognized the existence of interpersonal influences in consumption, but deemed them not relevant, especially for the long run. Nevertheless, it was in the discussion on the Keynesian aggregate consumption function that the social significance of consunption expenditures entered again the economic debate. Duesenberry (1949) paid particular attention to this aspect of consumption patterns. In a way not dissimilar to Veblen and that echoes the *Economic Journal* debate, for Duesenberry individual consumers determine their consumption expenditure not on the basis of their absolute level of income, but on the basis of their relative position in terms of income distribution.

These social influences, dubbed by Duesenberry demonstration effects, rendered consumption relatively independent of prices and income and more prone to social emulation and distinction. This in turn explained why the responsiveness of consumption expenditures to changes in income was weaker in recession than in expansion. Duesenberry's theoretical approach, not unlike Pigou's, posed a challenge to

[15] Similar ideas would inspire Bourdieu's analysis of individual and social capital (1976).

utility theory in stressing that social standing and prestige might count for more in people's valuing of goods than their intrinsic utilitarian value (Mason 2000). Duesenberry's analysis did not pass unnoticed by contemporaries (Mason 2000: 554). Yet, as noted, the formulation of Modigliani's life cycle hypothesis and subsequently Friedman's permanent-income theory introduced a model of inter-temporal maximization of consumption over the life-span of individual agents that completely by-passed Duesenberry's approach. Presented with cyclical fluctuations of income, rational and forward-looking individuals would smooth them out by saving less in periods of declining incomes and more in periods when income rose. Once this framework prevailed in macro analyses of consumer behaviour, concerns with the social aspects were abandoned[16].

These have returned in the more recent models of positional competition, where the problem of interactions in consumption is recast in terms of net social gains or losses. Competing for goods that secure social standing, it is argued, one individual's forward move can come only at the expense of a backward shift for someone else. The economic consequences are negative: for the individual who is trapped in a zero sum game, and for society which suffers the negative externalities of a sub-optimal allocation of resources.

7. Positional competition

The articulation of the argument about positional goods is usually traced to Fred Hirsch (1976), who defined them as those goods whose value for the consumer who owns them depends more on how they compare with the goods consumed by others than on their direct utility. According to Hirsch, as the level of average consumption rises, so does the relevance – though also the negative side effects – of positional consumption. In the material economy, he noted, the production of goods can be increased through technological innovations without loss of quality, but things are different in the positional economy. Here people's relative position is measured by the access to and possession of goods that are scarce or become scarce as an effect of social competition (1976:27). Competing for rare antiques and works of art, for leadership positions, for secluded leisure land and exclusive city center apartments, or for fashionable goods and services – all these are different ways of obtaining positional outcomes. At the same time, rising affluence has made these goods and activities more accessible even if they never can fulfil people's positional desires. For positional goods are, by definition, in given supply, so increased demand simply translates into an increase in prices, with the result that more effort is devoted to obtaining positional goods without additional individual gain being realized. As at a football match when everybody stands up to see better, one person's move cancels another's out. The result is social waste that cuts into individual welfare and aspirations and reinforces rather than loosens the social hierarchy of positions (1976:30). The remedies that Hirsch envisaged had to do with a reformed social ethic that puts the social interest first. To this end collective means may

16 Subsequent tests of Modigliani's and Friedman's theories have not clearly favoured one over the other, and anomalies have been met with small ad hoc modifications to the formulation of each. Behavioural economists suggest an altogether different approach to matching data with consumption patterns over time. They explain possible violations of inter-temporal maximization as due to problems in self control, the costs of enforcing such control, and mental accounting and framing effects, all of which make temptations to spend more or less easy depend on whether income is labelled as current income or endowment (see Shefrin and Thaler 2004)

be necessary to implement individual ends, though the real extent of collective action and its efficiency is very difficult to quantify, as he himself recognized (1976:178-9). In his *Choosing the right pond* Robert Frank (1985) took Hirsch's framework further and offered some suggestions for measuring the scope of the positional economy. Demonstration effects for Frank are stronger for those goods that can be readily observed, such as cars, houses, clothing, as well as high status jobs. These become the consumption platform where positional expenditures most concentrate. Fewer resources are devoted instead to invisible budget categories such as saving, leisure time, safety devices, or insurance. This under-consumption of the "invisibles" is stronger for low income consumers for whom, as Duesenberry had already remarked (1967 [1949]), the returns to status gains are higher. In order to slow down the positional treadmill, Frank suggests changes in individual incentives through a system of taxation that imposes higher costs on positional activities.

That positional competition can be the source of misallocation of resources and of welfare losses has uncovered an additional dimension to Veblen's view of social competition as conspicuous display. Still two elements are missing from this story. The first is that it does not take into account the creative dimension of the competitive process. When competing for status, individuals can be highly innovative in overcoming both absolute and social scarcity. Indeed scarcity is binding if the contestants bid only for additional quantities of the same sort of positional goods. But why should they? Consumers compete, as we saw in Foley's analysis, for goods and activities that are distinctive in terms quality, variety, and novelty. Here there is ample room both for innovation and creativity, and for mutual gain. This is immediately visible in many consumption practices: from the arts to design, to furnishing, holidaying and gardening, the crowding of one mode of consumption invariably creates an incentive to explore others[17].

The second consideration has to do with the utility associated with the consumption of positional goods. Although it is recognized that positional goods do provide a direct or intrinsic utility, in discussing the consumption practices associated with them it is only their extrinsic, symbolic value, in terms of membership, identity, and distinction, that seems to count[18]. The result is that only the negative externalities of positional rivalry are examined, never the positive externalities that social forms of interactive consumption provide. These range from the exchange of information to that of emotions, from imitation to experimentation with novelty and variety. Indeed, their

17 The history of collecting, for example, offers numerous instances of discovering – or re-discovering – the up-till-then overlooked, where the discriminating element often is not price but ingenuity and skills. The same is true of urban change, as when inner cities are rediscovered and revitalised often by less rich artistic or intellectual elites. Changes in fashion too are creative ways of coping with the progressive erosion of novelty that occurs when fashions spread (Andreozzi and Bianchi 2007). De Vries in his Industrious Revolution (2008) studies the ways in which since the turn of the eighteenth century consumers developed active skills in exploiting the complementarities and combinability of goods that had become more and more varied and "lighter" – i.e. less durable and more ephemeral.

18 Take education, an example that recurs often in Hirsch's analysis. Education is clearly valuable in itself but it has also a signalling property in the process of job selection. As more people reach for higher education, the value of the filtering process associated with education decreases as do the returns to investment in education. These are the negative externalities of social crowding that the author stresses. But the positive externalities of increased knowledge and selective abilities that education imparts still remain and in the end it is difficult to see which one prevails.

range is such that individual consumption can hardly exist without its social counterpart.

These last considerations apply also to the many economic models which, starting with Leibenstein's pivotal article (1950), explore the dynamics of fashions and fads. Here again we find consumption thought of simply as a mark of positional distinction that trickles down through diffusion, with the hierarchy re-instated in the next cycle. In the socio-economic thinking of Pierre Bourdieu too, which has become the reference point in discussions on distinction, position in society determines the shape of individual tastes, through the different consumption practices that are embedded in the different forms of individual and social capital. Here, and in various other modern formulations, consumption is granted no real autonomy but remains instrumental to some other practice, such as distancing, belonging, or simply display[19].

8. More recent trends

This brief overview of the debate on whether and how social elements affect consumption has revealed polarizing tendencies. The dominant view – that of mainstream economics – recognizes the importance of the intrinsic utility of goods but, by stripping them of any social and creative dimension, it provides a model of consumption moulded on need satisfaction. The alternative view righttly emphasizes the relevance of social interdependencies yet, in identifying them with social display and race for position, loses sight of the much larger and positive role they may play in consumption. Individual choices are represented simply as pre-emptive moves, stimulating responses in others that set off a competitive cycle that has no stopping point.

Both sides of this debate are reductive. There is much more in personal consumption than the satisfaction of needs, and more too in interpersonal dependencies than conspicuousness.

More recent alternative views of consumption, however, mostly coming from sociology, anthropology, psychology, and material culture studies, have begun to stress the multifaceted dimensions of consumption and the positive pleasure associated with them.

In *The Meaning of Things* social theorist Mihaly Csikszentmihalyi has shown how it is still possible to achieve self expression even in mass produced goods, through their careful selection and re-combination (1981, p. 94). In this context, consumption allows for psychological growth and learning and the appearance of something genuinely new (ibid. 96).

First among economists to rediscover the relevance of the creative dimension of goods as a source of pleasurable stimulation was Tibor Scitovsky (1992 [1976]). He recognized the value of consumption not only as a form of individual process of discovery but also as a way of sharing and communicating knowledge, memories, narratives, and emotions (see Bianchi 1998 and 2008).

Much recent consumer research has also focused on consumers' autonomy and their ability to be active choosers and users. There is a new emphasis on the selectiveness exercised by consumers, whose choices are seen as displaying multiple varying, intersecting hierarchies, as well as horizontal rather than vertical social divisions

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[19] See on this point Sassatelli 2007, p.95.

(Warde 2002). Consumption practices, as in Miller (2008), become a process of self-creation and the objects involved the intermediaries of relationships.
New important insights on the advantages of social exchanges come moreover from urban economic studies (Jacobs 1969 and 1984, Lucas 1988, Glaeser and Gottlieb 2006). These all stress the relevance of local economic diversity – of consumption activities and jobs – as in large cities, for knowledge spillovers and unexpected cross-fertilization of ideas.
In sum, the problem of interdependencies in consumption has many facets: identity, membership, rule sharing, and affective bonds on the one side, and competition for excellence and skills and mutual stimulation through differentiation and novelty, on the other. These are receiving fresh consideration both within and across several disciplines.

Conclusions

Refined analytical techniques have allowed theorists to give a more formal and rigorous consideration to what in the first debates on social interdependencies in consumption were mostly intuitions, observations, or complaints. Yet the representation of the features of social consumption that emerged then raised most of the problems we still face today. They unveiled the unforeseeable effects of interdependencies of consumption choices when variety and change is at stake, and this interfered with many assumptions of the established theory and generated problems that were difficult to solve. We have reviewed these difficulties that involve the meaning and measures of utility, the possible discrepancies between expected and realized utility and the conflicts between individual and social outcomes when, as in positional race, individual gains generate social losses. They are observed too in what appeared to be the irrationalities of inter-temporal budgetary planning. Strategies to escape these conundrums suggested by economists mostly downplay the relevance of social consumption practices. This strategy of neglect was facilitated by the fact that of all the facets of social interdependencies just one, status competition, was privileged over all others. Left unexplored, until taken up by urban economists over the past two decades as the question of density and the effect of face-to-face contact and knowledge exchanges on creativity, have been the positive externalities that come from social interactive consumption. These include communication, but also sharing, and invention as constitutive elements of consumption by individuals.

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