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Is luxury tax justifiable?

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Abstract

This paper examines whether, and if so when, luxury tax is justifiable. After a characterization of luxury tax, I critically examine several arguments that have been or can be made in defence of luxury tax, including Ng's diamond good argument and a variation of Frank's positional good argument. I put forward an alternative, expressive argument, according to which luxury tax can help to create and sustain social norms that discourage conspicuous luxury consumption and display of wealth. I explain several ways in which luxury tax fails to achieve the expressive goal and brings about unintended consequences.

Keywords: Luxury tax; optimal tax theory; diamond goods; positional externality; social norms

1. What is Luxury Tax?

Excise taxes are selective taxes on the sale or use of specific goods or activities. (By contrast, a value-added tax or retail sales tax is a general consumption tax that applies to all provisions of goods and services.) Luxury tax is an excise tax that is levied on luxury goods. What are luxury goods? Here I cannot attempt to provide the necessary and sufficient conditions that can regiment the often confusing usages of the term.¹ For our purposes, luxury goods can be thought of as those items whose utility and price is such that: people, if on a budget, normally forgo them and purchase other items (possibly, their substitutes) and it is usually the rich that can and do buy them. It is not that other people do not want them. If those goods had been cheaper, many more people would probably have purchased and enjoyed them. Presumably, it is due to the diminishing marginal utility of wealth that, for the wealthy, their utility is greater than the disutility of paying the price. They are neither biological necessities that are

¹For example, it has been suggested that a 'global luxuries tax' should be imposed on air travel, financial transactions, texting on mobile phones, and procreation (Mawe and Bufacchi 2015).

necessary for survival and natural human functioning, nor social necessities the lack of which means indecency and poverty in the society.²

This characterization covers the following paradigmatic examples of luxury taxes: In the United States, the Omnibus Budget Reconciliation Act of 1990 levied a 10% excise tax on such “luxury items” as pricey automobiles, boats, yachts, aircraft, jewellery and furs. (This luxury excise tax was partly repealed by the Revenue Reconciliation Act of 1993.) The People’s Republic of China imposes an extra consumption tax on cosmetics, jewellery, precious stones, large cylinder capacity vehicles, golf products, high-grade wrist watches, and yachts (Interim Regulation of the People’s Republic of China on Consumption Tax 2008 Revision: Article 2 and Appendix).³ It also fits with some features that are often associated with luxury goods, such as refined pleasure and replaceability with crude substitutes without much pain.⁴ This definition can be called *luxuries in the narrow sense*, because luxuries in this sense are a subset of luxuries in the economic sense. *Luxuries in the economic sense* are those goods and services whose income elasticity of demand e is greater than 1.⁵ In this paper, I will examine several arguments that have been or can be made in favour of luxury tax. As we will see, most of them apply best to luxuries in the narrow sense. So, by luxuries, I will mean, unless indicated otherwise, luxuries in the narrow sense. When an argument (e.g., the positional good argument) is meant to apply not only to luxuries in the narrow sense, but to luxuries in the broad, economic sense, I will so indicate. Examining the cogency of those arguments that purport to justify luxury tax will be the task of the remainder of this paper. It leads us to engage with many interesting theoretical issues in the normative analysis of taxation.

2. Is Luxury Tax Justifiable as an Efficient Way of Raising Government Revenue?

One of the reasons why we tax is to raise the government’s revenue and finance its activities. Luxury tax, to be sure, can be a source of government revenue. However, if the goal is to generate revenue and fund the government’s budget, there are alternative tax bases available. Why should we raise revenue by a surtax on luxuries rather than by other kinds of taxes?

²Adam Smith’s linen shirt is a famous example of a social necessity (Smith 1819: Book 5, Ch. 2).

³Many other countries impose what can be classified as luxury taxes. For example, in the Republic of Korea, an excise tax is levied on expensive jewellery, pearls, tortoise shells, coral, amber, ivory, high-quality watches, carpets, bags, furs and furniture (Korea’s Individual Consumption Tax Act: Article 1, section 2); in the Republic of China, on costly passenger cars, yachts, planes, helicopters, turtle shells, hawksbill, coral, ivory, furs and furniture (Taiwan’s Specifically Selected Goods and Services Tax Act: Article 2).

⁴So those who cannot afford them settle for simple pleasure instead (Berry 1994: 11–13, 23–26).

⁵Luxuries in the economic sense are a subset of normal goods, those whose income elasticity of demand is positive ($e > 0$). The demand of normal goods increases, as the income increases. Inferior goods are those goods whose demand decreases as the income increases ($e < 0$). See e.g. Deaton and Muellbauer (1980: 17–20, 78–79).

2.1. Optimal tax theory

One might argue that we should raise revenue by luxury taxes because luxury goods are disproportionately consumed by those who earn more income. We should tax and spend the revenue (part of which is transferred to individuals), the argument goes, in such a way as to maximize the social welfare. Taxing high-earners reduces social welfare to a lesser degree than taxing low-earners, because the marginal individual utility of high-earners' income is smaller and the marginal social value of their utility or welfare is smaller. In other words, the marginal individual utility of income diminishes as the income level increases, and the marginal social value of welfare diminishes as the welfare level increases (= prioritarianism).

Even if we agree, for the argument's sake, that the welfare and income of the poor should be given more weight, the priority to the less well-off does not support taxing luxuries so much as taxing incomes. The theory of optimal taxation has shown that properly designed income taxation achieves any desired distribution of disposable income and a certain amount of revenue without distorting individual consumption choices. In other words, the deadweight loss from non-neutral commodity taxation (i.e. consumption taxes the rate of which varies depending on the type of goods) makes it unnecessarily inefficient (Atkinson and Stiglitz 1976; Kaplow 2008: Ch. 6).

Admittedly, the suboptimality of non-neutral commodity taxation in the presence of proper income taxation is premised on the assumption that while income-earning ability is not readily observable, actual income reflects the earning capacity. The optimal tax theory leaves room for the possibility that excise taxes on specific goods might be efficient if preferences for them depend directly – not by way of income – on the ability to earn income (Mirrlees 1976; Saez 2002).

However, it seems quite difficult to identify such commodities. How can we determine and measure the relevant abilities, independently of actual income, in the first place? It has been suggested that high-brow activities (e.g. reading long and abstract novels, visiting museums, watching arthouse films) are indicators of earning abilities that are not put to social use (Bankman and Weisbach 2006: 1453–1454; Kaplow 2008: 139–140). This empirical hypothesis is questionable and rather illustrates the difficulty of identifying the relevant abilities and commodities. Even if we assume, for the argument's sake, that they are such indicator goods, taxing them for that reason would amount to an objectionable endowment tax that pressures talented people to work at a lucrative job that they do not want and infringes on their freedom of occupational choice (Rakowski 2000: 267n.10; Rawls 2001: 157–158; Murphy and Nagel 2002: 121–125). Moreover, the taxation might discourage development of relevant abilities.

One might argue that luxury tax can be a way for the government to make tax-dodgers pay the income tax they owe.⁶ It has been reported that there are independent contractors (e.g. doctors, lawyers) who do not comply with tax obligations by, say, underreporting their income and inflating deductions. There are also criminals who do not pay tax for their 'income'. Many of them have a

⁶I am indebted to an anonymous reviewer for suggesting this argument.

lot of cash and spend it on buying luxury products, the argument goes. Identifying purchase of luxury goods is practically less difficult than tracking net income. Imposing luxury tax, instead of income tax, will save tax collection costs.

If luxury tax is a means to collect income tax, luxury tax payment, as with tax withholding, should count as a refundable credit against income tax liability. Otherwise, it would be double taxation that is unfair to those who pay their income tax honestly and buy luxury goods. Then, potential tax dodgers would be strongly incentivized to forgo the luxury goods that are subject to luxury tax and purchase other (expensive) products instead. Or they might evade the luxury tax with an under-the-table cash payment. Some of them, I admit, might pay luxury tax and use the credit to reduce the income tax they would otherwise have avoided or evaded. I am not sure whether the additional revenue thus generated would be worth the administrative and compliance costs. It is an empirical, context-dependent question, but I suspect that it may be less efficient than direct measures to improve income tax compliance (e.g. requiring tax withholding or information reporting on payments made to independent contractors).

2.2. Taxing 'diamond goods'

It has been argued that we should raise revenue by luxury taxes, because they can impose no burden on taxpayers (Mill 1848: Book 5, Ch. 6, §2; Miller 1975; Ng 1987). According to this view, some luxury goods are 'diamond goods' in the sense that consumers value them not because of their use or the effects their consumption brings about, but simply because they are pricey. So when a tax on these goods increases their price, consumers find them to that extent more valuable. For example, they are indifferent between a luxury good for which they do not pay tax (e.g. a 10-carat diamond or a Ferrari of \$100,000) and a luxury good of a smaller size or lower quality that is as expensive because of luxury tax (a 5-carat diamond or a Porsche of \$100,000; its pre-tax market price is \$50,000, but a \$50,000 luxury tax is levied). By the same token, consumers who were willing to pay just \$100,000 for a 10-carat diamond that cost \$100,000 without tax, are willing to pay \$200,000 for a 10-carat diamond when it costs \$200,000 due to a luxury tax of \$100,000. As the luxury tax makes the luxury good cost twice as much, consumers value it twice as much.⁷ The luxury tax raises revenue, but it does not impose any burden on them. Why does the tax-driven increase in price increase the value or utility consumers get out of the luxury good? Because, the argument goes, the increased price raises the good's value as a token of the amount of money spent on its acquisition. Presumably, the consumers have a desire to possess commodities, regardless of their intrinsic quality or the effects of their consumption, that require a large amount of money for their purchase.

It is worth noting that the diamond effect (i.e. the alleged phenomenon of valuing diamond goods because of their price) is distinct from the habit or strategy of

⁷I am assuming that they are willing to spend at least \$200,000 on diamond goods. When a 10-carat diamond cost \$100,000 without tax, let us assume, they were spending \$100,000 on a different diamond good.

judging quality by price. When a customer does not know enough to appraise the quality of some goods, he often relies on their price as an indicator of their quality. When they are expensive, the high prices can be taken to be evidence that they are of high quality. The thought can be: 'If they are of poor quality, other people who presumably know more than I do would not be willing to pay much. So, they would not command such high prices' (Scitovszky 1944). By the same logic, when some good is noticeably cheap for its kind, it may be reasonable to infer that it might be of poor quality. For example, when a vendor is selling a 10-carat 'diamond' at the market price of a 1-carat diamond, one may reasonably doubt whether it is genuine or the vendor legally owns it. In these cases, the price is not a constituent of what makes goods valuable (which is the case for diamond goods) but used as a gauge of their value. The diamond effect should also be distinguished from a snobbish preference or Veblenian conspicuous consumption (which will be addressed in later sections). Suppose some luxury good is, before tax, so expensive that only one consumer can afford it. When a luxury tax makes it cost more, the degree to which its consumption satisfies the consumer's snobbish desire, the desire to consume what others do not or cannot, does not change. Still, if it is a diamond good, the luxury tax makes it more expensive and thus more valuable. And suppose only two persons, the giver and the receiver, know the giving of a gift. They never let anybody else know the expensive gift. By hypothesis, the invisible consumption has nothing to do with ostentation or social status. Again, if the gift is a diamond good, a luxury tax that makes it even pricier would make it more valuable (Ng 1987: 186).

I agree that *if* people were to value some luxury goods just because of, and in proportion to, their price, regardless of the reason why the price is high, excise tax on them would be a good source of revenue. However, as is usually the case with alleged free lunches, this scenario is too good for the government to be true. I doubt that (rational) people have preferences such that when excise tax raises the price of a product, the increased price makes them value it more accordingly. To see this, imagine that the US government imposes a luxury tax of \$50,000 on Porsches and \$100,000 on Ferraris. As a result, a Porsche costs \$100,000 and a Ferrari \$200,000. After a while, Americans get used to their tax-caused high price. Then they realize that in the EU where there is no luxury tax, a Porsche costs \$50,000 and a Ferrari \$100,000. To make the case clearer, suppose no one can fail to distinguish taxed Porsches and Ferraris from tax-free ones. The US government stamps a conspicuous tax-paid mark that is sophisticated and hard-to-forge, and punishes counterfeiting harshly.

If expensive luxury cars were a diamond good, there would be no incentive to import Porsches and Ferraris from the EU to the USA and avoid the luxury tax. Americans would value a taxed Porsche of \$100,000 as much as a tax-free Ferrari of \$100,000. A tax-free Porsche of \$50,000 would be only half as valuable to them. However, this implication could not be further from the truth. Many people will be eager to import (if there is a ban on international trade, smuggle) Porsches and Ferraris (in)to the USA. (Assume that when an EU-made Porsche of \$50,000 is imported from the EU to the USA, the US government does not impose a luxury tax.) Americans will regard a taxed Porsche of \$100,000 not as valuable as a tax-free Ferrari of \$100,000, but as comparable to a tax-free

Porsche of \$50,000.⁸ If someone were to brag about the excise tax stamp on their \$100,000 Porsche, it would probably be pitied or even ridiculed as a foolish purchase. If the luxury good were a gift, the money spent on tax payment would probably not make its recipient happier. More likely, the response would be: “Dear, you could have bought me a Ferrari instead.” The government cannot make things more valuable simply by taxing them and issuing tax receipts.⁹

Suppose instead that the US luxury tax imposed on a Porsche is \$15,000 and that importing a Porsche from the EU to the USA costs \$20,000 (transportation costs). Since the cost of importation is greater than the tax, Americans will not import Porsches but purchase taxed Porsches of \$65,000.¹⁰ The incentive to avoid the tax is outweighed by the incentive to save the cost of importation. In this case, the US government can tax and raise revenue without affecting consumption. However, it does not mean that Porsches are a diamond good. If the tax-driven price increase were to induce consumers to value Porsches more, they would not have an incentive to avoid the tax in the first place. It means rather that as the cost of transporting cars across countries is a natural barrier to international trade, domestic producers enjoy a considerable competitive advantage over international rivals. The tax works by absorbing part of their producer surplus, not by satisfying consumers’ putative desire for expensive items just for the sake of expensiveness.

In response, it might be argued that luxury taxes will have the desired diamond effect when they are surreptitiously imposed; when taxpayers are unaware of their imposition or their effect on price. It seems unclear whether it is feasible to impose an excise tax without letting citizens know. Even if the government can manage to do so, this possibility hardly provides a justification for luxury taxes. If their efficacy is dependent on people’s having mistaken beliefs about or not knowing how they work, their grounds cannot be publicly acknowledged and examined. Citizens cannot refer to and use them in public reasoning; e.g. when they explain and justify what they believe and support regarding tax policy and related fiscal issues to one another. In a democratic society, the state’s authority to collect taxes is part of its political power wielded in the name of all the citizens on whom it is coercively imposed at the same time. If the grounds for taxation should remain esoteric, citizens end up imposing coercive measures on their fellow citizens on terms that they cannot justify to the coerced. Failing to relate to one another on interpersonally justifiable terms undermines the sense of justice and social union. The tax revenue is not worth the cost to the political

⁸Note that my objection applies not only to luxury cars, but to any luxury goods, including diamonds and jewels (simply replace a Porsche with a 5-carat diamond, and a Ferrari with a 10-carat diamond). Imagine a government levies a hefty excise tax on diamonds and issues unforgeable certificates attached. Unlike Tiffany diamond certificates, the excise tax certificates will not induce people to value the diamonds more. If excise tax payment makes jewellery more valuable, buying duty-free jewellery or smuggling jewellery to avoid paying duties and taxes would not have much appeal in the first place.

⁹There might be a case in which a tax payment receipt works as a signal that the purchaser cares much about the person to whom the taxed commodity is given as a gift. However, even in that case, it does not mean that tax payment has made the commodity more valuable. On the contrary, the irrationality of paying for nothing, like burning money, makes the tax payment count as a signal.

¹⁰I am grateful to an anonymous reviewer for making me consider this example.

community. As is the case with the principles of justice and other public policies, the grounds of taxation should satisfy what Rawls calls the ‘publicity condition’ (Rawls 1993: 66–71). Jean-Baptiste Colbert, a minister of finance in 17th century France, is reported to have said: ‘The art of taxation consists in so plucking the goose as to obtain the largest possible amount of feathers with the smallest possible amount of hissing.’ Insofar as Colbert advocated non-transparency to avoid tax resistance, he defended a cunning ingenuity that makes the state degenerate into a scheme of manipulative coercion.

3. Is Luxury Tax Justifiable as an Incentive for Consumers to Spend Wisely?

It might be argued that we should tax luxuries to incentivize consumers to spend so as to maximize the value of their consumption. Neutral consumption taxation allows consumers to purchase what they prefer, to satisfy their current preferences within their budget constraint. Consumers of luxury goods take their marginal value to be no smaller than the marginal value of other goods they can purchase. However, the argument goes, luxury customers are mistaken in their evaluation. They fail to consider alternative ways of consuming or overrate the value of luxury goods. As a result, they make themselves worse off. It would be a better use of budget for consumers if non-neutral excise taxation incentivizes them to spend less on luxury goods.

3.1. Saving for future consumption

One might argue that consumers of luxury goods are irrational because imprudent. Luxury taxes should be imposed to encourage consumers to forgo luxury goods for the benefit of their future selves. The purported goal is to curb purchase of taxed items, prevent insolvency, and enable them to afford necessities and other commodities that would benefit them more than the taxed items in the future (McNeil and Riello 2016: 266).¹¹ Recently, several states have adopted ‘sin’ taxes on sugary drinks and fatty foods to discourage unhealthy diets and lower obesity and diabetes rates. Excise taxes on cigarettes, alcoholic drinks, and casinos can also be understood as a paternalistic measure that purports to protect the future selves of taxpayers from their present selves.¹² Can the taxes on luxury goods be interpreted and justified on similar grounds? I doubt it for the following reasons.

First, there does not seem to be evidence that luxury shopping is as addictive as smoking or gambling. Second, even if luxury goods turn out to be addictive, it is not clear whether taxing them is an effective measure to improve the situation of consumers. If they are really addicted to luxury shopping, making luxury goods more expensive may bring about the very bad outcome the tax is meant to prevent: making the consumers poor. If the goal is to prevent people from

¹¹Sumptuary laws have often been interpreted as a paternalistic regulation that is meant to prevent prodigality and promote economic thrift for future exigencies. See Hunt (1996: 196–197).

¹²Recent researches in behavioural economics and psychology about our bounded rationality are often taken to support this new paternalism, for example Thaler and Sunstein (2003) and Sunstein (2014).

making imprudent decisions, licensing would presumably be better than charging surtax (Chapman 2012; Halliday 2016a).

3.2. Perfectionist taxation on luxuries

Others might argue that consumers of luxury goods are irrational because they overestimate the value of luxury goods. The purchase of luxury goods and related activities are of little value and not worth the price. They are superficial and shallow. The state should incentivize consumers not to squander their income on the shallow and meaningless goods.

Unless the revealed preference satisfaction view of welfare (i.e. the implausible view that the realization of whatever satisfies our current desire, as revealed by our choice behaviour, makes us better off) is true, there might be a discrepancy between what we choose to do or buy and what is good for us. However, it is questionable whether the government can reliably identify the goods whose value is insignificant and not worth the cost. People purchase and use goods for various reasons and in various ways, so their prudential value should vary from person to person. It may well be a stereotype that those goods that are designated as luxuries do not contribute (much) to a good life.

Suppose the government picks out those items that are objectively of little prudential value. It is still doubtful that imposing excise taxes on them will make consumers better off. If the excise taxation makes a difference to what consumers buy (otherwise, it merely makes them poor), the perfectionist intervention artificially modifies the reason they make consumption choices. They no longer respond to the intrinsic value or merit of options on their own. If they buy not luxury goods but those goods that the government deems to be of more value, the taxation makes it hard to say that the purchase is their independent choice. The discouragement or guidance from government makes the consumption less autonomous and undermines its prudential value (cf. Waldron 1988: 1141–1149). The prudential value of consumption arguably depends not only on what one ends up buying, but also on how one comes to buy an item and engage in related activities. Recent sociological studies suggest that in modern societies with market economies, consumption is an important means of pursuing one's own lifestyle and expressing oneself in everyday life. For many people, consumption plays an essential role in the creation and maintenance of their personal identity. Consumption goods are the media through which they cultivate tastes, create meaning and narratives, and build and maintain personal relationships.¹³ The role and meaning of consumption in modern life makes autonomy in consumption prudentially important. Taxing luxuries on perfectionist grounds, a state interference with consumption, hinders

¹³Russell Belk says, 'It seems an inescapable fact of modern life that we learn, define, and remind ourselves of who we are by our possessions' (Belk 1988: 160). Also see Giddens (1991), Chaney (1996), Dunn (2008) and Miller (2010). However, many philosophers and social theorists (e.g. Marx and the critical social theorists of Frankfurt school such as Horkheimer, Adorno and Marcuse) have been unduly sceptical about the importance of consumption in life. For an overview, see Rey and Ritzer (2012). For an article on taxation that does not appreciate the importance of consumption to self-identity, see Cockfield (2001: 38–41).

citizens from living in accordance with their values and goals. It hardly helps make their lives go better.

Even if it is granted, for the argument's sake, that luxury taxation makes consumers, despite the disvalue of the decrease in autonomy, overall better off, the perfectionist taxation on luxuries is unjustifiable because of its disrespect for their rational capacities. Luxury taxation, when imposed on perfectionist grounds, implies that individuals lack the ability to make appropriate consumption decisions. The government treats citizens' preference for the taxed commodities as inferior to its own evaluation (Quong 2011: Ch. 3). This is, given the importance of consumption in life, tantamount to the judgement that they cannot lead good lives on their own. It is an insult on people's authorship of their life. Recall that the grounds of taxation have to meet the publicity condition. In order for a consideration to serve as the basis for imposing a tax, citizens should be able to publicly appeal to the consideration in explaining and justifying their support for the tax. It would be condescending and objectionably paternalistic to tell fellow citizens that they cannot make the right decision about their consumption and life without external help so should be incentivized to steer away from unworthy products.

4. Is Luxury Tax Justifiable as a Means to Reduce Wasteful Competition over Positional Goods?

Some goods and services are such that (part of) their value to a consumer depends on other people's consumption of them. In particular, there are some positional goods whose value decreases as more people consume them. This can be the case when other people's consumption physically makes them less pleasant or convenient to use (e.g. roads for driving, serene places in nature). Another case is when the consumer, a snob, experiences satisfaction at the fact that (s)he alone consumes them. More interesting are those items that are of value to the consumer as a signal, i.e. by indicating that (s)he possesses some desirable qualities that those who do not consume them lack. As more people consume the signalling goods, their function of distinguishing their possessor from others diminishes. When having a signalling good becomes the norm, not an exception, it loses its value as a status symbol. Indeed, when the majority comes to have a signalling good, those who do not have it can be pressured to follow suit and prove that they are at least as good as others. It becomes a defensive necessity. If everybody has it, it does not signal anything.¹⁴

When all countries engage in attempts to have superior military power by spending on weapons acquisition, the arms race does not make any country safer or stronger. As the value of armaments lies mainly in giving the armed country a competitive edge over others, the relative advantages cancel each other out. (Hence, armaments are, while not merely a signal, also a positional good.) The production of weapons is a huge waste of resources that could have been spent on more valuable activities. One might argue that resources spent on producing signalling goods whose meaning is mutually offset by imitative or

¹⁴For this categorization of positional goods, see Hirsch (1977: Ch. 3).

competitive consumption are similarly wasted in vain. Consumption for competitive signalling, as in the military arms race, can pose a collective action problem: it is in each consumer's interest to pay for competitive signalling (i.e. its positional advantage is more than worth the cost), given that others also do so. However, when everyone acts in their own interest and tries to outspend others (or avoid being outspent), all of them end up making themselves worse off. If they engage in an escalating series of mutually offsetting expenditures, the positional arms race would absorb and waste a lot of resources.

One might argue that we have reason to surtax luxury goods to curb positional consumption. When the super-rich purchase retail goods and services that are many times more expensive than the average price of their type, their consumption makes the luxury products eminent and tempts those around them to increase spending on luxury or high-end products. If the (merely) rich succumb to the temptation, the imitative consumption shifts the frame of reference that defines high-end or upscale products. When many middle-income households buy the high-end products, they become regular products and no longer bring status and esteem. Ordinary people buy them to avoid status demotion. The time is ripe for another round of what Frank calls 'expenditure cascades'. This imitating consumption pattern raises community consumption standards and creates social pressure to increase expenditure not to lose face. In order to keep up and maintain the same relative level of consumption, people save less and work longer and harder to earn more. Some middle- and lower-income households spend beyond their means, incur consumer debt, and even go bankrupt. They would be better off if they spend less and devote more time and energy for family, leisure and community life. Luxury tax can help them do so, by discouraging the rich from triggering expenditure cascades. Or so the argument goes (cf. Frank 2012: 61–62, 77–79).

In response, let me begin by pointing out that luxury or high-end products are usually of higher quality than basic or primitive products. It is not plausible that luxury goods and services are of no intrinsic value at all. Let us consider some of Frank's own examples: professional home appliances, clothes, restaurants, houses, cars, travels and hotels. Imagine what these items used to be like several decades ago. While it is true, as Frank emphasizes, that luxury or high-end goods have wasteful aspects, it is hard to deny that their improved quality benefit consumers. For one, charming and beautiful luxury goods and services give their possessors or users novel experiences and positive pleasure.¹⁵ Sophisticated home appliances ('techno-luxuries') make household chores less onerous and time-consuming (e.g. home automation products) and allow us to spend the saved time and energy doing what we value more. (I am not sure whether I could write this paper without them.) Indeed, if luxury goods do not improve consumers' quality of life at all, it would be hard to explain why they are so widely desired and those who possess them can show them off to others in the first place (cf. Hayek 1961; Lebergott 1993). True, the degree to which luxury goods are qualitatively better than regular goods, i.e. their marginal value,

¹⁵Positive pleasure is contrasted with negative pleasure that comes from the cessation of pain or discomfort (Berry 1994: 12–13).

often seems not worth their hefty price tag. Part of the reason why luxury goods sell might be that the rich engage in status competition through luxury consumption. Ironically, the exorbitant price that rich people pay for new luxury items arguably benefits non-rich people by enabling them to consume what they might not have enjoyed otherwise. Let me explain.

As Frank himself points out, it has been historically the case that much of the new technology embedded in the fine products created by luxury consumption booms soon finds its way into the goods and services consumed by middle- and lower-income families (Frank 2000: 44). Innovation is not free. It takes a lot of resources to improve on existing products. Rich people's expenditure on luxuries funds innovation. The large profit from rich consumers enables companies to undertake costly innovations and cover the upfront costs of generating new product ideas, designs and manufacturing processes. As the generated knowledge diffuses to rival firms, high-end products become more accessible and affordable. Most people end up consuming the improved, now mass-produced products. Indeed, this process through which one-time luxuries become mundane goods and then necessities (e.g. an indoor toilet, a personal computer) is arguably how the quality of (material) life has improved over time (Hayek 1960 [2011]: 96–102; also see Berry 1994: 17–19). One might object that only some luxury goods come to be or help to produce widely used mass products, and many others are merely wasteful extravagance. True, but the government cannot tell in advance which will end up being useful and exempt only those from excise taxation. It would be particularly difficult to predict how technologies used in luxury goods will be adapted and deployed for new products. Suppressing luxury consumption by excise tax might wind up impeding innovation that would ultimately benefit many in society. It may be better for the government to let rich people (unintentionally) subsidize socially beneficial innovation by lavishing their fortune on luxury goods they fancy. It might not be particularly morally significant even if the rich entangle themselves in a wasteful competition with each other and squander their wealth in consumption that does not make themselves much better off. It is presumably their responsibility and, given their wealth, not too big a loss in welfare (Halliday 2016b: 156–157).¹⁶

However, it may be morally problematic if rich people's luxury consumption exerts undue pressure on non-rich people to follow suit and consume imprudently. Some empirical studies are taken to support this argument. For example, Bertrand and Morse argue that the consumption by rich people causes an increase in the consumption by middle-income and low-income people, in particular their consumption of visible goods and services (Bertrand and Morse 2016).¹⁷ However, even if their argument is true, it does not necessarily mean that non-rich people engaged in the status competition initiated by rich people and purchased luxury goods that are of no or little intrinsic value to them. To suppose so underestimates non-rich people's ability to discern what is good for

¹⁶Again, if the goal is to raise revenue from the rich, as we have already seen in section 2, a properly designed income tax is more efficient.

¹⁷*Visible* goods and services are of such kinds that people easily and quickly notice consumption expenditures on them by other people they meet. See Heffetz (2011).

themselves. Presumably, non-rich people are more careful than rich people, in making sure that their purchases are worth the price they pay.¹⁸ Their increased expenditure on visible goods and services¹⁹ might well mean that they found valuable elements in the luxury or high-end products rich people consume and purchased affordable products that are so adapted as to suit their own needs and circumstances. It would not be surprising for there to be companies that develop such improved products, sell them at reasonable prices, benefit non-rich customers, and thrive. In other words, when exposure to rich people's possession of luxury products leads to non-rich people's consumption of products of the same or similar category, the following consumption is not necessarily status-seeking. The exposure might have provided useful information as to which products are or can be valuable to non-rich consumers. We are not provided with evidence that that is not the case.

I have argued that rich people's consumption of luxuries is, even if wastefully competitive, not particularly morally problematic but possibly socially beneficial, and that we do not have sufficient reason to believe that non-rich people's consumption which rich people's consumption of luxuries arguably causes is uselessly competitive. One might still argue that we have reason to surtax positional goods, discourage consumption thereof, and reduce wasteful competitive signalling. It would save resources spent in sending mutually cancelling signals. Here, it is worth noting that the waste of positional competition is not a problem specific to luxuries in the narrow sense. If it has to do with luxuries, it has rather to do with luxuries in the broad, economic sense. Expenditures on schooling is a case in point. A high school or college degree is arguably a positional good whose signalling value in the labour market decreases as more people have one.²⁰ Schooling at a high school or college is not a luxury in the narrow sense. It is more like a social necessity that non-rich people do and should spend on to prepare for the future. Suppose the positional competition in education gets fierce and the (opportunity) costs make it difficult for the non-rich to afford additional schooling (say, a master's programme) that provides a competitive edge. The additional schooling is still not a luxury in the narrow sense. When non-rich people decide not to keep up with the positional competition in education, it is hardly a matter of forgoing refined or sophisticated pleasure and settling for simple pleasure; it is not like buying a utilitarian Hyundai instead of an extravagant Ferrari. Hirsch surmised that as people earn more, they would spend a bigger portion of their income on education for a better job, making educational expenditure a luxury good in the broad, economic sense (Hirsch 1977: 49–50).²¹ Empirical studies suggest that while it depends somewhat on the level of household income, the income

¹⁸Due to the diminishing marginal utility of wealth, rich people do not bother to make the effort of searching for the best bang for their buck. Harrod (1936: 87) took this to be a reason why, as people become more affluent, the elasticity of demand tends to decrease.

¹⁹These goods and services are not necessarily luxuries themselves. They can be, but then the arguments in section 3 would apply.

²⁰For underdeveloped or developing countries, think of an elementary or middle school degree instead. For a classic modelling of schooling as a signal in the job market, see Spence (1973).

²¹By 'a luxury good', Hirsch means one that has a high income elasticity of demand (Hirsch 1977: 32).

elasticity of education expenditure is mostly greater than 1 in many countries (Hashimoto and Heath 1995; Kanellopoulos and Psacharopoulos 1997; Acar *et al.* 2016; Acerenza and Gandelman 2019).

Anyway, it might be argued that expensive schools are a 'luxury' that deserves excise tax. Many rich parents pay a large amount of tuition to fancy private schools. A significant reason why they are willing to pay so much is that those schools give their children a competitive edge over other children in the university admissions process and later in the job market. For example, expensive prep schools spend a lot of resources helping their students have a better chance of getting admission to a good university (e.g. providing SAT preparation classes and advanced placement courses). Acceptance to a university, especially a prestigious one, is the way of earning an influential credential that makes its holder appear more talented, disciplined and well-connected than other candidates and puts her ahead of others in the labour market and other areas of life. Rich parents' expenditure induces other parents to increase spending to keep up, lest their child fall behind. However, the number of credentials that provide relative advantages is, by its very nature, limited. Fierce competition over degrees from prestigious universities incurs costs of signalling that counteract each other and serve no differentiating function. Excise tax on expensive schools can help reduce signalling costs. It would save material resources as well as students' time and effort, which can be spent for more productive and meaningful purposes. Or so the argument goes.²²

Schools help students not only to acquire signals for university admissions and the job market, but also to develop their intrinsic abilities and productive capacities. These two functions of schooling are, while not identical, presumably related. When a school issues a diploma to those who have gained relevant productive capacities through its programme, it may be (part of) the reason why the school's diploma is a signal in the job market. If a luxury tax reduces people's expenditure on schooling, the reduction of educational resources is likely to decrease not only wasteful competition but productive learning as well. The non-competitive learning would benefit students (by helping them flourish) and other people (through positive externalities of the students' productivity).²³ Moreover, suppressing expenditures on schooling may simply redirect parents' desire to confer competitive advantages on their children to a different route. If parents' desire to give their child a head start in life finds its outlet in another means of competitive signalling, the alternative means of differentiation might absorb more resources and have less non-positional value.²⁴ In addition, the luxury tax would make it harder for middle- or low-income parents to send their children to already expensive schools and aggravate social segregation in schooling. Surtaxing does not seem to be the best way of restraining the educational arms race.

²²I thank an anonymous reviewer for suggesting this example. For a proposal that a luxury tax be imposed on spending on elementary and secondary schools by wealthy districts, see Reynolds (2004).

²³For the positional aspect of education and its non-positional value, see Brighouse and Swift (2006: 481–483).

²⁴If parents simply bequeath wealth to their child, the wealth transfer does not develop the child's abilities and capacities at all. If they fail to find an outlet for parental partiality, they might be unmotivated to work and save (Freiman 2017).

The example of schooling is an illustration of what can go wrong in using excise tax to reduce positional externalities. In theory, it is possible for luxury tax to be imposed on positional goods, discourage their consumption, and reduce the waste of positional competition. However, in practice, it may not pan out as intended. Suppose it is somehow known that the consumption of certain luxury goods incurs costs of mutually counteracting signalling. Even if imposing excise tax succeeds in reducing consumption of the positional goods, the reduction in consumption might decrease not only competitive signalling but also their non-positional value. Moreover, if people still have a desire to gain competitive advantage by signalling, the luxury tax may merely reroute the desire toward other positional goods. Insofar as the well-to-do retain the desire to distinguish themselves from others, they would probably purchase different substitute goods to signal distinction. There may not be much reason to expect that the substitutes will be less wasteful. It might merely incur the cost of modifying products so as to avoid the excise tax. Given the uncertainty as to which products deserve luxury tax at which rates, the political process of legislating a luxury tax is likely to cause a fierce battle for preferential treatment (Frank 2000: 205–206; DeCicca *et al.* 2013). The luxury tax might end up incurring more costs than benefits.

For these reasons and others, what Frank proposes as a means to reduce the waste of conspicuous luxury consumption is not an excise tax that designates specific goods as luxuries, but a progressive consumption tax that sidesteps the need to do so. He claims that ‘the last dollars spent by those who spend most [which are subject to the highest marginal rate of his progressive consumption tax] are most likely to be spent on luxuries’ that create positional externalities (Frank 2012: 76–77). I am not quite sure whether that is the case. One thing is that some goods are not urgently needed and denied priority in consumption. Another thing is whether their consumption leads others to consume in mutually offsetting ways. It is far from clear whether and how they are correlated. Anyway, it is beyond the scope of this paper to examine the justifiability of progressive consumption tax.²⁵

Let me sum up this section. I have raised doubts whether the negative positional externalities of education and luxuries in the narrow sense call for excise tax. It does not mean that luxury tax can never be justified as a means to reduce wasteful competition over positional goods. The point is rather that unintended consequences can easily more than offset its intended benefits. Surtaxing a positional good might impair its non-positional (unintended) value, incentivize competition for alternative means of distinction, and cause other side effects. Before imposing excise tax on a positional good to reduce futile positional competition, we should ask the following questions: Wouldn’t it undermine the good’s non-competitive benefits? Wouldn’t it give rise to another positional competition? Wouldn’t the substitute competition be more wasteful? Isn’t there a better policy, say regulation rather than taxation, that can control positional

²⁵The progressive consumption tax may be justifiable for reasons other than reducing positional consumption. For example it taxes high earners heavily and encourages savings. (Cf. Shaviro 2004; Bankman and Weisbach 2006.)

competition? It may not be easy to predict how a luxury tax would affect people's positional competition. It may differ from society to society, and from time to time. Imposing a luxury tax that does more good than harm, even if possible, seems like a tricky task.

5. Is Luxury Tax Justifiable as a Means to Maintain Social Norms Against Wealth-Displaying Consumption? The Expressive Function of Luxury Taxation

It has been argued that laws serve expressive functions. The hard treatment of punishment expresses the community's condemnation or denunciation of the criminal and his act (Feinberg 1965). Tort establishes that the defendant wronged the plaintiff and vindicates the rights and social standing of the latter (Hershovitz 2017). Along similar lines, surtaxing luxury goods can be a means to publicly express disapproval of ostentatious consumption of the taxed items. To be sure, luxury taxation does not mean that consuming luxuries is an impermissible wrong. Luxury consumption is neither prohibited nor subject to a fine that carries the moral judgement that the fined activity is wrong. The surtax on luxuries is a fee that allows those who want to purchase them are authorized to do so if they are willing to pay the surcharge.²⁶ Still, luxury taxation might as well be understood as expressing the message that consuming the taxed items is, while legitimate, not to be socially admired, let alone worshipped. There can be some items the consumption of which is, rightly or wrongly, taken to assert superiority over other people who cannot afford them. When luxury taxes are imposed on those items properly, they can serve to rebut the assertion or claim of superiority. Luxury taxation can help to sustain the shared understanding that possession of luxury goods – for that matter, any commodity – is not a universally approved standard of social esteem or status. It can help to maintain the social norm that ostentatious consumption of luxuries is rather to be frowned upon and that the ability to afford the expensive goods and the wealth it is taken to represent are not to be shown off to fellow citizens.²⁷

It is not desirable for a society and people in it that wealth is the major basis of esteem. Wealth is a one-dimensional measure that ranks all members of society from richest to poorest. If wealth is the main grounds for esteem, people's pursuit of esteem degenerates into a zero-sum game. They would enjoy more esteem overall if different people garner esteem along different dimensions in which they excel and about which they care (Scitovsky 1976: 118–120; McAdams 1992: 50–51). It would contribute to a good relationship if one enjoys

²⁶For the distinction between fines and fees, see Sandel (2012: 65–70). In general, taxing certain goods and services is taken to mean that the taxed items and activities are part of the society's respectable or at least legitimate economy. For example, brothel owners in Nevada have long lobbied to be taxed by the state, but the state legislature refuses to include prostitution in the state tax base. The concern of state legislators is that taxing brothels would give (the appearance of) legitimacy to the prostitution industry (Richards 2017: 311–315).

²⁷For the expressive function of law, i.e. the role it can play in inducing social attitudes of approval and disapproval of certain conduct and thereby shaping its social meaning and encouraging the social norms thereof to move in particular directions, see Sunstein (1996, 1997: 32–69).

and appreciates the other's excellences and the appreciation motivates the latter to do better, and vice versa. In liberal democratic societies, there is no official, state-sponsored standard of social esteem to which everyone is expected to defer. In principle, different people can have different views about what entitles its possessor to earn honour and esteem (Anderson 2008). However, in many democracies, wealth is a de facto symbol of status and source of social division and disharmony. When conspicuous luxury consumption makes wealth salient as a basis of comparison and draw disproportionate attention, it is likely to crowd out other dimensions of esteem.²⁸ Moreover, since how rich a person is is not what he should be held fully responsible for but rather is subject to luck, wealth is not an accurate measure of esteem-worthiness in the first place.²⁹ By sustaining social norms against ostentatious consumption of luxuries and making wealth less salient and disruptive to social cohesion and harmony, taxation on luxuries can contribute to the quality of relationships among citizens and the health and welfare of society. Or so the expressivist argument for luxury taxation goes.

How can luxury taxation help to create and sustain social norms against ostentatious consumption of luxuries? The existence of luxury taxes, in a democratic society, publicly indicates that people in general are not favourable to the (ostentatious) consumption of the taxed items.³⁰ Suppose an individual citizen personally thinks of luxury consumption as crass, vulgar and distasteful and disapproves of pretentious luxury consumption. He might keep the opinion to himself and refrain from gossiping negatively about luxury consumption, for fear that his disfavour would not be shared, or worse, taken to be mere sour grapes and jealousy. Luxury taxation might help him overcome the fear by leading him to think that his fellow citizens are of much the same mind. People express their disapproval more openly and find other people who agree with them. As a result, more and more people acquire, mutually recognize one another as having, and take themselves to be justified in having, negative beliefs and attitudes about ostentatious luxury consumption. Luxury taxation also gives luxury consumers reason to expect that if they boast their consumption, they will probably encounter disapproval rather than admiration. The expectation may lead them to be less conspicuous in luxury consumption. As fewer people show off their luxury consumption, those who do stick out and receive greater disapproval.³¹ Fewer and fewer dare to show off, which reinforces the social understanding that the ability to afford luxury goods and wealth in general are not to be shown off. In sum, luxury taxation, by publicly signalling the society's

²⁸It has been reported that displaying luxury goods becomes associated with wealth and status, and elicits submissive behaviour and favourable treatment from other people (Fennis 2008; Nelissen and Meijers 2011).

²⁹For the concept of esteem as an attitude that is evaluative, comparative and directive (i.e. directed at an action or disposition that the person could have avoided doing or having and thus redounds to his (dis) credit), see Brennan and Pettit (2004: Ch. 1).

³⁰This is a case where 'law conveys information about public attitudes concerning the regulated behavior', which McAdams calls 'attitudinal signalling' (McAdams 2015: 137).

³¹McAdams calls this externality the 'feedback effect' of norm compliance (McAdams 1997: 366–369). My scenario in this paragraph is indebted to his model of how our desire for esteem gives rise to norms and his account of how the expression or information of law can affect norms in that paper.

general disapproval of ostentatious luxury consumption, can help to generate more disapproval of ostentatious luxury consumption, the belief that ostentatious luxury consumption is inappropriate, the belief that it is widely regarded as inappropriate, second-order approval of disapproving ostentatious luxury consumption, and the expectation that it will be met with disapproval. These beliefs and attitudes are constituents of social norms against ostentatious luxury consumption.³²

It may be worth distinguishing the expressive argument in favour of luxury taxation that I have just put forward from the positional good argument that I critically examined in the previous section. The positional good argument was that rich people's consumption of a signalling good for distinction causes other people's emulative consumption and makes the signalling good cease to be a symbol of distinction. The costs of mutually offsetting signalling make everyone worse off, by absorbing time and resources that could have been spent for better purposes. So the rate of luxury tax (or of the progressive consumption tax that Frank proposes in its place) should be so substantial as to change or suppress people's consumption behaviour as a financial disincentive. By contrast, my expressive argument focuses on the effect of luxury taxation on people's attitudes of (dis)approval and social norms. What discourages ostentatious consumption is not the additional money consumers have to pay, but the social norm that the tax law (purportedly) elicits or sustains. Its rate need only be such as to clearly indicate the public attitude toward ostentatious luxury consumption and trigger attitudinal and doxastic reactions. It can help, I argue, to improve the relationship among citizens and the welfare of society, by directing people's attention and esteem to non-monetary or less monetary achievements.

I have suggested a social psychological mechanism by which taxation on luxuries can be valuable to a society. However, I do not mean to exaggerate the extent to which the socio-psychological mechanism works as described. The argument is not that luxury tax always or reliably results in such a desirable outcome. How luxury tax affects the social norms and meaning of luxury consumption is contingent on various factors, including people's sense of the tax law's meaning and legitimacy, their evaluative attitudes toward luxury consumption and (display of) wealth, and the dynamic interaction of these variables and others. For example, if there already exists strong, robust and mutually recognized disapproval of ostentatious luxury consumption in the society, luxury tax would be unnecessary. In fact, luxury tax might weaken the normative motivation not to show off wealth and undermine an existing social norm against ostentatious consumption when it leads people to believe that they can show off as long as they pay the tax (i.e. when tax payment is taken to justify ostentation). On the other hand, if people in general regard the consumption of luxuries as a symbol of social status, luxury tax might encourage people merely to change the commodities that they take to be the symbol of wealth and status. Or, if luxury tax is imposed on the items the consumption of which is democratized and no longer regarded as affordable only by a few, it would seem irrelevant and be

³²For an account of norms according to which clusters of normative attitudes and knowledge of those attitudes constitute norms, see Brennan *et al.* (2013: Ch. 2).

merely inefficient.³³ In order for luxury tax to serve a desirable expressive function (i.e. to contribute to the formation and maintenance of social norms against ostentatious luxury consumption), it should be imposed on the right products, in the right way, and under the right circumstances. However, it might not be easy for a government to properly individuate and identify objects of conspicuous consumption (i.e. those items that draw people's attention to the wealth of their possessors and crowd out other dimensions of social esteem). In this dynamic era when new products proliferate and trends change fast, by the time the government identifies a certain product as an object of conspicuous consumption, it might no longer be a fashionable symbol of pecuniary strength. It may be that many middle-incomers are consuming the 'luxuries' not to show off, but just to enjoy themselves with high-quality products. The often-erratic dynamics of social esteem and our limited knowledge thereof also make it difficult to predict and exploit the expressive effect of luxury taxation.³⁴

The problem is not only that luxury tax may not do the expressive trick as intended, but also that it is liable to abuse. Luxury tax might be imposed, not in order to form and maintain the social norm against ostentatious consumption, but simply on the basis of an existing social norm against the taxed items. In that case, luxury tax is levied on what I call populist grounds: the disfavour or ill will of the society (or the majority thereof) against their consumption. Or worse, in an authoritarian society, the government might use luxury tax to promote ill will or hatred against the rich for its political advantage. When the government or the majority has the right to discourage the consumption of those goods that they do not like by taxation, a coercive apparatus of the state, the social environment would be too oppressive for individuals to cultivate tastes and preferences freely and try new lifestyles. Populist or authoritarian taxation on luxuries is hardly compatible with the social atmosphere in which individuals can conduct experiments in living without being concerned about censorship.³⁵ I do not mean that luxury goods consumption is the main, let alone the only, way in which new lifestyles are pursued and developed. I believe and hope that there are other less or non-commercial venues through which alternative forms of living emerge and develop. At the same time, it is hard to deny that the luxury goods market is one of the most vibrant spheres in which new modes of living are experimented with, and that is the case for a reason. In societies with developed market economies, it is a place where entrepreneurs can find customers who can afford expensive goods and services the innovation of which

³³As luxury goods are democratized, they enable many people to enrich their lives emotionally, intellectually and socially. Luxury goods consumption provides occasions to develop sensibilities, cultivate tastes, learn about relevant culture and history, and form relationships with other people with similar interests and lifestyles (Featherstone 2014).

³⁴McAdams argues that the effect of law's attitudinal signalling on people's beliefs and behaviour is likely to be marginal in most cases, and that it will be hard to predict when the effect would be significant and harder to harness the effect (McAdams 2015: 237).

³⁵Here I am echoing John Stuart Mill's prophetic warning about the oppressive public opinion against 'showy or costly style[s] of living' that the majority cannot afford (Mill 1859: Ch. 4, §17). Interestingly, empirical studies suggest that many consumers associate luxury consumption with self-indulgent pleasure and feel guilty. See e.g. Kivetz and Simonson (2002), Dahl *et al.* (2003) and Khan and Dhar (2006).

costs a lot, and have the incentive to try new products that would appeal, at least initially, to only a small number of people (e.g. commercial space travel). Their experiment might yield discovery of novel products that spread in the society and enrich people's lives. Luxury tax might hinder individual and social progress by reducing room for experiments in living.

Let me sum up this section. Luxury tax is justifiable when it helps to create and sustain social norms against conspicuous consumption that displays wealth. However, as is the case with luxury tax that purports to curb positional consumption, it is possible to fail in many ways. Before imposing luxury tax to strengthen social disapproval of ostentatious consumption, the following questions are worth considering: Isn't the list of luxuries to be taxed outdated? Wouldn't the tax merely make people purchase other products for ostentation? Wouldn't it be taken to mean that conspicuous luxury consumption is permissible on condition of paying the tax and undermine the existing norm against displaying wealth? Wouldn't it penalize the consumption of what the government or the majority dislikes and restrict the freedom to consume and experiments in living? Isn't there a more efficient way of promoting social norms against ostentatious consumption (e.g. media campaigns that disclose and disseminate information about people's general disapproval of conspicuous luxury consumption³⁶)? Would it help to achieve the goal of building a social norm against ostentatious consumption, to clarify and share the meaning of luxury tax through public deliberation? The answers to these questions would depend not only on the rate and objects of taxation, but also on many uncertain and unpredictable factors. There is no simple recipe for success. It will take research, ingenuity and luck to use luxury tax properly to form and maintain social norms against wealth-displaying consumption.

6. Conclusion

I have critically examined several arguments that can be made in support of luxury tax. The examination suggests that some arguments are mistaken. In theory, luxury taxation is not as efficient as income taxation for social welfare. When the meaning of diamond effect is clarified and distinguished from some related but distinct phenomena, the existence of 'diamond goods' is doubtful. Even if they exist, they cannot be exploited for efficient taxation without objectionable manipulation or deception. Luxury tax is not justifiable for the sake of consumers themselves. It would make them poor, undermine their autonomy, or disrespect their rational ability.

There are two arguments that make theoretical room for the possibility that luxury tax is justifiable. According to the positional good argument, excise tax

³⁶This intervention, like luxury tax legislation for attitudinal signalling, aims to overcome *pluralistic ignorance*, a cognitive state in which most people in a group mistakenly believe that most other people in the group (dis)approve of some activity, even though they do not. For some reasons why law may provide better evidence of people's attitudes than polling, see McAdams (2015: 145–147). When there does not exist general disapproval against conspicuous luxury consumption in the first place, it would be harder to establish a norm against it. For some policy tools to change social norms, see Bicchieri (2016: Ch. 4).

on a positional good, which may be a luxury good in the economic sense, can reduce costs of competitive signalling that offset each other and merely absorb resources. I have argued that excise tax is unlikely to be the optimal policy to reduce the negative positional externalities of education and luxuries in the narrow sense, and illustrated some ways in which attempts to reduce positional competition by taxation can go wrong. I have put forward an expressive argument, according to which luxury tax can help to create and sustain social norms that discourage conspicuous luxury consumption and display of wealth. I have explained several ways in which luxury tax fails to achieve the expressive goal and brings about unintended consequences. In this paper, I have not conclusively shown that luxury tax would not work as these two arguments suggest. I leave open the possibility that it might. Instead, I have provided a framework to examine relevant factors, including checklists that can help to avoid common pitfalls. It sets the scene for further empirical research to determine in individual cases whether the potential benefits of luxury tax are worth the possible costs.

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