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Obituary

A questioning economist: Tibor Scitovsky's attempt to bring joy into economics

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Abstract

As one of a small band of questioning economists, as he said of himself, ¹ Tibor Scitovsky always tried to force the boundaries set by the profession. In the last decades of his research he explored the nature of economic rationality and the desires that motivate human actions. With the aid of psychological research he discovered the part that joyful stimulation, and novelty and variety, can play in individual and social well-being. Within this different perspective much of acquired economic wisdom is positively challenged. Putting into question the assumptions of decreasing returns in consumption and of given tastes, Scitovsky gave a new importance to the accumulation of consumption skills in expanding the set of consumption possibilities. Though many other topics of his long research life deserve equal attention, this paper focuses on his later work, and chiefly on the problems, ideas, and unsolved questions that emerge in his *Joyless Economy* and related papers.

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1. Introduction

Tibor Scitovsky died on June 1, 2002. Born in Budapest in 1910, he left Hungary for England in 1935. There he studied in Cambridge and at the London School of Economics. He reached the United States in 1939 and soon after the war was

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¹ Scitovsky (1985, p. 184).

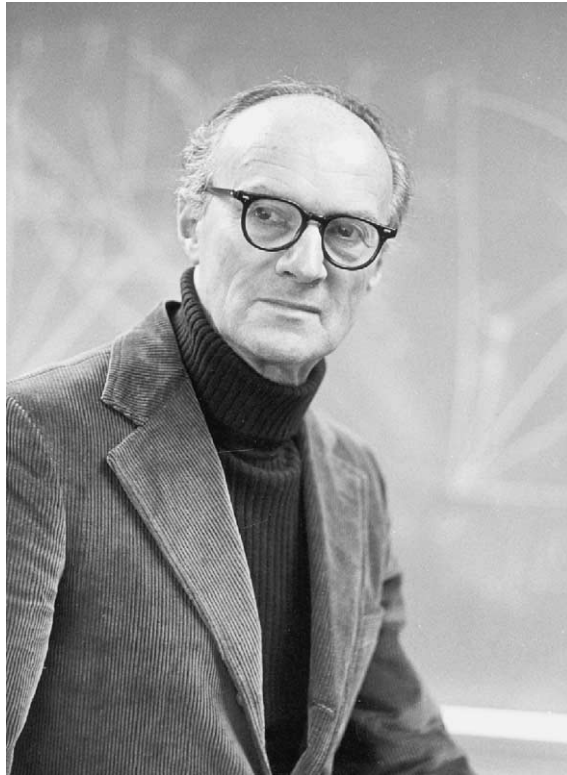


Fig. 1. Tibor Scitovsky. Photo: Chuck Painter/Stanford News Service.

recruited to Stanford where he remained till 1958. After this he taught at Berkeley and Yale, and from 1970 till his retirement in 1976, he was back at Stanford. He continued to work and be active till the end (Fig. 1).

He was that type of intellectual of which there are too few: inquisitive, alert, curious, ready to breach disciplinary boundaries and to create unpredictable connections. Always firmly connected with the current economic debate, he never shrank from also asking the irksome question. He has left his mark on a wide array of important topics in economics – from international trade and growth to monopoly power and competition – though his main interest was to uncover the welfare implications of economic interactions.² In the last thirty years of his life he focussed on the study of a completely neglected component of these interactions, the role that

² Information on Scitovsky's life and cultural background can be found in Scitovsky (1992b, 1999). Peter Earl (1992) offers a detailed discussion of Scitovsky's contributions, highlighting their interconnections and links with contemporary debates. For Scitovsky's influence and appreciations of his work, see Boskin's (1979) volume of essays in honour of Scitovsky. For Scitovsky's earliest papers and works on welfare economics, see Scitovsky (1941, 1952, 1964).

stimulating activities in all their variety, from sports to the arts, from conversation to intellectual activities, can have on individual and social well-being. This brought him to redress the focus of economic thinking towards the mechanisms underlying individual preferences and the ways these may respond to variables such as variety, novelty and change.

In what follows I shall concentrate on this late research, and on the analytical consequences in terms of rational choice and social welfare that Scitovsky's new approach suggests. His *Joyless Economy*, published in 1976 and reissued in a revised edition in 1992, represents his attempt to deal with these problems and disclose to economists some of the findings of psychological research relevant to pleasure, utility, and well-being. The book was not a success in terms of its impact on mainstream economics, though in the past decade or so all its central points have become subjects of independent research and many of the questions opened by it remain among the leading questions of present psychological and economic research. Notwithstanding the passage of time, Scitovsky's answers remain new, and he is the acknowledged prime mover.

2. The time of consumption

Scitovsky's interest in welfare economics dates from his days as a graduate student at the London School of Economics. Many of the themes and ideas developed then and in the years immediately following have remained a constant reference point in his research. Among these are the relevance of consumers' competence and expertise in determining certain features of a market's structure, the effects of the industrial organization on work and individual preferences, and problems of distribution and equity.

The effect of economic progress on the time given to consuming was first raised in a 1959 article, 'What price economic progress?' This would turn out to be relevant for his later work on preferences and pleasure. He began by posing a puzzle, his usual way of arguing. Economic progress in the West has doubtless issued in genuine gains in living standards, yet these have not translated into leisure time, nor into what the optimistic philosophers of the eighteenth century had hoped for, namely, time for the cultivation of one's own mind and for 'idle' speculation.

There are two main reasons for this. The first is that, though western economies have seen a shortening of the working week, the total amount of working time for the population *as a whole* has not greatly decreased nor therefore has leisure time much increased. In fact what has happened has been a redistribution of leisure from professional and business people to the manual labourer and lesser clerical workers – those who have been the main beneficiaries of a legislated shorter working week (ibid.: 98).³

³ Recent data seem to confirm that leisure time has not increased for middle-income Americans (see Vogel, 2001, p. 8).

The second reason is that in crucial economic sectors, such as those of personal and repair services, the pace of productivity increase has not matched general increases in labour costs, rendering these commodities relatively more expensive (ibid.: 99). The number of personal and repair services that people tend to perform by themselves has therefore increased at the expense of leisure time, especially among those of middle income.

From society's point of view the effects of these changes have been mixed. Though social justice argued for a redistribution of leisure that benefited the working classes, in terms of further social progress it is the professional, and particularly the learned classes who, being the most educated, are the best suited to making 'intellectual' use of additional leisure (ibid.: 100). In fact for these classes, not only has leisure become scarcer but also its *use* has changed. Under the pressure of its higher opportunity costs and of the faster pace of work, the pace of leisure too has increased and become more dependent on machines (ibid.: 101).

At this stage of his research Scitovsky did not explain why for society leisure time, especially time devoted to the cultivation of mind, is so important. He suggested that it is the source of progress and of creative ideas, but only later would he spell out all the implications that time for leisure can have for enjoyment.

What is insightful about Scitovsky's argument, nonetheless, is, firstly, the recognition of the time dimension of consumption. Consumption of leisure activities, especially those devoted to intellectual pursuits, requires time, in fact often *a lot* of time, as is obvious if one thinks of the investment in skills that these activities ask. To substitute alternative consumption activities less demanding in terms of time has negative consequences for the quality of leisure time. The alternatives require less skill and their consumption is therefore less discriminating. In 1965 Gary Becker published his famous analysis of the efficient allocation of consumption time, acknowledging its relevance for rational choosing (Becker, 1965, 1976). Yet no trace is left of Scitovsky's considerations of the possible quality losses that the high price of leisure time can cause. It was left to Staffan Linder (1970) to stress the non-perfect substitutability of intellectual uses of time and less costly alternatives.

A second element of relevance in Scitovsky's argument is his analysis of productivity lags of certain service sectors, among them the live arts, which are produced with fixed input coefficients and enjoy neither increasing productivity nor economies of scale. This argument anticipates the so-called cost disease phenomenon affecting the live arts, as subsequently formulated by Baumol and Bowen (1966), which spelled out the consequences of lagging productivity growth in the performing arts, while wage costs there rise at rates set by sectors in which productivity grows more rapidly. The principal outcome of this process will be an increasing cost gap in the live arts, a gap which, if not closed in some way, should lead to their demise. Commentators since have identified the ways in which the live arts have coped with this problem (see, for example, Throsby, 2001, p. 119). Yet, singularly, Scitovsky not only pointed out this implication of the fact that live productions in the arts take time, but also paid attention to the time necessary to consume them. Linder, once again, was aware of the same problem when he stressed that, since productivity increases have made goods cheaper relative to time, consumption time will be re-allocated towards activ-

ities that are ‘goods intensive’ (Linder, 1970, p. 78, 80). The activities which lose out, then, will be those devoted to culture and to the development of the mind and spirit, which are much less dependent on goods (*ibid.*: 95, 100).⁴

3. Defensive and creative consumption: Comfort vs pleasure

According to Scitovsky (1985, p. 184), the idea that choice was subject to the law of decreasing marginal utility was for many years the chief psychological insight borrowed by economics. But even this ‘tiny bit of psychology’, he complained, was expunged from twentieth century economic theory, and virtually all attempts at explaining individual preferences have long since disappeared (Scitovsky, 1992a, p. 15). The economist’s justification for this is twofold: that ‘consumers know what they are doing and are doing the best they can’ (*ibid.*: 5), and that, as a consequence, preferences can be inferred from choices made, with no need to inquire into reasons. Yet this assumption remains valid only if any tension or conflict between choice and maximisation is erased and we can assume that they are synonymous (*ibid.*: 4). Scitovsky has listed three likely sources of conflict that might lead instead to a divorce between choice and preferences: possible conflict between comfort and pleasure; conflict too between standardised goods and individual needs and desires; and the gap between specialized knowledge and generalist skills. These are all both intriguing and neglected and I shall spend time on each, in order.⁵

One of the oldest distinctions among goods and activities is that between necessities and luxuries, between goods that serve man’s biological needs and all others (Scitovsky, 1992a, p. 107). But Scitovsky re-introduced a second distinction, much less known, yet very useful for uncovering the relation between goods and the different forms of pleasure they might deliver. This is the distinction made by the civil servant economist Ralph Hawtrey, between defensive and creative products, between the goods devoted to preventing pain or distress, and the goods intended to deliver positive satisfaction or gratification (Hawtrey, 1926, pp. 189–190).

In Scitovsky’s hands this distinction becomes one between different forms of satisfaction, those related to comfort and those stemming from pleasure or stimulation. To the former category belong all those activities that relieve physical pain

⁴ In a passing comment on Becker and Linder, Scitovsky however casts some doubt on the consumer’s ability to allocate consumption time efficiently Scitovsky (1974, p. 74). For an analysis of the constraints that consumption time limits put on utility maximization, see Georgescu-Roegen’s introductory essay to Gossen, 1983. Caves (2000, pp. 177–178) relates allocative issues to the composition of live art audiences.

⁵ For an early discussion on consumer’s competence and the standard of revealed preference, see Scitovsky, 1960; and the ensuing critical comments on Scitovsky’s position. See also Scitovsky (1962). More recently, however, much has been done to uncover the sources of possible discrepancies between choice and maximization. The literature deriving from the work of behavioural psychologists Kahneman and Tversky has identified a whole array of systematic errors to which individual decisions seem prone. Framing, loss aversion, endowment effects, fairness, and intertemporal preference reversals are some of the effects under which simple maximization rules are violated. (For an overview, see Kahneman & Tversky, 1979; Thaler, 1991.)

or distress, as well as those activities that alleviate fatigue and bother, that save time and effort, or skill (Scitovsky, 1992a, p. 112). Pleasure arises instead from all those activities that generate positive satisfaction through the delectation of the senses, and the exercise and enrichment of one's faculties, from taste sensation to intellectual constructs (Scitovsky, 1972b, p. 60). Defensive consumption, for Scitovsky, maintains life and makes it easier, while creative consumption provides most of its pleasures (ibid.: 61). But why should there be any source of conflict between these two indispensable and complementary activities? Scitovsky offered two reasons.

First, stimulating activities and their pleasures – the pleasures, for example, of conversation and art, of reading and walking, of listening to music and watching a movie – require an active effort on the part of the subject. Efforts in terms of time, as we have seen, but also, and importantly, in terms of knowledge and skills. As Hawtrey too had stressed, nothing guarantees that having satisfied all one's bodily needs, one will also be prepared to engage in, and pay the costs of, creative activities.

The second reason has to do with the fact that in our modern economic societies all the productive ingenuity, and the economists' attention, has gone into ways of saving on discomfort and increasing comfort. However, when this same strategy of decreasing discomfort is extended to pleasure and stimulating activities as well, the result is perverse. Since pleasure can be obtained only at the costs of some comfort, by striving for comforts one ends up destroying pleasures.

A drawback of economic progress, then, has been that pleasure has been traded off against comfort. This should not worry us as free agents, since all choices involve substitutions among alternatives. Nonetheless this case is different, Scitovsky insists (Scitovsky, 1992a, p. 73). Firstly, because the gain from comfort is immediately perceived and obtainable, while the loss of pleasure that accompanies it reveals itself only slowly and often takes one by surprise; and secondly, because it is easy to remain locked into comfort once one becomes habituated to it. An initial choice that once appeared rational but is in fact no longer so becomes in this way irreversible.

4. The illusion of an effortless pleasure

But why should a life of comfort be less pleasurable than a life of pleasure? Indeed, what are the characteristics that make creative activities so particularly enjoyable? Scitovsky found an answer in neuro-psychological studies of motivation and individual welfare that were quite new at the time of the first edition of *The Joyless Economy*.

The psychological theory that Scitovsky deemed most general and most helpful also to economics is that which explains behaviour in terms of arousal (Scitovsky, 1973, pp. 15–16). All needs are arousing; they raise the arousal level of the nervous system and its alertness and readiness to respond efficiently to stimuli. But arousal can be too high, and therefore unpleasant. A primary concern of early twentieth-century behavioural psychology, Scitovsky suggested, was how to lower a too high and unpleasant arousal level. It was this same psychology, a psychology of pleasure as pain relief, of arousal reduction, that entered economics. But in subsequent decades,

Scitovsky argued, psychologists themselves recognized that relieving pain was only ever half the story. To be in an ‘un-stimulated condition’ is only one condition of perfect bliss (*ibid.*: 16). Just as too high a level of arousal may be unpleasant, so may a level that is perceived as being too low. This is the origin of our desire to seek stimulation and excitement.

To substantiate this idea Scitovsky drew on a specific body of psychological research, which flourished in the 1960s and 1970s and was associated with the name of D.E. Berlyne. Berlyne based himself on neuro-physiological studies of the brain yielding results in line with the older Wundt and Fechner curves. According to the latter, there is a functional relation between pleasure and arousal, such that a maximum of pleasure is obtained for intermediate levels of stimulus, neither too high nor too low. For Berlyne, however, utility or pleasure seemed to respond not to the *levels* of stimulating situations but to their *changes* relative to reference positions. Novelty, surprise, variety, uncertainty, and complexity are the variables of the stimulus potential to which pleasure responds, and that he called ‘collative’ variables (Berlyne, 1971; Berlyne & Madsen, 1973).⁶

In Berlyne’s model, then, pleasure can be increased in two ways: by way of arousal boost mechanisms, that cause us to go from situations felt to be boring to others felt to be less so, and by way of arousal reduction mechanisms that can take us from situations felt to be threatening to others more familiar and more comfortable. Experiments seemed to confirm these expectations.⁷ Set against these findings, Scitovsky’s distinction between two different sorts of satisfaction, one reducing and the other increasing stimulus potential, also seemed to find empirical support.

But Berlyne’s model suggests more. For pleasure to arise there must be change, change from a situation experienced as discomforting or from one felt to be boring. If pleasure is associated with change, then equilibrium, a situation of unchanging pleasure, is self-defeating. Both the activities that stimulate, and those that comfort, when they are repeated, inevitably erode the initial level of pleasure associated with them.

The answer to the initial question posed above then – what makes creative activities so pleasurable – is that these activities, because of the skills they require, their complexity and variety, and their separateness from mere need, can be a constant source of novelty and change. Therefore, they can also be a source of pleasure, on a sustained basis. Comfort, instead, as simple relief from discomfort, easily leads to satiation, to the cessation of pain but also of pleasure.⁸ In order to renew the pleasure, one is led to repeat whatever was the origin of comfort, only to fall into (the decreasing rewards of) a habit. Creative consumption, however, can be a deterrent to the habituation of comfort. If the consumer is able to frame comfort in a

⁶ A discussion of the role of novelty in individual economic choices is in Bianchi (1998a, 1999).

⁷ Recent criticism to the empirical basis of Berlyne’s findings is in Martindale, Moore, and Borkum (1990) (see also Kubovy, 1999).

⁸ Notable exceptions to satiation, for Scitovsky, are those sorts of social comfort that come from the desire to belong, or from status (Scitovsky, 1992a, p. 115). In addition to these, as we shall see later, there are many habitual forms of behaviour that yield comforts which it is painful to drop (*ibid.*: 125–126).

context of variety and intermittent pleasure – spaced meals, freshly prepared and varied, is one of Scitovsky's preferred examples – then even comfort can be a source of change and stimulation.⁹

Within the framework of Berlyne's model, the contrast between comfort and pleasure becomes a contrast between two forms of satisfaction. These differ not only in terms of costs of access measured by required skills and knowledge – lower for comfort, higher for pleasure – but also in terms of benefits, which decrease because of habituation with comfort activities but potentially increase because of variety for pleasure activities.¹⁰

5. Mass production: The conflict between novelty and waste

It was a recurrent theme in Scitovsky's writings that economies of scale and mass production also have negative side effects, stemming from their neglect of minority needs and tastes (Scitovsky, 1960, 1962, p. 265; Scitovsky, 1972b, p. 57). The economy of mass production is unable to cater to individual tastes, and this, he insisted, provides a warning against any easy identification of individual choices with preferences (Scitovsky, 1972b, p. 47). In *The Joyless Economy*, where the topic of novelty as a source of pleasure was fully spelled out, this argument received an additional and more original twist.

The problem with mass-produced objects, Scitovsky urged, is not that they are of bad quality but that their monotonous sameness causes us to tire of them much more quickly (Scitovsky, 1992a, p. 249). He gave as an example of this an overlooked object of daily consumption, the very plates from which we eat. If these are mass-produced, we may notice them soon after they are first acquired, but we soon come

⁹ Before affluence, Scitovsky noted, when money constraints militated against full satiation of every need, the best compromise was to arrange to have intermittent complete satisfaction, as the example of feasts in poor countries shows (Scitovsky, 1992a, p. 67). Creative consumption, in that era determined exogenously by budget constraints and scarcity, has become paradoxically more difficult today, when comfort goods are both more seductive and more readily available. The fundamental role that the *frequency* of consumption plays in utility maximization was first analysed and modelled by Gossen (1883) [1854], but his innovative theory, though recognized by Walras, was completely forgotten (for a rediscovery of Gossen, see Georgescu-Roegen, 1983; Steedman, 2001). Utility as a function of the frequency of consumption is also at the basis of the so-called melioration theory (Herrnstein & Prelec, 1992). Different time components of choice, namely memory and anticipation, are analysed in Elster and Loewenstein (1992). For a discussion of these themes, see Loewenstein and Elster (1992).

¹⁰ It must be said, however, that the way Scitovsky represents the contrast between comfort and pleasure is sometimes confusing. On the one hand, and more recurrently, there is the contrast between defensive and creative consumption, between pain relief and stimulation. On the other hand, here following Berlyne, Scitovsky portrays the same contrast as that between *status*, comfort being defined as the level of arousal when this is at, or close to, its optimum, and *change*, pleasure being defined as the positive feeling that accompanies a change of status. The two definitions are clearly different, one belonging to modalities of satisfaction, the other belonging to the supposed mechanisms that underly satisfaction. They overlap only if it can be said, as Scitovsky does though without introducing the necessary clarifications, that stimulating activities are also the most prone to change. On this point see also Bianchi (1998b).

to take them for granted and thereafter never notice them again (*ibid.*: 249–250). The case is different with handcrafted or hand-painted plates. The very singularity and slight irregularities of each piece attract our attention for much longer, ‘greatly postponing the day when complete familiarity makes us see [them] no more’ (*ibid.*: 250). This effect does not necessarily depend on their artistic quality. Mass-produced products may be aesthetically superior, yet they lack the variety and uniqueness needed to stimulate and constantly renew the pleasure we take in them.

This absence of stimulus in standardized goods also explains why we often replace or accumulate such objects much faster than is necessary for purely functional reasons (*ibid.*: 257). This is typical of fashion goods whose rapid changes simply compensate for the absence of cheaper forms of alternative sources of novelty (*ibid.*: 255; see also Scitovsky, 1985, pp. 200–201).¹¹ What seems a waste then must instead be considered a cost to be weighed against the added pleasure novelty provides. Yet things are more complicated than that. First, because the stimulus associated with mass-produced new varieties fades much more quickly than the initial pleasure they yield would lead us to anticipate, and, secondly, because in mass-produced goods stimulus and comfort come in a single package over which individuals have no command (Scitovsky, 1992a, p. 258, 256). The extra comfort one buys with novelty in this way can be much greater than expected or than one was willing to pay for.

With this argument Scitovsky turned on its head the traditional complaint against the wastefulness and frivolity of fashion, that, as Galiani and a host of followers insisted, it causes perfectly good items to be replaced before their useful life has ended. For Scitovsky novelty can be wasteful not because there is too much of it but because there can be too little, or, better, because there are too few independent alternative versions of it offered as sources of enjoyment.

Scitovsky closed this line of argument with some considerations about one of these independent sources of novelty and enjoyment, the arts. As he had done on several other occasions (Scitovsky & Scitovsky, 1959; Scitovsky, 1972a, 1983), here too he maintained that differences in relative productivity growth render the costs of producing novelty in the live arts much higher than those of producing comfort, with great detriment to the competitive appeal of the arts. Granted, the technology of reproduction has greatly improved the availability of performance art, and will do so even more in the future. But, Scitovsky asked, here departing innovatively from the way similar arguments are usually addressed, how does reproduced art compare with live or original art? (Scitovsky, 1992a, p. 260).¹²

Consider music. The hearer of live music is exposed to variety, uncertainty and suspense that no recorded piece can ever capture. As a result, successive playing of the same disc will yield a novelty that will wear off much faster, the very opposite of what happens with repeated live performances (*ibid.*: 261–262). The redundancy that the repeated playing of reproduced music acquires is shown in the way in which

¹¹ The role of novelty in shaping fashions and styles is discussed in Bianchi (2002).

¹² Earl (2001), using introspective analysis, compares the characteristics of live music performance with those of recorded music, stressing the role that factors such as sociality, uniqueness, rituality, and psychology can play in the preferences for one or the other.

it is banalized and reduced to a secondary or background element while other tasks are performed. At the same time, how this in turn will affect consumers' behaviour and tastes is a question that Scitovsky posed but did not and could not answer (*ibid.*: 263).¹³

6. The conflict between generalist and specialist skills

If it is true that choices do not always reflect individual preferences, why do not consumers find ways, using for example exit or voice, to express their discontent? Scitovsky offered two possible reasons. The first is that they are also often unskilled as consumers; the second, that habituation intervenes.

A lack of consumption skills – here Scitovsky referred chiefly to American consumers – has to do with the type of education consumers receive. Though access to education has long ceased to be restricted to an elite, he argued, its nature has changed, liberal arts having being replaced by professional training and specialized production skills (Scitovsky, 1972a, pp. 39–40). In society at large, indeed, a culture of production prevails, with a puritanical ethic providing the moral basis for a deep-seated embarrassment regarding the enjoyments of life (Scitovsky, 1972b, p. 40, 49; see also Scitovsky, 1986, p. XI). The consequence is that no comparable investment of time, effort and money is devoted to the acquisition of consumption skills as compared to acquiring production skills. The paradoxical result is that the enormous increase in productivity that this culture of production has generated does not translate into ways of enjoying the time and energies thus freed.

But why cannot production skills be used also in consumption? Scitovsky denied that they can be, and his reason, once stated, is obvious. Production skills are specialized skills, as efficiency requires. Efficiency in consumption instead requires general capabilities. Consumption is an activity that simultaneously calls into play many different and heterogeneous aspects of our lives, and, being the more enjoyable the more it is informed, demands considerable investment in information of wide-ranging sorts, and in actually experiencing new goods (Scitovsky, 1992a, p. 268).

However, and herein lies the conflict, the more specialized our production skills become the more difficult is the generalist's task. Not only can general consumption skills require such an initial investment that many are discouraged from acquiring them (*ibid.*: 270), but those who embody generalist skills are mostly individuals such as wives, the aged, and intellectuals, who are undervalued in contemporary society. Many others have simply disappeared, among them general practitioners in medicine, and handymen (*ibid.*: 267). To defer choices to the experts – the producer, the artist, the decorator – seems unavoidable. This solution, however, only exacer-

¹³ Today's music lover knows and has enjoyed many more pieces than any of his or her predecessors but, asked Scitovsky, who is to tell whether the superficial enjoyment of the modern listener is worth more or less than the deeper enjoyment that earlier generations received from a smaller collection of music? Scitovsky, 1992a, p. 263.

bates the conflict, deepening the gap between specialized and general skills (see also, *ibid.*: 300).

The lack of emphasis and social recognition of the importance of consumption skills is also at the base of what Scitovsky elsewhere has called ‘time illusion’ (Scitovsky, 1974, p. 74). Backed by a society that puts a high premium on the saving of time and effort, people tend to save time with no prior knowledge of how to enjoy it. Wrong budgeting of time however can be very costly since, unlike money, time not spent today cannot be spent tomorrow. The fact that leisure time is often spent in activities such as watching TV, that are considered by consumers as residual, is further proof, for Scitovsky, that people overdo the saving (*ibid.*: 76). Simply to drop work-related activities is not equivalent to consuming leisure-time with skill. Similar criticisms apply to what Scitovsky dubs ‘effort illusion’, only here there is an additional drawback: economizing on effort can easily become addictive (*ibid.*: 80).

7. Habituation and addiction

We have already seen that activities that are enjoyable at the beginning, when repeated, become less so. Yet we may continue to pursue them (Scitovsky, 1992a, p. 127). The reason, Scitovsky explained, drawing on the accumulated findings of psychological research on the topic, is that the positive reinforcing effect that any pleasurable activity generates is accompanied by a secondary effect of opposite sign. Once a habit is established, it becomes costly, painful to stop it. This secondary reinforcement or withdrawal, which is very strong in drug addiction, operates in ordinary habits too, and is the cause of our making some comforts into habits that cannot easily be dropped. As Scitovsky puts it: ‘...by forming any kind of habit [by acquiring a taste], we acquire a distaste for breaking the habit’ (*ibid.*: 131). We thereby become spoiled.

What Scitovsky is here describing is the effect of past consumption on present consumption, an additional instance of how time affects consumption choices. Choices that have a history of consumption behind can lock us into sub-optimal equilibria when they become addictive or strongly habitual. But why does one become rationally addicted? Better, why can we knowingly develop bad habits and not only good ones?

Since Scitovsky first wrote on the seductive power of pleasure (*ibid.*: 63), much has been written not only in psychological but also in economic literature on the problem of habit formation and addiction in particular. We owe to Gary Becker the important distinction between negative and positive addiction; Becker also unified the two sorts of habit under a common explanatory rule. For Becker, both forms of addiction share the positive reinforcement effect described by Scitovsky, the fact that past consumption can increase the marginal utility of present consumption. For negative addiction, however, having consumed in the past also lowers total utility in the present, with the effect that one has to consume more in order either to maintain the same level of utility (tolerance or habituation) or to avoid the pain of not consuming (secondary reinforcement or withdrawal). Both positive reinforcement

and tolerance are responsible for the escalating consumption pace that characterizes addiction. For Becker, a person who has high subjective discount rates or has gone through negative life events is more at risk of falling into the high consumption rates of the addictive good. Once addicted, such persons may find themselves ‘dissonant’ addicts, those who suffer and regret the present negative effects of further indulging past consumption, but still doing so ‘rationally’. That is to say, for Becker, despite its known future harmful effects, addictive consumption is still the best intertemporal response a person can give, under the circumstances (Becker & Murphy, 1988; Becker, 1996, pp. 77–138).¹⁴

On the opposite side, many studies of negative addiction have shown that addicts display forms of preference reversal and weakness of will that are difficult to reconcile with a model of perfect rationality. Many explanations exist of the conflicts of dissonant addictive behaviour. I will mention just two here. The first focuses on the form of the discount function. It posits that the dynamic inconsistencies that often characterize choices involving delayed rewards suggest a hyperbolic, rather than an exponential discount function.¹⁵ According to this account, an individual who confronts a choice between an earlier lower reward (consuming an addictive substance) and a delayed larger reward (benefits from abstaining), will opt for the second alternative when the moment of choice is distant, but revert to the first as that moment draws near.

The second answer, known as ‘melioration’, is very close to Scitovsky’s explanation of habituation. In situations where there are distributed choices over time a person is unable to calculate the overall utility function associated with them, taking into account the externalities that past choices have on present ones (Herrnstein & Prelec, 1992, p. 241). As a result, people can slip, through a myriad of apparently innocent choices, into a habit or a pattern that is sub-optimal (*ibid.*: 251). In a way very similar to Scitovsky, this model predicts an under-investment in skills for those activities that present increasing returns (think of Scitovsky’s creative consumption) and an over-investment in those that are more likely to lead to addiction (think of comfort and defensive consumption).

8. Happiness and well-being. What can money buy?

In drawing the distinction between positive and negative addiction, Gary Becker defines their different effects on present and future utility. However, faithful to the economist’s assumption that people respond to relative prices (and income changes), with stable tastes, he does not explain why their effects are different. He does not ask what characteristics make it possible for some goods not to be habituating while others

¹⁴ For this reason Becker’s theory of addiction has been defined as rational self-medication (see Elster & Skog, 1999, p. 18). For a critical analysis of Becker’s theory, see Skog (1999).

¹⁵ Strotz (1955–1956) had shown already that discount rates vary with the length of time to be waited, and in particular that the discount function overvalues more proximate rewards relative to more distant ones (see Thaler, 1981, p. 127).

are behavioural traps. Scitovsky instead is aware that ‘negative’ habituation may be common to every activity, both those that stimulate and those that comfort, both the potentially beneficial and the potentially harmful.¹⁶ He also allows that there are some activities whose characteristics make them less likely to cause negative habituation.¹⁷ These are those creative activities that, because of their very complexity and internal variety, are able to become an endogenous source of change and novelty.¹⁸

For Scitovsky this tension between habituation and novelty and the fact that the first may crowd out the second, is one of the factors behind an apparent paradox of economic progress, that as people grow richer they do not seem to become happier. Easterlin (1974) was one of the first economists to study systematically self-reported data measuring happiness, and to point out, as many studies since have confirmed, that while happiness is positively correlated with income across individuals in the same country, average happiness levels are stable over time despite significant income growth (see also Hirsch, 1976; and Easterlin, 1995).¹⁹

Commenting on Easterlin’s studies, Scitovsky listed four ‘un-measurable’ measures of the quality of our lives (Scitovsky, 1992a, p. 33) as possible causes of the low correlation between individual happiness and the secular rise of income: status, work satisfaction, novelty and habituation (*ibid.*: 139).

Work satisfaction was a recurrent theme in Scitovsky’s writing. He was preoccupied both with intrinsic gratification and with the social status that may be conferred by work of particular sorts (Scitovsky, 1973, pp. 31–32). Pay increases for work that is more monotonous (Scitovsky, 1992a, p. 142), or less suited to workers’ qualifications (Scitovsky, 1981, p. 145), or more uncertain, may fail to compensate for the loss of utility that such job features cause.

Status instead, for Scitovsky, belongs to those social comforts whose satisfaction may arise from many sources, including recognition by others and appreciation for one’s own achievements and specific skills (Scitovsky, 1992a, p. 119).²⁰ When status satisfaction stems from income, however, status-seeking behaviour can easily turn

¹⁶ Gambling, crime, violence, and dangerous sports, are all expressions of a desire for excitement linked to low consumption skills (see Scitovsky, 1981, pp. 131–132).

¹⁷ Frank picks up this argument when he distinguishes between conspicuous and un-conspicuous consumption. While spending of the first sort – on larger houses, bigger cars, or TV sets – does produce pleasure, this is not enduring because of habituation. Spending of the second sort, instead – devoting more hours to friends, to exercise, to vacations, and fewer to commuting – produces more lasting pleasure (Frank, 1999, p. 90). Indeed, as some recent empirical findings tend to show, one does not get habituated to the persistent stress of commuting, to noise and pollution, or to loneliness. For a discussion of this last point, see Frederick and Loewenstein (1999, p. 311).

¹⁸ Scitovsky also thought that the externalities that income increases create have their qualitative differences. An income increase that is used solely to add to comforts not only generates satisfactions that depreciate more quickly, it also contributes many more socially negative effects such as pollution (Scitovsky, 1992a,b, p. 144, 209).

¹⁹ Many studies have commented and followed the track laid down by Easterlin (see Abramovitz, 1979; Oswald, 1997; Frank, 1997; Diener, 1999; Frey & Stutzer, 2002).

²⁰ For Scitovsky, status seeking also includes a variety of activities that are often not considered such. Helping others – altruism or love – can also be viewed as a form of status seeking or, more generally, as a desire to belong (Scitovsky, 1992a, p. 121).

into a zero-sum game where the competitive gains of some are offset by the losses of others. Yet such games have no end since, whereas the supply of status satisfaction is limited, the demand for it is infinite (*ibid.*: 120). Both status-seeking and work rank seem to confirm that for happiness and well-being it is the relative, not the absolute level of income that counts. In their cases it is the income relative to one's ranking in society that counts, in the case of novelty (and habituation) it is the income relative to what one has experienced in the past. This is why, Scitovsky pointed out, a rising income can be a much greater source of satisfaction than a high income (*ibid.*: 138–139).²¹

The literature on these topics has greatly increased in recent years. First in psychology and more recently also in economics, a new-found interest in the determinants of well-being and in its underlying processes, has reversed a pattern of substantial neglect that had long dominated in both disciplines.²² Scitovsky was among the first to detect this reversal in psychology and to show how economics could be enriched by applying the new psychological insights. Since 1976 much has been done that both clarifies and extends those topics that weighed so heavily in Scitovsky's research. In psychology, an increasing effort in terms of empirical and theoretical research has gone into uncovering the determinants of subjective well-being and the role that personality traits, temperament and cognition, culture and adaptation play in connection with other social factors (see Oswald, 1997; Kahneman et al., 1999). In economics, the impact on happiness of economic variables such as income, unemployment, work satisfaction, inflation is starting to be investigated, together with more institutional dimensions such as direct democracy (see Frey & Stutzer, 2002). The result has been that Scitovsky's 'un-measurables' have become less elusive and studies on the process of utility maximization have come to seem worth pursuing.

9. Conclusions

Tibor Scitovsky adopted the economist's principle of consumer sovereignty, the assumption that the consumer is the supreme and ultimate judge of his or her own welfare. Yet it was his great merit to have seen that adopting the tenet does not exempt the economist from asking whether preferences do or even can express themselves in choices, and whether the working of the economy provides the right

²¹ The idea that happiness is independent of absolute values and dependent instead on a web of relations involving other experiences, is the basis for Parducci's psychological relativism: see Parducci (1995). See also Frank (1999, p. 109, 116), for a discussion of the difference between absolute and relative standards of living.

²² As Kahneman stresses in the Preface to Kahneman, Diener, and Schwarz (1999), in psychology, whether behavioural or cognitive, the topics of enjoyment and suffering have attracted much less attention and systematic research than other psychological functions such as memory and attention. No entries at all can be found in introductory textbooks for happiness or well-being (Kahneman et al., 1999, p. ix). For a recent overview of the psychology of happiness, see Argyle (2001).

channels for their expression. This insight inevitably brought him to ask about the nature and meaning of preferences and desires, and the role that time, experience and environmental factors play in the shaping of them and vice-versa. It also caused him to ask how preferences, and what kind of preferences, best promote individual well-being. Scitovsky was aware that discussion of such questions involved the risk of paternalism, of imposing his personal judgements as the correct solutions. He sometimes fell into doing just that. Yet his very openness makes it easy to detect such slips. Taking a larger view, the innovativeness of his ways of looking at problems, and the counterintuitive appeal of his ideas and solutions, makes his contributions – and will continue to make them – a source of stimulation, and enjoyment.

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