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On the Foundations of Happiness in Economics

Reinterpreting Tibor Scitovsky

Maurizio Pugno

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‘This is a most welcome contribution. Maurizio Pugno makes a valuable effort to introduce and reinterpret the insight by Tibor Scitovsky into Modern Happiness Economics. These insights have wrongly, and to a large extent, been disregarded in the literature. Pugno discusses e.g. the importance of intrinsic motivation and creativity for happiness, opening up a challenging and fruitful direction of research.’

Bruno S. Frey, *Permanent Visiting Professor, University of Basel, Switzerland*

‘Scitovsky’s pioneering contributions on the relationship between economic growth and human wellbeing have so far not received from modern behavioural and happiness economists the attention they deserve. This should change as a result of Maurizio Pugno’s labour of love that has resulted in this most useful volume that sets Scitosvky’s work in context and presents it in today’s more technical style.’

Peter Earl, *University of Queensland, Australia and co-editor of the Journal of Economic Psychology 2000–2003*

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Economic growth has extraordinarily increased the availability of market goods to satisfy people's need for comfort, but at the same time it has also raised great challenges to their working and family life. Will people learn the skill necessary to cope with these challenges and draw full enjoyment from economic growth? *On the Foundations of Happiness in Economics* explores this question by examining the work of Tibor Scitovsky, author of *The Joyless Economy*.

Given the recent rise of behavioural economics and happiness economics, this book aims to show how far ahead of his time Scitovsky was in his work on individual welfare (or well-being). It traces the evolution of Scitovsky's original thought, arguing that he has been frequently misunderstood, before undertaking formal analysis in order to demonstrate how far his work anticipated or even went beyond the recent advances in economics. This volume also explores Scitovsky's work in the context of Keynes' work on well-being, offering a new perspective on welfare in the history of economic thought. Other issues discussed in this text regard creativity and social skills, hedonism and eudaimonia, parenting and education, addiction, work/leisure balance, policies for happiness, paternalism, and the quality of economic growth.

This book addresses a variety of readers, such as those interested in the history of economics, as well as students and researchers concerned with the economic theory of well-being.

Maurizio Pugno is Professor of Economics at the University of Cassino, Italy.

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On the Foundations of Happiness in Economics

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For those people who search for and realize the most human capacities in humans.

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This book is the result of a research which began many years ago, and with the help of many people, so that my acknowledgments should be extended somewhat back in time. In 2003, I participated in the first of a series of conferences on 'happiness in economics' organised by Luigino Bruni and Pier Luigi Porta. I am indebted to them for the opportunity that I was given to make concrete my interest on that matter. After that early conference, I was convinced that happiness could be effectively understood with economic tools if the dynamic analysis was used to represent psychological concepts in a choice setting. I thus drew on the lesson that Richard Goodwin had taught me on how to search for the essence in dynamics through simple models, and on how to combine mathematics with a great sense of humanity. But my deep interest in psychology derived from the psychiatrist Massimo Fagioli, who opened my mind to the world of non-conscious motivations and affects so as to understand human choices better. Without his insights, this book would not exist. My work on happiness then developed through a series of papers discussed at conferences and seminars. I consequently owe much to many people: the economists Erik Angner, Chad Baum, Leonardo Becchetti, Massimo Di Matteo, Bruno Frey, Benedetto Gui, John Helliwell, Johannes Hirata, Alessandro Innocenti, and Alois Stutzer, and the psychologists Valery Chirkov, Tim Kasser, Richard Ryan, and Carol Ryff. My especial thanks go to the co-authors of my happiness papers, including Stefano Bartolini, Ennio Bilancini, Luigino Bruni, Flavio Comim, Sara Depedri, and Paolo Verme. But it was not until my move to the economics department of the University of Cassino that I discovered the originality and fertility of Scitovsky's works. Marina Bianchi and the CREAM group introduced me to, in particular, the research on creativity in Scitovsky, which I merged with my research on happiness. I then had the further opportunity to learn about Scitovsky from other researchers, including Viviana Di Giovinazzo, Robin Pope, and Maurizio Franzini. Finally, the writing of this book owes a great deal to the readers who helped me with their comments on earlier versions and specific chapters: Antonio Bariletti, Francesco Ferrante, Esa Palosaari, and Eleonora Sanfilippo. I am particularly grateful to Peter Earl and Daniela Federici for their extensive discussions throughout my work. I have further greatly benefitted from the help of Adrian Belton, who enabled me to provide a text in better English,

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Introduction

This book can be read by following different lines of interest, each of them with surprising novelties. Readers who are interested in the history of economics and in the eminent economists will find in this book a new interpretation of Tibor Scitovsky's *The Joyless Economy* and related works. His contribution will be seen as an approach to 'human welfare' which is rooted in early economists, which anticipates recent research in the 'Economics of Happiness', and which goes towards still unexplored territories. Readers and students interested in the economic theory of well-being will find that Scitovsky's approach to 'human welfare' takes the form of a new economic model. This is able to capture psychological concepts like intrinsic motivations and creativity in order to give an account of two different types of well-being, and also of ill-being. Readers who want to understand better how to draw happiness from income will find that Scitovsky's approach provides original and comprehensive arguments. In particular, the arguments usually put forward in the 'Economics of Happiness' in order to explain the 'Easterlin paradox', that is, why people's happiness does not increase despite economic growth in several countries, will emerge as special cases.

The readers can follow their interests in historical, theoretical, or applied aspects through the chapters and sections of this book in a rather distinct manner. Nevertheless, each of the eight chapters also includes discussion of specific issues raised by Scitovsky's approach that are interesting in themselves, such as the contraposition between hedonism and eudaimonia, addiction, the interpretation of Keynes's essay on the future of 'our grandchildren', the paternalism of the policies for well-being, and the quality of economic growth.

In order to guide readers, the contents of the chapters can be summarised as follows.

Chapter 1 raises the core question of the book: is the economy able to ensure happy lives for people? This appears to be a modern question because recent research in the Economics of Happiness has raised a similar issue. However, this chapter will show that the question was already in the minds of eminent economists of the past, like John S. Mill and other economists of the Cambridge tradition. This is interesting because identified in these economists will be a common 'research programme on human progress' that enabled Scitovsky to find a novel answer to the question. Indeed, human progress was conceived by Mill and others

as the product not only of economic growth and people's happiness but also of the development of human capacities. Unfortunately, this research programme remained undeveloped, and even disregarded by many other economists.

Chapter 2 presents Scitovsky in a new light. In the literature, in fact, he has been considered an outlier, especially because of the heavy use of psychology in his *The Joyless Economy*, so that his main insights have not been integrated into standard economic research. Moreover, some aspects of his analysis, like the use of certain results in psychology, and the contrast in consumption behaviours between the USA and Europe, have been found to be unconvincing. This chapter will show, instead, that his main insights can be introduced into the familiar choice setting, thus obtaining new results, and that his most unconvincing aspects can be removed if his research on human welfare is focused on and distinguished from his consumer theory.

Chapters 3, 4, and 5 describe the building blocks of Scitovsky's approach to human welfare. Each chapter first puts forward concepts and links on the basis of a reinterpretation of Scitovsky's works (Sections 3.2, 4.2, and 5.2). Then, the essence of the analysis is formalised with an economic model (Sections 3.3, 4.3, and 5.3). Finally, recent literature that appears useful to support, refine, and possibly circumscribe Scitovsky's approach is briefly reviewed (Sections 3.4, 4.4, and 5.4).

Chapter 3 introduces the key novelty of the book by acknowledging that people do not only search for shelter from adversity and comfort for themselves; they are also attracted by the exploration of the unknown, by the challenge of their capacities, and by the exchange of ideas with others. These more active and uncertain activities will be called 'creative' because by undertaking them people can achieve new things or simply gain new understanding of themselves, both during leisure time and at work. The new source of satisfaction thus derives from enjoying learning, from developing aptitudes and talents so as to understand life priorities and become 'life skilled'. The chapter will show that this 'creative' pathway to well-being is an endogenous process, and that social externalities and economic constraints shape these dynamics.

Chapter 4 contrasts the 'creative' pathway to well-being with the more traditional 'defensive' pathway in which people pursue 'comfort' for their bodies and in order to belong. Pursuing comfort is a familiar practice, a well-defined goal. Economics reminds us that it is costly; even education may be borne only as a cost to increase future comfort. Whereas the 'creative' pathway requires more engagement and adequate skills, that is, intrinsic motivation and 'life skill', the 'comfort' pathway to well-being fosters productive skills to buy the necessary goods, and to compete with others. This chapter will show that the two pathways are not only distinct but may go in different directions, that is, people may pursue one pathway and abandon the other. The contrast between the two pathways to well-being will be further clarified by the recent empirical findings that have revived the contrast between eudaimonia and hedonism originally drawn in ancient Greek philosophy.

Chapter 5 completes the individual's set of choices by acknowledging that people may be attracted by harmful, addictive goods, thus extending Scitovsky's

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approach to the idle poor. A novel approach is proposed because it differs both from the rational choice approach (in which people choose addictive goods even if they are perfectly informed about the harmful consequences), and from the behavioural approach (in which people lapse into harmful addiction because they are myopic). The chapter will show that people may fall into the trap of harmful addiction when they live poorly skilled lives and are unable to appreciate creative activity, so that risky activities appear to be immediate remedies for both rich and poor people. The way is thus open to any kind of substance and behavioural addiction.

Chapter 6 provides a novel interpretation of the economy/happiness problem. This problem is evident in the USA and some other countries, where happiness tends to lag behind economic growth, to remain constant ('Easterlin paradox'), or even to decline over time. It will be argued that the same market forces that have enabled the economy to grow by offering increasing opportunities for consumption and work may undermine the development of people's life skill by making them more insecure with themselves and with others. Conforming to others' pursuit of comfort thus becomes attractive, rather than pursuing one's own goals, and boredom may ensue. As the Economics of Happiness suggests, comparing consumption with others, habituation to comfort, and unrealistic material aspirations may erode happiness. It thus emerges that Scitovsky's approach not only anticipates the Happiness of Economics but provides a more comprehensive and deeper analysis.

Chapter 7 applies Scitovsky's approach to a problem that John M. Keynes raised with his well-known essay on the future of 'our grandchildren': how to use the time that will be freed by the reduction of working time required by subsistence thanks to economic progress. Interest in Keynes's essay has been recently revived by taking two opposite positions. According to some economists, working time will not diminish because work realizes people's self-interested aspirations, so that they can escape from the laziness of leisure. According to other economists, working time should be reduced because work finances insatiable material wants, while leisure is necessary for higher needs. This chapter takes a third route by shifting the focus from the work–leisure contraposition to the welfare problem, that is, to the problem of people's lack of skill to appreciate the priorities of their lives, and thus properly to use and enjoy their time.

Chapter 8 attempts to develop the 'research programme on human progress' further by asking these questions: What are the policies for people's well-being? If these policies were effective, how could economic growth be affected? The first question poses the risk of paternalism, and the second question addresses the issue of the quality of growth, which has been recently debated at a planetary level. This chapter will show that Scitovsky's approach to well-being is able to provide original answers to both questions and related issues by taking the development of people's 'agency freedom' as the lodestar.

The Conclusions collect the main and most original threads of the arguments of the book, thus showing that Scitovsky's approach is able to provide new ideas for research on human welfare and progress.

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1 Happiness in economics

The roots and perspectives of a research programme

> Understanding of human nature must be the basis of any real improvement in human life. Science has done wonders in mastering the laws of the physical world, but our own nature is much less understood, as yet, than the nature of stars and electrons. When science learns to understand human nature, it will be able to bring a happiness into our lives which machines and the physical sciences have failed to create.
>
> (B. Russell, *Sceptical Essays*, 1928)

1.1 Economics and people's demands for happy lives

People have conceived happiness in very different ways throughout history. In many languages, the word 'happiness' was born with the meaning of 'good fortune', with the variants of luck due to chance or to benevolent gods. But in the contemporary age, happiness has been increasingly understood as a state to which people normally aspire in their lives.

This change of perspective began in the age of the Enlightenment, which marked a turning point in the overall progress of human thought, and hence in control over the course of events.[1] But the aspiration to lead a happy life has often been reduced to a rather material goal: the achievement of better economic conditions.

Economists then entered the scene, because the issue turned into the question: *is the economy able to ensure happy lives for people?* This is a hard question to answer, and it will be at the core of the investigation conducted in this book.

This question entails three interrelated problems: how to define and measure happiness; how economic conditions are related to happiness; and whether economic and other policies can help people in pursuing happiness.

Economists have not always seen these three problems clearly. But, since the birth of their discipline, they have been obliged to take a position with respect to the original question. Two typical and opposite positions have been the following: on the one hand, framing the link between the economy and happiness in a broader and interdisciplinary research programme on human progress; on the other, restricting the focus on economic conditions as a prerequisite for the study of happiness to be left to other disciplines. Underlying the two positions are two

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different ideas about human beings: either they can learn the art of living an interesting and social life, and thus achieve happiness, or they are efficient and well-informed from the outset, so that they can systematically choose the options which are best for them.

One or the other position has prevailed in the history of economics, so that economic research on happiness has either been at the centre of debates or it has disappeared altogether, even for decades. Intermediate positions focusing on special aspects related to happiness have also arisen, thus maintaining interest in the debate.

At the end of eighteen century, when the classical economists took as their subject matter 'the causes of the wealth of nations', they normally referred to people's 'necessaries and conveniences of life' (e.g. Smith 1976 [1776]: 10). The word 'happiness' was used rather rarely;[2] and when it was used, it described the mental state of poor people when they are able to exit from miserable conditions and enjoy a healthier life (e.g. Malthus 1998 [1798]: 96). The meaning of 'happiness' thus remained rather limited, and the link between economic conditions and happiness was considered to be strict, if not automatic.

By contrast, 'happiness' occupied a central place in the analysis of the utilitarian economists who adopted Jeremy Bentham's 'principle of utility' (Bentham 1780), also known as the principle of the 'greatest happiness for the greatest number'. John Stuart Mill, who gave a personal interpretation to utilitarianism, understood 'utility' as a concept complementary to 'happiness', so that he used the former in his economic analysis (Mill 1848) and the latter in his moral and political analysis (Mill 1859, 1863). Specifically, he furnished original insights into the social dimension of happiness, and into the individual ability to cultivate 'higher capacities' (Mill 2001 [1859]: 13). In so doing, he provided an extended research programme in which happiness and the related problems of measurement, analysis, and policy found a place. Mill was so insightful that this programme appears relevant still today for its comprehensiveness and originality.

The main turning point came with the so-called marginalist economists in the second half of the eighteenth century; and it was then elaborated further by the ordinalist economists from the 1930s until modern times. Indeed, they provided the foundations for current economic textbooks. These economists attempted to remove non-observable and non-measurable variables from the analysis, so that 'happiness', and then 'utility', were treated with scepticism. Our core question remained unanswered because the focus changed: from the problem of the pursuit of a happy life to the individual's choice problem of maximising her expected utility from given economic resources at a given point of time. At best, the choice problem might be interpreted as preliminary if the economic conditions were seen as a constraint on people's happiness.

However, a group of British economists, mainly Cambridge economists, took a special position at the turn of the nineteenth and twentieth century. They revived the classical subject of the 'wealth of nations' and emphasised the policy aspects as welfare economics, which mainly referred to the community. They recognised that economic welfare was only a part of total welfare, because

human needs are not only primary but also of higher level. In this way, the concept of 'happiness' entered the picture, but was little discussed because the main focus was on economic welfare. The question of the link between the economy and happiness thus remained loosely answered, because economic welfare and total welfare were only presumed to be positively related.

It was not until the 1970s with the studies of Richard Easterlin and Tibor Scitovsky that the focus returned to happiness as a state to pursue by people in the course of their lives, and to whether the economy can ensure the success of such pursuit. And it was not until the end of the 1990s that a thorough investigation of all three problems was conducted by the new line of inquiry called the 'Economics of Happiness'.

The results of this new branch of economics have greatly advanced our knowledge on how to measure happiness, its economic correlates, and the opportuneness of policies for happiness. The main, though controversial, result is that improvements in the economic conditions of people and countries are less straightforwardly linked to greater happiness than is usually believed. The Economics of Happiness, however, considers itself more a method of investigation than a research programme on human progress. It thus takes a special position because it uses a restricted definition of happiness; because it is mainly empirical; and because it has not yet extended the investigation to the development of individual 'higher capacities', including the social and moral ones.

Complementary to the Economics of Happiness is Amartya Sen's Capability Approach. This is mainly a theoretical account of human progress as the expansion of freedoms, so that also happiness is enhanced. Among these freedoms, Sen includes 'agency freedom', as people's ability to set and pursue desired goals. Another complementary position is taken by James Heckman, who has given strong impetus to research on the formation of the skills necessary for successful outcomes in people's lives. The positions of Sen and Heckman thus make evident the importance of 'agency', and, together with the Economics of Happiness, the necessity to draw heavily on psychology.

Therefore, the study of happiness in economics is becoming highly complex because of its deep historical roots, the number of questions and controversies that it involves, and the proliferation of the related fields, including extra-economic ones. A book can hardly cover all these issues with the details necessary to furnish a complete picture. However, there is an author who can help us take up the research programme on human progress, address the relevant questions, link the thought of different economists, and refer to different fields for both theoretical insights and empirical evidence. The name of this author is Tibor Scitovsky.

Indeed, in the mid-1970s Scitovsky resumed old issues and developed them in original terms, anticipating current issues and proposing ones to be explored. His overall aim was to gain a better understanding of how people can achieve a happy life by developing human life skills on the basis of improved economic conditions, and with the possible effect of improving them further. His ideas were so original, and his horizon of research so wide, that he is difficult to

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classify in any stream of thought, and his ideas cannot be easily dismissed as out-of-date.

Scitovsky's life testifies to his exploratory and wilful character. He was born and spent his childhood in the Austro-Hungarian Empire, he studied in Cambridge (UK) and London, and then worked at the Universities of Stanford, Berkeley and Yale. At the end of his career, in 1976, he published the book, with the telling title *The Joyless Economy*, for which he is best known.

While the next chapters will be devoted to understanding and reinterpreting Scitovsky's analysis and research programme on happiness, or 'human welfare' as he called it, the present one briefly provides the background against which Scitovsky's thought can be placed and hence better appreciated. Specifically, Section 1.2 adopts a perspective of the history of economic thought, in that it briefly identifies in the works of early authors the central aspects of content and method that Scitovsky took up and developed. Section 1.3 is devoted to the Economics of Happiness, recalling its main results on the link between the economy and happiness, and pointing out some unresolved questions that Scitovsky would be able to deal with. Section 1.4 concludes by showing how a research programme on human progress can emerge.

1.2 Happiness in the history of economic thought

1.2.1 The birth of the research programme on happiness as human progress

> [W]ill men approach a condition in which everyone will have the knowledge necessary to conduct himself in the ordinary affairs of life, according to the light of his own reason [...]; in which everyone will become able, through the development of his faculties, to find the means of providing for his needs; and in which at last misery and folly will be the exception, and no longer the habitual lot of a section of society?
>
> (Condorcet 1955 [1794]: 1)

This rhetorical question well describes the ambitions of the French Enlightenment. The Encyclopaedists, who belong among the founders of Western culture, had no doubts that human progress meant the development of 'man's moral and intellectual faculties' (Condorcet 1955 [1794]: 8), and, at the same time, the development of economic conditions adequate for the entire population and their happiness. This was not a dream, but an expectation, because it was based not only on the revolutionary experience of the time but also on logical arguments.

When Nicolas de Condorcet wrote the *Historical View of the Progress of the Human Mind* in 1794, he argued that human progress would take place because three components – that is, individual faculties, economic conditions, and happiness – positively affect one another in a dynamic way once people have been properly educated and free trade has been guaranteed.

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More precisely, Condorcet first considered the potential of human knowledge by observing the acceleration of sciences and their applications in his time. He then deduced the possibility of human progress in several directions. One direction was the spread of basic knowledge: ‘by a suitable choice of syllabus and of methods of education, we can teach the citizen everything that he needs to know in order to be able to manage his household’ (Condorcet 1955 [1794]: 5). Thus people’s natural talent would be better revealed and could be cultivated, with great lasting effect, because:

> at present even in the most enlightened countries scarcely one in fifty of the people who have natural talents, receives the necessary education to develop them; and how, if this were done there would be a proportionate increase in the number of men destined by their discoveries to extend the boundaries of science.
>
> (Condorcet 1955 [1794]: 7)

This process is self-reinforcing because:

> [t]he progress of the sciences ensures the progress of the art of education which in turn advances that of the sciences. This reciprocal influence, whose activity is ceaselessly renewed, deserves to be seen as one of the most powerful and active causes working for the perfection of mankind.
>
> (Condorcet 1955 [1794]: 11)

Through the advance of science, the effect of education would extend to the economy, because ‘new instruments, machines and looms can add to man’s strength and can improve at once the quality and the accuracy of his productions, and can diminish the time and labor that has to be expended on them’ (Condorcet 1955 [1794]: 7). But economic growth – according to Condorcet – means improvement in the economic conditions for all, if proper policies are adopted.

> It is easy to prove that wealth has a natural tendency to equality, and that any excessive disproportion could not exist or at least would rapidly disappear if civil laws did not provide artificial ways of perpetuating and uniting fortunes; if free trade and industry were allowed to remove the advantages that accrued wealth derives from any restrictive law or fiscal privilege.
>
> (Condorcet 1955 [1794]: 4)

This optimism about economic equality seems to ensue from Condorcet’s view on the advance of human knowledge, thus closing the virtuous circle of human progress.

> [A]s the mathematical and physical sciences tend to improve the arts that we use to satisfy our simplest needs, is it not also part of the necessary order

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> of nature that the moral and political sciences should exercise a similar influence upon the motives that direct our feelings and our actions?
>
> (Condorcet 1955 [1794]: 9)

This is a grand programme where the ultimate aim of progress is happiness:

> we can assume that [...] men will know that, if they have a duty towards those who are not yet born, that duty is not to give them existence but to give them happiness; their aim should be to promote the general welfare of the human race or of the society in which they live or of the family to which they belong.
>
> (Condorcet 1955 [1794]: 8)

Unfortunately, Condorcet did not have the time further to develop this programme where happiness emerges from human progress. Somebody else did, however, in a different country and some time later.

1.2.2 John Stuart Mill: a research programme on happiness as mental and social progress

John Stuart Mill was born in London in 1806. He was a scholar of great culture from his youth, and is known in economics as the most prominent utilitarian economist, although he departed from the founder of utilitarianism, Jeremy Bentham. Mill also referred to the utilitarian theory as 'happiness theory' (Mill 2001 [1863]: 8), thus showing how close he regarded the link between utility and happiness to be. As an economist, he concentrated more on utility than on happiness. This is evident in his major economic work, *Principles of Political Economy*, where he occasionally used the term 'happiness'. But in other works, such as *Utilitarianism* and *On Liberty*, Mill extended the analysis to moral philosophy and in other directions that are of interest to economists as well.

Mill took up a number of insights that emerged from the age of Enlightenment, as well as from the thought of other authors such as Adam Smith and Jeremy Bentham, and then provided a comprehensive and original elaboration upon them. This is not the place to enter into details on his works; suffice to show how Mill took steps forward in the Enlightenment programme so that this would be further developed, without sharing the utilitarian premise, by the protagonist of the present book, namely Tibor Scitovsky (see, in particular, 2.3.1).

Mill's thought can be organised into a set of distinct though interrelated points so as to form his own version of the research programme on happiness and human progress.

i Let us begin with the *definition of 'utility'*, which, according to Mill, is a tendential individual feeling of pleasure, as perceived by the human senses (Mill 2001 [1863]: 35). 'Utility includes not solely the pursuit of happiness, but the prevention or mitigation of unhappiness' (Mill 2001 [1863]: 15), and

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it is 'grounded on the permanent interests of a man as a progressive being' (Mill 2001 [1859]: 14). It is clear from this definition that Mill couched his analysis in subjective and long-run terms where the psychological dimension played a role in the individual's tendential behaviour.

ii Mill's 'principle of utility' or the *Greatest Happiness Principle*, holds that 'actions are right in proportion as they tend to promote happiness, wrong as they tend to produce the reverse of happiness', because 'pleasure, and freedom from pain, are the only things desirable as ends' (Mill 2001 [1863]: 10). In contrast to Bentham, pleasures are usually of different qualities; they cannot be measured, and serve the individual as a moral guide for evaluating her actions (Mill 2001 [1863]: 11–13), although '[happiness] was only to be attained by not making it the direct aim [...]. The only chance is to treat not happiness but some end external to it, as the object of life' (Mill 1981 [1824]: 145–56).[3]

iii Feelings and actions are said to be '*moral*' because 'the utilitarian standard of what is right in conduct, is not the agent's own happiness, but that of all concerned' (Mill 2001 [1863]: 19). The reason for this is that:

> in all states of civilisation, every person, except an absolute monarch, has equals, every one is obliged to live on these terms with somebody [...] In this way, people grow up unable to conceive as possible to them a state of total disregard of other people's interests [...]. So long as they are co-operating, their ends are identified with those of others; there is at least a temporary feeling that the interests of others are their own interests.
>
> (Mill 2001 [1863]: 32–33)

Therefore, happiness must be consistent with the social context, even if it is an individual experience.

iv

> *Moral feelings are* not innate, but *acquired* [...]. Like the other acquired capacities [...], the moral faculty, if not a part of our nature, is a natural outgrowth from it; capable, like them, in a certain small degree, of springing up spontaneously; and susceptible of being brought by cultivation to a high degree of development.
>
> (Mill 2001 [1863]: 31, emphasis added)

The exercise of moral feelings is thus a 'practical art' that can be acquired through one's own and others' experience, that is, as social learning, so as to 'admit of indefinite improvement, and, in a progressive state of the human mind' (Mill 2001 [1863]: 25). Therefore, an individual's moral feelings change in synergy with the changes of the social context.

v Moral feelings pertain to more general *higher capacities* characterised by 'intellectual tastes' for 'high aspirations' (Mill 2001 [1863]: 13), although human capacities are 'susceptible [...] of being cultivated in almost any

direction' (Mill 2001 [1863]: 31)[4] (see point [vi]). For example, virtue may become part of happiness if it is cultivated, and then 'desired for its own sake' (Mill 2001 [1863]: 37). But this outcome is *uncertain* for the peculiar reason that virtue pertains to 'those things which are chiefly useful as tending to raise the character of human beings', and, at the same time, 'which the demand of the market is by no means a test'. Consequently, '[t]hose who most need to be made wiser and better, usually desire it least, and, if they desired it, would be incapable of finding the way to it by their own lights' (Mill 1848: 953). Therefore, higher capacities can grow like the branches of a tree, rather than following a pre-programmed model (Mill 2001 [1859]: 55), because of external conditions and individuals' choices (Mill 2001 [1863]: 13).

vi The unfortunate alternative to this development and its origin were clearly depicted by Mill thus:

> Capacity for the nobler feelings is in most natures a very tender plant [...]; and in the majority of young persons it speedily dies away if the occupations to which their position in life has devoted them, and the society into which it has thrown them, are not favourable to keeping that higher capacity in exercise. Men lose their high aspirations as they lose their intellectual tastes, because they have not time or opportunity for indulging them; and they addict themselves to inferior pleasures, not because they deliberately prefer them, but because they are either the only ones to which they have access, or the only ones which they are any longer capable of enjoying.
>
> (Mill 2001 [1863]: 13)

In this case, '[t]he internal sanction of duty, whatever our standard of duty may be, is one and the same – a feeling in our own mind; a pain, more or less intense, attendant on violation of duty', which has shrunk or even disappeared (Mill 2001 [1863]: 29). Mill did not consider this case as an exception. On the contrary, 'weak feelings and weak energies' seemed scarce, except for business, in his country, so that conformity and imitation appeared to be widespread (Mill 2001 [1859]: 65).

vii Although Mill is well known for his liberal views (see viii and ix), he recommended *government intervention in education*, consistently with market failure, strong uncertainty, and factual observations on young people (see v and vi above). He did not address formal education alone, but also 'practical education' by parents, because this is necessary for the 'business of life' (Mill 1848: 948). His words are unexpected, but also unambiguous:

> It still remains unrecognised, that to bring a child into existence without a fair prospect of being able, not only to provide food for its body, but instruction and training for its mind, is a moral crime, both against the unfortunate offspring and against society; and that if the parent does not

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> fulfil this obligation, the State ought to see it fulfilled, at the charge, as far as possible, of the parent.
>
> (Mill 2001 [1859]: 97)

viii Nevertheless, as a general rule, *human liberty should be preserved*, – according to Mill – as 'liberty of thought and feeling', and as:

> liberty of tastes and pursuits; of framing the plan of our life to suit our own character; of doing as we like, subject to such consequences as may follow: without impediment from our fellow creatures, so long as what we do does not harm them.
>
> (Mill 2001 [1859]: 16)

The reason for this claim is that:

> [a]fter the means of subsistence are assured, the next in strength of the personal wants of human beings is liberty; and (unlike the physical wants, which as civilization advances become more moderate and more amenable to control) it increases instead of diminishing in intensity as the intelligence and the moral faculties are more developed.
>
> (Mill 1848: 210)

Therefore, liberty contributes to human well-being distinctly from economic conditions.

ix The 'greatest personal freedom' is advocated by Mill also for economic reasons, on the basis of the argument that *competition enhances the efficiency of production and exchange* (Mill 1848: Ch. 11). He also provided psychological foundations for this by observing that '[h]e who chooses his plan for himself, employs all his faculties, [. . .] his own judgment and feelings' (Mill 2001 [1859]: 55).

x The developments of the human mind, of individual freedom and happiness, as well as of the economy, seem to go together in Mill's analysis. Nevertheless, he did not regard economic growth as necessarily desirable (Mill 1848: 747). Indeed, he would have found 'essentially repulsive [. . .] a society only held together by the relations and feelings arising out of pecuniary interests', while finding as 'naturally attractive [. . . a] society abounding in strong personal attachments and disinterested self-devotion' (Mill 1848: 754).[5] He thus depicted the desirable scenario for the future as one where:

> a stationary condition of capital and population implies no stationary state of human improvement. *There would be as much scope as ever for all kinds of mental culture, and moral and social progress; as much room for improving the* Art of Living, *and much more likelihood of its being improved, when minds ceased to be engrossed by the art of getting on*.
>
> (Mill 1848: 751, emphasis added)

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This is a formidable set of points, because it deals with all the three problems concerning happiness: its measurement, its relation with economic conditions, and policies for happiness. At the same time, it can be seen as an extended research programme because it is not focused on the link between the economy and happiness but encompasses the development of human capacities.

Indeed, this set of points (i)–(x) shows Mill's attempt to reconcile classic economic thought with his own utilitarian view. For example, point (ix) above reveals Mill's link to Adam Smith's *Wealth of Nations*; point (iii) reveals Mill's link to Smith's *Moral Sentiments*; while points (i) and (ii) are clearly linked to Bentham. Mill's compromise was to exclude any consumer theory from his political economy (Mill 1844), and to use 'utility' for the theory of value.

1.2.3 Mainstream economics: departing from the study of happiness

The so-called 'marginalist revolution' of the 1870s broke with the classical economists and with Mill's classical notions by establishing a central place for utility theory in both consumer theory and exchange theory. Indeed, Mill's use of the concept of 'utility' sprang from psychological introspection performed to find the motivation for tendential behaviour in pleasures (point [i]). But he used 'utility' for his moral theory, not for his political economy. The marginalist approach instead directly based economics on hedonist philosophy. Major significant changes were introduced, however: the time horizon was restricted to a point of time; the analysis was focused on the equilibria of single exchanges; and the principle of self-interest was established (Jevons 1970 [1871]; Edgeworth 1881). Therefore, pleasures and pains were taken seriously as guides for action because they were treated as the measurable bases for the calculus of the maximum happiness achievable from an act of exchange (Jevons 1970 [1871]: 91; Edgeworth 1881: 16). Economics, rather called 'political economy', was thus redefined as a distinct field of knowledge specialisation, although the link of 'utility' with happiness as a feeling was maintained (Jevons 1970 [1871]: 23–27; Edgeworth 1881: 1–15).

The so-called 'ordinalist revolution' of the 1930s deepened the knowledge specialisation, and broke the link with happiness as a feeling by replacing the concept of utility, and in particular its cardinal notions as used by the utilitarians, with the concept of 'preferences'. The classic question that remained for the utilitarian economists about what is valuable as 'wealth' – whether it is only economic wealth or some other pleasurable thing – became the question of scarce resources (Robbins 1932). The research programme changed (Cooter and Rappoport 1984). In fact, the approach aimed at minimising the subjective information derived from introspection because it was influenced by logical positivism, which suggested using observable measures and rejecting mental and moral concepts.[6] Economics thus appeared as the science of optimal choice, so that individuals' behaviours emerged as adjustments to changing external constraints. The heterogeneity of individuals' motivations disappeared, and the role of psychology tended to be reduced to behaviourism (points [i] and [ii]) (Lewin 1996; Layard 2005: 133).

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The 'revealed preferences' approach is the third move in the same direction, at least in the intention of Paul Samuelson. In his seminal article, Samuelson attempted to found choice theory without any reference to utility and preferences (Samuelson 1938). His aim was to complete the programme of the ordinalist approach to make the use of non-observable concepts, such as mental states, as unnecessary, and to restrict the necessary assumptions to the observation of actual choices.[7] The direction of this theoretical move is clearly to depart further from Mill's psychological concepts and type of analysis.

Mill's social dimension of happiness (points [iii] and [iv]) has been lost since the marginalist revolution. This is mainly due to the key assumption that the individual behaves strictly according to self-interest. In the subsequent moves, the focus on happiness was removed altogether, and the social dimension was considered to be competition in the markets, where other people are means for the division of labour rather than ends for the common enjoyment of life (Bruni 2005).

The departure of the economic analysis of individual behaviour from the social dimension, as was typical in the classical economists and Mill, was made clear by Pareto. He in fact distinguished between 'utility' as 'conducive to the development and prosperity of an individual, a people, or the human race' (Pareto 1896: 3, our translation), and 'ophelimity' as 'the relation of convenience, which satisfies a need or a desire, legitimate or not' (Pareto 1896: 3, our translation). The former includes the social dimension of positive social interactions and externalities, which are difficult to evaluate, while the latter has only a subjective basis, thus suggesting that economics should be the 'science of ophelimity' (Pareto 1896: 6; see Cooter and Rappoport 1984; Bruni 2005).

Pareto's distinction implies a distinction not only in the social dimension but also in the time dimension, which is interesting for the individual's well-being. In fact, 'ophelimity' refers to something desired by the individual which may turn out to be harmful in the long run, such as addictive substances. By contrast, 'utility' in Pareto's sense refers to something that is certainly beneficial because it suggests the individual's experience of the past as socially embedded. Economics as the 'science of ophelimity' thus remains distant from the study of the conditions conducive to people's happiness.

1.2.4 The Cambridge economists Marshall and Pigou: still in search of a science of happiness

At the turn of the nineteenth and twentieth century, the *Principles of Economics* written by Alfred Marshall was the dominant economic textbook in England. The aim of the book was the 'study of mankind in the ordinary business of life; it examines that part of individual and social action which is most closely connected with the attainment and with the use of the material requisites of well-being' (Marshall 1920 [1890]: I.I.1). Consequently,

> the discussion of the influence on general wellbeing which is exerted *by the mode* in which each individual spends his income [...would exceed] the

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> proper scope of the book [...because this] is one of the more important of those applications of economic science to *the art of living*.
>
> (Marshall 1920 [1890]: III.VI.6, emphasis added)

Despite this last observation, the book contains several considerations on happiness that extend far beyond its relationship with income. Indeed, a careful reading of the book reveals analysis of both economic and non-economic motivations that are conducive to happiness, and even of the consequences of both kinds of motivations on the dynamics of the economy. In this respect, Marshall thus appears to take a step forward in the development of Mill's programme.

Marshall maintained an even more optimistic view than 'the founders of modern economics [...because e]conomists have accordingly now learnt to take a larger and more hopeful view of the possibilities of human progress' (1920 [1890]: I.IV.6).[8] In his book, he discussed economic growth, the alleviation of poverty, general well-being, and even the 'progressive nature of man' (Marshall 1920 [1890]: III.I.2). This optimism seems to have been due to Marshall's conviction that this progress is self-reinforcing.

Marshall started by drawing a distinction between 'wants' and 'activities' that would become useful for a better understanding of the link between the economy and happiness. By 'wants' he meant 'desires [for] a greater choice of things', while by 'activities' he essentially meant 'mental activities [...which are] desire[d as] change for the sake of change, [...] arise[ing] from the delight that people have in the training of their own faculties' (1920 [1890]: III.II.1,4).

The pursuit of 'wants' pertains to people's 'ordinary business of life'; it has an economic motive because it is usually satisfied by something that can be measured by money price. The study of 'wants' thus falls in the province of economics (Marshall 1920 [1890]: I.III.4, I.IV.1), and it refers to 'utility' (III.III.1). By contrast, the pursuit of 'activities' is motivated by the 'desire for excellence', that is, for self-emulation, and by the 'desire for distinction', that is, for social recognition, both of which are non-economic motives (III.II.4). Unfortunately, economics encounters difficulties in studying and predicting behaviours which are not regular, because of variability of motives (I.II.1). 'The higher study of consumption [...] may have its beginning within the proper domain of economics, it cannot find its conclusion there, but must extend far beyond' (Marshall 1920 [1890]: II.III.4).

This distinction between 'wants' and 'activities' enabled Marshall to introduce a distinction also in the patterns of economic growth, and even between two types of well-being. He first recognised that 'the growth of the national dividend depends on the continued progress of invention and the accumulation of expensive appliances for production' (1920 [1890]: VI.XIII.11), that is, on technical progress and capital accumulation. Then he observed that when man exits from the state of necessity, that is, when '[n]ecessaries [...are just] sufficient to enable the labourers [...] to support themselves and their families' (II.III.3), '[l]eisure is used less and less as an opportunity for mere stagnation; and there is a growing desire for those amusements [...], which develop activities rather than

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indulge any sensuous craving' (III.II.4). Indeed, 'it is only through freedom to use leisure as they will, that people can learn to use leisure well' (1920 [1890]: VI.XIII.14).

Marshall then went on to argue that:

> economic progress is the development of new activities rather than of new wants [...because the activity] implies an increase of intelligence and energy and self-respect; leading to more care and judgment in expenditure, and to an avoidance of food and drink that gratify the appetite but afford no strength, and of ways of living that are unwholesome physically and morally.
>
> (Marshall 1920 [1890]: VI.XIII.1)

When the increase of 'wants' are 'artificial', thus improving 'comfort' or even luxury, the contribution to economic growth is more modest, but however present, because efficiency may anyhow improve through the 'increase of vitality and energy' (Marshall 1920 [1890]: VI.XIII.1). Therefore, economic growth implies a change in the composition of people's motives, and this change feeds back positively on growth.

The distinction between two types of well-being, depending on people's underlying motives, clearly emerges from this final quotation.

> The fulness of life lies in the development and activity of as many and as *high faculties* as possible. There is intense pleasure in the ardent pursuit of any aim, whether it be success in business, the advancement of art and science, or the improvement of the condition of one's fellow beings. The highest constructive work of all kinds must often alternate between periods of over-strain and periods of lassitude and stagnation; but for ordinary people, for those who have no strong ambitions, whether of a lower or a higher kind, a moderate income earned by moderate and fairly steady work offers the best opportunity for the growth of those habits of body, mind, and spirit in which alone there is true happiness.
>
> (Marshall 1920 [1890]: III.VI.6, emphasis added)

Arthur Cecil Pigou succeeded Marshall in the professorship of Political Economy at the University of Cambridge. He also maintained with Marshall the idea of human progress which went back at least to John S. Mill, as is evident in Pigou's major work *The Economics of Welfare*. The idea was that economics only partially contributed to the study of human progress, because of its own limitations, and because non-economic aspects would be of greater importance. Indeed, Pigou distinguished economic welfare as 'the range of our inquiry [which is...] restricted to that part of social welfare that can be brought directly or indirectly into relation with the measuring-rod of money' (Pigou 1920: 11). Economic and the non-economic welfare are not separated by a precise boundary, and the use of money-rod is suggested by practical reasons, so that

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'[e]conomic welfare [...] is the subject-matter of economic science' (Pigou 1920: 11).

Nevertheless, Pigou held a less optimistic view than Marshall on the possibility of achieving harmonious human progress. In fact, he was concerned that economic welfare, which positively contributes to social (or total) welfare 'may affect non-economic welfare in ways that cancel its effect on economic welfare' (Pigou 1920: 12). He finally took a positive but probabilistic position, but not before he had explored the possible compensating effect.

Pigou first observed that:

> [h]uman beings are both 'ends in themselves' and instruments of production. On the one hand, a man [...] whose passions are controlled and sympathies developed, is in himself an important element in the ethical value of the world; the way in which he feels and thinks actually constitutes a part of welfare. On the other hand, a man who [...] advance some branch of practical activity, is an instrument well fitted to produce things whose use yields welfare.
>
> (Pigou 1920: 12–13)

Then Pigou advanced his concern: '[the] efforts devoted to the production of people who are good instruments may involve a failure to produce people who are good men' (Pigou 1920: 14).

Two critical cases aroused his especial concern. The first regarded 'the manner in which income is earned', which includes 'monotonous repetition of the same operation' on the job, and 'the spirit of hostility' between employers and employed" (Pigou 1920: 14–15). This may be due to the fact that:

> the status of wage-labour – the feeling that the industrial system, as it is to-day, deprives the workpeople of the liberties and responsibilities proper to free men, and renders them mere tools to be used or dispensed with at the convenience of others.
>
> (Pigou 1920: 16–17)

'Second, non-economic welfare is liable to be modified by the manner in which income is spent.' For example,

> gambling excitement or luxurious sensual enjoyment, or [...] opium-eating, involves reactions on character ethically inferior to those involved in the satisfaction of primary physical needs [...By contrast, the consumptions] connected with literature and art involve reactions that are ethically superior to those connected with the primary needs.
>
> (Pigou 1920: 18)

This case concerning consumption is particularly affected by the problem of foresight when the needs are not primary. In fact,

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> most commodities, especially those of wide consumption that are required, as articles of food and clothing are, for direct personal use, will be wanted as a means to satisfaction, and will, consequently, be desired with intensities proportioned to the satisfactions they are expected to yield.
>
> (Pigou 1920: 24)

But when commodities are wanted for non-primary needs, the expected satisfaction is difficult to foresee, because 'our telescopic faculty is defective' (Pigou 1920: 25).

Therefore, even if it is likely – according to Pigou – that economic growth and human progress go together, there are also reasons, inherent to the industrial type of work and to non-primary consumption, to expect that economic growth may be inimical to human progress. This analysis is of interest in understanding people's chances of living happy lives, although Pigou never addressed 'happiness' in his book on *The Economics of Welfare*. He instead relied on the concept of well-being in terms of need satisfaction.

In this regard, Cooter and Rappoport (1984) have advanced an interesting interpretation. They propose to call the attempt pursued by Marshall and Pigou, as well as some other British economists, to redefine economics on the basis of need satisfaction, the 'Material Welfare School'. More precisely, Cooter and Rappoport argue that this School grounds itself on the distinction of goods between necessaries/economic and luxuries/non-economic so as to derive a number of consequences. First, 'utility' as 'usefulness', that is, conducive to the development and prosperity of an individual, a people, or the human race, can be distinguished from 'utility' as 'ophelimity', that is, as an individual's subjective capacity to satisfy her desires, 'whether legitimate or not'. Second, interpersonal comparison of utility becomes possible if needs rather than desires are compared. Third, redistributive policies can be more easily recommended. Furthermore, since the need satisfaction of poor people is efficiency enhancing, the equity/efficiency trade-off does not arise.

To conclude, Marshall, Pigou, and the British economists close to them, proposed an idea of the economy other than the one based on scarce resources, which then prevailed after Robbins. Their idea was instead that the increase in resources and the improvement of people's welfare are parts of an interrelated problem. They largely resumed Mill's programme of research, in fact, but still more steps remained to be taken.

1.3 The modern Economics of Happiness

1.3.1 The rise of the Economics of Happiness

'Economics of Happiness' is a label often used to denote a recent branch of economics with important contributions to it by other disciplines. By 'happiness' is meant something rather peculiar, that is, the subjective state of mind of well-being that people are asked to self-report according to the qualitative or numerical scale

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proposed in the survey question. Therefore, this economic branch does not concentrate on 'what happiness is'; rather, it takes a pragmatic stance on the content of 'happiness' by focusing on very simple measures, so that many data on the same question can be obtained. This abundance of information can be usefully exploited by econometric techniques in order to study the determinants of happiness, although causation is difficult to prove.

'Economics of Happiness' may be a misleading term because it suggests that the analysis is limited to the economic determinants of happiness, whereas it has been extended to social, personal, and other factors. The term 'economics' is, however, justified because it indicates the perspective adopted, which is based on individuals, and then on their interactions and on the aggregate outcomes, in order to suggest interpretations and policy implications.

The Economics of Happiness is a part of the wider field of research dealing with individual well-being (or individual welfare). In fact, it is defined by the adoption of subjective measures of happiness, while individual well-being can also be studied with objective measures. Two types of these objective measures should be distinguished, according to whether they refer directly to the well-being of the individual persons as an objectively observed outcome, such as health measures and successful behavioural outcomes, or to the means that contribute to well-being, such as good government and a clean environment. Economic studies on well-being use both types of measures, thus sharing the interest of psychology, neurosciences, and epidemiology in the direct objective measures of well-being, while sharing the interest of sociology and political science in indirect objective measures.[9]

Therefore, the Economics of Happiness is delimited in its method but extensive in its application, and it can relate subjective with objective measures of well-being. The wider field of economics of individual well-being includes both the Economics of Happiness and the study of objective indicators, without any necessary reference to the subjective ones, and possibly remaining at the theoretical level.[10]

The Economics of Happiness has been developed at an increasing pace if one looks at the articles, books, and conferences, and even at initiatives at governmental level, on this matter.[11] Surveys on the recent history and the results of the Economics of Happiness are available in a good number and good quality (Frey and Stutzer 2002a, 2002b; Layard 2005; Bruni and Porta 2005, 2007; Graham 2005; Di Tella and MacCulloch 2006; van Praag 2007; Dolan *et al.* 2008; Frey 2008; Stutzer and Frey 2010, 2012). This section can thus only briefly discuss the three problems concerning happiness (measurement, correlates, and policies), in order to outline the advances and the questions raised, which will be taken up in the following chapters.

The Economics of Happiness was born in the mid-1970s, and was weaned at the end of the 1990s when it establishes itself as a distinct branch of economics. Both approximate dates mark a break with the past. In 1974 and in 1976 the two seminal works were published, that is, Easterlin's article 'Does economic growth improve the human lot?' and Scitovsky's book *The Joyless Economy*.[12] Since

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2000 the number of articles on happiness, life satisfaction, or subjective well-being that are referenced in *EconLit* – according to Stutzer and Frey (2012) – has burgeoned from a few units in the 1980s (Kahneman and Krueger 2006).

The two works by Easterlin and Scitovsky have in common the claim that economic growth does not necessarily bring more happiness to people over time, because some counteracting forces may be at work. Both authors made the point with different and innovative arguments by combining two different approaches to research, or, better, two different combinations of approaches.

Easterlin began his career by working with Simon Kuznets in the mid-1950s on a project concerning population and economic growth (Easterlin 2006: Ch. 1). He thus took up the method of drawing insights from data, and precisely from long-run data. Easterlin combined this approach with the use of subjective data, which had had a thin though persistent tradition from Katona (1960) onwards (Easterlin 2006: Ch. 2).

Scitovsky was fascinated by Cambridge economics ever since he had been a student (Scitovsky 1999). His preferred research field was welfare economics, but with *The Joyless Economy* he turned it into the study of individual well-being. To this end, he introduced the use of psychology in an innovative manner, both because it was unusual, and because he took up results from the subfield of motivational psychology (Scitovsky 1992 [1976]: Chs 2–4).

Easterlin and Scitovsky shared the idea that economists should look at their discipline with 'reluctant' (Easterlin 2006) or 'questioning' (Scitovsky 1986 [1985]: 184)[13] eyes. In particular, they were convinced that economic growth may have increasingly negative consequences that the economist cannot ignore. Easterlin started from the classical problem of population growth and the scarcity of natural resources, and then approached people's increasing inabilities to appreciate their level of consumption (Easterlin 2006: Ch. 1). Scitovsky took a similar approach, but started from an analysis of the asymmetric position of the consumer with respect to the producer (Scitovsky 1986 [1972]: Ch. 5) (see Chapter 2).

Until the 1990s, however, the two published works did not attract much interest among economists, mainly because the use of subjective data and of the results from psychology was regarded with scepticism. In 1995 Easterlin published a further contribution in an economic journal, rather than in a book, where he set out stronger results. In 1992 Scitovsky published the second edition of the book, which was followed by a dedicated Symposium in 1996. These were the signals of the take-off of the Economics of Happiness, but the underlying reasons should be sought in more depth.

From the 1970s to the 1990s the use of psychology in economics increased, and specifically the use of psychology of decision-making, so that the economic branch called Behavioural Economics arose. In 2002 the psychologists Daniel Kahneman, who is now one of the major exponents of Behavioural Economics, won the Nobel Prize in Economics. The results obtained in this economic branch are of great interest, because they cast doubt on the claim familiar to economists that choices reflect the 'true' preferences of individuals. In this way, the

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Economics of Happiness can be viewed as a special approach to test this claim if, in particular, happiness is taken as a proxy for utility.

The second reason that may explain the take-off of the Economics of Happiness is the increasing availability of data on happiness (Veenhoven 2011). Large samples are able to alleviate the problem of interpersonal comparability of happiness, and to reduce the noise relatively to valuable information in econometric testing.

The third reason may be the great advances of research related to happiness in different fields of psychology (Kim-Prieto *et al.* 2005), and in particular hedonic psychology (Kahneman *et al.* 1999), and in other disciplines, such as neurosciences, sociology, and epidemiology. Many references will be made to this literature in the following chapters.

1.3.2 The problem of measuring happiness

Psychologists have long studied how to measure the happiness of people accurately, often putting a variety of questions to the interviewees. Economists have instead preferred to use straightforward and inexpensive measures, and then to analyse the information contained in the answers that can be thus collected in large quantities.

The bulk of studies in the Economics of Happiness measures happiness by using questions of the following type: 'Taken all together, how happy would you say you are: very happy, quite happy, not very happy, not at all happy?' Each response then scores one to four points, so that the researcher has a numerical scale ranging from the lowest well-being level (1. not at all happy) to the highest well-being level (4. very happy). This specific question is used in the World Values Survey, and it is a single item on a four-step Likert scale. In the Economics of Happiness a question about life satisfaction, rather than happiness, has often been used. An example is the following, which is taken from the Eurobarometer Survey: 'On the whole are you very satisfied, fairly satisfied, not very satisfied, or not satisfied with the life you lead?'

The other primary surveys use very similar questions, so that the studies which summarise the results across the literature do not normally distinguish them.[14] Some mark a difference between 'happiness' and 'life satisfaction', the former being more emotional, and the latter more cognitive. But stark differences are not found, so that both measures are also denoted with the term 'subjective well-being'.[15]

The measures of 'subjective well-being' have been tested for validation according to a variety of procedures by psychologists, neurobiologists, sociologists, and economists.[16] Overall, the tests yield comforting results, but they should be read carefully before concluding that the two above-mentioned survey measures of 'subjective well-being' are robust proxies for individual well-being. For example, the much-cited study by Koivumaa-Honkanen *et al.* (2000) shows that (the inverse of) 'self-reported life satisfaction predicted suicide over a period of 20 years' in a significant way. However, the life satisfaction measure

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used consisted of four rather different items because they regarded interest in life, happiness, finding life to be easy, and loneliness. Another study, which reviews the psychology literature on the validity of ‘subjective well-being’ measures, observes that their correlations with salient past events experienced by the interviewees ‘tend to be positive, but modest’. It adds that the correlations between different ‘subjective well-being’ measures contain varying degrees of measurement error (Kim-Prieto *et al.* 2005: 264).

Another criticism of ‘subjective well-being’, together with an alternative proposal, has been made by ‘hedonic psychology’. Kahneman, in the opening article of the book of collected papers *Well-Being: The Foundations of Hedonic Psychology*, shows with experimental evidence that reporting well-being by recalling past events introduces cognitive biases (Kahneman 1999). He and other co-authors propose an alternative method to measure well-being called the Day Reconstruction Method (DRM). With this method, the participants are asked to fill out a diary summarising episodes of the previous day, to report the intensity of their feelings during each of those episodes, and their time use (Kahneman *et al.* 2004; Kahneman and Krueger 2006). Compared to the life satisfaction evaluation, the DRM is less based on retrospection. Furthermore, the DRM aims to establish a cardinal indicator of well-being called the ‘unpleasantness-index’ by considering the time spent in a predominantly negative affective state. On the basis of these results, ‘hedonic psychology’ can thus be regarded as a revisitation of Bentham’s concept of utility as pleasures and pains (Kahneman *et al.* 1997).

This measure proposed by ‘hedonic psychology’ has been received by some economists as ‘the scientific meaning of “happiness” within Psychology’ (Kimball and Willis 2006: 3). Indeed, great effort has been devoted to building the unpleasantness-index with rigorous procedures, but its informative content is focused on a rather specific aspect of well-being, that is, the instantaneous level of pleasure vs. pain. At the same time, the contrast with the ‘subjective well-being’ measures, which appear to be imprecise and aggregative of different aspects, becomes evident.

The problem of the validity of well-being measures should not be confused with the problem of the purpose for which the measures are to be used. If the purpose is to test the notion of ‘utility’ as usually conceived by economists, that is, as a cardinal measure for the analysis of single acts of choice, then the unpleasantness-index could be a good empirical proxy. However, if the purpose is to measure how happy people are in their lives, then the unpleasantness-index appears partial, at least, and the ‘subjective well-being’ measures, though more complete, remain imprecise.

The basic problem with the validity of ‘subjective well-being’ measures is that they require the interview’s evaluation, which is influenced by a number of factors. The factors most studied are the frame of the question, the surrounding social norms, the accessibility of the relevant information in the interviewee’s memory, and her current mood (Schwarz and Strack 1999: 27–47; Kelman 2002; OECD 2013). Econometric studies have attempted to deal with these factors, in order to find stable patterns, by using large samples of observations, by introducing

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controls in the estimates, and possibly individual fixed effects (Stutzer and Frey 2010).

However, besides these methodological problems and attempts to extract bias-free information from the 'subjective well-being' measures, there is the problem of the content of that information. The Economics of Happiness attempts to circumvent this problem by using multiple regressions, but the estimated equations are reduced forms of more structured theories. Economists are often reluctant to enter this field, thus impoverishing the understanding of human behaviour and policy implications, but there are some attempts (see e.g. Rojas 2007, and the citations therein).

In order to give an idea of the problem of content addressed by the 'subjective well-being' measure, let us relate it to the measure implied in 'hedonic psychology', which is clear in content. Let us first take the definition of momentary happiness as the feeling of pleasure rather than pain at a specific moment of time, and that it can be measured over one dimension.[17] Let us then consider that the original question on 'subjective well-being' asks about happiness by referring to the individual's life-as-a-whole, so that the respondent must find a way to synthesise the information about her feelings over an extended time span. People are not usually prepared to perform this task. But they more clearly know what activities they like or do not like, such as working with colleagues, reading novels, or consuming expensive goods. In this way, people will answer to the happiness question by firstly considering their feelings for each activity, and then by evaluating the importance of the activities. Consequently, the information content captured by the 'subjective well-being' measure will be mixed.

The first type of mixture concerns the emotional and cognitive contents. In fact, reporting feelings in the first step is more emotional, and evaluating the activities in the second step is more cognitive, so that the question on happiness refers more to the first step, and the question of life satisfaction refers more to the second step. A sharper contraposition has been found between an index on happiness felt 'yesterday', rather than 'taken all together', which is rather emotional, and life satisfaction (Diener *et al.* 2009).

The weight of the two steps is unclear even when econometric estimates are used to determine the correlates of 'subjective well-being'. For example, if income is closely correlated with 'subjective well-being', it is not clear how much this is due to the experience of consuming expensive goods (first step), or the high evaluation of the possibility to possess them (second step).

Furthermore, the estimates do not say whether the consumption of expensive goods reflects the individual's 'true' preferences. For example, buying expensive houses, although in the suburbs, at the cost of longer commuting times, seems to be systematic but not optimal for long-run well-being (Frey and Stutzer 2014).

1.3.3 The Easterlin paradox

> Amongst democratic nations men easily attain a certain equality of conditions: they can never attain the equality they desire. […]. They are near

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> enough to see its charms, but too far off to enjoy them; and before they have fully tasted its delights they die. To these causes must be attributed that strange melancholy which oftentimes will haunt the inhabitants of democratic countries in the midst of their abundance, and that disgust at life which sometimes seizes upon them in the midst of calm and easy circumstances.
>
> (Tocqueville 1840: II, II, Ch. 3)

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This quotation was written by one of the most penetrating of thinkers, Alexis de Tocqeville, almost two centuries ago. Nevertheless, it contains outstanding insights which will be developed in the following chapters, while its essence provides an answer to the core issue of this chapter: *material abundance may not bring happiness to people even if they enjoy conditions of free choice*. Both Easterlin and Scitovsky used this proposition as a research hypothesis, and they investigated it with the tools of modern economists by focusing especially on the roots of human motivation.

Easterlin started to explore the hypothesis in the early 1970s by considering data on people's incomes and subjective well-being at a country level. He has recently confirmed his point of view as follows:

> the happiness-income paradox is this: at a point in time both among and within nations happiness varies directly with income, but over time happiness does not increase when a country's income increases. We are talking here about the time series relationship of happiness and income in the long-term.
>
> (Easterlin *et al.* 2010: 22463)

Indeed, in his 1974 article, Easterlin found that the proportion of a sample of US citizens who reported the highest level of happiness was stable from 1946 to 1970, despite the fact that the US economy was growing, and that happiness and income were closely correlated within countries at a given year (Easterlin 1974). He extended the analysis to nine European countries and to Japan in his following article, and similarly found that the trend of average happiness was flat despite the fact that happiness and income were closely correlated across countries (Easterlin 1995). These results appear surprising, and have been addressed in subsequent studies as the 'Easterlin paradox'.

In 2010 and 2011, Easterlin with other co-authors obtained new results according to a more general version of the paradox. They found, by running bivariate econometric analysis for a rather extended sample of countries, that long-run changes of subjective well-being, calculated over at least ten years, are not significantly correlated with the growth rates of per-capita GDP (Easterlin *et al.* 2010). This is a more general version of the paradox because it does not require the flat trend of the subjective well-being, as also shown by Easterlin's data.

Both versions of the paradox have sparked debate between critics and supporters. The best-known critics are Stevenson, Wolfers, and Sacks, who, by means of more accurate analysis drawn from several data-sets, provide evidence

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that casts serious doubts on both versions of the paradox (see also Veenhoven and Vergunst 2014). In fact, Japan and European countries generally exhibit increasing happiness; and long-run changes of subjective well-being appear to be significantly correlated with the growth rates of per-capita GDP (Stevenson and Wolfers 2008; Sacks *et al.* 2013). They commented on Easterlin's finding by observing that: '[t]he difficulty of identifying a robust GDP-happiness link from scarce data led some to confound the absence of evidence of such a link with evidence of its absence' (Stevenson and Wolfers 2008: 3).

Nevertheless, Stevenson and Wolfers (2008) acknowledge that happiness in the USA was stagnant (or even mildly declining) between 1972 and 2006. Their explanation of this unexpected trend is that income inequality increased during that period, but this is at odds with the fact that happiness did not improve for the richest two quintiles of income, where income rose substantially (Layard *et al.* 2010). The case of the USA seems not to be an exception on considering Stevenson and Wolfers's (2008) evidence, because twenty out of the eighty-nine countries examined do not appear to have increased in happiness approximately between 1981 and 2004, despite economic growth. This heterogeneity was confirmed by Krueger and Schkade (2008), who, on using the same data, showed that if the coefficient of the logarithm of per-capita GDP on satisfaction is not restricted to being the same across countries, but country-distinct coefficients are estimated, then the coefficient for the average country is negative and non-significant. Poor countries, in particular, are expected to have a closer correlation between happiness changes and economic growth, but a reliable long series of data are not available (Clark and Senik 2011).

Therefore, conclusive confirmation or discomfirmation of the Easterlin paradox does not seem possible. As the survey by Stutzer and Frey states: '[t]he issue is still open largely because of limited long-term data for a large sample of countries' (Stutzer and Frey 2012: 6). Nevertheless, a partial conclusion seems possible: that the heterogeneity across countries matters, and more research is needed in this regard.

Studies on individual countries have identified clear cases of constant or declining subjective well-being despite economic growth. To the important and persistent case of the USA (Blanchflower and Oswald 2004; Bartolini *et al.* 2013; Herbst 2011), two important recent European cases can be added: West Germany from 1984 to 2010, and the UK from 1996 to 2008 (Layard *et al.* 2010; Pfaff and Hirata 2013). Even China, with its recent enormous growth, seems to belong to this unfortunate club (Easterlin *et al.* 2012; Li and Raine 2014). This does not imply that the trend of subjective well-being in these countries has been different in other time periods, but twelve years is a sufficiently long period to require an explanation of the paradox (see Chapter 6).

Scitovsky approached the Easterlin paradox from the perspective that countries are heterogeneous. He was especially interested in its explanation; and, in particular, he was attracted by the possibility of drawing from psychology results relevant to this explanation. He consequently attempted to integrate them with the familiar choice theory.

Scitovsky considered the USA as the critical country. Hence he evidently grasped Tocqueville's intuition and anticipated the recent evidence confirming the Easterlin paradox for the USA. Scitovsky, however, did not take the USA as the 'equilibrium' case, so that the other countries with increasing trends appear to be temporary deviations from it. On the contrary, self-sustained increasing trends together with economic growth are possible according to his theory, and he proposed Europe as a possible successful case. Scitovsky did not provide evidence based on subjective well-being data, although he acknowledged Easterlin's early results. Scitovsky preferred to draw on experimental psychology results to build a theory of human welfare based on the feeling of pleasantness. He then looked for confirmation of the consequences at both micro- and macro-level.

By considering the USA, Scitovsky focused on an opulent country, so that his theory seems applicable to opulent countries alone. However, his theory may be interesting for developing countries as well, because people's life motivations and aspirations may extend beyond economic aspirations.

To conclude, if Scitovsky had to answer the question of this chapter, he would state that economic growth does not guarantee that people's well-being increases as they would have expected.

1.3.4 Main explanations of the Easterlin paradox

Why may subjective well-being of a country's population not increase over time, or even decline despite economic growth? The Economics of Happiness suggests two main complementary psychological mechanisms which help answer this question: enjoying one's own income relatively to that of others, rather than in absolute terms; and adapting happiness after improvements due to income increases towards its preceding level. The usual economic variable considered is income or per-capita GDP; but also consumption is sometimes used, under the implicit assumption that the two variables vary closely together in the long run. Indeed, other assumptions are usually implicit in these interpretations of the Easterlin paradox. One stands out in particular: that people are not able to learn and escape from these two mechanisms.

In order to investigate this interpretation, the Economics of Happiness usually tests a reduced form of it by adopting single-equation econometric techniques, where the subjective well-being is taken as a proxy for the individual's 'true' well-being to be explained by a number of regressors. Some of these regressors capture the phenomenon under study, for example, the individual's income relatively to that of others; and some other regressors control for uninteresting factors, such as social and demographic characteristics. These techniques allow analysis of each factor correlated with subjective well-being separately.

The psychological mechanism of income comparison can explain the Easterlin paradox on the basis of the following arguments. The individual's enjoyment due to increases in her income is eroded by the increases in others' income, while richer people continue to enjoy greater happiness than poorer ones. The

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per-capita GDP of a country can thus grow, and the average happiness of its population remains constant over time if, as everyone grows wealthier, relative incomes remain the same. Two other conditions must hold, however: that people care about others' incomes with constant intensity, and that happiness derived from sources other than income remains the same. This interpretation of the paradox has also been called as the 'relative income' hypothesis.

The idea that individuals compare themselves with others is not new, because it was first introduced by Thorstein Veblen in 1899 in the form of conspicuous consumption, that is, goods that signal one's own wealth to others (Veblen 1899). Fred Hirsch and Tibor Scitovsky interpreted conspicuous consumption as limited in supply, so that social comparison becomes a race for social distinction in a zero-sum game (Hirsch 1976; Scitovsky 1986 [1985]: 203). James Duesenberry in 1949 developed the idea of social comparison in another direction because he was interested in explaining aggregate consumption (Duesenberry 1949).[18] The same idea seems to have some grounding in the theory of human evolution, since the survival and proliferation of individuals may be better ensured if their hoarding of resources surpasses that of others (Frank 1999).

The Economics of Happiness normally uses individual data to study income comparison and hedonic adaptation, and it usually finds that the partial correlation between subjective well-being and income is very significant but rather small in size, especially for high levels of income. One reason may be the presence of unobserved characteristics, as captured by the error term of the estimates of subjective well-being, which remains quite large (Frey and Stutzer 2002b).[19] In estimates of this type, the evidence on income comparison appears to be rather strong. The authoritative survey by Clark *et al.* (2008b) especially emphasises studies showing that the estimated coefficients of the two regressors representing, respectively, the individual's income and others' income are statistically equal and opposite in sign. For example, Ferrer-i-Carbonell (2005) obtained this result by calculating others' income as an average within fifty cells defined by sex, age, and education in six years of data drawn from the German Socio-Economic Panel dataset.[20] One may thus conclude that the increase in the individual's income and others' income, which can represent the growth of per-capita GDP, can be consistent with unchanged subjective well-being.[21]

However, more recent evidence, though similarly based on individual data, shows great heterogeneity of the coefficient of others' income across countries and across groups of people. Not only may this coefficient not be so negative as to fully off-set the coefficient of the individual's income, but it may even be positive. For example, it seems to be positive in the European transition countries, but negative in the Western European countries (Senik 2008; Knies 2010); it seems positive for young people, but negative for older people (Fitzroy *et al.* 2013; Senik 2008). Therefore, income comparison is not a fixed psychological mechanism because it is heavily conditioned by the social and economic context. Income comparison could be even endogenous, because it is conditioned by individual perception, as shown by the negative correlation that has been found between comparison intensity and happiness (Mayraz *et al.* 2009; Clark and Senik 2010).

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More research is thus needed, but not only empirical research on, for example, the importance of what factor conditions comparison income. Theoretical research is also needed to explore why people compare income with different intensities, and whether happiness derived from other sources does not change. The following chapters will help in this exploration by taking Scitovsky as a guide. In this way, the heterogeneity of cases where subjective well-being can increase, remain constant, or decline, may be explained, so that the Easterlin paradox emerges as a special case.

The second main psychological mechanism that has been investigated to interpret the Easterlin paradox is happiness (or hedonic) adaptation. Originally, 'adaptation' referred to the decreasing perception of a stimulus raised with constant intensity (Helson 1964; Frederick and Loewenstein 1999). It was then applied to specific life events as a self-correcting mechanism whereby happiness reverts to its pre-events level, which has been also called the 'hedonic set-point' (Brickman and Campbell 1971). People thus have their own set-points largely due to genetic variation (Lykken and Tellegen 1996).

The Economics of Happiness has its own way to test whether hedonic adaptation can account for the Easterlin paradox (Powdthavee and Stutzer, 2014). It uses longitudinal data rather than cross-section data, as in Brickman *et al.* (1978), so that the individual's current income is expected to be negatively correlated with her past incomes. Consequently, the individual does not stably enjoy a one-off increase in income in the long run if she completely habituates to the new level, that is, if she attaches equal and opposite weights to past and current incomes. The per-capita GDP of a country can thus grow, and the average happiness of its population remain constant over time, if adaptation is complete and sufficiently rapid. Richer people are happier if they receive more positive income shocks than for poorer people (Clark *et al.* 2008b).

The evidence provided by the Economics of Happiness on the importance of the happiness adaptation for the Easterlin paradox seems rather strong. For example, Di Tella *et al.* (2007: 24) 'cannot reject the null hypothesis that people adapt to income within four years' for a sample of the West German population over the period 1984 to 2000. Other evidence, such as that provided by the Leyden school, confirms the importance of happiness adaptation, but not as a complete process.[22] This suggests that hedonic adaptation should be considered a complementary mechanism which reinforces the mechanism of relative income in order to explain the Easterlin paradox.

However, adaptation is a heterogeneous phenomenon both across events, including extra-economic ones, and across people. In particular, adaptation to severe disability, to unemployment, and to poverty has been ascertained to be significantly incomplete (Clark *et al.* 2008a, 2015). Adaptation to spending more time on commuting to work seems even non-existent (Frey and Stutzer 2014). Average adaptation to marriage seems rather complete, but with substantial individual differences in both the extent and the rate of adaptation (Lucas *et al.* 2003).

A psychological explanation of this heterogeneity starts by observing that adaptation to life events is more complex than sensory adaptation to stimuli in

the environment, as it was originally conceived. Adaptation to life events is firstly an emotional reaction to something unexplained, followed by the attempt to understand it; and only when this attempt is successful can the emotional reaction weaken. Understanding events means evaluating their importance; and if they are considered important, it means making sense of them (Wilson and Gilbert 2008). Different experiences and abilities may thus explain the heterogeneity of adaptation across events and across people. The next chapters will help understand the heterogeneity also in this case, so that subjective well-being may not necessarily emerge as constant over time, as prescribed by the Easterlin paradox.

Acknowledging that adaptation is a complex psychological mechanism makes it possible to deepen interpretation of the Easterlin hypothesis. In fact, the Economics of Happiness advances a third psychological mechanism, which refers to aspirations and is linked to hedonic adaptation and to relative income. Easterlin has again been one of the first proponents of this idea. He claims that people's 'aspirations grow along with income, and undercut the favourable effect of income growth on happiness' because aspirations remain partially unrealized (Easterlin 2001: 465). This is a fascinating mechanism because it concerns why 'aspirations [are] rising in proportion to income' (Easterlin 2001: 474). Easterlin regards this proportionality as a stylised fact, but does not test for possible explanations. Stutzer (2004) goes a step further because he builds an index of aspirations on hedonic adaptation and relative income, and finds a substantial, though incomplete, erosion of happiness due to income increases.

However, the formation of aspirations is more complex, because it involves people's understanding of their abilities necessary to realize them. In fact, people may react in two opposite ways to unrealized aspirations: by pursuing new aspirations with more effort, thus possibly working more and earning more, or by reducing their aspirations, thus possibly reducing work effort. Little research has been done on these aspects, although it is of major interest also for economists.[23] The next chapters, again, will explore these aspects.

Better understanding of the heterogeneity of the dynamics of subjective well-being over time among countries and among individuals suggests extending the perspective of social comparison and hedonic adaptation. In fact, the Economics of Happiness is largely restricted to income comparison, to the adaptation to income, and to material aspirations. But if the focus is extended from income, or other similar variables, to other domains, new challenges arise to the interpretation of the Easterlin paradox, especially if considered from the perspective of the conventional economic theory of choice.

The following questions give an idea. If differences in the intensity of income comparison are due to different individual's interests, for example, in leisure, where comparison is less far intense, or in artistic activity, where the challenge for individual's capacities is more important than social comparison, why is income comparison so pervasive? If adaptation to income positive shocks is a standard phenomenon, why does adaptation to events such as marriage vary greatly among people; why do they not devote more effort to improving personal

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relationships rather than to earning more money? If aspirations to be richer do not diminish with the increase in wealth, why do people not learn to form aspirations on goals that they are better able to achieve?

1.3.5 Policies for happiness

If people consider only income, being convinced that income is crucial for the other life domains, then happiness maximisation encounters problems. In the case of income comparison, a negative externality arises because the individual's happiness is reduced if others' incomes are higher. In the case of an intense comparison, such as in the Easterlin paradox, people would even enjoy the same happiness if they uniformly earned more income. Happiness adaptation and material aspirations have similar effects on individual's happiness because – according to Easterlin – these effects are negative and unanticipated (Easterlin 2001). They can be also called 'negative internalities' because they are exerted by the individual on herself. Therefore, she can enjoy the same happiness by pursuing and earning more income. One may thus conclude that externalities and internalities make room for policy intervention if happiness is to be maximised.

The claim that the maximisation of happiness should be a policy goal was typical of the early utilitarians, but today, it does not receive wide support even among researchers in the Economics of Happiness. Nevertheless, it has been taken as the preferred target of criticisms by commentators who adhere to classical liberalism (e.g. Wilkinson 2007; Johns and Ormerod 2007).[24] Supporting happiness maximisation and criticising it with liberal arguments are two opposite positions that can be clearly identified, although many economists seem to take intermediate positions (Bartolini *et al.* 2016).

The goal of maximising happiness suggests that the externalities and internalities of comparison income, happiness adaptation, and material aspirations should be reduced by imposing taxes on conspicuous consumption and by financing public goods (Layard 2005). The effectiveness of these policies implies the following assumptions: that happiness is precisely defined as people's ultimate goal; that the negative externalities and internalities are crucial, while the possible negative side effects of the intervention are irrelevant. Research on happiness will help policy makers by providing ever more precise knowledge on the determinants of happiness, as well as on the connected externalities and internalities.

Conversely, the liberal critics do not regard happiness as a reliable indicator to be maximised, because the concept of happiness is vague, multidimensional, individual- and context-dependent. This position is opposite to the former one also because it regards the negative externalities and internalities as irrelevant compared with the possible negative side effects of state intervention, which instead appear crucial. The liberal critics, in fact, observe that policy makers are plagued by a number of problems: they are less informed about what makes the individual happy than the individual herself; they are self-interested, and

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thus tempted to manipulate the information on happiness, and to favour lobbies; they are slow and inefficient in self-correcting (Boettke and Coyne 2012; Wilkinson 2007).

The two positions are opposite to each other, in particular, by virtue of their underlying notions of the human being. According to the supporters of happiness maximisation, the human being is focused on hedonism, and is unwilling, or unable, to internalise any social externality; she lacks self-control by easily acquiring harmful habits, and is unable to learn sufficiently from past errors. She thus needs a 'nanny state' to take care of her. According to the liberal critics, the human being is well-endowed with both information, for example, about her own preferences, and ability, for example, to take responsibility for failures. In particular, she can react to income comparison by forming ambitious expectations, and has sufficient self-control to escape from habits. Paternalism is justified only in the case of children and the mentally ill (Wilkinson 2007; Klump and Wörsdörfer 2014).

An interesting intermediate position is taken by the 'constitutional approach' (Frey and Stutzer 2010: 2016). According to this approach, research on happiness should provide useful information to people for their life pursuits by, in particular, showing the intrinsic benefits of participating in public decisions, called 'procedural utility'. Externalities and internalities can be recognised as important, but people are free to take them into consideration in public decisions through proper institutions. Building up these institutions, like fixing the rules of the game, is at the core of the 'constitutional approach' as guaranteeing impartiality in policy interventions.

In intermediate positions are also specific proposals of policies for happiness, rather than overall approaches. For example, Easterlin argues that full employment policies could increase people's happiness more effectively than economic growth (Easterlin 2013). The evidence cited comes from studies in the Economics of Happiness showing that unemployment hurts happiness over and above the attached loss of income. This type of policy is not liberal, but it does not take happiness as the indicator to maximise.

However, the intermediate positions are methodologically weaker than the extreme ones, because maximising happiness or maximising freedom of choice provides more secure guides for judgement. For example, participating in collective decisions is said to be happiness-enhancing by the 'constitutional approach'; but the same decision may be happiness-reducing in the long run, and it may have negative externalities on the neighbouring communities.

This methodological weakness becomes especially apparent when policies for happiness are derived from evidence on the extra-economic determinants of happiness. A typical claim in this regard is that social relations are important for happiness no less than income (Layard 2005). But the above-mentioned case of marriage has shown that this type of evidence is characterised by great heterogeneity. The case of parenthood is even more puzzling because the evidence is mixed, with some weight in favour of insignificant correlations between parenthood and happiness (Dolan *et al.* 2008). One may conclude that it is undoubtedly

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true that 'human beings are social animals', but this does not help to identify which social variable to maximise.

A theory is needed in order to have a principle with which to define a clear intermediate position. This theory could start by recognising that people learn from the effects of externality and internality, and that successful interaction with others and internal change provides them with a special kind of happiness. In this case, the underlying conception of the human being is that she is neither a never-growing child who needs a nanny state, nor a fully informed adult always able to exploit opportunities despite the possible experience of failures. The following chapters will explore the possibility of developing such an intermediate theory.

1.4 From happiness to human progress in economics

The question of whether the economy is able to ensure that people lead happy lives seems to have induced economists to focus either on the economic premises for happiness, such as economic freedom and material conditions, or on happiness as a final state of mind, and as consequential on the economic premises. However, the history of economics and recent research also suggest extending the focus to other ingredients, so as to frame the economy/happiness question within a wider and more ambitious research programme on human progress.

The key ingredient to be considered is the development of human capacities of three interconnected components: the social skill to enjoy and contribute to relations (see e.g. Mill's point [iii] in 1.2.2); the skill to 'advance[…] art and science' (Marshall 1920 [1890]: III.VI.6); and the ordinary 'art of living' (see e.g. Mill's point [x]). The development of human capacities is of key importance because it mediates between the economy and happiness, that is, it can explain how to achieve a happy life from given conditions in the economy, and why it positively feeds back to the economy. Therefore, the economy ceases to be a premise, and happiness ceases to be a final state, because the analysis becomes one of endogenous dynamics.

Considering the development of human capacities can thus help answer the economy/happiness question. In fact, the recent Economics of Happiness has shown that economic growth and happiness may not go hand in hand; and Mill, Marshall, and Pigou suggested that this may be due to the insufficient development of human capacities. Marshall further suggested looking at people's activities, since these are linked to their capacities, such as the unfortunate case of 'addiction to inferior pleasures' mentioned by Mill.

The three problems regarding happiness (its definition, its relation to income, and happiness policies), can thus be seen anew. In order to take significant time spans in people's lives into account, the concept of happiness should be properly defined. This requires proper measures of happiness, that is, ones less linked to momentary states of feeling. The correlation between happiness and income, including latter's variants such as relative and past income, should be extended

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to encompass both individuals' characteristics reflecting their skills, and the social and institutional context, for example, regarding freedoms, which may facilitate or hamper skill development by individuals. New policy implications, with respect to direct actions for income redistribution, may ensue.

A research programme on human progress can thus emerge. It could be further extended in different directions, but even at this stage it is rather comprehensive. In particular, it requires the contribution of various disciplines, such as psychology, but also of economic subfields even if they are not focused on happiness. Two prominent examples are Amartya Sen's capability approach, and James Heckman's study on human skill formation.

Such a programme is so ambitious that one person finds it difficult to conceive. Yet Scitovsky was convinced that it is not only possible, but necessary to build this programme in order to provide scientific bases for the understanding of human progress.

Notes

1 For a detailed history of the notion of 'happiness' from the ancient Greeks to the present time, see McMahon (2006).
2 Smith used the term 'happiness' only four times in his *Wealth of Nations*, and Ricardo never used it in his *Principles* (1817).
3 According to Bentham, pleasures and pains can be reduced in a uniform quantity, so that they can be measured. 'It is for them alone to point out what we ought to do, as well as to determine what we shall do' (Bentham 1780: i).
4 Mill talked about 'capabilities of comprehension, of action, or of enjoyment' (Mill 2001 [1859]: 58).
5 In commenting on Tocqueville's report on his visit to America, Mill even wrote that 'the most serious danger to future prospects of mankind is in the unbalanced influence of commercial spirit' (Mill 1963 [1840]: 197).
6 See Bruni and Sugden (2007). For a questioning view, see Hands (2010).
7 Indeed, in the ordinalist approach preferences are forward-looking, that is, they imply an individual's expectations, which are non-observable.
8 Marshall mainly referred to Malthus and Ricardo.
9 The research on objective well-being includes studies on the 'quality of life', which is a measure that attempts to go beyond per-capita GDP. One of the best-known measures is the Human Development Index (for a history of this index, see Stanton 2007).
10 See, for example, Amartya Sen's Capability Approach, which is connected to philosophy (see Sections 2.5.1 and 4.4).
11 See the Stiglitz-Sen-Fitoussi Commission created by the French Government in 2008 (Stiglitz *et al.* 2009; Tavernier and Cuneo 2015), and the UK Measuring National Well-Being Programme, launched in November 2010 (Miles-Keay 2011; Everett 2015).
12 It should be mentioned that, in the 1970s, Bernard van Praag, Paul Frijters, and their associates at Leyden developed an approach which paralleled and then overlapped with the Economics of Happiness, since it was focused on subjective evaluations of incomes.
13 The first date reported refers to the published collection of articles, while the date reported in square brackets refers to the original work.
14 Dolan *et al.* (2008) reports the questions of the nineteen primary surveys, besides the original sources.

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15 Haller and Hadler (2006) show that 'happiness' and 'life satisfaction' have some differences in their correlates.
16 References can be found in Diener (1984), Konow and Earley (2008), and Clark *et al.* (2008b).
17 This does not imply that happiness is timeless. Although it has also been defined as a 'state of mind', happiness is an experience of both the mind and the body. In economic terms, it is a 'flow', not a 'stock'.
18 For a historical perspective on income comparison, see Drakopoulos (2008); for a survey of positional goods, see Schneider (2007); and for a recent test on conspicuous consumption, see Heffetz (2011).
19 The survey by Dolan *et al.* also observes that 'the perception of financial status have stronger predictive power than actual income' (2008: 98).
20 For a detailed survey on the empirical works especially regarding LDCs, see Clark and Senik (2011).
21 Clark *et al.* (2008b) also address experimental evidence, showing that individuals are willing to give up some of their income in order to gain status.
22 For a survey of the evidence on happiness adaptation in the Economics of Happiness, see Clark *et al.* (2008a) and Powdthavee and Stutzer (2014).
23 For a model of growth where both happiness and income are led by the people positive's reactions to aspirations based on comparison consumption, see Strulik (2013). By contrast, Clark and Senik (2010) have found that people who compare income more intensively are less happy, and that these same people watch relatively more television, which is usually regarded as a passive attitude.
24 Some of these criticisms are shared by heterodox commentators (Skidelsky and Skidelsky 2013; Stewart 2014).

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2 Scitovsky's research programme on human welfare

If it [*The Joyless Economy*] has provoked some readers into expanding, continuing, testing, contradicting, or at least thinking about my arguments, then I have done well. If it has helped them to shape their own behavior, so much better.

(T. Scitovsky, *The Joyless Economy*, 1976)

2.1 Introduction

Economists have always been aware that to focus on economic welfare is to limit economic analysis, and some of them have attempted to go further. Pigou stated that economic welfare is a component of total welfare, and he used total, general, and social welfare interchangeably, without, however, providing details on the non-economic components. Still today there is much talk about going beyond GDP as a measure of economic welfare, and more comprehensive measures are built by including non-economic aspects, such as life expectancy and literacy.[1] Scitovsky stands out because he sought not simply to add other components to economic welfare but also to understand the origin and dynamics of *human welfare* (Scitovsky 1986 [1973]: Ch. 2). By using the word 'human', Scitovsky intended to refer to human beings as 'ends in themselves', rather than as 'instruments of production', which was again an effective distinction drawn by Pigou (Pigou 1920: 13; see Chapter 1).

For Scitovsky, going beyond economic welfare meant going beyond the economic approach of 'revealed preferences', according to which 'whatever [the consumer] does must be the best thing for him to do, given his tastes, market opportunities, and circumstances' (Scitovsky 1992a [1976]: xii). Moving towards 'human welfare' meant for Scitovsky an inquiry into the 'human desires' (Scitovsky 1986 [1985]: 183) which underlie 'the behaviour and well-being of the individual person' (Scitovsky 1986: ix). Economic activity thus appears as an instrument with which to fulfil human desires (Scitovsky 1986 [1985]: 183).

In order to understand human welfare and desires better, Scitovsky drew insights and results from motivational psychology (Scitovsky 1992a [1976]: xiii). Indeed, with *The Joyless Economy*, he suggested that economics should be founded on more scientific bases by using the method of psychology (Scitovsky 1992a [1976]: xii–xiii), and in this way 'open a new field of enquiry' (Scitovsky

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1992a [1976]: 288). His claim was that the use of psychology should inform the study of human choice because he was convinced that psychology was becoming a hard science by means of experimental methods, and that choices should be explicitly observed from the perspective of human welfare. The subtitle – *The Psychology of Human Satisfaction* – of the second edition of the book is quite explicit in this regard.

In this search for a general psychological theory of motivation, Scitovsky encountered the 'arousal approach' of Daniel Berlyne (Scitovsky 1986 [1985]: 184). This approach states that individuals are driven to maintain a certain level of arousal – that is, sensory stimulation that is neither too low nor too high – in order to feel comfort. This enabled Scitovsky not only to criticise the traditional economic interpretation of individuals' behaviours as attempts to achieve a state of rest but also to undertake inquiry into the most important sources of stimulation that make people active (Scitovsky 1986 [1973]: 17). In so doing, he went well beyond Berlyne, because he considered broad classes of stimulations in people's ordinary lives.

> One source of stimulus satisfaction that is not considered part of economic welfare is [. . .] *companionship*. [. . .] Conversation, argument, making love, playing games, and all the many other forms of personal interaction are probably the main sources of human satisfaction; and it is their mutuality that keeps them out of the market, away from the measuring rod of money, and so beyond the economist's reach.
>
> (Scitovsky 1986 [1973]: 17, 19, emphasis added)

The second source of stimulus satisfaction considered by Scitovsky is *work*. This is surprising to economists because they usually regard work as a disutility paid for money earnings. Scitovsky thus added a non-economic motivation which may underlie work choices, and further observed that work satisfaction is heterogeneous among people. In particular, richer people are more satisfied with their jobs (Scitovsky 1986 [1973]: 17–18; 1992a [1976]: 293–294).

The third source of stimulus satisfaction derives from changes in durable consumption, that is, consumers appreciate consumption over and above satisfaction of their demand for the goods that they intend to buy because they also enjoy novelty (Scitovsky 1986 [1973]: 18–19). Thus another non-economic motivation is added to the economic one.

The fourth source of stimulus satisfaction consists of leisure activities, such as hobbies (Scitovsky 1986 [1981]: 130–132). Activities of this kind may overlap with companionship and the consumption of durable goods. Therefore, this is something more than time free from work.

Scitovsky identified a further source of stimulus satisfaction, but this in fact characterises all the previous sources, although to different extents. This source is *enjoyable learning* as the pleasure of searching for novelty, of being properly challenged by it, and of gaining knowledge about both the outside world and personal capacities. In this way, companionship acquires the special characteristic of

being the opportunity to exchange ideas and learn from others; work can be seen as an opportunity to learn, or even to produce novelty for others, as in research and artistic work; consumption and leisure afford exciting opportunities to learn something new, rather than carry out routine activities. Hence learning with enjoyment becomes a creative activity for those who engage in it, and possibly for others, because it opens new avenues for companionship, work, consumption, and leisure.

When Scitovsky discussed this enjoyable learning in *The Joyless Economy*, he had in mind the process of acquisition and generation of culture. Indeed, '[c]ultural activity [. . .] is a labor of love, performed not for love of the person who benefits, but for love of the activity itself' (Scitovsky, 1992a [1976]: 295), with the consequence that it gives 'satisfaction [. . .] to those who actively engage in them and to others also affected' (Scitovsky 1992a [1976]: 294; see also Ch. 11). Only subsequently did Scitovsky fully realise the importance of education, and especially of parenting and early education, in order to learn enjoyably (Scitovsky 1996, 2000).[2] Therefore, the stock of knowledge and experience that the individual accumulates during her life – which Scitovsky called 'life skill' – has a social dimension because of its social origin and social externalities.

Scitovsky also considered a final and distinct source of stimulus satisfaction. This, however, is a 'malign' one because it gives rise to risky and anti-social activities such as drug consumption, crime, and violence. In this case, in contrast to the positive social externalities of learning, the effects are negative for people's abilities and well-being (Scitovsky 1992a [1976]: 294).

This map of the sources of stimulus satisfaction is very helpful for two reasons. First, it lays the basis for the study of human welfare, and the role played in it by economic welfare. Scitovsky took some important steps in this direction by proposing groupings of activities as characterised by different effects on the development of people's capacities, and on their well-being. Second, this analysis enabled Scitovsky to advance an original interpretation of why people are not necessarily able fully to achieve such development, so that dissatisfaction may emerge even in the midst of opulence. The question at the centre of Chapter 1 – whether the economy is able to ensure that people's lives are happy – can thus find an answer.

Unfortunately, Scitovsky's analysis of human welfare suffers from two major weaknesses. First, he used a peculiar approach, that is, the 'arousal approach', as the psychological basis for his analysis. This approach is rather crude because it refers to physical stimuli, sensory perceptions, and simple degrees of activation of the nervous system. It might be usefully employed in the analysis of consumers' choices and the ensuing experiences when the choice set is restricted to products. But when the choice set also includes companionship, work, and leisure activities as characterised by pleasurable learning, then the 'arousal approach' becomes insufficient to explain the dynamics of choice, skill, and well-being. Indeed, the modern psychologists who follow Berlyne's suggestions to study the welfare benefits of curiosity have mostly abandoned the concept of 'arousal' and provided interesting alternatives.

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The second major weakness of Scitovsky's analysis of human welfare is due to the economic evidence which he set out in *The Joyless Economy*, and which does not reflect the theoretical analysis. In fact, he argued theoretically that his analysis of people's choices between the different options was based on the underlying motivations and on the sources of satisfaction, rather than on the physical characteristics of the goods used. But he then cited evidence in terms of goods; and he contrasted, on this basis especially, the American style of consumption with the European one. Scitovsky was harshly criticised for this contrast. He accordingly acknowledged in the Preface to the second edition of his book that '[s]ome [...] aspects of our [American] life-style [...] seem to have changed noticeably since the time to which my statistics refer' (Scitovsky 1992a [1976]: ix).

Despite these weaknesses, Scitovsky did not revise either the reference to psychological arousal or the evidence on the contrasting consumption styles. However, he maintained the book's theoretical conclusions unchanged; and in so doing, he had admirable intuition because some subsequent facts indicated that he was on the 'right track'.

In fact, Scitovsky considered self-rated happiness, which was used in questionnaire surveys by Easterlin, to be 'our best available measure of human welfare' (Scitovsky 1986 [1973]: 23). This measure has recently evidenced a tendency to stagnate or even decline in the USA, while it has been on the rise in several European countries (see Chapter 6). Therefore, Scitovsky's contrast based on consumption styles that was disputed now emerges on the basis of well-being. Moreover, the modern psychology of well-being, which does not even mention the 'arousal approach', provides other interesting evidence in support of Scitovsky's analysis, as will be mentioned in the following chapters.

These observations on the 'arousal approach' and on the contrast between consumption styles suggest that *The Joyless Economy* can be read from two perspectives which intertwine and overlap: the perspective of the consumer in the product market, and the perspective of people in organising their lives. Scitovsky took both perspectives, but this makes his analysis ambiguous. Clarification of this ambiguity thus becomes crucial for correct understanding of Scitovsky's contribution and the criticisms brought against it.

In conclusion, Scitovsky put forward an analysis of human welfare which contains both interesting insights and major weaknesses – which, however, seem to be amendable. The insights enhance the understanding of the relationship between the economy and happiness, which is a long-standing issue in economics. The weaknesses to be remedied suggest that Scitovsky's book and related articles should be interpreted as a programme for research on human welfare, and not as a complete theory.

From this wider but less definite perspective, Scitovsky appears able to renew the thought on human progress of the earlier economists, to anticipate the Economics of Happiness, and to propose new insights into the broader concept of human welfare without losing sight of the modern theory of choice and opening the way for multidisciplinary research. In fact, on the theoretical side,

Scitovsky's programme can link the micro-level of economics, psychology, and other disciplines such as neurosciences to the macro-level of economics, sociology, and political science. On the empirical side, these same disciplines have recently provided a variety of evidence that can be seen as supporting Scitovsky's programme.

The Joyless Economy should therefore be reinterpreted, if the message contained in this title is to be properly understood, and taken up as a challenge for further research on human welfare. The next chapters will develop this reinterpretation with the help of related articles written by Scitovsky which further clarify the dynamic aspects of his analysis.

This chapter is thus introductory to Scitovsky's analysis. In particular, it begins with a biographical introduction, which is especially telling because knowing his main life experiences helps one understand *The Joyless Economy*. In fact, in writing the book, Scitovsky relived his passion and, at the same time, his concern for economics; he appreciated some life changes that he had the opportunity to make; he acknowledged the importance of the education that he had received at home and pursued around the world; he enjoyed working on the new and challenging project that he carried forward until his final years. He was a sophisticated consumer, as well, because he received a highly stimulating education and was always fond of cultural consumption.

Therefore, the next section gives some biographical information on Scitovsky, while Section 2.3 provides an overview of Scitovsky's research programme on human welfare. This overview serves to show how his research programme on human welfare can be disentangled from consumer theory. It also serves to show how Scitovsky resumed ideas from the past, and to determine whether his programme on human welfare can be also used to study new patterns of economic growth. Section 2.4 briefly discusses some interpretations of *The Joyless Economy*: it starts from the early reviews and then moves to more recent interpretations. Section 2.5 concludes the chapter by evaluating whether Scitovsky can be regarded as an 'outlier'. The answer will be in the affirmative, but it will be immediately added that he maintained important links with authors on the opposite sides of the debate.

2.2 Scitovsky's life and *The Joyless Economy*

Scitovsky's eventful life was a rich source of inspiration for *The Joyless Economy*, as he himself said on several occasions. But his life is interesting not just to understand the genesis of the book but also because many of Scitovsky's experiences may well illustrate some of its concepts and aims (Scitovsky 1976: xiv). A detailed biographical account is not necessary because several documents and articles on the subject can be found in the literature.[3]

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2.2.1 The role of education in a satisfying life

Scitovsky was born in Budapest, Hungary, in 1910, when the country was still semi-feudal. Scitovsky was always aware that the education which he had received in childhood and adolescence had strongly shaped his thought and the choices that then changed his life. Only in his eighties, however, did he fully realise the importance of his familial education by remembering when he observed the miserable lives of people who lacked such early formation.

In fact, at the end of the 1990s, Scitovsky wrote his *Memoirs*, in which he revealed interesting afterthoughts on the role of education, as illustrated by the following passage.

> I now feel that publishing that book [*The Joyless Economy*] was a mistake, because I could have made it very much better. It explored the idea that for a full and satisfying life we must not only meet our bodily needs but must always have or find readily available some challenging activity to keep us from getting bored; and that the prerequisite for that was education. [. . . T]he book dealt with boredom and it relief only from the point of view of ordinary people [. . .]. Boredom for them is a minor nuisance [. . .] I completely ignored the idle poor, the long-term unemployed [. . .] who have more leisure than they know what to do with and suffer from uninterrupted chronic boredom, a deprivation as serious as starvation [. . .].
>
> (Scitovsky n.d: 106–107)

The parents de Scitovskzy gave their son Tibor a very formal education, as suited the noble origin of the family testified by the 'de' in its surname. His father was Foreign Minister of a very conservative government for two years, and then the president of one of the Hungary's largest banks. But at the same time, both parents were very generous, because they used the father's 'very considerable income' not only to provide a private tutor for Tibor but also to take him on their travels in many countries to visit 'museums, art exhibitions, antiques stores, plays, concerts' (Scitovsky 1992b: 249). Because the entire family spent the summer holidays at Tibor's grandmother's estate not far from Budapest, he could alternate a sheltered city life of intense reading and studying with playing freely with his cousins in the countryside. This mix of experiences would help him to conceive a source of enjoyment different from material comfort.

2.2.2 Life as an active undertaking

There were two important turning points in Scitovsky's life. They exemplify his active but also his insightful way to take decisions (Bianchi 2012). The first came very early, and it was anticipated by Scitovsky's experience of studying at Cambridge in 1929–30. At that stage, he soon switched from international law to economics, so that he had the opportunity to meet Dennis Robertson, Maurice

Dobb, and his supervisor Joan Robinson, who influenced his subsequent thought. And then, having taken a job at his father's bank:

> I revolted: against the society around me and the banking career my mother wanted to ease me into. [...] When in revolt, one fights one's environment or flees from it. I fled, lacking the aggressiveness and ruthlessness of the revolutionary, foreseeing far worse to come in the shape of fascism.
>
> (Scitovsky 1992b: 249)

His motivation was clear: 'I became anxious to emigrate and found myself woefully unprepared to make my own way in the West' (Scitovsky 1995 [1991]: 224). In 1935 Scitovsky definitively emigrated, and he enrolled at the London School of Economics (LSE), which introduced him to a career as an economist.

The second important turning point in Scitovsky's life occurred in 1966, when he accepted a two-year appointment at the Development Centre of OECD in Paris, thus leaving the University of California, Berkeley. He had '[t]o ease the pains of divorce with geographical distance' (Scitovsky 1995 [1991]: 232), but he also had to live on half the disposable income to which he was accustomed (Bianchi 2012). Furthermore, he changed his research area from international economics to development economics.

In Paris, Scitovsky remarried, and developed a new research interest in motivational psychology which would induce him to write *The Joyless Economy*. He thus appeared to change his direction completely; in fact, however, he extended his interest according to the welfare orientation that characterised much of his work. '[W]hat [is] more natural than to look also at the effect on consumers' welfare of their own behaviour?' (Scitovsky 1995 [1991]: 234).

These experiences of change in the life course evidence the importance of the type of education received and the importance of the ability to set suitable goals.

2.2.3 Scitovsky's passion and concern for economics

When Scitovsky rebelled, he resented not only the plight of those who were less fortunate like the people whom he saw living in the slums of Budapest, but also 'the rigid social system that locked people into their places by making every job, every advance, almost every achievement depend on connections and pull' (Scitovsky 1992b: 249). In other words, he became aware not only of the social problem of poverty but also of the problem of the lack of competition and freedom of choice.

Choosing economics seems to have been the natural consequence of Scitovsky's desire to understand both of these problems better. But it was not an easy choice, because 'I never felt an irresistible call to economics and only took it up because I was anxious to stand on my own feet, prove my own worth' (Scitovsky 1986: vii). Scitovsky thus went to study in those institutions where the debate between the opposite positions on the equity/efficiency trade-off was

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most heated and advanced. At LSE in particular, Marxist versus conservative economists first, and then Keynesian versus anti-Keynesian economists, confronted each other in those dramatic years of the Great Depression (Scitovsky 1995 [1991]: 224–225).

Throughout his life, Scitovsky was interested in the failures of the market economy, but not because he believed in an alternative economic system, but because he thought that the working of the market economy should be improved. He criticised the excessive abstract reasoning of the majority of economists, but he used their familiar tools. He thus gained academic appointments at famous American universities.

Nevertheless, he maintained a questioning attitude which gave originality to his contributions to economics (Earl 1992) and which, towards the end of his career, led him into unexplored territories. For example, when studying market failures, he focused especially on price rigidity since the early article of 1941 (Scitovsky 1941), but he approached the problem by criticising the assumption of perfect knowledge about the products exchanged. He was thus induced first to observe the asymmetry of information between the two sides of the market, and then to investigate why consumers are less informed. He then approached the problem of consumer's skill and of failure to acquire it. Finally, in *The Joyless Economy*, Scitovsky passed from the skill to choose among consumer products to the skill necessary for drawing satisfaction from given economic and non-economic conditions (Scitovsky 1951; 1995 [1991]: Ch. 14).

Another example is Scitovsky's study on profit maximisation by businessmen (Scitovsky 1943). He did not refrain from taking the standard economic approach of individual constrained maximisation. However, he observed that the motivation of businessmen is to make money in itself, that is, as an index of their success in life. This may explain the widespread phenomenon of businessmen's workaholic behaviour. The ordinary motivation of consumers is instead to be satisfied in buying goods and leisure.[4] This line of reasoning went further, however, because it led Scitovsky to wonder: 'if a country's superior economic performance is due to its inhabitants' ambition to maximize their profits or money income, is there no danger that their enjoyment of life might suffer as a result?' (Scitovsky 1995 [1991]: 235; see also 1943). This question will also underlie *The Joyless Economy*.

2.2.4 Excitement for novelty

Intellectual exploration of novel lines of reasoning was a major excitement for Scitovsky, so that it is not surprising that he found *The Joyless Economy* 'by far the most enjoyable of my books to write' (Scitovsky 1992a [1976]: xii). He also attempted to understand why. He provided the interesting answer that: 'working on that book has greatly added to my self-knowledge and understanding of others' (Scitovsky 1995 [1991]: 236).

However, the first reactions to his ideas by the community of economists were negative. His complaints are striking:

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> I tried to get financial support for research assistance, secretarial help, and data collecting, and to free some of my time from teaching, but my enquiries were rebuffed and my formal application rejected by just about everybody. [. . .] The last blow fell when I began trying out parts of the book in lectures. *Economists are deeply divided into the Establishment and its radical-left critics, but they were like a harmonious and happy family in their unanimous hostility to my ideas*.
>
> (Scitovsky, 1976: xv, emphasis added)

The fact that the economists on both political wings reacted in the same way justified Scitovsky's perseverence in exploring a 'third route'. In fact, no less impressive was his counter-reaction:

> I was taken aback at first by such an unbroken string of negative reactions, but then took comfort in its fitting in so well with one of the main points I make here: that man wants novelty, but cannot take, and gets disturbed by, too much of it. [. . .] Such reception, of course, is no proof of excellence; nevertheless, I decided to be reassured by it.
>
> (Scitovsky 1976: xv)[5]

Therefore, it seems that the same motivation underlying the excitement of writing such a new and exploratory book enabled Scitovsky to interpret the reactions of his critics, thus giving him the strength to persevere in his project despite the financial problems and criticisms.[6]

The following facts to a large extent vindicated Scitovsky by the early negative reaction, because the second edition of *The Joyless Economy*, published sixteen years later, was a success. Indeed, it had the honour of being classified as one of 'The hundred most influential books since World War II' by the *Times Literary Supplement* on 6 October 1996. In the same year, the *Critical Review* organised a Symposium devoted to discussion of Scitovsky's book.[7]

2.3 *The Joyless Economy* as a research programme on human welfare

2.3.1 Scitovsky's research programme in a nutshell

Chapter 1 began by posing the question of whether the economy is able to ensure that people's lives are happy. In answering the question, Scitovsky developed an original research programme by providing insights concerning method and content. The following quotation presents the programme in a nutshell:

> many of us do not know enough about what life and the market have to offer to make adequate use of it. That can create personal as well as social problems and the economy can be responsible for bringing about circumstances

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> in which it creates them; but economists are not, as a rule, the people to eliminate those problems, at least not in their capacity as economists.
> (Scitovsky 1995 [1991]: 236)

Starting from these statements, let us formulate Scitovsky's research programme in compact manner, while leaving details and textual references to the following chapters. Links will emerge with earlier authors, and especially with Mill's thought, as captured by points (i)–(x) in 1.2.2.

First, according to Scitovsky, people may be unable to choose the market opportunities that well match what they are able to do because they do not completely know the opportunities. In Scitovskian terminology, this inability is a lack of 'life skill', and the incomplete knowledge emerges as 'fundamental uncertainty' (see 3.2.3) because it concerns the consequences of the choices available. People's pursuit of well-being may thus be constrained by the lack of life skill in a way distinct from the constraint due to the scarcity of material resources. Scitovsky thus departed from the utilitarian tradition, where choices depend on the hedonic consequences, and in particular from Mill's position as captured by point (ii). However, both authors attached crucial importance to the same concept, which was called human 'higher capacities' by Mill and 'life skill' by Scitovsky (point [v]; see Chapter 3).

Second, the lack of life skill is not inevitable because people can acquire it through learning, and through positive experience. Satisfaction arises as an exciting feeling when people learn novelty that is adequate to their life skill, so as to trigger further development of life skill. Scitovsky called this type of learning activity not simply 'stimulating' but indeed 'creative' because it entails new understanding, and it may even entail something new and valuable. By contrast, dissatisfaction arises when people experience novelty inadequate for their life skill because they find it too easy or too difficult to understand, and eventually uninteresting and boring. Scitovsky therefore referred to a multidimensional concept of individual welfare like Mill had done before him. However, the importance of learning and of the associated uncertainty makes it difficult to take individual welfare as the goal to guide choices. Scitovsky thus departed from Mill in some respects (point [ii]), and from utilitarianism altogether (see Chapter 3).

Third, if life skill is lacking, 'personal problems' arise because people will tend to compensate the pursuit of enjoyable learning with the immediate gratification of consumption, which Scitovsky called 'comfort'. However, this type of satisfaction is vulnerable to habit and imitation of others, which have deflating effects. In the worst case, addiction arises. In particular, people who are deprived of both material resources and life skill are more prone to engage in risky and violent behaviours in order to escape from chronic boredom. These unfortunate outcomes were also predicted by Mill (point [vi]; see Chapters 4 and 5).

Fourth, if life skill is lacking, also 'social problems' arise because the imitative and risky behaviours that may ensue generate negative social externalities. The deep-lying reason for this is that lacking life skill is the result of early

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unsuccessful social experience. This is in line with Mill's thought on moral feelings and behaviours (points [iii]–[iv]; see Chapters 4, 5, and 6).

Fifth, the economy can be 'responsible' for these personal and social problems for several reasons: for example, insecurity in the labour market, social competition, and producers' pressure on consumers' choices. This point is one of Scitovsky's most original contributions, and it makes him less optimistic than Mill and Marshall (see Chapter 6).

Sixth, Scitovsky nevertheless did not lose confidence in the market as the locus for the exercise of freedom (points [viii]–[ix]). In particular, '[c]apitalism [...] is, or at any rate has been, redeemed by two great merits: the impersonal nature of its constraints, and its unequalled flexibility – flexibility in exploiting opportunities, absorbing shocks, adapting to changed circumstances' (Scitovsky 1986 [1980]: 85).

Seventh, Scitovsky shared with Mill the idea that education in the family and at school plays a crucial role in the proper development of people's capacity, that is, of their life skill (point [vii]). He further stressed the role of culture, and in particular of the arts, which should inform education. Far from being luxury goods, the arts are important for exercising the imagination, which is a crucial ingredient of successful life choices, that is, to exercise the Millian 'art of living' (point [x]; see Chapter 8).

These points are synthesised in the first part of the above quotation from Scitovsky. In the second part, he made criticisms of economists which led him to introduce large doses of psychology into his analysis, despite the scepticism of his colleagues. He was indeed convinced that economics was unable to explain certain modern facts because of its starting assumption on human choices.

Scitovsky's lifelong concern 'was to make economic theory more realistic and thereby more useful', and in particular 'to understand and explain the nature and sources of our real-life economy's shortcomings' (Scitovsky 1995: vii). He referred in particular to his 'unease with the profession's overly simplistic assumption on consumer rationality' (Scitovsky 1995: x). He however meant '[n]ot that our behaviour is irrational; it simply turns out to be much more complex and subtle than those who merely assume rationality are wont to believe' (Scitovsky 1992a [1976]: xiii). In order to make the analysis more realistic, Scitovsky thus introduced, as summarised above, 'fundamental uncertainty', habits and addiction, which will be called 'internalities', and then social externalities.

Scitovsky enriched his analysis with these aspects by drawing heavily on psychology. He in fact drew on specific branches of psychology, that is, the physiological and motivational ones, but he warned that he was only taking the first steps of a far-reaching analysis because his ultimate aim was to 'pave the way for the construction of better models, in the hope of creating a more usable framework for policy' (Scitovsky 1992b: 251). Specifically, Scitovsky clarified the methodological approach that should be adopted as follows:

> [t]he scientific approach, to my mind, is to observe behavior – different people's behavior in similar situations and the same person's behavior in

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> different situations – in order to find, contained in those observations, the regularities, the common elements, the seeming contradictions and the resolution of those contradictions which then become the foundations of a theory to explain behavior.
>
> (Scitovsky 1992a [1976]: xiii)

Scitovsky's approach has thus an important inductive component, and psychology is useful in this regard. But this quotation further specifies that he was interested in the use of psychology not only to better understand 'different people's behavior in similar situations' but also 'the same person's behavior in different situations.' The former approach is more conventional, both in economics, including the recent branch of Behavioural Economics, and in psychology. The latter approach is rarer, and has only recently been explored by interdisciplinary economic/psychology studies on human personality (see Heckman and co-authors' works in 3.4.1).[8]

When Scitovsky talked about 'our real-life economy's shortcomings', he had in mind not only the problem of unemployment but also the more intriguing one of the 'insufficiency of money and what it can buy for providing a full, interesting, and enjoyable life' (Scitovsky 1997: xxii). To be concrete, he referred to the important case of the USA, as he stated in the Preface of *The Joyless Economy*:

> The book analyzed the psychology of human motivation and satisfaction in order to explain why [American] unprecedented and fast-growing prosperity had left its beneficiaries unsatisfied.
>
> (Scitovsky 1992a [1976]: vi)

This appeared to be a new subject when the book was published, and today, the precision and a number of the predictions on the USA contained in the book are no less surprising. In fact, the USA has shown relatively poor dynamics of various welfare and social indicators in the most recent decades (see Chapter 6 for the evidence). Second, Scitovsky predicted that the gains from technical progress would not be used to reduce individual working hours. He thus went counter to Keynes's guess that people would enjoy a great deal of leisure a century later, that is, in around 2030. Indeed, individual working time in the USA has ceased to diminish, and it has even slightly increased (see Chapter 7). Third, Scitovsky predicted the phenomena of overeducation and decline of job satisfaction, which are not at all excluded by current investigations (see Chapter 6).

It might be possible that, as Scitovsky developed Mill's research programme to a significant extent without being a Utilitarian, similarly his predictions could be fulfilled without guaranteeing that the psychological and empirical foundations that he provided for his analysis were robust. The following subsection introduces this problem.

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2.3.2 The ambiguity between consumer theory and research on human welfare

Scitovsky drew great inspiration from his life experiences in order to understand the sources of individual welfare or well-being, but his academic research had led him to study the markets, and, in particular, the product market. It thus seems natural for him to attempt to use his analysis of the product market to approach his broader interests in human welfare.

Scitovsky first focused on the consumer theory. The consumer model that he took as a reference in order to show its lack of realism and to attempt an alternative was the model of revealed preference. His point of attack was the consumer's information, and its asymmetry with respect to that of the producer.

Scitovsky developed this point by observing the difficulty of knowing the available options well when they are highly heterogeneous. He took the case of the 'housewife's difficult task' of managing the consumption basket for the entire household (Scitovsky 1992a [1976]: 265). Since Scitovsky himself was a demanding consumer, having been educated to refined tastes, he immediately appreciated the housewife's skill.

When he considered psychology, the 'arousal approach' 'fitted like the pieces of jigsaw puzzle' into what he had in mind (Scitovsky 1986 [1985]: 184) because it provided an instrument with which to study the heterogeneity of the available options in alternative to the model of revealed preference. Since the consumer can acquire information on consumption especially through experience, Scitovsky introduced the notion of 'consumption skill' as information and experience cumulated in the past. The consumption that requires skill to be appreciated becomes 'skilled consumption'. The more skilled the consumer is, the more she will be satisfied because the more she is able to appreciate more sophisticated products.

Thus far Scitovsky's analysis appears to have been closely focused on consumer theory. But it then became ambiguous because it mixed with his research on human welfare and moved in two directions, that is, when the option set is extended to companionship as a distinct option, and when the learning process is extended from consuming on the market to early family experience during infancy. These two directions are already present in *The Joyless Economy* (e.g. 1992a [1976]: 195–197, 227), but they become more evident in the later works, when, for example, Scitovsky introduced 'life skill' in substitution of 'consumption skill' in the Appendix to the second edition of the book, and when he focused on early education (Scitovsky 2000). Thus motivations of two types are mixed together. On the one hand, the motivation is typical of consumers who attempt to escape from basic deprivations and then to find stimulations in the products market, and who may specialise in dealing with specific types of products. On the other hand, the motivation is typical of people who attempt to organise their lives by taking decisions on their relationships, their education, and work.[9] They may be even become satisfied consumers, that is, satisfied with the products that they consume, but dissatisfied with the lives that they lead, that

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is, dissatisfied with themselves for the unfortunate decisions that they have taken in the past, and with their inability to change their conditions.[10]

Scitovsky did not clearly realise when he was writing the book – and perhaps also afterwards – that enjoyable learning is the only crucial new ingredient for his consumer theory, while for his research programme on human welfare, the crucial new ingredient is twofold: enjoyable learning and social relationships, that is, parenting, companionship, and active participation in society. Only if enjoyable learning takes account of social relationships as ends can the acquired skill prevent the vulnerability of a life exclusively focused on consumption. Only if social relationships take account of enjoyable learning will companionship not become closed to external relations, thereby increasing social competition, or even social conflict. Human welfare is hampered if enjoyable learning and social relationships remain disconnected.

The fact that the two lines of inquiry on consumer theory and on human welfare coexist in *The Joyless Economy* transpires in the subtitle of its first edition, which is: *An Inquiry Into Human Satisfaction and Consumer Dissatisfaction*. In the second edition of the book, Scitovsky changed the subtitle by dropping, in particular, the reference to the consumer. He thus probably reacted to the criticisms raised in the reviews of the first edition, which were largely centred on the American vs. European contrast of consumers' styles (see 2.4.1). One may even speculate that Scitovsky realised that people's main dissatisfaction concerns their consumption not as consumers but as individuals.

2.3.3 Extending Scitovsky's programme on human welfare to economic growth

Since the Enlightenment, improving economic conditions, developing personal capacities, and increasing happiness have been conceived as parts of a possible self-sustaining process that involves the entire economy and society, thus becoming human progress (see Chapter 1).

The French encyclopaedist Nicolas de Condorcet was confident that the historical achievement of high levels of human knowledge would make it possible to disseminate basic knowledge to everybody, thus revealing and valuing talents. This would trigger happiness and human progress through two channels – technical progress and better management of the economy – and thereby yield both improvements of economic conditions and the spread of these benefits (see 1.2.1). John Stuart Mill observed that human capacities can grow like the branches of a tree if properly educated, so that, if basic needs are satisfied and freedom is ensured, people can develop moral feelings and skills, and apply them in production and exchange. Growth of material production may even lose importance in the future if scope is left 'for improving the Art of Living' (see 1.2.2). Marshall took a similarly hopeful view of the possibilities of human progress. He especially saw the self-reinforcing character of this progress in 'the delight that people have in the training of their own faculties' because this would benefit the advance of knowledge, and hence of economic activity (see 1.2.3).

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In order to carry forward this comprehensive inquiry into human progress, Scitovsky's research programme on human welfare should have been extended to economic growth. Unfortunately, *The Joyless Economy* is not focused on this extension; economic growth is instead taken to be exogenous, and its effects on welfare, rather than its determinants, are investigated. Nevertheless, if Scitovsky's arguments and insights are reinterpreted as a unitary framework for research on human welfare, policy suggestions emerge in the long run, and economic growth will be inevitably affected (see Chapter 8).

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2.4 Different interpretations of *The Joyless Economy*

2.4.1 Early reviews

The ambiguity in Scitovsky's analysis between consumer theory and research programme on happiness gave the community of economists an opportunity to make easy criticisms when the book was published. The reviews of the book that appeared in the economic journals bear witness to this reaction; but even recently, critical interpretations of the book have relied on that confusion.

Alan Peacock's review in the *Journal of Economic Literature* and Aufhauser's review in the *Economic Journal* were largely devoted to the weaknesses of Scitovsky's comparison between the USA and the European styles of consumption (Peacock 1976; Aufhauser 1976). Peacock reasonably observed that American consumers cannot be treated as a single unit as in *The Joyless Economy*; and Aufhauser reasonably observed that the American type of consumption is shaped by the institutional development of production, as well as by consumers' tastes. Aufhauser also devoted some space to discussing the concept of 'novelty', but he focused on the special meaning given to it by Scitovsky in terms of arousal as measured by the electroencephalograph (EEG). Scitovsky thus seemed to be proposing the untenable idea that 'the major problem with the American economy is this: the market share of EEG-evoking activity is too small' (Aufhauser 1976: 911).

Peacock and other reviewers also observed that Scitovsky's critique of the rational choice theory was directed against 'straw men'. They argued that the developments of the rational choice theory were able to account for non-market goods as choice options, besides the market ones, and that economic rationality did not necessarily imply that people never make mistakes, since they may be short of information (Ballard 1978; see also Zikmund 1977).

These criticisms, however, do not affect Scitovsky's research programme on human welfare if it is disentangled from his consumer theory. In particular, the distinction between market and non-market goods may be relevant for consumer theory, but are not particularly relevant for the programme on human welfare, for which the distinction between the motivations that underlie choices is important. Second, while the reviewers implicitly referred to short-run mistakes, which are more significant for consumers, Scitovsky referred to long-run ones. Indeed, consumers can learn new information about specific products without

altering their tastes for the characteristics that they have been searching for. They thus maintain consistent behaviour (see 2.4.2). But when the lacking information regards experiences that may have changed people's life skills, then they may remain rational as consumers but dissatisfied with their lives.

2.4.2 Recent interpretations

Recent interpretations of *The Joyless Economy* seem to pay more attention, with respect to early reviewers, to Scitovsky's distinction between comfort and novelty. However, the confusion between his consumer theory and research programme on welfare still persists, thus making Scitovsky more vulnerable to criticisms. In particular, when the focus is on comfort, the interpretations tend to regard Scitovsky's analysis as uninteresting and empirically weak; when the focus is on novelty, the interpretations tend to regard Scitovsky's analysis as interesting but theoretically weak. Let us consider the two cases in turn.

In analysing the pursuit of comfort in modern consumers, Scitovsky maintained that the latter have lost much of their sovereignty. The reason is that opulence has reduced excessive stimulations arising from basic needs, and it has made people prone to the influence of producers in making choices because of their limited knowledge about their own preferences when their basic needs are satisfied. Mass production has developed and strengthened this process by also providing friendly-to-use products. It has consequently discouraged challenging learning by consumers and encouraged imitation and conformism (Scitovsky 1986 [1972]: Ch. 5; 1992a [1976]: Ch. 1). This analysis appears to follow that of John K. Galbraith in *The Affluent Society*, published in 1958. In fact, this book criticised the modern market economy as being unable fully to satisfy consumers because their utility maximisation is conditioned by the endeavour of producers to maximise their profits. Consumers' preferences are thus completely moulded.

Galbraith's book was strongly attacked by Milton Friedman and his colleagues (Friedman 1977). The main criticism was that Galbraith's claims severely lacked empirical support and were thus regarded as unscientific. Therefore, when Scitovsky's position is associated with that of Galbraith (Edwards 2012), it is weakened and loses interest.

However, although Scitovsky followed Galbraith in disputing consumer sovereignty in modern market economies (see 8.2.1), he departed from Galbraith's idea that only producers bear the responsibility for moulding consumers' preferences in an attempt to expand the market for comfort.[11] Indeed, Scitovsky admonished that '[e]conomists know a lot about what makes producers tick, while they know almost nothing about the motivations of consumers' (Scitovsky 1992a [1976]: 6). He therefore assigned to consumers, with the help of psychology, the responsibility for having insufficient relevant knowledge. Their lack of sovereignty could thus be remedied with proper learning, at least to some extent (Scitovsky 1962). A problem arises when options become very heterogeneous, as when relationships with others are necessarily considered together with enjoyable learning. In this case, in fact, the required knowledge becomes far more difficult to define.

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The other main interpretation of *The Joyless Economy* focuses on novelty, since this insight of Scitovsky appears useful for understanding innovations in consumption. Indeed, recent information and communication technology has accelerated the rate of innovation of the goods produced and consumed in every product market, even the market of culture. Not only have products and their quality greatly changed, but new consumer behaviours continuously emerge. For example, in the 1960s the washing machine made the housewife's work simply more efficient; but the recent electronic devices enable the consumer to do things previously inconceivable. Scitovsky perhaps had this in mind when he wrote the Preface of the second edition of his book, in which he acknowledged that American consumers had greatly changed since the time of the first edition.

The old analytical instruments are, therefore, not sufficient. Typical is the attempt by Lancaster to maintain conventional utility maximisation by recasting consumer preferences over characteristics instead of goods (Lancaster 1971). This idea, however, cannot be applied when new goods imply new characteristics, thus also inducing new behaviours. Scitovsky's treatment of novelty in consumer choice therefore becomes interesting because, in this latter more general case, it offers new analytical instruments with which to address old problems in consumer theory (Bianchi 2002).

For example, Scitovsky's idea that individuals tend to avoid both prolonged hypo-activity and prolonged hyper-activity helps explain why they look for novelty when basic needs are satisfied. When the novelty is eventually revealed, they renew the search for it, thus accumulating consumption knowledge. This pattern has been used to explain the problem of why the supply of cultural products continues to find consumer demand for it (Chai 2012), and, more generally, why there is no satiation of market products even though human needs appear to be satiable (Witt 2009; see also 5.2.5).

Scitovsky's approach to consumer theory has further helped research in this field when specific markets for consumers, such as tourism and fashion, are studied (Chai 2012; Andreozzi and Bianchi 2007). Scitovsky's approach is also appreciated because of its generality, as Juliet Schor effectively argued:

> treatments of hedonistic behavior explain tourism expenditures but not the demand for mattresses; identity-seeking explains clothing purchases but not the choice of life insurance; psychological deficits can explain compulsive shopping or impulse buying, but not what's in the grocery cart week after week. The framework of *The Joyless Economy* can analyze all these different kinds of consumption.
>
> (Schor 1996: 497)

However, a critical interpretation of Scitovsky's analysis also emerges from these studies on consumer theory. The first criticism is that boredom seems to be an implausible reason to search for novelty because it needs to be extreme, while the complex nature of the goods and services available in affluent economies tends instead to be stressful for consumers (Chai 2012). The second criticism is

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that Scitovsky conceived skill acquisition to appreciate novelty as an investment similar to productive investment in human capital, that is, intentional and costly in terms of forgone current utility. The acquisition by consumers of skills is instead facilitated by non-cognitive learning processes, and by social interaction. These two criticisms thus pave the way to the argument that modern consumption patterns enable consumers both to become specialised in appreciating novelty and to continuously to renew their satisfaction, while comfort becomes of little importance and complementary to novelty, rather than being a substitute for it (Chai 2012; Bianchi 1998).

These criticisms may be relevant within the interpretation of *The Joyless Economy* as a study on consumer theory. However, they become unfounded if the book, together with Scitovsky's companion articles, is interpreted as a research programme on human welfare. In the case of the consumer theory, the relevant skill is the ability to choose among consumption goods of a certain type. This requires specialised knowledge about the properties of those goods which is usually acquired through experience in the field. In the case of human welfare, the relevant skill is the ability to organise one's life, which requires knowing what to do with consumption goods, and, more generally, what life goals are to be pursued. In this latter case, skill acquisition begins during childhood through the experiences of relating with others, consuming, working, and idling. Scitovsky was therefore far from conceiving skill acquisition for life as akin to productive investment. By contrast, unfortunate experiences may undermine the acquisition of this skill, so that life goals may become unclear, and boredom may arise even in the midst of technological goods. Consuming market products offer the most rapid form of compensation for this discomfort, although this may be of little help because (at least) of habits.

A further common interpretation of *The Joyless Economy* emerges from the Economics of Happiness in the form of citations rather than a proper analysis. In fact, Scitovsky's book has been cited several times in this branch of economics; and the most frequent and authoritative citations refer to the notions of comparison consumption (Frank 1997; Oswald 1997; Blanchflower and Oswald 2004; Bruni and Stanca 2006). However, these citations mainly refer to comfort, while Scitovsky's most interesting insights regard novelty; and his research programme on happiness concerns the dynamic interaction between novelty and comfort.

When studies of the Economics of Happiness address Scitovsky's book by providing a brief summary, the reader is left with unsatisfied curiosity because the reported key concepts and links seem rather intriguing but are not properly discussed and developed. For example, Richard Layard devoted half a page of his book on *Happiness* to Scitovsky, and precisely in the section titled 'Our goals' (Layard 2005). He first claimed that setting goals is important for happiness, and then he introduced Scitovsky by observing that the lack or excessive goals may cause boredom, and may make comfort attractive. Unfortunately, Layard did not resume this argument in the rest of the book, not even when he listed the sources of happiness in the conclusions. Another example is Bruni

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(2008) and Bruni and Stanca (2008), who interpret *The Joyless Economy* as being able to explain the happiness-income paradox by claiming that comfort goods substitute the more enjoyable interpersonal relationships as types of stimulating goods. This result is allegedly due to technical progress, which is greater in the production of comfort goods. Unfortunately, their empirical test was not extended to these propositions, but was limited to the negative correlation between relational activities and television viewing as a prototype of comfort.

2.5 Is Scitovsky an outlier?

The answer to the title question should be 'yes', but immediately adding that Scitovsky was not an 'outsider'. In fact, the originality of *The Joyless Economy* is surely higher than that normally accepted by the economists, and perhaps also by the other social scientists, whatever their inclinations may be. But Scitovsky's originality was not so great that fundamental links with economics were lost.

Scitovsky's thought on individual welfare is difficult to include in any past or current approach. It can be included neither in classical liberalism, although it greatly appreciated individual freedom, nor in American institutionalism, although it recognised the importance of contingent institutional constraints. It cannot be included in Utilitarianism despite sharing several aspects of J.S. Mill's thought; but it is also opposed to *a priori* ethical doctrines such as Puritanism. It drew heavily on physiological psychology, but closer inspection shows that it can be better supported by other streams of psychological research.

2.5.1 Scitovsky and modern economics

Scitovsky's outlier position with respect to conventional economics can be evidenced by comments made from two opposite sides. One is normalising, since it predicts that: '[b]y introducing different kinds of commodities, externalities, interpersonal interdependence in preferences, and endogeneity in preferences, many of Scitovsky's basic insights can be incorporated into the neoclassical model' (Schor 1996: 498). The other is a subverting comment stating that: '*The Joyless Economy* question[ed] with great style the very foundations of established economic thinking' (Sen 1996: 481). A similar contrast arises in regard to paternalism. On the one side: 'It is not difficult to find grounds for paternalism in Scitovsky's argument' (Friedman and McCabe 1996: 475). Conversely: 'The last thing that can be said about *The Joyless Economy* is that it is paternalistic' (Sen 1996: 485).

Contrasting comments on Scitovsky's position also regard the private vs. public contrast. On the one side, Scitovsky was criticised because he overlooked public goods in his comfort/novelty dichotomy (Schor 1996); on the other, he was criticised for paving the way for the introduction of public goods into the economy to mitigate externalities of people's preferences (Friedman and McCabe 1996).

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But an even more basic issue regards the nature of Scitovsky's approach, which he placed between 'radical' economics and 'orthodox' economics (Scitovsky 1986 [1973]: 19). On the one side, it was criticised as being too focused on the limits of individuals in pursuing their well-being, rather than on the conditioning socio-economic structure (Schor 1996). On the other side, it was criticised because the definition of individual well-being should be subordinated to the definition of individual freedom defined by the extent of the choice sets (Friedman and McCabe 1996). Both sides therefore warned against conceiving well-being as based on human motivation.

Despite this uncomfortable position, Scitovsky maintained an independent line of inquiry, but without losing sight of the economic type of reasoning. This will be extensively shown in the rest of the present book, while here a distinctive approach is adopted. It will be observed how in certain respects Scitovsky's analysis appears 'dangerously' close to that of an economist belonging to one or other of the two opposite sides of the debate. These two economists are Amartya Sen and Gary Becker.

Both Scitovsky and Sen are critics of the rational choice theory, and both of them regard the ability to exercise freedom as central for the individual, together with her economic conditions. However, while Sen did not provide a choice theory, since his Capability Approach is rather a method for evaluation, Scitovsky did so, even if his choice theory was not 'rational' as conventionally understood. This was appreciated by Sen, although he pointed out that 'intrinsic freedom', that is, the positive valuation of a greater option set per se, was overlooked in Scitovsky's analysis, and that: 'people['s…] actual choices can be fully in line with the permissible behaviour patterns under the theory of revealed preference' (Sen 1996: 487). These criticisms, however, seem directed more against Scitovsky's consumer theory than against his programme on human welfare.

The approaches of both Scitovsky and Sen aimed to gain a better understanding of individual welfare over and above economic conditions. However, Scitovsky paid especial attention to the individual's states of mind, including the emotional ones, in order to investigate choice. Sen instead focused on the objective evaluation of individual welfare by recommending reason and scrutiny. He even criticised the use of the individual's states of mind for such evaluation because it is subject to psychological 'adaptation' (Sen 1999). Scitovsky recognised this latter fact as a component of his analysis, which, differently from Sen's, is a dynamic analysis (Pugno 2008a, 2015).

Comparing Scitovsky with Gary Becker may appear uninteresting because of the stark contrast between their views on rationality. In particular, Becker assumes perfect foresight and full knowledge in his model of addiction (Becker and Murphy 1988), while Scitovsky assumed some myopia and limited knowledge about the consequences of choices when novelty is involved.

Nevertheless, both Scitovsky and Becker maintain that preferences are endogenous, and that they change over the individual's life cycle. They thus depart from conventional economics. According to Scitovsky, 'tastes are […]

constantly changed by the accumulation of experience' (Scitovsky 1992a [1976]: 5), and early education is especially important in this regard (Scitovsky 2000). According to Becker, 'the implicit assumption [in modern economics is] that the main determinants of preferences are the basic biological needs for food, drink, shelter, and some recreation,' while in fact all these goods and activities 'are determined by considerations that have almost nothing to do with basic biological need.' Rather, Becker (1996: 3) points out, these choices depend on 'childhood and other experiences, social interactions, and cultural influences.' He thus 'retains the assumption that individuals behave so as to maximize utility while extending the definition of individual preferences to include personal habits and addiction, peer pressure, parental influences on the tastes of children [etc.]' (Becker 1996: 4). He concludes: 'The direct linkage between present and future utilities – not whether the utility functions are considered stable or unstable – is what distinguishes this analysis from the more conventional one' (Becker 1996: 6).

Therefore, Scitovsky's and Becker's analyses of preferences have an interesting aspect in common which helps Scitovsky to maintain an important link with the conventional economic way of thinking. All the other fundamental aspects are different. In particular, the relationship between the addictive and the non-addictive option is important for Scitovsky's analysis because the two underlying motivations make the two options substitutable. Becker (and his co-author) is instead interested in the substitution between the current utility and future utility of the addictive option (see Chapter 5).

2.5.2 Scitovsky, Utilitarianism, and Puritanism

Scitovsky was not a Utilitarian, although he seemed to follow and develop Mill's research programme. But he was also against *a priori* ethical doctrines such as Puritanism. The Millian aspects of Scitovsky have been evidenced in 1.2.2 and 2.3.2. Here it can be stressed that he followed the distinction that Mill introduced with Bentham in regard to a key aspect of Utilitarianism: the different qualities of utility. In fact, according to Scitovsky, comfort and novelty are two different sources of satisfaction, and pains and pleasures do not have the same dimension. Following Mill's line of thought this has the important implication, as Sen noted, of 'denying the usefulness of some homogenized magnitude of utility' (Sen 1996), as the standard utility theory assumes.

Scitovsky's analysis cannot therefore be ascribed to consequentialism, according to which human actions should be judged by the value of their consequences, as implied by the standard utility theory. In fact, since Scitovsky introduced novelty into the individual's choice set, the consequences of this option cannot be known in advance. Also in the case of comfort and addictive behaviour, Scitovsky observed that people normally take decisions 'without full awareness' of their consequences, as in the case of a simple habit or even harmful addiction (Scitovsky 1992a [1976]: 129). Externalities make foresight even more difficult.

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Scitovsky's position does not imply that his analysis requires *a priori* prescriptions for human conduct. People's choices in given circumstances – according to Scitovsky – are due to their motivations, which arise from their knowledge and experience accumulated in the past, that is, from their life skill. In the case of novelty, Scitovsky also referred to the individual's imagination as a skill helpful for representing possible consequences in conditions of limited knowledge (see Chapter 3).[12] Therefore, in Scitovsky's analysis, people are only partially guided by the past because they are concentrated on the present, being in exploration of novelty, and on their capacity.

Indeed, Scitovsky harshly criticised *a priori* prescriptions when he discussed the Puritan ethic in *The Joyless Economy*. The Puritan prescriptions are based on 'get[ing] satisfaction from work and rely[ing] on consumption merely to provide the necessaries and comfort of life' (Scitovsky 1992a [1976]: 207). Consequently, these prescriptions are 'against stimulation and in favour of comfort' (Scitovsky 1992a [1976]: 205), thus frustrating the very source of freedom (Scitovsky 1992a [1976]: 78).

According to Scitovsky, Puritanism is a heritage that had pervaded American society and shaped the behaviours of Americans. Although he devoted several pages of his book to this topic, in an article written a decade later he nevertheless recognised that the 'puritan ethic seems so very much a matter of the past' (Scitovsky 1986 [1972]: 62).

2.5.3 Scitovsky and psychology

Scitovsky was no less original when he considered psychology. Being dissatisfied with how economics overlooked irrational behaviour, inconsistent and inconstant preference, he began to search for explanations in the psychology of motivations. He was attracted by the studies of physiological psychology because of '[t]he close correspondence between the economists' insights and the psychologists' experimentally based theory' (Scitovsky 1986 [1985]: 184). He thus drew on the works of the two psychologists Joseph Hunt and Daniel Berlyne (Scitovsky 1992a [1976]: 24, 309–314, 317) who departed from early psychological behaviourism (Scitovsky 1992a [1976]: 15).[13] In fact, Hunt (1965) described a kind of behaviour different from that based on drives and non-nervous tissue deficits which was typical of behaviourism. Hunt instead studied intrinsically motivated behaviour as a reaction by the human information-processing system to the stimulus of incongruity – that is, the discrepancy between the actual and the expected level of the stimulus – in order to reduce it. Berlyne (1960) depicted individuals' reactions to incongruity by using the Wundt Curve in terms of stimulus complexity and individuals' arousal, thus conceiving this reaction as a physiological need. That curve was originally proposed by Wilhelm Wundt, who found through experiments an inverted U-shaped relationship between pleasantness and the intensity of a certain stimulus (Wundt 1874).

This physiological approach, however, does not seem necessary to support Scitovsky's economic analysis, although it may help as an illustrative device. The following chapters will provide arguments to substantiate this claim, and they will briefly show how other stronger psychological approaches, largely based on experimental and survey methods, are instead able to provide supporting evidence. For example, the most developed approach in motivational psychology was originally proposed by Edward Deci and Richard Ryan, and it was able to provide interesting evidence on intrinsic motivations, their relationships with other kinds of motivations, and the consequences on well-being (Pugno 2008b). Scitovsky was already aware of this approach, but he did not realise its relevance (Scitovsky 1986 [1985]: n. 13). Other psychological approaches useful for Scitovsky's economic analysis can be mentioned: Bowlby's attachment approach (see 4.4.1) and the psychology on personality (see 3.4.1) in support of how a healthy life skill can develop; the studies on curiosity in support of the importance of the search for novelty in human well-being (see 3.4.2).

Therefore, Scitovsky cannot be necessarily linked to a single specific approach in psychology. Even the link with Herbert Simon, who attracted such great interest from economists that he won the Nobel Prize in economics in 1978, seems surprisingly tenuous (Earl 1992: 14–15). In fact, Scitovsky recognised Simon's contribution of 'infusing' psychology into the general framework of economics, but he maintained his position by observing that Simon was more linked to the theory of the firm, while his own field of inquiry was different (Scitovsky 1988: vii). It should also be observed that Scitovsky's concern with economic rationality differs from Simon's bounded rationality approach. While Simon focused on the limited human capacity to compute information for an optimal choice, Scitovsky referred to the human difficulties of finding and capturing the information relevant to a satisfying choice.

To conclude, mention should be made of the distance that Scitovsky maintained from Sigmund Freud, whose thought was extremely popular at his time. The reason was that Freud relied on the drive theory, according to which:

> The nervous system is an apparatus having the function of abolishing stimuli which reach it or of reducing excitation to the lowest possible level; an apparatus which would even, if this were feasible, maintain itself in altogether unstimulated condition.
>
> (quoted in Scitovsky 1986 [1973]: 16)

According to this theory, there is no internal stimuli to motivate action and to achieve well-being because – according to Scitovsky – '[t]his "unstimulated condition" used to be considered the height of bliss, the perfect satisfaction of all needs and desires' (Scitovsky 1986 [1973]: 16). Scitovsky joked with Freud's theory by citing a comical representation which could depict the achievement of human aspirations for a happy life. The representation is borrowed from a famous painting by Brueghel the Younger, *The Land of Cockaigne*, which is effectively described thus by Scitovsky:

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> This shows a number of full-bellied men sprawling on their backs, too lazy and satiated to move, with roast chickens picking their way among them within easy reach, knife and fork stuck in their backs for the greater convenience of the men, should a base desire seize them and catch and to eat the chickens.
>
> (Scitovsky 1986 [1973]: 16)

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Notes

1 See the *Human Development Report* by the United Nations, and the much-cited report by Stiglitz *et al.* (2009).

2
> As I was writing my book, I suspected that I was on to something important; but presenting it the way I did, I failed to recognize and stress that much more important function of education, which was almost within my grasp.
>
> (Scitovsky, *Memoirs*: 107–108, quoted in Di Giovinazzo 2011: n. 2)

Namely, 'parenting' does not even appear as an item in the Index of Scitovsky's book.

3 Scitovsky provided self-biographical information in Scitovsky (1995 [1991], 1992b, 1999). Articles on his life, background, and multiple intellectual contributions are Earl (1992), Bianchi (2003, 2012), Di Giovinazzo (2008; 2011), and Pugno (2014). The most commented on contribution of his early interest in welfare economics is the so-called 'Scitovsky reversal paradox' (Lipsey 2010).

4 Scitovsky's argument has been recently re-proposed against the view of the economics textbooks (Ormazabal 2005).

5 To be noted is that both quotations no longer appeared in the Preface when the book was republished in its 1992 edition. For the details on this aspect, see Bariletti and Sanfilippo (2015).

6 Scitovsky returned to this fact some time later, when he observed that the book was an exception with respect to his other works, which were appreciated by their readers. The reason for this – he conjectured – was that he 'sent the [book] to the wrong address. It was addressed to my fellow economists and they did not know what to do with it' (Scitovsky, 1995 [1991]: 236).

7 See Sen (1996), Hirschman (1996), Inglehart (1996), Benedikt (1996), Schor (1996), and Friedman and McCabe (1996).

8 The difference between the two approaches is discussed in the long survey article, 'Personality psychology and economics' by Almlund *et al.*, which in particular observes that: '[m]any economists, especially behavioral economists [. . .] believe that the constraints and incentives in situations almost entirely determine behavior' (2011: 5–6).

9 However, when Scitovsky discussed the increasing importance of public goods in people's lives, he recognised that:

> the sovereignty of the consumer is not at all the same thing as the sovereignty of the individual or citizen. The consumer is just one facet of the individual – the one that has to do with the consumption of goods sold through the market.
>
> (Scitovsky 1962: 262)

10 The distinction between the individual and the consumer in the same person may be also seen in terms of preferences, so that the higher-level of preferences of the individual organises the lower-level of preferences of the consumer (Earl and Potts 2004).

11 The fact that Scitovsky cited neither Galbraith nor Veblen in his book, although he devoted several pages to the loss of sovereignty by consumers and to comparison consumption, evidences his desire to take an autonomous and original position with

respect to the group of the American institutionalists. In a letter sent to Samuelson, Scitovsky claimed that he had gone beyond Galbraith's *Affluent Society* in observing the limits to consumer sovereignty (letter reported in Edwards 2012: 16–17) (see also 8.1.1–3).

12 This aspect has been developed in a particular way by G.L.S. Shackle, for example, in Shackle (1952).

13 To be noted that Scitovsky thus also departed from the American institutionalists because they relied on the view that individual behaviour is completely controlled by drives and reinforcement mechanisms, that is, on behaviourist psychology (Asso and Fiorito 2004; Edwards 2012).

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3 Enjoying creative activity by developing life skill

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> It is not only indolence that causes human relationships to be repeated from case to case with such unspeakable monotony and boredom; it is timidity before any new, inconceivable experience, which we don't think we can deal with. But only someone who is ready for everything, who doesn't exclude any experience, even the most incomprehensible, will live the relationship with another person as something alive and will himself sound the depths of his own being.
>
> (R.M. Rilke, *Letters to a Young Poet*, 1929)

3.1 Introduction

Human behaviour is interesting, but its origin is also fascinating. Economics is focused on people's behaviours, whereas Scitovsky was fascinated by the origin of human behaviour. He thus attempted to extend economics by studying the motivations for people's behaviour. Psychology is the natural field for this type of inquiry; hence Scitovsky attempted to distill a body of results obtained in psychology in order to introduce certain novel concepts into economics.

'Creative activity' and 'life skill' are the two novel concepts that Scitovsky put at the centre of his analysis. These concepts can be introduced by observing well-known facts, thereby following Scitovsky's practice of drawing inspiration for his academic research from factual observation, even from personal experience (see Section 2.2).

The first factual observation is that people are not only in constant search of shelter from adversity and comfort for themselves, but they are also attracted by the exploration of the unknown, by the challenge of their capacities, and by the exchange of ideas with others. They not only react to past and foreseeable events for self-preservation, thus competing with others for scarce resources; they also realize novel events for self-growth, thus possibly improving the conditions of all. This type of more active and uncertain activities will be called 'creative'.

The second factual observation is that 'creative activity' does not pertain only to gifted individuals, such as artists and scientists, because examples of ordinary people who exercise and learn the necessary skills for some creative activity are all around us. Children are insatiably curious, they like to experiment, and they are proud when they can cope. Many people obtain great satisfaction from their

ability to achieve things at work; and some people obtain the same satisfaction from work as volunteers during their leisure time. They feel that they are fulfilling their lives; they feel that they are 'life skilled'.

Economics, however, usually overlooks these aspects. It neglects changes in children's tastes and skills; it considers working time to be only a disutility, and voluntary work to be puzzling. The only skills that economics takes into account are those for production, not those for life.

This chapter provides an analytical framework able to capture the essence of these two observations, and to show that, on this basis, endogenous dynamics emerge in people's skills and well-being. A special striking result is that learning becomes enjoyable, rather than only costly and effortful, and it may even become a ceaseless process driven by love for the flow of novelty. This result well describes the lives of the most active people – also sometimes called the most 'flourishing' people.

This analytical framework will be adopted in the following chapters to extend the more usual economic model of choice. The individual will be able to choose 'creative activity' among other options, with important consequences for the development of her skills – both life skills and those for production purposes.

Scitovsky will be our insightful and wise guide; and textual references will document his insights in the course of the analysis. However, his works will be interpreted anew, because his insights seem like pieces of a puzzle that can be assembled to produce an interesting picture but do not always fit together properly. In fact, Scitovsky grounded some of his insights on weak psychological results, while other important insights were under-emphasised and presented on the basis of casual observations. Still other insights were described with unclear or misleading terminology. But above all, Scitovsky could not know the many results of the Economics of Happiness and other fields that he would have found extremely helpful.

The chapter is organised as follows: Section 3.2 presents and discusses the two key concepts, that is, 'creative activity' and 'life skill', in detail; Section 3.3 proposes a formal model to make the essence of this analysis sharper, although the reader can skip this section without losing the main threads of the argument; Section 3.4 shows how Scitovsky's ideas are supported by recent evidence in the economic as well as extra-economic literature.

3.2 Creative activity and life skill: reinterpreting two key concepts of Scitovsky

3.2.1 Creative activity as an option in leisure time and work

Among the many activities that people pursue in the course of the day and over their life spans, creative activity seems to occupy a place of minor importance because it appears to be non-essential and generally occasional. Instead, if creative activity is properly defined and identified within everyday activities during both leisure and work – thus Scitovsky's analysis suggests – it can play a major role in the happiness of people's lives.

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Scitovsky used the term 'creative activity' in the extended sense (i.e. not only referring to artists) after the first edition of *The Joyless Economy*. He borrowed the term 'creative' from Hawtrey and the term 'activity' from Marshall, as discussed below, and used them in opposition to 'defensive goods' and even 'destructive activities' (Scitovsky, 1992 [1976]: Preface, Appendix; 1986: Ch. 14), which will be discussed in Chapters 4 and 5. This opposition clarifies that a behaviour is defensive when it is intended to preserve one's health, to maintain habits, and to protect the economic and social position acquired. A behaviour is destructive when it is self-destructive or harms others. But a behaviour is 'creative' in Scitovsky's sense when it primarily adds knowledge that is useful for understanding what the person is able to successfully pursue in her life, that is, with effectiveness and social recognition. The product of 'creative activity' may secondarily be found useful by others for their own purposes.

'Creative activity' is thus an original concept that Scitovsky took many years to develop, often by using other terms. The aim of this section is to present and discuss this concept as it emerges in its definitive form, rather to reconstruct how Scitovsky developed it. It should be pointed out, however, that 'creative activity' was often called 'stimulating activity' by Scitovsky, although this is a more comprehensive term in his analysis (see Section 5.1).

Let us first distinguish between expected creative activity, which is an option in the individual's choice set, that is, an activity that is expected to be creative, and experienced creative activity, which has fulfilled the expectation of being creative. The former concept will be considered immediately below, while treatment of the latter will be postponed to (3.2.4).

'Creative activity' as an individual's option is characterised by two properties which are necessary for its definition. An activity is said to be 'creative' if it is: (i) intrinsically motivated, and (ii) expected to be an exploratory activity, that is, both providing new knowledge and challenging the individual's skills. In identifying these properties, Scitovsky was inspired by distinguished economists: Alfred Marshall, John Maynard Keynes, and Ralph Hawtrey (Scitovsky 1986: Ch. 14).

The first property requires that the activity should be 'intrinsically motivated'. By this is meant that it should be pursued for its own sake, rather than for separable consequences, like something obtained in exchange.[1] The individual finds this activity to be interesting because she expects that doing it will be enjoyable, and its outcome satisfactory. The term 'intrinsic motivation' refers to the process of performing the activity. As Scitovsky put it, 'in man's striving for his various goals in life, being on the way to those goals and struggling to achieve them are more satisfying than is the actual attainment of the goals' (Scitovsky 1992 [1976]: 62). In this way, the goals become satisfying because they are pursued with intention and effort. Indeed, effort may not be enjoyable in itself, and savouring may be only a partial motivation. What should be enjoyed is the fact that the expected successful outcome will be due to the individual's intentional effort, rather than to luck or the effort of somebody else (Scitovsky 1992 [1976]: 226; 1986 [1979]: 123). The outcome remains important because it will condition future choices.

Scitovsky borrowed the idea of 'activities as pursued for their own sake' from the early part of Marshall's *Principles of Economics* (Marshall 1920 [1890]) (see 1.2.4). The British economist used the word 'activities' because he recognised that time is essential not only to enjoy them, but also to improve them. 'Unfortunately,' noted Scitovsky, 'Marshall merely stated those ideas but never developed them' (Scitovsky 1986 [1985]: 187).

The definition of creative activity requires the second property (ii) in order to prevent use of the term 'intrinsic motivation' to indicate the possible enjoyment during the length of time in which a discomfort is relieved. In fact, property (ii) refers to the need for exploration, which implies being active rather than passive and relaxing (Scitovsky 1992 [1976]: 32–33). If combined with 'intrinsic motivations', the need for exploration assumes the more complex meaning in which the individual expects to learn and to challenge her skills.[2] In this case, she is uncertain whether she has the skills required to perform the activity successfully, or even to maintain the initial skill level, if adequate, during the activity. This is learned by the individual by performing the activity, with the consequence of reducing the uncertainty (see 3.2.3).

Learning about her own skill and about the creative activity becomes enjoyable if the individual is intrinsically motivated to do so (Scitovsky 1996: 601). Indeed, 'enjoyable learning' may seem an oxymoron to economists, because they conventionally consider learning to be a cost, and relate enjoyment to passive consumption.

In creative activity, the individual may create something new for herself by simply understanding new things, or by building something new and useful, as illustrated by Scitovsky with the case of do-it-yourself (Scitovsky 1992 [1976]: 284–286). However, in order to be satisfactory, even this 'personal creativity' should be recognised by others in some way, even if not immediately. The case of greater creativity arises when others are expected to acknowledge newness and usefulness in what the individual has done for their own or for general purposes. Artistic and scientific research probably embodies creative activity to its highest degree (Scitovsky 1992 [1976]: 304–307, 91).

Another typical activity that creates something new also for others is entrepreneurial activity. Scitovsky referred to Keynes' *General Theory* and Keynes (1937) in order to show the importance of intrinsic motivation for undertaking new actions, and for achieving individual and overall progress.

> [Keynes] assigned a subordinate role to businessman's expectation of profit as a motive for investment, stressing instead his animal spirits, his urge to assume the risk of investment for its own sake [...] Keynes fully realised man's psychological need to engage in activities to occupy him and regarded that need as the main motivating force of all creative activity, not only in the fields of science, art and leisure, but also in that business investment and of economic and technical progress.
>
> (Scitovsky 1986 [1985]: 189)

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To emphasise the point, Scitovsky also referred to Schumpeter, who 'believed that there would be no innovation, no technical progress under the incentive of the profit alone, without the entrepreneur's creative urge' (Scitovsky 1986 [1985]: 198).

The term 'creative activity' is also effective if taken in opposition to the term 'defensive activities'. This opposition was originally proposed by Hawtrey (1926), although he referred to 'products' rather than 'activities'.[3]

> Hawtrey distinguished 'two broad classes of objects of consumption: on the one hand those products which are intended to prevent or remedy pains, injuries or distress, and on the other those which are intended to supply some positive gratification or satisfaction'. He called them defensive and creative products.
>
> (Scitovsky 1986 [1985]: 189)

This distinction is based on the underlying motivation, rather than on the physical type of product. For example, '[t]ravelling may be either a defensive or a creative product according to the object for which it is undertaken' (Hawtrey 1926: 191). This underlying motivation may bring people to excellence, as in the case of literature and arts, but also to the simple 'pleasurable intellectual pursuits, and the creative ingredients of defensive products, such as the skilled preparation and selection of food, the elegance and artistic elements in clothing' (Scitovsky 1986 [1985]: 189). Market products may be almost unnecessary, as in 'human intercourse' (Hawtrey 1926: 191). By contrast, market products may be very expensive without changing the underlying motivation, because they may yield 'no positive good', but only bring the individual 'to the zero point, at which he is suffering from no avoidable harm' (Hawtrey's quotation in Scitovsky, 1992 [1976]: 111).

Therefore – according to Scitovsky – creative activities are joyful, while defensive activities reduce harm, so that the individual's well-being improves, although for different reasons. Indeed, 'we must abandon the old-fashioned notion that pain and pleasure are the negative and positive segments of a one-dimensional scale' (Scitovsky 1992 [1976]: 61). This view does not greatly differ from Mill's idea that happiness has different qualities (see 1.2.2 and 2.5.2).

Throughout Scitovsky's analysis, a third property of 'creative activity' can be identified as necessary. Hence the set of the three properties (i)–(iii) is sufficient for definition of the concept. This property is that: (iii) 'creative activity' should be a social activity. In fact, human relationships give opportunities to 'exchange [...] information and ideas' (Scitovsky 1992 [1976]: 236), so that they are 'probably the main sources of human satisfaction' (Scitovsky 1986: 19) in the form of stimulation and challenge (Scitovsky 1992 [1976]: 83). This does not imply that all social activities are creative, because people may also search for comfort by simply belonging to a community (see 4.2.2). Social activities may involve personal relations (Scitovsky 1992 [1976]: 120–121) or some intentional

contribution to society through work (Scitovsky 1992 [1976]: 268–269), or through participation in public activities.[4]

These three properties can characterise specific activities – during leisure or at work – to different extents. Scitovsky often referred to leisure activities when he discussed creative activity, and mainly because people are more free in their choices during their leisure time. However, working time may have creative aspects as well; not only in the case of industrial innovation but also in that of more ordinary work when problems are overcome with new solutions; or new opportunities are sought and found. In these cases, work may be simply 'challenging, interesting' (Scitovsky 1986 [1981]: 129) and thus satisfying for other than economic reasons. Ordinary work may still have some creative content if it is instrumental for creative activity in leisure time. Therefore, the same leisure activity or the same job may have large or small creative content depending on how the individual's motivation takes up the opportunities. For example, one can watch television to escape from daily problems or instead to obtain some useful knowledge; at work, the same problem can be seen by someone as nuisance to be dumped on colleagues, while some others see it as an opportunity to test new solutions.

Therefore, creative activity is an attribute of specific activities, but it can become a specific activity in itself over the life cycles of individuals like artists. Creative activity should be generalist at least because it includes the social aspect, so that specific activities which are disconnected from positive relations with others should be viewed with suspicion.

3.2.2 Life skill

'Life skill' is the second key concept for our analysis. Differently from creative activity, it has been often overlooked, so that also the dynamics of creative activity and of well-being tend to be neglected (Peacock 1976; Aufhauser 1976; Ballard 1978; Angner and Loewenstein 2012). Scitovsky used the expression 'life skill' only in the second edition of *The Joyless Economy* (Scitovsky 1992 [1976]: 301 and 333). The other terms that he used in other works – like 'consumption skill', 'leisure skill', knowledge and culture – illuminate different aspects of the concept, but the interchangeable use of these terms may have generated some confusion.

'Life skill' can be understood as the set of skills which provide the proper motivation to identify, appreciate, and pursue creative activity. Specifically, the individual is properly motivated when she searches for the specific activity, among the many others, which has the adequate creative content so that she can express her aptitudes and talent, and receive recognition of this from other people, possibly in the long run.

Scitovsky included the term 'life' in the expression 'life skill' in order to address the field in which the skill is employed, that is, the one that encompasses social relationships, work, leisure activities, consumption, learning activities, from childhood to adulthood. In fact, Scitovsky talked about life skill as the skill

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necessary to organise one's life, 'for getting the most out of life' (Scitovsky 1986: 40), and to 'make life meaningful and worth living' (Scitovsky 1992 [1976]: 301). In other words, life skill helps people to set goals and to organise activities to pursue them.

The concept of life skill is discussed by Scitovsky in various passages in his writings, but more for the properties and the role of life skill than for its content (Scitovsky 1992 [1976]: 58, 225–232, 300–301). Recent studies, however, can be very helpful in specifying the content of life skill according to the properties and role that it should have. A brief review of these studies will be provided in 3.4.1 and 4.4.1, but the results can be synthesised thus: life skill includes cognitive, social, and emotional skills; specifically, it includes competence, which can become very specialised, confidence, which must be both in oneself and in close others, general trust, and personal creativity.

Life skill – according to Scitovsky – is not specific, that is, suitable for only one activity. On the contrary, it is generalist, that is, suitable for a variety of activities, which may be even created anew. Scitovsky stressed that life skill is generalist, that is, useful when the options are of very different types because they appear with incommensurable characteristics. To clarify this aspect, he introduced the expression 'consumption skill', which is effective when used in contrast to 'production skill'.[5] Whilst the latter is usually specialised in discerning between similar options, being functional to specific productions, the former requires general knowledge. Scitovsky cited the example of management of the household's budget, which was traditionally the duty of wives.

> [W]ives must be generalist to assure the family's welfare, and do it better, the broader their knowledge of the world and of all the things that go into a good life. [... T]he generalist wife exercises judgment and makes choices when deciding how to allocate expenditure and what specialists to employ in order to achieve some broader aim [...]. At the same time, the breadth of her goal usually defies its quantification and so deprives her of the powerful tool of quantitative measurement.
>
> (Scitovsky 1992 [1976]: 265–267)

This quotation is interesting for two reasons. The skill required to manage the household's budget is a meta-skill, that is, the ability to manage the specific skills to make best use of the specific consumption options, which may pertain to the family's members, or to specialists outside the family. The term 'consumption skill' may thus be misleading, because it seems restricted to specialisation in specific market products (see 2.3.2).[6] The second reason for the interest of the quotation from Scitovsky is that it addresses the difficulty of 'quantitative measurement' when options are very different.

Quantitative measurement is the instrument usually employed by cognition to evaluate different options, so that when measurement is difficult, some other faculty should be employed. Scitovsky introduced 'imagination' in this regard. However, it can be considered a cognitive faculty only to a partial extent

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(Scitovsky 1992 [1976]: 259, and also Ch. 3, and 122). 'Imagination' can be defined as the ability to represent through images an information set which has been acquired from perception and memory, as well as from mental processing. The acquisition of information may be largely an unconscious process, but also the synthesis of information in the signs of the images may not be intentional (see e.g. Scitovsky 1992 [1976]: 54–58). Imagination helps the individual to make sense of the information that she has instead acquired consciously, so that she can represent possible outcomes of the options available. Imagination is especially helpful in the case of creative activity, because its novel outcome can be imagined rather than known. Artists are especially skilful in imagination, because they are able to give concrete representation to their inner images through their works.

Imagination and other cognitive and non-cognitive skills are also normally used by children when they are motivated to play and to discover new things. They thus acquire life skill 'with no visible effort' (Scitovsky 1992 [1976]: 227), especially when they are properly stimulated by parents who read to them (Scitovsky 2000).[7]

> [T]hey discover their identity and learn what they look like, how they feel in various situations, what their possibilities and shortcomings are; they imagine what they could be and begin to develop their personality. [. . . T]hey can discover the skills they have already acquired and their ability to learn new ones. This also enables them to take pride in showing off their abilities; in this way they learn to enjoy the fruits of learning as well as the very act of learning.
>
> (Scitovsky 1996: 603)

The second crucial input for the formation of life skill stressed by Scitovsky, besides adequate parenting, is culture. '[C]ulture [. . . is the] society's accumulated stock of past novelty' (Scitovsky 1992 [1976]: 235), which provides 'the preliminary information we must have to enjoy the processing of further information' (Scitovsky 1992 [1976]: 226). In fact, the individual can learn from culture how people successfully pursued creative activity in the past, what are the frontiers of human knowledge, and what interests her most. She can thus understand both things and people more deeply, and can be stimulated to seek how best to contribute to the human community.

> [A] general liberal arts education [. . .] makes me share a large fund of knowledge with all others [. . .], and the broader this education, the larger the number of people with whom I will share.
>
> (Scitovsky 1992 [1976]: 238)

> [T]he way in which we organize and live our lives makes an impact on the composition of the [economy's] potentialities, [. . .] and gives us a sense of achievement and pride when we have done it well.
>
> (Scitovsky 1992 [1976]: 268–269; see also 293)

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Therefore, individual life skill has both a social origin and a social reason to be exercised and to develop. The social dimension is thus essential for the definition of life skill, because social skill is inbuilt in life skill, although it may be distinctly used and further developed in social activities.

3.2.3 The 'fundamental uncertainty'

Creative activity may be successful to different degrees when it is actually performed and realized. It may provide satisfaction and social recognition, or it may be dissatisfying, as in the case of failure. Unfortunately, these outcomes – according to Scitovsky – cannot be easily predicted, because creative activity is characterised by 'fundamental uncertainty' (Dequech 2000). This is an aspect that should be described in some detail because it is original, and because it has an important role in the overall analysis.

In the case of creative activity, uncertainty arises from two sources. The first is limited knowledge about the objective characteristics of the option of undertaking creative activity. The more limited the knowledge, the greater the potential surprise, because the higher is the degree of novelty. This type of knowledge is different from knowledge about the probability of an event occurring, such as 'heads' coming up when a coin is tossed. In this latter case, uncertainty is usually defined as 'weak', because the distribution of probability is known. Our case is also different from the case of 'ambiguity', in which the probability of the events is unknown. In the cases of weak uncertainty and ambiguity, uncertainty is exogenous because the probabilities are conditioned by the external conditions, that is, by the 'states of nature', which are assumed as exogenous. In our case, uncertainty is instead endogenous, as thus exemplified by Scitovsky:

> to make an informed choice and select among several detective stories the one I would most enjoy reading is virtually impossible, because such choice would have to be based on information whose very acquisition would diminish the suspense and surprise.
>
> (Scitovsky 1986 [1979]: 123)

The state of nature is built up by the individual herself, who thus generates the second source of uncertainty.

More precisely: let us call 'decision time' the moment in which the individual chooses to undertake creative activity among other available options; 'outcome time' the moment in which the novelty has been revealed and thus experienced; and 'activity period', the time span between the two moments. At the decision time, the individual may tentatively build the outcome space on the basis of a stock of the available information. She may collect this information from her previous experience, and from that of others. But her aim is not to know the characteristics of the novelty completely, which could be already known by others; her aim is instead to know how well those characteristics match with her skills. In fact: 'knowing in advance how much stimulation to expect from a

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particular source of novelty inevitably destroys some of its novelty and reduces its ability to stimulate' (Scitovsky 1986 [1979]: 123), and hence the individual's enjoyment.

Indeed, the second source of uncertainty derives from the matching between the characteristics of the novelty and the individual's skills which takes place both during the 'activity period' and at the 'outcome time'. In fact, if the individual is endowed with great skill, she is potentially able to match with highly challenging novelty and obtain remarkable results. But the individual may also discover her innate aptitudes and talent during the activity period and obtain remarkable results with not too abundant external resources. The individual's outcome space thus includes, besides possible enjoyment, also possible learning and inner changes (Scitovsky 1986 [1979]: 123–124; 1992: 231, 300; 1996: 599).

Therefore, Scitovskian uncertainty has some distinct characteristics. First, it is endogenous, and what makes uncertainty endogenous, that is, the individual's life skill, may be uncertain in itself. Second, it has enjoyable aspects that vanish when novelty is revealed, so that uncertainty is subjective and reducible.[8] Third, since the individual's feelings and motivation affect the course of action and hence the outcome, cold calculation is not sufficient to take the decision. Scitovsky even claimed that '[i]n the usual sense of the term, consumer rationality with respect to stimulus satisfaction is impossible' (Scitovsky 1986 [1979]: 124).[9]

3.2.4 The successful match between creative activity and life skill

In order to define when the pursuit of creative activity is successful, life skill and its changes should be considered. Let us then organise the analysis into two steps. The first step is static, because it concerns the relationship between performing creative activity and the enjoyment thus experienced, while taking life skill as given. The second step is dynamic, because it concerns the relationship between performing creative activity and the enjoyment thus experienced when life skill changes.

The first step is based on reformulation of the famous Wundt curve, which was also used by Scitovsky. The aim is to illustrate that there is an intermediate maximum of enjoyment depending on the novelty and creative activity.

Wilhelm Wundt, a 'founding father' of psychology, originally described the curve by relating pleasantness to the intensity of a certain stimulus as experienced by persons in a laboratory. Scitovsky elaborated the curve by still using pleasantness for the vertical axis but interchangeably using either 'stimulus intensity' or 'newness' for the horizontal axis (Scitovsky 1992 [1976]: 35). Scitovsky thus depicted the curve as inverted-U shaped, and S-shaped in the rising arm, so as to show that the maximum pleasantness is experienced when stimulus intensity is neither too low nor too high; that pleasantness initially exhibits some increasing returns; and that it turns into unpleasantness when stimulus intensity becomes excessively high (see Figure 3.1).

By using 'newness', Scitovsky directed attention to the quality of the stimulus, rather than its quantitative intensity, being influenced to do so by another

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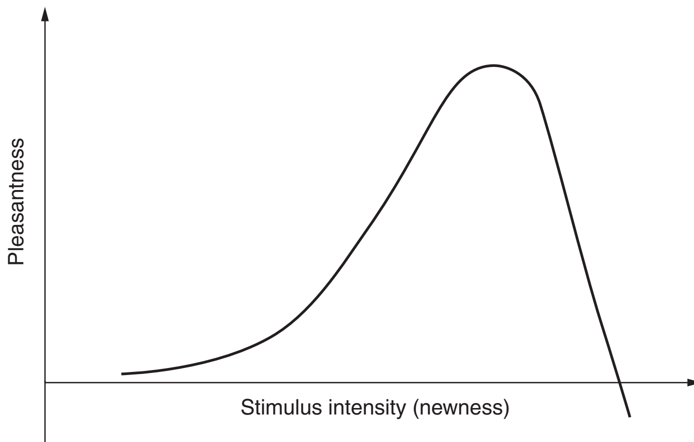

Figure 3.1 The Scitovsky–Wundt curve.

psychologist, Daniel Berlyne, who also complemented newness with the term 'complexity'. Scitovsky also followed Berlyne in considering the individual's physiological reaction to stimuli, that is, the arousal or degree of activation. However, he simplified Berlyne's analysis by using 'stimulus' interchangeably with 'arousal' (Scitovsky 1992 [1976]: 25). Scitovsky finally adopted the clearer term 'degree of novelty' of activities (Scitovsky 1986 [1985]: 201), as interchangeable with 'complexity' (Scitovsky 1992 [1976]: 38).

For a certain creative activity, Figure 3.1 thus shows that the individual experiences the optimum match between her endowment of life skill, which is held fixed, and the novelty degree of the activity. When the novelty degree is below the optimum, the individual tends to experience boredom; when the novelty degree is above the optimum, the individual tends to experience anxiety (Scitovsky 1992 [1976]: 24; 1986 [1979]: 123; [1985]: 201).

These conclusions may not appear surprising, but they may be awkward for economics. In fact, Berlyne and Scitovsky described the individual as mostly needing an intermediate level of activation, while *homo economicus* tends to go to a condition of complete rest.

In support of his claim, Scitovsky cited some findings obtained from experiments on individuals' reactions to specific stimuli (Scitovsky 1992 [1976]: Chs. 2–4). However, he generalised this conclusion by addressing the individual's pleasantness due to stimulus intensity that can be drawn from a set of different activities. This implies that as individuals search for maximum pleasantness, they should both select the adequate activity and search for the adequate stimulus intensity, by taking into account which skills they can most effectively exercise.

However, the Wundt/Berlyne's stimulus-reaction framework has a defect: it is situation-based, that is, focused on the psychological phenomena that are

common to people, with the consequence of overlooking variations across people and across their different ages. Although Scitovsky referred to the Wundt–Berlyne framework, his interest in individual welfare required the study of people's different inclinations, and changes in their preferences over some stretches of their lifetime. This different perspective suggests that the original framework should be taken as an illustrative device, rather than as a scientific basis. More robust approaches and evidence in support of Scitovsky's analysis will be discussed in Section 3.4.

In order to introduce dynamics into the analysis, life skill should vary over time, so that a new dimension should be added to the Wundt-type curve. A rise in life skill, in fact, enables the individual to enjoy higher degrees of novelty, while old optimum degrees will provide reduced pleasantness because of adaptation. The curve of Figure 3.1 will thus shift to the right.

A more general graphical representation should take the third dimension into consideration to represent life skill as a continuous variable. This representation has been suggested by the psychologist Csikszentmihalyi, who studied the successful match between challenging activities and people's skills (Csikszentmihalyi 1990, 1999). The dynamics that were not developed by Scitovsky in such detail can thus become clearer.[10]

Following this suggestion, let us report the variable 'life skill' of the individual, which includes the skills relevant to a certain activity on the horizontal axis (S in Figure 3.2). In this way, changes in the individual's life skill can be

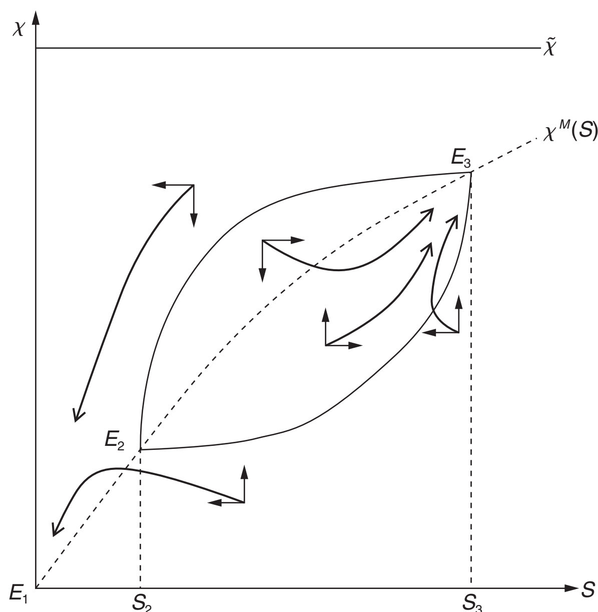

Figure 3.2 Life skill trajectories in the Csikszentmihalyi–Scitovsky diagram.

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tracked, for example, from her childhood to her adulthood. An individual's life skill may be measured by considering her past accomplishments in that specific activity, that is, her competence, together with the other skills through survey questionnaires.

The vertical axis shows the degree of novelty or complexity of that activity, which should be objective (χ in Figure 3.2). Complex activities challenge people because they do not appear to be immediately comprehensible, or because they require laborious tasks. This difficulty is due to people's limited knowledge and control, that is, to their lack of experience, imperfect memory, or perception. Novelty will arise from the discovery of new aspects when dealing with an activity, and/or new links among them.[11] On this basis, a specific measure for the novelty degree of that activity may be built with the help of experts in that activity.[12] Their contribution makes measurement of the novelty degree 'socially objective', that is, dependent on a social judgement, and thus not restricted to the subject's judgement. This aspect is important because it will contribute to guiding the individual's pursuit of creative activity towards socially relevant goals.

Given these axes, let us draw the 'optimum line' as a rising line that starts from the origin so as to represent the locus where pleasantness (or satisfaction) is maximum over a not too short time span (Scitovsky 1992 [1976]: 24) (χ^M in Figure 3.2). More precisely, for a given level of the individual's life skill that can be read on the horizontal axis and for rising novelty degree, satisfaction first increases up to the optimum line, and then rapidly decreases, thus reproducing the shape of Figure 3.1.[13] However, the exact position of the 'optimum line' in the quadrant is not known by the individual, because her knowledge is limited to her experience of how novelty matched with her life skill in the past. She can obtain information from others, but the position of her 'optimum line' may be different from that of others.

The 'optimum line' also differs among the various activities for the same individual. Indeed, her innate aptitudes and past experiences have shaped her life skill so that this is differently effective across activities. Fortunately, some aptitudes and experiences may be useful for different activities. In particular, given the social nature of life skill, social aptitude is useful, although to different extents, for all the activities.

The diagram in Figure 3.2 can be also applied to the case of social activity, where social aptitude is most useful. In this case, the individual likes novelty when she relates to others, but not too much, in order to well understand the information and ideas received from others (Scitovsky 1992 [1976]: 83, 236–74). Scitovsky again took an original position among economists, who instead maintain that people prefer maximum conformity with others (see e.g. Akerlof 1997), that is, the minimum degree of novelty. The diagram instead shows that the higher the social skill, the more willing the individual is to expand her social contacts (see Rilke's quote at the beginning of the chapter).

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3.2.5 The endogenous development of life skill and creative activity

One of the most important results of Scitovsky's analysis is that people, by exercising free choice, can develop their skills to enjoy creative activity in an endogenous way. Scitovsky thus departed from two common though alternative ideas: that life skill is completely innate; and that the development of people's skills is necessarily costly, as in the case of human capital for production. In the former case, people are resigned to be content with their endowment of skills, and thus justified if they neglect creative activity. In the latter case, people incur the risk of investing in human capital while losing the skills required to enjoy creative activity. Scitovsky's message is thus optimistic.

His result follows from acknowledging that not only is creative activity enjoyable but it contributes to learning the life skill, which, in its turn, provides the motivation to undertake that type of activity. Indeed:

> learning [...] is the most essential of enjoyable activities, because without being able to enjoy it, one would hardly be willing to make the effort of learning the skills necessary to also enjoy other stimulating activities.
>
> (Scitovsky 1996: 601; see also Scitovsky 1992 [1976]: 42)[14]

The enjoyment of learning is typical of children, especially if they 'learn reading for pleasure' (Scitovsky 2000: 50). But also adults can enjoy learning by drawing on culture, as the 'large reservoir of novelty' that has been accumulated in the past (Scitovsky 1992 [1976]: 235).

However, creative activity is satisfying and improves the life skill if it is successful, that is, adequate to the individual's initial endowment of life skill. The possibility that life skill develops endogenously can be seen by following the trajectories depicted in bold in Figure 3.2. If the individual who starts from some given level of life skill (S) selects the activity and chooses the novelty degree so as to come close to the 'optimum line' (χ^M), then a virtuous path of growth of life skill and of adequate novelty degree follows, thus maintaining or even improving satisfaction. Figure 3.2 shows the case where these trajectories are directed towards E_3, although this point may be very far from the origin. By contrast, if the individual selects the activity and chooses the novelty degree so as to stay distant from the 'optimum line', then a vicious path of reduction of life skill and of satisfaction follows. Figure 3.2 shows the case in which these trajectories are directed towards E_1. A more detailed analysis is provided in Section 3.3 and in the Appendix to Section 3.3.

The endogeneity of the development of life skill and creative activity is essentially due to people's motivation. People's intrinsic motivation to exercise choices for creative activity depends on the life skill that they inherit from childhood. In fact, parenting and the familial socio-economic background can provide adequate care and stimulation to children so that they start to develop by fully exploiting their aptitudes (Scitovsky 1996: 602–03).

Scitovsky provided only the insight, but recent economic research has more accurately described the role of early education in children's development.[15]

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In particular, it has been argued that adequate parenting drives children's development by investing human and material resources according to a specific pattern. The parents should constantly update their endeavour to minimise the distance between the educational targets and the actual changes in the children's skills (García *et al.* 2014)[16] by searching for activities that best match the child's aptitudes and talent. In terms of Figure 3.2, this means attempting to minimise the vertical distance between the trajectory and the 'optimum line' of the child. The closer the trajectory approaches the 'optimum line', the faster the child's life skill increases, because the maximums are her intrinsic motivations (see the model for the case of children in the Appendix to Section 6.3).

Education at schools and universities may greatly help people to develop their life skill by providing general and specialised teaching. However, this education is increasingly designed to provide skills useful in the labour market, that is, production skills, so that education may be far from efficient in providing life skill (Scitovsky 1992 [1976]: Ch. 13) (see 4.4.3). In terms of Figure 3.2, formal education may help to move rightwards, but not necessarily close to the optimum line, so that satisfaction may even diminish, and the development of life skill may slow down.

Economic conditions can even more heavily influence the development of life skill because the lack of material resources constrains the effectiveness of education through parenting and schooling. In terms of Figure 3.2, this means that E_3 is not relatively far from the origin because of lack of resources, so that the trajectory may even come close to the 'optimum line', but it is slow, and it approaches E_3 in a relatively short period of time.

External factors, such as economic conditions and the social context, influence the development of life skill less heavily if the level of life skill inherited from childhood is high. The extreme case is a genius, who may be able to develop her creative activity even in adverse external conditions (Scitovsky 1992 [1976]: 75–77). A less extreme but no less interesting case is that of a migrant who uses her life skill to create new, more favourable conditions by changing the context. External conditions thus become less binding, freedom is extended, and internal skills can grow, thus gaining in autonomy.

Both the genius and the migrant are confronted by a real free choice – according to Scitovsky – because they have two very different options. One of them appears highly uncertain as to the new situation that would be created. Rational calculus of the consequences of the creative option is subject to important errors; and prediction of the adequacy of life skill becomes crucial as a motivational force. Real free choice thus goes beyond rational calculus, while imagination can instead be of help (Scitovsky 1992 [1976]: 78).

Therefore, the higher the life skill, the freer the choice becomes, because creative activity extends the possibilities for new choices to be made. Amartya Sen would say that more freedom is gained because 'agency' has been exercised. By 'agency' he meant being 'free to do and achieve in pursuit of whatever goals and values he or she regards as important' (Sen 1985: 203). In referring to creative activity, Scitovsky went a step further, because life skill includes non-cognitive

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skills as well the cognitive ones, such as Sen's 'reasoned scrutiny' (see 2.5.1; and Pugno 2014b).

It should be observed that this analysis focuses on the individual, in particular on her life skill; but the dynamics also concern the novelty that the individual is able to reveal. The greater the development of people's life skill, the more complex will be the activities in the society and in the economy. Creative activity may even achieve the heights of innovation. But these aspects will be considered only in Chapter 8.

3.2.6 How to bring joy into economics

Scitovsky's writings are always pleasurable to read, as evidenced by the title of his 1985 article: 'How to bring joy into economics'. He used the terms 'joy', 'satisfaction', 'excitement', and 'happiness' in order to talk about people's well-being or human welfare, but he also used the opposite terms 'dissatisfaction' and 'ill-being'. In particular, he used the term 'pleasure' in the case of creative activity. By employing these terms, Scitovsky clearly intended to convey the experience of 'feeling', because he was convinced that 'feeling' largely motivates human behaviour (Scitovsky 1992 [1976]: 21).

This is the main reason why Scitovsky was a pioneer in bringing 'happiness' into economics. That is to say, he departed from the idea that the expectations of future rewards from the available options exhaust the understanding of human well-being. He extended the focus, and included the actual experience that ensues from choices.

But the scope of Scitovsky's theory is also broader than that of the modern Economics of Happiness (see also Section 1.3). Whilst this branch of economics is mainly focused on the determinants of 'happiness', as measured by people's reports on current affects, or on evaluations of their lives, Scitovsky also investigated how the experience of 'happiness' affects subsequent choices. He then linked the two aspects together.

Therefore, Scitovsky's dynamic perspective of human welfare cannot be enclosed within his terms, such as 'joy', because these terms indicate a temporary state of mind, which suggests a static perspective on well-being. Scitovsky emphasised that well-being includes not only the satisfaction gained from having successfully performed the creative activity but also the satisfaction gained from its pursuit and from learning, that is, from challenging and strengthening the life skill. As he put it:

> Creative consumption consists in the delectation of senses, the exercise of one's faculty, and in the sophistication added to the simple satisfactions of life to enhance their enjoyment[, t]he enjoyment of extending or deepening one's experience and knowledge of the world in any of its aspects, from taste sensations, to literature and intellectual constructs […]. Much of this is a process of learning: learning to know or to know better for the sake of enjoyment.
>
> (Scitovsky 1986 [1972]: 60)

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'Happiness' in Scitovsky's sense thus refers to an experience where time is essential because something new occurs in the meantime, and not simply because activity takes some time.

The term that best represents Scitovsky's concept of 'happiness' could be 'flow', which has been proposed by the psychologist Csikszentmihalyi. This term is more effective than, for example, 'joy', but it is also somewhat restrictive. It is effective because it essentially refers to time, and it even evokes how time passes rapidly during creative activity. But it is restrictive because it describes specific cases in which the individual exercises control in order to ensure the expected outcome, as in surgery or in rock climbing (Csikszentmihalyi 1990: 59). In these cases, 'happiness' or 'joy' may not even be felt, because activities of this kind require complete mental concentration. In Scitovsky's analysis, the individual's feeling concerns the excitement due to novelty and self-changes during the creative activity, rather than only control; and such feeling should characterise the entire life rather than the specific activity.

Another possible term for Scitovsky's 'happiness' is 'procedural utility', which has been proposed in the Economics of Happiness (Frey *et al.* 2004). This term refers to the fact that people report happiness if they participate in decisions on collective matters over and above the specific outcomes of the decisions. 'Procedural utility' is an effective term because time is an essential component of it, since people may be happier because they grow in their control over collective matters. However, some people may be involved without having adequate life skill. This may be part of the democratic process itself, but it may be insufficient to trigger the individual's endogenous growth of life skill owing to the possible lack of intrinsic motivations to do it.

An effective and comprehensive term for Scitovsky's 'happiness' is 'flourishing', which has been suggested by modern positive psychology (e.g. Keyes 2002; Ryff and Singer 1998). 'Flourishing' indicates the process of realizing one's potential up to becoming a full-functioning person. It is not necessarily a process of continuous 'joy', because learning may require painful effort. Indeed, 'joy' is not the primary aim, although it is a welcomed effect, especially when the single steps of the potential are accomplished. Flourishing can thus be seen as a distinct source of well-being with respect to other sources, such as 'comfort' considered in Chapter 4. A distinct characteristic of flourishing is that it primarily pertains to mental capacities. Ill-being as insanity is thus the opposite of flourishing, and a continuum runs between the two concepts. This mental dimension of well-being also transpires from Scitovsky's statement that: culture is likely a good thing [...] for a *sane* society and people at large' (Scitovsky 1992 [1976]: 308, emphasis added).

3.3 A model of endogenous development of life skill, creative activity, and well-being

The analysis of this chapter can be made sharper by using a formal model.[17] Some details will be lost, but the benefit of a model is that it can clearly show

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that the well-being obtained from creative activity is dynamic. More precisely, it will be shown that the individual can gain well-being from a process of learning, and that this process is constrained by internal and external conditions. The main internal condition is that the creative activity must be adequate to the individual's life skill. The main external conditions are economic and social. The conclusions are unconventional, because optimum well-being is not the necessary outcome; and even if it emerges, it appears as a ceaseless process of learning.

The model also establishes the premises for the argument that the process of endogenous development is not a necessary outcome but only a possible one. This not only anticipates the analysis conducted in the following chapters, but makes it clear that creative activity involves 'fundamental uncertainty'.

3.3.1 The assumptions and equations of the model

Creative activity needs time and other resources, but especially life skill. In order to be successful, creative activity should be adequate to life skill, that is, it should be neither excessively complex nor excessively easy. When the individual evaluates the satisfaction that she can enjoy from undertaking a creative activity, she must select in advance the specific activity and its degree of novelty, but without having all the necessary information. The first step of this model is thus to depict the satisfaction drawn from creative activity as dependent on the match between creative activity and life skill. The individual devotes resources, such as time and goods, to this end, so that the more motivated the individual is, the more resources she uses. The core of the dynamics will be presented below, while more complete analysis, where creative activity interacts with the other options, will be conducted in the following chapters.

Let us assume that the satisfaction derived by an individual from a specific activity with a creative content is due both to the outcome of the creativity and to how she has achieved it. The first component of satisfaction, labelled F, depends on the match between the individual's endowment of life skill, labelled S, and the objective degree of novelty of the activity selected, labelled χ. This is conditioned by the resources that are specifically devoted to this end, labelled R. Let us also assume that F, S, χ and R can be measured as real numbers. The variable F includes both cognitive and emotional aspects of satisfaction, both evaluations and feelings. The variable S should measure the skills necessary to appreciate creative activity, which are cognitive, social, and emotional skills. The variable χ can be regarded as 'objective' because it does not depend on the individual.

Therefore, let us describe the first component of the satisfaction derived from a specific activity and conditioned by the resources R as follows:

$$F(S_t, \chi_t)\, R_t \text{ with } 0 < S_t, \chi_t, R_t < \infty \tag{3.1}$$

where t is the time subscript, and F can be called 'matching function'.

The properties of this function can be defined on the basis of three main requirements established by Scitovsky's analysis. First, the function should

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capture the fact that life skill is an ingredient essential for creative activity. Second, the individual should experience reduced satisfaction if the degree of novelty is either too low (boredom) or too high (anxiety), so that the optimal experience lies in between. In our terms, for every given level of S, there exists the optimal level of χ, say χ^M, such that F has a global maximum, labelled with F^M. The third requirement is that satisfaction almost disappears when the life skill is at especially low levels. This captures the possible deteriorated conditions of a miserable life due to a loss of personal faculties. In terms of the function, F^M may greatly diminish when S is at relatively low levels.

The first requirement can be specified as follows, on the assumption that the function is continuous:

$$\lim_{S_t \to 0} F = 0 \tag{3.2}$$

To fulfil the other two requirements, let us preliminary state that on the plane (S, χ) there exists the relationship:

$$\chi_t^M = \chi^M(S_t) \text{ with } \chi_S^M > 0,\ \chi_{SS}^M < 0,\ \lim_{S_t \to 0} \chi^M = 0 \tag{3.3}$$

where the subscripts S and SS indicate the first and second derivative respectively. Then the function F^M can be defined by substituting equation 3.3 into 3.1:

$$F^M(S_t) = F(S_t, \chi^M(S_t)) \tag{3.4}$$

so that the following properties hold:

$$\lim_{S_t \to 0} F^M = 0,\ F_S^M > 0,\ \lim_{S_t \to \infty} F_t^M = \bar{F}^M < \infty \tag{3.5}$$

$$F_{SS}^M > 0 \text{ for } S_t < s,\ F_{SS}^M = 0 \text{ for } S_t = s,\ F_{SS}^M < 0 \text{ for } S_t > s \tag{3.6}$$

where the parameter $s \in [0, \infty]$ is the threshold below which the person finds the option of creative activities especially uninteresting. The properties in equations 3.5 and 3.6 may depict an S-shaped curve for F^M, or a concave curve if $s \to 0$. The definition of F^M also suggests the following properties of the matching function:

$$F_\chi > 0 \text{ and } F_S < 0 \text{ if } \chi_t < \chi_t^M \tag{3.7}$$

$$F_\chi << 0 \text{ and } F_S >> 0 \text{ if } \chi_t > \chi_t^M. \tag{3.8}$$

Function (3.1) thus defines on the plane (S, χ) the range $\chi < \chi^M$ as the region where the person will experience boredom, whereas in the range $\chi > \chi^M$, she will experience anxiety (see Figure 3.2 in Section 3.2). Moreover, F may diminish rapidly in the latter region for every given S as χ rises, meaning that anxiety becomes anguish when $\chi >> \chi^M$, thus reproducing the shape of the Wundt-Scitovsky curve of Figure 3.1 in Section 3.2 (Scitovsky 1992 [1976]: Figure 3.1).

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Equation 3.1 describes the component of satisfaction obtained from creative activity as the outcome of the matching. The parameters of the equation differ for the individual for each activity, that is, they can shape F so that χ^M has high elasticity with respect to S in a certain activity in which the individual is talented, and possibly low elasticities in other activities. Since the consequences of creative activity on the individual's satisfaction are uncertain because the matching is uncertain, the values of the parameters that shape the F-function (3.1), and hence the elasticity of χ^M with respect to S, can be considered unknown to the individual.

The resources R will be increased by the individual if the matching F improves, so that satisfaction FR in equation 3.1 grows further. This multiplier effect does not change the qualitative results of the solution of the model presented in this chapter, but it requires the following equations 3.9–3.12. These equations can thus be skipped on a first reading by taking R as given. They will become essential when other competing options are analysed in the following chapters.

The resources R include leisure time (l), market goods (C_a), and the creative proportion of work (τ). These three components can be aggregated on the time dimension by considering that market goods can be bought by labour income, that is, working time (L_a) multiplied by labour income per unit of time (w). In equations:

$$R_t = l_t + C_{a,t}\zeta + L_{a,t}\,\tau \text{ with } 0 \leq l_t, L_{a,t} < 1 \tag{3.9}$$

$$p_a C_{a,t} = w_t L_{a,t} \text{ with } 0 < p_a, C_a, \zeta, w < \infty \tag{3.10}$$

where the coefficient ζ converts the units of C_a into time, and p_a denotes the price for the C_a. The variables l and L_a are measured as proportions of the individual's available time, which is set at unity. In this chapter w is assumed as given exogenously.

A natural assumption is that the individual is motivated to devote more resources to creative activity, the more she is successful in pursuing it (i.e. the higher is F) within the structural limits described by the parameters and by w. Therefore, if the net proportion of the time devoted to creative activity (A) with respect to the individual's available time is thus defined:

$$A_t = l_t + L_{a,t} = (1-\gamma)A_t + \gamma\, A_t \text{ with } 0 \leq A_t, \gamma < 1 \tag{3.11}$$

where γ is a given preference parameter for L_a, then the assumption can be written thus:

$$A_t = \Phi(F_t) \tag{3.12}$$

where the function Φ is positive and concave, such that F is essential, and $\lim_{F \to F^M} A \leq 1$. Note that A avoids the double counting of time that is present in R with the creative component of work.

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The dynamic components of the model are given by the equations 3.13–3.16. The satisfaction drawn from creative activity takes into account, besides the outcome as in equation 3.1, also how the individual achieves the outcome, that is, through intentional pursuit and inner change. Let us capture the individual's intentional pursuit of adequate creative activity as her attempt to approach the optimum line χ^M by changing χ on the basis of her S and of her experience. If she experiences boredom in a certain activity, given by the proportional gap $(F^M - F)/F$, she is willing to increase the challenge, so that she will select a higher degree of novelty. In a simple formula:

$$\dot{\chi}_t = S_t\left(\overline{S}+1\right)\left(F^M - F_t\right)/F_t \text{ if } \chi < \chi^M \tag{3.13}$$

where the dot denotes the derivative with respect to time. Since past experience of others may be helpful for the individual's search and adjustment, $\overline{S}$ is introduced into the equation 3.13 in a simple way as an average of others' life skill. If the individual experiences anxiety or even anguish, then she prefers to reduce the challenge, so that she selects a lower degree of novelty, that is:

$$\dot{\chi}_t = -S_t\left(\overline{S}+1\right)\left(F^M - F_t\right)/F_t \text{ if } \chi > \chi^M \tag{3.14}$$

If she is satisfied, she maintains the previous degree of novelty, that is:

$$\dot{\chi}_t = 0 \text{ if } \chi = \chi^M \tag{3.15}$$

Note that these behaviours do not require that the individual knows which is the best level of χ for her, that is, χ^M, because she does not know the shape of the function F.

The individual's inner change, which appears as a learning function, is affected by her success in performing the creative activity (FR), with the possible help of others' skill $\overline{S}$. The individual considers this process of learning hard to predict because it depends, at least, on the uncertain matching between her skill and the creative activity undertaken. Formally, the learning function can be written as follows:

$$\dot{S}_t = \xi F_t R_t(\overline{S} + 1) - \delta S_t \text{ with } 0 < \xi < \infty,\ 0 \leq \delta < \infty \tag{3.16}$$

where ξ captures the basic efficiency in learning, and the parameter δ represents the rate of decay of the skill.

The model of this chapter is closed by assuming the initial conditions S_0 and χ_0 as given. The model represents an adult individual, because she can work as well as enjoy leisure, so that the initial conditions are inherited from the preceding stage of her life when she depended on her caregivers. The model can be easily adapted to represent the individual when she is a child by applying opportune restrictions. An example is given in subsection 6.3.3 and in its attached *Appendix*.

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Therefore, the individual's satisfaction is composite because it is due to the equations 3.1, 3.13–14, and 3.16. These three components cannot be summed because 3.1 defines a level, and the other components are changes, thus describing the possible process of 'flourishing'. These components may have different performance. For example, an individual may experience greater improvements through 3.13–14 and 3.16, but modest outcomes in 3.1 because of her unfortunate initial conditions. Even the intertemporal maximisation of 3.1, which would be hindered by fundamental uncertainty, would take 3.13–14 and 3.16 into account as constraints, not as arguments to be maximised.

3.3.2 The interpretation of the model

Equations and properties 3.1–3.16 form a model that enables study of the dynamics of F, S, and χ by starting from given initial levels of S and χ, with also $\overline{S}$, w, and the other parameters being given. The graphical solution of the model, which is provided in the Appendix to Section 3.3, enables an effective representation of the dynamics of S and χ on the plane in the (S, χ)-axes, while the dynamics of F follow those of S and χ according to function 3.1. Therefore, the working of the model, and thus the conditions that govern the development of the individual's life skill and creative activity, can be seen by using a diagram like the one in Figure 3.2.

Before the case of endogenous development is considered, to be borne in mind is the general solution of the model, which can be represented as stylised trajectories on the (S, χ)-plane. The solution concludes that the trajectories which start sufficiently close to the 'optimum line' χ^M and with not excessively low levels of life skill point towards E_3, while the trajectories that start sufficiently distant from the χ^M or with very low levels of life skill may point towards E_1.

The typical individual who experiences endogenous development of life skill starts with an endowment of life skill which is not close to zero for at least an activity which contains creative possibilities. In order to have positive learning, the starting level of life skill (S_0) should be greater than S_2 and smaller than S_3 in the diagram. To simplify, it will be assumed that the individual knows his own S, although people have in fact only limited knowledge about their skills.[18]

The starting level of the novelty degree of the selected activity (χ_0) is also inherited from early education and experiences, but the individual can correct it by exercising her life skill. Depending on the type of dissatisfaction ($F<F^M$), whether boredom ($\chi<\chi^M$) or anxiety ($\chi>\chi^M$), she will adjust by increasing or reducing χ, respectively (see equations 3.13–3.14), in the attempt to make the novelty degree adequate.

Endogenous development of life skill arises when 'enjoyable learning' is sufficient. This can be represented by the satisfaction from successful creative activity, that is, by a sufficiently small gap $|\chi_0-\chi^M|$ (and then by small $|\chi-\chi^M|$) which brings the individual to an increase in S through equation 3.16. Prolonged learning arises because higher levels of S need greater novelty degrees to yield

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satisfaction, thus prompting a further search for the adequate novelty degree, being $\chi^M(S)$ unknown. Ceaseless learning arises if $\delta = 0$, so that E_3 tends to infinity.

In fact, the endogenous development of life skill is constrained by external conditions. Abundant economic resources devoted to creative activity, that is, wL_a, and favourable social relationships, which are captured by $\overline{S}$, which appear in equation 3.16, enhance the growth of S and, consequently, of χ, because they shift E_3 away from the origin, and tend to eliminate E_2. A similar effect, captured by a rise of ξ, derives from complementary activities for which life skill has been successfully challenged.

The opposite dynamics may arise if the gap $|\chi_0 - \chi^M|$ is sufficiently large. In this case, the satisfaction from that activity is at such a low level that excessive disappointment or anxiety discourages learning. This case does not arise if F^M is concave for every S, that is, $s \to 0$, or if δ is very low. However, large gaps $|\chi_0 - \chi^M|$ imply slow trajectories towards E_3 in any case.

Therefore, the optimum dynamics can be identified in the trajectory that would run along the 'optimum line' from E_2 (or E_1 if E_2 does not exist) towards an indefinitely distant E_3, where satisfaction is obviously higher than at E_1. This trajectory can only be approximated, because the adjustment process (equations 3.13–3.14), which captures the enjoyment from pursuing the creative activity, is continuously displaced by the increase in life skill (equation 3.16), which captures the satisfaction from learning creativity.

This is a remarkable result because well-being is represented in both the outcome and process aspects on the same trajectory until the possible approach to E_1. Note that even along the optimum line, novelty is adequate, not zero, so that some uncertainty is desirable, and perfect foresight is not. The case in which the love of novelty declines because the individual is growing old (Scitovsky 1992 [1976]: 73), can be represented by assuming that δ increases for high t, so that E_3 and E_2 vanish, and S starts to diminish.

The trajectories described by the model are deterministic, but this does not imply that they can be easily predicted. In fact, temporary shocks in one or more of the parameters permanently change the trajectories, which are thus path-dependent. Consequently, the individual is hindered in learning the laws of movements (equations 3.13–3.16), and in predicting the effects of the shocks. This fact justifies the model's assumption that the individual does not take account of the future effects due to the changes given by equations 3.13–3.16 when she makes her decisions.

Shocks in the novelty degree, in particular, may be rather frequent, so that they possibly constrain the changes of χ, that is, the individual would be willing to change χ according to equations 3.13–3.15, but she should revise and update her decisions. Therefore, the trajectories are determined both by the starting conditions and by the current new conditions.

To conclude, the model shows how an individual's life skill can develop endogenously when she selects an activity and chooses the novelty degree for which she has favourable talent and past experience. However, she may not know in advance what the most adequate activity and novelty degree are. The

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economic conditions, the social context, the available novelty degrees, and complementary creative activities may extend the potential for development of the individual's life skill; but at the same time these are sources of shocks which hinder her predictions.

3.4 Looking for empirical studies in support of Scitovsky's creative activities and life skill

Scitovsky's ideas on human beings are intriguing, at least for an economist. He thought that learning something new about the outside world and about oneself is part of human behaviour, and that enjoying this learning requires prior development of adequate skills through family, education, work, and other social experiences. To convince the reader, Scitovsky provided some supporting evidence, but unfortunately it was insufficient for such ambitious ideas. He cited psychological experiments on individuals' reactions to sensory stimuli and then drew the need for adequate skills, and the conditions for their development, from casual observation. This evidence was insufficient to account for the complex psychological constructs involved, for their dynamics and social interdependence.

This section has taken advantage of the great progress in psychology and related disciplines since Scitovsky's time, and of the opening of economics to these disciplines, as testified by the new branches of the Economics of Happiness and the Behavioural Economics. A broader and stronger range of evidence is now available: in particular, on the formation of adequate skills over people's life cycles, that is, Scitovsky's 'life skill', and on how people develop and exercise personal creativity. A brief discussion of this evidence in subsections 3.4.1 and 3.4.2 will thus be useful as possible refinement and integration of Scitovsky's analysis, and for better understanding of its limitations.

3.4.1 Empirical studies on the development of life skill

Scitovsky's concept of 'life skill' might be interpreted in conventional economic terms as skills acquired through costly investment in education according to the individual's fixed preferences. This is also consistent with the idea in psychology that personal traits are usually fixed. But Scitovsky proposed the different concept of 'life skill' as characterised by a development that yields satisfaction in itself, and that can be embodied in individual's preferences, so that these change over the life cycle. The empirical evidence of interest for our discussion of 'life skill' thus derives from specific new streams of research in both economics and psychology. Two prominent examples can be mentioned: the interdisciplinary research led by the Nobel Prize winner in economics James Heckman on human personality and skills development, and the research conducted by the comparative psychologist Michael Tomasello and others on the key role of social skill as specifically human in developing the other skills. Further interesting recent research will be considered in Section 4.4.

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The research conducted by Heckman and co-authors, among others (e.g. Coneus *et al.* 2012), is very recent and innovative. Old and new results of this research are organised so as to counter the popular belief in the stability of personality traits, and to show that skills can be learned in an integrated and dynamic manner.

The first step is to show that personality, as usually measured in psychology by scores on traits, changes over the life cycle. More precisely, the absolute levels of traits, like the Big Five and some of their facets, exhibit changes over people's life cycles, and, surprisingly, more during young adulthood than during adolescence. The possibility that trait changes are due to a biological programme seems to be disconfirmed by the fact that changes over time are also observed in the ordinal ranking of each trait across adult individuals, thus implying that they are heterogeneous (Almlund *et al.* 2011: 117–22). To give an idea of the importance of changes in personality traits, a study in the Economics of Happiness has found that these changes vary over people's lives at least as much as economic factors, and that they relate much more closely to changes in life satisfaction (Boyce *et al.* 2013).

A claim frequently made in psychology is that genetic factors are largely responsible for the stability of personality in adulthood, as emerges from studies on hereditability. However, studies of this type usually assume that genes and environment do not interact. Contrary evidence emerges on observing that people are attracted by environments that are consistent with their personality, and which thus reinforce their disposition. Therefore, the contribution of some deliberate decision to maintain the personality stable may also be involved (Roberts *et al.* 2006; Rutter 2006).[19]

The second step of Heckman's research is to shift the focus from personality traits to cognitive and socio-emotional skills, and to show that these skills tend to self-reinforce, starting from infancy, or even from pregnancy, depending on people's actions and on educational investments by their caregivers. Cognitive skills include the ability to understand complex ideas, to adapt effectively to the environment, and to solve problems, while socio-emotional skills include sociability, perseverance, attention, motivation, time preference, and self confidence (Heckman 2008).

Considering socio-emotional skills together with the more frequently investigated cognitive skills enables research to find new evidence on their interaction and dynamics. It has been found that both of them grow over people's life cycles, but socio-emotional skills may grow more after adolescence, and improve the performance of the cognitive ones. Their self-reinforcement and interaction is especially powerful in early childhood because the plasticity of the human brain opens up critical periods for learning. The role of parenting thus becomes especially important with respect to that of schools (Borghans *et al.* 2008).

The third step in this stream of research is to show the crucial importance of parenting quality for children's development, over and above the family's economic conditions (Heckman 2008). 'Quality parenting – stimulation, attachment,

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encouragement, and support – is the true measure of child advantage' (Kautz *et al.* 2014: 12).[20]

The fourth step concerns the outcomes for a satisfying life due to the development of both types of skills. For several outcomes, like school performance and adult earnings, both cognitive skills and socio-emotional skills – which are captured by self-esteem and the locus of control over one's life – seem to be equally predictive. For some other outcomes, like the probability of incarceration by the age of thirty for males and of early pregnancy, the socio-emotional skills seem to be more predictive (Heckman 2008; Heckman *et al.* 2006).

The crucial importance of social and creative skills in 'life skill' has been evidenced by another stream of research, that of Michael Tomasello and colleagues. Their especial concern is to show that these skills are specifically human, and to this end they adopt the method of comparing the behaviour of babies and children with that of non-human primates in similar controlled conditions. This approach is particularly interesting because it aids understanding of whether moral behaviour is inculcated in children as if they were 'blank slates', or whether children have a natural positive social disposition.

The two preliminary results obtained by Tomasello and colleagues regard the specific and general interaction of young children, often very young, with others. In the specific case, they are surprisingly able to read the intentions of others in a recursive interaction, and to imitate others so as to know themselves as well (Tomasello 2009; Meltzoff *et al.* 2009). In the general case, young children understand that human interaction is governed by social norms. They are able, for example, to recognise property rights (Rossano *et al.* 2011), to acknowledge merits among peers (Hamann *et al.* 2014; Kanngiesser *et al.* 2012), and to express sympathetic concern with the victims of some norm violation (Vaish *et al.* 2009; Kanakogi *et al.* 2013). These results show that young children recognise that they can share similar motivations with others, but also that others' behaviours may be inspired by false beliefs. It also seems that children can automatically learn to reason in abstract terms when they become able to see their own role in the group through the eyes of a third observer. By contrast, non-human primates do not exhibit such social (and cognitive) skills, although they appear similar to young children in the cognitive skills that they use to deal with the physical world.[21]

The ability to understand others and oneself in relation to others, and the ability to think in abstract terms, prompt Tomasello to hypothesise that 'joint intentionality', that is, collaboration in accomplishing a common goal, is a distinctive characteristic of human beings. In fact, chimpanzees cooperate in catching the prey, but they do not collaborate when eating it: hence their cooperation is pure 'mutualism', that is, others remain instrumental. By contrast, children understand that human individuals contribute to collective goals, and they are intrinsically motivated to do so by the pleasure of collaborating with others, thus seeing others as ends. In this way – according to Tomasello – individuals become able to create human culture; consequently, at the same time, they become able to create themselves as active contributors to the social community (Tomasello 2009).

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3.4.2 Empirical studies on personal creativity

Personal creativity is a widespread phenomenon; nevertheless it is less studied than creativity in eminent people and geniuses, or in the production of cultural services. One reason for this is that personal creativity is focused on the personal experience in everyday creative activity, which is difficult to measure, whilst creativity in geniuses and professionals can be more easily observed through their products.

The concept of personal creativity has its origin in the tradition of the psychology of education of Jean Piaget (1896–1980) and Lev S. Vygotsky (1896–1934). According to this tradition, 'learning' does not simply mean absorbing new information rather, it is the creation of new structures on the basis of personal pre-existing knowledge which helps the individual in the formation of goals (Piaget 1973; Moran and John-Steiner 2003).[22] Personal creativity takes place when the individual elaborates an original interpretation of a perception or a memory, that is, a new and consistent representation of it, that she finds valuable. Personal creativity contrasts with the reproduction of concepts and behaviours taken from past experience or from others (Runco 2007).

This type of creativity has been distinguished in psychology from the creativity of artists and scientists, and of professionals in industry, because it does not necessarily produce something new that can be profitably used by others. Usually, personal creativity does not require special gifts, and it can be exercised and developed by everybody (Kaufman and Beghetto 2009).

Empirical studies on the creativity of the general population use indices on both subjective dispositions and small products of creativity. The former are mostly used in the field by combining measures on fluency, that is, the total number of ideas, on flexibility, that is, the number of themes within the ideational pool, and on originality, that is, the number of infrequent ideas (Kim 2006). The products of creativity are evaluated in the laboratory according to the judgements of experts (Amabile and Pillemer 2012). Measures of this kind yield evidence of interest to our analysis here.

First, intrinsic motivation is a crucial determinant of creativity across multiple populations and contexts.

> Intrinsic motivation arises from the individual's perceived value of engaging in the task itself (e.g., finding it interesting, enjoyable, satisfying, or positively challenging), while extrinsic motivation comes from outside sources (e.g., the promise of rewards or praise, or the threat of failing to meet a deadline or receiving a negative evaluation).
>
> (Amabile and Pillemer 2012: 7)

Besides intrinsic motivation as a situation state, also intrinsic motivation as an enduring personality trait exhibits a positive relation with creativity (Prabhu *et al.* 2008).

Second, positive affect fosters intrinsic motivations like the enjoyment of novel and challenging tasks, thus facilitating creative activity. In fact, positive

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affect increases the cognitive elements available for association; it leads to defocused attention; and it enhances creative performance (Isen and Reeve 2005; Baas *et al.* 2008).

Third, the cognitive mechanisms underlying creative performance are domain-specific, with the likely exception of general intelligence (Hennessey and Amabile 2010; Amabile and Pillemer 2012). Nevertheless, creativity exhibits a negligible correlation with the Intelligence Quotient (Kim 2005), thus emerging as a distinct psychological construct.

Fourth, non-conscious processes seem to be as indispensable for creative activity as the conscious processes (Snyder *et al.* 2004; Ritter *et al.* 2012). This would confirm that the outcomes of creative activity are difficult to foresee.

Fifth, the social context is important for people's intrinsic motivation and creative performance at two levels. At the proximal level, individual's interactions can trigger their skills, as in the case of children with their parents, or of teams in organisations (Hennessey and Amabile 2010; Amabile and Pillemer 2012). At distal level, culture, experts, and society provide the stock of knowledge, the tools and practices, as well as the rules and gatekeepers, that fix the costs, the opportunities, and the rewards for any creative activity (Csikszentmihalyi 1999).

Sixth, the impact of creativity on well-being is positive. A study in the Economics of Happiness has found a positive and sizeable correlation between creativity, as self-reported important value, and life satisfaction (Georgillis *et al.* 2009). Psychology studies confirm that creativity has a positive impact on affect and mood, so that, together with the first property above, a virtuous circle of increasing creativity and well-being may arise if the social context is favourable (Amabile *et al.* 2005; Fredrickson 1998).

This latter aspect has been closely studied by Csikszentmihalyi (1990) from the perspective of the performance of creative activity over a stretch of the day. He posits that the positive affect in the virtuous creativity circle takes the form of 'flow' when challenges match well with the individual's skills. This condition takes place through clear goals at every step of the way, through immediate feedback on actions, and through control of the performance. In this case, action and awareness merge together, and self-consciousness disappears. Neural correlates for 'flow' have also been found (Dietrich 2007).

Recent research in psychology has deepened the curiosity aspect of the matching problem, thereby offering a more scientific reinterpretation of the Wundt-Berlyne's framework.[23] According to these studies, the optimum matching can be obtained from the combination between the individual's appraisal of the objective novelty content in the different activities available and her appraisal of her life skill. The individual's interest emerges from this combination and triggers her curiosity, that is, her intrinsic motivation for novelty pursuit. Two outcomes can thus be identified: the performance of effective learning and well-being. This is confirmed by two reviews on the topic, which respectively conclude that '[g]reater curiosity-related behaviors and cognitions are consistently associated with greater learning, engagement, and performance in academic settings and work organizations' (Kashdan 2004: 135) and that '[o]f the character

strengths, curiosity was in the top five most strongly linked to global life satisfaction, work satisfaction, living a pleasurable life, living an engaging life, and living a meaningful life' (Silvia and Kashdan 2009: 792).[24]

These studies mainly pertain to psychology. In fact, economics is ill-equipped to study creativity because it is based on *homo economicus*, who is able to find solutions for the well-defined problem of optimising pay-offs under resource constraints and given information sets, but is unable to extend the option space. He is thus not even designed to draw any intrinsic benefit from pursuit of such extension, so that uncertainty is considered only a cost. Consequently, creativity is conceived in economics as an inessential characteristic of human behaviour because it can be bought on the market like many other products, or because it is a peculiar characteristic, as in the case of artistic creativity. This might be a reason why Scitovsky's contribution to economics has been misunderstood as limited to his analysis of cultural and artistic activities.

A different view, however, is taken by other, no less 'hard' disciplines. In neurobiology, creativity is an essential human characteristic, not only because the brain – far from simply storing and selecting information from the outside world – continually works to re-create the representation of reality, which is the basis for reasoning, but also because it provides a mode of thought parallel to reasoning (Oliverio 2008). It has also been called the 'divergent' mode of thinking because it is extended to multiple possible answers to questions, as opposed to the 'convergent' mode of thinking, which assumes that a question has only one right answer (Kim and Pierce 2013). The two modes of thinking can be complementary and display brain correlates (Collins and Koeklin 2012).

In paleoanthropology, the onset and combination of the two modes of thinking is hypothesised to be at the basis of the so-called Upper Paleolithic revolution. This era, although it occurred only 60,000 to 30,000 years ago, exhibits more innovations than the previous six million years. In particular, besides new instruments for survival, a large amount and variety of Upper Paleolithic artistic works have been found. While time and effort were undoubtedly devoted to such artworks, their precise function for human evolution is unclear, and therefore appear to be special products of divergent thinking (Gabora and Kaufman 2010). Consistent with this tentative conclusion is that creative thinking might be superior to economic rationality in the evolutionary perspective (Earl 2013). Therefore, it seems that *homo economicus* as the typical representation of rational decision-making lacks some important feature of *homo sapiens*.

Notes

1 Scitovsky mentioned Edward Deci when he discussed intrinsic motivations (Scitovsky 1986: n. 13). This psychologist, together with Richard Ryan, defines 'intrinsically motivated activities as those that individuals find interesting and would do in the absence of operationally separable consequences' (Deci and Ryan 2000: 233). An activity may be defined as 'intrinsically motivated in an indirect way' if it is instrumental for access to an 'intrinsically motivated' activity. Scitovsky called this preliminary activity the 'initial investment of time and effort to expand our capacity to enjoy

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life' (Scitovsky 1992 [1976]: 270). For a similar way of reasoning, see also Hawtrey (1926: 189).

2 'The challenge is one's skill, strength, endurance, or *intellectual capacity*; the threat can be to life, limb, health, economic well-being, as well as one's prestige, status or self-respect' (Scitovsky 1986 [1981]: 128, emphasis added). Note that exploration does not necessarily require intrinsic motivations because it may be pursued for something in exchange.

3 For a discussion on the link between Hawtrey and Scitovsky, see Bariletti and Sanfilippo (2015).

4 Scitovsky acknowledged, in a response to Albert Hirschman's (1996) criticism, that he overlooked this latter aspect in his book (Scitovsky 1996: 596).

5 'Some production skills, however, are closely related to, and so impart, certain consumption skills' (Scitovsky 1992 [1976]: 226). Scitovsky clearly refers to arts production in this case (Scitovsky 1992 [1976]: 275–277).

6 Scitovsky also used the term 'leisure skill', which underlines that this skill is mostly exercised during leisure time (Scitovsky 1992 [1976]: 333; 2000: 50).

7 Scitovsky's emphasis on the importance of reading for children has been vindicated by a variety of recent empirical studies (Kalb and van Ours 2013; Del Bono *et al.* 2014; Huang 2006).

8 Weber and Johnson (2008: 131) would call Scitovskian uncertainty 'epistemic', in contrast to the 'aleatory' uncertainty that is usually considered in economics.

9 The conventional expected utility theory has been shown to encounter serious problems if the emotions that arise while awaiting the revelation of novelty are considered (Pope and Selten 2010/2011). See the discussion, in relation to Scitovsky, in Pugno (2014a).

10 The dynamics of Scitovsky's analysis have also been discussed by Benedikt (1996), but he used only diagrams in two dimensions.

11 The numerical size of the basic elements, the number of their varieties, and the structural rules that connect them are the three objective factors that most characterise 'complexity' in recent empirical research (Xing and Manning 2005).

12 When the novelty degree is so high that nobody is able to cope with it, the 'boundary of knowledge' of the community can be defined. It can be represented by $\tilde{\chi}$ in Figure 3.2 (for its changes, see 8.4.1).

13 Isoquants of constant satisfaction are very concave, since they display two rising, though divergent, arms that start from the optimum line.

14 In other terms, he claimed that: 'the possibility that the same influences that modify our tastes might also modify our ability to derive satisfaction from the things that cater to our tastes' (Scitovsky 1992 [1976]: 5).

15 See, for example, the work of Heckman and his team, as briefly discussed in subsection 3.4.1. The educational pattern described here, however, was originally conceived by Vygotsky with his 'zone of proximal development' (see 3.4.2).

16 In this pursuit, parents should know the 'technology of human skill formation' that describes the dynamic relationship in which current skills and effort, as well as external investments, are the inputs, and the subsequent skills are the output. This technology has been ascertained by a body of empirical studies showing, in particular, that inherited factors interact with the environment and deliberate investments (Heckman 2008).

17 The models proposed in this book modify and expand the model of Pugno (2013).

18 See the psychology works Wilson and Dunn (2004) and Dunning (2005).

19 In the Economics of Happiness, study of the role of genetic factors in people's subjective well-being is still at its beginnings, and the results are tentative (Rietveld *et al.* 2013; Proto and Oswald 2014). Some gene/environment interaction can be captured in our model of the Appendix to Section 6.3.

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20 Consistent evidence is found in neuroscience, since parental nurturance and education seem to be beneficial for the healthy development of a child's brain (Rao *et al.* 2010; Lawson *et al.* 2013).

21 Some of these findings are confirmed in the economic literature. For example, eight-year-old children are found already to exhibit trust and trustworthiness in a trust game (Harbaugh *et al.* 2003). Similarly, children exhibit cooperative behaviours in the public good game (Harbaugh and Krause 2000) and dictator game (Harbaugh *et al.* 2001), although to a less pronounced extent than adults. By contrast, chimpanzees are rational maximizers in the ultimatum game (Jensen *et al.* 2007).

22 Vygotsky (1978 [1930]), in particular, argued that child's thinking develops through social interaction, because the child gives hints and clues to the teacher, so that the teacher can propose to her adequately challenging tasks.

23 In particular, this recent approach by-passes the issue of 'arousal'. According to Berlyne (1960), arousal may be relatively high for low levels of stimulation, while Scitovsky preferred to rely on other findings according to which arousal may be relatively low. More recent research does not reach any firm conclusion on the use of the construct of 'arousal' (see e.g. Kubovy 1999).

24 These findings are important because the creativity/mental health link is controversial in the case of eminent creative individuals (Carson 2011; Nettle 2006).

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4 Comfort vs. creative activity as two sources of well-being

Nobody realises that some people expend tremendous energy merely to be normal.

(A. Camus, *Notebooks*, 1942–1951)

4.1 Introduction

Relieving hunger with a good meal is undoubtedly satisfying, but solving a problem in an original way is also exciting. Finding comfort and engaging in creative activity stand out as two distinct sources of well-being in human life. But can we reduce them to a single measure, such as utility, as Bentham would suggest? Or are they incommensurable, like many other pleasant activities, as Mill would instead suggest?

Scitovsky's analysis provides the basis for an intermediate and innovative position. Even if the enjoyable things of life are many – thus runs his argument – the pursuits of comfort and of creative activity, their underlying motivations, and the ensuing types of well-being cannot be reduced to a single measure; rather, they can be parsimoniously represented as two different pathways to well-being. In particular, while the dynamics of the creative activity pathway is due to the endogenous change in people's life skill, the dynamics of the comfort pathway is due to the endogenous change in their education for productive purposes. The characteristics of the goods consumed may not play any crucial role.

Maintaining this distinction is important because the two pathways may be complementary or substitutable; or they may even point in opposite directions. Along these pathways, people's behaviours are described as tendential, that is, prevalent over lifetime spans, so that the alternation of behaviours on a daily basis is possible, but is not relevant per se. Both pathways are also path-dependent, so that external shocks can change their dynamics.

The economy can play a crucial role in this analysis, because it can shape the two pathways, with the result that economic growth can bring different types of happiness to people, or it may even bring no happiness at all. This latter unfortunate outcome may arise because the comfort pathway is especially vulnerable to external conditions and shocks, as will be discussed in Chapters 5 and 6.

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Scitovsky's distinction between comfort and creative activity should not be confused with another distinction sometimes used by social scientists, such as the classical economists. That other distinction was between primary or basic needs, which require some specific goods to ensure people's survival and safety, and secondary needs, sometimes called 'wants', which appear to be more psychological, and which can be satisfied by 'luxury' goods. Briefly stated, comfort can satisfy both primary needs and some 'wants', while creative activity can satisfy the other 'wants'. In this way, primary needs can be defined in absolute terms, while the rest of comfort that satisfies 'wants' can be defined in relative ones (see also Chapters 5 and 7).

This chapter extends the analysis of the preceding chapter on the creative activity pathway to well-being by presenting and discussing the comfort pathway, and by studying differences and connections between the two. More specifically, Section 4.2 introduces and discusses the issue with verbal analysis and reference to Scitovsky's texts; Section 4.3 provides a formal model so as to make the preceding analysis sharper; Section 4.4 refines the analysis with the help of recent empirical studies. In particular, the concluding part (in 4.4.4) pays especial attention to the recent empirical studies that have revived the debate rooted in ancient Greek philosophy on the contrast between two types of well-being, that is, hedonism and eudaimonia.

4.2 Comfort vs. creative activity: distinct and interacting

4.2.1 Comparing comfort with creative activity

The term 'comfort' usually denotes the feeling of relief, although it often also indicates the good or service that is expected to provide this type of satisfaction. If the term 'comfort' is compared with 'creative activity', the contrast between a passive and an active feeling is immediately apparent.

The properties that distinguish comfort stand in contrast to the two properties that distinguish creative activity within the individual's option set (see 3.2.1). The first property, which is sufficient but not necessary to define 'comfort', is that work or some costly activity is necessary to obtain it, so that these activities are said to be 'extrinsically' motivated. This means that 'comfort' is the final goal, and work is the means to achieve it, rather than being an enjoyment in itself, and it should be as efficient as possible. This fact induced Scitovsky to use the expression 'economic motivation' instead of 'extrinsic motivation' (Scitovsky 1986 [1985]: Ch. 14).[1]

The second sufficient property of 'comfort' is that it describes a well-defined condition in which needs are satisfied, so that it can be taken as the final goal to maximise and to put at the minimum possible risk. Learning may pertain to the means to obtain comfort, in which case it is only costly. The passive character of comfort, in which pains are relieved, is opposite to challenge, which may be possibly involved in learning the means, and which is, again, only a cost. Comfort does not require skills that are purposefully acquired to this end, although some specialised skills may be necessary to acquire the means.

A number of characteristics can be derived from these two properties of comfort. First, comfort requires a preceding state of discomfort as a pain or fear of pain, like hunger, thirst, cold, insecurity and illness, which exogenously emerge (Scitovsky 1986 [1983]: 150). Pursuing comfort is thus a defensive action. By contrast, creative activity does not require preceding states of pain; it is not defensive or compensatory. In this sense, people who opt for creative activity are freer because they can enjoy 'freedom from [...] discomfort' (Scitovsky 1992 [1976]: 59).

A particular discomfort emphasised by Scitovsky is boredom. This is an unpleasant feeling that arises when the individual does not find sufficient stimuli, either from the environment around her or from within her, that is, from her memory and mental elaborations that are part of her life skill. This condition reveals a lack of life skill, so that other stimuli, such as those emerging from bodily needs, become attractive. This may trigger the pursuit of comfort, and even of risky activities in the case of 'chronic boredom', as will be discussed in Chapter 5 (Scitovsky 1992 [1976]: 316, n. 2; 1996: 604).

The second derived characteristic that distinguishes comfort and creative activities concerns time. It can be observed that the time employed to obtain comfort can be considered irrelevant from an analytical point of view, while the time employed to perform the creative activity is essential. In fact, creative activity entails learning and a change of life skill which will alter choices in the future, while the time employed to consume comfort is necessary only to alleviate dissatisfaction.

In order to clarify this aspect, Scitovsky used the re-elaborated Wundt curve.

> [F]eelings of comfort and discomfort have to do with the *level* of arousal [or stimulation] and depend on whether arousal is or is not at its optimum level, whereas feelings of pleasure [due to creative activity] are created by the *changes* in the arousal level, especially (but not exclusively) when these changes bring arousal [...] toward its optimum.
>
> (Scitovsky 1992 [1976]: 61, emphasis in original)

Therefore, pursuing comfort means assuming the goal of achieving the optimum level of stimulation, which may thus be considered a timeless goal. Even if pursuing comfort actually takes time, this is similar to the consumer's adjustment to a new balance constraint. Scitovsky describes this adjustment thus:

> behavior aimed at securing comfort [...] includes behavior which satisfies various bodily and mental needs and so lowers arousal that is too high; it also [calls for...] behavior which combats boredom and so raises arousal that is too low [...] the two kinds of behavior are alike in that both aim at securing a negative good: freedom from [...] discomfort.
>
> (Scitovsky 1992 [1976]: 59)

Therefore, comfort tends to establish itself at the optimum point. The local dynamics around it, although sometimes described by Scitovsky in some detail

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(e.g. Scitovsky 1992 [1976]: 22), do not seem particularly interesting in the more long-run perspective of skill changes. It is more interesting to observe that the satisfaction gained from having achieved the optimum, as in the comfort case, and the satisfaction experienced in achieving it, as in the case of creative activity, cannot be simply summed but should be kept distinct.

The third derived characteristic that distinguishes comfort and creative activities concerns uncertainty. In the case of comfort, the conditions for individuals' choices are not especially uncertain. Consuming comfort is typically characterised by repetition, due, for example to the cyclical nature of the body's needs. The needs relieved by consuming comfort goods are often specific, well-defined, and usually very common, so that collecting the necessary information on comfort is straightforward. A good example is eating breakfast, but also driving a car. New products for breakfast or new types of cars maintain the Lancasterian characteristics of satisfying the needs for food or for transport, while people rapidly adapt to advances in these and similar characteristics. Therefore, possible uncertainty is exogenous and objective, and hence usually averted. Uncertainty of creative activity is instead endogenous and subjective, and it may be non-averted (see 3.2.3).

The fourth derived characteristic concerns the economic goods that are used. '[P]ersonal comforts are generally the most expensive in terms of economic goods' (Scitovsky 1986 [1979]: 119), and '[c]omfort seems to be the most costly source of human satisfaction in terms of depletable resources and ecological degradation of our planet' (Scitovsky 1992 [1976]: viii–ix). By contrast, '[m]any pleasures [from creative activity] have nothing to do with the consumption of marketable products but consist in the enjoyment of nature and, even more, of human contact in many forms' (Scitovsky 1986 [1972]: 61; see also 1986 [1973]: 17, 19). Therefore, economic goods play an essential role in comfort, but they are inessential in creative activity, although nothing prevents their use in great amounts also for this latter end. However, the same types of economic goods may be used both for comfort and in creative activity, because what matters are the underlying motivations. This was clearly stated by Scitovsky several times (Scitovsky 1992 [1976]: 109; 1986 [1972]: 61; 1986 [1979]: 119). Hence the physical characteristics of the goods employed are not a secure basis on which to distinguish between the different kinds of activities. Even more misleading is the distinction between material and immaterial options, as interpreted in an early review of *The Joyless Economy* (Ballard 1978).

All the above-mentioned characteristics seem thus to distinguish comfort well from creative activity. Other characteristics, however, may be misleading. Scitovsky himself provided ambiguous indications when he restricted the focus to the Wundt curve. He seemed in fact to distinguish between 'arousal reduction', which would characterise 'almost all of man's activities [i.e. comfort,... and] the arising of too low arousal', which would characterise creative activity (Scitovsky 1992 [1976]: 30). However, the opposite may also be true: the discomfort of boredom implies an increase in arousal (see the quotation above), and creative activity may lead to excessive arousal (Scitovsky 1992 [1976]: 76).

4.2.2 The different social dimension in comfort and creative activity

Scitovsky included in comfort the component called 'social comfort' on the basis of the fact that the typical social discomfort is the feeling of exclusion from the reference community. Pursuing social comfort primarily suggests conformism, that is, abiding by the social norms which prescribe how to behave to be accepted by the community (Scitovsky 1992 [1976]: 114–118). Social comfort thus seems easy to define for a given set of social norms, which make this type of social behaviour dynamically stable.[2]

However, social norms are not usually given and fixed. Scitovsky observed that people also: 'seek status not in other people's recognition of their specific accomplishment, but in a general token, like income, [so that] status becomes a matter of ranking on a one-dimensional scale, and the seeking of status becomes a zero-sum game' (Scitovsky 1992 [1976]: 119). In this case, norms are not fixed because they are attached to others' income, which may tend to grow.

Specifically, a person is better off if she increases her consumption or income relative to that of others, but if everyone increases their consumption no one will be better off. Failing to take this effect into account induces people to fall short of their expectation to be better off by increasing their consumption. Hence, the satisfaction expected to derive from choosing relative consumption tends not to be realized (Scitovsky 1992 [1976]: 131–132).[3]

Therefore, social comfort can be satisfying because of the sense of contact with others and of inclusion in the community. But when the tendency to excel to gain more comfort within the community prevails, then social comfort becomes self-defeating because of social competition, that is, it entails a negative externality from others.

In creative activity, the social dimension assumes rather different qualities for four main reasons. First, creative activity requires life skill which has developed thanks to adequate relationships during childhood (see Chapter 3 and 4.4.1). Second, in adulthood, social relationships can be an inexhaustible source of creative activities in 'discussion, argument [...]; making love and playing tennis; cooperation in any work or joint venture' (Scitovsky 1992 [1976]: 83). Third, the search for adequate creative activity aids understanding of the general process of challenge and learning, and hence the behaviour of others when they are involved in a similar process (Scitovsky 1992 [1976]: 236–239). Fourth, when creative activity produces something new and valuable also for others, then an ample externality emerges, which is social and positive because it is able to increase general welfare. 'The yearning for new things and ideas is the source of all progress, all civilization' (Scitovsky 1992 [1976]: 11).

Therefore, creative activity displays positive social externalities that have even dynamic aspects. In fact, in direct personal relationships all the parties produce as well as consume creative activity if they use their life skill, which may even improve if the experience has been successful. A large body of literature has studied the non-pecuniary reward obtained by the parties from being involved in direct personal relationships. Some authors have coined the term

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'relational goods' to indicate the peculiar goods enjoyed (see Uhlaner 1989; Gui and Sugden 2005; Folbre and Nelson 2000), but the dynamic aspect due to the change of parties' skills has been generally neglected, and Scitovsky's insight again emerges as original (Scitovsky 1992 [1976]: 86, 144; Pugno 2009).

Since social creative activity displays externalities that are dynamic, the social interaction contributes to changing individuals' life skill further. This makes creative activity even harder to predict.

Social externalities play an important role in Scitovsky's analysis also because he took the original position of interpreting all the relevant interpersonal interactions in terms of social externalities. Let us consider the following example of family life and in particular of the father/daughter relationship.

> Husbands and wives provide many material and physical comforts to each other [. . . S]ocial customs and family discipline are sufficient to assure their reciprocity. [. . . R]eciprocity, and the assurance of reciprocity, while desirable, is not very important. I buy my daughter birthday presents not in the hope of reciprocity, but because I enjoy giving them to her and witnessing to imagining her pleasure. One can call this love or altruism, but is also the assertion and strengthening of the ties of my membership in the family, or of my status of father, for the satisfaction this gives me.
>
> (Scitovsky 1992 [1976]: 120–121)

With this example Scitovsky claimed that the motivation underlying his act towards his daughter was to perform the creative activity of being a good father, with the consequence that his daughter could enjoy her birthday present. This is not the simple case of interdependent utility, because the daughter's enjoyment was not Scitovsky's final aim. If she had wanted, for example, two gifts instead of one, Scitovsky would have continued to follow his original purpose, not that of his daughter. His behaviour is inspired by the idea of a 'good father';[4] it is rewarding in itself and costly if unrespected.[5] Therefore, Scitovsky's apparent altruism towards his daughter takes rather the form of a positive externality, while the case of reciprocity is excluded altogether. His satisfaction derived from this type of externality may be due to '*internaliz*[*ing*] the external benefits of caring' (Scitovsky 1992 [1976]: 175, emphasis in original).

By generalising this case to other familial and social interactions, Scitovsky's analysis can maintain the conventional assumption of self-interest because properly developed life skill guarantees positive social externalities that emerge as altruism. This idea would introduce a new perspective on human relationships and on ethics, and a new way to study them.

4.2.3 How comfort and creative activity become substitutable

Comfort and creative activity are linked together in several ways. Some links push the two options towards their substitutability, and some other links push them towards complementarity.

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In the short run, the motivations that underlie the two options make them opposite in nature. According to Scitovsky: 'pleasure [from creative activity] and comfort have not only turned out to be very different motivating forces [;...] to some extent, pleasure and comfort are mutually exclusive alternatives' (Scitovsky 1992 [1976]: 72). To be noted is that Scitovsky should have referred to *final* motivating forces, because some choices may be instrumental. For example, repetitive behaviours may be pursued and comfort appreciated in order subsequently to undertake creative activity with renewed energy. Conversely, the repetition of comfort can be pursued through alternatively consuming two or more goods, thus implying the pleasure of variety and change. The final motivating force is thus *essential*, that is, it cannot be removed, whereas instrumental motivated behaviour can be removed, although at some cost. It can therefore be argued that every behaviour is either final or instrumental if it is considered in connection to other behaviours.

The change of motivations is triggered by life skill as inherited from the past. In an individual's life, at times of decision-taking, life skill is primarily inherited from childhood. If the initial level of life skill is sufficiently high, then the individual can appreciate and learn to appreciate creative activity, thus further increasing her life skill (see Chapter 3). Conversely, she will find comfort to be relatively uninteresting as a major goal. Consuming market goods will become instrumental, possibly to refresh energy to pursue creative activity. If, however, the initial level of life skill is not sufficiently high, the individual is disappointed by unsuccessful experiences of creative activity and will tend to cease exercising her life skill. She starts to have difficulties in finding something interesting and tends to feel bored. Comfort provides an immediate relief and becomes her main goal. '[T]oo much seeking comfort will reduce or eliminate pleasure in any and every [other] activity' (Scitovsky 1992 [1976]: 77).

Therefore, the endogenous dynamics of life skill strengthen the preference for one of the two options, so that these can be substituted one for the other. Since a change in life skill is thus involved, comfort and creative activity become substitutable in the long run (Scitovsky 1986 [1983]: Ch. 12). The initial level of life skill is crucial, so that it becomes important to focus on childhood. Caregivers and the initial economic conditions play a special role (see also 4.4.1); but also other external shocks, especially when derived from social relationships, can permanently change the dynamics.

The change of life skill thus marks the two pathways to well-being, and not just the creative activity pathway, as seen in Chapter 3. While the comfort pathway is goal-oriented and much influenced by what others do, creative activity is experience-oriented and much influenced by the inner life skill. It is thus natural to shift resources, like time and income, towards the preferred pathway. It will thus be reinforced and substitute the less preferred pathway even more.

This analysis, however, is still not enough to understand why comfort and creative activity are two sources of satisfaction that compete in the long run. So far, the pursuit of creative activity has a clear advantage, because life skill can endogenously increase the satisfaction derived from creative activity, while the

satisfaction that can be gained from comfort remains constant. However, the quantity of comfort may also endogenously increase because education can be used for this purpose. The analysis thus needs further elaboration.

4.2.4 Production skill and the two endogenous pathways to well-being

Education, especially at higher grades, can be used to pursue higher levels of comfort because it can be oriented to the acquisition of skills useful for the labour market, that is, production skills (Scitovsky 1992 [1976]: 229–230). In this way an endogenous pathway distinct from the creative activity pathway is opened to increase well-being, and they can be compared on a more equal footing. New links that push them towards complementarity can also be considered.

Comfort essentially requires goods; hence it can be increased if more goods are bought on the market, and more working time is supplied for them. Education enables people to earn more income for more market goods in the future, at the cost of reducing current working time and comfort goods. This is the normal description of the role of education when it is introduced into economic analysis as investment in production skill, which can be supplied on the labour market as 'human capital'. Education as investment indicates not only that it is used as an input for the production of market goods but also that it requires foresight so as to evaluate future rewards that should compensate current costs.

Creative activity is different because it can provide both satisfaction when it is performed and future rewards because it contributes to developing life skill, and hence the capacity to realize new things in the future. By contrast, investment in production skill has the disadvantage that foresight is needed for it to be undertaken.

Fortunately, foresight in this type of investment is relatively easier. In fact, the labour market provides signals of the rewards from the various specialisations. The rate of returns can thus be discounted and calculated, and the intertemporal choice can be made (Scitovsky 1986 [1979]: 123–124). In the case of creative activity, instead, proper signals of future rewards are lacking because future life skill depends on how adequate are the experiences of learning the life skill, which cannot be easily known in advance. As Scitovsky put it:

> [o]ne cannot attach a dollar value to the skill of enjoying a concert or a ballet, even less can one estimate the time needed for or the chance of ever turning a neophyte into an enthusiastic melomane or balletomane through training and practice.
>
> (Scitovsky 1992 [1976]: 231; see also 1986 [1983]: 125, 156)

However, education should not necessarily be used only as an investment for production skill; it can also be used to develop creative activity. Similarly to goods, which can be used for both comfort and creative activity, education is primarily characterised by the underlying motivations – according to Scitovsky.

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This is especially true of higher education, because this can be oriented in different directions, including specialisation in different production skills, while early and primary education normally seek to develop children's life skill. But the greater uncertainty in using education to develop life skill, and the pressure of producers on educational systems, introduce a bias into the orientation of education (see also 4.4.3 and 6.3.2).

The different natures of the comfort pathway and a creative activity pathway can be also seen by considering an individual's fear of regret when opting for one of them. Regret is a feeling due to a decision outcome that is regarded as worse than the outcome of the option that has been discarded. It has recently been observed that an effective strategy to avoid regret is to limit options (Sarver 2008). Scitovsky anticipated this observation by considering the possibility that people adopt the strategy of overvaluing some expected costs or benefits in order to choose the preferred option without regret.

In the case of choosing for comfort, this strategy is straightforward. An individual low in life skill will emphasise the uncertainty of novelty in creative activity by underestimating the endowment of her own life skill, so that creative activity as alternative option can be easily discarded. 'There are anxious people – thus observed Scitovsky – whom no amount of security and reassurance can rid of their anxiety and who have an unlimited and insatiable demand for the comfort of reassurance' (Scitovsky 1992 [1976]: 113).

The strategy of avoiding regret, however, may be not effective, because regret can be still felt, at least in the long run. Indeed,

> [i]t is also possible […] that […people] were gradually lured into a new way of life by their love of comfort, unaware at first of the costs involved and finding themselves fully accustomed to their new ways by time they realize the extent of the loss of pleasure suffered.
>
> (Scitovsky 1992 [1976]: 73)

The opportunity cost thus vividly emerges, and it is underestimated because of the endogenous nature of the creative activity pathway.

By contrast, people endowed with high life skill will tend to avoid the regret due to discarding the option of comfort. This strategy entails overvaluing the expected regret if creative activity has not been chosen by emphasising its success, and/or by finding comfort to be unexciting and boring. In fact, a typical feeling of these people is an unbearable cost of leaving opportunities that arise unexplored.

Hence, on considering the opportunity costs of the two options, investment in production skill appears quite attractive. In fact, it incurs a cost that can be easily ignored because the advantages of the creative activity option are either out of sight or 'fundamentally' uncertain. Instead, the opportunity cost of the creative activity option is usually much clearer.

Nevertheless, the two pathways also have links that make them interdependent, and possibly even complementary. First, life skill may contribute to the

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accumulation of productive skills. Second, life skill may be recognised by the labour market, and higher income may be earned and then spent for comfort purposes. Third, when work is interesting, it contributes to developing life skill. The budget and time constraints further bind the two options together.

Note that education at school can pertain to both pathways. Similarly to the goods consumed, the proportions of education in the two pathways depend on the underlying motivations, whether to develop life skill or to increase comfort.

4.3 A model of distinct growth pathways to well-being

Section 4.2 showed – by following Scitovsky – that people can develop two distinct pathways in the pursuit of well-being. Both of these pathways employ economic resources, that is, time and goods, but they are different in nature. In the comfort pathway, well-being grows because people acquire productive specialisation so that they can buy greater quantities of goods, while in the creative activity pathway well-being grows essentially because people become better able to acquire more well-being per unit of goods. The two pathways may be substitutable, and they may even go in opposite directions. This section describes the comfort pathway in formal terms and studies how it is linked to the creative activity pathway described in Chapter 3 (in 3.3.1–3.3.2).

4.3.1 The assumptions and equations of the model

Let us start by focusing on the individual's choice problem of how much to invest in education in order to increase future comfort. Then, the links with the option of creative activity, and the comparison between dynamics and outcomes of the two options will be discussed.

The satisfaction, or utility, that the individual expects to draw from the comfort option (u_c) is given by a standard function enriched by the reference of individual's consumption to others' consumption, that is:

$$u_{c,t} = \frac{\left(C_{c,t}/c\right)^{1-\varepsilon}}{1-\varepsilon} \text{ with } 0 < c < \infty,\ 0 < C^{min} < C_c < \infty \tag{4.1}$$

where C_c denotes consumption goods for obtaining comfort, which should be maintained above a minimum (C^{min}), c denotes others' consumption for comfort, and the parameter ε is the inverse of the intertemporal elasticity of substitution, which is usually estimated as rather small, so that $\varepsilon > 1$. The subscript t denotes time.

In order to increase comfort, the individual can invest in skills for production purposes, often called 'human capital', according to the following accumulation equation:

$$\dot{H}_t = \theta\, S^{\psi} I_t - \mu H_t \text{ with } 0 < \theta < \infty,\ 0 \le \mu < \infty,\ 0 \le \psi < 1 \tag{4.2}$$

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where H denotes human capital, $\dot{H}$ denotes the change of it, and I the time investment in education for that purpose. The parameter θ denotes the efficiency of such investment, μ the depreciation rate, and ψ the intensity of externality of life skill (S).

The time and income constraints are:

$$L_{c,t}+I_t=T_t \tag{4.3}$$

$$w_t\, L_{c,t}=C_{c,t} \tag{4.4}$$

where L_c denotes labour time necessary to buy comfort goods, and T the total (instantaneous) labour time devoted to this option. The variable w denotes labour income per time unit. Since $C^{min}<C_c$, then $C^{min}/w=L^{min}<L_c<T$.

The individual can increase comfort in the future because she will earn more income thanks to the education that she will acquire. Let us take for simplicity an explicit function like the following:

$$w_t=H_t^m S_t^n \text{ with } 0<n<m<1. \tag{4.5}$$

This equation captures the idea that the skills required for the job are those intentionally acquired for this purpose through formal education (H), and life skill (S), which is acquired in a variety of ways, including formal education. This has a minor role ($n<m$), and S is temporarily assumed as fixed.

The individual's choice problem is thus the following:

$$\max_{L_c} V_{t=0} = \int_{t=0}^{t=\infty} u_{c,t} e^{-\rho t}\, dt \text{ with } 0<\rho<\infty \tag{4.6}$$

$$H_{t=0}>0 \tag{4.7}$$

$$\lim_{t\to\infty} H_t\, \lambda_t=0 \text{ with } 0<\lambda<\infty \tag{4.8}$$

having considered equations 4.1–4.5. Equation 4.6 specifies the intertemporal maximisation of u_c, where ρ denotes the time preference. Equation 4.7 states that productive human capital starts at some positive level. Equation 4.8 is the standard transversality condition, where λ is the present-value shadow price of H.

The problem can be easily solved by taking S and hence T as exogenously fixed (see Appendix to Section 4.3). In this simple setting, it can be already shown that an exogenous rise of S increases C_c, and thus u_c, through two channels: first, S facilitates the acquisition of H (eq. 4.2), which is the main driver of improvement of earnings (eq. 4.5) and hence of the relaxation of the economic constraint (eq. 4.4); second, S contributes, though with a minor role, to further improvement of earnings (eq. 4.5). These two links will push the two pathways to well-being towards complementarity.

However, when the individual considers the creative activity as a further option in her choice, besides consuming in comfort and investing for future

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consumption, she finds that the comfort option and the ensuing dynamics are in stark contrast to those of the creative activity option. The choice of comfort is clearly characterised by the well-defined goal of achieving the maximum level of comfort over time subject to time resources devoted to this end. The higher the level of comfort, the greater is the individual's satisfaction. The choice of creative activity is instead characterised by the search for activities and novelties that adequately challenge the individual's life skill, and by an experience of internal change and 'fundamental uncertainty' (see 3.2.3). The excitement derived from searching and learning is an essential ingredient of satisfaction and of motivation for the success of the option.

Therefore, comparing the two options, comfort and creative activity, in order to make a choice is difficult. The two types of satisfaction that derive from the two options cannot have the same unit of measurement, because the satisfaction drawn from creative activity includes not only levels (see equation 3.1), as in the case of satisfaction gained from comfort, but also changes (see equations 3.13–14, and 3.16).[6] This formal problem can be used to justify the fact that the motivations underlying the two options are so different in nature that the individual finds difficult to conceive maximising some combination of two types of satisfaction. It is thus preferred to study the interaction between the two options by starting from the assumption that they are independent, and then by considering the links between them as the conditions for their substitutability or complementarity.

Two links have already been considered: the first one is the contribution of life skill to the formation of productive human capital (equation 4.2); the second one is the contribution of life skill to productive skill so as to earn more income (equation 4.5). A third link should be considered because the two options are bounded by time and income constraints.

To examine this aspect, let us assume in this chapter that the total available time, which is limited for every instant at unity, can be allocated between creative activity (A) and comfort (T), which includes time for education for production (I). Labour income is the only income considered, and it can be allocated between consumption for creative activity (C_a), and consumption for comfort (C_c). Consumption may be homogeneous, so that the suffix indicates its purpose rather than its physical characteristics. Therefore:

$$A_t + T_t = 1 \tag{4.9}$$

$$p_a C_{a,t} + C_{c,t} = w_t \, (L_{a,t} + L_{c,t}) = w_t \, L_t \tag{4.10}$$

where p_a and L_a denote, respectively, the price of consumption goods and labour time for creative activity, while L denotes total undifferentiated labour time. Comfort goods are taken as the numeraire, so that $p_a = 1$ if consumption is homogeneous. Since $0 < L^{min}$, let us better specify the properties of equation 3.12 thus: $\lim_{F\to 0} A = 0$ and $\lim_{F\to F^M} A \leq (1 - L^{min})$.

Since labour time now also includes that for comfort goods, the proportion of creative activity at work, that is, τ in equation 3.9, should be thus extended (to τ'). This is a further link between comfort and creative activity, but it vanishes if A goes to 0.

Therefore, if S starts growing endogenously in accord with χ, more time is devoted to this end (A) (see equation 3.12), thus further emphasising this growth, and less time is devoted to the comfort option. This link pushes the comfort pathway and the creative activity pathway towards substitutability.

4.3.2 The interpretation of the model

In order to understand how the model works, and how the two pathways to well-being differ, the graphical representation of the solution of the model presented in subsection 4.3.1 is useful, so that it can be related to the solution of the model presented in subsection 3.3.1. Figure 4.1 thus represents, in stylised form, the phase plane of the solutions, while the mathematical details are reported in the Appendix to Section 4.3.

In the figure, the solutions for H and L_c are represented by trajectories on the plane. The trajectories are conditioned by the properties of the equilibrium points, that is, the loci where the two isoclines $\dot{H}=0$ and $\dot{L}_c=0$ cross. The relevant equilibrium point is in the middle of the positive quadrant, that is, J_1, and it is a saddle-point.[7] This implies that only two opposite trajectories point towards the equilibrium, one is increasing in H and L_c from the left, and the other is decreasing in H and L_c from the right. For every given initial level of H, the individual picks that level of L_c on the trajectory pointing to the equilibrium in order to optimise her choice. Usually, the individual inherits from the past a lower level of H with respect to the equilibrium one, so that she optimally increases L_c and reduces I over time until J_1 has been approached.

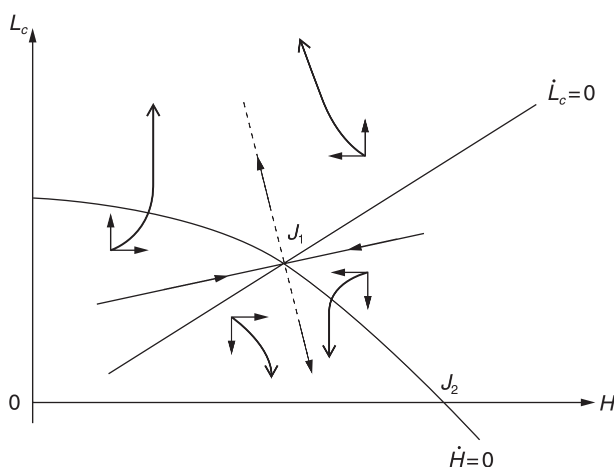

Figure 4.1 The diagram on productive skill and labour for comfort.

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The comfort pathway to well-being prevails, and can thus be clearly identified, if the individual does not find creative activity as interesting because she regards herself unable to perform it, so that she prefers to invest in education to earn more income and consume more comfort goods. In terms of the model of Section 3.3, this means that F is deteriorating because the gap $|\chi - \chi^M|$ is so large that either S is decreasing or something impedes χ from adjusting to χ^M. A chain of consequences ensues: time for creative activities diminishes (through equation 3.12), and more time (T) can be devoted to comfort (through equation 4.9), and in particular to increasing productive skill (H in equation 4.2); labour income increases (Lw through equation 4.10), and it is spent more for comfort than for creative activity. The equilibrium J_1 of Figure 4.1 shifts away from the origin, because more resources T can be devoted to investment I and to current comfort, so that the individual's trajectory can run faster in the same direction. Therefore, u_c especially rises, while well-being from creative activity (FR, $\dot{\chi}$, $\dot{S}$) slows down. In this case, the two pathways point in different directions.

The creative activity pathway can also take the lead, so that the comfort pathway goes in the same direction. This is the case in which the economic resources and the interesting component of work are so abundant that a relatively large initial gap $|\chi - \chi^M|$ does not compromise the development of S.

The creative activity pathway to well-being prevails and can thus be clearly identified if the individual finds creative activity interesting from the outset because she is properly skilled. Consequently, she is open to enriching experiences and can improve her life skill with satisfaction, as seen in Chapter 3. This endogenous and positive dynamic is emphasised when resources are shifted away from comfort towards creative activity (through equations 3.12 and 4.9). This increases C_a, which is instrumental for pursuing new creativity goals, while consumption for comfort (C_c) may tend towards the minimum level. In this case, the two pathways again point in different directions.

The comfort pathway can also take the lead, so that the creative activity pathway goes in the same direction. This is the case in which individual's life skill has sufficient externality on productive skills (through ψ in equation 4.2), and/or on labour income (through n in equation 4.5).

The dynamics of creative activity and of comfort may thus entail changes of the composition between the two, as well as changes between the two types of satisfaction. Changes of the composition between working time and leisure may also take place. In particular, our combined model of creative activity (in 3.3.1) and comfort (in 4.3.1) is sufficiently flexible to capture Scitovsky's observation that people usually regard leisure as residual, without rigorously equalising the marginal utility of leisure with the marginal utility of consumption. According to Scitovsky, 'the public is caught between its desire to save time and its inability to make good use of the time so saved' (Scitovsky 1986 [1974]: 78), so that people's actual valuation of leisure time becomes very low.[8] Indeed, the model maximises comfort as if leisure were a residual, which is in fact linked to life skill. It thus becomes possible that the individual's valuation of leisure is particularly low if she lacks life skill.

To conclude, two pathways to well-being emerge in people's choices, one follows the preference for creative activity, as seen in Chapter 3, and the other follows the preference for comfort, as seen in this chapter. The integrated model shows that the two pathways are not necessarily complementary, but they can substitute each other under well-specified conditions. Scitovsky's insight of introducing creative activity into economic analysis thus becomes especially interesting.

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4.4 Do two distinct sources of well-being exist as Scitovsky claimed?

Scitovsky's approach to well-being is difficult to test, because it is a dynamic approach in which two pathways may even take different directions. The dynamics are endogenous because life skill, which takes a stock dimension, affects well-being through creative activity and comfort, both of which assume a flow dimension, so that the dynamics of creative activity feed back onto life skill and the accumulation of production skill.

The Economics of Happiness does not adopt this dynamic and interdependent approach, because it usually estimates the partial correlates of subjective well-being of a sample of people with a set of variables that are considered to be relevant, together with demographic variables and other controls. These estimates may be very useful, but they can provide only a partial test. Psychological studies do not usually adopt more sophisticated statistical methods, although they furnish useful information. Causation and, especially, recursive causation are seldom studied, not to mention interdependence among stocks, flows, and changes in stocks.[9]

Therefore, this section attempts to answer the title question by organising the evidence of the available studies in distinct logical steps by following Scitovsky's line of analysis. An advantage is that the range of the studies considered can be wide, and extended to extra-economic disciplines, so that Scitovsky's argumentation can be appreciably refined. The first step focuses on the origin of the creative activity pathway to well-being in people's lives, and on how this may be frustrated by inadequate parenting, thus giving rise to an alternative attempt to approach well-being as defensive reaction (4.4.1). The second step characterises the two pathways by identifying two distinct types of motivation, intrinsic and extrinsic, and shows how intrinsic motivations can be substituted with extrinsic ones (4.4.2). The third step characterises the dynamics of the comfort pathway by showing how formal education may be oriented to accumulating productive skills, rather than life skill (4.4.3). The fourth step compares the two pathways to well-being by drawing on the debate that has revisited the ancient contrast between hedonism and eudaimonia (4.4.4).

4.4.1 At the origin of people's well-being and of its frustration

Recently, the Economics of Happiness has extended the investigation of adults' subjective well-being to their economic, familial, and psychological conditions

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when they were children. The first results are interesting, because they reveal that childhood's conditions add important predictors to the 'final' outcome of adult life satisfaction. Specifically, both the economic and the psychosocial conditions of children's families seem to play an important role in their lifelong emotional health, which, in its turn is the most important predictor of their life satisfaction (Layard *et al.* 2014; Frijters *et al.* 2014; see also Schnitzlein and Wunder 2014). This is in line with the results of the research on the development of human skills conducted by Heckman and co-authors, as seen in subsection 3.4.1. However, the Economics of Happiness does not provide much information on whether there are different pathways to well-being, as Scitovsky suggested, and on how they possibly emerge. Research in other disciplines can be very helpful instead.

A good starting point, and consistent with Scitovsky's insights, is the so-called 'attachment approach' in child developmental psychology. In fact, it hypothesises, on the basis of a body of evidence gathered in the field and in the laboratory, that children follow different well-defined psychological styles, and that these styles depend on the parenting ability of their caregivers and on the socio-economic context. These 'attachment styles' shape the development of different pathways to well-being and even to ill-being (on this latter, see Section 5.4). What is most striking from the economist's point of view is that the characteristics of one of these styles closely resemble the characteristics of the familiar *homo economicus*.

The 'attachment approach' was originally conceived for children, but it was also re-elaborated for the case of adults (Bowlby 1969; Ainsworth *et al.* 1978; Bartholomew and Horowitz 1991). According to this approach, the child is able to represent her early experiences with the caregivers as 'working models' of her beliefs and expectations about the warmth and responsiveness of others and about her own capacities. She uses the working model to interpret and predict social interaction, but she also updates it through new experiences, thus directing feelings, attention, memory, and behaviour (Main *et al.* 1986).[10]

If the caregivers are sensitive, that is, attuned and receptive, and properly responsive to the child's need to establish communication with them, then the child tends to feel 'secure' because she develops high confidence both in herself and in others. If the caregivers are insufficiently sensitive and responsive to the child, for example by being hyperprotective or by controlling emotionality, then the child tends to feel 'insecure' because she does not properly develop confidence either in herself or in others, or in both. Poor socio-economic conditions make the role of the caregivers more difficult because the material concern adds stress and resource constraints to the child/caregivers relationship (Mikulincer and Shaver 2007).

Over time, the child replaces the 'attachment figures' of the caregivers with other persons, such as friends and the more intimate persons because – according to the 'attachment approach' – human beings need a secure basis in close relationships in times of necessity throughout the life cycle. Hence, secure and insecure attachments seem also to characterise adolescents and young adults

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(Kobak and Sceery 1988; Tidwell *et al.* 1996; Shaver and Mikulincer 2002), and longitudinal studies reveal that early attachment strongly conditions later experience, even during adulthood (Puig *et al.* 2013). For example, a longitudinal study followed 180 children and their families from three months prior to the children's birth through adulthood. Its main conclusion was that the interaction between individuals' working models and their behaviour predicted the development across ages, although other contemporary factors, especially interpersonal experiences, improved the prediction (Sroufe *et al.* 2005).

The child with 'secure' attachment will spontaneously explore the natural and the social environment, thereby enhancing the likelihood of its safe and effective functioning. Over time, exploration becomes the desire to be competent and skilled in specific aspects, thus strengthening both autonomy and the ability to relate with others. Autonomy is the skill to organise goal-oriented behaviours in all the relevant fields of life. Social ability means positive, intimacy-promoting, and tension-reducing interpersonal behaviours. Autonomy and social ability as implied in this approach thus fit nicely as the main skills to be included in Scitovsky's 'life skill' (Mikulincer and Shaver 2007; and see 3.4.1).

By contrast, people with 'insecure' attachment exhibit less ability both to autonomously organise their lives and to enjoy relationships. More precisely, 'insecure' attachment can be further distinguished into two main styles: the 'avoidant' style, which is characterised by self-confidence but not confidence in others, and the 'anxious' style, which is characterised by confidence in others but not in the self. To give an idea of the distribution of the attachment styles, the proportions in a world sample of children are about 65 per cent for 'secure' attachment, 21 per cent for 'avoidant' attachment, and 14 per cent for the 'anxious' attachment (van IJzendoorn and Kroonenberrg 1988). People with the 'avoidant' style do not like exploration and challenging goals because they fear failures and loss of control, which would damage their self-image. They thus prefer concrete and narrow goals in which they can specialise to increase control. They even prefer non-relational goals because they are less empathic with others and have little trust in them (Mikulincer and Shaver 2007).

Some studies in economics and business have used the psychology notion of 'avoidant' style in order to find behaviours that are typical of *homo economicus*. In fact, in the Ultimatum Game, avoidant people appear to be stingier in sending offers relatively to others (Almakias and Weiss 2012). In self-reporting their perceptions and inclinations, avoidant people appear less reluctant to accept benefits from illegal activity (Albert and Horowitz 2009). Therefore, the 'avoidant' style nicely fits the case of our model in which comfort, which is maximised (as in 4.3.1), is preferred to creative activity, which implies exploration (captured by equations 3.13–3.14 in 3.3.1) and relationships with others (captured by equations 3.13–3.14, and 3.16).

People with the 'anxious' attachment style search for others, but they do so in an instrumental way because they need approval, as well as relief from the fear of rejection and separation. In other words, they search for relief from aversive states, rather than joy for positive states. Since they tend to feel inadequate, they

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are cautious in setting their goals, and prefer to imitate others. Therefore, the 'anxious' style captures some important characteristics of the preferences for comfort rather than novelty in Scitovsky's approach, thus being complementary to the 'avoidant' style, and in contrast to the 'secure' style.

Caregivers consequently have a crucial role in the development of children, not so much because of the specific skills required, since children are already disposed to learn and to follow social and moral norms (see 3.4.1), but because parents must mediate with the external conditions, and with their own possible problems (Kiernan and Huerta 2008).[11] The long-term detrimental effects due to adverse socio-economic conditions in childhood are documented by an ample literature (see e.g. Montez and Hayward 2014 and citations therein). The economic conditions, in particular, seem to be rather constraining, on average. On considering the distribution of the attachment styles in different countries, for example, a negative correlation emerges between GDP and both rates of 'avoidant' and 'anxious' adult attachment styles measured on the Likert scale (Schmitt *et al.* 2004).

4.4.2 *Are intrinsic motivations substitutable with extrinsic motivations?*

According to the 'attachment approach', individuals pursue different things. They tend to pursue exploration and interaction with others if they feel 'secure', or they seek to relieve anxiety if their attachment style is 'anxious', or to reduce the risk to their self-image if their attachment style is 'avoidant'. The motivational psychologists Edward Deci and Richard Ryan would say that the behaviours of 'secure' individuals are intrinsically motivated, while those of 'insecure' individuals ('anxious' and 'avoidant') are extrinsically motivated to pursue costly actions. The attachment approach is especially focused on the origin of people's orientations, called 'attachment styles', and it finds that the 'secure' style and the 'insecure' style are mutually exclusive. The reason is that only the former requires confidence in both the self and in others, which in terms of our model means that only the former has a high level of life skill. Deci and Ryan instead focus on the two types of motivations, that is, intrinsic and extrinsic, which underlie human behaviour, and which characterise two different ways to pursue well-being (Deci and Ryan 1985, 2000). Our model clearly represents these two ways as temporal pathways. A crucial question for Deci and Ryan, and which is also interesting for our model, thus arises: are intrinsic motivations substitutable with extrinsic motivations?

Their positive answer is based on the mechanism whereby extrinsic motivations can 'crowd out' intrinsic motivations (Deci *et al.* 1999). This mechanism was mentioned by Scitovsky, and it has made Deci and Ryan well-known also among economists (Frey 1997; Frey and Jegen 2001; Bowles and Polanía-Reyes 2012; Pugno and Depedri 2010). Indeed, economists are highly intrigued (or sceptical) by this mechanism, because it predicts that an economic incentive to achieve a performance may crowd out intrinsic motivation for that performance, so as to make the effect of the incentive even possibly perverse.

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The debate on this 'crowding out' effect has been firstly revolved around its existence by mainly raising criticisms concerning methodology (e.g. Reiss 2005). However, mixed evidence has been mounting in the laboratory and in the field both in psychology and economics (Camerer and Hogarth 1999; Bowles and Polanía-Reyes 2012), and its existence has been even observed in the neurosciences (Murayama *et al.* 2010). The attention has thus shifted from the existence of 'crowding out' to the conditions that favour it or that turn it into 'crowding in'. The first interesting conclusion reached by this literature is that the case of 'crowding out' concentrates in those tasks that require intuition and careful thought, rather than in easy and boring tasks (Camerer and Hogarth 1999; Weibel *et al.* 2007). This means that economic incentives are more effective when comfort is chosen, while when creative activity is chosen they may be perverse.

The second interesting conclusion, which also gives account of the first one, is based on the recognition of inter-individual differences of competence. Economic incentives may be not perverse when competence is high relatively to the difficulty of the task. This case can be represented in our model by comparing two individuals who differ in their levels of life skill, and by observing that the individual with the lower level pursues less creative activity and more comfort than the other, that is, she is less intrinsically motivated and more extrinsically motivated. The individual with the higher level of life skill devotes more working time to creative activity, so that she adds extrinsic to intrinsic motivation. Therefore, the answer to the title question is: 'it depends on the level of life skill'.

This explanation of the different relationship between motivations is also able to give some account of the explanation offered by Deci and Ryan, when they observe that crowding out does not take place if the incentive is a signal of recognition and not of control. Indeed, the individual with the relatively high life skill is less inclined to perceive control from others because she should be sufficiently autonomous.

4.4.3 The ambiguous role of education

An economist would observe that the labour market provides the right incentive, through education, to develop the skills that are included in life skill, so as to remedy possible problems encountered by children in early education. If this were true, more educated people, and especially people more sensitive to market incentives, should exhibit high levels of life skill, should be especially satisfied with their choice, with their job, and with life in general. To these ends, competitive education should induce more learning; and people who find intrinsic motivation in their educational choices should be attracted by the fields where earnings are higher. However, all these predictions are at odds with a variety of evidence.

An essential component of life skill is social skill, and a good proxy for social skill is general trust (see 4.4.1), that is, trust that unknown others do not take

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hurtful opportunistic actions.[12] The evidence on the correlation between education and general trust is mixed. Some studies have found a significant and positive correlation at the individual level (Helliwell and Putnam 2007; Baetschmann 2011) or in meta-analysis (Huang *et al.* 2009). However, longitudinal analysis does not show that schooling has any significant causal effect on trust (Heckman *et al.* 2011). At aggregate level, the case of the USA stands out by exhibiting a great increase of the educated people in the most recent decades (Aaronson and Sullivan 2001), but also a decline of general trust (Robinson and Jackson 2001; Bartolini *et al.* 2013). In an experimental setting, students who were educated in economics or who had simply read a text on economic self-interest before the experiments exhibited less cooperation relatively to other students, and expected others to do the same (Frank *et al.* 1993; Wang *et al.* 2011).

Second, more educated people are not systematically happier even among people who earn the same incomes. In particular, education seems to have a negative or reduced impact at high grades of education. This seems to be the case for happiness (Salinas-Jiménez *et al.* 2014), for life satisfaction (Hammond *et al.* 2013; Binder and Coad 2011b), and for job satisfaction (Clark 1999).

The most popular explanation of these surprising results is that education increases not only happiness but also aspirations, especially the material ones, which should have an opposite effect on happiness (Easterlin 2001). Aspirations may be especially unrealised, and hence detrimental, when education is at high levels (Clark *et al.* 2015; Ferrante 2009). Even income comparison seems more detrimental for the most educated (Clark and Senik 2010). Therefore, the market does not seem to provide the right signals, and people seem unable to learn; they instead appear locked in the skill specialisation that they have chosen. Indeed, education is one of the life domains in which people most frequently report regret, at least in the USA (Roese and Summerville 2005; Morrison and Roese 2011). Nevertheless, the number of American students attempting to gain entry into four-year colleges and universities has increased in excess of the number of places available (Bound *et al.* 2009).

Third, competition in education does not seem to be efficient, and it may even have perverse effects. For example – according to a US cross-state study – the rise of competitive pressure measured by indices of students' intense study is negatively related with enrolments at college, and with the number of PhDs earned in science and engineering (Bound *et al.* 2009). Despite the great rise of competition to get into a college, the (self-reported) mismatch between a person's job and her education remains rather large, more for hard sciences than for social sciences (Bender and Heywood 2011).

Fourth, people with more intrinsic motivations seem to prefer graduation in science and education, rather than in engineering, business and law, although the potential earnings are relatively lower, at least in the USA (Alstadsæter and Sievertsen 2011). In Europe the pattern is similar, because graduates in humanities seem to be the most interested 'in pursuing their own ideas', 'in a varied social life', and 'in doing something useful for society', whilst they are least interested 'in making money' with respect to other graduates. By contrast, those

most interested 'in making money' and the least interested 'in doing something useful for society' are engineering graduates (García-Aracil *et al.* 2007). These results are consistent with the crowding out of motivations, rather than with their crowding in.

Each of these items of evidence is far from being definitive. But taken together they lend support to the idea that education in advanced market economies is unable fully to realize its potential to develop people's life skill, at least in terms of general trust, intrinsic motivations, job and life satisfaction.

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4.4.4 Two types of happiness: hedonism and eudaimonia?

Reviving the concepts of hedonism and eudaimonia from the ancient Greek philosophy may appear curious to the economist. Indeed, Daniel Kahneman, who won the Nobel Prize in economics, edited the book with the telling title *Well-Being: The Foundations of Hedonic Psychology* (Kahneman *et al.* 1999), and Amartya Sen, who also won the same prize, is the founder of the Capability Approach, which is regarded as being eudaimonic in character (Sen 1993).

But the modern debate on the distinction and contrast between the two concepts has recently arisen in the psychology of well-being, which thus attempts to provide a modern interpretation. The Economics of Happiness, instead, is only beginning to appreciate the distinction between hedonism and eudaimonia. Although the debate is still open, the suggestions around the two concepts, the attempts to find measures for them, and evidence on the contrast between them aid understanding of the distinction between the comfort and creative activity pathways of Scitovsky's approach.

The concept of hedonism, which can be translated as 'pleasure', goes back to the Greek philosopher Aristippus of Cyrene (North Africa), who lived in the fourth century BC. It referred to the pursuit of immediate sense-experiences, which are mainly emotional and essentially subjective (Lampe 2015). The modern and perhaps most faithful interpretation of hedonism is the pursuit of mundane pleasures and risky behaviours, such as shopping, watching television, frequent sexual activity, smoking, and drinking. A review of the studies on the relationship between these types of behaviour and happiness concludes that some positive correlation arises when hedonism is mild, although the evidence is rather weak and heterogeneous (Veenhoven 2003).

A more interesting, and more general, interpretation of hedonism views it as the pursuit of financial success. In this case, the finding is intriguing. An interesting longitudinal study has explored how the pursuit of financial success predicts life satisfaction two decades later for a sample of students. The surprising result is that the hedonistic pursuit has a *negative* impact on happiness, but the goal attainment, in the form of household income, *reduces* this impact (Nickerson *et al.* 2003). The fact that the impact remains negative may be due to a hedonistic goal that has been set at an excessively ambitious level. An attempt to distinguish an achievable goal, based on the available skills and education, from an excessively ambitious one, based on an ideal level of wealth, reveals in fact that

the former may have a positive impact, and the latter a negative impact on satisfaction (Sirgy *et al.* 2011).

An interesting interpretation of modern hedonism therefore suggests that consideration should be made of both the desire for immediate satisfaction, and planning to have the means for greater satisfaction in the future. Hedonism thus implies some foresight, and clear appreciation of education for increasing future financial success, and hence pleasurable consumption and social status. This interpretation closely resembles the comfort pathway to well-being of Scitovsky's approach.

'Eudaimonia', which has been translated as 'flourishing' rather than as 'happiness', is usually referred to Aristotle by modern researchers on happiness (Bruni 2010; Ryan *et al.* 2008; Ryff and Singer 2008). This concept resembles the other pathway to well-being of Scitovsky's approach, that is, the pursuit of creative activity.[13] Indeed, the characteristics shared by the creative activity pathway and eudaimonia can be described as follows. Nature gives human beings, from their infancy, the capacity to acquire excellence (life skill) in performing human functions throughout the rest of their lives. Their parents thus have great responsibility for nurture and education because excellence needs exercise and understanding for it to be intrinsically motivated and conducive to happiness. Material resources are also necessary for this end, although the pursuit of excellence should not be substituted with, for example, pleasures, in order to avoid losses of excellence, and hence achieve enduring happiness (Aristotle 2004; Melo 2011).

In order to provide comparable evidence on hedonism and eudaimonia, modern studies have used different measures. The most frequent measures directly refer to the different types of happiness. For example, an authoritative psychology study measured hedonism as life satisfaction and positive net affect, while eudaimonia was measured as a set of proxies, each capturing an aspect of eudaimonia: 'personal growth', 'purpose in life', 'autonomy', 'positive relations with others', 'environmental mastery', and 'self-acceptance' (Keyes *et al.* 2002). This is a set of proxies for a health-based type of well-being because it exhibits a significant correlation with objective measures of physical health, like cardiovascular, neuroendocrine, and immune biomarkers (Ryff and Singer 2008). Exploratory factor analysis reveals that the hedonic proxies and the first three eudaimonic proxies form two distinct factors (with the overlap of the remaining proxies). Further analysis confirms that the two composite measures for hedonism and eudaimonic are neither orthogonal nor closely correlated.[14] A specific final result, which is especially supportive of Scitovsky's analysis, is that people high in the personality trait called 'openness to experience' also report high eudaimonia but low hedonism.[15]

A second body of studies in psychology confirms the distinction between hedonism and eudaimonia by observing feelings during activities and some specific kinds of thinking. A study has found that the feeling of intrinsic motivation is more closely related to interest, effort, and to the balance of challenges and skills, while activities felt to be hedonic may or may not be intrinsically

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motivated (Waterman *et al.* 2008). Another study has found that the correlations of positive net affect, which captures hedonism, with thinking about the past and the future, or with ‘expecting to spend time deep thinking’, are negative, while the correlation of ‘meaningfulness’, which captures eudaimonia with the same thinking, is positive (Baumeister *et al.* 2013).

A third empirical study in psychology has contrasted the hedonic and the eudaimonic orientation in people in an experimental setting. In this case, the evidence showed that hedonically oriented people reported higher levels of happiness only in easy and non-challenging tasks, while people with eudaimonic orientation reported higher happiness in tasks that were instead challenging. The study concluded that: ‘hedonic well-being does not capture the complete range of positive emotions in a fully functioning person’ (Vittersø *et al.* 2010: 12; see also Vittersø *et al.* 2009).

A fourth stream of empirical studies in psychology, led by Edward Deci and Richard Ryan, provides a more comprehensive picture of eudaimonia, interpreted as a way of living, in contrast to hedonism, interpreted as an outcome based on the feeling of pleasure (Deci and Ryan 2000; Ryan *et al.* 2008).[16] The first finding regards the necessary and sufficient conditions to achieve eudaimonic living, described as personal growth, integrity, and well-being. These conditions require the satisfaction of three psychological needs: the need for autonomy, concerning ‘the desire to experience an internal perceived locus of causality with regard to actions, [...t]he need for competence[, which] encompasses people’s strivings to control outcomes and to experience effectance, [...and t]he need for relatedness’ (Deci and Ryan 1991: 243), provided that relatedness is oriented to interpersonal growth, rather than to simple social acceptance (Lavigne *et al.* 2011).[17] The second finding of this stream of studies regards the outcomes of eudaimonic living. Both eudaimonic outcomes, like psychological and physical vitality, and the traditional hedonic outcomes have been found. This suggests that the eudaimonic way of life yields a more complete sense of well-being, although it may be more effortful.[18] The third finding regards the virtuous spiral of well-being, which seems to be triggered by autonomous goal setting through successful competence attainment, with the positive feedback on autonomy (Sheldon 2008; Sheldon and Houser-Marko 2001).

The contrast between hedonism and eudaimonia is also beginning to attract the interest of the Economics of Happiness (see e.g. Bruni *et al.* 2008; Graham and Nicholova 2013). Its adoption of subjective well-being as the variable to be explained with econometric tecniques may induce one to regard the Economics of Happiness as a hedonic approach. However, the econometric findings do not describe how people pursue or even should pursue subjective well-being, unless the researcher builds the estimates with this purpose.[19]

The European Social Survey dataset has been extended so as to build the eudaimonic variable with the proxies of ‘engagement’, ‘meaning’, ‘positive relations’, ‘resilience’, and other proxies (Huppert and So 2009). The preliminary result is that life satisfaction is less correlated with this eudaimonic variable than with happiness (Clark and Senik 2011). Other interesting results emerge from

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estimation of the probability of enjoying both high eudaimonia and low hedonism (i.e. life satisfaction) (Clark and Senik 2011: Table 6). In fact, this probability is higher for middle-aged people, whereas the usual pattern of life satisfaction is that middle-aged people suffer most (Cheng *et al.* 2014).[20] This result is consistent with the prediction of our model that the creative activity pathway grows in well-being because of successful matching and learning how to realize aspirations until the possible decay of life skill. Second, widowed and active unemployed people are not significantly less likely to be high in eudaimonia but low in hedonism. This is surprising, but it is consistent with the fact that eudaimonic people are more resilient because they have more abundant internal resources. No less surprising is that neither is income significant in explaining the probability of being eudaimonic and little hedonic, which is consistent with the smaller role of goods in creative activity assumed in our model.

In conclusion, research on the modern interpretation of the concepts of hedonism and eudaimonia suggests that ignoring this distinction hinders the understanding of the content of well-being, and therefore the behaviour to pursue well-being. This research should grow further in order to clarify and consolidate the results, but it is already able to confirm the similarities with the distinction drawn between the comfort pathway and the creative activity pathway to well-being in Scitovsky's approach. Particularly interesting are the indications that the two pathways may diverge, and that people can be distinguished by the prevalence of one pathway over the other.

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Notes

1 Deci and Ryan (2000) define an activity as 'extrinsically' motivated if it is pursued for a reward which is separable from performance of the activity.
2 Recently, an effective representation of this behaviour has been given by studying a choice setting where the individual can adjust her behaviour to an 'ideal' one, as given by social norms (Akerlof and Karanton 2000).
3 This fact may explain – according to the Economics of Happiness – why the increase of happiness lags behind economic growth in several countries (see 1.3.4 and 6.4.1).
4 In Akerlof and Kranton's (2000) terms, this is a characteristic of Scitovsky's identity.
5 The psychic costs of not respecting one's pro-social identity can be detected empirically: for example, in the case of evading rather than paying taxes (Lubian and Zarri 2011), and of disgust at a moral transgression (Chapman and Anderson 2011).
6 This problem was clearly observed by Scitovsky at aggregate level: 'part of welfare depends on the rate of flow of the economic output and another part of welfare depends on the rate of growth of that flow and the rate of qualitative change in that flow' (Scitovsky 1986 [1973]: 20).
7 The point J_2 is not relevant (see the Appendix to Section 4.3).
8 Scitovsky cited various empirical examples of the low valuation of leisure, in particular Becker's (1965) low valuation of commuting time with respect to the wage rate. The Economics of Happiness has confirmed the low valuation of commuting time in terms of happiness (Frey and Stutzer 2014).
9 An exceptional attempt is the set of studies by Bruce Headey and co-authors. Headey and Muffels (2014) estimate a structural equation model with Granger-causality among life satisfaction, health, and social behaviours variables, and find bicausality.

Muffels and Headey (2013) estimate life satisfaction, income and employment security by using stock and flow variables, like personality traits, education, and time use, and find that social activities are important and positively significant for well-being. Headey (2008) confirms this result for the changes of life satisfaction. However, no feedback is investigated in the two latter studies.

10 This approach has been widely investigated, as testified by the thirteen meta-analyses cited by Mikulincer and Shaver's (2007) survey book on the topic, which is almost 600 pages in length. The approach has been successfully tested in many contexts and countries so as to appear robust in several respects, and universal across cultures (van IJzendoorn and Bakermans-Kranenburg 2010; van IJzendoorn and Sagi-Schwartz 2008). The different 'attachment styles' seem only partially due to genetic factors; they are better predictors of the qualities of relationships and other variables than the conventional personality traits (Mikulincer and Shaver 2007), and even exhibit correlates in the brain and nervous system (Diamond and Fagundes 2010; Vrtička *et al.* 2008).

11 When caregivers suffer from psychological problems, from minor disturbances to severe disorders, these may be transmitted to children through the 'insecure' attachment styles (Goodman *et al.* 2011).

12 General trust has been distinguished from strategic trust since it is based on preferences, and it is transmitted through generations, rather than being contingent to situations (Fehr 2009; Uslaner 2002; Dohmen *et al.* 2012).

13 Scitovsky was surprised when he read Plato's *The Republic*, because he found some close similarities in it with his own analysis (Scitovsky 1986 [1985]: 185–186). In fact, Plato anticipated Aristotle's *Nicomachean Ethics* and his concept of eudaimonia, but Scitovsky did not use this latter term.

14 The survey by Huta and Waterman (2014) observed that the correlation between indices of hedonism and eudaimonia is rather different, although always positive, among different studies.

15 Specifically, 'personal growth' seems to have a sizeable (multiple) correlation with both 'openness to experience' and 'conscentiousness' (besides 'extraversion'), while life satisfaction seems to have a sizeable but less significant correlation with 'conscentiousness' (besides 'extraversion'), but not with 'openness to experience' (Anglim and Grant 2014). Therefore, taking 'conscentiousness' as a good predictor of well-being may be misleading (DeNeve and Cooper 1998). For example, conscientious people seem to be vulnerable in experiencing less life satisfaction following unemployment (Boyce *et al.* 2010).

16 For analysis of Deci and Ryan's stream of research from an economic point of view, see Pugno (2008, 2011).

17 In our model, the need for autonomy can be captured by the need to search for the adequate creative activity without constraints (on χ); the need for competence can be captured by the influence of creative activity on growth of life skill (the coefficient ξ in equation 3.16); the need for active relatedness can be captured by the positive role of others' life skill in developing own life skill (i.e. $\overline{S}$ in equations 3.13, 3.14, and 3.16).

18 The meta-analysis Klug and Maier (2015) is illuminating in this regard because it empirically confirms Scitovsky's insight that 'in man's striving for his various goals in life, being on the way to those goals and struggling to achieve them [and hence more effortful] are more satisfying than is the actual attainment of the goal' (Scitovsky 1992 [1976]: 62).

19 For example, Richard Layard's book on *Happiness* could be regarded as hedonistic because of its utilitarian view of well-being, although this is based on standard happiness equations (Layard 2005). But recent applications of the Capability Approach, which is clearly eudaimonic, adopt happiness equations as well (e.g. Anand *et al.* 2005, 2009, 2011; Binder 2011a). It is ironic that Layard's recommendation to

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cultivate social relationships is the same as that made by eudaimonic economists (Bruni and Stanca 2008; Bruni 2010).

20 This is the well-known U-shaped pattern of happiness across people's ages, after having controlled for socio-economic factors. This pattern has been explained as due to unrealised aspirations in the first part of people's lives, and a reduction of the level of aspirations in the second part (Schwandt 2016); see also 1.3.4 and 6.3.3.

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5 Addiction

From well-being to ill-being

If we really want to live, we'd better start at once to try;
if we don't, it doesn't matter, but we'd better start to die.

(W.H. Auden, *Poems*, 1930)

5.1 Introduction

Harmful addiction may appear to be a clinical problem that affects a minority of people, but Scitovsky instead suggested that it is a social and widespread problem for which the economy bears responsibility. Scitovsky's position is innovative still today, because it is derived from an approach to well-being in which individuals' experiences are due to their choices, and to the economic and social context. By contrast, in the clinical disciplines, harmful addiction is usually regarded as an individual disease; and in economics, Behavioural Economics in particular, harmful addiction is studied by adopting choice theory, but overlooking the social dimension.

Scitovsky argued that harmful addiction is a social and widespread problem because it is linked to the lack of education and employment, and because it includes behavioural addiction besides substance addiction. Consequently, the problem can affect both rich and poor people.

The fact that Scitovsky considered the case of poor people may be surprising, because *The Joyless Economy* has been criticised as only focused on the affluent (Benedikt 1996), thus giving rise to the idea that he set out an economics of opulence (Edwards and Pellé 2011). Scitovsky admitted in 1996, that is, twenty years after publication of the first edition of the book, that the criticism was well-founded. He titled his reply to his critics 'My own criticism of *The Joyless Economy*', and concluded that 'boredom of the idle [...] poor is much more serious than what the book dealt with, because it is chronic and often incurable' (Scitovsky 1996: 595).

This self-criticism, however, did not invalidate any aspect of the book's analysis. On the contrary, the problems of the idle poor can be understood by maintaining the same analytical structure as used by the book, even referring to its first edition (Scitovsky 1992 [1976]: xi–xii). Indeed, Scitovsky's self-criticism should not be simply considered a refinement of his approach to well-being, but

rather its completion, because people's set of options can be extended beyond comfort and creative activity to include harmful addiction as (the consequence of) a third option. The analysis of harmful addiction completes, but also strengthens, Scitovsky's approach for two reasons. It contributes to qualifying the differences between the two options of comfort and creative activity; and it establishes a dynamic link with them.

Harmful addiction exhibits both some characteristics similar to those of comfort and some other characteristics similar to those of creative activity. The following Table 5.1 may be useful to illustrate the peculiar position of harmful addiction with respect to the other two options. The central column reports the three options: 'comfort', which can be distinguished according to whether it is immediately pursued or pursued in the future through investment in productive skills; 'harmful addiction'; and 'creative activity'. The first column shows that 'stimulating activities' include 'harmful addiction' and 'creative activity', while the third column shows that 'defensive activities' include 'comfort' and 'harmful addiction'. Table 5.1 is thus also a synopsis of the main groups of activities considered in Scitovsky's analysis.

Harmful addiction can arise as a third option because it exhibits not only distinctive characteristics but also distinctive dynamics. According to Scitovsky, harmful addiction is eventually due to a lack of life skill which reduces the ability to appreciate creative activity. In fact, the pursuit of comfort induced by the reduction of life skill may become so frustrating – either because of failures or because of habituation to certain achievements – that something different is pursued. Risky activity thus offers an attractive opportunity, and its repeated experience may trigger harmful addiction. A particular form of addiction can arise if the frustrating pursuit of comfort ignites unrealistic material aspirations in competition with others' consumption, so as to push people into the 'rat race' for status. In all these cases, boredom due to the inability to appreciate creative activity is relieved or prevented.

The fact that people's motivations and well-being are more important than the specific goods consumed in the dynamics of Scitovsky's analysis enabled him also to provide new insights into the long-standing issue of 'satiability'. In fact, satiability has usually been studied as an issue concerning the demand for products, while Scitovsky looked at it from the perspective of well-being.

Table 5.1 Synoptic table of the groups of activities

<table>
<tr><th colspan="3">Groups of activities</th></tr>
<tr><td rowspan="2">Comfort (personal and social)</td><td>Current comfort</td><td rowspan="3">Defensive activities</td></tr>
<tr><td>Investment for future comfort</td></tr>
<tr><td rowspan="2">Stimulating activities</td><td>Harmful addiction</td></tr>
<tr><td colspan="2">Creative activity</td></tr>
</table>

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This chapter completes the core of the Scitovsky's approach as set out in Chapters 3 and 4. It thus has a similar structure, that is, a section of verbal analysis conducted on Scitovsky's texts (Section 5.2), a section that formalises the analysis into a model linked to the models of the previous chapters (Section 5.3), and a section that illustrates the empirical relevance of the problem (Section 5.4).

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5.2 How to fall into harmful addiction

5.2.1 The basic characteristics of harmful addiction

Harmful addiction has its own distinctive characteristics, although the forms that it can take are many. The so-called 'opponent process theory' of addiction, which is popular in psychology and which was taken up by Scitovsky, is useful for describing these characteristics.

The 'opponent process theory' of addiction was first introduced into economics by Scitovsky. He not only reported this theory in an introductory chapter of *The Joyless Economy* (Scitovsky 1992 [1976]: 127–131) but he also wrote enthusiastically about it in his preface to the re-publication in the *American Economic Review* in 1978 of the seminal article originally published in a psychology journal (Solomon and Corbit 1974).

According to the 'opponent-process theory', the individual has two opposite reactions to an addictive stimulus: a rapid, intense, temporary and, possibly, pleasurable reaction, and a reaction which is the opposite in hedonic value, and which takes more time to build up and more time to decay. The repetition of the stimulus, typically due to substance ingestion, reduces the positive reaction, thus defining 'tolerance', and increases the negative reaction, thus defining the 'harm'. This will induce the individual, as a feedback, to search for immediate alleviation in repeating the behaviour and thus have a 'craving'. In the long run, 'dependence' becomes harmful addiction.[1]

This theory describes a rather general pattern of how harmful addiction establishes itself as a trap. It refers to changes in psychological states, while also evidencing a physiological substrate. This fact enabled Scitovsky to use it for both substance and behavioural addiction.

> Most people consider addiction as something atypical and exceptional, peculiar to the unique, physiologically addictive, action of a few chemical substances. Yet psychologists increasingly look upon addiction as a psychological phenomenon which is […] certainly much more common than generally realized.
>
> (Scitovsky 1992 [1976]: 127)

Scitovsky considered harmful addiction to be a 'negative internality'. Indeed, he is well known for his work on externalities, which he called 'external economies' and 'diseconomies' (see Scitovsky 1954; 1986 [1983]: Ch. 12).[2] But he developed the notion of 'internalities' in analogous manner: 'internal economies

and diseconomies [. . .] are *internal side-effects* that the production and/or the enjoyment of goods and services can have on the transacting parties.' (Scitovsky 1995 [1993]: 203; emphasis added). Therefore, both externalities and internalities are side-effects, but while an externality is an effect among people which does not show up in market prices, an internality is an effect within the same person which is not considered in her choices: that is, she does not completely discount the effect of her current addictive behaviour on her future behaviour.

5.2.2 Harmful addiction as a substitute for creative activity

The 'opponent-process theory' does not explain why people lapse into harmful addiction. If the latter is considered to be a normal disease, then the causes could be a hereditary predisposition or some infectious agent. But Scitovsky suggested taking another position which views harmful addiction as a consequence of the individual's choice. He also departed from other economic approaches to addiction even though these approaches were also choice-based, such as those advanced by Gary Becker and by the recent 'behavioural economics' (Pugno 2014). These modern approaches focus on the individual's choice between the current benefits and future harms of the same addictive behaviour. One approach differs from the other mainly because of the assumptions made about the individual's foresight. By contrast, Scitovsky focused on the individual's choice among substitutable options where only one of them leads to harmful addiction.

Scitovsky first observed that humans, like other animals, are characterised by the need for stimulation, which is essential for maintaining the perceptual and reactive system active and efficient. This need also underlies the pursuit of creative activity, which is typically human because this activity provides stimulations for novelty and challenge. In order to be appreciated, sufficient life skill is required in this case. If people are not thus endowed, they will attempt to satisfy the need for stimulation by finding stimuli in another way. Indeed, while the preference for creative activity is characterised by how external stimuli match the internal ones, the lack of life skill induces people to search for external stimuli and to maintain a passive stance. Modern psychology suggests using the efficacious term 'sensation-seeking' to denote this search (see 5.4.2).

The need for stimulation, which underlies both creative activity and harmful addiction, implies more uncertainty with respect to the need for comfort because the stimulus may have unpredictable consequences, including the individual's emotional reactions. The search for stimulation thus implies some preference for uncertainty, and this puts the individual in a vulnerable position. In the case of the pursuit of creative activity, the aim is to enjoy achieving something new rather than feeling uncertainty. Although the latter is unavoidable, it is reducible after the experience because novelty becomes known. But if life skill is lacking, the aim becomes the feeling per se of being stimulated, and uncertainty may contribute to this effect. For example, opening a new business involves some risk of failure, but such uncertainty does not contribute to the satisfaction expected from this activity. By contrast, the risk involved in gambling is a key aspect of the

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expected satisfaction. Indeed, in this case uncertainty is irreducible. Sensation-seeking activities may thus be highly risky.

Therefore, creative activity and the activities that bring people to addiction are highly substitutable because both of them respond to same need for stimulation (Scitovsky 1986 [1979]: 119, 1986 [1981]: 134, 1992 [1976]: x, 293–296).

> For one's need of stimulation and excitement is just as limited as are most of one's other needs and wants. Accordingly, if one activity (or set of activities) satisfies one's need for being active, then one's need for other activities is correspondingly diminished: they are, so to speak, crowded out.
>
> (Scitovsky 1992 [1976]: 295)

This is long-run substitutability, however, because addictive activities can be prevented by creative activity when life skill develops. Vice versa, if life skill is not adequately developed, sensation-seeking and risky activities may be preferred to creative activity. In this latter case, the individual becomes vulnerable to harmful addiction.

This long-run substitutability enables some prediction of harmful addiction because the lack of development of life skill fosters the preference for sensation-seeking activities. In fact, the inability to appreciate creative activity leaves the individual dissatisfied in her search for stimulation, so that sensation-seeking activities become attractive because of their expected immediate compensatory effect (Scitovsky 1986 [1983]: 157).

It thus becomes clear that, although addictive activities are apparently intrinsically motivated and challenging, they do not fulfil a requirement imposed by creative activity. Hence addictive activities are instrumental to pursuing the negative goal of 'freedom from […] discomfort' (Scitovsky 1992 [1976]: 59), which in this case is 'boredom'.

'Boredom signals people's need for some physical or mental activity to keep them occupied and vent their energy, just as hunger is a sign of the need for food' (Scitovsky 1999). But 'boredom is a great killer' (Scitovsky 1992 [1976]: 235) because of its power to trigger harmful consequences. It arises from the inability to appreciate creative activity. Material resources can prevent boredom, for example, by helping people compete with some success in the rat race for social status (see 5.2.3–5.2.4). Sensation-seeking rather reveals the need to relieve boredom, possibly when material resources are lacking. The idle and uneducated poor thus cumulate two types of deprivation (Scitovsky 1996: 600).

However, Scitovsky observed that this social polarisation is a rather recent phenomenon. On considering other ages, a different picture emerges.

> [A]ll folk arts was and is created by ordinary people in primitive communities and agricultural economies as a means of occupying their free time […] with some form of that slow, plodding, meticulous work, which we have come to call creative activity. In more leisurely times and civilizations,

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> some such creative activity used to be engaged in by just about everybody who had less work to do than he or she had energy for because it was satisfying, could be shown off, and gave its creator a feeling of pride, accomplishment, and self-respect.
>
> (Scitovsky 1992 [1976]: 297)

Today, a 'new underclass' especially of 'youngsters' has arisen, so that the pattern has changed.

> They are unskilled and unprepared for making enjoyable and socially acceptable use of their unwanted full-time leisure [...] many of them [...] need stronger medicine against boredom than what TV, movies, and hanging out in the street can provide. At present, the only sources of excitement accessible to them seem to be violence, crime, illegal activities, and addictive drugs.
>
> (Scitovsky 1992 [1976]: xi)

To be precise, besides the negative internality of behaviours of this type, from drug addiction to truancy and dropping out of school (Scitovsky 2000: 49–50), attempts to escape from boredom may trigger 'many forms of violence, from sadism to vandalism, along with mental and physical domination of other people' (Scitovsky 1992 [1976]: 294). Unfortunately, such anti-social activities can be satisfying and even exciting for their perpetrators (Scitovsky 2000).

These anti-social behaviours, including violence, have also the negative externality due to imitation within groups of young people, besides the negative effects on the victims. Imitation or emulation may be a strong motivation which outweighs the motivation to escape from boredom. It is worth noting that Scitovsky regarded both anti-social behaviours and self-destructive behaviours as being induced by the same internal condition of poor life skill.

Scitovsky's explanation of how people fall into harmful addiction is also able to give account of two other characteristics of this unfortunate condition: 'quitting' and 'relapse'. The willingness of people to quit addiction is testified by the large expenditure devoted to this purpose, possibly with the help of specific healthcare services.[3] It is also well-known that programmes to quit – from simple self-commitment to therapy – may fail even after a person has quit because she relapses.

If the individual was able to foresee the consequences of substituting creative activity with addictive activities, she would presumably not have made this choice. Therefore, after undesired experience and knowledge have been acquired, the willingness to quit may arise. This argument explaining the desire to quit harmful addiction on the basis of the individual's myopia is rather standard, but it is also usually rebutted. The counter-argument is that the consequences of harmful addiction are well known, especially in the case of substance addiction, so that the individual should not be surprised when she becomes addicted. But in Scitovsky's analysis, the argument is less vulnerable, because it does not necessarily refer to myopia about the consequences of taking addictive substances or repeating addictive behaviours. It rather refers to myopia

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about the consequences of abstaining from creative activity, that is, of failing to develop life skill. Boredom thus emerges as an unfortunate surprise, and sensation-seeking activities become effective in relieving it. But the lack of life skill remains, so that sensation-seeking activities will be repeated, thereby opening the way to harmful consequences, and addiction may emerge as a trap. Therefore, the desire to escape from this trap may arise also if the consequences of addiction are well known in advance.

When life skill is not exercised and challenged, boredom becomes chronic. Internal potentialities are thus less and less perceived, so that uncertainty in undertaking creative activity increases, and the reliance on external stimuli becomes the only choice. The belief in chance events takes the place of understanding and attempting to change events. Imitating the behaviours of others becomes increasingly frequent because of the lack of internal initiative.

The reason for relapse after the quit, which is a rather frequent phenomenon, remains unclear if perfect foresight is assumed. Under this assumption, after some effective programme to quit, such as detoxification from addictive substances, no relapse should occur. Instead, if the origin of addiction is recognised in the lack of life skill, detoxification programmes become insufficient because the vulnerability to relapse into addiction remains.

5.2.3 Comfort and harmful addiction as defensive activities

Scitovsky called both comfort and addictive activities 'defensive' (Scitovsky 1992 [1976]: 108–112).[4] The main reason is that both types of activities are pursued in the attempt to relieve discomfort. In the case of comfort, discomfort is usually specific, like hunger which requires food; in the case of addictive activities, discomfort is generic, since it is due to boredom (Scitovsky 1992 [1976]: 31). This is consistent with the fact that habit may fail to provide immediate satisfaction, as do many routine behaviours that are instrumental for other ends. Analogously, '[b]y the time [one…] has become an addicted, he gets little or no positive satisfaction from the drug' (Scitovsky 1992 [1976]: 127; see also 1986 [1983]: 153), thus implying that these decisions are taken 'without full awareness' of their consequences (Scitovsky 1992 [1976]: 129).

Scitovsky borrowed the contrast between 'defensive' and 'creative' from Ralph Hawtrey, who distinguished 'two broad classes of objects of consumption […] which are intended to prevent or remedy pains, injuries or distresses, and [respectively…] to supply some positive gratification or satisfaction' (Hawtrey 1926, cited by Scitovsky 1992 [1976]: 108). However, Scitovsky preferred to refer the contrast to 'forms of satisfaction' because 'most products are not just defensive or just creative, but yield both comfort and stimulus' (Scitovsky 1992 [1976]: 109).

Comfort and harmful addictive activities are linked together for another reason besides the attempt by individuals to defend themselves against discomfort. Indeed, the pursuit of comfort can facilitate the lapse into harmful addiction through habits.

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At first, the pursuit of comfort can approach (possibly after some learning) a definite behavioural pattern or routine which can meet some needs, including basic needs, in a satisfactory or even optimal way. Then, repetition may generate a 'secondary reinforcement' of a psychological type which takes the success of the routine for granted. The behavioural pattern thus becomes a habit characterised by the additional pain of the fear of having to quit it. This characteristic is common to habit and harmful addiction.

Nevertheless, habit is different from harmful addiction because it does not display negative effects in the long run if it is pursued, and it is only a psychological phenomenon. Harmful addiction has the distinctive characteristic of displaying negative effects in the long run (Scitovsky 1986 [1974]: 80). Substance addiction is harmful because it causes various kinds of damage to physical health, and behavioural addiction is harmful because the fear of having to stop it becomes a craving to pursue it, so that more and more time and other resources are devoted to this end.

Habits are usually more common among mature adults, and falling into addiction is more common among young people (Scitovsky 1992 [1976]: 73). This is because habits may arise even with some developed life skill, that is, in adulthood, so that falling into addiction is less likely. Moreover, the need for stimulation may spontaneously arise especially when people are young, so that they are more vulnerable to harmful addiction if they have not yet have developed adequate life skill.

These detailed psychological mechanisms are interesting for economics, and especially for the Economics of Happiness, because they are able to give account of a behaviour that is usually taken as exogenously given by economists: the race for status.

> [B]eing considered [. . .] a member of society is a basic necessity [. . . T]he comfort of ranking – being regarded more highly than others [. . .] – yields further satisfaction, though it could hardly be called a basic necessity. Once acquired, however, such higher rank [. . .] often has all the earmarks of an addiction. [. . .] People's striving to maintain their status seems better explained by their desire to avoid the pain of withdrawal symptoms than by their desire for any positive gratification.
>
> (Scitovsky 1992 [1976]: 130–131)

Therefore, harmful addiction becomes a sizeable phenomenon if it includes behavioural addiction, and in particular 'people's addiction to their status and to the regard others have for them.' In the latter case, the negative internality of addiction interacts with the negative externality of the social race for comfort.

5.2.4 'Irrationality' in habits and harmful addiction

The conventional notion of rationality in the economic theory of consumer choice requires that preference maximisation is subject to the available information. Learning is taken into account, but only when it regards beliefs in the

probability of events occurring because the consequences of the available choices are assumed to be fully known (see e.g. McFadden 1999). Scitovsky accepted this notion of rationality, but only as 'a narrow interpretation of the term' (Scitovsky 1992 [1976]: 231) because he also suggested a 'higher rationality' (Scitovsky 1992 [1976]: 66) in which learning regards internalities and externalities.

In this latter case, however, learning essentially requires time because internalities and externalities imply a change of skills, and hence of preferences. Therefore, the notion of rationality can be distinguished according to whether it refers to the short run, in which internalities and externalities are not yet learned, or to the long run, in which these effects may be learned. The individual may thus make a rational choice in the short run, which however becomes 'irrational' in the long run, because she may take time to realise the consequences of the choice on her preferences.[5]

Habits and harmful addiction are internalities, so that – according to Scitovsky – the individual may be rational in the short run when she chooses them, but she may be 'irrational' in the long run when she eventually becomes aware of the unfortunate internalities. Being rational in the short run implies that receding from the chosen option is not convenient, with the consequence that the individual finds herself in a trap.

The consequences of habits are well-described in the Economics of Happiness by the notions of 'hedonic treadmill' and 'satisfaction treadmill'. The 'hedonic treadmill', which also characterises comfort, takes place 'if people adapt to improving circumstances to the point of affective neutrality, [so that] the improvements yield no real benefits' (Kahneman 1999: 13).[6] This notion regards the individual's past experience, while the 'satisfaction treadmill' regards the evaluation of oncoming possible experiences. According to the 'satisfaction treadmill', the individual takes the improved circumstances as the new standard for evaluation of future possibilities. In fact, when the individual becomes habituated to the improved circumstances, she sees the possibility of returning to the initial circumstances as a loss. In this sense, habit puts the individual in a trap.[7]

The individual appears to be 'irrational', that is, with inconsistent temporal preferences, when she takes up habits. This is due to the fact that she well perceives the costs of habits only if she encounters impediments in further pursuing the habitual behaviour. Second, habits may induce the individual to lapse into addiction, which is clearly harmful.

Alarming information on addiction may thus prevent the individual from undertaking behaviours conducive to that outcome, that is, she may be rational also in the long run. Becker and Murphy's (1988) model of rational addiction describes this idea. They assume that the potential internality of addiction can be learned in advance, for example, from others' experience, so that the individual can fully foresee the consequences of her action. Scitovsky would not agree with Becker and Murphy, not because he would deny that the individual can be well-informed about the harmful consequences of addiction, but because they do not explain why the individual lapses into harmful addiction.

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Most interesting is the example of status seeking, which is often induced by comparing one's own consumption with that of others. '[C]omfort of ranking – being regarded more highly than others [...] – yields further satisfaction, though it could hardly be called basic necessity' (Scitovsky 1992 [1976]: 130). As is well known, such satisfaction is reduced by others' similar attempts to climb the social ladder, thereby exerting negative externality. This reduction of satisfaction, however, becomes anxiety because of 'competitive pressure, the tensions of modern society' (Scitovsky 1992 [1976]: 132). According to Scitovsky, the individual's behaviour changes from habit to addiction when she has already been brought to the habit by her inability to undertake successful creative activity.

5.2.5 Satiation

The satiation of human needs is an issue that has been usually raised in discussion on the problem of whether or not the demand for products tends to lag behind the growth of supply. Scitovsky provided a new perspective by introducing the satiation issue into the discussion on people's well-being, not into the discussion on market products. He thus reached new and intriguing conclusions.

The roots of the satiation issue go back to Engel's (1895) contribution to the long-standing debate on Malthus' (1798) theory of population, according to which population grows at a faster rate with respect to the agricultural production. 'Engel's Law, which says that the higher a person's income, the smaller the proportion of it will he spend on food' (Scitovsky 1992 [1976]: 183), would be a reason for optimism because people would tend to satiate as income grows.

In the modern debate, the satiation issue instead becomes a problem because it would dampen the demand for market products, which are mainly industrial products, thus jeopardising economic growth and full employment (Pasinetti 1981). However, technical progress is recognised as being able to overcome the problem of satiation: as long as the demand for one product slows down, technical progress generates new products, thus creating new demand. Hence, the satiation of needs can be decoupled from the saturation of demand for a specific product, so that satiation can be pursued by using an ever-growing number of products. In this case, it could be said that while 'needs' are satiable, 'wants' are insatiable (Witt 2001).

This debate is driven by the indisputable fact that some human needs can be satiated, so that human beings can do something other than demand market products. For 'the absolute needs', according to Keynes (2008 [1930]: 21), 'a point [of satiation] may soon be reached [...], when these needs are satisfied in the sense that we prefer to devote our further energies to non-economic purposes.' This factual observation runs counter to the 'axiom of non-satiability' that underlies the standard economic theory of the consumer.

The major weakness of this debate consists in the difficulty of drawing the dividing line between satiable 'needs' and insatiable 'wants' in human beings. It appears even more difficult to separate desirable from undesirable insatiable wants, being unclear the underlying criteria (see Chapter 7).

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Scitovsky made an unnoticed contribution to the debate by shifting the focus from market products to people's well-being. In *The Joyless Economy*, he used the concept of 'satiation' to distinguish between the two sources of satisfaction as derived from defensive activities and creative activity respectively. On the basis of his analysis of creative activity, Scitovsky was in a good position to propose interesting classifications concerning 'satiation'.

First, the pursuit of creative activity is both insatiable and desirable (Scitovsky 1992 [1976]: 110). In fact, creative activity is defined by specific characteristics which make it distinct from the other activities (see Chapters 3 and 4), so that insatiability and desirability follow as logical consequences. In particular, creative activity is both an enjoyable activity and contributes to human progress in science and arts. Moreover, it is more respectful of the environment than the other activities.

Second, basic needs, which can be satisfied by basic comforts, are undoubtedly satiable, because suitable and definite resources can satisfy hunger, quench thirst, produce comfortable environmental temperatures, maintain good health, and even satisfy the need to belong to the social community (see e.g. Scitovsky 1986 [1983]: 150). These needs thus seem to be defined in absolute terms by taking the needs for subsistence as a reference.

Third, the pursuit of comfort may become insatiable and undesirable when it is associated with ill-being rather than well-being. Scitovsky provided the following first example:

> the uncertainties of the future can seldom be perfectly eliminated or fully insured against […], there are anxious people whom no amount of security and reassurance can rid of their anxiety and who have an unlimited and insatiable demand for the comfort of reassurance. Such people, however, are generally considered ill and exceptional.
>
> (Scitovsky 1992 [1976]: 113)

Scitovsky thus identified a basic need: that of security against future possible adversities, which is not satiable for all people. Indeed: '[s]ociety usually develops a standard of what it considers normal safeguards against uncertainty and regards as unreasonable anyone's desire for much greater and better safeguards' (Scitovsky 1992 [1976]: 113–114). The second example of insatiability is status consumption, as also seen above (5.2.4). The need felt by people to follow and exceed the consumption of others, appears to be insatiable because this is a zero-sum game. But the competitive pressure in modern society may change a behaviour originally motivated by the need to belong, and thus enjoyable, into an addictive and anxiogenic behaviour.

To conclude, the use of 'satiation' to study people's well-being makes both concepts more interesting if they are backed by Scitovsky's distinction among comfort, creative activities, and harmful addiction. In fact, the concept of 'satiation' helps to reveal cases of ill-being, and the concept of well-being strengthens its health-based definition. Interesting consequences also ensue for

macroeconomic analysis, especially in regard to the composition and dynamics of the demand for products. But this will be discussed in Chapters 7 and 8.

5.3 A Scitovskian choice model of harmful addiction

Harmful addiction is an unfortunate event. A person may live without lapsing into any experience at risk of harmful addiction, despite being informed about the pleasant effects of some substances and behaviours, as well as about their long-term harmful consequences. Several theories of addiction explain how addictive behaviour evolves over time, how the different addictions are characterised, and what they have in common. Less attention is paid to understanding how an informed person is induced to adopt behaviours that are at risk of addiction. This chapter gives an account of this aspect by following Scitovsky's suggestion; and it shows how sensation-seeking behaviours can lead the person to addiction, and how addiction becomes a trap. This section distils the analysis of the previous section into a model by extending, on the one hand, the model of Chapter 4, and, on the other, the links with the model of Chapter 3.

5.3.1 The assumptions and equations of the model

Let us first extend the utility function of Chapter 4 by including the sensation-seeking behaviour which will bring the individual to addiction. Then, let us formally characterise the general pattern of addiction as suggested by the 'opponent process theory' of addiction. The individual's problem of utility maximisation should therefore be reformulated so that the satisfaction from the two options can be compared and summed up as u_{bc}.

Let us assume a rather general specification of the utility function:

$$u_{bc,t} = \frac{1}{1-\varepsilon}\left(\alpha\left(C_{c,t}/c\right)^{\frac{\sigma-1}{\sigma}} + \beta\left(C_{b,t}G_t\right)^{\frac{\sigma-1}{\sigma}}\right)^{\frac{\sigma(1-\varepsilon)}{\sigma-1}}$$

$$\text{with } 0<\alpha, \beta, \varepsilon<\infty \tag{5.1}$$

where C_c denotes consumption goods used for comfort, C_b denotes consumption goods used for sensation-seeking, and α and β are preference parameters. Since substitutability between the two options is assumed, then $\sigma>1$, while ε refers to intertemporal substitutability. The short run hedonic value of sensation-seeking is given by positive effects of C_b on u_{bc}.

Scitovsky suggested that sensation-seeking behaviour is highly substitutable with creative activity, and that this substitution takes place in the long run because it is regulated by life skill. Let us then assume that sensation-seeking is encouraged by past accumulated experience of this behaviour, as is also usual in addiction, but it is discouraged by life skill, which would instead motivate the individual to prefer creative activity. Let us also assume that the individual maintains a certain minimum of preference for sensation-seeking activities even in

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the absence of past experience, but due to general information. However, this minimum is not sufficiently attractive to undertake these activities unless life skill deteriorates to a sufficient extent. Formally, let us specify the coefficient G that appears in equation 5.1 as follows:

$$G_t = 0 \text{ if } S_t > g + Z_t \text{ with } 0 < g < \infty \tag{5.2}$$

$$G_t = g + Z_t - S_t \text{ if } S_t \leq g + Z_t \tag{5.3}$$

where Z denotes past sensation-seeking experience, and g is the mentioned minimum. Condition 5.3 is in additive form for simplicity, without losing much in generality.

The accumulation of the sensation-seeking experience can be represented as follows:

$$\dot{Z}_t = \left(C_{b,t} G_t\right)^{\frac{\sigma-1}{\sigma}} - \varphi Z_t \text{ with } 0 \leq \varphi < \infty \tag{5.4}$$

where φ measures the rate of spontaneous disappearance of the effects of past consumption of C_b. Since the individual starts with no past experience ($Z_0 = 0$), no accumulation will take place if S is sufficiently high, that is, if $S > g$ when $\varphi = 0$, or even higher when $\varphi > 0$.

In the long run, sensation-seeking behaviour becomes harmful addiction if it is repeated, so that Z displays harmful effects. Our model offers some structure to represent these effects, because this long-term harm may be captured by inserting a hindrance to the development of the individual's skills (equations 3.16 and 4.2) as follows:

$$\dot{S}_t = \xi F_t R_t (\bar{S} + 1) - \delta' Z_t S_t \text{ with } 0 \leq \delta' < \infty \tag{5.5}$$

$$\dot{H}_t = \theta\, S^{\psi}\, I_t - \mu' Z_t H_t \text{ with } 0 \leq \mu' < \infty. \tag{5.6}$$

The time constraint should be extended with respect to that of Chapter 4 (see equations 4.3 and 4.9 of Section 4.2), that is:

$$L_{c,t} + L_{b,t} + I_t = T'_t = 1 - A_t \text{ with } 0 \leq L_b < 1 - L^{min} \tag{5.7}$$

where L_b denotes labour time devoted to sensation-seeking consumption. A new income constraint should also be added:

$$w_t\, L_{b,t} = p_b C_{b,t} \tag{5.8}$$

so that equation 4.10 should be rewritten thus:

$$p_a C_{a,t} + p_b C_{b,t} + C_{c,t} = w_t\,(L_{a,t} + L_{b,t} + L_{c,t}) = w_t\, L'_t \tag{5.9}$$

where L' denotes total labour time.

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The individual's problem thus becomes:

$$\max_{L_c, L_b} V'_{t=0} = \int_{t=0}^{t=\infty} U_t e^{-\rho t} dt \tag{5.10}$$

subject to equations, constraints, and properties 5.1–5.4, 5.6, 5.7, 5.9, and 4.4, 4.5, 4.7, and 4.8 of Section 4.3, as well as the transversality condition:

$$\lim_{t \to \infty} H_t v_t = 0 \text{ with } 0 < v < \infty. \tag{5.11}$$

For the solution of the model with comfort and addiction, see the Appendix to Section 5.3.

5.3.2 The interpretation of the model

The extension of the model remains ineffective if the individual finds creative activity of sufficient interest, while comfort may or may not be satisfactory. But if her life skill has deteriorated because of some serious adversity, then sensation-seeking behaviour becomes attractive, and this triggers a chain of effects.

The model in fact shows that the individual lapses into harmful addiction if her life skill (S) has deteriorated to a sufficiently low level so that $G > 0$ (equation 5.3).[8] Disappointing creative activity induces the individual to shift resources to other options (equations 3.12 and 5.7). The individual can thus both enjoy more comfort and plan to increase education (H) further by means of these extra resources (through the rise of T' in equation A.5.6 and A.5.8). But if G becomes positive, also sensation-seeking behaviour becomes attractive. By undertaking sensation-seeking behaviour, the individual can derive new satisfaction (equation 5.1), so that she repeats this behaviour and starts to accumulate experience of this type (equation 5.4). Sensation-seeking thus becomes addiction by starting to impair the individual's skills (through the rise of Z in equations 5.5 and 5.6).

The negative impact, in particular, on H discourages the pursuit of comfort, which tends to be substituted with addictive behaviour (equation 5.1). More working time is thus devoted to paying for addictive consumption (L_b in equations 5.8 and 5.9). Impairing the individual's skills (S and H) also has the effect of decelerating income (equation 4.5), thus making the budget constraint more binding (equation 5.9).

The deterioration of the satisfaction, or even ill-being, due to addiction, and the shift of resources to addictive consumption from the other options may cease if some intervention, for example detoxification, is sufficiently effective to stop the accumulation of Z (through the rise of φ in equation 5.4). A more radical solution to addiction, however, should be the reversal of the dynamics of Z. This result may be obtained if the individual's motivations change in favour of creative activity, and the endogenous development of life skill is triggered.

The model is thus able to describe with some detail how the individual may fall into addiction, and to control for the conditions that are responsible for this

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result. The key condition concerns the great substitutability of creative activity with addiction if life skill becomes severely deteriorated. But the model is also well able to represent how addiction is a double trap. The first trap is due to past experience of addictive behaviour, that is, to the effects of greater Z in the preference for addictive behaviour. This is an evident trap, which usually attracts the attention of therapists. The second trap is more latent because it is due to the lack of life skill. The attempt to escape from the first trap thus appears insufficient for a safe recovery from harmful addiction.

The case of addiction maintained at a low and controlled intensity can also be represented. In this case, S should diminish below $g+Z$, but φ should be positive, so that Z converges to a sufficiently small level.

This analysis of harmful addiction is especially interesting for the comparison between the pathways arising from the preference for creative activity, and from the preference for comfort, which were discussed in Chapter 4. Both pathways were found successful in providing well-being, although they provided two incomparable types of well-being. The analysis of this chapter adds that the creative activity pathway is more robust than the comfort pathway because this latter is more vulnerable to the tempting behaviours that may bring people to harmful addiction.

Let us consider the example of a negative permanent shock in the economic conditions, that is, a reduction of w. This shock will have very different outcomes depending on the extent to which the life skill was developed when the shock hit. If the life skill was at a high level, then the shock may dampen it, but temporarily because life skill may have the strength to recover. In terms of Figure 3.2 of Chapter 3, the shrinkage of the basin of attraction of E_3 due to a reduction of w may only decelerate the growth of S if S_0 is sufficiently high, and hence also χ can be sufficiently adequate. If, however, the life skill was already at a low level, then the shock may reduce it so as to trigger addiction. In terms of Figure 3.2, the same shrinkage of the basin of attraction of E_3 may turn the growth of S into its reduction if S_0 is sufficiently low. Even if an intervening *positive* shock reverses the economic conditions, the recovery of S may be not sufficient because in the meantime S has further worsened to the point that it may fail to achieve the level sufficient to escape from addiction. Psychologists would say that a strong life skill makes people resilient.

5.4 Evaluating Scitovsky's contribution on harmful addiction

5.4.1 The originality of Scitovsky's theory of harmful addiction

The literature on harmful addiction is vast, and especially the extra-economic literature.[9] One reason for this great interest is that the term 'addiction' has been used to denote a variety of behaviours and consumption products. However, two comprehensive sets of theories stand out: the choice theories of addiction, which are dominated by the economic approach, and the disease theories of addiction, which have their roots in neurosciences. The two sets offer two alternative

accounts of addiction, as apparent from the fierce debate between exponents of the two camps (see e.g. Ross 2010). On the one side, human behaviour is always described as consisting of choices among options under constraints. On the other side, addiction is described as an alteration of the human brain's functioning that impairs the capacity for judgement.

Scitovsky's approach of well-being includes a choice theory of harmful addiction; but it is an original analysis, though it still goes unnoticed. In fact, the focus of this analysis is not on the choice between assuming or abstaining from harmful addictive behaviour, but between assuming harmful addictive behaviour or engaging in the special benign form of addiction called creative activity. Moreover, the claim made by the disease theory of addiction concerning alteration of the human brain can be taken into account as a change in the ability to choose included in life skill.

More precisely, according to Scitovsky's approach, the individual falls into harmful addiction because external impediments to the (endogenous) development of her life skill constrain her choices, so that risky behaviours become attractive. Undertaking such behaviours triggers the self-reinforcing process of harmful addiction, which may exhibit the characteristics of a disease as described, for example, by the 'opponent process theory' (see 5.2.1).

This approach to harmful addiction is very general and flexible. The paradox of voluntary self-destructive behaviour, which is usually attributed to harmful addiction, is explained by the weakness of will due to a lack of life skill. 'Rationality', defined by Becker and Murphy's (1988) model as sufficient foresight to maintain consistent preferences in the future, may still be assumed, although restricted to addictive behaviour and not to creative activity. In fact, the lack of life skill – in Scitovsky's approach – weakens the individual's preference for creative activity, which is fundamentally uncertain but would have strengthened her ability to form and pursue goals with positive internalities and externalities. Activities at risk of harmful addiction thus become attractive in order to escape from boredom, even if the harmful consequences are sufficiently foreseen.

Therefore, such risky activities can be extended far beyond the intake of drugs to include a long list that researchers of addiction constantly lengthen: from gambling to food intake, from work to playing video games, and to the search for status (Elster and Skog 1999: 4–5). Specific explanations are necessary to understand the different evolutions of each risky activity, as well as the possible alterations of the brain associated with that activity. But these explanations could be consistently incorporated into Scitovsky's approach.

The flexibility of Scitovsky's approach is evident in the puzzling but rather frequent cases in which harmful addiction is maintained at low intensity: for instance smoking, or cases in which people quit addictive behaviours altogether but then relapse.[10] The self-reinforcement mechanism of addiction that humans may share with other animals makes it difficult to explain these puzzles. For example, the difficulty encountered by Becker and Murphy's model is the fact that rational addiction prevents the convenience of quitting, and that imposing sufficient abstinence in order to exit from addiction cannot predict relapse (Skog

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1999). Instead, the strength of self-reinforcement that characterises addiction can be governed – in Scitovsky's analysis – by the dynamics of life skill. Study of how life skill changes because of adverse experiences, for example, in childhood or in the labour market, can aid understanding of the pathway to and the characteristics of addiction. Not only this, but it can also suggest effective new remedies and preventive actions.

Therefore, Scitovsky's analysis includes some important features of the other most popular theories of addiction, but it introduces new features through its focus on life skill. The features shared with Becker and Murphy's model regard the self-reinforcing nature of some activities, and the idea that addiction works as a self-medication after a 'life crisis'. Scitovsky's analysis departs from this model not only because the role of rationality is limited, but also because the self-reinforcing mechanism is extended to creative activity and addiction, but in opposite ways and within the same option set.[11]

This latter feature is also original with respect to the recent models of addiction put forward in 'behavioural economics', which studies the anomalies of economic rationality. These behavioural models mainly focus on the individual's myopia concerning the consequences of her potentially addictive behaviour, thus exhibiting interesting similarities with Scitovsky's analysis. For example, the so-called 'melioration theory' of addiction postulates that the individual becomes addicted through a series of incremental meliorating decisions to consume the addictive products. However, the individual does not perceive the harmful consequences of such products until it is too late (Herrnstein and Prelec 1992). This theory, however, appears more naive than Scitovsky's because the harmful effects of addiction in the long run are in fact often well known.[12]

5.4.2 Some evidence from the literature

The problem of addiction is both serious and widespread in the population. The explanation offered by Scitovsky's approach is not only original but also plausible. These two statements may be better appreciated if some empirical grounding is found for them in the available literature.

The evidence on the extent of harmful addiction crucially depends on how addiction is defined and measured. If the restrictive definition and measure of drug-related deaths is used, then the case of North America stands out with 142 deaths per million persons aged fourteen to sixty-four in 2012, which is more than three times the world average, and more than four times the European average (UNOCD 2014). Some historical data are available on the use of illicit drugs in the USA. Both including and excluding marijuana, the use declined after the peak of the late 1970s, but it increased in the 1990s and since then has remained stable. However, the composition has changed, because the misuse of prescription drugs and the use of heroin have been increasing in recent years (Schulden *et al.* 2009; SAMHSA 2014; Case and Deaton 2015). The situation in the UK is better because drug misuse has been declining or remained stable since the 1990s for every drug (UK Home Office 2013).

A much wider definition and measure of harmful addiction refers to the preventable deaths due to modifiable lifestyle, dietary, and metabolic risk factors. A recent study of the US population in 2005 included, on the basis of non-optimal levels of risk factors exposure: tobacco smoking, high blood pressure, overweight and obesity, physical inactivity, high blood glucose, alcohol use, high LDL cholesterol, high dietary salt, risky dietary fatty acid, low intake of fruits and vegetables. On this basis, the study estimated that the preventable deaths amounted to the astonishing rate of 80 per cent of total deaths (Danaei *et al.* 2009). Previous less refined calculations provided more conservative estimates, but showed that the preventable deaths rate did not change much between 1990 and 2000 (Mokdad *et al.* 2004).

An objection to these data as evidence of addiction as due to choice is that people may not be adequately informed about the possible harmful consequences of their behaviours. However, since 1990 information has undoubtedly greatly increased at global level. Moreover, an economic study on unhealthy behaviours – like smoking, overeating, drinking alcohol, and taking illegal drugs – in the USA and the UK found that information as such has a smaller role in unhealthy behaviours than normally thought. By contrast, education as the ability to think in abstract, and hence to use information effectively, seems to play a major role (Cutler *et al.* 2010).[13]

An important unhealthy behaviour that has been little studied is so-called 'workaholism'. This can become a behavioural form of addiction harmful for health and also for co-workers and spouses (Burke and Cooper 2008). Although workaholism is difficult to measure, a recent study attempts to treat this problem rigorously by observing working individuals' decisions to retire, after simply defining workaholism as the tendency to work systematically more than what the individual predicted in the immediate past. By using two different datasets on American people, the study finds that this form of addiction exists, and it is a problem of higher-income and higher-educated individuals. It also cites a Canadian article that gives an idea of the frequency of workaholism, as a self-reported measure: 30 per cent of the interviewees, 38 per cent of those with incomes over $100,000 (Hamermesh and Semlrod 2008). The fact that overwork is harmful has been ascertained by a recent meta-analysis including a very large number of observations: employees who work more than fifty-five hours per week have a 1.3-times higher risk of incident stroke than those working 35–40 hours per week (Kivimaeki *et al.* 2015).

The origin of harmful addiction is difficult to investigate empirically because several factors are involved. However, Scitovsky's idea that the lack of life skill may contribute to the lapse into harmful addiction, possibly after having experienced boredom and sensation-seeking activities, receives some support.

An economic study that distinguishes between cognitive and socio-emotional skills, which have been proved to develop over the life cycle (see 3.4.1), has found that the lack of both types of skills causally affect smoking at a later age (Heckman *et al.* 2014). Another study focuses on the link between unemployment and addiction, as Scitovsky would have suggested. It finds that, by using

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fixed-effects models on a sample of individuals in the USA, job loss during the past year predicted average daily alcohol consumption, number of binge drinking days, and the probability of a diagnosis of alcohol abuse (Popovici and French 2013; see also the review Henkel 2011).

Psychological studies provide interesting indications for the link between boredom and risky activities, although the evidence is usually correlational. First, boredom seems to indicate malaise because it has been found to be positively correlated with physical and psychological health symptoms like depression and anxiety (Sommers and Vodanovich 2000; Vodanovich *et al.* 1991; LePera 2011). An epidemiological study has even found that individuals suffering a great deal of boredom are more likely to die during follow-up than those not bored at all (Britton and Shipley 2010). Second, boredom appears to be correlated with substance abuse (Iso-Ahola and Crowley 1991; LePera 2011), pathological gambling (Blaszczynski *et al.* 1990; Mercer and Eastwood 2010), and overeating (Crockett *et al.* 2015; Koball *et al.* 2012).

A second stream of psychological studies refers to 'impulsive sensation-seeking' as a predictor of addictive behaviours. This is interesting, because Scitovsky would have included it in the group of 'stimulating activities', together with creative activity (see Table 5.1 in Section 5.1).

'Impulsive sensation-seeking' is the combination of 'sensation-seeking' and 'impulsiveness'. 'Sensation-seeking' is 'a trait defined by the seeking of varied, novel, complex, and intense sensations and experiences, and the willingness to take physical, social, legal, and financial risks for the sake of such experience.' 'Impulsiveness' is defined as 'the tendency to enter into situations, or rapidly respond to cues for potential reward, without much planning or deliberation and without consideration of […] loss of reward' (Zuckerman and Kuhlman 2000: 1000). A body of evidence shows that impulsive sensation-seeking is associated with gambling, drinking, smoking, drug taking, and risky sexual behaviour (Zuckerman and Kuhlman 2000; Roberti 2004).[14]

Notes

1 For confirmation of this theory in the case of physiological response to drugs intake, see Koob *et al.* (1997). For the case of more complex psychological events, see Sandvik *et al.* (1985), who however observed the need for some qualifications.

2

> Many goods and services affect the well-being not only of their producers and consumers but of third parties as well. These side-effects can be favourable or unfavourable and, since they do not go through the market, they do not show up in market prices.
>
> (Scitovsky 1995 [1993]: 202)

For example:

> the consumption of some goods imposes non-monetary costs on the consumer, which is additional to the market price he or she pays for them […]. Since these non-monetary costs are usually delayed, not always recognized, and their incidence is often uncertain, many people ignore or discount them.
>
> (Scitovsky 1995 [1993]: 203)

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3 The phenomenon of quitting has been studied in psychology, with findings that run counter to both the rational theory of addiction and the disease theory of addiction (see 5.4.1). It has been observed that the rates of remission from drug addiction are far higher than those from the other psychiatric disorders. Moreover, according to a psychological study comparing people who quit drug addiction with those who did not, the most common factor among the latter was the presence of an additional mental disorder (Heyman 2009).
4 'Defensive consumption serves to ward off hunger and thirst, protect against wet, cold, and heat, prevent fatigue and sickness, as well as bother and boredom' (Scitovsky 1986 [1972]: 60).
5 This distinction is helpful for understanding what Scitovsky meant by titling a section of *The Joyless Economy* as 'The rational bias against culture' (Scitovsky 1992 [1976]: 230–32), which seems contradictory. In fact, he used 'rationality' in the short-run sense, and referred 'bias' to long-run rationality.
6 Kahneman cites Scitovsky's case of comfort to illustrate the 'hedonic treadmill', but he does not acknowledge Scitovsky's case of habit, which is also characterised by the 'satisfaction treadmill', as analysed by Kahneman himself.
7 These observations also reveal an undesirable consequence of modern economic growth, because habit implies rising costs of possible reversals towards impoverishment (Scitovsky 1992 [1976]: 125–26). This fact may assume substantial weight, so that it reduces happiness, as found in a group of people in Latin America and Russia called 'frustrated achievers' (Graham and Pettinato 2002).
8 If the individual were informed about the possible harmful consequences of sensation-seeking behaviour, she would resist temptation, but only to a limited extent: that is, the minimum g in equation 5.2 would be higher. Becker and Murphy (1988) in fact showed that rational addiction does not prevent the individual from undertaking that behaviour.
9 The psychologist Robert West identified more than twenty theories of addiction in the current literature (West 2005).
10 This case of low intensity of addiction can be represented by the model of subsection 5.3.1, if S declines to moderate extend so that a finite level of Z can be found as the stable solution of equation 5.4, for $\varphi > 0$ (see Appendix to Section 5.3).
11 Indeed, Becker and Murphy generalise their model to both harmful addiction, like drugs intake, and benign addiction, like listening to music, thus enabling Becker to define addiction simply as a 'strong habit' (Becker 1992: 329). However, the two forms of addiction are not analysed within the same option set.
12 For further discussion on the similarities and differences between Scitovsky's analysis and the recent Behavioural Economics, including the different behavioural theories of addiction, see Pugno (2014).
13 The scant importance of information in the case of obesity has also been found for a sample of European countries (Brunello *et al.* 2009).
14 'Novelty seeking', which is correlated with 'sensation-seeking' (Zuckerman and Cloninger 1996), has been found with a genetic substrate, although the evidence is not very robust (Zuckerman and Kuhlman 2000). Indeed, the environment remains important, as shown, for example, by a meta-analysis, according to which parental alcohol use during childhood moderated the gene/trait association (Lahti *et al.* 2005; see also Ersche *et al.* 2010).

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6 Are we heading for a 'joyless economy'?

A new look at Scitovsky's concern

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The danger of the past was that men became slaves.
The danger of the future is that men may become robots.

(E. Fromm, *The Sane Society*, 1955)

6.1 Introduction

With the title *The Joyless Economy* Scitovsky expressed his concern about a possible future in which the economy would not be able to ensure happiness in people's lives. His idea was not that the economy could be temporarily inefficient in providing happiness. Rather, he was worried that the same market forces that enabled the economy to offer increasing opportunities for consumption and work might undermine people's skill in exploiting such opportunities, with the consequence that they incurred increasing welfare costs.

But this is not an inevitable outcome because – according to Scitovsky – people's skill has the formidable property of developing endogenously if the conditions in both the economy and society are favourable (see Chapter 3). In this fortunate case, which was predicted by early economists of the French Enlightenment, and advocated by John Stuart Mill (see Chapter 1), human progress would come about because individual capacities, the economic conditions, and people's happiness would improve and reinforce one another. Scitovsky consequently concluded that people's happiness grows or stagnates according to whether or not they have developed the skill to exploit the opportunities made available by the economic growth.

Easterlin provided evidence that subjective well-being did not tend to change in the USA and some other countries. This result was unexpected in growing economies, thus taking the name of 'Easterlin paradox' (see 1.3.3). However, the flat trend of subjective well-being has been disconfirmed as a statistical regularity worldwide, while the USA is recognised as displaying a 'very mildly declining happiness trend' (Stevenson and Wolfers 2008: 57–58). On this account, Scitovsky's argument appears flexible because it can accommodate growing, flat, and declining well-being.

The present chapter is devoted to discussion and reinterpretation of Scitovsky's argument. It takes stock of the analyses conducted in the previous chapters,

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including the sections on the evidence drawn from the economic and extra-economic literature. In synthesis, the Scitovskian argument runs as follows.

Human beings distinguish themselves from other animals by some key mental skills, which are more clearly evident in infants and little children, and which concern social interaction, creativity skills, and the social production of culture. These skills, which are both cognitive and socio-emotional, develop early in people's lives when parenting and the economic conditions are adequate, so that confidence in both their own and the others' skills emerges (see 3.4.1, 3.4.2, and 4.4.1). The set of these skills is called 'life skill' because they are necessary to identify and pursue the goals to which people give most priority in their lives. In this pursuit, people are intrinsically motivated to undertake learning and challenging activities. These are called 'creative activities' because people create knowledge and new things for their lives, which may be also useful for others (see Chapter 3).

Economic growth, together with the social context, provides opportunities for, and imposes constraints on, the development of people's life skill. The main opportunities derive from three sources: the reduction of the working time necessary for subsistence; the betterment of the conditions and types of work; and the availability of many and sophisticated consumption goods and services. Life skill thus becomes increasingly important in order to explore these opportunities and to match them well with personal aptitudes and talents.

The constraints on the development of life skill are mainly due to the familial and economic conditions of people's childhoods, and to the conditions that people encounter in the labour market and in the social context. In fact, inadequate conditions in the first phase of people's lives may constrain the development of the skill required to set and pursue life goals in adulthood. Subsequent difficult conditions in the labour market and in the social context may discourage people from exploring and dealing with the uncertainty of the more creative options (see 6.3.1–6.32).

The economy appears to provide a simple way out of these difficulties by inducing the substitution of the pursuit of creative activity, which implies setting goals and using consumption as means to achieve them, with the pursuit of comfort, which takes consumption as the goal in itself. This substitution is attractive because the satisfaction gained from material goods is immediate and rather certain (see Chapter 4).

The comfort pathway to well-being thus appears to be an effective alternative, which is made especially easy by the pressure of the product market and by the educational system, and even compelling by social competition. However, the comfort pathway to well-being is vulnerable to negative internalities, such as habits and addiction, which aggravate the adverse external shocks in family life and in the economy. Affluent people are endowed with more material resources, but they do not escape this vulnerability (see Chapter 5). Therefore, the unfortunate possibility of heading for a 'joyless economy' does not seem so remote.

This line of argument is able to 'overcome' the most popular explanations of the Easterlin paradox proposed in the Economics of Happiness (see 1.3.4).

In fact, these explanations are based on certain psychological mechanisms – such as people's inclination to compare their own consumption with that of others – which are taken as given in the Economics of Happiness. Scitovsky instead argued that these psychological mechanisms are especially activated as compensation for the lack of ability to appreciate and pursue creative activity.

The present chapter is organised as follows: Section 6.2 reviews recent evidence on the trends in people's well-being (and ill-being) in the USA and other countries, thus ascertaining the risk that a serious problem exists; Section 6.3 focuses on both the analysis and recent evidence on how the family, economic conditions, and in particular the labour market weaken the development of people's life skill so that well-being becomes vulnerable; Section 6.4 shows how the most common explanations of the Easterlin paradox can be seen as special cases of a more general one. Two Appendices at the end of the book are devoted to formal matters: the case of a child's development of life skill, and the substitution of creative activity with comfort and addiction.

6.2 Recent evidence on the trends of well-being (and ill-being)

A joyless economy would be a bleak prospect for a country's population. But if well-being, on average, already tends to stagnate despite economic growth, this situation is especially worrisome because it may reveal people's inability to exploit the opportunities available. Hence, consideration of the evidence on the tendencies over time in people's well-being and ill-being serves to introduce the issue raised by Scitovsky.

At Scitovsky's time, there was scant evidence on the trends in people's well-being at country level. Today much better information is available, but robust evidence is still difficult to find. This is because well-being – as a prevalent or recurrent mental state – is difficult to measure, especially over long stretches of time.

Accordingly, this section briefly reports the most relevant evidence available in the literature – without, however, providing conclusive results. The best-known evidence on subjective well-being in the Economics of Happiness (in 6.2.1) will be accompanied by other evidence on clinical and subclinical mental illness (in 6.2.2) and suicides (in 6.2.3).

6.2.1 Trends in subjective well-being

The trend of subjective well-being over time at country level was heatedly debated in the literature on the Easterlin paradox (see 1.3.3). The discussion centred on Easterlin's claim that, as a general rule, the trend of subjective well-being is generally flat despite economic growth, and despite the positive relation between subjective well-being and per capita GDP at a point of time (Stevenson and Wolfers 2008). However, recent evidence shows that Easterlin's claim should be restricted to the USA and to other new and important cases. The

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Easterlin paradox thus seems to take the milder form claimed by Scitovsky: the flat trend is a possible and not a necessary outcome, so that a theory is needed to explain such heterogeneity.

The debate on the Easterlin paradox has produced a body of evidence on the trend of subjective well-being in different countries which proves useful for answering the title question of this chapter. Five countries seem to exhibit a non-rising trend: the USA, West Germany, the UK, Australia, and China. For the latter two countries, the evidence is meagre, but it gives an idea that the trend problem may not be circumscribed.

The trend of subjective well-being in the USA appears to be 'mildly declining' according to evidence from various data sources. Specifically, from the first surveys, which covered 1950–1970 and 1963–1976, until the most used and recent General Social Survey, the trend declines (Layard *et al.* 2010; Bartolini *et al.* 2013). A further dataset covering the period 1985–2005 and which uses 'life satisfaction', rather than 'happiness' as in the General Social Survey, confirms the declining trend (Herbst 2011).

The trend of subjective well-being in West Germany appears to be flat according to two data sources covering different periods: 1973–2007 for the Eurobarometer Survey, and 1984–2010 for the German Socio-Economic Panel (Layard *et al.* 2010; Pfaff and Hirata 2013). The trend also appears to be flat for the UK in the period 1996–2008, if one considers the British Panel Household Survey. Moreover, a significant negative relationship between life satisfaction and the logarithm of per capita GDP has been found for both countries (Pfaff and Hirata 2013).

Australia exhibits a flat but short trend of life satisfaction. In fact, according to the Household, Income and Labour Dynamics in Australia survey, the flat trend is eight years long, from 2001–2009 (Clark *et al.* 2014). China attracts a great deal of interest because of its very high economic growth, and because it is a developing country. Although the data are not very representative of the country as a whole, the evidence corroborates Easterlin's finding (Easterlin *et al.* 2012; Li and Raine 2014; Bartolini and Sarracino 2015).

The trend of a country's average subjective well-being may conceal different dynamics for sub-groups of the population. In particular, one may expect that the recent worsening of the income distribution has also worsened the distribution of subjective well-being, so that the happiest people are even more happy. Instead, the inequality of subjective well-being seems to have reduced in the USA, West Germany, the UK, and Australia, but the trend of the happiest people has declined (Clark *et al.* 2014). More specifically, the richest people do not seem to have increased their life satisfaction despite the rise of their relative income, at least in the USA (Layard *et al.* 2010).

In the case of other countries, subjective well-being instead appears to be growing. For example, Denmark, France, and the Netherlands seem to have a sizeable positive relationship of life satisfaction, as measured by Eurobarometer with the log of per capita GDP in 1973–2009 (Sacks *et al.* 2012). The same applies to Italy, at least until the mid-1990s (Layard *et al.* 2010).

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The second component of the Easterlin paradox – which refers to the overall cross-section of countries – is less controversial, although there is not much agreement on whether subjective well-being is positively related with per capita GDP within the sub-sample of the richest countries (see e.g. Frey and Stutzer 2002 vs. Deaton 2008). However, it has been found that, above a certain threshold, income taken as reference in income comparison fully offsets the benefit due to people's own income (Proto and Rustichini 2012). The same effect of full compensation for the richest people and countries seems also to operate through the psychological mechanism of 'adaptation' (Di Tella and McCulloch 2010; also see 1.3.4).

Therefore, stagnating happiness seems to be a problem that pertains more to the rich than the poor countries; nevertheless, the problem is not endemic even among the richest countries and people. One might observe that this is not a serious problem in any case, on the presumption that the less happy people in the rich countries are relatively few in number. For example, in the USA, the proportion of people reporting that they feel 'not too happy', which is the bottom of the three-step Likert scale, is about 1/6 (Clark *et al.* 2014). However, closer examination of psychological well-being in which diagnostic scales are instead used reveals a less rosy picture. In fact, almost 1/3 of the American population seems to suffer from clinical and subclinical symptoms of mental illness (Keyes 2002). Even the category of happiest people seems to be not well-grounded in psychological well-being. If more precise questions on people's full functionings are asked so as to build an index of flourishing, as discussed in 4.3.4, in a large sample of the European countries only 7 per cent of people are both flourishing and high in life satisfaction, while people who report only high life satisfaction are 19 per cent (Huppert 2009).

6.2.2 Trends in mental ill-being

Since the indices of subjective well-being, that is, self-reported happiness and life satisfaction, exhibit some weaknesses (see 1.3.2, 4.4.4, and 6.2.1), other indices may be useful as checks. The indices based on the symptoms of mental illness can be fruitfully used because they capture prevalent or recurrent feelings of well-being, and because they are significantly (and negatively) correlated with subjective well-being (Layard and Clark 2014). Although the data have some limitations due to the definition and detection of mental illness over time, these more 'objective' indices point in the same direction as the subjective ones.

In regard to the USA, the psychologist Jean Twenge and her co-authors offer several studies and meta-analyses on the rise of different forms of mental problems among college students and children in recent decades. The most comprehensive survey shows that the bulk of the studies examined found evidence of growing mental depression, while few of them found 'no evidence'. A cross-temporal meta-analysis considered the Minnesota Multiphasic Personality Inventory (MMPI) to measure the psychiatric symptoms and found that 'the MMPI clinical scale scores of American college students rose steadily between 1938

and 2007', including the subscale on depression, and that '[h]igh school students increased in self-reports of psychopathology between 1951 and 2002' (Twenge *et al.* 2010a).

Other studies have investigated the frequency of mental depression among American adults. An increase in this illness has been found for the period 1950–90 (Fombonne 1995), while there seems to have been no rise thereafter (Kessler *et al.* 2005). This turn may be due to the use of antidepressants, which almost doubled from 1996 to 2005 (Olfson and Marcus 2009). Indeed, if more general mental problems are measured as self-reported disability due to psychological distress and illness, the non-elderly adult population exhibits a rising trend from 1997 to 2009 (Mojtabai 2011).

Less serious but more widespread psychological problems can be revealed by observing such symptoms as 'having trouble getting to sleep', 'getting more headaches than most people', not feeling 'in very good physical condition', or feeling regret at how life has been organised. All these symptoms seem to have worsened between 1985 and 2005 for both American men and women (Herbst 2011).[1]

In the case of the UK, the trends of mental problems for both young and adult people appear similar to those of the USA (Layard and Clark 2014). In particular, recent studies have taken up the alarming early results and extended the analysis backwards to the post-world period (Rutter and Smith 1995), and by strengthening the methodology for the most recent years. It has thus been found that teenage children of all social classes experienced emotional and conduct problems almost twice as frequently in 1999 than in 1974 (Collishaw *et al.* 2004).[2] A similar spread emerged for depression and anxiety among British youths in the period 1986–2006 (Collishaw *et al.* 2010).

The General Health Questionnaire (GHQ) has been often used to capture subclinical symptoms. The GHQ is based on questions such as: 'Have you lost much sleep over worry?', 'Felt you are playing a useful part in things?', 'Felt constantly under strain?', 'Been losing confidence in yourself?'. If applied to British adults, the composite GHQ index shows a statistically significant deterioration from 1991 to 2004 (Oswald and Powdthavee 2007).

The data for Australia are rather scarcer – and for West Germany they are practically non-existent – if the trend of mental problems is to be studied. The change of psychological distress among Australians, measured by change in the symptoms of depression, anxiety, irritability, and nervousness in the past month, was found to have increased in men aged 20–29 years between 1995 and 2004 (Jorm and Butterworth 2006).

Consequently, there is growing empirical evidence, especially for the USA, that mental problems increased in a period of substantial economic growth. The rapidity and variability of the phenomenon suggest that the origin was not solely genetic.

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6.2.3 Trends in suicides

Suicide is the extreme act of ill-being. Since it is fortunately a rare phenomenon, although representative of the more common phenomena of attempted suicide and self-harm, it should be considered with caution. Nevertheless, the evidence shows striking results.

In the USA, the suicide rate among youths aged 15–24 tripled from 1950 to 1990, and for every youth suicide completion there were nearly 400 suicide attempts (Cutler *et al.* 2001). After the peak in 1994, the rate declined significantly, but it started to rise again in 2001 for women, and in 2007 for men (McKeown *et al.* 2006; Sullivan *et al.* 2015). The recently Nobel laureate Angus Deaton and his co-author raised the alarm that the suicide rate among the population group of white non-Hispanics aged 45–54 steadily increased by the astonishing figure of about 50 per cent from 1999 to 2013, that is, starting from well before the financial crisis (Case and Deaton 2015).

In the UK, the suicide rate among men aged 15–24 doubled from 1950 to 1992, while that of young women only slightly increased (Gunnell *et al.* 2003). The decline that followed seemed to cease in the mid-2000s (Hagell *et al.* 2013). In Germany, the suicide rate of both young and adult population declined from 1990s after starting from high levels relatively to the other Western European countries (Pritchard and Hansen 2005). However, from 2007 to 2010, the trend may have reversed (Hegert *et al.* 2013). The pattern appears rather similar for Australia if one considers the raw figures (Australian Bureau of Statistics 2015). Also in the case of the decline of suicides, the use of antidepressants may have had a role, as some evidence suggests (Gusmão *et al.* 2013; Hall *et al.* 2003).

6.3 A Scitovskian explanation

6.3.1 How economic growth may weaken life skill through inadequate parenting

People's life skill starts to develop during infancy and childhood, when the family and, in particular, parenting play a crucial role. It is now an established fact that children are not born either as 'blank slates' or as completely pre-programmed in their development, so that good parenting means providing them with adequate conditions of safety and stimulation. In this way, children can fully develop their initial skills, understand their relations with others, learn, and explore the unknown. Parents should mediate the familial and economic conditions, as well as the social context (see 3.4.1, 3.4.2, and 4.4.1).

Economic growth, together with cultural evolution, has provided important opportunities for good parenting: new consumption goods for children's education and health, female employment for more family income, and more education for parents. These opportunities, however, may have perverse effects on children's development, such as reduced educational time and unhealthy consumption. Let us disentangle these different components.

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The increased possibility of parents to buy goods for children makes the substitution of parental time with working time more convenient (Scitovsky 1995 [1991]: 213–15). This fact may undermine adequate parenting because the educational time directly devoted to children is important for their healthy development. Scitovsky provided the efficacious example of parents 'plant[ing] their child in front of the TV screen just to keep it quiet' (Scitovsky 2000: 49). The main reason for this substitution is that the increased possibility to buy goods is due the growth of labour productivity in market production, whereas time devoted to parenting with children remains difficult to shorten without compromising its quality. In fact, adequate parenting is time-consuming because parents must learn to understand and satisfy their children's needs in accordance with their development (see Appendix to Section 6.3 for a modelling of these aspects).

The substitution of parental time with working time as triggered by economic growth is an application of an economic law that today is known as Baumol's 'law of cost disease' (Baumol 1967). Indeed, Scitovsky anticipated this 'law' in an article written with his first wife (Scitovsky and Scitovsky 1959–1960). This 'law', as presented by Baumol, states that the service sector, relatively to the industrial sector, exhibits increasing prices because its productivity increases relatively less, while wages tend to grow at the same rate in both sectors. Baumol cited the example of the Mozart String Quartet as a music service with apparently no productivity increase. In our case, the service sector is parenting, with the opportunity-cost of not working, and the industrial sector is the comprehensive market sector which employs parents and produces goods for children.[3]

The substitution of parental time with consumption goods for children is further encouraged by another mechanism: the force of attraction exerted by industrial products on children. While the importance of parental time declines with children's age, the attraction of products increases with their age. The goal of producers is to sell products, while making parenting more effective with the help of their products is instrumental to that goal, so that producers can use other means instead. The most frequently used means is to persuade children with advertising; the supporting means is the launching of new fashions, so as to rely on children's imitation of their leading peers.

Therefore, the increase in the working time of parents, and especially of mothers, has two consequences. It reduces the available time that could be devoted to children, and it provides goods for children as substitutes which may be attractive but unhealthy.

The empirical evidence on these matters can be found in the economic, but especially extra-economic, literature. The results confirm the theoretical analysis, although not conclusively.

A correlational study extended to different countries and employing a large sample of individuals found that mothers' child-care time was negatively related with working hours, especially in the English-speaking countries (Sayer and Gornick 2012). More specifically, an econometric cross-sectional study for the USA found that parental time, defined as structured educational time with

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children, is negatively related with the working hours of mothers with middle-low educations. The increase of fathers' parental time is instead only partially compensatory (Hsin and Felfe 2014).

Economic and cultural progress has given parents a better understanding of the value of good parenting. They consequently attempt not to reduce parental time in various ways: by reducing time for personal use, by opting for part-time work and parental leave if the regulations permit it. Other options are formal child care and the help of grandparents, but these are of more ambiguous quality.[4] Unfortunately, the production of these services is again subject to Baumol's law.[5]

The importance of parental time for children has been largely confirmed for children's cognitive and socio-emotional skills. This is particularly true for the first year of their age, because time investment cannot be easily substituted at later ages, and because it offers lasting benefits, particularly for non-cognitive outcomes (Neidell 2000; Del Bono *et al.* 2014; Hsin and Felfe 2014).

An especially attractive but risky market product for children that competes with parental time is television viewing. A correlational study which used a representative sample of the US population found that time spent viewing television by children aged 0–12 without a parent present was negatively related to time spent with parents in other activities. In particular, television viewing seems to substitute children's creative play activities, such as drawing and playing music (Vandewater *et al.* 2006). This latter result confirms the finding of an earlier study on the natural experiment in which the introduction of television reduced the creativity scores of children (Williams 1986).

Television viewing is risky for children mainly because of the advertising of unhealthy foods full of fats, salt, and additives. A review of the empirical studies on this problem concludes that the exposure of children to advertising predicts their consumeristic propensity, but with a small to moderate impact (Buijzen and Valkenburg, 2003). However, some experimental and longitudinal studies have strengthened this conclusion by providing favourable evidence on causality (Opree *et al.* 2012, and citations therein).

The harmful consequences of television viewing for children are still under study, but some indications are already available. For example, the evidence on the effectiveness of advertisements in influencing children's food choices and making them overweight is not conclusive, but it seems substantial (Lobstein and Dibb 2005; Rashad *et al.* 2005). A psychology study has found that, while the exposure of 4–6-year-old children to storybooks substantially predicts the development of their ability to understand human mental states, the prediction regarding their exposure to television is insignificant (Mar *et al.* 2010; see also Fiorini and Keane 2014). A longitudinal study has concluded that the adverse effects of television viewing before the age of three on the subsequent cognitive development of children are significant but modest (Zimmerman and Christakis 2005). Another longitudinal study identifies the effect of anti-social behaviour in early adulthood (Robertson *et al.* 2013). These results are consistent with the change in the brain structure observed in adolescents after heavy television viewing (Takeuchi *et al.* 2015).

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Fortunately, active mediation involving parental discussion about advertising seems rather effective (Buijzen and Valkenburg 2003; Buijzen *et al.* 2007). By contrast, authoritarian parenting seems to contribute to the unhealthy diet and overweight of children (Scaglioni *et al.* 2011).

The quality of parenting and the reduction of parental time vary across cultures and traditions, institutions and economic conditions (Sayer and Gornick 2012; Roeters 2013). However, it is evident that: 'highly educated women are the most capable of preventing work from interfering with childcare responsibilities' (Hsin and Felfe 2014). In fact, highly educated mothers devote more time to their children, as if they value this time more than simple leisure (Guryan *et al.* 2008). Psychological studies further show that good economic conditions and high levels of education of parents play a favourable role in strengthening children's self-esteem and security, and then in helping them to avoid 'materialism' (Chaplin *et al.* 2014). 'Materialism' will be discussed in 6.3.2, but a concrete example of the importance of educated mothers is that overweight and obese children are less frequent, *ceteris paribus*, when mothers are highly educated (Monheit *et al.* 2007; Baum and Ruhm 2007).

Nevertheless, the attained education of parents, mothers' employment, and household income do not necessarily imply adequate parenting. For example, although highly educated mothers have devoted relatively more time to their children at increasing rates during the most recent decades, both highly and less educated mothers have devoted *less* time to their younger children, that is, under five years of age, over the same period in the USA. The reason is that parents devote more time to older children in order to prepare them for college admission. The competition for college places has become in fact extremely fierce in the USA (Ramey and Ramey 2010). A second example is provided by an economic study that has found negative effects on adolescents' cognitive development due to their mothers' employment, even in families with advantaged socio-economic conditions (Ruhm 2008). Third, an econometric study warns that parental time is more important for children's quality (measured in word scores), than household income (Del Boca *et al.* 2014).

Therefore, parental ability should be included in parents' life skill, so that their pursuit of the children's healthy development pertains to the pursuit of the development of their own life skill. Scitovsky even claimed that no reciprocity is involved in the parents/children relationship (see 4.2.2), so that parents enjoy the intrinsic motivation to be good parents, and, in doing so, their children's development receives positive externality.

However, two unequal forces in the field of children's education oppose each other. On the one hand, producers should maximise profits by supplying consumption goods to children, and if they fail they exit the market. Any means will thus be tried to avoid failure, including the increasing supply of innovative products. On the other hand, parents should maximise the healthy development of their children, but if they fail no sanction is normally expected. Parents may even spoil the lives of their children without being deprived of the possibility to persevere with other children. In fact, there is no market for parenting, that is,

children cannot choose their parents; nor do they have the time to induce their parents to learn the necessary ability because consumption goods are largely available to promise a secure compensation.

The opposition of these unequal forces triggers further divergence because of the intergenerational transmission of parent's inadequacy. In Scitovskian terminology, this means the transmission of the preference on the two pathways to well-being, that is, the comfort and the creative activity pathways (see Chapter 4). If some bias arises towards the comfort pathway because of the substitution of parental time with working time and because of producers' pressure, then this bias will tend to persist across generations, and to be amplified through imitation.[6]

Various streams of empirical research support this perspective. Studies in consumer research focus on the effects of the 'materialistic' characterisation of parenting, as based on material rewards and punishments, even if possibly associated with the intent to be warm educators. Children brought up with this type of parenting, according to retrospective information, report higher scores in 'materialism' when they are adults. The second interesting finding is that these children thus brought up also report a lack of confidence in social relationships. In parallel, those adults who experienced parental rejection report a lack of self-confidence (Richins and Chaplin 2015; Chaplin and John 2010).

Therefore, parents' education together with healthy products for children are the opportunities made available by economic growth in order to improve children's development. But contrasting forces may severely impair the skills necessary to exploit them.[7]

6.3.2 How economic growth may weaken life skill through job insecurity

Economic growth is not a smooth process because of the 'creative destruction' due to technological change, and because of fluctuations. This fact is a source of uncertainty that the population mainly perceives through the labour market. Indeed, work arrangements have become more flexible in the most recent decades, and they progressively respond to the increasing globalisation of markets. A new workforce has entered the labour market, not only women, but especially unskilled labour from the emerging economies. As a consequence, finding and maintaining a job, at least in the advanced economies, has become more difficult, and people experience the insecurity of maintaining the economic conditions that they have just achieved. The natural reaction of self-preservation induces people to restrict the horizon of their aspirations to their material conditions, and to limit it to the short term. Consequently, comfort increasingly becomes an attractive goal, despite the greater opportunities available for creative activity.

Scitovsky anticipated the problems related to job insecurity in a report on inflation and unemployment that he wrote with his first wife Anne for the Commission on Money and Credit (Scitovsky and Scitovsky 1964). He also observed

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the insecurity hidden in habits (see Chapter 5), thus explaining that people's reaction of self-preservation is intended not only to remain above the subsistence economic level but also to avoid falling back from current levels.[8] However, Scitovsky was overly optimistic when he observed that: 'social, economic, and scientific progress in modern society have [...] greatly increased physical safety and economic security' (Scitovsky 1986 [1981]: 129).[9]

The modern literature confirms the severity of the problem of job insecurity and its harmful consequences on people's well-being and internal resources. A first way to measure job insecurity is to use the (inverse of the) ten-year job retention rate. This proxy shows a decline in the private sector of the USA from over 50 per cent to below 40 per cent, despite the great expansions of the 1980s and 1990s, while in Japan it remained at around 70 per cent (Kambayashi and Kato 2012). The reduction of job security in the USA was questioned (Gottschalk and Moffitt 1999), but a clearer picture emerged on distinguishing between the drop experienced by men and the increase experienced by married women, who, however, took up less stable types of jobs in 1983–2008 (Hollister and Smith 2014). Also in Germany, where employment protection is stronger, job security, in terms of layoffs rather than voluntary quits, declined also in the years before the recent crisis (Bergemann and Mertens 2011). In the UK, job security increased before the recent crisis, but it has since diminished (Green 2009).

Not only job security but also job intensity and job effort seem to have worsened. Job intensity, in terms of pressure and speed, increased in fifteen European countries between 1995 and 2010 (Green *et al.* 2013). Job effort increased after the 1980s in the UK, and through the 1990s in the EU, Australia, and the USA (Green 2007). It is unlikely that this change of intensity and effort was due to voluntary action by workers, because their job satisfaction seems to have declined, at least in the USA (Blanchflower and Oswald 1999). More precisely, job insecurity seems to have weighed most on the decline of job satisfaction, thereby offsetting the slight increase of satisfaction due to better quality equipment, which is surprising after the jumps in the performance of computers (Conference Board 2014).

Job insecurity derives from job flexibility, but also from the fear of job loss, so that general unemployment matters also for the employed. Indeed, subjective well-being drops not only in the case of job loss but also if the general unemployment rate increases (Luechinger *et al.* 2010; Calvo and Mair 2013).

These tendencies are awkward, because they reveal that the opportunity given by economic growth to improve the conditions of work in all its aspects and jobs is far from being satisfactorily exploited, and that troubles for overall well-being may arise. Again the available evidence is not comforting. In fact, it has been found that job insecurity has a causal negative effect on health in twenty-two European countries (Caroli and Godard 2014), as well as on health satisfaction, (reported) mental health, and life satisfaction in Germany, even after controlling for unemployment (Otterbach and Souza-Poza 2014; Geishecker 2010).[10]

The channel through which job insecurity and dissatisfaction affect well-being can be better understood by considering a number of studies in neuroscience,

medicine, psychology, and management, besides economics. In fact, high cortisol, sleep disturbance, anxiety, depression, and low self-esteem seem to be involved (Ganster and Rosen 2013; Cottini and Lucifora 2010; Faragher *et al.* 2005).

The problem of job insecurity brings other problems back to education. This is because parents increasingly struggle to enrol their children at those schools and colleges that prepare them better for the labour market. Scitovsky predicted these changes, and identified worrying consequences for the possibility of children to develop their aptitudes and talents. First:

> competition for [...] prestigious jobs is creating an excess supply of skilled personnel, which not only depresses the extra earnings to be had for extra skills, but also leads to unnecessary upgrading of skill requirements. As a result, many people find themselves overtrained for the job they get.
>
> (Scitovsky 1992 [1976]: 230; see also 1986: Ch. 11)

Today, this problem has often been called 'overeducation'. Its depressive effect on labour earnings has been found by several studies, but not without some contrary results (Groot and van den Brink 2000; McGuinness 2006). Some empirical basis has been also provided for the depressive effect of 'overeducation' on well-being (Bender and Heywood 2009 for the USA; Piper 2012 for the UK; Haisken-DeNew and Kleibrink 2013 for Germany; and Fleming and Kler 2008 for Australia).

The second problem is the crowding out of humanistic studies and general culture, which best prepare students to explore and understand creative activity. As Scitovsky put it:

> there is plenty of evidence that the profound changes in the curriculum of our schools and colleges in the 1910's and 1920's were greatly influenced by the needs of industry and business. Even since then, economic forces have continued to press for the progressive crowding out of a liberal, humanistic education by the requirements of science and technology.
>
> (Scitovsky 1992 [1976]: 229)

This problem has been debated by some authors along Scitovsky's lines (Nussbaum 2010). It has been already introduced in subsection 4.4.3, and it will be resumed in the discussion on policies in subsection 8.3.3.

6.3.3 The substitution of creative activity with comfort, and the vulnerability of well-being

Having failed to enjoy the full development of aptitudes and talents during childhood, having struggled for a job, possibly after a very costly education, having formed a family with the risk of not being able to guarantee a future for children, then people become irresistibly tempted to search for immediate and secure

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relief in consuming the fantastic goods offered on the market. Unfortunately – this is Scitovsky's conclusion – these people 'end up with a feeling of emptiness and boredom' (Scitovsky 1996: 599), a feeling of 'void' (Scitovsky 1992 [1976]: 289).

How many people have this experience is difficult to say, but a specific and established finding in the Economics of Happiness is striking: the decrease of subjective well-being in young people until the age of forty before a certain rise at an older age.[11] An explanation seems to be that young people are deflated by over-aspirations, while older people take comfort from under-aspirations (Schwandt 2016). A lifelong adjustment in goals-setting seems to have taken place.

Economic growth does not make things easier in the long run. The reason is that while 'we have greatly increased the effectiveness of labor power in producing comfort [...] we have not managed to increase the effectiveness of human imagination in producing novelty' (Scitovsky 1992 [1976]: 259). Consequently, comfort becomes more convenient with respect to creative activities. In this case too, Baumol's law is at work.

Scitovsky further observed that market goods for comfort are especially convenient because they are often produced with large economies of scale, while the production of goods for creative activity is rather specific; they are thus produced at high costs or not produced at all (Scitovsky 1992 [1976]: 289, 1962: 265). This observation relies on differentiation between goods for the two options, and it refers to the age of mass consumption when computer technology was not yet fully developed. It seems an outdated argument, but new and stronger ones may be adduced. For example, the globalisation of information that accompanies the globalisation of markets induces customers to concentrate their demand, so that the so-called 'winner-take-all markets' may proliferate (Frank and Cook 1995).

But what is wrong with the attempt to follow the 'comfort pathway' to well-being? After all, the choice of comfort gives what this promises, that is, immediate and relatively certain satisfaction. Successful people in education may earn sufficient income also to attempt the 'creative activity pathway'. Richer people are happier than poor people, after all.

Even Scitovsky, despite the assertiveness of the title of his book, was rather cautious in directly comparing the levels of satisfaction obtained from different sources (e.g. Scitovsky 1992 [1976]: 215). His analysis shows that the difference between the two pathways consists in a differing vulnerability to external shocks, so that the long-run and dynamic perspective should be considered.

Scitovsky's arguments, as discussed in the previous chapters, state that the persistent pursuit of comfort is vulnerable to negative internalities and negative externalities (see the Appendix to Sections 6.3 and 6.4 for a formalisation of these arguments). The ultimate reason for the vulnerability of comfort is that it tends to rely entirely on external resources to support well-being. Instead, successful creative activity essentially relies on internal resources, that is, the life skill, which can be self-sustaining.

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More precisely, comfort becomes vulnerable to negative internality when the behaviours aimed at achieving it become habits (see 5.2.3). There is nothing wrong with habits in themselves, because they can be extremely useful in speeding up actions. Vulnerability arises when these actions are not instrumental for other behaviours and aims, but final to the achievement of satisfaction. In this case, the psychological phenomenon of 'adaptation' reduces the satisfaction, and the individual takes the new condition to be normal, thus becoming fearful of losing it. But comfort is not designed to increase internal resources, that is, life skill, so that habit makes the individual more dependent on external resources.

This may be not a problem as long as the external resources are available and have no harmful feedback effects. Problems arise when the lack of life skill and of interest in creative activity gives rise to the feeling of emptiness and boredom. In this case, routine behaviours, although pleasant, are not sufficient, and exciting behaviours are needed to relieve boredom. Sensation-seeking behaviours thus become attractive, even if the risk of harmful effects may be fully known. This is the trigger of falling into the trap of harmful addiction.

Harmful addiction is not necessarily drug addiction, for it includes many addictions, such as the behavioural ones, which do not require any intake. It is in fact sufficient for the addictive behaviour to put the individual at risk of mental and physical damage, even at subclinical level. Thus conceived, addiction may be a rather widespread phenomenon, as evidenced in 5.4.2.

Heavily addicted individuals clearly represent the case in which the motivation is to achieve a well-defined goal, the pursuit of which is considered only a cost, and the final outcome is self-destructive. The fact that these individuals escape from boredom and internal emptiness is less evident, but a book-length study on the psychology and sociology of addiction clearly indicates the antecedents of addiction as follows.

> The family backgrounds of people who have become addicted to alcohol and drugs are frequently marked by child abuse, incest, exclusion from mainstream society, debilitating poverty, parental delinquency, family breakdown, too much or too little parental control, failure of secure attachment in childhood, and overdependence of parents on offspring.
>
> (Alexander 2008: 154)

6.4 Beyond the Easterlin paradox

This section shows that Scitovsky's approach to well-being is able to provide a comprehensive explanation of the Easterlin paradox, which has been introduced in 1.3.4, so that the most popular explanations provided in the Economics of Happiness can be seen as special cases. Scitovsky's approach takes a broader perspective for three main reasons: it provides a unifying account of the conventional explanations of the Easterlin paradox, that is, relative income, adaptation, and unrealised material aspirations; it is not necessarily restricted to subjective

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well-being; and it is able to predict a flat or increasing or decreasing trend in well-being over time.

6.4.1 Beyond the relative income hypothesis

The most popular explanation of the Easterlin paradox refers to a social negative externality (see 1.3.4). According to this explanation, which has been called the 'relative income hypothesis', people attempt to climb the income ladder, because they value their relative income rather than their absolute income. If all of them are involved in this race, their income may grow, but their happiness may not do so because of the negative externality exerted by others, while richer people remain happier than poorer ones (Clark *et al.* 2008).

The relative income hypothesis is usually regarded as so common and systematic, at least according to the Economics of Happiness, that it can be taken as given. Some heterogeneity among people has been recently recognised (Clark and Senik 2010), but comparison with others appears to be applicable to every human behaviour, and not just to income and consumption (Clark 2011; Frank 1999).

Scitovsky instead advanced the idea that comparing consumption with that of others – which may be related to Veblen's conspicuous consumption – is not an exogenously given behaviour. Having distinguished comfort from creative activity on a motivational basis, Scitovsky linked consumption for comfort to what others consume, and consumption for creative activity to the development of people's life skill. By choosing comfort rather than creative activity, people heighten the importance of comparison consumption (see e.g. Bowles and Park 2005), and weaken the development of their life skill, which is linked to others, but with positive externality.[12] Consequently, people's satisfaction from comfort will tend to stagnate, as Easterlin predicted, and satisfaction from creative activity may even diminish.

If comparison consumption becomes a form of addiction, then things worsen further. In this case, social competition becomes overwhelming, education increases its aspect of status acquisition, and the stagnating satisfaction from comfort turns into anxiety due to addiction.

On carefully considering Scitovsky's approach, one can identify a new kind of possible social negative externality: that exerted by caregivers on children. Inadequate parents, as defined in 6.3.1, may be inadvertently such because they are convinced that comfort is the most effective pathway to well-being, or because they attribute educational difficulties to external economic or family conditions.

Inadequate parents instead bear responsibility for compromising their children's healthy development. Specifically, according to the 'attachment approach', children may become either 'anxious', that is, gregarious with others but distrustful of themselves, or 'avoidant', that is, focused on themselves and distrustful of others (see Section 4.4.1). In the former case, anxious people are harmed in their well-being by their tendency to social comparison, because

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anxiety is a facet of neuroticism, and it is associated with depression. Supporting evidence in this regard is provided not only by psychology (Noftle and Shaver 2006) but also by the Economics of Happiness (Budria and Ferrer-i-Carbonell 2012; Clark and Senik 2010; Proto and Rustichini 2013). In the case of 'avoidant' attachment, which is typical of *homo economicus*, well-being is compromised by distrust. As amply demonstrated, general trust in others is a strong predictor of happiness (Helliwell and Wang 2011), and it has deteriorated in the most recent decades in the USA (Robinson and Jackson 2001; Bartolini *et al.* 2013).

Therefore, the Scitovskian explanation of the Easterlin paradox, and, more generally, of the possibility that people's well-being tends not to grow with income is based on the insufficient development of their life skill, of which social skill is a key ingredient (Pugno 2009, 2013). Fortunately, people are heterogeneous in this regard because parental ability is heterogeneous across caregivers.

The focus on life skill thus enables Scitovsky's approach to introduce some autonomy of the individual from the contingent social context, and it links the choices of the individual to her experience, especially her intimate social experience. In this sense, the explanation of the Easterlin paradox provided by Scitovsky's approach is original even with respect to those studies that have recently acknowledged the crucial importance of social relationships (or social capital) for people's subjective well-being.

According to these studies, social relationships are enjoyable because people simply share time and connections together, while economic growth would subtract time and deteriorate social connections because of the necessities for the production of market goods (Antoci *et al.* 2008; Bartolini and Bonatti 2008). These explanations are additive, because economic growth may have negative effects on social relationships by making time, connections, as well as people's life skill lacking. In certain cases, however, social relationships may worsen because their quality, which can be captured by life skill, is poor, while the amounts of time and connections may even increase.[13]

6.4.2 When is adaptation so strong?

The second common explanation of the Easterlin paradox in the Economics of Happiness refers to hedonic adaptation (see 1.3.4), also called 'habituation' by economists. According to this explanation, growing income enables people to expand consumption, but this achievement has a temporary hedonic effect because people habituate.

Scitovsky's approach, however, suggests that this is not always the case, because consumption can be used for different purposes, with consequent different rates of adaptation. Consumption used to undertake creative activity, that is, the exploration of challenging novelties, involves prolonged excitement and satisfaction. This is due – according to psychologists – to the fact that novelty takes time to be fully understood, that is, integrated with already-existing

knowledge. By contrast, consumption used for the repetitive purpose of achieving comfort attracts far less attention, and hence interest, after the achievement of comfort (Wilson and Gilbert 2008).

Scitovsky's approach further explains that successful creative activity reinforces the motivation to pursue it again, and that the pursuit itself is exciting. By contrast, the pursuit of comfort is costly. Therefore, people with low skill to appreciate creative activity, that is, life skill, are more subject to hedonic adaptation because they choose the 'wrong' option (Hsee *et al.* 2008).

6.4.3 Why are material aspirations excessive?

A further explanation of the Easterlin paradox is based on the argument that people maintain material aspirations over and above what they are able to achieve, thus being recurrently frustrated (see 1.3.4). This is a form of negative internality because people attempt to realize their aspirations by working more and consuming more, but they do not consider that they also increase their aspirations, with a negative feedback on their (economic) satisfaction.

This explanation, however, suffers from the restrictive assumption that people do not learn from errors in forming their material aspirations. Scitovsky's approach is able, by also taking this explanation into consideration, to account for why people persist in their errors: if people are unable to enjoy the experience of creative activity, thus failing to learn and realize their potential, they are induced to compensate by pursuing unrealistic conditions of material possessions and social recognition. These conditions are unrealistic because their lack of life skill makes it difficult to know and to evaluate their own capacities in relation to idealised goals.

The available evidence in support of single aspects of this interpretation is illuminating, although a comprehensive test has yet to be performed. The preliminary distinction between the pursuit of comfort and the pursuit of creative activity is well captured by a psychology study which examined eleven goals of a sample of almost 2,000 students living in fifteen countries around the world. The study found that these goals cluster into two distinct groups: one includes the importance of money and appearance, called 'materialistic goals', the other includes the importance of feeling competent and autonomous, of having satisfying relationships with the family and friends, and of feeling socially engaged. This clustering is very similar in rich and in poor countries (Grouzet *et al.* 2005).

The hypothesis that the materialistic goals predict less well-being than the other cluster of goals has been investigated by several studies in psychology and consumer research. A meta-analysis of correlational studies, which considered 259 independent samples, found a significant and sizeable association between the importance attached to materialistic goals (relatively to the other cluster), and negative self-appraisals.[14] The correlation with life satisfaction and negative affect is however much weaker. Both per capita GDP and personal/household income are surprisingly insignificant moderators (Dittmar *et al.* 2014). Longitudinal and causal studies, based on experiments, have refined this result by

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finding that changes in the importance of materialistic goals predict changes with the opposite sign of well-being, as measured in various ways. In particular, a study conducted in Iceland during the recent financial crisis found that the importance of materialistic goals rose on average, thus predicting a reduction of well-being. However, a significant part of the interviewed people had the reverse experience of reducing the importance of materialistic goals and increasing well-being. This fact suggests that the pursuit of comfort is not necessarily the result of reduced material resources (Kasser *et al.* 2014, and citations therein).

The positive aspects of materialistic motivations have been also investigated, but with poor results. A meta-analysis has found that people may be effective in compensating for some threat to their self-confidence (e.g. 'I am an exciting person') by choosing appropriate products (e.g. choosing brands with exciting brand personalities). However, the positive effects of this and similar compensations – thus the review concludes – were situational driven and seemed to be short-lived (Shrum *et al.* 2014).

The shift to materialistic goals from the other, more social, and self-challenging ones can be observed in two types of studies: one focuses on the trends in some relevant indicators; the other attempts to ascertain the excessive use of some typical materialistic consumption.

A body of evidence shows that the relative importance of materialistic goals for US adolescents increases from the 1970s until the mid-2000s, although there has apparently been a plateau in the recent years of economic crisis (Easterlin and Crimmins 1991; Twenge *et al.* 2010b; Park *et al.* 2014). More specifically, other evidence shows that US adolescents tend to maintain excessively ambitious goals. For example, their educational and occupational plans were found to increasingly outpace what they were likely to achieve, so that the positive association between educational plans and attainments declined, at least between 1976 and 2000 (Reynolds *et al.* 2005). A similar indication derives from the combination of two evidence: the marked rise in narcissism and assertiveness among US adolescents, at least between 1982 and 2004 (Twenge *et al.* 2008), and their increasing belief that their lives are controlled by outside forces rather than by their own efforts, at least between 1960 and 2002 (Twenge *et al.* 2004).

Social and self-challenging goals seemed to have declined in the USA according to the evidence on social capital (Putnam 2000; Costa and Kahn 2003; McPherson *et al.* 2006; Bartolini *et al.* 2013), and also on 'creative thinking'. This latter is a much broader concept than artistic thinking, since it includes the creative aspects of everyday thinking. If creative thinking is measured by the Torrance Tests for some samples of students (of thousands of units), the results show that, after 1990, the ability of younger children (kindergartners to sixth graders) to produce many and unusual ideas significantly decreased, and that they became less imaginative, less unconventional, less lively, and passionate. If applied to the general population, these tests show that, after 1984, the ability to elaborate upon ideas, and the motivation to be creative has declined (Kim 2011).

The excess of materialistic consumption is difficult to test, but specific studies on television viewing and eating provide some indications. A recent study has

examined the materialistic character of television viewing, measured by the relative importance attached to valuable personal possessions like real estate and expensive cars, and to all opportunities to earn money. On the basis of the natural experiment of Germany's reunification, the study concludes that television has a causal effect on increasing people's material aspirations (Hyll and Schneider 2013). Some other studies (Frey *et al.* 2007; Benesch *et al.* 2010) have found that people are dissatisfied with their choice when they heavily view television. The detrimental effect of heavy television viewing on subjective well-being has been explored, with the finding that social life may be crowded out (Frey *et al.* 2007; Bruni and Stanca 2006, 2008).[15] Nevertheless, the time spent watching television rose substantially and progressively, at least in the USA, from the mid-1980s to the mid-2000s (Aguiar and Hurst 2008). The use of other modern media, such as social media, seems to have similar negative effects (Kross *et al.* 2013; Sabatini and Sarracino 2015).

In the case of eating, the excess of materialistic consumption can be measured by overweight and obesity. The literature is ample, and interesting results are found, although not always conclusive. First, it seems that some problem of self-control has been detected in overeating (Stutzer and Meier 2015; Downs *et al.* 2009). Second, economic insecurity seems to aggravate the problem (Offer 2006; Wisman and Capehart 2010).[16] Third, a more ascertained result concerns the serious consequences for health, and the economic costs for the individual and society (Brunello *et al.* 2009; Cawley and Meyerhoefer 2012). Negative consequences for happiness have also been found (Graham 2011; Oswald and Powdthavee 2007). Nevertheless, the problem of overweight and obesity has become epidemic in the USA and many other countries (Cutler *et al.* 2003), although education seems to alleviate the problem to some extent (Sassi *et al.* 2009).

Therefore, the available evidence lends encouraging support to the idea that the explanations of the Easterlin paradox offered by the Economics of Happiness can be integrated into a unitary framework based on Scitovsky's insights. Unfortunately, this evidence is still fragmentary and heterogeneous, while an overall test would require an exceptional endeavour.

Notes

1 The duration of sleep, in particular, actually diminished among US adults, because 22 per cent of them slept under 6 hours per night in 1985, while the percentage in 2012 was 29 (Ford *et al.* 2015). This fact is unfortunate, because short sleep duration has adverse effects on mental and physical health (Heslop *et al.* 2002).

2 Depression and anxiety – observe Layard and Clark (2014) – are common among people in every social class, and even with different IQs.

3 Note that using a childminder does not solve the problem. Either she earns like the parent, so that substituting parental time with her service is not necessarily convenient, or she earns less, so that the quality of childminding is expected to be lower than the quality of parenting.

4 Formal child care seems to have some negative effects on children in Canada (Baker *et al.* 2008), but positive effects in Norway (Havnes and Mogstad 2011), and in Germany (Coneus and Sprietsma 2008).

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5 See Wolff *et al.* (2014) on the rise of educational costs in the USA and other countries as predicted by the Baumol's law.
6 This cumulative process was demonstrated in Pugno (2013).
7 The rise in people's education and in the possibility to acquire information worldwide and at low cost offer another opportunity: that of being able to mate better so as to guarantee stability during the children's early education. However, marital dissolution in the USA increased from the 1960s onwards, although the divorce rate has recently slightly declined (Martin 2006; Stevenson and Wolfers 2007). Unfortunately, according to recent research, children with divorced parents experience more unfavourable developmental outcomes than children of intact families and they are at more risk of divorce (Amato 2010). The conflict in the family that precedes divorce seems to be the major cause (Piketty 2003), while divorce in itself may be even a relief for children when they grow up (Proto *et al.* 2010).
8 This reveals the psychological phenomenon of 'loss aversion', according to which 'the aggravation that one experiences in losing a sum of money appears to be greater than the pleasure associated with gaining the same amount' (Kahneman and Tversky 1979: 279). This phenomenon has been recently ascertained in the Economics of Happiness, since it has been found that life satisfaction is more than twice as sensitive to economic recessions as to expansions (De Neve *et al.* 2015).
9 Scitovsky was perhaps optimistic maybe because he did not witness the recent crisis. 'The high unemployment of the great depressions of the 1890s and 1930s – thus he stated – have not even been approximated to in recent depressions' (Scitovsky 1986 [1981]: 130).
10 The effects on health due to bad conditions in the labour market have been also observed in young people who graduate during recessions (Cutler *et al.* 2014).
11 By contrast, people high in engagement, interest, and desire to learn new things but low in life satisfaction, who are a minority, are found to be able to avoid this U-pattern (Clark and Senik 2011: Table 6; see also 4.4.4).
12 The development of life skill may also exert negative externality, because it may make more difficult others' endeavour to be original. In terms of the model of Section 3.3, the positive social externality is captured by $\bar{S}$ in equations 3.14 and 3.16; the negative externality may be present in χ, since this is measured as a social evaluation.
13 A striking example concerns the rise of the Nazi Party in Germany, which seems to have been preceded by an increase of social participation in civic organisations (Satyanath *et al.* 2013).
14 'Materialism' has been defined as 'a tendency to judge one's own success and that of others in terms of material possessions, a belief that acquisition leads to happiness, and the centrality of acquisition in a consumer's life' (Richins and Chaplin 2015: 1334).
15 Mixed conclusions are drawn by a recent survey on the social impact of the media, according to which:

> the expansion of television takes time away from activities that we tend to think of as having high value added: social interactions and participation in groups providing public goods. An opposite example emerges from the finding that releases of violent movies lower violent crime because they reduce the allocation of time to even more pernicious activities.
>
> (Della Vigna and La Ferrara 2015: 36)

16 It has been estimated, for example, that if economic insecurity is proxied by the frequency of real income drops in the past, then each additional year of income drop increases the weight of the typical individual by 5.5 pounds (Smith *et al.* 2007).

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7 Keynes's 'Economic possibilities for our grandchildren'

Scitovsky's suggested new interpretation

> 'Good morning,' said the little prince. 'Good morning,' said the merchant. This was a merchant who sold pills that had been invented to quench thirst. You need only swallow one pill a week, and you would feel no need of anything to drink. 'Why are you selling those?' asked the little prince. 'Because they save a tremendous amount of time,' said the merchant. 'Computations have been made by experts. With these pills, you save fifty-three minutes in every week.' 'And what do I do with those fifty-three minutes?' 'Anything you like…' 'As for me,' said the little prince to himself, 'if I had fifty-three minutes to spend as I liked, I should walk at my leisure toward a spring of fresh water.'
>
> (A. de Saint Exupéry, *The Little Prince*, 1943)

7.1 Introduction

The famous 1930 essay by John Maynard Keynes titled 'Economic possibilities for our grandchildren' offers an exceptional opportunity to clarify the distinction between the roles of work and of leisure in Scitovsky's approach to well-being. The opportunity is manifold: first, an eminent economist posed the problem of the roles of work and leisure in people's well-being in an intriguing manner; second, some economists, including Nobel laureates, have recently reacted to Keynes's essay by harshly criticising it;[1] third, some key aspects of essay can also be found in Scitovsky; fourth, also Scitovsky brought criticisms against the essay, but he took a step forward in the analysis, thereby inspiring a new interpretation of the essay.

Keynes's 'Economic possibilities' has been called a *divertissement* (Skidelsky 1992), meaning that economists did not take it too seriously. However, it was also observed that Keynes started to write the essay three years before its publication, that he presented it several times, and that he revised it for the final version published in the same year as his *Treatise on Money*. Consequently, the essay can hardly be said to have been written on the spur of the moment. Nevertheless, it clearly has a different status from Keynes's regular articles and books: perhaps because it took 'wings into the future' (Keynes 2008 [1930]: 18)

It has been said that the essay advanced some long-term predictions, and some speculations about people's future lifestyles (Pecchi and Piga 2008). The

first prediction was a sustained trend of economic growth in the USA and Europe (Pecchi and Piga 2008: 3–6), while the second prediction was a decrease in working time to a few hours a day (Pecchi and Piga 2008: 6–8). People would therefore change their lifestyles because they would no longer be driven by the need to work. In Keynes's terms, the 'economic problem' of 'struggling for subsistence' would be 'solved' within 100 years (Keynes 2008 [1930]: 21). However, Keynes also argued that once the 'economic problem' had been solved, a second problem would arise – as evident from his question: 'Will this be a benefit?' (Keynes 2008 [1930]: 22). This second problem can be called the 'welfare problem', although Keynes did not use this expression.

Almost all economic commentators have regarded the first prediction as correct, but the second one as incorrect, because people today are already much more affluent but they still work long hours, and are even content to do so. Commentators slightly differ in regard to whether the economic problem is already solved, or whether it has even arisen at all. But most of them neglected the 'welfare problem' (Pecchi and Piga 2008; Skidelsky and Skidelsky 2013).

Although Scitovsky was writing forty years ago, he agreed with Keynes's idea that economic growth would be substantial; but he contested the idea that working time would diminish. He argued instead that people would work even longer hours. However, Scitovsky again agreed with Keynes that the 'welfare problem' would arise, and even that it was already present when he published *The Joyless Economy*. Scitovsky's position, in light of the previous chapters, is thus intriguing because it contributes to a debate that has been recently resumed, that is, the debate on individual welfare. This debate has been revived by the Economics of Happiness; and, in its turn, it may have stimulated the recent discussion around Keynes's essay.

A brief critical summary of this essay may be useful to fix the ideas (Section 7.2). Without claiming to demonstrate the 'true' interpretation of the text, it will be argued that Keynes's main aim was to introduce the 'welfare problem', while his guesses about growth and work were instrumental to that end. Indeed, introducing the 'welfare problem' in terms of an overabundance of leisure seems to have been an effective way to raise the problem.

By contrast, the main recent comments on Keynes's essay by economists will be considered in Section 7.3. The first issue concerns the level of 'subsistence', because its definition in absolute terms is a necessary condition for raising the 'economic problem'. In fact, if the level of 'subsistence' is relative, the income constraint may be always binding, and leisure will never be overabundant (see 7.3.1). Then, the reasons for Keynes's failure to predict the decline in working time are reviewed across the commentators (see 7.3.2). Finally, the neglect of the 'welfare problem' in recent comments is evidenced, although this was discussed in Keynes's essay (see 7.3.3).

Scitovsky's analysis emerges as a third way to interpret the prime driver of welfare, that is, whether it is work or leisure (see Section 7.4). This comparison with Keynes and with his commentators thus provides the opportunity to challenge Scitovsky's analysis, and to show that it could be further developed.

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7.2 Keynes's essay: from the economic problem to the 'welfare problem'

When Keynes delivered the lecture titled 'Economic possibilities for our grandchildren', the audience was surprised and perplexed because they heard arguments distant from their everyday lives, that is, amid one of the deepest economic depressions of history (Mas-Colell 2013). When we read Keynes's essay after more than eighty-five years, we find it intriguing because of a mixture of feelings. Indeed, we see very different worlds in each part of the essay, which is nevertheless only a few pages long: a world that might exist in the future, an idiosyncratic world of the past, but also an ambiguous world of the present. The idyllic future world where work will be no longer needed is mixed with the snobbish world of Bloomsbury, as well as with pride in modern technological advances and unease at being still far from a desirable human welfare.

The essay contains many elements that should be disentangled for its better understanding. Keynes started with the prediction that 'the standard of life in progressive countries one hundred years since [i.e. in 2030] will be between four and eight times as high as it is today' (Keynes 2008 [1930]: 21). In order to obtain his preferred estimate of eight times, he calculated the probable growth of the efficiency of the economy under the assumptions of 'no important wars and no important increase in population' (Keynes 2008 [1930]: 21).

Some commentators admired Keynes's ability to provide such an accurate estimate of actual economic growth, at least in regard to the USA and the UK (Ohanian 2008; Becker and Rayo 2008). But others pointed out that his assumptions about wars and population growth were wrong, and that his estimate of productivity growth was too conservative, so that the accuracy was rather the result of a fluke (Skidelsky and Skidelsky 2013; Zilibotti 2008). This does not imply that Keynes was not a growth theoretician ahead of his times, as evidenced by his discussion on the theory of growth with Harrod at the end of the 1930s (Pugno 1992, 1998; Besomi 1999). The interpretative hypothesis can thus be that Keynes's prediction was instrumental to move swiftly to the real subject of his essay, that is, the 'welfare problem' as discussed below, so that all the other conditions that he considered should be read in this light.

Keynes made the calculations by taking mainly the United States and Europe as references. Some commentators criticised Keynes for this restriction, and for ignoring the great inequality still persisting at world level. Nevertheless, it has been calculated that if current world GDP were divided equally among the entire population, 'each would have some $7,000, more than enough to bring everyone out from poverty' (Stiglitz 2008: 41). The problem of inequality, therefore, should be kept distinct from the economic problem (Solow 2008) because Keynes identified a problem that modern technology could already have resolved.

In using the expressions the 'struggle of subsistence' (Keynes 2008 [1930]: 21) and 'pressing economic care' (Keynes 2008 [1930]: 22), Keynes had in mind the absolute level of the standard of life, that is, independent from human history and place. This threshold divides the types of behaviour that people can

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undertake. Below it, people must attend to the survival of themselves and their species, as prescribed in 'the biological kingdom from the beginnings of life in its most primitive forms' (Keynes 2008 [1930]: 22). Above that threshold, people have the freedom to do something else. Keynes called exceeding that threshold 'solving the economic problem' (Keynes 2008 [1930]: 21). Therefore, he did not define the subsistence level in terms of things to put on a list, although the necessities may be objectively observed, but in terms of the possibility to exercise human choice.

In order to rise above the subsistence level, the efficiency of production of necessary things must grow, so that the time employed in this production can diminish and people can enjoy free time for human choice. On the basis of Keynes's estimates on economic growth, he drew 'the conclusion that [...] *the economic problem* may be solved, or at least within the sight of solution, within a hundred years' (Keynes 2008 [1930]: 21, emphasis in original).

Keynes then calculated the extent to which working time can diminish: '[t]hree-hour shifts or a fifteen-hour week may put off the problem for a great while. For three hours a day is quite enough to satisfy the old Adam in most of us!', meaning that 'everybody will need to do *some* work if he is to be contented' (Keynes 2008 [1930]: 23, emphasis in original). This estimate seems more an illustration of how the solution of the economic problem will emerge, rather than being Keynes's preferred prediction on actual working hours in a hundred years' time. In fact, Keynes introduced this aspect in a few lines well after he presented the 'economic problem', rather than before, as would be more logical. He even immediately anticipated and recognised the possibility that people have relative needs, which are insatiable.[2] Nevertheless, many commentators have concentrated their attack on Keynes's estimate of work in the future as his great mistake (see 7.3.2).

Keynes's estimate of fifteen hours per week of work included the minimum in order to solve the economic problem, but this did not imply that people may not work more than that minimum. 'Of course there will still be many people with intense, unsatisfied purposiveness who will blindly pursue wealth' (Keynes 2008 [1930]: 24). Therefore, Keynes distinguished work on the basis of the underlying motivations, and found only this latter type of work to be 'semi-pathological'. He clarified the point thus: '[f]or purposiveness means that we are more concerned with the remote future results of our actions than with their own quality of their immediate effects on our environment' (Keynes 2008 [1930]: 24). In other words, he wondered whether the motivation to work without need or interest in the present, but only for an indefinite future, was a sane motivation.

This observation lends support to the hypothesis that Keynes's main concern was the 'welfare problem' that would arise after the economic problem had been solved. '[T]here is no country and no people, I think, who can look forward to the age of leisure and of abundance without a dread' (Keynes 2008 [1930]: 23).[3] He saw three possible outcomes, which he vividly depicted as follows: 'a general nervous breakdown' (Keynes 2008 [1930]: 22); 'strenuous purposeful money-mak[ing]' (Keynes 2008 [1930]: 23); and 'cultivati[on of] the art of living' (Keynes 2008 [1930]: 23). In ordinary words, the first outcome means some

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degree of depression and anxiety, so that people's behaviour is somewhat altered. The second outcome well represents the behaviour of *homo economicus*, who intertemporally maximises profits and utility, rather than 'the enjoyments and realities of life' (Keynes 2008 [1930]: 23–24). Keynes acknowledged that this type of behaviour is useful for economic growth, but when the age of abundance arrived, he would instead regard it as unhealthy behaviour to be treated as 'mental disease' (Keynes 2008 [1930]: 24). The third outcome concerns the 'art of living', that is, 'valu[ing] ends above means [i.e. money] and prefer[ring] the good to the useful' (Keynes 2008 [1930]: 25).

Other works by Keynes, or rather individual passages in his works, should be considered in order to gain a better understanding of this third outcome. Careful inspection of these passages shows that by the 'art of living' Keynes meant the ability to solve 'the problems of life and of human relations, of creation and behaviour and religion' (CW IX: xvii, quotation reported from Carabelli and Cedrini 2013). By 'religion', Keynes further meant, following the thought of the philosopher George Moore, that: 'some general and abstract moral ends such as love, friendship, beauty, truth, knowledge are universally intrinsically desirable and ought to be pursued in any time and circumstance' (Carabelli and Cedrini 2013: 349). More specifically, the 'art of living' appears to be – in Keynes's words – 'feel[ing] ourselves free to be bold, to be open, to experiment, to take action, to try the possibility of things' (CW IX: xvii, quotation in Carabelli and Cedrini 2013: 345). Therefore, Keynes did not encourage us 'to sit on our haunches and enjoy well-being' (Freeman 2008: 141), or 'to enjoy things without effort' (Phelps 2008: 108). But he did pay attention to Mill's 'art of living' (see 1.2.2), as well as to the notion put forward by his teacher, namely Marshall, who talked about 'the desire for the exercise and development of activities, which leads […] to the pursuit of science, literature and art for their own sake' (Marshall 1920 [1890]: III.II.4) (see 1.2.4).

Keynes's essay concludes with a recommendation and an encouragement: 'do not let us overestimate the importance of the economic problem' (Keynes 2008 [1930]: 26); and 'there will be no harm in making mild preparations' – such as controlling population, avoiding wars, and directing science properly – for the time when the economic problem is solved (Keynes 2008 [1930]: 25).

Therefore, if Keynes's essay is interpreted as focused on his speculations about how his grandchildren would exploit their economic possibilities, then different interpretative issues can be resolved. The decrease in working time, which appeared to be an 'unbelievable' mistake committed by Keynes, and the neglect of income inequality and relative needs, which seemed to be other serious errors, could be considered working hypotheses to make evident his focus, which concerned people's welfare. The questions that thus clearly emerge are the following: is working in any case a means for welfare when subsistence is secured? Do people who have already overcome the economic-as-subsistence problem encounter a new 'welfare problem'? Can relative needs be substituted in favour of 'the love of money *as a means* to the enjoyments and realities of life'? (Keynes 2008 [1930]: 23–24, emphasis added).

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7.3 The reactions to Keynes's essay

7.3.1 The subsistence level: absolute or relative?

In order to identify the economic problem, the issue of whether the subsistence level of the standard of life is absolute or relative should be discussed. In fact, commentators on Keynes's essay are divided on this issue, but most of them end up by encountering some interpretative problems.

Some commentators interpret Keynes's concept of subsistence level in terms of 'relative needs', that is, people's desires depend on the economic and social context. According to this interpretation, since economic growth also improves the social context, people constantly push their desires ahead of what they have, and the economic problem is never solved because the subsistence level is never achieved. Therefore, it is not interesting what will happen after the economic problem is resolved.

The main argument in support of this interpretation is that it is impossible clearly to define an absolute level of subsistence. Individuals' desire to feel themselves included in the social community, and the desire to live longer and healthy imply shifting the necessary standard of life ahead as the economic conditions improve thanks to technical progress (Fitoussi 2008; Friedman 2008).[4]

This interpretation finds support in Keynes's text because he mentioned 'relative needs', although he then focused on 'absolute needs'. He thus took the wrong route – according to these commentators. However, this interpretation does not capture the spirit of the essay, which started from the subsistence of the human race in biological terms in order to identify the entry into the world of human choice. In this spirit, 'subsistence' is not to be interpreted in subjective terms as 'perceived subsistence', but in objective terms by considering humans as all the other animals, and in particular without having human consciousness.

The theoretical approach underlying this interpretation is that of rational choice theory and revealed preferences, which does not draw distinctions among the purposes of human actions, whether they are for subsistence or any other purpose. This approach then encounters limits in its capacity to explain, for example, the 'fundamental [...] issue [... of] how society responds to the opportunities that improvements of technology have afforded' (Stiglitz 2008: 43).

The alternative interpretation claims that the subsistence level in Keynes's essay should be regarded as absolute, because it is based on 'needs'. These 'needs' 'are the objective requirements of a good and comfortable life', and they can refer to a desirable list of things like personality, friendship, respect, and leisure. Economic growth can thus resolve the economic problem, but at the same time it creates a new problem: the rise of 'wants', which are 'purely psychic, infinitely expandable', and which can be manipulated by the free-market economy (Skidelsky and Skidelsky 2013).

Keynes should be criticised – according to this interpretation – because he failed to distinguish between 'needs', which are desirable, and 'wants', which are undesirable. The fact that working hours have not declined as expected thus

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appears to be undesirable because work becomes necessary to finance people's wants, which have been artificially increased.

This alternative interpretation attempts to amend Keynes's essay and to provide a more convincing account of economic and welfare problems. But spelling out the list of desirable goods so that Keynes's subsistence level of standard of life becomes typically human, introduces a new weakness. In fact, it leaves unspecified the quality of these goods, such as personality, friendship, and leisure, which may also assume undesirable intents and purposes, so that the distinction between 'needs' and 'wants' becomes unclear.

7.3.2 Keynes's 'unbelievable' mistake: the decline in working time

Keynes's 'prediction' that working time would decline is an 'unbelievable' mistake. Many commentators concentrate on it by citing three factual reasons that should have impeded Keynes from committing the error (see also Chilosi 2009).

First, technical progress has revolutionised consumption goods, rather than simply improving the production techniques and the Lancasterian characteristics of goods. This fact has maintained the demand for consumption goods at high levels, so that long work hours are required (Freeman 2008). As a theoretical explanation, it has been argued that leisure time is the opportunity cost of working, so that people are induced to employ leisure by consuming expensive goods (Becker 1965; Linder 1970).

Second, comparing one's consumption with that of others has similar effects (Frank 2008; Leijonhufvud 2008; Becker and Rayo 2008). This behaviour is so widespread that it appears to be 'rooted in human nature', 'though inflamed by free-market economy' (Skidelsky and Skidelsky 2013: 3).

Third, interesting work, including entrepreneurship, has changed the nature of work from being painful to satisfying (Freeman 2008; Phelps 2008). This fact may also partially account for the notable case of the increased female participation in the labour market. Therefore, working hours should be no longer minimised.

Given these three facts, Keynes's speculations on future lifestyles has appeared unconvincing to commentators. The increase in depression and anxiety, described as 'nervous breakdown', seems idiosyncratic. Money-making is viewed as a caricature of normal economic choice by 'brutish' people (Boldrin and Levine 2008). Keynes's 'art of living' appears to be a paternalistic suggestion by a snobbish narrow-minded Britishman (Becker and Rayo 2008).

If this great mistake undermined Keynes's analysis to the extent that it severely affected the conclusions and made them unconvincing, why has his essay attracted so much attention after so many decades? It is tempting to answer: because, in the meantime, the Economics of Happiness has posed the 'welfare problem' implied by the Easterlin paradox, which states that people's well-being does not necessarily increase if they work in order to buy the consumption goods offered by producers. This is the first of the above-mentioned

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reasons for working hard; but it should also be pointed out that the other two motives for hard work, that is, comparison consumption and job satisfaction, are closely considered by the Economics of Happiness but somewhat ignored in conventional economic textbooks.

7.3.3 The neglect of the welfare problem

Keynes's essay attracted comments on how it propounded the economic problem, but not for the ensuing welfare problem. This neglect is strange. Pecchi and Piga introduced the book collecting authoritative comments on Keynes's essay by listing the issues discussed: 'It is a book about growth, inequality, wealth, work, leisure, culture, consumerism and entrepreneurship' (Pecchi and Piga 2008: 1). Surprisingly, well-being or similar terms are missing.

The aim of Keynes's essay, instead, is stated thus:

> for the first time since his creation man will be faced with his real, his permanent problem – how to use his freedom from pressing economic cares, how to occupy the leisure, which science and compound interest will have won for him, to live wisely and agreeably and well.
>
> (Keynes 2008 [1930]: 22)

This statement clearly shows that material welfare does not coincide with human welfare. They are distinct. Indeed, the two types of welfare may not even go hand in hand, as was apparent when Keynes considered the possibilities that in the midst of abundance some people react with 'nervous breakdowns' and others react with the 'semi-pathological' drive to 'make money', and still others react by cultivating the 'art of life'.

It is in this last possibility – according to Keynes – that happiness resides. His concept of 'happiness' is close to that of Aristotle, and, more generally, to happiness of the eudaimonic type. This is evident in other writings, such as *Virtues and Happiness*, published in 1905, where a happy life is conceived as a virtuous life. A careful analysis of these and other texts by Keynes leads one to conclude that:

> Keynes's ethics is thus concerned with the whole conduct of human life: not only with single actions and related moral duties, but with the whole texture of the character from which the act flows, with motives and intentions, and even reactive feelings and emotions.
>
> (Carabelli and Cedrini 2013: 351)

Several other critical comments on Keynes's essay take a different perspective. They instead assume that material welfare and human welfare coincide, or that they will do so in the future. This is evident in the comment that the economic problem is automatically solved because working time has not actually decreased, or in the optimistic confidence that: 'rising living standards for a clear

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majority of citizens foster […] greater tolerance, a deeper commitment to fairness, and a more robust dedication to democracy' (Friedman 2008: 129). From this perspective, an excess of work, or an excess of consumption, cannot arise because people know what is best for them. Therefore, the welfare problem does not arise either, with the consequence that economic growth will be able to bring happy lives to people.

A notable exception is Stiglitz (2008). He first acknowledged the welfare problem raised by Keynes, as well as the inability of conventional economics to deal with it adequately. He then attempted to give account of Keynes's 'excess leisure', which may represent the case of Europe, and of the symmetrical possibility that Keynes envisaged in the case of the USA, where 'excess consumption' prevails.[5] To this end, Stiglitz used choice theory and put forward a model of endogenous preferences in which the consumer learns by consuming. He concluded that there are no automatic adjustments to a unique optimum equilibrium if the consumer is myopic about her own changes of preferences. This result is interesting because it gives credit to an approach that Scitovsky had pursued some decades before, and with even more elaboration.

7.4 Scitovsky on Keynes's essay, and beyond

7.4.1 Scitovsky's appreciations and criticisms

Scitovsky was clearly sympathetic with Keynes's position, but he was also critical of his essay, and even convinced that his own analysis was superior. This emerges from some specific comments by Scitovsky on Keynes, but also from his entire analysis for welfare.

In his 'How to bring joy into economics', Scitovsky focused on a very important similarity between his and Keynes's analysis, that is, on how both of them conceived 'activities engaged in for their own sake' (Scitovsky 1986 [1985]: 187). Scitovsky immediately realised on reading Keynes's essay that solution of the economic problem would raise the welfare problem, and that 'activities engaged in for their own sake' may have some role in resolving the welfare problem (Scitovsky, 1986 [1985]: 188). Scitovsky observed the challenging characteristic of this type of activity in the famous passage of Keynes's *General Theory* on 'businessmen's motivation for investment' (see 3.2.1). According to Scitovsky, 'Keynes fully realized man's psychological need to engage in activities to occupy him and regarded that need as the main motivating force of all creative activity' (Scitovsky 1986 [1985]: 189).

However, Scitovsky was also critical (Scitovsky 2000: 48). He first noted that Keynes only mentioned relative needs in his 1930 essay, without drawing any implications. He then observed that: 'Keynes said not a word about the way in which enjoyable activities might generate a demand for economic goods' (Scitovsky 1986 [1985]: 189). In other words, Scitovsky observed that the demand for economic goods may derive from different sources, that is, not only from the struggle for survival, but also from relative needs, and even from creative

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activity. Consequently, the work necessary to produce economic goods did not reflect the work required to solve the economic problem. Consequently, the division between work and leisure was not as important as Keynes thought. It should be added that Keynes's elaboration on the concepts of happiness and well-being remained fragmentary and undeveloped.

Scitovsky's analysis thus appears to be original because it offers a way out of the controversy concerning the desirable proportion of working time with respect to leisure time. Specifically, the controversy can be depicted as between two views based on opposite evaluations of work and leisure, while Scitovsky offered a third view. This intermediate position was not new in Scitovsky's inquiry because he had already received criticisms on his *The Joyless Economy* from the opposite sides, that is, from the 'orthodox' and 'radical' economists (see 2.5.1).

The 'orthodox' side of the work/leisure controversy can be described as claiming that work is the prime mover of human progress, while leisure enables humankind to enjoy the fruits of work. The underlying idea is that human beings are lazy by nature, so that work forces them to be productive. Competition with others and material aspirations motivate modern people to work hard and long hours. The possible negative internalities such as those on stress, and externalities on others such as crimes, tend to be neglected, while any intervention by the government is seen as jeopardising the prime mover (see Freeman 2008; and other 'orthodox' comments reported in Skidelsky and Skidelsky 2013: 9).

However, negative internalities and externalities may not be simply minor side-effects, for they may trigger self-reinforcing dynamics that impair the benefits derived from work. Commenting on Keynes's essay, Joseph Stiglitz, cited the problems of obesity, of less time devoted to the family, and of prisons in the USA (Stiglitz 2008).[6]

The 'radical' side of the controversy can be described as claiming that leisure, but not idleness, is the prime mover of human progress because it is intrinsically motivated, while work may finance insatiable 'wants' (Skidelsky and Skidelsky 2013: xiv, xvi). 'Capitalism has achieved incomparable progress in the creation of wealth, but has left us incapable of putting that wealth to civilized use' (Skidelsky and Skidelsky 2013: 42). To the critical observation that people find leisure boring if they are not equipped with consumption goods, thus making more work necessary, the Skidelskys answered that leisure activities do not necessarily require consumption goods. To the critical observation on humans' laziness, their answer took the form of 'a declaration of faith. [...] We *must* believe in the possibility of genuine leisure – otherwise our state is desperate indeed' (Skidelsky and Skidelsky 2013: 10, emphasis in original).

Keynes cannot be straightforwardly allocated to the 'radical' side because, at least, he referred to an ideal world of the future; as regards the present, he was not particularly critical of the role of work and of the free market.[7] However, despite these clarifications, his 'unbelievable' mistake on the decline of working time put him in a weak position.

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7.4.2 Scitovsky's third way: the role of the underlying motivations and skills

Scitovsky's approach suggests a third way in this controversy because it replaces the focus on the distinction between work and leisure, that is, between activities that are either rewarded or not with money, with the distinction between the underlying motivations. In so doing, it proposes the distinction between, on the one hand, creative activity, as characterised by intrinsic, exploratory, and challenging motivations, thus becoming self-sustaining motivations, and on the other, defensive activities, that is, the comfort and addictive activities, which are differently motivated, and which are vulnerable to habits and postponed harm (see Chapters 3, 4, and 5).

Creative activity – according to Scitovsky – can be pursued during both work and leisure, although work may not be necessary for it. Consider, for example, a migrant who works hard in bad job conditions in order to provide a better life for his children, and the volunteer who works during her leisure time for a better society. Both of them put passion into their work to create new human possibilities; they are thus satisfied with themselves, and trust others. Monetary reward, instead, is the only possible instrument for higher aims.

Comfort is necessarily pursued through work and possibly enjoyed during leisure. In fact, comfort requires goods which can be used during leisure or exhibited to others at any time. Great expenditure can be made on goods for comfort without any correlation with the leisure time used for their consumption.

Addictive activities may require work or leisure. Consider the examples of the workaholic and the gambler. Both of them attempt to escape from uncomfortable conditions, for example, in the family or in social relations. Both of them suffer and are at risk of serious harm in the future. However, the former produces, while the latter may only consume.

Creative activity and defensive activities differ in their underlying motivations because creative activity requires a skill (called 'life skill' by Scitovsky) to be appreciated, while defensive activities do not require it. Keynes's speculation on how the 'welfare problem' would arise can be re-read on this basis.

Keynes assumed that only 'those people, who can [...] cultivate into a fuller perfection, the art of living' are able to develop the 'life skill'. However, he overlooked that this activity can be also found in working more than necessary for survival, and not only in leisure. Chapter 8 will also show that creative activity may be beneficial for economic growth.

By contrast, '[t]he strenuous purposeful money-makers' will become 'semi-pathological' when the economic problem is solved – according to Keynes – that is, the 'life skill' of these people will deteriorate. In this case, work becomes central and leisure becomes ancillary. However, Keynes did not realise that this group of people would be so substantial that average working time might cease to diminish. Scitovsky predicted that it would even increase, as actually happened in the USA (Kuhn and Lozano 2008). He was thus in accordance with

Keynes's critics on the dynamics of work, although he also disagreed with them because he was concerned about the possibility of heading for a 'joyless economy' (see Chapter 6).

Scitovsky was also able to predict that 'money-makers' would increase their consumption by arguing that the pursuit of relative status would replace 'life skill' with productive skills, and then comfort. He thus departed from Keynes's prediction of rising saving, and instead came close to Linder's (1970) description of:

> *The Harried Leisure Class*, whose high hourly earnings make their time so precious that they cannot afford the time it takes to enjoy life and are forced to eat their meals on the run, cut short the foreplay in lovemaking, attend abbreviated religious services, buy books to glance at, [and] not to read.
>
> (Scitovsky 1992 [1976]: 163)

Keynes identified a third group of people who will suffer 'a general nervous breakdown' when they are 'deprived of the spur of economic necessity' (Keynes 2008 [1930]: 22). He expected that these people would be 'ordinary', 'with no special talents', that is, lacking in 'life skill'. Scitovsky gave a different and more realistic interpretation of those people who do not work and lack 'life skill'. He observed that they are more likely to be poor than rich people. They are involuntary unemployed, deprived of education and 'life skill' (see 5.1). In contrast to Keynes, he thus interpreted the modern fact that people who earn lower wages also work shorter hours, and that '[t]he workaholic replaced the idle rich' (Freeman 2008: 136; Hamermesh and Lee 2007).

To conclude, Scitovsky helped Keynes's essay to be read in a different light and some steps forward to be taken in the analysis. He first suggested shifting the focus from Keynes's 'unbelievable' mistake on the decline of working time to the 'welfare problem'. He then offered a more refined and realistic solution to this problem by considering the motivations that underlie work and leisure. Scitovsky also helped explain the modern tendency to work longer hours in the USA, with respect to Europe, by observing that productive skills tend to replace 'life skill'. This different 'specialisation' was conceived by Scitovsky in anticipation of Stiglitz's similar idea on the Americans' specialisation in appreciating work rather than leisure (Stiglitz 2008).

Notes

1 This is mainly due to Lorenzo Pecchi and Gustavo Piga, who re-published Keynes's essay with a commentary in a book, and asked some distinguished economists for their opinions on the essay (Pecchi and Piga 2008: 1). The opinions ranged from the most sympathetic (Joseph Stiglitz) to the most critical (Boldrin and Levine). For a positive review of the book, see Chilosi (2009); for a critical review, see King (2010). For an analysis of the background to Keynes's essay, see Carabelli and Cedrini (2011). Another recent re-appraisal of Keynes's essay is the book written by Robert Skidelsky and Edward Skidelsky, which was translated into seventeen languages, but

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also criticised (Skidelsky and Skidelsky 2013, and commentary in the Preface to the paperback edition).

2 The idea of relative needs should have been well known at Keynes's time. Veblen had published his book on conspicuous consumption in 1899, and even a student of Keynes, in commenting on the essay, noted that 'the society is not likely to run out of new wants as long as consumption is conspicuous and competitive' (Skidelsky and Skidelsky 2013: 17).

3 Scitovsky recalled that Harrod, Keynes's early biographer, was even more pessimistic than Keynes about the aftermath of the solution of the economic problem, and the decrease in working time. He 'envisaged the return to war, violence and blood sports activities that the idle rich of the Middle Ages occupied themselves with' (Scitovsky 1995 [1991]: 237).

4 Fitoussi, however, recognised 'that a time will come when the economic problem will no more be as it is today, a question of life and death' (Fitoussi 2008: 154).

5 There is a large body of literature on the work/leisure difference between the USA and Europe. Okulicz-Kozaryn (2011) confirms that Americans are happier to work long hours than Europeans, but Faggio and Nickell (2006) observe that this fact is still in search of an explanation.

6 For example, '[f]rom 1980 to the present day the proportion of state spending on corrections has risen relative to state spending on higher education, with Massachusetts spending more on prisons than on higher education in 2004' (Stiglitz 2008: 49–50).

7 Even in his personal life, Keynes extensively speculated on the financial and commodity markets, with great success. At the same time, he also bought numerous cultural goods and supported cultural services (Moggridge 1983, 1992; Marcuzzo and Sanfilippo 2016).

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8 Creative activity and well-being for a new economic growth

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Computers are useless. They can only give you answers.

(P. Picasso, in Fifield, 1964)

8.1 Introduction

The extension of the analysis from the economic welfare to the human welfare is the basic theme of this book. By developing Scitovsky's insights, the preceding chapters extended the traditional consumer theory to include individual motivations for novel goals that challenge human capacities (i.e. 'life skill') while providing excitement at the same time. New possibilities for further development of the individual's capacities may thus be created, and with positive externalities on others. Hence human welfare is a process in which the economic conditions work as exogenous constraints that become increasingly relaxed as the economy grows.

The research programme on human *progress* that Scitovsky took up from J.S. Mill and other great economists before him (see Chapters 1 and 2) indicates that the analysis should be extended further in two directions: drawing policy implications for welfare, and considering the effects of welfare on economic growth. In fact, Scitovsky's departure from the standard consumer theory opened up rooms for policy due to the emergence of internalities, externalities, and several other factors. Extending consumers' preferences to the exploration and creation of new options cannot leave economic growth unchanged. Consequently, this book cannot conclude without a chapter devoted to these two aspects.

Unfortunately, Scitovsky neither pushed elaboration of his analysis so far nor provided detailed examples of policies and of the consequent changes in economic growth. This chapter will thus be tentative in drawing implications for policy and growth from Scitovsky's works. Nevertheless, interesting issues will be discussed because they have been recently revived in current economic as well as general debates.

The first interesting issue regards consumer sovereignty and paternalism, which will be discussed in Section 8.2, when Scitovsky's perspective on policy is considered. In fact, Scitovsky was confident about the extraordinary

opportunities offered by the market economy, but he was far less confident about people's abilities to exploit them. Policy implications can be derived from people's possibility to learn these abilities, so that the issue of consumer sovereignty and paternalism can be reconsidered in new light. Section 8.3 will indicate areas for policy intervention in the cases of children and parenting, education, consumer and labour markets. Section 8.4 puts forward some arguments concerning a new pattern of economic growth in which human welfare has priority over economic welfare. The issue of the quality of economic progress, which has recently attracted much attention, will thus be addressed.

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8.2 A new policy perspective for human welfare

8.2.1 From consumer sovereignty to the individual's sovereignty, and to human welfare

The concept of 'consumer sovereignty' is rather standard in economics, but Scitovsky was dissatisfied with it. His analysis extended the concept to the lives of individuals in order to study human welfare, rather than only economic welfare.[1] Nevertheless, Scitovsky still regarded the sovereignty of individuals as most important for freedom, and criticised how this sovereignty was being eroded in the modern economy.

'Consumer sovereignty' consists of two necessary components: 'preference satisfaction' and 'freedom to choose'. 'Preference satisfaction' means that 'the goodness or success of productive effort can be judged only in the light of consumers' preferences' (Hutt 1936: Ch. 16). The normative implication is that producers should be maximally efficient in satisfying consumers' preferences, which are taken as given. 'Freedom to choose' implies 'the controlling power exercised by free individuals, in choosing between ends' (Hutt 1940: 66). The normative implication is that external intrusions into consumers' choices should be minimised.[2]

According to Scitovsky, the individual's main choices, 'if not his only choices' (Scitovsky 1992 [1976]: 78), are those that concern the pursuit of creative activity instead of defensive activities alone (see Table 5.1 in Section 5.1). Only the first option may be both rewarding during its pursuit, and, if successful, able to increase the individual's life skill, thus affecting her preferences. Therefore, instead of 'preference satisfaction', it would be more appropriate to talk of 'pursuit satisfaction' (see Schubert 2012), which is a dynamic and uncertain process and assumes a flow dimension. Instead of 'freedom to choose', it would be more appropriate to talk of 'agency freedom'. This latter term is borrowed from Sen,[3] but it should be amended as the freedom to explore, and even to create, new opportunities made possible by the individual's life skill, which has a stock dimension. Developing this skill can thus expand the individual's 'freedom to choose' over time. The individual's sovereignty is therefore a broader concept than consumer sovereignty. In particular, it does not require preferences to be consistent over time, because, for example, the individual may

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change her preferences order in developing her life skill. Moreover, the individual's sovereignty includes a type of freedom which is not only non-rival, that is, 'my freedom does not limit your freedom' but also enhances others' freedom, that is, it can extend others' freedom of choice and trigger others' agency freedom.

Scitovsky's approach extends beyond economic welfare towards human welfare because he included in the individual's pursuit of creative activity extra-economic goods like companionship, interesting work, skilled leisure, and enjoyable learning (see Section 2.1 and Chapter 3). Taking up this insight of Scitovsky's could help renovate the foundations of the traditional welfare economics laid down in the 1950s and 1960s (Mishan 1960; Arrow and Scitovsky 1969; Atkinson 2009). This renovation is facilitated by the new attention paid to the foundations of welfare economics by two recent branches of economics: the Economics of Happiness, which focuses on a direct measure of individual welfare, and Behavioural Economics, which focuses on the 'anomalies' in the individual's ability to satisfy her preferences.

8.2.2 Room for policy

In conventional economic analysis, room for policy arises when, in an economic system, someone can be made better off without making anyone else worse off, as the Pareto criterion prescribes. In other words, room for policy arises when the equilibrium in the markets obtained from the interdependence among agents that maximise their utility subject to a restricted set of information (decentralised equilibrium) is dominated by the equilibrium obtained by a central planner that can make someone better off by exploiting a larger information set. In Scitovsky's analysis, the decentralised equilibrium cannot be determined because individuals are not able to maximise over the long run, being subject to several factors, like fundamental uncertainty and externalities. Nevertheless, they do their best at each moment of time and adjust whenever they acquire new information about novelties, about the changes of their life skill, and about external shocks, so that their well-being becomes path-dependent. Individuals' well-being can consequently be improved if those factors are adequately considered, for example, if uncertainty is reduced to the optimum level, and the externalities are internalised. The presence of those factors thus opens up room for policy.

By drawing on Chapters 3–6, let us schematically recall all the factors that create room for policy in Scitovsky's approach to human welfare. The symbols of the models used in Sections 3.3, 4.3, and 5.3 will be reported within the squared brackets.

a In the case of creative activity, individuals have limited knowledge about the novelty degree [χ] that best matches their endowment of life skill [S] (i.e. [$\chi^M(S)$]). They cannot eliminate this uncertainty without reducing their well-being. Second, the search for the most adequate creative activity [$\dot{\chi}$] may be enjoyable in itself, and should be evaluated together with the achievements

[$|\chi^M - \chi|$]. But changes cannot be compared with levels like the outcome of creative activity. Third, individuals tend to behave myopically because they tend to underestimate the changes in their life skill [$\dot{S}$], thus displaying an internality. Therefore, individuals' well-being follows a path-dependent dynamic because it is better, the more closely the chosen novelty degree matches their life skill, the more the search for the most adequate creative activity is satisfying, and the better becomes their foresight of their life skill changes.

b In the case of choice between creative activity and comfort, individuals cannot easily compare the satisfaction from creative activity, which includes search [$\dot{\chi}$] and inner changes [$\dot{S}$], with satisfaction from comfort, which is a level. Maximisation between the two options is thus impaired.[4] Second, individuals may underestimate the vulnerability of comfort to habit and addiction, so that comfort can appear no less attractive than creative activity. Third, producers can make comfort attractive by producing goods that are especially complementary with the comfort motivation. In particular, producers can make addiction attractive by producing goods likely to induce habits. The changes in relative prices of these goods [p_a, p_b] can also play some role in this pressure applied by producers.

c In the case of choice of the option that leads to addiction, individuals are attracted by this option when they are insufficiently able to appreciate creative activity because they lack life skill, and to foresee and evaluate future comfort from learning productive skills. Moreover, individuals may not precisely know the thresholds [g] above which risky options become effectively addictive. Addiction thus emerges as another source of negative internality.

d The case of externality arises when individuals search for creative activity [$\dot{\chi}$] and learn [$\dot{S}$] by drawing on others' skill [$\bar{S}$]. A second externality derives from the use of novelty degree [χ] because this is influenced by the social context, that is, people find the novelty degree both challenging and attractive if it is thus evaluated by significant others. A third externality arises in the case of social comfort because people compare their comfort with that of others.

e Another set of factors arises when parents are inadequate with their children because there are no market mechanisms that guarantee the correction of such inadequacy. Parents should interpret children's signals because they are non-verbal, especially during infancy. When the communication becomes mainly verbal, remedies for the possible parental inadequacies are late and of little efficacy. Children's talents may even remain latent for ever. The parents' own education may be helpful for adequate parenting, but not necessarily so, since education may be biased towards comfort (see 6.3.1). Product markets provide information that may be useful for adequate parenting, but the final aim of producers is to induce children to choose comfort rather than creative activity, because comfort is more habit forming. Finally,

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inadequate parents cannot be selected by children simply because there is no market of adequate parenting. Even if perfect financial markets enabled parents to borrow money in order to finance the children's education, for example, by paying expert tutors, children would be subject to their parents' preferences.[5] If parents were 'materialistic' or 'addicted', the child could not choose other options. And if the child was protected from risky parenting by adequate care services, that risky parenting would not be prevented in an effective way because the parents could easily have other children.

8.2.3 *Which paternalism?*

The policies that increase individual sovereignty by exploiting factors (a)–(e) mentioned above may be criticised as 'paternalism', which is conventionally defined as a form of violation of consumer sovereignty. This claim should be examined because it is of especial interest for economists.

According to the standard argument, 'paternalism' violates consumer sovereignty by violating both of its components. In fact, first, 'paternalism' is an attempt to substitute the 'preference satisfaction' of consumers with the preference satisfaction of others, for example, parents or governments, who regard their own preference as superior. Second, this attempt consists in reducing consumers' 'freedom to choose' by altering their option set, or by making their constraints more binding, for example, through administered price changes.

The main criticisms brought against paternalism build on these two violations of consumer sovereignty. First, preferences cannot be compared among individuals, so that there is no guarantee that consumers' preferences are inferior, also because parents or governments may be self-regarding rather than consumer-regarding (Glaeser 2006). Second, 'freedom to choose' is assumed to be the most important value for humans, and even superior to well-being (Friedman and McCabe 1996; Brittan 2007).

This analysis appears rather straightforward to apply. For example, Layard (2005) was criticised for paternalism because he proposed that people's constraints should be changed by imposing taxes on conspicuous consumption in order to reduce the negative externality due to comparison with others (see e.g. Sugden and Teng 2016; Klump and Wörsdörfer 2014).

However, the critical position against paternalism becomes unclear when the assumption of fixed preferences can no longer be held. Scitovsky's approach even addresses the case in which preferences change endogenously through a mechanism of the 'learning by doing' type.

Let us start by considering the following criticism:

> It is not difficult to find grounds for paternalism in Scitovsky's argument. 'Since consumption skills are typically acquired by the young while they are in school, more mandatory liberal arts courses in the school curriculum are one alternative,' he writes.
>
> (Friedman and McCabe 1996: 475)

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These two authors seem to argue that education should avoid 'paternalism' as defined above. However, John S. Mill, who is often cited as one of the most liberal economists, asserted that: 'education works by conviction and persuasion as well as by compulsion' (Mill 2001 [1859]: 70). He then (rhetorically) wondered: '[i]s it not almost a self-evident axiom, that the State should require and compel the education, up to a certain standard, of every human being who is born its citizen?' (Mill 2001 [1859]: 96).

Indeed, the criticism of 'paternalism' becomes unclear when it is applied to the case of education because preferences change through education. Two questions thus become unavoidable: what preferences are more desirable, those before or after the change? If preferences change endogenously, is it better to have a certain level of freedom to choose or the ability to expand the freedom to choose, that is, agency freedom?

Mill had no doubt on the matter; but neither do some modern economists who focus on parenting. This is the case of an interesting theoretical study on the role of different parenting styles in the intergenerational transmission of preferences (Doepke and Zilibotti 2014). Drawing on psychology (Baumrind 1967), this study defines the parenting style as authoritative if parents influence their children's preferences in an attempt to benefit them. The parenting style becomes authoritarian if quantitative constraints are imposed on children; and the parenting style becomes permissive if the parents leave their children completely free. The study concludes that the authoritative style requires some paternalism in the form of influence on children's preferences, while children's freedom to choose may appear even negative.

In adulthood, preferences usually change to a lesser extent, so that Scitovsky's case seems less relevant, and the criticisms of paternalism may be re-established. But one can find in philosophy applied to economics a more comprehensive definition of 'paternalism' because 'the paternalist asserts some degree of control over an agent's own affairs [...] with the aim of getting them right' (Haybron and Alexandrova 2013: 160). This would thus include any attempt to influence others' constraints as well as preferences.

However, such an extended influence on preferences cannot exclude the influence due to additional information on the characteristics of the options available, on the availability of further options, and on their costs and benefits. This may appear a rather light version of paternalism if information is accessible with negligible costs. But this is not always the case. For example, the individual may not have the skill to search for and to understand the relevant information. Indeed, to remedy this problem, the policy to inform people on the sources of well-being, such as typically pro-social behaviour, is advocated by various economists, although possibly derived from different theoretical frameworks (Layard 2005; Sugden and Teng 2016: 54–55).

Changes of preferences can also take place because of externalities, which often accompany the internalities. According to Scitovsky: 'economic theory, social accounting, and most public policy still proceed on the fiction that external diseconomies are small enough to be neglected' (Scitovsky 1962: 263). Scitovsky

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recognised, by quoting Mill, that: 'the only purpose for which power can be rightfully exercised over any member of a civilized community, against his will, is to prevent harm to others. His own good, either physical or moral, is not a sufficient warrant' (Scitovsky 1992 [1976]: 216). However, he further added that Mill's position 'is not quite as unequivocal as it sounds, because [...e]very dangerous activity is dangerous not only for the actor himself, but also for an invisible victim, the taxpayer' (Scitovsky 1992 [1976]: 221). In a similar way, it can be said that every dangerous activity chosen by parents is also dangerous for their children.

But even in the absence of external shocks due to the provision of new information or to externalities, people's preferences may change endogenously. In fact, if, for example, people pursue a certain goal, they may change their information set about the means and the goal itself, with the consequence of changing their demand for goods. This 'learning by pursuing' implies that choices influence preferences, so that any exogenous change in the constraints, for example, due to technical progress, also influences the preferences.

This fact has important implications for policy. Let us consider a policy able to Pareto-improve the current equilibrium of the economic system by improving the conditions of only some people. If some other people experience a change in preferences as a consequence, so that they become worse off, then the change of the equilibrium becomes ambiguous according to the Pareto criterion.[6]

Therefore, an intervention that is regarded as paternalistic according to the standard criticism should be evaluated and compared to the alternative by taking into account possible endogenous changes of preferences.[7] For example, Scitovsky was criticised because he suggested subsidising the arts (Friedman and McCabe 1996: 475). But he justified this suggestion by observing that 'the training in consumption skills is learned by doing' (Scitovsky 1992 [1976]: 247), so that the demand for artistic products may increase, and subsidisation may be subsequently reduced. But in the case of other products, market competition induces producers to use any means to convince consumers to buy their products, and since competition is frequently not perfect, some constraints are used. Consequently, preference satisfaction is not optimally served, and freedom of choice may be altered no less than in the suggested case of 'subsidies to the arts'.

If the Pareto criterion becomes ambiguous and therefore difficult to apply, one may be induced to think that any policy intervention is largely inhibited. Indeed – according to most critics of paternalism – economics should be only positive, and not normative, because economists should abstain from all value judgements if they aspire to be scientific.[8] 'The standard approach [to economics] – assumes a separation between the economist's role as social scientist and the role that some economists may play as advisors or advocates' (Gul and Pesendorfer 2008: 6).

Scitovsky's position on the positive/normative dichotomy was different. He stated it thus:

> if the economist takes it upon himself to make policy recommendations, and does so, as indeed he must, on the basis of both efficiency and equity

> considerations, it is essential that he should be fully conscious of this fact, and that when he makes his recommendations he should make it absolutely clear and explicit on what basis he has arrived at them.
>
> (Scitovsky 1951: 315)

This position was isolated at Scitovsky's time, but it has recently gained in strength. In fact, let us recall that conventional economics aims to be a positive science by referring to the theory of rational choice which underlies 'revealed preferences'. But Behavioural Economics has recently shown that individuals make systematic errors in their choices, thus suggesting that rational choice should be considered as normative rather than positive (see Thaler 1980: 39; and Kahneman and Tversky 2000: 1). In Scitovsky's approach, individuals make systematic errors, too, because, for example, they may be induced to choose risky activities (see Chapters 5 and 6). Differently from Behavioural Economics, however, Scitovsky was not tempted to resume the classical notion of 'rationality' to define the normative benchmark. In his approach, 'enjoyable learning' is a process of continuous and uncertain adjustment involving both cognitive and socio-emotional skills even for the most satisfied people (see Chapter 3).

8.3 Policy interventions for life skill, creative activity, and well-being

8.3.1 Policy framework and the welfare criterion

The idea on policy that emerges from Scitovsky's analysis is rather simple. Economic growth offers people increasing opportunities to make choices, both innovative ones, such as starting up new enterprises or moving to new places to live, and conformist ones, such as following the latest fashions. But economic growth also faces people with increasing challenges: in the family, where, in particular, adequate parenting must be reconciled with work (see 6.3.1); in the labour market, where flexibility and autonomous job search are necessary (see 6.3.2); and in the product market, where attractive but addictive goods are increasingly available (see 6.3.3). When people take choices that prove unsatisfactory, they experience not only a drop in well-being but also a deterioration of their life skill, that is, of the ability to set their priority goals, and to manage their lives. This slows down or even inhibits effective learning, so that the human potential to exploit those increasing opportunities offered by the economic growth remains underutilised (see 8.2.2). This suggests that policy interventions are required in order to realize people's human potential better.

A number of specific policy interventions could be suggested and discussed, but priority should be given to the framework and to the 'welfare criterion' that can guide them. The analysis will thus remain rather general, and some examples will only be mentioned, so as to give an idea for both policy-makers and individuals.

The framework for policy interventions can be organised into three cases, which are consecutive because they characterise people's life cycles but also

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overlap to some extent. In the case of children, parents should explore, impose, and adjust specific educational conditions to the behaviours of their children through deep understanding of their needs and skills. In the case of young people, education should provide them with a range of opportunities, encourage them to choose the ones that best match their aptitudes and talents, and then assess the learning process and its outcomes. In the case of adults, specific opportunities should be proposed, and their undertaking should be encouraged by facilitating information and training without imposing quantitative restrictions. In fact, these restrictions may be useless, or even counter-productive, if they are not supported by motivations, or if contrary motivations are sufficiently strong. For example, attempts to force the individual to choose creative activity neutralise the underlying intrinsic motivation, so that the activity ceases to be creative.

An interesting suggestion in the case of adults can be derived from the so-called 'light paternalism' envisaged in Behavioural Economics (Thaler and Sunstein 2003). The 'goal of th[is] approach [...] is to steer human behavior in more beneficial directions while minimizing coercion, maintaining individual autonomy, and maximizing choice to the greatest extent possible' (Loewenstein and Haisley 2008: 213). However, this approach should not be applied by taking the benchmark of 'rational choice'; rather, it should be adapted to the framework and 'welfare criterion' that emerge from Scitovsky's approach.

The 'welfare criterion' suggested for individuals, parents, teachers, and public authorities can be specifically derived from the distinction and characterisation of the three options: creative activity, comfort, and addiction. In fact, these three options differ in their welfare outcomes: creative activity yields a self-sustaining well-being; comfort yields a well-being vulnerable to habits and addiction; the addictive option turns well-being into ill-being. The options are thus characterised by different dynamics of well-being, rather than by its level, so that a ranking of options can be established.

First, however, 'prime necessities' should be satisfied (Scitovsky 1964: 254), these being defined in terms of a reasonable but absolute level of physical and mental health, proper rights, and education (Scitovsky 1986 [1974]: 28). Besides the obvious reason of survival and security, this priority should help individuals to undertake the uncertain option of creative activity.

After the satisfaction of 'prime necessities', the option of creative activity ranks second because it should trigger self-sustaining well-being through the endogenous development of life skill. The comfort option ranks third because adaptation and consumption comparison deflate well-being. Addiction ranks last for obvious reasons.

Well-being should be measured by taking, as the ideal benchmark, the full realisation of individuals' capacities, as signalled by absence of anxiety, boredom, and regret, and by the presence of social and, in particular, parental ability. This benchmark should be closely linked to markers of physical health. The literature offers a variety of interesting though partial indices that can help to build this benchmark, including subjective well-being indices.[9]

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The policy interventions that ensue from this framework and welfare criterion should be applied through democratic debate. Sen already invoked this procedure (Sen 2002), and the benefit of participating in the debate in itself has been recently underlined in the Economics of Happiness, where it is called 'procedural utility' (Frey *et al.* 2004). In the democratic debate, however, especial weight should be given to those claims that are based on scientific research against other possible claims advanced by interest groups.

Institutionalist economists would observe that all these policy implications should be framed and guided by credible institutions if they are to be effective; in particular, they should be accompanied by some redistributive action. Keynesian economists would observe that the creative activity of individuals should be supported by long-term investments, such as those in basic research, which only the public sector would be able to finance and organise. But Scitovsky was a Keynesian economist, and his wide-ranging research in macroeconomics and international economics testifies that he believed in strong institutions, being convinced that markets could thus perform at their best (Scitovsky 1958, 1969; Earl 1992). In particular, he suggested redistributive actions, but only by making the 'prime necessities' freely and generally available, because in this case '[e]ven great inequalities of income and wealth will not be considered oppressive' (Scitovsky 1964: 254; see also 1986 [1974]: Ch. 3).

Therefore, his analysis on welfare and policy implications should be seen as complementary to, and even reinforcing, his Keynesian and institutionalist view. In particular, it can be observed that the effectiveness of institutions depends on the social context, and especially on the life skill of the local population, so that the institutions themselves become endogenous in the long run. Examples of different civic and economic practices in different regions of the same country, and which therefore share the same institutions, are illuminating in this regard.[10] The focus of Scitovsky's analysis on welfare, rather than on institutions and the macroeconomy, should thus be interpreted as an attempt to adopt a special perspective, rather than an exhaustive one, and to draw all the consequences that may be of interest, primarily, to economists.

8.3.2 Investing in children and in parenting

'Investing in children' has recently become an interesting issue for economists, and it has also given rise to a specialised interdisciplinary literature. James Heckman and co-authors have, in particular, called attention to both the inequality and waste of human resources due to poor early education, thus also revealing the lack of adjusting mechanisms that could automatically resolve these problems. This research of Heckman and others highlights not only the social urgency but also the economic rationale of 'investing in children'.

Interesting conclusions for policy can thus be drawn from this stream of research. First, investment in the early education of disadvantaged children may have a rate of return higher than the standard return on stock market equity (Cuhna and Heckman 2007). Second, 'the traditional equity-efficiency tradeoff

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that plagues most policies is absent. Early interventions promote economic efficiency and reduce lifetime inequality' (Heckman 2008: 312). Third, remedial interventions for disadvantaged adolescents are more costly, and may face an equity-efficiency tradeoff. Fourth, '[d]isadvantage should be measured by the *quality of parenting* and not necessarily by the resources available to families' (Heckman 2008: 290, emphasis added).

Reviews of recent research on the effectiveness of specific programmes for children, such as home visiting, child care, parenting programmes, conclude that these interventions often have significantly positive results. However, the quality of the programmes and of the personnel involved is crucial for achieving significant and lasting results. In particular, the effectiveness of the programmes seems to improve if parents are involved (e.g. Avvisati *et al.* 2014; Watson and Tully 2008).

This introduces an issue which is surprisingly little explored, that is, the need to 'invest in parenting'. The reason for this neglect is that the attention is normally biased towards the perspective of parents in child raising, rather than the other way round. For example, in the economics of the family initiated by Gary Becker, children are an asset for their parents, so that parents both programme their fertility and invest in children in order to maximise intergenerational consumption (Becker and Barro 1988).[11] Even if a child's birth is seen as an accident, and insurance against adverse outcomes is considered, the parents' perspective is again assumed, since the considered adversity is the child's poor innate talent, which would devalue the parents' investment (Aiyagari *et al.* 2002).

Instead, little or no attention is paid to the perspective of children who could be born, and who can choose neither their parents nor the attached parenting ability. Not only may the markets of insurance, liquidity, or formal care be lacking, but the market of parenting is simply missing. This problem is considered, in fact, only in extreme cases: when children are orphaned, and when parents severely maltreat their children, then social services are expected to guarantee adequate parenting for these unfortunate children. But the intermediate cases of mildly inadequate parenting, which are the majority, are normally ignored. A policy aimed at preserving children's theoretical freedom of choice should be instead devised.

This appears to be an intractable problem, since children's freedom of choice in regard to having adequate parenting should be reconciled with parents' freedom of choice in regard to having children. The fact that children cannot exercise this freedom because they are still in a very potential state does not eliminate the problem, but instead makes it even more intractable. However, focusing on the 'agency freedom' of both children and parents provides encouraging perspective.

Let us therefore attack the problem by acknowledging, with the help of J.S. Mill, that '[t]he fact itself, of causing the existence of a human being, is one of the most responsible actions in the range of human life' (Mill 2001 [1859]: 99). In other words, parents should not choose children as if they were consumption

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or investment goods. Nor can parents' altruism be simply measured in terms of consumption goods transferred to children. On the contrary, as Scitovsky's analysis suggests, parents may be differently adequate with their children according to how they are able to establish a healthy relationship with them, that is, able positively to affect the development of the children's life skill. Indeed, parents may trigger internalities and social externalities in their children, which may be positive or negative, as in the cases of schooling and crime (Chevalier and Marie 2013), diet (Scaglioni *et al.* 2011), aggressive attitudes (Underwood *et al.* 2009), and general trust (Pugno 2015) (see also 6.3.1).

For these reasons, young people should be prepared to assume the potential responsibility of becoming parents through specific education and training at the end of their compulsory education.[12] Recent technological changes in consumption goods make parenting an even more skilled task, so that it requires even greater responsibility than at Mill's time. Young people who do not become parents are also involved because social interaction is close and unavoidable in modern societies due, at least, to the tax system, elections, and the other democratic consultations.

The second policy implication regarding children's protection is that the population of children should be screened at both pre-school and school ages in order to inform parents about the socio-emotional and cognitive skills of their children. It should thus become possible to have some monitoring of the development of children's life skill, and to detect their strengths and weaknesses. Whilst the most disadvantaged children should be targeted for specific interventions,[13] support to parents could anyway be offered on demand.

This should also be seen as a preventive and early diagnostic policy for mental health. Richard Layard and co-authors have already directed the attention of policy makers and families to how the problem of mental health is severe in the UK for both people's well-being and for the overall economy (Layard and Dunn 2009; Layard and Clark 2014). Research promoted by the World Health Organization raised the alarm even before these authors by predicting that by the year 2020 mental depression will be the second leading cause of disability throughout the world (Murray and Lopez 1996). Preventive policies thus become urgent, and they can start from children because mental problems tend to persist over time, and because the likely problematic interaction with parents is also involved (Powdthavee and Vignoles 2007).

Adequate institutional structures and specialised competences are required to apply these policies. Specifically, the childcare and educational system should comprise psychologists who monitor children, help parents and teachers, and organise the parenting education programmes. A body of psychological scientifically-based knowledge on children's development should be adopted by professionals and acknowledged by parents (Shonkoff 2012).

Investing in children is primarily a long-run policy, since full returns will be earned over decades. However, it can have short run and even more powerful effects if the policy is extended to the familial, societal, economic, and environmental context, that is, if investing in children becomes a policy priority. In fact,

making the context more children-friendly encourages the entire community to take more responsibility for children and to become, generally, more cooperative.

For example, the healthy development of children requires a harmonious and stable familial context. Therefore, instead of adjusting family life to the requirements of work, in terms of time and location, the reverse would be preferable. Recent technologies might also help bring about this change. Children-friendly cities would require great organisational changes because many behaviours and habits of the urban population would be modified. City traffic should be limited, and more space and green areas should be devoted to pedestrian activities and play (Pugno 2016).

A suggestive illustration of the positive links among the resources devoted to children, their well-being, the cooperative attitude of the entire population, and their subjective well-being is provided in Pugno (2009). This study first selected the OECD countries that lie at the extremes of the ranking compiled by UNICEF (2007) according to the level of child well-being,[14] that is, the USA and the UK at the bottom of the scale, and Sweden, Denmark, and the Netherlands at the top, all of which countries experienced similar economic growth in 1973–2006 starting from not too different per capita GDP. The study then showed that, in about the same period, the top group of countries exhibited the following relative performance: lower poverty among children, greater public family transfers and spending, and net childcare fees, more parental leaves, less widespread child maltreatment deaths, fewer food advertisements on children's television, less infant mortality, lower teenage fertility rate, lower indices of adolescent bullying and overweight, higher reported well-being by adolescents, fewer suicides of adolescents and young people, a higher starting level, and an increasing trend of general trust, rather than decreasing as in the USA and the UK, and, finally, an increasing trend of subjective well-being as opposed to the almost flat trend for the USA and the UK.

8.3.3 Education for life

Education is a topic that has attracted a great deal of interest in economics because it has been considered, especially in recent decades, as an important input for production and economic growth. The foundations of the educational system in the advanced countries were designed more than a century ago in order to meet the needs of industrialisation, and, in particular, of the standardisation of mass production. But today, education must respond to very different needs expressed by businesses, society, and individuals. Since market conditions change rapidly, and product competition tends to replace price competition, businesses require new types of skills like problem-solving, tasks flexibility, fast learning, working with others, entrepreneurial ability, and even creativity. Society has become more unequal and differentiated, so that people must be able to better understand the negative externalities of income inequality, and the opportunities provided by cultural diversity rather than solely its possible constraints. Individuals need education for yet another reason: because they have

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developed new aspirations in seeking to experience new freedoms and personal accomplishments. Therefore, businesses, society, and individuals need a change of the present educational system because the people of the future will have to be more flexible, active, and open-minded.

A powerful factor for the success of this change is the intrinsic motivation of individuals to learn. This arises when they discover their own aptitudes and talents and are able to develop this potential through creative activity. To this end, education should first encourage young people to believe in their potential, give them the confidence to explore, and identify their own specific strength. It should then provide them with the means to exercise the aptitudes and talents thus discovered (Robinson *et al.* 1999; Ferrari *et al.* 2009). Education thus primarily becomes education for people's lives, and, as a consequence, education for production.

This change is frustrated, in particular, by the current widespread use of summative (or high-stakes) assessments which enable schools to issue certificates on acquired knowledge and to judge whether pupils can pass from one stage of schooling to the next. In fact, assessments of this type induce teachers to emphasise the transmission of the kind of knowledge that can be tested, while low-achiever students are more discouraged than stimulated to improve; moreover, schools tend to regard these students as a threat to their reputations (Layard and Dunn 2009; Harlen and Deakin Crick 2002; Glewwe *et al.* 2010).

Nevertheless, the rankings of the performance of students and educational systems at the national and international levels, such as those compiled in the PISA reports, are increasingly available, and they apply further pressure for educational reforms in many countries. Various factors are regarded as important for improving the educational system. In particular, there is increasing agreement on the importance of the quality of teachers, and a debate has arisen on how to improve it (Dolton and Marcenaro-Gutierrez 2011; Chetty *et al.* 2011). Good teachers are obviously necessary to foster students' intrinsic motivations to learn and undertake creative activity, but they may be not sufficient because other factors are required.[15]

First, learning plans should be personalised to the needs of the individual student, rather than standardized for the entire class and for all schools. This new practice would also have the advantage of minimising dropouts, and of raising the average performance of schools. The Finnish educational system has already adopted this practice by organising early recognition, support, and differentiated classes and teachers in accordance with students' abilities so that they can complete school. The success of this system is evident: drop-outs have been reduced, and, at the same time, Finnish students' performance is now at the top of the international rankings (Sahlberg 2011).[16]

Second, the means to develop student's aptitudes and talents should be provided. In particular, specific courses should be devoted to creative activity. Scitovsky mentioned education in the liberal arts and humanities, as well as sports (Scitovsky 1992 [1976]: Ch. 11). Indeed, students should be able to exercise their mental as well as physical capacities in a creative way in a number of directions, including science and technology, and also in vocational courses. The

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importance of these courses and aspects in school curricula should be weighted according to the skills and aspirations of the students.

Third, the assessment should include a 'formative assessment' which takes account of the value of the creative process, besides the quality of the results, so that possible failures in single steps of the process can be used as stimuli rather than penalties (Robinson *et al.* 1999). Since there is no simple scale for the assessment of creative activity – although the Torrans Tests for Creative Thinking (Kim 2006) are well known and widely used – the competence of teachers is very important, and the advice of experts could be helpful, especially in the event of inspections.

Fourth, the results of the creative activity should be linked with suitable forms of publicity, such as public performances, exhibitions, and workshops with peers at other schools. These activities are facilitated if the schools establish partnerships with other organisations, and links with communities (Robinson *et al.* 1999). This would further help the assessment of students and schools, and it may develop students' skills also during their leisure time.

Reforming educational systems along these lines should yield increased self-esteem and cooperation in students, less negative effects of comparison because of the heterogeneity of students' specialisations, and discouragement of risky activities. These outcomes can be easily described with the help of the model of Sections 3.4, 4.4, and 5.4.

Many of these single aspects may not be new, but Scitovsky's approach provides a new framework, and the rationale to justify the policy priority of reforming the educational systems in terms of urgency and resources.

8.3.4 Re-establishing consumer sovereignty through more skill

Never before the Internet era did consumers have so many options, so that they today appear to be the 'kings' of the consumption market. The old American institutionalists would point out that this is a mere appearance because consumers are rather the victims of producers' advertising (see 2.4.2). The modern behavioural researchers would point out that consumers remain dissatisfied because their limits of rational calculus or of perception bias their choices (Schwartz 2004). Scitovsky significantly departed from these criticisms to suggest different policies, although he was nevertheless an admirer of technological progress and of competition in the consumer market (Scitovsky 1962, 1986 [1972]: Ch. 5).

Scitovsky's criticism of consumer sovereignty is twofold, since it concerns 'preference satisfaction' and 'freedom to choose' (see 8.2.1). First, and on the supply side, the quantity of the products that reflects the preferences of the average consumer is disproportioned because economies of scale can thus be exploited and prices reduced. However,

> the eccentrics, the people who want something different, [...] find life expensive in our economy, irrespective of whether they are rich or poor

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> [. . ., they] are forced by the high cost of eccentricity to give it up and conform instead.
>
> (Scitovsky 1992 [1976]: 10)

Second, and on the demand side, as technology advances, the consumer is increasingly less able to manage the richness and the heterogeneity of the options available, so that she increasingly conforms with others' choices and approaches the average consumer.

Nevertheless, Scitovsky was convinced of the virtues of the market when he wrote that:

> [t]he increasing neglect of minority preferences is a bad thing, because it is illiberal, makes for uniformity, and destroys to some degree the principal merit of the market economy: its ability to cater separately and simultaneously to different people's differing needs and tastes.
>
> (Scitovsky 1962: 265)

The policy implication drawn by Scitovsky was that consumer sovereignty should be increased by encouraging her skill to manage consumption. On the supply side, although Scitovsky welcomed the distortion of competition due to economies of scale because it made it possible to spread economic welfare, he suggested protecting the production that serves minorities of consumers and that exhibits positive externalities (and internalities), such as, typically, the performing arts. On the demand side, proper education to develop life skill, as seen in 8.3.2, should provide consumers with the ability to identify the products that best enable them to develop their life skill further. Since this implies that individuals develop in different directions according to their aptitudes and talents, the demand for consumption becomes heterogeneous, and the protected production will cease to be protected. As Scitovsky said in response to the criticism that he was elitist in suggesting that the arts should be protected: 'the purpose of art education is to increase and keep increasing membership in that elite until it ceases to be an elite' (Scitovsky 1986 [1983]: 157).

8.3.5 Redistributing work through more life skill

Work is badly distributed, especially in the American economy, between the busy rich and the unskilled poor (Caldera-Sánchez *et al.* 2014). Scitovsky was aware of this problem, but he did not suggest straightforward remedies for it. However, he urged the finding of remedies by observing that the long-term unemployed are not only deprived of work and income but also of the life skill necessary to prevent them engaging in risky activities (Scitovsky 1992: xi, 1996, 1995 [1991]: 237–38).[17] The long-term unemployed may enter a vicious circle in which both their productive skills tend to depreciate and their life skill may be compromised by risky activities (Henkel 2011). Therefore, policies for employment, and more generally policies to reduce job insecurity, should not only seek

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to provide more jobs but should be accompanied by policies to maintain or to increase the life skill of people at most risk of unemployment (Scitovsky 1986 [1979]: 121).[18]

In the long run, Scitovsky suggested that standard working time should be reduced in order to make a better distribution of work possible. He listed the advantages of this type of intervention: reduced poverty, greater productivity per hour, more time available for the family and, in particular, for children, less crime and illegal activities. The reduced public expenditure on unemployment benefits, poverty relief, and public security may be used to offset the higher costs of labour contributions paid by employers. However, Scitovsky recognised that financial problems may arise because the benefits of such reform would take years to materialise, while the costs would be immediate (Scitovsky 1995: Ch. 13).

The main problem of this suggested policy, however, derives from the possible unwillingness of workers to reduce both their working time and, at least to some extent, wages. Scitovsky's comment was that:

> [t]he main obstacle today to shortening the workweek or workyear as a more permanent or standard cure for unemployment is that workers do not want more leisure, because they would not know what to do with it.
>
> (Scitovsky 1992 [1976]: 299)

Scitovsky experienced a cut in his income when he moved from Berkeley to Paris, while also gaining more freedom in his research (see 2.2.2). This personal experience confirms what he said regarding his policy suggestions on education, that is, that reforms of this type should be preceded by a change in people's values (Scitovsky 1992 [1976]: 302). In this case of labour reform, people should already appreciate the value of leisure, knowing how to use it for themselves and for their family. Therefore, the reform of labour time should be very progressive, and it can start by giving as much flexibility as possible to working time over the day, over the week, and over people's lives within the current standards.

Some encouraging evidence has already been found. Workers in a Dutch sample who were able to determine flexible working time also reported higher job satisfaction (Possenriede and Plantenga 2014; Bonke and Schultz-Nielsen 2014). The reduction of the standard workweek up to forty hours in Japan and in Korea brought a rise of life satisfaction in the workers concerned (Hamermesh *et al.* 2014). Retirement seems to be generally appreciated because more subjective well-being is reported if retirement is controlled for exogeneity (Fonseca *et al.* 2014; Charles 2004).

8.4 For a new economic growth

The growth of the economy was considered for its effects on people's welfare in Chapters 6–7, but its determination was kept exogenous, or in the background of the analysis as in Chapters 3–5. However, if people's ability to generate welfare by themselves is acknowledged (see Chapter 3), and supporting policies are

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conceived (see 8.2–3), the consequences of welfare on economic growth become an intriguing issue. Unfortunately, Scitovsky did not devote much attention to this issue, perhaps because he was influenced by the idea, which was rather widespread in the growth theory of his time, that economic growth is determined exogenously, that is, by non-economic factors. Today, the idea that economic growth may be, at least partially, endogenous is more common, so that some speculations are possible. Indeed, considering the implications of Scitovsky's analysis of individual welfare on economic growth may be a step forward within his programme of research on human progress (see Chapters 1–2). But these speculations may be also interesting in their own right for the current debates on the indices of progress, on the quality of economic growth, and on the related problems for the environment.

This section will thus make a new assumption: that the policies for individual welfare suggested in the previous section are effective for people to be more successfully engaged in creative activity, consume less for comfort purposes, and be less addicted. A number of consequences for the economy will be explored according to whether they ensue from the change of the quality of work and leisure (in 8.4.1) or from the change in demand for products (in 8.4.2). Finally, the overall relationship that emerges between welfare and economic growth will be considered (in 8.4.3)

8.4.1 A new quality of work and leisure

If people are able to appreciate and successfully pursue creative activity, they approach work with more intrinsic motivation and a sense of challenge. They first search for their own way to develop aptitudes and talents by possibly moving to other cities and countries where opportunities appear more available. People become more entrepreneurs of themselves, and possibly of new firms.

A better allocation of human resources ensues because comparative advantage at the individual level is better exploited. Besides this standard effect, the advantage increases when aptitudes and talents are discovered anew, and when they are further developed on the job. Unemployment may diminish because people are more active in the jobs market. They become more resilient to adverse shocks, both microeconomic and macroeconomic.

Individual labour income, however, may be traded off with intrinsic motivations to some extent, but the increase of efficiency and the externalities will increase productivity in the macroeconomy. People are more productive at work because they are more focused on the tasks; they do not avoid or procrastinate solving everyday problems, but without becoming workaholics. More trustful and cooperative people reduce transaction and monitoring costs for firms. Civil servants become more loyal to their duties, and the public sector will improve in efficiency.

Working time may be shortened for most people, although absenteeism should diminish. Therefore, per capita income may grow less because people develop a new taste for leisure. Voluntary work and other forms of engagement,

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social or complementary to the private sector, may spread among the population with positive social externalities (Bruhin *et al.* 2014).

Time becomes important to live because it is used to appreciate changes, the inner changes due to both learning and the realisation of new things.[19] This time to live during both work and leisure will replace time to produce with fatigue, and time to rest from excessive stress, or to escape from reality through addictive substances and behaviours.

Policies for more creative people can also facilitate excellence in achieving new things and ideas so as to produce innovations for the market and for culture. This case can be represented in terms of Figure 3.2 in Chapter 3 by the upward shift of the upper bound $\tilde{\chi}$ of χ, which is the 'boundary of knowledge' at a certain moment of time for a certain activity and for a certain community.[20] This shift comes about when someone is able to cope successfully with a novelty degree not yet revealed by others. This case is more likely when the individual is exceptionally talented and trained thanks to adequate parenting when she was a child, and receives sufficient resources (i.e. with high S).

Creativity may thus affect innovations. In particular, intrinsic motivations have been found to be necessary for creativity in economic organisations (Collins and Amabile 1999). This is not at all obvious, because economic organisations often undermine creativity in work environments in that they are too focused on the business imperatives of co-ordination, productivity, and control (Amabile 1998). Scitovsky's approach provides the further insight that the sense of challenge is necessary for creative activity together with intrinsic motivations (see 3.2.1). For example, it has been found that the intellectual challenge of work performance is important relatively to the salary in the most creative industrial occupations (Sauerman and Cohen 2010).

Therefore, more creative people may make the environment favourable for innovations, and thus supporting economic growth. These links should be treated with caution, however, because creativity may encounter obstacles to its translation into successful innovations in markets. Producers, or also customers, may be not prepared or able to appreciate new proposals because production may still require disciplined and subordinate workers, and because people may be averse to novelties (Mueller *et al.* 2012). Moreover, negative effects on economic growth may derive from the reduced number of workaholics who were successful in solving problems.

8.4.2 A new quality of product demand

The demand for products has not yet been considered in any detail. This is because the focus has been instead on people's underlying motivations as in Scitovsky's theoretical analysis. The model of Sections 3.3, 4.3, and 5.3 was built with this focus, so that the main conclusions were drawn even if the demand for products was assumed to be undifferentiated. It is now of interest to see how people's different motivations for creative activity, rather than for comfort and for addiction, may affect the composition of the demand for products. In fact,

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different products exhibit different degrees of complementarity with each motivation.

For example, Scitovsky mentioned the case of the ecological content of products when demand derives from the pursuit of comfort: '[c]omfort seems to be the most costly source of human satisfaction in terms of depletable resources and ecological degradation of our planet' (Scitovsky 1992 [1976]: viii–ix). The reason is that comfort is a private goal, whilst how it is achieved counts only for the private monetary costs involved. Instead, the satisfaction from creative activity also depends on how it has been pursued, so that its possible contribution to the degradation of our planet is a psychological cost because it erodes the social dimension of the consumer's life skill.

Empirical research on this matter is still in its infancy, but it is encouraging. Psychological studies focus on motivations, behaviours, and well-being. For example, a study shows that ecologically responsible behaviour, such as turning off lights in unoccupied rooms and reusing paper and plastic bags, is negatively and significantly correlated with an index of materialism and well-being (see 6.3.1 and 6.4.3), and positively and significantly correlated with generosity and well-being in a small sample of adolescents (Brown and Kasser 2005). Another psychological study suggests that information on ecological problems is not sufficient for consumers to undertake ecological behaviours because their sense of effectance and consistency with their past lifestyles are necessary (Pelletier *et al.* 1999). Studies in the Economics of Happiness seem to restrict their focus to the relationship between ecological products and happiness. For example, it has been found that the proportion of the electricity produced with renewable resources is positively correlated with subjective well-being, after controlling for the usual socio-economic variables (Welsch and Biermann 2013). A positive relation has also been found between a vegetarian diet, which is less consuming of non-renewable resources, and happiness and mental health (Blanchflower *et al.* 2012). Therefore, consumer lifestyle is important because it heavily conditions the effectiveness of ecological technology, and also ecological policy (Jackson 2005; Sanne 2002).

Another component of demand by people who pursue creative activity regards services for early, primary, and high school education, and for preventive health. A greater motivation to consume services of this type may derive from school reforms and from greater attention paid to healthy behaviours, instead of addictive ones. This shift of consumers' budgets may thus be rather insensitive to higher relative prices of services.

The growth of this demand for services contributes to economic growth because of the positive role of education and health in the overall efficiency of the economy. This effect runs counter to the prediction of Baumol's 'law' that the expansion of labour-intensive services reduces economic growth because these services display stagnant productivity (Baumol 1967). In fact, Baumol considered only the composition effect on the production of the economy, which is depressive, but he ignored the long-term positive effects of services on the other sectors.

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Pugno (2006) formalised these arguments by extending Baumol's model to the contribution of services to the accumulation of people's skills, and he showed the conditions necessary to make economic growth permanently endogenous. More generally, by describing the possibility of an economy's growth with a composition of production biased towards services, this extended model can give an idea of how the pursuit of creative activity may enhance economic growth by changing its pattern. In other words, making consumer preference less extrinsically motivated does not necessarily imply decreasing economic growth.[21]

A further component of product demand induced by more creative activity consists of amenities, artworks, and related activities. Subsidies to the art sector can be reduced because of rising demand. Similarly to the educational and health sector, the service component is prevalent. Nor should the effects on growth be ignored, although these are difficult to ascertain. In fact, '[a]n aesthetically pleasing environment *does* influence people's performance of whatever they are doing and judgement of whatever they are witnessing' (Scitovsky 1992 [1976]: 175, emphasis in original).

Therefore, the demand for ecological goods and activities, for high school education and preventive health, and for artistic goods and services may rise as a proportion of total consumer demand, and this may have positive effects on economic growth. However, the relative reduction of the rest of products' demand, which derives from the pursuit of defensive activities, may have negative effects on the economy. In fact, this residual demand includes 'defensive goods', such as those for security against crime and social conflicts, as well as addictive goods, which thus become less needed.

8.4.3 Human welfare and economic growth

The analysis of the possible effects of the Scitovskian policies for welfare on the economic growth, although highly speculative, has completed the set of Scitovsky's contributions to the research programme for human progress as put forward by early economists like John S. Mill (see Chapter 1). Sufficiently favourable economic conditions for welfare may enable welfare policies to have positive effects on economic growth, thus triggering a virtuous circle driven by the advance of individual faculties and human thought. It thus becomes possible to answer the core question of this book, that is, whether the economy is able to ensure happy lives for people (see Section 1.1). The answer is 'yes', but conditional on appropriate policies which should reverse the tendency of well-being from lagging behind economic growth to catching up with it.

The cursory analysis of the previous subsections (8.4.1 and 8.4.2) has been sufficient to reveal two aspects of economic growth that would thus emerge. First, the pattern of growth would be different because work would be more intrinsically motivated, and the composition of demand would shift towards educational and preventive health services, as well as ecological and artistic products, and away from addictive products. Second, the rate of economic growth, as conventionally measured, may be different, neither necessarily higher nor necessarily negative.

Scitovsky saw positive economic growth as a signal of novelty and learning in people's lives. But he also warned that the quality of economic growth is an instrument for the development of people's capacities, so that it is the composition of economic growth that matters most.

Notes

1 '[T]he sovereignty of the consumer is not at all the same thing as the sovereignty of the individual or citizen. The consumer is just one facet of the individual' (Scitovsky 1962: 262).
2 Other versions of 'consumer sovereignty' and emphasis on each of its component can be found in the literature. For a recent brief review, see Schubert and Chai (2012), from which the two above quotations were drawn.
3 According to Sen, ' "agency freedom" refers to what the person is free to do and achieve in pursuit of whatever goals or values he or she regards as important' (Sen 1985: 203).
4 An interesting example of how people evaluate two options defined in terms of level and changes respectively can be found in Behavioural Economics. In an experimental setting, Hsee *et al.* (1991) found that people report more satisfaction with the option defined as an absolute level of rewards, with respect to the second option defined as the increasing stream of rewards, but without reaching the level of the first, when people are in conditions of extrinsic motivation. When people are in conditions of intrinsic motivation, they report more satisfaction with the second option. This finding is consistent with Scitovsky's dissatisfaction with the level of income as an index of welfare because he would also have taken the changes of income into account (Scitovsky 1986 [1973]: 24).
5 The intergenerational transmission of preferences and the persistence of their heterogeneity is documented by economic studies on cultures (see the survey by Bisin and Verdier 2011).
6 This case is suggested, by analogy, by Scitovsky's well-known criticism of Kaldor's compensation criterion (Scitovsky 1941; Dobb 1969; Earl 1992). Kaldor's compensation criterion states that one community's consumption bundle is dominated by another if the gain in efficiency obtained by passing from the former to the latter enables gainers to potentially compensate losers (Kaldor 1939). Scitovsky observed that this passage may imply changes of the technical conditions or allocation of resources, so that the criterion may not be applicable.
7 For the problem of the inevitability of paternalistic actions by organisations and governments, see Thaler and Sunstein (2003).
8 For a discussion on this issue, see Hands (2012).
9 For Ryff's 'personal well-being', see 4.4.4, and for the indices of 'secure' attachment, see 4.4.1.
10 For example, irregular or shadow activities are still more widespread in the south than in the north of Italy. Two equilibria can thus be established, and can be explained by different entrepreneurial skills within the same institutional set-up (Carillo and Pugno 2004; Lisi and Pugno 2015).
11 More precisely, children can be considered investment goods, since parents devote resources to them in order to earn rewards when they become elderly and need help. It has been recently argued that parents have an interest in manipulating their children's preferences in order to increase the rewards (Becker *et al.* 2016).
12 The urgency of this problem is evidenced by unwanted pregnancies, whose consequences have been estimated as substantial. An interesting study on this problem has found that the lower costs of abortion in the 1970s in the USA led to improved

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outcomes in the birth cohort in terms of college graduation, welfare services use, and probability of being a single parent (Ananat *et al.* 2009).

13 As Heckman noted, '[c]ompared to 50 years ago, relatively more American children are being born into disadvantaged families where investments in children are smaller than in advantaged families' (Heckman 2008: 289).

14 UNICEF (2007) measured the level of children's well-being as the average of six indices for the following dimensions: material well-being, health and safety, educational well-being, family and peer relationships, behaviours and risks, and subjective well-being.

15 Besides the need to improve early and primary education, Scitovsky suggested paying especial attention to general education at high schools, rather than at university (Scitovsky 1992 [1976]: 302). His worry is confirmed by recent findings on the high school drop-out rate in the USA, which emerges as a major problem (Heckman and LaFontaine 2010).

16 Further evidence is provided by a cross-country study, although on a more restricted aspect. Top-down teaching practice, as captured by 'copying notes from the board during lessons', seems to be inferior to bottom-up teaching practice, as captured by 'working together in groups in class on projects', if students' general trust, cooperative beliefs, and behaviours are concerned (Algan *et al.* 2013).

17 The Economics of Happiness provides the robust finding that unemployment hurts people over and above the income loss (Kassenboehmer and Haisken-DeNew 2009; Helliwell and Huang 2014). Even re-employment does not seem to restore previous life satisfaction (Clark *et al.* 2001; Lucas *et al.* 2004), thus supporting the idea that the experience of unemployment has negative effects on both well-being and life skill which may be responsible for the inertia of drops in life satisfaction.

18 A suggestion may come from the 'JobAct' programme organised by Projektfabrik in Witten, Germany. Young unemployed people engage in theatre courses with the assistance of psychologists and labour market experts in order to challenge their personal and social skills. The success in terms of both increased self-esteem and employment in both theatre and non-theatre jobs has been such that the programme has been extended to many other parts of Germany (www.projektfabrik.org/).

19 'Leisurely contemplation and "idle" speculation seem to be necessary conditions of creative intellectual activity,' said Scitovsky and Scitovsky (1959–60: 100).

20 Note that the optimum line χ^M of the diagram, which lies below the boundary $\tilde{\chi}$, should become quite concave, and F_χ in equation 3.8 becomes markedly negative as χ^M approaches the boundary when skill (S) increases.

21 Pugno's model was extended by Sasaki (2012), who described even richer dynamics. The model was also partially tested for the past experience of a group of eighteen OECD countries, in which the entire expenditure on education and health did not seem to be able to Granger-cause economic growth (Hartwig 2012). This result may suggest that the efficiency of education is not yet sufficiently great.

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Conclusions

This book is ambitious because it offers three things in one:

- a reinterpretation of Tibor Scitovsky's *The Joyless Economy* and related articles by taking advantage of recent research in the Economics of Happiness and other fields;
- an original approach to 'human welfare' which brings happiness into economic theory by distinguishing two dynamic and endogenous pathways which remind us of the ancient contraposition between hedonism and eudaimonia;
- and an explanation of why the economy may fail to bring happiness to people, thus contributing to better understanding of the empirical problem called the 'Easterlin paradox'.

The book has also drawn policy implications and speculated as to their possible effects on the pattern of economic growth.

The reinterpretation of Scitovsky's works has shown that his aim to study 'human welfare', which pertains to how people can lead happy lives, should be distinguished from his aim to describe people's behaviour as consumers of market products. In this way, the insights of Scitovsky's works can be strengthened by substituting the underlying psychology of 'arousal' with more modern psychological theories (Chapter 2). Second, it has been shown that Scitovsky's study of 'human welfare' is inscribed in a wider 'research programme on human progress', which originated together with economics itself, and which was neglected by many economists and for long periods. This research programme links economic growth with the development of human capacities, and hence to people's happiness, so that human progress becomes endogenous (Chapter 1).

At the core of the approach to 'human welfare' are the endogenous dynamics of human capacities (called 'life skill' by Scitovsky) because people are able to 'enjoy learning'. This activity has in fact two positive effects: a direct effect on people's well-being, and an effect on their capacities (called 'internality'), which build up the conditions for further well-being. Happiness thus emerges as an inner process which develops over time and which can be detected by observing

the advances in capacities. However, since learning novelties implies that people are uncertain about how to cope with them, so that the consequences cannot be perfectly foreseen, the optimum behaviour over time becomes difficult to determine in advance (Chapter 3).

This is a remarkable result that should be developed. Scitovsky thought that a 'higher' rationality, one that takes internalities and externalities into account, could be defined. But he also acknowledged that choosing to learn novelties requires imagination, which is partly non-cognitive. Therefore, this pathway to well-being can be improved by discovering one's aptitudes and talents, and then by developing them, so that learning may become a ceaseless lifetime process of goals formation and pursuit.

Individuals' realization of their internal capacities – according to Scitovsky – is connected with others through positive externalities. Hence his concept of well-being is socially embedded without need of 'altruism' or 'reciprocity'. He gave the illuminating examples of how he enjoyed realizing his 'status of father' when he bought a birthday present for his daughter, and of how he felt pride at a well-organised life that had realized both personal and the economy's potentialities. This idea is highly original, but Scitovsky did not fully develop it.

Scitovsky was more focused on distinguishing this 'creative' pathway to well-being, in which one's potential is realized, from the more conventional 'defensive' pathway in which discomforts are relieved. The two pathways may appear complementary rather than substitutable because the 'creative' pathway also prevents discomfort, and the 'defensive' pathway may provide the material resources required to improve the quality of learning. However, research in motivational and developmental psychology makes it evident that the motivations that underlie the two pathways are opposite, and that individuals tend to develop or fail to develop their capacities accordingly. Moreover, while children naturally tend to develop their capacities, any external constraint on their doing so due to inadequate parenting or a lack of material resources makes the 'defensive' pathway attractive and thus compensatory (Chapters 3 and 4).

While there is abundant evidence on the human tendency to explore novelties and realize individual potential, although economics finds it hard to recognise, the contrast between the two pathways to happiness should be empirically investigated further. Psychology mainly provides correlational evidence, while economics encounters a methodological problem in pursuing such investigation because it usually assumes that people have fixed preferences, or, at least, that changes of preferences can be perfectly foreseen. However, the preferences for the two pathways change endogenously and rather slowly, so that they can be analysed distinctly from the problem of the high variability of the demand for market products.

Acknowledging that the development of individuals' capacities can be constrained so as to alter their possibility to lead happy lives prompts a search for the factors responsible for such constraints. Scitovsky indicated the economy itself and, during childhood, inadequate parenting. The role of the economy in people's happiness thus becomes ambiguous because it provides increasing opportunities to

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consume goods, communicate and move around the world; but at the same time, the economy may weaken the development of people's capacities by making them insecure because they are threatened by fierce and pervasive competition, not only in the labour market but also in social relations. This ambiguity of the economy also applies to parenting. Indeed, more education, income, and goods help parents to nurture their children, but at the same time, pressure on parents by producers and society to compete threatens the authoritativeness of their educational role. The poor socio-economic status of the family is thus no longer the only condition that may make parenting inadequate (Chapter 6).

Scitovsky pushed the analysis even further by making worrying predictions. He first observed that the pervasiveness of habits in leading a comforting life erodes satisfaction with this achievement. He then suggested that if comfort in life becomes the predominant goal, so that learning and working are instrumental to this goal rather than to realization of individuals' potential, habits may slide into harmful addiction. Scitovsky referred to behavioural addiction, such as striving for social status, crime and violence, and not only to substance addiction (Chapter 5).

Therefore, economic growth is not necessarily able to improve people's well-being, because habits, comparison with others, and addiction impede the fulfilment of people's expectations to draw the benefits from increasing material opportunities. As a result, the 'Easterlin paradox', which predicts constant happiness, can be better understood, and it can be seen as a concrete possibility, though not a necessary outcome. The Economics of Happiness has provided a large body of evidence on this matter, but without achieving conclusive and general results. Scitovsky's analysis suggests that the empirical research should be carried forward on new bases.

These predictions on people's well-being concern the long run, which is the time dimension of Scitovsky's approach. This is not frequent among the economists, but Keynes's essay on the 'Economic possibilities for our grandchildren' is an interesting and much discussed exception. According to Scitovsky, Keynes raised the 'welfare problem' of whether people will be able to draw well-being from the opportunities made available by future technical progress. Recently, the discussants have instead concentrated their criticism on Keynes's 'unbelievable' mistake of predicting a substantial decline in people's working time. Scitovsky agreed with Keynes on the 'welfare problem', but he predicted a rise in people's working time, at least in the USA. His argument was that longer working time would attempt to hide the 'welfare problem' rather than resolve it, as Keynes's critics would argue. The typical example is workaholism, which seems to be an increasingly frequent phenomenon (Chapter 7).

Room to justify policy interventions is ample in Scitovsky's approach to human welfare because it makes evident a variety of 'market distortions', like social externalities, consumption comparison with others, habits, addictions, and even lifelong 'enjoyable learning'. Possible interventions on these bases may provoke the criticism of paternalism. But when people's preferences change endogenously, as they do especially in the case of children, this criticism becomes unclear and less compelling.

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The case of children may appear less controversial when talking about paternalism, but it is in fact paradoxical. In conventional economics the freedom of children to choose is simply substituted by the 'altruism' of parents whereby they consider their children as a special type of consumption and investment. However, Scitovsky's approach warns that parents may be inadequate to stimulate the development of children's capacities, and that this inadequacy can be transmitted across generations. It should also be pointed out that there are no market mechanisms to correct these problems. In other words, while the 'market of children' is analysed in conventional economic analysis as if children were goods, although very special non-market ones, the 'market of parenting' and its possible failures are entirely ignored. The conventional wisdom therefore seems to adopt the maximum of paternalism for children but the minimum of protection of their freedom to choose adequate parenting.

The policy implications of Scitovsky's approach to human welfare should thus concentrate on the formation of people's capacities, from infancy to adulthood. Adequate parenting and education, policies for mental health, and enhancing people's capacities in the labour market should become the policy priorities.

Policies for human welfare should affect not only people's capacity to draw well-being from economic growth but also economic growth itself. Scitovsky did not discuss this aspect, but some speculations may contribute to the recent debate on the quality of economic growth. Recent reports by international and governmental institutions, in fact, observe that a variety of social and environmental problems accompany economic growth. The reports thus provide an informational basis for the general public and for possible interventions by governments. Scitovsky's approach can provide a complementary basis because it is an analysis of how people can develop motivations that are sensitive to social and environmental problems, and that may strengthen the actions of the institutions. Information and interventions may be insufficient, in fact, if people's motivations and institutions are weak.

Research along these lines should be able to predict the conditions and recommend policies for economic growth to be driven by the development of human capacities. A sector in the economy and families could be even identified in which the endogenous development of these capacities takes place, and can be facilitated by the intensive employment of high-qualified people. The resources thus subtracted from the other sectors would be repaid by greater productivity growth in material production, which could thus be demanded on a more socially-oriented pattern. In more technical terms, Baumol's law should be challenged by turning the static 'cost disease' of market services into the dynamic 'growth trigger' due to the services that produce 'enjoyable learning' (Chapter 8).

In conclusion, developing Scitovsky's approach along these lines could be a step forward in the research programme on human progress initiated by the early economists, and perhaps imagined by the early humans when they painted the walls of their caves.

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Mathematical appendices

Appendix to Section 3.3: solution of the model of creative activity

Section 3.3.1 presents equations and properties 3.1–3.16 with given S_0 and χ_0. The model can be solved graphically, that is, the trajectories of S and χ can be determined on the phase plane in the (S, χ)-axes. To this end, the isoclines $\dot{S}=0$ and $\dot{\chi}=0$, and the points of equilibria should be studied.

Let us first study the isocline $\dot{S}=0$ from 3.16 on the (S, χ)-plane, having made the proper substitutions by using equations 3.9, 3.10, 3.11, and 3.12. The isocline lies in two distinct regions: $\chi<\chi^M$ and $\chi>\chi^M$. In the first case, the implicit derivative theorem applied to the equation of the isocline yields that $\partial\chi/\partial S>0$, because of the properties in 3.7 and of the negative effect of depreciation. Therefore, the isocline $\dot{S}=0$ is rising. If $\chi=\chi^M$, the isocline must intersect χ^M. In fact, the intersections of the isocline with χ^M can be found by substituting χ with $\chi^M(S)$ in 3.16, and setting $\dot{S}=0$, so that:

$$\xi F(S_t,\chi^M(S_t)R_t(\bar{S}+1)=\delta S_t \qquad \text{(A.3.1)}$$

where R is also an F-function of S. Both the l.h.s. and the r.h.s of A.3.1 are rising in S starting from the neighbourhood of zero-S. Since the l.h.s. is S-shaped because of the properties of F^M in 3.5–3.6, two intersections exist if δ is neither sufficiently low nor sufficiently high, apart from the trivial intersection, which is a limiting case. If δ is sufficiently low, then one intermediate intersection exists, and it is relatively far away from zero. If δ is sufficiently high, no intermediate intersection exists. This latter condition is uninteresting, because depreciation would impede the rise of S for every level of S.

Let us then study the portion of the isocline $\dot{S}=0$ in the region $\chi>\chi^M$. The implicit derivative theorem again yields that $\partial\chi/\partial S>0$ because of the properties in 3.8, so that the isocline is rising again. Both portions of the isocline in the regions $\chi<\chi^M$ and $\chi>\chi^M$ approach χ^M according to A.3.1. The isocline $\dot{S}=0$ is therefore almond-shaped, as in Figure 3.2. If δ were sufficiently low, the first intersection would coincide with the origin. If δ were sufficiently high, no isocline $\dot{S}=0$ would exist other than on the origin. In any case, $\dot{S}\rightarrow 0$ for $S\rightarrow 0$.

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Note that the F-function exhibits peculiar isoquants on the (S, χ)-axes, because they are very convex and kinked at χ^M. More specifically, the two arms of each isoquant start from the same point lying on χ^M, and both rise, although in the two opposite regions $\chi<\chi^M$ and $\chi>\chi^M$ respectively. Therefore, if δ is neither sufficiently low nor sufficiently high, the two portions of the isocline $\dot{S}=0$ scale up the isoquants by starting from the left intersection with $\chi^M(S)$, and pointing to the right towards the other intersection with $\chi^M(S)$, although lying in the two respective regions.

For any given $\chi(<\chi^M)$, then $\partial\dot{S}/\partial S<0$ in 3.16, so that the isocline $\dot{S}=0$ in this region describes a locus of attraction. Hence, the trajectories on the phase plane point rightwards, if they lie on the left of this portion of the isocline $\dot{S}=0$; the trajectories point leftwards, if they lie on the right of the same isocline. These dynamics of S obviously cease when $\dot{S}=0$.

For any given $\chi(>\chi^M)$, then $\partial\dot{S}/\partial S>0$ in 3.16, so that the isocline $\dot{S}=0$ in this region describes a locus of repulsion. Hence, the trajectories point towards the vertical axis, if they lie on the left of this other portion of the isocline $\dot{S}=0$; the trajectories point rightwards, if they lie on the right of the same isocline.

Since the F-function is continuous, the trajectories at χ^M maintain the same direction that they have in the horizontal neighbourhoods of χ^M. Since the vertical axis is an attractor line, it also attracts all the trajectories not previously defined in both regions.

Let us then study the isocline $\dot{\chi}=0$, which is rather simple because of the properties in 3.13–3.15, and the properties of the F-function. In fact, the isocline $\dot{\chi}=0$ lies on the curve $\chi=\chi^M(S)$ of the phase plane, and it is an attractor line of χ.

The model thus yields three equilibria in the benchmark case ($s>0$ and δ at intermediate level): the trivial one, like E_1 in Figure 3.2, which is a limiting case, and the two intersections between the isoclines $\dot{S}=0$ and $\dot{\chi}=0$, like E_2 and E_3. The basin of attraction of the trivial stable equilibrium includes the regions where S is very low for any χ, and where S is not very low, but χ is either very low or very high. All trajectories departing from the starting point outside these regions eventually approach the greatest intersection, that is, E_3. Hence, only the E_1- and E_3-types of equilibria are dynamically stable.

F is higher at E_3 than at E_1, so that the trajectories tend to exhibit either a rise or a decrease of F when either E_3 or E_1 are approached, although monotonicity is not necessary along the way. This pattern depends on the initial point of the trajectory, on the parameters of the model, and on the variables $\overline{S}$ and w.

If $\overline{S}$ or w increase, then the almond-shape of the isocline $\dot{S}=0$ in Figure 3.2 expands or shrinks in all directions respectively, so that also the basin of attraction of E_3 expands or shrinks. In fact, both $\overline{S}$ and w contribute to the accumulation of S (equation 3.16).

If F^M is not S-shaped, that is, if $s\rightarrow 0$, then $E_2\rightarrow E_1$, and E_3 becomes the only stable equilibrium.

Appendix to Section 4.3: solution of the model of comfort

This appendix resolves the model of Section 4.3 by taking S and χ, and hence A and T, as exogenously determined. Let us first take the present-value Hamiltonian:

$$\mathcal{H} = u_{c,t}e^{-\rho t}+\lambda_t\,(\theta\,(T-L_{c,t})\,S^{\psi}-\mu H_t) \tag{A.4.1}$$

where C_c can be substituted with wL_c in u_c, as in equation 4.3.

The first-order conditions to maximise V in equation 4.6 are the following:

$$\mathcal{H}_{Lc}=\frac{\partial u_{c,t}}{\partial L_{c,t}}e^{-\rho t}-\lambda_t\theta\,S^{\psi}=0 \tag{A.4.2}$$

$$\mathcal{H}_{H}=\frac{\partial u_{c,t}}{\partial H_t}e^{-\rho t}-\lambda_t\mu=-\dot{\lambda}_t \tag{A.4.3}$$

The shadow price of H can be obtained from A.4.2:

$$\lambda_t=\left(H_t^{\,m}S^n/c\right)^{1-\varepsilon}e^{-\rho t}/\theta S^{\psi}L_{c,t}^{\;\varepsilon}. \tag{A.4.4}$$

Taking logs and time derivative of A.4.4, and substituting $\dot{\lambda}$ into the solution of A.4.3, yields the dynamic equation for L_c:

$$\dot{L}_{c,t}=\frac{L_{c,t}}{\varepsilon}\left(\frac{m}{H_t}\left(\theta S^{\psi}L_{c,t}+(1-\varepsilon)\dot{H}_t\right)-(\rho+\mu)\right) \tag{A.4.5}$$

while the dynamic equation for H is simply:

$$\dot{H}_t=\theta\,(T-L_{c,t})\,S^{\psi}-\mu H_t. \tag{A.4.6}$$

Two equilibria can be obtained from A.4.5–A.4.6 by setting $\dot{L}_c=0$ and $\dot{H}=0$. The equilibrium where $L_c=0$ does not satisfy the transversality condition, so that it should be discarded. The relevant equilibrium, marked by (*), is the following:

$$L_c^{\,*}=\frac{T}{1+\dfrac{m}{1+\rho/\mu}} \tag{A.4.7}$$

$$H^{*}=\frac{\theta S^{\psi}T/\mu}{1+\dfrac{1+\rho/\mu}{m}} \tag{A.4.8}$$

so that:

$$I^{*}=\frac{T}{1+\dfrac{1+\rho/\mu}{m}}. \tag{A.4.9}$$

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The equilibrium (A.4.7–A.4.8) is a saddle point, because the determinant of the Jacobian around it is negative. In fact, it can be proved that, in the neighbourhood of the relevant equilibrium:

$$\partial \dot{L}_c / \partial L_c > 0,\ \partial \dot{L}_c / \partial H < 0,\ \partial \dot{H} / \partial L_c < 0,\ \partial \dot{H} / \partial H < 0 \quad \text{(A.4.9)}$$

so that:

$$\text{Sign (Determinant): } (\partial \dot{L}_c / \partial L_c)(\partial \dot{H} / \partial H) - (\partial \dot{L}_c / \partial H)(\partial \dot{H} / \partial L_c) < 0. \quad \text{(A.4.10)}$$

Appendix to Section 5.3: solution of the model of comfort and addiction

This appendix resolves the model of Section 5.3, which refers and extends the model of Section 4.3. The present-value Hamiltonian considers an additional control variable with this extension, being Z as given, so that the first-order conditions for maximising V' become three. In fact, given that:

$$\mathcal{H} = u_{bc,t} e^{-\rho t} + v_t \left(\theta \left(T' - L_{b,t} - L_{c,t}\right) S^{\psi} - \mu' H_t Z_t\right) \quad \text{(A.5.1)}$$

the conditions become:

$$\mathcal{H}_{L_b} = \frac{\partial u_{bc,t}}{\partial L_{b,t}} e^{-\rho t} - v_t \theta S^{\psi} = 0 \quad \text{(A.5.2)}$$

$$\mathcal{H}_{L_c} = \frac{\partial u_{bc,t}}{\partial L_c, t} e^{-\rho t} - v_t \theta S^{\psi} = 0 \quad \text{(A.5.3)}$$

$$\mathcal{H}_{H} = \frac{\partial U_t}{\partial H} e^{-\rho t} - v_t \mu' Z_t = -\dot{v}_t \quad \text{(A.5.4)}$$

The first two conditions yield:

$$L_{b,t} = L_{c,t} \left(G_t / \left(p_b c\right)\right)^{\frac{1-\varepsilon}{\varepsilon}} \left(\alpha / \beta\right)^{\frac{1}{\varepsilon}} \quad \text{(A.5.5)}$$

Since G does not contain control or state variables, the procedure for obtaining the non-trivial equilibrium solutions for L_c, L_b and H is rather straightforward. The results are directly comparable with those obtained for the unextended model, and given in the Appendix to Section 4.3. In fact:

$$L_c^{*\prime} = \frac{T'}{1 + \frac{m}{1 + \rho / \mu' Z_t}} \frac{1}{1 + \left(G_t / \left(p_b c\right)\right)^{\sigma - 1} \left(\alpha / \beta\right)^{\sigma}} \quad \text{(A.5.6)}$$

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$$L_b^* = \frac{T'}{1 + \frac{m}{1 + \rho / \mu' Z_t}} \frac{1}{1 + \frac{1}{\left(G_t / (p_b c)\right)^{\sigma - 1} (\alpha / \beta)^{\sigma}}} \tag{A.5.7}$$

$$H^{*\prime} = \frac{\theta S^{\psi} T' / \mu' Z_t}{1 + \frac{1 + \rho / \mu' Z_t}{m}}. \tag{A.5.8}$$

Note that when $G = 0$, then L_c is the same as in the Appendix to Section 4.3, and when $G \rightarrow 0$, then $L_b \rightarrow 0$.

The dynamics of Z is given by equation 5.4. The equilibrium for Z can be obtained, first, by setting this equation equal to 0, and then by proper substitutions for C_b, so that:

$$\left(L_b * \left(g + Z * - S_t\right) w / p_b\right)^{\frac{\sigma - 1}{\sigma}} = \varphi Z^* \tag{A.5.9}$$

A finite level of Z^* exists if the derivative of the l.h.s. with respect to Z is smaller than $\varphi > 0$. If a finite Z^* exists, and it is sufficiently small, then final higher equilibrium level for L_b, and final lower equilibrium level for L_c can be obtained through A.5.6 and A.5.7. If Z^* is not sufficiently small, then L_c will be reduced to the minimum (L^{min}), and Z continues to cumulate indefinitely.

If Z increases, then $L_c^{*\prime}$ and $H^{*\prime}$ diminish for A.5.6 and A.5.8, and also S diminishes for equation 5.5. Consequently w diminishes for equation 4.5. Therefore, while the increase of Z, and hence of G, has a positive effect on U, the reduction of w has a negative effect on U, and the reduction of S deteriorates the benefits from creative activity.

Appendix to Section 6.3: modelling the case of children

The combined model of Sections 3.4 and 4.4 can be simplified to represent the case of the development of the child, and to give a sharper description of the role of parenting. It should in fact be assumed that the child does not work, but receives from her parents an exogenous amount of consumption, which she allocates between creative activity and comfort. The child cannot decide about the novelty degree of the creative activity either, because parents decide for her in the attempt to match it with her aptitudes and talents.

The child draws well-being from two sources, which are similar to those of adults, described in equations A.6.1 and A.6.2:

$$F(S_t, \chi_t)\ C_{a,t} \text{ with all the properties (3.2–8),} \tag{A.6.1}$$

where the child's resources (ex R) consist in consumption goods for this purpose (C_a), and:

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$$u_{c,t}=\frac{\left(C_{c,t}/c\right)^{1-\varepsilon}}{1-\varepsilon} \text{ with } 0<c<\infty,\ 0<C^{min}<C_c<\infty \text{ (ex 4.1)} \tag{A.6.3}$$

where $\varepsilon>1$, and presumably higher than in the case of adults.

The child chooses the purpose of employing consumption goods, either C_a or C_c, while there is no problem of time allocation. The constraints are different from those of adults, and can be simply put as follows:

$$C_{a,t}+C_{c,t}=C_{ac,t} \text{ (ex 4.10).} \tag{A.6.4}$$

where C_{ac} is consumption goods exogenously given by parents to the child, and $p_a=p_c=1$ for simplicity. She allocates more consumption goods to the creativity option if this is successful according to the equation:

$$C_{a,t}=\bar{C}_{a,t}+\Gamma(F_t) \text{ (ex 3.12).} \tag{A.6.5}$$

where $\bar{C}_{a,t}$ is given and Γ is a positive and concave function.

The development of the child's life skill can be described by the usual dynamic equation:

$$\dot{S}_t=\xi F_t C_{a,t}(\bar{S}+1)-\delta S_t \text{ with } 0<\xi<\infty,\ 0\leq\delta<\infty \text{ (ex 3.16),} \tag{A.6.6}$$

and by how χ is selected and adjusted. Let us assume that this process is governed by the parents' interpretation of the child's signals of satisfaction $(F^M-F_t)/F_t$ through non-verbal and verbal communication. To this end, they employ parental time (A_p) and ability (S_p). Let us then specify the dynamic equation for χ as follows:

$$\dot{\chi}_t=f[A_p, S_p, (\bar{S}+1)\left(F^M-F_t\right)/F_t] \text{ if } \chi<\chi^M \tag{A.6.7}$$

where the function f is positive and concave in all the three arguments. Parental time and ability can be regarded as imperfectly substitutable above some minimum of each of them, below which both are essential. Similarly:

$$\dot{\chi}_t=-f[A_p, S_p, (\bar{S}+1)\left(F^M-F_t\right)/F_t] \text{ if } \chi>\chi^M \tag{A.6.8}$$

$$\dot{\chi}_t=0 \text{ if } \chi=\chi^M. \tag{A.6.9}$$

These equations state that the more the parental time, and the higher the parental ability, the faster the parents adjust the novelty degree of the selected activity for the child. Her initial S_0 is given by the natural (possibly genetic), endowment of aptitudes and talents at birth, which is predisposed to develop, and by χ_0, which may be given by the imitation of others. Little parental time and ability implies that the child's activity is conformist, or even remains idiosyncratic.

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The solution of this model resembles the solution of the model of Section 3.3, so that Figure 3.2 in Chapter 3 can be again taken for reference. The three key new variables are C_{ac} and A_p, which are under the control of the parents, and S_p, which they inherit from the past. Parents are said to be 'adequate' if they are high in A_p and/or S_p, so that the development of S is fast because the trajectory rapidly goes towards the χ^M, for a sufficient level of material resources C_{ac}. High levels of the child's satisfaction F motivates her to use consumption goods for creative activity, thus increasing C_a, rather than for comfort, thus reducing C_c. Parents are 'inadequate' if they are low in A_p and/or S_p, so that they fix and maintain a wide gap in $|\chi - \chi^M|$, with the consequent low development or even deterioration of S. The child will attempt to find compensation in consumption by increasing C_c, and thus by reducing C_a.

Rich but inadequate parents can improve the development of the child's S by employing more economic resources for this purpose (C_{ac}). This means that E_3 in Figure 3.2 shifts away from the origin, thus widening its basin of attraction. However, the abundant economic resources may be not sufficient to enhance S if the child's experience of inadequate parenting has been especially disappointing. In this case, the trajectory does not fall within the basin of attraction of E_3 because either the gap $|\chi - \chi^M|$ is too large or S has already fallen. But even if S increases, inadequate parenting keeps the child's trajectory distant from χ^M.

Poor but adequate parents can provide few economic resources to the child (C_{ac}), but they are able to maintain her gap $|\chi - \chi^M|$ relatively small. This means that E_3 is rather close to the origin, so that S can develop, but to a limited extent. Very poor parents compromise the conditions for their child altogether, because the lack of economic resources will eliminate E_3, so that S will deteriorate because the trajectory will point to E_1.

Let us finally study the consequences of economic growth on the child's well-being through parenting. If the parents are inadequate, they exploit the possibility to earn a higher income by working more, so that they can give more resources to the child (C_{ac}) at the cost of (further) reducing parental time (A_p). The child ends up by using those resources more for comfort than to develop her S, so that A_p is substituted with C_c. If the parents are adequate, they can substitute their ability (S_p) with parental time (A_p), and enhance the child's development. The social context affects this dynamic through $\overline{S}$ in equations A.6.6–A.6.8.

Producers' pressure can be captured by the greater substitution of A_p with C_{ac}, and hence with C_c. If it is also assumed that the qualities of consumption goods differ between C_a and C_c, then producers' pressure may further encourage the parents to substitute A_p directly with C_c.

Appendix to Sections 6.3 and 6.4: formalising the Scitovskian explanation

Scitovsky's analysis on how (adult) people may become 'joyless', although their economic conditions are improving, can be represented by using the model of

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Sections 3.3, 4.3, and 5.3. This appendix thus shows how the overall model can work.

Economic growth offers two major opportunities, that is, the reduction of labour time necessary for subsistence, and the rise in interesting work. But economic growth also affects people in how to exploit such opportunities. Let us thus begin the formal analysis by mapping the time use as it emerges from our integrated model.

Table A.6.1 represents the individual's available time, which was set at unity, as a horizontal bar, which is segmented according to its use in Scitovsky's threefold options. The left portion of the bar represents time for creative activity (A), as distinguished between leisure (l) and labour time for products used in this activity (L_a). The creative component of work ($\hat{\tau}L$) should be added as an input to creative activity, though bearing in mind that it is already included as a share ($\hat{\tau}$) of total labour time (L). The central portion of the bar represents time for comfort (T), as distinguished between time investment in productive human capital (I), and labour time for products used in this activity (L_c). The products for subsistence are produced through a share of L_c, that is, L^{min}. The right portion of the bar represents labour time for products used in addiction (L_b).

The opportunities made available by technical progress can be represented as the shrinking of L^{min}, and the enlargement of $\hat{\tau}$. The former creates the opportunity to employ more time for the other uses, while the latter creates the opportunity to use time for creative work.

The basic Scitovskian argument is that economic growth undermines the development of life skill, so that the individual is induced to substitute creative activity with comfort and addiction, that is, to shift time use from A to T'. Economic growth can undermine the development of life skill through the two channels as described in Sections 6.3.1 and 6.3.2. The channel due to inadequate parenting during childhood has been formalised in the Appendix to Sections 6.3. In adulthood it proceeds through a relatively low level of the initial life skill (S_0), and a relatively high initial gap $|\chi^M - \chi_0|$. These are premises for a poor subsequent dynamics of S, and hence of F, thus possibly inducing a reduction of A through equation 3.12. Reductions of A further weaken the development of life skill through R in equation 3.16.

Table A.6.1 Time uses in the three options and subcomponents

<table>
<tr><td colspan="2">*Creative activity* ($+\hat{\tau}L$)</td><td colspan="3">*Comfort*</td><td rowspan="2">*Addiction*</td></tr>
<tr><td colspan="2" rowspan="2">A</td><td colspan="3">T</td></tr>
<tr><td colspan="4">T'</td></tr>
<tr><td rowspan="2">l</td><td rowspan="2">L_a</td><td rowspan="2">I</td><td colspan="2">L_c</td><td rowspan="2">L_b</td></tr>
<tr><td></td><td>L^{min}</td></tr>
</table>

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The channel due to the worsening of individual's insecurity in the labour market can be represented by the rise of time preference (μ in equation 4.6). This induces the individual to reduce investment in productive skills (I in equation 4.2), with the effect of reducing her income w, at least in the long run, since $w^* = (I^* \theta S^{\psi} / \mu)^m S^n$, and the resources for creative activity (R) through equations 3.10, 3.9, and 3.1.

Economic growth and technical progress are beneficial for the productivity of productive skills, that is, for m in equation 4.5, so that the individual's income will rise, thus relaxing the budget constraint. This effect counteracts the second channel if the individual is employed, but if she is unemployed, the lack of income worsens the economic conditions. This may be captured by a drop in m.

In the labour market other conditions, like over-education and work overload, may constrain the development of life skill. Over-education can be captured by our model as the case in which the individual aspires to a more complex activity than that required by her job, since this has been designed for a less educated worker. Referring to Figure 3.2, the individual would encounter an upper bound to χ, which is the level of complexity of the job, *before* achieving χ^M, which may represent her aspiration. Over-education would thus hinder closing the gap $|\chi^M - \chi|$. The opposite case is work overload, which can be represented by our model as a lower bound to χ but set at a very high level, so that χ should be fixed at an even higher level, thus implying anxiety, and deterioration of life skill.

A further channel may be due to changes in the relative prices of those goods that are specific to one option only. Scitovsky typically addressed the case of the performing arts, the relative price of which is on the rise because of the Baumol's law. In the model, this means that p_a increases, being 'comfort goods' the numeraire. As a consequence, C_a is discouraged, and this reduces R, and thus the possibility of S to develop.

If the development of life skill is seriously deteriorated, then addiction becomes attractive. The shift of time from A goes to L_b. The details of this dynamic have been already provided in Section 5.3, and in particular in 5.3.2.

Our model is also able to show how comparison consumption emerges in an individual's behaviour, thus taking account of the most popular explanation of the Easterlin paradox. Comparison consumption is represented in the equations 4.1 and 5.1 by c, which makes C_c as relative. Economic growth thus implies growth of both m (and hence w) and c, while the dynamics of well-being eventually depend on the development of life skill. If life skill is at a low level, then F is low, so that it discourages the individual from spending income for this purpose (equation 3.12), thus undertaking the substitution with comfort. However, the reward from this shift is eroded by the rise of c, which has negative effects on u_{bc} (equation 5.1). Therefore, the more life skill has deteriorated, the less income is able to provide well-being to the individual.

Appendix

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