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Beyond the distinction between necessities and luxuries

by

Maurizio Pugno

Abstract

The distinction made by the classical economists between necessities and luxuries is weakened by two problems: how to draw the line between necessities and luxuries in advanced modern economies; how to evaluate luxuries, whether positively for individual's freedom and for the economy, or negatively because they appear unethical. This paper examines a possible way out of these problems that emerges both from Scitovsky's approach to "human welfare" and from some overlooked insights of Marshall, Hawtrey, and Keynes, the Cambridge economists who inspired Scitovsky. The proposal is to split luxuries into two components, and to redefine them, together with necessities, on the basis of people's motivations and goals, as well as of the effects on well-being and on the economy.

JEL codes: B20, D11, D60, I25, I31

Keywords: necessities, luxuries, Scitovsky, well-being, welfare, Marshall, Hawtrey, Keynes

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*for those who do most to advance the boundaries of knowledge,
seldom care much about the possession of wealth for its own sake*
(Marshall 1920[1890], I.I.3).

1. Introduction

The distinction between necessities and luxuries in consumption is an old one. Yet it is controversial essentially because the difference between the two consumption components is apparent in extreme cases, such as water and jewelry, but is highly questionable in the intermediate ones, such as health expenditure. A first main controversy regards how to draw the dividing line between necessities and luxuries. A second controversy concerns the welfare content of luxuries. After primary needs have been satisfied, the consumption of luxury goods has been regarded either as evidence of the freedom gained by human beings or as the unethical exhibition of wealth and power against the poor.

The problem of the dividing line is important for the classical theory of value and distribution because necessities fix real wages, so that the surplus of the economy for productive or unproductive uses can be determined. However, the solution of defining necessities in absolute terms as goods needed for survival exhibits a major weakness: when more comfortable goods are experienced, e.g. because technical progress makes them cheaper, then those goods are soon felt to be necessary. Therefore, necessities cease to be a fixed set of goods over time.¹

The problem of the welfare content of luxuries is at least as old as Bernard Mandeville's famous *Fable of the Bees*. Before this book, first published in 1714, luxury provoked deep moral concern. For example, a luxury lifestyle in ancient Greece was regarded as unhealthy and corruptive for individuals and for the very existence of the polis (Berry 1994). Recently, the concern has been resumed with the claim that "capitalism's competitive logic drives firms to carve out new markets by manipulating wants", instead of leaving people to pursue "basic goods," like friendship, respect, health, and others (Skidelsky and Skidelsky 2013, 40 and ch. 6). Mandeville instead defended luxuries against the moral view by arguing that luxury is

¹ Smith stated that: "the wages of labour [...] is precisely necessary to enable the labourer to bring up a family" (Smith 1776, 1.VIII.28). Ricardo attempted to adjust his initial definition based on the survival criterion by adding that: "the natural price of labour [...] essentially depends on the habits and customs of the people" (Ricardo 1817, 61).

“every thing [...] that is not immediately necessary to make Man subsist” (Mandeville 1932[1714], 107), and that self-interested passions, like vanity and greed, result in publicly beneficial results. He thus paved the way to modern economics, which abolished any distinction in the consumer’s basket other than that of specific consumption goods, and which based consumer choice on self-interest.

The notion of necessities, as a component of the consumption basket, was taken up also from the empirical point of view by Ernst Engel. His finding that individual’s income is negatively related to the proportion spent on nourishment seems to indicate empirical regularities as the basis for identifying the distinctive characteristic of necessities (Engel 1895). Engel seemed also to take from classical economists the idea of partitioning the consumption basket according to needs.² However, this empirical approach does not resolve the problem of how to draw a clear necessary/luxury distinction because the same consumption good actually observed may serve different needs for different individuals or at different times.

The present paper examines a remedy for these problems that emerges both from Tibor Scitovsky’s approach to “human welfare” (Scitovsky 1986[1973], ch. 2; 1992[1976]; 1996) and from some insights of Alfred Marshall, Ralph Hawtrey, and John M. Keynes. These three authors belonging to the “Cambridge school” (Scitovsky 1951) were cited by Scitovsky when he reviewed the anticipators of his approach (Scitovsky 1986[1985], ch. 14). But careful reading of their works reveals that they were even more important for Scitovsky than he explicitly acknowledged.

Indeed, Marshall, Hawtrey, and Keynes are well known for their contributions to economics, defined as the “study of [...] that part of individual and social action which is most closely connected with the attainment and with the use of the material requisites of wellbeing” (Marshall 1920[1890], I.I.1). But their insights which inspired Scitovsky instead emerge from less examined parts of their works devoted to crossing economics borders in order to address a concept broader than material welfare.

In synthesis, the Scitovskian remedy is to split luxury into two components, called “comfort” when “prime necessities” are already normally satisfied, and “creative” or “stimulating activity.” The three components, necessities, extra-comfort, and creative activity, are characterized by the underlying motivations and goals of individuals, as well as

² “Engel explicitly stated that he aimed to group goods and services according to the purpose of consumption rather than according to the industry responsible for their production” (Chai and Moneta 2010, 234).

by the effects on their well-being and on the economy. In particular, the distinction between the two components of luxury is self-reinforcing because while extra-comfort can be increased through costly investments in productive skill, performing creative activity may be both satisfying and useful for learning new skills. The two components of luxury may also substitute each other with significant welfare consequences.

This approach is contained in the two editions of Scitovsky's well-known book *The Joyless Economy*, and in the companion articles.³ Nevertheless, his contribution to developing the insights of the Cambridge school economists in regard to resolving the necessities/luxuries dichotomy has not yet been investigated.

The paper is organized as follows. Section 2 shows the passage from the necessities/luxuries bi-partition to the tri-partition of the consumption basket as suggested by the insights of Marshall, Hawtrey, and Keynes, and then developed by Scitovsky. Section 3 focuses on the effects of the pursuit of comfort when prime necessities are satisfied, according to Scitovsky, after a review of the Cambridge authors. This is in parallel to Section 4, which focuses on the effects of the pursuit of creative activity. The Conclusions end the paper.

2. The tri-partition of the consumption basket

One of the most insightful partitions of the consumption basket was proposed by Alfred Marshall. He inherited from Adam Smith and "his followers" the definition of "necessaries" as "those things which were sufficient to enable the labourers [...] to support themselves and their families," so that "necessaries [...] include[e] all things required to meet wants which must be satisfied" (Marshall 1920[1890], II.III.3). He further clarified that necessities should include what was conventionally regarded necessary according to some standard of "decency." This may appear too loose a criterion, but Marshall surprisingly gave a clearer definition of necessities by addressing what is today known as the "nutritional approach to efficiency wages."⁴ He said that "the income of any class in the ranks of industry is below its

³ The book had the honor of being classified as one of "The hundred most influential books since World War II" by the *Times Literary Supplement* on 6 October 1996. The companion articles seem to have received, however, much less attention. A thorough discussion of Scitovsky's approach is provided in Pugno (2016), while other articles on his contributions are Earl (1992), Bianchi (2003), Edwards and Pellé (2011), and Pugno (2014a, 2014b).

⁴ See, e.g., Stiglitz (1976).

necessary level, when any increase in their income would in the course of time produce a more than proportionate increase in their efficiency” (II.III.3). Marshall thus first linked the objective content of necessities to how it is individually and socially evaluated; and then he linked the necessities to their effects on individuals’ efficiency when they are working. This suggests that individuals should be both well-nourished and motivated to be productive.

Marshall then distinguished between “wants” and “activities.” By “wants” he meant the “desires [for] a greater choice of things” (III.II.1) in the “ordinary business of life” (I.I.1), so that they can be measured by money (II.II.1). The concept of wants thus refers to “utility” (III.III.1), and pertains to economics (I.III.4, I.IV.1). By contrast, “activities” refer to both the “desire for excellence”, i.e. for self-emulation, and to the “desire for distinction”, i.e. for social recognition, neither of which strictly pertain to economics (III.II.4).⁵

It thus seems that wants include necessities, and may go beyond them, but they may still leave room for “activities” in the consumption basket. Therefore, it can be said that – according to Marshall – the consumption basket generally consists of three components: “necessary wants,” “wants of a less urgent character” (II.III.3) that are also called “artificial wants” (VI.XII.1) or “artificial comfort and luxuries” (IV.VI.1), and “activities.” Table 1 can help the reader in following the partitions of our authors.

Ralph Hawtrey proposed subdividing the consumption basket on a slightly different basis, which inspired Scitovsky even more.

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, 189).

Despite the term “products,” the distinction was not based on the physical characteristics of consumption, but rather “on the nature of the ends actually sought” (Hawtrey 1925, 189), where “ends” mean final ends (“finished products”, p. 189) and not intermediate ends. For example “[t]ravelling may be either a defensive or a creative product according to the object for which it is undertaken” (p. 191). “Food taken merely to satisfy hunger is a defensive product” (p. 198), while “food and drink, [in case] of hospitality [...] are valued not as ends in themselves but as means to social companionship” (p. 199). Material products may be

⁵ To be noted is that Marshall was in doubt before choosing to study economics when he was young, because he always preferred psychology (Caldari 2004).

almost unnecessary, as in “human intercourse” (p. 191). By contrast, material products may be very expensive without changing the final ends for which they were sought. In the case of defensive ends, material products may yield “no positive good” but only bring the consumer “to the zero point, at which he is suffering from no avoidable harm” (p. 191).

Therefore, the crucial distinction in the consumption basket – according to Hawtrey – is between the defensive product as “the need [that] arises from distress caused or threatened by some physical condition” (pp. 190-1), and the creative product as “the need [that] can only arise from a knowledge of the possibility of the product. Obviously that knowledge cannot take the form of an original invention as something new, save in rare and exceptional cases” (p. 191).

This distinction does not exclude the necessities/luxuries distinction, and can be overlapped with Marshall’s wants/activities distinction. In fact, necessities are clearly defensively motivated, but Hawtrey’s “defensive products” also include what Marshall called “artificial comfort and luxuries.” Hawtrey clarified that this component of defensive products arises when “the mere use of the product creates the need that it fulfils” (Hawtrey 1925, 197), thus suggesting the term of “induced defensive products” (see Table 1).⁶

John Maynard Keynes was the third Cambridge economist who inspired Scitovsky in subdividing the consumption basket. In the 1930 essay on the “Economic possibilities for our grandchildren,” Keynes defined the “economic problem” as the “struggle for subsistence”, so that he could discuss how people will employ the freedom gained from ceasing such struggle thanks to economic progress. More precisely, he identified “those needs which are absolute” as “the objective requirements of a good and comfortable life,” such that “a point may soon be reached [...], when these needs are satisfied in the sense that we prefer to devote our further energies to non-economic purposes” (Keynes 2008[1930], 21).

However, Keynes did not take this outcome for granted, because some people may continue to devote their energies to economic purposes. He in fact distinguished two types of motivation when the economic problem would be solved, i.e. within a hundred years (p. 21): the economic and the non-economic motive. The former was called “the motive of money-

⁶ The word “induce” was used by Hawtrey when he talked about the effects of advertisement (Hawtrey 1925, 203). This argument was subsequently developed by Galbraith (1958), who claimed that consumers have lost their sovereignty because their preferences have been molded by the producers. Scitovsky agreed with Galbraith on the loss of sovereignty, but he rather attributed it to the lack of the consumers’ skill, as described in the text (Section 4). Indeed, Galbraith is never cited in *The Joyless Economy*.

making” or “love of money as possession”; the latter was called “love of money as a means to the enjoyments and realities of life” (pp. 23-4).

But Keynes, in *The General Theory*, also referred to “animal spirits” as a characteristic of “human nature” when “spontaneous urge to action rather than inaction” goes beyond “exact calculation” of the expected returns (Keynes 1936, 12.VII). This urge “to do something positive” recalls both Marshall’s notion of activity and Hawtrey’s notion of creative products.

Therefore, Keynes added interesting considerations that can be referred to a tri-partition of the consumption basket. His view had one important aspect in common with those of Marshall and Hawtrey: the criterion used to subdivide the consumption basket, which referred, not to the physical characteristics of the goods, but to the underlying motivations and goals of people.

Scitovsky’s proposed tri-partition of the consumption basket synthesized and developed the insights of the Cambridge economists. The tri-partition is at the basis of his approach to “human welfare,” also called “the behaviour and well-being of the individual person” (Scitovsky 1986, *ix*), so that he devoted a great deal of space to its definition and refinements throughout his works.

According to Scitovsky, a standard for necessities exists at a given time (Scitovsky, 1992[1976], 113-4), and “differences in need are self-evident or ascertainable by objective tests – as in the case of education, medical care and legal representation” (Scitovsky 1986[1974], 28). This standard implies that people can be satiated with necessities, and they may then demand something different. Scitovsky acknowledged that this standard may change because it is economically and socially determined, but he advanced an interesting argument in order that the increase of the standard does not prevent the emergence of other consumption components.

Scitovsky’s argument focused on a critical aspect. One may presume that people’s need to insure themselves against future uncertainties, e.g., regarding their health, is insatiable.⁷ Scitovsky instead observed that “[t]here 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, *emphasis added*). Therefore, although future uncertainties

⁷ The case of health is the preferred one in order to argue that it is not possible to fix a standard in which the need is satisfied (see, e.g., Friedman 2008). However, recent evidence shows that the income elasticity of health care expenditure is significantly below unity (Sen 2005; Freeman 2012).

cannot be completely eliminated, and increasing resources can be devoted to reducing them, people *normally* set a limit on their expenditure for such purposes, and cease to take a defensive attitude.

Scitovsky's synthesis of the insights of the three Cambridge economists is evident in his distinction between "comfort" and "creative" or "stimulating activities" (Scitovsky 1992[1976], Preface, Appendix; 1986, ch. 14). His analysis in fact developed Marshall's insights that wants refer to well-defined goals, while activities refer to desired experiences, and Hawtrey's insights about the distinction between defensive and creative products. According to Scitovsky, comfort requires a preceding state of discomfort as a pain or fear of pain which exogenously emerge (Scitovsky, 1986[1983], 150). Comfort includes 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 (Scitovsky 1992[1976], 114-8).

By contrast, "creative" or "stimulating activities" derive from the idea that human beings are pro-active by nature, as effectively exemplified by Keynes's case of businessmen. Scitovsky referred to sensory stimulations when he addressed the psychological experiments of his time (Scitovsky 1992[1976], chs. 2-4), but his analysis also refers to a more psychological process. In fact, Scitovsky took from Marshall the insight that "activity" needs intrinsic motivation when people pursue it for its own sake. Secondly, Scitovsky observed that human relationships give opportunities to "exchange [...] information and ideas" (Scitovsky 1992[1976], 236), so that the relations with others are "probably the main sources of human satisfaction" (Scitovsky 1986[1973], 19) in the form of stimulation and challenge (Scitovsky 1992[1976], 83).⁸ Thirdly, Scitovsky stressed that people should be adequately skilled in order to appreciate creative activity, as will be explained below (Scitovsky 1986, ch. 14).

Therefore, the motivations and the required skill characterize Scitovsky's distinction between comfort, which includes necessities, and creative activity. Economic goods are not instead a good guide for this distinction, because the same types of them may be used both for comfort and for creative activity (Scitovsky 1992[1976], 109; 1986[1972], 61; 1986[1979], 119). Other characterizations of comfort and creative activity derive from the analysis of their effects, as the next sections will show.

⁸ "Social intercourse cannot flourish in a vacuum," thus argued Hawtrey. "It depends upon the ideas of those who take part in it" (Hawtrey 1925, 209).

	<i>Marshall</i>	<i>Hawtrey</i>	<i>Keynes</i>	<i>Scitovsky</i>
I	“necessaries”, necessary “wants”	“defensive” final ends: “prevent or remedy pains or distress”	“struggle for subsistence”	“prime necessities”
II	“artificial wants” or “artificial comfort and luxuries”	“induced defensive” final ends, arise when “the mere use of the product creates the need that it fulfils”	“love of money as possession”, i.e. as an end	“comfort” as a defensive goal
III	“activities”: “desire as change for the sake of change” while “training higher faculties”	“creative” final ends: “supply some positive gratification or satisfaction”	“love of money as a means to the enjoyments and realities of life”	“creative” or “stimulating activity”

Table 1: From the necessities (I) vs. luxuries (II+III) partition to the tri-partition (I,II,III) of the consumption basket.

3. The effects of the pursuit of “comfort” beyond necessities

Comfort is a type of well-being (or happiness) in which some desired goals have been achieved. Therefore, the primary effect of the successful pursuit of comfort is well-being. Marshall, however, observed that this effect may be not permanent for two reasons. First, “after a time new riches often lose a great part of their charms [...because] of familiarity; which makes people cease to derive much pleasure from accustomed comforts and luxuries, though they suffer greater pain from their loss.” Secondly, “with increased riches there often comes either the weariness of age, [...] and perhaps even habits of living that lower physical vitality, and diminish the capacity for pleasure” (Marshall 1920[1890], III.VI.6).

Marshall further observed that there is a specific type of pursuit of comfort that is not linked to well-being. “There are indeed some who find an intense pleasure in seeing their hoards of wealth grow up under their hands, with scarcely any thought for the happiness that may be got from its use by themselves or by others.” The underlying motivation is “the desire to outstrip their rivals; [...] the ambition [...] to acquire power and social position by its

possession” (III.VI.6). Marshall even saw the risk that these people “reduce[...] to insignificance the desire for [...] all ordinary pleasures, and sometimes even destroy [...] in [them] the finer sensibilities and nobler aspirations” (IV.VII.6).

The effect of pursuing comfort on economic growth – according to Marshall – seems negative. “The growth of a money-economy and of modern habits of business does indeed hinder the accumulation of wealth by putting new temptations in the way of those who are inclined to live extravagantly. [...]The growth of new wants, lead[s] to new extravagances, and to a subordination of the interests of the future to those of the present” (IV.VIII.5). This quotation suggests that the pursuit of comfort reduces investment. But Marshall seemed to refer to investment in people’s skills and strength, because he later referred to “food and drink that gratify the appetite but afford no strength”, and to “ways of living that are unwholesome physically and morally” (VI.XIII.1).

Therefore, Marshall regarded the pursuit of comfort as undesirable for a number of reasons. Habits, loss of vitality, addiction to wealth, crowding-out of nobler aspirations would in fact reduce the enjoyment of achieving comfort, with possible harmful consequences. Marshall only mentioned the consequences on individuals’ lifestyles, and, thereby, on economic growth. But these decreasing returns of comfort contrast with the increasing returns of necessities (see Section 2), so that a dividing line between the two components may be better drawn.

Hawtrey shared with Marshall the idea that the effects of comfort are undesirable when this extends beyond necessities, but he focused on different aspects. In his terms, he first observed that the defensive products of rich people induce them to “conformity”, and to the “desire for recognition” (Hawtrey 1925, 211). But he further observed that “[t]here is in human nature a [...] very real desire for money for its own sake” (p. 141), with the consequence that “wealth does not even ensure the zero point” (p. 209). This means that even rich people may still strive with defensive products, but not because they do not have the necessities for sustenance, but because the dissatisfaction with insufficient money emerges as a pain.

Differently from necessities, the desire for money is insatiable, and it has some characteristics of addiction. Hawtrey clarified an important aspect when he said that: “[t]he distress caused by pain [...] is bad only because it excludes from the mind all activities other than striving to get rid of the pain” (p. 197). This means that individuals’ motivation for defensive products may crowd out other motivations. As a result, their zero point may not be overcome by other sources of well-being.

Hawtrey went further when he criticized Pigou's idea that total welfare could be measured by people's satisfaction of their preferences.⁹ Hawtrey, in fact, observed that "the consumer's preferences have very slight relation to the real good of the things he chooses. [...] The aggregate of satisfactions [...] includes good satisfactions which are welfare, and bad satisfactions which are the reverse" (p. 215). According to Hawtrey, therefore, more wealth and more economic welfare do not necessarily imply more total welfare. Products may become of "limited and inadequate use", so that "organized waste" (p. 210) emerges in the economy.

Keynes maintained a negative opinion about the effects of "love of money as possession" on well-being, but not so about its effects on economic growth, at least when he discussed the future, when people cease to "struggle for subsistence" (Keynes 2008[1930], 21). In Keynes's words: "the love of money as a possession [...] will be recognized for what it is, a somewhat disgusting morbidity, one of those semi-criminal, semi-pathological propensities" (pp. 23-4). Nevertheless, he acknowledged that "[a]ll kinds of social customs and economic practices [...] which we now maintain at all costs, however distasteful and unjust [...] are tremendously useful in promoting the accumulation of capital" (p. 24), and hence economic growth.

Keynes further observed that for those individuals who are not driven by the "love of money as possession", i.e. "for the ordinary person, with no special talents", the future of abundance should be anyway contemplated with dread (p. 23). The reason is that "we have been trained too long to strive and not to enjoy" (p. 23), so that some people will be unprepared to employ the freedom from necessity thus gained. He even wondered thus: "must we not expect a general 'nervous breakdown'?" (p. 22).

Scitovsky drew from all these authors, and added something original. He acknowledged that comfort is a source of well-being, but he also observed that economics is limited in focusing only on this source. Comfort is in fact a goal that individuals tend to maximise subject to the available resources. Individuals react to changes in the constraints, and look for equilibrium, being well-informed about their preferences. Comfort thus underlies economic

⁹ Pigou defined 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; also quoted by Hawtrey 1925, 184). Pigou acknowledged that "an economic cause may affect non-economic welfare in ways that cancel its effect on economic welfare" (p. 12), and he then explored the cases in which this may occur (pp. 12-25). However, he eventually concentrated on economic welfare in the belief that, on the whole, it contributed positively to total welfare.

welfare, but this is only a part of human welfare, according to Scitovsky (Scitovsky 1986[1973], ch. 2).

In contrast to the economic tradition, Scitovsky shared with Marshall and Hawtrey the idea that the pursuit of comfort triggers some offsetting effects on well-being due to habituation, social comparison,¹⁰ and, possibly, addiction (Scitovsky 1992[1976], 119-20, 127-30). Social comparison displays what Scitovsky called “external diseconomies,” while habituation and addiction display “internal diseconomies” (Scitovsky 1954; 1986[1983], ch. 12; 1995[1993], ch. 12). These are psychological mechanisms that Scitovsky considered seriously in his book *The Joyless Economy*. As he wrote in the introduction: “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 1992[1976], vi).

In order to explain this unfortunate outcome, Scitovsky also took up Hawtrey’s idea of the crowding-out of motivations. The pursuit of comfort – thus argued Scitovsky – may become addiction, thus becoming the prevailing motivation, when individuals are unable to appreciate and successfully pursue creative activity.¹¹ For example, social comfort triggers addiction if conformist behavior becomes race to climb the social ladder (Scitovsky 1992[1976], 119-20, 131-2).

Scitovsky’s most original contribution regards education to increase future comfort. At his time, he could already observe the phenomenon that has been recently estimated with worrying proportions in different parts of the most industrialized world: that is, “over-education.”¹² Before Scitovsky, education was regarded as undoubtedly desirable for both well-being and economic growth.¹³ But he observed that specialized education may tend to crowd out generalist education, which includes humanistic education and liberal arts (Scitovsky, 1992[1976], ch. 11). He also observed that the early education of children tends to be crowded out by technology-aided care, which induces passive attitudes in children (Scitovsky 2000). In both cases, conformism in educational choices is encouraged, and education becomes more specialized in order to respond to the requirements of labor demand.

¹⁰ This aspect clearly recalls Veblen (1899), but he was never cited in *The Joyless Economy*.

¹¹ See also John S. Mill, who was an author often cited by Scitovsky: “the majority of young persons addict themselves to inferior pleasures, 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 1863, 13).

¹² See McGuinness (2006), and Clark et al. (2014).

¹³ See, e.g., Mill (1859, 1863), and Marshall (1920[1890], IV.VI).

The race to climb the social ladder can thus be emphasized by the race to become specialized, thus giving rise to the excessive supply of education (Scitovsky 1992[1976], 230; 1986, ch. 11).

The phenomenon of over-education is clearly disappointing for both the families that support the educational costs and the students. But it helps economic growth because of the abundant skilled labor available for producers. Therefore, the pursuit of comfort and its increase through education entails two opposite effects on well-being and on the economic growth. This conclusion may resemble that reached by Keynes, but the explanation is different and more supported by the facts.

4. The effects of the pursuit of “creative activity”

The desirability of what Scitovsky called creative (or stimulating) activity was largely shared by the three Cambridge economists because of its effects on well-being and economic growth. The focus of standard economics on comfort rather than creative activities would thus neglect an important component.

After necessities have been satisfied – according to Marshall – activities arise as a pleasant mental process. As he observed, “it is man’s wants in the earliest stages of his development that give rise to his activities” (Marshall 1920[1890], III.II.4); “[as...] man rises in civilization, as his mind becomes developed, and even his animal passions begin to associate themselves with mental activities, his wants become rapidly more subtle and more various; and in the minor details of life he begins to desire change for the sake of change” (III.II.1). Psychologists call this last property “intrinsic motivation,”¹⁴ and it is the distinctive characteristic of activities. In fact, it refers to an experience that requires the passage of time, while comfort is a desired goal to be achieved at some future moment of time. This distinction has an implication that was not noted by Marshall: while the individual can clearly pursue the maximisation of comfort goods, s/he cannot simply apply the same method in the case of activities.

The successful pursuit of activities, differently from that of comfort, is a self-reinforcing process because of learning by doing. The ability to appreciate and cultivate activities is thus an important individual resource. But the accumulation of this ability is not only an individual phenomenon but also a social one, so that the process is further self-reinforcing

¹⁴ See Deci and Ryan (2000). Edward Deci was cited by Scitovsky (1986[1985], 202 fn. 13).

through the aggregation of individuals. This analysis can be derived from Marshall's various considerations. For example: "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" (III.VI.6). "It is, again, the desire for the exercise and development of activities, spreading through every rank of society, which leads not only to the pursuit of science, literature and art for their own sake, but to the rapidly increasing demand for the work of those who pursue them as professions" (III.II.4).

This process of human development is not a necessary outcome, and Marshall's view is not so optimistic. "[A]fterwards each new step upwards is to be regarded as the development of new activities giving rise to new wants, rather than of new wants giving rise to new activities" (III.II.4). "The growth of this taste in our own age has prevented us from taking full advantage of the opportunities our largely increased resources give us of consecrating the greater part of the highest abilities of the race to the highest aims" (IV.VI.1). The reason may be that "man rapidly degenerates unless he has some hard work to do, some difficulties to overcome; and that some strenuous exertion is necessary for physical and moral health" (III.VI.6).

In order to exploit the "progressive nature of man" (III.I.2), and to trigger his "development of talents and tastes, the strength of which cannot be clearly predicted" (VI.V.7), Marshall suggested proper education since childhood. In fact, "[g]eneral ability depends largely on the surroundings of childhood and youth" (IV.VI.3), so that Marshall even claimed that "[t]he most valuable of all capital is that invested in human beings; and of that capital the most precious part is the result of the care and influence of the mother" (VI.IV.3). In later ages of the individual, "a truly liberal general education adapts the mind to use its best faculties in business and to use business itself as a means of increasing culture" (IV.VI.3).

The effects of activities on economic growth are clearly stated by Marshall thus: "economic progress is the development of new activities rather than of new wants" (VI.XIII.1). The reason is that "the moral, the intellectual and the artistic faculties on which the progress of industry depends, are not acquired solely for the sake of the things that may be got by them; but are developed by exercise for the sake of the pleasure and the happiness which they themselves bring" (III.VI.6). Therefore – according to Marshall – economic growth should go hand in hand with individual development, because "a rise in the standard of life implies an increase of intelligence and energy and self-respect" (VI.XIII.1).

Therefore, the consumption component of activities arises from satisfaction of necessities and adequate education; it is self-reinforcing, and it characterizes human beings both individually and as society.

According to Hawtrey, and similarly to Marshall, “[e]conomics cannot be reduced to a technical study of the pursuit of wealth or utility” (Hawtrey 1925, 382). “The classical economists [...] took too narrow a view of human nature. They concentrated on the motives of the market, and were accused of shutting their eyes to everything else” (p. 139). “Welfare [...] must not be regarded as confined to material well-being” (p. 185). Hawtrey thus proposed “creative products” as the component of the consumption basket that can go beyond the material limitation. Indeed, “a rich man [...] might find it [the positive good of the creative product], for example, in human intercourse [...] without drawing any further on the productive resources” (p. 191).

Creative products give pleasure because they are interesting, but they also have an individual as well as social effect. To explain this fact, Hawtrey considered the “intellectual product [which...] very often is valued as both means and end. What is valued as an end is intellectual pleasure. [...] Intellectual activities, viewed as means, are the very basis of civilization. The whole organization of society, economic, political and social, depends upon its accumulated wisdom” (p. 201).

In order to obtain these outcomes, family education is important so that children can learn from experience (pp. 155-161). Hawtrey did not address only the development of cognition; he also considered that of emotions, and specifically of imagination. “Appreciation, sensibility, receptivity, understanding can be cultivated, and through them material can be supplied for the imagination to work upon. But the active principle in which the imagination consists cannot itself be forced or even trained. All that education can do for it is to see that it is neither starved nor choked and obstructed. From imagination, taken in the wide sense of the power of originating ideas, comes all progress, artistic, intellectual and practical” (p. 359).

Keynes’s ideas on this issue do not seem very different from those of Marshall and Hawtrey, except for their explicit address to a rather distant future. When the age of abundance comes, people will be able to “value ends above means and prefer the good to the useful” (Keynes 2008[1930], 25), to “cultivate into a fuller perfection, the art of life itself and do not sell themselves for the means of life” (p. 23). Marshall already mentioned the “art of living” as the ability to draw well-being from the income earned (Marshall 1920[1890], II.VI.3). With Hawtrey, Keynes shared the idea put forward by the philosopher George E.

Moore about the end of the art of life¹⁵, which is the “good” in the form of love, friendship, beauty, truth, and knowledge (Carabelli and Cedrini 2013).

Keynes’s grandchildren would thus be able to enjoy well-being if they abandoned money-making as end in itself, and if they learned to “feel [themselves] free to be bold, to be open, to experiment, to take action, to try the possibility of things” (Keynes 1931, 134). The future possibilities of leisure will be intolerable if employed in *otium*. “[I]t will only be for those who have to do with the singing that life will be tolerable and how few of us can sing!” (Keynes 2008[1930], 22).

Once the primary needs have been satisfied, the distinction between the two ways of consuming (II and III in Table 1), given the difference between the underlying motivations and pursuits, was clear to Marshall, Hawtrey and Keynes. However, the analysis of these authors on this issue was not much developed, perhaps because the satisfaction of primary needs was a privilege of a minority of people at that time. Scitovsky instead observed that this minority was no longer such, at least in the United States, and that these people did not sufficiently know how to use their money for their well-being. A more detailed explanation was thus needed.

Scitovsky attacked the problem as follows:

if narrow specialization is the necessary condition of efficiency in production, efficiency in consumption demands the very opposite. Humanity has many needs, and people’s welfare depends on the balanced satisfaction of all or most of them. [...] To make good use of the available opportunities, therefore, and to make the best choices, the consumer must be generalist: knowledgeable about [...] all actual and potential sources of enjoyment (Scitovsky 1992[1976], 264).

Scitovsky thus distinguished between the specialized skill necessary for production, called “human capital” in standard economics, and the generalist skill necessary for consumption. This was initially called “consumption skill” by Scitovsky, but in the second edition of *The Joyless Economy* he called it “life skill” to underline the welfare effect on people’s overall lives (Scitovsky 1992, 301 and 333). Both types of skill are necessary, but the former is driven by the labor market, whereas the latter is not subject to such competitive pressure, and the absence of a market for it puts it in a weaker position, and makes its future more difficult to foresee. This fact may induce some crowding out.

¹⁵ See Hawtrey’s reference to Moore in Hawtrey (1925, 186 fn).

Scitovsky thus developed Hawtrey's idea of crowding out because he gave an explanation of why creative activity, which is appreciated and successfully pursued if the individual is endowed with life skill, may be crowded out by comfort, which can be increased by specialized skill. Well-being derived from creative activities, which tend to realize individual's dispositions and talents, will be substituted by the well-being derived from comfort. The reduced knowledge of what to do with market goods in creative ways will induce the individual to conform with what others do, and what producers suggest. Well-being thus becomes more vulnerable to negative shocks because it is more dependent on outside forces, including economic ones.

Scitovsky shared with Marshall the idea of the self-reinforcing process, which, in his analysis, goes from the pursuit of creative activity to the development of life skill, and viceversa. "[L]earning – thus argued Scitovsky – [...] 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).

Scitovsky also shared with Marshall the idea that this process is triggered during the individual's childhood if:

[p]arents [...] encourage, help, correct, and praise children as they learn [...], so they 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).

If parents are instead not adequate, and children do not learn "enjoyable learning" as a creative activity, they will experience the internal void of boredom. Children thus need external stimulations to relieve boredom, as when parents "plant their child in front of the TV screen just to keep it quiet" (Scitovsky 2000, 49). This lays down the premise for addiction.¹⁶

This is another interesting piece of analysis advanced by Scitovsky. He first observed that "[n]eglected children are not only bored; when their boredom keeps them from learning in school, it becomes chronic disease that can forever deprive them of the enjoyment of [...] all the good things life has to offer" (Scitovsky 1996, 604). He then stated that "[g]ratuitous

¹⁶ The importance of parenting for children's outcomes when they grow, at school, on the labor market, in their relation with others, like in the criminal behaviors, and with themselves, like in the risky behaviors, has been recently documented by Heckman and his co-authors (Heckman 2008; Cunha et al. 2010).

violence may be the ultimate relief from boredom for those who have no work and lack both the skills for engaging in enjoyable activities and the money to pay for entertainment” (p. 604), where violence may be against others and against themselves through drugs intake (Scitovsky 1992, 294). Therefore, the crowding out of creative activity may take place not only among the rich, but also among the poor, as Scitovsky recognized in his own criticism of his 1976 book (Scitovsky 1996).

Conclusions

In modern economies, and especially in the advanced economies, the distinction between necessities and luxuries in consumption is insufficient. The recent technological revolution has enabled also the weaker part of the population to access a number of consumer goods which do not appear necessary for subsistence, despite the fact that poverty is far from being defeated. In particular, powerful means to inquire, to communicate, and to move are now readily available in modern consumption goods. The use of this potential thus becomes central to understanding consumer behavior, because the welfare outcomes of the same means can be very different.

This paper has shown that some eminent economists, namely Marshall, Hawtrey, and Keynes, were already aware that when human beings have satisfied the prime necessities, they may use their consumption possibilities with different welfare outcomes. Normally, economists prefer to restrict their focus to the material aspects of welfare, but Marshall, Hawtrey, and Keynes added to the core of their economic analysis some interesting considerations on people’s motivations and goals. These considerations would have remained of little use if not for Scitovsky, who, taking inspiration from the three Cambridge economists, developed an approach to the comprehensive concept of human welfare in which the necessities/luxuries dichotomy was overcome.

The proposal that emerges from the insights of Marshall, Hawtrey, and Keynes, and from Scitovsky’s approach is to split luxuries into two components, and to redefine necessities and the two components of luxuries on the basis of people’s motivations and goals, as well as on the effects of these components on well-being and on the economy. In particular, the importance of the subdivision of luxuries is revealed by the fact that they may substitute each other over people’s life-cycles.

The four economists illuminate different aspects of each of the three components of people’s consumption basket. The most desirable luxury component, called creative activity

by Scitovsky, is observed as requiring people's intrinsic motivation (Marshall), "imagination and challenge" (Hawtrey), to learn the "art of life" (Marshall; Keynes), with the consequence of self-reinforcing people's choices of creative activity, of sustaining well-being with internal resources, and of contributing to culture as the stock of knowledge available for general progress. However, the component that will increase in the future – according to Scitovsky – will be the other luxury component, called "artificial comfort" by Marshall. Its pursuit is an externally induced goal (Hawtrey) which does not require any special skill, but its attainment does not deliver well-being as expected (Marshall, Hawtrey). Scitovsky's approach thus captures the considerations on welfare of the Cambridge authors; and by arguing that greater artificial comfort can be attained by investing in specialized skill for production, it also captures Keynes's consideration on its usefulness for economic growth.

But Scitovsky went even further. He argued that failing to appreciate and pursue creative activity because of some negative shocks in childhood or afterwards (Marshall), may induce people to prefer not only artificial comfort but also activities conducive to addiction, like the race to status consumption or to money-making (Keynes).

Therefore, resuming the insights of Marshall, Hawtrey, and Keynes along the lines developed by Scitovsky may help to go beyond the distinction between necessities and luxuries, and to better understand the motives for which people consume.

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