

Tibor Scitovsky as behavioral economist

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Abstract

The paper discusses Tibor Scitovsky's behavioral approach focusing on three issues that highlight his original contribution. These issues mark both a point of contact with what we have come to associate with the term "Behavioral Economics", notably the works of Kahneman, Tversky and Thaler, and a point of departure. Specifically, they refer to the behavioral assumptions that might explain economic choice and their connection with individual rationality, the origin and meaning of the possible contrast between choice and preferences, and the welfare implications that might follow.

Scitovsky's economic approach benefitted greatly from a line of psychological research that opened up the understanding of human behavior to the motivations and goals of choice and stressed the role of those creative activities that reward exploration and curiosity. This meant for Scitovsky placing great importance to the acquisition of those life skills that enrich and expand one's own potentialities and wellbeing.

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Introduction

Tibor Scitovsky arrived at psychology almost by chance. Personal reasons also contributed. As he records in his *Memoirs*, he was coming out of a painful divorce and felt without resources as to what values and life enjoyments it might be worthwhile to pursue. It was from this position that he started to interrogate himself also as an economist about the determinants of wellbeing, of what the constituents of a good life could be. Yet this was a question that escaped him as an economist. With a few exceptions such as Marshall, Keynes, Hawtrey and Harrod, mostly economists were silent as to the content of wellbeing (*Memoirs*: 105a).

A turning point for Scitovsky came from the work on motivation of a group of physiological psychologists (*ibid.*: 105a-106). The connection was suggested to him by a psychologist friend at the Medical School at Stanford, to which university Scitovsky had returned in 1970 after a two-year period spent in Paris at the Development Center at the OECD (*ibid.*: 95a). Becoming acquainted with this branch of psychology, whose most important and decisive figure was Daniel Berlyne, came to Scitovsky as a revelation. As he says

I was thrilled to learn how animal experiments and scientific research on the workings of the central nervous system accorded with my own feelings and actions, and how well some of the data I was able to collect fitted in with the psychologists' findings (*ibid.*: 106).

And indeed, between Berlyne's research and Scitovsky's interests at this point in his life there was an arresting overlap.

As Scitovsky the economist was questioning the lack of content in the "utility" that subjects were supposed to maximize, so too was Berlyne complaining that psychologists had been always content to limit their behavioral analysis to activities of proven hedonic value –such as those connected with the satisfaction of basic needs– while leaving unexplored the possible triggers of hedonic responses (Bianchi 2016). Berlyne, by contrast, found such triggers in a set of structural variables such as novelty, surprise, variety, complexity and uncertainty. It was to these variables –dubbed by him "collative" to indicate their characteristic of connecting or opposing different sets of stimuli– that pleasure seemed to respond (Berlyne 1960, 1971).

Berlyne's experimental research provided the backbone of what would become Scitovsky's "joyful" approach to the study of economic behavior, as opposed to the joyless economy of the traditional analysis that focused only on behaviors aiming at reducing pain and discomfort rather than at positive pleasure. Thanks to these new psychological insights, Scitovsky found himself able to return afresh to his long-lasting economic interests –welfare, asymmetric information, consumers' expertise and market structures, problems of distribution and equity– and to reframe them into an alternative theory of choice, one that focused on aspects of behavior thus far neglected.

In the following discussion of Scitovsky's new behavioral approach I will focus on three issues that highlight his specific contribution. In the process I will show how these issues mark both a point of contact with what we have come to associate with the term "Behavioral Economics", notably the works of

Kahneman, Tversky and Thaler, and a point of departure. My main concerns will be the behavioral assumptions that might explain economic choice and their connection with individual rationality, the origin and meaning of the possible contrast between choice and preferences, and the welfare implications that might ensue.

Human behavior and individual choice

The starting point of Scitovsky's *Joyless Economy* was dissatisfaction with the behavioral underpinning of individual choice that characterized mainstream economics and in particular the assumption that agents are perfectly rational maximizers and that choices always reflect this behavior. In this way, Scitovsky argues, preferences can be directly inferred from choices with no need for the economist to inquire into their nature. However, what this assumption failed to recognize and to explore were the possible conflicts and mismatches that might arise between choice and preferences (1992: 4).

This concern with the validity of the traditional economic assumptions about human behavior is the first point of contact between Scitovsky's behavioral framework and the behavioral economic approach as we now know it, an approach initially developed by Simon in the 1950's and more recently in the seminal works of Kahneman and Tversky (1979) and Richard Thaler (1980).

Simon's notion that rationality is 'bounded' highlighted a whole set of cognitive and computational limitations that prevent economic agents from behaving in ways that matched the predictions of neoclassical theory (Simon 1987: 612-13). The new behavioral research of Kahneman and Tversky and Thaler, in turn, seemed to show that behavioral patterns such as framing, loss aversion, and problems of self-control give rise to systematic biases and errors that mark departures from the rationality assumption¹.

Yet these somewhat common starting points notwithstanding, Scitovsky's analysis took a quite a different direction from either.

Simon and later Kahneman and Tversky and Thaler adopted the methods and analyses of psychology so as to focus on the *procedures* of economic choices, particularly on those heuristics and decisional shortcuts that failed to confirm the behavioral model of mainstream economics. Scitovsky's interest instead laid with the *motivations* and *goals* of choices – the nature and determinants of the values that guide economic agents' choices – a problem that he found simply missing from economics. Procedural biases, if they happen, happen within the framework of chosen preferences and values.

In addressing this basic problem, Scitovsky had come upon a distinction first introduced by the economist Ralph Hawtrey (1924) that struck him as particularly illuminating, namely one between defensive and creative goods and activities. Defensive, for Hawtrey, were all those goods and

activities that aimed to relieve pain and distress; creative, instead, were those that are pursued for their own sake, for the pure pleasure they are meant to deliver.

In Scitovsky's hands, this distinction becomes one between two forms of satisfaction, one aiming at comfort – all those activities that alleviate fatigue, bother or physical pain (Scitovsky, 1992:112), the other aiming at stimulation and pleasure – all those creative activities that do not require any painful antecedent but that exercise and enrich one's faculties and skills (Scitovsky 1972: 60).

It was at this juncture of Scitovsky's own inquiry that the experimental findings of Berlyne's research became determinative in providing the psychological underpinnings of this distinction between comfort, stimulation and pleasure. Berlyne, whose work appeared in the nineteen sixties and 'seventies, had built upon and expanded in new directions a tradition of experimental psychology that began in mid-nineteenth century Germany with Wundt and Fechner. What struck Scitovsky about Berlyne's extensions of the older research was the role he allowed to the variables of change, such as novelty, surprise, uncertainty and complexity in orienting behavior, a role previously ignored by economists in favor of the equilibrium properties of pain-relieving activities and choices.

Berlyne's innovative studies of exploratory behavior and curiosity had in fact shown that an organism responds positively –with attention, interest, exploration, curiosity and pleasure– to those variables that mark a change relative to a reference position. Thus surprise, for example, signals a contrast between the expected and the experienced; novelty a contrast between the known and the experienced; ambiguity, instead, signals two equally important but conflicting forms of information. The hedonic response to these variables –all expressions, for Berlyne, of the stimulus potential of a given experience– is positive provided they are within bounds, thus neither too high nor too low. The consequence of this functional relation between pleasure and stimulus potential is that there are two ways by which pleasure can be increased: one is by increasing familiarity and redundancy when novelty and all the other variables are perceived as being too high and threatening; the other, and conversely, is by increasing the stimulus potential when an excess of familiarity generates boredom (Berlyne 1960, 1971. See also Bianchi 2016).

For Scitovsky this double process of an organism's response to change seemed to correspond to his distinction between two forms of satisfaction: comfort, aiming at reducing the stimulus potential when this is felt as painful or threatening, and pleasure and stimulation directed at increasing it, when this is felt as being too low and boring (Scitovsky 1981, 1992, Bianchi 2003).

Creative activities –from sports to gardening, from conversation to art– with all their complexity and higher novelty potential, fall in this second category. Thanks to the multiplicity of their characteristics these activities allow users to create (subjective) value through use. Consumption, then, is

¹ Peter Earl 2016 gives a full account of the evolution of behavioral economics in the past century, highlighting its variants as well as its different approaches and aims.

not simply an act of destruction (that has a satiation point) but also an act of creating new value that escapes use-erosion.

The conflict between comfort and pleasure

From this different standpoint on the determinants of choice, Scitovsky criticized the “lopsided psychology” that characterized the traditional representation of economic behavior, one that focused exclusively on the forms of satisfaction that come from comfort, and particularly those related to the satisfaction of needs, yet left unexplored all those creative activities that lead to most of life’s pleasures (Scitovsky 1985: 184).

The consequences of this neglect were far-reaching for Scitovsky. For comfort and pleasure in fact compete with each other for consumers’ limited resources, such as time, skills and effort. Compared with comfort, creative activities, thanks to their higher novelty potential, which might defeat satiation and become the source of renewed pleasure, should be victorious in this competition. In fact they may not. The reasons are institutional, cultural and behavioral.

For Scitovsky the education system (especially in the US) was centered entirely on the formation of specialized production skills at the expense of those more soft, generalized skills necessary for consumption, and specifically for those creative activities that require imagination and knowledge for them to be chosen and enjoyed. This educational bias contributed to rendering the costs of entry for the latter activities relatively higher than those for comfort that are easy to learn and to use.

The organization of the productive system had also contributed to this bias, since the efficiency gains due to innovations and the economies of scale were historically concentrated on making life easier and more comfortable. This process increases the competitive disadvantage of creative activities that, contrary to comfort-related activities, remain costly in time and effort. To complete the picture, the American puritan ethic, with its deep-rooted embarrassment regarding the enjoyments of life provided, for Scitovsky, the moral basis for a cultural disregard for consumption generally (Scitovsky 1972: 40,49; Scitovsky 1986: XI).

But there were also behavioral reasons that work in favor of comfort. This is the second point of contact with recent behavioral literature and in particular with that concerned with inter-temporal choices and problems of self-control (see Lowenstein and Elster 1992).

Choices, for Scitovsky, not only have a history but unravel in time: once the low entry costs have made the choice of comfort more appealing and easy to select, to invert this choice is difficult, not only because the costs of an alternative have become comparatively higher, but because the choice for comfort has become a habit that is costly to abandon (Scitovsky 1992: 127). Contrary to economist Gary Becker’s view of addiction, according to which to stick to one’s own habits is the response that rationally minimizes the pain of abandoning them (Becker 1976), for Scitovsky choices are set in small

steps whose effects in time cannot be predicted in advance. As a result, people can slip, inadvertently, through a sequence of apparently harmless choices, into a habit or a pattern that is sub-optimal but which they are unable to change².

For Scitovsky then, the conflicts between comfort and pleasure, between generalized and specialized skills, and between the sameness of mass produced goods and the specificity of individual tastes (Scitovsky 1986: 47; 1992: 249), provide the reasons that might open a gap between choice and preferences, thus questioning the assumption of a perfectly rational maximizing agent (See Bianchi 2003 and 1998).

Normative implications

These departures of actual behavior from the traditional economic assumptions have implications both for the institutions of the economic system and for public policy. This is the third point of contact between Scitovsky’s approach to choices and the new behavioral economics.

Behavioral economics, as already noted, started as an experimental investigation of individual actual behavior and processes of choosing, drawing on the research methods and theories of psychology.

The results of these investigations showed a host of decisional biases and errors that seemed to reveal systematic departures from the rational model of economic choice. In particular they showed a chooser’s preference for the status quo and an aversion to loss, biased judgments in the presence of uncertainty, the existence of framing effects and, more damaging for the decision maker, problems of self-control and inter-temporal inconsistencies in preferences. Early on the analysis of these inconsistencies and biases was merely descriptive. More recently, however, it has provided the justification for some form of corrective social measures that would yield a better realignment of preferences and choices, to the advantage of the chooser (Thaler and Sunstein 2003).

The aim of these policies, which have been defined as forms of soft paternalism (or nudge), or of asymmetric paternalism (Camerer et al. 2003)³, is to design the conditions, or the architecture, of choice so that it would improve the lives of people as they themselves would have done it, had they not been subject to those failures of cognition and prediction that bias their choice. According to their proponents, though paternalistic, this choice architecture is also libertarian since, while nudging individuals towards more rational choices, it

² Scitovsky’s explanation is very close to that account of habituation known as “melioration theory”, according to which in situations where choices are distributed over time it is very difficult to calculate the overall utility function associated with them. Because of this sort of myopia people end up overinvesting in the addictive good and underinvesting in the non addictive one (Herrnstein & Prelec 1992). A time-based analysis of why individuals might underinvest in the skills necessary to enjoy creative activities can be found in Nisticò (2015: 25-35).

³ The asymmetry consists in the fact that this form of paternalism is designed in ways that provide great benefits for those who fail to act in their best interest, while doing little or no harm for those who do not. See Heukelom 2016.

still leaves them free to choose otherwise (Sunstein and Thaler 2003; Thaler and Sunstein 2003).

A not easy question to solve in nudge thinking is how to discover and define the welfare improving norms. This question, as well as the flexibility of the boundaries between paternalism and individual liberty, is still a matter of debate (Sugden 2008, 2009, Brennan and Brook 2011). Yet, since heuristics and biases are all identified and measured as departures from a model of choice that would be rational had individuals complete information, unlimited cognitive abilities, and no lack of willpower (Sunstein and Thaler 2003: 1162), it is this rational model of choice that provides the guidelines (see Thaler 2016: 1577, 1591).

These guidelines correspond to, or at least approximate to, that cognitive system of the brain that Kahneman calls System 2, and that is reflective, informed, slow and effortful, as in the rational world of “Econs”. In actual human beings, however, System 2 is often bypassed by the automatic, fast and intuitive System 1 of everyday choices, which leads to decisional errors and misjudgments (Kahneman 2013).

This retained rational benchmark of choice, it should be noted, differs from the first behavioral inroads of Simon, for whom the bounds of rationality and heuristics were not “deviations from” but constitutive of human decision processes (Sent 2004, Heukelom 2014: 127, Earl 2016). Normatively, this translates into an open-ended and problem-specific approach to individual and organizational choices.

It is also different from the position of Scitovsky. He, too, often endorsed a view of behavioral mistakes, since for him people do not choose always in their best interest nor are they the best judges of their choices. Yet these failures were more the effects on individual behavior of institutional and cultural biases rather than departures from the rational norm. The rationality assumption had already been abandoned by Scitovsky in favor of a view of choice where the love for novelty constantly challenges equilibrium and rest. In this view there is no rational standard to conform to and land upon. Still, Scitovsky believed that there was room for improvement in agents’ decision making and wellbeing, improvement that could be achieved by giving more recognition to the experience of those creative activities that reward exploration and curiosity. To this end he assigned a decisive role to education⁴.

In his later years Scitovsky devoted most of his attention and research to the role of education (and parental care), partly to compensate for his earlier incomplete treatment of the matter (see Scitovsky 1996)⁵. Education for him, “not only adds interest and variety” to life, making it more pleasant and enjoyable, but “is also an essential and necessary condition of civilized society and the peaceful coexistence of its mem-

bers” (*Memoirs*: 107), Because it is education that might help prevent those harmful activities that are exciting and relieve boredom but disrupt society (See Scitovsky 2000 and also, “Boredom, its causes and consequences”, Undated typescript, 9)⁶.

Conclusions

In questioning the behavioral assumptions of traditional economic choice, Scitovsky stumbled on the results of a line of psychological research that was unpredictably close to his own economic quest: that of opening up the understanding of human behavior to the motivations and goals of the agents of choice. This also meant opening the economic inquiry to the question of values –how they are formed, how they change, how they are discussed and acquired– and the implications that this question has in terms of creative endeavor and positive enjoyment. To this end Scitovsky placed great importance to the acquisition of consumption skills or, better, of those life skills that enrich and expand one’s own potentialities and wellbeing. In the end, for Scitovsky, the joyful economist, as he dubbed himself, freedom of thought and an inquiring mind were the requisites of both the scientist and the man.

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⁴ For new behavioral economists education can provide only a partial answer to the bias of judgment and the inconsistencies of preferences, because the fast thinking of the automatic system will continue to drive people to impulsive, short sighted and “frameable” decisions (see Kahneman 2013: 407).

⁵ See Pugno 2014 for a discussion of the relevance for Scitovsky of consumption skills.

⁶ As Scitovsky relates in his *Memoirs* (111), it was from a book edited following a conference organized by Franz Goetzl, of the Freudian school, and entitled “Boredom: Root of Discontent and Aggression”, that he himself learned to see how boredom and violence are connected, and how parental care is important, especially in the early formative phase of childhood. See Bianchi 2012.

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