

## **The Paradox of Happiness: Evidence from the Late Pre-Classical and Classical Economic Thought**

S.A. Drakopoulos and A.D. Karayiannis\*

### **1. Introduction**

There has been an increasing interest in the last few years concerning the concept of happiness. This is reflected in the ever rising number of journal articles and monographs on the subject (for a general view of the current trend see for instance, Frey and Stutzer 2002a). In the older and in the more recent literature, one can discern a common empirical finding in many countries: substantial increases in real per capita income do not correspond to equivalent increases of individual happiness. Moreover, there are examples where a negative correlation between real income and happiness were observed (see for instance, Easterlin 1974; Oswald 1997; Wright 2000; Lane 2000; Blanchflower and Oswald 2004; Layard 2005). These findings have puzzled many economists that some have called the “paradox of happiness” (Phelps 2001; Bruni 2002; 2004a).

There have been a number of explanations regarding this paradox. One line of tackling the paradox is based on the “subjectivist” approach to utility which means that variables which are considered by many economists to be non-economic, play an important role in individual utility functions and thus to the level of happiness (Frey and Stutzer 2002a; 2002b). Such variables can be social aspiration, emotions, social stimuli, goal completion and meaning, freedom and social capital, loss of altruism (see Scitovsky 1976; Elster 1998; Loewenstein 1999; Easterlin 2001; Veenhoven 2000; Putnam 2000; Phelps 2001). Another line of approach has to do with traditional economic concepts which if incorporated might be able to explain the paradox. Two of these are:

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the idea of relative income or relative consumption hypothesis (Duesenberry 1949; Frank 1985; 1997; 1999; Andrews 1991; Veenhoven 1991; 2003; Easterlin 2001; Kenny 1999), and the level of inequality (Alesina *et al.* 2004).

An important observation here is that the above ideas are not new in economic literature but they have been around for a long time. For instance, the idea of “conspicuous consumption” which is related to the relative income, can be found in Rae (1834), Veblen (1899) and Keynes (1936). In addition, the idea of inequality level as a negative phenomenon for social well-being is equally old in economic thought. Thus one might get some further clues for a possible explanation of the paradox by looking at the history of economic ideas. One such attempt has been done recently in relation to the Cambridge tradition in economics (Bruni 2004b).

In the present paper we examine the ideas of some well-known pre-classical and classical economists concerning the relationship between basic goods, consumption and happiness. More specifically, in the literature of the late mercantilist and classical period, one can find interesting ideas and arguments dealing with the distinction between basic and non-basic goods and their effect on the level of happiness. Furthermore, there are views supporting a hierarchical pattern of consumption implying that individuals are concerned more with the acquisition of basic goods. This in turn, means that the effect of basic goods on the level of happiness is much stronger than those of the non-basic goods. The purpose of this paper is to examine these ideas and to see if they can contribute towards the explanation of the paradox of happiness. The first section of the paper will discuss the link between material consumption and happiness. The second part will deal with the various views expressed on the distinction between basic and non-basic goods and the various causes which determine such a distinction. The third section traces ideas relating to a hierarchical approach to consumption behavior. The fourth part attempts to explain how the various goods classifications and the hierarchy of goods affect the level of human happiness. Finally, there will be a concluding section summarizing the main arguments.

## 2. Happiness and material consumption

It is well-known that the connection between happiness and material consumption can be found in many authors even in the ancient times. Moreover, it has been the subject of numerous philosophical discussions. With the appearance of mercantilist thought, the link between happiness with material well-being became more established<sup>1</sup>. This tradition continued in the works of most

1. For example, Davanzati (1588: § 13) as early as the end of the 16th century, defines happiness in terms of material well-being. Then, he argued that individuals' attempt to achieve

authors in the period under examination: the concept of happiness was connected to the availability of goods for the majority of people in the society. Furthermore, it was believed that a large variety of goods also contributes to the general happiness level. This is clear in the case of Hume (ed. 1970, "Of the Jealousy of Trade": 80; "Of Interest": 56) who pointed out that happiness is increased by international trade through the possibility of consuming a larger variety of goods. However, Smith was the leading figure who connected happiness to the living standard of the workers in an economy. He emphasized the dependence of general welfare on workers' living standard:

Is this improvement in the circumstances of the lower ranks of the people to be regarded as an advantage or as an inconveniency to the society? The answer seems at first sight abundantly plain. Servants, labourers, and workmen of different kinds, make up the far greater part of every great political society. *But what improves the circumstances of the greater part can never be regarded as an inconveniency to the whole.* No society can surely be flourishing and happy, of which the far greater part of the members are poor and miserable. It is but equity, besides, that they who feed, clothe, and lodge the whole body of the people, should have such a share of the produce of their own labour as to be themselves tolerably well fed, clothed, and lodged (Smith 1776: 96, emphasis added)<sup>2</sup>.

Some years later, Bentham (1780: 2) following the same path but providing an extensive philosophical justification, linked happiness to pleasure. Bentham measured (*Ibid.*: 3) the various effects of economic policy in terms of increasing and/or decreasing the general welfare-happiness. According to Bentham's Utilitarianism (*Ibid.*: 24) the main scope of the policy of the State is the greatest increase of happiness for the greatest number of people. This idea was followed up by many Utilitarians such as George Poulet Scrope (1833: xii, 2, 58) and Senior (1852: 9). Bentham's idea that the level of happiness depends on the material consumption of individuals, was also adopted and promoted by many scholars such as the American Alexander Johnson (1813: 28-9), Read (1829: 46), Torrens (1834: 1), and Raymond (1823: 36, 117-8, 128, 133-4, 410, 416). Furthermore, this analysis provided the justification of the material incentives for wealth accumulation (Read 1829: 143).

The same line of argument was used in order to connect happiness with goods and needs. More specifically, Scrope (1833: 50-1, 185) claimed that workers' happiness is directly related and determined by the rate of real wage or the quality and affluence of material consumption. Furthermore, he believed that happiness should be a universal right: "Happiness- all the happiness, at least, which is directly or indirectly derivable from an abundance of the

material happiness determine, together with custom and natural endowments, the rate of demand and the value of various goods. In the same framework, Berkeley (1735-7: query 345) links general happiness with individuals' happiness and that its rate is influenced by economic policy (this is quite similar to Bentham's views).

2. The same line of thought is followed by Malthus who agrees with Smith that material consumption leads to higher happiness (see also Bruni 2004a).

necessaries and conveniences of life- ought to be within the easy reach of every individual, even of the lowest class, in every human society” (1833: 293-4). In the same tone and implying hierarchical consumption behaviour, Longfield (1834: 44, 113) held that a higher rate of happiness is acquired by the consumption of necessary rather than by the consumption of luxury goods. However, some other authors argued that the consumption of luxury goods constituted an important element of human happiness. For example, Lloyd (1833: 8-9) and Senior (1836: 11-2), stressed that the “love” for variety of consumption and distinction are motives not only for increasing the rate of consumption and production in an economy, but additionally to be important ingredients of human happiness (see also Karayiannis 2001).

There are also examples of authors who consider happiness to be the main scope of economics. Sismondi (1815: 1, 100; 1826: 132) a radical of the classical period, seems to adopt such a thesis by connecting wealth to the level of workers’ happiness and claiming that this is the main scope of political economy. Senior also linked happiness to the art of economics: “If wealth be the object of Political Economy, and wealth include all that man desires, Political Economy, whether a science or an art, is the science or the art which treats of human happiness” (1852: 74). He also argued (1831: 14) that “a certain degree of leisure” as a component of happiness must be included in any estimation of wealth.

In general, most authors associate happiness with material consumption. Furthermore, it seems that for most of them, happiness is more closely connected to the fulfillment of urgent needs than to the satisfaction of luxurious wants.

### 3. Goods categories

As was the case of the connection between happiness and material consumption, the distinction between basic and non-basic goods is also an old issue and it dates back to the ancient times. The majority of the authors in the period under examination recognized the distinction between basic and non-basic goods and used it in their economic argumentation. In many cases, this distinction was discussed with reference to the relationship between consumption patterns and economic growth (see for instance Eltis 2000; Fiaschi and Signorino 2003). In addition, a number of authors connected the basic/non-basic goods distinction to the different economic classes of society. More specifically, Steuart (1767: 269) claimed that the rate of consumption was indicative of the rank of individual in the social climax – a concept previously introduced by Turgot (1766: 180-1). Steuart described the “physical” and “political” necessaries (1767: 269-276). The first one has to do with the “able subsistence where no degree of superfluity is implied” (*Ibid.*: 269), and the second

is related to the fulfillment of desires which “proceed from the affections of his mind, are formed by habit and education” (1767: 270)<sup>3</sup>.

Although the consumption of basic goods was of paramount importance for the living standard of the working class<sup>4</sup>, the existence and consumption of luxury goods<sup>5</sup> was seen as a way for increasing employment, trade and production levels (e.g. Mandeville 1724: 68; 75; Steuart 1767: 9; 282; see also Perrotta 1997; Karayiannis 2004). Thus, there are strong indications that even before Smith’s time, a number of authors had distinguished various consumption goods according to different living standards and social classes.

Adam Smith distinguishes between basic and non-basic (luxury) goods. By the term luxury, he usually means anything that was not strictly necessary to life (see also Brewer 1998; Marshall 2000). Furthermore, Smith (1776: 842) connects the differentiation of classes, according to income and consumption, to the distinction between basic and non-basic goods<sup>6</sup>. The first, which he calls “necessary and conveniences”, are mainly consumed by the working class and include: “food, clothing and lodging” (*Ibid.*: 178, 185) and “household furniture, and what is called Equipage, [which] are the principal objects of the greater part of those wants and fancies” (*Ibid.*: 180; brackets added)<sup>7</sup>. The second category of goods are “luxuries, without meaning by this

3. One of the earlier distinctions between basic and non-basic goods was drawn by Locke (1691: 244, 276) who characterized the first type of goods as necessities for life and the second as fashionable goods. He argued further (*Ibid.*: 276-7) that through the conspicuous consumption behaviour the level of prices of fashionable goods is not determined by the cost of production but by the preference of rich consumers and the rate of demand.

4. Richard Cantillon defined necessary goods as “the food, clothing, housing, etc” (1755: 87 and 125). For Harris (1757: 352-3) such a collection of consumable goods determines the level of subsistence wage.

5. One of the most descriptive definitions of luxury goods is given by Steuart: “By LUXURY, I understand the consumption of any thing produced by the labour or ingenuity of man, which flatters our senses or taste of living, and which is neither necessary for our being well fed, well clothed, well defended against the injuries of the weather, or for securing us against every thing which can hurt us” (1767: 43-4). In a similar tone and some decades later, Chalmers (1832: 42) defined luxury goods as “every thing prepared by human labour, and which enters not into the average maintenance of labourers”.

6. Many authors of the classical school who followed the cost of production or labour theory of value adopted such a classification of goods: different classes of men in society consume different goods. These authors, such as Ricardo (1817: 48, 93, 118, 205, 236, 276), James Mill (1821: 54-5), McCulloch (1825: 490; 1826: 27, 34-5), Torrens (1834: 5, 11-2), J.S. Mill (1848: 68), distinguished between two different classes of men consuming two different patterns of goods. Under the “iron law of wages” they supposed that workers are consuming only “necessaries and conveniences of life”, which are determined by economic, environmental and institutional (e.g. habit) conditions. The 19th century radicals have also adopted this strict distinction of consumable goods and services between the poor and rich. For example, Sismonde de Sismondi (1815: 22,24; 1826: 127-8), Thompson (1824: 198-9), Bray (1839: 55, 96-7) and Hodgskin (1825: 310). Karl Marx introduced the distinction of consumption patterns between proletariats and capitalists or poor and rich (1867: 185, 208-9, 299-300, 486-7, 419).

7. McCulloch stated that the necessary rate of wages must include “the cost of the food,

appellation to throw the smallest degree of reproach upon the temperate use of them... Nature does not render them necessary for the support of life, and custom nowhere renders it indecent to live without them" (*Ibid.*: 869- 871). The distinction of goods brings also an effect on the satiety of men<sup>8</sup>. Smith, considered that the consumption of necessary goods is satiated while that of luxury is non satiated, namely: "The desire of food is limited in every man by the narrow capacity of the human stomach; but the desire of the conveniences and ornaments of building, dress, equipage, and household furniture, seems to have no limit or certain boundary. What is over and above satisfying the limited desire is given for the amusement of those desires which cannot be satisfied, but seem to be altogether endless" (*Ibid.*: 180; for a similar argument see also Smith 1759: 184). Smith also holds that today's living standard of the rich will become tomorrow's conveniences of workers<sup>9</sup>. As he writes:

As the one mode of expense is more favourable than the other to the opulence of an individual, so is it likewise to that of a nation. The houses, the furniture, the clothing of the rich, in a little time, become useful to the inferior and middling ranks of people. They are able to purchase them when their superiors grow weary of them, and the general accommodation of the whole people is thus gradually improved, when this mode of expense becomes universal among men of fortune. In countries which have long been rich, you will frequently find the inferior ranks of people in possession both of houses and furniture perfectly good and entire, but of which neither the one could have been built, nor the other have been made for their use (1776: 347).

In addition, Smith points out (*Ibid.*: 93) that the level of real wage determines the workers living standard and not the other way round.

Having as a basis the above distinction of goods, Smith forms two conclusions: (a) the increase of luxury consumption is detrimental for the economy, and (b) there emerge permanent differences between the market rate of prices and the natural cost of various goods. In relation to the first point, Smith (*Ibid.*: 190, 208) describes the conspicuous consumption behavior, or the "parade of riches" as he characterized it – as did before him Rousseau (1758: 152). In addition, he also recognizes (1767: 686) that when luxury goods are widespread among the majority of citizens, "idle consumers" start preferring a

clothes, fuel & c., required for the use and accommodation of labourers" (1825: 325). J.S. Mill (1848: 689, 719) gave a full account of the normal and customary living standard of labourers.

8. On the contrary, Raymond observed (1823: 74-5) that the distinction between basic and non-basic goods is rather arbitrary and is based upon the false assumption of interpersonal utility comparisons.

9. The gradual increase of variety (in quantity and quality) of consumption goods has been stressed by Craig as a characteristic of an advanced economy. As he noticed: "When a labourer's wages are more than is requisite to the subsistence of his family, whether this arise from high wages or cheap food, he will naturally spend the surplus in some additional gratifications, which, if he can afford them for a sufficient length of time, will come to be ranked among the comforts required for his respectability" (1821: 60-1).

variety of goods. He opposes luxury consumption and the behaviour of idle consumers because their short run consumption pattern<sup>10</sup> would decrease the rate of capital accumulation (1762-3: 394), and would increase the level of unproductive labour (1776: 337-9, 349; see also Mason 1998)<sup>11</sup>. Thus, Smith, in agreement with Turgot (1766: 169) but contrary to Steuart, held that parsimony and not increased demand would be the main cause of the increased wealth of a nation. In regard to the second point, Smith (1776: 242) claimed that the rate of prices of fashionable goods would rise faster than their real cost<sup>12</sup>, and this would alter the natural exchange rate between various goods. By recognizing the conspicuous consumption behavior, Smith noticed the entrepreneurial strategy in promoting relevant goods by increasing their prices: “By raising their price [i.e. of some non necessities goods] they make [i.e. the merchants] an object of their [i.e. consumers’] desire, and such as good-fellowship requires them to press on their guests” (1762-3: 363; brackets added).

Because of the above arguments, Smith opposed the taxation of necessary goods considering it to be effectively a tax on wages (1776: 871). Instead, he advocated a tax on luxury goods since the burden of such a tax would fall on the consumers of non-necessary goods (*Ibid.*: 232, 872-3). It has to be noted that the taxation of luxuries was also favored by many scholars of the period such as Hume (“Of Taxes”, ed. 1970: 83, 85), and Rousseau (1758: 134, 146-7, 152) for its role in decreasing wealth inequality<sup>13</sup>.

In the mid of the classical period, Torrens defined the minimum accepted living standard of the workers to cover “the necessities and conveniences of life sufficient to preserve the labourer in working condition, and to induce him

10. In a representative statement Smith wrote: “With regard to profusion, the principle which prompts to expense is the passion for present enjoyment; which, though sometimes violent and very difficult to be restrained, is in general only momentary and occasional. But the principle which prompts to save is the desire of bettering our condition, a desire which, though generally calm and dispassionate, comes with us from the womb, and never leaves us till we go into the grave” (1776: 341).

11. For an extensive analysis of the Smithian argument concerning the relationship of productive (producing mainly basic wage goods) and unproductive labour (producing mainly luxury goods) and its effects on economic development and general welfare, see Myint (1948: ch. V).

12. Longfield analyzed the effect of the distinction of goods on cost and wages. He holds (1834: 101, 105-6) that the extensive division of labour on such productive activities destined for mass consumption (i.e. necessary and comfort’s goods), cause a drastic decrease in the cost of production and the price level. On the other hand, the volume of the production of luxury goods is very restricted. Thus, the extent of the division of labour for luxury production is at a low level and therefore costs and prices are rather high.

13. During the reign of Edward IV (mid of 15th century) the so-called sumptuary law was established in England. This law prohibited workers from spending their income to luxury goods. Smith (1776: 262) turned against this policy arguing that such laws not only restrained innovations in manufactures but also constrained the welfare of the workers.

to keep up the race of labourers” (1834: 11-2; see also *Ibid.*: 13, 54 and 1815: 84, 87)<sup>14</sup>. However, he held that this living standard will be increased by more and better goods and services through the process of technological progress. As a result of this progress, new consumption habits will be adopted by the workers and eventually, through custom, the minimum living standard of the workers would be advanced, as “custom is a second nature, and things not originally necessary to healthful existence become so from habit” (1834: 54; see also Karayiannis 2000).

During the same period, Senior by distinguishing between basic and non-basic goods, argued that the classification of goods into these categories is relevant in terms of customs and per capita income<sup>15</sup>. He also argued that luxury consumption does not constraint the rate of wealth augmentation (1827: 36; 1829: 3-6; 1836: 36-9, 161). On the contrary, he believed (1836: 42) that the intergenerational articulation of the various kinds of goods<sup>16</sup>, under the human motive of variety and distinction in consumption, is an indication of economic development (see Karayiannis 2001). Moreover, and contrary to Smith, Senior believed (1831: 21, 25-7) that through the increased luxury consumption of the idle consumers, the rate of circulating capital rises and under the wage fund theory, the short-run employment level and/or wages also rises<sup>17</sup>.

The Scot-Canadian John Rae employed the “principle of vanity” and the power of conspicuous consumption in order to explain the move of consumption pattern from basic to non-basic goods (see also Mason 2002). Rae (1834: 267) argued that: “The things to which vanity seems most readily to apply itself are those of which the use or consumption is most apparent, and of which the effects are most difficult to discriminate. Articles of which the consumption is not conspicuous, are incapable of gratifying this passion. The vanity of no person derives satisfaction from the sort of timber used in the construction of the house he occupies, because the wood work is usually con-

14. It has to be noted that an American economist George Opydyke, developed a rather different classification. He considered that consumption goods and services must be classified under the following three categories: “1., in the augmentation of the productive forces” (mainly for labour such as necessaries and conveniences goods), “2., in the gratification of the senses” (such as “the sense of smell, for fragrant and pungent odors”, etc.), and “3., in the satisfaction of mental desires” (such as benevolence, “fitting guards for securing personal safety,” etc). However, the 2nd and 3rd categories of goods and services are mostly consumed by rich and non-laborious people (1851: 114-5, 119).

15. Senior (1829, p. 6) also claimed that the characteristics of necessary goods do not alter as often as those of luxury goods.

16. Such an effect was clearly described by Poulet Scrope who wrote: “A mode of dress which has gone out of fashion among the higher and wealthier ranks, will perhaps be just introducing itself in the middle class, to descend, when the latter have worn it out, to the lower and more numerous” (1833: 187).

17. J.S. Mill (1848: 68, 350) described how an increase of capital without accompanied by a proportional increase in population would increase the real wage rate and the living standard of labourers, which would include not only necessaries but also luxury goods.



cealed by paint or something else". He then argued that economic development facilitates luxurious consumption by all classes of citizens and this leads the rich to prefer a variety of such goods according to fashion- an argument already put-forward by Smith. As Rae wrote: "The progress of art has been such, that there is scarcely any material, or fabric, or colour, the production of which it does not so much facilitate as to bring it within the reach of a large mass of consumers. It then loses its value as a distinction, and ceases to serve the purposes of vanity. Hence arises the necessity for the variety, and seeming caprice, of fashion" (1834: 270).

Malthus' discussion is in the same spirit in the sense that he links the concept of different goods categories with wages and social conditions. In particular, he describes the conditions under which the living standard of individuals changes in order to include non-basic goods (1820: 224-5). In case that an increase in real wage rate is taking place, either the quantity of labour would be increased (by multiplying their number) or the living standard of the labourers would incorporate more comfortable and luxurious goods (1820: 226). The first effect, according to Malthus (1820: 226-7), occurs in societies where despotism, oppression and ignorance prevail. The second effect appears in societies where there are civil and political liberties, a good level of "quality and prevalence" of education, and security of property rights (see also Fiaschi and Signorino 2003).

Thus, the gradual alteration of the working class consumption pattern from basic goods to another pattern which includes non basic goods, was a recognizable sign of economic progress (see also Johnson 1813: 27-60; Malthus 1820: 224-7; Craig 1821: 60-1; McCulloch 1825: 332, 337; 1826: 7, 34; Read 1829: 143-4; Newman 1835: 289). Such an alteration was considered to be more probable when the rate of population increase is lower than the rate of income increase<sup>18</sup>. Moreover, the majority of classical school authors stressed that a higher wage rate and the resulting higher living standard would function as a stimulus to workers to increase their effort. By such a "mechanism" productivity would be increased and a higher economic and social development level would be attained. It should be noticed however, that the meaning of the work effort in classical (and pre-classical) thought is not always entirely clear. It seems that there is no clear distinction between extending working time and work intensity (Drakopoulos and Karayiannis 2007).

#### 4. Consumption and needs hierarchy

As we have seen from the previous discussion, the majority of authors belonging to the late mercantilism and to the classical school, have clearly

18. Or, as Read (1829: 325-6) put it: when the desire for bettering the material conditions would be more intense than the desire for the multiplicity of their numbers.

distinguished between various goods corresponding to pressing and non-pressing needs. Furthermore, there are clear indications that some authors followed a hierarchical approach to consumption behavior. This implies that there are basic needs which need to be satisfied first before non-basic needs come into the picture (for a general discussion of such a system of choice, see Drakopoulos 1994; Pfouts 2002; Drakopoulos and Karayiannis 2004; Lavoie 2004).

In the beginning of the 18<sup>th</sup> century, the philosopher Berkeley recognized the hierarchy of needs and the emergency of fulfilling the necessary ones. He questioned “Whether necessity is not to be hearkened to before convenience, and convenience before luxury?” (1735-7: query 58), and “Whether national wants ought not to be the rule of trade? And whether the most pressing wants of the majority ought not to be first considered?” (*Ibid.*: query 168). He believed that consuming luxury goods before necessary goods is a sign of irrational behaviour. He writes further:

Whether she would not be a very vile matron, and justly thought either mad or foolish, that should give away the necessaries of life from her naked and famished children, in exchange for pearls to stick in her hair, and sweetmeats to please her own palate? (*Ibid.*: query 175).

By following a more systematic approach, Cantillon (1755: 75) justified the hierarchy in consumption as a “nobleman” cares more for his luxury than his necessary consumption, because of his abundance of wealth to cover subsistence. In the same tone, Hume (“On Public Credit”, ed. 1970: 97), presented a hierarchy of the consumed goods according to the pressing needs that they fulfill<sup>19</sup>.

For reasons of better understanding, one can distinguish three, however not interrelated, broad approaches to hierarchical consumption that are followed by many members of the classical school. The first approach has to do with the changing consumption pattern as real per capita income rises. More specifically, the immediate consequence of increased income is an increase in the consumption of non-basic goods. The second approach links hierarchical consumption to the subjective theory of value. The third, and more general approach, explained such a hierarchy in terms of a response to different price and income elasticities of goods.

Smith’s ideas on consumption hierarchy are closer to the first approach. In his early work, Smith (1759: 50, 184-5) had already recognized such behaviour, but it was in the *Wealth of Nations* that he discussed the issue extensively. He stressed (1776: 287, 289, 405) that men first fulfill their more oppressive needs

19. Hume, Steuart, Arthur Young and Benjamin Franklin, advanced the argument that the consumption of non-basic goods (mostly luxury goods) would stimulate the rate of work effort, the demand for labour and the wealth of a nation (Drakopoulos and Karayiannis 2007).

and then proceed to the consumption of the conveniences and luxuries. Therefore, “as subsistence is, in the nature of things, prior to convenience and luxury, so the industry which procures the former must necessarily be prior to that which ministers to the latter. The cultivation and improvement of the country, therefore, which affords subsistence, must, necessarily, be prior to the increase of the town, which furnishes only the means of conveniency and luxury” (*Ibid.*: 377). This implies that not only the consumption of necessary goods is fulfilled first, but also that the primary sector of economy must be advanced before the extension of the secondary and tertiary ones. This hierarchy of goods could take place, according to Smith (*Ibid.*: 96), when total production was large enough to cover subsistence living and when the increased level of nations’ wealth results to an extension of luxurious living (*Ibid.*: 199, 234).

Thus, for Smith, this hierarchy of goods could take place when the total production is high enough to cover subsistence levels. In other words, when economic growth has been advanced to a higher stage: “The common complaint that luxury extends itself even to the lowest ranks of the people, and that the labouring poor will not now be contented with the same food, clothing, and lodging which satisfied them in former times, may convince us that it is not the money price of labour only, but its real recompense, which has augmented” (*Ibid.*: 96). Hence, the passing from the consumption of the one category of goods to the next more luxurious one, is taking place through the increase in wealth, namely: “the demand for the precious metals, as well as for every other luxury and ornament, would naturally increase with the increase of riches” (*Ibid.*: 199). Smith provides further support for this argument by mentioning that, “Gold and silver naturally resort to a rich country, for the same reason that all sorts of luxuries and curiosities resort to it; not because they are cheaper there than in poorer countries, but because they are dearer, or because a better price is given for them” (*Ibid.*: 234; see also Drakopoulos and Karayiannis 2004: 367). Some other authors, such as J. Rae, also adopted this explanation of the hierarchical consumption in terms of per capita income<sup>20</sup>. He (1834: 203) made explicit that by increasing the propensity of saving, the consumer would decrease the consumption of luxury and not the consumption of basic goods.

J.B. Say (1803: 397-8; 1821: 82) is closer to the second approach to hierarchical consumption. He recognized two main cases of such individual behaviour: The first is determined by the urgency of needs. As he wrote (1803: 397):

Such as conduce to the satisfaction of positive wants; by which term I mean those, upon

20. By the same reasoning the American Henry Vethake (1844: 115-7), a follower of Ricardo, identified the hierarchy of goods and needs, stressing the effects of general education in increasing the taste for luxury consumption. As he writes: “in a certain country, the labourer can, by working nine hours in the day, obtain what constitute to him the necessaries of life, and that he can procure a certain amount of luxuries by working one hour in the day more” (1844: 125).

the satisfaction of which depends the existence, the health, and the contentment of the generality of mankind; being the very reverse of such as are generated by refined sensuality. pride, and caprice. Thus, the national consumption will, on the whole, be judicious, if it absorb the articles rather of convenience than of display: the more linen and the less lace; the more plain and wholesome dishes, and the fewer dainties; the more warm clothing, and the less embroidery, the better. In a nation whose consumption is so directed, the public establishments will be remarkable rather for utility than splendour, its hospitals will be less magnificent than salutary and extensive; its roads well furnished with inns, rather than necessarily wide and spacious, and its towns well paved, though with few palaces to attract the gaze of strangers. The luxury of ostentation affords a much less substantial and solid gratification, than the luxury of comfort, if I may be allowed the expression. Besides, the latter is less costly, that is to say, involves the necessity of a smaller consumption; whereas the former is insatiable; it spreads from one to another, from the mere proneness to imitation; and the extent to which it may reach, is as absolutely unlimited.... Taking society in the aggregate, it will be found that, one with another, the gratification of real wants is more important to the community, than the gratification of artificial ones.

The second is determined by the duration of the consumable good. The longer the duration of the good, the more preferable the good is. As Say put it (*Ibid.*: 398): “Such as are the most gradual, and absorb products of the best quality. A nation or an individual, will do wisely to direct consumption chiefly to those articles, that are the longest time in wearing out, and the most frequently in use. Good houses and furniture are, therefore, objects of judicious preference; for there are few products that take longer time to consume than a house, or that are of more frequent utility”. Furthermore, he pointed out (*Ibid.*: 4-5) that the demarcation criterion between necessary and luxury goods is an ever-changing one: “For my own part, I am at a loss to draw the line between superfluities and necessaries” as its “line of demarcation .... shifts with the fluctuating conditions of society”.

Similarly, Lloyd (1833: 28) and Longfield (1834: 115) elaborated the idea of hierarchical consumption behaviour. In particular, Lloyd (1833: 12) uses a mechanical parable in order to describe the hierarchy of consumption and the urgency of needs to be satisfied. As he writes:

Each different kind, therefore, of human wants may like that of food, be compared to a spring; and, in the comparison, the different wants, according to their several differences, will be represented by spring of different degrees of strength. For example, the wants which food can satisfy will be represented by a spring of great power. So also those to supply which water is required. For representing the wants of clothing and fuel, which are articles not so indispensably necessary to human existence, spring of an inferior degree of power may suffice. Passing on to the artificial wants, we may represent them according to their intensities, by lesser spring of various degrees of strength (1833: 13).

The imitation effect in consumption pattern, in modern terms to “keep with Jones’s”, as a cause of the hierarchical behavior has also been identified by John Craig who states that: “A young man will propose to maintain his family in the same style that his relations and acquaintances now live” (1821: 55).

And furthermore “It is not any particular degree of comfort that is requisite to self respect, but that degree of it which is enjoyed by reputable people of the same rank. If all be equally reduced, none can feel degraded” (1821: 59). Similarly, Whately argued that goods included in a consumption basket are socially determined. Therefore, “an individual man is called luxurious, in comparison with other men, of the same community and in the same walk of life with himself” (1832: 51- 53)<sup>21</sup>.

According to the third approach, goods hierarchy is a consequence or a characteristic of the differential behavior of consumers toward a change in the level of price, income and taxation. One can argue that this analysis is closer to what we would recognize today as income and price elasticities<sup>22</sup>. For instance, Lord Lauderdale (1804: 71-2, 76, 95-6) believed that the hierarchy of the consumption of goods is connected to reactions with reference to price, quantity and income. Various goods fulfilling different wants such as necessities and luxuries have different response rates. He employed the idea of the hierarchy of consumption behavior in examining “the Effects of the Alteration in the Order of Expenditure occasioned by” the following circumstances: (a) “a Diminution in the Quantity of any Commodity” (*Ibid.*: 81); (b) “an increase of Demand for any Commodity” (*Ibid.*: 86); (c) “an Increase in the Quantity of any Commodity” (*Ibid.*: 93); and (e) “a Diminution of Demand for any Commodity” (*Ibid.*: 96). Thus by this method, he explained the changes in the consumption pattern of individuals caused by some drastic changes in the state of demand and supply of various goods. In addition, he links (*Ibid.*: 329, 342-3) his argument concerning the hierarchy of consumption with the distribution and production of goods. He held that the distribution of wealth implied hierarchical consumption among necessities and luxury goods and thus determined the pattern of production in various countries.

Ricardo (1817: 237, 241, 343-4), elaborating on the issue of hierarchical behavior, argued that there would be a different price and income demand elasticities after a change in the price of necessary and/or luxury goods. Such an idea was also adopted by some other authors like Torrens (1815: 15, 278, 309), Senior (see Karayiannis 2000), Tucker (1837: 6), and J.S. Mill (1848: 447, 596). Similarly, Malthus (1815: 187-8) argued that there are different

21. Whately also emphasized that a variety of consumption goods is desirable by all individuals (1832: 94-5).

22. One of the early exponents of such an approach was Cantillon (1755: 173), who argues that the price elasticity of necessary goods would be low while the income elasticity of luxury goods would be high. He also used the hierarchy of goods in order to contradict the proportionality between the scarcity of silver and the level of prices advanced by Locke. Cantillon (1755: 179, 181) questioned such a proportionality arguing that the consumption of various goods relates not only to its price and to the income of the consumer, but furthermore to the importance of goods for his living and the hierarchy that the consumer grants to the various goods.

causes determining the prices of necessities (mainly the rate of supply) and conveniences-luxuries (mainly the rate of demand) goods. Furthermore, other authors like Rogers (1822: 39-40) and J.S. Mill (1848: 806-7, 868) connected the hierarchical consumption of goods with the effects and incidence of taxation<sup>23</sup>.

In general, it can be seen that many economists of this period developed the idea of hierarchy of human needs and therefore of consumption. Their discussions of the issue can be categorized in three main approaches that might justify hierarchical consumption patterns. These are based on: (a) the rate of per capita income, (b) social and psychological grounds, and (c) the income and price elasticities of goods. As we argued elsewhere (Drakopoulos and Karayiannis 2004: 369) the idea of hierarchical needs corresponding to certain goods was present in classical economic thought. In spite of the “macroeconomic” viewpoint that most classical economists adopted, the role of hierarchy was identified and in some cases was discussed in detail. It is also worth noticing that some classical economists like A. Smith and J. B. Say attach a dynamic aspect to this issue, by arguing that economic growth enables more people to satisfy non-basic needs.

## **5. Concluding comments**

As was seen in the first part of this paper, for most of authors in the period under examination, happiness is closely associated with material consumption. Furthermore, there were strong indications that many pre-classical and classical economists distinguished between basic and non-basic goods. Usually, this distinction was associated with different social classes. More specifically, the consumption of basic goods was mainly attributed to the working classes while the consumption of non-basic or luxuries to the upper classes. The following sections of the paper provided evidence that the idea of hierarchical behavior was present in pre-classical and classical thought. This behavior implies that human needs are structured and that basic needs are satisfied first. In other words, basic needs are viewed as more urgent than non-basic or secondary needs. Basic needs correspond to basic goods. It has to be noted though, that different authors employ apparently identical concepts in different frameworks. However, this issue is always present in many history of economic thought studies.

Given the above, one can argue that since basic needs are more urgent and that since basic goods satisfy better the basic needs, basic goods might provide more happiness. The association between basic goods, hierarchical con-

23. For a modern treatment of hierarchical consumption and elasticities see Earl: 1986, 1995.

sumption and happiness might assist in explaining one aspect of the paradox of happiness. In particular, one can make a case that the satisfaction of basic needs provides substantial increases to individual happiness. However, taking into account the hierarchical structure of needs, the subsequent satisfaction of secondary needs does not provide equivalent increases to individual happiness. This can be an alternative explanation of the observed gap between real income increases and increases in happiness level. It has to be noted that this explanation has not attracted the attention of specialists in the happiness literature. However, a similar idea has been applied and tested in the context of job satisfaction analysis (see for instance Locke 1976; Clark and Oswald 1996; Drakopoulos and Theodossiou 1997). In general, as is usually the case in many “contemporary” economic ideas, the roots of this alternative explanation of the happiness paradox can be found in the history of economic thought.

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