

## Referee Comments on 'Scitovsky, Behavioral Economics and Beyond

I found this paper fascinating to read, as the length of the comments below indicates. What the comments suggest, however, is that in some respects Scitovsky's view is (or points towards) a much more radically different kind of economics from behavioural economics than is being suggested at present, and yet at times there are also some missed areas of significance where the two approaches might usefully be brought together (especially in relation to Prospect Theory, which is oddly missing despite it being where the material in Kahneman 2011 on slow thinking gradually leads).

p. 3 (and p. 5 in relation to 'very strong' uncertainty): In the middle of the page the focus as regards novelty rapidly become Scitovsky's concern of uncertainty about capacity to deal with novel options. This 'to deal with' aspect needs to be differentiated more clearly from the traditional view of ambiguity in terms of it not being clear what the outcomes associated with a choice might be. Scitovsky's focus is one often ignored (though we might see it as rather similar to Stigler and Becker's experience-based view of choice) but it is really a focus on a subset of uncertainties associated with a choice.

An important issue related to this is whether Scitovsky's view of ambiguity is really more in Shackle's way of thinking (i.e. the decision maker not facing a given set of potential outcomes but instead trying to imagine what might be possible and sometimes being aware of the limits of their imagination and potential for being surprised) versus there merely being a lack of well defined probabilities for a given set of possible outcomes. The 'to deal with' aspect of his thinking seems to me to make most sense in the Shackle framework, not the subjective probability approach of modern behavioural economics unless the latter is rescued via a 'residual hypothesis' ('something else might happen;) to which a probability has been assigned. If Scitovsky were still alive, I'm sure he would like the modern marketing notion of 'surprise and delight' which is hard to handle in the probabilistic framework but very suitable for the Shackle one.

p. 4 'the experience to acquire' should probably be 'the potential opportunity to acquire'

p. 5 I think the discussion here would benefit from some examples of what Scitovsky means by consumption skill – such as ability to make sense of a new piece of music or artwork, or avoid embarrassment in a new social situation, or not get injured whilst climbing a mountain. Note also that the novelty needs only to apply to the individual's experience. It need not be a new kind of situation for the economy as a whole.

p. 6 needs to organize key Scitovsky themes a bit more systematically for them to stand out clearly. At the top: pleasure is mentioned for the first time here. I think it needs to be made clearer how Scitovsky saw pleasure as differing from comfort, for this difference is important to his analysis (despite the term not appearing on many subsequent pages in this paper): it seems to involve temporarily 'living dangerously' in some sense by taking on a level of novelty in

excess of the arousal level that is optimal for comfort, in the hope of surviving the experience whether physically or merely in terms of one's sense of self. Perhaps the second line might be reworked to emphasize that pursuit of pleasure seems more about testing one's view of one's capacities rather than an investment in augmenting them. If the argument is presented along those lines, it opens up scope for aligning Scitovsky's perspective with the reference point aspect of Prospect Theory and the emphasis there on loss aversion.

Further down this page it might be noted that, for marketing purposes, there may be a problem with trying to offer products that are portrayed as challenging and risky in any sense, rather than offering products that make life safer. The point that Scitovsky is making in *The Joyless Economy* is not, it seems to me, that there is a lack of opportunities to experience novelty, but that US consumers were choosing comfort rather than pleasure, whereas European traditions favoured being more adventurous choices.

Near the bottom of page 7, the way that behavioural economics is being characterized is implicitly rather in terms of an aspect of mainstream economics where the latter is, in Lakatos's terms, a 'degenerating research programme' – a mass of ad hoc assumptive changes are made to deal with empirical anomalies (rather than beginning with a new framework). A Lakatosian perspective would help mainstream readers make sense of the very bottom of this page (regarding Scitovsky's departure from a focus on a 'given option set'), for Scitovsky seems to be working with a different 'hard core' view (one that looks much more like that of Shackle or evolutionary economists).

Top page 8: Kahneman's reference dependence view of perception is very similar to what Hayek proposed in 1952 in *The Sensory Order*, but of course Kahneman doesn't refer to Hayek.

Last paragraph on page 9 is very interesting: it is redolent of the interchanges between Sidney Winter (Yale Economic Essays 1963, QJE 1971) and Richard Day (QJE 1967) regarding whether or not firms will end up optimizing despite using simple rules of thumb to get decisions taken rapidly. Day's defense of the optimization assumption works in a stable environment, but not one that is being forever disturbed by a Schumpeterian 'innovating remnant'. Winter's evolutionary thinking seems much in the same spirit as Scitovsky's view of the consumers situation. I can't remember if Winter's frequent coauthor Richard Nelson has talked about Scitovsky in his recent papers on evolutionary consumer theory, but it would be worth checking these out.

Bottom of page 10: here is one possible place where the 'reference point' aspect of Prospect Theory might be brought in, as indicating how Kahneman sees well-being.

Also in relation to the two-systems view, I wonder whether it might be argued that, if people are to be bold, they need to have a strong system 1 driving force, for too much system 2 thinking may deter 'taking a plunge' into unfamiliar territory – those who jump into exciting situations are probably doing so on a

system 1 basis, categorizing them as the kind of situations they can survive based on superficial examinations of their similarities with things that have been tried previously. This might be augmented by noting what Kahneman (2011) says about the driving force of entrepreneurship and optimism bias.

Page 12: the footnote here prompts me to consider whether the lotteries-focused experimental work of modern behavioural economics really is an appropriate venue for making any sense of Scitovsky's thinking. Surely, these lottery experiments, with their simple and given probabilities, do not present the kinds of novelty challenges at the heart of Scitovsky's concerns. A more fruitful way of understanding why real-world lotteries are popular seems to come via Shackle (Economica, 1943) with the idea of 'enjoyment by anticipation' whereby the person who buys the lottery ticket gets the chance to rehearse mentally how life might be if their winning number comes up: it is this pleasure from mental rehearsal that makes the lottery appealing despite poor odds, but this is very different from Scitovsky's view of excitement where there is a challenge to one's self being put at stake. That view casts the consumer more in an entrepreneurial role, which I don't really get any sense of from Kahneman's writing.

P. 13 the arguments of Pope discussed here seem worth considering in contrast to Shackle's view: he suggests a shortening of the period between choice and outcome may diminish satisfaction because it reduces the amount of enjoyment by anticipation (though with fear present, a shortened interval would be preferred since it limits the time spent worrying). Pope's point about knowing one's date of death might simply reflect the fact that, so long as that day is uncertain, one can engage in denial, so it would be wise to reflect on her findings via cognitive dissonance theory.

I suggest caution in tying Scitovsky really closely to Pope and Selten. The material on Pope and Selten seems to be getting detached from the notion of pleasure in a way that I think it important for the paper to bring out: The way these authors are thinking seems oblivious of the notion of 'flow' that seems key to understanding the nature of pleasure. If we are really getting pleasure out of an activity, we tend to be completely engrossed in it and largely oblivious of the passing of time; our attention is not tending to wander on to other things we might be doing. It might be noted that the 'flow' view is very hard to fit into a standard economics framework since it is denying ongoing monitoring of opportunity costs, but I think that it is very much where Scitovsky's view leads (and it is interesting that the 'flow' viewpoint was a major way of understanding high-excitement tourism in papers in the Journal of Consumer Research two decades ago).

Bottom of page 15 it is good to see the link to Becker being mentioned: as my p. 3 comment may indicate, that link might usefully be drawn far earlier in the paper.

This subsection on preference change misses the opportunity to note that within Prospect Theory (on which the paper seems oddly silent) Kahneman isn't really seeing preferences as given: everything seems to depend on the path the consumer has taken, for the value function is given but its reference point moves

with choice. In his 2011 book this critique of standard thinking, implied by Prospect Theory is well made in a chapter towards the end.

p. 18 Regarding boredom, one might usefully reflect on the possibility of it arising due to failure to develop (or to be allowed to develop) the kind of imaginative capacity that Shackle's later work emphasized. Consider how children at play can be amazingly imaginative in what they can do with very limited physical materials, and yet by teenage years they can be bored despite material abundance at home because there is 'nothing to do'. Is the problem one of parental pressures or social pressures impeding even the retention of that imaginative capacity they displayed as young children, let alone its development.