

'STATUS EFFECTS' EXPLAIN THE STAGNATION OF HAPPINESS

The stagnation - or decline - of people's reported levels of happiness in the developed world is caused, in part at least, by the presence and innovation of 'status goods' in the economy. That is the contention of **Ben Cooper, Cecilia Garcia-Penalosa** and **Peter Funk**, writing in the latest issue of the *Economic Journal*. Status goods are those that confer happiness only at the expense of others who consume less of the good. The result is consumer frustration as people compete for the fixed supply of goods, and 'excessive' innovation of new kinds of status good at the expense of normal goods.

The researchers begin by noting that since most people cite happiness as their most important life objective, reported levels of happiness should also be an important measure of economic performance. Although there remains considerable doubt among economists that it is *possible* to measure 'happiness' in any meaningful way, there is now a considerable body of survey data on happiness. A question in the US General Social Survey, for example, asks: 'Would you say that you are very happy, pretty happy, or not too happy?'

If we can take such data seriously, then the picture it paints of economic performance over the last 30 years is not a rosy one. There seems to be no trend in happiness levels in the United States, a decline in the UK, Italy and Germany, and an increase in France. Yet real incomes and consumption have more than tripled over this period. If happiness corresponds to 'utility', then happiness stagnation in the face of increasing affluence simply cannot be explained by conventional models of growth.

There are many potential explanations of happiness stagnation. Tibor Scitovsky, for example, suggests that we respond dynamically to consumption. Pleasure, he argues, is related to increases in stimulation and, hence, to the rate of growth of consumption.

An alternative approach is to examine the implications of consumers' desire for status and of the associated 'conspicuous consumption'. Cooper and his colleagues follow Fred Hirsch's distinction between material goods and goods that confer status, which he calls 'positional goods'. In Hirsch's formulation, material goods are reproducible, but positional goods - such as works of art, access to the countryside or employment in leadership roles - are not. The result is consumer frustration as people compete for a fixed supply of positional goods.

Cooper et al's explanation is based on the ability of capitalist economies to invent new products able to confer status. Their suggestion is that the stagnation or decline observed in average utility levels is caused, in part at least, by the presence and innovation of status goods in the economy. Like Hirsch's positional goods, status goods confer utility only at the expense of someone who

consumes less of the good. The utility gains to one individual are cancelled out by the utility losses to another.

In a framework in which technical change is undertaken by profit-maximising firms, these researchers find that innovative activity in the economy is increasingly directed towards the innovation of status goods. Normal good R&D eventually comes to a halt even though it still has the potential to increase utility. As status goods become more and more prestigious, more and more of a consumer's budget is diverted away from goods with intrinsic utility. Consequently, measured output increases due to technical change, but utility (i.e. happiness) declines over time.

Are there policies that can prevent this decline in utility? When status goods can be identified by the policy-maker, a tax on such goods will reduce their consumption, reduce research for new status goods, and increase happiness levels. In the more realistic case where the status good cannot be identified, the policy implication is unequivocal: all types of R&D should be taxed. Since 'unchecked' innovation eventually leads to a fall in utility, the only feasible policy is to slow down innovative activity.

To sum up, incorporating status goods into the preferences of individuals captures some important features of change in capitalist economies that are missing in most treatments of growth. At the very least, it teaches us that a high rate of innovative activity in an economy is not necessarily a good thing.

Notes for Editors: 'Status Effects and Negative Utility Growth' by Ben Cooper, Cecilia Garcia-Penalosa and Peter Funk is published in the July 2001 issue of the *Economic Journal*. Cooper is at Oak Hill College, London; Garcia-Penalosa at GREQAM, Marseille; and Funk at the University of Koln.

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