LUMEN ET VIRTUS

Money, social status, and happiness: Reflections anchored in Veblen and Smith

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ABSTRACT

Despite the considerable difference between Veblen and Smith's views on capitalism and its benefits or harms, both have similarities in how they view and evaluate traits of human behavior. At the limit, they share similarities in the interpretation of what individuals pursue in the course of their lives. For these theorists, individuals seek to obtain positive evaluation from their peers, a kind of social certification. To this end, they pursue consumption patterns capable of causing distinction and validating their social "approvals", translated into attention and admiration from society. However, while Smith saw the pursuit of status through conspicuous consumption as a stimulus to economic dynamism, Veblen regarded it as a generator of waste and waste detrimental to social welfare, claiming work as a socially superior channel for acquiring social respect. This essay explores the considerations of these two great economists on this issue. The discussion places emphasis on current social issues, especially about individual decisions, consumption patterns and their impacts in social terms.

Keywords: Social approval, Conspicuous consumption, Adam Smith, Thorstein Veblen.

INTRODUCTION

> "... all the best business men want to get money, but many of them do not care about it much for its own sake; they want it chiefly as the most convincing proof to themselves and others that they have succeeded." MARSHALL (1890, p. 635)

Thorstein Veblen and Adam Smith are celebrated economists and social thinkers. His intellectual efforts cover important aspects of life in society, both from a philosophical and economic perspective. Although they are admittedly different thinkers in terms of the best way to conduct the economy, they share remarkable similarities in the way they see traits of human behavior and life in society.

Both the famous "father of economics", Smith, and the recognized American "father of institutionalism", Veblen, saw individuals as beings who seek a positive evaluation by their peers, that is, the search for recognition and approval. Moreover, both saw luxury consumption, or, in

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possibly more appropriate terms, Veblen's conspicuous consumption, as a path to the longed-for social status.

Professor Jon Wisman, in a 2019 article published in the famous English journal *Cambridge Journal*, argues that the great divergence of his theories on human behavior is due to the period and the objective with which they were written. According to Wisman (2019), Smith's main goal in his 1759 work, "Theory of Moral Sentiments," was to develop a theory of morality. On the other hand, Veblen's main objective, especially in his best-known work of 1899, "The Theory of the Leisure Class", was to approach capitalism in a critical way, with a strong attack on the way of acting and the customs of the rich of the time. While Smith sought to build concepts of morality, Veblen suggested a greater rationality in social and economic relations, proposing that society could be more rational and humanly structured, with human effort and work as its central aspect.

Veblen and Smith's consideration that individuals pursue the positive evaluation of their peers, approval and social status brings important discussions for the understanding of the mechanisms and nuances of life in society. Does human happiness come from social approval? Or is this happiness only illusory or fleeting? Is it worth exploring how well institutions should be designed to meet the human needs of achieving such approval? In this context, the purpose of this work is to draw a comparative analysis between the theories of human behavior of Smith and Veblen, highlighting the similarities and differences between them. In addition, in the light of his theories, critically evaluate the social impact and how beneficial or harmful the pursuit of happiness, conditioned to social approval and material wealth, is for life in society, whether in economic or social terms.

In general, the purpose of the study is to delimit traces of Veblen and Smith's theories of human behavior, so that they can illuminate modern and current discussions. It is interesting to note that discussing similar "views" can have very different implications when thinking about the consequences of the causal approach to each. While for Smith the struggle and pursuit of "undeserved applause" through luxury consumption has the happy consequence of stirring up and boosting the economy, Veblen saw such a struggle in an economically unfavorable way. According to the theorist, the result of it is waste and misallocation of resources (PAGANELLI, 2009; WISMAN, 2019).

THE PRINCIPLE AND THE SEARCH FOR SOCIAL APPROVAL: CORRESPONDENCES IN VEBLEN AND SMITH

> "Nature, when it formed man for society, endowed him with an original desire to please and an original aversion to offend his brothers. She taught him to take pleasure in his favorable regard and pain in his unfavorable regard. She made his approbation more flattering and more agreeable to him for her own sake; and its most mortifying and offensive disapprobation." —SMITH (1759, p. 212; III.2)

In the classic 1759 Theory of Moral Sentiments, Smith developed a theory of human behavior in which humans are described as striving primarily and primarily for their self-esteem by obtaining social approval. This principle of approval concerns:

> "to the faculty of the mind which renders certain characters agreeable or disagreeable to us, makes us prefer one style of conduct to another, to denominate right and the other wrong, and to regard one as the object of approbation, honor, and reward; the other as that of guilt, reproach, and punishment" — SMITH (1759, p. 497; VII.3.1)

Years later, Thorstein Veblen, in "Theory of the Leisure Class", a work of 1899, also wrote about the human need for the approval of others and the importance of this achievement for self-respect:

> "The usual basis of self-respect is the respect accorded by neighbors. Only individuals with aberrant temperaments can, in the long run, maintain their self-esteem in the face of the contempt of their fellows." — VEBLEN (1899, p. 39).

Veblen also insisted that the need for approval from others was based on human nature. This reason for emulation is a kind of stimulus for an "envious comparison" that leads us to want to surpass those with whom we compare ourselves:

> "With the exception of the instinct of self-preservation, the propensity for emulation is probably the strongest, most alert, and most persistent of the proper economic motives... Propensity for emulation - for envious comparison - is... ancient and is a predominant characteristic of human nature" — VEBLEN (1899, pp. 110, 109).

However, while Smith addressed conspicuous drinking as one of many forms of behavior that certifies the approval of others, Veblen focused predominantly on the role of conspicuous consumption. Wisman (2019) argues that the reason for this is centered on the different societies that both observed. Smith's society was much less wealthy than the one Veblen witnessed years later. In Smith's time, conspicuous consumption was not yet so democratized, and there was room for individuals to seek other forms of approval or admiration, such as good moral values or, in Smith's terms, divine virtues, such as sympathy and generosity.

Although Smith and Veblen held that humans naturally need the approval of others, what can achieve that approval is to a large extent socially determined by the values that have been generated in the evolution of society's cultural or institutional structure. Humans are socialized according to these values in varying ways. Smith, for example, highlights the role of observation in this socialization process:

> "Our continual observations of the conduct of others insensibly lead us to form for ourselves certain general rules as to what is proper and proper to be done or avoided... Originally, we did not approve or condemn particular actions, because, upon examination, they appear to be agreeable or inconsistent with a certain general rule. The general rule, on the contrary, is

> formed by the discovery of experience that all actions of a certain kind, or circumstances of a certain kind, are approved or disapproved." —SMITH (1759, pp. 263-264; II.4.8)

Similarly, the nature of our own actions is only revealed by reference to how others perceive them. Society provides the mirror to evaluate our judgments. That is, our own judgments and opinions are mutually formulated according to the judgments and opinions of the wider society. In this way, moral rules are inductive generalizations:

> "The general maxims of morality are formed, like all other general maxims, from experience and induction." —SMITH (1759, p. 505; VII.3.1).

SMITH AND VEBLEN SUPPORTED BY OTHER SPECTRES OF SCIENCE

Does Smith and Veblen's claim that humans naturally need the social approval of others hold water? What is the strength of this argument? While the issue may not be widely discussed by economists, even within the heterodox tradition, there is significant recognition among social thinkers in other disciplines. Wisman (2019) compiles several social thinkers who, in addition to the economic field, have paid attention to the human need for social approval. Many of these thinkers recognized that social status is extremely important to people, strongly affecting individual behavior.

Karl Polanyi, for example, stated that an individual is motivated "to safeguard his social position, his social claims, his social goods. He values material goods to the extent that they serve this end" (1944, p. 46). Philosopher John Rawls (1999) has also argued that the way people are judged by others forms the basis for their self-esteem, considering this dimension as "perhaps the most important primary good".

Sigmund Freud, the famous psychoanalyst, directed his writings to this question, suggesting that the fear of losing the love of others is a significant source of social anxiety (Freud, 1994). Charles Darwin (1871) related the search for social approval to his theory of natural selection. For Darwin, one of the most powerful instincts for the development of social virtues is provided by the praise and criticism of peers, a trait acquired by human beings through natural selection. This finding is linked to the sequence of a genetic lineage, suggesting that those who achieve the approval of others are more successful in mating and, consequently, pass on their genes to future generations.

Therefore, the human need for social approval is widely recognized not only by economists such as Smith and Veblen, but also by thinkers in other areas of the social and biological sciences. This reinforces the validity of the argument and highlights the importance of social status in shaping human behavior.

VIRTUOUS OR PREDATORY NATURE? USEFUL OR HARMFUL?

Having made an approximation on a more general level of the findings of Smith and Veblen about human behavior and the constant search for social prestige, in addition to the formulations of

other fields that give weight to the findings of the two great theorists, the next section highlights the main nuances of each author on the subject. In summary, after the first attempt to bring them together, it is interesting to differentiate them in order to reflect more broadly on the implications of such behavior, whether predatory or virtuous.

As mentioned earlier, Smith and Veblen addressed how the pattern of consumption is influenced by the pursuit of status or social approval. However, while Smith saw this pursuit as socially beneficial, Veblen saw it as a kind of social waste. It is now necessary to explore this distinction that separates them further.

SMITH – VIRTUOUS CONSUMPTION? HAPPIER RICH?

> "Mankind do not desire to be great, but to be loved" — SMITH (1759, p. 276; III).
> "It is chiefly out of respect for the feelings of mankind that we seek riches and avoid poverty" — SMITH (1759, p. 112; III).

In Professor Wisman's apt (2019) statement, Smith saw the equation of happiness with wealth and luxury as a happy mistake. Social institutions that evolved to privilege the pursuit of approval through wealth were seen as natural. For Smith (1776), it is the search for wealth that awakens and keeps the industry of humanity in continuous motion. It is what leads individuals to cultivate the soil, to build houses, to found cities and communities, to invent and improve all the sciences and arts, which ennoble and beautify human life. In other words, the search for approval leads to the generation of material wealth useful for improving the standard of living of individuals in society.

> "The rich man glories in his riches because he feels that they naturally attract the attention of the world upon him... and he is more interested in his wealth on account of it than in all the other advantages it affords him." —SMITH (1759, p. 276; III).

For Smith, wealth brings social approval and attention, but it doesn't translate into greater happiness. In addition, it can corrupt moral sentiments to the extent that the wisest and most virtuous individuals do not receive due attention from their peers. There is, for Smith, a kind of inversion of moral values. However, this inversion has a social utility, as it boosts the search for wealth and raises the standard of living of societies.

> "The frivolous attainments of that impertinent and foolish thing called a fashionable man, are commonly more admired than the solid and masculine virtues of a warrior, statesman, philosopher, or legislator" — SMITH (1759, p. 129; I.3).

In the face of social dynamics and the search for wealth for social certification, Smith argues that this was largely responsible for and driving the transition from feudalism to commercial capitalism. The growing trade that arose with the end of the Middle Ages brought luxury products that stood out in the eyes of the large feudal landowners. Competing with each other for the

consumption of these goods, they boosted the entire growth of the merchant class and gave legitimacy to the rise of the bourgeoisie. Vanity and "childish competition" among feudal lords was decisive for their respective losses of power and authority (WIENGAST, 2017).

> "They squandered their wealth by transferring it to an emerging and more enlightened commercial class. All this happened without any intention on the part of the actors to bring about this happy transformation. Instead, it functioned as if it were guided by a beneficent 'invisible hand', producing progress that 'all the violence of feudal institutions could never have effected; the silent and unfeeling operation of foreign trade and manufacturers arose gradually" — SMITH (1776, p. 418).

It is evident that, for Smith, the search for distinction and social approval is a characteristic that guides human economic decisions and behavior. Individuals seek happiness through the search to be loved, admired, etc. However, while Smith finds this behavior despicable, he recognizes that it is of great use in generating wealth and improving the standard of living more generally. For him, at the limit, such behavior acts as an incentive to industry and acted – in the historical episode of the transition from feudalism – as an instrument for the transfer of economic and political power from a class of parasitic landowners to a class that generates economic growth.

Starting from the reasonable exposition made above, it is now appropriate to try to answer the second question asked in the subtitle of the section: would the rich be happier? Now, if a striking feature of human behavior is the search for social approval, certified by the attainment of wealth, it would be almost tautological to say that those less endowed with wealth or material goods would be less happy, since they would not receive the longed-for admiration of their peers, correct? Smith surprises on this issue, stating that there is no difference in the true happiness of human life. Even though the poorest are ashamed of their condition, they are the ones who have the most tranquility to do the simplest and most pleasurable things in life. Smith goes so far as to classify the possessions and riches of the upper classes as mere and useless "trinkets".

> "In what constitutes the true happiness of human life, [the poor] are in no way inferior to those who appear far above them. With tranquillity of body and peace of mind, all the different classes of life are almost on the same level, and the beggar who sets out in the sun by the side of the road, possesses that security for which kings are fighting. wealth and greatness are mere trinkets." —SMITH (1759, pp. 303-4; IV.1.10).

VEBLEN – CONSPICUOUS CONSUMPTION AND WASTE

Thorstein Veblen, in his work "The Theory of the Leisure Class", published in 1899, coined the term "conspicuous consumption" to refer to the expenditure made for the main purpose of demonstrating social condition. According to him, conspicuous consumption manifests itself through the purchase of luxury items and ostentatious spending. Veblen approaches the issue of consumption with a historical-anthropological-sociological treatment, directly linked to the theory of the decision-making process based on instincts, habits and institutions.

A Veblenian analysis of consumption implies understanding that the consumption pattern of a society is related not only to the choices of individuals in isolation, but mainly to the mental habits developed by them, which become institutions when they become collective actions. In this way, the analysis of consumption proposed by Veblen has an inherently social, cultural, historical, and evolutionary character (CAMATTA, 2014).

For Veblen, a precursor of the institutionalist school, the driving force behind accumulation is pecuniary emulation, that is, the need for each individual to overcome other agents in the accumulation of goods. In this case, the individual consciously seeks emulation as a stimulus to rivalry or dispute, because the possession of wealth is, in itself, honorific and capable of distinguishing him from others. In short, conspicuous consumption would be the emulative demonstration in terms of waste, of the valuation of useless goods for the "filling of life", a supplement to the purest demonstrations of pecuniary power. Conspicuous consumption, as well as conspicuous idleness, would be responses to the need to express the differentiation of social classes (Cavalieri, 2009).

Thus, it is clear that, for Veblen, as for Smith, man seeks differentiation to obtain applause. However, while Smith casts a contemptuous glance at relative consumption habits, but recognizes a certain social utility of them, Veblen sees a social disutility translated into a waste of resources that could be better used. In short, for Smith, the pursuit of undeserved applause culminated in work, agitation, and industrial progress. For Veblen, this hunt for recognition and admiration culminates in a huge waste of resources. In Veblen's words:

> "The disposable surplus that remains after the most imperative physical needs are satisfied is often diverted to the purpose of conspicuous decency, rather than physically adding comfort and fullness of life. Moreover, the surplus energy available is also likely to be expended on the acquisition of goods for conspicuous consumption or conspicuous treasure." —VEBLEN (1899, p. 205)
> "Human nature being what it is, the struggle of each one to possess more than his neighbor is inseparable from the institution of private property." — VEBLEN (1919, p. 397)

Individuals are in constant search to overcome the consumption pattern of their neighbors. This predatory constant puts them on a treadmill, working harder and harder to waste more, with no increase in happiness or well-being. In short, individuals find it rewarding to "have" more than others; However, this new pattern of wealth is quickly absorbed by others, no longer providing the same satisfaction that it provided before others reached that level. That is, the trend is in fact a "treadmill", where individuals feel the need to continuously increase their conspicuous pattern.

Although it is not the central theme of this essay, it is worth noting that the solution for Veblen is the abolition of private property. With the elimination of private property, the human trait of the emulation of consumption patterns could be transformed into the emulation of work and effort, generating a society where work is the great source of admiration and honesty. In their struggle for

status, people aspire to appear above the need to work. Conspicuous consumption serves to carry out this signaling. Veblen brings his classic example of the dress: for him, a "right" dress can demonstrate that its wearer is above the need to work. Expensive clothing is especially revealing of the wealth of its wearers. The expenditure on expensive clothes is always in evidence, and furnishes an indication of the pecuniary position of the wearer, exhibiting the necessity of not working, and illustrating the argument that only under different social institutions can work become ennobling and a reason for social admiration.

> "The elegant dress serves its purpose of elegance, not only because it is expensive, but also because it is the insignia of leisure. Not only does it show that the user is capable of consuming a relatively large amount... Thus, for men, the patent leather shoe, the stainless linen, the lustrous cylindrical hat and the cane. For women, the French heel, the skirt, long hair, the corset..." — VEBLEN (1899, p. 167).

HUMAN NATURE AND ILLUSORY HAPPINESS – GENERAL REFLECTIONS

The purchase of an imported car for exuberant values or the daily use of designer clothes is a behavior observed in most individuals with better financial conditions. However, would the price of imported cars or designer clothes be a pure and exclusive consequence of the quality of the good or labor invested for its production? For example, in the case of cars, would it be the fact that the engine is more powerful? Or, for clothes, the most comfortable and durable fabrics? Unintuitively, would it be the high price of the product that makes it more attractive to consumers?

Two great theorists and economists of the past – Smith and Veblen – seem to offer answers or, at least, good reflections to these questions. Veblen and Smith are admittedly on opposite sides in their assessments of capitalism. Even in the face of these divergences, this study set out to find tangents between them, especially regarding the way both see individuals in search of approval, social certification and admiration from their peers. In summary, Smith and Veblen see humans as beings in constant search for self-respect and positive evaluation of others, validating themselves through the consumption of luxury goods, capable of distinguishing them from others.

In view of the conception of human behavior presented by both, it is clear that wealth is not an object of desire for the simple satisfaction of physical needs or the generation of comfort; it is desired as a way of gaining respect, through the exhibition and distinction that it enables, placing the individual in a relatively superior position before the society that surrounds him.

Smith and Veblen, while viewing the issue of seeking social approval in a similar way, differ on its consequences. For Smith, the love of wonder unfolds in all the work that generates wealth and drives poverty away from the world. For Veblen, it brings the consequence of waste and misallocation of resources. In short, the human behavior of seeking social approval through differentiated consumption patterns generates a kind of social disutility for Veblen, while for Smith, a

social utility. However, it should be noted that, even in Smith's assessment, such behavior, although functional, is not the most appropriate or worthy of admiration.

It is worth mentioning that this notion of seeking social approval and status contrasts sharply with the traditional microeconomic theory of utility, where well-being is measured by the consumption of goods. In traditional theory, individuals are assumed to be rational agents who seek to maximize their personal utility, usually through the consumption of goods and services that provide them with satisfaction. Well-being is thus directly correlated with the quantity and quality of goods consumed, without considering social aspects or external approval. In contrast, both Veblen and Smith suggest that consumption is not only a quest for personal satisfaction, but also a tool for gaining social recognition and status. This conspicuous consumption behavior, therefore, reveals an additional complexity in human motivations, where the utility derived from consumption is largely influenced by social and cultural factors, and not only by the direct satisfaction of personal desires. This contrast highlights the need for a more holistic approach to understanding economic behavior, incorporating social and psychological factors that go beyond the premises of traditional utility theory

Years after Smith and Veblen devoted their efforts to these issues, some economic development economists also incorporated these issues into their theories about the development of a nation. In particular, we can cite Ragnar Nurkse, who in his 1957 work evaluated the problems of capital formation in underdeveloped countries, and identified one of the problems of these countries as the inability to form savings, partly due to the phenomenon identified as the demonstration effect. The elites of the underdeveloped countries have been identified as having a strong tendency to emulate the consumption patterns of the elites of the rich countries, leaving almost nothing or no resources for local investment and development. Nurkse captures the essence of what Smith and Veblen had already said years or centuries before him, but in a more practical and applied way.

Resuming the relationship placed in the title of this brief essay, money and happiness, would it be possible to categorically state that money is largely responsible for human happiness? Now, if individuals pursue social approval and acquire it through the differentiated consumption of luxury goods, it seems obvious that by accumulating wealth and displaying it they would achieve such approval and become happier. However, Veblen and Smith do not see the issue so pragmatically. Veblen (1899), for example, mentions that humans are always on a kind of emulation mat, in the feeling that one is never rich enough. Smith (1759) equates the happiness of a poor beggar with that of a king. In the classic and controversial passage of his work, he argues that a beggar can enjoy an enviable tranquility when watching the sunset, a tranquility that a king is unable to enjoy.

In conclusion, dealing with economic and philosophical issues such as those addressed in this essay, from the perspective of two of the great ones in history, is of paramount importance for us to

better understand the nuances and mechanisms of functioning of the society that surrounds us. To question whether, in the face of the human standard of seeking to stand out from others through the ability to consume differentiated consumption baskets, it is possible to make a society flourish where other values, such as charity, generosity, kindness and work, make the individual as respected or more respected than by the mere display of wealth.

Veblen categorically stated that the only way to break with the values of conspicuous consumption was to decree the end of private property. Although it is not the central theme of this essay to discuss this, it is worth mentioning that perhaps this is not the only way to better direct human admiration towards the ennoblement of work. More recent empirical work points to a different path. For example, Priestland (2012) cites a survey of British workers that reveals that they are significantly happier when they have greater control over their jobs, a greater number of employees and higher incomes. Maestas et al. (2017) bring similar results for US workers; Control in the workplace generates considerable personal satisfaction. In other words, work can be a source of great utility and not disutility. In your place or workplace, it is possible to acquire respect, attention, admiration and social recognition that individuals so much pursue. This is because, at work, individuals can help each other and revel in colleagues' admiration for their skills and knowledge.

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