Introduction

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1. Economics and happiness: a new field with a long history

Many people focus on wealth when they pursue happiness, but research on social relationships suggests that they can be more important than material prosperity to subjective well-being. The word needs to be spread – it is important to work on social skills, close interpersonal ties, and social support in order to be happy. It is a mistake to value money over social relationships. (Diener and Seligman 2004)

After Rome had caught fire, it was probably 65 AD, Emperor Nero engineered to restore his reeling popularity by staging, in a surviving amphitheatre (before the Colosseum even existed), an immense gathering to watch a group of poor Christians be eaten up by fierce lions. As the stage opened – so the story goes – very soon after the first roaring hungry beast had dashed into the arena, one of those poor Christians, quite unexpectedly, sprang up toward the lion and somehow managed to mutter a few words in the lion's ear. Instantly the lion lost his mood, collapsed to the ground and lay still without any possible reaction. Breathless, the crowd looked at Nero. The Emperor immediately ordered a second lion, a fiercer one, to enter the stage. To no avail, however, and the same scene went on being repeated three or four times. The event definitely looked like a miracle. The Emperor, of course, was furious as the atmosphere was getting stormy. Two brutal soldiers got hold of the poor Christian, raised him to the Emperor's stalls and threw him at His Majesty's feet. 'What the hell did you say' – Nero raged – 'in the lion's ear?'. To which the man innocently replied 'I just said to him: "There will be speeches after dinner!"'.

The story looks plausible and it explains the inclination of a number of scholars who are, to the present day, so fiercely opposed to dinner speeches during Conferences. The same fate, unfortunately, sometimes extends to introductory chapters of collected papers or classics. Some editors may in fact sometimes be tempted to seize the opportunity and play Nero at the expense of their fellows, the proper authors. It will be up to the readers to judge if, in the present instance, we are able to escape our lot in that respect. Our introductory chapter presents a brief survey of the formative steps of the new and developing field of research on Economics and Happiness. We really trust this is not merely paying lip-service to a possibly disputed custom. To give a more precise idea of what it is all about, we further

propose a discussion of the main interactions of the analysis on Economics and Happiness with old and new topics in contemporary Economics. We are going to touch on externalities, especially in consumption, Sen's idea of liberty, including his discussions on functionings and capabilities, and the recent developments on *civil* (rather than political) economy, characteristically emphasizing the role of interpersonal relations. All of these topics have some close relationships with the current developments of Ethical studies in Economics, as we shall see along the way. We shall also discuss some of the recent achievements in Cognitive or Behavioural Economics, which come as a fruit of the renewed Interactions of Economics and Psychology and are extremely relevant to our subject. A number of open questions concerning Happiness studies in Economics will then be touched upon in a third section: these concern issues on labour and satisfaction, problems of income distribution, the role of the market and, more particularly, of financial markets. We shall then finally give a summary outline of the present volume and try to weave a plausible thread linking the contributions to one another, thus offering an evaluation on the coverage in this volume of the fast expanding field of Happiness studies in Economics. We shall close with a number of indications for further reading in a brief survey of the recent literature in the field.

A great philosopher of music (Jankélévitch 1983), has made it part of his own philosophy and argued at some considerable length that it is a special character of musical experience that through music we are rewarded with an acceptable expression of something valuable if, and *only* if, we have not directly and possessively searched for it, so that it all comes to us as a gratuitous reward (*ibid.*, pt III, § 2). A kind of serendipity is involved in the argument. Jankélévitch draws an interesting parallel with religious experience: in fact what he contends for the case of music is hardly new in the realm of events which are the result of *grace*. That we should probably *not* be inclined to think of music in the first place under that rubric, only means that, indeed, it can be rated as a discovery that the approach applies to both musical creation and musical experience, as Jankélévitch maintains.

Once we understand that as a discovery, we will probably find it quite natural to extend the result to the whole field of *poetical* creation. However, that would sound utterly implausible in economics, at least in so far as it is assumed that economics deals with actions where grace, and thereby *gratuity*, is excluded. The surprising discovery here, then, is that this is no longer self-evident once we enter the domain of happiness studies within economics. The main reason for this is that here we are led beyond the realm of action *per se* into the relatively unexplored territory of motivation. As we enter that territory we see immediately that current economic thinking is rather arbitrarily restricted to a narrow set of motivations to action and we are, therefore,

forced to think in more general terms. It is in a context of this kind that we approach the idea that the notion of creation or *ποίησις* – which means ‘production’ or ‘creation’ and from which also the word ‘poetry’ comes – has a very extensive domain for its application and that, indeed, had a not inconsiderable part historically in the shaping of the economic language. That this sounds odd today and require justification can be explained by the prevailing emphasis on exchange, rather than production, of much of the current imprinting of our current economic language. Of course production and exchange cannot possibly be entirely separated in economic reasoning; at the same time we get a very different view of the subject according as to whether we put the emphasis in our language on one or the other of the two terms. The dichotomy has often been stressed in the economic literature, albeit from different standpoints compared to the perspective chosen in our case.

A view of happiness which emphasizes creation has been called *eudaimonism* – a term which was popular in eighteenth-century philosophy, but which today forms the backbone of *one* current of thinking on happiness and well-being in economics. *Eudaimonism* – as explained, for example, by Deci and Ryan (2001, pp. 143–5) – conveys the belief that well-being consists of fulfilling or realizing one’s *daimon* or true nature. In today’s research *eudaimonism* parallels *hedonism* (to which we shall turn presently) as one of the two major approaches in the field of happiness studies in economics. The philosophical reference for the *eudaimonistic* approach is to be found in Aristotle, while Jeremy Bentham – not unexpectedly – still represents today the parent stem of the hedonic line of thinking and language in economics.¹

It is proper here to dwell on two characteristics of *eudaimonia*, that are important also for the current debates on the paradoxes of happiness in economics, to which we shall come in due course. The first characteristic concerns the *civil* or political nature of *eudaimonia* leading to make friendship, as a form of fellow-feeling, an ingredient of it. This is stressed by Aristotle in his *Nicomachean Ethics*:

Surely it is strange, too, to make the supremely happy man a solitary; for no one would choose the whole world on condition of being alone, since man is a political animal and one whose nature is to live with others. Therefore even the happy man lives with others; for he has the things that are by nature good. And plainly it is better to spend his days with friends and good men than with strangers or any chance persons. Therefore the happy man needs friends. (*Nic. Eth.*, IX, 9, 1169b)

In its highest expression friendship is a virtue and it is more important than wealth, according to Aristotle, because it is *part* of *eudaimonia* and, therefore, is an end in itself, while wealth is only a means to that end.

In the second place, as a further ingredient of *eudaimonia* as a conception of happiness, to Aristotle there is an *intrinsic value* in the commitment

to participate in civil or political life, without which human life does not flourish. Although human life by its very nature is capable of autonomous flourishing, in the sense that it cannot be jeopardized by bad fortune, it is also true that some of the essential components of the good life are connected with our links to our fellows and with *interpersonal relationships*. Thereby participation in civil life, as much as having friends, loving and being loved are essential elements of a happy life. In this sense – this is what needs emphasis – *eudaimonia* involves a paradox of the invisible-hand type: it cannot be achieved *only* through instrumental means. Rather it is the indirect result of virtuous actions, carried out merely in view of their intrinsic value, without any further motive.

Because it is composed of actions and goods, who has the activity – we might say – will of necessity be acting. This is what Aristotle argues in his *Nicomachean Ethics* in which he defines that ‘it is our actions and the soul’s active exercise of its functions that we posit as being Happiness’. With that definition we have ‘virtually identified happiness with a form of good life or doing well’; and ‘virtue in active exercise cannot be inoperative – it will necessarily act, and act well’ (*Nic. Eth.*, I, viii). We may translate Aristotle’s words in the following message: civil life leads to *eudaimonia* by its very nature, that is, only if it is marked by sincere and gratuitous sentiments. Martha Nussbaum (1986, ch. 12) argues that friendship, love and political commitment are the three main *relational goods* that Aristotle had in mind. They have an intrinsic value, are part of *eudaimonia*, are gratuitous, and cannot be instrumental. Because they are *made of relationships*, relational goods can be enjoyed only in reciprocity and, also for this reason, they are said to be vulnerable and fragile.

2. The paradox of happiness

The process of rediscovery of happiness in economics has been mainly a byproduct of a process that originated in psychology. In fact, the chapter published by Brickman and Campbell in 1971, under the telling title of ‘Hedonic relativism and planning the good society’, can rightly be considered the starting-point of the new studies on happiness in relation to the economic domain. In their study, the two psychologists extended the ‘adaptation level’ theory to individual and happiness, reaching the conclusion that bettering the objective conditions of life (income or wealth) bears no lasting effects on personal well-being. Such a thesis should have provoked a serious methodological storm about the nature and causes of the wealth of people. Yet it did not; the study remained practically unknown to mainstream economists for years.

Only a few years later, two economists, Richard Easterlin (1974) and Tibor Scitovsky (1976), were persuaded, however, that what was going on

in that field of psychology could have something important to say to economic analysis. So, the ‘paradox of happiness’ entered economics, re-echoing economic science from its classical origins. In fact, the wealth–happiness nexus was central in the classical tradition – as we shall see in the core chapters.²

By utilizing empirical research on people’s happiness, Richard Easterlin managed to open up the debate around the ‘happiness paradox’ – also today called the ‘Easterlin paradox’. He made use of two types of empirical data. The first base was supplied by the responses to a Gallup-poll type of survey in which a direct question was asked – a question which is still at the basis of most of the empirical analyses on happiness: ‘In general, how happy would you say that you are – *very* happy, *fairly* happy or *not very* happy?’ (Easterlin 1974, p. 91, original emphasis). The other set of data Easterlin made use of came from more sophisticated research carried out in 1965 by the humanist psychologist Hadley Cantril (another forerunner of contemporary quantitative studies on happiness), concerning people’s fears, hopes and satisfaction in 14 countries. The subjects interviewed were asked to classify their own satisfaction on a scale from 0 to 10³ – in today’s World Values Survey (WVS) questionnaires, happiness is ranked in ‘qualitative’ terms (from ‘not very happy’ to ‘very happy’), whereas life satisfaction is still measured using a Cantril methodology (a scale from 1 to 10).

Both types of data, then, were based on a *subjective self-evaluation* of one’s happiness or life satisfaction – this subjective definition of happiness is a crucial point in the whole debate, as we shall see.⁴ They both produced, in Easterlin’s seminal analyses, the same results. Within a single country, at a given moment in time, the correlation between income and happiness *exists and it is robust*: ‘In every single survey, those in the highest status group were happier, on the average, than those in the lowest status group’ (ibid., p. 100). In cross-sectional data among countries, instead, the positive association wealth–happiness, although present, *is neither general nor robust*, and poorer countries do not always appear to be less happy than richer countries. In other words: ‘if there is a positive association among countries between income and happiness it is not very clear. . . . The results are ambiguous’ (ibid., p. 108).⁵ But the most interesting result came from the time-series analysis at the national level: in 30 surveys over 25 years (from 1946 to 1970 in the US) per capita real income rose by more than 60 per cent, but the proportion of people who rated themselves as ‘very happy’, ‘fairly happy’ or ‘not too happy’ remained almost unmodified.

The main drift of Easterlin’s seminal paper was developed two years later by Scitovsky’s *Joyless Economy* (1976), which – as we shall see – added an original contribution calling more on psychology. Hirsch (1977), Ng (1978), Layard (1980) and Frank (1985) all brought new insights into the

explanations of the ‘Easterlin paradox’, which grew slowly but steadily. Today the debate on economics and happiness is gaining increasing attention among economists, psychologists, sociologists and the public.

The theoretical debate about the paradox of happiness is contentious. Almost all scholars, from different backgrounds, agree on the results over time, because there is evidence that ‘over time and across OECD countries rises in aggregate income are not associated with rises in aggregate happiness. . . . At the aggregate level, there has been no increase in reported happiness over the last 50 years in the US and Japan, nor in Europe since 1973 when the records began’ (Layard 2005, p. 148).⁶

The income–happiness relationship within a single country in a given moment in time is not controversial today among economists: almost all agree that a causal correlation running from income to happiness exists and is robust: ‘Various studies provide evidence that, on average, persons living in rich countries are happier than those living in poor countries.’ (Frey and Stutzer 2001).⁷

Psychologists do not deny this correlation, but, in general, are less optimistic about the importance of income on well-being:

[T]he effects of wealth are not large, and they are dwarfed by other influences, such as those of personality and social relationships. . . . [W]hen the sciences of economics and of well-being come face-to-face, they sometimes conflict. If the well-being findings simply mirrored those for income and money – with richer people invariably being much happier than poorer people – one would hardly need to measure well-being, or make policy to enhance it directly. But income, a good surrogate historically when basic needs were unmet, is now a weak surrogate for well-being in wealthy nations. What the divergence of the economics and well-being measures demonstrates is that well-being indicators add important information that is missed by economic indicators. Economic development will remain an important priority, but policies fostering economic development must be supplemented by policies that will have a stronger impact on well-being. (Diener and Seligman 2004, p. 10)

Also among economists, however, the income–happiness correlation across countries is more controversial.⁸ Easterlin in 1974 found, as we have seen, a not clear and evident correlation between happiness and income between different countries. Today most of the economists, using data coming from the WVS, agree that a correlation does exist: ‘Various studies provide evidence that, on average, persons living in rich countries are happier than those living in poor countries’ (Frey and Stutzer 2001).

Layard makes an important distinction in the cross-country analyses:

[I]f we compare countries, there is no evidence that richer countries are happier than poorer ones – so long as we confine ourselves to countries with incomes over \$15,000 per head. . . . At income levels below \$15,000 per head things are

different, since people are nearer to the absolute breadline. At these income levels richer countries are happier than poorer ones. And in countries like India, Mexico and Philippines, where we have time series data, happiness has grown as income levels have risen. (2005, p. 149)⁹

These issues are relevant in economic theory: explaining the happiness paradoxes calls into question some of the basic tenets of contemporary economics – as we shall see.

Before continuing, however, it can be useful to explore more the concept of happiness, by comparing it with similar concepts.

3. What is happiness?

As Diener and colleagues correctly note, ‘A widely presumed component of the good life is happiness. Unfortunately, the nature of happiness has not been defined in a uniform way. Happiness can mean pleasure, life satisfaction, positive emotions, a meaningful life, or a feeling of contentment, among other concepts’ (Diener and Seligman 2004).

Economists do not even like the question: ‘what is happiness?’. To them happiness is not a concept clearly distinct from pleasure, satisfaction or welfare. Ng (1997) defines happiness as ‘welfare’, for Oswald (1997) happiness means ‘pleasure’ or ‘satisfaction’, and Easterlin, is even too explicit: ‘I use the terms happiness, subjective well-being, satisfaction, utility, well-being, and welfare interchangeably’ (2001, p. 465). To Frey and Stutzer (2005): ‘Happiness research in economics takes reported subjective well-being as a proxy measure for utility’ (p. 116). The sociologist Ruut Veenhoven ‘use[s] the terms “*happiness*” or “*life satisfaction*” for comprehensive judgment’ (2005, p. 245, original emphasis). Happiness, by economists, is not generally *defined*, but empirically *measured*, on the basis of the answers to questionnaires that ask people: ‘*how happy are you?*’. The WVS questionnaires ask people about both happiness (‘*how happy are you?*’) and life satisfaction (‘*how satisfied are you with your life?*’), both of which are also often used in academic analyses about people’s happiness. The Eurobarometer of the European Commission measures Europeans’ self-evaluation of life satisfaction, and these data are often used as synonymous of self-reported happiness in economic analyses (see Oswald 1997). Ronald Inglehart, the WVS coordinator, uses the Subjective Well-Being (SWB) Index which is a combination of the responses to ‘happiness’ and the responses to ‘life-satisfaction’ questions.¹⁰

Some economists (Frank 1997, 2005; Layard 2005) use the SWB category simply as a synonym of happiness, relying on psychologists for the definition. Actually, in psychological studies the story is more complex. In psychology, experimental studies on happiness began in the 1950s, and, in general, psychologists use the expression ‘happiness’ with more precision

than economists. Psychologists distinguish among: (a) 'life satisfaction', which is a cognitive element; (b) 'affection', the affective component; and (c) SWB, defined as a 'state of general well-being, synthetic, of long duration, which includes both the affective and cognitive component' (Ahuvia and Friedman 1998, p. 153).

Ed Diener, for example, proposes on the basis of abundant empirical evidence an SWB hierarchical model whose four components are: (i) pleasant emotions (joy, contentment, happiness, love and so on); (ii) unpleasant emotions (sadness, anger, worry, stress and so on); (iii) global life judgement (life evaluation, fulfilment, meaning, success and so on); and (iv) domain satisfaction (marriage, work, health, leisure and so on).¹¹ In this approach, SWB comprises all these components, therefore, happiness is considered to be a *narrower* concept than SWB, and different from life satisfaction: life satisfaction and happiness are both considered to be *components* of SWB – as in the Senian capability approach where happiness is just *a* component of a 'good life'. In particular, life satisfaction reflects individuals' perceived distance from their aspirations (Campbell et al. 1976). Happiness results from a balance between positive and negative affect (Bradburn 1969).¹² SWB is instead defined as 'a general evaluation of a person's life' (Diener and Seligman 2004). In general, 'the term subjective well-being emphasizes an individual's own assessment of his or her own life – not the judgment of "experts" – and includes satisfaction (both in general and satisfaction with specific domains), pleasant affect, and low negative affect' (ibid.). For this reason, 'SWB is not a unitary dimension, and there is no single index that can capture what it means to be happy' (ibid.). In this approach to SWB, 'to be' happy is considered to be different from 'to feel' happy: SWB is a synonym of 'being happy', a concept close to the Aristotelian approach to happiness as *eudaimonia*, whereas concepts such as 'satisfaction' and 'happiness' belong to 'feeling' happy.

The result of the above discussion is that we should emphasize that in psychological studies of happiness we do find a tension between a '*hedonic*' idea of happiness and a '*eudaimonic*' one. In the *hedonic* approach, happiness is the result of avoiding pain and seeking pleasure; on the contrary, according to the *eudaimonic* approach, happiness arises as people function and interact within society, an approach that places emphasis on non-material pursuits such as genuine interpersonal relationships and intrinsic motivations (Deci and Ryan 2001).

More precisely, hedonism (Kahneman et al. 1999, 2003) reflects the view that *well-being consists of pleasure or happiness*: 'Hedonism, as a view of well-being, has thus been expressed in many forms and has varied from a relatively narrow focus on bodily pleasures to a broad focus on appetites and self-interests' (Deci and Ryan 2001, p. 144). In 1999, Kahneman et al.

announced the existence of a new field of psychology. The title of their book, *Well-being: The Foundations of Hedonic Psychology*, clearly suggests that, within their paradigm, the terms ‘well-being’ and ‘hedonism’ are essentially equivalent.¹³

The second view, (eudaimonism), both as ancient and as current, claims that well-being consists of more than just hedonic or subjective happiness: ‘Despite the currency of the hedonic view, many philosophers, religious masters, and visionaries, from both the East and West, have denigrated happiness *per se* as a principal criterion of well-being’ (Deci and Ryan 2001, p. 145). It lies instead in the actualization of human potential. Due to a close continuity with Aristotelian ethics, this view has been called ‘*eudaimonism*’ conveying the belief that

[W]ell-being consists of fulfilling or realizing one’s *daimon* or true nature. The two traditions – hedonism and *eudaimonism* – are founded on distinct views of human nature and of what constitutes a good society. Accordingly, they ask different questions concerning how developmental and social processes relate to well-being, and they implicitly or explicitly prescribe different approaches to the enterprise of living. (Ibid., p. 143).

Ryff and Singer (1998, 2000), also drawing from Aristotle, describe well-being not in terms of attaining pleasure, but as ‘the striving for perfection that represents the realization of one’s true potential’ (Ryff 1995, p. 100). Carol Ryff has even proposed the idea of psychological well-being (PWB) as distinct from subjective well-being: ‘Whereas the SWB tradition formulates well-being in terms of overall life satisfaction and happiness, the PWB tradition draws heavily on formulation of human development and existential challenges of life’ (Keyes et al. 2002, p. 1008).¹⁴ Another, complementary, way of presenting this tension is to distinguish between an *ethical* approach to happiness (the Aristotelian) and a purely *subjectivist* one based on psychological experience (the hedonic). In fact, the philosophical reference point for the hedonistic approach is Bentham (or Epicurus), while Aristotle is the father of the *eudaimonic*/ethical one. Given the importance of Aristotle’s theory of *eudaimonia* in the context of our research, it is worthwhile examining in greater depth, his theory which is what we shall do at the beginning of the historical analysis (Part I). The next section examines the main explanations offered today for the ‘Easterlin paradox’.

4. Explanations for the Easterlin paradox

Hedonic treadmill and set-point theory

We want to stress right from the beginning that the economists working today on the ‘happiness paradox’ are generally far from the *eudaimonistic*

tradition. As a matter of fact, if we want to spot an economist who is moving along a line of research very similar to the Aristotelian one, we should mention Amartya Sen. Although he cannot be considered a ‘scholar of happiness’,¹⁵ in all his work he reminds economists that happiness, in order to be a proxy of a good life, must be translatable into human flourishing (*eudaimonia*), in terms of capabilities and functioning, human rights and freedom:

If we have reasons to want more wealth, we have to ask: What precisely are these reasons, how do they work, on what are they contingent and what are the things we can ‘do’ with more wealth? In fact, we generally have excellent reasons for wanting more income or wealth. This is not because, typically, they are admirable general-purpose means for having more freedom to lead the kind of lives we have reasons to value. The usefulness of wealth lies in the things that it allows us to do – the substantive freedom it helps us to achieve. But this relation is neither exclusive (since there are significant influences on our lives other than wealth) nor uniform (since the impact of wealth on our lives varies with other influences). It is as important to recognize the crucial role of wealth determining living conditions and the quality of life as it is to understand the qualified and contingent nature of this relationship. (Sen 2000, p. 14)

As far as sociality is concerned, apart from a very few exceptions interpersonal relations, or sociality-as-relationality, is absent among the *key ingredients* of happiness. Sociality-as-positionality is very central, but such an idea of sociality is everything but Aristotle’s *philia*. In fact – and in the final section of the introduction we shall provide evidence of this – in the explanations of the paradox of ‘more income and less (or constant) happiness over time’ there is an important missing link: the role of sociality seen as a direct source of happiness. The idea is that by concentrating on such crucial variables as income, wealth or consumption, economic science *neglects something relevant in the interpersonal domain*, which affects happiness or well-being. The aim of the following review, therefore, is to spot an *absence*: the lack in economics of a deep analysis of sociality for explaining the paradox of happiness, which is basically an introduction to both the historical and the theoretical analyses that will follow.

The first economist who attempted to explain the Easterlin paradox was Richard Easterlin himself, in his 1974 seminal paper. His explanation was based on Duesenberry’s (1949) ‘relative income’ assumption. Many authors working on economics and happiness today still base their analyses on the relative income hypothesis: among them Robert Frank (1997, 1999), Yew K. Ng (1997), Heinz Höllander (2001) and Richard Layard (2005).

Before entering into the analysis of the most common explanations of the Easterlin paradox grounded on the relative consumption hypothesis (next section), it is important to examine other explanations, based on individual ‘treadmills’.

While the relative consumption hypothesis can be considered an internal evolution of the *economic* tradition, the explanations of the paradox that make use of the treadmill effects have a clear origin in psychological research. Such psychological theories are based on ‘hedonic adaptation’ or ‘set-point’ theory. According to set-point theories there is a level of happiness that remains practically constant during the life cycle, because personality and temperament variables seem to play a strong role in determining the level of happiness of individuals. Such characteristics are basically innate to individuals. In other words, in the long run, we are fixed at hedonic neutrality, and our efforts to make ourselves happier by achieving good life circumstances are only short-term solutions. Therefore, life circumstances including health or income often account for a very small percentage of the variance in SWB: people initially do react to events, but then they return to baseline levels of well-being that are determined by personality factors (Argyle 2001; Lucas et al. 2002). Empirical research (Lykken and Tellegen 1996, among others), concluded that more than 80 per cent of the variance in long-term stable levels of SWB could be attributed to inborn temperament. On this basis, these psychologists have claimed that people have inborn SWB ‘set points’.¹⁶ The various shocks that occur during our lifetime affect our happiness only temporarily. We inevitably return to our *set point* after a brief period. As Daniel Kahneman writes: ‘individuals exposed to life-altering events ultimately return to a level of well-being that is characteristic of their personality, sometimes by generating good or bad outcomes that restore this characteristic level’ (1999, p. 14).

Many psychologists and economists today maintain that there is a ‘hedonic treadmill’ operating in the area of economic goods. The hedonic treadmill, a metaphor coined by Brickman and Campbell (1971) comes from ‘set-point theory’: we are running constantly and yet remain at the same place because the treadmill runs at the same pace – or even faster – but in the opposite direction.

Set-point theory is also popular today among economists (Easterlin 2005; Frey and Stutzer 2005). According to this theory, happiness is essentially a congenital matter that mostly depends on subjective elements such as character, genes, or the inherited capacity to live with and overcome life’s hardships. In other words, there is a given level of happiness, around which the various experiences of life gravitate. This is a similar approach to that of Herrnstein and Murray (1994), who in *The Bell Curve* proclaimed the uselessness of social programmes on the basis that there is an innate level of intelligence that cannot be permanently changed by education.

Although in a quite different methodological line, Ruut Veenhoven (2005)¹⁷ rejects the common perception that misery, handicaps and inequality in income distribution are the principal causes of people’s unhappiness,

and concludes that there is no ‘paradox’ of happiness (in the Easterlin meaning). In Veenhoven’s *World Database of Happiness*,¹⁸ Ghana and Columbia are ranked highest among all the nations classified according to their happiness level. France and Italy take a back seat to Guatemala.

Satisfaction treadmill

More recently, Kahneman has drawn a distinction between two types of treadmill effects, namely, the ‘hedonic’ treadmill and the ‘satisfaction’ treadmill. While the former depends on *adaptation*, the latter depends on *aspiration*, ‘which marks the boundaries between satisfactory and unsatisfactory results’ (1999, p. 14).

As their income increases, people are induced to seek continuous and ever-more intense pleasures in order to maintain the same level of satisfaction. The satisfaction treadmill works in such a way that a person’s *subjective* happiness (self-evaluation) remains constant even when his/her *objective* happiness improves. In this case, while an individual’s objective well-being, or happiness, receives a boost because he/she has bought a new car; the fact that the individual has had a rise in income has also increased his/her aspirations about the ideal car to own, so that his/her subjective satisfaction level remains the same. This is true even though the individual may be objectively more comfortable in his/her new car.¹⁹

Easterlin carried out an interesting experiment over a period of 16 years in which he periodically asked the same group of people the following questions:

1. We often hear people talk about what they want out of life. Here are a number of different things. [The respondent is handed a card with a list of 24 items.] When you think of the good life – the life you’d like to have, which of the things on this list, if any, are part of that good life as far as you personally are concerned?
2. Now would you go down that list and call off all the things you now have? (Easterlin 2005, p. 45)²⁰

The first question aims at measuring the aspirations, while the second measures the means (income). The results showed that with an increase in material means (indicated by the first list), the things that were considered necessary for a happy life change (the second list). Thus, in the first phases of the life cycle, a summer home at the seaside and a second car were not indicated as being important for a good life, but they did feature as income increased. The ratio between possessed goods and desired goods remains practically constant over a life span, much as in a treadmill where means and aspiration run, more or less, at the same pace. Layard (2005) calls this

the ‘effect of habit’:

The process at work here is the basic human process of adaptation, whereby people adjust to a change in circumstances, be it upwards or downwards. This is for example the mechanism that explains the famous endowment effect, whereby people suffer more from losing something than they would gain from obtaining it. (p. 152)

This mechanism is also very close to one of the most important ideas in modern behavioural economics, the idea that preferences are *reference dependent* (Tversky and Kahneman 1991).

This idea is not completely new in the tradition of economics.

The social treadmill: relative consumption and positional competition

Explanations based on the relative consumption hypothesis can rightly be considered as a development of the satisfaction treadmill. The hedonic treadmill based on adaptation is essentially individual and a-social. The satisfaction treadmill is instead associated with social comparisons, although the satisfaction treadmill can apply even in isolation – that is, it can also occur on Robinson Crusoe’s island when he tries to exceed his performance (in cultivation, fishing and so on). In other words, the hedonic treadmill does not necessarily require society for it to function; satisfaction occurs *normally* in society, but neither the hedonic nor the satisfaction treadmills *require sociality by necessity*. Rather, a ‘*pure social*’ treadmill is the ‘positional’ one.

Even the relative consumption hypothesis is not new. Making use of his ‘relative income’ theory, we have already mentioned that Duesenberry was the first to introduce relative consumption theory explicitly in 1949. Duesenberry claimed that a person draws utility, or satisfaction, from his/her own level of consumption in relation or in comparison to the level of other people’s consumption (1949, p. 32).

In other words, he basically said that we are constantly comparing ourselves to other people, and that what they buy influences the choices about what we want to buy. It is the old ‘keeping up with the Joneses’ scenario, where the consumption function is constructed upon the hypothesis that our consumption choices are influenced by the difference between our level of income and the level of income of others, rather than the absolute level. Therefore, the utility of a person’s level of consumption depends not only on the *absolute* level but also on the *relative* one.

Without going as far back as the eighteenth century, where considerations about the social dimensions of consumption were prominent (we shall consider Adam Smith and Antonio Genovesi later), at the end of the nineteenth century Veblen (1899) treated consuming as a social issue, because

of the simple fact that the most significant acts of consumption are normally carried out under the public gaze. In recent times, Scitovsky (1976, ch. 6) dealt with the relationship between consumption and status, and Fred Hirsch (1977) coined the term ‘positional good’. The basic element of the contemporary positional theory is the concept of ‘externality’: conspicuous commodities share some characteristics of the ‘demerit goods’ (private goods generating negative externalities), with the typical consequence of Pareto inefficiency:

That many purchases become more attractive to us when others make them means that consumption spending has much in common with a military arms race. A family can choose how much of its own money to spend, but it cannot choose how much others spend. Buying a smaller-than-average vehicle means greater risk of dying in an accident. Spending less on an interview suit means a greater risk of not landing the best job. Yet when all spend more on heavier cars or more finely tailored suits, the results tend to be mutually offsetting, just as when all nations spend more on armaments. Spending less – on bombs or on personal consumption – frees up money for other pressing uses, but only if everyone does it. (Frank 2005, pp. 83–4)²¹

Thus, relative consumption theory can also be described by using the image of a treadmill: *something else* is running alongside our income or consumption: that is, the income of others. We shall return to the ‘positional explanation’ of the happiness paradox later, where this theory is confronted with a more relational approach to happiness.

To sum up. The theories reviewed above, which are the main explanations of the paradox of happiness in contemporary literature, take sociality into consideration mainly as a public good problem: a rise in aspirations or positional competition generates negative externalities in consumption that affect or ‘pollute’ individual utility. From this arises Layard’s and Frank’s recipe: Pigouvian taxes. In other words, these theories do not deal with the *direct* relationship between individual well-being and sociality-as-relationality, or, the economic explanations of the ‘Easterlin paradox’ do not refer to sociality as a source of happiness *per se*.

Mainstream economic literature, in fact, finds it hard to do this kind of analysis: this book can be read as a study for comprehending *why* it is so hard, and to put forward the methodological bases for a theory of happiness where relationality plays a key role.

5. The present volume

This volume contains a number of recent contributions on the relationship of economics and happiness. This appears *prima facie* to be a comparatively new field of research for economists as it has experienced a revival during the last 20–30 years and has only very recently attracted the

attention of the general economist. In March 2003, the editors of this volume had the privilege of organizing and hosting at the Bicocca University of Milan an International Conference on 'The Paradoxes of Happiness in Economics', gathering together for the first time some of the major contributors to the field in recent years. A number of the chapters in this volume are revised drafts of contributions first presented at the Bicocca 2003 conference.

The volume is divided into four parts, as follows.

Part I contains six chapters of a historical nature, highlighting the contributions that older philosophies made to the modern concept of economic happiness.

In Chapter 1, Gloria Vivenza examines some important contributions that the ancient Greek and Roman philosophies have made to the modern concept of economics, by resolutely denying any relationship between material welfare and happiness. Indeed in the ancient world, 'happiness' did not consist of material things; although welfare could be considered desirable and even necessary for living well, it was conceived mainly in terms of things to be possessed and *used*: for being independent, for devoting oneself to one's preferred activities, and for benefiting friends and the city.

Chapter 2, by Luigino Bruni, is a journey through the vicissitudes of happiness in economics; this critical and historical analysis aims to show that the contemporary approach to happiness in economics may be enriched by recovering some elements of the 'old' debate. In particular, this is true for two fields such as the theory of 'social capital' and development, related to both public happiness and 'civic virtues'. The main conception underlined here is that twentieth-century neoclassical economics finds it difficult to explain the paradox, because it did not pay enough attention to the 'technology of happiness' – that is, the transformation of wealth into well-being, the analysis of how and whether economic goods become happiness, well-being. This chapter therefore stresses the need for a new approach which takes adequately into account the role of interpersonal relationships in the transformation problem to fully open and look inside the 'black box' of the current theory of happiness, where the 'transformation problem' – the how and whether maximized wealth or income is transformed into well-being or happiness – still remains unknown.

In Chapter 3, Stravos Drakopoulos and Anastasios Karayiannis look at the history of economic ideas to get some further clues for a possible explanation of the paradox of happiness. The authors examine the ideas of some well-known pre-classical and classical economists concerning the relationship among basic goods, consumption and happiness. The main idea in this work is that, following the ancient theories, human needs are hierarchically structured so that basic needs, corresponding to basic goods, are more

urgent and must be satisfied first. Therefore, since basic needs are more urgent and basic goods satisfy better these basic needs, basic goods might provide more happiness, while the subsequent satisfaction of secondary needs does not provide an equivalent increase in individual happiness and this may explain the observed gap between real income increases and increases in happiness level.

Marco E.L. Guidi (Chapter 4) undertakes a critical review of the theories of Jeremy Bentham, universally considered as the founding father of utilitarian ethics by philosophers and of rational choice theory by economists. Guidi considers that 'Bentham himself was clearly always more interested in quality than in quantity' and that the 'felicific calculus' continued to be for him an essential element both of moral and of legal theory. Nevertheless he was also conscious of the differences between individual sensibility to pain and the pleasures of different natures and he fought to establish the perfect substitutability between pleasure seeking and pain avoidance against a tradition that stressed the ephemeral nature of pleasure and the prevailing presence of pain in human life. Finally, and despite such substitutability, he discovered some asymmetries between pain and pain of loss, which were essential for the evaluation of individual happiness and social welfare and for the normative theory that was built upon it.

In Chapter 5, by Pier Luigi Porta and Roberto Scazzieri, the concept of *public happiness* is discussed and related to the definition of a constellation of enabling conditions based on a complex inter-play of cultural beliefs and social opportunities. *Civil society*, in turn, is introduced as a sphere of possible outcomes resulting from the 'horizontal' interactions of individuals (or social groups). It may be considered as a virtual setting in which individuals (or groups) 'take position' relative to one another in virtue of a particular structure of admissible events. The study attempts to construct an economic theory of public happiness by laying emphasis upon the *relational dimension* of happiness in the presence of social diversity. A 'mean distance' criterion is introduced and the ensuing discussion draws attention to the fact that, under specific social and historical circumstances (close to the characterising features of Adam Ferguson's civil society or of Adam Smith's commercial society), a synthetic measure of public happiness may be obtained.

Finally, in Chapter 6, Sergio Cremaschi aims at a revaluation of Immanuel Kant's thoughts on happiness. In fact, Kant is often thought to hold that happiness is not valuable, and even to have ignored it wholly in his ethics. Instead, to be virtuous, for Kant, is to be worthy of happiness and the perfect good requires that happiness is distributed in accordance with virtue. His highest good is presented as something different

from happiness, indeed as the sum of happiness and virtue. In particular Cremaschi shows how Kant was aware that wealth is a very poor means to happiness and his own idea of a highest good (a good where material well-being and moral worth are joined together) and his ‘real’ idea of happiness is the idea of a state where man is both happy and deserving of happiness, that is the *summum bonum*, a state that includes both moral and non-moral elements.

The six chapters in Part II offer explanations of the income–happiness paradox, delving behind the economics factor in order to understand the paradox of happiness.

In Chapter 7, Marina Bianchi offers a critique to the economic theory of choice based on maximization of own satisfaction, utility or pleasure, which individuals pursue in their actions. Following the reasoning by the economist Tibor Scitovsky, Bianchi concentrates on the role that joyful and stimulating activities can play in making life pleasant, stressing the possible consequences in terms of social welfare configurations. The aim is therefore to underline how creative consumption represents a ‘technology’ of consumption that can give rise to increasing returns and the unhappiness that can arise when people privilege choices that lock them into defensive technologies that have lower returns: this trade-off between the two cannot be easily reconciled, because comfort consumption may also have high costs of exit.

In Chapter 8, Monica Guillen Royo analyses an alternative theoretical framework with respect to the traditional neoclassical consumption theory, where consumption is considered either to fulfil consumers’ desires or to contribute to their happiness. Because goods and services may differ in their capacity to meet certain universal goals considered to be minimum requirements to enable an individual to flourish or even to give him/her the opportunity to strive for happiness, it is necessary to evaluate the current patterns of consumption, distinguishing among goods purchased. To this end, attention is drawn to the normative theories of ‘functionings’, capabilities or human needs developed by Sen, Nussbaum and Doyal and Gough; by providing a list of thresholds or basic needs that have to be fulfilled in every society they enable the evaluation of present patterns of consumption in terms of their suitability to meet needs or capabilities. Drawing from this theory of human needs, the process of consumption is evaluated, taking into consideration the goals pursued by society as a whole through its production system and consumption patterns. This also has some policy implications, not only for economic policies that do not provide for minimum levels of consumption evaluated negatively, but also for policies that foster unproductive or non-welfare-generating consumption.

Mario Cogoy, in Chapter 9, focuses on enjoyment as a contribution to happiness. A time-allocation approach is combined with a model of economic dynamics, based on the accumulation of human capital. Enjoyment is modelled as an activity, taking place in time, and using knowledge in order to improve the quality of life. The accumulation of knowledge improves both the efficiency of production and enjoyment activities, and technical progress is therefore extended to the realm of life enjoyment. This implies that knowledge and technology accumulated in the consumption sector directly affect welfare, and that the structure of preferences regarding time, consumption goods and consumption knowledge significantly determines the dynamics of the economy.

In Chapter 10, Maarten Vendrik and Johannes Hirata offer an alternative explanation to the paradox of happiness, in terms of rising aspirations and positional externalities. The new approach investigated here is the distinction between intrinsic and extrinsic goals. This approach points to a second kind of discrepancy between decision utility and experienced utility of income and implies that life satisfaction depends on absolute rather than relative income. It has some potential, but, in its present stage, it yields less-specific predictions with respect to the paradoxes than the theories of aspirations and positional externalities. On the other hand, in the case of top-down relations between life satisfaction and aspiration levels, the intrinsic/extrinsic-goals explanation seems more fundamental.

In Chapter 11, Rajagopal Raghunathan and Julie R. Irwin examine whether people's happiness with a product experience increases or decreases as a function of their happiness with past experiences in the same as opposed to other product contexts. In brief, they find that happiness with a product experience is enhanced when it follows inferior experiences in the same product category, and is diminished when it follows superior experiences in a different product category. Under circumstances where there is ambiguity about product category membership of the target, framing the target as belonging to the same (as opposed to a different) product category (such as that of the contextual stimuli) produce a conceptually similar pattern of results. These findings have straightforward implications for agents interested in the welfare of consumers: they suggest that consumption experiences should be arranged in an improving sequence over the life-span of consumers.

In Chapter 12, Mark Chekola offers a view of the nature of the happiness of a life that captures what it is we think is a happy life. The author refers to it as the realization of a 'life plan view of happiness' (one's higher-order desires) in terms of maintaining the status quo in the absence of serious felt dissatisfaction and an attitude of being displeased with or disliking one's life. This view of happiness sees a happy life as one in which a

person's higher-order desires, the relatively more comprehensive, permanent and important desires the person has, are in the process of being realized. Two further conditions are also added. First, there can be serious felt dissatisfaction even where one's life is, objectively, going well, if someone suffers from depression and second, that there is a disposition to experience favourable feelings and attitudes associated with the realization of these higher-order desires.

The six papers of Part III are still centred on the explanations of the Easterlin paradox, but the emphasis is put on interpersonal relations, or 'relational goods', as the main theoretical tool.

In Chapter 13, Leonardo Becchetti and Marika Santoro suggest a theoretical interpretation for the paradox of happiness through a model explaining why and under which conditions a prisoner's dilemma in the production of relational leisure may arise, in so far as the opportunity cost of producing relational leisure gets higher. The authors' conclusions are that, for given intervals of productivity growth, rising productivity may make people wealthier, but not happier, if coordination failures dramatically reduce the production and consumption of relational goods.

Maurizio Pugno (Chapter 14) provides an explanation for the paradox by drawing heavily on the psychological and other literature. In fact, subjective well-being is largely influenced by close personal relationships which exhibit an unfortunate tendency to deteriorate. To capture these facts, relational goods are defined as a distinct input to subjective well-being, together with the usual economic goods; and individuals' aspirations for relational goods are explained as being tendentially greater than their realization, especially when individuals are young. Disappointing experiences with relational goods cumulate across generations, triggering a vicious circle because individuals unintentionally reduce their disposition towards others, while technical progress fosters materialistic growth.

The starting-point of Chapter 15, by Vittorio Pelligra, is Martha Nussbaum's well-known argument of the so-called 'fragility of goodness'. This conception states that bringing interpersonal relationships out of the control of the subject, and ultimately into others' hands, exposes one to the risk of opportunism. At the same time, it is implicitly assumed that such trustful behaviour does not in any way change the quality of the relationship. On the contrary, the author's point of view is that trustful actions tend to elicit trustworthy responses. That mechanism finds its roots in what Smith defined as an innate desire for the good opinion of another, which produces a tendency to fulfil certain expectations from a given class of behaviours. The author calls such a mechanism 'trust responsiveness' and supports this thesis by devising an experiment based on game theory ('the trust game') which shows, from the data obtained, that the principle of

trust responsiveness or reciprocity emerges as the one that shows the widest consistency with all the classes of strategic interactions considered (altruism, inequity aversion, team thinking and reciprocity itself).

In Chapter 16, Luca Zarri provides a contribution to the understanding of the relationship between material and non-material determinants of individual happiness in the context of non-cooperative game theory. One of the major purposes of this methodological work is to shed light on the primitive concepts constituting two-player, simultaneous-move non-cooperative games in order to properly account for the crucial interplays taking place between ‘preferences’ and ‘moral principles’. Zarri shows that non-cooperative game theory can deal with *some* moral principles through a proper respecification of individual payoffs. However, it is also clearly stated that ‘non-preferential’ moral principles, such as the Kantian principle of universalizability, cannot be satisfactorily modelled by simply respecifying players’ payoffs: with regard to this set of moral principles, the author suggests taking a step forward by introducing non-utilitarian solution concepts. Under this last scenario, individual players are capable of obtaining results which are Pareto superior to the ones they would get within a classic, maximizing framework.

The theoretical issue of Chapter 17, by Stefano Bartolini, is to show that both the theory based on the idea that relative position is important in agents’ preferences and the one based on GASP (growth as substitution process) models, according to which the empirical evidence can be explained by considering negative externalities as an engine of growth, may explain the empirical evidence that economic growth has largely betrayed its promises to increase leisure and happiness. In fact, the decrease in social and natural capital caused by negative externalities induces people to rely increasingly on private goods to prevent a decline in their well-being and productive capacities. According to the GASP models, the two broken promises of growth represent two sides of the same coin: people work hard because they must defend themselves against negative externalities by substituting free goods with costly ones; but an increase in their income does not increase their happiness because it is associated with a decrease in their access to free goods.

Finally, in Chapter 18, Donald Cox and Oded Stark deal with relational goods by claiming that parents provide help with housing downpayments in order to encourage the production of grandchildren, and that such a subsidization emanates from the ‘demonstration effect’: a child’s propensity to provide its parents with attention and care can be conditioned by parental example. Parents who desire such transfers in the future have an incentive to make transfers to their own parents in order to instil appropriate preferences in their children. This generates a derived demand for grandchildren since potential grandparents will be treated better by their adult children if

the latter have their own children to whom to demonstrate the appropriate behaviour. Empirical work indicates behaviour consistent with subsidization of the production of grandchildren and the demonstration effect.

Part IV contains both empirical and policy papers.

In Chapter 19, Jose de Jesus Garcia, Nicole Christa Fuentes, Salvador A. Borrego, Monica D. Gutierrez and Alejandro Tapia analyse the relationship between happiness and its determinants, devoting particular attention to the case of Latin America countries, characterized as countries of strong traditional values. Therefore, empirically exploring the relationship between happiness and its determinants in the northern Mexican city of Monterrey, among happiness determinants such as money income, health and personality, the authors particularly emphasize the role of personal values as one of the key variables. The main findings of their analyses confirm the paradox about the income effect on happiness, while with regard to non-monetary variables, people with higher social values tend on average to be happier.

In Chapter 20, Amado Peiró uses the World Values Survey conducted in 1995 and 1996, to examine self-reported happiness, financial satisfaction and life satisfaction of individuals from 15 countries, relatively diverse from a socioeconomic perspective, from five continents. The main results suggest the existence of two distinct spheres of well-being: happiness and satisfaction, with the first relatively independent of economic factors, and the second more strongly dependent, but both are affected in a similar way by social conditions. In fact, the estimations show that age, health and marital status are strongly associated with happiness and satisfaction, while unemployment and income does not appear to be associated with happiness, although it is clearly associated with satisfaction.

The main issue of the framework of Chapter 21, by Nattavudh Powdthavee, is to ask whether the happiness pattern is the same structurally between poor and rich countries, where there are significant differences in living standards. Using cross-sectional data from the SALDRU93 survey, the author shows that relationships between subjective well-being and some of the already identified socioeconomic variables have a similar structure in South Africa as in the developed countries. Well-being appears to rise with income. Unemployment, on the other hand, is detrimental to the perceived quality of life, both at the individual and the household levels. Living standard indicators such as durable assets ownership are equally as good determinants of happiness levels as income. The author also finds evidence that relative income matters in the evaluation of subjective well-being, once relative consumption in the environment is controlled.

In Chapter 22, Luca Crivelli, Gianfranco Domenighetti and Massimo Filippini investigate how changes in the health system in Switzerland, which

does not have a National Health Service and where decision making is made by the separate cantons, may induce wide changes in citizens' well-being. In particular, the authors investigate the consequences of federalism and of the interregional inequalities in per capita health-care expenditure and in production capacity, on the willingness of Swiss citizens to foster more equity in the financing of health care; and to empirically test the willingness to pay more for collective interests – as in the case of a mandatory health insurance system increase as the income of individuals increases). Using micro data collected through a special survey carried out in 2002, where people participating in the survey gave their opinion on the basis of the general principle of promoting vertical equity through income-dependent health insurance premiums, the results of the econometric analysis reject the Margolis hypothesis of group-interest spending behaving as a superior good. Indeed, as household income increases, the likelihood of accepting a more equitable financing of health insurance decreases.

In Chapter 23, Silva Marzetti Dall'Aste Brandolini examines the consistency of some different economic welfare theories with the main values involved in sustainability: the 'classical' theory based on the utilitarian view; the new welfare economics based on the neo-Humean view; John Harsanyi's utilitarianism rule, based on Benthamism and the neo-Humean view; and John Maynard Keynes's theories. The main conclusions from this analysis are therefore that only Keynes's approach to welfare has strong sustainability; his point of view of goodness is the only one to accept all possible kinds of values, not only instrumental but also intrinsic. Recognizing that public good and private interest may compete, Keynes also accepts that there are situations in which it is morally acceptable that sacrifice is uncompensated. This has an important consequence on the behaviour of the present generation, whose sacrifice becomes unavoidable if we pursue sustainable development. Nevertheless, economic growth should be defined in terms of sustainable development, which in turn requires the recognition not only of the impossibility of fully substituting capital for the life support system, but also of what the author calls 'the paradox of sustainability', meaning that individuals should sacrifice themselves today in order to be happy in the future, to allow future generations to be happy and also to permit other, non-human life, to survive; therefore sacrifice is good.

Finally, in Chapter 24, Lorenzo Sacconi and Gianluca Grimalda provide an account of the emergence of non-profit enterprise based on a theory of motivations of the agents involved. Their main idea is that these are *ex post* motivated by both self-interest and a conditional willingness to conform to their *ex ante* accepted constitutional ideology, which are weighed up in a *comprehensive* utility function. For conformist preferences that depend upon expectations of reciprocal conformity to a normative principle,

defined on social states in as much as they conform to an ideal, then the agents' model of choice demands the adoption of the *psychological games* approach, where payoff functions range over not only the players' strategies but also their beliefs. If the conformist prompt to action is sufficiently strong, then the outcome in which both the active agents perform an action improving the quality of the good with respect to the free market standard, thus maximizing the surplus of the consumers, results in a psychological Nash equilibrium of the game. The authors associate this outcome, and the corresponding norm of behaviour, with the constitution of the non-profit enterprise. They also show that the structure of the interaction is a coordination game, thus calling for the necessity of devices such as codes of ethics to solve the coordination problem.

We shall conclude this introduction by giving voice to an author who is not a contributor to this volume. This is the case of Amartya Sen, whose presence – albeit not physical – is pervasive through the issues touched on in the present volume. He has often repeated that although happiness (however we can define it) is very important in every human life, nevertheless there are things other than happiness that are also important and indeed come first: freedom, justice, or rights.

It is quite easy to be persuaded that being happy is an achievement that is valuable, and that is evaluating the standard of living, happiness is an object of value (or a collection of object of value, if happiness is seen in a plural form). The interesting question regarding this approach is not the legitimacy of taking happiness to be valuable, which is convincing enough, but its *exclusive* legitimacy. Consider a very deprived person who is poor, exploited, overworked and ill, but who has been made satisfied with his lot by social conditioning (through, say, religion, political propaganda, or cultural pressure). Can we possibly believe that he is doing well just because he is happy and satisfied? Can the living standard of a person be high if the life that he or she leads is full of deprivation? The standard of life cannot be so detached from the nature of the life the person leads. (1991, pp. 7–8)

If happiness is interpreted as just self-reported well-being or life satisfaction, measured on an absolute scale, then Sen's criticism is fully justified. If, instead, happiness is intended as *relational* happiness – as many chapters in this volume argue – then his criticism is less severe but is still justified. Therefore, the relationship between subjective happiness and the 'objective' preconditions of human flourishing will be the natural continuation of our research project.

Notes

- * We would like to thank Nazaria Solferino for her valuable help with the bibliographic work.

1. Martha Nussbaum (2005) gives a synthetic and very clear analysis both of Bentham's conception and of Aristotle's *eudaimonia*.
2. In general, however, these economists, and those who have followed them, are not aware of such an old tradition. Their reference points were far more recent: apart from psychology's influence, Duesenberry's (1949) social theories of consumption, or the American Institutionalist tradition (from Thorstein Veblen to John Kenneth Galbraith). In a parallel stream of research, the Dutch economist Bernard Van Praag, in his doctoral thesis (1968), showed an unusual and heterodox interest in investigating wealth and well-being amidst the almost complete indifference of mainstream economists.
3. This study also offered important considerations concerning the 'hopes' of people in different countries. For example, while Nigeria and the USA attributed the same value to health in relation to hope, for Nigeria, the economic factor was more important (90 versus 65), and, less obviously, Nigerians gave more weight to the family than the USA (76 versus 47).
4. In the following pages we shall discuss the differences between the concept of 'happiness' and 'life satisfaction'.
5. Cantril's data showed, for instance, that Cuba and Egypt were more satisfied than West Germany (1965, p. 258). He plotted satisfaction against the log of income and thus construed a lack of relationship.
6. A recent paper, Hagerty and Veenhoven (2003), challenges this thesis, claiming that growing GDP does go with greater happiness. Easterlin (2005) replied to this paper, defending his classical thesis. Earlier in 1991, Veenhoven had criticized Easterlin's thesis about international comparisons. He plotted the same data as Cantril, though using the same scale on both axes, and showed that the relationship follows a convex pattern of diminishing returns. A similar criticism has been put forward by Oswald (1997, p. 1817) and others, but the idea of a very low correlation between happiness and income growth is still the most accepted among economists working on happiness.
7. The same thesis is in Frank: 'When we plot average happiness versus average income for clusters of people in a given country at a given time . . . rich people are in fact a lot happier than poor people. It's actually an astonishingly large difference. There's no one single change you can imagine that would make your life improve on the happiness scale as much as to move from the bottom 5 percent on the income scale to the top 5 percent' (2005, p. 67). And Layard: 'Of course within countries the rich are always happier than the poor' (2005, p. 148).
8. Among psychologists the debate is more controversial. Some, on the basis of data different from those of the WVS, challenge the correlations (also when other variables are controlled for) between income and happiness in general (*among* countries, *within* a country and *over time*): for a review see Diener and Seligman (2004).
9. Obviously, the positive correlation between income and happiness among countries can derive from factors other than income: democracy, rights, health and so on. Current research on the WVS (Bruni and Stanca 2005) also show a robust correlation (other variables controlled for) between income and happiness among countries.
10. 'The subjective well-being index reflects the average between (1) the percentage of the public in each country that describes itself as "very happy" or "happy" minus the percentage that describes itself as "not very happy" or "unhappy" and (2) the percentage placing itself in the 7–10 range, minus the percentage placing itself in the 1–4 range, on the 10-points scale of life-satisfaction' (Inglehart 1996, p. 516).
11. Note the high role of marriage in this hierarchical model (Diener and Seligman 2004, pp. 21 ff.): in fact, marriage has been found to affect happiness in a significant and positive way (Diener 1984; Frey and Stutzer 2001).
12. On SWB, see also Diener and Lucas (1999), and Diener (1984).
13. Kahneman's approach to happiness is twofold: in some studies he follows explicitly a hedonistic approach (Kahneman et al. 1997, 2003), but in other research (such as that of Nickerson et al. 2003), he reaches a conclusion in line with the Aristotelian approach.
14. Ryff and others presented a multidimensional approach to the measurement of PWB that taps six distinct aspects of human flourishing: autonomy, personal growth,

- self-acceptance, life purpose, mastery and positive relatedness. These six constructs define PWB (Ryff and Singer 1998). See also Keyes et al. (2002).
15. Recently, Sen has shown an increasing interest in this issue, see Sen (2005).
 16. For a critical approach to this theory, see Lucas et al. (2002, p. 4).
 17. Veenhoven's methodological position is different from set-point theory. In his 1991 paper, he argued that happiness does not depend on social comparison or culturally variable wants, but rather reflects the gratification of innate human 'needs'; and a few years later he rejected set-point theory altogether (1994).
 18. See www.eur.nl/fsw/research/happiness/prologue.htm.
 19. On the basis of the distinction between objective and subjective happiness, Kahneman maintains the individual and social importance of improving the *objective* conditions of happiness, even if such improvements are not felt *subjectively*. To drive more comfortable cars or eat better food is an expression of a higher quality of life ('objective happiness', in Kahneman's terms) although, because of the hedonic and satisfaction treadmills, there can be no increase in subjective terms.
 20. Similar experiments have also been reported in Layard (2005).
 21. Although the paradoxes of happiness are more relevant in high-income societies, they do not have the monopoly on positional or consumer competition. Anthropologists tell us that positional competition exists in all types of societies. Even the act of giving is often another way of showing off one's high consumer level in order to reinforce one's status. In *The Theory of the Leisure Class* (1899), Veblen blamed the depersonalization of social relations, typical of modern society, for the increase in conspicuous or positional consumption. While there are many ways to communicate one's social position in villages and small communities, consumption is the only way to say who we are in today's anonymous society. The tribe's witch-doctor earned respect for his family for generations, as did the mighty warrior, and also the person who taught our children to read. Now the big cars and homes tell our neighbours, whom we do not know, just who we are. Goods have become almost the only means to communicate status in anonymous societies.

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