

Collewet, Marion

## Article

# Approaches to well-being, use of psychology and paternalism in economics

Economics: The Open-Access, Open-Assessment E-Journal

## Provided in Cooperation with:

Kiel Institute for the World Economy – Leibniz Center for Research on Global Economic Challenges

*Suggested Citation:* Collewet, Marion (2014) : Approaches to well-being, use of psychology and paternalism in economics, Economics: The Open-Access, Open-Assessment E-Journal, ISSN 1864-6042, Kiel Institute for the World Economy (IfW), Kiel, Vol. 8, Iss. 2014-32, pp. 1-25, <https://doi.org/10.5018/economics-ejournal.ja.2014-32>

This Version is available at:

<https://hdl.handle.net/10419/102725>

## Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

## Terms of use:

*Documents in EconStor may be saved and copied for your personal and scholarly purposes.*

*You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.*

*If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.*



<http://creativecommons.org/licenses/by/3.0/>

# Approaches to Well-Being, Use of Psychology and Paternalism in Economics

*Marion Collewet*

## Abstract

This paper discusses three approaches in economics which take a position on the definition of well-being and which use insights from psychology to support their positions: Scitovsky's Joyless Economy, happiness economics, and the constitutional approach to happiness in economics. The paper shows first that the definition of well-being by each approach, which is a normative step, is revealed by the choice of a psychological theory or method rather than resulting from the application of a theory or method. Secondly, this paper demonstrates that personal judgement by the authors is often needed in the positive realm, in order to interpret psychological results and to then translate them into practical recommendations. Both of these issues have implications for those theories that define well-being as something other than the fulfillment of individual preferences whatever their content, and which therefore yield a potential justification for paternalism. This paper argues that the potential paternalistic implications of these approaches are not based on positive science only, but rely on normative choice and personal judgement.

Published in Special Issue [Economics, Psychology and Choice Theory](#)

**JEL** I31 D71 B21

**Keywords** Paternalism; well-being; Scitovsky; happiness economics; constitutional approach

## Authors

*Marion Collewet*, ✉ ROA, School of Business and Economics, Maastricht University, The Netherlands, [m.collewet@maastrichtuniversity.nl](mailto:m.collewet@maastrichtuniversity.nl)

**Citation** Marion Collewet (2014). Approaches to Well-Being, Use of Psychology and Paternalism in Economics. *Economics: The Open-Access, Open-Assessment E-Journal*, 8 (2014-32): 1—25. <http://dx.doi.org/10.5018/economics-ejournal.ja.2014-32>

## 1 Introduction

In her obituary of Tibor Scitovsky, Marina Bianchi (2003: 405) stresses that he did "ask how preferences, and what kind of preferences, best promote individual well-being. Scitovsky was aware that the discussion of such questions involved the risk of paternalism, of imposing his personal judgements as the correct solutions." The discussion of such questions indeed implies that one does not define individual well-being as the fulfilment of individual preferences whatever their content. The equation of individual welfare (or well-being, I use both terms interchangeably in this paper) with individual choices was a central pillar of most of economics at the time Scitovsky wrote his *Joyless Economy*. In the preface to the first edition, he writes: "economists assume that the consumer is rational; in other words, they assume that whatever he does must be the best thing for him to do, given his tastes, market opportunities, and circumstances, since otherwise he would not have done it" (Scitovsky 1992 [1976], p. xii). Around the time that the *Joyless Economy* was published, criticisms of this assumption mounted from several different sides of economics.

If welfare can no longer be equated with individual choices, an alternative definition of welfare seems to be needed. But the question of the definition of welfare is a dangerous one for economics if it wants to define itself as a positive science. Scitovsky (1951: 315) himself described the economist's problem as follows: "If he wants to maintain strict objectivity, he becomes a technician; if he wants to advise on policy, he must in most cases relinquish his claim to the objectivity of a natural scientist." This paper starts from the following diagnosis: (1) that the equation of welfare with individual choice can be seen as the result of an attempt to resolve the tension between talking about welfare and being scientific; (2) that the questioning of this equation brings the economist back to the tension between talking about welfare and being scientific; (3) that this tension can never fully be resolved, since talking about welfare implies a definition of welfare, which always relies on a normative step, while I take being scientific to mean that one does positive science only.

Different economists reacted in different ways to this problem. In this paper, I focus on three approaches which give alternative definitions of well-being and which use psychology to support their definition in one way or another: Scitovsky's

*Joyless Economy*, happiness economics, and the constitutional approach to happiness in economics. Their use of findings or methods from psychology can be interpreted as an attempt to bring their arguments about the definition of welfare closer to positive science.<sup>1</sup> For each approach, I first show the point at which the authors make a normative choice (implicit or explicit, depending on the approach) which is, by definition, not mandated by the findings of psychology as a positive science, but rather mandates the choice of specific psychological theories or methods. Second, I show that personal judgement is often needed in the translation of psychological findings to practical recommendations. Not all of the findings from psychology used by the economists I study are readily applicable to the problems they address. There is room for economists to evaluate the resemblance between the phenomena studied by psychology and those which are the object of their recommendations. This room for subjective interpretation in the positive realm (What are the positive findings about? What do they describe exactly?) comes on top of the normative choices made.

It is important to make these normative choices and personal judgements explicit, in particular in the cases where there is potential for paternalism. A definition of well-being is necessarily normative, but it is not necessarily paternalistic. It has potential for paternalism as soon as it does not leave the (implicit or explicit) definition of well-being to the individual.<sup>2</sup> Being explicit about normative choice and personal judgements is especially necessary for authors who use psychology to support their approach to well-being, in order to avoid the misleading impression that their definition of welfare and the associated implications or recommendations are purely based on positive science.

In the remainder of the paper, I will first briefly sketch how the equation of welfare with individual choice can be interpreted as an attempt to reduce the tension

---

<sup>1</sup> Scitovsky and some happiness economists can be read as attempting to close the gap between defining welfare and being scientific. Other happiness economists, and in particular the proponents of the constitutional approach, would probably subscribe to the argument that this gap cannot be closed. Still, they appear to find it important to use scientific instruments to measure what they see as an important part of welfare, or to use scientific evidence to support the claim that autonomy is essential to a good human life.

<sup>2</sup> The fact that it has potential for paternalism does not mean that the authors who formulate this definition actually are, or have to be, paternalistic.

between talking about welfare and being scientific, and how different economists questioned this equation and drew different consequences from this questioning. Then, I will review three approaches in economics which have recently re-opened the question of the definition of well-being, and which use insights or methods from psychology to try and answer this question. For each approach, I will first describe how they use insights from psychology to support their approach to well-being and whether the approach yields potential for paternalism. I will then show where they make use of personal judgement and where they make a normative choice when using psychology to support their approach to well-being.

## **2 Individual choice and the definition of welfare**

### **2.1 The equation of welfare with individual choice as the result of an attempt to scientifically talk about welfare**

As the will of some economists to resemble natural scientists increased, a tension arose between this ideal and the economists' capacity to make recommendations to foster social progress. The position of Pigou illustrates this tension, since in *The Economics of Welfare* he states that the "main motive of economic study is to help social improvement" (Pigou 1932, I.I.1) and sets out to define welfare, while maintaining at the same time that economics "is a positive science, of what is and tends to be, not a normative science of what ought to be" (Pigou 1932, I.I.2). Pigovian welfare economics "represented an attempt to argue scientifically about welfare" (Backhouse 2009). In this attempt, Pigou limited the object of economic analysis to economic welfare and used it as an approximation for total welfare. He defined economic welfare as 'that group of satisfactions and dissatisfactions which can be brought into relation with a money measure' (Pigou 1932, para I.II.1). It was precisely the availability of this money measure which constituted the advantage of concentrating on economic welfare: the 'measuring rod of money' was a mean for quantification, and therefore considered a gage of scientificity (Pigou 1932, para I.I.5). To legitimate the focus on economic welfare, Pigou argued that it could in general be used as a proxy for total welfare: 'the effect of an economic cause upon economic welfare will hold good also of the effects

on total welfare' (Pigou 1912: 11). At the same time, Pigou bases his definition of (economic) welfare on individual satisfactions. In addition, to be able to say that the satisfactions which constitute economic welfare could be measured by money, Pigou needed to assume that economic agents could correctly anticipate those satisfactions and express them in prices on the market (Pigou 1932, sec. I.II). Individual autonomous choices were taken as the basis to define welfare.

Later, the New Welfare Economics of Kaldor (1939) and Hicks (1939) distanced itself from Pigou in that it rejected interpersonal comparisons of utility and privileged Pareto-efficiency as a criterion. But they endorsed Pigou's equation of welfare with individual choices. The use of Pareto optimality as a criterion implies that individuals' utility functions do not only represent how they make their choices, but also indicate how well-off they are.<sup>3</sup> Sugden (2004: 1014) states that preference satisfaction as a normative criterion and the underlying assumption of consistency of individual preferences were "once accepted almost universally" among economists.

It seems like the ambition to be scientific led Pigou and his followers to exclude a discussion about the good, and to implicitly privilege some forms of good because they appeared to fit better with what they considered criteria for scientific analysis. The New Welfare Economics only addressed part of the criticisms by Robbins (1935) by rejecting interpersonal comparability of utility. An important criticism remained unaddressed: the fact that the tension between the scientific ideal and the ability to make normative statements had not been resolved by Pigou in a satisfactory manner (Claveau 2010). Robbins himself saw no solution to this problem, and therefore argued that economists, if they want to be scientists, should refrain from making normative statements whatsoever: 'Economics (...) is in no way to be conceived, as we may conceive Ethics or Aesthetics, as being concerned with ends as such' (Robbins 1935: 32).<sup>4</sup>

---

<sup>3</sup> To be sure, not every welfare economist endorsed this idea at that time. Starting with Bergson (1938), a whole literature on the definition of social welfare functions developed which required explicit statement of the normative assumptions used. However, the Pareto criterion and the equation of individual choices with welfare still occupied a very dominant position for a long time in economics.

<sup>4</sup> Weber (1949) also argued in favour of drawing a sharp and explicit distinction between a social scientist's values and his scientific work. Others, such as Myrdal (1958), questioned the very

## **2.2 The questioning of the equation and its consequences for the definition of welfare**

The equation of welfare with individual choice has been questioned from several different angles. In this section, I briefly describe a number of important contemporaneous approaches which take a position on this question, along with the consequences they draw for the definition of welfare and the use they make of psychology. I distinguish three broad groups of authors. The aim is to situate in the broader literature the approaches I choose to focus on.

First, starting from the contributions by Tversky (1969) and Kahneman and Tversky (1979), the field of behavioural economics developed and concentrated on the systematic description of deviations from rational choice theory in individual choices, using methods from psychology. Behavioural economics empirically demonstrates that individual choices, and therefore the underlying postulated preferences, do not satisfy the different axioms which neoclassical economics uses to describe them. These findings therefore cast doubt on the appropriateness of defining welfare based on individual choices without any further qualification. Behavioural economics, however, has a mainly descriptive aim, and does not provide an alternative definition of welfare.

Soft paternalism (e.g. Thaler and Sunstein 2003, Camerer et al. 2003) proposes to use insights from behavioural economics in order to "steer people's choices in directions that will improve their own welfare" (Thaler and Sunstein 2003: 1161).<sup>5</sup> However, soft paternalists do not set out to define welfare. They rather choose to focus on situations in which what is considered "better" for an individual is rather uncontroversial (e.g. healthy food, pension contributions). In this approach, psychology is used to describe what kind of behaviour people are likely to show, but it is not used to support a particular definition of what is good for people.

---

possibility of excluding value from economic science. In this paper, I still use the dichotomy between the normative and the positive as a framework, because it is one to which most economists still subscribe Hands (2012).

<sup>5</sup> This view is also apparent to the "behavioural welfare economics" of Bernheim and Rangel (2007). In fact, Sugden (2013) also classifies them as "soft paternalists".

Sugden rejects the idea that the incoherence of preferences justifies pushing individuals towards specific choices.<sup>6</sup> He recognizes that preference instability creates problems for received welfare economics, and concludes that "we need to disconnect the concept of consumer sovereignty from the principle that preference satisfaction is a measure of well-being" (Sugden 2004: 1017). But the aim of this disconnection is to maintain consumer sovereignty as a normative principle, even in the absence of coherent preferences. Sugden, therefore, does not give an alternative substantial definition of welfare, but rather states that what is "good" for an individual is an "increase in that individual's lifetime opportunity", provided that one is willing to view that individual as "a continuing locus of responsibility" (p.1018). His position is explicitly normative and he does not use insights from psychology to support his claims.

In the end, the field of behavioural economics, and the approaches towards welfare which reacted to its findings, use psychology to describe patterns of behaviour but not to support a particular definition of well-being.

A second type of literature examines the empirical consequences of individual freedom of choice<sup>7</sup> and finds reasons to conclude that it does not appear to lead to welfare. Easterlin (1974) pointed to the fact that economic growth in a country did not go together with an increase in the subjective well-being of its inhabitants over time. This finding set the beginning of a new strand of research which concentrated on examining the determinants of individual subjective well-being. In happiness economics, welfare is no longer identified with individual choice, but subjective well-being is instead considered a very important indicator. The maximisation of subjective well-being is even considered by some authors a desirable aim for policy (e.g. Veenhoven 2010), therefore equating subjective well-being with welfare. Happiness economics uses methods from psychology in order to improve the measurement of subjective well-being. In that sense, it aims at making the measurement of welfare more scientific.

---

<sup>6</sup> Similarly, Brennan and Brooks (2011) defend the view that the insights from behavioural economics provide the policy makers with "a wider range of mechanisms through which policy might operate" (p.602) but that there is no necessary link to paternalism. One essential problem of the paternalist approach, according to them, is its use of different behavioural models for market and political processes, and the resulting idea of a benevolent dictator, which they consider unjustified.

<sup>7</sup> This is the interpretation given by Friedman and McCabe (1996).



Scitovsky (1992 [1976]) considers a number of problems he observes in U.S. society in the seventies to be evidence that individual free choice is not the same as welfare. He proposes an alternative definition of welfare, as the satisfaction of the two basic human needs for comfort and stimulation. His definition of welfare is based on insights from psychology on which he reports in the *Joyless Economy*.

A third group of authors in economics rejects the equation of welfare with individual choice on more theoretical grounds. One very well-known approach is the capability approach developed by Sen (1985) and Nussbaum (2001). Sen (1985) argues that individuals may be so much under the influence of their present situation and of existing social norms that they adapt their preferences and wishes and they do not realize that something else than their current situation would be better for themselves. He therefore argues in favour of defining welfare in terms of general human capabilities rather than in terms of subjective experience. His approach therefore does not equate welfare with individual choices, but with the fulfilment of a number of criteria which are deemed fundamental contributing factors to human well-being. These criteria are capabilities, i.e. possibilities to actually realise things which are considered essential. The things which are considered essential are, however, not defined by the authors themselves (even if they give lists of examples), but should according to them be defined in the community, through public reasoning. In this approach, psychology is used to show the shortcomings of the equation of welfare with individual choice and of reliance on subjective measurement of welfare. But it is not used to support an alternative definition of welfare.

The constitutional approach to happiness (e.g. Frey and Stutzer 2010) also rejects both the use of individual choice as the only criterion for welfare and the definition of welfare on the sole basis of measured subjective well-being. It argues that institutions should enable people to “pursue their own way to happiness” (Frey 2008, p. 175) and that the desirability of (policy) alternatives should be assessed in public deliberation. An essential element of welfare according to this approach is the possibility for individuals to be active, to be causal (see Schubert 2012). The constitutional approach uses findings from different strands of psychology to support its claim that autonomy is essential for a good human life.

In the remainder of the paper, I concentrate on those three approaches which use psychology in order to support their definition of well-being in one way or

another: Scitovsky's *Joyless Economy*, happiness economics and the constitutional approach.

### **3 Scitovsky's Joyless Economy – the fundamental human need for stimulation**

#### **3.1 Approach to well-being and use of psychology**

Scitovsky was not favourable to Robbin's vision of the economist as 'little more than a technician, a politician's handyman, who has to wait for the latter to state his aims and can merely advise him on how to go about achieving those aims' (Scitovsky, 1951: 303). In *The Joyless Economy* (1976), he sets out to identify the sources of human satisfactions in order to provide a better basis for economics to contribute to human well-being. He uses insights from psychology to elicit the relationship between consumer choices on the one hand and preferences and well-being on the other hand. He puts into question the identification of individual choices with preferences or with welfare maximisation. According to him, the two are different because of the gap existing between the variety of human needs to be satisfied and the focus of the economic and cultural system in advanced economies (in the USA in particular) on the satisfaction of only part of these needs.

In *The Joyless Economy*, he starts with presenting evidence from neuropsychological research showing that human beings (and other animals) do not only strive for comfort, i.e. decreasing pain, distress and effort. They also derive satisfaction from the very process of relieving discomfort. This source of satisfaction, which is not connected to the level of arousal, but much more to the change of it, is not comfort but pleasure. The search for pleasure forms a category of itself, next to the search for comfort, in the motivations which drive human behaviour. However, Scitovsky stresses that the enormous increase in wealth in Western countries over the last decennia was essentially directed towards increasing comfort. Individuals satisfy primarily their need for comfort, at the detriment of the need for pleasure. The biological explanation for this behaviour is that the satisfaction of the need for comfort is felt on the very short-term, and therefore creates habits which are difficult to quit, while the frustration of the need for pleasure

has consequences which appear in a more indirect way and in the longer run. But the cultural and economic context also plays a role in fostering comfort-seeking behaviour. Scitovsky blames the 'Puritan Ghost' in America which puts more value on production skills than on consumption skills or the enjoyment of life. In the course of their education, individuals mainly receive specific production skills, directed towards the production of those goods which will increase comfort. This goes at the cost of the provision of general skills, which are needed to consume goods or activities which are more complex, and therefore ask for more effort and cause more pleasure. Scitovsky argues that it would be better for individuals if they were able to devote more of their resources to obtaining pleasure rather than to saving money, time and effort which they do not know how to use after having saved them.

Scitovsky's rejection of the equation of choices with preferences leads him to develop an alternative view on essential elements of "the good life". He argues in favour of investing more resources into activities which are stimulating for individuals, and therefore provide pleasure, as they have enough comfort already. Scitovsky's approach does bear potential for paternalism, since it recommends to use incentives (subsidies for the arts) or even coercion (mandatory liberal art courses) in order to foster people's own good, and not only to limit negative externalities of individual behaviour. Admittedly, as Sen (1996) argues, Scitovsky's argument is not "paternalistic in spirit" (p. 485), and the development of consumption skill he recommends is aimed at increasing individual freedom of choice. However, Sen also stresses that Scitovsky views this increase in freedom primarily in an instrumental way, as a means to increase well-being. In the same issue of the *Critical Review*, Friedman and McCabe (1996) state that Scitovsky's departure from the position that individual freedom is good *a priori* "challenged the central tenet of modern liberalism" (p. 472). Even if Scitovsky did not intend to be paternalistic, "it is not difficult to find grounds for paternalism in Scitovsky's argument" (p. 475). Scitovsky himself was in fact aware of that danger, as stressed by Bianchi (2003).

### 3.2 Personal judgement and normative choice

Scitovsky devotes a lot of attention to making his conception of the good life and the corresponding recommendations more than just "imposing his personal judgements as the correct solutions" (Bianchi 2003: 405). He supports his claims about the essential elements of a good life with abundant evidence from neuro-psychological experiments. However, the definition of the good in the *Joyless Economy* still appears to lean on some dose of personal judgement and on normative choice.

First, Scitovsky's personal judgement enters the stage at the moment where he translates the general findings of neuro-psychology into concrete recommendations. Based on his new account of human behaviour, Scitovsky is able to formulate recommendations about a more efficient use of resources, i.e. a way to obtain more utility or welfare for the same amount of resources used. According to him, human beings seek stimulation in "literature and gambling, art and violence, sports and crime" (Scitovsky 1986a: 150). Individuals seeking stimulation in crime, gambling and violence impose costs on society which could be avoided if individuals had other sources of stimulation (arts, sports, literature), at no costs in terms of utility. Similarly, the boredom caused by mass production leads individuals to replace the goods they possess too often, and to a waste of resources. Investing in other sources of novelty and stimulation could lead to a more sustainable lifestyle, again without loss of utility. The fact that human beings tend to seek stimulation and pleasure is a positive finding of neuro-psychology. However, the more specific claims that the arts and sports can replace crime and violence as a source of stimulation, or the idea that mass-produced goods lead to boredom, however plausible, seem to come rather from Scitovsky's personal judgement than from positive scientific findings.

Second, Scitovsky claims that it is good for human beings to seek pleasure and stimulation. Why? Because it is observed in laboratory experiments that it is what animals and human beings naturally tend to do. Scitovsky argues that the 'Puritan Ghost' prevents Americans from following their natural drives, which leads to frustrations and sub-optimal outcomes. Defining what subjects naturally tend to do as what is good for them is a normative step made by Scitovsky.<sup>8</sup> The

---

<sup>8</sup> It can also be viewed as an instance of the "naturalistic fallacy" (Moore 1993 [1903]) which consists of deriving normative statements from descriptive ones. Hume (2012 [1739]) already criticized such ways of arguing.

identification of individual welfare with individual choices therefore seems to have come back through the rear door. Choices observed in real life have been replaced by choices observed in neuro-psychological experiments as a basis for the definition of welfare. Still, the utility which increases when resources are allocated more efficiently thanks to a change in lifestyle is defined as what individuals would choose for it they were in the "right" conditions.

It is probably the strength of Scitovsky's approach that it remains close to the economist's traditional way of argumentation, by sticking to individual choices and efficiency arguments. However, one should not lose sight of the fact that Scitovsky is not relying on positive science only when he assumes that it is better for a human being to follow his natural instincts than to behave according to the values which the cultural context imposes on him.

## **4 Happiness economics – the measuring rod of psychology**

### **4.1 Approach to well-being and use of psychology**

Easterlin's (1974) finding that an increase in a country's material wealth is not automatically associated with an increase in the subjective evaluation of their own life by its inhabitants<sup>9</sup> cast doubt on the former as an indicator of welfare, and resulted in increased attention for the latter. Happiness economics developed as a field of research which concentrates on the study of the determinants of the subjective well-being of individuals (see e.g. Frey and Stutzer 2002, Layard 2005 and Frey 2008 for overviews). Again, in this approach, welfare is no longer identified with individual choices. The information on people's welfare used by happiness economics is more direct than a deduction from choices people make or prices they pay or are willing to pay.

Happiness economics invests a lot in finding scientifically reliable measures of individual subjective well-being. The most common direct measure of individual well-being is a rating of one's own life satisfaction or happiness on a scale, collected via a survey question for instance. This measure is subject to a number of problems,

---

<sup>9</sup> Easterlin's findings have been the object of much discussion and have been questioned among others by Stevenson and Wolfers (2008) and Kahneman and Deaton (2010).

such as social desirability biases and framing effects, which limit its reliability, and blindness to duration or adaptation effects which can also be seen as weaknesses of such a measure. To counter these problems, a number of economists advocate in favour of using measures of well-being which are as direct as possible, so that no bias can be caused by context factors or by processes as justification, reduction of cognitive dissonance, etc. Such direct methods include the experience sampling method, day reconstruction method, U-index, brain imaging, etc. (Kahneman and Krueger 2006). These measures, closest to instantaneous feelings, are presented by some authors as the most reliable indicator of people's real well-being. It seems like the different methods, inspired by psychology, developed to measure and quantify well-being are replacing the 'measuring rod of money' used by Pigou to measure individual satisfactions. They take over the role of money as the guarantee for scientificity of the measurement of welfare.

What to do with such a scientific measure of welfare? The authors who propose to use findings from happiness economics only as informational input for the design of institutions (e.g. Frey and Stutzer 2010) are discussed in the next section. Diener (2000) and Kahneman et al. (2004) propose to use measures of subjective well-being to construct an aggregate measure of a nation's well-being. However, unlike Pigou, they do not recommend to use their particular scientific measure of welfare as a proxy for total welfare. They rather argue that this indicator is part of welfare and should therefore be taken into account by policy makers when making or evaluating policy. Other authors go further. Veenhoven (2010) argues that aiming for greater happiness for a greater number "appears practically feasible and morally sound" (p. 627). Layard (2012: 5) argues that "happiness is the only good that is self-evidently that" and that "policy evaluation of much of government policy could be undertaken with happiness, rather than willingness-to-pay, being the criterion of benefit".

Studying the determinants of subjective well-being does not automatically imply paternalism. However, the use of some happiness index as the variable, or one of the variables, to be maximized by policy opens the way for paternalistic policy recommendations, i.e. for policy recommendations which differ from what individuals would choose for themselves. For instance, Kahneman and Thaler (2006: 232), after stating that individuals tend to overestimate the utility which will be generated by additional income and underestimate the utility they derive

from leisure time, suggest that "an enlightened employer might gradually add days of vacation time (and smaller pay increases) while giving employees the right to work those extra vacation days for pay (so all options remain available)" so that employees are "helped on their way to successful utility maximization". Similarly, Gerritsen (2013) imagines an adjustment of the tax rates individuals face, based on "well-being based marginal rates of substitution" between income and leisure, in order to bring them closer to optimal behaviour, as defined when looking at their subjective well-being.

## **4.2 Personal judgement and normative choice**

The translation of the findings from psychology into statements about how elements of daily life influence well-being, seems to be less of a problem for happiness economics than for Scitovsky. To a great extent, happiness economic uses instruments inspired by psychology only as a "measuring rod", and measures directly how aspects of everyday life (income, employment, health, etc.) influence subjective well-being. When translating findings from happiness economics to concrete recommendations, there is room for personal judgement mainly in assessing whether a given behaviour which is the object of a recommendation, maybe for a given target group, is indeed comparable to the behaviour or the target group in existing happiness economic studies.

But a normative choice has to be made at two different levels by happiness economists. First, there is the choice to define well-being as what makes people feel happy. This choice in favour of hedonism is a normative one made by the authors, it is not based on findings from positive science. Subjective well-being may not be as "self-evidently" good as claimed by Layard. The choice to focus on subjective well-being implies rejection of two other possible definitions of well-being (according to the classification by Brey (2012)). First, as discussed at length above, it is different from the view that well-being is the same as the fulfilment of one's desires or preferences. This difference is not only a theoretical one, but has actual practical implications, since acting according to one's preferences often enough does not maximize happiness. Second, the choice to focus on happiness implies departure from an "objective list" definition of well-being, which equates well-being with the fulfilment of a number of conditions. The capabilities approach

mentioned above is an example of such an "objective list" theory.<sup>10</sup> Advocates of happiness economics could argue that as measures of subjective well-being get better, they will deliver information about what is good for every human being, so that the opposition between hedonism and objective lists will become obsolete.<sup>11</sup> But as long as this debate is not resolved, the choice for one or the other side remains a normative one.

The second level of normative choice is about whether to trust people's rating of their satisfaction after reflection, or to only allow for measures of direct experience. In the example of the choice between earnings and leisure time, choosing different measures of happiness (daily experience or sense of accomplishment) may lead to different policy implications. Kahneman et al. (2006) show that an increase in working time and correspondingly in earnings "is unlikely to lead to much increase in experienced happiness, although it could increase tension and one's sense of accomplishment and satisfaction" (p. 1910). On the one hand, direct measures of experience are less subject to influence from considerations other than the feeling of the moment, which can be presented as an advantage. On the other hand, one can argue that the reflection upon immediate feelings is a legitimate and essential part of an individual's appreciation of his or her own well-being, and that excluding it leads to missing essential bits of information. No matter which position one adopts, the choice cannot be supported by evidence from positive science alone, but is a normative one.

## **5 The constitutional approach – autonomy as happiness-enhancing and as a fundamental human need**

### **5.1 Approach to well-being and use of psychology**

The constitutional approach to happiness in economics is opposed to the maximization of subjective well-being indicators as an aim for policy makers. Proponents of this approach argue that citizens should not be reduced to 'metric stations' (Frey

---

<sup>10</sup> Aristotle's eudaimonia is another one.

<sup>11</sup> Indeed, some studies already show high degrees of correlations between measures of subjective well-being and of capabilities (Anand et al., 2005; Anand and Van Hees, 2006).



and Stutzer 2010: 557), because people do not only care about outcomes, but also about the procedures which lead to these outcomes, and in particular value the possibility to make their own choices (Frey et al. 2004). Institutions and rules should be designed so that ‘people can pursue their own way to happiness’ (Frey 2008: 175).

The constitutional approach stresses the importance of other measures of welfare than individual choices, because it does not occur very often that people can choose between sets of procedures or institutions (Frey et al., 2004). To find out about what good institutions are, which allow people to pursue their own aims, the constitutional approach does not reject research using measures of subjective well-being. However, they stress that the findings about which institutions are related to higher levels of well-being ‘should be taken as informational inputs into the political process’ (Frey and Stutzer 2010: 569). The definition of the appropriate institutions itself, however, is not considered a matter of scientific insight, but of a deliberative political process, in which “individuals should have more opportunity of advancing what constitutes their idea of the good life” (Frey and Stutzer 2010: 570). In this respect, the constitutional approach seems to follow Robbins’ view that economic science should provide the political process with instrumental knowledge but may not itself be prescriptive. It is also quite clear that the constitutional approach wants to avoid any risk of paternalism.

To support their position, the advocates of the constitutional approach use evidence from happiness economics showing that institutions which are more democratic or more decentralized are associated with higher levels of subjective well-being (Frey and Stutzer 2012). Findings of psychology, and in particular of self-determination theory, which claims that autonomy is, among others, an essential psychological need of human beings, are also used to support the idea that people care about processes and not only outcomes (Frey et al. 2004, Schubert 2012).<sup>12</sup> Self-determination theory states that competence, relatedness and autonomy are the basic human needs which have to be fulfilled in order to

---

<sup>12</sup> Pugno (2007) stresses the similarities between self-determination theory and Scitovsky’s approach. It is true that Scitovsky devoted a lot of attention to intrinsic motivation. He referred to the work of Edward Deci, for instance in Scitovsky (1986b), note 13. However, Scitovsky does not refer explicitly to self-determination theory, which was developed only after he wrote his *Joyless Economy* (as mentioned by Pugno (2014), note 13).

guarantee psychological growth, integrity and well-being (Deci and Ryan 2000). Deci and Ryan show that both the regulatory processes underlying goal pursuits (the "why") and the content of the goals pursued (the "what") matter for the extent to which what they define as basic needs are fulfilled. They also show that their findings hold across various cultures, and therefore claim to have found universal features of human beings.

## **5.2 Personal judgement and normative choice**

The translation into practice of the findings of happiness economics about political institutions would require personal judgement to evaluate how much given institutions which would be the object of recommendations resemble those examined in the few existing happiness economics studies. Similarly, if one wanted to translate the findings of self-determination theory to recommendations about political institutions, some personal judgement would probably be needed. Deci and Ryan (2000) report the results of experiments conducted in laboratories, at schools or in work organisations. Imagining what kind of political institutions or policy rules would promote the satisfaction of the basic need for of autonomy in individuals would require some plausibility arguments, as long as no research on that specific topic has been conducted.

As far as normative choice is concerned, the use of self-determination theory by the proponents of the constitutional approach might seem like a contradiction at first sight, because self-determination theory itself goes quite far in the definition of what is good for a human being. Self-determination theory's definition of basic needs requires an assumption about the aim which the satisfaction of the basic needs helps to attain. As already mentioned above, the aim is psychological growth, integrity and well-being. Ryan et al. (2008) use the findings of self-determination theory to explicitly define the elements of a good life. They show that pursuing 'extrinsic goals' such as wealth, fame, image and power does not make people happy, while the pursuit of 'intrinsic goals' (personal growth, relationships, community, health) for 'autonomous motives' does. They state that if some basic needs are repeatedly frustrated, people tend to try and compensate for it by putting all their effort in reaching extrinsic goals. In this sense, self-determination theory could be used as a basis for paternalistic recommendations. One could argue that an

individual pursuing mainly extrinsic goals is pursuing the wrong goals and should be stimulated to act differently. Because self-determination theory also puts a strong emphasis on autonomy, coercion seems excluded, but soft paternalism could be seen as a solution. However, psychological growth, integrity and well-being may be aims which individuals want to pursue, but do not have to be. Therefore, self-determination theory does not have to be a valid argument to support the constitutional approach.

This would be disturbing if self-determination theory would be the only supporting argument used by the constitutional approach. But the variety of supporting evidence reflects the constitutional approach's position that different indicators of well-being should be used to inform choices about policy and the policy process. The findings used to support the constitutional approach come from theories which have defined different aims as worth pursuing: subjective well-being in the case of happiness economics; psychological growth, integrity and well-being in the case of self-determination theory. Here again, the choice of supporting evidence reflects the normative position of the authors.

## **6 Conclusions**

This paper has discussed three approaches to well-being in economics which use psychology to support their position. It has illustrated that the use of positive science to support an approach to well-being does not preclude normative choice and personal judgement.

First, it seems like economists who make use of findings of psychology to make policy recommendations have room to make linkages of their own between the findings of science and practice. Scitovsky translates the sources of stimulation for which individuals choose in psychological experiments into real-life phenomena as sports, violence, arts, and diversity in produced goods. When translating the findings of happiness economics to concrete recommendations, one would need to make a link (which can be very tight or rather loose depending on the case) between the behaviours, groups or institutions which are the object of recommendations and those actually examined in the happiness economics literature. Similarly, the constitutional approach, if it wants to make use of self-determination theory, would

need to translate findings about experimental, school and work settings which promote a feeling of autonomy into characteristics of institutions or rules which would promote such feelings. The question is whether, as science progresses, it will lead such precise findings so closely related to practice that the part of personal judgement will be reduced to nothing. This is not impossible, at least in theory.

By contrast, a normative step is unavoidable when taking an approach to well-being: Scitovsky uses findings from psychology showing that human beings naturally tend to choose stimulation in order to argue in favour of more stimulation, therefore implicitly defining the satisfaction of natural tendencies of human beings as their well-being; happiness economics makes the explicit choice to focus on subjective well-being, and the use of the "measuring rod of psychology" does not make this choice less normative; the constitutional approach explicitly chooses against a substantial definition of well-being and for leaving the task to define the good life to the individual, and this is reflected in the use of findings from different streams of psychology, which define well-being in different ways.

The aim of this paper was not to argue against making personal linkages from findings of psychology to practical recommendations, or against taking normative steps and choosing an approach to well-being. Rather, the argument is that it is important to be aware of these steps. This is especially important in the case where a given approach to well-being yields potential for paternalistic recommendations. At first sight, it might seem like the use of findings from psychology to support a definition of well-being makes paternalism stand in a different light. First, the definition of the good on which the potential paternalist recommendations are based seems less subjective and arbitrary if it is supported either by scientific findings about human nature or by reliable methods to measure a particular kind of well-being. Second, as findings from psychology show that individuals are influenced by the social context anyway (by America's "Puritan Ghost" according to Scitovsky; by ideas about the role of money and work in one's sense of accomplishment as stressed by Kahneman; by the repeated frustration of some basic needs as stressed by self-determination theory), it may seem less odd to introduce a counterbalance to these influences in order to guide individuals towards what one deems to be their own good. This paper stresses that the counterbalance, the alternative definition of the good, is still necessarily the result of a normative choice, and that it potentially

also contains some dose of personal judgement by the author when translating the findings of psychology to concrete recommendations.

### Acknowledgements

The author is grateful to the participants of the conferences "How to bring joy into economics" organized by CREAM, University of Cassino, and "Well-being in Contemporary Society" organized by the Department of Philosophy of the University of Twente, to Andries de Grip, François Claveau and two anonymous referees and an anonymous reader for valuable comments. All remaining errors and omissions are the author's sole responsibility.

### References

- Anand, P., Hunter, G., and Smith, R. (2005). Capabilities and well-being: Evidence based on the Sen–Nussbaum approach to welfare. *Social Indicators Research*, 74(1): 9–55. URL <http://link.springer.com/article/10.1007/s11205-005-6518-z#page-1>.
- Anand, P., and Van Hees, M. (2006). Capabilities and achievements: An empirical study. *The Journal of Socio-Economics*, 35(2): 268–284. URL <http://www.sciencedirect.com/science/article/pii/S1053535705001083>.
- Backhouse, R. E. (2009). Robbins and welfare economics: A re-appraisal. *Journal of the History of Economic Thought*, 31(04): 474–484. URL <http://journals.cambridge.org/action/displayAbstract?fromPage=online&aid=6773476&fileId=S1053837209990265>.
- Bergson, A. (1938). A reformulation of certain aspects of welfare economics. *The Quarterly Journal of Economics*, 52(2): 310–334. URL <http://www.jstor.org/stable/1881737>.
- Bernheim, B. D., and Rangel, A. (2007). Toward choice-theoretic foundations for behavioral welfare economics. *The American Economic Review*, 97(2): 464–470. URL <http://www.jstor.org/stable/30034496>.

- Bianchi, M. (2003). A questioning economist: Tibor Scitovsky's attempt to bring joy into economics. *Journal of Economic Psychology*, 24(3): 391–407. URL <http://www.sciencedirect.com/science/article/pii/S0167487003000199>.
- Brennan, G., and Brooks, M. (2011). On the cashing out hypothesis and hard and soft policies. *European Journal of Political Economy*, 27(4): 601–610. URL <http://www.sciencedirect.com/science/article/pii/S0176268011000541>.
- Brey, P. (2012). Well-being in philosophy, psychology, and economics. In P. Brey, A. Briggie, and E. Spence (Eds.), *The good life in a technological age*. New York: Routledge.
- Camerer, C., Issacharoff, S., Loewenstein, G., O'Donoghue, T., and Rabin, M. (2003). Regulation for conservatives: Behavioral economics and the case for "asymmetric paternalism". *University of Pennsylvania Law Review*, 151(3): 1211–1254. URL <http://www.jstor.org/stable/3312889>.
- Claveau, F. (2010). The interwar debate on welfare analysis in economics: The Pigovian project perpetuated in the new welfare economics. Unpublished working paper, Erasmus Institute of Philosophy and Economics.
- Deci, E. L., and Ryan, R. M. (2000). The "what" and "why" of goal pursuits: Human needs and the self-determination of behavior. *Psychological Inquiry*, 11(4): 227–268. URL [http://www.tandfonline.com/doi/abs/10.1207/S15327965PLI1104\\_01#.UquNfvTuI2I](http://www.tandfonline.com/doi/abs/10.1207/S15327965PLI1104_01#.UquNfvTuI2I).
- Diener, E. (2000). Subjective well-being: The science of happiness and a proposal for a national index. *American Psychologist*, 55(1): 34. URL <http://psycnet.apa.org/journals/amp/55/1/34/>.
- Easterlin, R. A. (1974). Does economic growth improve the human lot? Some empirical evidence. In P. A. David, and M. W. Reder (Eds.), *Nations and households in economic growth: essays in honor of Moses Abramovitz*. New York: Academic Press. URL <http://graphics8.nytimes.com/images/2008/04/16/business/Easterlin1974.pdf>.
- Frey, B. S. (2008). Happiness: A revolution in economics. *MIT Press Books*, 1.

- Frey, B. S., Benz, M., and Stutzer, A. (2004). Introducing procedural utility: Not only what, but also how matters. *Journal of Institutional and Theoretical Economics JITE*, 160(3): 377–401. URL <http://www.ingentaconnect.com/content/mohr/jite/2004/00000160/00000003/art00002>.
- Frey, B. S., and Stutzer, A. (2002). What can economists learn from happiness research? *Journal of Economic Literature*, 40(2): 402–435. URL <http://www.jstor.org/stable/2698383>.
- Frey, B. S., and Stutzer, A. (2010). Happiness and public choice. *Public Choice*, 144(3-4): 557–573. URL <http://link.springer.com/article/10.1007/s11127-010-9681-y#page-1>.
- Frey, B. S., and Stutzer, A. (2012). The use of happiness research for public policy. *Social Choice and Welfare*, 38(4): 659–674. URL <http://link.springer.com/article/10.1007/s00355-011-0629-z#page-1>.
- Friedman, J., and McCabe, A. (1996). Preferences or happiness? Tibor Scitovsky's psychology of human needs. *Critical Review*, 10(4): 471–480. URL [http://www.tandfonline.com/doi/abs/10.1080/08913819608443433?journalCode=rcr20#.U7LB1\\_mSxHU](http://www.tandfonline.com/doi/abs/10.1080/08913819608443433?journalCode=rcr20#.U7LB1_mSxHU).
- Gerritsen, A. (2013). Optimal taxation when people do not maximize well-being. Unpublished working paper. Erasmus University Rotterdam.
- Hands, D. W. (2012). The positive-normative dichotomy and economics. In U. Mäki (Ed.), *Philosophy of economics*. Amsterdam: Elsevier.
- Hicks, J. R. (1939). The foundations of welfare economics. *The Economic Journal*, 49(196): 696–712. URL <http://www.jstor.org/discover/10.2307/2225023?uid=3738736&uid=2&uid=4&sid=21103117636031>.
- Hume, D. (2012 [1739]). *A treatise of human nature*. Mineola, New York: Courier Dover Publications.
- Kahneman, D., and Deaton, A. (2010). High income improves evaluation of life but not emotional well-being. *Proceedings of the National Academy of Sciences*,

- 107(38): 16489–16493. URL <http://www.pnas.org/content/107/38/16489.full.pdf&embedded=true>.
- Kahneman, D., and Krueger, A. B. (2006). Developments in the measurement of subjective well-being. *The Journal of Economic Perspectives*, 20(1): 3–24. URL <http://www.ingentaconnect.com/content/aea/jep/2006/00000020/00000001/art00001>.
- Kahneman, D., Krueger, A. B., Schkade, D., Schwarz, N., and Stone, A. (2004). Toward national well-being accounts. *The American Economic Review*, 94(2): 429–434. URL <http://www.jstor.org/discover/10.2307/3592923?uid=3738736&uid=2&uid=4&sid=21103117636031>.
- Kahneman, D., Krueger, A. B., Schkade, D., Schwarz, N., and Stone, A. A. (2006). Would you be happier if you were richer? A focusing illusion. *Science*, 312(5782): 1908–1910. URL <http://www.sciencemag.org/content/312/5782/1908.abstract>.
- Kahneman, D., and Thaler, R. H. (2006). Anomalies: Utility maximization and experienced utility. *The Journal of Economic Perspectives*, 20(1): 221–234. URL <http://www.ingentaconnect.com/content/aea/jep/2006/00000020/00000001/art00012>.
- Kahneman, D., and Tversky, A. (1979). Prospect theory: An analysis of decision under risk. *Econometrica: Journal of the Econometric Society*, 47(2): 263–291. URL <http://www.jstor.org/stable/1914185>.
- Kaldor, N. (1939). Welfare propositions of economics and interpersonal comparisons of utility. *Economic Journal*, 49(195): 549–552. URL [http://www.hujiangbei.net/upload/2007\\_11/07110714361173.pdf](http://www.hujiangbei.net/upload/2007_11/07110714361173.pdf).
- Layard, P. R. G. (2005). *Happiness: Lessons from a new science*. London: Penguin UK.
- Layard, R. (2012). Big ideas: wellbeing and public policy. *CentrePiece - The Magazine for Economic Performance*, 16(3): 2–5. URL <http://ideas.repec.org/p/cep/cepcnp/355.html>.



- Moore, G. E. (1993 [1903]). *Principia ethica*. Cambridge: Cambridge University Press.
- Myrdal, G. (1958). *Value in social theory*. New York: Routledge & Kegan Paul.
- Nussbaum, M. C. (2001). *Women and human development: The capabilities approach*, volume 3. Cambridge: Cambridge University Press.
- Pigou, A. (1932). *The economics of welfare*. London: McMillan&Co.
- Pigou, A. C. (1912). *Wealth and welfare*. London: McMillan&Co.
- Pugno, M. (2007). A Scitovskyian model of happiness and unhappiness. URL <http://www3.unisi.it/eventi/happiness/curriculum/pugno.pdf>. Presented at the Conference 'Policies for Happiness', Certosa di Pontignano.
- Pugno, M. (2014). Scitovsky's The Joyless Economy and the economics of happiness. *The European Journal of the History of Economic Thought*, 21(2): 278–303. URL <http://www.tandfonline.com/doi/abs/10.1080/09672567.2012.683028>.
- Robbins, L. (1935). *An essay on the nature and significance of economic science*. London: McMillan&Co.
- Ryan, R. M., Huta, V., and Deci, E. L. (2008). Living well: A self-determination theory perspective on eudaimonia. *Journal of Happiness Studies*, 9(1): 139–170. URL <http://link.springer.com/article/10.1007/s10902-006-9023-4#page-1>.
- Schubert, C. (2012). Pursuing happiness. *Kyklos*, 65(2): 245–261. URL <http://onlinelibrary.wiley.com/doi/10.1111/j.1467-6435.2012.00537.x/full>.
- Scitovsky, T. (1951). The state of welfare economics. *The American Economic Review*, 41(3): 303–315. URL <http://www.jstor.org/discover/10.2307/1802104?uid=3738736&uid=2&uid=4&sid=21103117636031>.
- Scitovsky, T. (1986a). Subsidies for the arts: the economic argument. In T. Scitovsky (Ed.), *Human desire and economic satisfaction: Essays on the frontiers of economics*. New York: New York University Press.

- Scitovsky, T. (1986b). How to bring joy into economics. In T. Scitovsky (Ed.), *Human desire and economic satisfaction: Essays on the frontiers of economics*. New York: New York University Press.
- Scitovsky, T. (1992 [1976]). *The Joyless Economy. The psychology of human satisfaction*. New York: Oxford University Press.
- Sen, A. (1985). *Commodities and capabilities*. Amsterdam: North-Holland.
- Sen, A. (1996). Rationality, joy and freedom. *Critical Review*, 10(4): 481–494. URL <http://www.tandfonline.com/doi/abs/10.1080/08913819608443434#.U7LCwPmSxHU>.
- Stevenson, B., and Wolfers, J. (2008). Economic growth and subjective well-being: Reassessing the Easterlin paradox. *Brookings Papers on Economic Activity*, 39(1): 1–102. URL <http://www.efalken.com/pdfs/WolfersStevensonHappiness.pdf>.
- Sugden, R. (2004). The opportunity criterion: consumer sovereignty without the assumption of coherent preferences. *American Economic Review*, 94(4): 1014–1033. URL <http://www.jstor.org/stable/3592803>.
- Sugden, R. (2013). The behavioural economist and the social planner: To whom should behavioural welfare economics be addressed? *Inquiry*, 56(5): 519–538. URL <http://www.tandfonline.com/doi/abs/10.1080/0020174X.2013.806139#.U7KfVPmSxHU>.
- Thaler, R. H., and Sunstein, C. R. (2003). Libertarian paternalism. *American Economic Review*, 93(2): 175–179. URL <http://www.jstor.org/stable/3132220>.
- Tversky, A. (1969). Intransitivity of preferences. *Psychological Review*, 76(1): 31–38. URL <http://psycnet.apa.org/journals/rev/76/1/31/>.
- Veenhoven, R. (2010). Greater happiness for a greater number. *Journal of Happiness Studies*, 11(5): 605–629. URL <http://link.springer.com/article/10.1007/s10902-010-9204-z#page-1>.
- Weber, M. (1949). *The methodology of the social sciences*. Free Press.

Please note:

You are most sincerely encouraged to participate in the open assessment of this article. You can do so by either recommending the article or by posting your comments.

Please go to:

<http://dx.doi.org/10.5018/economics-ejournal.ja.2014-32>

The Editor