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# PAPERS on Economics & Evolution



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# 1201

**Pursuing Happiness**

**by**

**Christian Schubert**

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## Pursuing Happiness

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### Abstract

While research on subjective well-being abounds, comparatively little thought has been given to its practical policy implications. Two approaches to derive policy advice have emerged in the literature: One is organized in terms of the idea to maximize a hedonic social welfare function, the other focuses on the design of constitutional rules to facilitate the individuals' self-determined 'pursuit' of happiness. We suggest to substantiate what it means to 'pursue' happiness, in particular by drawing upon a psychologically informed account of preference learning. If extended in this direction, a notion of the pursuit of happiness has interesting practical policy implications.

**JEL:** D03, D11, D60.

**Keywords:** subjective well-being, happiness, welfare economics, preference learning

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“Well,” said Pooh, “what I like best...”  
and then had to stop and think. Because although  
eating honey was a very good thing to do,  
there was a moment just before you began to eat it  
which was better than when you were,  
but he didn’t know what it was called.  
(Alan A. Milne)

## I. INTRODUCTION

Happiness scholars have been interested in improving measures of welfare and informing public policy-making ever since Richard Easterlin elaborated upon the complex relationship between income and well-being (Easterlin 1974; 2001).<sup>1</sup> These insights suggest that policy ought to acknowledge subjective well-being (SWB), rather than material growth, as people’s ‘truly ultimate consideration’ (Ng, 2003, p. 309), one that is seen as ‘self-evidently good’ (Layard, 2005, p. 113), and to take account of the insights about what determines happiness. As Diener (2005, p. 397) puts it, measures of SWB may be used ‘in assessing the need for certain policies, and in measuring the outcomes of policy interventions’.

Beyond broad statements such as this, however, it is still largely unclear how SWB insights translate into viable policy advice. What kind of framework should be used to organize policy implications? So far, two main approaches have emerged in the literature: The first, and most prominent one, builds on the idea of constructing an aggregate measure of SWB and then to take this measure as a proxy for an empirical social welfare function, whose value some policy planner would supposedly maximize.<sup>2</sup> SWB research would contribute to welfare economics by providing it with a sounder,

1. Apart from Easterlin (1974), pioneering studies on happiness research include Wilson (1967), Diener (1984) and Veenhoven (1984). For excellent surveys on positive SWB research see, e.g., Clark et al. (2008), Dolan et al. (2008), and Frey and Stutzer (2002). For recent qualifications of Easterlin’s specific results see Stevenson and Wolfers (2008) and Kahneman and Deaton (2010). The terms ‘happiness’, ‘subjective well-being’, ‘hedonic well-being’ and ‘hedonic utility’ will be used interchangeably in the following.
2. This of course reflects a renaissance of classic utilitarian reasoning. See, e.g., Ng (2003), Kahneman et al. (1997, 2004), Layard (2005), and Veenhoven (2010). De Prycker (2010, p. 587) even equates the whole of the ‘politics of happiness’ with the ‘maximization of the population’s happiness’. Several operational indicators have been proposed, such as the ‘gross national happiness’ index (Blanchflower and Oswald, 2005: 307) or the ‘environmentally responsive happy nation index’ (Ng, 2008). See also Diener (2000).

psychologically informed notion of utility. The maximization approach, though, suffers from serious conceptual and practical shortcomings (Frey and Stutzer, 2009). In particular, it leads one to neglect those ‘procedural’ sources of well-being that are located in the institutional framework of an economy.

Hence, an alternative, presumably more ‘constitutional’, approach is clearly required. This approach differs from the maximization framework in two important ways.<sup>3</sup> First, rather than directly enhancing people’s ‘aggregate happiness’ outcomes, the constitutional approach tries to design the institutional framework so that ‘people can pursue their own way to happiness’ (Frey, 2008, p. 175). Second, policy advice is not addressed to a social planner, but rather introduced into the – ideally competitive – process of public deliberation.<sup>4</sup>

On closer inspection it turns out, though, that economists still lack a clear understanding of what it means to actively ‘pursue’ (instead of passively enjoy) happiness. The present paper aims at filling this gap. It contributes to the constitutional approach to happiness politics in two ways. First, it develops a conceptual framework that goes beyond the focus on ‘procedural utility’ predominant in the literature so far. It does so by adding to the picture considerations related to (i) the process *approaching* hedonically valuable outcomes (Winnie the Pooh’s case), reflected in the time profile of utility streams, and (ii) the learning-based extension of utility functions. In other words, pursuing happiness transcends procedural utility. It also includes the pleasurable anticipation (and recall) of happy outcomes, as well as the hedonically driven exploration of new sources of happiness.

Second, the present paper explores the practical policy implications of this extended conceptual framework. It can be shown that they differ markedly from both the standard model of ‘happiness politics’ as well as from the more constitutional variants proposed so far.

The paper is organized as follows: Section 2 presents the background of the constitutional approach to happiness politics, as it has been elaborated so far. Section 3

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3. See, e.g., Frey (2008, p. 175); Frey and Stutzer (2010, pp. 568-70); Frey and Stutzer (2002, pp. 426-428).

4. See the closely related distinction between the ‘rational-instrumental’ and the ‘interactionist’ model of public policy proposed by Duncan (2010, pp. 167-168).

sketches the normative intuition behind the idea to step beyond procedural utility and see the dynamic pursuit of happiness as valuable. Section 4 discusses the quality of anticipatory feelings as a second element of a conceptual framework capturing this intuition. Section 5 extends this concept by drawing upon an account of hedonically driven preference learning. In section 6, some practical implications of this new notion of the pursuit of happiness are discussed, while section 7 concludes.

## II. CONSTITUTIONAL HAPPINESS POLITICS

What exactly does it mean for people to ‘pursue their own way to happiness’ (Frey, 2008, p. 175)? So far, this notion is closely linked to the concept of *procedural utility*. This particular source of well-being is generated by feelings of being involved or being causal.<sup>5</sup> Appropriate procedures may address the corresponding innate needs for ‘self-determination’ (Deci and Ryan, 2000) by signaling to individuals that they are respected (Frey et al., 2004). The importance of these non-instrumental ‘pleasures of process’ (ibid.) has been empirically demonstrated in a variety of domains such as lawsuits, organizational behavior and collective decision-making (e.g. Frey and Stutzer, 2000, 2010; Hirschman, 1989). There is now growing evidence that procedural concerns also matter in the marketplace and with respect to economic policy. To illustrate, consumers experience disutility from the perception of being ‘exploited’ in situations of excess demand (Kahneman et al., 1986); self-employment generates hedonic well-being beyond its impact on the agent’s income (Frey and Stutzer, 2008; Block and Koellinger, 2009); and preferences concerning inequality and redistribution have been shown to depend partly on the degree of perceived social mobility (Alesina et al., 2004).

Why do people care about procedures? The best psychological evidence available links procedural utility to the innate, universal human need for self-determination which, in turn, is a composite of the needs for competence, relatedness, and autonomy (Deci and Ryan, 2000).<sup>6</sup> These notions reflect closely related normative ideas in the eudaimonic approach to happiness (e.g. Ryan et al., 2008).

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5. See Frey (2008, ch. 10) for a survey.

6. Deci and Ryan’s ‘self-determination theory’ has been formalized by Pugno (2008).

The psychological needs constituting the need for self-determination are assumed to be a product of man's evolved nature (Deci and Ryan, 2000, pp. 246, 252-54). They have been demonstrated to be essential for understanding (i) what kinds of goals ('preferences') real-world people choose, and (ii) how they go about pursuing these goals, i.e., whether they feel intrinsically motivated to pursue them. Whether they are aware of it or not, people will tend to pursue those goals that support the satisfaction of these needs. Hence, the theory allows us to specify, at least in a basic way, the contents of people's 'utility functions'. It also implies that the pursuit and attainment of some goals or preferences is more conducive to well-being than the pursuit and attainment of others: Preferences reflecting 'intrinsic aspirations' (for personal relationships, say) are more closely linked to innate need satisfaction than those reflecting 'extrinsic aspirations', such as wealth or social status (Ryan et al., 2008, pp. 147, 153-54).

In order to be successful in satisfying the needs, 'ambient supports' are required that are partly located in the agents' institutional environment. At this point, normative implications enter the scene. For instance, an excessively 'controlling' setting (in a firm, say, or in the political arena) tends to shift the 'perceived locus of control' outside the self and to systematically thwart the satisfaction of at least one of the three needs for self-determination. It thereby causes suboptimal outcomes in terms of well-being, mental health and personal development. If the innate needs are repeatedly thwarted, the individual can be expected to fall back upon defensively adaptive behavior by, e.g., developing need substitutes that, in turn, may contribute to the further thwarting of the original needs. For example, an excessively materialistic lifestyle may indicate such need substitutes (Ryan et al., 2008, p. 149). This may result in a vicious circle of self-defeating behavior and suboptimal development (Deci and Ryan, 2000, pp. 232, 248-252, 254).

Self-determined behavior is most clearly visible in (and can be inferred from) an agent's intrinsic motivation to engage in certain activities. In this view, then, intrinsically motivated activity turns out to qualify as the paradigm case of a genuine and successful pursuit of happiness.

### III. GOING BEYOND PROCEDURAL UTILITY

The pursuit of happiness, however, involves more than the satisfaction of given innate needs through intrinsically motivated activities. A proper understanding of this concept goes beyond the focus on ‘procedural utility’ typically found in the literature. In particular, the pursuit of happiness should *also* encompass (i) the process of anticipating and approaching pleasurable outcomes over time, and (ii) the exploration, itself pleasurable, of *new* sources of hedonic utility, best captured by an account of preference learning that tells us how different goals are interrelated over time.

In order to sketch the normative intuition behind the approach suggested in the following, we will briefly take a look back at some prominent critics of the standard utilitarian approach to well-being, that have identified the desire to successfully pursue happiness (rather than passively enjoy pleasurable outcomes) as the key motivator of human behavior.

John Dewey (1982), in his ‘Reconstruction in Philosophy’, criticizes the standard outcome (or ‘possession’) notion of happiness by arguing that happiness is rather to be found ‘in success; but success means succeeding, getting forward, moving in advance. It is an active process, not a passive outcome’. Accordingly, it includes the ‘overcoming of obstacles, the elimination of sources of defect and ill’ (ibid., p. 182). As it necessarily involves the ‘overcoming of obstacles’, genuine happiness does not exclude and may even presuppose repeated experiences of failure and frustration.

Going one step beyond Dewey, one may argue that happiness, properly understood, is an *irreducibly dynamic* concept. It may be a contradiction in terms to conceive of an end-state of ‘perfect’ or ‘optimal’ happiness. This insight has been elaborated upon by John Stuart Mill (1989, pp. 117-118). It refers to the paradox that a necessary condition for actually feeling happy is not to be fully, but only partly satisfied, i.e., to have, at any time, a sufficient number of unfulfilled ‘dreams’ that still have to come true. As Bertrand Russell (2006, p. 15) puts it, ‘to be without some of the things you want is an indispensable part of happiness.’ Otherwise, there would be nothing left to pursue. This of course relates to the observation that anticipating a desired outcome may trump the outcome’s realization in terms of hedonic payoffs (see section 4, below).



While this kind of thinking still presupposes *given* preferences, some authors emphasize the fact that the process of actively striving for ‘dreams to come true’ can be expected to affect the very substance of the ‘dreams’ themselves, in often surprising (‘serendipitous’) ways. Consider Frank Knight’s (1923) observation that

‘the chief thing which the common-sense individual actually wants is not satisfactions for the wants which he has, but more, and *better* wants ... Wants and the activity which they motivate constantly look forward to new and “higher”, more evolved and more enlightened wants and these function as ends and motives of action beyond the objective to which desire is momentarily directed... Life is not fundamentally a striving for ends, for satisfactions, but rather for bases for further striving ... the true achievement is the refinement and elevation of the plane of desires, the cultivation of taste’ (Knight, 1923, pp. 14-15, italics in the original).

The value of happiness may depend (at least partly) on its contribution to a broader process of knowledge acquisition, leading to the learning of new preferences. In his ‘Remarks on Bentham’s Philosophy’ Mill states that ‘any considerable increase of human happiness, through mere changes in outward circumstances, unaccompanied by *changes in the state of desires*’ should be considered ‘hopeless’ (Mill, 1969, p. 15, italics added). Hence, Mill suggests to connect the enjoyment of hedonic outcomes to the process of preference (‘desire’) change in a normative way: The latter gives value to the former. The pleasurable satisfaction of given preferences may drive the individual toward discovering new, possibly more informed and more refined – and, hence, more valuable (‘higher’) – preferences and, thus, potential sources of pleasure (McPherson, 1982).

Importantly, preference change may also be valuable in the absence of any positive impact on one’s net happiness. For the relationship between knowledge acquisition and happiness is not straightforward. Consider a wine connoisseur. Due to her ‘cultivated taste’ she finds less pleasure in the typical glass of wine than the average person, but greater, more varied and more nuanced pleasure from a small set of very fine wines (Loewenstein and Ubel, pp. 1801-02). The pursuit of happiness may be valuable, not for its effect on an agent’s pleasure total, but for its contribution to individual ‘self-development’ (and to the richness of opportunities for mutually beneficial exchange, since a more varied set of preferences increases the ‘thickness’ of markets).

Can these rather complex intuitive ideas be captured by a theoretical concept of the individual pursuit of happiness? This will be the subject of the subsequent sections.

#### IV. PURSUIT AS THE JOY OF MOVING UPWARDS

Pursuing happiness may best be understood in analogy to a hiking or a mountaineering trip: While the journey itself (including its anticipation) is rewarding independent of its specific goal, people also tend to discover new valuable things along the way. Our first proposition is that a proper account of what it means to pursue happiness should model the ‘pursuit’ in procedural terms rather than as equivalent to outcome maximization.<sup>7</sup> Specifically, we have to look at what happens *before* valuable outcomes are actually realized.

*Anticipating* a future outcome or event that is expected to be pleasurable tends to generate immediate hedonic well-being. Moreover, the anticipation is often even more pleasurable than the actual realization of the event. Already Bentham acknowledged the ‘pleasures of expectation’ in his taxonomy of utility.<sup>8</sup> Consider also Tibor Scitovsky’s observation that ‘being on the way to [our] goals and struggling to achieve them are more satisfying than is the actual attainment of the goals’ (Scitovsky, 1976, p. 62), for it is the struggle that may provide valuable stimulation and, if set under conditions of uncertainty, even ‘excitement’ (Scitovsky, 1981). In contrast, Loewenstein (1999, p. 328) quotes mountaineers as stating that they often experience a ‘sense of anti-climax’ upon reaching the summit.<sup>9</sup> The pleasures of anticipation may be due to the interplay of two opposing effects: On the one hand, agents are able to ‘savor’ an event long before it occurs. On the other hand, an anticipated experience may serve as a point of reference against which a

7. There are attempts in the literature to model the pursuit as an exercise in maximizing one’s chronic happiness level (e.g. Lyubomirski et al., 2005a; Oishi et al., 2007). Ample empirical evidence, however, shows that the attempt to do so is ultimately self-defeating (Schooler et al., 2003). Hedonic benefits come only as a by-product of activities that are pursued for their own sake. Apart from that, real-world agents tend to have difficulty in assessing their current and predicting their future subjective well-being (Ryan et al., 2008; Frey and Stutzer, 2006).

8. See Bentham (1963, ch. V.2.II).

9. Ahuvia (2008, pp. 502-503) sketches an evolutionary rationale for this: ‘[A] psychological system where the happiness one gets from an achievement lasts for many years would be demotivating and ultimately nonadaptive. On the other hand, prior to embarking on a project, the *belief* that it will provide large and lasting increases in subjective well-being is very motivating, and therefore highly adaptive’. Without our personal treadmills, development would come to a halt.

current experience (e.g. consumption) is measured: ‘When the future is expected to be superior to the present, the comparison leads to a denigration of the present’ (Elster and Loewenstein, 1992, p. 225). Often the first effect dominates, making anticipation, on the whole, a pleasurable experience.<sup>10</sup> That is why actually reaching the summit turns out to be less rewarding than the way upwards.

Mountaineering may be a good example for a much wider set of situations where, in order to benefit as much as possible from the pleasures of anticipation, individuals delay an experience they expect to be pleasurable, thereby revealing negative discount rates (Loewenstein, 1987). Often people’s revealed demand for information also shows that additional information exerts a direct impact on utility; for instance, people sometimes avoid receiving ‘bad news’ even if they are free and useful for their decision-making (Loewenstein, 2006). The pleasures of anticipation may be classified as reflecting *quasi*-procedural utility: While they are clearly located in the process of approaching an outcome, they are nevertheless not wholly independent of outcomes (or outcome-related beliefs).

Hence, possessing self-chosen goals and progressing toward them turns out to be a key source of happiness. That is why we should acknowledge goal adoption as a constitutive part of the pursuit of happiness. This insight has an important implication: The actual achievement of a self-chosen goal, seen in isolation, is not the only (and probably not the main) source of well-being. Rather, agents are subject to ‘inter-temporal spillovers of utility’ with future events affecting currently experienced levels of hedonic utility (Senik, 2008). The same holds, of course, for *past* events that are still capable of generating ‘sweet memories’. Generalizing from this, Loewenstein and Prelec (1993) conclude that people care about the profile (the ‘gestalt’) of how hedonically relevant events are distributed over time.<sup>11</sup> More specifically, there is empirical evidence that people seem to display a hard-wired preference for a sequence of events that is hedonically improving over time (*ibid.*, pp. 92-93; Senik, 2008). As a corollary, individual well-being should not be modeled as a function of pleasurable experiences

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10. Consider the anticipation of consuming luxury goods, such as a vacation: While being vividly imagined (producing a strong ‘savoring effect’), they tend not to serve as reference points for the status quo (*ibid.*, p. 226).

11. What complicates matters is that preferences for sequences cannot be simply inferred from preferences for the component parts of sequences (*ibid.*).

whose hedonic values are simply added up over a lifetime. Rather, in a life judged as hedonically good, experiences cumulate and build upon each other in a more complex way.

We have, thus, identified a second element – beyond procedural utility – of what constitutes the pursuit of happiness. It now seems natural to extend the analysis by studying the way the interconnected sequence of individual goals and activities emerges in the first place. In other words, what drives agents to choose the goals that they choose, as their pursuit of happiness unfolds? This requires a theory of preference learning which will be the subject of the following section.

## V. PURSUIT AS THE JOY OF DISCOVERY

The theory of self-determination, discussed in section 2, above, locates the origin of hedonic well-being at the level of innate needs that are, by definition, *given*. In this section, we propose to complement this approach by assuming that agents have a natural propensity to extend their structure of needs beyond the level of innate needs. This extension generates hedonic well-being along the way. Our mountaineer not only enjoys the way upwards for its own sake, but also expects to widen her horizon by discovering new pleasures. The pursuit of happiness is, thus, seen as an ongoing process involving the learning of new needs and, consequently, the refinement of given preferences and the construction of new preferences. Simplifying somewhat, while self-development means ‘innate need satisfaction’ in Deci and Ryan’s approach, we suggest that it *also* implies genuine (i.e., irreversible) personal self-transformation.

Our starting point is the well-established behavioral economics insight that in real-world settings, individual preference orderings tend to be incomplete in the sense that people often lack a sense of whether an experience is utility-enhancing or not and, hence, do not reliably know their own tastes (Ariely et al., 2006; Schooler et al., 2003). Hence, with new experiences the gaps in the utility function have to be filled, which makes the agent’s utility function an ‘evolving structure’ (Simon, 1981, p. 52). New

(consumer)<sup>12</sup> preferences emerge endogenously, i.e., in an irreversible, path-dependent way involving mechanisms of reinforcement, association, satiation, and refinement.<sup>13</sup>

According to the account of preference learning suggested by Witt (2001, 2010), economic behavior is ultimately motivated by the desire to satisfy specific needs (or ‘wants’).<sup>14</sup> Needs are defined as behavioral dispositions driving specific activities. They are partly innate (or ‘basic’) and partly acquired by the agent in the course of her personal learning history. Innate needs are universally shared by all human agents, subject to the usual genetic variance. They include the need for air, liquids, food, sleep, as well as the need for social recognition, achievement and sensory arousal (Millenson, 1967, p. 386). Deci and Ryan’s psychological needs for self-determination fit in easily here.

Since a detailed description of the processes involved is beyond the scope of the present paper, we will only present the gist of our argument. The agents’ learning processes operate on the basis of the basic needs and a set of elementary non-cognitive learning mechanisms, such as reinforcement learning (Herrnstein, 1990) and associative learning. The dynamic interplay of these mechanisms results in the formation of ever more specialized and idiosyncratic preferences. For our purposes, what matters is the fact that the process of learning is driven by hedonic rewards processed in the human brain. In other words, the striving towards the satisfaction of given preferences – which may result in the construction or acquisition of new preferences – is perceived as pleasurable. Importantly, though, this holds only to the extent that the agent is not repeatedly and systematically frustrated in her attempts to satisfy her needs. In that case, the intensity of the newly acquired need tends to weaken (Witt, 2001, pp. 28-29). The agent may react by

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12. There is no reason to assume that the following thoughts do not apply to ‘political’ preferences (i.e., those related to collective decision making). The significance of technological knowledge may, however, be even higher in the political realm.
  13. The phenomenon of preference change is based on other sub-processes (besides preference learning), most importantly preference reversal and adaptive – as well as counter-adaptive – preference formation (Loewenstein and Angner, 2003; Elster, 1982). As these processes only generate easily reversible preference ‘switches’ rather than genuinely new preferences (and, hence, possible sources of hedonic well-being), we disregard them in the following. We also abstract from the crowding-out effect of extrinsic motivators (Frey et al., 2004, pp. 387-88) which may be seen as an instance of preference change (e.g. Layard, 2006, p. C30), but which, in our scheme, rather belongs to the procedural utility component of the pursuit of happiness.
  14. Needs are the building blocks of preferences and differ from them in the following way: While preferences can be seen as *extensional*, i.e., as necessarily involving comparisons between alternative states of the world (Kahneman and Sugden, 2006, p. 164), needs are non-extensional, as they merely push the individual towards a certain state or, rather, a certain activity.

evading into self-defeating behavioral dynamics, possibly leading into a state of distress and apathy (Deci and Ryan, 2000). While preference learning (a process) takes precedence over preference satisfaction (an outcome), the former cannot be completely detached from the latter. Without at least intermittent experiences of achievement, learning comes to a halt.

The empirical study of these specialization patterns has revealed that basic needs differ (in a genetically hard-wired way) with respect to their satiation dynamics, i.e., with respect to how easily they can be satisfied over a prolonged period of time. Deprivation with respect to the needs for food or liquids can easily be eliminated again and again. In contrast, the psychological basic need for social recognition is notoriously hard (or even impossible) to satisfy in a sustainable way (Witt, 2010). Hence, the theory captures the well-known phenomenon that people often end up choosing activities (such as consuming status-conferring goods) that fail to produce lasting well-being, despite considerable costs in terms of resources spent.

Beyond the level of the two non-cognitive processes sketched so far, there is a third level of learning processes, where man's specific cognitive powers intervene into the motivational structures formed by reinforcement and associative learning, and where there is room for the reflective, autonomous and experimental adoption of personal goals. Individuals of course also acquire new needs by *insightful learning*, i.e., by using their specifically human cognitive capacities in order to learn about the instrumental (technological) capacity of goods and services to satisfy certain basic or acquired needs. This reasoning about means-ends-relationships is typically influenced by conversations with friends, trusted peers and experts, as well as the observation of others' behavior. Preference learning is a genuinely interactive 'social' process in which valuable advice is exchanged and the identity of the exchange partners often matters.

Given her cognitive constraints, the agent's cognitive interventions are highly selective. In particular, incoming instrumental information is more likely to be consciously processed into personal knowledge if it relates to activities for which the agent already has acquired a need. In turn, exposure to information may induce further consumption activities, which initiate new processes of associative learning. This makes cognitive learning a highly path-dependent process: The kind of new knowledge the

agent acquires depends on (i) her pre-existing state of knowledge, and (ii) her current state of needs and preferences with respect to the activities the new knowledge refers to. In this way, the exploration and discovery of new sources of happiness builds upon and complements the ‘happy pursuit’ of intrinsically rewarding behavior.

As a result of an agent’s learning history, ever more specialized and refined sources of hedonic utility may be discovered. New experiences produce new tastes. Importantly, the implications in terms of hedonic well-being are conflicting: On the one hand, the process leading up to the heights of refinement is driven and directed by hedonic rewards; on the other hand, having reached a given level of refinement, the connoisseur may end up being less easily satisfied with, say, any given glass of wine (Loewenstein and Ubel 2008, pp. 1801-02).

## VI. IMPLICATIONS

Does our concept of the pursuit of happiness make a difference in terms of practical policy advice? Taking the pursuit of happiness – rather than merely procedural utility – as the ‘evaluative space’ of institutional design allows us to generalize over the lessons from insights on procedural utility. The new, more general account of well-being also provides ‘Nudge’ policies as suggested by Thaler and Sunstein (2008) with a normative rationale.

### *6.1. Generalizing over procedural utility*

An evolutionary perspective is arguably best suited for properly *generalizing* over the insights from the procedural utility literature. Policy is then supposed to take account of people’s human nature. One essential part of this nature are the innate psychological needs for self-determination (see above). Another key ingredient refers to people’s innate learning mechanisms that determine the way the needs structure emerges in the first place, to be then extended over time. Taking these into account leads to a modification of well-known policy advice in the happiness literature: Consider the case of a consumption tax that has been suggested (e.g. by Frank 2008) as a means to curb allegedly ‘wasteful’ status races.

When studying status consumption, two aspects are noteworthy. First, as we have seen in section 4, above, people care about the time profile of hedonically relevant events and outcomes. The accounts of procedural utility and preference learning lend psychological substance to this observation. Second, the account of preference learning serves to locate the whole approach in a setting of changing preferences.

These two aspects bear important implications for thinking about status races. First, these races reflect a very peculiar hedonic time profile, with repeated cycles of short-term peaks, followed by equally large – or possibly even larger – falls. The desired path of improving outcomes is not only interrupted temporarily (reflecting unavoidable frustration), but *systematically*, since agents are ‘trapped’ in suboptimal satiation dynamics.<sup>15</sup> This indicates, first, that agents are potentially confronted with an institutional environment that is dysfunctional in encouraging these status races (e.g. by exploiting behavioral biases that induce excessive overborrowing; see Anand and Gray, 2009), i.e. that there is potential scope for beneficial policy intervention. Second, this policy intervention should not proceed by taxing status-oriented consumption or income: Our need-theoretically informed concept of happiness pursuit tells us that merely modifying external incentive structures will do nothing to change the actual (hard-wired) motivating factors driving status consumption. Rather, in a dynamic perspective, individuals have the option to evade taxation by ‘inventing’ new dimensions in which to strive for distinction (Frey, 2008, pp. 171-72; Wilkinson, 2006). Policies may then be devised to redirect people’s efforts to activities that generate less harmful side-effects in terms of resource use (Ahuvia, 2008). These policies should preferably rely on ‘nudges’ that leave people’s opportunities to explore new tastes unaffected.

According to the constitutional approach to happiness politics, institutionalized procedures are hedonically valuable to the extent that they convey important relational information to the individual, thereby making her feel respected. In a more dynamic perspective, as suggested here, appropriate institutions can also help and encourage individuals to acquire new preferences. To illustrate, consider public decision-making mechanisms such as representative or direct democracy. Beyond their well-known

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15. Another example of such systematic adverse satiation dynamics is provided by the individual impact of drug addiction.



procedural utility effects, they can be re-organized in a way that confronts people with completely new and heterodox perspectives, thereby providing fresh insights on policy problems, which may in turn spur the acquisition of new preferences on the part of the individuals.<sup>16</sup> To illustrate, aleatory (random) mechanisms – such as lotteries – may be built into collective decision-making in cases where the space of conceivable problem solutions is open.<sup>17</sup> They introduce additional variety into the public discourse, thereby encouraging individual citizens to learn and adopt fresh perspectives.

A similar refocusing may be suggested in the domain of private organizations, such as firms. Being treated in a transparent and respectful way is a key factor providing procedural utility at the workplace (Frey, 2008, pp. 120-121). The pursuit of happiness, though, requires more than satisfying given needs for self-determination. Crucially, it requires encouraging people to look beyond the narrow confines of their given knowledge by bringing in different perspectives. This can be institutionalized, e.g., by establishing the position of an *advocatus diaboli* whose role it is to question the worldview that emerges in collective decision-making bodies such as boards or committees. By widening the scope of possible problem solutions, this may also improve the quality of the outcomes of collective decisions.

## 6.2. Providing Libertarian Paternalism with a normative basis

The welfare concept suggested above may also be used in order to reconstruct the normative basis of ‘Libertarian Paternalism’ with its main policy instrument, so-called ‘nudges’ (Thaler and Sunstein, 2008).<sup>18</sup> This serves as the major framework organizing the policy implications of behavioral economics. Through ‘nudging’ them, people’s behavior can be systematically guided in a desired direction without constraining their freedom to act otherwise. While in the original literature, this freedom requirement is

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16. The model for this re-organization of decision-making mechanisms is, of course, the ‘Impartial Spectator’, as suggested by Adam Smith (1976). For a recent interpretation, see Sen (2009, ch. 6).

17. This is not the case, e.g., in public decisions on the siting of ‘not-in-my-backyard’ facilities such as nuclear waste dumps. There, the space of possible sites is closed; accordingly, chance allocation does not appear to be adequate (apart from that, it also happens to be highly unpopular in these cases, see Frey 2008, p. 118).

18. The lack of a consistent welfare basis is one of the most important objections leveled against the approach proposed by Thaler and Sunstein, see, e.g., Sugden (2009).

argued to allow agents to engage in rational choice (to the extent that they are cognitively able to do so), from our viewpoint it should be re-interpreted as allowing them to engage in a process of acquiring genuinely new preferences which could not be accounted for in the policy-makers' design of the 'nudges'.

The alternative viewpoints differ in terms of the institutional preconditions of the activity that freedom is supposed to safeguard. In order to be able to engage in rational (unbiased) choice, individuals need a certain level of cognitive capacities and willpower. The same applies, albeit to a lesser degree, for their ability to engage in ongoing preference learning. In the latter case, though, the individual *willingness* to acquire new preferences cannot be taken for granted. Learning new tastes is a risky process, the success of which is typically uncertain. Hence, policy should make sure that appropriate institutional safeguards are in place, such as a publicly regulated (but privately provided) unbiased system of consumer information and quality control.

Beyond that, and perhaps paradoxically, a sufficient degree of uncertainty is necessary. Consider the cases in which nudges aim specifically at moulding individuals' preferences in a certain direction. To illustrate, in the notorious cafeteria example (Thaler and Sunstein, 2008, pp. 1-3), framing effects are used to induce consumers to choose 'healthy' goods such as fruit. This setting, though, presupposes a given set of possible alternative preferences. Over and beyond this given set, agents should be free to acquire, on their own, a taste for novel goods. The autonomy required to do so may be jeopardized by recent developments, in the internet, of offering 'personalized' online services. On the basis of the agent's consumption history, an algorithm can reconstruct the agent's set of preferences in a specific domain (such as books, say) and 'recommend' goods accordingly. While at first sight this technology (which also qualifies as a kind of nudge) may prove useful in informing online consumers about goods and services that they like, it effectively precludes the option to find things in a 'serendipitous' way, i.e., through discovering likings one never knew one would develop one day. An algorithm confined to the set of goods one has purchased in the past cannot assist in such ventures into the unknown spheres of creative imagination (Meckel, 2011). A policy committed to foster individuals' pursuit of happiness might be well-advised to inform people about this

particular downside of internet technology: Total transparency may not be advisable in a setting of endogenously evolving utility functions.

## VII. CONCLUDING REMARKS

Happiness research is beset by a discrepancy: On the one hand, we have a highly developed and rapidly growing body of scientific knowledge about the determinants of hedonic outcomes. On the other hand, the way this knowledge is used to develop policy advice rests on shaky grounds, due to the pitfalls of the social welfare maximization approach. While the constitutional approach to happiness politics offers a promising alternative, it still lacks a complete microfoundation in a dynamic concept of hedonic well-being. We have outlined how such a concept might be developed on the basis of the idea that the pursuit of happiness involves more than just the enjoyment of procedural utility: People care about the temporal profile of utility streams. They also have an in-built drive to extend their personal utility function by learning and trying out new tastes, even if this implies experiencing temporary frustration.

We have outlined a conceptual framework – inspired by insights from social psychology and evolutionary economics – that captures the normative intuition behind this idea and that allows us to develop policy implications. As it turns out, the dynamic viewpoint suggested here makes it possible to generalize over the policy advice known from the constitutional approach to happiness politics. For example, random mechanisms may be used to introduce uncertainty into the system, as a necessary precondition for novelty to emerge. Apart from that, our concept of well-being may also serve to provide the nudge-based policies of Libertarian Paternalism with a much-needed normative groundwork.

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### Summary

While positive research on the determinants of happiness (or ‘subjective well-being’) abounds, comparatively little thought has been given to its practical policy implications. Two approaches to derive policy advice seem to emerge in the literature: The first, most prominent one, is organized in terms of the idea to maximize a hedonic social welfare function. The second focuses on the design of constitutional rules to facilitate the individuals’ self-determined ‘pursuit’ of happiness. We suggest to substantiate what it means to ‘pursue’ (rather than merely ‘enjoy’) happiness in order to provide the

constitutional approach to happiness politics with deeper psychological foundations and a more refined policy focus. Specifically, the pursuit of happiness is seen as being constituted not only by the satisfaction of innate needs for self-determination (generating procedural utility), but also by (i) the enjoyable anticipation of hedonically valuable outcomes, and (ii) the use of these outcomes within the context of an overarching process of preference learning. If extended in this direction, a notion of the pursuit of happiness has interesting conceptual and policy implications. The latter are exemplified by suggestions on how to re-focus public decision-making mechanisms.