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

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

*Marion Collewet*

### **Abstract**

This paper discusses three approaches to well-being in economics which use insights from psychology to support their position: Scitovsky's Joyless Economy, happiness economics, and the constitutional approach to happiness in economics. It shows that in the way these approaches make use of psychology, normative choice is involved, and there is room for personal judgement. First, an approach to well-being, as an approach to what is worth pursuing, is necessarily normative. The use of psychological theories to support an approach to well-being relies on a normative step, revealed by the choice of a psychological theory by the economist. Second, personal judgement is often needed to translate the findings of psychology to recommendations for practice. Both things have implications for those theories which define well-being as something different than the fulfillment of individual preferences whatever they are, and therefore yield potential for paternalism. The paternalistic recommendations derived by economists are not based on positive science only, but also rely on personal judgement and normative choice.

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## 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 they are. An alternative definition of well-being is needed. The question about the definition of well-being, because it is a question about what is worth pursuing, brings us back to the old distinction between positive and normative economics. Scitovsky (1951: 315) described the dilemma of the economist in the following terms: ‘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.’ Scitovsky’s conclusion was that ‘the economist must make his own judgment and assume full responsibility for it’. Scitovsky therefore associates, in 1951, being normative with making one’s own judgement, and so does Bianchi in the quotation above. Twenty-five years later, Scitovsky was the first in his *Joyless Economy* to use insights from psychology to formulate daring propositions about important sources of human well-being and to advocate a change in lifestyle, at the risk of being paternalistic indeed. He did not rely on his own judgement only, but had discovered findings from psychology which matched his own intuitions.

It may seem like the use of psychology could help the economist resolve the dilemma between the normative and the positive, and help him avoid using personal judgement as the basis for paternalistic recommendations. However, this paper will review a number of approaches in economics which use insights from psychology to support their approach to well-being, and it will show that when using psychology, those approaches make a normative choice and have room to use personal judgement. First, approaches to well-being, as they are statements about the definition of what is worth pursuing, are necessarily normative. When choosing which psychological theories to use, economists take a normative step, explicitly or implicitly. Second, 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 we 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 paper will be structured as follows. First, I will briefly go back to the upcoming of the dilemma between the positive and the normative in economics, and show how welfare economics in the thirties claimed to have overcome this dilemma by making two assumptions: the use of economic welfare as an approximation for total welfare, and the identity of individual choices with individual welfare. Then, I will review three approaches in economics which have recently re-opened the question of the definition of well-being (rejecting its equation with economic welfare and with individual choices), and which use insights from psychology to try

and answer this question. Scitovsky's *Joyless Economy* is one of them. Happiness economics and the constitutional approach to happiness in economics are the other two. 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.

## **1 Pigou and the New Welfare Economics – an attempt to resolve the dilemma between the positive and the normative**

As the will of some economists to resemble as much as possible natural scientists increased, a tension arose between this ideal and the economists' capacity to advocate the pursuit of some goals rather than others. The following question became relevant: how is it possible to make normative statements, about what society should pursue (e.g. an increase in wealth), while still claiming that economics is a positive science?

Pigou's solution to this problem was to limit the object of economic analysis to economic welfare and to use 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 constitutes the advantage of concentrating on economic welfare: the 'measuring rod of money' is 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, we see that 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 are taken as the basis to define welfare.

Later, New Welfare Economics 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 both economic welfare and individual choices. Kaldor (1939: 550) argues that 'where a certain policy leads to an increase in physical productivity, and thus of aggregate real income', it is easy for an economist to argue in favour of such a policy 'since in all such cases it is possible to make everybody better off than before, or at any rate to make some people better off without making anybody worse off.' Like Pigou, Kaldor considers an increase

in wealth to be more or less equivalent to an increase in total welfare<sup>1</sup>. At the same time, 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. Again, like Pigou, New Welfare Economics equates individual choices and welfare.

However, neither the equation of economic welfare with total welfare, nor that of individual choices with welfare are uncontroversial. Economic welfare cannot be considered as a proxy for total welfare, because the production of economic goods may have some negative effects on other aspects of life which are not taken into account when measuring national income (negative externalities). As far as the equation of individual choices with welfare is concerned, behavioural economics has accumulated evidence of situations in which 'people do not appear to do what is best for themselves' (Loewenstein and Ubel, 2008: 1795). In the end, 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. Robbins (1935) already criticized Pigou's approach to welfare economics as unscientific. New Welfare Economics only addressed part of Robbin's criticism 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).

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

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

Scitovsky himself 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

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<sup>1</sup> Hicks (1939) was more cautious in this respect and seems to fall back into the classical position that an economist ought to study economic welfare and nothing more. In any case, the focus in New Welfare Economics remains on economic welfare.

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 neuro-psychological 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.

In the end, Scitovsky's rejection of the equation of choices with preferences also leads him to reject the focus on economic welfare as a proxy for 'real' welfare. He replaces the two assumptions made by Pigou and New Welfare Economics with a 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, as stressed by Bianchi (2003), since it prescribes in which activities individuals should engage their resources and their time.

## 2.2 Personal judgement and normative choice

Scitovsky devotes a lot of attention to making his prescriptions 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, 1983: 7). 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. The 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 states 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.

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

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

Easterlin (1974) showed that material wealth seemed to be an inadequate indicator of well-being, or at least did not match with another indicator of well-being, namely the evaluation of their own life by individuals. Happiness economics chooses to focus on the latter indicator, or on related ones. This approach therefore lets go of the two controversial assumptions which Pigou introduced into economics: the focus is no longer on economic welfare as a proxy for total welfare, and welfare is no longer identified with individual choices. The information on people's welfare used by happiness economics is much more direct than a deduction from choices people make or prices they pay or are willing to pay.

Instead, happiness economics is investing 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, 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 are advocating 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.

There are proposals to use such measures of well-being to construct an aggregate measure of a nation's well-being (e.g. Kahneman et al., 2004). The use of some happiness index as the variable 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, according to Kahneman et al. (2006), people tend to work too much in order to earn more money, because of the limited capacity of individuals to correctly predict what will raise their well-being. The focus on daily experience reveals that additional income does not lead to as much increase in 'experienced happiness' as people mostly expect it to. They conclude: 'When someone reflects on how additional income would change subjective well-being, they are probably tempted to think about spending more time in leisurely pursuits such as watching a largescreen plasma TV or playing golf, but in reality they should think of spending a lot more time working and commuting and a lot less time engaged in passive leisure (and perhaps a bit more golf). By

itself, this shift in time use is unlikely to lead to much increase in experienced happiness, although it could increase tension and one's sense of accomplishment and satisfaction.' (Kahneman et al., 2006: 1910). Such a finding could form a basis for paternalistic policies preventing people from working as much as they want, to protect them against their wrong expectations.

### 3.2 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. There is room for personal judgement when translating findings from happiness economics to concrete recommendations 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 rather than as the fulfilment of a number of specific criteria. This choice in favour of hedonism rather than eudemonia is a normative choice made by the authors, it is not based on findings from positive science. 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. Partisans 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 eudemonia will become obsolete. 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). But as long as this debate is not resolved, the choice for one or the other side remains a normative one.

Second, there is the decision whether to trust people's rating of their satisfaction after reflection, or to only allow for measures of direct experience. In the example of working long hours in order to increase one's earnings described above, choosing different measures of happiness (daily experience or sense of accomplishment) may lead to different policy implications. 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.

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

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

The constitutional approach to happiness in economics is opposed to the use of subjective well-being indicators as the sole basis for policy-making. Tenants of this approach argue that citizens should not be reduced to ‘metric stations’ (Frey 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).

In this sense, the constitutional approach departs from the focus on economic welfare. It also 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). The two assumptions made by Pigou are therefore abandoned. To find out about what are good institutions, 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 as 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 tenants of the constitutional approach use evidence from happiness economics which shows 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). Self-determination theory states that competence, relatedness and autonomy are the basic human needs which have to be fulfilled in order to 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 basic needs are fulfilled and therefore individual welfare attained. They also show that their findings hold across various cultures, and therefore claim that they have found universal features of human beings.

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

The translation to 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 tenants 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 light paternalism, which frames individual choices to guide them in the right direction without preventing them from making other choices if they really want to, could be seen as a solution. 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 explicit normative position of the authors.

## 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 another 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 is 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 paternalist bases his recommendations 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.

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