HOW DOES THE STUDY OF SUBJECTIVE WELL-BEING BECAME SIGNIFICANT IN THE ECONOMIC RESEARCH AND WHY IT IS RELEVANT FOR POLICY STUDIES?

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How does the study of subjective well-being became significant in the economic research and why is it relevant for the policy studies?

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Abstract

The economic science has often been defined as ‘dismal’. However, it witnessed the origin of a new branch right inside its discipline aimed at understanding the determinants of happiness, also known as subjective well-being (SWB), and thus to contribute to the improvement of such dimensions using its theoretical and methodological tools. This article aims at reviewing the contributions that have given rise to the study of happiness in economics by highlighting the discussion about the implications for policymaking and the analysis of the methodological instruments used to this purpose. We found that the study of SWB in economics is significant in order to better understand the determinants of SWB and it presents opportunities also for the policy studies, especially for a better design and evaluation of public policies’ impact on social welfare.

Key words: subjective well-being, happiness economics, public policy.

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1. Introduction

‘What makes people happy and why it matters for development’ gives the title to an article published on the British newspaper "The Guardian" on March 20th 2014 (Kroll, C. 2014). Kroll, the author of the article, refers to the importance of data on the determinants of happiness of people, especially in developing countries, as a crucial source of knowledge for policymakers in order to design better and more effective public policies, particularly at the end of economic development (Kroll 2014). In this regard, the author makes reference to happiness economics as "a new field that strives to find out what makes people happy" on the base of surveys on self-reported well-being. From an economic point of view, inquiring about the determinants of subjective well-being it is neither a taboo nor a 'funny' exercise, indeed, this field of research aims at identifying the determinants of subjective well-being based on the self-assessment of respondents’ perceptions in order to specify apt indicators to measure it and to contribute to its improvement through the instruments of economic research (v. Stiglitz , Sen, Fitoussi 2009).

Since ancient times, happiness has been considered an important subject of study which has been placed at the center of Eudaemonic doctrines’ theorizations and analyses\(^1\). The ethical and philosophical doctrines relating to Eudaemonism considered happiness as the foundation of moral life. According to these theories, happiness is at the same time the driver and the end of human action (Nussbaum 1986; Plato 1998). In this sense, Aristotle's ethics, along with the philosophical streams referring to Stoics’ and Neoplatonists’ ethics, as well as, English Empiricism’s and age of Enlightenment’s moral stands can also be considered Eudaemonistic (Abbagnano 1971,1979). Conflicting views, however, attribute negative connotations to this conceptualization of happiness. In fact, according to Kantian ethics happiness if intended as a motivation and purpose of acting potentially assumes selfish, individualistic and hedonistic connotations. Placing happiness against the interests of the broader social context does not always allow for the satisfaction of such hedonistic purposes without harming other individuals’ interests or even worst, the general social values. Precisely starting from these considerations, since 1700s the notion of happiness took a strong social meaning, not coinciding with selfishness or self-centeredness. However, subsequently its civic meaning lost centrality returning to be considered as an individualistic end; therefore not necessarily considered within the social dimension (Abbagnano 1971,1979; Bruni 2007).

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\(^1\) ‘Eudaimonia’ is a term that originates from Daimôn. It first appeared in Plato's Apology of Socrates (399-388 BC) to indicate a divine creature capable of steering towards the good (Plato, 1998). Whilst, the term ‘happiness’ comes from the Latin term felix -felicis, literally "to make someone happy or pleased for a fortune", indeed "that produces fruits" "prolific", "favored by the gods, “favorable” (Olivieri, D., 1961).
Indeed, happiness is at the center of various disciplines which seek to define its characteristics and determinants by focusing on many aspects that range from the psychological, philosophical, biological or spiritual dimension of the human being, as well as considering its behavioral and social features. As a result, it must be derived its evident multidimensional character. In view of this, it follows that the understanding of its constitutive factors necessarily requires of multidisciplinary approaches.

This article aims at discussing the seminal contributions that have given rise to the study of happiness in economics, also known as subjective well-being. In section 2 we will present some of the most relevant studies that in the psychological field focused on the constituting factors of subjective well-being (SWB), along with an analysis of the methodological instruments used to this purpose. In section 3 will be discussed the theories that in the economic field aimed at studying and explaining the correlation between those constituting factors and economic growth / per capita income and we will examine the implications that those results yield for policymaking. Finally in section 4 will be presented the conclusions of our study.

2. From Psychological Research to Economics

For a long time, psychology has dealt with the study of pain and its avoidance rather than directly focusing on the construction of happiness. Starting from the beginning of 20th century positive psychology arised as a new branch right within the psychological disciplines with the aim to study the causes at the base of the subjective experiences of well-being and satisfaction and to enhance them by placing its focus on the analysis of the positive traits of individuals. According to this perspective, well-being consists in pleasure, happiness and in the development of human potential (Seligman 2002).

During the 1970s some psychologists of the Survey Research Center at the University of Michigan, including Ed Diener, Angus Campbell and Philip Brickman, predominantly contributed to the advancement of the study of happiness. Michael Argyle (1925-2002), a British social psychologist and professor at the Universities of Oxford and Cambridge, also gave a substantial boost to the study of happiness and its dimensions in its book "Anatomy of Relationships" along with Monika Henderson (1985). They concluded that the greatest sources of happiness and health, as well as relief from anxiety, were social relationships. The psychological studies of those two decades suggested a strong relationship between the relational and the social dimension of life and happiness. Indeed, they found that the more those social relationships are perceived as authentic, deep and based on mutual trust and support, the greatest seemed to be the benefits in terms of compensatory effects of stress and negative emotions (Argyle, 1988).

The evaluation criteria used by psychological research on happiness highlight its multiple elements: (1) its emotional components, that concern subjective feelings of wellness and good mood; and (2) its cognitive and reflexive aspects, that refer to the feelings of satisfaction respect to life. In many empirical psychological studies happiness is measured through subjective evaluations. This means that such feelings are self-assessed by the subjects in analysis, e.g. asking to the subjects to describe whether and how much they feel happy at a given time or how much and with what intensity they felt happy in recent weeks, days, etc... Generally, during the surveys the respondents are asked to describe freely their perceptions on happiness, which is often described as "contentment, satisfaction, peace, fulfillment” or as "joy, pleasure and entertainment". In addition,
research on the different components of happiness and subjective well-being led to attribute dimensions sometimes independent of each other. Further studies highlighted the existence of a general factor of overall satisfaction which lends itself to be decomposed with respect to satisfaction in specific areas such as the satisfaction relative to health, work, self-fulfillment or marriage (Argyle, 1988). However, the list of its determinants could be almost endless.

Subjective descriptions and assessments of well-being are considered to be generating consistent and reasonable results that allow to develop measures referring to the levels of happiness and contentment of the subjects (Argyle 1988, pp. 2-15). Furthermore, to make the data and measurements more accurate, Cantril (1965), along with Campbell, Converse and Rogers (1976) set up some scales on the levels of satisfaction. The scales are based on a maximum and a minimum which are intended to constitute a sort of interval by asking the persons interviewed to define SWB in accordance with their personal experiences such as "the better life that could be expected" and "the worst that could happen". The aim of such assessments is to obtain more comparable results and to define reasonable ranges on the levels of SWB.

These studies on SWB, indeed show how even the country of origin of the subjects is a factor of considerable influence on the different values referring to contentment due to the different cultural features. In addition to culture, also personality traits affect the lives and the social relationships of people and therefore they are related to happiness; however within certain limits. In fact, psychological research has developed two theories of happiness. The fist, is defined as a 'top-down' theory and the other as a 'bottom-up' one. According to the 'top-down' theory happiness cannot be predicted on the base of the occurrence of pleasant events because it is considered dependant on the characteristics and traits of the individuals. Therefore, according to this theory there would be some people more prone to happiness than others. The 'bottom up' theory, instead, connects the levels of happiness to the pleasant and positive events and situations that the subjects experience during their lives. In short, the top-down perspective’s key question to be answered is if happiness depends on the fact of being by nature a happy person, whilst, the bottom-up perspective seeks to define if whether are the events to make people happy or not. According to the top-down theory the main personality traits that negatively impact on happiness appear to be the difficulties in relationships and the poor social skills, since they are believed to undermine self-esteem and to exert negative impacts on social interactions.

On the one side, psychologists have identified a strong link between social interactions and general well-being, on the contrary they have pinpointed social loneliness as a major source of negative emotions, especially in individuals with difficulties in relationships and/or with poor social relationships (Argyle 1988, pp. 131-139). In fact, less extroverted subjects may tend to isolate themselves and thus to have less and poorer relations, developing feelings of dissatisfaction and loneliness. Personality traits are believed to play an important role for SWB and more the relationships are perceived as rewarding by the subjects, the greater they potentially constitute a source of positive emotions that conclusively impact on happiness (Argyle 1988 pp. 17-26).

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2 For example, in Great Britain and the United States the highest values related to weel-being are considered those of marriage, followed by those related to family life. While the weight of fulfillment at work is higher in Britain than in the United States, or on the basis of age, sex, country in which the person lives there are different factors for the overall satisfaction. For some people the fulfillment at work is considered as more important than that related to the family life, for others are considered overwhelming the religious experiences and ideas. In short, these different weights and perceptions are also related to culture and are crucial to the definition of well-being. So it is necessary to take them into account when comparing different countries (for a deeper analysis see Argyle, 1988).

3 The more lonely people are more likely to experience depression and feelings of exclusion, alienation and resentment. While those with a more extroverted personality the most frequently associated with positive emotions further developing sociability and impulsivity. Therefore, both the sociability, that the quality of social relations arising from it are closely correlated with happiness and subjective well-being (Argyle, 1988).
Campbell, Converse and Rodgers (1976) correlated the various personality characteristics to the levels of happiness and well-being, concluding that intelligence and health are considered as the values that have higher correlation to well-being rates than the other features (see figure 1). This was explained by the authors with the fact that some individuals may have a greater capacity to solve their own problems and less fear in dealing with the different situations, thus demonstrating greater intelligence. This ultimately would lead those individuals in feeling generally more fulfilled.

The psychological theory which states that every individual has a certain level (set-point) of happiness or satisfaction with her/his own life determined by genetics and personality is the so-called 'set-point theory'. According to this theory, the events of life temporarily change these levels of happiness, that subsequently tend to go back to the initial set-point by means of a mechanism called 'hedonic-adaptation'. On the other hand, economists attach particular importance in certain circumstances, such as income and employment status, considering them as a prominent source of influence for the perceived levels of well-being and happiness of people.

What should be deducted in order to design better public and economical policies aiming at improving peoples well-being and living standards is suspended between two fires. On the one hand, from a psychological inquiry’s account the temptation would be to wonder if public policies aimed at increasing people’s well-being by improving economic and social conditions have some consistent impact on the levels of happiness and SWB. On the other hand, from an economic point of view the task to raise SWB would look as simple as a raise in the levels of income. Well, it seems that both extremes are incomplete (Easterlin 2004, p. 27).

Ed Diener (1984) showed that self-assessments of SWB may vary according to mood, thus constituting a potential source of error in the evaluation. However, it is inferred that if a person claims to be quite happy or unhappy such a self-assessment should be deemed as a reliable and significant data-point, due to tested long-term reliability. Albeit sounds, those assessments are still subject to the risk of some distorting mechanisms. The first biasing mechanism consists of exaggerated positivity in self-evaluation, which is expressed by a tendency to exaggerate in the evaluation of own states of happiness. It occurs when the majority of respondents declare to be “generally satisfied” or “very satisfied” about their life and not many admit instead of feeling anxious, depressed or not to enjoy good overall health. This phenomenon can lead the interviewee to give an answer that is socially desirable in the eyes of the interviewer, thus potentially misleading. All in all, Diener and Argyle found that long-term reliability of self-assessments seems to not have damaging effects on the reliability of the results (Diener 1984; Argyle, 1988). The second mechanism which is able to potentially distort SWB’s self-assessments regards the fact that the judgment on self-fulfillment strictly depends on aspirations. This can lead to quite similar survey results in terms of SWB even in presence of very different conditions, such as in terms of material well-being, health and housing situation in different countries. See figure 2.

Argyle (1988) explained this effect with an extremely apt comment: "Due to this effect, paradoxically, a subject may declare herself/himself to be 'very satisfied' from living in a mud hut on stilts because she/he really is. Conversely, a person who lives in a luxurious mansion in Beverly Hills could declare herself/himself 'only' "satisfied" because he/she really feels so" (p. 4). This, happens since it has been shown that subjective descriptions are not always in agreement neither with the views expressed by others who look from the outside, nor in line with objective assessments. However, if a person self-evaluating her/his wellbeing declares to feel satisfied (or dissatisfied) it is because she/he really feels so, regardless of whether an external viewer could reasonably think that she/he does not have many reasons to declare such a state.
Fig. 1 Effects of individual features on happiness

<table>
<thead>
<tr>
<th></th>
<th>Well-being</th>
<th>Sentiments of adequacy</th>
</tr>
</thead>
<tbody>
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<td>intelligence</td>
<td>0,13</td>
<td>0,14</td>
</tr>
<tr>
<td>health</td>
<td>0,13</td>
<td>0,12</td>
</tr>
<tr>
<td>beauty</td>
<td>0,03</td>
<td>0,04</td>
</tr>
<tr>
<td>height</td>
<td>0,05</td>
<td>0,07</td>
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<tr>
<td>income</td>
<td>0,14</td>
<td>0,13</td>
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<tr>
<td>culture</td>
<td>0,1</td>
<td>0,1</td>
</tr>
<tr>
<td>religion</td>
<td>0,11</td>
<td>0,05</td>
</tr>
</tbody>
</table>

Source: Campbell, Converse and Rodgers (1976) adapted from Argyle (1988, p.137)

Fig. 2 Individual happiness in relation to gross domestic product in 14 countries in the year 1960


The results of the early psychological researches on SWB of the 1970s are closely related and instrumental to the studies on the effects of increases in per-capita income and on the causality between the latter (increases in the levels of income) and the reported levels of happiness of people. This studies constituted a real watershed for the development of the stream of economical research which has been defined as “economics of happiness”. One of the most influential authors in the field has been Richard Easterlin. Easterlin (1974) studied the relationship between per-capita GDP and the percentage of people who define themselves as 'very happy'. The study was based on the analysis of a time series from 1946 to 1970 referring to 19 countries, both economically advanced than less, mainly wondering if the most economically developed countries which objectively presented higher levels of material well-being would also be associated to high and/or proportional levels of happiness among their inhabitants. The author concluded that the hypothesis of positive
correlation between economic prosperity and social well-being (happiness) had to be rejected, as increases in the levels of income would, as well, correspond to increases in the levels of aspirations. Such a mechanism results in no real increases in the levels of happiness, even in presence of net increases in economic income (Easterlin 1974, p. 90). This conclusion has been defined as the Easterlin Paradox or the Paradox of Happiness.

Easterlin’s study (1974) showed that at first during the economic boom consequent to the Second World War the trends of happiness respect to income growth increased. In fact, precisely between 1946 and 1961 the increase in the percentage of people who declared to feel generally “very happy” was more than proportional to GDP per capita. While, later on that trend actually slackened due to a loss of significant correlation between the declared levels of happiness and the recorded per-capita GDP echelons. Such causality, indeed, did not even linked to the average values (Easterlin 1974; 2001). The paradox that stands within these results is recognized to be typical of the societies called 'opulent', such as, post-modern societies where the ever growing aspirations of its members, the constant social comparisons and the lack of free time to devote to interpersonal relationships determined the appearance of levels of happiness not in line with the real increases in income, if not indeed decreasing as showed in figure 3 (See Bartolini 2007; 2010).

Additional psychological research on well-being carried out in the United States in the 1980s showed that income levels have a greater influence on positive emotions more than on the negative ones. However, in the case of income levels below of a certain echelon, the increase in income causes an intense decrease in negative emotions, while, higher incomes are found to have a greater incidence on positive emotions. This effects induce that low levels of income most likely generate intense increases of negative emotions, whilst higher levels of income result more related to positive emotions, albeit to a lesser extent. This is explained with the fact that in presence of lower levels of income negative emotions prevail (Argyle 1988, pp. 108-112; Easterlin 1974, p. 114). See figure 4. Hence, people who earn more are more gratified by their income and their standards of living than those who earn less, which therefore, also present lower standards of living. However, the degree of correlation between these two dimensions is almost weak. To this regard, the American Quality of Life research by Converse, Rodgers and Campbell (1976), showed slightest degrees of correlation between life satisfaction and income. Indeed, further interviews showed that the economic status appeared among the less influencing variables on the overall satisfaction with life (See also Argyle 1988, p. 108).

These results show that money can reduce the levels of anxiety, exerting e.g. an effect on those worries linked to the satisfaction of physiological needs such as shelter from cold or hunger. Moreover, positive emotions also resulted correlated to higher levels of income, explaining e.g. the pleasure which derives from being able to afford expensive amusements. Nevertheless, the degree of correlation between income and the levels of happiness proved to be not fully consistent, insofar as beyond certain levels the correlation became inversely proportionate (Converse, Rodgers and Campbell 1976). To this regard, it has been pointed out that de facto, increases in income levels determins increases in the overall levels of self-assessed happiness. But, within certain limits and with appropriate caveats⁴.

⁴ On the relationship between money and happiness it is also interesting to see Andreoli (2011).
Easterlin (1974, p. 89) noted that already Moses Abramovitz\(^5\) in his essay *The Welfare Interpretation of Secular Trends in National Income and Product* of 1959 spotlighted that: "since Pigou [...] economists have generally distinguished between social welfare, or social welfare at large, and the narrower concept of economic welfare, with national product [...] taken to be the objective, measurable counterpart of economic welfare" (Abramovitz 1959, quoted by Easterlin 1974 p. 90).

**Fig. 3** Relationship between GDP per capita and happiness in the United States 1946-1996

![Graph showing the relationship between GDP per capita and happiness in the United States 1946-1996.](image)

*Source: Adapted from Bartolini (2010, p. 68)*

**Fig. 4** Relationship between income levels and correlation with negative and positive emotions

<table>
<thead>
<tr>
<th>Income</th>
<th>Positive Emotions</th>
<th>Negative Emotions</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; 2000$</td>
<td>0.32</td>
<td>0.56</td>
</tr>
<tr>
<td>2000-2999$</td>
<td>0.4</td>
<td>0.58</td>
</tr>
<tr>
<td>3000-3999$</td>
<td>0.39</td>
<td>0.54</td>
</tr>
<tr>
<td>4000-4999$</td>
<td>0.38</td>
<td>0.51</td>
</tr>
<tr>
<td>5000-5999$</td>
<td>0.46</td>
<td>0.52</td>
</tr>
<tr>
<td>6000-6999$</td>
<td>0.45</td>
<td>0.52</td>
</tr>
<tr>
<td>7000-7999$</td>
<td>0.46</td>
<td>0.53</td>
</tr>
<tr>
<td>8000-9999$</td>
<td>0.5</td>
<td>0.49</td>
</tr>
<tr>
<td>10000-14999$</td>
<td>0.52</td>
<td>0.46</td>
</tr>
<tr>
<td>&gt;15000$</td>
<td>0.57</td>
<td>0.46</td>
</tr>
</tbody>
</table>


Happiness, therefore, does not uniquely refer to economical well-being, instead, it refers to a concept that most of all is comprehensive of both social welfare, than well-being in general. Economists usually dismissed divergence between the two concepts, taking for granted that

\(^5\) American economist (1912-2000) Harvard University, Columbia University, one of the founders of the Department of Economics at Stanford University between 1945-46 and Economic Advisor to the American government, elected a Fellow of the American Academy for Arts and Sciences in 1960.
increases in social welfare (e.g. income and material conditions) would certainly also determine increases in well-being, including increases in the levels of happiness, contentment and satisfaction. Even so, the evidence that economic growth would be positively associated with social well-being and therefore to happiness is not so obvious. In fact, the data collected by Easterlin (1974) on 19 countries since the Second World War aimed at studying the relationship between the levels of income and happiness and at seeking an answer to the big question that constituted title of his work: "Does Economic Growth Improve the Human Lot?". The evidence provided by the author allowed him to reply in an affirmative way, however the analysis of the correlation between increases in income and happiness levels allowed to affirm that social class and income have a definite effect on happiness in a given moment, in spite of a lesser one with respect to temporal trends. To this regard see figure 5. Easterlin’s results (1974) sounded as unexpected according to the common economic rationalism (see Friedman, 1996; Green and Shapiro 1994; Kahneman 2003, 2003b). In fact they contradicted common sense, pinpointing a paradox which made clear the necessity for multidimensional approaches for the understanding of those results.

3. The Easterlin’s Paradox

Surveys show that the most prominent factors of influence on the perceptions of subjective well-being appear to be the constituted by the areas in which the subjects are placing their aspirations. The economic environment (65%), followed by health (48%) and family (47%) seemed to be the areas where people mainly related their personal aspirations for a “‘good’ and ‘happy’ life” (Cantril 1965, Easterlin 1974, p. 93-96). See figure 6.

The relationship between the levels of happiness and economic expectations is very strong and the economic element resulted preeminent for all the observed countries. This means that at any given time an increase in income would increase the level of happiness of the subjects in all the countries observed. Easterlin (1974) claimed that such comparisons should be deemed as plausible, since all the observed countries showed that even in different countries (both on cultural than material features) individuals spend most of their days working in order to provide or construct their personal and family welfare, making self-assessments comparable in terms of perceptions, hopes, and expectations about an ‘happy life’. A second element related to the exposed empirical data made evident that the national comparisons among countries and over time showed a weak association between income and happiness, which was even weaker than that shown by within-country comparisons (Easterlin 1974, p. 111). The fact that the interviewees declared to put higher expectations on the economic dimension should also involve increases in subjective happiness in the long term. However, the fact that this did not happened constituted a paradox.

The author made reference to the theory of relative income expressed by Duesenberry (1952), one of the first economists to talk about behavioral economics whom in its famous manuscript 'United States income-savings paradox' made use of psychological variables related to

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6 Duesenberry is considered the father of behavioral economics. His theory on savings explained the paradox of three evidence underlying the theory of consumption: 1. That the savings are higher for those segments of the population who earn more, 2. That national saving remains constant even in the face of increases in income national 3. which consumption at the national level is more stable in the short term, compared to the national income. So there is a contradiction because if those with higher incomes save to a greater degree than someone who has lower incomes, with increases in per capita income at the national level should also increase the total savings. Instead it does not. Duesenberry explained this phenomenon with the concept of ‘relative poverty’, that is, with the explanation that the ‘poor’ would save less because the higher spending power of the other lights in their aspirations that they fail to meet this difficulty and persists even after increases in per capita income at the national level. For this reason that national saving remains constant even in the face of this. This explanation implies not only economic assumptions, but also calls into dance
the aspirations to back the hypothesis of relative income. This hypothesis explained that at a psychological level people operate continuous comparisons between their own situation and that of others, making that their perceived utility in relation to a certain situation and their levels of SWB will be variable in relation to what they perceive around. It possibly would cause that "[a] house may be large or small; as long as the surrounding houses are equally small it satisfies all social demands for a dwelling. But if a palace rises beside the little house, the little house shrinks into a hut" (Marx, K. quoted by Easterlin 1974, p. 111-112).

Fig. 5 Correlation between income and happiness during the life cycle in the USA 1911-1950

Source: Easterlin (2001 p. 469)

Increases in the levels of national income also result in greater levels of happiness, but if the income of all citizens increases happiness will remains constant. In a similar way, this explains why different nations among the richest countries in the world do not necessarily show higher levels of happiness among their citizens. A first interpretation explains this phenomenon considering that in addition to peer-group influences also the consumption norms which are present in a given society at a given time constitute a reference standard for SWB’s self-determinations which ultimately will also vary in relation to the overall levels of consumption at the time.

Consumption levels are found to influence the perceptions of SWB, since those people who will be above the average consumption will declare themselves on average happier than those whom levels of consumption will be below such standards. A further interpretation for the paradox poses its emphasis on external diseconomies of scale, which would consist in the fact that over time psychological and sociological aspects of relative consumption and aspirations of individuals. So to explain the phenomenon, there are, in addition to comparisons also social comparisons that people make between their current situation and the past; this is what leads them to not change too much downward their savings habits (and conversely consumption) even after recessions. Moreover, even during recessions the poorest continue to operate on a psychological level social comparisons between their condition and that of the wealthier classes, is that this does not allow him to cut their spending much even during recessions (Duesenberry 1952; Frank 1995).
and between different societies increases in income are largely or completely diverted by corresponding increases in pollution, traffic etc. A third and 'radical' interpretation of the data, as the author himself defines it, would suggest that power should be counted among the sources of happiness. This would explain why those who are richer, given the higher power they exert in society, would declare themselves as happier than those with lower incomes and low power on society. Anyway, over time and among different societies this last hypothesis does not seem to be confirmed by data because the increases in income have not been always associated to the diffusion of power among the various socio-economic levels, nor by increases in happiness (Easterlin 1974 pp. 112-113; 2001).

Fig. 6 Areas related to personal aspirations with regard to subjective happiness

<table>
<thead>
<tr>
<th>Country</th>
<th>Economic</th>
<th>Family</th>
<th>Health</th>
<th>Values and character</th>
<th>Job/work</th>
<th>Social</th>
<th>International</th>
<th>Political</th>
<th>Status quo</th>
<th>Total</th>
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<td>34</td>
<td>14</td>
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Source: Easterlin (1974, p. 95)

The hypothesis of the ‘relative income’ seemed to be for Easterlin by far the most plausible interpretation for the deviations from the longitudinal and cross-country data about the relation among increases in income and the levels of subjective well-being (Easterlin 1974). This postulate made reference to the presence of empirical data from other areas of economic research (e.g. saving behavior) and from sociology, political science, and social psychology. Perceptions on SWB seemed to be also related to the common sense of the historical period that influenced the interpretations of poverty and as a result those of the levels of subjective well-being. It means that as the economic well-being increases also material aspirations and tastes change due to economic income growth. Thus, the passage of each generation also determine a steady increase in the levels of pressure associated to consumption norms, which ultimately result in steady deteriorations in subjective well-being levels (Easterlin 1974).

Various spheres of the social sciences have been called into question to interpret the paradox, showing how self-evaluations of happiness are derived by comparisons among individual experiences and social norms. In light of the latter phenomenon, social scientists in general and economists in particular might be tempted in using objective indices to derive inferences about
happiness; such as indices of consumption, nutrition, or life expectancy. Otherwise, the measurement of happiness could happen against behavioral indicators like the rates on suicide or crime, etc.. These data can be considered as an external expression of inner states of individuals, thus relating to psychological dimensions.

The fact that subjective reports are based on the feelings and emotions of respondents makes clear the possibility of resulting inconsistency with objective evidence. Since, “[e]conomic analysis has been able, for a long time, to resist to uncomfortable implications of this mechanism, by assuming that tastes are given and/or unmeasurable” (Easterlin 1974, p. 118) the study of these awkward mechanisms have frustrating consequences for social scientists and especially for economists involved with the traduction of such behaviours through the lens of economic theory. Instead, psychological research considered perfectly 'normal' the fact that individuals do not feel subjectively happy when they 'objectively' should. Easterlin (1974) found that this aspect seriously questions the objectives and effectiveness of the majority of public policies aimed at increasing economic levels as a cure for declining social and subjective well-being (p. 117-121).

Layard (1980) advocated the importance of positional theory in order to explain such paradox and to draw conclusions for the creation of more effective public policies. To this regard, to the question "why[…] do people seek to be rich if riches do not bring happiness?" the author answered that “riches do bring happiness, provided you are richer than other people" (Layard 1980, p. 737). In fact, happiness is considered to be dependant on the position held by the people in the "ranking status" and that when this status reaches higher levels people will get used to it, as is the case for income's increases. In addition, both happiness than status are influenced by expectations. The status ranking assumption explains why people are willing to make sacrifices if also others are subjected to the same sacrifices. While a second assumption based on expectations ought explain why people are more inclined to fight against reductions in their income/salary respect to possible increases of it. The implications arising from the importance of expectations and status as determinants of human satisfaction about lives therefore pose the need for policymakers to not ignore people’s needs for status and indeed the effects of expectations on people’s SBW.

Apropos of the psychological mechanisms at the base of the 'insurmountable'\(^7\) tension between economic well-being and happiness, Daniel Kahneman (1999)\(^8\) distinguished two types of mechanisms under the umbrella term of ‘treadmill effects’. The first effect is the hedonic treadmill derived from the theory of adaptation (set-point theory), the second is the so-called satisfaction treadmill based on Irwin’s aspiration levels. The hedonic treadmill hypothesis assumes that a change in the people’s objective life circumstances will cause a predictable increase in the levels of subjective well-being (GB-good-bad levels). Even so, due to adaptation theory the new circumstances will crash with the previously created expectations and will determine that the amplifying effects of novelty will vanish against the hedonic experience as soon as a new routine will be established (Kahneman 1999, p. 14). This concept was derived by Brickman and Campbell (1971) from the Heldon’s notion on the levels of adaptation (Heldon 1964 in Kahneman 1999, p. 14). The second hypothesis is based on the so-called satisfaction treadmill. It considers that the treadmill effects will occur even in the absence of changes referring to the hedonistic experience. These mechanisms involve changes in the relationship between the distribution of wealth (GB) and

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7 To this regard, the sociologist G.C. Homans stated that "every wish that is fulfilled at the same time creates a dissatisfied one" (Homans 1961 quoted by Easterlin 1974 179).
8 Israeli psychologist, Nobel Prize for Economics in 2002 for having integrated the results of psychological research into economic science, especially concerning human judgment and decision theory under uncertainty.
the scales by which individuals report their levels of happiness and subjective well-being. This effect would lead to changes in what people consider good and evil (GB), which therefore does not ultimately alter the perception of one's own happiness. Basically, Irwin’s notion of ‘aspiration level’ defines the boundaries between what is deemed satisfactory compared to what, on the other hand, is not considered so (Irwin 1944 in Kahneman 1999, p. 14).

Aspirations are highly correlated both to the achievement of real results, than to those merely expected. The above-mentioned phenomenon generally results in aspirations that are generally higher respect to the objective and most likely expected results. This is true, therefore, also for income; which is among the variables that are on average most correlated to personal expectations (Argyle 1998). See figure 6. Due to these two treadmill effects, real increases in income push the individuals to feel the need to intensify the levels of pleasure to ensure that levels of satisfaction with their hedonistic lives will remain constants (hedonic treadmill), while the levels of subjective happiness remain constant due to the satisfaction treadmill. The combined effect of both mechanisms will lead to adapt to new circumstances and will determine that increases in income will not lead to increased SWB. Furthermore, it is advanced also the hypothesis that happiness would be not only confined to subjective assessments, but it would be possible to define an objective measure of happiness through measures able to differently weight positive and negative experiences and to develop methods able to minimize cognitive biases caused by the tendency of individuals to consider past situations as yardsticks for their present and future judgements. In order to evaluate pleasure and pain in different contexts it is necessary to determine the characteristics at the base of the welfare of individuals and the true nature of adaptation. The ultimate benefits of such advancements in the study of SWB would be also related to better and more valid criteria for the evaluation of economic and social policies (Kahneman 1999, p. 22).

Because of the mechanisms so far examined, increases in welfare would determine a swing of the pendulum of SWB to the starting point with no remarkable effects on it. This is because people steadily operate comparisons between their situation and that of others. This consequently influence their evaluations on happiness. Thus, paradoxically increases in income may, or may not, bring significant changes in the levels of subjective well-being in the long-term or worse might also generate frustration giving rise to a 'positional consumption' aimed at maintaining or to increase such a 'status ranking' (Layard, 1980).

Expectations and status are capable to predict how people will react to the introduction of specific public policies in the economic sphere, as they are policies able to modify or create hierarchies of status and as a result competition between individuals. See for example the responses to inflation or redistributive policies (Layard 1980, p. 748-749).

The importance of a more comprehensive and deep understanding of the relationship between subjective assessments and what are considered to be objective data relating to welfare and happiness are highlighted by the potential to improve both the design of public policies and the evaluation of their results and impacts on the social and economic dimensions (Larimer and Smith 2013). Multidisciplinary approaches to the study of SWB are more prone to disentangle the above-mentioned relationships. However, they definitely bear a cost to be paid; that is the substantial increase in complexity.
4. Relational Theories and NEG Models: Restoring Aristotle’s Ethics?

Some economists have proposed an additional theory to explain the paradox, which is considered to be in evident opposition to the paradigm of methodological individualism (Weber 1968; Becker and Stigler, 1982) because focused on the concept of social relations. In fact, the relational theory of happiness considers sociality as a consumer good highly related to SWB. Therefore, assuming that social relations are significant for welfare these economists claim that the more relationships are 'consumed' by individuals and the highest might be the levels of subjective well-being. From these premises, the 'consumption' of relational goods is considered as an important component of the function of subjective well-being (Bruni 2004).

The concept of "relational good" arised between the different fields of ethics, sociology and economics (see Nussbaum 1986; Donati 1986; Gui 1987; Uhlner 1989). A first definition of relational goods considered them as "non-material goods, which are not individually consumed services, but they are related to interpersonal relationships [...] then goods that could be called 'relational'" (Gui, 1987 in Bruni 2004, p. 154). Carole Uhlner (1989), however, introduced the concept of relational goods as instrumental to the explanation of the drivers at the basis of political mobilization, building a model of social mobilization in terms of preferences and decisions of rational individuals, which, at the same time, are influenced by the behavior of other subjects (Uhlner 1989). The author defines the relational goods as "a set of objectives, called "relational goods," which depend upon interactions among persons" (Uhlner 1989, p. 253). These relational goods would constitute the 'dimensions of relationships' which do not lend themselves neither to be produced, nor consumed by a single individual, since, dependent on others such assets may be enjoyed only if shared (Uhlner 1989, Bruni 2005). Martha Nussbaum (1986), following a neo-Aristotelian perspective, explained that the most typical relational goods are friendship, mutual love, and civic engagement. In this perspective, those goods born and die in the same moment in which the relationships arise or die down. Therefore, the relationship itself is a good, precisely the relational good.

Following the typical classification of goods according to their public or private nature, relational goods cannot be considered neither private, nor public goods because the consumption of a public goods is made by isolated individuals, independently from each other. To this regard, Bruni (2006) includes relational goods as a third category of goods with the following characteristics: identity, reciprocity, simultaneity, intrinsic motivation, emerging fact, gratuity (Bruni 2006 pp.158-161; Uhlner 1989); that are illustrated as follows. (1) Identity is considered a constitutive factor of such exchanges, which implies that the identity of the users cannot be anonymous; (2) reciprocity means that such goods can be enjoyed only in a mutual environment; (3) simultaneity involves that relational goods are co-produced and used at the same time by both parties; (5) intrinsic motivation is the driver of the mutual relationship that generates a relational good, as it is considered an end in itself and not a means; (6) the emerging fact indicates that such a property may emerge in a normal market transaction transcending economic instrumentality; (7) finally the last feature of a relational good is gratuity because relationships are experienced as a good in itself, not constituting a mere meeting of interests. Therefore, for all those characteristics, these assets cannot reflect a market price, but rather, a 'value' (Nussbaum 1996, 2001; Bruni 2006). Due to these characteristics, mainstream economics is not able to include these goods into its schemes analysis of economic situations due to its deep trust in the paradigm of rationality through the methodological individualism (Bruni 2006).
The relational theory as an explanation for the happiness paradox considers the presence of this third category of goods as a key explanation of the Easterlin paradox, acknowledging the existence of crowding-out effects between consumer goods and interpersonal relationships. According to the crowding-out effect the time and energy used in the creation and procurement of consumer goods would be time taken away from the creation of relational goods, displacing the enjoyment of them and exerting negative effects on SWB. This theory, therefore considers SWB as straightly correlated to sociality9 (see also Frey 2005; Becchetti and Santoro 2007; Gui and Sugden 2005; Pelligra 2007).

Regarding to the above-mentioned crowding-out effects, Bartolini (2010, pp. 81-94) suggests the use of negative endogenous growth models (NEG) to express the occurrence of economic growth which although quantitatively positive in economic terms constitutes a reply to a long-term erosion in terms of quality of life. According to this paradigm, consumption is not an index of well-being, but rather of a ‘disease’. These models are based on three main assumptions. The first, is that there are not tradable goods which are also very important for well-being, since, free goods such as relational goods are considered necessary for SWB. The second assumption is that the economy has the capacity to provide tradable goods as substitutes for such free goods. Finally, the third hypothesis is that economic growth will decrease the availability of those free goods, and therefore will lead to their erosion. The degradation of relational goods is defined as a 'relational degradation', which occurs in the presence of increases in expenditures precisely due to the decline and/or lack of relational goods.

The author explains how this NEG growth type might constitute a reinforcing loop that creates a trade-off between increased consumption of comfort goods and decreasing time invested in the creation and/or maintenance of interpersonal relations that eventually will generate negative utility. The negative utility leads to the need to increase the levels of consumption in order to maintain constant levels of utility and it will fuel such a damaging cycle. According to this approach, economic growth is boosted by its own destructive power because it destroys free goods through the impoverishment of the relational landscape by replacing relationships with substitute tradable goods10. Precisely, the impoverishment of the relational dimensions would have the power to induce a shift from the consumption of free goods, that are no longer available or at least are degraded, towards the consumption of private goods to be found in the market (Bartolini 2010; Bartolini et al 2014). However, such tradable comfort goods present a negative utility and consequent negative effects on SWB because they subtract time and effort to the creation of relational and creativity goods; stoking a negative loop that could be reversed by an improvement in the consumption of relational goods. In fact, relational assets, differently from comfort goods, do not present total hedonic adaptation (Kahneman 1999) and as a result they have the potential to increase SWB. Against this, however, the small investment in the production of such relational goods in post-modern societies determines that the levels of SWB will stay constant, if they will not even corrode notwithstanding increases in national per capita income.

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9 This theory has pro-Aristotelian character, according to which the Eudaimonia (happiness) would be 'the highest good'. Aristotle (2000). Nicomachean Ethics.
10 This is consonant with the explanation of the growth given by some sociologists such as Bauman (2008), whom sees the destruction of relationships through the perpetual creation of new needs. This must necessarily imply the need for changing patterns of consumption.
5. Conclusion

The primary objective of this article was to discuss the emergence of the considerations about the determinants of happiness, also known as subjective well-being, in the context of psychological and economic research. Considering the Easterlin paradox (1974) as one of the first watershed for the studies on happiness in economics we tried to integrate both of these visions through the presentation and discussion of the relevant literature for this purpose.

This analysis highly points how economists more and more attempted at the improvement of their understanding of human behavior, since it is not news that individuals do not act in an aseptic manner than other people by giving weight to the perceptions of other individuals with whom they are interacting. This may undermine the reliability of the basic assumptions of methodological individualism typical, for example, the paradigm of welfare economics (see Udehn 2001; Friedman 1996; Kahneman 2003a; 2003b). In addition, the information with which individuals come into contact is not processed in a consistent manner respect to the basic assumptions of the economic rationalist model because they often make use of endogenous variables for the processing of information needed to decision making even in the economic field (Smith and Larimel 2013).

At this point, if the big question to be answered by happiness economists was in the past if money does increase the overall levels of happiness of people, the answer that has been given is that the economic dimension is remarkably correlated to the comprehensive assessment of happiness, but within certain limits and with appropriate caveats. These limits and details are, among others, what the economics of happiness aims to investigate, searching for causality and rigour. The disciplines which currently are at the frontier of research in the field of the study of economic rationality, along and prominently with its systematic deviations, are undoubtedly behavioral economics, as well as, neuroscience, evolutionary psychology, and cognitive psychology. Such disciplines are able to rigorously take into account the determinants of human behavior in order to examine and understand the cognitive structures that affect it. This understanding is also relevant for the developing of the public policy sciences (See also Smith and Larimel, 2013; Henrich at al., 2005; on emotions and rationality see Frank 1988; Damasio 1994; Marcus, Neuman, Mac Kuen 2000).

The research agenda in the fields of well-being, economic growth and development is dense, and as evidenced by recent research in the economic and public policy fields (Stiglitz, Fitoussi and Sen 2009; Helliwell, Layard and Sachs 2013; Kroll 2014) the psychological and relational dimensions associated with subjective well-being have the potential to better inform policymaking, especially for those policies aimed at impacting on social and economic development.

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