

The New “Happiness” Economics: An Austrian Critique¹

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“Governments . . . must respect the natural course of things. Let people be happy, that is, let everyone be free to seek his own *happiness*, without hurting other people’s . . .”

Benjamin Constant
Principles of Politics (1815)

“The happiness of the people is often said to be the object of our constitution. The people will take sufficient care of their own happiness, if they enjoy full security themselves, and remain free from all restraints that are not absolutely necessary for the security of the persons and property of other parties.”

William Huskisson
Essays on Political Economy (1830)

“That body of people certainly is the strongest and the happiest in which each person is thinking for himself, is independent, and self-respecting, self-confident, self-controlled, and self-mastered.”

J. Laurence Laughlin
The Elements of Political Economy (1887)

“Men strive after *happiness*. This is perhaps the most general and, certainly, the most vague expression for a complex of strivings, all of which have for object the bringing about of such occurrences and conditions as we know and feel to be pleasant, and the averting of those we know to be unpleasant. Instead of “striving after *happiness*” we may use the expression “striving after self-preservation and self-development,” or “striving after the greatest possible furtherance of life”; or we may, with equal propriety, use the words, “striving after the most complete possible satisfaction of wants”; for the expressions we are so familiar with in economic terminology, “want” and “satisfaction of want,” mean, in the last resort, nothing else than, respectively, the unsatisfied craving of man to be put under conditions he thinks desirable or more desirable than those he has, and the successful obtaining of such conditions.”

Eugen von Boehm-Bawerk
The Positive Theory of Capital (1889)

“In colloquial speech we call a man “happy” who has succeeded in attaining his ends. A more adequate description of his state would be that he is happier than he was before. There is however no valid objection to a usage that defines human action as the striving for *happiness*.”

Ludwig von Mises
Human Action: A Treatise on Economics (1949)

It is more than 230 years, now, since Adam Smith observed that each individual is a better judge of how best to apply his productive efforts than any statesman who would claim the ability to direct the economic activities of the citizenry. And that, furthermore, any such action by a statesman “would nowhere be so dangerous as in the hands of a man who had the folly and presumption enough to fancy himself fit to exercise it.”²

After all the experiments in social engineering over the last one hundred years, it might be expected that the wisdom in Adam Smith’s words would by now be a “self-evident” truth of practical politics. Yet, the appeal of social engineering seems to be difficult to expunge from the psychology of some people. In spite of previous attempts and their disappointing and often disastrous consequences, new rationales for another try keep cropping up.

The one of the latest versions of this is what has been called the “new economics of happiness.” Once more we are offered the illusionary promise of social scientific precision, this time through the measurement of happiness. The happiness economist, with the assistance of collaborators in psychology and sociology, will be able to quantitatively determine how happy we are, and how much our degree of happiness may be raised or lowered through the manipulation of various policy tools at the disposal of the political authority.

Indeed, such happiness gurus as Richard Layard propose that a leading if not the primary focus of government action should be to assure that as a society we experience the greatest degree of happiness possible.³ Governments, it seems, have pursued false gods up till now. They have tried to use their powers to maximize output and real income

² Adam Smith, *An Inquiry into the Nature and the Causes of the Wealth of Nations*, [1776] (Indianapolis: Liberty Fund, 1981) Book IV, Ch. 2, p. 456.

³ Richard Layard, *Happiness: Lessons from a New Science* (New York: Penguin 2005).

since these were considered proxies or surrogates for human welfare. Increase the amount of material stuff that is produced in society, raise people's income so they can buy more of the stuff being produced, and we will make people happier.

It appears, however, that more stuff and higher incomes do not make people much happier. Oh, certainly, when people are hovering at or not much above subsistence, adding to the supply of desired material things does make people happier. But after a point the increment of additional happiness from increments of additional income and material wealth turns out to be negligible.

This apparently is the case for two reasons: First, people come to take for granted what was a new or improved material part of their lives. Introduce cell phones, and the initial "ooh and aah" and novelty of being able to telephone from anywhere at anytime for any purpose soon wears off and becomes part of the assumed order of things. So the extra "happiness" from this innovative improvement in the quality of daily life rapidly dissipates. Second, people seem to focus not on any absolute increases in their material well-being but on their relative income status in society. If everyone experiences gains in their material standard of living such that their respective relative positions more or less remain the same, people do not feel any happier. Only in the transition when maybe your relative income status rises before the same happens to those around you, do you feel happier because you've gotten ahead of others with whom you compare yourself. But once they more or less catch up, then you are back to where you were before vis-à-vis others in the relevant social group.

Finally, there is an assertion that too many individuals pursue false trails in the quest for happiness. "Pleasure" rather than "virtue" has become the Holy Grail to obtain

happiness. Here some “happiness policy advocates” hark back to an older notion of real happiness that is dependent upon cultivation of certain aspects of “good character,” including an appreciation and understanding of “beauty,” “truth,” “goodness,” and “justice.” Instead, modern man seeks happiness in the passing and superficial pleasures of the flesh and momentary enjoyments derived from the acquisition of material things.

So, what is to be done? The happiness advocate concludes that there is only one cure to this human dilemma: to use the power of the state to socially engineer better and happier outcomes for the vast majority of mankind. If increases in output and income beyond a certain point do not bring any significant gains in people’s happiness, then policies should be constructed to cut back on the continuing waste of human energies in this direction. Government should foster less work and more leisure, so people will refocus their time and talents on family, friends, community, and non-material self-improvement.

If people judge their own worth in terms of how they stand relative to others in a relevant group, and if attempts to narrow any gaps between oneself and others is self-defeating due to everyone else attempting to do the same to stay ahead, then government should use its taxing power to reduce income inequalities. Leveling down will reduce the unhappiness that some experience when they see others around them better off than themselves; progressive taxation will reduce the incentives for those who have been ahead from trying to maintain or reestablish their superior status.

The misconception of “pleasure” as the key to happiness can be changed through government “reeducation.” Schools and other educational vehicles should be applied by the state to inform and teach people proper values and virtues to make better and happier

citizens. Thus, social happiness can be improved through people learning the meaning and content of a “truly” happy life, and living it more fully.

How has modern society gotten into this unhappy circumstance? Many of the new happiness advocates explain that it all due to the pervasiveness of liberal capitalism and its ideology of self-interest and materialism. The cult of individualism and the god of mammon have undermined the possibility for a happier society.

Some informative and insightful critiques of the new happiness economics have pointed out the ambiguous and imprecise methods that have been designed to measure and quantify the level of and changes in human happiness.⁴ I would suggest that another and more fundamental problem with trying to measure happiness arises from the fact that there is nothing to measure. Happiness, like “utility,” is too often still thought of (implicitly) as a fund or an amount somehow derived from the successful pursuit of various actions.

To ask a person where they view themselves on, say, a happiness scale of from one to ten, tells less than some may want to read into it. If a person says they rank themselves at a happiness level of 6 on this scale, does this mean that they are experiencing twice as much happiness as someone who selected a happiness level of 3 on the scale? Or if they were comparing their own current level of happiness with the level of happiness they experienced a year earlier, could we say that this person is twice as happy as they were 12 months ago? Twice as happy in terms of what unit or standard of measurement?

⁴ See, for example, Will Wilkinson, *In Pursuit of Happiness Research: Is It Reliable? What Does It Imply for Policy?* Cato Policy Analysis, No. 590 (April 11, 2007); and Helen Johns and Paul Ormerod, *Happiness, Economics and Public Policy* (London: Institute for Economic Affairs, 2007).

It might be replied that such a scale is only meant to be a general indicator of degrees of difference. Thus, if a person says that they consider their level of happiness this year to be at 9, while last year they thought it only was at a level of 3, in this person's mind there has been a "big jump" in his level of happiness. That he may feel himself a lot happier now than a year ago may be true in his own mind, but it gives us no way of determining a measured intensity of this difference, and certainly no way to try to calculate how much of some change in his material, personal, or societal circumstances would succeed in bringing about a certain amount of change in his level of happiness. This certainly applies even more to any attempt to estimate the amount of difference in happiness between individuals and how much happiness would be gained or lost by them from some change in their political, social, or economic environment (including one's brought about through government "happiness policy").

Now, in fact, and of course, we all do such interpersonal comparisons of happiness all the time, and often act upon it. For example, John thinks to himself, "Sally had really been down in the dumps lately, I really think it would help cheer her up (make her 'happier') if I spent the afternoon with her, even though it means not having my usual afternoon coffee time with Bob (and reducing the 'happiness' he gets from my company)." Clearly, John makes the implicit judgment call that in this particular instance Sally's extra happiness will be greater than the loss in happiness suffered by Bob by changing who he spends some time with. But that is what it is – a personal judgment call. There is nothing "scientific" or quantitatively precise about it. And he acts upon it. He may be right or he may be wrong. It is guided by what he thinks is the best thing to do in

the situation as he evaluates it, given the value he assigns to his own time spent in this way rather than some other.

Furthermore, he is not coercively imposing his value judgment concerning whose “happiness” can be positively affected more by his actions on others in society. That is, while John thinks that Sally can be made a bit happier if he spends some extra time with her, Sam on the other hand may consider Sally to be a “lost cause,” that is, there is no way to get her out of her depression; since Bob always seems to be made happier with a little company during the day over a cup of coffee, Sam therefore decides to spend time with him, instead. John and Sam each follow their own judgments on who to spend time with, and both Sally and Bob could turn down the respective offers if they chose to.

Each is a liberty to make his own informed judgment and evaluation concerning his own happiness and how the happiness of others may be influenced by their respective actions. Each draws his own conclusions concerning the causalities at work and the impact of their conduct towards others. Each learns his own lessons from these interactions and modifies what they do and how they act toward these others. And they learn from observing what others do, and incorporate this as well into their future actions.

Another way of saying this is Hayek’s point that in a free society no single scale of values is imposed on all in the society.⁵ Rather, each individual is permitted to have and follow his own scale of values guided by his own judgment about what will make him better off, more satisfied, “happier,” including actions that he decides to undertake because he cares about the happiness of others.

⁵ F. A. Hayek, *Law, Legislation, and Liberty*, Vol. 2: *The Mirage of Social Justice* (Chicago: University of Chicago Press, 1976), pp. 109-111.

It is typical of the social engineer that he is confident that he can determine the one size that should fit all. In this instance, this includes a standard or benchmark for estimating the happiness of individuals and groups, and even the society as a whole. Here is what Wilhelm Roepke long ago called the “hubris of the intellectual,” who believes that he knows enough to superimpose his own beliefs on the rest of society for the good of the society even if the members of that society do not realize – at least not yet! – that it is all for their own good.⁶

While it may not be measurable or quantifiable it is nonetheless true that people do feel more or less happy. But happiness, as I suggested above, is not some disembodied substance or fund. What makes us more or less happy is success in attaining the goals or ends that we had selected as desirable to pursue. That is, our happiness is tied up with our specific and concrete purposes and ends, and is inseparable from them. Furthermore, the goals and ends are connected in interdependent structures of complementarity. The idea is captured in Menger’s famous table depicting the logic of marginal decision-making.⁷ Within each category of a type of good additional units obtained has diminishing marginal significance. But as one’s income increases the marginal significance of units in another category begin to take precedence before satiation may have been reached in a category on which income has already been spent.

The patterned addition of units of different goods at their respective margins of significance reflects the particular way different goods acquired in a certain sequence enhances the individual’s state of preferred wellbeing (“happiness”). While individuals learn from new experiences, change their minds about what it is they desire (a change in

⁶ Wilhelm Roepke, *Civitas Humana: A Humane Order of Society* [1944] (London: William Hodge and Co., Ltd., 1948) pp. 43-56.

⁷ Carl Menger, *Principles of Economics* [1871] (New York: New York University Press, 1976) pp.126-128.

preferences), find different goods and opportunities offered to them in a changing world, at any moment in time the patterned selection of goods acquired and pursued reflects the individual's "plan" for happiness. Any changes in the plan (due to new knowledge, a change in preferences, modifications in the terms-of-trade), are adjusted by the individual in a way that preserves what he does not want to change (at least for now) and what he wants to add or subtract as elements in the plan

Each individual will have conceptions of his plan for happiness and the way to bring it about, and in what temporal sequence, that will vary from how other individuals construct such plans for themselves. Thus, there is inherently in society a diversity and plurality of human plans, each with its own structure, hierarchy, and temporal design.

If, now, an activist happiness policy were to be implemented by the government along the lines its proponents suggest, this must entail a reduction in the diversity of plans. If some are made unhappy due to others in society having more or different things from themselves, then the range of actions through which individuals will be allowed to pursue happiness will have to be curtailed. If followed strictly this would have to include not only diminishing the amount of income that wealthier people will be permitted to retain after taxes. It would also require limiting the types of goods and services that are allowed to be offered on the market.

Even if the income of wealthier members of society have been dramatically reduced through taxes, what if some of them scrimp and penny pinch out of their more modest income to buy the luxury sports car or to build the extravagant home entertainment center as an annex to their house?. Some neighbors may be made "unhappy" by still seeing others have things they do not, possibly because they are not

themselves willing to make the personal trade-offs necessary to have a similar car or entertainment center.

The state not only must take responsibility to decide how much post-tax income we shall have to spend, but it must prohibit or restrict the manufacture of various goods classified as “happiness threatening” to the society as a whole. Thus, the imposing of a governmental happiness policy incorporates the potential for a heavily government directed economy in the name of seeing that only those goods and in those quantities are produced and offered on the market that enhance social happiness.

The fact is, seeing what others have attained in comparison to us is a strong teacher of what is possible or desirable that we have not thought of or imagined. It creates a stimulus for people to devote the energy, effort and creativity to be able to enjoy what others have acquired before them. The happiness policy advocates object to this because, they say, this merely generates the unending frustration of always wanting more no matter how much one already has, and the resulting “unhappiness” that there is always “someone” who has something more attractive or desirable than oneself.

It needs to be remembered that product innovations that are at first the luxuries of the few, become the necessities of the many after a period of time.⁸ This is the source and engine of human progress. As Hayek once observed, most of what we call “civilization” can be classified as “artificial,” since all we really need to survive is some food, an animal skin for warmth, and a cave for shelter from the elements. Art, music, literature, technologies of modern medicine, air conditioning, automobiles, shampoo, toothpaste, washing machines, electric lights, etc., are all “artificial.” They are the result of human

⁸ Ludwig von Mises, *Liberalism: The Classical Tradition* [1927] (Indianapolis: Liberty Fund, 2005), pp. 12-14.

imagination, innovation, savings, and production. And all of these and many, many more were often the “luxuries” of the few before becoming the “essentials” and “necessities” of the many in society.⁹

No individual needs to remain in the rat race, or allow his happiness to be defined by what others do or say. The congested and tension-creating daily existence of urban life can be given up for a rural environment with fewer pressures – if the individual is willing to make the inevitable trade-offs between life in cities versus the countryside. One does not have to “keep up with the Jones” next door, if one is willing to think in terms of a different benchmark of the “good life.”

Which gets us to the issue of what makes for a good, and therefore a “happy” society? The answer is, there is no single answer. Society is neither happy nor unhappy. That’s because society does not exist. Individual human beings exist, and society is merely one of the terms that we use to express the network of relationships that human beings form and act through in the pursuit of their own respective desires for happiness.

As the late Edward Shils reminded us, “The idea of civil society is the idea of a part of society which has a life of its own, which is distinctly different from the state, which is largely in autonomy from it. . . . The hallmark of a civil society is the autonomy of private associations and institutions as well as that of private business firms. . . . The market economy is the appropriate patterns of life of a civil society.”¹⁰

In civil society there is no single focus point in the social order, as in a politicized society in which the state designs, directs and imposes an agenda to which all must conform and within which all are confined. Rather, in civil society there are as many

⁹ F. A. Hayek, “The Non Sequitur of the ‘Dependence Effect’” [1961] reprinted in *Studies in Philosophy, Politics and Economics* (Chicago: University of Chicago Press, 1967) pp. 313-317.

¹⁰ Edward Shils, “The Virtue of Civil Society,” *Government and Opposition* (Winter, 1991) pp. 3-20.

focus points as individuals, who design, shape and direct their own lives guided by their own interests, ideals, passions, and pursuits for happiness.

But the society of free individuals is not a society of unconnected, isolated individuals – “atomistic man,” as critics of liberty will sometimes refer to him. As the 19th century French classical liberal, Count Distutt de Tracy, concisely expressed it, “the social state . . . is our natural state . . . Society is . . . a continual series of exchanges . . . in which the two contrasting parties always both gain, consequently, society is an uninterrupted succession of advantages, unceasingly renewed for all its members.”¹¹

The “exchange” relationships that emerge among free men in civil society, however, should not be viewed as meaning merely or only those involving the trading of what is narrowly thought of as “goods and services,” within the institutions of the market place. The network of exchange relationships includes community endeavors, religious and church activities, cultural associations and clubs, professional organizations and charitable callings. Indeed, any relationship in which men find that they have common interests, goals, or shared beliefs becomes the foundation for the emergence of “exchange,” involving agreed-upon terms for association and collaboration for mutual benefit, and the enhancement of the quality, character, and meaning of life for each and every participant.

Every free man belongs to numerous voluntary associations and institutions in the civil society. Each individual, therefore, simultaneously participants in a variety of “social worlds,” with different people, with each of these social relationships representing

¹¹ Count Distutt de Tracy, *A Treatise on Political Economy* [1817] (New York: Augustus M. Kelley, 1970) p. 6.

different purposes and needs in his life. And cumulatively these various social worlds of civil society create what Hayek called the spontaneous social order.

The new “Happiness State,” if it comes into existence, will threaten the continuation and functioning of these networks of civil society. They have already been weakened or even “crowded out” by the institutions of the welfare state. The policies of a Happiness State would only reinforce these tendencies leaving the individual few or no avenues in which to decide upon and pursue his happiness other than those permitted or imposed by the government.

Finally, most proponents of the market economy have never claimed that it will lead to the guaranteed creation of happy men. Ludwig von Mises, as one example, more than once emphasized that:

All that social policy can do is to remove the outer causes of pain and suffering; it can further a system that feeds the hungry, clothes the naked, and houses the homeless. Happiness and contentment do not depend on food, clothing, and shelter, but, above all, on what a man cherishes within himself. It is not from a disdain of spiritual goods that liberalism concerns itself exclusively with man’s material well-being, but from a conviction that what is highest and deepest in man cannot be touched by any outward regulation. It seeks to produce only outer well-being because it knows that inner, spiritual riches cannot come to man from without, but only from within his own heart. It does not aim at creating anything but the outward preconditions for the development of the inner life. And there can be no doubt that the relatively prosperous individual of the twentieth century can more readily satisfy his spiritual needs than, say, the individual of the tenth century, who was given no respite from anxiety over the problem of

eking out barely enough for survival or from the dangers that threatened him from his enemies.¹²

The market economy has successfully provided that external material well-being that has been eliminating the needs of the flesh that can distract men from cultivating the inner self for the enhancement of his happiness. The classical liberal order fosters the formation of the institutions of civil society through which individuals can discover and create avenues of human association for the fostering of happiness in its social dimension.

The New Happiness Economics, if it leads to the Happiness State, would undermine all that market liberalism has made possible. It would represent another form of the interventionist state that would demonstrate Mises's point that most interventions generate outcomes contrary to their stated purpose. The Happiness State would likely lead to a very unhappy society.

¹² Ludwig von Mises, *Liberalism in the Classical Tradition* (Irvington-on-Hudson, NY: Foundation for Economic Education, 1996) pp. 4-5.