

# **Economics and Happiness Research: Insights from Austrian and Public Choice Economics\***

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## **Abstract**

Over the past decade, economists have increasingly focused on happiness research. The main focus has been on understanding the interconnection between economic outcomes and the resulting happiness of economic actors. The work in this area has yielded many implications for policy in a number of areas, including public finance (government expenditure and taxation), welfare policy and labor law. This chapter will critically reexamine the happiness and economics research program and the resulting policy implications through an Austrian/Public Choice lens. It is our contention that the main insights of these schools of thought have been neglected in this area of research.

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\* We would like to thank the editors, David Prychitko, Arnold Kling and readers of *The Austrian Economists* blog for useful comments and suggestions. The financial support of the Mercatus Center is acknowledged.

## 1. Introduction

Over the past decade economists have increasingly focused on the implications of happiness, also known as subjective well-being, for economic theory and policy.<sup>1</sup> The focus on happiness can be seen as part of the larger behavioral movement in economics. To understand the growth and impact of this area of research, consider that the 2002 Nobel Prize in economics was awarded to a psychologist, Daniel Kahneman, "for having integrated insights from psychological research into economic science, especially concerning human judgment and decision-making under uncertainty."<sup>2</sup> The main focus of the happiness and economics research has been on understanding the interconnection between economic outcomes and the resulting happiness of economic actors. The work in this area has yielded many implications for policy in a number of areas, including public finance (government expenditure and taxation), welfare policy and labor law.

Our goal in this chapter is to analyze the economics and happiness research program through the lens of Austrian and Public Choice economics. Specifically, using the tools provided by these schools of thought, we critically analyze the underlying assumptions and resulting policy implications of happiness and economics research. It is our contention that the insights of the Austrian and Public Choice schools have been largely neglected in this research. Our aim is to begin to fill this gap. We do not assume any detailed knowledge of Austrian and Public Choice economic on the part of the reader. Instead, we will briefly provide an overview of their main tenets of these schools of thought before moving on.

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<sup>1</sup> Writers in this area use the terms "happiness," "satisfaction," and "well-being" interchangeably.

<sup>2</sup> Source of quote: <http://nobelprize.org/economics/laureates/2002/index.html>

The Austrian School of Economics was founded in 1871 with the publication of Carl Menger's *Principles of Economics*. Menger was one of the three co-developers of the marginalist revolution in economic analysis. For the purposes of our analysis, consider the following propositions that serve as part of the core of the Austrian school:<sup>3</sup>

1. Only individuals choose: Man, with his purposes and plans, is the beginning of all economic analysis. Only individuals make choice, collective entities do not choose. There are no economic phenomena unconnected to the choices of individuals. It is a felt uneasiness by the individual at any point in time which generates action to take steps to remove that uneasiness.
2. Utility and costs are subjective: All economic phenomena are filtered through the human mind. Objective realities of the world matter, but as far as in the realms of value and price they only matter in relation to individual perception of them.
3. The competitive market is a process of entrepreneurial discovery: The entrepreneur is the catalyst of change in the economic process. He is alert to unrecognized opportunities for mutual gain and exploits those opportunities in order to earn a profit.

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<sup>3</sup> It should be noted that these propositions do not do justice to the Austrian school in its entirety. For a more detailed exposition of the various aspects of the Austrian school, see Boettke (1994). See Boettke and Leeson (2003) for a discussion of the evolution of modern Austrian economics since 1950.

4. Social institutions often are the result of human action, but not of human design:

Many of the important institutions and practices are the result not of direct design, but the by-product of our striving to achieve another goal. Nobody intends to create the complex array of exchanges and price signals that constitute a market economy. Their intention is simply to improve their own lot in life. But their behavior results in the market system that enables them and millions of others to pursue their intention of improving their lot in life easier.

5. Dispersed knowledge and unintended consequences: Local knowledge of “time

and place” is dispersed throughout society. No single individual, or group of individuals, can possess the relevant knowledge to successfully plan the economy. Given this dispersed knowledge, government agents suffer from a “knowledge problem.” Interventions in the economy are based on limited information possessed by the government agents. As such, interventions may generate unintended consequences that could not have possibly been known prior to the intervention. These unintended consequences may render the intervention ineffective or generate a new set of problems.

Public Choice economics emerged in the 1950s out of the study of taxation and public spending. The founding father of Public Choice, James M. Buchanan, was awarded the

Nobel Prize in economics in 1986. We will apply the following propositions, generated from this school of thought, in our analysis:<sup>4</sup>

1. Symmetry of assumptions: Public Choice employs the same principles that economists use to analyze people's actions in the private sphere and applies them to actions in the public sphere. For instance, economists assume that private actors are motivated by self-interest. Public Choice emphasizes that economists should apply the same assumptions to public actors. Like private actors, public actors pursue their self-interest whether that means catering to voters, interest groups or bureaucrats.
2. Rational ignorance: Public Choice theory highlights the incentives that voters face in making their voting decisions. In one of the original contributions to public choice theory, Anthony Downs (1957) highlighted that the individual voter is largely ignorant and is rational in remaining in this ignorant state. The logic behind this claim is that an individual's vote rarely decides the outcome of an election. As such, the impact of casting a well-informed vote is close to, if not, zero. The interaction in democratic politics is characterized by rationally ignorant voters, specially interested voters and vote-seeking politicians. Given this, the bias is for politicians to concentrate benefits on the well-organized, well-informed special interest voters and to disperse the costs on the unorganized and ill-informed mass of voters.

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<sup>4</sup> For a more complete analysis of the various aspects of Public Choice theory see, Buchanan and Tullock (1962), Downs (1957) and Gwartney and Wagner (1998).

Taken together, these propositions form the basis of our analysis. We proceed in the following manner. Section 2 provides an overview of the relevant literature in the economics and happiness research program. We seek to highlight the major developments as well as the current state of the research. Section 3 provides a critical analysis of the existing research through an Austrian/Public Choice lens. Specifically, we employ the propositions outlined above to critically analyze the core assumptions and resulting policy implications of the research area of economics and happiness. Section 4 concludes with the policy implications of our analysis.

## **2. Happiness and Economics: An Overview of the Research Program**

Although psychologists have been studying subjective well-being for decades, the focus on this area by economists is relatively new.<sup>5</sup> Over the past decade, some social scientists have begun to reconsider the strict rationality assumption that underpins economic theory (see Kahneman 1994). The work done in the area of subjective well-being has been the main means of engaging in this reassessment.

Most consider Richard Easterlin's study (1974) to be the first case of an economist considering the connection between happiness and economic outcomes. Easterlin formulated what became known as the "Easterlin paradox." In its simplest form, this

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<sup>5</sup> For but a few studies and literature reviews in this area by psychologists, see Argyle (1997), Diener et al. (1999) and Kahneman et al. (1999).

paradox states that above a low level of income, economic growth does not improve human welfare. The explanation for this paradox was that people consider their level of wealth not in absolute terms but rather in relative terms. Because they judge their wealth relative to others, any increase in real income across individuals has little effect. Increases in welfare are not just a matter of everyone's income increasing. Instead, an individual's increase in income must be relatively higher than everyone else's in order for it to have a real effect on the welfare of the individual in question.

It was not until the 1990s that an increasing number of economists began to pay attention to the various questions and issues raised by Easterlin's study. The result has been a burgeoning literature that explores the connection between economics and happiness. Economists working in this area usually define subjective well-being or happiness by general satisfaction with life. The main tool for quantifying well-being is typically surveys. These surveys usually ask some variant of the fundamental question: "how happy are you with your life?" Other questions seek to test if people value relative or absolute incomes. These questions usually ask some variant of, "Would you rather earn \$100,000 in a world where others earn \$50,000 or would you rather earn \$100,000 in a world where others earn \$200,000?"

Researchers then compare the responses to these questions, to some economic outcome in the hope of determining what factors influence the overall level of happiness and satisfaction. For instance, one outcome of this comparison has been the "progress paradox" which is that the overall standard of living has increased for individuals over

time while the level of satisfaction or happiness, over that same period of time, has remained constant.<sup>6</sup> Why, researchers wonder, has the overall level of satisfaction with life remained constant while standards of living have improved on almost all margins? One explanation, related to the Easterlin paradox is grounded in the way people view or frame their position in society. Indeed much of the economics and happiness literature focuses on a “hedonic treadmill” effect where those that are relatively wealthy expect more.<sup>7</sup> As a result, increases in wealth yield disproportionately small increases in satisfaction and happiness than one would expect. Just like a person on a treadmill, the pursuit of happiness requires individuals to continually work harder just to stay in the same place or, in the context of happiness, to maintain the same baseline level of satisfaction.

A symposium held in the *Economic Journal* in 1997 was a key factor in raising awareness within the economics professions of the economics and happiness research program. The papers in this symposium further explored the theoretical and empirical implications of well-being and economic theory and performance (Oswald 1997, Frank 1997, Ng 1997). In line with the Easterlin paradox, the studies in the symposium found that increases in income do increase well-being up to a specific point, but have a negligible effect after that point.

As the number of surveys, and hence data increased, so too did the number of empirical studies which attempted to mine this data and use it to further explore the connection

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<sup>6</sup> See Easterbrook (2003).

<sup>7</sup> The “hedonic treadmill effect” was first identified by Brickman and Campbell (1971).

between economics and happiness. For instance, Clark and Oswald (1994) consider how unemployment impacts subjective well-being. They conclude that experiencing unemployment is a major source of unhappiness and dissatisfaction. Indeed, unemployment reduces well-being more than any other single factor considered by the authors. In other studies, it has been found that general unemployment and inflation, even if it does not affect the individual being considered, increases unhappiness (see Di Tella et al. 2001).

Frey and Stutzer (2000, 2002b) analyze the effect of political institutions on happiness. They conclude that, “the extent of possibilities for direct democratic participation exerts a statistically significant, robust and sizeable effect on happiness over and above the demographic and economic determinants normally taken into account” (2002a: 12). The main implication is that government decentralization is a key mechanism for increasing political participation and hence subjective well-being.

More recently, research by Kahneman et al. (2004a) analyzes the allocation of time during the period of a day and attempts to classify events and activities by the satisfaction that they yield. The ranking of satisfaction associated with various events and activities in turn generates an “enjoyment scale.” The approach, termed the “Day Reconstruction Method (DRM),” requires participants to recall memories from the previous day by keeping a personal diary. Participants are asked to think of their day as a series of frames or episodes in a film. Researchers ask participants to answer specific questions about

each frame or episode with the hopes of determining the satisfaction associated with each event or activity.

The authors of the DRM study found that spending relaxing time with friends, having lunch with co-workers, watching television and cooking all bring satisfaction (i.e., are all toward the high end of the enjoyment scale). In contrast, being in the presence of one's boss, working and commuting all brought dissatisfaction (i.e., are at the lower end of the enjoyment scale). The researchers also used the resulting enjoyment scale to compare various activities against each other. For instance, they determined that respondents that slept well enjoyed as much satisfaction as those that watched television while those that slept poorly enjoyed the same dissatisfaction as those who commute.

The studies discussed above serve only to highlight the research being done in this area. One should expect this area of research to continue to grow over the coming years as techniques for quantifying satisfaction are further developed. For instance Kahneman, along with other researchers, hopes to establish a U.S. "National Well-Being Account," which would be a national index akin to the Gross Domestic Product (see Kahneman et al. 2004b). Instead of providing an aggregate measure of economic performance and well-being, the National Well-Being Account would provide a similar measure of well-being and satisfaction.

### **3. Austrian and Public Choice Insights**

In this section we wish to raise some critical issues with the subjective well-being research program as well as some of the policy conclusions that have been generated from happiness and economics research. Specifically, it is our contention that the insights of the Austrian and Public Choice schools of economic thought have been neglected in happiness and economics research. The core tenets of these schools of thought offer key insights into both the research program and resulting policy conclusions.

### **3.1 Aggregation and subjectivity of happiness**

One key issue is that it is not clear that well-being can be aggregated into a unified category that survey questions require. While individuals may know what makes them happy, expressing this in terms of a fixed category provided on a survey will by no means actually capture the notion of happiness. For instance, asking an individual if they are “more or less” happy than they were in the past does not capture the essence of what generates subjective well-being. However, such clear cut and simple categories are necessary for statistical manipulation. In short it would appear that the surveys, which are the key source of data on well-being, trade off understanding the richness of what actually generates well-being for the ability of researchers to utilize the data in statistical tests.

Another issue relates to the very notion of well-being, happiness or satisfaction. It is critical to realize that the notion of happiness is not static across individuals at one

specific point in time. Each individual has a subjective view of what happiness entails.<sup>8</sup> Not only does happiness vary across individuals at a point in time, but also what constitutes well-being for an individual will change over time, as new opportunities, which were not part of the feasibility set in prior periods, become available. As Arnold Kling (2004) notes, “People a few hundred years ago had no idea what it was like to live with indoor plumbing, abundant food, and antibiotics.” Given that respondents in the current period have never experienced life without these tangible goods, how can one meaningfully compare survey responses across time periods?

Even if survey responses did accurately capture the essence of well-being, it is unclear that the responses can successfully be compared to others in any meaningful way. Recall from the Introduction that the Austrian school emphasizes the subjective nature of value. Economic phenomena are filtered through the human mind and only have meaning in terms of the individual’s perception. Because individual values are subjective, we cannot meaningfully compare them across individuals or even across time for the same individual in any objective way. Even though we may be able to compare the relative incomes of two individuals, we cannot say anything meaningful about their relative satisfaction or well-being that those individuals derive from that well-being. Indeed, all economics can meaningfully say is that the action of individual demonstrates their preference for pursuing that course of action. As Rothbard writes:

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<sup>8</sup> We recognize that happiness may have some intersubjective dimension. But is unclear that we can fully understand or capture this dimension in a way that allows us to make meaningful comparison.

The concept of demonstrated preference is simply this: that actual choice reveals, or demonstrates, a man's preferences; that is, that his preferences are deducible from what he has chosen in action...This concept of preferences, rooted in real choices, forms the keystone of the logical structure of economic analysis... (212).

Demonstrated preference limits what the economist can say about the preferences of the individual actor. Consulting the individual's verbal or written survey response does not establish true preferences because there is no way to decipher if that actually what the individual values. In contrast observing an individual who engages in concrete action illustrates to the observer that the individual undertaking the action expects, *ex ante*, to be made better off through that course of action. Whether the action has the desired effect is another question.

In sum, it is unclear that surveys can accurately capture the well-being of individuals. In the first place, they often provide fixed categories that individuals must choose from. This attempt at aggregation fails to capture the essence of what actually generates well-being. In other words, we have no reason to believe that the survey method can capture the relevant notion of happiness. Moreover, even if surveys could accurately capture well-being, it is not possible to compare relative well-being across individuals. Well-being is a subjective value that simply cannot be objectively measured or compared across individuals in any meaningful sense.<sup>9</sup>

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<sup>9</sup> There is far from unanimous agreement on this point, see for instance Ng (1996, 1997). Ng (1996) develops an interpersonally comparable measure of happiness based on the notion of just perceivable increments. Ludwig von Mises makes the important distinction between thymology and praxeology (1957: 264-283). Thymology deals with expectation formation in personal interactions. For instance, parents may be able to compare the values of their children and determine what would make each child happy. One can see a connection here with Adam Smith's (1759) notion of the limits of moral sympathy. In contrast, praxeology deals with the logic of choice (mean-ends) of acting man with personal valuations taken as given. To summarize the distinction between thymology and praxeology, the former deals with the

The issues raised above pose major problems for the many studies that attempt to compare satisfaction survey responses across decades. For instance, in *The Progress Paradox*, Gregg Easterbrook (2003) attempts to explain why American living standards have risen drastically over the past several decades while happiness, as measured by survey data, have not. Likewise, Robert Frank relies on survey data across time in his *Luxury Fever* (2000).<sup>10</sup> Similar to Easterbrook, Frank attempts to explain how well-being has failed to increase at the same rate as other economic indicators such as per capita income and productivity.

At the core of Frank's argument is that individuals, in seeking relative status, place too much focus on tangible goods (i.e., house size, cars, vacations, etc.) while neglecting intangible goods (i.e., commuting time, family time, etc.). It is the (over)emphasis on accumulating tangible goods, while underemphasizing the importance of intangible goods, that leads to the underlying paradox. The main implication is that public policy should be oriented such that it raises the relative cost of obtaining tangible goods. With the relatively higher cost of tangible goods, individuals will tend to increase their consumption of intangible goods.<sup>11</sup>

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practicalities of life while the latter deals with the practicalities of economic science. For the importance of local knowledge of values, see Buchanan (1978) who explores the "moral-ethical limits" of individual behavior. Buchanan contends that state intervention aimed at fostering community has the perverse effect of increasing narrow self-interest as individuals attempt to utilize political institutions for personal gain.

<sup>10</sup> See especially Chapters 5 and 6.

<sup>11</sup> Along similar lines, Layard (2005) concludes that above some minimum income level, relative income is a better indicator of an individual's reported well-being as compared to absolute income level. As such, every time an individual experiences a rise in relative income they make others unhappy. Layard concludes that this negative externality should be corrected through a Pigouvian tax.

To generalize the issues with these studies, depending on the time and the individuals selected, the very notion of happiness will be substantially different. In addition to each person possessing a subjective view of what they consider to be happiness, they also have a subjective perception of what others experienced in the past and what others will experience in the future. So when researchers ask respondents if their parents were better off or if their children will be better off, this is not some objective measure but a subjective perception of the past and future. As such, comparing survey results over time does not seem to generate any meaningful insights.

While much of the economics and happiness literature focuses on framing issue – as evidenced by the emphasis on the hedonic treadmill effect whereby those that are relatively wealthy expect more – to explain differences in well being, they neglect the fact that such framing issues will cause individual respondents to have varying understandings of what the notion of happiness entails. As the circumstances of individuals change, so too does their understanding of the notion of happiness and well-being. As Kling (2004) highlights, individuals may report on their happiness relative to the near-term past, not over the long-term past. What this means is that a respondent may compare their present situation to that experienced more recently – past weeks, months or years – instead of what they experienced in the long-term past – decades.

### **3.2 Can government deliver happiness?**

Happiness and economics research generates many significant policy implications. Much of the literature concludes that if the goal is to increase well-being, there is a large role

for government intervention to bring about the desired end. For instance, some conclude that there is a major role for government redistribution between various income groups to close the relative gap and increase well-being. Because much of the happiness and economics research concludes that individuals view their situation relative to others, one could conclude that tax policy can play a key role in ending this competition between income groups. Likewise, following Robert Frank's (2000) study discussed in the above subsection, one could conclude that there is a role for government to play in increasing the relative cost of tangible goods through taxation. Doing so would make intangible goods relatively attractive. In this subsection we wish to argue that there are good reasons to conclude that government cannot effectively generate interventions that achieve the desired end of increasing well-being and satisfaction.

One major issue faced by government agents is the knowledge problem. As F.A. Hayek (1945) emphasized, the economic problem facing society is not one of simply allocating given resources. Instead, the key issue is how to best secure and utilize the unique knowledge of "time and place" that is dispersed throughout society.<sup>12</sup> At any point in time an individual can only possess a small piece of the knowledge that is present in society. Hayek concluded that a market economy, with an unhampered price system, was the best means of coordinating economic activities. Given Hayek's insight, one realizes that government interventions are based only on the limited knowledge of the

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<sup>12</sup> On the important distinction between information and knowledge, see Boettke (2002). Austrians emphasize that knowledge is ever changing and is multifaceted, while information is something fixed. In other words, information is the stock of the existing known, while knowledge is the flow of new and ever expanding areas of the known. Austrians emphasize not just the proficient use of existing information, but also the discovery and use of *new* knowledge that comes into being only because of the context in which individuals find themselves acting.

government agent. As a result, it is unclear that specific policies can be designed that will have the desired effect. Indeed, interventions will generate unintended consequences that government agents, given their limited knowledge, could not have possibly anticipated.

For instance, in theory tax policy may be effective in reducing the relative income gap between income groups or in raising the relative price of tangible goods. But that policy, once implemented, may also have the unintended consequence of increasing tax evasion as well. Similarly, such a policy could lead individuals to seek alternative means of housing income and wealth to avoid the new tax. At the extreme the unintended consequences can render the original policy completely ineffective or cause more harm than good.

A related issue is that even if an ideal policy to increase happiness can be designed, it is unclear that it could be effectively implemented. As discussed earlier, rationally ignorant voters, vote-maximizing politicians and special-interest groups characterize democratic politics. In order to maximize their vote total, politicians will cater to the well organized. The result is a concentration of benefits on the well organized and a dispersion of the costs on the rationally ignorant, unorganized. This same logic applies to legislation aimed at increasing well-being and satisfaction. Such policies will be influenced by well organized special interests and once enacted will look drastically different than they did in their original form. As such, even if legislation can effectively be designed it is unclear that it can be implemented. Only a benevolent dictator would have the incentive

to maximize society's happiness (see Brennan and Buchanan 1985). Indeed, even if government is able to determine the "social happiness function," attempts to maximize it through government policy would fall prey to the same incentive issues faced by government attempts to maximize social welfare (Frey and Stutzer 2002c: 472).

Let us assume the best-case scenario. Assume that a social happiness function can actually be established and that the proper incentives are in place for government agents to maximize well-being and satisfaction. Even under this favorable scenario it is still unclear that the policies implemented will be effective. Recall that happiness is not a static concept. Indeed, subjective well-being will vary over time for each individual. As such, a policy implemented in Period X will be ineffective in future periods when the subjective notion of well-being changes.

As Milton Friedman pointed out a long time ago, the dynamics of change associated with the passage of time presents a timing problem for public policy. The reason this poses a problem is because a long and variable time lag exists between:

1. The need of action and the recognition of that need
2. The recognition of a problem and the design and implementation of a policy response; and
3. The implementation of the policy and the effect of the policy (Friedman 1953: 145).<sup>13</sup>

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<sup>13</sup> It is because of these lags that Friedman argues that discretionary public policy will often be destabilizing. For this reason, he argued the case for general rules rather than discretionary policy.

Given these lags, it is unclear that even if an effective policy can be designed and implemented that the timing will be such that it will have the desired effects.

Before moving on we wish to raise one final issue regarding government redistribution aimed at maximizing well-being. In addition to the issues raised above, it is critical to realize that the act of redistribution is not neutral. In other words, redistribution has real effects that distort the very process that generates the initial wealth. As F.A. Hayek (1976) discussed, questions of distribution are often misplaced in political economy because they assume a fixed pie that is being divided up according to rules of distribution that are judged as fair or not. Hayek's objection was not that fair divisions are not desirable. His criticism was that the rules of fair division are not neutral with regard to the incentives and information associated with production. The size of the pie being divided is a function of the way we divide the pie. Interventions aimed at redistribution shift the incentives and information faced by those engaged in the process that produces the allocation of goods being redistributed.<sup>14</sup>

In sum, there are numerous forces at work that make it extremely difficult, if not impossible, for government to effectively intervene to increase well-being. The first issue is whether happiness can be aggregated across society to obtain a social happiness function. Even if that can be done, government agents suffer from a fundamental knowledge problem that will reduce the effectiveness of policy in addition to generating unintended consequences. Furthermore, the actual process of policy implementation

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<sup>14</sup> For further discussion on the how government interventions impact the incentives and information throughout the economy, see Ikeda (1997).

suffers from special-interest group manipulation and variable time lags which may very well render policy ineffective. Finally, government attempts to redistribute wealth are not neutral with respect to information and incentives. These interventions distort the incentives and information that economics agents act upon to generate economic outcomes. As such the rules of redistribution will influence these outcomes which in turn will impact the overall distribution of wealth.

#### **4. Policy Implications**

Our analysis has critically considered the happiness and economics research program through an Austrian/Public Choice lens. One of our core contentions is that the notion of happiness is subjective in nature. The phrase, “one man’s garbage is another man’s treasure,” neatly captures the essence of our argument in this regard. There are many different notions of happiness that vary across individuals and across time. These different notions of happiness will lead different people to pursue different ends.

Economists often focus on the importance of wealth as an indicator of overall well-being. The materialism of economics has been criticized as narrowly focusing on only one aspect of human wants and desires. Critics argue that there are many immaterial goods that actors desire in addition to tangible, material goods. However, such criticism overlooks the fact that viewing well-being in terms of wealth is grounded in the maximization of individual happiness and satisfaction. Of course we fully realize that one cannot consume economic growth rates. Increases in growth rates and wealth are

desirable precisely because they deliver other things that allow individuals to pursue ends that bring them satisfaction. As Mises indicated,

The immense majority strives after a greater and better supply of food, clothes, homes, and other material amenities. In calling a rise in the masses' standard of living progress and improvement, economists do not espouse a mean materialism. They simply establish the fact that people are motivated by the urge to improve the material conditions of their existence. They judge policies from the point of view of the aims men want to attain. He who disdains the fall in infant mortality and the gradual disappearance of famines and plagues may cast the first stone upon the materialism of economists (1949: 193).

Most are familiar with the saying, "Money can't buy happiness." Indeed wealth does not buy happiness, but it does allow individuals to lead a flourishing human life. What exactly does a flourishing human life entail? Because the very notion of happiness is subjective and constantly changing, it is our contention that a flourishing human life is one where the individual has the freedom to discover and pursue whatever it is that maximizes well-being. For some a flourishing life will be characterized by a workaholic lifestyle, for others it will consist of a life dedicated to philanthropy and charity.

The important point is that across the wide range of lifestyle alternatives available to individuals, wealth makes the pursuit of happiness possible. This is due to the fact that relatively lower levels of disease, sickness and infant mortality and relatively higher levels of life expectancy, literacy and leisure characterize wealthier societies. Individuals in relatively wealthy societies are able to pursue ends that bring them happiness and satisfaction precisely because they do not have to worry about the source of their next meal or where they will find shelter. In other words, individuals in relatively wealthy societies can afford to pursue ends that yield personal well-being. Individuals can engage

in leisurely activities with family and friends or participate in various associations, clubs and political associations because they have reached a level of wealth where basic concerns such as food, shelter, education and health are non-issues. In short, increasing wealth expands the feasibility set of activities available to individuals that allows them to achieve increasing levels of happiness and satisfaction.

The main implication of our analysis is that happiness is not suitable as a guidepost for public policy. In other words, public policy should not seek to maximize social happiness. Instead public policy should focus on allowing actors to maximize their individual well-being. Given that happiness is a function of subjective individual preferences, public policy cannot focus on intervening to deliver happiness to individuals. Instead, it is our contention that public policy should focus on establishing the conditions of economic and social autonomy. Only when these conditions of autonomy are in place will individuals be able to discover and pursue whatever their notion of happiness may entail.

To be clear, we are not claiming that prosperity will lead to the removal of all uneasiness. Indeed, economic autonomy and wealth are not a panacea. Instead, increasing levels of wealth provides the means through which individuals can pursue the ends that they feel will maximize their well-being. This leads to another important point related to those who claim there is a paradox between increasing wealth and stable levels of reported happiness. This point is that perhaps there is no paradox at all. Most people would agree that money and material things are not the equivalent of happiness. Given this, why

would we expect to see a correlation between an increase in progress and an increase in happiness? As David Miller indicates,

We judge any economy too harshly if we ask how much it contributes to inner happiness. The case for markets is that they are an effective means of supplying many goods and services to consumers. Some consumers will find that what they buy fails to live up to their expectations, but the worst that can be said about markets is that they reinforce, rather than challenge, the psychology that brings about this result (1989: 42).<sup>15</sup>

It is not clear that the claim has ever been that prosperity will lead to the removal of all uneasiness. It is also unclear that public policy can achieve this. Instead of trying to increase well-being through direct interventions, policy should aim to create an institutional environment – political, legal and economic – that allows individuals to remove as much uneasiness as possible. Historically, the economic system that has been the most successful at maximizing the wealth of individuals is *laissez-faire* capitalism.<sup>16</sup>

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<sup>15</sup> We are grateful to David Prychitko for bringing this quote to our attention.

<sup>16</sup> Research indicates that countries with policies and institutions consistent with economic freedom grow more rapidly and obtain higher levels of wealth (see Gwartney, Holcombe and Lawson 2004).

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