Happiness Economics: The ‘Dismal Science’ of Economic Growth

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Abstract: The recently burgeoning literature of Happiness Economics unearths the undesirable side-effects of economic growth and criticizes the economic model that is based on the militant belief in the supremacy of extrinsic market-relations over the relational bonds of society. The power of the capitalist engine of progress has been witnessed not only in ever-increasing per capita income levels of the commanding heights of the world economy, but also thrusting its roots into and transforming the laggards of the race. Economic growth may bring about substantial increases in material well-being; yet, at the same time, unfettered and not channeled properly, it has the potential to destroy the social and environmental fabric of society. This dynamics is certainly visible in the post-World War II cross-country variability of the subjective well-being—happiness and life-satisfaction—measures, which can be explained with reference to the differences in the level of social capital, which is a concept that covers relational goods, associational activities, and trust in institutions. In contrast to the traditional wisdom, in the long run, indicators based on GDP figures do not reflect the international differences and lack explanatory power. These themes clearly echo Karl Polanyi’s concerns over the destructive effects of the self-regulating market mechanism presented in his now-classic The Great Transformation. In this paper, our aim is to shed light on the relevance of the interdisciplinary work of Polanyi for the Happiness Economics literature by focusing on the interwoven relations between state, markets, democracy and values. We believe, Polanyi’s conception of the self-regulating market system has as a corollary the de-regulation of unhappiness on an ever-expanding scale. The treatment of labor as a fictitious commodity is of utmost significance in this respect. No less important is the similar degrading of land, that is, nature, a proxy for environment. Furthermore, the distinction Polanyi maintained between ‘exploitation’ and ‘cultural degeneration’ in assessing the balance-sheet of the Industrial Revolution and colonialism is a useful instrument for this intended critique.

Keywords: subjective well-being, happiness, Adam Smith, Karl Polanyi

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1. Crossroads of Happiness and Economics: A Historical Note

Happiness Economics is a fairly new phenomenon. When we say that, we mean, Happiness Economics as a formally recognized, respectable subfield of economics in which academics are specialized, research funds are allocated, academic publications are made and university-level courses are being offered. To put it differently, we do not only imply that Happiness Economics has become popular and has attracted much attention, scholarly or otherwise, but is itself being institutionalized. Otherwise, scholarly interest in the concept of ‘happiness’ is as old philosophy, and its association with economic thought, though of much more recent vintage, requires a return to the historical origins of ‘modern economics’. As a matter of fact, the roads of economic thought and ‘philosophy of happiness’ have crossed more than once. These crossings have been rather visible, and their periodic recurrence indicates, that, perhaps the fortunes of two parties have actually been inextricably linked since the dawn of modernity, that is, as of the last quarter of eighteenth century. If this be the case, whereas Happiness Economics is fairly new, the interrelationship of economics and happiness is indeed much older. We might well reassess Happiness Economics as the tip of an iceberg that has so far been overlooked by those seriously concerned with the nowadays increasingly fashionable subfield. A tour de force that connects the visible tip with the much invisible iceberg may help cast a new light on the limitations of the current practice. This exercise in history of economic thought can then be combined with a critical reappraisal of the Happiness Economics that originates from Karl Polanyi’s The Great Transformation. We believe, this will help substantiate and enrich the existing sub-disciplinary specialization of Happiness Economics.

Joseph Schumpeter (1954: 184-5) in his now-classic History of Economic Analysis found little of originality in Adam Smith’s otherwise path-breaking An Inquiry into the Nature and Causes of the Wealth of Nations (1776) and saw the greatest virtue of Adam Smith’s work as the encyclopedic compilation and a systemic synthesis of the state-of-the-art knowledge in economics attained by the last quarter of the eighteenth century. Whether or not this verdict is right is beside the point. The Wealth of Nations has become a major milestone in economic thought by virtue of its reception and continuously controversial interpretation(s):

‘Post-Smithian’ is perhaps the best term to define a kind of political economy that had finally found, in The Wealth of Nations, its
foundations. For the first time, all over Europe, economists discovered that they were speaking the same language and had the same ideas of the aims, limits, and scope of economic science: those assigned to them by Smith. (Screpanti & Zamagni, 1993: 66)

Otherwise, Smith was certainly strategically placed between the ‘old’ and the ‘new’ and a slight shift in where the emphasis is placed in the assessment of his work, changes the overall assessment in favor of either ‘the old’ or ‘the new’ concerned. This being so, before The Wealth of Nations, Smith had already published his The Theory of Moral Sentiments (1759).

As indicated by its name, this book was about philosophy in general, and moral philosophy, in particular. Smith’s attitude toward ‘moral philosophy’ was nevertheless ‘theoretical’ as the title also indicates, and as such, represented a renewal in accordance with the pressing dawn of modernity, of which he was probably more cognizant than the so-called Industrial Revolution supposedly unfolding in front of his very eyes. After all, Smith hinted in The Theory of Moral Sentiments “the very suspicion of a fatherless world must be the most melancholy of all reflections.” (Smith, 1976: 383) More than a century later, having witnessed the track record of ‘nineteenth century civilization’, Max Weber came to a similar assessment of the record of modernity that has been much quoted. Whether the Adam Smith of The Theory of Moral Sentiments and the Adam Smith of The Wealth of Nations were one and the same or not pace the now antique Das Adam Smith Problem is of no major concern for us here. Far more importantly, we observe that Adam Smith and Max Weber was on the same side. Thanks to this convergence, Smith can well be taken as a critical spokesman on modernity. Philosophy in its modern tilt has been much dissected and reduced in scope as the midwife of modern sciences. It has responded to this challenge by becoming increasingly a ‘social philosophy’ with a German tint especially after the Frankfurt School. Social Philosophy is essentially also a socially and politically concerned philosophy. Smith, while antedating these developments by more than a century, was no stranger in this respect either. It is with this recognition that we quote Adam Smith here at length in order to identify the connection between ‘political economy’ and ‘happiness’ in subsequent paragraph from his The Theory of Moral Sentiments that survived well into his later magnum opus:

The produce of the soil maintains at all times nearly that number of inhabitants which it is capable of maintaining. The rich only select from the heap what is most precious and agreeable. They consume little more than the poor; and in spite of their natural selfishness and rapacity, though they mean only their own conveniency, though the sole end which they propose from the labours of all the thousands whom they employ be the gratification of their own vain and insatiable desires, they divide with
the poor the produce of all their improvements. They are led by an invisible hand to make nearly the same distribution of the necessaries of life which would have been made had the earth been divided into equal portions among all its inhabitants; and thus, without intending it, without knowing it, advance the interest of society, and afford means to the multiplication of the species. When providence divided the earth among a few lordly masters, it neither forgot nor abandoned those who seemed to have been left out in the partition. These last, too, enjoy their share of all that it produces. In what constitutes the real happiness of human life, they are in no respect inferior to those who would seem so much above them. In ease of body and peace of mind, all the different ranks of life are nearly upon a level, and the beggar, who suns himself by the side of the highway, possesses that security which kings are fighting for.

The same principle, the same love of system, the same regard to the beauty of order, of art and contrivance, frequently serves to recommend those institutions which tend to promote the public welfare. When a patriot exerts himself for the improvement of any part of the public police, his conduct does not always arise from pure sympathy with the happiness of those who reap the benefit of it. It is not commonly from a fellow-feeling with carriers and waggoners that a public-spirited man encourages the mending of high roads. When the Legislature establishes premiums and other encouragements to advance the linen or woolen manufactures, its conduct seldom proceeds from pure sympathy with the wearer of cheap fine cloth, and much less from that with the manufacturer or merchant. The perfection of police, the extension of trade and manufactures, are noble and magnificent objects. The contemplation of them pleases us, and we are interested in whatever can tend to advance them. They make part of the great system of government, and the wheels of the political machine seem to move with more harmony and ease by means of them. We take pleasure in beholding the perfection of so beautiful and so grand a system, and we are uneasy till we remove any obstruction that can in the least disturb or encumber the regularity of its motions. All constitutions of government, however, are valued only in proportion as they tend to promote the happiness of those who live under them. (Smith, 1976: 304-5; emphases added)

From the above, it is clearly seen that Smith had a ‘machinery’ view of economic as well as political processes that he qualified also as ‘systemic’. The economic domain was conceivable by allusion to the metaphor of the ‘invisible hand’. It distributed automatically not only the basic riches but also the ‘real happiness’ thereof. As for the ‘great system of government’, it moved on the ‘wheels of the political machine’. That this underlying mechanism (1) worked well irrespectively of individual motives, and (2) was efficient, are well taken. Individual happiness was the objective and pursuit of all government action as well as the ‘measure’ of its success. In short, Smith’s ultimate ‘machine’ was in charge of the production and allocation distribution of ‘happiness’ irrespectively of original intentions that
got it going in the first place. Smith acknowledges implicitly that some governments may function better than others in achieving this end, a corollary for which in terms of likely alternative economic policies is not suggested within the economic domain where Smith’s own economic policy recommendations are supposedly the best. Nevertheless, as the economic and the political are combined, it is inevitable that this empirical pluralism of the political domain would contaminate the economic as well, thereby giving rise to a ‘variety’ of impure combinational forms. Once we are lead to this ‘true world’, the picture becomes inevitably less automatic, suboptimal in terms of the results it generates, and indeed much more complicated to be studied. This is usually the case with Smith who has a model-like construct in mind as well as allowing for a multitude of ‘historical and institutional’ forms. Last but not least, Smith left ample room for human values and choices in his scheme, and the very same room could accommodate alternative paths to happiness. Irrespectively of the machine-like metaphors Smith worked with and that overshadowed his true legacy in the long run, he has been highly praised for his search for a ‘human science’ the ultimate objective of which would be the pursuit of human happiness:

In [Smith’s] view nothing indicates the presence of an economic sphere in society that might become the source of moral law and political obligation. Self-interest merely prompts us to do what, intrinsically, will also benefit others, as the butcher’s self-interest will ultimately supply us with dinner. A broad optimism pervades Smith’s thinking since the laws governing the economic part of the universe are consonant with man’s destiny as are those that govern the rest. No hidden hand tries to impose upon us the rites of cannibalism in the name of self-interest. The dignity of man is that of a moral being, who is, as such, a member of the civic order of family, state, and “the great Society of mankind.” Reason and humanity set a limit to piecework; emulation and gain must give way to them. Natural is that which is in accordance with the principles embodied in the mind of man; and the natural order is that which is in accordance with those principles. Nature in the physical sense was consciously excluded by Smith from the problem of wealth. “Whatever be the soil, climate or extent of territory of any particular nation, the abundance or scantiness of its annual supply, must, in that particular situation, depend upon two circumstances,” namely, the skill of labor and the proportion between the useful and idle members in society. Not the natural, but only the human factors enter. The exclusion of the biological and geographical factor in the very beginning of his book was deliberate. The fallacies of the Physiocrats served him as a warning; their predilection for agriculture tempted them to confuse physical nature with man’s nature, and induced them to argue that the soil alone was truly creative. Nothing was further from the mind of Smith than such a glorification of Physis. Political economy should be a human science; it should deal with that which was natural to man, not to Nature. (Polanyi, 1944: 112)
When Smith implied that government policy could be evaluated by the human happiness it served, he did not have a practical measurement in mind nor did he think one was needed. The reference was metaphorical and serve perfectly well qualitatively and in combination with fuzzy logic. The utilitarian philosophers who occasionally forayed into political economy like Jeremy Bentham were more enthusiastic in this respect. It is no surprise that they took the measurement of happiness seriously and placed it as a cornerstone in the further elaboration of otherwise eighteenth-century formulated utilitarian philosophy based on the precept of attaining the greatest happiness of the greatest number of people at the least cost of pain. The so-called ‘felicific calculus’ project of Bentham bore at least as much, if not more, the influence of Newtonian Revolution and the advances in natural sciences, than that of Smith’s between-the-lines suggestion: “Bentham laid the grounds for the construction of a science of human happiness—a science endowed with mathematical precision just like physics.” (Scrupanti & Zamagni, 1993: 66) With the advance of utilitarian philosophy associated with the prestigious names of Jeremy Bentham, David Ricardo, James Mill and his son, John Stuart Mill, not to mention Sir Edwin Chadwick, the exemplary innovative policymaker of the nineteenth century, the fortunes of economic theory and a philosophy of pleasure-versus-pain was closely intertwined, so much so as to give the impression that economic thought without utilitarian philosophy was impossible. No wonder why, since then concepts of ‘happiness’, ‘pleasure’, and ‘bliss’ invaded the discourse of economics as nomadic peoples of the steppes an ancient settled civilization.

In retrospect, this looks paradoxical, as classical political economy was essentially in little, if any, need of assumptions about human behavior and individual subjective valuations. It is no coincidence that no less-an-economist committed to the mainstream course of economic analysis than Schumpeter observed that Ricardo’s theory had nothing to do with utilitarian philosophy with which he may have nevertheless sympathized because of his personal friendship with Bentham and his associates (Schumpeter, 1954: 408). As for Mill, who cannot be called a utilitarian without qualification” was well aware “that the scheme of utilitarian rationality is quite inadequate beyond a limited range of problems” (Schumpeter, 1954: 408 and 411). The heyday of utility-based analysis in economics was yet to come with the Marginal Revolution of the 1870s when economic analysis underwent a major shift in

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1 Schumpeter’s above assessment has been separately confirmed by Piero Sraffa’s revival of Ricardo’s class-based and distribution-concerned political economy.
orientation. The foregrounding of the economic agent as an individual making choices on a cost-benefit calculus seemed to need desperately a fitting psychology. “Convinced utilitarians” such as William Stanley Jevons and Francis Ysidro Edgeworth helped revive utilitarianism that Schumpeter noted was “neither necessary nor useful” (Schumpeter, 1954: 408, 1056). By then, however, utilitarianism was at home that is, in the domains of philosophy and psychology, outdated and economics succumbed temporarily to this déjà vu choice. This flirtation lasted short and it was soon understood, thanks to, Alfred Marshall (Schumpeter, 1954: 1056), but especially Vilfredo Pareto, that economics could do better without it:

In conclusion, already at the end of the century there were two distinct notions of utility in the literature, both known to all the pioneers of ordinalism, and especially to Pareto. And, by this time, almost everybody realized that, for the purposes of the theory of prices, there was no need whatsoever to use a cardinal measure of utility. Fisher had already made this extremely clear in his Mathematical Investigations.

The implications of this new point of view were extremely important. On the one hand, utility only referred to the preference ordering of the individual; on the other, preferences were defined with respect to a situation of choice. In this way, the foundation of utility was placed in the virtual behaviour of an individual who has to choose. The behaviour is defined only in terms of certain conditions of consistency. All references to happiness and individual satisfaction of needs disappear, while the underlying motivations for the choices lose their importance. (Scarpanti & Zamagni, 1993: 205; emphasis added)

As Schumpeter (1956: 1068) noted, habits of mind nevertheless tend to persist in the conventions of economics, and for this reason, utilitarian terminology continued to float around as if utilitarianism were still alive and well in economics. So much so, that even a partial contemporary of Michal Kalecki and Piero Sraffa, John Maynard Keynes, who otherwise parted ways with much that was considered as orthodoxy, occasionally resorted to utilitarianism and its port baggage psychology in order to explain human behavior. This must have much to do with his education at Cambridge and under Alfred Marshall. In reality, Keynes’s approach, as distinct from the effect of his upbringing on his state of mind, had

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2 Sraffa, loyal to Ricardo, emphasized his professed preference for objective, observable, and measurable economic magnitudes that lend themselves preferably to aggregation, which ideally consisted of physical quantities as in the case of Corn-Theory-of-Profits. Sraffa wholeheartedly embraced and built up his own approach in Production of Commodities by Means of Commodities on the legacy of Ricardo in reaction to marginalist neoclassical economic theory that remained loyal to subjective valuations.
much more in common with the classical approach that was based on the use of observable and measurable variables that yielded themselves to aggregation and objective analysis of macroeconomic phenomena. Keynes’s laxness in this respect was consequential. At a time when the lexicon of happiness became increasingly at unease in the quarters of neoclassical economics it found for itself an unexpectedly hospitable environment within the domain of Keynesian ‘neoclassical synthesis.’ This irony begs for an explanation to which we will return in the third part. First we need to dwell upon Happiness Economics that conveniently works with, among others, long-time Keynesian concerns and inferences, not to mention Keynesian indicators of economic performance such as GDP and per capita income.

2. Happiness Economics Today

Happiness Economics starts off from where traditional wisdom of decades-long economic growth and national income statistics and indicators have left us. In contrast to the traditional wisdom, in the long run, indicators based on material variables such as GDP do not predict the international differences in cross-country variability of subjective well-being (SWB). The cross-country variability, on the other hand, can be explained with reference to the differences in the level of, for example, social capital, which covers variables such as relational goods, associational activities, and trust in institutions. One of the central arguments of the recently burgeoning literature of economics of happiness, which unearths the undesirable side-effects of economic growth, is that the economic model that is based on the militant belief in the supremacy of extrinsic market-relations over the relational bonds of society is bound to fail in explaining SWB variability across nations.

This fact is well known, at least, since Easterlin paradox, which asserts that in the long-term increased income is not correlated with increased happiness. What is claimed is not that GDP does not relate to happiness over time at all. On the contrary, the correlation between GDP and SWB is high in the short-term, even more significant than that of social capital. This is why it is important to alleviate poverty to increase well-being, even though, alone, it is not enough to increase happiness in the medium and long term. In other words, GDP is less influential in the medium-term and long-term. As the time-span is extended to the long-term, the answer to the question asked by Easterlin (1974) “Does economic growth improve the human lot?” turns out to be ‘No’. Thereby, with the exception of the short-term,
it is social capital that arises as a highly successful predictor of the trends in SWB than GDP per capita.

Furthermore, researchers claim that the crisis of social capital identified above leads people seek economic affluence as a compensation for it (Bartolini 2014). There may be a negative relation between economic growth and social capital, which is in sharp contrast with the original literature on social capital (Putnam 1993), in which it is an easing factor in fostering economic growth. This seemingly awkward relation is evident in the US, where GDP per capita increased substantially after the World War II, whereas the measures of SWB measures tell a different story. In the last thirty years, the US citizens suffered a decline in the SWB, whereas, for example, European countries enjoyed an increase, albeit slightly (Bartolini 2014). As mentioned above, as a measure, GDP lacks the ability to shed light on the international differences, whereas social capital fares much better in this sense. Indeed, the shortcomings of the GDP index are all well known. The index is distorted, since it does not take into account variables such as the deterioration of environment, social capital, and relational goods.³

As already suggested above, the decline in Americans' happiness in the past thirty years can be explained by recourse to the interplay between income and social capital. Yet, the story is not only valid for the countries in the developed world. Research indicates that the same is true for countries such as India and China (Bartolini and Sarracino 2014). In all of the examples, the explanation of the Easterlin paradox could be provided more satisfactorily by recourse to a set of indicators that are significantly correlated with happiness: Social connections (relational goods), confidence in institutions, household income, and reference income (social comparisons). In the US case, for example, it is seen that an increase in the absolute household income has a positive effect on happiness. Indeed, it is by far the main contributor to the positive change in happiness. However, the negative effect of the accompanying increase in the reference income largely offsets the positive effect of the increase in household income. Apparently, the considerations of social status and position are important in one's perception of happiness. In the US case, social comparisons of income, for example, offsets almost 2/3 of the impact of an increase in absolute income (Bartolini, Bilancini and Pugno 2008). Moreover, the declining trend of social connections and

³ Alternative indexes are available, but by no means as widely used, e.g. Index of Sustainable Economic Welfare (ISEW) (Daly and Cobb 1991), and Human Development Index (HDI).
confidence in institutions strike a fatal blow to happiness. Consequently, the sum of the negative effects predicted by the growth of reference income, the decline in social connections and confidence in institutions is higher than the positive effects predicted by the increase in household income.

There are two main forces that could be identified to explain the Easterlin paradox. The first is related to income inequality (and social comparisons in income), whereas the other set of forces relate to the deterioration of social bonds of society. As Bartolini (2014) argues, the well-known story told us depicts only one side of the coin, in which our material well-being improves from generation to generation; whereas, on the other side, we observe decline in the availability of social connections, clean environment, etc. that substantially decreases SWB. The traditional argument is that permanent growth in GDP per capita is a must for increasing well-being and reducing poverty (Bhagwati 2004). Therefore, the focus is on reducing poverty not income inequality. Yet, it is misleading since the number of poor people would be less than what is today if we have had more egalitarian growth rates in the last two centuries (Borghesi and Vercelli 2008, Bourguignon and Morisson 2002). Moreover, we know that income inequality has a negative effect on social capital (Alesina and La Ferrara 2006). Consequently, slowing of economic growth could be compensated by a decrease in income inequality as well as increase in social capital as witnessed in the European countries in the last few decades (Bartolini 2014). Yet, the acceptance of such a trend, i.e. lower growth rates accompanied by increases in social capital is still very improbable due to the existence of various institutional complementarities as well as collective action problems at the national and international level (see below).

In the US case, the second set of factors, i.e. relational deterioration is enormous (see, for example, Putnam 2000). Indeed, it has been estimated that in order to remain at the happiness level of 1975, the growth in average household income would have had to be more than a miraculously sustained 10% on an annual basis, in order to compensate the loss of happiness due to the relational poverty (Bartolini, Bilancini and Pugno 2008). At the root of this pitiful situation lies a materialistic culture. This culture attributes utmost importance to extrinsic motivations in life. Money is an example. On the other hand, intrinsic motivations lead people to perform activities not for their reward, but the activity itself (Deci 1971). Findings suggest that materialistic culture makes people less satisfied and less happy in life (Kasser 2002). Wholehearted embracement of extrinsic motivations and attempts to objectify
relationships towards personal instrumental ends do not bring good news as far as social capital is concerned. Materialism and relational poverty are two elements of a self-reinforcing vicious circle. An increase in one leads to an increase in the other. Thus, an increase in materialism and working hours can be observed at the same time, which are the symptoms of the disease of the decline of social relations.

The market and the media are the two factors responsible for the diffusion of materialistic values in the US. While the market expands in the direction of offering more and more consumer goods—economic affluence—at the service of society, if unchecked and not channelled properly within a appropriate economic and social organization, it has the potential of paving the way to a profound social crisis by way of promoting extrinsic motivations and downsizing the role of pro-social intrinsic values. The media and advertising industry are other factors stimulating the urge to act like a shopping-addict, transforming mankind into a mass of flesh that prey upon consumption to substitute for the lack of identity or unfulfilled desires one has. Be that as it may, materialism is not the only factor that degrades social capital. The educational and formative institutions (Bowles and Gintis 1976), the contemporary design of the city and urban policies, and the organization of workplace (Braverman 1974, Pagano 1985) not only contribute to the deterioration of common goods but also destruct the environment one lives in.

This dynamic has been captured by several theoretical and empirical studies. Negative endogenous growth (NEG) model, for example, conceptualizes growth as a process of substitution between private goods provided by the market and common free goods that are free, or common resources (Bartolini and Bonatti 2002, 2008). Another group of researchers, namely the ‘degrowth’ thinkers share the same viewpoint. They argue that at the heart of the environmental and social inequality problems lies overconsumption crisis (Latouche 1993). What we are talking about is the marketization of the areas of economic activity that were once regulated as commons (see Ostrom 1990). Thereby, at the heart of the problem lie both growth and market fetishisms (Borghesi and Vercelli 2008). In the NEG approach, the key to the mechanism is not the negative externalities of the economic growth on common resources. This has already been pointed out through the discussions of market failure by environmental and ecological economists that economic growth causes overexploitation of commons.
On the other hand, the idea that people react to the decrease in common goods (quality of social capital and environment) by resorting to defensive expenditures brings another self-reinforcing vicious circle to the centre of economic theory, whereby economic growth generates environmental decay and the degradation of social capital, which in turn fuels more growth. This latter situation is the novelty. In a society where people have limited access to free nonmarket goods due to the undesirable effects of a certain type of economic growth, the inevitable result is the indefatigable pursuit of pecuniary motives and consumption. In essence, it is insecurity generated by the lack of social relations that feed materialism (Cohen and Cohen 1996). This is the gist of what has been dubbed as the NEG capitalism, whose home, as the empirical investigations corroborate, is located at the heart of the US economy.

The last point to be commented upon concerns the possibility of social and economic reforms aimed at increasing well-being in the conceivable future. NEG capitalism creates an imbalance between the fulfilment of material needs and the dissatisfaction of social and relational ones. As we have mentioned above, although the attention is focused on the US case—the home of NEG capitalism— this imbalance has devastating implications also for the rest of the world including China, India, and Europe, albeit to less extent (Bartolini 2014). In this regard, history repeats itself. Trends and concerns that apply to the 19th century cases, most significantly the UK, more or less repeat themselves in today’s developing world: Uncontrolled industrialization, environmental degradation, income inequality, erosion of traditional institutions.

Therefore, the policies promoting social capital, such as the changes concerning the reorganization of space and mobility, traffic, education system, media and advertisement industry, the workplace organization, and healthcare system cannot be confined to the US only. Minor changes, such as the advertisement ban in Sweden, could be introduced here and there bringing certain improvements in the lives of the people involved. On the other hand, even relatively straightforward changes that are significantly beneficial might prove difficult to realize for reasons concerning path dependency or institutional complementarities (Milgrom and Roberts 1990, Pagano and Rowthorn 1994, Aoki 2001) at the societal level. Realizing this aspect of the problem brings forward the necessity to handle the problem in its entirety, being alive to the links one domain has with others.
As far as the feasibility of major structural reforms is concerned we should recognize the Herculean efforts involved in such an attempt. The roots of such a stance is very well pointed at the discussion on the lamentable state of present-day democracies that are far from able to represent the interests of common people. If anything, the economic elites and the well-rooted hierarchies—today represented by corporations—are well aware of the power of state on the accumulation process, through legislative and (antitrust) regulatory measures, out of which the contradiction between capitalist economy and democratic government arises (Bowles and Gintis 1986). But, even if the democracy were able to correspond to the needs of the people, there would still be other problems due to the difficulty of collective action (Hardin 1968), the rational inattention of the people to the immense amount of information and thus the lack of differentiation (median-voter theorem, the similarity of the political positions of the newspapers due to advertisement revenues), or inequality of bargaining power that is directly related to the asymmetrical distribution of the sources of power, material and immaterial alike, which are the means of producing false consciousness and accommodating ideologies (Screpanti 2001). May be one of the most important institutions in this sense is schooling that is geared to the needs of the labour market (Bowles and Gintis 1976).

On top of that, there is another dimension which can go out of sight easily, which is the fact that the common people do not constitute a homogenous unity in their perception of the affairs of everyday life. This heterogeneity exacerbates the problem of collective action since heterogeneity of interest in large groups substantially increases the transaction costs of reaching decisions (Hansmann 1996). The gender, racial, religious, and likely differences related to the identity, and different economic interests may drift apart one group from another, thereby resulting in a segmented and fragmented society although in the long-term the interests coincide with each other. The most obvious example of such a division can be seen in the labour market. Even though the majority of the population all over the world makes its living by labouring under an employment contract (Simon 1979), and in this sense can be included under the umbrella term “the working-class”, the labour market is segmented into different portions in terms of organizational rights and the protection of institutional barriers (Gordon, Edwards and Reich 1982).

Hence, the interests of the fractions are not in accord with each other, and adjustments that have the potential of increasing efficiency and happiness at the same time may not apply
to all due to the different job structures in the different segments of the labour market.

Another, quite related, trend that we observe has been the increase in the number of guard labour, which is used to monitor other workers, a clear example of defensive expenditure due to the loss of trust in society (Bowles 2006, Bowles and Jayadev 2006). In essence, while research reveals that job satisfaction is one of the most important ingredients of SWB, people living under employment contract have very little liberty in the workplace (Marglin 1974, Screpanti 2001). Making work more enjoyable and flexible for the employees might be rewarding for the company and the employees in certain sectors, e.g. knowledge-intensive industries, the same policies are not very attractive in industries where work is repetitive, dull, and minutely divided.

All in all, the fundamental institutions that define the present-day economy are likely to survive in the long run unless a major political, economic, natural, or military catastrophe shakes the foundations of the system. In fact, nowadays, mankind witnesses the signs of such distress throughout the world, that express itself through global warming and environmental degradation at one hand, and economic depression, and imminent threat of major military actions, and etc on the other hand. Yet, the reactions and measures taken to mitigate them are far from giving us the hope that the abyss ahead will be over soon and humanity will construct a different and better economic and social organization.

3. Lessons from Karl Polanyi for Happiness Economics

We have noted above, at the end of the first section of this paper the irony of the convergence of Happiness Economics with the ‘Neoclassical Synthesis’ interpretation of Keynes and left it as a puzzle to be resolved. We have also noted in the second section the various criticisms of GDP for not taking into account factors which are relevant for subjective well-being as an indicator of happiness. We have, however, not yet pinpointed a parallel criticism of the GDP for not taking into account factors such as unpaid work in general, women’s housework in particular, and labor expended in self-sufficient peasant households. These activities are left out because they do not involve market transactions. On the other side, informal sector is also similarly left out, despite the fact that, unlike these activities, it actually involves market transactions but these transactions go unrecorded by virtue of the sector’s informality involved. All this amounts to saying that GDP is strongly biased in favour of market-centered transactions which it nevertheless underrepresents because of the
omission of the informal economy. In short, GDP measures the extent of market economy, to the best it can. Yet the market economy is way less than all economic activity that is carried out. Because Happiness Economics has been led to work with Keynesian indicators of welfare, its fortunes have inevitably been tied up with first and foremost the market economy. In this respect, an approach that puts the greater emphasis on the market component of the economy as the motor-force of economic growth deserves attention. When the study of market thus becomes the central issue, the work of Polanyi is of utmost relevance. It holds the key to the resolution of the above irony concerning the negative correlation of GDP with SWB as far as the measurement of the happiness-effect of total economic activity is concerned.

Polanyi (1944: 3) conceptualized the market economy characteristic of the ‘nineteenth century civilization’ as essentially self-regulating. That is, ideally, the set of markets that constituted the market system were in charge of working out the set of equilibrium prices:

Market economy implies a self-regulating system of markets; in slightly more technical terms, it is an economy directed by market prices and nothing but market prices. Such a system capable of organizing the whole of economic life without outside help or interference would certainly deserve to be called self-regulating. (Polanyi, 1944: 43)

This was an exceptional development in human history. Whereas markets have almost always existed, the self-regulating market was a nineteenth century novelty:

The market pattern, on the other hand, being related to a peculiar motive of its own, the motive of truck or barter, is capable of creating a specific institution, namely, the market. Ultimately, that is why the control of the economic system by the market is of overwhelming consequence to the whole organization of society: it means no less than the running of society as an adjunct to the market. Instead of economy being embedded in social relations, social relations are embedded in the economic system. The vital importance of the economic factor to the existence of society precludes any other result. For once the economic system is organized in separate institutions, based on specific motives and conferring a special status, society must be shaped in such a manner as to allow that system to function according to its own laws. This is the meaning of the familiar assertion that a market economy can function only in a market society. (Polanyi, 1944: 57)

Hence, as a corollary, society is scaled down enormously. It is forcefully reconstituted as the mere arithmetic summation of highly atomized individuals, that is, the ‘market society’.

The step which makes isolated markets into a market economy, regulated markets into a self-regulating market, is indeed crucial. The
nineteenth century—whether hailing the fact as the apex of civilization or deploring it as a cancerous growth—naively imagined that such a development was the natural outcome of the spreading of markets. It was not realized that the gearing of markets into a self-regulating system of tremendous power was not the result of any inherent tendency of markets towards ex crescence, but rather the effect of highly artificial stimulants administered to the body social in order to meet a situation which was created by the no less artificial phenomenon of the machine. (Polanyi, 1944: 57)

Moreover, this novel system integrated product markets with factor markets. Largely but not fully overlapping with the conventional domain of factor markets, Polanyi identified particularly the markets for land, labor, and money, which he characterized as the three ‘fictitious commodities’:

The crucial point is this: labor, land, and money are essential elements of industry; they also must be organized in markets; in fact, these markets form an absolutely vital part of the economic system. But labor, land and money are obviously not commodities; the postulate that anything that is bought and sold must have been produced for sale is emphatically untrue in regard to them. In other words, according to the empirical definition of a commodity, they are not communities. Labor is only another name for a human activity which goes with life itself, which in its turn is not produced for sale but for entirely different reasons, nor can that activity be detached from the rest of life, be stored or mobilized; land is only another name for nature, which is not produced by man; actual money, finally, is merely a token of purchasing power which, as a rule, is not produced at all, but comes into being through the mechanism of banking or state finance. None of them is produced for sale. The commodity description of labor, land, and money is entirely fictitious. (Polanyi, 1944: 72)

What distinguished the fictitious commodities was that they were not actually produced for sale (like the other commodities, including capital goods) but were treated as if they were; hence the fictive element. The success of the system in fostering this fiction and thereby spreading the scope of the markets to encompass virtually everything of economic value helped constitute a ‘one big self-regulating market’, ‘One Big Market’, that is, a ‘gargantuan automaton’ not unlike the Walrasian general equilibrium system, in fact, something that worked as a ‘satanic mill’ (Polanyi, 1944: 67, 72, 73, 217).

While the commodity fiction could be of service to legitimizing the self-regulating market ideal, precisely because land and labor were not really produced for sale, the consequences could be irreversibly disastrous: “leaving the fate of soil and people to the market would be tantamount to annihilating them” (Polanyi, 1944: 131). Faced with this, the
self-protective instinct of society was bound to generate a spontaneous countermove. Social interests were much wider and long-term oriented than class interests, and the class interest of the middle classes, “the bearers of the nascent market economy” (Polanyi, 1944: 133), was far more myopic and self-interested than the rest:

[T]he trading classes had no organ to sense the dangers involved in the exploitation of the physical strength of the worker, the destruction of family life, the devastation of neighbourhoods, the denudation of forests, the pollution of rivers, the deterioration of craft standards, the disruption of folkways, and the degradation of existence including housing and arts, as well as the innumerable forms of private and public life that do not affect profits. The middle classes fulfilled their function by developing an all but sacramental belief in the universal beneficence of profits, although this disqualified them as the keepers of other interests as vital to a good life as the furtherance of production. Here lay the chance of those classes which were not engaged in applying expensive, complicated, or specific machines to production. Roughly, to the landed aristocracy and the peasantry fell the task of safeguarding the martial qualities of the nation which continued to depend largely on men and soil, while the labouring people, to a smaller or greater extent, became representatives of the common human interest that had become homeless. (Polanyi, 1944: 133)

The social roles were divided and assigned accordingly among the contesting classes: “if among the trading community it was the capitalists’ lot to stand for the structural principles of the market system, the role of the die-hard defender of the social fabric was the portion of the feudal aristocracy on the one hand, the rising industrial proletariat on the other.” (Polanyi, 1944: 155)

The ‘fictitious commodity’ treatment of labor was carried out under the heading of ‘freedom of contract’, a fundamental right as far as the new order of things was concerned:

In practice this meant that the noncontractual organizations of kinship, neighbourhood, profession, and creed were to be liquidated since they claimed the allegiance of the individual and thus restrained his freedom. To represent this principle as one of non-interference, as economic liberals were wont to do, was merely the expression of an ingrained prejudice in favour of a definite kind of interference, namely, such as would destroy noncontractual relations between individuals and prevent their spontaneous re-formation. (Polanyi, 1944: 163)

As workers were brought to the orbit of the labor-market, they were hence dispossessed of what in the course of time would come to be labelled as their ‘social capital’ as if it were a burden and not an asset of vital importance in the long run. The quality-of-life effect of
market absorption of the workforce in early modern Europe has been compared to the colonial situation of the twentieth:

Ironically, the white man’s initial contribution to the black man’s world mainly consisted in introducing him to the uses of the scourge of hunger. Thus the colonists may decide to cut the breadfruit trees down in order to create an artificial food scarcity or may impose a hut tax on the native to force him to barter away his labor. In either case the effect is similar to that of Tudor enclosures with their wake of vagrant hordes. (Polanyi, 1944: 164)

As far as the workers were concerned, Polanyi insisted that a distinction must be made between economic and noneconomic standards in evaluating the conditions of the working-classes:

Materialistic preconceptions have blurred the outlines of the working-class problem. British writers have found it difficult to comprehend the terrible impression that early capitalistic conditions in Lancashire made on Continental observers. They pointed to the even lower standard of life of many Central European artisans in the textile industries, whose conditions of work were often perhaps just as bad as those of their English comrades. Yet such a comparison obscured the salient point, which was precisely the rise in the social and political status of the laborer on the Continent in contrast to a fall in that status in England. The continental laborer had not passed through the degrading pauperization of Speenhamland nor was there any parallel in his experience to the scorching fires of the New Poor Law. From the status of a villain he changed—or rather rose—to that of a factory worker, and very soon to that of an enfranchised and unionized worker. Thus he escaped the cultural catastrophe of the Industrial Revolution in England. (Polanyi, 1944: 175)

Thus, the experience related to social status was as important as the (economic) wage, if not more:

The Industrial Revolution reached the Continent half a century later. There the working class had not been forced off the land by an enclosure movement; rather, the allurements of higher wages and urban life made the semiservile agricultural laborer desert the manor and migrate to the town, where he consorted with the traditional lower middle class, and had a chance of acquiring an urban tone. Far from feeling debased, he felt elevated by his new environment. Doubtless housing conditions were abominable, alcoholism and prostitution were rampant among the lower strata of town laborers as late as the beginning of the twentieth century. Yet there was no comparison between the moral and cultural catastrophe of the English cottager or copyholder of decent ancestry, who found himself sinking in the social and physical mire of the slums of some factory neighborhood and the Slovakian or, for that matter, Pomeranian agricultural laborer changing almost overnight from a stable-dwelling
peon into an industrial worker in a modern metropolis. (Polanyi, 1944: 173-4)

Exploitation of course mattered ever since the effects of the factory system became visible in the wake of the Industrial Revolution and were observed and commented upon by Polanyi’s idol, Robert Owen:

[Owen] grasped the fact that what appeared primarily as an economic problem was essentially a social one. In economic terms the worker was certainly exploited: he did not get in exchange that which was his due. But important though this was, it was far from all. In spite of exploitation, he might have been financially better off than before. But a principle quite unfavorable to individual and general happiness was working havoc with his social environment, his neighbourhood, his standing in the community, his craft; in a word, with those relationships to nature and man in which his economic existence was formerly embedded. (Polanyi, 1944: 129; emphasis added)

What mattered even more than the level of wages paid in relation to economic exploitation were the degenerative social conditions as observed in the colonies:

Nothing obscures our social vision as effectively as the economistic prejudice. So persistently has exploitation been put into the forefront of the colonial problem that the point deserves special attention. Also, exploitation in a humanly obvious sense has been perpetrated so often, so persistently, and with such ruthlessness on the backward peoples of the world by the white man that it would seem to argue utter insensitivity not to accord it pride of place in any discussion of the colonial problem. Yet it is precisely this emphasis put on exploitation which tends to hide from our view the ever greater issue of cultural degeneration. If exploitation is defined in strictly economic terms as a permanent inadequacy of ratios of exchange, it is doubtful whether, as a matter of fact, there was exploitation. The catastrophe of the native community is a direct result of the rapid and violent disruption of the basic institutions of the victim (whether force is used in the process or not does not seem altogether relevant). These institutions are disrupted by the very fact that a market economy is foisted upon an entirely differently organized community; labor and land are made into commodities, which again, is only a short formula for the liquidation of every and any cultural institution in an organic society. Changes in income and population figures are evidently incommensurable with such a process. Who, for instance, would care to deny that a formerly free people dragged into slavery was exploited, though their standard of life, in some artificial sense, may have been improved in the country to which they were sold as compared with what it was in their native bush? And yet nothing would be altered if we assumed that the conquered natives had been let free and not even been made to overpay the cheap cotton goods thrust upon them, and that their
Starvation was “merely” caused by the disruption of their social institutions. (Polanyi, 1944: 159)

In Owen’s experiment with an alternative organization and running of the factory system, Polanyi identified an uphill battle for the attainment of human happiness:

New Lanark had taught him that in a worker’s life wages was only one among many factors such as natural and home surroundings, quality and prices of commodities, stability of employment, and security of tenure. (The factories of New Lanark like some other firms before them kept their employees on the payroll even when there was no work for them to do.) But much more than that was comprised in the adjustment. The education of children and adults, provision for entertainment, dance, and music, and the general assumption of high moral and personal standards of old and young created the atmosphere in which a new status was attained by the industrial population as a whole. Thousands of persons from all over Europe (and even America) visited New Lanark as if it were a reservation of the future in which had been accomplished the impossible feat of running a successful factory business with a human population. Yet Owen’s firm paid considerably lower wages than those current in some neighboring towns. The profits of New Lanark sprang mainly from the high productivity of labor on shorter hours, due to excellent organization and rested men, advantages which outweighed the increase in real wages involved in the generous provisions for a decent life. But the latter alone explain the sentiments of all but adulation with which his workers clung to Owen. Out of experiences such as these he extracted the social, that is, wider-than-economic approach to the problem of industry. (Polanyi, 1944: 170)

From the above specifications, it must have become clear that the wider-than-economic approach that Polanyi inherited from Owen, although focused on labor, is inevitably also concerned with the environment, physical and otherwise. Ever since the dawn of economic thought, land, as a factor of production, has served as a proxy for and as a liaison with the physical environment. The treatment of land as a fictitious commodity is as abnormal as that of labor even it may go relatively unnoticed in the short run:

The proposition is as utopian in respect to land as in respect to labor. The economic function is but one of many vital functions of land. It invests man’s life with stability; it is the site of his habitation; it is a condition of his physical safety; it is landscape and the seasons. We might as well imagine his being born without hands and feet as carrying on his life without land. And yet to separate land from man and organize

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4 The allusion becomes clear in the following paragraph further elaborating the same theme: “To cite the famous instance of India. Indian masses in the second half of the nineteenth century did not die of hunger because they were exploited by Lancashire; they perished in large numbers because the Indian village community had been demolished. That this was brought about by forces of economic competition, namely, the permanent underselling of hand-woven chaddar by machine-made piece goods, is doubtless true; but it proves the opposite of economic exploitation, since dumping implies the reverse of surcharge.” (Polanyi, 1944: 159-60)
society in such a way as to satisfy the requirements of a real-estate market was a vital part of the utopian concept of a market economy. (Polanyi, 1944: 178)

Unlike labor, land cannot react to this situation and defend itself instinctively. This means that the disaster becomes even more irreversible in terms of its environmentally destructive consequences and provokes resistance on part of the society that would otherwise become the ultimate loser instead:

The economic argument could be easily expanded so as to include the conditions of safety and security attached to the integrity of the soil and its resources—such as the vigor and stamina of the population, the abundance of food supplies, the amount and character of defense materials, even the climate of the country which might suffer from the denudation of forests, from erosions and dust bowls, all of which, ultimately, depend upon the factor land, yet none of which respond to the supply-and-demand mechanism of the market. Given a system entirely dependent upon market functions for the safeguarding of its existential needs, confidence will naturally turn to such forces outside the market system which are capable of ensuring common interests jeopardized by that system. (Polanyi, 1944: 185)

In any case, the reversal of the process of ‘fictitious commodification’ is difficult, against the tide and extremely rare but not altogether impossible. As one of the very few cases of success demonstrate, more importantly, it requires a combined and not separate treatment of the labor and land involved in order to restore the social unit in which they were embedded in the first place:

In some cases at least, the opposite of exploitation, if we may say so, started the disintegrating culture contact. The forced land allotment to the North American Indians, in 1887, benefited them individually, according to our financial scale of reckoning. Yet the measure all but destroyed the race in its physical existence—the outstanding case of cultural degeneration on record. The moral genius of John Collier retrieved the position almost half century later by insisting on the need for a return to tribal landholdings: today the North American Indian’s in some places, at least, a live community again—and not economic betterment, but social restoration wrought the miracle. (Polanyi, 1944: 160-1)

This kind of social restoration has nevertheless become occasionally possible only because it was carefully isolated from the ‘planetary system’ that worked according to the logic of self-regulating One Big Market. Polanyi upheld no illusions that the two otherwise essentially contradictory approaches to economic and social organization could be reconciled:

The natural aim of all social protection was to destroy such an institution and make its existence impossible. Actually, the labor market was allowed to retain its main function only on condition that wages and
conditions of work, standards and regulations should be such as would safeguard the human character of the alleged commodity, labor. To argue that social legislation, factory laws, unemployment insurance, and, above all, trade unions have not interfered with the mobility of labor and the flexibility of wages, as is sometimes done, is to imply that those institutions have entirely failed in their purpose, which was exactly that of interfering with the laws of supply and demand in respect to human labor, and removing it from the orbit of the market. (Polanyi, 1944: 177)

In his view, rightly, there existed only an either/or situation. Such few display cases as above are important for showing us that there exists an alternative and thereby keeping our hopes about future happiness alive. In the meantime, unless the logic of self-regulating market system is given up as the organizing principle of economy and society, the tendency of the system towards a suicidal obesity cannot be brought under control. With the ‘self-regulating market system’, all previous regulation was attacked, unmade and ‘regulation’ was internalized as essentially nothing but price-making. This required no less than the forceful ‘regulation’ from within the system of the so-called ‘fictitious commodities.’ This self-regulation of fictitious commodities in general and labor in particular, had as its corollary the ‘de-regulation’ of unhappiness thereof. As the scope of self-regulating market system increases, so does human unhappiness. Once launched on this path-dependence ridden self-destructive course, there exists an inbuilt momentum for human unhappiness to rise to unprecedented scales. Hence, Polanyi provides a solid framework to analyse the paradox of happiness in society as well as the science of economics.

References


