

# The use of happiness in society: An evolutionary/Hayekian approach to happiness economics

Jason Potts

School of Economics, University of Queensland, [j.potts@uq.edu.au](mailto:j.potts@uq.edu.au)  
CCI, Queensland University of Technology

**Overview.** I review the criticism of modern happiness economics and then explain why its policy implications, as based on social welfare theory, should be sceptically met. I propose a better alternative based on evolutionary social signalling theory. Differences in happiness, in this theory, are automatically correct by distributed social signalling and learning; happiness signalling is a mechanism of economic adaptation and evolution at the level of good rules for choice adapted to the circumstances of time and place. Noting that this ‘happiness mechanism’ works much as Hayek (1945) described the price system in ‘The use of knowledge in society’, I suggest this as an evolutionary or Austrian approach to happiness economics.

## 1 Introduction

Happiness economics is an applied economics subfield that has been ascending in mainstream economics journals, particularly the *Economic Journal*, since the late 1990s (in overview, see Layard 2005; Easterlin 2007; Bruni and Porta 2007; Frey 2008). From inauspicious beginnings (the first international conference at the London School of Economics in 1991 was attended by only ten people), the subject now attracts considerable public funding, a growing cohort of PhD students, great media attention, superstar professors, and a lot of conferences in very nice places and, above all, endless political attention (particularly on alternative happiness-based socio-economic indicators; e.g. the 2008 Sarkozy Report).

But it has not been all sunshine and kittens. Happiness economics has also met with pushback from some economists – Wilkinson (2007) and Johns and Ormerod (2007) are prominent examples – who have grown increasingly concerned with the strongly interventionist and redistributionist ideas routinely emanating from the new science, and so have reviewed its foundations and methods. Both found them to be rather weak, and certainly not able to support the weight put upon them. Both also expressed concern with the normative drift increasingly evident in the study of happiness. Oswald (1997: 1828), for example, concluded his seminal survey of happiness and economic performance thus: ‘economic growth should not be a government’s primary concern.’ Wilkinson (2007: 3) quotes George Loewenstein as saying that he ‘doesn’t see how anybody could study happiness economics and not find themselves leaning left politically.’ Frank Furedi (2007) explains how ‘what commentators describe as the Nanny State is more accurately described as a ‘therapeutic state’ and that ‘the aim of today’s happiness crusade seems

to be to politicise the quest for self-fulfilment. ... This shift in government policy, towards attending to individuals' emotional needs, is seen as a step up from traditional redistributionist social policies.' There is a political line being drawn through this 'new science', and that's not a good quality in any science, even if it is 'a revolution in economics'. So it's these sorts of issues that I want to address in this paper.

I should also make clear at the outset that while I am less sceptical of the scientific quality of the work in happiness economics than some, I am more troubled by the sorts of questions that are being asked and how findings are normatively interpreted. My main criticism of happiness economics is not 'bad science' (e.g. Wilkinson 2007, Johns and Ormerod 2007) but rather that it is 'bad economics'. My argument is not against happiness economics *per se*. I think economists have a lot to contribute to the science of happiness. But to realise that we need to recognise that happiness is not only a final subjective utility state, but also functions as a *signal* in a decentralised social order. Only then can the tools of economic analysis be properly applied to the study of this (hypothesised) coordination mechanism.

I do two things in this paper. First I review some of the problems with happiness economics, restating why a sceptical attitude to its policy implications is an appropriate line to take. Second, I propose a reconception of happiness economics from an evolutionary or Austrian economics perspective. This proposes that *happiness signalling* plays an important role in decentralised adaptation of rules for choice in evolving socio-economic systems. My critique of modern happiness economics is that, in seeking to aggregate individual happiness measures into policy targets, it may have completely misconstrued the actual role of happiness in society. Happiness inequality, for example, need not be understood as a social failure, but rather as something caused by the different choices we all of us make in uncertain environments with limited information (plus exogenous shocks). But happiness inequality may self-correct through a mechanism of 'happiness signalling' whereby perceived happiness differentials trigger adaptation of new rules for choice and thus new behaviours and even identities. Differences in happiness under social competition may be a factor in shaping the direction of adoption of better rules for choice. Aggregate happiness can improve and surely does, but it does so, mostly I suggest, through decentralised evolutionary mechanisms. Centralising happiness is like centralising prices; it runs into both information and aggregation problems. But worse it's also entirely to miss the point of the signals to facilitate re-coordination through distributed local information (Hayek 1945).

## 2 What is happiness economics?

Happiness economics is the endeavour to develop cardinal measures of utility (or happiness, or subjective well-being as the concept is known in psychology) across surveyed populations of economic agents and then to connect these to various economic and socio-demographic correlates. Happiness economics has arisen in parallel with *positive psychology*, also a 'new science' that focuses not on dysfunction but instead on the psychology of human potential.<sup>1</sup> Happiness economics more or less has the same agenda, but works with economic correlates and with the specific prospect of using economic policy to serve the ends of social happiness.

Happiness economics should also be understood more broadly as a branch of behavioural economics, but one that empirically relies on surveys rather than experiments, tending its explanatory principles in a macro rather than micro direction. This uneasy tension between micro explanations of happiness as cardinal utility and aggregations of micro happiness surveys and their macroeconomic correlates and policy implications is a defining confusion of modern happiness economics (Wilkinson 2007).

The seminal article was Richard Easterlin's (1974) inquiry into whether economic growth makes us happier. Using survey data of subjective well-being over 19 countries (over 1946-1970), and as compared with economic growth in income during that same period, Easterlin answered no, economic growth does not make us happier.<sup>2</sup> Much of modern happiness economics has since focused on explaining this 'Easterlin paradox' (the main explanations are adaptation set-point theory and the relative income hypothesis) and in drawing out the implications of 'if more income doesn't make us happier, then what does?' The depressingly favoured answer, it seems, is 'more government' (Layard 2005, Bok 2010). A further pioneering work was Tibor Scitovsky's (1976) *The Joyless Economy*, which offered a critique of increased consumption that did not account for qualitative differences in goods, specifically distinguishing between goods that we adapt to, versus those that we don't. Increased consumption, Scitovsky argued, does not cause happiness; but 'better' consumption might.

Easterlin and Scitovsky inaugurated in happiness economics a line of argument that was overtly critical of equating increased economic growth and consumption with increased human happiness (also Frank 1985, 2001; Radcliff 2001; Easterbrook 2003; Layard 2005; Miller 2009; Bok 2010). Happiness economics tends to be interpreted as offering scientific proof that, say, neoliberalist agendas are wrong, and that we would be better off with larger, more caring governments (Veenhoven 2004, Ng and Ho 2006; cf. Duncan 2010). But happiness economics does not actually show this. It fails for the same reason as every previous attempt to aggregate preferences (i.e. Arrow's impossibility theorem). The economics of this argument hinges on some kind of preference aggregation (as Frey and Stutzer 2002 note) in order to connect the *target*, as for example a happiness index, and *instrument*, which means whatever policy is proposed, e.g. a major shift in consumption tax. The connection between benefits of target (the rise in happiness) and costs of the instrument is the economic efficiency of the policy. So it's an economics in which happiness is the target variable and the problem is to find the most efficient mechanism to achieve some increase in happiness. This is an economic analysis of a planning problem. It does not suppose that happiness might already be a complex distributed self-organizing system and that intervention may have unintended consequences.

Analytically considered, happiness economics intersects psychology, utility theory and macroeconomic policy. These can be circumscribed in two key dimensions: (1) cardinal micro measures; and (2) macroeconomic correlates. First, happiness economics challenges a rudiment of modern microeconomics since the work of Lionel Robbins and Paul Samuelson in the 1930s, namely that of *ordinal utility* (i.e. subjectivity in preferences) and the empirical principle that preferences are revealed only by observation of choice. Drawing on survey methodologies of

psychology, happiness economics argues for the scientific validity of *cardinal* measures of utility (or happiness, or subjective wellbeing; the terms are used interchangeably: Kahneman and Krueger 2006). Second, these survey-based cardinal measures (as samples from a population) serve as dependant variables in time series and cross-sectional analysis of the happiness effect of independent variables that are mostly macroeconomic in character. This extends the sources of happiness from individual consumption choices to macroeconomic variables. While rank-ordinal microeconomic analysis seeks to construct a theory of behaviour in particular markets (e.g. inferring preferences based on choices at particular relative prices), happiness economics locates happiness as a statistical aggregate of a *bundle of choices* (and non-choices, including genetic determinants, health and demographic factors, as well as institutional variables) that map to the macro properties of an economy, such as unemployment, inflation, public goods, GDP, and political institutions.

Happiness economics is thus composed of micro-foundations (in psychology), microeconomics (cardinal utility), statistical methodology (econometric regressions over surveys and indices), and macroeconomics (the inferred economic correlates). This micro-macro completeness, coupled with explicit empirical methodology, enables happiness economics to present as a coherent scientific framework with immediate and important policy implications. This is compelling. Here we have a new science connected to modern economics but which departs in interesting ways, and which is based on new data (and reuse of old data) that says that something can be done about matters that concern everyone and, moreover, that squares with popular policies that otherwise tend to get defeated by economists, such as more aggressive income redistribution and taxes on the sort of things that rich people consume.

The microeconomic underpinning of happiness economics is the use of cardinal measures of subjective well-being to examine the economic correlates of happiness (Oswald 1997, Ng 1997, Blanchflower and Oswald 2000). This work usually begins with the effect of *personality and socio-demographic factors*, drawing mostly on the work of psychologists in positive psychology.<sup>3</sup> The next range of correlates concerns *economic factors*, in particular income, and increasingly in terms of micro to macro variables (Di Tella and MacCulloch 2006). The main finding is that while a there is a measured growth in happiness in a shift from very low to low income (corresponding to about the median income of a less-developed economy) subsequent economic growth does not seem to correlate with increased happiness. A second range of economic factors concerns unemployment and inflation, both of which cause unhappiness too (Di Della, MacCulloch and Oswald 2001, 2003). This is taken as evidence against the voluntary unemployment hypothesis in new classical macroeconomics (Clark and Oswald 1994), and also as evidence against the monetarist hypothesis that only unexpected changes in inflation are problematic (Frey and Stutzer 2001: 111-6).

Bruno Frey and Alois Stutzer (2000) extend this to include *institutional factors* relating to democratic participation, finding that increased opportunity for democratic participation at a decentralised level is a significant contributor to happiness. Frey and Stutzer are refreshing examples of happiness researchers who are sceptical of inferring interventionist social welfare

maximizing proposals: instead noting that the problem of preference aggregation remains, and the public choice problem of missing incentives for policymakers to act on such information. They instead direct policy attention toward a constitutional political economy approach toward establishing fundamental economic institutions that 'lead to the best possible fulfilment of individual preferences' (Frey and Stutzer 2002: 178).

A comprehensive critique of the technical foundations of happiness economics has been made by Susan Johns and Paul Ormerod (2007). They point out that not only does time series data on income growth not seem to correlate with increased happiness (which is widely taken to mean that increased income does not cause happiness) but also that a raft of other factors that might also be expected to impact on happiness, such as reduction in inequality, discrimination, growth of public spending, longevity and even the rise in depression also show no correlation with happiness. Their central criticism is simply that there is no information in the independent variables of happiness data, suggesting that correlations are spurious. Johns and Ormerod find the time-series properties of happiness surveys to be extremely poor measures entirely incapable of providing the sort of explanatory power that is often inferred of them. They note, for example, that the bounded cardinality of the measures of happiness (e.g. on a 5 or 10-point scale) is not matched to the absence of an upper bound on income growth. Yet their main critique comes from demonstrating that sampling errors can explain most of the annual movements in recorded happiness. Johns and Ormerod find that 'the happiness data contains about as much information on the overall level of social well-being as a series of random numbers drawn from an appropriate probability distribution.' The micro to macro correlates of happiness economics are simply wrong at best and actively misleading at worst. They conclude that 'happiness time series are, by construction, incapable of conveying useful information on the level of overall social wellbeing and their use should therefore be rejected by policy-makers and social scientists.'<sup>4</sup>

Wilkinson's (2007) criticism of happiness economics also builds on this 'bad science' line, but focusing more on analysis (and 'bad moral-philosophy'). He explains the problems with the surveys and target of measurement and concludes that 'few of the alleged redistributive policy implications actually follow from the evidence.' Wilkinson provides a comprehensive and thoroughly reasoned account of logical errors between happiness theory, happiness evidence and happiness policy. Like the Johns and Ormerod report, I will not run through their findings here but recommend you to the originals. Wilkinson (2007: 36) asks, appropriately, what is happiness economics research then good for? He thinks that it may 'be good for providing insight into how to live wisely and agreeably well.'

I want to reinforce this conclusion. Happiness economics would be more useful were it to focus on the individual and local correlates of happiness, including signalling and coordination, i.e. with how individuals generate happiness and learn from each other about what behaviours, rules and institutions work well. But this is a *decentralised* version of happiness economics where happiness signals circulate about the economy. This 'happiness signalling' mechanism would pick up behavioural adaptations along the way as an emergent property of the co-evolution of institutional rules, market rules and behavioural rules. Yet that is not where modern happiness is

oriented, which is more inspired by a Keynesian/social-welfare-function view of how economic analysis contributes to the design of happiness policy.

### 3 The problem with happiness

One of the more controversial proposals to come from happiness economics (along with allies in development economics) concerns the push for *alternative measures of economic performance*. Specifically, this involves the construction of broad ‘social well-being indices’ that use happiness surveys as a key input. But happiness indices are a bad idea when confused with local information about what rules of choice work best in particular times and places.

Economic performance is conventionally measured with GDP as the market value of the goods and services produced in a nation. There are many well-known problems: it discounts non-market production, fails to account for qualitative changes, or depletion of resource stocks, etc. The new twist is that it also fails to account for how well we’re all feeling. The subtext here is that bad economic policy may yet be good if it makes us feel good. This is a cost-benefit argument of the form that we have not enough measured the benefits, which now should properly include happiness. In 2008 French President Nicolas Sarkozy commissioned a report on the ‘Measurement of Economic Performance and Social Progress’ that was prepared by Joseph Stiglitz, Amartya Sen and Jean-Paul Fitoussi.<sup>5</sup> While not the first such initiative – various Human Development Indicators and Genuine Progress Indicators were proposed and developed in the 1990s; and of course the tiny Himalayan Kingdom of Bhutan has had a Gross National Happiness measure since the 1960s – this is by far the most serious proposal yet. Two lead authors have Nobel Prizes, Sarkozy is a top European politician and France is well, certainly bigger and richer than Bhutan. But is this serious or just political theatre?

In a perceptive review,<sup>6</sup> Dan Ben-Ami points out, citing Sarkozy’s opening line – ‘I hold a firm belief: we will not change our behaviour unless we change the ways we measure our economic performance’ – that the alternative measures project is unambiguously about changing behaviour.<sup>7</sup> Now maybe we’re off-guard when these behavioural changes promise greater happiness for all. But there’s not much specific in that. Also, as any student of political history will appreciate, totalitarian movements always start with that same promise (the worker’s paradise, the harmonious society, the new man, etc). But this time it’s different, because we now have both a science and an economics of happiness. But as Wilkinson (2007), Johns and Ormerod (2007), Stevenson and Wolfers (2008) carefully explain there are some rather large holes in it, specifically in measurement theory, data, analysis and inference.

As an aside, but one too important to footnote, the outlier in all of this is Bruno Frey. The critics don’t have much to say about Frey’s work, and the more policy-focused boosters find little support. Frey is a doyen of happiness economics who remains mostly under the policy radar. This is unfortunate, as Frey’s line is a consistent development of positive psychology into a positive economics through a co-joint measure of happiness. He does good economics. Where he turns to

policy, it is at the constitutional level of political institutions. He argues a distributed, federalist and experimentalist theory of happiness. So a good line on the political-economy of happiness too. The Frey model of happiness economics is, I venture, the proper scientific core of a happiness economics. Indeed, the 'happiness signalling theory' that I propose is one of its many potential developments (my refinement is simply to rescale his institutional argument down to the level of social networks, in effect to say that we learn from each other's happiness too).

Yet happiness economics, as Wilkinson (2007: 2-4) documents, is increasingly becoming a political project.<sup>8</sup> Plainly, all policy works by restricting certain freedoms and compelling certain actions. This is course a social contract view, but it is also a collective choice problem in the hedonic dimension. That freedom promotes happiness (a finding in happiness economics that no-one really quite knows what to do with) is axiomatic only at the individual level. It is my freedom that makes me happy, not yours; indeed, your freedoms may threaten me, so plainly happiness gains can be had by restricting the freedom of others. I hope you can already see how an aggregate happiness index doesn't get at any of this.

The happiness economics view proposes that this be now done under the guise of purportedly better and more scientific indices of social well-being that cut away from material measures of economic output (such as GDP) and instead seek to target aggregated measures of life-satisfaction. This represents a radical shift in the purported goals of public policy (see for example Veenhoven 2004; Ng and Ho 2006). That we should all of us individually seek to be happy and to enjoy a right to the pursuit of happiness is manifestly uncontested here. At issue is whether aggregate measures of happiness, based on the survey findings of a 'new science', are a valid objective function and target for redistributive economic policy (Diener and Seligman 2004, Bok 2010, Duncan 2010). Yet there is a fundamental difference between positive psychology (the study of individual happiness) and the economics of happiness (as a study of aggregates of individual happiness). While positive psychology uses scientific knowledge to illuminate how individuals may improve their own lives and maximize their own potential, happiness economics goes one critical step further by explicitly seeking to assimilate the instruments of economic policy into this same project (*cf.* Frey and Stutzer 2002). Positive psychology is applied with self-help manuals and academic courses, not with government departments and law. Yet there is a world of difference between happiness research in positive psychology that seeks to test the individual correlates of happiness with a view to offering helpful suggestions to people about how they might then make changes to improve their own lives – for example, cultivating friendships, avoiding long commutes, engaging in activities that express 'flow', etc – and the notion that individual happiness ought to be a proper concern of public policy, and carrying with it the full instruments of law and legislation. There is a difference between the sort of popular self-help manuals of positive psychology (e.g. Gilbert 2006) and the notion of a Federal Department of Happiness, or some social well-being analogue of Treasury that vets all legislation and public spending for its expected contribution to gross national happiness.

Why create a national happiness index if you're not going to use it? Let's not lose sight of why we measure GDP at all. It is not simply to keep track of things. Specifically, it is to evaluate economic progress with comparable data that enables assessments of relative contributions of various economic factors (such as new technology, productivity growth, changes in resources) and the effectiveness of economic policy (such as de-regulations, deficit spending, tax changes, etc). We measure the aggregate performance of the economy precisely because we seek to evaluate our *interventions* into the economy. In a minimal libertarian state, there would be no need to measure aggregate economic performance at all. The rise of GDP measures only occurred in the 1930s with the rise of mixed and planned economies. You measure GDP to monitor a planned economy, not a market economy. Any discussion of new and better measures of economic progress is inherently premised on a broad shift in the types of interventions that are to be undertaken. If we're seeking to measure aggregate social well-being, it's because we seeking to intervene – and to monitor our interventions. A national happiness index is inescapably premised on some design on national happiness planning.

Yet there is a menace, namely that such aggregate performance measures provide political cover for interventions that may impose particular costs on minority groups or individuals. Happiness plans measured in aggregate will by definition impose costs on some. But who? The almost ironic answer is: the happy, or those who have successfully specialised so that their jobs and lives achieve 'flow', a key concept of positive psychology, or those that have developed the sorts of market-appropriate specializations that generate high economic rewards. Yet happiness planning is not about this leading edge of eudemonic flow, but rather about the political mass underneath.<sup>9</sup> This is the problem with aggregation. It assumes that happiness has no role in dynamics and adaptation. When we observe others with greater happiness than ourselves, we may be induced to rethink our own behavioural and institutional premises and whether they might benefit from adaptive change. From this evolutionary perspective differential happiness thus seems more important, and levels of happiness less so.

Measures matter. Many market reforms of the 1980s, for example, which did impose very real costs on those in previously protected or privileged positions, were ultimately justified by pointing to the aggregate improvements in GDP. We should expect no less from aggregate happiness measures that may serve to politically justify otherwise difficult actions. An example from Bhutan is illustrative. Bok (2010: 3) notes that:

'Different [happiness] goals sometimes conflict with one another, requiring difficult trade-offs. In order to promote the goals of health, environment and equity, the government has chosen to restrict individual freedom by such measures as prohibitions on smoking and private medical practice along with compulsory dress codes and architectural requirements on all new buildings.'

In the interests of national happiness Bhutan has enacted some profoundly illiberal policies, the worst not being compulsory dress codes but the terrible treatment of the Nepalese minority (with a banned language, over 100,000 became refugees in the 1980s). If we measure aggregate happiness for the purposes of maximizing national happiness, then other criteria will soon



subordinate to that; and troublingly, as the example of Bhutan illustrates, this is likely to be individual freedom of choice.

This may play out in several ways: variously paternalistically, via enforced transfers of resources or intervention into markets, or maternalistically, in the sense of Furedi's 'therapeutic state' that seeks to 'feel our pain'. Both ultimately achieve the same end (increased government involvement in the economic order) by more or less the same means (economic transfers and domains of control) and with more or less the same effect on individual liberty (less). But these ideas present in very different ways. The paternalistic version is a 'good for society/nation/people' version. It's a social self-interest argument, inviting rational evaluation but hinging on group identity. The therapeutic version offers a 'good for self' line but with more emotional register, suggesting the prospect of a more intimate relationship. Happiness policy will invariably take one or both of these forms. A happiness policy is thus premised on some manner of group identity. This is not because group identity is a key happiness parameter, but in order to enact any such policy in a democratic system (where some people's interests will be harmed by such a policy), this will invariably require some modification of the social contract toward acceptance of more government, or more intrusive government. Both of these should be understood as costs that must be set against purported benefits of the pursuit of maximizing national happiness. Yet there has been almost no discussion of this in the happiness literature (*cf.* Duncan 2010). By definition, any happiness policy by redistribution or restrictions will need to trample on some existing rights and expectations in order to achieve its aims. A national happiness policy will by definition make some people less happy; so unanimous agreement is out. The success of any such policy will therefore need to rely on a 'greater good' argument or a mass compelling 'good for me' argument. So now we're back in public choice theory, seeking to unpack the effects of how different 'happiness interest groups' competitively lobby. Happiness policy, in its standard form, has no claim to rising above this.

A further criticism of the aggregate happiness measure is what such an index is intended to replace, namely a political focus on economic growth and development. The policies that promote economic growth and development everywhere involve hard political choices because they require a shift in power from state to market. Furthermore, economic growth and development commonly occurs on time frames longer than political cycles. Happiness measures, on the other hand are much closer to public opinion surveys in their immediacy and are more strongly influenced by events of the day or various cultural ephemera (such as World Cup wins, or a charismatic leader). As macroeconomic data, happiness measures are much closer to consumer confidence surveys or surveys of investor expectations, rather than long-run productivity growth measures. Plainly, any political class will prefer evaluations of economic well-being that turn on variables directly influenced by short-term measures rather than by longer term changes that are both harder to affect and from which causality and authorship is more difficult to trace and account. No politician likes to be measured by their contribution to economic growth, and rightly so, for they have little influence over that (economic growth takes place in markets, not in politics). But if economic performance is redefined to be measured by

aggregate happiness surveys, then strong incentives will emerge to engage in short-term interventions of income redistribution and restrictions on non-mainstream choices. While these may potentially maximize an aggregate happiness measure, they come at the cost of economic growth and development. So this is, in a sense, Keynesian economics all over again.

Modern happiness economics has a distinct colouring in terms of policy implications. These are broadly against economic growth (Radcliff 2001), against luxury consumption and the marginal utility of increased income (Miller 2009), and broadly in favour of income equality through redistribution and an expanded welfare state (Layard 2005). This is shot through with a sentiment based about a core finding that people don't necessarily seem to know what is good for them (an insight also due to behavioural economics). This opens a potential role for public intervention to correct these systematically flawed individual choices. Modern happiness economics is, in this sense, essentially a reworking of social welfare theory (but with preference failures rather than information failures). Specifically, for example, the economics of happiness literature has strongly emphasised the *negative externalities* from happiness, such as the 'hedonic treadmill' (Frank 1985, 1995). Policy recommendations thus typically point to the welfare gains to policy (for example, steeply progressive taxation) that seeks to step us off this social competition for our own good. But my argument here is instead to emphasise the *positive externalities* to other people being happy, in particular what we may learn from them. This proposes, I suggest, a signalling theory of happiness as an mechanism of social adaptation of good rules for choice.

#### 4 Happiness signalling theory

While happiness is plainly an individual utility correlate (Bentham, *et al*), it is also a social signal. We know when others are happy, and vice versa. This signalling aspect, and not the levels effect, may be the key economic fact about happiness. However, the standard approach to economic happiness stops at the point of subjective experience. It does not then consider its effect on others. Yet this was precisely Hayek's point about how market signals work; thus, an analogous argument can be made about 'happiness signals'.

If you are happier than someone else, a possible explanation is because you've made better decisions than them, and vice versa. Obviously other factors, such as luck matter too. We can learn and adapt our behaviour from other people's happiness signals, just as we can learn and adapt from other people's price signals. The critical importance of price signals is, as Hayek explained, about local information about time and place; happiness signals are likewise, but about good rules of choice (Earl and Potts 2004, Dopfer and Potts 2008) in relation to time and place. This distributed happiness signalling is a further mechanism that shapes economic evolution. Happiness is to the consumer side of economic dynamics what profit is to the producer side, namely a signal of useful information about ideas, rules and technologies that work in a particular market environment.

I know what makes me happy, more or less. I also know how to observe in others signs of happiness or seeming contentment with their life. Most healthy adults can do this, not just happiness researchers. We notice happy people, we tend to find them attractive. Much of that is instinctual, but also functional: it induces us sometimes to seek to learn about what makes them happy and what choices they have made. We do this in order to consider adopting those choices or rules too.<sup>10</sup> It's a decentralised signalling coordination system. The upshot, I suggest, is a reconception of happiness economics away from the study of how to design a happy society through targeted happiness correlates enforced with economic policy. Instead, I suggest a happiness economics more oriented to the study of an emergent socio-economic order as coordinated through happiness signals.

What are these happiness signals? There are biological signals, as instincts, that we more or less cannot control and that we instinctually read and change our behaviour in response to. Smiles are an example. Play is another. There will be outward material signs indicating a life well-lived or otherwise presenting evidence of good economic choices. Many of these are signs that we learn to recognise and share as social knowledge. So I have a broad conception of happiness signals, with some transmitting at lower frequency than others. I would also note that the percentage of social interaction devoted to discussion of who's doing well or not, and why, may be estimated on the order of 1/3 of all human conversation.<sup>11</sup> We invest a lot in reading happiness signals (and possibly a similar investment in sending such signals).

Happiness, in this view, is not just an end state of individual hedonics but also a social signal of good choices that can be read and acted upon by other agents (Potts, Cunningham, Hartley and Ormerod 2008). Happiness signals form a distributed mechanism to coordinate the continuous updating and adaptation of preferences and rules for choice. Happiness thus has *positive externalities* in the form of local decentralised signals of information about choices in a particular time and place (*cf.* Hayek, 1945). There is no good reason for public intervention in this otherwise natural communication and coordination process by which happiness is locally discovered and socially communicated. As monetary inflation distorts price signals, so may happiness policy distort the happiness signals that otherwise coordinate the evolution of preferences in a dynamic economic order.

Consider an evolutionary theory of how happiness can work as an economic signalling mechanism. First, the information being signalled is about good rules for choice in particular economic and social environments. These decentralised signals carry information about what cognitive and behavioural rules work through a sign system of happiness. This is a deeply coded grammar of human behaviour. We are a highly developed face-reading animal, a cognitive ability that is very good for maintaining social coordination and for sharing information. This propensity is effectively harnessed in economic coordination and adaptation.

At the core of happiness economics and psychology lies an evolutionary argument that our modern consumption and social environment differs substantially from the 'environment of evolutionary adaptedness' in which the human brain evolved in a socially small economic order

under intense evolutionary competition (Grinde 2002). For example, evolutionary psychologist Geoffrey Miller (2009), who has done excellent work on the role of human sexual selection on the evolutionary development of the brain and behaviour (Miller 2000), now argues that the policy implications of his work support significant increases in consumption taxes on luxury or signalling goods. Miller's line of reasoning also resonates through the work of behavioural economists that have contributed to (mostly indirectly) happiness economics by examining how evolutionary theory supports the idea that the human brain is maladapted to the modern human environment. This is then argued to cause human choices to depart from optimal choices that would maximize happiness (see the work of behavioural economists George Loewenstein and Daniel Kahneman, for example; Wilkinson 2007: 2-4).

Evolutionary theory in happiness has thus mostly been directed at supporting the 'individuals systematically make bad choices' line, supplying micro-foundations to underpin proposed social welfare interventions (such as changes in tax policy). But to say that we have evolved instinctual tendencies is not to say that we are stupid. As best we can, we reason, review, discuss and re-examine our relative happiness estimates of others, and stop only when we are ready to act (or not) to change our behaviour by adopting better rules for choice. But unlike Sarkozy's vision of the rules for economic behaviour that makes for happiness issuing from government, is it more likely to come from your neighbour or friends, perhaps someone or group in your social network. Still, this is an evolutionary argument from biology and psychology because it supposes the human adaptation of a substantial and general capacity to both *signal happiness* and to *interpret happiness signals* (we are very good, for example, at detecting fake happiness, implying the signal has strategic value). But 'happiness signalling' theory is also an evolutionary economic argument in recognising the adoption of other people's preferences and rules for choice as a mechanism of *economic evolution* (Dopfer and Potts 2008). This is a naturally self-organizing system of coordination – working through innate foundations of sociability, language, and feedback benefits from exchange (whether of information or resources; see Ridley 2010) – but it is also one that can develop as an increasingly complex mechanism through improvements in behaviours, institutions and technologies.

In the standard view, the evolutionary micro-foundations of happiness economics argue that our evolved human brains are not very good at making us happy in our modern economic environment. Richard Layard and Richard Easterlin among others regularly take this statement of evolutionary theory as a base for analysis, a point also recently surfacing in the 'nudge' theories of Sunstein and Thaler (2008) that proceed from a similar evolutionary behavioural foundation. The argument is that we tend to make predictable mistakes vis-à-vis our own happiness. The obvious policy implication is for benighted and benign intervention to raise the cost of these signalling games and to reduce the extent of *social competition* (Miller 2009), both of which are presumed to be corrosive to human happiness by the hedonic treadmills they set up and the zero-sum-games that result (Frank 1985, Radcliff 2001).

The happiness signalling model instead makes a very different claim about the value of social competition, in effect arguing that social competition actually underpins happiness as a

signalling mechanism. This may lead to increased subjective happiness due to the effect of adopting better social rules. Social competition has the same effect as market competition: namely, it induces true signals. Happiness signals have higher fidelity under social competition as they rise in demand. The happiness selection mechanism of course interacts with the market selection mechanism, as well as with political selection mechanisms, and so on. Happiness signalling implies a happiness selection mechanism as the process that produces both happiness adaptation and happiness re-coordination.

While happiness is obviously an *internal feedback* mechanism,<sup>12</sup> happiness is also an *external signalling* mechanism that benefits both senders and receivers of such signals by allowing agents to learn from each other in differentially adopting rules for choice and action. Happiness signals carry information about bundles of particular choices well-made. Happiness signals coordinate the flows of adoption of rules for choice that are effective in particular environments. Economic agents look up happiness gradients, as it were, in seeking to adapt their economic rules by a happiness-signal coordinated process of differential learning and adoption. This has economic significance because the more effectively this adaptation process works, the faster economic adaptation and economic evolution occurs. Happiness, in this way, causes wealth.

This mechanism casts new light on the interactions between inequality and institutional evolution. First, it is well known that at a point in time the economically more successful are happier. Where different rules of behaviour and choice can be discerned, we would expect that the rules of the more successful will be increasingly adoption in the population. Happiness signals working through social networks are part of process of economic self-organization and adaptation. An example of this mechanism on a much longer time scale is suggested by Gregory Clark's (2007) theory of the industrial revolution in terms of differential fecundity carrying better adapted rules for choice (a bourgeois mindset, in the language of Deirdre McCloskey) that co-evolved with supporting market institutions. On a shorter timescale, we may read Frey and Stutzer's (2000) argument about the contribution of federalist and referenda-based democracy to happiness. This works at the speed of local political constitutional reform, which is much faster than generational, as in Clark's thesis. But this may also work on very much faster time scales when operating through social signals. An evolutionary happiness economics would therefore aim to be a study of how happiness signals coordinate the ongoing adaptation of rules for economic choice and action. These are decentralised signals operating over social networks that convey information about how particular economic rules work in particular economic environments. The induced adaptive response is a mechanism of microeconomic evolution (in endogenous preferences). An evolutionary signalling theory of happiness suggests a new pathway by which economic rules for choice evolve along with institutional and constitutional preferences.

Consider economic inequality. The richer are happier; that's a robust finding of happiness economics. But it doesn't stand up over time, or through changes in wealth. That's an equally robust finding. The resolution is evolutionary dynamic. Inequalities are mediated by happiness signals: those with low happiness are incentivised to change their own rules for choice and action, toward adopting the rules of the happier over their local space of social network markets. Where

happiness signalling thus occurs with high fidelity with good decision rules, this can open a pathway to rapid institutional evolution by way of *happiness mobility*. This is one of the mechanisms by which happiness (signalling coordination) can cause wealth by both feeding on and correcting inequality through endogenous processes of differential adoption of rules for choice calibrated on different economic environments. This suggests an evolutionary mechanism by which *economic inequality* is actually diminished by the differential adoption of happiness signalled rules for choice and action, but which relies on robust *social competition*. Happiness signalling theory suggests a mechanism by which social competition translates into improvements in aggregate economic happiness by the adaptive and self-organizing evolution of good rules for choice. This process already occurs extensively and works well at a decentralised level. So I want to present happiness signalling theory as the opposite pole to centralised models of happiness theory, and thus as a provocateur in what may be shaping up as the happiness calculation controversy.

## 5 Conclusion

While modern happiness economics has some shaky foundations, and upon which some seriously wobbly policy ideas have been constructed, there is nevertheless a strong case for a happiness economics as the study of the adaptive coordination properties of a social signal. This suggests a new happiness economics constructed on an evolutionary theory of happiness signalling that coordinates the use of happiness in society. Like prices, happiness is also a decentralised signalling mechanism that coordinates a socio-economic order. This implies a very different approach to the standard policy line on happiness economics, which favours increased social equality (i.e. as corrected with happiness policy). Happiness signalling theory instead emphasises the emergent consequences for the evolution of rules for choice through social competition (i.e. unleashing happiness discovery).

The model of happiness signalling extends Hayek's price signalling coordination hypothesis to the observed happiness states of other people. So, rather than more extensive luxury taxes and income redistribution, as in the standard policy implication of happiness economics, an evolutionary view of happiness economics reinforces Bruno Frey's arguments about happiness policy being an analysis of constitutional not operational policy. Happiness economics is plainly a scientific advance as a partner to positive psychology. But it is more questionable when coupled to new measures of social welfare and new objectives for economic policy. Endeavours to aggregate happiness into social welfare instruments that co-opt economic policy should be sceptically met.

We all want to be happy and live in a happy society. But that does not mean that we can all benefit from interventionist happiness policy. We are happy or otherwise because of the choices we make. We make our own choices, but can learn from other people's choices too. Happiness signalling theory is the generalization of this mechanism as a self-organizing process. Happiness, by this mechanism, may have no need of a central happiness agent but function

entirely as a self-organizing decentralised signalling mechanism. To be happy, it is important to pay attention to our social connections and cohorts, and to reflect on our own lives. Government can't actually make us happier than we can do by ourselves (with a little help from our friends).

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## Endnotes

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- <sup>1</sup> The works of Martin Seligman or Mihaly Csikszentmihalyi, for example, are representative of positive psychology.
- <sup>2</sup> This argument has since been statistically debunked by Stevenson and Wolfers (2008). For the argument that economic growth makes us happier, see McCloskey (2008). That it makes us better, see Friedman (2005).
- <sup>3</sup> Kahneman D, Deiner E, Schwarz N (eds) (1999) *Well-being: The foundations of hedonic psychology*. Russel Sage Foundation: New York. Deiner E, Eunkook MS, Lucas R, Smith H (1999) 'Subjective well-being: Three decades of progress' *Psychological Bulletin*, 125(2): 276-303.
- <sup>4</sup> For critical reviews of Johns and Ormerod's work, see Turton (2009) and Ott (2010). (Also Johns and Ormerod (2009) in reply.)
- <sup>5</sup> [www.stiglitz-sen-fitoussi.fr](http://www.stiglitz-sen-fitoussi.fr)
- <sup>6</sup> [www.spiked-online.com/index.php/site/reviewofbooks\\_article/8926/](http://www.spiked-online.com/index.php/site/reviewofbooks_article/8926/)
- <sup>7</sup> Sarkozy continues: 'We must change the way we live, consume and produce.' He calls for 'a revolution in our minds, in the way we think, in our mindsets and values'.
- <sup>8</sup> See also Furedi, *op. cit.*
- <sup>9</sup> Bok (2010), a former president of Harvard University, is instructive on where this is heading. He sets out the standard list of policy recommendations covering reduced focus on economic growth, reducing inequality (by redistributive taxation, and punitive luxury goods taxes), reducing suffering from financial hardship (increased welfare), subsidizing family and improved public education and also better quality government (Radcliff 2001, Layard 2005, Ng and Ho 2006, Miller 2009 all make similar arguments). The outlier is Bok's case for decriminalizing opiates (and other pain relief), recognising a situation where over-regulation reduces happiness.
- <sup>10</sup> This argument is not symmetric in that a 'misery signalling' mechanism would provide information about what sort of choices not to make, or what rules don't work, but still leaving the problem of what choices and rules to adopt.
- <sup>11</sup> Supposing it to be about half of all gossip (Dunbar 1998).
- <sup>12</sup> Rayo and Becker (2007).