Review 2

ECONOMIC GROWTH AND WELLBEING: A BEHAVIOURAL ANALYSIS

Herbert Gintis

The great American vaudeville singer Sophie Tucker remarked, ‘I’ve been rich and I’ve been poor – and believe me, rich is better.’ This book, which documents in great detail and insight the vast growth in per capita income in the United States and Britain (with some attention to other countries) over the past century, contrasts Sophie Tucker’s widely shared sentiment with the carefully researched fact that people are getting richer, but they are not getting happier. What, asks Offer, accounts for this curious situation?

An earlier generation answered this question by noting that being richer involves both having more than before, and having more than others. If relative status is important but absolute wealth is not, argued Frank (1985), then when everyone becomes richer, average well-being will not increase. Indeed, this had been the common view (although with numerous dissenters), since Duesenberry’s famous ‘ratchet effect’ explanation of the macroeconomic consumption to income ratio (Duesenberry, 1949) and the similar view of Modigliani (1949). While relative status is clearly important for some individuals, there is no convincing evidence that it is of great importance to most individuals. Certainly many individuals are eager to become a smaller frog in a larger pond by moving to a richer community, and the rate of migration from poor to rich countries is hardly favourable to the relative status hypothesis. Moreover this ‘hedonic treadmill’ explanation ran afoul of the data in a brilliant study by Brickman et al. (1978). They found that large exogenously generated changes in material circumstances, such as winning the lottery or becoming handicapped through accident exhibit little difference in subjective well-being even several months thereafter. The general implication of this line of research is that some people are happy and some are unhappy, and changes in wealth position has little long-run effect on their subjective well-being.

Offer appears basically to accept this position (although he is quick to stress that insightfully interpreting the Modern Condition is not his forte), updating it using information from several recent studies that find that poverty, divorce and unemployment have major negative impact on personal well-being, and there is a small but significant positive slope to the income and well-being relationship even above the poverty line, both within and across countries, especially when objective measures of well-being are used (mortality, morbidity, life expectancy, major incidence of mental illness, infant mortality, and the like).

Many environmentalists and progressive egalitarians accept this view on the basis of personal observation, using it to suggest alternatives to GDP growth and redistribution towards the poor. But, the hedonic treadmill even in its modern, behavioural form is deeply counter-intuitive. People make great sacrifices to achieve financial security and to assure their children with the fruits of material progress, and upon serious introspection, few will affirm that the benefits are either relative or short-lived. Personally, I have been poor and did not like it, and I am now comfortably well-off, and I like it quite a bit – every day and every little luxury (such as sitting here overlooking the Danube writing this book review on a first-class laptop, every keystroke of which gives...
me great pleasure, and which plays whatever enchanting music happens to be my current whim, over an Internet connection, using a music service to which I – and millions of others – can afford to subscribe). Moreover, subjective well-being is very important, but the fact is that neither I nor my wife, nor my son, would be alive today if it were not for modern amenities (in this case, medical services).

Offer explains the hedonic treadmill (the term is due to Brickman and Campbell (1971), and is not used by Offer) using modern behavioural economics. Because of the common tendency to prefer small short-term rewards to large long-term rewards, we do not know how to turn the vast increases in material wealth that have come to us into real well-being (Ainslie, 1975; Elster, 1979; Loewenstein and Hoch, 1991; Laibson, 1997; Oswald, 1997; O’Donoghue and Rabin, 1999). The ‘challenge of affluence’ is, according to Offer, the problem of learning to deal with affluence in a manner that turns material comfort into human self-actualization. Observing the antics of (a highly visible but unknown fraction of) the newly rich, with their obscene displays of opulence, their vulgar tastes, their substance addictions and broken families, and their corrupted children does indeed remind one of the prejudices of ‘old wealth’ that has had a few generations to adjust to material comforts against the base aspirations and untutored behaviour of ‘new wealth’. Perhaps, then, there is hope for the affluent societies after all.

Unfortunately, there is no known science of self-actualisation, so my remarks on the topic must perforce flow from observation and introspection (it is little solace to be reminded that Hume, Locke, Shakespeare, Voltaire, and their like, relied almost exclusively on such forms of knowledge). I recall my concern for such issues in writing my Ph.D. dissertation some forty years ago, the head quote of which was from the jazz pianist Mose Allison, who wrote ‘things are getting better and better. It’s people I’m worried about’. I took my inspiration from the Karl Marx of the Economic and Philosophical Manuscripts of 1844, which precede his development of historical materialism, and reflect the Zeitgeist of Hegel and Feuerbach (Marx, 1959). My interpretation of Marx’s argument was that human nature (Marx used the term Gattungswesen – species-being) consists in several capacities, physical, psychomotor, cognitive, affective, aesthetic, and spiritual, and well-being consisted in the full development of these personal capacities. While a high level of material affluence is not an absolute prerequisite to such personal development, for those of us lacking an innately saintly character, it surely helps. Goods, services, and leisure, in this view, are merely instruments that facilitate the growth of personal capacities, and the cardinal sin of life in the affluent society is to ‘fetishise’ commodities in the vain belief that they represent a direct route to self-fulfilment: what you cannot be, your money can buy for you. The correct position, I believe, is that what you are not, your money can help you to become – a far more engaging, yet optimistic, take on the challenge of affluence. I developed this theme in several articles (Gintis 1972a,b, 1974). The theme has been developed in an extremely powerful manner by Nobel prize economist Amartya Sen (1985).

Does affluence lead to the demand for the development of personal capacities, or to the deepening of commodity fetishism? The picture is not uniform. While there is no doubt but that American and British workers trade off income for job quality and leisure, they appear to do so at a lesser rate than their European counterparts. Indeed as Offer notes (p. 324), family work hours have reversed their long-term downward
trend in the US and has been increasing in recent years, in large part due to increased
female labour market participation. Of course, both work hours and leisure have
increased for American families due to the prevalence of labour-saving technology in
the home and the movement of health care, food preparation, and education from the
home to the market. Moreover, the quality of jobs has doubtless improved with the shift
from unskilled manual labour to skilled white collar labour, and many individuals
consider their work experience as a positive contribution to their well-being, much as
our hunter-gatherer forebears did, with a joy that perhaps was confined to a small
minority in the long diaspora between life in the Pleistocene and life in modern,
technologically advanced, society. On the other hand, there is nothing quite as
revolting as a statistic reported in The Economist several months back that 80% of French
college students aspire to a career of lifetime security as functionaries in the French
government bureaucracy. Such a career may be self-actualising for a fraction of French
youth, but my insight into human nature judges 80% as an order of magnitude too high.

Offer’s analysis makes it clear that economic research and proactive social policy may
play an important role in meeting the challenge of affluence. The American public, for
instance, voraciously consumes advice on living the good life, the news being full of the
latest studies on proper diet, health maintenance practices, spiritual life, and manage-
ment of interpersonal relations. It is likely that future improvements in the treat-
ment of mental and physical illness will somewhat level the playing field in the capacity
of individuals to live fulfilled lives, liberating the self-help books from the realm of self-
survival to that of self-actualisation. There has been a notable increase in research in
this area (Frey and Stutzer, 2005), including the impressively thorough work of Daniel
Kahneman and his co-workers (Kahneman and Krueger, 2006).

Throughout most of its history, economic theory has followed Jeremy Bentham’s
utilitarianism. It was Bentham who opined ‘Prejudice apart, the game of push-pin is of
equal value with the arts and sciences of music and poetry. If the game of push-pin
furnish more pleasure, it is more valuable than either. Everybody can play at push-pin:
poetry and music are relished only by a few.’ Bentham’s egalitarianism is laudable, but
the alternative is that Pushkin is better than pushpin, and the uneducated are cut off
from fruitful paths of self-realisation by not being capable of appreciating Pushkin.
Indeed, my early publications took the position that not all preferences are equal, a
position advocated before me by John Stuart Mill in his opposition to Bentham’s
utilitarianism. Happiness, I argued in support of Mill, is as much the development of
preferences as their satisfaction. What are more developed preferences? They are ones
that draw more heavily on our innate capacities, physical, psychomotor, affective,
cognitive, aesthetic, and spiritual. My viewpoint was considered virtually heretical at the
time. I still remember the embarrassed chuckles of my fellow graduate students in
Robert Dorfman’s Microeconomic I class when I suggested that some tastes are better
than others. I analysed the welfare implications of preference change in a less off-hand
manner in my Ph.D. dissertation (Harvard University, 1969). To my surprise (and
delight) in his Nobel Prize acceptance speech in 1970, Paul Samuelson pointedly cri-
ticised my writings on the grounds that economists should not impose their personal
tastes and moral choices on others. ‘Just recently,’ says Samuelson, ‘I was reading an
article ... written in blank verse ... The writer was scathing on the notion of Pareto-
optimality. Yet ... it seemed to me that precisely in a society grown affluent ... there

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arises an especial importance to the notion of giving people what they want.’ My foray
into blank verse may not have panned out, but as evidence of progress in economic
theory, there are probably few economists alive today that do not believe that an
important contribution of the economy to well-being is the improvement of moral
character and personal capacities to enjoy what life has to offer.

Offer’s book covers consumption and leisure as sources of personal well-being, but
there is strong evidence that social conditions are also important source of happiness
and unhappiness. For instance, Frey and Stutzer (2000) exhibit a strong correlation
between the level of political democracy and individual well-being, correcting for the
effects of democracy on material wealth. However, there is some evidence that the
correlation is bidirectional. There is also evidence that some minority groups who are
victims of social prejudice suffer attenuated well-being. These phenomena should be
included in an overall assessment of the causes of well-being.

The major innovation in Offer’s analysis is his deployment of the results of beha-
vioural research in economics and psychology towards understanding the relationship
between economic growth and individual well-being. By well-being, Offer almost always
means subjective well-being, and despite an excellent treatment of the relationship
between health, status, and income, I would have liked an expanded treatment of the
objective aspects of well-being, such as mortality and infant mortality. I suspect that
Offer will be the start of a trend in economic growth research that uses behavioural
measures and experiments to assess the success of various policies, and to suggest
ways of transcending the human weaknesses that prevent the translation of material
comforts into happiness and self-actualisation.

Santa Fe Institute and Central European University

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