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Happiness and Public Policy

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Happiness and Public Policy

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Abstract

In recent years many scholars are studying “happiness” seriously. Economics, long known as the dismal science, has a well established “utility theory” but utility should not be treated synonymously as happiness. This paper questions some premises of the Benthamite theory that presumes utility is the same as happiness and proposes a theory that there are three kinds of happiness: a forward looking or “prospective happiness,” a “happiness in process,” and a backward looking or “retrospective happiness.” It suggests that perceptions and value formation, which are normally outside the purview of economics, are important determinants of happiness. It further argues that nurturing mutually compatible goals among people will enhance efficiency and bring about more optimal use of scarce resources than if mutually incompatible goals are identified.

**I thank Yew Kwang Ng and Peter Baehr for their valuable comments.*

“I had found no significant relationship between happiness and time over a period in which GDP per capita grew by one-third, from 1972 to 1991 (Easterlin 1995, pp. 37-38). Charles Kenny (1999, pp. 14-15), based on a correlation of happiness with GDP per capita over the period 1952 to 1988, found a significant negative relationship in the United States... [O]ne needs to develop an empirically tested causal model that includes the life satisfaction derived from multiple sources – not just material goods, but also family life, health, work utility, and the like (Easterlin 2003). A better understanding of the causes of happiness will provide a more secure foundation for policy recommendations.”

Richard Easterlin(2004b)

“To be without some of the things you want is an indispensable part of happiness.”

Bertrand Russell

I. Introduction: Happiness as a Common Pursuit, and Government an Instrument to Further this Common Pursuit

In the American Declaration of Independence(1776), it is stated:

“We hold these Truths to be self-evident, that all Men are created equal, that they are endowed by their Creator with certain unalienable Rights, that among these are Life, Liberty, and the Pursuit of Happiness—That to secure these Rights, Governments are instituted among Men, deriving their just Powers from the Consent of the Governed, that whenever any Form of Government becomes destructive of these Ends, it is the Right of the People to alter or to abolish it, and to institute new Government, laying its Foundation on such Principles, and organizing its Powers in such Form, as to them shall seem most likely to effect their safety and Happiness.”

In this famous passage, which is meant to state a universal truth and not just an American dream, the word Happiness has been stated twice and capitalized. The pursuit of Happiness is listed alongside Life and Liberty as one of three naturally

endowed unalienable rights, and effecting the safety and Happiness of the People is clearly stated as the final goal of any government.¹

In this paper, we will explore the nature of happiness and its determinants, and in particular the kind of institutions most likely to enhance happiness. **Section II** will argue that utility in Bentham's sense is not happiness. **Section III** will present a theory of happiness and propose a framework involving a "forward looking happiness," a "happiness in process," and finally a "backward looking happiness." We will use this framework to explain some paradoxes that have been referred to by various happiness scholars. **Section IV** goes on to examine some policy implications of the framework. Here I shall argue that policy design should aim at maximizing the *ex ante* welfare of the representative individual, rather than "maximizing the greatest happiness of the greatest number" as advocated by Bentham, and I shall relate *ex ante* welfare to Rawlsian justice as well as to the concept of "residual risk," which is the risk one gets exposed to involuntarily. Finally **Section V** argues that "conflict resolution", both internal within one's mind and external in terms of relating harmoniously to other individuals, will enhance happiness and we define such a holistic attitude to life "spiritual practice." Thus "spiritual practice" is not mystical or "other worldly" at all. Rather it just entails the overcoming one's own weaknesses and handicaps, developing one's full potential, and taking a holistic view of one's life instead of being excessively concerned about marginal gains and marginal losses of the moment. This "transcendental attitude" would seem to be

¹ This paper defines happiness as a desirable human condition and is synonymous with "subjective well being." As such people with different values may achieve happiness through pursuing different goals. By this definition, all human beings knowingly or unknowingly pursue after happiness, even though some people, like Friedrich Nietzsche, openly denies happiness as a desirable goal.

directly in conflict with economic principles of maximization but is a natural development as one becomes more mature and developed spiritually over time.

II. Utility vs. Happiness: What Happiness is Not

Economists have studied human behavior for centuries and have always assumed human beings to be “utility maximizers.” The father of utilitarianism, Jeremy Bentham (1748-1832), is reputed to have held it a “sacred truth” that “the greatest happiness of the greatest number is the foundation of morals and legislation.” In his book, *Introduction to the Principles of Morals and Legislation* (1789), Bentham argued that every institution and action should be guided by the consideration of what would effect the greatest happiness of the greatest number.

Is utility the same as happiness? One might consider this as just a matter of semantics. But the way “utility” as used both by Bentham and in the economic profession in general is NOT happiness as understood by the man in street. An introduction to economics textbook would, for example, illustrate utility as a function of food and clothing for example. But while having more or better food and clothing gives one more utility it is not obvious that greater happiness necessarily follows, even though the lack of such most probably does lead to unhappiness. As Yew-kwang Ng(Ng, 2002) pointed out, citing Diner and Suh 1999, p.444, East-Asian regions score rather low in life satisfaction (China 4.00, Korea 4.98, Hong Kong 5.07, Japan 5.14, Singapore 5.72) in comparison to countries of lower per-capita incomes (Nigeria 5.11, India 5.15, Pakistan 5.49, Peru 5.77, Egypt 6.14, Colombia 6.20). In the same article, Ng also cited works showing that “individuals who strongly value extrinsic goals (e.g. fame, wealth, image) relative to intrinsic goals (e.g. personal development, relatedness, community) have less happiness (Ryan, et al, 1999).”

Moreover, "Materialism, a preoccupation with economic well-being, is negatively correlated with SWB [subjective well-being], and especially so in those that believe that more money would make one happier." (Offer 2000, p.20).

We know of various people who, despite serious physical handicap, are truly happy notwithstanding the disutility associated with the handicaps. One proud Japanese young man was born limbless, but he struggled hard and overcame the handicap and became a renowned author preaching the joy of life. The story was featured in *Asia Weekly*, a Chinese magazine some two years ago. One young woman, called Luo Pei-yong, born without forearms, learnt successfully in mastering calligraphy and Chinese painting with her toes and was obviously very satisfied with her achievements and her life (*Mingpao* Nov. 25, 2004).

These results and stories strongly call into question any suggestion that happiness could be identified with the presence of pleasure and the absence of pain.² Bentham's "felicific calculus" that would take into account the intensity, duration, likelihood, extent, etc. of pleasures and pains, would then seem to be totally misplaced. While Bentham did use the term happiness and utility interchangeably, and while human beings do tend to shun pain and have an affinity for pleasure, it is apparent that happiness is not the simple summation of all positive utilities subtracting all the negative (dis-) utilities.

III. The Nature of Happiness

² "Bentham's utilitarianism is hedonistic. Although he describes the good not only as pleasure, but also as happiness, benefit, advantage, etc., he treats these concepts as more or less synonymous, and seems to think of them as reducible to pleasure." The Penguin Dictionary of Philosophy ed. Thomas Mautner

While no one would dispute that happiness and unhappiness has something to do with “utility” and “disutility,” happiness—which should be the ultimate objective that matters as Ng pointed out—is far more complicated than utility.

For analytical convenience we can identify three types of happiness: a “prospective happiness” based on forward looking considerations, a “happiness in process” based on the experience of the here and the now, and a “retrospective happiness” based on backward looking considerations. Although labeled as such, all three types of happiness are real and *are realized* momentarily: one actually feels happy at the prospect of seeing one’s loved ones after a long separation; one actually feels thrilled at the reunion; one smiles and feels happy about happy moments experienced in the past.

Daniel Kahneman, Peter P. Wakker and Rakesh Sarin(1997) discussed two concepts related to the first two types of happiness discussed herein. They distinguished two senses of utility. One, dubbed “experienced utility,” is a hedonic quality, and corresponds with Bentham’s usage. They call the forward-looking type “decision utility” and explained that it is the “weight of an outcome in a decision,” i.e., the subjective value of an outcome in a decision prior to the event. However, from the examples with which they explained the concept, “decision utility” is *not* realized utility. Decision utility is just the implicit numbers that order choices or alternatives prior to an event. In contrast, my *ex ante realized* utility, or *ex ante* utility in short refers to the state of well being as affected by the prospect of alternative choices. This is also different from expected utility in the Von Neumann-Morgenstern sense.

Referring to the diagram above, under the Von Neumann-Morgenstern framework, the two prospects, that with expected income B, and the other with expected income B', have equal certainty equivalents because they have the same expected utility (mathematical expectations). Here U(A) and U(C) are the *ex post* realized utilities under the fortunate and the unfortunate scenarios respectively for the more risky prospect, while U(A') and U(C') are the *ex post* realized utilities under the fortunate and the unfortunate scenarios respectively for the less risky prospect. The individual is assumed to be indifferent between prospects that have the same certainty equivalent values defined in this way.

The theory of prospective utility, however, says that in practice human perception is not like this. The prior or *ex ante* valuation of a more risky prospect tends to be higher than the *ex ante* valuation of the less risky prospect.

$E(U_1, U_2) = E(U_1', U_2')$ is not a sufficient condition for them to be equivalent to the individual at the time of decision making. The VN-M framework has no doubt incorporated the effects of risk aversion with respect to income, but has not taken into account the possibility of risk aversion with respect to *ex post* utilities.

Figure2: Ex Ante Utility vs Expected Utility

The curved lines in the above diagram trace out the *ex ante realized* utility associated with different probability combinations for the higher and the lower utilities. Thus, even though the prospects (A,C) and (A', C') have exactly the same expected utilities, the fact that the inner curved line is always higher than the outer one suggests that a risk-averse individual would always prefer the latter to the former. This is not irrational, because in practice the life span of an individual is finite and there may not be many opportunities of the same prospect repeating itself in the relevant time horizon of the individual. Under many circumstances, the individual simply cannot afford to face the scenario of misfortune. Thus we can appreciate why people are so alarmed by the SARS episode. Although people are told that the chances of

contracting and dying from SARS are very low, i.e., their expected ex post utilities may not have been much affected, they are worried. This means that there is a loss of realized utility just at the prospect of a minimal chance of contracting the disease. Similarly, when an armed robbery has occurred in a community, there is an immediate loss of utility—which is an *ex ante* realized utility loss because the decline in utility has been realized and is due to the prospect of an armed robbery occurring again in the community. In particular, I pointed out that the von Neumann Morgenstern expected utility theory had ignored the *ex ante* discount to expected utility due to perceived risk. Risk as perceived is often(though not necessarily) a mental bad³ and elicits a discount in the “*ex ante realized* utility.” In conclusion, the state of happiness or unhappiness may be “*forward looking*” in nature: it may have to do with perceptions about various possibilities that are in the offing, involving perhaps a sense of risk or a sense of security or insecurity, or perhaps even a sense of excitement as one prospects the future. *Ex ante* utility may command a premium as well as a discount over expected utility.

The “experienced utility” discussed by Kahneman *et.al.* appears to be identical to Bentham’s utility. However, while “happiness in process” may encompass much more than Bentham’s hedonic utility. Quite apart from the enjoyment of good food and good drinks and good company(hedonic utility), people feel happy if they are true to their inner “calling” and are given the opportunity to pursue what they want and to live out their beliefs. So Nietzsche aspires “to learn more and more to see as beautiful what is necessary in things” and to “be one of those who make things beautiful...” while Socrates preferred to die in dignity and to remain faithful to his beliefs till his very end.

³ Another example is discussed in Harbaugh(2003), who discussed how the fear of being regarded inept(a mental bad) and how the desire to be seen competent may affect behavior.

Thus when the aspiring musician works hard and becomes a musician, or when the aspiring sculptor works hard and is engulfed in his work, or when the aspiring scientist works hard and discovers more and more about the universe, they may feel happy in the process. But simply saying that “work gives people utility” would miss the true nature of this happiness, for the happiness is not inherent in the work itself. Rather it comes from the “self-actualization” experience *a la* Maslow(1970).

Then there is a retrospective or “backward looking” happiness. It is backward looking in the sense that people feel satisfied or dissatisfied upon looking back and considering what one has done and gone through. Thus people get fulfillment by fighting very hard for their dreams. Such fulfillment could have been impossible if they could get what they wanted at the pressing of a button. People cheer others’ achievements, but achievements would never have been achievements without the difficulties. Human beings feel happy when they have a fulfilled life but this might not even be possible if they had never experienced pain or a sense of loss. This shows that, paradoxically, experiences that momentarily produce “negative utility” may enhance happiness.

“Backward looking happiness” may also be negative. For example, there is the unhappiness associated with regretting over what one has done and sighing over what one has missed or lost. Once again, we see how important “attitudes” are in determining whether a particular experience is a “plus” or a “minus” in one’s life. This dimension would have eluded those economists who are just focused on happiness in process in the hedonic sense.

Thus Kenneth Arrow’s doctoral thesis, *Social Choice and Individual Values*, is aptly

titled indeed. It testifies to the effect that happiness has to do with the realization of individual values. From the foregoing, individual values consist of at least three elements: the forward looking valuation of prospects, the backward looking valuation of life accomplishments, regrets, and sorrows, and finally the temporal valuation of living autonomously and freely and pursuing one's dreams and interests.

Hedonic or "utilitarian utility" certainly has a part to play in these valuations, but it is a far cry from directly representing happiness. Utilitarian utility, or "experienced utility" as Kahneman *et.al.* called it, may relate to the lower tiers of needs as Abraham Maslow discussed. But it may also have to do with the satisfaction from self actualization when people pursue what they like. Consideration of utilitarian utility under different possible future states of the world plays a part in the *ex ante* utility or "decision utility" that we discussed earlier, but the concepts are not identical. Finally, the disutility of obstacles and effort may actually enhance the happiness resulting from a sense of achievement, while a sense of loss over missed utilities or regret over one's mistakes may haunt someone for a long time and makes one unhappy.

Just as utilitarian utility can be ascribed to "characteristics" or "attributes" *a la* Lancaster(1966) and Becker(1965)⁴ which are the outputs of "household production" that uses physical goods and services as inputs, along with time spent in various consumption activities, so we can envisage "mental goods" and "mental bads" similarly as outputs of various household activities, particularly cultural, religious,

⁴ Kelvin Lancaster and Gary Becker show us that market goods and services are merely inputs that work with the consumers' time and even effort to produce the attributes that count in a (utilitarian) utility function. These attributes, like taste, comfort, beautiful sights and soothing sounds, are generally physical, physiological, or sensory in nature.

educational activities. The extent to which one engages in these activities will depend on opportunities and risks. The formation of mental goods and bads however is not just determined by the activities but also by the social-economic-political environment and by attitudes. Similarly, utilitarian utility is also a function of household activities, and health. Obviously, “household activities” would require time input as well as market goods and services as inputs. With attitudes being an important determinant of mental goods and bads activities that affect the formation of attitudes may have a far stronger impact on human welfare than the production of market goods and services.

Algebraically, we can write:

$$H(M(A(O, R), E, a), U(A(O, R), h))$$

where H is the degree of happiness and is a function of M , a vector of *mental* qualities (both good and bad), and U , a vector of *physical* utilities (both good and bad). Mental goods and mental bads M are functions of (i) activities (past, present, and future) which are themselves subject to the constraint of opportunities O and the vagaries of opportunity fluctuations R , (ii) the socio-economic-political environment E , and (iii) attitudes a . Utilitarian or physical utilities U are functions of activities A , again subject to the constraint of opportunities O and risks R , and health h . Clearly, income is an important factor determining the size of the opportunities set, but income is not the only factor and is certainly not the overriding factor determining M .

To reiterate, happiness is a state of mind such that a high degree of happiness is synonymous with a high value (or quality) of life. The degree of happiness depends

on the presence of “mental goods” and/or “mental bads”, as well as utilitarian utilities. Mental goods and mental bads are, however, *derivatives* of household activities that may include consumption, as well as the external environment and the perception and value system of individuals. Whereas economists have traditionally taken perceptions and the value system as given, in fact they evolve with the social institutions and are affected by cultural and educational activities.

With this general framework, we can now offer some explanations for some paradoxical observations:

- Sometimes, the perception of one’s relative position in a group in terms of consumption matters even more than the absolute level of consumption (Galbraith, 1958, Layard, 2003). Galbraith in his book *The Affluent Society* had vehemently criticized modern enterprises as creating demand when it never existed before. He pointed to the “rat race”, particularly people’s vain attempt to keep up with the Joneses, and saw the folly and the wastefulness of the activity.

A “culture” of self affirmation by matching others’ consumption level is extremely wasteful. If the valuable mental good is self affirmation, it may be achieved by a myriad of ways—provided that these alternative, more economical, ways are supported by education, cultural environment, and the right set of institutions.

- When given a choice between getting \$1000 with certainty or having a 50% chance of getting \$2500 and 50% chance of getting nothing many people choose

the certain \$1000 in preference to the uncertain chance of getting \$2500 even though the mathematical expectation of the uncertain option is \$1250.

This can be easily explained with a risk discount associated with the uncertain prospect of getting 0 or \$2500. “A bird in hand is better than two in the forest.”

- Kahneman and Tversky found that the same people when confronted with a certain loss of \$1000 versus a 50% chance of no loss or a \$2500 loss do often choose the risky alternative. In this case people appear to seek rather than to avoid risk.

Many people would still choose the smaller but certain loss. But some who had opted to avoid risk in the earlier example may now opt for the more risky prospect. It is easy to evaluate a clear improvement over the benchmark of the status quo. Being offered a certain gain of \$1000 is interpreted as a sure gain of welfare over the status quo. One simply opts for a clear improvement. It is less easy to evaluate a risky prospect against a certain loss. The certain loss is a certain loss relative to the status quo. On the other hand the risky prospect offers an opportunity of no loss relative to the status quo.

- Peter Bernstein cites an experiment by Richard Thaler in which student were told to assume they had just won \$30 and were offered a coin-flip upon which they would win or lose \$9. Seventy percent of the students opted for the coin-flip. When other students were offered \$30 for certain versus a coin-flip in which they got either \$21 or \$39 a much smaller proportion, 43%, opted for the coin-flip.

People consider a windfall as something that occurred just by sheer luck and so costs nothing or very little. So they are more ready to take risky positions having won a

windfall. On the other hand when the 30 dollars were not presented as a windfall they are more cautious of risking their money.

These examples indicate the importance of *benchmarking* in decision making. When presented with too many choices, benchmarking becomes difficult and the individual becomes disoriented. Just as Kahneman pointed out, a key explanation for people's apparently inconsistent choices lies in the imperfection of *perceptions*. Just as in a Newtonian world, benchmarking allows the perception of relative movements which have no intrinsic absolute meanings. Perceptions vary with the way the situation is presented because the way a situation is presented affects the choice of the benchmark. The flimsiness of perceptions suggests how shaky most studies of cost and benefit analysis are because their validity hinges on the assumptions that "to choose is to prefer" and that "we can infer peoples' valuation of alternatives just by looking at their behavior." Such studies will fall apart if this assumption falls apart.

- Schwartz (2003) noted that very often, contrary to what is frequently assumed by economists, "more is less" in the sense that, when confronted with a huge variety of choices, the decision maker loses orientation and becomes panicky.

This has to do with the forward-looking valuation of various prospects. Faced with more prospects than one can evaluate and the absence of any natural benchmark or reference point, one may become disoriented. A sense of disorientation is a mental bad.

Proposition One: Given that perceptions and the value system count at least as much as ex post utilitarian utility in peoples' behavior and effective state of welfare, if we

are concerned about the condition of the human existence, and if we are concerned about effectively utilizing our resources to bring about a better outcome, we had better deal with the “culturally determined” utility function. We really cannot afford not to deal with it.

IV. Policy Implications of the Theory of Mental Goods and Mental Bads

A theory of happiness based on mental goods and mental bads, rather than sensory goods and bads, has important implications for public policy. I venture to propose that the common mental goods include the following:

- (1) a sense of autonomy
- (2) perceived freedom from the threat of hunger, cold, the torture of illness, and other physical ailments, and a sense of safety from bodily harm
- (3) perceived freedom from a sense of loss
- (4) a sense of achievement, i.e., accomplishing what one has wanted to do for a long time.
- (5) self esteem: the feeling of one's worthiness
- (6) a sense of being accepted and respected
- (7) a sense of being in command of oneself
- (8) loving and being loved

On the other hand some of the mental bads that will make people unhappy are:

- (1) a sense of having one's free will subjected to others' demands(external)
- (2) a sense losing command over oneself

- (3) threat from hunger, cold, the torture of illness, and other physical ailments, and the threat of bodily harm
- (4) a sense of loss, such as arising from the loss of a friend or a beloved one or a treasured good.
- (5) a sense of frustration, which may also be associated with a sense of being betrayed
- (6) loss of self esteem
- (7) a sense of being rejected and treated with contempt
- (8) not being loved and not able to love others
- (9) hate
- (10) jealousy

Conspicuously absent from the first list are good food and drinks, the ownership of expensive jewelry, the ownership of a beautiful house, etc., which can all be said to be high in utility. Similarly, conspicuously absent from the list of factors for mental bads are hard work, physical exertion, and not having good food and beautiful clothes.

We will now look at some policy implications.

(a) Hard Work Pays for a “Worthy Purpose”

It is noteworthy that an aspiring musician training hard to upgrade the command over his beloved musical instrument may not complain of hard work and may actually enjoy the hard work. On the other hand a child who trains unwillingly at the command of the mother may feel quite miserable. The “disutility” of the training gives the aspiring musician a sense of accomplishment. The unhappiness over the

“disutility” of the forced training, on the other hand, stems from the absence of an identified purpose of that exertion.

Proposition Two: It is not for policy makers or the government to tell individuals what is a worthy purpose. But having an identified purpose does make a great difference in one’s subjective well being. So nurturing a purpose that is economically sound and achievable will make people happier, often even more so than the production of goods and services. Providing an environment that encourages individuals to identify a mutually achievable (as opposed to a mutually exclusive) purpose, whatever it is, is therefore economically valuable.

(b) Ex Ante Welfare and the Superiority of the Market Economy

Let us go back to the American Declaration of Independence. Many, if not all, Americans take pride in the American Declaration of Independence, and they take pride in the American constitution, particularly the ten amendments or the so called Bill of Rights. There is little doubt that this sense of pride contributes to the happiness of the American people. There is little doubt that the Bill of Rights have made Americans relatively free from oppression and safer than the peoples of many other nations who do not enjoy the protection of such rights. This freedom from oppression and sense of security has contributed to what is called “*ex ante* welfare” and has lured many aspiring immigrants all over the world.

To explain *ex ante* welfare, consider the market economy, which allows every producer the opportunity to compete in selling their products and services in the factor market and every consumer the opportunity to compete for their preferred products

and services for consumption. Under this set up there will be some successful entrepreneurs who make a fortune and realize their dreams and some unsuccessful ones who eventually lose their fortune. Some workers will earn much while others earn very little. Some stay on career jobs and rise to the top while others fall into the ranks of the long term unemployed. Yet, *ex ante*, while people do not know where they would end up they nevertheless may prefer this system to a command economy in which a central planner dictates where one works and the ration that one consumes. That is to say, *ex post*, some people could be worse off under a market economy than under a centrally planned economy, but *ex ante* everybody may prefer the market economy. Modern history tells us that there is actually a revealed preference for market economy over the command economy, and the reason is simple. *It is that a market economy, by respecting and preserving the autonomy of individuals, is more akin to human nature.* Because people prefer the market economy *ex ante*, we say that their *ex ante* welfare under the market economy is higher, particularly when the government provides a social safety net that protects people from misfortunes.

Proposition Three. *The market economy, by allowing individuals to exercise their autonomy and choices, is preferred over the command economy.*

(c) The Representative Individual Construct and Rawlsian Justice

John Rawls in his Theory of Justice(1971) contended that in order to decide if a set of institutions is just, we would have to do a mental experiment, namely to imagine that we suddenly had lost our identity and were all behind a “veil of ignorance” as to

where we stood in society.⁵ We would imagine that we could fall into the shoes of anyone within the society and face the eventualities as prevailed under that set of institutions. Since we are all averse to extreme risks, we would put much weight on the welfare of the most unlucky member of society, so much so that according to one common interpretation among economists “social welfare” is, under the Rawlsian framework, exclusively determined by the welfare of this unlucky fellow.

While I do not agree with this interpretation of Rawls, I agree that it is indeed important to consider the extreme risks to which the “representative individual” is faced with. In making decisions that will affect future outcomes, individuals acting impartially will need to consider the possibility that they could be the unfortunate ones suffering from the worst scenario that might befall members of a society. It is in such considerations that the concept of “decision utility” came up (Kahneman, D.E. et al., 1997). Consider a hypothetical “game”, under which one among a hundred is selected randomly to serve the rest for the rest of one’s life. *Ex post*, the utilities enjoyed by 99 individuals will be higher, yet *ex ante* the set up is likely to be rejected by everybody. Moreover, while *ex post* utilities are higher for the 99, they need not be happier. Unlike in the case of the market economy, which people generally prefer over the command economy, even though risks are higher, here people do not willingly take up the risk. The knowledge that a member of the 100 is victimized against his wish and that this misfortune could befall oneself would undermine happiness.

The limitation of the Benthamite concept of maximizing the greatest happiness of the

⁵ This “veil of ignorance” test, otherwise called the impartiality test, was first proposed by Harsanyi (1953, 1955), as pointed out by Yew-kwang Ng.

greatest number is now apparent. Is victimizing one individual to benefit the rest social welfare improving? Is increasing the population by 10 per cent while reducing the welfare of the existing population by 5 per cent an improvement? If this is not an improvement, how about increasing the population by 20 per cent? This line of reason stretches our imagination and borders on being ridiculous. On the other hand, under the *ex ante* welfare for the representative individual approach, we will ask if the representative individual will prefer to see a 5 per cent decline in welfare and a 10 per cent increase in the population. If he says no, there is no point in arguing for reducing the welfare of the existing population by 5 per cent and increasing the population.

Proposition Four The framework of a representative individual confronting different possibilities and making decisions ex ante is more appropriate than the Benthamite “greatest happiness for the greatest number” framework.

(d) Residual Risks, Worries, and Insurance

While people may accept being exposed to some risks—as long as they have the freedom and the autonomy to do so, people generally want to avoid great risks that are thrust upon them. For example the risk of being knocked down by a car that goes out of control is called a residual risk because it is unavoidable and involuntary. Knowledge of the presence of such residual risks always reduces *ex ante* welfare. The availability of insurance, private or social, that protects against the worst scenarios and offers “peace of mind” enhances prospective or *ex ante* happiness.

Proposition Five Insurance mechanisms as well as other provisions that reduce the

impact of residual risks or reduce residual risks enhance social welfare.

(e) Excessive Choices and Anxiety

Economists traditionally regard the existence of more choices as enhancing utility. But we know from our own experience that having too many choices is confusing and often results in anxiety. The fact is that choices require decision and decisions are often difficult because there is uncertainty and because information is costly. Being confronted with too many choices for one to intelligently grasp is confusing and bewildering. The prospect of unfathomable risks and the uncertainty of multiple possibilities cause anxiety and reduces happiness.

Proposition Six *Providing more choices is not necessarily welfare enhancing.*

(f) Transcendental Happiness and Attitude Training

Thus while Bentham would have us think of utilities as additive and either positive or negative, happiness may be enhanced by the existence of strains, difficulties, and strains in life, which alert us of the value of respect, courage, perseverance, and love. Happiness may therefore be transcendental. On the other hand, “utilitarian utility” is limiting and partial. Happiness requires an awakening and is enduring. Utilitarian utility is physical and impulsive and is more transient.

Thus happiness requires a kind of “conflict resolution.” There is an internal conflict resolution(see George Ainslie, 1992) as well as an external conflict resolution. The former requires an ability to assess the situation and to ignore distracting information

and knowing what to do in the face of competing or conflicting wants. Internal to us we are not only subject to competing desires within ourselves, but we are also subject to all kinds of fears and worries. These fears and worries have to do with the prospect of “disutility” arising from failing to achieve identified goals, losing wealth or health, failing to meet others’ expectations, etc. The failure to resolve these conflicts, as well as the failure to deal with these fears and worries may cause much anxiety and stress.⁶

Then external to us there is also the need for conflict resolution, because many of the commonly pursued goals are “rivalrous” or “subject to contest” among people.⁷ The world’s religions appear to be particularly apt in helping individuals achieve such conflict resolution and so enhances happiness.

Proposition Seven: Happiness does not come just from without and certainly comes at least as much from within. Attitudes are an important determinant of happiness and nurturing a positive attitude in people is at least as important as economic growth in promoting human welfare.

Proposition Eight: Much anxiety or unhappiness arises when people strive for goals that are contestable and rivalrous, such as being “above average” in performance.

⁶ Consider the first verse in Song of the Truthful Mind from the Third Zen Buddhist Patriarch Seng Can: “The way of the supreme is not difficult if only people will give up preferences. Like not, dislike not. Be illuminated.”

⁷ Consider Chapter 22 of the Daodejing of Laozi: “(In seeking growth) one never needs to struggle or to contest with others, so one will never need to fear that one’s achievements will be contested away by others.”

Identifying mutually compatible or commonly achievable goals reduces interpersonal conflicts, jealousy, and anxiety and enhances happiness. A society that fosters commonly achievable goals engenders more social cohesion and can be said to have more social capital.

V. Conclusions

Religion has always been an important part of human history. If the various religions can coexist peacefully, by forging attitudes and cultivating purposes that free people from the bondage of material well being *per se* and that inspire people to pursue mutually compatible goals, religions could be a great enterprise for humanity, in the sense that they may enhance happiness even in the face of limited resources. On the other hand, when people pursue mutually incompatible goals such as conspicuous consumption, they may remain unhappy even in the presence of a relative abundance of resources.

One such mutually compatible purpose is the overcoming of one's apparently inherent weaknesses, and finding meaning behind the entire life experience, and at enjoying the freedom from the internal conflicts that often disturb many individuals. In contrast to utilitarian or Benthamite utility, happiness is not the sum of positive utilities minus the negative utilities. A gain is then not necessarily a gain and a loss is not necessarily a loss. The calculating, utility maximizing mind gives way to an uncalculating, loving, and selfless mind that may be called spirituality.

It is in this sense and for these reasons that “only spirituality and a sense of purpose bring bliss” as Stephen Joseph, a psychologist with the University of Warwick in England, found. Joseph's study seeks a recipe for happiness. He found that material success, wealth, and possessions could undermine happiness, and that religions of all stripes, including spiritual pursuit outside of traditional religions, could make a person happier. Through “education” or “religion”, or whatever activity it is called, freeing humanity from the Benthamite obsession about utility and the “felicific calculus” may paradoxically make the Benthamite dream of greatest happiness for the greatest number closer to reality.

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