



# (Happiness and) Social relations

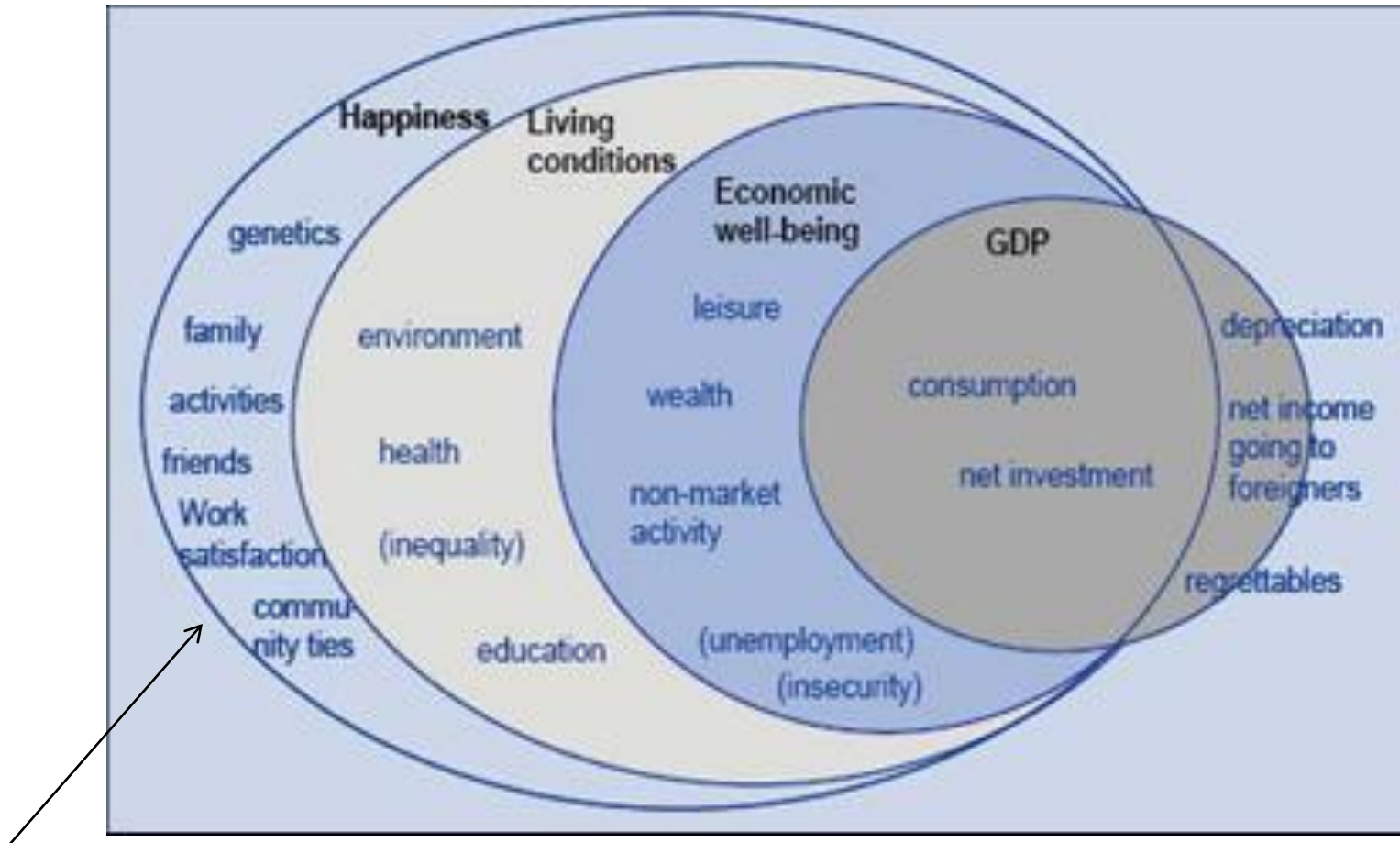
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and Fostering the Progress of Societies, Mexico City,  
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# Where social relationships are in the new wellbeing vision ?



In the last ring but not only...social richness reduces poverty risk and increases productivity

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1. Social relations are still a hidden and only partially explored dimension in economics
2. Social relations and the “Happiness paradox”
3. Social relations and the “Easterlin paradox”
4. The “relational good disease” is one of the four explanations of the Easterlin paradox
5. The problem of causality in the relationship between happiness and relational goods
6. The productivity of relationships

# The neglect for social relationships in economics

- The anthropological reductionism of most economic models studies individuals in isolation
- Sen (1976): the homo economicus is a rational fool since it is made only of self-interest ignoring two crucial dimensions: moral committment and “symphaty” (from Greek “feeling together with others)
- Sympathy has to do with our relational nature.
- In what follows we illustrate how much we loose with this reductionist perspective

# The happiness paradox in Economics, Philosophy and Psychology tells us that relationships are crucial for our life satisfaction (1)

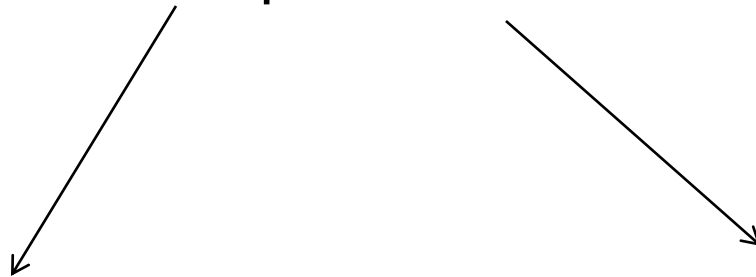
- *“Happiness in whatever form is the consequence of a vital activity not directly polarized toward happiness itself with intentional desire”* Frankl
- *Happiness is “delectatio in felicitate alterius”* Leibnitz
- *“And for every grain of enjoyment you sow in the bosom of another, you shall find a harvest in your own bosom, --while every sorrow which you pluck out from the thoughts and feelings of a fellow creature shall be replaced by beautiful flowers of peace and joy in the sanctuary of your soul.”*  
Jeremy Bentham Advise to a young girl, June 22, 1830

# The happiness paradox tells us that we are made of relationships (2) (we cannot be happy alone)

- *“Concern for our own happiness recommends to us the virtue of prudence: concern for that of other people”* (Smith, 1759: 385). (Adam Smith, 1759: 385)
- *Those only are happy, I thought, who have their minds fixed on some object other than their own happiness, on the happiness of others, on the improvement of mankind, even on some art or pursuit, followed not as a means, but as itself an ideal end. Aiming thus at something else, they find happiness by the way* [Mill, 1893, pg. 117].

- The problem however for society wellbeing is: who are the others ?

A method for classifying relationships is to look at their effects on third parties



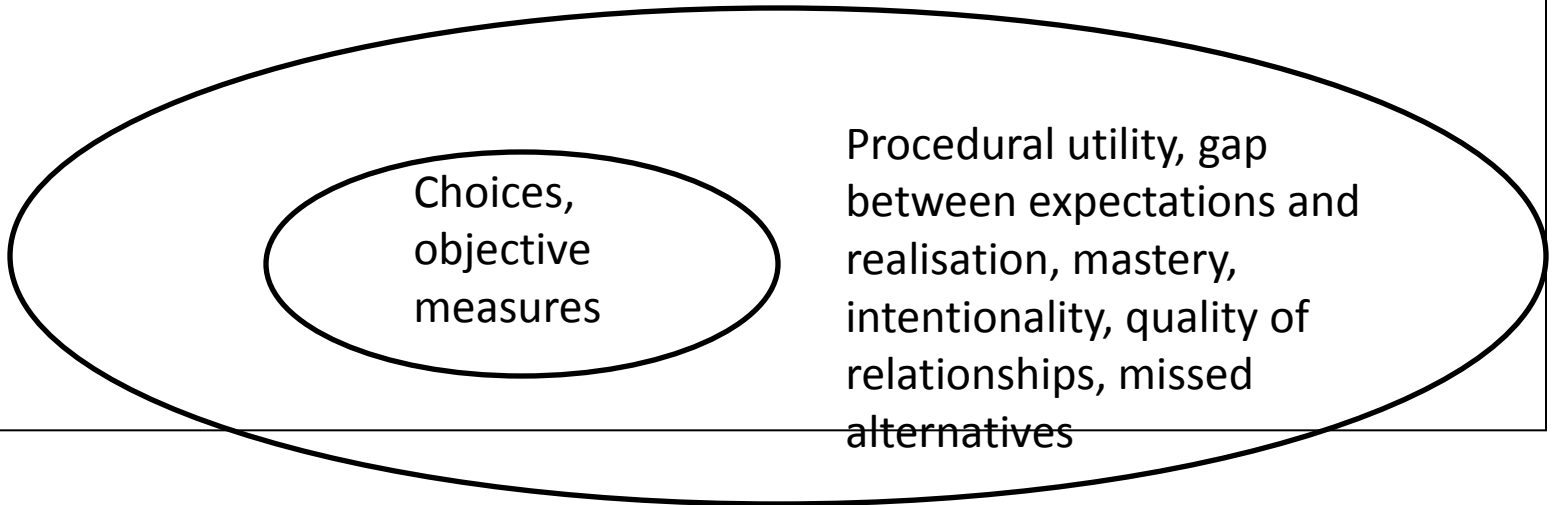
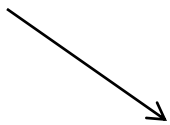
**Bonding relationships :**  
promoting well being of my partners at the expense of third parties (amoral familism, mafia) Olson (1965 and 1982)

**Bridging relationships :**  
promoting together with my partners the well being of third parties (voluntary organisations, ...) (Putnam et al. (1993)

# Why do we study happiness

- Subjective PGG satisfaction is a more comprehensive measure than standard objective measures with strongest predictive power on individual behaviour (see data on Tunisia and Egypt).
- ..lack of satisfaction may rise for the same level of material goods or political rights if in another country there is an increase of them

Satisfaction



Choices,  
objective  
measures

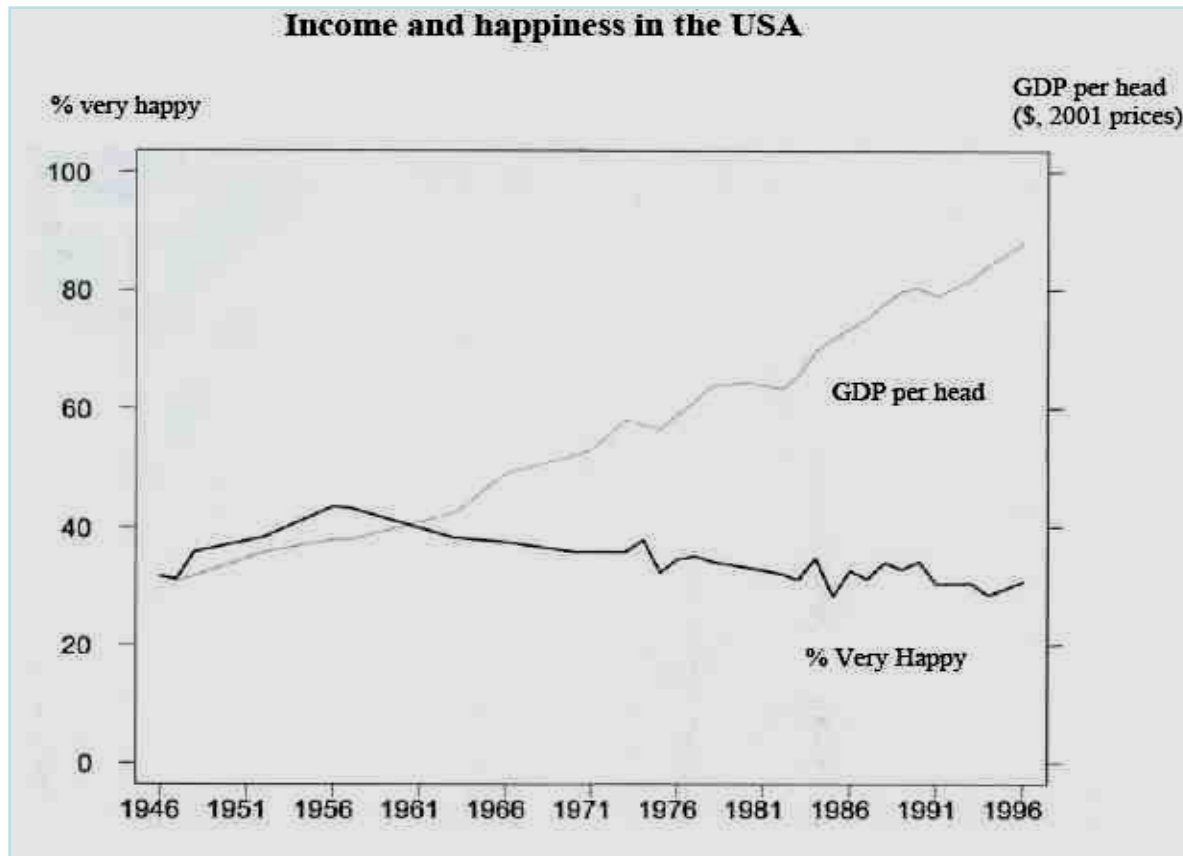
Procedural utility, gap  
between expectations and  
realisation, mastery,  
intentionality, quality of  
relationships, missed  
alternatives



The relationship between happiness and relational goods (the Baumol's disease of relational goods) is one of the four explanations of the Easterlin's paradox

# The Easterlin paradox

Decoupling between gdp growth and life satisfaction ?



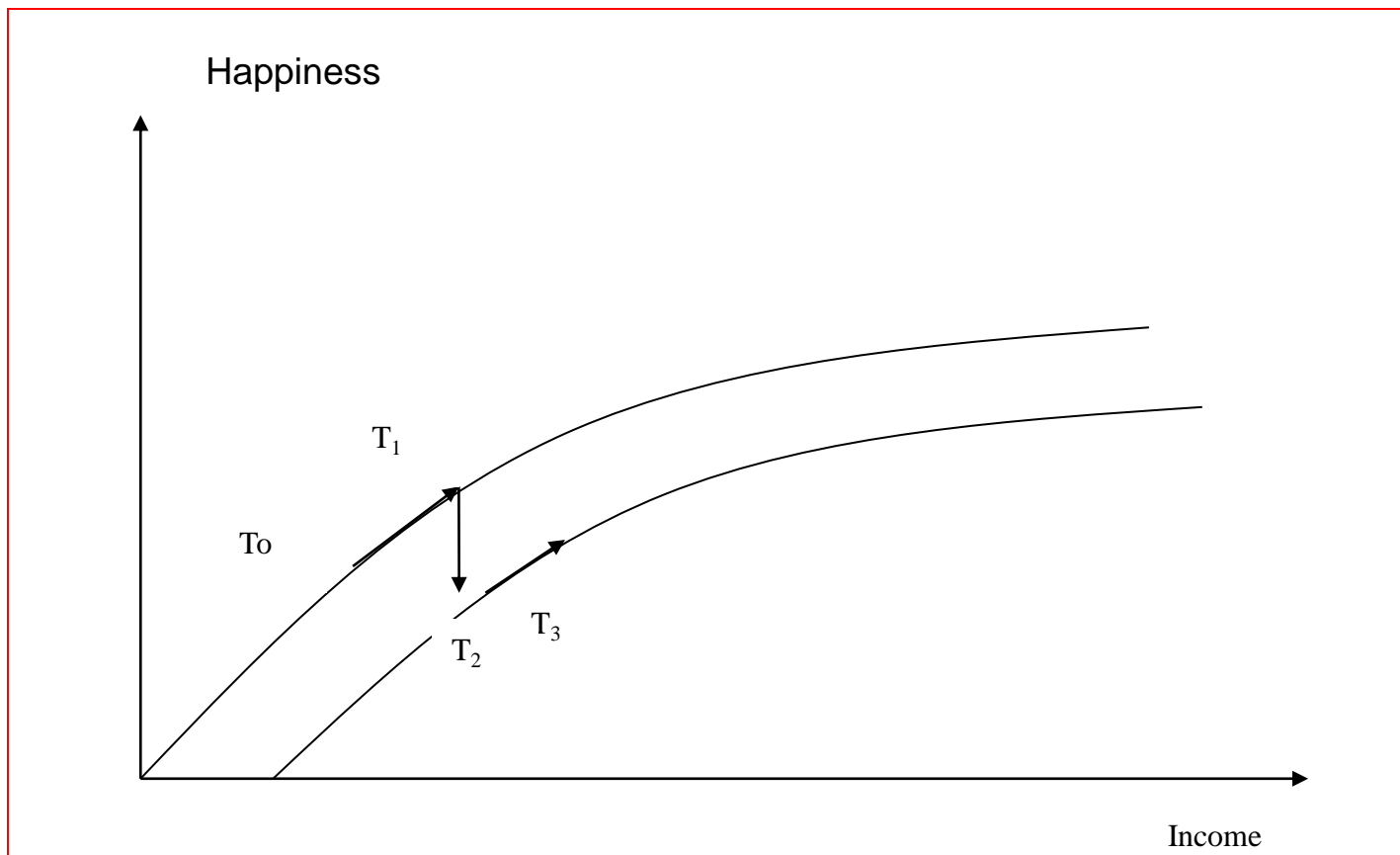
**Frustrated achievers:**  
one third of individual  
with yearly increase in  
per capita income  
register a reduction of  
happiness (1984-  
2004, 168,626  
observations)  
(Becchetti L. Rossetti F.,  
2009, *Journal of  
Socioeconomics*)

# Per capita income is not a good measure of financial wellbeing

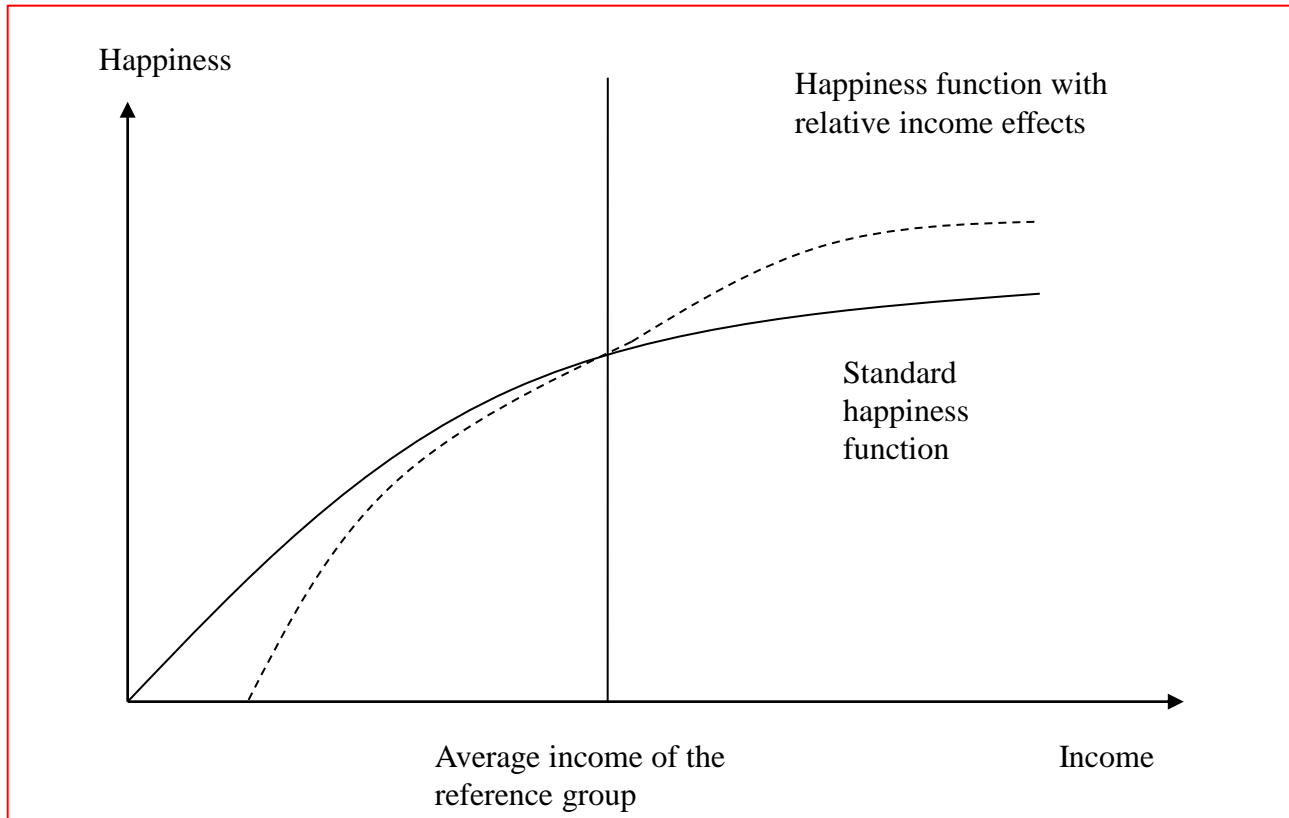
## first explanation

- we looked too much to per capita GDP while disposable income after paying health and education is much more crucial for life satisfaction
- In the US rising household debt (De Bonis et al. 2007) and increasing inequality (Wilkinson and Pickett, 2009). In Italy saving rates and wealth to income ratios are higher and debt to income ratio far lower than in the US. Health and education are free and a higher stake of pension rights is not affected by stock market volatility..

# Hedonic adaptation – second explanation



# Relative income third explanation



The fourth explanation has to do with social relations...

# Relational goods (1)

- *A specific kind of local public goods – nonexcludable and antirival more than non rival - (requiring the joint participation of at least two individuals) for which investment, production and consumption coincide (Gui, 2000; Ulhaner, 1989)*
- Examples of relational goods: friendship, love affection, marriage, various forms of social activities, etc.
- Encounters are the production function of relational goods but not the relational good itself

# Relational goods (2)

- They require sincerity or *genuineness* to be valuable (Bruni and Stanca, 2008). These two features cannot be acquired on the market (without being transformed in something completely different) even though they can be generated as a by product of some instrumental activity.
- The quality of relational goods depends on “fellow feelings (Adam Smith’s *Theory of Moral Sentiments*): mental states produced during such non instrumental social interactions. Fellow feelings are, in turn, fuelled by emotional consent and a record of intense experiences lived together (...not necessarily good experiences, even funerals !)

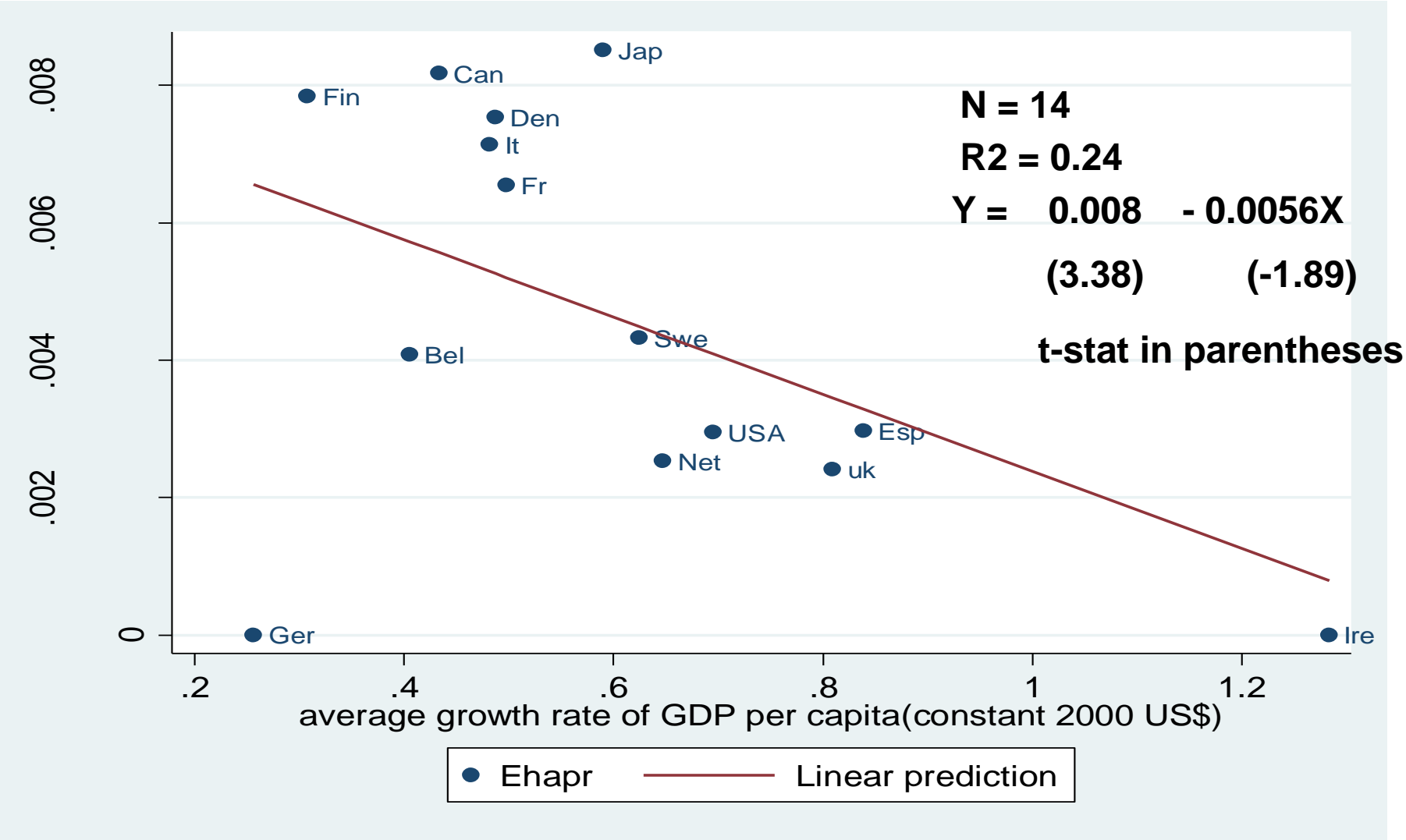




# The “Baumol” disease of relational goods

1. The opportunity cost of time invested in human relationship is grown enormously with the increase in labour productivity and in opportunities of non relational leisure
2. Relational goods require coordinated effort and suffer from coordination failures
3. Human being ends up in a “low relational good” trap
4. All indicators of relational goods show their crisis in Western countries....
5. ....but relational goods have a strong positive effect on individual’s life satisfaction
6. *Sources:* Helliwell and Putnam (2004), Bartolini et al. (2007), Corrado and Aslam (2007), Becchetti et al. (2008), Bruni and Stanca (2008), Meier and Stutzer (2008), Powdathvee (2008)

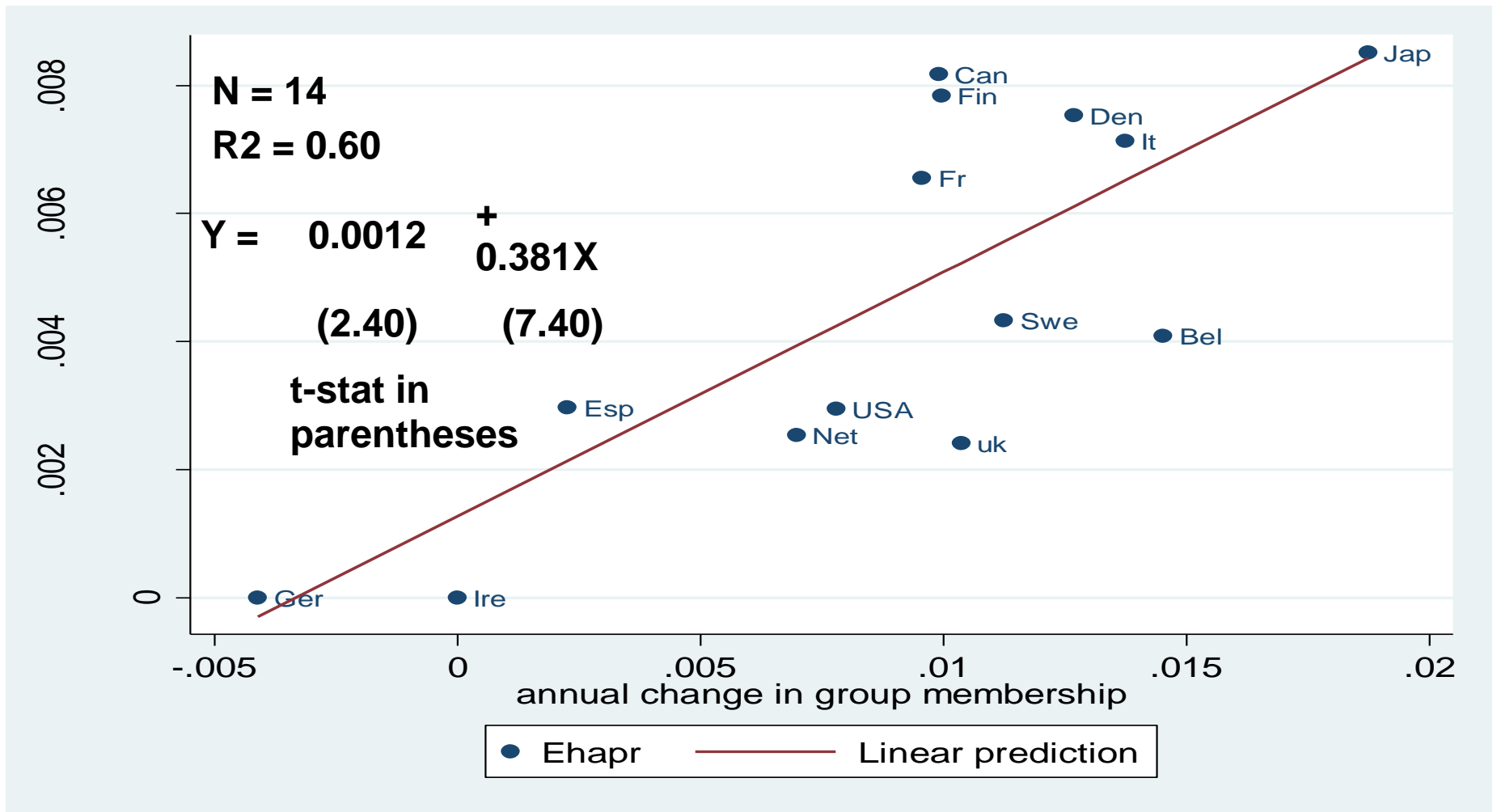
# Easterlin and Angelescu's regression replicated on our sample



**Happiness & GDP in Developed countries (15 years)**

# Happiness & Social Capital

## Developed countries (15 years)



dependent variable = average growth rate of happiness

independent variable = average growth rate of membership in associations

unit of observation = country

time span = at least 4 waves

# Happiness correlates positively with time spent for relationships

Table 5: Happiness and time spent for relationship

	Relational time index (RTI)*		
	(0 – 1)	(1 – 2)	(2 – 3)
Very happy	18.65	22.27	28.84
Quite happy	48.72	56.09	53.91
Not very happy	24.56	18.20	14.73
Not at all happy	8.07	3.44	2.52
	100	100	100
Obs.	84,856		

# Income correlates slightly negatively with time spent for relationship

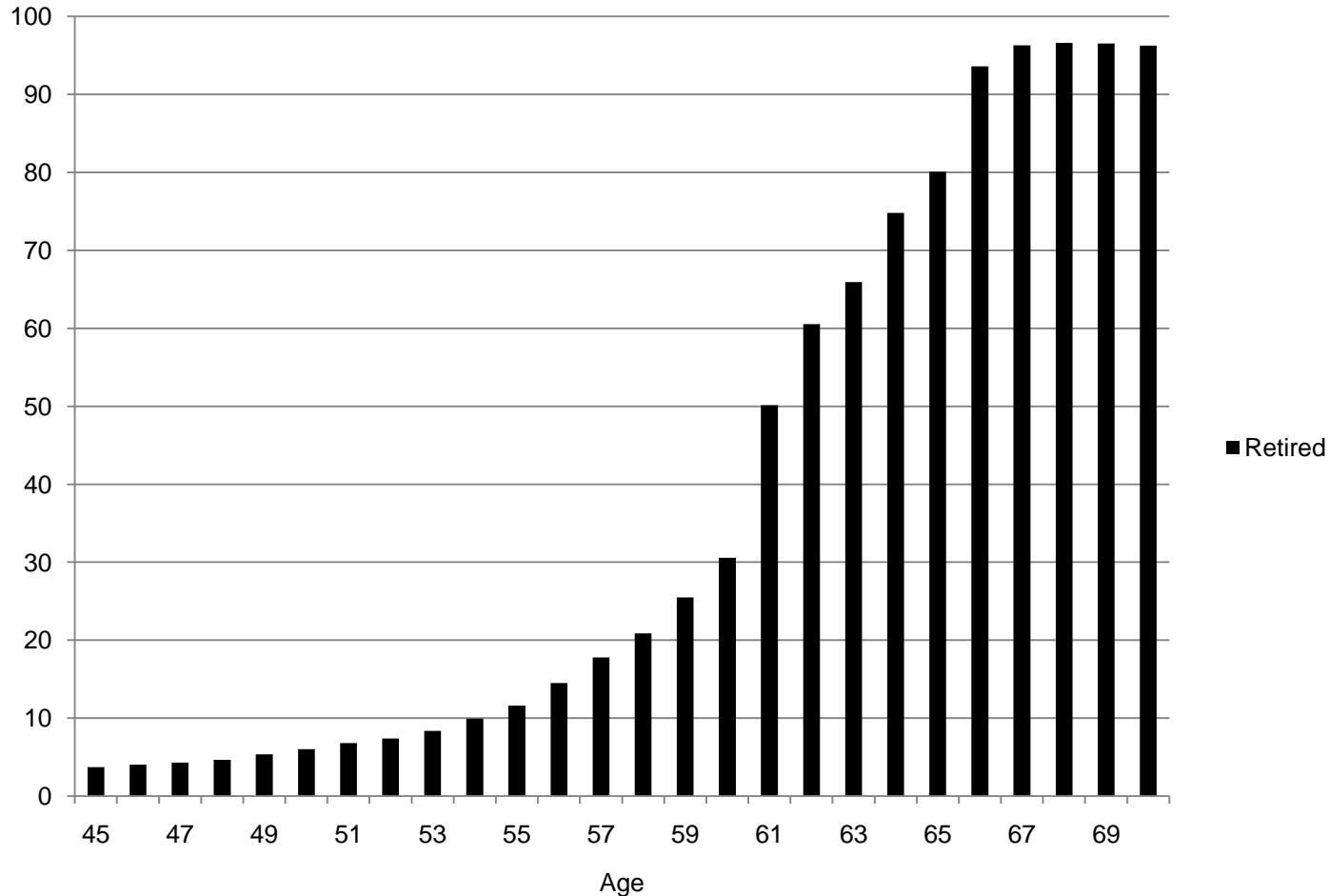
Table 6: Income and time spent for social relationships

<i>Quintile</i>	$0 < RTI \leq 1$	$1 < RTI \leq 2$	$2 < RTI \leq 3$
<i>1<sup>st</sup></i>	19.04	48.88	32.08
<i>2<sup>nd</sup></i>	14.37	49.85	35.78
<i>3<sup>rd</sup></i>	12.21	50.24	37.54
<i>4<sup>th</sup></i>	12.36	50.40	37.23
<i>5<sup>th</sup></i>	12.24	52.90	34.86
<i>Obs.</i>	75,111		

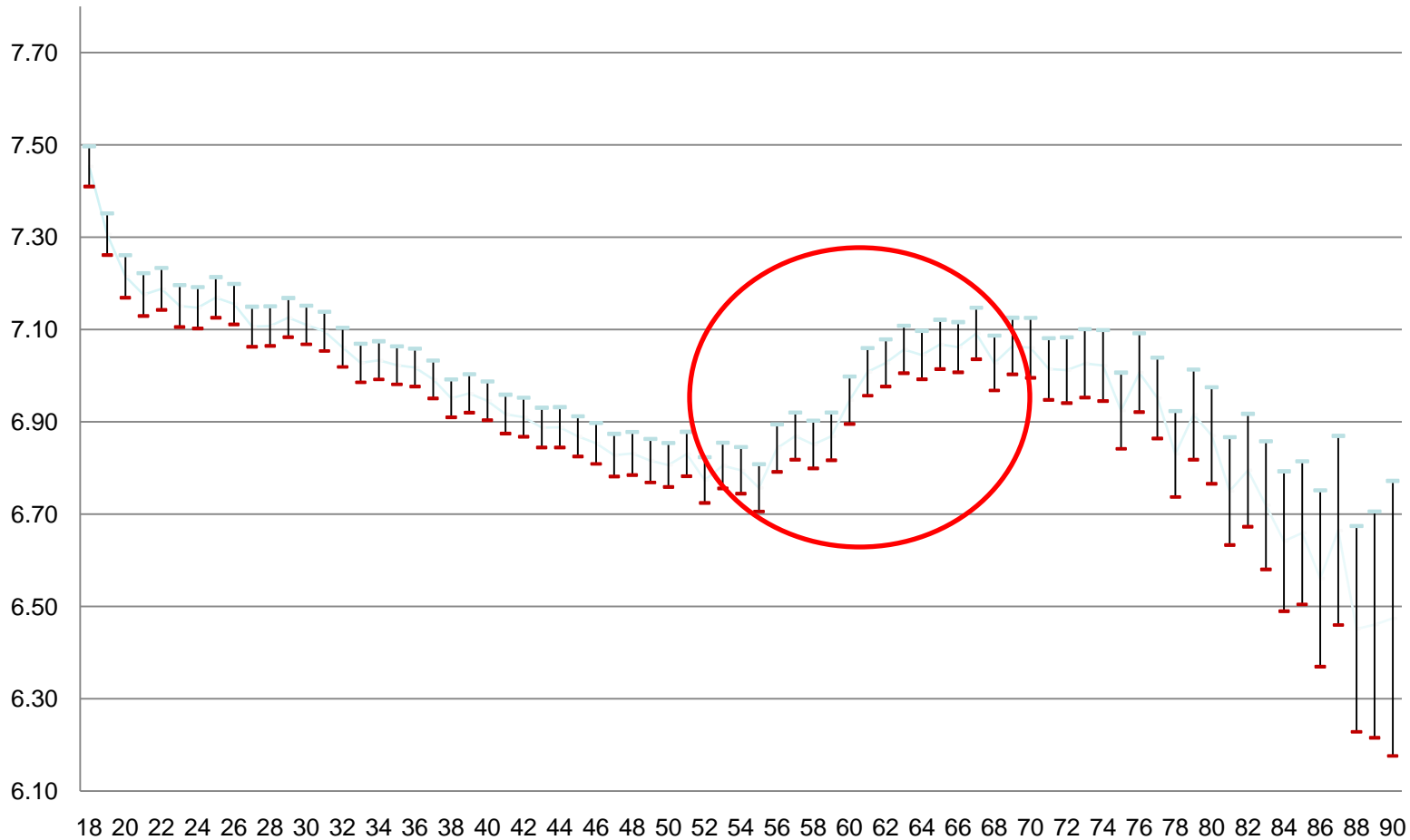
# The problem of causality

- Do social relationships increase happiness or does happiness increase social relationships?
- To test for the existence of the first causality nexus it is possible to use the retirement probability of the age cohort as an instrument (exogenous shock)
- ...and to demonstrate that the instrument is valid and relevant

Can relational goods explain the right side of the U-shape relationship between happiness and age ?  
.....Retirement is concentrated in the early 60s

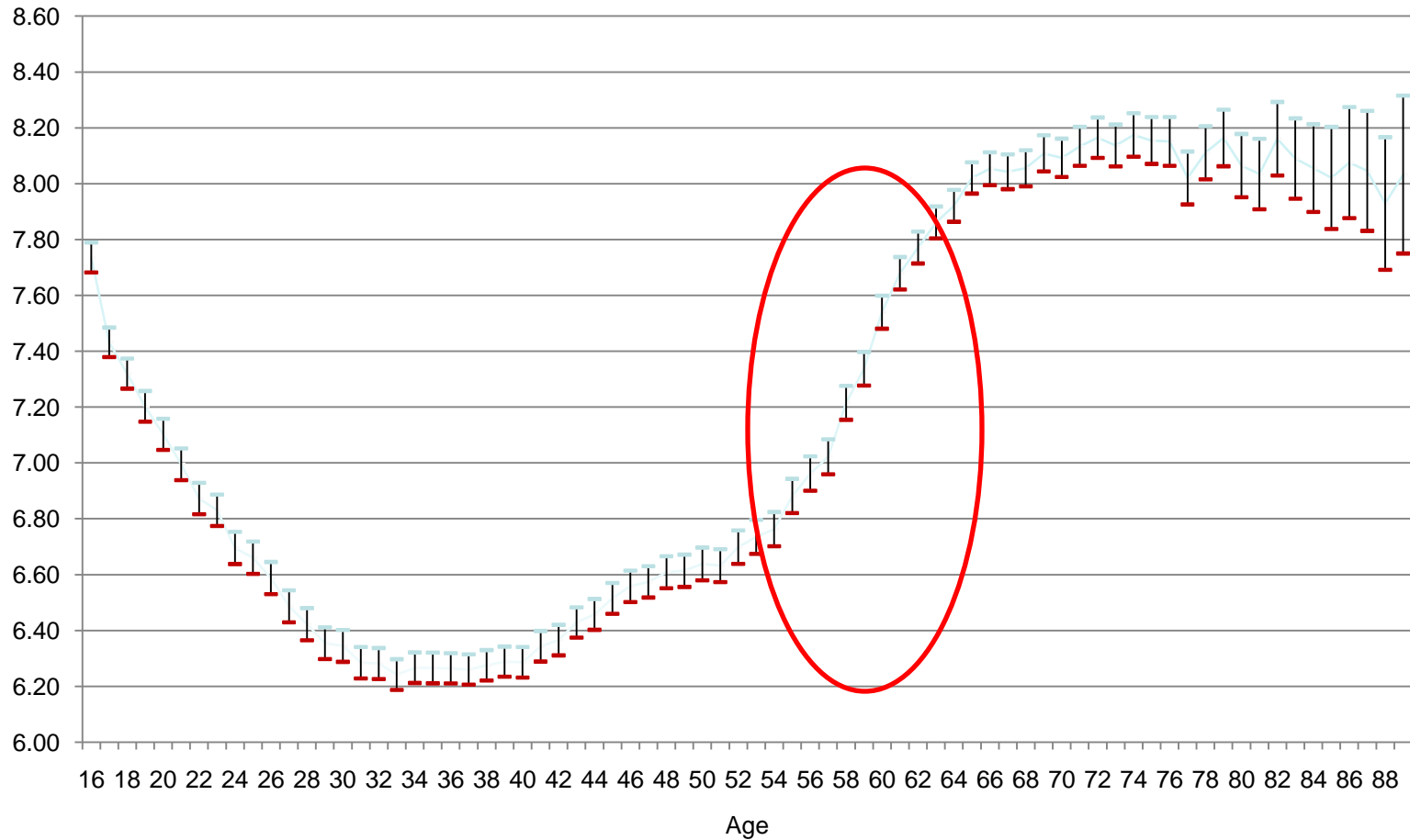


Can relational goods explain the right side of the U-shape relationship between happiness and age ?  
.....In the early 60s rise in overall life satisfaction...

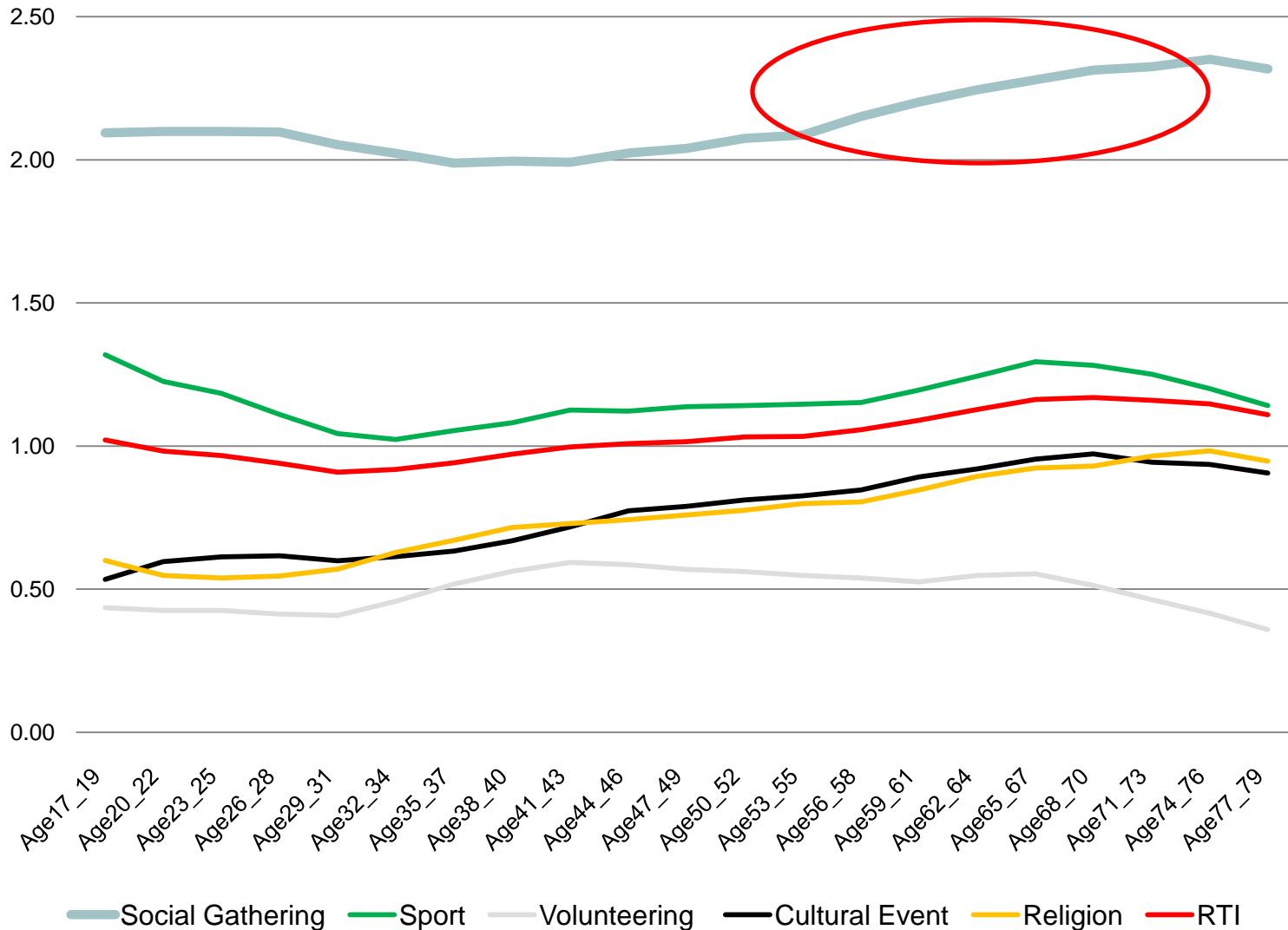




...and in the domain of leisure satisfaction



# Increase in time invested in relational life in the early 60s

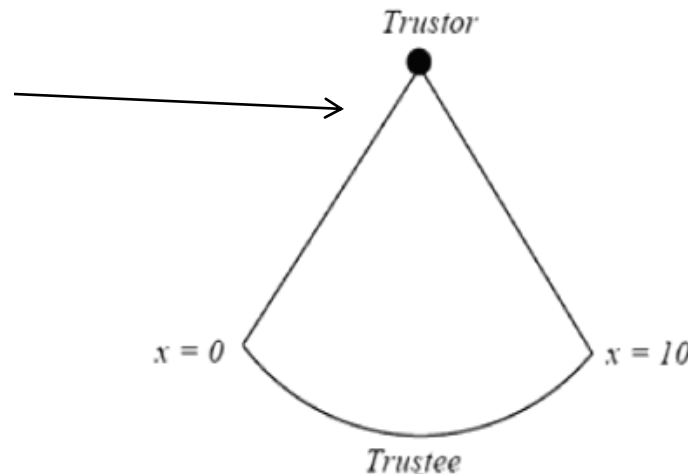


# The productivity of relationship: Social capital

1. Trust
2. Trustworthiness
3. Willingness to pay for public goods
4. Trust on institutions

# The productivity of social relationships (life is a trust game..)

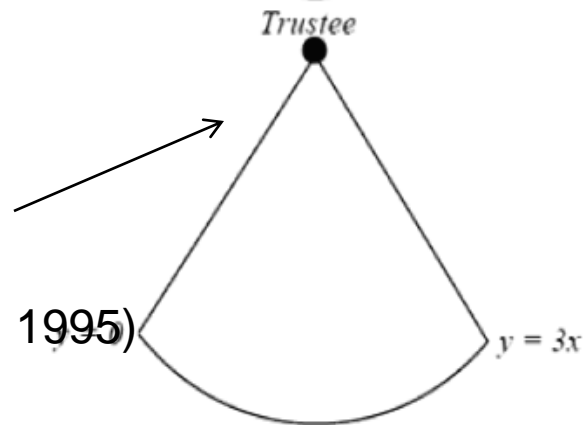
Trustor's first move:  
giving or not a sum  $x$   
between 0 and 10 to the  
trustee



What sent by the  
trustor is  
multiplied by 3

Trustee's second move:  
giving back something  
between 0 and  $3X$

(Berg, Dickhaut and McCabe, 1995)



$$\begin{aligned} \text{Trustor's payoff} &= 10 - x + y \\ \text{Trustee's payoff} &= 10 + 3x - y \end{aligned}$$

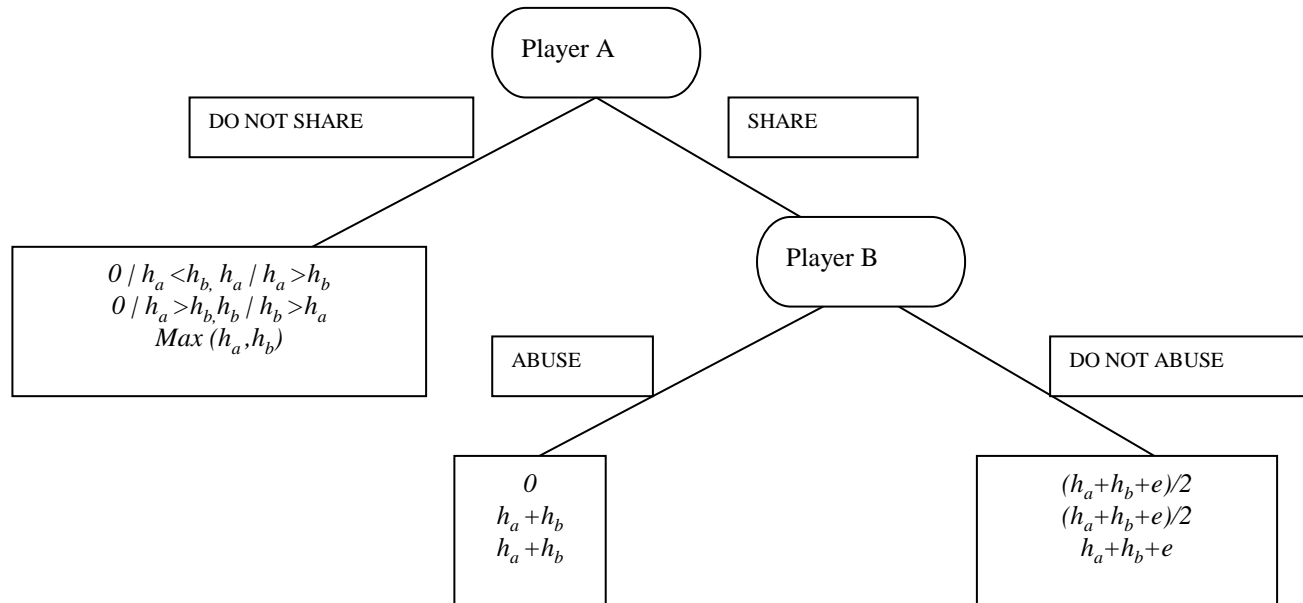
Nash individualistic solution: (10,0).....Team cooperative solution (15,15)

# The productivity of social relations

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- At micro level (trust games): life is done by sequential games in which a trustor takes “social risk” sharing something with a trustee with the risk of being abused. If the trustee is trustworthy and does not abuse, superadditivity and putting the puzzle together create additional value.
- Being individualistic is harmful also from an economic point of view, the paralysis of trust hampers the creation of economic value. Only a minority of individuals follow Nash rationality
- Social capital is a “lubricant of economic activity” (Arrow, 1974)
- Its microeconomic dimension (trust and trustworthiness) has important productive effects under informational asymmetries, incomplete contracts and weak enforcement of formal contracts
- In the literature: positive effect of the level of trust on economic growth and on institutions (Knack and Keefer, 1997 and Zak and Knack, 2001 for the former and Putnam, 1993 and La Porta et al., 1997)

# Firms are “trust game corporations”



- Production depends on team work where workers with different non overlapping skills play trust games....
- ....low quality of relations create paralysis of trust and suboptimal results

# Conclusions

- The “happiness paradox” tells us that social relationships are crucial for happiness
- The Baumol’s disease of social relationships is one of the explanations of the Easterlin paradox (decoupling of happiness and GDP growth)
- Quality of social relationships through trust and trustworthiness play a crucial role on productivity
- The neglect for social relationships in the homo economicus prevents us from understanding crucial drivers of both productivity and wellbeing

# Future directions

- Social relationships are today like a new particle in Physics whose role has not been thoroughly explored
- Measuring social ties and introducing them in theoretical models will let us do fundamental progress in understanding both sources of productivity and life satisfaction



**FINE**