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978-1-107-03773-1 - Freedom and the Pursuit of Happiness: An Economic and Political Perspective

Sebastiano Bavetta, Pietro Navarra and Dario Maimone

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Introduction

In September 2009, after more than one year of work, The *Commission on the Measurement of Economic Performance and Social Progress* (CMEPSP) instituted by the President of the French Republic, Nicholas Sarkozy, released its report. The Commission, chaired by Joseph Stiglitz, gathered more than 20 first class economists and a handful of Nobel Prize winners such as Kenneth Arrow, Daniel Kahneman, James J. Heckman, Amartya Sen and Stiglitz himself. The objective of this distinguished group of scientists was twofold: to examine the limitations of GDP as an indicator of economic performance and social progress and to suggest an alternative and more appropriate measure to capture well-being. The document produced by the Commission highlighted that traditional indicators to assess progress are out of touch with what individual citizens value the most. Therefore, it is necessary to move beyond conventional measures based on mere accumulation of material possession to a new vision in which center stage is taken by well-being and the quality of life of individuals in society.

The idea to shift emphasis from material prosperity to subjective well-being was not isolated to France or to a specific political ideology. The British Prime Minister, David Cameron, questioned the value of GDP as the overriding indicator of success and failure of countries and societies by sustaining the Happiness Formula Program: “We should be thinking not just what is good for putting money in people’s pockets, but what is good for putting joy in people’s hearts.”¹ The motivations underlying the

¹ In November 2011, David Cameron launched a plan to measure the nation’s happiness. The Office of National Statistics started to draw up questionnaires designed to quantify how happy or sad the citizens of the UK are at any moment in time. Similarly, in Italy the National Institute for Statistics (Istat) is implementing a procedure to collect nation-wide information to measure the extent of quality of life enjoyed by the population.

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work of the commissions are not new. On the other side of the Atlantic, about forty years ago, in one of his public speeches Robert Kennedy noted that “too much and too long, we seem to have surrendered community excellence and community values in the mere accumulation of material things.” He continued by saying that GDP does not include the beauty of our poetry, the strength of our marriages, the intelligence of our public debate, or the integrity of our public officials. It measures neither our wit nor our courage; neither our wisdom nor our learning; neither our compassion nor our devotion to our country. He concluded that “[GDP] measures everything, in short, except that which makes life worthwhile.” Another important statesman in the United States was aware of the shortfalls of statistical indicators of material prosperity. In the 1934 State of the Union address, Franklin D. Roosevelt warned that “the overwhelming majority of our people seek a greater opportunity for humanity to prosper and find happiness. They recognize that human welfare has not increased and does not increase through materialism and luxury, but that it does progress through integrity, responsibility, and justice.” Moving again in time and space, we observe that Australia’s government too is committed to producing national measures of well-being in order to inspire policy choices. Peter Costello, the longest serving Treasurer in Australian political history, in a recent public speech announced that “Australia’s ranking on the Gross National Happiness index rose by 0.3 points during 2010. The rise is due to strong pro-happiness policies pursued by the coalition government.”

Although President Sarkozy asserted that France would be a pioneer in the use of new techniques to measure well-being, the idea of considering quality of life as the ultimate policy objective of governments has been implemented since 1972 in the Asian kingdom of Bhutan. At that time, Jigme Singye Wangchuck, the King of the East Himalayan Buddhist monarchy sandwiched between the world’s two most populous countries, China and India, decided to make his nation’s priority not its GDP, but its GNH, which stands for Gross National Happiness. Under the leadership of the Center for Bhutan Studies, a sophisticated survey was developed to measure the population’s general level of well-being. From then onwards, the purpose of development and the role of the state became that of creating conditions to let people search for and pursue what they aspire the most in life.

The central importance that people attach to the quality of their lives retains a long and established tradition in the social sciences. Aristotle’s ethics is built on the indisputable fact that all men aspire to be happy in life. He argues that everyone agrees that *eudaimonia* (commonly translated as

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“happiness”) is the highest good for human beings. According to Aristotle, *eudamonia* is neither honor nor wealth or power, but rational activity in accordance with virtues over a complete life. Epicurus agrees with Aristotle that happiness is the highest good, but unlike Aristotle, he identifies happiness with pleasure. The Epicurus empiricism is based on the simple observation that a person perceives that pleasure is good and pain is bad. More recently, the idea that governments of all hues should maximize pleasures and minimize pain by securing the greatest happiness for the greatest number of people goes back to the 18th century. The English philosopher Jeremy Bentham’s enduring fame is linked to *felicific calculus*: government policies should be evaluated on the basis of the pleasures and displeasures that they are expected to provide to the citizenry and, therefore, be chosen by selecting those ones that would produce the greatest net happiness for all.

Should policy decision making maximize happiness, as some economists suggest? (Bentham, 1907; Edgeworth, 1881; Tinbergen, 1956; Theil, 1964.) This question is currently under careful scrutiny. Advocates of happiness as a guideline for economic policy design are opposed to more moderate supporters. Layard (2005) – a hard liner – acknowledges that many societal goals are in conflict and yet argues for considering happiness as the ultimate goal of society simply because it is self-evidently good. A softer position is taken by Frey and Stutzer (2009). They point out possible shortcomings associated to the maximization of aggregate happiness as an objective of public policy. Finally, the scholars gathered in Sarkozy’s Commission suggested that GDP and production measures should not be dismissed. Economic indicators of market activity and measures centered on people’s well-being should complement each other in order to develop a modern statistical system attuned to the need and preferences of the people.

Although well-being research is still searching for a firmer position in academic as well as public debate, without any conceivable doubt happiness as the ultimate goal of public policy has attracted great attention in the social sciences as well as in the general public. Happiness is the undying quest of life and yet people cannot pursue it directly. Their search for happiness must rely on the satisfaction of many personal and societal goals that contribute to secure happiness. The attainment of these goals is captured by information about the socio-economic characteristics of the individual – for example, income, employment status, family circumstances, and health conditions – as well as by the features depicting the economic and institutional environment in which individuals live – macroeconomic stability,

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national wealth, income inequality, peace, and so on (for interesting surveys on the determinants of subjective well-being, see Frey and Stutzer, 2002a; 2002b; Di Tella and MacCulloch, 2006; Kahneman and Krueger, 2006).

Although the branch of research on the determinants of happiness is rich and wide, one important determinant of individual well-being did not receive adequate attention in the literature, even if it is generally considered as a relevant aspect affecting a person's quality of life. We refer to the role played by freedom on subjective well-being. Thomas Jefferson, in the Declaration of Independence of the United States, wrote that individuals ought to be provided with the basic rights of "life, liberty and the pursuit of happiness." This eloquent statement invites us to wonder about the relationship between freedom and the search for happiness. The right to the pursuit of happiness is built on the possibility to live according to one's own view of good, to choose freely what offers the greatest chances of delivering personal happiness, so long as each individual respects the same freedom for others.

What is the shape of the relationship between freedom and happiness that intuition leads us to imagine? The ancient Greeks were amongst the first to unveil the benefits of individual liberty as a guarantor for the quality of life. The Greek historian Thucydides, for example, pointed out that freedom is the true secret for achieving happiness. In modern democratic societies, freedom is often equated with happiness, as a happy life is seen as decisively descending from living an active life of freedom (Frey, 2008).

A *prima facie* understanding of the relationship between freedom and well-being would therefore lead one to hypothesize that the right to liberty and the right to the pursuit of happiness are compatible. However, a deeper analysis brings to the surface important questions that cast some doubts on the expected positive relationship between freedom and well-being. Why is it valuable to have the right to pursue happiness, if the object of the pursuit, for whatever reason – personal, political or economic – is unattainable? How, then, can it be made attainable? One possibility could be to assist individuals in their pursuit through compulsory education and health care, economic redistribution and transfers, or other forms of economic regulation. However, these activities involve restrictions in the liberty of the many for the benefit of the few. We are here facing the age-old problem of the trade-off between freedom and well-being. It can be asserted that without any freedom nobody can even pursue individual well-being, let alone achieve it. But it can also be affirmed that with complete freedom, individual well-being is unattainable too. We believe that the answer to this question is, to a large extent, empirical.

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1.1 The Aim of the Book

This book is about the relation between freedom and individual well-being. We believe that this relation is still underexplored and it might deliver interesting results if examined by a systematic empirical study. Freedom is an essentially contested concept that counts innumerable and often conflicting interpretations. Thus, a systematic study would be a daunting task if it were not for the adjective “empirical.” A systematic empirical analysis of the relationship between freedom and happiness, in fact, limits the admissible interpretations of freedom to those that are empirically measurable. Although these interpretations may still be conflicting, their analysis is certainly manageable since the set of admissible conceptions reduces drastically.

The notion of freedom that we consider in this study is freedom of choice. We may distinguish three concepts of freedom: *autonomy to choose*, *capability to choose*, and *opportunity to choose*. Though they measure different things – as we will show in due course – autonomy, capability and opportunity to choose encompass a wide variety of interpretations of freedom and enjoy a valuable feature: they rest upon the same cornerstone: individual choice (Bavetta and Navarra, 2004; 2012).

Freedom as autonomy (i.e., autonomy to choose) is a concept centered on the Millian notion of individuality: a person is free to the extent that his choices are the outcome of a deliberative process to which he committed his personal and moral qualities and for which he retains control over his own life (Mill, 1859; Bavetta and Navarra, 2012). A person’s feeling of control springs from the fact that their choices are the outcome of an autonomous deliberation process that, by developing a person’s autonomy, leads each decision maker to consider himself the master of his own life (Bavetta and Guala, 2003; Bavetta and Peragine, 2006; Bavetta and Navarra, 2012). The Millian flavor of the measure is unmistakable. To choose requires deliberation and to deliberate calls for the chooser’s personal and moral qualities. By the exercise of these qualities, autonomy is enhanced and strengthened. As autonomy flourishes, so does well-being (Mill, 1859).

A different way to analyze the role of freedom in human well-being derives from a different interpretation of freedom such as the set of opportunities open to a person. Opportunity caters to freedom in two different ways. First, it signals that the chooser enjoys a wide array of *capabilities*. Like autonomy to choose, freedom as capability (i.e., capability to choose) emphasizes agency and autonomous behavior but from a different perspective than

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Mill's. According to Amartya Sen, agency freedom is concerned with the objective conditions that a person should enjoy to be capable to make choices (Sen, 1992). For example, to lead the kind of life one wants to lead, to do what one wants to do, and to be the person one wants to be. These doings and beings are made of objective elements such as the level of education and/or the health conditions of individuals that together constitute what makes a life valuable (Sen, 1985a; 1985b; 1992; 1993; 1999). Capabilities are intimately connected with well-being since they reflect the conditions that a person must enjoy to shape his life according to his view of the good.

From a different perspective, opportunity may cater to freedom as it signals that the personal sphere of a decision maker is unhindered by the intervention of the state. This is how the libertarian literature would argue. A person is free to the extent that his choices and actions are *voluntary*, i.e., free from external obstacles or constraints imposed by another person or by the state (Berlin, 1969). The less compressed the area of one's private choices in the economic and political domains, the greater well-being should be. Time and again, the literature links the extent of economic and political freedom to the level of individual well-being. This line of research makes use of indices of economic and political freedom to measure the range of effective choices available to individuals. Those indices correlate closely with measures of individual well-being, even after accounting for possible reverse causality (Sirgy et al., 2006). Several studies provide empirical evidence that democracy (i.e., political freedom), by guaranteeing wider range of freedom of choice, improves the level of well-being that individuals enjoy (Inglehart, 1990; Haller and Hadler, 2004; Welzel, 2013). The same applies when we consider the effects that different degrees of market liberalization (i.e., economic freedom) exercise on the extent of subjective well-being (Welsch, 2003; Inglehart et al., 2008).

For the purposes of this book it is important to note that these three concepts of freedom share the common view that greater freedom of choice enhances individuals' well-being. A long tradition in the social sciences establishes a close link between freedom and happiness and offers arguments and evidence that, irrespective of the concept used to assess its extent, freedom is expected to improve the level of well-being that individuals enjoy. However, in the literature the connection between each of the three concepts of freedom under review in this study and individual well-being has never been treated systematically. The first objective of the book is then to provide a comprehensive account of the relationship between freedom and well-being by discussing and comparing the channels through which freedom affects the quality of life that individuals enjoy.

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Autonomy, capability, and opportunity to choose are the only three interpretations of freedom for which an empirical representation exists.² The Millian notion of individuality has recently attracted the interest of scholars in the freedom of choice (FOC) literature, leading to a methodology for the measurement of the degree of autonomy people enjoy (Bavetta and Guala, 2003; Bavetta and Peragine, 2006). More specifically, they developed an axiomatic measure of individuality to assess the extent of autonomy freedom people have in decision making. The empirical counterpart of the theoretical measurement of autonomy freedom consists in a survey question proposed in the World Value Survey dataset (WVS) in which individuals are asked how much freedom of choice and control they believe they retain over the way their lives turn out (Bavetta and Navarra, 2012). The most comprehensive attempt to use the capability approach to measure empirically the enhancement of human well-being in terms of an expansion of people's agency freedom is the Human Development Index (HDI) constructed within the United Nation Development Programme (UNDP) (Anand and Sen, 1994; Haq, 1995; Fukuda-Par and Kumar, 2003). Sen himself took a leading role in the construction of HDI and contributed significantly to the adoption of the capability approach to policy-oriented contexts. Finally, economic and political freedom are gauged by the widely used and discussed measures of economic and political freedom provided by a number of nongovernmental organizations such as the, the Heritage Foundation, the Fraser Institute, and the Freedom House (Gwartney et al. (2013), Miller et al. (2014), Freedom House (2014)).

The fact that the three concepts of freedom under scrutiny in this book can be measured empirically allows us to use data to evaluate the competing merits of autonomy, capability, and opportunity to choose in enhancing individual well-being. The empirical analysis that we carry out in this book sheds light on the absolute and relative effects on well-being exercised by the three different conceptions of freedom. In so doing, we are able to assess whether they either complement or substitute for each other in the determination of the level of individual well-being. This is the second objective of the book.

An analytical advantage of playing with three empirically measurable concepts of freedom of choice is that policies to attain the greatest well-being may be fine-tuned in a way that would otherwise not be possible.

² We are aware of another empirical measure of freedom. It is the measure of *discretionary time* (Goodin et al., 2008). However, such a measure does not have the necessary width in both time and space required to implement sound empirical comparisons of the different effects of freedom concepts and measures on well-being that are carried out in this study.

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Since policy makers have three levers in their hands, the empirical exercise that we conduct in this book shows which one is the most effective as circumstances change. For example, at low levels of freedom of choice, improving per capita income, education levels, and health conditions is likely to be particularly effective for the performance of individual well-being. Yet, as freedom of choice expands, other policies may become more useful. Economic liberalization, to mention a specific case, should outweigh other freedom-enhancing policies in the determination of well-being. For high levels of freedom of choice things may change once again, since the cost of choice that people incur to deliberate might become overwhelming, as much to affect autonomy's effectiveness in the determination of well-being. None of these results are available in the literature in such a systematic frame. They make up the third objective of the book.

Bavetta and Navarra (2012) defend a society where overall freedom is maximized. Overall freedom is conceived as the combination of voluntariness and autonomy. While their defense is argued for on the basis of a procedural value of freedom, the consequences of maximizing overall freedom are never explored: an overall free society is normatively auspicious because overall freedom is good per se. In this book we expand the set of arguments in support of an overall free society by offering a consequentialist motivation: maximizing overall freedom is good for its favorable consequences upon well-being. This is the fourth objective of the book. We believe that the normative argument we offer is an important one, for two reasons. First, it is intuitively plausible to demand more freedom if it is immediate to see what it is for. Second, the perspective of a person-centered liberalism that we developed in Bavetta and Navarra (2012) is strengthened by the direct relation between freedom and happiness since the latter is a fundamental value for the judgement of human advantage. It would be odd if, once we predicate to put people before rules in a defense of liberalism, freedom would not enhance happiness, that is, a constitutive value and dimension of a human being that makes him a more valuable living agent.

1.2 The Outline of the Book

The book is organized in two different parts. In the first part, which is mainly theoretical, we review the well-being research in economics and describe the various concepts and measurements of freedom. In the second part, which is empirical, we compare the merits of the competing concepts of freedom considered in this study.

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In Chapter 2 we discuss the theoretical foundations of the well-being research in economics. More specifically, we highlight how, over the span of two centuries, economists have based their studies on two different notions of utility: experienced and decision utility. We describe why and how well-being research is rooted on the notion of experienced utility: a person's well-being depends on the flows of pleasures and pains he experiences in any moment in time over his life. Applied economists, facing the problem of measuring such pleasures and pains, opted for the individual's direct assessment through surveys. Therefore, a database emerged in which people were asked the level of well-being they enjoy. The two most often adopted measures in the literature are happiness and life satisfaction. We describe how these measures are constructed and show their trend over time and across countries. We finally discuss the importance of subjective well-being for policy choices by assessing its political neutrality.

In Chapter 3 we deal with the concept of freedom as autonomy. We discuss its theoretical foundations based on the Millian notion of individuality: an individual is autonomous if his free choices affirm his individuality, since by choosing he reveals his true self. The level of autonomy freedom enjoyed by an individual can be measured both theoretically and empirically. On the theoretical front, an axiomatic measure of freedom as autonomy has been proposed in the freedom of choice literature. We discuss this measure and describe its empirical counterpart by presenting the data and some descriptive statistics that illustrate its trend over time and across countries. Finally, we show some preliminary evidence that supports a positive relationship between autonomy freedom and individual well-being and review the related literature.

In Chapter 4 we discuss the concept of freedom as capability proposed by Amartya Sen. We emphasize that with the term "capability," Sen indicates the freedoms that people have to achieve the things that they have reason to value. Capabilities are therefore a form of agency freedom that lead a person to live a good life. The most comprehensive approach to measure capability freedom is the one proposed by the construction of the Human Development Index (HDI). We describe such an index and show the data over time and across countries. We also display some descriptive statistics that support a positive relationship between capability freedom and individual well-being and discuss the interpretation of these findings in the literature.

In Chapter 5 we conclude the first part of the book by discussing the concepts and measures of economic and political freedom. We start by commenting on the theoretical foundation of these two notions of freedom. We explain that while economic freedom is strictly linked to the idea of free

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markets and voluntary exchange, political freedom is associated with the two pillars of political rights and civil liberties. These characterizing elements are constituent of the empirical measures of economic and political freedom, respectively. We describe how these measures are constructed by referring to the index of economic freedom provided by the Fraeser Institute and the index of political freedom offered by Freedom House. We show the data and present some descriptive statistics that support the positive relationship between economic and political freedom and individual well-being. We interpret these preliminary empirical results with the help of the literature.

In the second part of this study we empirically evaluate the competing merits of the different notions and measures of freedom in enhancing individual well-being. In Chapter 6 we are interested in two research questions. First, we examine whether the effect of autonomy freedom on well-being enjoyed by individuals is corroborated in those countries in which the level of economic and political freedom is higher. We find that two individuals with the same level of autonomy freedom enjoy different levels of well-being according to the level of either economic or political freedom of the country where they live. If they live in countries where the level of either economic or political freedom is higher, the positive effect of autonomy freedom on their well-being is magnified. The second research question investigated in this chapter concerns the effect of changes of autonomy freedom on individual well-being. More specifically, we are interested in examining whether two individuals who experience the same change in their level of autonomy freedom have different well-being returns according to the level of either economic or political freedom in the country where they live. We find that while an increase in autonomy freedom grants higher well-being returns in those countries where the level of economic freedom is lower, the same increase in autonomy freedom provides greater well-being returns in those countries where the level of political freedom is higher. We interpret these results in light of the different cost of choice that an increase of availability of opportunities for choice due to a rise in either economic or political freedom brings to the decision makers in either the market or the political arena.

In Chapter 7 we empirically examine the effect of both autonomy and capability freedom on individual well-being. More specifically, we examine whether autonomy and capability freedom strengthen or weaken each other in enhancing individual well-being. We find that both concepts and measures of freedom have positive and statistically significant effects on happiness. However, we find also that these effect are independent of each other: the positive effect of a person's level of autonomy freedom on his