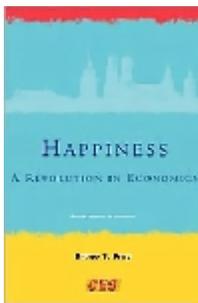


The New (Smiley) Face of Economics

A review of



Happiness: A Revolution in Economics

by Bruno S. Frey

Cambridge, MA: MIT Press, 2008. 240 pp. ISBN 978-0-262-06277-0.

\$35.00



Reviewed by

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A psychologist, a sociologist, and an economist walk into a bar... Wait, I'm telling it wrong: They walk into a conference on material consumption and public policy. Although there can be surprisingly little interaction among researchers from the different social sciences, Bruno Frey, author of *Happiness: A Revolution in Economics*, suggests that the science of well-being is precisely the intellectual territory where sociologists, economists, psychologists, and policy makers can meet.

Happiness economics is a relatively new, largely interdisciplinary field that is gaining momentum in public policy circles. In fact, for a profession that likes to hedge its bets with cautious conclusions and admissions of the “need for further research,” it is refreshing—if not radical—to see Frey use the word *revolution* in his title. And, according to *Happiness*, a revolution in economics is, indeed, taking place. In the wake of Danny Kahneman's 2002 Nobel Prize in Economics for his pioneering work in behavioral economics, scholars in that

field are beginning to take seriously challenges to concepts such as revealed preferences or the infallibility of “objective” measures. Indeed, as happiness studies gain increasing legitimacy and as economists open to revising a few of their basic principles, happiness provides fertile conceptual ground for some of the most exciting advances in research methodology, the development of social indicators, intervention, and policy.

Perhaps the most frequently asked question related to happiness is “Does money buy happiness?” In fact, a PsycINFO search conducted in preparation for this review revealed only three quarters the number of articles on *subjective well-being and social support* as on *subjective well-being and income*. For decades researchers have offered insights and answers to this question (see Diener & Biswas-Diener, 2002). By and large, the simple answer to the question of money and happiness is that, yes, income does seem associated in a relatively small but significant way with happiness.

Frey writes his book not to provide further answers to the question of *whether* money buys happiness but to examine what, exactly, we can conclude from this relationship. *Happiness* covers some of the usual ground, including the idea of diminishing marginal utility (increasing income provides diminishing happiness dividends) and the Easterlin paradox (the finding that, in some countries, while economic wealth has grown dramatically, happiness levels have not; Easterlin, 1995).

Unfortunately, the publication of *Happiness* barely missed the publication of exciting new studies based on the Gallup World Poll, an arguably larger, more representative, and more complete survey than has been examined in past research. As such, Frey misses the opportunity to discuss such intriguing ideas as “different types of happiness” (positive affect vs. life satisfaction) to show different correlations with income (Diener & Ng, 2008), or to comment on the debate surrounding the Easterlin Paradox (Wolfers & Stevens, 2008).

Even so, Frey weighs in on these topics with a knowledgeable discussion of individual aspirations and how these influence happiness. It could be, according to Frey, that the Easterlin Paradox is explained by the fact that material aspirations have risen in tandem with economic wealth, leading to levels of satisfaction comparable to those in less wealthy times.

Frey's greatest moment in *Happiness* is, arguably, his discussion of the concept of *procedural utility*, where there is the clearest evidence of the revolution to which the title refers. The traditional economic concept of utility is, according to Frey, primarily outcome based, as in, what are the psychological costs and benefits of owning a speed boat? Procedural utility, on the other hand, focuses on the conditions that lead to outcomes as well as the outcomes themselves, as in, the costs and benefits of owning a speed boat vary greatly depending on whether you have access to a lake! Here Frey points readers to institutions, such as constitutional guarantees of freedom of speech, and interpersonal interactions, such as those between managers and subordinates, as examples of sources of procedural utility, providing research evidence for both.

Frey's emphasis on the procedural utility that comes from law, allocation of public goods, organizations, and other sources sets the foundation for the other major revolution in

Happiness: public policy. Frey argues that the information from happiness studies provides a useful and necessary adjunct to traditional economic indices. Subjective appraisals of quality of life, according to Frey, provide a much-needed testing ground for many of the basic assumptions of neoclassical economics.

New insights into happiness can, and should, be used to influence tax policy, economic growth and development policies, political participation, and welfare policy, among others. It is no longer enough to tally employment statistics or give citizens a vote. The revolution in *Happiness* suggests that we now need to find out how people *feel* about their jobs and involve citizens in voting on issues they care about. The addition of subjective indicators provides new types of information for decision makers and will, ideally, help create a greater public good.

Happiness—based on a series of professional lectures—is a book written for scholars, policy makers, academics, and other learned people. Frey covers topics in depth and, at times, uses challenging language. When discussing the way that individual aspirations may affect happiness, for instance, Frey writes, “idiosyncratic effects that are time-invariant can be controlled for if the same individuals are re-surveyed over time” (p. 37). He clearly assumes a certain facility with research methodology and statistics. Fortunately, Frey does not become wholly mired in technical jargon, coming up—only two pages later—with “graphically, the development of income and happiness diverges like open scissors” (p. 39).

Overall, *Happiness* is an information-packed and thought-provoking book for those interested in measurement of subjective states, public policy, happiness research, or economics. Frey presents an excellent, though technical, review of research on income and happiness, employment and happiness, material aspirations and happiness, and other relevant topics. At times, it is unclear why a particular subject is included, such as his interesting and in-depth chapter on happiness and watching television. On the whole, however, Frey's discussion will be welcome to those who have long believed in the legitimacy of happiness research and will foment debate among those who don't. In either case, Frey is correct: Happiness is a topic that will bring together psychologists, sociologists, and economists.

References

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