

Chapter 1

What is Happiness? Why is Happiness Important?



Abstract The (net) happiness (or welfare) of an individual is the excess of her positive affective feelings over negative ones. This subjective definition of happiness is more consistent with common usage and analytically more useful. Over the past century or so, both psychology and economics has gone through the anti-subjectivism revolution (behaviorism in psychology and ordinalism in economics) but has come back to largely accept subjectivism (cognitive psychology and recent interest of economists on happiness issues).

1.1 What is Happiness?

Different people attain happiness in different ways. Some enjoy reading; some seldom open a book. Some enjoy spending money; some enjoy owning wealth; others enjoy non-material pursuits. Everyone wants to be happy. However, what is happiness?

A person is seldom very happy or very unhappy. Kwang may be enjoying the music that he has been listening to all-day while working and also enjoying most of the work he is doing. However, he also feels a little tired late in the afternoon after working for seven hours. (So he almost never works at night as it decreases his happiness.) As a biological organism, we feel good eating fresh and nutritious food when hungry. This clearly has survival value. Thus, contrary to the pure subjectivist, happiness is not completely subjective. The nice or bad feelings are subjective in the sense that it is felt by a person subjectively. However, they do have a substantial objective basis, although this might be shaped by the different experiences of different persons.

We feel bad when we are sick; virtually all others are like this, given the biological need for survival. If someone enjoyed being sick, he would get ill more often and have a lower chance of survival. His genes would not be passed on as successfully. In time, such genes would cease to exist. Hence, no one derives positive feelings from sickness. Thus, we can be quite confident that sickness makes the individual feel bad. This is so despite the belief by Lu Xun (鲁迅 1881–1936), a very famous Chinese writer in the first half of the twentieth century, who claimed that a small

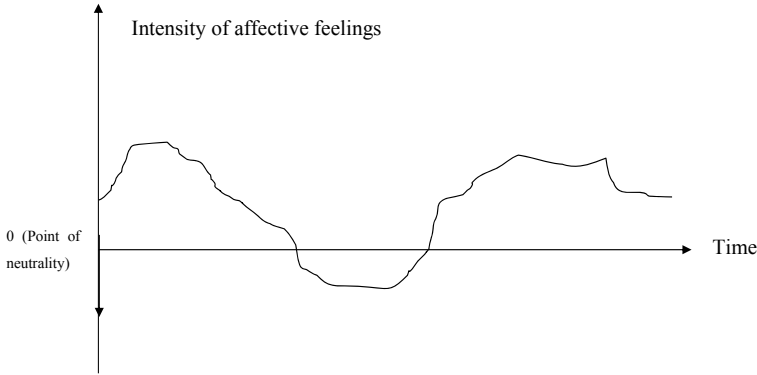


Fig. 1.1 Amount of happiness illustrated

sickness is a blessing as it allows the person enjoyment from a few days off work. The poor old Lu Xun must be very overworked!

The (net) happiness of an individual over any period of time is their nice feelings (positive affective feelings, as the psychologist calls it) less their bad (negative) feelings over that period, with both types of feelings weighted by their intensities and duration. This is a subjective conception of happiness and needs some explanation. Anyone must be capable of feeling to have happiness. Stone, water, and almost certainly, all plants, do not have happiness. Only affective feelings are included, and these are the feelings that the individual cares for positively or negatively, or that make them feel good or bad. One may visually feel the difference in the color of a book. However, if they do not care which color it is, their feeling of color here is not affective. All affective feelings are included, including the more basic good and bad feelings of smell, taste, sight, etc. and the more spiritual or sophisticated feelings of proudness, delight, shame, worry, distress, etc.

The degrees or intensities of positive or negative affective feelings of an individual over a given period of time may be represented by a curve such as the one in Fig. 1.1. Then, the amount of (net) happiness this individual enjoys over this period is given by the areas bounded by this curve above the line of neutrality minus the areas below this line. This is what I view as my happiness (over a given time interval) and I believe that I am representative of most people in this respect. This is also the concept of (objective) happiness preferred by Kahneman (1999) and sophisticatedly argued for and analysed by Kahneman et al. (1997).¹

¹ For discussions of the various concepts of happiness, see, e.g. Veenhoven (1984, 2000), Kim-Prieto et al. (2005), Brülde (2007), Haybron (2007). The subjective concept I use is what philosophers called the hedonistic theory or what Haybron (2000) calls 'psychological happiness'. This is distinct from the 'prudential happiness' (or 'eudaimonic') and differs from the concept of happiness as life satisfaction itself or something similar, e.g. 'happiness as involving the realizing of global desires, a life plan, requires a level of rationality to develop' (Chekola 2007, p. 67). It is a pure affective view, a mental-state concept, and internalist (*in your head/mind*). Using 'happiness' in this sense is most consistent with the common usage of the term. For the various concepts of happiness, see Mulnix

This affective or subjective definition of happiness is called ‘hedonic’ in philosophy. However, for the general public, the term hedonism has a tendency to be mistakenly interpreted as being exclusively or excessively concerned with current pleasure such as to disregard the future or others. Thus, I try to avoid using ‘hedonic’. If properly interpreted in its philosophical sense, there is nothing wrong with hedonism. What is wrong is harming others, not enjoying oneself.

Happiness is the most direct word and most commonly used. The meaning of ‘happiness’ is clear and precise and misunderstanding is minimal. ‘Well-being’ could be taken to be a variety of meanings, including physical well-being or economic well-being. Even if an additional adjective is added to become ‘subjective well-being’, it is still less precise than ‘happiness’.² It could still mean either overall happiness or the more psychiatric sense of being free from mental illness. While ‘life satisfaction’ is also quite comprehensive and clear in meaning, it suffers from two fundamental problems as discussed in Chap. 4. Thus, I strongly prefer to use the terminology of ‘happiness’ for the concept discussed above.

Different types of feelings may be qualitatively different; beautiful sights are different from delicious tastes. However, in principle, we have no difficulty in comparing different types of feelings in terms of their quantitative significance. True, in practice, it may be difficult to compare the happiness significance of pushpins versus poetry. We may not have enough information regarding how many people really enjoy poetry and to what extent, etc. However, this is a matter of inadequate information, not incomparability in principle. As for myself, I have no difficulty in saying that I would give up pushpins rather than give up poetry (On the well-being effects of practicing poetry, see Croom 2015).

Of course, we care and/or should care about things other than our own feelings, such as the feelings of others, moral principles, etc. These relate to the happiness of others and the happiness of ourselves and others in the future. For the happiness of an individual in a given period, it consists of and only of their positive and negative feelings, as described above.

This does not mean that, for any given period, an individual only cares about or just maximizes their happiness in this period. Obviously, they take account of the effects on their future happiness. It also does not mean they maximize their own happiness only. Not only do I derive happiness by helping others to be happy (by writing this book, for example), I (and any other person) may also be prepared to sacrifice a little of our own happiness if the happiness of others may be increased substantially (more on this in Chap. 2).

and Mulnix (2015), Clark et al. (2018), Diener et al. (2018), Etzioni (2018), Helliwell (2018), Myers and Diener (2018) (SWB or happiness includes not just narrow sense of pleasure but all positive affective feelings like ‘contentment, delight, ecstasy, elation, enjoyment, euphoria, exhilaration, exultation, gladness, gratification, gratitude, joy, liking, love, relief, satisfaction, Schadenfreude, tranquility, and so on’ Moore 2013).

² See Diener et al. (2003) on the concept of subjective well-being.

Our definition of happiness here is purely subjective. Many scholars do not subscribe to this concept, based on a variety of grounds, which are all unacceptable in my view. Here, let us discuss just two main (somewhat interrelated) grounds for diverging from, or qualifying the purely subjective definition.

First, from Aristotle to Etzioni (2018), many knowledgeable scholars require, on top of the component of subjective affective feelings, some consistency with morality to qualify for happiness or *eudaimonia*. In my view, this unnecessarily confuses the two very different concepts. Being happy and being moral are two quite different concepts. One may be happy without being moral and one may be moral without being happy. Lumping the two together leads to confusion. It may be socially very desirable for us to encourage people to be moral, and/or convince them that one important way to be happy is to be moral, etc., but the two are conceptually very distinct. Essentially, to be immoral is to cause unnecessary unhappiness or reduction in happiness on others. We should use happiness to define morality, not use morality to define happiness. This latter is standing things on their head, and will likely lead to unclear thinking.³

Examining the *hedonic* and *eudaimonic* well-being indicators in a nationally representative longitudinal study of US adults, Pancheva et al. (2020, Abstract) show that ‘the two accounts largely converged with about 70% of the sample observations registering high/low scores in both well-being dimensions’. Moreover, for the minority (30%) of divergent patterns, they ‘revealed substantial changes over a 10-year period with respondents registering low *hedonic*/high *eudaimonic* well-being at time *t* having greater chances of upward movement toward improved well-being compared to individuals who experienced high *hedonic*/low *eudaimonic* levels in the first time period’. This supports our position that if account is taken of the effects in the future and on others, only hedonic happiness needs be taken into account.

If we view Aristotle’s *eudaimon* as ‘an ethical doctrine that would provide guidelines for how to live’ (Ryff and Singer 2008, p.15), then it may be a very good guide, especially from a social viewpoint. It may also be true that ‘striving to improve one’s hedonic well-being fails in its aim, whereas striving to improve one’s *eudaimonic* functioning succeeds’ (Sheldon et al. 2019). Similarly, even if a firm’s ultimate aim is to maximize profits, it may be counter-productive to too directly, openly, and exclusively focus on profits in all its activities; it may be more profits-efficient to emphasize much on customer relation, employee’s welfare, and even market shares. However, viewed as what is ultimately of value, non-hedonic concept of happiness is debatable. Whether it is *eudaimon*, self-actualization, self-autonomy, etc., if the resulting outcomes involve much more misery than happiness, such that net happiness is a huge negative sum, it is not a desirable world in the ultimate or intrinsic sense.

³ Thus I find the contrast between utility and morality, as discussed in the Discussion Forum on Amitai Etzioni—Twenty years of ‘*The Moral Dimension: Toward a New Economics*’ in *Socio-Economic Review*, 2008, 6:135–173, fails to recognize points made in this chapter and in Chap. 5, and comes across as rather suspicious, if not shallow.

To avoid misunderstanding, but at the risk of repetition, let us clarify one important point. The need to take into account the effects on others and the future does not mean that the happiness of any individual for any period has to be adjusted to take into account these indirect effects. If we required such adjustment, it would become something similar to Aristotle's eudaimon. Rather, we take at face value the unadjusted happiness of any individual in any given period as of intrinsic value. Thus, if Mr. A enjoyed his binge drinking one evening, that happy feeling was then of intrinsic value. However, if his binge drinking led to his drunk driving that killed/wounded Ms. B, the great suffering imposed on Ms. B or her big loss of future happiness should be taken into account. Such accounting may thus lead us to agree that binge drinking should be discouraged or even banned. This is justified on the bad effects on others and in the future, not based on having to adjust Mr. A's happy feelings that evening. In other words, no distinction is made between personal happiness and moral happiness (or eudaimon). Happiness is happiness. But the morality of a certain act does not depend only on the effects on the happiness of the person concerned, but also on the effects on others and on the future.

Secondly, many scholars want to add some objective component to the definition of happiness. For example, as described by Adler et al. (2017a, pp. 24–5), 'The most salient objective approach among psychologists is the 'eudaimonic', or self-realization paradigm, where well-being is construed as an on-going, dynamic process of effortful living by means of engagement in *activities* perceived as meaningful (e.g., Ryan and Deci 2001). Advocates of this approach maintain that living a life of virtue, understood as developing the valuable parts of one's human nature, or actualizing one's inherent potentials in the service of something greater, constitutes the good life for an individual (Boniwell and Henry 2007; DelleFave et al. 2011). From this perspective, positive experiences are not in themselves important for a good life, and are relevant only insofar as they involving [sic] appreciating objectively worthwhile ways of being or functioning'. Similarly, Adler et al. (2017a, p. 22) defines happiness or well-being as '*everything that makes a person's life ... goes well*' (italics original).

Some happiness researchers (e.g. Kahneman 1999; Di Tella et al. 2003; Közegei and Rabin 2008; Layard and Nickell 2005; Layard 2010) are in favour of the hedonic concept while others (e.g. Ryff 1989; Waterman 1993; Etzioni 2018) are in favour of the eudaimonic concept. The majority seem to regard both as relevant. The problem with the above 'eudaimonic', 'prudential', and/or 'objective' approach to the definition of happiness is that it confuses happiness with (objective) factors that are usually conducive to happiness and elements that are usually important for the happiness in the future and of others. To minimize violations to the common meaning of the concept of happiness, and to be consistent with the universally accepted point (again from Aristotle to Etzioni 2018) that happiness is intrinsically valuable (the controversial part is that it is also the only thing that is intrinsically valuable, ultimately speaking, a point to be discussed in Chap. 5), happiness must be subjective. However, our subjective happiness is affected by a host of objective factors. The different ways or methods we lead our lives may also have very different effects on our own health, and hence our future happiness, as well as different effects on the happiness of others. For example, a person may become happy getting drunk, but may do harm to his

health (hence reducing happiness in the future) or cause harm on others by drink driving, as mentioned above.

Aristotle was probably largely right that a life of contemplation and virtue, and actualizing one's inherent nature (Delle Fave et al. 2011) is the right way to wellbeing or happiness (Norton 1976), or that the usual result of eudaimonic action is hedonic happiness (Kashdan et al. 2008). 'At the opposite end, a selfish individual who has little regard for another's welfare and is primarily, or even exclusively, concerned with the pursuit of his personal interest ... will usually fail to achieve both his own happiness and that of others' (Ricard 2017, pp. 160–1). Lasting happiness is associated more with selflessness rather than self-centeredness (Dambrun and Ricard 2011). Disinterested kindness to others provides profound satisfaction (Seligman 2002); kindness activities boost happiness (Dunn et al. 2008; Aknin et al. 2012, Rowland and Curry 2018). All these wise observations and research results are very important for individuals and societies in terms of promoting a good life.

However, as the basis for the definition of happiness, they only serve to confuse. For example, they lead to such misleading assertions as 'psychological wellbeing cannot exist just in your own head: it is a combination of feeling good as well as actually having meaning, engagement, good relationships, and accomplishment' (Adler et al. 2017b, p. 122). It is simpler and clearer to regard your happiness or psychological wellbeing as just existing in your own head, but your engagement, relationships, accomplishment, etc. may affect your own future happiness and that of others.

Adler et al. (2017b, p. 123) allege that the purely hedonic concept of happiness ('just in your head') 'stumbles fatally on the fact that human beings persist in having children: couples without children are likely happier, subjectively, than childless [?!] couples [with children], and so if all humans pursued ... [such] subjective happiness, the species would have died out long ago'. First, this seems to be inconsistent with the finding that 'having children increases mothers' life satisfaction and happiness' (Priebe 2020, Abstract). Even ignoring this inconsistency, the argument is clearly due to the lack of consideration of the happiness of people/children in the future. A life with children may be less happy but may be a better life as it gives rise to future people with additional happiness. Thus, if happiness in the future is not ignored, the hedonic concept of happiness does not 'stumble'.⁴ It is also questionable that a life with children is less happy.⁵

True, 'Objective and subjective indicators of wellbeing are both important' (Stiglitz et al. 2010, p. 15; see also Fleurbaey and Blanchet 2013; Jorgenson 2018). However, the objective indicators are important only because: 1. They are indirect

⁴ On the relevance of future people, especially potential future people, see Ng (1989). On the other 'stumbling' allegation based on the *Brave New World*, see Chap. 2.

⁵ 'For parents who have had children due to the generosity of family policies, having children increases parent's life satisfaction by 0.33–0.41 points on a 10 point scale. This effect is significantly more pronounced when parents are over the age of 50. Yet, children's effects on life satisfaction and happiness is negative for single and full-time working parents. The positive effect of having children on life satisfaction and happiness has substantially eroded over the EVS (European Values Survey) waves which explains the reductions in the fertility rate in Europe' (Ugur 2020, Abstract).

indicators of subjective wellbeing; 2. They are important for subjective wellbeing (i.e. happiness) in the future; 3. They are important for the subjective wellbeing of others. One of the reasons the second factor may be important maybe because they contribute to the prevention of government's manipulation of 'people's preferences and/or knowledge' (Unanue 2017, p. 75). Similar to this possible usefulness of objective indicators of happiness, the 'operational definition' of happiness (Thin et al. 2017, p. 40) may also be useful. However, properly understood, it should be 'operational indicators', not definitions of happiness. Also similarly, such factors as capabilities, functioning, flourishing, etc. (see, e.g. Hasan 2019) are important also, ultimately speaking, only for their contributions to welfare or happiness.

Consider: 'Sen (1999, p. 14) provides some more realistic cases that may have significant relevance to public policy. Sen thinks hedonism is problematic because '[a] person who is ill-fed, undernourished, unsheltered and ill can still be high up in the scale of happiness or desire-fulfillment if he or she has learned to have realistic desires and to take pleasure in small mercies.' If such a person can be said to be doing well, then there seems to be something problematic about hedonism. Our tendency is to say that person has adapted as best as she can to poor life circumstances, and she is making the best of a bad situation, but that does not mean she is doing well: The destitute thrown into beggary, the vulnerable landless labourer precariously surviving at the edge of subsistence, the over-worked domestic servant working around the clock, the subdued and subjugated housewife reconciled to her role and her fate, all tend to come to terms with their respective predicaments. (p. 15)' (Hersch 2018, p. 2234). In my view, such cases may well be very undesirable; however, this is so because they tend to reduce happiness in the long run. Taking account of effects in the future and on others will account for them. On the other hand, if they do not [unlikely though] reduce happiness in the long run, they are not bad.

Despite the above explanations, some people may still prefer to have a different conception of happiness. For example, consider two hypothetical scholars who both died in an air crash at the same age. Madam A suffered from debilitating illness and a broken family throughout much of her life, leading to her undergoing enormous pain and distress. However, working long and exhausting hours, she made important breakthroughs in knowledge and was awarded a Nobel prize just before her death. Though she died happy, her unhappiness throughout her whole life clearly outweighs her final happiness for a few days. Mr. B was a healthy and happily married man who enjoyed life a lot. He also enjoyed his work and performed satisfactorily. Just before his death, he learned that his expected promotion did not go through as it was found that his only major contribution was contained in another publication years before his. He died unhappy and his career was not a very successful one. However, his final unhappiness for a few days is far exceeded by his high level of happiness for a long time.

According to our conception of happiness, Madam A had an unhappy life while Mr. B had a happy one. However, according to some other conception of happiness (which emphasizes final satisfaction with one's life), A had a happy life and B had an unhappy one. Moreover, some, if not many, people may prefer to have a life like A's to one like B's. Several issues are involved here.

To simplify from the complication of interest earnings from savings, assume a society with zero interest rate and zero inflation rate. Consider two persons similar in all aspects except that X had a high annual income and consumption level (\$80,000) during the first half of his life which was unexpectedly halved in the second half of life. In contrast, Y started with half the initial level of X's (i.e. \$40,000) for the first half of his life but the level was unexpectedly doubled for the second half. Though their income and consumption over the whole life are the same, Y probably had a happier life, provided that the level of \$40,000 per annum was not so low as to make him malnourished. (Malnourishment in the first half may be worse than that in the second half as it could affect one's health for both halves.) Subject to this proviso, most people also prefer to be in the situation of Y than X. When one has been accustomed to a high level of consumption, one needs a high level to be happy. Thus, subject to the absence of health-damaging under-consumption, it is better to have a profile of increasing consumption level than one that is decreasing. However, this consideration does not apply to the case of Madam A versus Mr. B where the profiles are already stated in terms of happiness, not in terms of consumption.

Many people may have faulty telescopic faculty so as not to make full allowance for the future, as believed by Pigou (1912, 1929, 1932, p. 25), a well-known economist early in the twentieth century. When one looks backward in time, events far back may also appear less important. But this is a similar mistake as having a faulty telescopic faculty.

Madam A had a more successful life than Mr. B who had a happier life. The difference is due to A's much higher contribution to knowledge which, presumably, would make others happier. Madam A may also have a higher life satisfaction than B, at least at the end, but this is still not a happier life. A may prefer to have her unhappy life over B's happy life. She may rationally have this preference if she believed that her contribution to knowledge would make others happier and if she cared for the happiness of others. This care may make life satisfaction (which is more likely affected by one's contribution to others) differ from the happiness of the same person, as will be discussed further in Chap. 4.

True, despite the above explanations, some people may still opt to use a somewhat different conception of happiness than the one we define above. However, the fact that momentary experience sampling (Csikszentmihalyi and Hunter 2003) of happiness and fatigue is predictive of cardiovascular disease progression, while overall evaluation of life is not so predictive (Karmarck et al. 2007), support both the use of momentary experience sampling as a method of measuring happiness and our definition of happiness above. Moreover, most people will agree that the good and bad feelings one has are important in affecting whether one is happy or not, even if not exclusively. Thus, one does not have to agree with our conception of happiness completely to find the rest of this book interesting and important.

In addition to the above two points, many scholars (including Sumner 1996; Chekola 2007; Adler 2017b) want to include some cognitive element into happiness or subjective well-being (SWB). Some define SWB as being inclusive of both affective happiness and cognitive life satisfaction. I find this confusing, if not also misleading. Using happiness, welfare and SWB as synonymous and defined in the

affective sense as discussed above, is most consistent with the common usage and most useful analytically. Then, usually one's life satisfaction (defined cognitively) may largely be affected by one's own happiness, but also by one's belief in contribution to society (ultimately and rationally, should be to happiness). Then, it is at least conceptually possible for most or even all individuals in a society to be unhappy (net happiness being negative) and yet still have high life satisfaction, as discussed in more detail in Chap. 4. This may be due to each believing that she has made huge contributions to the happiness of others. Yet, due to imperfect knowledge or misfortunes, the believed (perhaps mistakenly) contributions did not really materialize into happiness for most individuals. At least in outcome, such a society of unhappy individuals is miserable, despite high life satisfaction. Life satisfaction is not meaningless and may be useful for certain purposes, including the potential to affect happiness in the future. Happiness and life satisfaction also tend to be mutually reinforcing. However, ultimately, it is happiness that is of intrinsic value. Thus, I prefer to focus mainly on happiness, especially when the two differ, as discussed further in the next section and Chap. 4.

1.2 Why is Happiness Important?

Over the past century or more, psychology has gone through at least three important phases of subjectivism, behaviorism, and cognitivism. Classical psychologists spoke of mind, consciousness, and used introspection in their analysis. Then came the Watson-Skinner behaviorist revolution which prohibited the analysis of anything subjective: only actual behaviors were the proper subject matter of psychology. This allowed psychology to make huge advances in becoming more scientific, but concomitantly caused some to feel that it had 'gone out of its mind...and lost all consciousness' (Chomsky 1959, p. 29). The reaction against the excesses of behaviorism resulted in the cognitive revolution which has been prevalent for the past few decades, and which has made much headway.

Economics has gone through similar phases. Older economists (since the Neoclassical revolution in the nineteenth century) used more subjective terms like satisfaction, marginal utility, and even happiness, pleasure, and pain. After the indifference-curve or ordinalism revolution in the 1930s, modern economists are very adverse to the more subjective concepts and very hostile to cardinal utility and interpersonal comparisons of utility. (See Kaminitz 2018 on the histories and approaches on this by economists and psychologists.) They prefer to use the more objective concepts like preference and choice. In a very important sense, these changes represent an important methodological advance, making economic analysis to be based on more objective grounds. However, the change or correction has been carried into excess, making economics unable to tackle many important problems, divorced from fundamental concepts, and even misleading. In my view, while we should prefer to use more objective concepts when they are sufficient, we should not shy away from the more subjective concepts and even their interpersonal comparison when they are needed.

Perhaps we may date the commencement of the subjectivist counter-revolution to the dominance of objectivism/ordinalism in economics at 1997, with the appearance of three papers (Oswald 1997; Frank 1997; Ng 1997) on happiness in *Economic Journal*, with Easterlin (1974) as the earliest forerunner. In the last 2–3 decades, many top journals in economics have published papers on happiness studies and economists are less reluctant to speak in terms of subjective concepts including happiness, including its cardinal measurability and interpersonal comparability.

Happiness is more important than the objective concepts of choice, preference and income (especially if narrowly interpreted and eschewing cardinal utility and interpersonal comparison, as is the usual practice in modern economics) for at least two reasons. First, happiness is the ultimate objective of most, if not all people (more on this in Chap. 5). We want money (or anything else) only as a means to increase our happiness. If having more money does not substantially increase our happiness (Chap. 7), then money is not very important, but happiness is.

Secondly, for economically advanced countries (the number of which is increasing) there is evidence suggesting that, for the whole of society, and in the long run (in real purchasing power terms), money does not buy happiness, or at least not much (Easterlin 1974; Veenhoven 1984; Argyle and Martin 1991, p. 80; Oswald 1997; Asadullah et al. 2018; Cheng et al. 2018; Luo et al. 2018). This is known as the Easterlin paradox of unhappy growth, the failure of money or economic growth to increase happiness (For the sister paradox of happy stagnation for Japan in the last three decades, see Chap. 13). The reasons are not difficult to see. Once the basic necessities and comforts of life are adequate, further consumption can actually make us worse off due to problems like excessive fat and cholesterol and stress. Our ways to increase happiness further then take on the largely competitive forms like attempting to keep up with or surpassing the Joneses. From a social viewpoint, such competition is a pure waste (Frank 1997). On top of this, production and consumption to sustain the competition continue to impose substantial environmental costs, making economic growth quite possibly happiness-decreasing (Ng and Wang 1993, and Chap. 7). To avoid this sad outcome, a case can be made for *increasing* public spending (contrary to the currently popular view against public expenditures among economists) to safeguard the environment and to engage in research and development that will increase welfare (Ng 2003). This is especially so since relative-income effects makes the traditional estimate of optimal public spending sub-optimal (Ng 1987a). As the schoolmates of one's child all receive expensive birthday gifts, one feels the need to give as expensive gifts. Thus, the perceived importance of private expenditures is inflated relative to that of public spending (Ng 2003 and Chaps. 14 and 15).

The return of both psychology and economics to largely accept subjectivism is unavoidable and much to be welcome. Happiness is the ultimate and only intrinsic value (Chap. 5) and it is subjective. The great British economist Arthur Pigou (1922) regarded the study of economics (and arguably other studies as well, though we should not insist on immediate effects) should be mainly for bearing fruits, not just shedding lights (though shedding lights itself is a kind of fruit). Happiness is the ultimate fruit.

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