

Relational goods and happiness data

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INTRODUCTION

How successful is an economy at delivering the highest possible welfare for its citizens? This fundamental question is at the heart of economic analysis. Per capita GDP is the standard metric used to answer the question. Can we do better? In this chapter we argue that the quality and quantity of non-instrumental social relations, which we refer to as relational goods, are a key driver of welfare, which is however often ignored in our public discourse.¹ Of course, few would deny that the affective/ expressive side of personal relationships plays a central role in our lives. Psychologists have long recognized relatedness as a basic human need.² The Skidelskys in their brilliant polemic *How Much is Enough?* stress that friendship has been an essential component of the ‘good life’ in virtually all civilizations.³ As is well known, the default option in economic analysis is however the *homo oeconomicus* hypothesis: agents are described as impersonally interacting through markets, with the aim of allocating their scarce resources in such a way as to maximize their welfare through the consumption of market goods. True, inside economics a body of literature is developing on social interactions – interdependencies among agents whose preferences and beliefs are affected by the preferences and choices of others (for a recent survey see Durlauf and Ioannides, 2010). The main departure in this collection of literature from standard economics so far is that it expands in this direction the domain of factors that determine individual decisions. In this chapter we focus instead on the characteristics that social relations must have to produce relational goods. A first reason for the absence of this class of goods from economic analysis is the complexities in their definition, which we sketch in the next section. Just as important are the difficulties in the quantitative evaluation of the impact of relational goods on welfare. Economists aim not simply to identify the existence of phenomena, but to understand their ecological significance. Predicting behavioral and welfare responses to policies requires not only understanding the motivations that affect such responses. It requires understanding how big a role those motivations play, and how different motivations interact with each other. The increasing availability of data on subjective well-being (and on social activities themselves) has made it possible to measure the effect of relational goods on social welfare.

Findings from these data strongly confirm the importance of social ties for our welfare and urge us to give up the anthropological reductionism still characterizing much of economic research.

The rest of the chapter is organized as follows: the concept of relational goods is introduced and analyzed in section 2, where we explain why relational goods have one characteristic, non-rivalry, which is typical of public goods. For this and for other behavioral and institutional reasons, which we spell out in section 3, it is likely that the consumption of relational goods is too low in market societies. In section 4 we show how happiness data have been used to measure the impact of relational goods on welfare and the results from such empirical exercises. Section 5 concludes.

DEFINITION AND ECONOMIC ANALYSIS OF RELATIONAL GOODS

Most rational choice models of action represent a decision-maker's optimization problem involving goods that can be acquired in isolation. However, people also pursue goods that can arise only as a function of a relationship with others: we define such goods 'relational'. In particular we focus on the non-instrumental side of interpersonal relationships.

Experiences of companionship, sympathy and intimacy are goods, that is, something we value and which contributes to our welfare. Relational goods are produced in a meeting – 'encounter' in Gui's (2000) definition – with other people. These goods are, on a smaller scale, the outcomes of family relationships and friendships. Many kinds of social practices offer the opportunity of 'encounters' on a larger scale: attending political, sports and musical meetings, volunteering, joining a club and so on all can lead to the production of relational goods.

Bardsley and Sugden (2006) show how the concept of relational goods can be found in Adam Smith, who, in his *Theory of Moral Sentiments*, writes of 'fellow-feelings' and 'sympathy' to describe the emotions experienced during non-instrumental social interactions. Sympathy implies the internalization of others' well-being, 'changing places in fancy with the sufferer'.

Modern words related to Adam Smith's sympathy are caring, regard, compassion, empathy, understanding – all terms implying a sense of connectedness or identity with another.

The expression 'relational goods' was, to my knowledge, first proposed by Gui (1987) in studying a communitarian economy and by Ulhaner (1989) in finding a rationale for political voting.

These authors argue that relational goods are a specific kind of local public good. They can be said to be public goods because they are non-rival. They are a specific kind of public good, which should be better defined as anti-rival than as non-rival, because their very same nature is based on interpersonal sharing.⁴ They are local public goods because the agents consuming them are in general a subset of all the agents in the economy. They are intangible goods simultaneously consumed and produced by each subject involved in their coming into being. Reciprocity is another defining characteristic of relational goods. Since these goods are a phenomenon which emerges

from a relationship they can only be enjoyed reciprocally.⁵ Agents do not see non-rivalry and non-excludability – the latter property may or may not be present – as negative elements which prevent the full exploitation of the benefits from the good, but as positive elements which augment its value (my satisfaction can be actually augmented by the numerosity of partners: I may enjoy belonging to a wider community, whether I am participating in a political meeting or in a musical event).

It is worth mentioning that the Coase theorem by which the inefficiencies of public goods can be mitigated when it is possible to establish property rights on them is in no way applicable to relational goods.

Another ‘*differentia specifica*’ of relational goods is that their value depends on the sincerity or genuineness of the parts involved. As a consequence they cannot be sold on the market and as a consequence they do not have a price. The state can only encourage their fruition through social arrangements that indirectly facilitate their spontaneous creation by private agents. We anticipate the discussion in the next section by saying here that since neither their (private) benefits nor their costs show up in national accounts, for this reason alone there is a risk they get ignored in our economical and political debate, given its focus on GDP growth.

When relational goods are consumed in the course of repeated interactions between a group of agents they can be accumulated: hence the related concept of social capital. Lasting sympathetic relationships represent a stock of potential services that can be extracted from one’s social partners.

The preceding discussion has tried to distill a pure concept of ‘relational goods’. In the real world almost all human contacts have an affective/ communicative component. In other words relational goods are often bundled with goods exchanged through markets or financed by the state.

For example, in selling holiday packages for affinity groups, travel agents are in a sense selling the companionship of other customers, while clubs sell the companionship of their members. However, this is possible because the non-instrumentality of the companionship is guaranteed by the fact that the actual producers of the relational goods are not their sellers. Online dating services are another example of bundling: people pay fees to join online dating services in the hope of connecting with people with desired or similar characteristics. While it is clear that online dating companies sell search and match services, what the client buys is (the possibility of) a relational good. There is of course no guarantee that through bundling the marginal cost and benefit of relational goods will be equalized.⁶ In general, complex processes of commodification (happening when relational goods are sold, that is, converted into commodities) and decommmodification (happening when commodities are converted into relational goods by acquiring an emotional value as the embodiment of a social relationship) are observed (see Robison et al., 2015). There are benefits and costs associated with commodity and relational good exchanges.

Professionals doing pro bono work to improve their relationships within a community (and not just to increase their future financial gains) can be seen as an example of decommodification.

The most obvious example of commodification of a relational good is prostitution, through which a sexual encounter is exchanged for money. It is nowadays possible to ‘rent a friend’ (Prentice, 2010) for special occasions. You can also sell a friendship: Judas sold Jesus for 30 thirty pieces of silver.

But even when, as in the first two cases, commodification consists in creating a relationship rather than disposing of it as in the third, the market exchange often suppresses the affective component of the relationship.

Robison et al. (2015) argue that this not generally the case and that, for example, writers, poets, athletes, musicians, actors and entertainers make a living by creating relational goods for us.

This is not totally convincing. Sure, often the key to the enjoyment of a novel is some degree of identification with its characters. However this (one way) emotional relation develops with the character and not with the writer who created the character.

However, if as noted above, reciprocity is necessary to generate relational goods then our attachment to a literary figure cannot be considered a relational good, no matter how strong the emotions we feel by reading the novel and how important reading the novel is for building our identity. Relational goods can of course arise in a reading group organized by a bookshop. But then it is the shopkeepers, not the other participants in the group who may profit commercially from the initiative.

We end this section by stressing that the idea that relational goods are non-rival goods is not accepted by all. Sandel (2013) argues that its opposite, that is the idea that altruism is a scarce resource that has to be economized, is endemic among economists.

This ‘economizing love’ principle was first made explicit by Robertson (1954) who argues that markets with their reliance on self-interest save society from depleting its scarce resources of love and benevolence. More recently Summers (2003) writes:

“We all have only so much altruism in us. Economists like me think of altruism as a valuable and rare good that needs conserving. Far better to conserve it by designing a system in which people’s wants will be satisfied by individuals being selfish, and saving that altruism for our families, our friends, and the many social problems in this world that markets cannot solve.”

To this view that altruism, generosity and solidarity are rival goods depleted with use, Sandel opposes the view that they are like organs that develop with use. Civic virtue and public spirit atrophy with disuse, as argued by Aristotle for all virtues in his *Nicomachean Ethics* (1925, Book II, chap. 1pp. 1103a–1103b).

Finally Bruni and Sugden (2013) reclaim virtue ethics for economics: they oppose the idea that markets are at best a morally neutral zone and argue that, on the contrary, they help to establish and reinforce principles of universality, trust, trustworthiness, acceptance of different tastes, reciprocity and so on.

ARE WE SUFFERING FROM RELATIONAL SCARCITY AND WHY?

There are many reasons to think that we are consuming too few relational goods, as defined in the previous section. First of all, there is strong evidence that positional concerns compel us to work harder and consume more to keep up with our peers: we then give up too much leisure, whether we use it socially or not. This interdependence can be viewed as an externality: our behavior is individually optimal, but collectively suboptimal. Second, cognitive biases may lead people to underestimate the utility deriving from satisfying intrinsic needs (relational goods featuring prominently among them) and to overestimate the utility from satisfying extrinsic motivations. Third, the under-consumption of relational goods may tend to worsen over time due to the fact that the relative price of these goods increases with technical progress in the production of market goods. Fourth, coordination failures in the production of relational goods arise at various levels of the social structure. These coordination failures may be reinforced by cultural and institutional factors. For ease of exposition we consider these aspects in turn, but, as will become clear below, there are intimate connections among them.

Positional Races

The term ‘conspicuous consumption’ was coined by Veblen (1899), to describe how the *nouveau riche* used their wealth as a means of displaying their affluence and social status. Duesenberry (1949) gave the name ‘demonstration effect’ to what had in the meanwhile, thanks to economic growth, become a mass phenomenon. Based on the effect he formulated a consumption theory able to explain two stylized facts: the first is that the rich have a higher propensity to save than the poor and the second is that aggregate savings rates do not increase with income. These two facts seem contradictory: if the rich save more of their income, a whole country should do the same as it gets richer. Duesenberry’s explanation of the puzzle is that the poor save at lower rates because they try to emulate the spending pattern of the rich. This emulation effect persists no matter how much

national income grows, and explains why national savings rates do not rise over time. Duesenberry also suggested that consumption levels change little during recessions because households look not only to the living standards of others, but also to their own past pattern of consumption.

The economic profession, however, preferred Friedman's permanent-income hypothesis to Duesenberry's relative-income hypothesis. At the time, many economists felt uncomfortable with an analysis that seemed to rely heavily on sociological and psychological insights. The tendency towards a less solipsistic view of how our minds work among economists is exemplified by the fact that the assumptions that the utility of consumption depends on how much the other agents consume or on past consumption are widely used nowadays to explain asset pricing or business cycles phenomena (for instance, Smets and Wouters, 2007 employ the first assumption, 'external habits', in DSGE literature parlance, and Christiano et al., 2005 employ the second: 'internal habits').

In the same vein, Frank (1985, 1999, 2005, 2011) integrates research from psychology, evolutionary biology and economics. He notes that if individual utility depends not only on absolute consumption but also on relative consumption, a fundamental conflict between individual and social welfare arises. The conflict stems from the fact that concerns about relative consumption are stronger in some domains than in others. The disparity gives rise to expenditure arms races focused on positional goods.⁷ The result is to divert resources from non-positional goods, causing welfare losses. Frank argues that leisure is less likely to be a positional good than income.⁸ He points out that instincts were selected to motivate behaviors leading to reproductive success, and reproductive success, in turn, is fundamentally about resource acquisition.

Indeed, countless psychological experiments have shown that participants make judgments and decisions by looking at each other and generally engage in social comparison. This evidence is strongly backed by recent neuroimaging research.

For example, in Fliessbach et al. (2007) two subjects were scanned while performing a simple task. Participants' monetary pay-off depended only on their own performance and not on that of the other player. At the end of a trial, participants would, however, receive information about both participants' performance and payment. Results, indeed, showed that activity in the ventral striatum (one of the main structures of the reward system in our brain) was not influenced by the absolute amount of money earned but by the relative payoff. These striking results on the salience of social comparisons have been replicated in different settings and shown to be valid across gender and cultures. For other recent studies see Bault et al. (2011), Dohmen et al. (2011), Dvash et al. (2010), Fliessbach et al. (2012), Grygolec et al. (2012), Du et al. (2013) and Kang et al. (2013): for an overview see Kedia et al. (2014). One of the reasons that could explain the ubiquity of relative thinking is that it is efficient: social comparisons enable humans to save cognitive resources by

focusing just on a subset of information. However, what is efficient from an individual point of view may well turn out not to be socially efficient. To use an iconic example from Frank (1999), the relative size of a male elk's antlers determines his mating success. The absolute size of antlers has therefore increased, in a kind of 'arms race'. The problem with this strategy is that big antlers are an encumbrance that makes male elks an easier prey. Humans get caught in the same kind of trap when pursuing their (perfectly rational) individual incentives to increase their social rank. The net social effect is simply an increase in consumption whose benefits outweigh the environmental and time costs.

Cognitive Biases

A large body of literature from behavioral economics and psychology finds that people often make inconsistent choices and depart from the standard model of the rational economic agent in other ways. If people display bounded rationality when it comes to maximizing utility, then their choices do not necessarily reflect their 'true' preferences, so that expected and experienced utility differ (for an overview of such anomalies see Thaler, 2015).

Frey and Stutzer (2014) list some cognitive biases that may lead people to underestimate the utility deriving from satisfying intrinsic needs (relational goods featuring prominently among them) and to overestimate the utility from satisfying extrinsic motivations. Intrinsic motivation refers to initiating an activity for its own sake because it is interesting and satisfying in itself, as opposed to doing an activity to obtain an external goal (extrinsic motivation). A first bias they consider is the asymmetric underestimating of adaptation. There is empirical evidence of little or no adaptation for goods and activities characterized by intrinsic attributes and in particular to shocks to shocks to consumption of relational goods (see Bartolini et al., 2013b). In contrast, there is empirical evidence that individuals experience a considerable extent of adaptation in the case of consumption goods (see Carrasco et al., 2005). Looking at happiness data when individuals experience a rise in income, their utility level at first increases but then decreases again.

The evidence that people tend to underestimate adaptation is a first reason to think that they will under-consume goods and activities with strong intrinsic attributes, compared to those with strong extrinsic attributes.

A second reason is the distortion in memory of past events. When agents decide what to consume they have to recall their past. What counts as 'more memorable' tends to be the strongest moment (peak) and the most recent moment (end) of an experience. Frey and Stutzer (2014) propose that, while extrinsic attributes give rise to peak feelings, intrinsic attributes give rise to longer-term feelings. Under-consumption of intrinsic attributes follows through this channel.

A third reason is the need to rationalize decisions. The authors report results from experiments on the tendency to resist affective and non-economic influences and to take only measurable attributes into account when making choices. Hsee et al. (2003) call this reason-based choice 'lay rationalism'. It seems intuitive that in a society dominated by market values it is much easier to provide rationalistic justifications for choosing goods and activities on the basis of their extrinsic rather than of their intrinsic attributes and characteristics.

Cultural and Institutional Factors

The under-consumption of goods with strong intrinsic attributes in rich societies is the central theme of Skidelsky and Skidelsky (2012). The book is inspired by Keynes's *Economic possibilities for our grandchildren*, published in 1930. In the essay Keynes claims that technical progress will allow us to overcome scarcity and as a consequence the 'purposive' attitude to life – the impossibility to appreciate anything but as a means to a future benefit. In Keynes's words, the purposive man 'does not love his cat, but only his cat's kittens; nor in truth, the kittens, but only the kittens' kittens, and so on forever to the end of cat-dom'. Thanks to the solution of the 'economic problem' made possible by capitalism: 'We shall once more value ends above means and prefer the good to the useful'. He thought that in a century people would be at least four times richer, on average, and have to work no more than 15 hours a week: this would allow us to cultivate friendships, along with aesthetic appreciation, which are the sources of our most valuable mental states, in his opinion.⁹ He was right about income, but definitely wrong about working hours. Keynes's prophecy was based on two assumptions: the first is that technical progress increases the productivity of labor and the second is that wants are finite. He was right on the first assumption but not on the second: in a capitalist economy, there is a satiability of needs but an insatiability of wants. In fact in neoclassical economics the distinction between needs and wants disappears and welfare is tantamount to *any kind of* preferences satisfaction. *How Much Is Enough?* appeals to a reinstatement of the concept of 'the good life' at the center of the public discourse, as a way of limiting wants. Cultural pluralism might suggest that any attempt to define the 'good life' in an objective way is pointless, but the Skidelskys note that virtually all civilizations have conceived wants as satiable. Only our contemporary Western civilization looks at unbounded growth as the way forward. Indeed in market economies insatiability is the engine of the machine. Keynes himself later underlined the chronic problem of scarcity in aggregate demand in market economies: consumerism, fueled by marketing, is the solution to the problem favored by market-oriented societies, in particular the US and the UK among the richest ones. Capitalism hinges on politically orchestrated insatiability: moreover it produces inequality of wealth and income to such a degree that many stay poor even

though society as a whole gets richer. These distributional effects are very inimical to the possibility of working less and devoting more of our time to socializing.

Coordination Problems in Producing Relational Goods

People have to coordinate to socialize their leisure time. The behavior necessary for such coordination contributes to an interaction from which others also benefit, thereby generating an externality.

This further adds to the possibility of prisoner's dilemma-like traps of 'relational poverty'. Jenkins and Osberg (2004), Corneo (2005), Antoci et al. (2007), Randon et al. (2008) and Bilancini and D'Alessandro (2012) have developed models showing how relational goods generate spillovers in various contexts and at various levels in the social architecture.

There are search spillovers because the probability of a successful 'encounter' increases with the time that the agent and the potential partners dedicate to searching. More spillovers arise because one's skills as a partner in a social relationship may be accumulated on purpose, thus increasing its quality: a friend who has shown his loyalty through the years may be more valued than a recent acquaintance, to give an example. Last but most importantly there are externalities at the aggregate level since it is easier and more rewarding to socialize in an environment rich in associative opportunities. In this respect, Merz and Osberg (2006) find that the proportion of leisure time devoted to social leisure is higher in German Länder with more public holidays.

Indeed, it is always possible for a group of people to live in communities organized on different principles from the rest of society. Literary examples abound, just think of the *Scènes de la Vie de Bohème* by Murger (1980). However, such groups are only stable if the surrounding culture recognizes and supports them. The destiny of hippy communes in the 1960s has been very different from that of medieval monasteries.

Due to these complex structures of spillovers, equilibria with low levels of social life may be reached even if equilibria with high levels would be possible for subsets of agents all the way up to the entire economy.

In the first subsection we have seen how positional races may induce people to consume and work too much, so negatively affecting their overall leisure, whether relational or not. However, if relational leisure is more valuable than solitary leisure, as is likely to be the case, then spillovers to relational goods will induce people to work too much. When the probability of a desirable leisure match falls, my utility of non-work time falls, pushing my labor supply up. The consequences of such strategic complementarities in the enjoyment of leisure are considered in Alesina et al. (2006) and Burda et al. (2008) in analyzing the difference in hours worked between Europe and the US, which has emerged in the 1970s and has been increasing since then. This difference might not be

due to a difference in the tax system, as maintained by Prescott (2004), or in tastes, as suggested by Blanchard (2006); instead history (for example, the first oil shock) and institutions (labor-market regulations) might have simply led otherwise identical Americans and Europeans to coordinate on different equilibria.¹⁰ In the ‘US’ equilibrium, individuals work a lot, consume a lot, and have little time for communal activities. In the ‘European’ equilibrium, consumers work less and consume less, but enjoy more common leisure.

Do Relational Goods Suffer from Baumol’s Disease?

Baumol’s cost disease affects those sectors in which the productivity of labor is stationary. Baumol and Bowen (1965) pointed out that the same number of musicians is needed to play a symphony today as was needed in the nineteenth century; that is, the productivity of classical musicians has not increased. This is why the relative price of performing art has exploded. Relational goods are similar to performing arts since they require an approximately fixed amount of time invested to be produced. Exactly as for performing arts, technological progress in other areas (combined with the explosion of various forms of non-relational or pseudo-relational leisure at very low cost) has hugely increased the opportunity cost of the time dedicated to their creation. Baumol’s disease of relational goods may help to explain the decline in participation in social activities in the US pointed out by Putnam (2000) and confirmed by Bartolini and Bilancini (2010) and Bartolini et al. (2013a), among many others. On the other hand, in many developed economies, and in particular in Western Europe with the exception of the UK, there is a positive trend in relational social capital, as documented in Sarracino (2010). This diverging pattern across countries shows how cultural and institutional factors will often prevail over technical determinants. Bartolini et al. (2014) analyse in particular how public policies in the US may have created this difference with continental Europe.¹¹

RELATIONAL GOODS AND HAPPINESS DATA

The study of happiness data has played an important role in questioning the empirical validity of the *homo oeconomicus* hypothesis. A first striking result obtained from these data is the famous ‘Easterlin paradox’ (Easterlin, 1974), by which increasing income does not always lead to more subjective well-being. While the paradox has been recently put into doubt – a recent discussion of the related literature is in Becchetti and Pelloni (2013) – the puzzle of no upward trend in happiness for the US is still there.

Happiness data have played a key role in providing evidence on the phenomena described in the previous sections and in particular on the strong role of positionality and adaptation in consumption of private goods.

A further important motivation for the use of happiness data in economics is the possibility these data offer to study the welfare effects of goods that are not exchanged through markets. The Life Satisfaction Approach (Frey et al., 2007, 2009, 2010) can in fact be seen as an alternative to the traditional methods of measurement based on contingent valuation or (indirectly) revealed preferences. Happiness data make it possible to calculate the elasticity of the indirect utility function of agents with respect to any public good, relational goods among them.¹²

Happiness data have been used to gauge the impact on welfare of social activities by Helliwell and Putnam (2004), Bartolini et al. (2010) and (2013b), Becchetti et al. (2008) and (2012), Bruni and Stanca (2008), Powdthavee (2008), Han et al. (2013), Ra et al. (2013), Addai et al. (2014), Ateca-Amestoy et al. (2014), Han (2014), Kim (2014), Rodríguez-Pose and Von Berlepsch (2014), Pagan (2014), Sarracino (2014), Tomas et al. (2014), Gimenez-Nadal and Molina (2015), Colombo and Stanca (2014) and Lardies-Bosque et al. (2015), among many others.¹³ The evidence regarding the positive association between subjective well-being and social leisure is univocal and strong in different countries and cultures: however, the association could just capture the tendency of happier people to socialize more.

The Endogeneity Problem

The problem of bi-univocal causality is severe in the empirics of happiness. This is because unobservables, for example an extrovert personality type, can be correlated both with the propensity to report higher happiness and with the explanatory variables of interest (for example higher income). If this happens, the estimates of the coefficient of the explanatory variable will be biased.

A first important opportunity of dealing with the endogeneity of regressors is offered by panel data which allow the investigators to focus on changes in levels of happiness for the same individuals, thus avoiding the problem of unobserved heterogeneity, for example fixed character traits.

Becchetti et al. (2008) use a vector autoregression framework, also adopted by Binder and Coad (2010) and Coad and Binder (2014), to analyze data from the German Socio Economic Panel (GSOEP). This database contains both cross-sectional and longitudinal information (1984–2015) on many variables, including self-declared satisfaction with life as a whole and over some domains (work and leisure among them) and various measures of relational life, for a large sample of individuals. They show that the two null hypotheses of the insignificance of the effects of time invested in relational life on happiness and of happiness on time invested in relational life are both rejected: Granger causality in both directions is supported. They find that the effect of relational

goods on subjective well-being of women, the older and the less educated is stronger. This is valuable information for the design of policies.

However, even after eliminating individual fixed effects, the problem remains that over time variation in life satisfaction for an individual may affect the regressors. This time varying dimension of the endogeneity problem is particularly severe when we are investigating relational goods. It is in fact very likely that not only our personality and values but also our mood may condition our propensity to socialize.

While Becchetti et al. (2008), like Piper (2015), use internal instruments to deal with the endogeneity problem, Becchetti et al. (2012) use as an instrumental variable the sample proportion of the retired by year and region (East vs. West Germany). The intuition behind this identification strategy is that the increased availability of leisure time of the retired makes the double (or multiple) coincidence of wants necessary for the creation of relational goods easier to happen. The retired may devote more of their time to the organizational or search efforts that make social life possible, for themselves and for their friends and families. The retired may also help other members of their family with home production and child-caring, thus increasing the endowment of (potentially social) leisure time for others. So the instrument is correlated with the endogenous regressor. At the same time, since the instrument is not a choice variable for the individual, it cannot be suspected of being itself correlated with the error in the regression.

Using this alternative approach, we still find that social leisure has a significant effect on life satisfaction: the hypothesis that relational goods have a causal positive impact on subjective well-being is not rejected.

CONCLUDING REMARKS

Economists are broadening the scope of their investigation and allowing a richer understanding of our psychology in their models. These models are more and more populated by humans and less and less by fictitious ‘econs’, to use the expression made popular by Sunstein and Thaler (2008). The increasing availability of subjective well-being data has represented an important source of new information in this process of going beyond the psychological reductionism of the past. The strong evidence from these data on the relational goods–happiness nexus confirms that the neglect of relatedness as a fundamental dimension of human nature may limit the validity of economic analyses and related policy prescriptions.

Human activity in every field of endeavor depends on the economic basis of society. Economics as the analysis of such a basis cannot, however, ignore human aspirations and values.

Indeed, many economists have begun to ask explicitly the question of how we should organize ourselves as a polity. This means placing economics back within the social sciences, while at the same time retaining the mathematical and statistical methods that have given the discipline so much of its analytical and predictive power.

Extending the framework of economic analysis to interpersonal relations is in my view an important part of this process. It is a process dominated by problems of conceptualization and measurement. However, I hope to have convinced the reader that trying to solve these problems is important: an economic culture disregarding the costs and benefits of our private and collective actions for the social environment can mislead both individual and public choices.

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- 1 A related concept made popular by Putnam (2000) is 'social capital', to which we will briefly return below. |
- 2 For instance Carr (2004) finds that an active social life is positively associated with physical and mental health as well as longevity. This has recently been confirmed by Downward and Dawson (2005) and Fiorillo and Sabatini (2015).
- 3 Hannah Arendt in her book *The Human Condition* (1958[1998]) recalls that the Romans used the words 'to live' and 'to be among men' (*inter homines esse*) or 'to die' and 'to cease to be among men' (*inter homines esse desinere*) as synonyms.
- 4 Sometimes one reads that the reason to consider relational goods as public goods is that the former cannot be consumed in isolation: Bruni (2012) objects to this reasoning that, in theory, nothing prevents standard public goods from being consumed in isolation even if they can also be consumed simultaneously by a plurality of agents. We think the objection is perfectly right. However, the objection does not imply that classifying relational goods as public goods is wrong but only that relational goods are a proper subset of the set of all public goods. In general, it has been argued that the concept of public good is so confusing as to be a pedagogical bad. Indeed it merges three analytically distinct concepts: excludability, rivalry and public finance. Still the expression has an evocative power and connotations that make it difficult for me to give it up.
- 5 Reciprocity as a defining characteristic of relational goods is strongly underlined by Nussbaum (1986) in studying the concepts of love and friendship in Aristotle.
- 6 Another case of bundling is gift giving. Waldfogel (1993 and 2009) questions the rationality of gift giving, just following the standard neoclassical assumption that someone's current utility depends on the size of his choice set. The larger the choice set, the better off the person. He then calculates the 'deadweight loss of Christmas', that is, the loss in welfare arising from people giving gifts rather than cash and considers 'the stigma of cash giving' wrong because it narrows an individual's set of choices. He does not consider the possibility that the stigma against monetary gifts, at least among intimates, is a social norm helping to protect relational goods, such as attentiveness towards others' desires.
- 7 Hirsch (1977) defines a good positional if it is desired *because* of its scarcity, social or natural. The quest for such goods is a zero-sum game and causes what Hirsch defines as a social limit to growth.
- 8 Neumark and Postlewaite (1998) found that a woman whose sister's husband earned more than her own husband was 16–25 percent more likely than others to seek paid employment.
- 9 This was the view of the Bloomsbury group of which Keynes was a core member. The view was developed by G. Moore, one of the founders of analytical philosophy, in his *Principia Ethica* (1903; see especially chapter 6).
- 10 One of the strongest proofs of complementarities across leisure is that almost everybody in Europe and the US takes two days off work during week-ends. There would be enormous advantages in the uses of capital (including transport capital) if different people worked at different times. The fact that all work at the same time suggests that the costs in terms of forgone coordination would be just as big. However, the relevant complementarities could be across work, rather than leisure.
- 11 More recently Putnam (2015) describes a divide in social capital in America, rather than a simple decline. The richest third of US society are investing more in family life, social networks and civic activities than their parents, while the opposite is true for the poorest third. Bunker (2010) finds that status is positively related to the intensity of social life in European countries as well.
- 12 While the marginal value of leisure in a competitive economy is equal to the real wage, the value of social leisure has to be calculated indirectly.
- 13 Interestingly, watching TV is negatively correlated with subjective well-being, as shown by Frey et al. (2007), Bruni and Stanca (2008) and Benesch et al. (2010).