Chapter 7.

HUMAN VALUES, CIVIL ECONOMY, AND SUBJECTIVE WELL-BEING

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The underpinnings of Civil Economy: human values, relational goods, subjective well-being and “public happiness”

Economics today looks like physics before the discovery of electrons. Economists “discovered,” classified and studied in detail characteristics of private goods, public goods and even common goods, but they have only recently come to study more intensively the role and relevance of relational goods. The importance of human values and relational life for economic health and subjective well-being is still largely underestimated, and is a fascinating field for future research.

At the root of the current problem lies three forms of reductionism: i) anthropological reductionism by which human beings are conceived as homines economici (100% self-interested individuals) and not as personae, that is, human beings whose subjective well-being largely depends on the quality of their social life; ii) corporate reductionism by which all productive organizations need to be unfettered profit maximizers that prioritize the expectations of one category of stakeholders (shareholders) over all the others (customers, workers, suppliers, local communities); iii) value reductionism by which value is narrowly identified with GDP and not as the stock of economic, environmental, cultural, spiritual and relational goods that a community should enjoy.

The Civil Economy research program endeavors to show theoretically and empirically that economic productivity and subjective well-being may be significantly enhanced when one goes beyond these three forms of reductionism.

Within a general equilibrium perspective, the reductionist approach assumes that the aggregation of the actions of homines economici and of profit maximizing firms may be heroically transformed into a social optimum and common good by the forceful action of two (invisible and visible) hands: the invisible hand of market competition which reconciles a multiplicity of self-regarding actions, and the visible hand of benevolent, perfectly informed institutions and regulators. The latter are assumed to be strong enough not to be captured by those who are being regulated. The visible and invisible hands reconcile private and social optimum by addressing market failures due to asymmetric information, public goods and externalities.

As widely demonstrated by the recent global financial crisis, the two (invisible and visible) hands tend too often to be affected by cramps and so, when left alone, they generate an outcome that is largely suboptimal in terms of both economic performance and subjective well-being. On the contrary, the Civil Economy perspective states that societal well-being is the fruit of a four-handed endeavor: the role of the two hands, to be effective, needs to be reinforced by the two additional hands of both responsible citizens and corporations. In essence it proposes to overcome the three-sided reductionist approach and introduce into the system: i) a share of non-reductionist (not purely self-interested) human beings who get happier with socially and environmentally responsible (consumption, saving, work) actions; and ii) a share of non-profit maximizing multi-stakeholder productive organizations. When doing so, the socioeconomic system has the potential to create economic value in a socially and environmentally responsible way, thereby producing authentic economic health. While emphasizing the bottom-up action of non-purely-self-interested individuals and organizations, the Civil Economy does not neglect the traditional role of institutions, since such bottom-up action is a forceful complement to and not a substitute for these institutions.

In what follows we explain theoretically and empirically why the Civil Economy paradigm (where human values play a fundamental role) may work and is already at work to transform the current socioeconomic environment for the better. More specifically, in the second section we illustrate the rich historical and philosophical roots of Civil Economy. In the third section we
discuss from a theoretical point of view why the current reductionist perspective may be harmful both in terms of economic and human health. In the fourth section we introduce the fundamental concept of relational goods. In the fifth section we provide ample empirical evidence from experimental behavioral economics challenging the reductionist paradigm and documenting that the two additional hands of responsible citizens and corporations are already at work. In the sixth section we provide evidence on the nexus between human and civic values and economic prosperity. The seventh section concludes the paper with some policy suggestions.

2. Historical roots of Civil Economy

The Civil Economy paradigm has its roots in the “classic” tradition of moral philosophy, the so-called Aristotelian-Thomistic approach, which found a significant expression in social sciences within the Italian tradition of Civil Economy. This tradition represents an important attempt to keep alive within modernity the tradition of civil life based on friendship (Aristotle’s notion of philia) and a more socialized idea of person and community. Central to this tradition is the role of Antonio Genovesi, a Neapolitan philosopher and economist, who lived around the same time as Smith. In many key aspects of their thought Genovesi and Smith are surprisingly similar, but there are also important differences.

The Civil Economy tradition of the eighteenth century may be seen as the modern expression of the civil tradition that originated in Aristotelian Greece and was rediscovered in the Middle Ages. Like the first civil humanists, Genovesi sees civil life as the place where happiness may be fully realized thanks to good and just laws, to trading, and to the civil bodies where men are free to practice their natural sociability: “Even if companionship can bring evils, on the other hand it also assures life and its goods; it is the source of the greatest pleasures, unknown to the men of nature.”

On the natural (and non-artificial) character of sociality and on its essential role for a fully humane and happy life, Genovesi is also aligned with the ancient Aristotelian-Thomistic tradition: “Every person has a natural and inherent obligation to study how to procure her happiness; but the political body is made of persons; therefore, the entire political body and each of its members has an obligation to do what is on their part, i.e. all that they know and can for the sake of common prosperity, as long as that which is done does not offend the rights of the other civil bodies.”

At the heart of the view of a social life in common, held by the authors of the Neapolitan school of Civil Economy (not only Genovesi), is the idea that “mere” sociability, man’s character as a “political animal,” cannot suffice to distinguish the human from other animals. The kind of sociality that is typical of human beings is a qualified type of sociality—which we must call reciprocity, friendship, mutual assistance, or fraternity, all basically synonyms in the vocabulary of Genovesi and of the other authors belonging to this tradition: “Man is a naturally sociable animal: goes the common saying. But not every man will believe there is no other animal on earth that is not sociable... In what way then is man more sociable than the others? ... [in] the reciprocal right to be assisted and consequently his reciprocal obligation to assist us in our needs.” This passage contains something that we do not find in Aristotle or in Smith: for Genovesi, reciprocity (not only a general relationality, nor simple sociability) is the typical element of human sociality. For Smith, by contrast, what constitutes the typical character of human sociality is the “propensity in human nature ... to truck, barter, and exchange one thing for another,” founded, as we have seen, on the power of persuasion.

Genovesi portrays market relationships as relations of mutual assistance, hence neither impersonal nor anonymous. In fact, the market itself is conceived as an expression of the general
law of society, i.e. reciprocity. This is both clear and important, especially in his analysis of trust, or “public faith,” which lies at the heart of his Lezioni di economia civile.

For the civil humanists the market is a matter of fides, i.e. trust. One of the key elements in Genovesi’s theory of Civil Economy is “public faith,” something he considers as the true precondition for economic development: “confidence is the soul of commerce, and without confidence all the component parts of this mighty structure would crumble under it.”9

In his thought there is a substantial difference between private and public trust: while the first can be associated with reputation, i.e. a private good which can be “spent” on the market, the latter is not the sum of private “reputations;” rather, it entails genuine love for the Common Good (as intended in the classical philosophical tradition, i.e. Aristotle or Aquinas). This concept is similar to what modern theorists have called “social capital,” that is, the fabric of faith and civil virtues that allows human and economic development to get into motion and preserve itself over time.

According to Genovesi, the lack of “public faith” is what caused the lack of civil and economic development in the Kingdom of Naples—an argument that more than two and a half centuries later has lost none of its currency. In this Kingdom, as denounced by the tradition of Civil Economy, “private trust” (intended in particular as blood ties or bonds based on feudal pacts of vassalage), or honor, was abundant, but public and generalized trust, the kind that originates from the cultivation of civil virtues, was scant. Some decades later Gaetano Filangieri similarly maintained that no civil and economic development can be achieved without man having “confidence in the government, the magistrates, and his fellow citizens,”10 who are the first and most important resources for any kind of collective and individual development.

If on one side market development brings civil and economic development, for the Neapolitan school it is even more important to stress that cultivating public faith is the precondition for any possible discourse concerning civil and economic development: “nothing is more necessary than public trust in a wise and easy circulation.”11

Very significant is also this footnote by Genovesi: “This word fides means rope that ties and unites. Public faith is therefore the bond of families united in companionship.”

The civil economist then takes one further step. In the Lezioni, Genovesi explains to his students and fellow-citizens that public faith is above all a matter of authentic reciprocity, and not merely a matter of contracts.12 According to the Neapolitan economist, public faith is not the kind of capital that can be built outside the market and later be used on the market. On the contrary, the market is conceived as part of civil society, which produces what today we would call social capital and relational goods. For this reason his discourse on public faith is directly economic: “Where no trust exists—not in the part that constitutes the reciprocal confidence of citizens in each other, nor in the certainty of contracts, or in the vigour of laws, or in the science and integrity of judges ... there is no certainty of contracts, no power of laws, no trust of man towards man. Because contracts are bonds and civil laws are also themselves public pacts and contracts.”13

The reference to Genovesi makes the case for further integrating social relations in happiness studies alongside the other standard determinants of happiness (income, unemployment, inflation, personality traits, socio-demographic and political and institutional factors). In this respect the Civil Economy paradigm encompasses eudaimonic analyses of happiness based on a particular version of the capabilities approach (CA) of Amartya Sen and Martha Nussbaum. The eudaimonic approach heavily relies upon the Aristotelian concept of the good life and appeals to the common shared intuition that there is more to life than a mere balance of pleasure and
pain along Benthamian lines. Authenticity, self-actualization, participation, and purpose in life are elements to the lay concept of well-being.

As is well known, the core of the CA is its focus on what people are effectively capable of doing and being. The basic idea advanced by this approach is that people should have more freedom to live the kind of life they have reason to value. It follows that the CA is not insensitive at all to mental states such as desire–fulfillment or happiness. Rather, what the CA claims is that people’s capabilities to function come “before,” in a logical sense, what one can reasonably ask people in questions of the type: “how subjectively happy do you feel” or “how happy are you these days.” This is tantamount to saying that capabilities “precede,” ontologically, subjective well-being declarations. Thus it is shown in Figure 2.2 in Chapter 2 of this Report that freedom to live the type of life people choose is one of the six key factors underpinning higher life evaluations.

3. The reductionist view as a constraint to social and economic progress

The crucial role of reciprocity and civic virtues for economic prosperity emphasized in the historical roots of Civil Economy challenges the “anthropological and social reductionism” we generally observe today. The problem of anthropological reductionism does not question the premise of individual rationality (that is, the consistent pursuit of a goal given constraints), but what we usually assume as arguments in the utility function. Binmore and Shaked implicitly support this point of view when they say we do not need to abandon the standard approach to accommodate other-regarding arguments in utility functions, since there is no “selfishness axiom” necessarily attached to it and no commitment to a particular fixed preference structure. Their thought is effectively explained when saying that the standard (utility maximizing) rationality paradigm may accommodate preferences of both Attila the Hun or St. Francis of Assisi.

The issue of anthropological reductionism therefore concerns the fact that, even though much progress has been made recently in this field (see sections 5 and 6), the benchmark still considered in many economic models is the old narrow view of human preferences. This hinges primarily on self-interest and largely ignores preferences such as altruism, strategic altruism, inequity aversion or reciprocity. In the section that follows we refer to the ample empirical evidence in support of the fact that deviations from the reductionist view on human preferences are huge, and that relational activities and community involvement are important drivers of life satisfaction. The anthropological reductionism, however, is not just a problem because the homo economicus is a behavior followed by a minority of individuals and producing suboptimal results in terms of life satisfaction (see Engel 2010 and section 5 below). It is also a problem because its behavior is suboptimal from the individual and social points of view. This last point is well addressed by “social dilemmas” that include, among others, trust games, Prisoner’s Dilemmas, weakest link games and stag hunt games.

The main characteristics of social dilemmas are intuitively described by the well known Hume’s Apologue where two neighboring farmers fail to cooperate in a “sequential harvest game” due to their lack of empathy and lack of trust, thereby producing the undesirable result of the loss of their crops. The main message that will be later formalized in trust games by Berg et al. is that in social dilemmas with asymmetric information and incomplete contracts, such as that narratively described by Hume, the homo economicus form of rationality produces suboptimal individual and social outcomes by depriving individuals of enhanced gains from cooperation. Since most social and economic interactions have the characteristics of social dilemmas, the “reductionist” approach on human preferences turns out to be socially harmful (as widely...
shown in the more recent literature surveyed in section 5), since purely self-regarding attitudes produce suboptimal individual and social outcomes that are inferior to those generated by other-regarding (i.e. team or we-thinking) attitudes.18

4. Relational goods

One of the main reasons for the incapacity to broaden our view beyond the simplistic approach to the utility function and to go beyond anthropological reductionism is the missing concept of relational goods. Mainstream economists view relationships as a kind of background for market activity, or as useful and functional elements in the exchange or production of goods and services that are fully independent and distinct from the individual characteristics of agents and that are the typical objects of economic study.19

In recent decades, however, attention has been given to relational themes such as trust, social capital, networking, and reciprocity. Words that were rarely used in the tradition of economics, such as brotherhood, spiritual capital, and intrinsic motivations, are beginning to enter the lexicon. In the light of this development, and also thanks to the space created within the discipline of economics for such categories, relational goods today represent a rising field of theoretical and empirical research.

The basic idea of the concept of relational goods – which may vary in terms of technical detail, and in part in content – is to assign the status of economic good (or evil) to relationships in themselves since each human relationship is an infinitely “greater” fact than the economic dimension alone. But, nevertheless, relational goods can be understood and described also as economic goods; that is, as realities to which people attribute economic value alongside other non-economic values, and from which they obtain well-being. With relational goods, the relationships among people (doing things together) are what increases utility and not the goods in themselves.

It is possible to identify the following as the basic characteristics of relational goods:21

1. Identity: The identity of the individuals involved is a fundamental ingredient since “goods which arise in exchanges where anyone could anonymously supply one or both sides of the bargain are not relational.”22

2. Reciprocity: Inasmuch as they are goods made of relationships, they can only be enjoyed reciprocally. “Mutual activity, feeling, and awareness are such a deep part of what love and friendship are that Aristotle is unwilling to say that there is anything worthy of the name of love or friendship left, when the shared activities and the forms of communication that express it are taken away.”23

3. Simultaneity: In contrast with normal market goods, whether private or public, where production is technically and logically separate from consumption, relational goods (such as many personal services) are simultaneously produced and consumed—the good is co-produced and co-consumed at the same time by those involved. Although the contribution to the production of the meeting may be asymmetric (consider the organization of a party among friends or the management of a social cooperative), in the act of consuming a relational good a pure free rider is not possible, since, to be enjoyed, the relational good requires that one become involved in a relationship with the characteristics that we are listing.24

4. Motivations: In genuinely reciprocal relationships the motivation behind the behavior is an essential component. The same encounter—for example, a dinner—may create only standard goods or relational goods as well, based on the motivations of those involved. If the relationship is not an end, but only a means to something else (e.g. doing business), we cannot talk about relational goods.25
5. Emergent Fact: Relational goods emerge within a relationship. Perhaps the category of “emergent fact” captures the nature of a relational good more than the economic category of “production.” That is, the relational good is a “third” that exceeds the contributions of those involved, which in many cases was not among the initial intentions. This is why a relational good can emerge within a normal market transaction, when at a certain point, right in the middle of an ordinary instrumental market relationship, something happens that leads those involved to transcend the reasons for which they had met.26

6. Gratuitousness: An essential characteristic of relational goods is gratuitousness, in the sense that a relational good is such if the relationship is not “used” for anything else, if it is lived out as a good in itself, and arises from intrinsic motivations.27 This is why, as Martha Nussbaum claims, a relational good is a good in which the relationship is the good—a relationship that is not an encounter based on self-interest, but a gratuitous encounter. A relational good requires the presence of intrinsic motivations toward that particular relationship.

7. Good: Finally, another essential way of defining a relational good is focusing on the noun: it is a good but it is not a commodity (in Marx’s terminology). That is, it has a value (because it satisfies a need) but it does not have a market price (precisely because of gratuitousness), though it always has an “opportunity cost.”

These points, taken together, imply that relational goods present characteristics that are combinations of what economics call private and public goods. To understand the peculiar nature of relational goods, it is necessary to free oneself from the dichotomy of “public good” and “private good,” and from the idea of a good as a means or instrument for reaching something (utility) that is external to the relationship. In fact, as long as we try to situate relational goods among private goods (such as a pair of shoes or a sandwich, which are “rival” and exclusive goods in consumption) or, alternatively, among public goods (that is, non-rival goods, which tend to be non-exclusive), we remain within the non-relational paradigm. Neither of the definitions of “private good” or “public good” imply in fact any relationship among those people involved; the only difference between the two types of goods is the presence or absence of “interference” in consumption. The consumption of a public good is simply consumption by isolated individuals independently of each other. Consider the use of an uncongested road, or two or more people admiring the same painting in a museum: the good is public as long as the consumption by one does not interfere with that of the other. This is what is implied by the hypothesis of non-rivalry in public goods, but it can be enjoyed without any relationship or production of relational goods. It is therefore misleading to attempt to locate relational goods among public goods, because, we claim, it is more scientifically fertile to consider relational goods as a third genus of goods.

5. Empirical evidence on the relevance of human values and Civil Economy

The above is important not only from a theoretical point of view. Empirical evidence from lab experiments and revealed preferences demonstrates that subjective well-being is heavily influenced by relational goods and that social and economic behavior is far from being identifiable with the homo economicus paradigm: individuals significantly deviate in their choices from the homo economicus model and their subjective well-being is enhanced by not purely self-interested choices.

Straightforward evidence of other-regarding attitudes in individual choices comes, among others, from i) donations, ii) voluntary activities, iii) consumers and investors paying ethical premia, iv) lab experiments on Dictator Games, and v) life satisfaction studies.
Statistical evidence on donations documents that in the US around 90% of the population donated money in 2009 (for a total amount of $303.75 billion, around 2% of GDP), while around 26% "worked for nothing," becoming volunteer workers in a not-for-profit organization. Both experiential studies and survey evidence (Table 2.1 in Chapter 2 of this Report) show that people are happier in just these circumstances.

A non-negligible share of individuals in most countries volunteer: the highest shares of population volunteering in registered organizations are in Canada (38.1%) and Australia (37.9%) and it is reasonable to assume that the real numbers are larger if we include those volunteering outside established organizations. The ILO acknowledges that "Volunteer work provides a sense of personal satisfaction, fulfilment, well-being and belonging to persons who volunteer." It has recently created a common accounting standard to measure volunteer work (in hours or in value), and reports that volunteers are around 12% of the adult population in 37 countries (140 million people), with activity equivalent to that of 20.8 million full-time equivalent paid workers that generates a $400 billion contribution to the global economy.

Even though not all donating and volunteering choices may be explained by other-regarding preferences and may also depend on strategic reasons, they expose individuals to the social risk of not being reciprocated, and are largely pursued to satisfy intrinsic motivations and other-regarding preferences.

Further empirical evidence in support of the relevance of human values in economic choices comes from revealed other-regarding preferences of the growing number of individuals “voting with the wallet” for products of companies that create economic value in socially and environmentally responsible ways. The Nielsen Globally Conscious Consumer survey finds that 46% of respondents in a sample of 28,000 consumers in 56 countries are willing to pay a premium price for goods and services from companies adopting corporate social responsibility strategies. Even though the contingent evaluation literature tells us that these figures are likely to be biased upwards, the actual market shares of individuals voting with their wallets for ethical or green products show that consumption and savings are sophisticated acts, where material goals are just one driver of choices together with status, cultural and social motivations.

The evidence provided below documents that a significant share of individuals follow what are apparently non-purely-self-regarding behaviors by donating time, money and paying a premium for ethical features of consumption goods and financial investment. The interpretation of these facts is not unambiguous since strategic reasons may mix up with purely altruistic motivations. Results from lab experiments are therefore particularly important since they may test and reject specific assumptions on individual preferences with ad hoc treatments that control for all other potential confounding factors, and may be replicated by other researchers for different groups of individuals and time periods. The typical experiments used to investigate characteristics of human preferences are Dictator Games, Ultimatum Games, Gift Exchange Games, Trust Games and Public Good Games.

The main finding of these experiments is that departures from purely self-regarding behavior are massive. A related fundamental result (in Prisoner’s Dilemmas, Public Good Games and Trust Games) is that individuals facing social dilemmas depart from purely self-regarding behavior (and expect that other participants would do the same) since such departures produce superior outcomes from both an individual and a social point of view. The dilemma is that the superior outcome is produced only if the counterpart will also follow the same (cooperative) route of action. Many individuals, however, accept such social risk and their confidence, if reciprocated, is productive from an economic point of view.
The most important results confirming what has been written above, however, come from Dictator Games where departures from the self-regarding paradigm cannot be explained by strategic reasons. In the Dictator Game a player is given an amount of money and can decide whatever part of it to donate to a second player. After this move there is no reply and the game ends.

Under the reductionist anthropological paradigm of the homo economicus the dictator gives nothing since a donation would reduce her own monetary payoff. Note that, since the game ends with her move, the dictator has no strategic reasons to donate. In order to avoid the possibility that generosity would be driven by friendship or sympathy for a counterpart, standard Dictator Games are generally played under the maximum social distance since the giver plays with a computer and cannot see who is on the other side.

A meta-study by Engel examines results from around 328 different Dictator Game experiments for a total of 20,813 observations. The result is that only around 36% of individuals follow Nash rationality and give zero (based on these numbers the author can reject the null hypothesis that the dictator amount of giving is 0 with $z = 35.44$, $p < .0001$) and more than half give no less than 20%.

When analyzing factors affecting departures from the homo economicus behavior we find that the share of dictators giving zero falls to 28% if the money property rights are of the recipient and the dictator may take from him, 25% if players handle real money in the game, and 19% if the recipient is deserving (i.e. is identified as poor). A further interesting result is that student experiments (which are the vast majority of treatments) underestimate deviations from the self-regarding paradigm. Students are slightly closer to the homo economicus behavior (40%) while only 20% of children, 10% of middle age players and almost none of the elders behave in this way.

Engel concludes his meta-analysis by saying that “While normally a sizeable fraction of participants does indeed give nothing, as predicted by the payoff maximisation hypothesis, only very rarely this has been the majority choice. It by now is undisputed that human populations are systematically more benevolent than homo economicus.”

Another impressive set of results comes from the meta-analysis of Johnson and Mislin on 162 trust games with more than 23,000 observations. As is well known, the trust game is a sequential game in which the trustor has the first move and may give part of her endowment to a second player (the trustee). The amount of money sent by the trustor is tripled when transmitted to the trustee, who may in turn decide how much of what she received to send back to the trustor. After the trustee moves the game ends. As is well known, the Nash equilibrium of the game is the one in which both trustor and trustee send zero under the assumption that there is common knowledge that both players behave as homines economici. Deviations from the Nash equilibrium for the trustor may be generally due to strategic reasons, inequity aversion and pure altruism. Trustees have no strategic reasons to give back money and may deviate from the Nash solution due to inequity aversion, pure altruism and reciprocity or kindness.

The meta-analysis reports average amounts sent by trustors and trustees in 35 different countries (equally weighting each experiment). The highest average amount is sent by trustees in Asia (.46) and the lowest in Africa (.32). All average contributions are significantly different from zero even though, differently from what occurs in the Dictator Game meta-experiment of Engel, we do not have information about the share of individuals following Nash rationality.

The above mentioned lab experiments have helped researchers to identify specific forms of other-regarding preferences in which contributing
to the well-being of others significantly and positively affects one’s own well-being. Individuals feel a disutility for inequality, an obligation to reciprocate for the kindness received and may have the well-being of others in their utility functions. Technically speaking the implied broadened preference pattern has been shown to include elements of (positive and negative) reciprocity, other-regarding preferences, inequity aversion, social-welfare preferences, and various forms of pure and impure (warm glow) altruism. One of the most fascinating directions of research in this field is to investigate drivers and laws of motion of non-other-regarding preferences. Studies such as the Henrich et al. experiment on primitive ethnic groups and Becchetti et al. experiment comparing trusting attitudes of bridge and poker players document that everyday activities contribute to shape individual preferences. In this respect whale hunters and bridge players reveal superior social capital than, respectively, farmers and poker players, since their commonly practiced activity requires and rewards team thinking.

A first robust bulk of empirical evidence on the relationship between human values, relational goods and subjective well-being may be found in psychological studies. In Kahneman et al., 900 Texas women were asked to assess how they spent their time, using his Day Reconstruction Method (DRM). The results showed that in 14 of 15 activities carried out during a day (in all except prayer), the women interviewed reported a greater self-evaluation of their own well-being when their activities were carried out in the company of other people. Furthermore, when psychologists analyze the characteristics of those who consider themselves more satisfied (and who are considered so by others), it emerges without exception that these people have meaningful and positive interpersonal relationships.

Psychological studies thus offer much data that confirm the importance of relational life for people’s happiness and satisfaction. Some scholars have defined relatedness as a primary need essential to well-being. In particular, scientists who consider themselves part of the eudaimonistic school of thought, inspired by Aristotle, hold that there is a universal nexus between the quality of human relationships and subjective well-being: “The evidence supports that the bond between relatedness and subjective well-being is complex. The studies suggest that, of all the factors that influence happiness, relatedness is very near the top of the list... Furthermore, loneliness is consistently negatively related to positive affect and life satisfaction.”

Evidence on the positive impact of relational goods on life satisfaction is also becoming widespread in economic studies. An important reference in the empirical literature is Helliwell documenting the presence of this nexus in two of the largest international databases containing information on life satisfaction, the World Values Survey and the Gallup World Poll. This empirical research documents that relational ties (marriage or living as married), voluntary activity and the number of people whom respondents can rely on are significantly and positively related to life satisfaction.
satisfaction. The most impressive characteristic of this nexus is that it appears in almost all empirical analyses of life satisfaction data irrespective of geographical and time differences, and in studies where such variables are just used as socio-demographic controls. Along this line, Bruni and Stanca on the basis of the data of the World Values Survey (264,000 observations originating from 80 countries, between 1980 and 2003) find a strong correlation between the time that a person spends in activity with a relational component (with friends, family, or in volunteer work) and self-reported subjective well-being (or happiness). This correlation remains robust even when controlling many other variables (age, geographic region, education, culture, and so forth).59

The research of Bartolini et al. looks at short and long-term effects of changes in sociability, showing that the fall in US social capital (Putnam’s "bowling alone" effect) predicts a significant part of the Easterlin paradox in the 1975-2004 period.60 More specifically, data from Bartolini et al. document a positive cross-country correlation between yearly changes in in-group membership (a proxy of social ties) and yearly changes in life satisfaction (Figure 7.1), compared to a negative cross-country correlation between average rates of growth of per capita GDP and yearly changes in life satisfaction (Figure 7.2).

The main problem is to understand whether correlation reflects true causality or is at least partially spurious since it conceals inverse causality (from subjective well-being to relational goods) or endogeneity (unobservable third drivers causing both of the two variables that produce the observed correlation between the latter). The direct causality hypothesis postulates that, if the relational nature of human beings supported by many cultures and philosophies is true, higher quality of relationships should bring higher subjective well-being. The reverse causality rationale, however, argues that it is also the case that happier and more extroverted types have better relational lives; while one of the many endogenous explanations is that a background fostering human and social capital may be conducive to both better relational goods and life satisfaction. The problem of endogeneity and of the direction of causality in the relationship between human values, relational goods and life satisfaction has been more thoroughly explored by some papers that tried to outline sound identification strategies. Meier and Stutzer find in German reunification an exogenous shock that terminated many social activities and organizations in East Germany, and use this event to demonstrate a robust causality from social activities to life satisfaction.61

Becchetti et al. demonstrate that the average retirement probability for a given age class in the neighboring region is a relevant and valid instrument for relational goods (retirement has a strong impact on leisure and enjoyment of relational life), and document how the latter significantly affects life satisfaction.64 Becchetti et al. provide non-experimental evidence of the relevance of sociability on subjective well-being by investigating the determinants of life satisfaction on a sample of Europeans aged above 50.65 Using an instrumental variable approach, they show that voluntary work, religious attendance, helping friends/neighbors, and participation in community-related organizations affect life satisfaction positively and significantly. Moreover, different combinations between actions and motivations have different impacts on life satisfaction, thereby providing support for the relevance of these specific “contingent goods” and to the literature of procedural utility.64

These findings should not lead us to a naïve and simplistic vision of relationships in social and economic life, while shedding light on their often unexplored dimension. Others may also be our rivals and competitors for the enjoyment of private goods. And they are our term of reference since well-being does not depend only on absolute but also on relative performance.65 But they are
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also those without which we cannot enjoy relational goods, which are fundamental for our life satisfaction.

A second obvious caveat is that, even though relational life is fundamental for individual well-being, it does not automatically have positive effects for the society as a whole. Phenomena such as amoral familism, corporatism or even mafia connections tell us that the interest of a group of individuals linked by close ties can be pursued at the expense of the interests of third parties. Nonetheless – and this is what matters for our purpose – the reductionist individualist approach to the definition of individual utility, which neglects the role of relational life, is strongly rejected by empirical evidence.

To sum up, individuals donate time and money, and find a large part of their enjoyment and sense of purpose in cultivating relationships. Neglecting these will be economically counter-productive since economic vitality crucially depends on the quality of interpersonal relationships in social dilemmas such as those represented in Trust Investment games or Prisoner’s Dilemmas, which are part of everyday economic interactions. Such dilemmas tell us that – in the presence of three factors such as asymmetric information, incomplete contracts and limits of civil justice – absence of trust, trustworthiness, or cooperative attitudes make economic outcomes suboptimal from both an individual and an aggregate point of view.

7. Policy suggestions

The Civil Economy paradigm challenges the three reductionist views on human beings, corporations and “value indicators” that we documented as being contradicted by empirical evidence in this paper. These three reductionist views inevitably produce, in terms of policy measures, “inexpressive laws” – that is, laws that have reduced effectiveness since they are in sharp contrast with social and moral norms. Consistency among the three types of norms is essential for sustainability and effectiveness of the legal framework. Legal rules, as an expression of the coercive power of the state – the enforceability of which is dependent upon penalties imposed by the same state – need to be in accordance with social rules. And social rules, which are the result of ancient and modern conventions and traditions – the enforceability of which depends on the shame that always accompanies the stigmatization of deviant forms of behavior (loss of status and social discrimination) – need to be in accordance with moral rules. These are associated with the prevalence of clearly-defined cultural matrices (religious and non-religious), the breach of which triggers a feeling of guilt in the individuals concerned.

If the legal rules that are promulgated “run counter” to the social rules and, more importantly, to the moral rules prevailing within that society, then the former will fail to produce the desired results, in that they will not be observed for the simple reason that that not all infringers of such rules can be punished. Even worse, they will undermine the credibility and/or the acceptability of the other two categories of rules, thus threatening the stability of the social order. This is precisely what happens with what are currently termed “inexpressive laws,” that is, laws that fail to express those values constituting the pillars of a given society. Unfortunately, current economic theory continues to remain silent on the question of the relationship between the three types of rules. With few rare exceptions, jurists deal exclusively with laws, sociologists with social rules, and ethicists with moral rules. Thus it is not difficult to understand why it is that the majority of legal rules are of the “inexpressive” variety.

What should be done to cope with such a serious shortcoming? Our suggestion is to move beyond the still prevalent model of democracy, i.e. the elitist-competitive model of Max Weber and
Joseph Schumpeter. We believe that today this model of democracy is not capable of producing expressive laws in the above-mentioned sense – that is, laws capable of generating self-enforcing mechanisms that favor compliance even in the absence of specific forms of coercive punishment. In the language of the capabilities approach, this means that the elitist-competitive model fails to fully exploit the potential of the democratic principle in order to promote those policies designed to improve public well-being. We argue that the participative/deliberative model of democracy is the most adequate and effective model to that end.

Of course, there are several theoretical and practical problems that have to be resolved if the participative/deliberative model of democracy is to constitute a fully acceptable alternative to the existing model. However, there can be no doubt that the participative/deliberative idea of democracy is, today, the one that more than any other – and certainly more than the neo-communitarian model that supporters of private politics are advocating in the USA and in Europe – manages to deal with the many problems posed by the paradoxes of happiness, the most serious of which is the decline in the social and moral legitimacy of the present model of development. Happiness of course requires participation, but not just the formal variety as expressed at the polling station. Full participation is achieved when citizens are given the opportunity to take part in the deliberative process which then leads to a certain decision being made. As we are all aware, happiness lies more in the process than in the final outcome. This is why giving citizens a real chance to participate in the deliberative process increases their happiness regardless of the level of GDP.67

Empirical confirmation of the importance of deliberative democracy, in relation to the dual aim of improving government action and increasing public happiness, is provided by the vast survey conducted by the World Bank in 37 different countries.68 Constitutional arrangements and economic conditions being basically equal, the greater the participation of citizens in deliberative forums, deliberative surveys, popular juries, etc., the higher the quality of welfare services, the greater the credibility of government, and the higher the index of public happiness.

The move from an elitist to a deliberative approach is urgent, since the traditional paradigm based on anthropological and corporate reductionism places an impossible task on the shoulders of the institutional elites. If all individuals are homines economici and all corporations are profit maximizing, there is a logical contradiction in believing that members of the institution are inherently benevolent. And it is hard to conceive that optimal legal rules can be something more than “inexpressive laws” that are ineffective due to their lack of relation to the social and moral norms of a given political community.

This is why the paradigm of Civil Economy suggests the creation of participatory rules that move from elitist to deliberative democracy, stimulating bottom-up (political and economic) participation and providing incentives for the non-purely-self-regarding behavior of citizens and corporations described in previous sections.

In the era of globalization – with still weak supranational institutions – we are also aware that an important part of deliberative democracy passes through economic life and relates to consumption, saving and corporate practices that incorporate issues of environmental and social responsibility. The role of policy is crucial from this point of view as well. An economic system is like a natural environment. It requires diversity to strengthen its resilience. The development of many different corporate forms of social economy (cooperatives, productive not-for-profit entities, ethical or sustainable banks and businesses, social businesses, etc.) together with traditional for-profit companies is fundamental to the creation of economic value in an
environmentally sustainable way. Regulation must not harm this biodiversity by attempting to apply a “one-size-fits-all” approach.

The implicit idea behind the Civil Economy is that solutions to the current problems cannot come just from institutions left to themselves in the face of passive and myopic citizens and corporations. There is nothing such as a neutral playing field. Active participation of the citizens in their economic actions and of corporations along the lines of social and environmental responsibility is crucial to tilt the balance. It is in the foremost interest of institutional actors to devise proper rules to stimulate the development of civic and corporate virtues.

1 This is contrary to what happens in real life economics for many entrepreneurs who become rich and famous by developing and marketing electronic social networks.

2 Sen (1977) labels the homo economicus as a “rational fool,” arguing that the ingredients of real life individuals are not just self-interest but also sympathy and commitment. Recent scientific evidence on the empathic properties of many mammals makes this reductionist view (inconsistent with empirical findings, as will be shown in sections 5 and 6) of the human being less relational than the most “evolved” animal species. More specifically Bekoff & Pierce (2009) document that several animal species reveal signs of emotional and “moral” intelligence in behaviors implying trust, reciprocity, loyalty and some forms of “wild” justice.

3 An example of how the reductionist stance may fail to work is the global financial crisis. On the eve of the crisis, the prices of financial assets did not help in anticipating and preventing the outburst of the crisis itself. And in the preceding years regulators were not sufficiently benevolent, well informed and efficient to devise effective rules or actions to forestall the problem.

6 Ibid., p. 29.
7 Ibid., p. 283.
8 Smith (1776/1930), p. 25.
9 Genovesi (1765-67).
10 Filangieri (1780/1872), I, p. 10-11.
12 Ibid., Book II, Chapter X.
13 Ibid., p. 752.
14 Binmore & Shaked (2010).
15 The introduction of non-purely-self-regarding preferences in theoretical models, though infrequent, obviously dates back well before behavioral economics. A valuable example is the literature on Ricardian equivalence and bequests. See Leiderman & Blejer (1988).

16 “Your corn is ripe to-day; mine will be so tomorrow. It is profitable for us both, that I should labour with you to-day, and that you should aid me to-morrow. I have no kindness for you, and know you have as little for me. I will not, therefore, take any pains upon your account; and should I labour with you upon my own account, in expectation of a return, I know I should be disappointed, and that I should in vain depend upon your gratitude. Here then I leave you to labour alone: You treat me in the same manner. The seasons change; and both of us lose our harvests for want of mutual confidence and security.” Hume (n.d.), book III.


18 See among others Becchetti et al. (2011) and Ostrom (2000) and the survey provided in section 5. An interesting paradox is that even game theorists may not follow Nash rationality when playing social dilemmas.


21 For a thorough discussion on this see Bruni (2012), p. 88.


24 To give an example, consider a trip by a group of friends. At the time of the meeting to organize the trip, the commitment by various members may be asymmetric; but, if during the trip someone does not try to enter into a genuine reciprocal relationship with someone else, and thus puts no effort into the consumption, he or she will have taken advantage of a standard market good (a tourist trip) but will not have enjoyed any relational goods.

25 This does not mean that an authentic relational good cannot be produced in a business relationship, but, if it happens, somehow within an instrumental relationship something new emerges, which is not due either wholly or primarily to instrumentality.

26 Think of a situation in which a telephone call from home arrives during a meeting for one of the participants: the meeting is interrupted, and the person begins talking about the children and other private matters that are not on the agenda for the meeting. During that time the participants can create and consume relational goods.

27 We posit a very close link between the concepts of gratuitousness and intrinsic motivations. We see this link as closer than that between gratuitousness and altruism: there can be gratuitous non-altruistic acts (consider an athlete or a scientist) that create positive externalities perhaps greater than those created by an altruistic act that does arise from intrinsic motivations. We often observe that there is a psychological mechanism in human beings that makes us feel pleasure whenever we see others (or ourselves) fulfil an act for intrinsic (i.e. non-instrumental) motivations, independently of the fact that we directly benefit from such behavior. This is the psychological mechanism that causes us, for example, to esteem a missionary who helps leprosy sufferers and not a company that does cause-related marketing, or to criticize an athlete who is too susceptible to monetary incentives.

28 Center on Philanthropy at Indiana University (2012).

29 Freeman (1997).

30 Blum (2008).

31 Salamon et al. (2004).


33 Nielsen (2012).

34 Carson et al. (2001).

35 Boston Consulting Group concludes that “Responsible consumption” (RC) products now account for at least 15% of all grocery sales—or a $400b global market. See Smits et al. (2014). Assets engaged in sustainable and responsible investing practices currently represent 27.7% of all assets under management in Europe [Eurosif (2013)] and 11.3% in the US [US SIF (2012)].


38 Fehr et al. (1993), Fehr et al. (1998).


40 Fischbacher et al. (2001), Sonnemans et al. (1999), Fehr & Gächter (2000).

41 Engel (2011).

42 On this point Konow (2009b) argues that giving arises from a mix of unconditional and conditional altruism where the latter is related to context-dependent norms where need can be more important than familiarity with the receiver.

43 Some recent developments of the Dictator Game literature seem to show that other-regarding behavior is stronger when players can enjoy the benefit of the effect of their other-regarding attitude on counterparts or when consequences of their actions are known to themselves and others. An example is Andreoni & Bernheim (2009) where dictator giving is significantly reduced when a random mechanism is applied to it so that its effect on
beneficiaries may vanish with a positive probability. Furthermore, when an exit option from the game is available (with the counterpart not being aware of it), individuals are willing to pay for it and keep for them all the rest. See Broberg et al. (2007), Dana et al. (2006). Overall, these findings do not reject the hypothesis that other-regarding behavior may be viewed as the price individuals have to pay in terms of monetary payoffs if they want to create common consent and/or relational goods with other people.

The recent literature has qualified this general result investigating some relevant side questions. List (2007) demonstrates that, when individuals have the opportunity of taking and not just of giving in Dictator Games, they withhold significantly more even though the result that they do not choose the most selfish solution is confirmed. Furthermore, there is widespread evidence that people tend to be more selfish when their endowments are not a gift given by experimenters but are deserved with effort or talent. See Becchetti et al. (2011).

See among others Ferrer-i-Carbonell (2005) on relative income. The relative income literature shows that being below the average of a given reference group has a negative impact on subjective well-being, with the relevant exception of very dynamic contexts where vertical mobility is high. In such cases an improvement of economic well-being of peers may be perceived as an increase of the probability of the same observer’s improvement. See results of Senik (2004) in transition countries, Jiang et al. (2009) in urban China and Becchetti & Savastano (2009) in Albania, among others.

An interesting branch of the literature analyzes the social capital produced internally and externally by members of Olson (those mainly looking at the interests of members) and Putnam (those by which members mainly aim to provide benefits for third parties) organizations. Results show in general that members of such organizations exhibit higher trust and trustworthiness in public good games even though documenting some forms of “in-group bias.” See Degli Antoni & Grimalda (2013).

References


