

ABSTRACT

POLITICAL ECONOMY OF HAPPINESS FOR PUBLIC FINANCE

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Happiness Research has been one of the most prominent and successful new areas in economics. It is part of a larger movement named "Psychological Economics" (often misleadingly called "Behavioural Economics") which is increasingly accepted as a significant part of economics.

Economic Happiness Research has important consequences for Public Finance and Political Economy. I wish to point out two such areas of particular relevance:

1. Measuring the Value of Public Goods.

There are several standard approaches, the most popular one being stated Willingness to Pay. These approaches all face major problems. The Life Satisfaction Approach overcomes many of these problems and opens a challenging new possibility to evaluate the value of public goods. Practical applications show that it is able to produce meaningful and interesting results.

2. Developing a more useful Theory of Taxation.

As utility is approximated by measures of happiness, it has become possible to derive more significant results than with the standard approach where the consequences for (optimal) taxes were often vague and little relevant for actual policy. Happiness Economics allows us to successfully deal with the vexing issues of relative income in taxation.

Some Happiness Economists want to directly apply the insights gained to policy measures: they argue that governments should maximize happiness. I strongly disagree as such an approach assumes that governments are always benevolent which they obviously are not in reality. Instead I propose that governments should (1) inform individuals about the determinants of happiness, and (2) help to set constitutional conditions allowing people to pursue their own way to happiness.