



Happiness, freedom and control

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ABSTRACT

How do people value *freedom of choice*? Drawing on economics and psychology the paper provides an hypothesis and empirical evidence on how individuals may value freedom of choice and derive utility from it. It is argued that the degree of perceived control that individuals have over choice – a construct known as the *locus of control* in psychology – regulates how we value freedom of choice. People who believe that the outcome of their actions depends on internal factors such as effort and skills (the ‘internals’) have a greater appreciation of freedom of choice than people who believe that the outcome of their actions depends on external factors such as fate or destiny (the ‘externals’). We find some evidence in support of this hypothesis using a combination of all rounds of the World and European Values Surveys. A variable that measures freedom of choice and the locus of control is found to predict life satisfaction better than *any* other known factor such as health, employment, income, marriage or religion, across countries and within countries. We show that this variable is not a proxy of happiness and measures well both freedom of choice and the locus of control. ‘Internals’ are found to appreciate freedom of choice more than ‘externals’ and to be happier. These findings have important implications for individual utility, social welfare and public policies.

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1. Introduction

That people are in constant quest of happiness is not a novelty of our times. As noted repeatedly by happiness researchers, Greek and Roman philosophers since Aristotle have been concerned about the causes of happiness although progress in this field has been hard to come. Seneca in his opening statement of the *De Vita Beata* writes to his brother: “*Brother Gallio, all want to be happy, but when it comes to see clearly what makes life happy they are shadowed by obscurity*”.¹

What distinguishes modern from ancient times in this respect is that we have begun to have some empirical evidence about what may determine happiness. The last four decades have provided a stream of contributions to happiness research in several disciplines such as psychology, sociology and economics that significantly changed the way we understand happiness. We are starting to lift the “shadow of obscurity” by finding elements that seem to explain well fluctuations in self-perceived happiness.

Drawing on economics and psychology, the paper follows this recent tradition by focusing on one possible predictor of happiness: *Freedom of choice*. It is generally accepted that freedom of choice increases happiness but it is unclear how more freedom of choice turns into more happiness. In this paper, we hypothesize that the appreciation of freedom of choice

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¹ “Vivere, Gallio frater, omnes beate volunt, sed ad pervidendum quid sit quod beatam vitam efficiat caligant.” Seneca (1996, p. 32).

depends on one aspect of personality known as the *locus of control*. We argue that people who believe that the outcome of their actions depends on internal factors such as effort and skills (the internals) have a greater appreciation of freedom of choice than people who believe that the outcome of their actions depends on external factors such as fate or destiny (the externals). If this is the case, we should find that a measure that combines freedom of choice with the locus of control predicts happiness better than measures of freedom alone.

An empirical investigation that covers over 260,000 individuals from 84 countries during a period of 25 years finds evidence in support of this hypothesis. A very strong association between life satisfaction and a variable that measures both freedom of choice and the locus of control is found controlling for country and individual characteristics, personal values and social attitudes. This association is stronger and more consistent than the association between life satisfaction and *any* of the other known predictors of life satisfaction in a cross-country and within country context. Two tests show that the variable freedom and control is not a proxy of life satisfaction and that both concepts of freedom of choice and locus of control are captured by the variable. A third test confirms that the 'internals' have a greater preference for freedom of choice than the 'externals'. These very preliminary findings open an interesting agenda for future research on freedom and happiness and have important implications for public policies.

We start in Section 2 by outlining the main hypothesis of the paper building on theory and empirics drawn from economics and psychology. Section 3 reviews some of the main contributions to happiness research and suggests how this paper can contribute to such literature. Section 4 presents data, model and variables used and Section 5 discusses the results. Section 6 provides various tests to check on the robustness of our hypothesis. Section 7 concludes by discussing the possible implications of the findings for public policies.²

2. Freedom of choice, the locus of control and happiness

We can simply define *freedom of choice* as the size of an opportunity set with mutually exclusive alternatives. The larger is the set of alternatives (choices) the more is freedom of choice. A restaurant menu listing ten alternatives provides more freedom of choice than a restaurant menu listing five alternatives.

The appreciation of freedom of choice and the utility derived from freedom of choice may depend on individual preferences. Some people may appreciate freedom of choice more than others. Mary may be happier with ten choices on a restaurant menu while John may be happier with five choices. We can list at least four possible views on how people may appreciate freedom of choice:

- (1) One view is that the size of the choice set does not matter. What really matters is that the choice set contains the utility maximizing solution. If the same utility maximizing solution is found in two or more choice sets of different sizes, these choice sets are equivalent in terms of utility. Neoclassical utility theories, for example, focus on utility maximization and do not attribute to freedom of choice an intrinsic value. They also tend to ignore individual heterogeneity and assume that all individuals are equal. In such a framework, increasing the size of the choice set matters only if the probability of capturing a utility maximizing solution increases with size. For example, with more competitors in the market we should expect the likelihood that prices will decrease to be higher. However, it is also possible that increasing the choice set leads to a decreased probability of finding an optimal solution. The voting paradox is one example. We could call this view the *heterotonic/homogeneous* view where *heterotonic* refers to possible outcomes in terms of utility and *homogeneous* refers to the characteristics of the agents. According to this view, increasing the choice set (freedom of choice) may lead to more or less utility (heterotonic outcomes) but the impact will be the same for all agents (homogeneous individuals).
- (2) A second view is that freedom of choice is always good for individuals, the larger the choice set the better for individuals, and this is the same for all individuals. We can call this view the *monotonic/homogeneous* view. Increasing the choice set leads invariably to more utility and this applies equally to all individuals.
- (3) A third view is what we could call the *monotonic/heterogeneous* view. In this case, individuals are different in preferences and an increase in choice has a different impact on individuals but this impact is always positive. Happiness is non-decreasing in choice. One example would be Sen's capability theory where freedom of choice contributes to define utility in a world of heterogeneous individuals. Sen (1987) and others have argued that the size of the choice set or the degree of freedom of choice has an *intrinsic value* for individuals.³ Expanding the range of possible freedoms such as political and economic freedoms should be valuable to individuals even if people do not vote or do not profit from the economic possibilities offered.
- (4) A fourth view is that preferences for freedom of choice change across individuals so that increasing the choice set may have positive or negative consequences on utility. We can call this the *heterotonic/heterogeneous* view. If some people have a taste for ease of choice rather than for freedom of choice, an increase in the set of options may lead to reduced utility. Various explanations have been offered for such kind of attitude. One is that enlarging the choice set leads to an increased computational cost for individuals so that – at some point – individuals self-restrict the choice problem

² Note that this paper will use the concepts of utility and happiness as one concept and measure it with life satisfaction as in Easterlin (2001) or Alesina et al. (2004).

³ See Gravel (1994) and Bavetta (2004) for critical reviews of this literature.

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