

# THE EASTERLIN PARADOX: AN INTERPRETATION

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ABSTRACT. The paradox of happiness, or the Easterlin paradox (Easterlin, 1974), states that there is no time-series relationship between happiness and income.

The aim of this paper is to provide a different interpretation of this paradox by adopting the philosophical view of the ancient Greeks, particularly the strong conflict between the Sophists and Plato, on the nature of the happiness .

According to the Sophists, pleasure coincides with the good because, as stated by Protagoras, *Man is the measure of all things*.

Plato notes such a distinction between pleasure and the good that was established in the history of Western thought, at least until the affirmation of Utilitarianism, which indirectly drew inspiration from the Sophist school. Plato's Gorgias contains a positive, detailed analysis of the problem. Its conclusion is that the good is different from pleasure, and associating it with pleasure leads to a state of perpetual dissatisfaction.

Another Greek myth, the story of Prometheus, narrates how men have resorted to *téchne*, or technology, to overcome their limits and to attempt to remove this sense of dissatisfaction.

If it is true that dissatisfaction or unhappiness forces people to work, to be efficient, and to create income, then the causal link between happiness and income is reversed, and dissatisfaction and unhappiness generate income.

The existing differences between the two schools of thought lead to two antithetical views of the world. The first emphasises individualism and *téchne*, whereas the second highlights sociability, ethics, and politics.

The empirical evidence found by Easterlin states the inability of economic growth and technical progress to make man happy. This is why, in the technological society, it is considered a paradox.

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## 1. INTRODUCTION

The literature exploring the relation between GDP and happiness and between happiness and economic growth is extensive (see Bruni and Porta (2005), Bruni and Porta (2007)). Thus, it is necessary to highlight aspects that are useful to discussion of this subject.

This paper does not provide a theoretical model; rather, it provides a few thoughts to discuss the remarkable difficulty of fitting the concept of happiness into the prevailing economic theory (Zamagni, 2005). The Easterlin paradox cannot provide a satisfactory explanation if economic growth and technical progress are only evaluated in the context of positivist thought, whereas science and technology are viewed almost exclusively in a positive, redeeming way.

The concept of happiness was developed substantially in Greek philosophy, and many authors today tend to return to those origins (for example, Nussbaum (2012)). To this end, it is useful to return to the core of Greek thought, with particular reference to the pre-Socratics and the major dispute over the nature of the good, between Plato, on the one hand, and the Sophists and the Cyrenaic school, on the other. The difficulty of integrating the concept of happiness into mainstream economics is indirect evidence that the fundamental categories of prevailing economic thought are those of pre-Socratic philosophy (i.e., prior to the elaboration of the Platonic concept of happiness maintaining goodness as a social entity).

Furthermore, the categories that dominate economic theory may be described as pre-parmenides because they do not establish the problem of social stability, or, better, they suggest that the latter may coincide with a natural stability. The concepts of individualism, naturalness (see, for example, Wicksell's theory of natural interest and Friedman's definition of the natural unemployment rate), efficiency, determinism, and competition/conflict can be found especially in the theories of the "physical" philosophers, as defined by Aristotle.

In addition, let us consider the concepts of atomism and determinism, which spring directly from Democritus. The concept of the market as a whole seems to absorb Heraclitus' concept of war as a conflict entity that generates reality. Just as in Heraclitus war is the mother of all things, for economists, the market, an institution that partly regulates the conflict of distribution, is the father of the GDP.

The market plays a central and dominant role in society,<sup>1</sup> and economic growth increases its stabilising function.

The starting point of this paper is that in a economic system in which economic growth is raised to the most important instrument of social stabilisation, unhappiness seems to be a *natural state*. In fact, economic growth is based on two pillars. The first is technical

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<sup>1</sup>To perform its full social function, it must be in a constant state of tension, which is reflected in the stability of prices. In fact, a possible instability in prices renders the incapability to absorb products (deflation) or a limited potentiality of production levels to meet demand (inflation) or, according to the Keynesian hypothesis of fixed prices, the possible realization of a state of partial employment caused by a low level of effective demand.

progress, which provides the capability for the economic system to produce greater quantities of material goods. The second is an ever-increasing level of consumption.<sup>2</sup>The last condition implies the condition of the "eternal desire", "perennial dissatisfaction", or "imperfect unhappiness" of the consumer, which makes the latter identify the reason for his existence in material wealth, where consumption is not the natural end of each product but its aim. Erich Fromm (1956) maintains that *a modern man's happiness consists in the thrill of looking at the shop windows, and in buying all that he can afford to buy, either for cash or on installments*. This hungry behavior of the individual, which derives either from the structure of his preferences or external circumstances (let us think of promotional campaigns and marketing), fosters the demand for goods and tends to perform the absorption function of the increasing quantities of goods produced by the market.

The consumer's state of perpetual, material dissatisfaction is indirectly stigmatised in the two key postulates of the neoclassical theory of the consumer: individualism (everything outside the individual is categorised as externalities) and the condition of non-satiety, according to which the individual-consumer in a state of apparent equilibrium, a constrained optimum, is, in fact, in a state of "imperfect unhappiness" or constant dissatisfaction. In this context, happiness becomes unattainable (Easterlin, 2001).

In conclusion, economic growth and the technical progress that causes it are not able to make man definitely happy, and, indirectly, politics remains necessary to guarantee social stability.

The paper is structured as follows. After the introduction, the second section discusses the recent literature on the relationship between happiness and income. The third section is devoted to the conflict between two worldviews, the Socratic and pre-Socratic views, in ancient Greece. The fourth section discusses the GDP as a result of a distributive conflict and economic growth. The conclusion will present some summary considerations.

## 2. ECONOMIC LITERATURE ON THE LINK BETWEEN INCOME AND HAPPINESS

The beginning of the economic literature on the relationship between happiness and income can be found in the work of Abramovitz (1959), which reveals skepticism about the existence of a clear relationship between the output's growth rate and that of wealth.

However, it was the work of Easterlin (1974) that represented a milestone in the economic literature. Easterlin identified three types of stylised facts.

The first is the existence of a positive within-country relationship between happiness and income at a given time. People who belong to a higher social status have been found to be happier, on average, than those who have lower status.

The second piece of empirical evidence comes from the comparison between countries (cross-country), and the third type is temporal (time series), referring to the happiness-income relationship that has been recognised over time. Unlike the first relationship, the second and the third show no positive link between happiness and income. In particular, although

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<sup>2</sup>For example, Harrod's growth model (Harrod, 1939), which will be discussed later, combines the principle of the accelerator and the multiplier theory. The first principle concerns investments, whereas the second is related to consumption.

income shows a rising trend over time, the indicators by which happiness is measured report a constant evolution. This last piece of empirical evidence is discussed in the literature as the Easterlin paradox. Recently, many studies have confirmed its existence. The opposite opinion is presented by Stevenson Wolfers (2008).

According to Easterlin (2001), the cause of the lack of the mentioned relationship is greed. Throughout life, when income grows, happiness increases, although aspirations may increase at the same time. The effect of this phenomenon is a decrease in the formerly obtained happiness, although cross-country differences may persist.

Clark et al (2008) explains the coexistence of the two types of relationships between happiness and income (reported as void in case of long-term relationships and positive in longitudinal analysis) by introducing relative income into the utility function. In that case, the degree of happiness comes as the result of the comparison of one's income and social status with that of other individuals (social comparison) and the comparison of one's situation over time (habituation). This confirms other people's negative relationship between happiness and income, which is verified by empirical analyses.

Layard (2005) also maintains that people are more interested in relative income than in absolute income. The latter has a positive effect on happiness only when the income rate is very low. In Layard's opinion, happiness increases in a nation until income reaches a certain level (estimated at approximately \$15,000); beyond that level, the bond between income and happiness weakens.

Becchetti and Santoro (2007) find a different explanation of this phenomenon. Technological progress, which is associated with economic growth, increases both the productivity of labour and the opportunity costs of relational goods and non-work interpersonal relationships. This increase may be so high as to generate a prisoner's dilemma in which the dominant strategy predicts the production of relational goods by individuals that is lower than the optimal one from the social point of view.

### 3. HAPPINESS IN THE GREEK WORLD

The literature on happiness is perhaps among the most extensive.

According to Kant, happiness is "*such an indeterminate concept that although every human being wishes to attain this, he can still never say determinately and consistently with himself what he really wishes and wills*" (Kant (2005), 4:418).

In the ancient world, Greek and Latin defined two kinds of happiness. The first, called *Ólbios*, grew from fortune and an abundance of external goods (i.e., Latin *felix*). The second type, *eudaemonia*, was connected to a state of mind and an inner nature (i.e., Latin *beatitudo*)<sup>3</sup>. *Eudaemonia* was also concerned with being lucky or in company with a good spirit or demon.

We can regard the first example as psychologically oriented, whereas the second implies a link between happiness and ethics. However, before addressing the concept of happiness

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<sup>3</sup>We must remember that the beatitudes are the central part of the Discourse of the Mountain (St Matthew's Gospel).

or the two concepts of happiness drawn from Greek philosophy, it is necessary to schematically present the two main tendencies in the philosophy of ancient Greece.

The first combines Democritus, the Sophists (Gorgias and Protagoras), and the Cyrenaics up to Epicurus, whereas the second tendency breaks from Socrates, Plato, and Aristotle and later influenced Western thought, especially Christian thought, represented by St. Augustine and St. Thomas.

The most important differences between the two currents are as follows.

1. *The epistemic approach.* Democritus affirms that there is only sensible reality. In a similar way, the Sophists deny the existence of *episteme*, or the existence of metaphysics, which is a reality beyond nature (*phýsis*) and gives experience a unique cognitive value. The assumptions of the theory of Protagoras, one of the greatest exponents of the Sophist school of thought along with Gorgias, are *i*) the constant flow of things and *ii*) the existence only of *doxa*. Plato, on the contrary, complements the ontological distinction between immanent and transcendent reality, which becomes a fundamental philosophical concept in the centuries to come.

2. *Individualism.* Democritus thought that reality consisted of atoms, or indivisible units. Motion is the natural state of atoms, on which their weight also depends. The formation of bodies and worlds depends on the dynamics of atoms and the collisions that occur between them. No cause or external principle is necessary to explain the transition from a state of quiescence to motion.

Conversely, Anaxagoras theorised that the fine units reality appears to be made of, the *homoeomeries*, were originally mixed together in a state of disorder and were turned to a state of order, “*cosmos*”, by an external mind called *nous*. Democritus’ conception of reality is at the basis of individualism from the ethical point of view.

Protagoras asserts, “*Of all things the measure is Man, of the things that are, that they are, and of the things that are not, that they are not*” (DK 80B)<sup>4</sup>, and, *The way things appear to me, in that way they exist for me; and the way things appears to you, in that way they exist for you*” (Plato, Theaetetus 152a). *Thus, however I see things, that is actually true – for me. If you see things differently, then that is true – for you. There is no separate or objective truth apart from how each individual happens to see things.* Man is also the measure of the good, the just, and the beautiful. Each topic allows for the development of two speeches, both correct, and the one that is preferred is the one provided with a major utility. These are the reasons that Protagoras can be considered one of the founding fathers of ethical relativism.

3. *The relationship between pleasure and the good.* According to the Sophists, the good coincides with pleasure. Even in the thought of the Cyrenaic school, one of the Socratic schools that was opposed to Plato, there is coincidence between pleasure and good. Aristippus of Cyrene, founder and leading exponent of the school, started from the assumption that *the present only is in our power, not the past or future; the one being gone, the other uncertain whether ever it will come* (Aelian, Var Hist., XIV, 6)<sup>5</sup>.

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<sup>4</sup>(Diels and Kranz, 1951)

<sup>5</sup>(Aelianus, 1665), available also at <http://penelope.uchicago.edu/aelian/varhist14.html>.

Because the present time is the only relevant reality, the existing sensations are only the ones that are perceived in that time dimension. Aristippus distinguishes three kinds of feelings: pain, pleasure, and an intermediate state, similar to the calmness of the sea, which is neither pain nor pleasure. The good consists only of the pleasant feeling. Therefore, there is nothing but the pleasure of the moment, and no further significance can be applied to the memories of past pleasures and to expectations, least of all. Everything existing at the present time is only pleasure, and it represents the good. The true end of man is pleasure. Happiness, which is formed by the system of past and future pleasures, does not exist or, rather, it coincides with pleasure. Socrates and then Plato denied equality between the good and pleasure.<sup>6</sup>

According to Socrates, the good may not coincide with pleasure because the things people enjoy today are the same things that could cause pain at a subsequent time. Socrates reintroduces time as one of the factors that determine choices.

Even Plato distinguishes between good and pleasure. Good can coexist with pleasure, but the latter can also coexist with evil. However, good and evil cannot act at the same time. Therefore, pleasure is recognisable not only in good but also in evil. The great Greek philosopher assumed that the good is the extent to which everything tends to be. The idea of the good, therefore, is inextricably linked to the Being, that is, the transcendent reality. In the Republic, Plato compares the good to the sun. Just as the sun provides visible things with the faculty to be seen as well as with their birth, growth, and nourishment, although not itself a principle of birth, in the same way knowable things receive from the good the faculty to be known as well as existence and essence. However, the good is not the essence but transcends it in terms of dignity and power (Plato, Republic Book VI, 508 ff.).

4. *Happiness.* The different views of the world developed by the different schools of thought are reflected in two approaches to what happiness is. Democritus assigns happiness a purely individualistic content. He believes that the individual looks for the source of happiness only in himself and not in any other, including his children. The following quote is truly emblematic: *"I believe it is not worth to put children into the world; I see many and great dangers and sorrow in having them, while the benefits are few and what is more weak and cheap"*. However, for him, happiness is *"the measure of pleasure and the proportion of life"* (Fr. 191, Diels), in other words, avoiding defects and excesses.

Aristippus recognises the existence of pleasure only when linked to a state of calm and punctual equilibrium. Similarly, a century later, Epicurus identifies two forms of pleasure: a "stable" pleasure and a pleasure "in motion". The former is represented by the absence of pain, whereas the latter is represented by joy and cheerfulness. Happiness only consists of the first form, which is represented by *atarassia* (the absence of pleasure) and *aponia* (the absence of pain). For Socrates, moral action finds its reasons in society. Therefore, happiness acquires a social dimension, it gains ethical content because it coincides with the

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<sup>6</sup>A founder of the cynical school, Antisthenes, associates pleasure with evil because pleasure distracts from virtue, which is the only form of happiness. Antisthenes maintains that man must be free from needs because they can enslave him: "I'd rather be crazy, than enjoy". This quote perhaps best sums up his thoughts.

good. The latter becomes the essential feature of eudaemonism.

Similarly, in Plato, happiness emerges from a normed structure, namely the existence of the link between happiness and virtue.

Plato notes that the good is objective and tied to socialisation. True pleasures are stable, not related to needs and desires, and they are opposed to the idea of life as a continuous flow.

In Plato, particularly in Gorgias, the clash between these two perspectives takes place. The potentially conflictual relationship between pleasure and good, which is the dichotomy between the two mentioned forms of happiness, is revealed clearly and conspicuously. The Platonic dialogue stigmatises the condition of non-satiety of individuals, reflecting the Platonic conception of the human inability to govern pleasure. The soul is pierced, similar to a container with no bottom. Therefore, the man who gives in to the lure of pleasure sinks into a vortex from which he cannot escape (in the same way, the soul has no upper limit, so it can tend towards the good).

The aim of the dialogue lies in the consideration of fundamental ethical truths, whose recognition can lead us to a happy life together with our fellows (Olimpiodoro, quoted by Giovanni Reale (Platone, 2010)). In the dialogue between Socrates and Calicles, a Sophist philosopher, the latter argues that happiness is only obtainable through the full satisfaction of one's own desires (*epithymia*) and that it can only be achieved if the individual does not place any restrictions on them. In such a context, any form of self-domain practiced, for example, through temperance (*soprhosyne*), is interpreted as the work of an external leader (Ferrari, 2006). Socrates attempts to refute this thesis. It may be useful to report the final part of the dialogue (Plato, Gorgias, 493A - 494A). When turning to Calicles, Socrates asks rhetorically,

*the two lives of the temperate and intemperate can be compared to the figure of two men, both of whom have a number of casks sound and full; one of wine, another of honey, and a third of milk, besides others filled with other liquids. In both cases the streams which fill them are few and scanty, and he can only obtain them with a great deal of toil and difficulty; Suppose now that one of them has healthy casks and once filled he has no need to feed them any more, and thus can feel comfortable; the other has also precious liquids, which can be found with great difficulty, though his vessels are leaky and unsound and night and day he is compelled to be filling them to avoid the agony of pain. And now would you say that the life of the intemperate is happier than that of the temperate? Are these arguments any worth? Do you agree with the fact a disciplined life is better than a dissolute life?*

Calicles answers,

*You do not convince me, Socrates, for the one who has filled himself has no longer any pleasure left; and this, as I was just now saying, is the life of a stone: he has neither joy nor sorrow after he is once filled; but the pleasure depends on the superabundance of the influx.*

Callicles' markedly hedonistic behavior is even compared to the Plover, a mythological bird that excretes as fast as it eats, to represent the necessity of the incessant flow of functional food to the individual to achieve happiness (as defined by Ferrara, the dissatisfaction with the dissolute). The dialogue ends unless Socrates can convince Gorgias about the validity of his thesis, and it is the resolution of the conflict between Socrates and Callicles that pushes Plato to develop a complex theory of the soul and of the state (Ferrari, 2006). The dialectic between the two forms of happiness implies an underlying dispute between these two views of the world—that is, between a natural world as theorised by the Sophists and other pre-Socratic philosophers and a normed world as elaborated by Plato.

Aristotle argues that happiness is the supreme good or the value on which any other good depends. It is the founding object of political science as the only means upon which social life can be built. Man can only be happy when he lives according to reason, following virtue, which is combined with pleasure. However, virtue can only be realised within social life. Therefore, the state (and politics) must not worry only about human existence but also about the materially and spiritually happy life.

Finally, the improvement conducted by Thomas Aquinas should be noted. In fact, whereas Aristotelian ethics focused on the relationship between happiness and virtue in a voluntary type of setting, Aquinas makes a radical transformation of ethics from that setting to another based on obligation, rules, and laws of duty, which is almost entirely shared by modern moral views (Pinckaers, 1985).

In brief, Greek thought developed the concepts of happiness that would constitute the theoretical foundations for the subsequent development of Western philosophy: the individualistic happiness of the Sophists and Cyrenaics, which was picked up by Epicurus and Utilitarianism, and the social happiness of Socrates, Plato, and Aristotle. The label can be classified as voluntary (Aristotle) or based on duty (Thomas Aquinas) (Samek Lodovici, 2002).

In addition, the preference of the Sophists was for the natural world (*phýsis*) compared to the normed (*nomos*) world, one of Plato's results, in the exaltation of man as an individual rather than as a member of society or a social animal. According to the pre-Socratics, man must dominate nature. Therefore, technology plays a prominent role. Man identifies himself in his ability to materially transform reality, which is provided by *techne*. This is presented in the myth of Prometheus, who stole fire from Zeus and gave it to men to free them from earthly labors. Aeschylus turns Prometheus into a symbol of the human genius winning over forces hostile to progress. Because of his guilt, he was punished by Zeus, who chained him to a rock where an eagle pecked out a part of his body every day, which grew back the following night.

In contrast, in the second current, not everything is resolved in nature, and man is exalted for his sociability. The good acquires a social dimension, ethics becomes social ethics, and politics becomes central to the life of man.

#### 4. THE PARADIGMS OF THE NEOCLASSIC THEORY



**4.1. Consumer, Firm, Market.** Following this brief discussion on the concept of happiness in the Greek world, we can return to mainstream economic theory, particularly the neo-classical economic thought. We must bear in mind that the dichotomy between subjectivism and objectivism, naturalism and mechanism on one side and finalism on another, which is still evolving in contemporary philosophy, is mirrored in the dominant economic thinking.

In fact, neo-classical economic thought, despite the impact of positivism, resumes and revises many of the concepts and categories already present in the first school of thought described in the third paragraph, the philosophy of the so-called physicals and pre-Socratics. Utilitarian theory fully borrows the relativism of Protagoras, according to which man is the measure of all things, so that what is pleasing is also rightful. The Utilitarians see happiness as individualistic, as discussed in Sophist philosophy and, especially, in the assumptions of the Cyrenaic school, although endowed with a substantial innovation. Two of the axioms on which the neoclassical theory of the consumer is based and that constitute the key principles of methodological individualism are i) the hypothesis of non-satiety, or the monotony of the utility function, and ii) diminishing marginal utility. This means that for the individual, there is no inhibition unlike his own satisfaction. In other words, the only restraint on consumption results from the degree of satiety, which grows gradually with the increase of wealth without ever being fully sated. The balance the consumer reaches is a *constraint optimum*, limiting and always diverging from absolute optimum.

In such a scenario, non-satiety results in the infinite growth of needs. Hegel noted that this was one of the essential aspects of work, considered by the German philosopher as a mediation between man and the world, together with the division of labour and the importance of class division ((Hegel, 2008), *Philosophy of Right*, §195, 241-245). Consequently, the continuous increase of needs comes to be associated with the necessity of increasing work productivity, which is responsible for removing the consumer's constraint represented by income. The need can be removed through work activity and the growth of needs through the improvement of this activity, namely through the increase of labour productivity. This situation is anyway provided by the capability for the material transformation of reality, which is provided by *techne* and resumes the myth of Prometheus.<sup>7</sup>

However, "the main cause of the progress of the productive capacity of labour, as well as of most of the art, skill and intelligence by which the work is performed and directed, seems to have been the division of labour". This is was possible due to the *human inclination to truck, to barter, and exchange one thing for another* ((Smith, 1776), Book I, Chapter III). In other words, an increase in needs is the basis of the increase in labour productivity, the progressive division of labour, and thus the market or the institutional context in which supply and demand meet and in which the distributive conflict takes place.

The first welfare theorem states that a condition of perfect competition must occur so that

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<sup>7</sup>Let us rely on two observations. The first is that *techne* is the human ability to transform nature and reveals a deep conflict between man and nature, in which man intends to dominate and destroy nature itself. The second is that the neoclassical firm is properly founded on the principle of efficiency, which is based on technology and technique. According to Severino, civilisation today is the civilisation of the technique, or the application of modern science to industry (Severino, 2009).

the market fulfills its power fully, including all of its generating capacity. In this case, none of the agents (firms or consumers) can effectively act out the final result.<sup>8</sup> Perfect competition implies the multiplicity of agents, whereas the market that is in equilibrium will be in equilibrium itself.

Market equilibrium can be interpreted as the bond uniting the opposites of supply and demand. It is the result of the distributive conflict: the tension between supply and demand. The equilibrium solution is also a form of harmony, the harmony of contrast, which is a very similar concept to the Paretian optimum.

Even in the functioning of the market, we can recognise the three principles of pre-Socratic thought that we have analysed: 1) the principle of atomism (Democritus), 2) the principle of conflict (Heraclitus), and 3) natural rationality (the *nous* of Anaxagoras).

In particular, the similarity to the generating concept of war is very strong. Heraclitus stated that war is the mother of all things. In a similar way, we can assert that the market is the father of the GDP. Finally, Smith's concept of the invisible hand can also be identified in the pre-Socratic philosophy. It proposes natural rationality as conceptualised in Anaxagoras' *nous*.

**4.2. Economic Growth.** The market alone may not be sufficient to ensure social stability for two reasons: 1) the existence of the economic cycle and 2) income inequality.

Concerning the last issue, the first welfare theorem indirectly states that the market alone cannot find a definitive solution to income inequality. The second welfare theorem gives this social function to politics. Therefore, an intervention of a political nature to solve that problem through a reallocation of resources becomes necessary. It is precisely the need to resort to politics and, more broadly, to sociability that seems to be in contrast with *téchné* (i.e., the technological view of man).

The solution to the problem (namely, the weakening of the role of politics) can partly occur through economic growth, which represents the continuous increase of the generating capacity of the market.<sup>9</sup>

The theories developed in the twentieth century note that economic growth is essentially based on the accumulation of capital and technology.<sup>10</sup>

Three of the most important growth models of neoclassical thought, Harrod-Domar, Solow

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<sup>8</sup>The first fundamental theorem of Welfare economic states conditions under which any price equilibrium with transfers, and in particular any Walrasian equilibrium, is a Pareto optimum. For competitive market economies, it provides a formal and very general confirmation of Adam Smith's asserted "invisible hand" property of the market. A single, very weak assumption, the "local nonsatiation of preferences is all that is required for the result" (Mas-Colell et al (1995), p.549).

<sup>9</sup>Alesina and Rodrik (1994) writes that "*a crude distinction between economics and politics would be that economics is concerned with expanding the pie while politics is about distributing*". According to this point of view, the greater the pie, the easier the role of politics in distributing the pie should be. However, we believe that politics is the art of uniting people through sharing the bread, or the essentiality.

<sup>10</sup>Another important issue in economic development is that it "does non proceed as tree growth but as it were jerkily" (Schumpeter, 1912). This is Schumpeter's idea of *the perennial gale of the creative destruction* process.

(1956), and Rebelo (1991), emphasise the role of *téchne*.

The first two are exogenous growth models in which growth depends on technical progress, assumed to be an exogenous factor. The result in terms of steady state is that the growth rate of per capita income is equal to technical progress. It is, in fact, technical progress that increases the per capita income. This allows the establishment of a relationship between technical progress and material prosperity. Perhaps this result may be also interpreted as a valuable judgment.

However, the Harrod-Domar model does not provide a stable system because it contains *the crucial assumption that production takes place under conditions of fixed proportions, and there is no possibility of substituting labor for capital in production* (Solow, 1956). To achieve such stability, it is necessary to ensure a substitutability between capital and labour, or the fungibility of capital and labour, which is one of the innovative elements introduced by the Solow model.

In Rebelo's AK model (Rebelo, 1991), a fundamental of the endogenous growth theory (namely, ensuring perpetual growth) is that everything turns into capital, including labour.<sup>11</sup> This generates constant returns to the scale of the capital. Man is thus swallowed by the capital.

## 5. CONCLUSIONS

From the observations contained in the previous paragraphs, it is possible, through a synthesis, to propose a different interpretation of the Easterlin paradox.

In the second paragraph, it was noted that Greek philosophy produced two different conceptions of happiness that correspond to the same two views of the world. The first, or happiness theorised by the Sophists and Cyrenaics, is an individualist type associated with a view of the world dominated by nature and technology, through which man aspires to dominate nature itself. The second, named *eudaemonia*, tends to a stable social dimension (let us remember the concept of good), in which politics plays a central role.

As a result of the action of the market, namely the interaction between demand and supply, income is the product of a reality based on individualism. The evidence lies in the fact that the perfect competition, which embraces the concepts of atomism, nature, and conflict, represents the most powerful shape the market can achieve. Even in perfect competition, the market is bound to non-self-sufficiency because it needs politics to solve the distribution problem or a state intervention to ensure the proper tension between supply and demand, such as Keynesian policies.

Through the self-sufficiency of the market, the stability of the system can be achieved exclusively in a condition of dynamic equilibrium, characterised by the growth of the productive capacity and that of the effective demand. The first originates from technical progress, whereas the second mostly depends on the consumer's perennial dissatisfaction (that is, desiring more than the desirable).

In this view, the Easterlin paradox can be explained in two ways. The first is that economic

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<sup>11</sup>In the model, "the quantity of all reproducible factors will be summarized by the capital good  $Z$ , which can be viewed as a composite of various types of physical and human capital" (Rebelo, 1991 p. 502).

growth produces less positive effects than we might expect. In this way, policy remains essential. The second doubts that technology has a strong redeeming role. In this sense, the Easterlin paradox may be considered a technology paradox: alone, it is unable to make man definitely happy.

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