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Peter Koslowski

**THE ECONOMY OF HAPPINESS**

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# **THE ECONOMY OF HAPPINESS**

by Peter Koslowski,

Free University Amsterdam, Netherlands, and ICER

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## Summary

Happiness in philosophical ethics and utility or satisfaction in economics have much in common. The paper investigates the ethical economy of happiness as a joint topic of ethical and economic theory. It shows that limits of the calculus of utility maximization also apply to concepts of the greatest happiness in philosophy: It is impossible to distinguish the utility or happiness maximizing life strategy. The paper discusses the problem of inter-personal comparisons of happiness and satisfaction and the relevance of the theory of material value qualities developed by Max Scheler's non-formal, material value ethics for the theory of goods, private and public. Ethics and economics are concerned with rules and duties. It is, however, also necessary to develop a theory of goods and values. Reflections are also made on the relationship between fact and value. Since there are side-effects of facts or experiences on our values, the naturalist fallacy of deriving value statements from experience seems to be less a fallacy than is usually assumed since Hume.

The economy of happiness is a topic at the intersection between philosophical ethics and economics. It raises two kinds of questions:

Firstly: What is the economic impact on happiness? What is the impact of the nature of economic goods on happiness?

And secondly:

What is the internal economy of happiness as compared to the internal economy of utility?

Happiness is a central topic of philosophy and philosophical ethics. It is *the* topic of ethics in the eudaemonistic tradition of ethics. In this tradition, the end and the criteria of ethics is eudaemonia, happiness. Full happiness, eudaemonia, is the last end of human life. The eudaemonia is the final end of human existence.

Both, economics and eudaemonistic ethics, imply maximization principles. The maximization principles of economics are utility and profit maximization. For the consumer the rule is: Maximize utility! For the producer it is: Maximize profit!

The maximization principle of eudaemonistic ethics is: As a human, maximize happiness as eudaemonia!

Against both maximization principles in economics and in eudaemonistic ethics, simple objections from the critique of maximization theory must be made: It is very difficult to maximize a complex variable over a long period. We know how to maximize utility in local contexts but not in global contexts. Armen Alchian objected to the utility maximization principle of economics that the goal of maximizing utility requires a knowledge about the effects and side-effects of our actions that we do not have.

When I sit down at the age of twenty and ask myself: How should I choose my profession, my wife, my location etc. to maximize my utility or my happiness over my life time I face several problems: I do not know how long I shall live, I do not know whom I shall meet as possible spouses, I do not know how the relative competitive position of professions in the market will develop in the future and the like.

The result is that I cannot identify either a utility or a happiness maximizing strategy. I must find out what I like for the sake of its own and trust that what I like for the sake of its own will fit as a piece into the puzzle of life in which the things striven for their own sake

add to a reasonable picture that is as a whole leading to happiness, but of which I shall never know whether it will realize the maximum happiness that was available to me.

Max Scheler criticized hedonism by saying that one cannot attain happiness immediately but rather obtains it “on the back of other activities”. One does not play the piano in order to be happy; rather one can be happy when one knows how to play the piano. One’s interest in capitalizing immediately does not obtain the goal when one does not do things for their own sake. We can strive for happiness only by mediation of goals pursued for the sake of themselves. We cannot intend happiness immediately. We can only reach happiness by striving for something else.<sup>1</sup>

The economic analogue is that we cannot realize profit immediately but only by producing something useful to someone. A firm that would market its employment chances to potential employees and its products to potential buyers by saying that its intention is to use both of them for profit maximization would not reach its goal.

The argument against happiness and satisfaction as immediate human goals can also be turned the other way around. Assume someone strives for pleasure as the ultimate goal and reaches it by lowering the content of pleasure and happiness to such a low standard that he can reach it at any moment. This person would also raise our concern because she must have chosen a content of pleasure or happiness that is too easy to achieve. Plato argues in his *Gorgias* that a person interested only in happiness as satisfaction should best wish herself an itch or an eczema, so as to be better able to scratch herself and thereby to be in control of her satisfaction at any time. Similarly, Heraclitus objected to the notion that happiness consists only in the pleasures of the body that the ox who finds a pea would be the most happy being.

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<sup>1</sup> Cf. P.Koslowski, *Ethik des Kapitalismus*. Mit einem Kommentar von James M. Buchanan, Tübingen (Mohr Siebeck) 1982, 6<sup>th</sup> edition 1998. English translation: *Ethics of Capitalism*, in: P. Koslowski: *Ethics of Capitalism and Critique of Sociobiology. Two Essays with a Comment by James M. Buchanan*, Berlin, Heidelberg, New York, Tokyo (Springer) 1996 (= Studies in Economic Ethics and Philosophy, Vol. 10).

Spanish translation: Peter Koslowski: *La Ética del Capitalismo*, J. M. Buchanan: *La Moralidad del Capitalismo*, Madrid (Ediciones Rialp, S.A.) 1997.

The goal of the maximization of happiness is an over-stretch of our abilities to realize happiness. Happiness as mere corporeal pleasure is under-stretch of ability to realize happiness. Both approaches to happiness do not work. We expect happiness to be more than pleasure and we expect it to last for a long life. Solon of Athens postulated that we should not call anyone happy before the end of his life. If someone achieves everything but dies at a young age, we would not call this a happy life. It did not realize happiness over a time period long enough to be called a life of happiness.

The Old Testament of the Bible encourages us to invest into wisdom since even if we lose some satisfaction in our young life we shall harvest the returns of wisdom in our old age when others who have not invested in wisdom will feel the weakness of their body and have no satisfaction at all whereas the wise person will harvest the joys of wisdom even when her body does not allow her anymore to enjoy the satisfaction of the body. It is an economy and inter-temporal exchange of satisfaction and happiness: less corporeal pleasures at young age, more pleasures of the spirit and of wisdom in old age. This economy of happiness works only if I become old. If the wise dies at 40 he is cheated for the pleasures of young age and will never have harvested the pleasures of old age.

This is one of the reasons why the ethical demand for longevity is so important: it stretches our time horizon and makes long lasting investment pay off whereas a short life does not encourage major investments. Capital formation and investment of high yield require *Produktions-Umwege*, deviations of production, as the Austrian theorist of capital, Eugen von Böhm-Bawerk, has emphasized. Deviations of production yield a higher return on investment, but require a longer time horizon and deferred gratification. The economy of happiness encourages such “deviations of productions” but it also renders us conscious of the fact that they only pay off if we are still alive when the returns accrue.

Eudaemonistic ethics is a material ethics which gives a content of the ethical principle: happiness. Happiness is not a formal criterion of ethics like universalizability or generalizability. It has a degree of formality since we believe that everyone has the right to materialize by herself what is happiness for her. However, the character of this principle is less formal than universalizability or maximum coordination of individuals that form the basis of formal ethics.

One reason for this higher degree of material content is that eudaemonia is a final end in itself, not a formal end for something else. Von Wright said that eudaemonia is the only end that is never anything except final. In the sequence of pleasure – joy – happiness, happiness is always the most final end, it is nothing but final. We use it as synonymous for “being the final end”. Only Kant has a concept that is even more final, the concept of “Glückswürdigkeit”, “being worthy of happiness”. Kant’s ethics is as is well known anti-eudaemonistic in its character. Happiness cannot serve, as any other empirical concept, according to Kant, as a measure stick of morality. Whether a maxim and the act following from it contribute to my happiness is totally secondary to the question whether they follow the categorical imperative or not. Kant is, however, aware of the fact that if morality and happiness do not come together the motivation for morality suffers. Someone who would know that the moral option will always diminish his happiness has little incentive to follow it. Kant therefore assumes that we must believe or make ourselves believe into the congruence of morality and happiness. The total congruence of morality and advantage or moral action and the outcome of happiness is, however, a postulate not a certainty. The postulates of practical reason, God, immortality of the soul, and moral freedom, postulate a harmony between happiness and morality. The highest ideal of human existence is this harmony of happiness and morality in being morally worthy of happiness.

That happiness follows morality is however only sure under the assumption of the retributive principle, the principle that God will retribute with heaven or hell our deeds in this life. The retributive principle is, for this reason, the most generally shared feature of the world religions: They all assume retribution after death. One could even say that the retributive principle is the very center of all world religions.

Happiness is neither an empirical notion nor is it totally subjective. There is some degree of intersubjectivity in the concept of happiness, but it is a limited. As to the content of happiness each of us is a judge in his or her own matter. In contrast to the concept of pleasure and satisfaction there is, however, some intersubjectivity in happiness. The analytical philosopher Hare stated that the judgment: “Someone is a happy person” implies that one would be ready to change with him or her whereas this is not the case in the judgment: “Someone is satisfied”.

There is also some empirical content in the right estimation of chances for happiness: This estimation can be objectively wrong or false. Someone who thinks that he can subjectively become happy by using heroin is most likely to be objectively wrong.

### **The Formal Ethics of Rules and the Non-Formal Ethics of Value Qualities<sup>2</sup>**

The rationality of formal ethics and economics follows two principles: individual maximization of the attainment of subjectively defined goals and the coordination of maximization. Coordination takes place as ethical coordination within the decision-maker by means of universalization, and as economic coordination externally from the decision-maker by means of the price system. The formation of preferences is directed toward universalization, the economic coordination of preferences toward the ability of persons to co-exist. The content of the *ethical* will is formed, both in the formal ethics of rules and in the economic coordination of the price system, by general rules. Can the *ethical* side of the determination of the will, as it should guide ethics, consist only in the formal principle of universalization? If ethics should be determined only by the principle of the categorical imperative, is it underdetermined, because it not only, like economics, clarifies the question how I can best achieve that which I already intend here and now, and because it not only, like Kantian ethics, answers the question “What shall I do?” Ethics must instead also provide an answer to the question of what I should or can *desire*, if I have been conscious of myself over my will by taking distance and expanding the perspective of my self and the situation in which I stand. Ethics must seek to explain what a successful life is on the whole, not merely which actions are universalizable. Ethics serves to answer the question

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<sup>2</sup> Cf for the following P. Koslowski, *Prinzipien der Ethischen Ökonomie. Grundlegung der Wirtschaftsethik und der auf die Ökonomie bezogenen Ethik*, Tübingen (Mohr Siebeck) 1988, 2<sup>nd</sup> edition 1994. English translation: *Principles of Ethical Economy*, translated by David Lutz, Dordrecht, Boston, London (Kluwer Academic Publishers) 2001 (Series, „Issues in Business Ethics“, Vol. 17), paperback edition 2001. Partial Spanish translation: *Moralidad y eficiencia. Lineas fundamentales de la etica economica*, Seminario Permanente „Empresa y Humanismo“ de la Facultad de Filosofía y Letras, Universidad de Navarra, Pamplona 1988.

of what I actually do and can desire. It is not only a theory of duty, following rules, but also just as much a theory of the formation of the will, and a development therefore not only an order of a should, but also an order of desires and aspirations.

Kant's formal ethics is deontological ethics. The form of the will should, on its agreement with an undetermined should, investigated and in agreement to the categorical imperative. The main tradition of ethics, however, since its founding as an independent discipline by Aristotle, has been teleological ethics. The aspiration of the human person, in whom elements of will, habit, conduct, and inclination unite, the *orexis* of Aristotle, should be connected to the good and to a good/proper life.

The idea that ethics is not only related to the will and the rules of obligation, but also just as much to the aspiration and the content of the aspiring and desiring good, must walk beside the idea of coordination of formal rule ethics and market economy. The desire and aspiration of the human person has ethically not only the co-ordinatability and universalizability of maxims of action as its object. The acting person must, rather, be in the position, to assess comprehensively (i.e. ethically, aesthetically, and economically), not just ethically *or* economically the question: What should I want? The question "What should and can I will or want?" is prior to the question "What should and may I do?" and should not be substituted by the latter. In order to be able to pose the rule-ethical question to the will, whether its maxim can be a principle of universal legislation, I must first know what I actually want, to which goals and goods I aspire. Only if I myself have become conscious about the content of my aspiration can I question the maxim of the action that is directed toward the realization of these goods on its ability to be coordinated with other aspirations.

### **Ethical and Economic Theories of the Good**

From the perspective of a complete theory of ethics, one that grasps *both* formal rule ethics *and* material goods and value ethics, the content of the will and aspiration is of ethical significance. The desires and aspirations must be capable of deciding between goods and value-qualities, not only economically, but also ethically and aesthetically. The economic concept of the good is, first of all, no less formal than the rules of economic

coordination. According to Richard Strigl, a good is defined by opening alternative utility possibilities.<sup>3</sup> Alternative utility possibilities become a good or value for a subject that is determined in such and such a way, and that discovers and recognizes them for him/herself. If the alternative utility possibilities become such by the subject alone, what makes something an economic good depends upon the subject's assessment. For economics, the question about the good stops at this point. What it is that in the subject that makes such a thing a utility possibility is, for economics, a black box, which is not to be questioned further, but instead taken for granted. According to revealed preference theory, economics, whose job it is only to coordinate the preferences, does not need to be interested in the interiority of preference formation.

For ethics, however, the formation of preferences and development of the perception of value-qualities and utility possibilities is precisely the real job. The good of economics may consist in opening alternative utility possibilities. But if this good, enters into ethics, which seeks to illuminate the process of preference formation and to expand the ability to perceive utility possibilities, in order to pre-coordinate the social coordination of the preferences of economics, it cannot be defined again by alternative utility possibilities, without an infinite regress. Economics coordinates the use of goods whose utility possibilities are seen as optional and subjective, whose character as goods follows from subjective preferences. Ethics, as the illumination and coordination of these preferences, cannot, with the determination of the good and preferences for the good again answer the question, what the good should be and for what the alternative utility possibilities should be good, "for alternative utility possibilities." Sometime the definition of good as "good for something else" must come to the point where the good itself is reached.

### **The Theory of the Highest Good**

In ethical tradition, two types of theories can be distinguished, which come out of the in-itself-circles of the concept of economic good as alternative utility possibilities to a

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<sup>3</sup> Cited by Hans Albert, *Marktsoziologie und Entscheidungslogik* (Neuwied, 1967), p. 42.

substantial concept of the goods or good in itself. The first type is described by the theory of the highest good, in which the good in itself, which is not only good for something else, is taken hold of as the highest good. The other type of theory of the good is material value ethics, which attempts to develop final kinds of goods and values, or good- and value-qualities, that cannot be traced back further to other possibilities of assessment and utility.

According to the tradition of the ethics of the highest good, all individual goods are related to a final and highest good. The individual goods receive their character of the good from their relation to and their beneficence for the highest good. Goods are, in this perspective, not defined by alternative utility possibilities, which are once again good for other utility possibilities, but instead by their contribution toward the attainment of the highest good. This highest good can, as with eudaimonism, be determined as individual blissfulness (Greek, *eudaimonia*).

Eudaimonistic ethics makes all goods means to the attainment of the highest good. Its weakness is that it must render instrumental all good- and value-qualities other than blissfulness itself, and that it is not able to accomplish the concrete mediation between the final goal of the highest good and the subordinate goods, the answer to the question of how one must utilize all interim goods for the highest good. Eudaimonistic ethics contradicts the feeling for the self-worth character of goods and actions and the wish for concretization of action strategies for the highest good. In addition, eudaimonism is able to accomplish only difficultly the social-ethical mediation of the pursuit of happiness of the individual with those of everyone else. The coordination of the individual pursuit of happiness of everyone is not satisfactorily solved in eudaimonistic ethics. Eudaimonism is solipsistic. The modern problem of the union of the pursuit of happiness of the independent being, the ability to coordinate the pursuit of happiness of all human persons, remains underdetermined.

The Aristotelian, eudaimonistic theory of the highest good has the advantage, relative to the ethics of universalization, of subsuming goods under a final goal. The material quality of the good itself and the goods, that which makes the individual good the good for me, threatens, however, as with the economic concept of value, to become lost in the relation to the other, in relationality. The materiality of the good and the qualities of goods are in danger, to be lost in the relational definition of being the means for the highest good and in

sharing the instrumental character for the highest good. The material value qualities of the content of the will and the quality of that which becomes the object of the will is, of course, also in ethics, as with all recognitions of qualities, philosophically problematic, since qualities are only partially universalizable. The material value ethic of Max Scheler attempts to accomplish precisely this difficult task of thinking qualities of the good and of knowledge of the materiality of value-qualities.

## **1.2. The Non-Formal Ethics of Values**

Scheler's non-formal ethics of values is an approach to ethics that seeks to go beyond both the relational character of the ethical theory of the highest good and the economic theory of goods and values of the good as alternative utility possibilities, to each/every good, that are not goods for the highest good and to each/every value-quality, that are not only value for others, thus exchange value or use value alternative utility possibilities for others. The non-formal ethics of values stops the outer-relatedness and iteration of the economic category of values, in which a value is always valuable only for something else, and seeks to define values as qualities in themselves, as a priori value-qualities or value-modalities. Scheler's approach makes recognizable that in the aspiration for goods something other than the mere aspiration for utility possibilities is expressed. In the striving for genuine goods, the aspiration to experience goods as such and the will to realize good-qualities in and for themselves is shown. No one maximizes utility for the sake of utility, because no one wants to have utility. One wants to have something definite, which can be understood as utility, in common with everything else one wants, only in a very distant abstraction. To call the pursuit of all of the good-qualities that someone wants the "maximization of utility" is a metaphorical way of speaking. Utility stands for everything that the acting person actually wants.

The non-formal ethics of values seeks to determine what is aspired as itself in its non-formal quality and not in its formal abstraction as utility or as universality of the maxim. According to Scheler, the value-qualities of goods can be distinguished according to the fundamental value modalities of the pleasant, the useful, the noble, and the holy, whereby

this sequence depicts a ranking of values from the lowest value of pleasure to the highest of holiness.<sup>4</sup> The value-qualities declare/set/report what is aspired to in the goods and what constitutes the good of the goods. They do not portray alternative utility- or utilization-viewpoints, but instead represent the a priori qualities of the good itself, which form the last will- and aspiration-goals and between which – and not between alternative utility possibilities – the choice acts of preference take place. To classify a good as more valuable than another means to assess the others as lower and to weigh their realization or their existence as less important. The other goods and values are determined to be less valuable than the chosen value and are placed below it. To emphasize the value of the noble and to make the noble the goal of one's own actions and the standard of one's evaluation of a good is to place the pleasant and the useful below the noble.

According to Scheler, however, the higher value does not attain its higher rank from the preference actions of the human person, from the “preference” for the “noble” utility possibility, but instead from the intrinsic characteristic of the value itself. The value is not created by the subjectivity of the human person; the value-quality exists and is preferred and actualized by the subjectivity of the person. The higher value reveals its greater degree of value, according to Scheler, by not using itself up, like values of pleasure, by not wearing out like the sensory values, and by not calculating like the values of the useful. If one uses, going beyond Scheler, the conceptualization of the economic theory of public goods, the phenomenon of the greater degree of value can also be expressed thus: The higher value reveals its higher rank and superiority in being a public good in a greater measure and showing a higher degree of publicness than the lower values. The higher value carries the stigma of freedom, and all the stronger so, the higher its value rank. Value-characteristics and virtues such as friendship, kindness, unselfishness, justice, courage, love, and faith cannot be compelled or be brought about by rules. Likewise, the highest mental values and goods, such as those of art, science, and religion, cannot be produced and reproduced in the strict sense. They are, instead, the result of free dedication/devotion and of being “affectedness”. They move and motivate by their greater value rank. It follows

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<sup>4</sup> Max Scheler, *Formalism in Ethics and Non-Formal Ethics of Values*, trans. Manfred S. Frings and Roger L. Funk (Evanston, 1973), pp. 111.

from their higher value-quality, relative to mere material goods, that all goods bearing higher value-qualities are felt as enduring, and lead to deeper meaning fulfillment and satisfaction and to a lesser degree of exclusion of others than the material goods of the useful and the pleasant. They are in their character “more open” and more inclusive than goods of lower value-quality.

The ability to perceive and experience higher value-qualities requires, however, a corresponding *experience* of the forms of the freedom of human potential, which is at its core an ethical experience and inclination and not merely a decision of the will for a universalizable maxim. The ability to experience the higher value does not appear on its own, but instead requires practice or exercise of a kind that develops empathy in the higher value, requires “asceticism” (i.e. in the original meaning of the word “exercise”). When this exercise is required in the ability to experience the higher value, it develops its own action-guiding gravitational force: “Some things allure us by their own force, and attract us by their own worth.”<sup>5</sup> By the power of its nature, the higher value wins us; by its dignity, it pulls us into its spell. It is the higher value, according to Scheler,<sup>6</sup> that assigns to the lower the space appropriate to it, thereby in this sense sustaining it and in the process determining the order of the preferences and the followers in the concrete situation.<sup>7</sup>

### **Value-Experiencing and Cultural Sense-Understanding**

Scheler’s *rank*-ordering of the values shows that his theory is an ethical theory. It is not only a theory of the Understanding of value-qualities, but also a theory of the preference-ordering of values. The necessity to develop the ability to perceive and understand, and the necessity that the acting person expresses his/her opinion concerning the goods and value-qualities, refers to the close relationship between ethics, aesthetics, and cultural philosophy. The experience of value-qualities is bound to the development of the ability to experience,

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<sup>5</sup> Thomas Aquinas, *Summa Theologiae*, II-II, q. 145, a. 1.

<sup>6</sup> Scheler, *Formalism in Ethics and Non-Formal Ethics of Values*, pp.114-16.

<sup>7</sup> Cf. Wilhelm Korff, “Ethische Entscheidungskonflikte,” in *Handbuch der christlichen Ethik* (Freiburg and Gütersloh, 1982), Vol. III, p. 79.

to express one's self, and to understand. Spranger's theory of understanding is helpful here. Dilthey defines the understanding as circulation of the experience of the artist, of the expression of his experience in art and the reexperience of the experience of the artist by the observer.<sup>8</sup> This circulation of the understanding demonstrates the closeness of non-formal ethics and culture, of value- and expression-understanding. Taking position means, according to Spranger, the motto of the mental world: the ability to accept and to reject.<sup>9</sup> Expressing one's opinion is also in the non-formal ethics of value a key concept: It is impossible to perceive the value-qualities of the higher vital and mental values without expressing one's opinion.

The economy, along with science and art, forms one of the three chief spheres of culture. These cultural spheres are characterized by each characteristic intention of acts of building itself up. In the three cultural spheres -- the economy, science, and art -- the acts or actions of the human person are directed, in specific intentions, toward definite goods and value-qualities. They are directed toward the economic, theoretic, or aesthetic value that in the sphere of the things corresponds to the consumption, knowledge, and art goods. To be able to take position to the meaning of the economy, of science, and of art in the proper way is an essential achievement in the realization of the mental life and of human happiness.<sup>10</sup> Teaching others how to attain this ability is the task of training and education. Training takes place in the presentation of meaning to the inner learning. Education takes place in the forming of one's own nature, which takes place in sense-understanding, value-experiencing, self-reflecting, and self-deciding.

The theory of the understanding of the meaning of the mental and cultural sciences is closely related to the theory of the non-formal ethics of values, understood as the theory of the preference for value-qualities. They show, together, that understanding and preferring

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<sup>8</sup> Wilhelm Dilthey, *Der Aufbau der geschichtlichen Welt in den Geisteswissenschaften* (Frankfurt, 1981), pp. 235 ff. See also Eduard Spranger, "Wilhelm Dilthey," in Spranger, *Vom pädagogischen Genius* (Heidelberg, 1965), pp. 209-10.

<sup>9</sup> Eduard Spranger, "Vom Wesen des Geistigen," in *Gesammelte Schriften*, ed. Hans Walter Bähr (Tübingen, 1980), Vol. VI, p. 307. Even earlier, Heinrich Rickert, *Kulturwissenschaft und Naturwissenschaft* (Tübingen, 1899), pp. 42-43:

<sup>10</sup> Cf. Spranger, "Vom Wesen des Geistigen," p. 301.

goods and training for the perception of value-qualities that goods possess are prior to the outer and inner coordination. The non-formal ethics of values and the theory of understanding the meaning of goods and values are both economics, which is oriented toward the coordination of preferences, and formal ethics, which seeks to achieve the internal formation of preferences according to the law of their ability to be coordinated with other preferences. First, when value-qualities are perceived and experienced, preferences can be formed. Then, in a second step, these preferences can be coordinated by the universalization principle. The non-formal ethics of values, as a theory of teleological ethics, intersects in the same way with the economic theory of goods as the theory of the useful, and with the aesthetic theory of the value of the beautiful. In the goods-theory or non-formal ethics, economic, ethical, and aesthetic sense-understanding, value-experiencing, and self-deciding penetrate each other. The alternative utility possibilities of the economical good are not already here in themselves by the physical existence of the good. Their superiority to the utility possibilities of the lower values of the sensory-pleasant and the useful must first be experienced, understood, and realized by the opinion-expressing subject.

In the sense-understanding and value-experience of material value-qualities of a good, there exist mutual effects between experiences and value-convictions, between the real existence of a good and the evaluation of it. These mutual effects sublimate the familiar distinction of “is” and “ought.” Experiences of things have an effect on the value-experience; the ability to judge and experience value-qualities reacts on the experience of things or economic goods. The alternative utility possibilities of a good are not given, but instead depend on the ability of the user to utilize them, on his/her ability to perceive and experience, on the formation of his/her receptivity for non-formal value-qualities.

The economic value of a good is not independent of its aesthetic, ethical, and cultural value. Understanding an economic good and using it efficiently require (if it is more than a trivial, consumer good), that the user has at his/her disposal the ability to experience and assess, in order to understand the higher non-formal value-qualities and to use them ethically-aesthetically-economically. The qualities of the good must be experienced, expressed, and imparted to the addressee, the consumer. Economic action has in common

with artistic action the circulation of the experience and its expression by the producer and the reexperience and understanding by the recipient. Above and beyond the demands that confront the artist, the economic producer must also ensure that the circulation of understanding between the producer's experience and expression of the experience and the consumer/recipient's after-effect and understanding of the expression also actually ensures, by suitable forms of marketing, that the consumer/recipient "understands" the producer. In his/her experience and expressions of the qualities of a good, the economic producer must include the recipient in a greater measure in the process than the artistic and the scientific producer.

### **Side Effects between Experiences and Value Convictions, "Is" and "Ought"**

The non-formal ethics of values shows that there exists no complete separation between experiences and value-convictions in the area of the higher mental and vital values and good and, therefore, also that no strict separation between formal and non-formal principles of ethics is possible. The content of the maxim that should become the universal principle is already characterized by non-formal value-qualities in its being experienced and being understood. The ability to experience determines the experiences and the actions, as likewise the experiences and the experience of the effects of one's own actions on others and the environment react on the acting person's ethical and aesthetic ability to experience and value-convictions. A complete separation between "is" and "ought", between economics, on one hand, and ethics and aesthetics, on the other, is impossible.

Physical side effects of our actions are able to change our value-convictions. We change our value-convictions and normative statements about the side effects of our actions and about the effects of those value convictions that we previously had, when the experience of the consequences of our values elicits/provokes serious value-arguments and fact-arguments for a change of our value-convictions. The side effects of our actions and our life-leading on us self and the reality about us change our previous value-convictions, as likewise an insistence on one's own value-convictions is ethically demanded, when the reality of our value-convictions demands an ethical stance towards the external reality.

The acting person acts into an outer world, one whose factors are subject to their own laws. It is true of our goal-directed actions that what is actually attained never completely agrees with our previous conceptions of our success. The discrepancy between willing and accomplishing is no merely psychological phenomenon, but a phenomenon at the border between the way of the world and the process of perceiving the way of the world. The gap between will and accomplishment is a realization and expression about events with the clash between subject and objective way of the world, between imaginations, establishments of objectives, and assessments of the way of the world and its actual course.<sup>11</sup>

All undesired side effects have in common that they subsequently react as correcting the will, its emotional, evaluative, and objective elements, and on the consciousness of the willing and acting subject. What Max Weber held to be impossible, that the value-attitude is reconstructed by recognition of that in the mental world which follows from the action in accordance with the predetermined value-attitude, takes place by the side effects of actions and the discrepancy between will and accomplishment.<sup>12</sup> It is impossible that value-convictions change only as a result of changes within the sphere of values, because the sphere of values is directed toward the sphere of facts. Value convictions must be changeable by side effects, because otherwise the consequence would be a complete solipsism, a window-less monadism of the individual sphere of value. The most important case of a correction of one's own goal-setting and value-acting as a result of the experience of the success of one's own actions is that of conviction-change and changing of the standards of value elicited by suffering the effects of one's own actions. The genuine revolutions of the inner person are those that are provoked by the reaction of one's own action on the complete attitude of the person.<sup>13</sup> The phenomenon of the transformation of the "I" and its values by facts and experiences sublates the supposedly-clear separation of

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<sup>11</sup> Cf. Wilhelm Wundt, *System der Philosophie* (Leipzig, 1889), Vol. I, p. 337.

<sup>12</sup> Cf. Spranger, *Das Gesetz der ungewollten Nebenwirkungen in der Erziehung*, 6th Ed. (Heidelberg, 1960), p. 101. See also Otto Bollnow, *Existenzphilosophie und Pädagogik*, 5th Ed. (Stuttgart, 1977), pp. 105 ff.

<sup>13</sup> Cf. Spranger, *Ibid.*, pp. 94-95.

“is” and “ought” statements. Arguments about facts and values, about economic and ethical points of view, are not completely separable, but are instead interdependent, and have side effects on one another. Merely understanding existing facts and contexts of culture and the social institutions without guiding and tacit values is already impossible. Therefore, economic considerations can also influence changes of attitude, and changes in attitude can change economic arguments. The two strands of reflection do not run independently of one another, but instead beside one another in parallel. For example, on the basis of cost considerations (i.e. economic side effects), in the public health service, certain procedures can be excluded from general use and the value of “equal treatment” be restricted for *economic* reasons, when the efficiency of measures is low and the social total return does not increase in the same amount with increasing universalization of the procedures. On the other hand, in questions of fundamental life interests and health, cost view points in medical care must be set aside by value-convictions as irrelevant and unethical.

Ethics, in the comprehensive sense, cannot accept an opposition of conviction (morality) and success orientation (economics), the world of facts and the world of values. Success and side effects are likewise to be observed and in the conviction to be accepted as the consequences by evaluation first to that become what they are: not mere events, but effects of actions. The decision-maker must *ex ante* design and assess the value of his strategies, the possible environmental events, and the consequences of his actions from preference rules or perspectives, from value points of view. Values are not objective constructions, but instead perspectives, perceptions of preferences.

A person’s value perspectives form the foundation for describing the influence that expectations and imaginations of the future have on his present choice acts. Social values describe how a social group wants the future to influence a person’s choice actions. Ethical values are values that can be universalized and agreed with, that the individual makes his own as evaluating the future in his choice actions, and about which rational discourse is possible. The acting person selects his strategies from the “possible worlds” that his actions will bring about, according to preference points of view. Choice acts/actions are not choices between actual states of the world or events, but between ideas of states of the world. The

acting person does not select between acts, but between imaginations and ideas of acts.<sup>14</sup> Since choice acts take place in the sphere of representation and of the imagination just as they do in the world of actual events, reality and the representation of reality, “is” and “ought” statements, presuppose one another. That the acting person chooses between possible worlds is true of all choice acts of greater range, for economic, ethical, and political choice acts. The choosing person imagines *ex ante* possible worlds, whose realizations *ex post* by himself and others are evaluated according to success *and* action-guiding motives and values.

### **Non-Formal Value-Qualities and Degrees of Publicness of Goods**

The rationality of formal ethics and economics follows the logic of maximization and the coordination of maximization. The content of the maximandum that the individual sets for his/her rational actions is, for formal ethics and economics, not relevant. Only the form of the maximization’s ability to exist with other maximizations is of ethical and economic significance. For formal ethics and economics, it is also not significant whether the content and the non-formal value-quality of the goods has ethical and social-economic side effects on the form of coordination and the social uniting of individuals beyond market exchange. Economic theory recognizes only one case in which the non-formal content of goods is of significance for socio-economic coordination, the case of the public good. The public good brings about, by its non-formal characteristics, a failure of market coordination. Its publicity is its specific non-formal value-quality. According to the economic theory of public goods, the non-formal characteristics of a good, not the utility possibilities subjectively related to it, determine whether a good is private or public (i.e. able or unable to exclude rivaling consumption with other goods) and, therefore, whether it permits market coordination or makes it impossible, or least more difficult. The non-applicability of the exclusion principle implies that non-paying consumers cannot be excluded from consumption of the good. The non-competition of consumption involves that the

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<sup>14</sup> Cf. G. L. S. Shackle, *Imagination and the Nature of Choice* (Edinburgh, 1979), pp. 2 ff.

consumption of one good does not compete with the consumption of the other, that the consumption of one does not reduce that of the other. An example of a public good, in this sense, is the good of national defense, from which non-payers cannot be excluded and with which, therefore, market coordination is impossible.<sup>15</sup>

In the theory of market failure, a dichotomy between private good and public goods is generally observed, which does not do justice to the actual continuum from completely private goods to completely public goods. the theory of merit goods is not an exception, because it sees merit goods as private goods that are produced publicly.<sup>16</sup>

The problem of public goods refers to the economic relevance of non-formal goods theory and value theory, because the non-formal characteristics of goods, their “publicity,” changes the way in which they are economically coordinated. The theory of non-formal goods reacts here directly on economic theory, and the goods-qualities directly on the manner of goods coordination. It can be seen at this point not only that the non-formal goods theory is economically and ethically relevant in the dichotomy of “public” and “private” goods, but also that wide-ranging conclusions for the relationship of the non-formal ethics of goods and values and economic coordination can be drawn from this phenomenon. The non-formal goods-qualities and, therefore, the non-formal ethics of values exert not only an influence indirectly, as ethics, the way of the economic coordination as it is the case in formal ethics. The formal rule ethics, as pre-coordination of preferences, influences and pre-coordinates the economic coordination of the price system. The non-formal ethics of value and goods changes the perception of goods qualities and changes, therefore, *immediately* the economic ways of coordination. Value-qualities exert an immediate influence on the form of economic coordination, because the higher rank of value-modalities, whose bearer is a good, not only elicits/provokes a perception of higher value-qualities with the user of a bearer-good, but also changes the way of using and the scarcity relationship for goods on the whole. The higher value is less competitive and

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<sup>15</sup> On the theory of “public goods,” see Richard A. Musgrave and Peggy B. Musgrave, *Public Finance in Theory and Practice*, 2nd Ed. (Englewood Cliffs, N. J., 1976), pp. 49 ff.

<sup>16</sup> An example of a merit good is free, public education, which is produced publicly, but whose goods are appropriated privately.

exclusive in consumption than the lower value. It proves its higher rank by not being competitive in consumption. The higher value reveals its higher rank in that, in contrast to non-formal values, it is not used up (in economic terms, does not demonstrate non-competitiveness of consumption), that in contrast to moral values, it does not wear out (is not subjected to diminishing marginal utility), and in contrast to the values of the useful, cannot miscalculate (does not permit clear exclusion). The higher value requires a different experience of use and coordination than does the lower value, because it is not used up, is not worn out, and does not miscalculate. Its economic characteristics of non-competition, constant marginal utility, and the impossibility of exclusion make a way of production determined purely by immediate self-interest and a purely private-economic way of coordination inefficient. The manner of market coordination must be appropriate to the nature of the higher value-qualities. Mere self-interest would, because of the lacking exclusibility of non-paying consumers with non-modified price control, lead to an under-production of the higher value, or public good.

It is of great importance, however, that, just as the value-qualities range from the lowest to the highest value, their bearers, the goods corresponding to them, also range from private through the more public to the public goods. The highest value of the holy is not to be perceived in its ability, but in its effect on the environment as the most public value. With the higher value modalities, as the value level increases, their effects take on a growing public and collective character. The ability to mediate or to be perceived, on the contrary, decreases with increasing value level. With the higher values, the individual's perception of utility and actual public utility can diverge, if formation and experience ability of the person are not so widely spread and trained that they are able to perceive the public character of the highest values. Certain personal value-qualities or virtues, such as courage, kindness, justice, etc., and certain mental values and goods, such as art, science, and religion, are difficult to calculate, demonstrate more slowly diminishing marginal utility and lower wearing out than moral goods or using themselves up, because their "consumption" compete with the consumption of others to a smaller degree than those of material goods.

Mental goods, such as art and science, and personal virtues, such as kindness and courage, are neither completely public nor completely private goods, but instead demonstrate degrees of publicity. They must be acquired privately by effort and education. Their utility, however, goes above and beyond their private acquisition. They cause public side effects or spillovers, because they do not lose anything and are not worn out when they are used. A great work of art loses none of its value when millions of people look at it. The virtue of justice is not used up when it is called into action. A truly great book gains the more often it is read.

The virtues and the mental goods are goods with a public character, or of a semi-public, semi-private nature. They are of significance economically in two different respects, and in the post-industrial and post-modern economy in increasing measure. It has a great impact on our happiness if we are able to shift our consumption from the rivaling to the non-rivaling goods. An ethics of consumption encourages as Adela Cortina has shown the shift in consumption from the private to the more public goods and value qualities.

On one hand, semi-public goods change with growing distribution, the relationship of resource consuming to resource conserving goods in the economic output. On the other hand, they facilitate social coordination and cohesion, because they help to produce the public good or capital of the validity of the ethical rules and trust in their validity.

The mental goods, which are produced privately and acquired publicly, demonstrate the characteristics of higher values noted above: not using themselves up, not wearing out, and non-competitive consumption. At the same time, they are goods, for whose production and consumption smaller quantities of natural, non-renewable resources are necessary. Therefore, in a world of exhaustible resources, their production can be ensured for a longer time than those of non-formal goods, because mental and cultural goods require smaller quantities of exhaustible resources. But their consumption also requires lower costs order to facilitate general consumption generally, and reduced quantities of the concerned good, because the consumption of one does not drive out consumption of others. Cultural goods are not used up when they are consumed, though, of course, even with them, as with other public goods, a problem similar to that of the competition of consumption can arise: the problem of congestion.

Congestion in the use of a public good can lead to the necessity of exclusion mechanisms and rationing, which shifts the public good's character in the direction of a semi-private, semi-competitive, or semi-exclusive good. Nevertheless, the shifting of preferences from competitive private goods to less-competitive public goods remains a crucial development-potential of the post-modern society in the change from the commercial to the cultural society. In the transition from the commercial and consumer society to the cultural society, the theory of semi-public goods and non-formal value-qualities receive their resource-economic foundation. The consumption of culture – in contrast to the consumption of non-formal goods – demonstrates environmental-economic side effects. Culture is more conservative of resources than are the leisure and consumption habits of certain sports, such as automobile racing, skiing, etc.

In the fact that higher value-qualities and goods are not used up by being perceived and experienced, one can see not only that the “economic” characteristic of these goods is one of non-competitiveness, but also at the same time their potential for bringing about social cohesion. Higher value-qualities and the consumption of mental goods demonstrate not only the characteristic that consumption of them does not lead to competition (i.e. that no side effect analogous to a quasi-externality of consumption arises), that consumption of them by one person does not reduce the amount available for others. Higher value-qualities also demonstrate, going beyond non-competition of consumption, that use by one person and use by others could be regarded as indifference, the *positive* side effect, that as they are consumed they do not bring about division, but cohesion of their “consumers.” While the consumption of non-formal, private goods and the realization of their value-qualities brings about social division, the perception and realization of higher value-qualities by the individual leads to cohesion with others who also perceive these value-qualities.

In the economy of happiness, the choice of the goods to which we aspire plays a central role. If we are able to realize the higher value qualities we are able to realize less rivalry of consumption and therefore less conflict. The economic impact of this economy of happiness is considerable. It might be more economical to shift to these goods than to increase the total output of goods. The economy of happiness demonstrates, however, that also economic considerations are not alien to the ethics of happiness. Since our resources

for happiness are limited we have to make economic use of them. A better understanding of the economy of public goods makes us understand better the mechanics of happiness. Voltaire's saying that most people are either not intelligent enough or not stupid enough to be happy might touch on cynicism but it is right in pointing to the fact that happiness, as the whole eudaemonistic tradition was convinced of, has something to do with intelligence. Understanding the economy of happiness increases the chances for happiness. There is, as the theory of ethical economy in its application to the problem of happiness shows, no final contradiction between the ethics and the economy of happiness.