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### THE AUSTRIAN SCHOOL ON HAPPINESS AND RELATIONAL GOODS

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# THE AUSTRIAN SCHOOL ON HAPPINESS AND RELATIONAL GOODS

Antonio Magliulo\*

## 1. Introduction

The paradox of happiness, that is the evidence that, beyond certain limits, the increasing income does not affect happiness, as it is perceived by individuals, has conquered both the front pages of authoritative scientific literature and the covers of influential magazines. D. Kahneman, Nobel Prize for Economics in 2002, has tried to make happiness measurable. The authoritative British magazine *The Economist* has dedicated the cover of the latest issue of 2006 to “Happiness (and how to measure it)”; the leading article starts with these words: “Capitalism can make a society rich and keep it free. Don’t ask it to make you happy as well” (The Economist 2006).

The first controversial question among economists is: can (or must) economics deal with happiness? Can we consider the “goods” that are likely to improve individual well-being or happiness as a part of economics?

An increasing number of scholars answer in an affirmative way. Some of them, as we will see, even state that political economy was born, in the 18<sup>th</sup> century, as the science of public happiness, inquiring directly into the relationship between material and spiritual well-being. It is only later that it becomes the science of wealth, presuming that material welfare contributes, indirectly, to increase public happiness. Finally, it becomes the science of rational choice that considers the behaviour of men when they possess few means for alternative purposes. Marginalism, according to this interpretation, breaks the thin link between economics and happiness. Human relationships are in fact considered just a way to attain goods appearing as needs. The good is the object of the relationship, never the relationship itself. In the opinion of these scholars, happiness largely depends exactly on non-instrumental, either pure or genuine human relationships, that they define “relational goods”. The good is in other words the relationship itself: for instance, the relationships between parents and children, among friends, among the members of an association or a community. Marginalism, not recognizing the economical nature of pure relationships, would have prevented economics to inquire into the subject of happiness and to explain its paradoxes.

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This research intends to show how, at the time of marginalism, thanks to those very Austrian economists who led Robbins to write the epistemological statute of modern economics, the most important attempt to establish *if* and in *what sense* relational goods are economic goods is made.

The work is structured as follows. In par. 2, I introduce Menger's theory of relational goods. In par. 3, I consider Böhm-Bawerk's one and the epilogue of their attempt. In par. 4, I deal with Wicksteed and Robbins' theory. At this point, the reader will perceive a little gap in time and space. Wicksteed shows a surprising affinity with the ideas of the Austrian economists and affects Robbins' methodology, which becomes mainstream. In the end, I explain what, in my opinion, is the historical meaning of the Austrian theory of relational goods, that is how it is situated in the history of the relationships between economics and happiness<sup>1</sup>.

## 2. The Theory of Relational Goods by Carl Menger of 1871

In 1871 Carl Menger publishes *Grundsätze der Volkswirtschaftslehre (Principles of economics)* a milestone of marginalism<sup>2</sup>. In the first chapter, dedicated to "The General Theory of the Good", he openly considers the question whether human relationships are economic goods. He writes: "Of special scientific interest are the goods that have been treated by some writers in our discipline as a special class of goods called "relationships." In this category there are firms, goodwill, monopolies, copyrights, patents, trade licenses, authors' rights, and also, according to some writers, family connections, friendship, love, religious and scientific fellowships, etc" (Menger 1871 [2004]: 54).

As we can see, relational goods (family, friendship, love), and intellectual property rights (copyrights) are included. The scholars who are referred to are Hermann, Roscher, Schäffle, that is authoritative representatives of the Historical School aiming at an ethic dimension of economics. In particular, Menger writes that in 1832 Hermann "includes a large number of relationships under the concept of external goods (relationships of hospitality, love, family, gainful employment, etc.) and distinguishes them from material goods and personal services as a special category of goods"; in 1856 Roscher "counts the state among 'relationships'", and in 1867 Schäffle subdivides goods into "things, personal services and rights" (Menger 1871 [2004]: 288)<sup>3</sup>.

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<sup>1</sup> Much literature on economics and happiness exists. I will mention only some basic works: Frey and Stutzer (2001), Layard (2003, 2005), Bruni and Porta (2007). On economics and interpersonal relations see Gui and Sugden (2005).

<sup>2</sup> Much literature on the Austrian School exists as well. On Menger and his legacy I will mention only Caldwell B.J. (1990).

<sup>3</sup> In the English translation of Menger's *Principles* (Menger 1871 [2004]: 288), you can find the following references: A.E.F. Schäffle, *Die nationalökonomische Theorie der ausschliessenden Absatzverhältnisse*, Tübingen, 1867, p. 12; F. Hermann, *Staatswirtschaftliche Untersuchungen*, München, 1874, pp. 130ff.; W. Roscher, *Grundlagen der Nationalökonomie*, Twentieth edition, Stuttgart, 1892, p. 2.

According to Menger, Hermann would be the first one to include, besides tangible objects and labor services, a third class of goods represented by human relationships. However, if even Schäffle, who is the best theorist (according to Menger), finds it surprising that these goods can be considered economic goods, it derives from a dominating mentality that leads to conceive as goods just tangible objects and labor services. Menger writes: “Nevertheless, if the theorist who has devoted himself most closely to this topic admits that the classification of these relationships as goods has something strange about it, and appears to the unprejudiced eye as an anomaly, there must, in my opinion, be a somewhat deeper reason for such doubts than the unconscious working of the materialistic bias of our time which regards only material and forces (tangible objects and labor services) as things and, therefore, also as goods” (Menger 1871 [2004]: 54).

In order to establish if and in what sense human relationships are economic goods, we need a general theory of goods. And it is exactly in the light of a new general theory of goods that Menger evaluates the nature of human relationships.

To consider something as a good four elements are simultaneously required. Firstly, there must be a need that can be satisfied by something (for example the necessity to recover from malaria). Secondly, the thing must be suitable to satisfy the need (quinine can heal from malaria). Thirdly, men must recognize the suitability of the thing to satisfy the need (china bark was not a good, before its therapeutical abilities were discovered). Finally, the good must be available (quinine is not a good for a country that cannot afford it).

The good becomes again a “thing” if one of the four requirements is missing. For example, quinine returns to being a thing if malaria is won. Eventually, a good acquires an economic dimension when it is scarce compared to the needs it is due to satisfy. Water becomes an economic good when it is not sufficient to satisfy various and alternative needs: to quench thirst, to irrigate, wash, and so on.

At this point, a problem of rational choice about the destination of a scarce resource arises. Economics just deals with economic goods, that is both useful and scarce. But scarcity is a relative concept. It derives from a comparison between subjective goods and needs. A good becomes economic when it is scarce and returns to be simply a good when scarcity fails.

Menger notes that the classical distinction between tangible objects and labor services (or immaterial services) is restrictive. There are “actions” and also “inactions” that, although not labor services, are useful and sometimes acquire an economic value. A customer who usually applies to a shop performs an action useful for the shopkeeper, not requiring any labor activity. Customer goodwill becomes for the shopkeeper an immaterial good that he can sell along with the material goods composing the shop. Customer goodwill is therefore an economic good separated from

material goods, belonging to the class of “useful human activities”. A country doctor who, on retiring, leaves the only other doctor in a position of monopoly, does a useful action for his colleague, not involving any working activity:

That someone buys commodities from me, or uses my legal services, is certainly no labor service on his part, but it is nevertheless an action beneficial to me. That a well-to-do doctor ceases the practice of medicine in a small country town in which there is only one other doctor in addition to himself can with still less justice be called a labor service. But it is certainly an inaction of considerable benefit to the remaining doctor who thereby becomes a monopolist.

Whether a larger or smaller number of persons regularly performs actions that are beneficial to someone (a number of customers with respect to a merchant, for instance) does not alter the nature of these actions. And whether certain inactions on the part of some or all of the inhabitants of a city or state which are useful to someone come about voluntarily or through legal compulsion (natural or legal monopolies, copyrights, trade marks, etc.), does not alter in any way the nature of these useful inactions. From an economic standpoint, therefore, what, are called clienteles, good-will, monopolies, etc., are the useful actions or inactions of other people, or (as in the case of *firms*, for example) aggregates of material goods, labor services, and other useful actions and inactions (Menger 1871 [2004]: 54-55, original italics).

The same applies to relationships of friendship and love. They are actions and inactions useful for someone. If available, they are goods in an economic sense:

Even relationships of friendships and love, religious fellowships, and the like, consist obviously of actions or inactions of other persons that are beneficial to us.

If, as is true of customer good-will, firms, monopoly rights, etc., these useful actions or inactions are of such a kind that we can dispose of them, there is no reason why we should not classify them as goods, without finding it necessary to resort to the obscure concept of “relationships,” and without bringing these “relationships” into contrast with all other goods as a special category (Menger 1871 [2004]: 55).

Let us stress the phrase “beneficial to us”. Menger recognizes the nature of goods in an economic sense to human relationships, but he seems to consider them as one way actions and inactions: the customer choosing his lawyer, the doctor who, retiring, fosters his colleague, etc. Examples on friendship and love are not directly mentioned, although it is not difficult to evict them from Menger’s theory. The mother embracing her son performs an action beneficial to him, not a working activity. A boy going to see a friend does something useful for him, not a working activity. Menger just considers one side of the human action: the mother’s embracement makes her son happy, the friend’s visit makes his mate happy. He does not consider the other dimension: a mutual love arises and strengthens in the embracement; a mutual friendship increases in the meeting. He considers the mother’s embracement a beneficial action, a good in an economic sense, increasing

the son's welfare or utility; the friend's visit an human action increasing the other one's welfare. He seems to apply his own "general theory of goods". The mother's embracement is a good for her son as it satisfies his need for love, it is suitable to satisfy it, it is recognized as such and is available. It is a free good, until it is scarce. As a hypothesis, nothing prevents to conceive the same action, that is the embracement, also useful for the mother. Menger however does not consider any reciprocity. The actions of a single person are simply useful for the others. A lawyer performs an immaterial service, a working activity, useful for his customer. A mother performs an action, not a working activity, useful for her son.

Menger distinguishes the goods into two classes: material goods and useful actions and inactions. The second branch includes, beside working activities, human relationships: "all goods can, I think, be divided into the two classes of *material goods* (including all forces of nature insofar they are goods) and of *useful human actions* (and inactions), the most important of which are labor services" (Menger 1871 [2004]: 55, original italics).

For this, in Menger's opinion, human relationships are goods in an economic sense.

### **3. Eugen von Böhm-Bawerk's Theory of Relational Goods and the Epilogue of the Pure Austrian Attempt**

In 1881 Böhm-Bawerk, pupil of Menger, published a long treatise, called *Rechte und Verhältnisse vom Standpunkte der volkswirtschaftlichen Güterlehre* (translated into English as *Whether Legal Rights And Relationships Are Economic Goods*)<sup>4</sup>. A "critical study" aimed at establishing if "legal rights and relationships" are different goods adding to material goods and working activities.

Böhm-Bawerk faces the same problem and the same authors as Menger: Hermann, Roscher, Schäffle<sup>5</sup>. He distinguishes "legal rights" from "relationships", which Menger included in the same term known as human "relationships".

Böhm's thesis is that "rights and relationships" are goods from an economic viewpoint but they are not independent goods.

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<sup>4</sup> In the Publisher's Preface to the English translation the following was written: "If the title were transliterated into English, it would be *Legal Rights and Relationships from the Viewpoint of the Economics Doctrine of Goods*", see Böhm-Bawerk (1881 [1962]: 39). For a general introduction to the early writings of Böhm-Bawerk see Yagi (1983) and Grillo (2002).

<sup>5</sup> Böhm-Bawerk (1881 [1962]: 71) quotes Schäffle: "He begins his *Theorie der ausschliessenden Absatzverhältnisse* [Tübingen, 1864] with the words: "There are many teachers and not a few students of economics who become astonished and incredulous when they are told in their earliest and very fundamental discussions of economics that two categories of objects which are the object of economic exchange comprise (1) material, concrete things and (2) personal services; but that in addition to these two, and coordinate with them, there exists also that third category of economic goods which Hermann introduced into economic science under the name of 'relationships' and which since his day, have maintained the position in which he placed them".

In 1871 Menger was afraid that economics would be applied to a limited field. Ten years later, Böhm-Bawerk (1881 [1962]: 67-68, original italics) feared the opposite, that is the field could become too large. The risk was to take into consideration too many goods, and that they could be counted many a time:

And thus the things that achieved varyingly general recognition as being worthy of classification as intangible goods included such things as *personal services, love, the organized state, the church, virtue, character* [as a means to the establishment of credit] [MacLeod], *honor, investors' patents, the Iliad* [Rossi], *the security bestowed by the law, monopolies, the joy of demolition* [De Augustinis; quoted by Roscher in *Grundlagen*, p. 106], *counsel and advice, good health, strength, cleverness, "good sense," knowledge, good taste, companionability, freedom, ownership, morality, the relationship of a commanding officer to his soldiers* [Roscher], *credit* [MacLeod], *claims* [Hufeland and Roscher], the "*utilizations of a good*" [Hermann] and, in general, *relationships* of whatever kind and many other such things.

The merest glance at this list will suffice to convince us that not everything on it deserves rating as a good in the economic sense. Some sifting is indubitably required. But what is to be the acid test that we must apply on our selection?

In those years Böhm was engaged in the composition of his *opus magnum: Capital and Interest. A Critical History of Economical Theory*. He considers his treatise on "rights and relationships" foreshadowing his major work: an explanation of the nature of goods, necessary as an anticipation of the study of the most controversial good, that is capital and its reward. Böhm fears, in particular, the spreading of MacLeod's theory, according to which credit is a good different from the goods upon which it is exerted. In this perspective, credit is an activity creating real goods, not only transferring them. He is afraid of John Law's mistakes.

Ten years after Menger, the danger is the multiplication of economic goods, under the strong influence of Say's theory of immaterial services and the legal doctrine of *res corporales* and *res incorporales*. Credits or claims are on sale on the market, have a price of their own, and they take the appearance of real economic goods. Böhm writes:

It would seem that, in addition to material goods and personal services the things that have the best right to advance a claim to membership among the things that have economic goods-quality are those *legal rights and relationships* of which it can be observed that they play an independent part in economic exchange and in legal transactions. Claims are conveyed, rental rights are bought at a price, namely, the rent that is paid. Goodwill often attains very real money value, no matter whether it depends on purely factual circumstances (such as the high repute of a firm's name) or on specific legal rights (such as patent rights or a granted monopoly) (Böhm-Bawerk (1881 [1962]: 70, original italics).

Böhm, in order to solve the question, applies Menger's general theory of goods. He even adds a fifth requisite: the power to utilize the thing. An individual feels the need for culture, which the book can satisfy, the individual recognizes its ability and disposes of it. But, if he cannot read, the book is not a good for him. As we have seen, Menger classed the goods as "material goods" and "useful human actions (and inactions)". Böhm corrects his master: he just eliminates the category of "useful inactions" and substitutes actions by "useful renditions". In economics, he says, only useful renditions deserve consideration, also because it would be impossible to keep account of all potential useful inactions. The doctor in Menger's example, in order to become a monopolist, should benefit not only of his former rival's retirement but also of the withdrawal of all those who, potentially, could exert a medical activity in that district. The new classification includes "material goods" and "personal and real renditions of service".

In Menger's theory, goods are things useful to satisfy needs, that is suitable for achieving ends. Böhm distinguishes the "new goods" into two great groups, the first of which is inclusive of goods that are not means to attain a goal, since they are themselves a goal. Under this category fall moral and religious goods as well as happiness. He writes: "Preeminent among such things are ethical, religious and many other kinds of "spiritual goods", such as virtue, happiness, contentment, peace of mind, and the like" (Böhm-Bawerk (1881 [1962]: 61).

The second group comprises goods that enable to reach a goal, without falling under a third category of goods independent on material products and useful renditions. This group includes "legal rights and relationships".

Böhm examines first rights and then relationships.

Jurists traditionally distinguish patrimonial rights into real (from Latin *res*) and obligation and credit rights. Böhm uses another classification adhering more closely to the economic theory of goods.

Goods are first of all distinguished into non-durable (or consumables) and durable (or unconsumable). The former exhaust their utility in a single time (a glass of wine). The latter consist and may be subdivided into a series of useful renditions. A field, for example, is a durable good, offering a series of useful services: it can be tilled, left without cultivations, used for building, or for rearing or passing. In the same way, a worker (a lawyer) offers a series of useful personal renditions (legal advice). Non-durable goods offer a single performance, while durable goods offer multiple performances.

Goods are then divided into "present" (a field, a house), and "future" ones (next summer's crop, next year's income).

Finally, according to the economic theory of goods, he distinguishes patrimonial rights into: “property right”, “rights of partial utilization” and “rights to future yield of goods”.

Now, Böhm is able to establish if patrimonial rights are economics goods.

The right, that is the capacity to enjoy and dispose of a good, can be exerted on present, future goods and on the single renditions of which they consist. The proprietor is entitled to the “total” use of the good: the proprietor of a field, for example, can till it, leave it without cultivation, sell it, donate it. The owners of rights of “partial” utilizations can on the contrary enjoy some renditions of *present* goods: the usufructuary can take the fruit, but he must respect the original economic destination of the good, the owner of the right of superficies can build a house on a piece of ground belonging to others, and so on. Finally, the owners of rights to “future” yield of goods can in advance enjoy future goods: among these are included *mutuum* loans, pledge contracts, rights of inheritance, patent rights, copyrights and authors’ royalties.

Patrimonial rights entitle individuals to enjoy and dispose, totally or partially, of the personal and material renditions of which present and future goods consist. But they are not new goods. They are just the legal projection of real goods. Böhm writes: “If it be true that rights were seriously considered to be things (and by “seriously” I mean without any awareness that men were indulging in a figure of speech) then it can only be said that men were allowing themselves to be deceived by shadows, as it were. In a sense, rights *are* shadows – the juridical shadows which real corporeal goods cast upon the image of our wealth. For where there is no corporeal object to which a right pertains, there can be *no right*” (Böhm-Bawerk (1881 [1962]: 148, original italics).

The sixth chapter of the treatise is called *An Analysis Of “Relationships” As “Goods”*. One century before Nussbaum (1986), known as the first scholar to introduce the phrase and a theory of relational goods, Böhm uses it, maybe taking it from Hermann and Schäffle<sup>6</sup>.

After “legal rights”, come “relationships”.

Böhm analyses respectively “goodwill” (Schäffle), “State” (Roscher), “friendship and love” (Hermann). He applies the same theory and comes to the same conclusion achieved in the examination of rights: relationships consist of material products and useful personal and material renditions. They are goods, in the economic sense, but are not independent goods, different or additional according to the original ones.

The goodwill is the anticipation of a future profit. The shopkeeper, when selling the goodwill, he actually sells the future goods produced by the firm, that is he calculates the present value of a future revenue. Böhm, differently from Menger, does not consider goodwill as different from material goods (present and future): “Whenever a previous proprietor of a business has sold

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<sup>6</sup> See Bruni (2006: 22-23).

his “good will” or his “firm name” to a successor and purchaser, it is obviously the hoped-for future profits, arising out of exchange transactions (i.e., sales), arising by reason of the existence of the relationships of good will which both parties to the contract are dealing in – one deliberately parting with them, the other deliberately acquiring them” (Böhm-Bawerk (1881 [1962]: 156).

State corresponds to the complex of useful personal renditions (of judges, teachers, servicemen ...) and materials (streets, bridges, schools ...) offered to the community: “It would probably be impossible to think up any economic advantage emanating from the “state” which could not be allocated to one or the other of the foregoing two sources or to some interaction of either with the other” (Böhm-Bawerk (1881 [1962]: 171).

Finally, relationships. Böhm writes:

The same thing is true of the relationships of *love and friendship*, of *family* and of other kindred “relationship-goods.” And with those I wish to conclude my “testing by sample.” In this field, too, we can easily convince ourselves that every useful promotion of well-being which we derive from these sources consists, in actual truth, of nothing but beneficial renditions of service, predominantly personal ones but also of material nature, renditions that are given and received and that may often, to be sure, be a highly intellectual and delicate nature but that are, nevertheless, *genuine renditions of service in the economic sense*. Of course, we feel a certain reluctance to think of the influences of such tender relationships in terms of *economic acts*. But if we undertake a theoretical examination of the sources of our well-being, we cannot but recognize the truly useful element when it is present, even in this area, in personal and material renditions of service, nor can we do aught but recognize that, from the economic viewpoint, such “goods” as family, church, love and the like are merely linguistic disguises for a totality of concretely useful renditions of service (Böhm-Bawerk (1881 [1962]: 173, original italics).

Relational goods consist of “useful personal and material renditions”. They are goods in an economic sense, as they satisfy a specific relational need. But they are not independent good compared with the original ones. The need for friendship or love finds its satisfaction by personal and material renditions.

Notice the reference to renditions “given and received”, a term that seems to be inclusive of reciprocity but, in my opinion, actually regards services separately “given” and “received” by an individual. Basically, Böhm writes: “*We have disencumbered the economic goods concept of a whole category of pseudo-goods*. It was a mistake to regard rights and relationships as goods in and of themselves, or as goods which existed beside and in addition to the categories of material goods and services” (Böhm-Bawerk (1881 [1962]: 173-174, original italics).

Both Menger and Böhm consider relationships in Menger’s sense, that is inclusive of relational goods as goods from an economic viewpoint. Goods to satisfy a human need. In Menger’s opinion, they are independent goods belonging, beside “material products”, to the class of “human

useful actions (and inactions)”. In that category we can see, along with working activities, useful actions (and inactions) of friends and lovers. Böhm, on the contrary, finds that they are not independent and original goods, but they consist of “useful personal and material renditions”. Within that category we do not find those goods named goodwill, state, love, friendship. They are essentially “linguistic disguises”: a lot of useful renditions. We can insulate a series of useful material renditions (the present value of future goods) and call it “goodwill”. We can insulate a series of useful personal renditions (a meeting ...) and material (a present ...) and call it “friendship”, or a series of useful personal renditions (teachers ...) and material (school building) and call it “State”. But we cannot add new goods called goodwill, friendship, State to renditions: this would mean to make the mistake of giving different names to the same good.

Original goods, in Böhm’s view, are only “material products” and “useful personal and material renditions”.

In his *Capital and Interest*, published in 1884, Böhm regrets the lack of consideration reserved to his work of 1881. A disappointment that he also expresses in the third edition of 1914, two months before he dies. He writes: “Singularly enough, this attempt of mine stands almost alone in economic literature. I say “singularly enough” deliberately, for it does seem to me a very wonderful thing that, in a science which from beginning to end turns, as on its axis, on the satisfying of need by means of goods, – on the relation of use between men and goods, – no inquiry has ever been made into the technical character of the use of goods” (Böhm-Bawerk (1884 [1890]: 218).

On Böhm’s death, the old master writes his obituary. Menger observes, about the treatise of 1881, that Böhm’s attempt “has found in the corporation of economists a not unanimous consensus owing to the evident artificial structure of his theory and especially because of the conflict between Böhm’s fundamental view and experience. The most evident proof – according to Menger (1915 [2002]: 317 my translation from Italian edition) – is “that, when one sells a brand, a patent, a goodwill their prices are calculated independent of the price of material goods connected with them (fields, buildings, machinery, inventory goods etc.)”. Menger, however, seems to refer just to present goods and not to future ones.

In 1921, Menger dies too. In 1923 the second edition of *Principles of Economics*, edited by his son Karl was published. An edition that was found doubtful by many scholars. The question of “relationships” is confined to a footnote. Menger (1923 [1925]: 16 my translation from Italian edition) writes:

Basically, mixing ethical with economical viewpoints ..., some economists have come to accept such goods, like God as “supreme good”, virtues, honor and so on,

although they cannot be considered as such from an economic viewpoint. In the same way, love, friendship, devotion etc., that are granted to us free, are not available means to satisfy the needs of an economic entity, and therefore they are not goods but free manifestations of personality.

Now Menger seems to consider that love and friendship cannot be considered goods in an economic sense, as not available. The last requisite of his “general theory of goods” comes to fail. The above quoted sentence is not clear. It is possible to think that those goods are not as available as the others. An individual cannot get them. He can just receive them free. They are “free manifestations” of the other’s personality.

At the beginning of the twenties, almost silently, relational goods are excluded from economics, becoming the exclusive subject of moral and philosophical sciences.

#### **4. The Development of the Anglo-Austrian Theory: from Wicksteed to Robbins**

In 1910 Philip Henry Wicksteed (1844-1927), born in Leeds in Yorkshire and parson of the Unitarian Church, publishes *The Common Sense of Political Economy*. In the fifth chapter, called “Business and economic nexus”, he exposes a theory of economic relationships which, in another way compared with that followed by Menger and Böhm-Bawerk, excludes relational goods from economic analysis. Wicksteed, following a path of his own, elaborates an approach similar to the Austrian one: Kirzner (1999) calls him “the British Austrian”<sup>7</sup>.

According to Wicksteed, economic relationships are in themselves purely instrumental and neutral: instrumental as they serve to acquire, by means of exchange acts, goods and services; neutral as the goods acquired can be used for both selfish and altruistic ends. They can be egoistically accumulated or generously donated. Not instrumental relationships (or pure) are not economic ones<sup>8</sup>.

Wicksteed suggests several examples. A mother buys potatoes at the market to serve them to her sons. The first relationship is purely neutral and instrumental, that is economical. The mother is inspired by an altruistic purpose: to feed her sons. She could also be inspired by the desire to give the poor her savings accumulated thanks to a wise policy of expenditure. The mother is potentially

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<sup>7</sup> On Wicksteed see Robbins (1933) and Kirzner (1999). Kirzner (1999: 101-102) wrote: “Philip Wicksteed has, at least doctrinally, been identified with the Austrian tradition. Perhaps for this very reason, however, we should, at the outset of a discussion of the Austrian character of Wicksteed’s work, emphasize that, whatever the strength of Wicksteed’s Austrian doctrinal credentials, he was not a member of the Austrian School in the usual sense. This British contemporary of Menger, Böhm-Bawerk, and Wieser appears to have had no direct contact or correspondence with any of them ... The elements in Wicksteed’s work which we shall identify as “Austrian” were, it is well-recognized, the outcome of his own careful elaboration of the insights he discovered in the work of that other British “Austrian,” William Stanley Jevons”.

<sup>8</sup> In this part I have accepted the interpretation of Wicksteed’s thought proposed by Bruni (2006: 113-118).

altruistic to everyone, except to the greengrocer: to everyone, except to him. If she also were altruistic to the seller, the relationship would not be economical any more.

Another example. Saint Paul used to sell tents. In that activity too, he was inspired by an altruistic purpose. He wished, by his profits, to help the others and not to accumulate treasures for himself. He was altruistic to everyone, except to those who bought tents. If he had been the same with them too, the relationship would no longer have been economical.

In economical relationships, an individual can be inspired either by a selfish or an altruistic motivation. He can either be an egoist or an altruist to everyone, except to the person with whom he establishes the relationship: to everyone, but not to you, who are my counterpart. The nature of economic relationships is determined neither by egoism nor by altruism, but by what Wicksteed (1910: 180), creating a neologism, calls “non-tuism”: “it would be just as true, and just as false, to say that the business motives ignores egoistic as to say that it ignores altruistic impulses. The specific characteristic of an economic relation is not its “egoism”, but its “non-tuism””.

It would be absurd to say that the mother buying potatoes at the least price is an egoist, as well as Saint Paul selling his tents at the maximum price. What defines their actions is the last (or the first) goal inspiring them. But in this way, Wicksteed actually excludes non-instrumental relationships from the ground of economics. As Bruni (2006: 117) writes: “Wicksteed’s good intention of freeing Economics from egoism and hedonism brought him to expel personalised interpersonal relations from economic enquires: the domain of economic analyses becomes that characterised from purely anonymous interactions, and is therefore instrumental”.

In 1933 Robbins edited a new edition of *Common Sense* and of other *selected papers* by Wicksteed. In 1935 he publishes the second and definite edition of his famous *Essay on the Nature and Significance of Economic Science*, where he systematizes the methodology still in use in contemporary economics<sup>9</sup>.

Economics is the science concerning the choices of men, when they are in a condition of scarcity, that is when they dispose of means scarce and usable for alternative uses, in order to achieve aims of different importance. At first, relational goods (even if Robbins does not use this term) are not economic goods. But, in a second phase, they could become as such.

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<sup>9</sup> On Robbins’s Austrian connection, O’Brien (1990: 179-180, original italics) wrote: “The Austrian connection in Robbins’s work is thus important, but it is not exclusive of other influences or completely overwhelming ... But if limited, it is nonetheless important. Quite clearly it significantly affected Robbins’s own view of *writers other than the Austrians*. It was an Austrian perspective which he adopted in synthesizing, in the interwar period, that corpus of economic theory to which he attached such importance. As he read the Austrians’ works, he found in them not only elements which coincided with that he had already learned from Wicksteed but also insights which enabled him to see what was essential to Wicksteed and what could be dispensed with in the building up of an authoritative treatment of microeconomics”. On this topic see now Howson (2004). On the reception of Robbins’s *Essay* see Backhouse and Medema (2007).

Robbins defines the four conditions of scarcity in a very detailed way. Two of them concern the ends and two the means: the ends must be various and classifiable as to importance, the means (and time) scarce and usable for alternative destinations. If even one of the four conditions is not fulfilled, there is no scarcity and the economic problem of having to choose other ends instead of others does not arise. But, if the four conditions simultaneously occur, then we can speak of scarcity. In this case, as we dispose of insufficient instruments, we are bound to make a choice of the goals we want to reach, according to a certain hierarchy.

Ones' ends can be either mean or noble, material or immaterial, egoistic or altruistic. There are not – says Robbins – economic purposes, but only economic or non economic ways to achieve the desired goals: “So far as we are concerned, our economic subjects can be pure egoists, pure altruists, pure ascetics, pure sensualists or – what is much more likely – mixed bundles of all these impulses” (Robbins (1935 [1945]: 95).

The economist accepts purposes as given. Robbins gives the example of a community of sybarites then converted by a Savonarola. At the beginning, they wish to satisfy sensual pleasures: the scarce available resources are mainly due to produce food and wine. After their conversion, the hierarchy of ends changes: the sybarites become hermits and wish to satisfy the pleasures of their souls. What does not vary is the economic analysis. The economist observes that just the relative scarcity of goods has altered. At the time of conversion, less wine and more stones for ecclesiastical buildings begin to be produced: the rent coming from wines decreases and the one of quarries increases.

At first, Robbins affirms, it is advisable to make a sharp distinction between means and ends. Work is a means useful to obtain the resources necessary to achieve the desired purposes. Goals may be of different kinds: material or spiritual, egoistic or altruistic, that is to support ones family or live as a *debauché*. But the economic relationship with his employer is merely instrumental: it just tends to obtain the means suitable to achieve the ends. The worker chooses the employer offering the highest wages. Then he will decide whether to support his family or to live as a *debauché*. It will be just then that we will be able to understand if he is egoist or altruist. The economical relationship between worker and employer is not a good in itself. Robbins does not quote Wicksteed, but it is clear that he is applying his “non-tuism”. He writes:

This, then, is all that lies behind the *homo oeconomicus* – the occasional assumption that in certain exchange relationships all the means, so to speak, are on one side and all the ends on the other. If, *e.g.*, for purposes of demonstrating the circumstances in which a single price will emerge in a limited market, it is assumed that in my dealings in that market I always buy from the cheapest seller, it is not assumed at all that I am necessarily actuated by egotistical motives. On the contrary, it is well

known that the impersonal relationship postulated is to be seen in its purest form when trustees, not being in a position to allow themselves the luxury of more complicated relationships, are trying to make the best terms for the estates they administer: your business man is a much more complicated fellow. All that it means is that my relation to the dealers does not enter into my hierarchy of ends. For me (who may be acting for myself or my friends or some civic or charitable authority) they are regarded merely as means. Or, again, if it is assumed ... that I sell my labour always in the dearest market, it is not assumed that money and self-interest are my ultimate objects – I may be working to support some philanthropic institution. It is assumed only that, so far as that transaction is concerned, my labour is only a means to an end; it is not to be regarded as an end in itself (Robbins 1935 [1945]: 96).

But this is just the first step that after being taken can be left behind. In the second step, we can assume that the worker chooses to work, even at inferior wages, in a firm he finds more homely. The sharp distinction between means and ends can be forgotten. Human work becomes, thus, an end too. More exactly, in economic relationships, double ends and means coexist. The two purposes are: to support one's family and to work in a happy atmosphere. Human relationship becomes in this way a good satisfying a specific need for well-being in the working milieu and involving the partial renunciation to alternative ends that could be achieved with higher wages. Relational goods, even if Robbins does not use this term, return to being considered economic goods. He writes: "If this were commonly known, if it were generally realised that Economic Man is only an expository device – a first approximation used very cautiously at one stage in the development of arguments which, in their full development, neither employ any such assumption nor demand it in any way for a justification of their procedure – it is improbable that he would be such a universal bogey" (Robbins 1935 [1945]: 97). And in addition: "Now the valuations which determine particular transactions may be of various degrees of complexity. In my purchase of bread I may be interested solely in the comparison between the bread and the other things in the circle of exchange on which I might have spent the money. But I may be interested too in the happiness of my baker. There may exist between us certain liens which make it preferable for me to buy bread from him, rather than procure it from his competitor who is willing to sell it a little cheaper. In exactly the same way, in my sale of my own labour or the hire of my property, I may be interested only in the things which I receive as a result of the transaction; or I may be interested also in the experience of laboring in one way rather than another, or in the prestige or discredit, the feeling of virtue or shame in hiring my property in this line rather than in that" (Robbins 1935 [1945]: 95).

Robbins reopens the doors of the temple of economics to relational goods.

## 5. Conclusions

It is finally time to propose an answer to the question concerning this research, that is the place of the Austrian theory on relational goods in the history of the relationships between Economics and Happiness.

First of all, I think I can say that it occupies an important place. Great Austrian economists, co-founders of modern economic science, investigate the nature of relational goods as sources of human welfare and consider them, even if with different various arguments, economic goods.

Austrian economists do not directly face the problem of the relationships between economics and happiness. Their writings do not contain pages or paragraphs dedicated to this topic. They even rather rarely use the word happiness and do not bother to define the philosophical meaning of it referring to Aristotle or to the Enlightenment. They prefer to speak of human welfare: a comprehensive welfare, not limited to the satisfaction of material needs. The problem that they directly face is whether and in what sense non-instrumental human relationships can be considered and dealt with as economic goods increasing human welfare. In this way, they indirectly explore the theme of the relationships between economics and happiness.

In his *Principles* of 1871 Menger considers non-instrumental human relationships as goods in an economic sense, since they satisfy the four requisites that change a thing into a good. He includes relational goods, beside material products, in the class comprising “useful human actions and inactions”. Ten years later, in 1881, Böhm-Bawerk still considers non-instrumental human relationships as good in an economic sense, but not independent or original goods. They are rather derived goods, made by “material products” and “useful material and personal renditions”, composing the two only classes of original goods studied by economics. In the third edition of *Capital and Interest*, published in 1914, shortly before his death, Böhm recognizes that his attempt was unsuccessful. In 1923, *post mortem*, Menger, in a footnote of the second edition of his *Principles*, observes that relational goods are not goods in an economic sense, because they do not satisfy the last requisite: availability. The pure Austrian theory ends: from early Menger’s yes to the final Menger’s no.

The Anglo-Austrian line follows a different path. In 1910 Wicksteed introduces the hypothesis of non-tuism: economics just inquiries into neutral and instrumental human relationships. The human relationship is not an economic good in itself. In 1935, however, Robbins considers Wicksteed’s non-tuism just a first approximation that, after being developed, can be left behind. In the second approximation, human relationships can be conceived as means capable to satisfy a goal of happiness. From Wicksteed’s no to Robbins’ yes.

For this, in the time of marginalist revolution, Austrian economists develop a theory of relational goods, based on a more general theory of economic goods, connected to the theme of well-being generally understood.

The history of economics in its connection with happiness has been written above all by Bruni and Zamagni. This history is divided into three phases, in their opinion. In the first one, the sun of happiness – just to use an image dear to them – shines in the sky of economics. Economics originated in the 18<sup>th</sup> century, above all in the Italy of Genovesi, as the science of public happiness, directly investigating the problem of the transformation of wealth into happiness. Then, it develops in Britain, from Smith to Marshall, as the science of wealth, in the implicit assumption that wealth fosters human welfare. The second stage is that of eclipse, during which happiness disappears from the skyline of economics. The eclipse takes place in three successive moments. Bentham identifies happiness with utility. Economics becomes the calculation of pain and pleasure. The purpose of maximum happiness for most people corresponds to the maximum utility. Pareto states that it is not necessary to follow psychological concepts. Economics studies logical actions, that is the rational behaviour of individuals using scarce means in order to achieve different ends. The economist reveals individual preferences *ex-post* without attributing a predetermined end to the actors: what the individual chooses is useful, not the opposite. Wicksteed finally reduces the research field of economics to the market, where only instrumental and neutral relationships are in force. The third and final stage, where we still are, begins in 1974 with the discovery, by Easterlin (1974), of the paradox of happiness: why does not wealth make people happier? Bruni and Zamagni (and others), recommencing from the contribution of the philosopher Nussbaum (1986) and of the economist Gui (1987), answer: it is because individuals, in order to obtain the means necessary to acquire consumer goods, get to destroy the relational goods on which happiness largely depends<sup>10</sup>.

They have the merit to have given a historical perspective to the big question of happiness in economics. This is an intriguing and entrancing story that allows us to rediscover authors of whom we thought to know everything. Their merit is also to have detected in non-tuism an idea that has largely darkened the issue of happiness in economics from Wicksteed on. But the eclipse is not total. Just in the time of marginalism, as we have seen, Austrian economists elaborated a theory of relational goods that is connected to the theme of happiness<sup>11</sup>.

Austrian theory is different from the modern one. The simultaneous reciprocity fails. In the modern theory the relational good is co-produced and co-consumed by the actors involved. For example, during a dinner among friends, an independent good we can call friendly relationship is

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<sup>10</sup> See in particular Bruni and Zamagni (2004) and Bruni (2006). Others historical contributions are in Nardi Spiller (2004) and Vivenza (2007).

<sup>11</sup> Bruni (2006: 143) only mentions the second edition of the Menger's *Principles*.

co-produced and co-consumed. In the Austrian theory, on the contrary, the relational good is conceived as a unilateral useful action or rendition, that an actor does for himself or for the others. I prefer to work with you, even at lower wages, for the sake of my happiness. I prefer to buy my bread from that baker, even at a higher price, for the sake of his happiness. The action I do is aimed at my or at others' happiness. We are beyond the field of non-tuism, but not yet in the domain of simultaneous reciprocity. According to the hypothesis of non-tuism, in fact, one can be altruist with everybody excepting those with whom one is bargaining; with everyone except with you. The second approximation by Robbins reintroduces "tuism" into economics: I can buy my bread from that baker to make him happier.

Maybe, we can connect the modern theory to the Austrian one by developing the second approximation by Robbins, that is leaving the hard distinction between means and ends, and introducing the logic of double means and double end. Some friends decide to set up together a cooperative company, accepting the idea of earning less. The double end is: to support their own families and to live a friendly relationship on duty. The double means is: the working performance and the friendly relationship. A friendly relationship is a co-produced and co-consumed good, distinct from one's job, satisfying the need for friendship.

Relational goods, in my opinion, are economical only if they satisfy the requisites of Robbins' means/ends scheme: at this point they have an opportunity cost leading individuals to make rational choices, that is to prefer certain ends to the disadvantage of others<sup>12</sup>.

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<sup>12</sup> I will give two examples. The first is already used by many theorists of relational goods. A relational good – it was said – is a good in itself, it is a non-instrumental relationship, not aiming at the acquisition of another good or service. A customer is willing to pay a barber a higher reward just because he finds him nice. In this case, it is not a relational good: reciprocity is missing. It is rather a differentiated product: the customer is open to pay more for the same service – the haircut – because he considers it as different and better. The barber is easy going and nice, because he considers this an aspect of his profession. This is an equivalent exchange: the haircut and courtesy against a monetary reward. After a while, the barber becomes a real friend and proposes a reduction to his customer. The customer refuses. He fears some errors may arise. The barber could feel obliged to refuse an ordinary customer to give way to him. One account is the professional service, another a friendly conversation. The introduction of an exterior motivation (money) can destroy inner motivation (friendship). The price does not vary, the service the same, but now simultaneous to professional performance, another good, called relational, is co-produced and co-consumed. A free good added to the market one. A non economic good, if it does not involve an opportunity cost. This second example is perhaps more significant. A father spends his Saturday afternoon with his son. This is a relational good. After a while, his son refuses. He has more interesting things to do. The good is no longer "available". The father offers his son a ten euro incentive. It is no more a relational good. It becomes a market good: the exterior motivation destroys the inner one. Another variant: now it is the father, not the son, who is no longer available on Saturday afternoon because of too many business engagements. But one Saturday he realizes that his relationship with his son is too important and he is willing to give up rich legal advice to stay with him. The relational good can have an opportunity cost forcing one to choose certain goals and to renounce others. Generally speaking, to get a relational good, one can suffer an opportunity cost (both explicit and either implicit), but cannot pay a price. The father, to stay with his son, can suffer the cost (implicit) of giving up the legal advice and/or the cost (explicit) of buying an ice-cream. But he cannot pay a price. The payment of a price destroys the pure relational good. One can only buy relational pseudo-goods: *chat lines*, computer couplet, etc. The party asking for the good must pay. The opportunity cost, instead, strengthens the gratuitousness of the pure relational goods: in order to have them, one is willing not only to receive nothing in exchange, but also to give up something. Relational goods become economic when they are scarce, that is when they involve an opportunity cost binding to make rational choices in the allocation of scarce resources usable for alternative ends. Finally, according to the traditional

Relational goods, as we have seen, affect the human welfare to such an extent that, according to some scholars, their destruction reduces the happiness perceived by individuals. But even if the reality were different, and we were far from the critical point beyond which wealth does not make people happier, a question would remain valid on relational goods: has economics to inquire into non-instrumental human relationships? And how?

The answer of Austrian economists is that economics has to take it into consideration, by applying the general theory of goods or the means/ends scheme, when a condition of scarcity imposing a rational choice arises.

Surely, decades have elapsed, from Menger to Robbins, when economics has made huge progress also in the field of the relationships between wealth and happiness. Nowadays economics is passing through a new phase of enlargement, of methodological imperialism, during which we witness the duplication of goods considered economical: private, public, common, social, positional, relational ... Perhaps it may be useful to reflect once again upon the first considerations made about relational goods by scholars who remain giants in the history of economic thought.

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distinction between private and public goods, the relational one can be considered as a mixed good having the characteristics of anti-rivalry in consumption and excludability. The well-being of a person gets bigger and bigger as civil, friendly and family relationships expand and deepen, whereas it is always possible to exclude someone from them.

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## THE AUSTRIAN SCHOOL ON HAPPINESS AND RELATIONAL GOODS

Austrian economists do not directly face the problem of the relationships between economics and happiness. They even rather rarely use the word happiness and do not bother to define the philosophical meaning of it referring to Aristotle or to the Enlightenment. They prefer to speak of human welfare: a comprehensive welfare, not limited to the satisfaction of material needs. The problem that they directly face is whether and in what sense non-instrumental human relationships (that is relational goods) can be considered and dealt with as economic goods increasing human welfare. In this way, they indirectly explore the theme of the relationships between economics and happiness.

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