2008: a crisis odissey

After many years of economic growth, after the new economy boom and the rising of new international economic and financial powers, 2008 closed up with a deep economic crisis – the umpteenth one since the beginning of '90s up to now.

The triggering causes of such a large crisis affecting the heart of the international economic setting have been widely analyzed and debated: basically, the crisis has been caused by the interaction of a condition of scarce liquidity and of a poor institutional and regulatory framework. These two factors allowed the spread of a deep speculative bubble resulting in a drastic reduction in investors' confidence and in a credit contraction. At that point the financial crisis passed on the "real" sector with all its well-known dramatic consequences for people's well-being.

Francesco Sarracino

Recently, some new developments of economic theory regarding subjective well-being proved to offer interesting insights on our societies, bringing new perspectives in many fields of social sciences. It is worth having a look at the way this new literature interprets the crisis and its uprising.

A new theory of economic growth convincingly argues that economic growth is driven by a substitution process of free goods for expensive and private goods (Bartolini and Bonatti, 2008). This family of models is currently known as *Negative Externalities Growth* (NEG) and recent research found evidence supporting its theoretical implications (Bartolini et al., 2008, 2009a; Sarracino, 2009). Following this new approach, the origins of the last crisis have to be pursued in the way modern societies are organized and ruled, in other words, the economic system in which we live, we work and we prosper is intrinsically subjected to such events. Hence, the question is: "how is it possible that economic crises are 'coded' in the genome of our societies?" The point is that rather than pursuing a higher well-being, modern societies turned to pursue higher income levels focusing exclusively on material well-being, while neglecting the importance of other aspects (Nussbaum and Sen, 1993; Latouche, 2004; Bruni, 2002). These can be human relationships, shared values of a society, friendship, mutual regard, honesty, summarizing, all those values and shared believes which are "freely" produced by social relationships and are usually labeled as social capital (Helliwell, 2008; Helliwell et al., 2009). Recent economic research on subjective well-being proved that all these aspects play a fundamental role for people's well-being (Bartolini et al., 2009b; Becchetti et al., 2008). Therefore, the excessive focus on material well-being resulted in a reduced ability of the social environment to supply such goods and, in particular, to supply free non-market relationships (i.e. *relational goods*). In other words, the way current economic systems work generates negative externalities in the supply of social capital. People perceive this depletion and react raising their "defensive" expenditures investing in private goods to replace eroded goods that get scarcer. At the same time, the social environment turns out to be increasingly unable to supply social relationships. To this scarcity replies the market supplying costly substitute goods (commercial centers are offered rather than free public places, a wide range of home entertainment products are available to replace all those social activities that are no more shared with other people). This substitution process obliges individuals to increasing-

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ly refer to private goods rather than free goods to support their well-being (Bartolini and Bonatti, 2003). The outcome is double-faced: on one side, these conditions push people towards higher isolation catalyzing the erosion of social capital; on the other, economic growth results as a byproduct of this process (Sarracino, 2009, 2010a). It is not by chance that economic growth is a feature of western societies since the Second World War up to now: by increasingly asking for costly market goods, people push towards higher production levels of goods raising economic growth. At the same time, this growth further feeds social capital erosion resulting in a new demand for private goods in a self-reinforcing process.

This dynamic is further fueled by the way individuals' expectations are shaped: people have been recently proved to pay attention at their relative position with regard to a selected group of people and to adapt to previous levels of economic conditions (Ferrer-i Carbonell, 2005; van Praag et al., 2003). The interaction of these two forces – also known as social comparisons and adaptation – move people's expectations forward, pushing them to pursue higher levels of economic well-being. These mechanisms transform people into "exceptional" consumers by rising their needs and aspirations: in order to buy new goods, a higher income and increasing working effort are required further reducing the time available for social relationships. It is worth highlighting that this is what many studies suggest the American society has been experiencing during the last thirty years: economic growth characterized by high consumption levels, longer working time, low social capital and stagnating well-being (Bowles and Jayadev, 2007; Schor, 1992). Media and advertisement appear as amplifiers of these two processes. In order to be effective, media, and particularly advertisement, have to touch the most sensible aspects of individuals, driving their fears and uncertainties (Schor, 2004). In an environment more and more poor in relational goods, people are thought to react sheltering in the safety offered by more goods and more consumption. Hence, people changed into *bulimic* consumers (and workers) needing growing levels of consumption, although they are already members of the richest world economies (Schor, 1998).

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There is still another aspect concerning the last crisis on which the subjective well-being literature helps shedding some new light: the reason why the institutions supposed to control the market didn't work. It has been claimed that the current institutional framework is weak and needs to be reshaped. The new branch of econom-ic literature doesn't exclude this possibility and adds more details to the knowledge of economic behaviors, eventually resulting in useful hints for this reshaping. From this point of view, finding out a more complicated set of rules and checks may not be enough to prevent similar behaviors in the future. The exclusive pursue of a higher income will push people to find out more or less legal ways out of every institutional setting in order to satisfy their own interests, maybe in favor of their enterprises, but behind other people's backs (Kasser et al., 2007).

In other words, as long as the material concerns will predominantly drive economic agents, no institutional settings will prevent opportunistic behaviors from happening again. The economy asks its agents, including those in charge of controlling markets, to follow their private interests and, from this perspective, market controllers behaved in a rational way. In this sense changing the institutional framework is not enough to solve the problem: economic agents are facing wrong incentives pushing them not accounting for the social effects of their actions (Kasser et al., 2006). Such behaviors can be regarded as rational as long as we accept the idea that a higher income may not increase people's well-being, but it will not decrease it for sure.

Currently, the idea that money per se doesn't buy happiness is increasingly accepted and, from this perspective, the exclusive pursue of a higher income, disregarding its effects for the social (and natural) environment, is limiting. Subjective well-being literature provides more detailed and observable information on what is important for people's well-being. The inclusion of these multiple dimensions among the economic preferences and policies may offer different incentives to agents. Although this will not be sufficient to prevent future opportunistic behaviors, it provides a wider perspective on which evaluate economic outcomes.

Concluding, the literature on subjective well-being allows to tell a richer story concerning the last economic and financial crisis highlighting some of the weak points of the current economic setting. This, eventually, could enrich coming policies with multiple dimensions and intervention possibilities. At the same time, it also brings new perspectives on well-being that can be useful in drawing future economic policies.

The deep crisis that shook the world economy represents a sign that current world economic setting asks for a reform. Hence, economists' task should be contributing to reshape it towards more sustainable and durable goals than just economic growth. Thanks to new developments of the economic theory, future economic policies can take into account their effects for both the economy and the society at the same time in a more effective and comprehensive way.

The last economic crisis represented a *drama* for millions of people, but it is also a *great occasion* for economists to re-discover humankind and its

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well-being as the ultimate goal of economic policies. People's well-being asks not only for material needs, but also for further aspects coming from the delicate connection of human relationships with others and the surrounding environment. ◆

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