

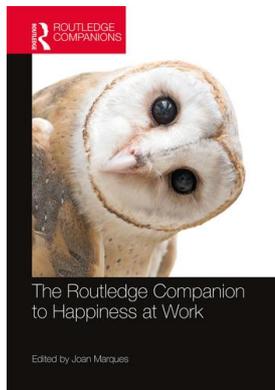
This article was downloaded by: 10.3.98.104

On: 24 Jun 2021

Access details: *subscription number*

Publisher: *Routledge*

Informa Ltd Registered in England and Wales Registered Number: 1072954 Registered office: 5 Howick Place, London SW1P 1WG, UK



## The Routledge Companion to Happiness at Work

Joan Marques

### Work and Happiness

Publication details

<https://www.routledgehandbooks.com/doi/10.4324/9780429294426-25>

Arie Sherman, Tal Shavit

**Published online on: 23 Oct 2020**

**How to cite :-** Arie Sherman, Tal Shavit. 23 Oct 2020, *Work and Happiness from: The Routledge Companion to Happiness at Work* Routledge

Accessed on: 24 Jun 2021

<https://www.routledgehandbooks.com/doi/10.4324/9780429294426-25>

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# WORK AND HAPPINESS

## An Economic Perspective

*Arie Sherman and Tal Shavit*

*The ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed the world is ruled by little else. Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually the slaves of some defunct economist. Madmen in authority, who hear voices in the air, are distilling their frenzy from some academic scribbler of a few years back. I am sure that the power of vested interests is vastly exaggerated compared with the gradual encroachment of ideas.*

*John Maynard Keynes (Quoted in Heilbroner (1953 [2011], p. 14))*

*Work is the focusing lens for so much of human experience. Work conjures up joy and despair, fulfillment and anesthesia, creativity and drudgery... Work is the inescapable starting point for all social inquiry.*

*Robert Heilbroner (1985, p. 9)*

### Introduction

The quotes above direct our focus on two major insights: one is the crucial impact that economic theory has had on social life since the economic revolution and the emergence of the great economists or the worldly philosophers (Heilbroner, 1953). Economic ideas and economic interests shaped the world through political regimes, battles between classes, and even battles between nations (Polanyi, 1944). The other regards the true nature of work. Answering the question why do we work is central for the inquiry into human experience. Do we work only because we have to earn a living? Do people work for reasons other than the pecuniary reward? Does work *per se* stimulate feelings of happiness and meaning? Economic labor theory, which is the synthesis between these two insights, shapes public policy, fiscal practices, and welfare reform around the world.

Labor economic theory embraces the “work as bad” thesis (Spencer, 2009a; b), which considers the act of work is a “disutility” and the alternative cost of leisure consists only of forgone earnings (Becker, 1965; Moffitt, 2002). The essence of labor is to sacrifice one’s leisure and comfort, and the monetary wage is a kind of compensation for that sacrifice. Moreover, there are economists who hold the view that unemployment is voluntary (Frey & Stutzer, 2002). People choose to stop working because they find work a “burden” and the wage paid unattractive when compared to being unemployed, receiving welfare benefits, and consuming more leisure time. People, according to mainstream economists, do

not expect to derive any consumption value by work *per se*. Their happiness is determined by their income and leisure time. The economic implications of this perspective are straightforward. For incentive theory, the solution to any agency problem will be to design the optimal monetary incentive scheme (see discussions in Cassar & Meier, 2018; Ichniowski & Shaw, 2003; Lazear, 2018). For public policy, the implications are also straightforward. The welfare caseload has grown due to the generosity of the welfare state—people voluntarily choose to stop working because welfare benefits enable material consumption and increase leisure time. In other words, the main reason for the mounting welfare caseload is the deterioration of the extrinsic motivation to work (see discussions in Blank, 2002; Grogger & Karoly, 2005). As a consequence, the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA), enacted in 1996, fundamentally changed the cash welfare system in the United States. This welfare reform constituted the most fundamental change in American social policy since the Social Security Act of 1935 (Haskins, 2006).

The predictions of economic theory are not consistent with the empirical results. Research shows that when people who are fulfilled by their work are asked why they work, monetary compensation almost never comes up (Schwartz, 2015). Work, it seems, is done not only in order to earn a living. People give long and compelling nonpecuniary reasons for doing their work. Schwartz (2015, p. 1) reports that individuals' subjective well-being (SWB) is affected by nonmonetary aspects of work:

People feel that they are in charge. Their workday offers them a measure of autonomy and discretion. And they use that autonomy and discretion to achieve a level of mastery or expertise. They learn new things, developing both as workers and as people. These people do their work because it's an opportunity for social engagement. They do many of their tasks as part of teams, and even when they're working alone, there are plenty of opportunities for social interaction during work's quiet moments. Finally, these people are satisfied with their work because they find what they do meaningful.

These findings are in line with other literature highlighting the essence of work *per se* to individual well-being (Heilbroner, 1985; Jahoda, 1981; Kaplan & Schullhofer-Wohl, 2018; Schumacher, 1973; Scitovsky, 1976; Sherman & Shavit, 2009; 2012; 2013; 2018; Sherman et al., 2020; Thomas, 1999).

This chapter seeks to demonstrate how the true nature of work can be integrated in economic theory. In other words, the objective of the chapter is to show that nonpecuniary aspects of work are crucial when analyzing the following questions: (1) Are monetary incentives the sole explanation for the rise in welfare caseloads? (2) How can managers elicit the best performance from their workforce? (3) How can people prepare themselves for life after retirement from paying work? (4) How can people prepare themselves for a “wealth shock”? In the next section, we review the literature on work and happiness, in preparation for discussing the above questions.

### **Work and Happiness: Literature Review**

Nonpecuniary job characteristics have received limited attention from economists when analyzing productivity and willingness to work (Cassar & Meier, 2018). However, people certainly work not only because they are paid (Schwartz, 2015). Rather, work provides intrinsic satisfaction, which is revealed by the fact that many people are prepared to do unpaid work. The Bureau of Labor Statistics (2016) reports that about 24.9 percent of the population in the United States volunteered through or for an organization at least once in 2015. The rates of volunteering in the U.K. are similar: in 2017–18, 22 percent of the entire population took part in formal volunteering at least once a month (Community Life Survey, 2018). Why is work *per se* an inseparable part of human happiness? From anthropological and sociological perspectives, work is part of human nature. Work is undertaken because people are driven by the “work instinct”, and an “instinct to play”

(Applebaum, 1992; Levitan & Johnson, 1982). The Nobel laureate Paul A. Samuelson reported that people told him: “Come off it, you work all the time, weekends and during vacations and, if legend holds, often during the reveries of the midnight hours.” “True,” Samuelson answered, “but, working out economic analysis is play, not work” (Breit & Hirsch, 2005, p. 59). Work is a crucial element in individuals’ happiness because it involves sociability, personal relationships, and indispensable human contact. In 1930, Sigmund Freud expressed the inherently social importance of work to our psychological well-being:

Laying stress upon [the] importance of work has a greater effect than any other technique of living in the direction of binding the individual more closely to reality; in his work he is at least securely attached to a part of reality, the human community. Work is no less valuable for the opportunity it and the human relations connected with it provide for a very considerable discharge of libidinal impulses, narcissistic, aggressive and even erotic, than because it is indispensable for subsistence and justifies existence in a society.

(quoted in Thomas, 1999, p. 133)

From a psychological perspective, work is crucial for the healthy development of ego and self-esteem (Erikson, 1959; Maslow, 1943). Jahoda (1981) suggests that people derive utility from five latent consequences of employment: imposition of a time structure on the waking day; regularly shared experiences and contacts with people outside the nuclear family; defining aspects of personal status and identity; enforced activity; and linking individuals to goals and purposes that transcend their own. Moreover, economists are aware that work is a source of meaning for many people. Cassar & Meier (2018) report that organizations or jobs with a social mission and job dimensions affecting three human psychological needs—autonomy, competence, and relatedness—are among the factors that increase workers’ sense of meaning in their job. A similar view was expressed by Karl Marx who believed that work could potentially be life-enhancing, and considered participation in work as the basis for a contented and fulfilled life: “Only in being productively active can man make sense of his life. Work is the act of man’s self-creation, not only a means to an end – the product – but an end in itself, the meaningful expression of human energy” (quoted in Scitovsky, 1976, p. 90).

The essence of work for human existence was expressed by Schumacher (1973):

To strive for leisure as an alternative to work would be considered a complete misunderstanding of one of the basic truth of human existence, namely that work and leisure are complementary parts of the same living process and cannot be separated without destroying the joy of work and the bliss of leisure.

(p. 58)

The literature provides empirical support for the assumption that work *per se* is associated with individuals’ SWB. In a recent paper, Kaplan & Schulhofer-Wohl (2018) report that in the aggregate, work in the U.S. has become less painful and less tiring in the postwar period. However, they report, there is a substantial heterogeneity: for women, work has, on average, become more positive over time. Women have shifted toward occupations that produce more happiness and meaning and less sadness, while experiencing no change in negative outcomes as stress. However, for men, the results show deterioration. Although men have shared in the reduction in negative consequences such as pain and tiredness, they also have shifted toward occupations that produce more stress, less happiness, and less meaning.

Sherman & Shavit (2018) report that sense of creative effort at work is positively associated with three measures of SWB: the cognitive component, as measured by the Cantril ladder; the affective component, as measured by positive feelings; and a sense of meaning in life. Earlier studies found

that volunteers report greater life satisfaction than non-volunteers (Meier & Stutzer, 2008), and that people working in non-profit firms derive some kind of utility from work other than just the pecuniary reward (Benz, 2005; Lanfranchi et al., 2010). Even more interesting are reports that the average psychological benefit derived from working constitutes about 46% of the monetary income (van Praag and Ferrer-i-Carbonell, 2002).

The literature on the economics of happiness also underscores the negative connections between unemployment and SWB. Based on findings from both cross-sectional and longitudinal studies, (Layard et al., 2005) concluded that “becoming unemployed is one of the worst experiences a person can have – similar in its impact to divorce or bereavement” (p. xxxix) (See, for example, Clark et al., 2018; Clark & Oswald, 1994; Winkelman & Winkelman, 1998). Moreover, people fear unemployment even when they are employed. When general unemployment goes up, it has a major impact on the happiness of all (Di Tella et al., 2001). In a subsequent study (Di Tella et al., 2003), these same authors reject the hypothesis that the negative effect of unemployment is due to loss of income. Winkelman & Winkelman (1998) also provide evidence implying that reverse causality, i.e., people who are less happy become unemployed more often, does not explain the negative effect of unemployment on SWB. A more satisfactory explanation has been attributed to psychological and social costs (for surveys see: Darity & Goldsmith, 1996; Frey & Stutzer, 2002). Patterson (1934) describes this view eloquently:

Enforced leisure is an embarrassment which only those who have experienced it can possibly understand. It is an imposition, and should be treated as such. It represents a problem, the seriousness of which is tragic. Loss of skill and morale, physical and mental deterioration in the mass, cannot be viewed with equanimity. We do not realize how much we like work until we have none. The hopelessness and weariness of “going after the job you know isn’t there” imposes a stern self-discipline. The strain of keeping up appearances is not the best mental preparation for cultural occupation. The intrinsic value of leisure to the individual under these circumstances is almost negligible... work is fundamental, there is no leisure without it.

(quoted in Thomas, 1999, p. 190)

## **Work, Happiness and Welfare Caseloads**

### ***Pecuniary Aspects of Work***

Bruni (2004) argued that standard economics neglect the concept of “happiness technology”, i.e., the distinction between the ultimate end—happiness—and the means—pecuniary resources. As a consequence, prominent economists understand real income as equivalent to individual welfare (Easterlin, 2003). Following this line of thought, the theoretical explanation for the change in welfare caseload is based only on the “work as bad” thesis and monetary incentives to work (Grogger & Karoly, 2005; Moffitt, 2002).

### **The Essence of Non-Pecuniary Aspects of Work**

People work not only for the monetary reward. Yes, money is important, but as discussed in previous sections, many nonpecuniary benefits are derived from work. Embodying them in economic models would shed different light on the decision to move from work to welfare. Sherman & Shavit (2009) show that the decision to participate in a welfare program depends on an individual’s reference point. That is, if an individual is unemployed and already receiving welfare benefits, he or

she will likely choose to stay on welfare, while an individual who is already employed will likely choose to work for the same replacement rate rather than go on welfare. This argument implies an asymmetric effect of work's pecuniary incentives on flows onto and off of welfare. Consider that the increase in welfare caseloads could have resulted from an increase in entries, a decrease in exits, or some combination of the two, then the meaning of asymmetric effect is: an increase in the replacement ratio, the ratio of unemployment benefit to income from employment, for example from 0.7 to 0.8, has a weaker effect on the flow onto welfare. In a subsequent paper, Sherman & Shavit (2013) argue that the theory describing the decision to change position in the labor market in both the extensive and intensive margins should embody, beside the income effect, the effects of two contradictory incentives: the desire to consume leisure and the desire to consume the nonpecuniary aspects of work.

When decreasing (increasing) work time, one derives subjective gain (loss) from leisure consumption and subjective loss (gain) from the consumption value of work *per se*. Loss aversion (Tversky & Kahneman, 1991) implies that when moving from work to welfare, receiving the same income is not enough. Rather, a person will ask for monetary compensation to participate in welfare. Unemployment benefits ought to compensate for moving from the reference point, i.e., changing position in the labor market from work to welfare. Naturally, people prefer better occupations than worse; the quality of work is an essential issue, but ultimately “human happiness is more affected by whether or not one has a job than by what kind of job it is” (Layard, 2004, p. 1). Sherman & Shavit (2009) introduced an unorthodox explanation for this phenomenon: the disincentive to work as measured by the replacement rate has a weaker effect when the individual is employed.

The direct implication of the results presented in Sherman & Shavit (2009, 2013) is that “much of the mainstream economics literature rests on a distorted and ultimately false view of human nature” (Spencer, 2009a, p. 140). Labor, as opposed to standard labor theory, has a cost in terms of leisure, but also has a benefit in terms of happiness. Welfare policy must take this into account. For example, an increase in the unemployment benefits might not have a strong effect on labor supply because of the cost of losing the nonpecuniary benefits of work, in decreasing the amount of time at work. Unsurprisingly, a new paper written by Godøy & Reich (2019) shows that raising the minimum wage would not detect adverse effects on employment, as opposed to standard labor economic theory predictions.

### Work as Hedonic Capital

A key notion in economic theory is the distinction between stock and flow. Literature on the economics of happiness includes a concept of hedonic capital, which Graham & Oswald (2010, p. 373) define as “the stock of psychological resources available to an individual” including social interactions; self-esteem; status; and meaningful work (Graham and Oswald, 2010). Because data confirm work as meaningful experience for people (Cassar & Meier, 2018), work as hedonic capital leads to a twofold argument: (1) hedonic capital cannot be purchased in any market, therefore each individual should exert effort in order to possess it; and (2) the nature of capital involves investment on one hand and a depreciation process on the other, therefore, investing creative effort is required in order to obtain productive hedonic capital (Sherman & Shavit, 2018). Given a constant depreciation rate, this implies that greater creative effort exerted while working yields greater hedonic capital for the employee, so his or her work becomes more meaningful. In turn, this enables the production of more creative and stimulating experiences. Work's hedonic capital is an essential part of overall personal well-being since it is a means for non-pecuniary utility (Kushnirovich & Sherman, 2018; Sherman et al., 2020). In the following sub-sections, we demonstrate its importance.

## Productivity

Productive hedonic capital contributes positively to individual happiness, and happy employees are beneficial for workplace success. It has been shown that employee happiness contributes to business performance by increasing labor productivity, creativity, cooperation, and the quality of output and service (De Neve et al., 2013; Oswald et al., 2015). Moreover, happy workers are more likely to score well on supervisor-rated performance (Peterson et al., 2011), and their happiness potentially influences their colleagues' work output (Felps et al., 2006). Employee happiness predicts revenue, sales, and profits (Edmans, 2012), and therefore should be considered by employers as a factor in motivation and productivity.

Economic theory should take into account that increasing employee happiness and meaning is a path for improving a business's productivity, particularly when people report that work is more meaningful than consumer purchases, socializing, relaxing, or leisure (Bryce, 2018). Cassar & Meier (2018) report on a growing body of literature showing a causal connection between meaningful work and productivity. Sherman & Shavit (2018) show that creative effort at work is positively associated with a sense of meaning and purpose in life. Employee creativity plays a major role in organizational success. The simple explanation for the relationship between employee creativity and organizational success is that creativity is a basic condition for innovation and entrepreneurship (Kuratko, 2015; Sarooghi et al., 2015; Serrat, 2017), and there is a positive correlation between organizational innovation and firm success (Ali et al., 2016; Camisón & Villar-López, 2014; Jiménez-Jiménez & Sanz-Valle, 2011). Since investing in hedonic capital, through employee creativity, will yield long-term returns in the form of greater meaning and happiness, we suggest that happiness is the mediator between employee creativity and the organizational success.

In the industry, firms such as Apple, Facebook, and Google understand the relationship between innovation and the success of the organizations. They invest in work environments that encourage creativity (Symcox, 2019). IBM is also a good example of a company that invests in creativity and innovation inside the organization (Dahlander et al., 2016). These companies know that without creativity they will not be able to survive in a competitive environment and bring new technology to the market. However, managers are often unaware that encouraging the employees to be more creative could positively affect the employees' happiness and, as a result, his or her productivity. Sherman & Shavit (2018) find that self-reported creative effort is positively associated with employees' SWB, meaning that it is enough that the employees think that they are creative. To make employees think that they have invested creative effort, a manager might change the way they motivate their workers. Even changing the language used in the organization can change the way employees are thinking. For example, instead of encouraging the employees by saying "good work" managers can say "creative work", or "it seems you invested creative effort". This way employees will feel more creative, and their psychological well-being might increase.

### Maintain Work Hedonic Capital After Retirement from Pay Work

Work hedonic capital is not included in standard labor economics theory, therefore life after retirement from paid work is considered lacking the "burden" of work and including only the bliss of 24/7 leisure activities. However, ceasing work prevents further investment in work hedonic capital, therefore the depreciation process in retirement does not include the nonmaterial satisfactions derived through work. How does this affect well-being? Current literature shows puzzling findings. Some researchers argue that unemployment has a significant negative effect on life satisfaction, and that employment is beneficial for older age SWB (e.g., Abolhassani & Alessie, 2013), while others showed that retirement did not negatively affect the life satisfaction of older people (e.g., Clark & Fawaz, 2009; Steptoe & Lassale, 2018). In a recent study, (Axelrad et al., 2019) analyze the

association of employment at older ages (60–80 years old) with SWB, by using the Survey of Health, Ageing and Retirement in Europe (SHARE). They report that the properties of work affect SWB. Those who worked in developing jobs had higher level of SWB, while work under pressure reduced it. The significance of these findings is straightforward: only those who manage to accumulate productive work hedonic capital are able to produce the non-pecuniary benefits of work for themselves.

We suggest that volunteering may be a suitable platform for maintaining work hedonic capital. Based on Sherman & Shavit (2012), volunteering at an older age is often motivated by the desire to maintain the overall level of consumption. A monetary pension provides the means for market purchases, whereas volunteering is the means for acquiring the immaterial sustenance derived through work. The literature reports that volunteering has a positive effect on SWB later in life (Morrow-Howell et al., 2003; Thoits & Hewitt, 2001). Volunteering is an important activity for older people and linked to other activities in their life, even though it is not obligatory. Morrow-Howell (2010, p. 461) wrote: “Volunteering has historically been one of the few formal roles available to older adults after exiting the workforce as well as a clear-cut strategy to maintain the involvement promoted by activity.”

The rationale for older people’s willingness to stay involved in productive activities without pecuniary *quid pro quo* is of great economic interest for several reasons. First, it affects the social cost of retirement. Since older people are willing and able to stay involved in productive activities, volunteering after retirement allows them to engage in non-market production. Second, volunteering has a positive effect on happiness later in life, and it has been shown that happiness is positively associated with health and longevity. Diener & Tay (2017) report that SWB is associated with lower rates of strokes and heart disease in senior citizens. Improving health conditions in older age is an effective tool for reducing health costs all over the world.

### Work as Cure for the Dutch Disease

Winning the jackpot in a lottery is a shock that should, according to all relevant economic models, improve the winner’s well-being. However, there is evidence that while the life of some lottery winners is improved, meaning they experience greater SWB, others are no happier after winning than they had been previously (see discussion in Sherman et al., 2020). Some regret winning: “I wish it never happened, it was totally a nightmare”; “I wouldn’t wish winning the lottery on Hitler” (quoted in Sherman et al., 2020, p. 118). Why might a life full of money turn into a nightmare? Sherman et al. (2020) present a dynamic model predicting that an exogenous wealth shock could turn to a micro form of Dutch Disease. The Netherlands is probably the best-known case of a country that experienced a severe economic recession after first benefiting from a windfall, the discovery of a natural gas field in the 1960s; therefore, this phenomenon is known as “Dutch Disease”. On the macro level, there is a satisfactory explanation for Dutch Disease: after a discovery of plentiful natural resources, the “boom sector” causes an appreciation of the real exchange rate, either due to exports of the resource or an increase in the relative price of non-tradable goods. This, in turn, leads to de-industrialization, i.e., a decline in the traditional manufacturing sector (Sherman et al., 2020).

Wealth shock would be bliss if individuals maintained their stock of hedonic capital. (Sherman et al., 2020) explain that hedonic capital may be produced during leisure and work. The combination of more pecuniary resources with productive hedonic capital is indeed a pleasure, however, if people stop investing in their hedonic capital, their life can be worsen. People overestimate the utility from material possessions, and underestimate the utility from hedonic capital. Continuing to work is a possible, although not intuitive, cure for the negative consequences of a wealth shock, because it enables the production and the consumption of non-pecuniary benefits of work, and

helps maintain a traditional life, similar to that preceding the wealth shock. People should be aware of the findings showing that there is a point beyond which SWB is no longer improved (e.g., Jebb et al., 2018), but there is no such a point for the products of hedonic capital. Moreover, literature shows that while people adapt to changes in material consumption, “people adapt less to goods and activities with strong intrinsic components because the (positive) experience tends to be renewed with every new act of consumption” (Frey & Stutzer, 2014, p. 941).

### Concluding Remarks

Economic theory is more powerful than is commonly understood. John Maynard Keynes claimed it long before economics was recognized as a science worthy a Nobel Prize. We acknowledge the influence that economic thought has on modern human life, but we suggest that economic theory should be more open to new insights, particularly these gathered from the research on happiness and work. The data clearly show that work is a source for happiness, satisfaction, and meaning in life. These attributes are derived from both the monetary and non-monetary outputs of work. We addressed four issues that contrast with standard labor economics theory.

The first is welfare caseloads. The notion that work *per se* carries a consumption value sheds new light on the decision to move from work to welfare and from welfare to work. In order to stop working, not in the natural course of events, people require monetary compensation. This dispels the myth promulgated by neo-classical economics that work has to be accepted by workers as a painful necessity that people gladly reject for lives full of leisure and welfare payments. This might open a way towards an alternative vision of society, in which work could be pursued in its own right and not merely as a means to income and material consumption. The achievement of pleasurable work must be an objective of our society. The alternative path is to accept the status quo, in which the act of work and the entire work sphere are degraded by the pecuniary imperative.

The second is the notion that exerting creative effort at work is an investment in hedonic capital. Hedonic capital is a means for a happy and satisfying life. Layard (2005, p. 68) argues, “there is a creative spark in each of us, and if it finds no outlet, we feel half-dead”. Since creativity is a key factor in business success and since happy employees are also a key factor in business success and happiness carries many objective benefits for individuals and society (De Neve et al., 2013; Diener & Tay, 2017), rational economic practice should be promoting creative work. Creativity should be encouraged, beginning in kindergarten and developed over the years. In a world where most technical and non-creative work may soon be done by robots and computers, creativity will become a very important skill to ensure success. Moreover, work places should provide their employees with environments that encourage creativity and innovation, even by paying bonuses to those who are more creative.

Third, regarding the role of work after retirement from paid employment. Older individuals leaving the world of paid work represent a potential pool of productive volunteers who often prefer to continue participating in non-market activities. Providing them the opportunity to volunteer is a win-win situation: older volunteers contribute to macroeconomic outcomes and volunteering improves their SWB. Both consequences reduce the social cost associated with retirement and an ageing population. Decreasing social costs associated with retirement should be of great interest to economists, especially as the population of older people expands. On the micro-economic level, human welfare after retirement is affected by the willingness to volunteer. On the macro-economic level, the potential pool of productive volunteers can contribute positively to market production outcomes.

Finally, work can eliminate the negative consequences of an exogenous wealth shock. Continued work, absent the burden of earning a living, can turn a wealthy life into a good life. Yes, leisure is important, and yes, material consumption is part of happy life, but work is also. Work and leisure are

commentary parts of human life. Economic theory should consider once again embracing the classic distinction between varied means and the ultimate end, happiness. Money is one means to the end, and work is another.

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