

Mick Jagger, Capitalism and the Pursuit of Happiness

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1. Introduction

Human beings at times behave in irrational ways including in their economic transactions, a fact that classical economic theories often do not capture. Irrational behavior in this context is sometimes an attempt to maximize happiness rather than economy. The field of Behavioral Economics arose in part to bridge the explanatory gap between theory and observed behavior through the science of psychology. This article will attempt to explore factors that influence happiness in a capitalist pluralistic society.

2. A Song

A song by the legendary rock band the Rolling Stones goes something like this: “You can’t always get what you want, but if you try sometimes you might find you get what you need”. There was a time when economists would have been content to allow such a statement to be left unruffled by the intrusion of probing questions into its validity and implications. After all the lead singer, Mick Jagger (an alumnus of the London School of Economics), sings a song of such concise rationality as to epitomize the efficient marketplace, the essence of the “dismal science”. Today behavioral economists and social scientists are likely to want to know more; how does the meaning of the lyric apply, if at all, to basic economic decision-making? Does such a statement describe how a human being participating in the broader economy might view his own his/her own economic behavior and decision-making? If so, does it lead s/he to feel better off and therefore closer to contentment? Would s/he even follow such a paradigm at all?

Before we turn to answering such questions, let’s consider the late educator and businessman Stephen Covey’s [1] famous exhortation to “think win-win!”. This may be sound advice in a limited context, but consider what happens in an interdependent environment, at least over the short run. Value judgments humans make about these things follow a binary system paradigm. To put it another way, our method of judging value generally discounts absolutes in favor of relative differences so while the “abundance mentality” is admirable as a paradigm, at the end of the day, few people use it alone to gauge their overall happiness and life satisfaction. To illustrate this point, consider an

example from game theory. Person A is given \$100 and asked to divide the sum with his/her counterpart, person B, in a manner agreeable to both. If successful, the transaction will take place according to the agreed upon shares. If however, the offer is rejected by person B, then neither A nor B gets anything. Researchers have demonstrated conclusively that if player B views the division as unfair to him, he will likely reject it and walk away with nothing. But wait a minute, wouldn't he be rationally better off if he were to pocket at least something? Sure, but it is the perceived fairness of the transaction that drives the decision making here not whether player B would have been better off in absolute terms; this is an irrational decision according to classic economic theory. Now on to those questions, which can be neatly summed up in the following corollary: if you get what you need, is that enough to make for happiness and contentment? The answer by the above example would appear to be no. People would rather reject and do without than submit to an unfair scheme. Put another way, when it is clearly perceived that others in the transaction are getting more (what they want), the answer appears to be an emphatic no even if the transaction still provides you what you might need. This may explain why material abundance alone is an incomplete gauge of life satisfaction. A rising tide may lift all boats but its effect on one's happiness is harder to predict.

So what does this have to do with win-win? Well, consider yet another scenario a bit more in the realm of macroeconomics. Suppose you are in the market for an item such as a smartphone. You shop around and find one which is built somewhere overseas, and you purchase it. On its face it appears to be win-win for all. You get the value of enjoying the phone, the company makes a profit and the workers in a faraway land are paid for their efforts. But do electronic workers here in the US consider this a win-win? No, especially if it puts them out of work. Well they can get other jobs you might argue; okay, suppose they can and do, would they then be content with such a transaction and outcome? It would depend, but the answer is still very likely no, at least in the short run. If you choose to spend your money on a product or service you like, you are equally choosing not to spend it on something else of roughly equivalent value. Although not quite the same concept, this is in a way akin to what economist Friedrich Hayek [9] referred to as "creative destruction"; capital and labor is displaced, outsourced, retooled, etc., as new industries and technologies render obsolete established ones. What is often left out of the equation is what I attempted to illustrate with the game theory examples, which is that such lability in the marketplace acting as a force of disruption, will have an adverse impact on a society's overall happiness even if the end result is an improvement in the lot of its citizens.

It is not always perceived as win-win and if the pace of change is perceived to be too rapid or abrupt, it may be rejected outright in one form or another. Now let's expand the game a bit; suppose you now have a scenario whereby you, player A and your counterpart, player B must conduct business in a manner suitable to both of you but also leave something gainful for player C. If any player rejects the deal you all walk away with nothing. In an interdependent system such as this, participant C may well reject the deal if s/he believes it is unfair just as in the two player game. Practically speaking, one of the few ways to get player C to willingly accept a transaction which s/he would otherwise reject is if information is withheld from player C so as to convince player C that s/he is not an interdependent participant in the game at all; then player C would be content to pocket the windfall however modest or trivial believing that s/he had simply stumbled into some good fortune. The game can be expanded with more

players ad infinitum but with the same outcome, at least one player less well-off relative to the others; no pure win-wins.

In most circumstances involving one's livelihood not having all the information would seem foolhardy but it is nonetheless a common occurrence. Even though we live in an interdependent economy in which each person is a participant in one way or another, we often find ourselves making economic decisions based on limited information. In the words of the economist Herbert A Simon [9], we "satisfice"; simply put, we accept among several available options the first option that would sufficiently meet our needs. You can almost hear Mick Jagger singing in the background except for one crucial difference: the scenario suggested by the song says nothing about limited information, in fact the presumption is the opposite: even when all that is at stake is known you may still only get what you need not what you want. So as game theory predicts the outcome may be a sufficient gain yet unsatisfactory nonetheless. What does all this mean for happiness researchers wanting to optimize contentment? Does it imply that the less information a participant has the more content s/he is likely to be with the outcome? To a degree it would seem that way and I imagine marketing executives on Madison Avenue and hedge fund managers on Wall Street would not disagree either but in a developed free-market economy, providing less than complete information for sound decision making is unethical and, one would hope unsustainable, at least at the level that governs complex decision-making [8].

On the other hand, research does show that providing an overabundance of information to the individual consumer negatively impacts satisfaction with his/her ultimate choice [6]. There appears to be a 'sweet spot' of information which allows for optimal contentment. Incomplete information introduces uncertainty into decision-making. There are many ways that this can occur. Consider what mathematicians affectionately refer to as the "secretary problem". It refers to an algorithm or heuristic for choosing the best job applicant. In summary, it attempts to answer the questions that appears to be at the core of satisficing; when do I know I have a candidate that is likely to be the best I can get and how many candidates do I need to interview to be reasonably assured of this? What is the optimal stopping rule? Here is the simplified solution: do not accept any of the first N/e candidates (e is the base of the natural logarithm and has a value of 2.71828); thereafter select the first encountered candidate that ranks higher than the best applicant interviewed so far, otherwise continue on and select the last applicant. It is called the $1/e$ stopping rule because it yields a probability of $1/e$ (~37%) of consistently stopping at the best candidate for moderate values of N (e.g., N might reasonably fall between 10-100 but its exact value must be known). But the problem assumes perfect randomization. What if some job applicants know of this algorithm and suspect it is being employed. They will then attempt to maximize their chances by timing their job interviews to fall as near as possible after the number N and/or they may dissuade other candidates who might be more qualified from applying or delay them by invoking various social and cultural mores, traditions, customs and gender norms (indeed a society itself may do this). By seeking to restrict the supply of candidates they know are well qualified and positioning themselves in the optimal order they will maximize their chances of being selected. At the very least, they will minimize the odds of being in the group of rejected candidates. In this real life scenario, it is easy to see that satisficing by the employer may approximate the optimum but not be a sufficient approximation of the optimum and the difference may not be

trivial. In a truly randomized scenario the secretary problem heuristic works well but in the age of social media where trends are driven then ridden by social media and the like, tinkering with randomization may cause the true optimum to be excluded by delay. However there are even ways to try to account for that. If you have the time and are so inclined you may employ the $1/e$ -law of best choice formula which factors in temporal distributions of events of interest (timed arrival of applicants), accounting for some of what was discussed above. Nonetheless, whether it be product placement in a supermarket [11], consumer profiling, data mining or the cookies that track you on the internet, there has emerged more than has ever existed before a paradigm where you the consumer cannot take for granted your choices are truly your own let alone optimal [11]. It may not always matter but when it does, you, the decision-maker may not know how things went awry. Heuristics [2, 5] are shortcuts or rules of thumb that guide us in making proper decisions without tremendous amounts of mental effort. These intuitive processes are what the psychologist Daniel Kahneman [2] calls “system I” and are governed by “cognitive ease”. When we are in a state of well-being and relaxation we can effectively employ system I to generally make good decisions. Decisions requiring more mental effort recruit our reasoning mind, what Kahneman [2] calls “system II”. But if sufficient information is unavailable or withheld, system II can be fooled into accepting system I’s decision and this may or may not be consequential for one’s overall happiness. On the other hand, because mathematical optimization in every day economic transactions is impossible for most people, those who are wont to maximize tend to experience less satisfaction with their choices. It is as if system II activates a tripwire of lingering doubt that reduces satisfaction and may explain why when consumers are faced with options that are too numerous, happiness with their ultimate choice is reduced [6]. In purely computational terms the more information that can be placed in a formula for optimization the better. But in a world of irrational actors there is a “sweet spot”.

There are many non-economic factors that go into happiness ratings which include culture, sociology, spirituality, customs, mores, traditions, rituals etc. Having said that, happiness has been shown to correlate to a degree with the wealth or GDP/capita of a nation and in cycles of economic boom, a nation’s citizens typically report more life satisfaction and happiness [3, 10]. But in the latest happiness rankings (03/20/2020) the United States is not anywhere near the top of the list. For a nation that has the largest economy in the world and is one of the wealthiest per capita [7], this is quite an anomaly. What economic factors if any, contribute to this finding?

Widening income inequality is one that immediately comes to mind (but this may be as much a result of increasing discontent as a cause of it, as will be expounded on later). In 2010, an article in Time magazine asserted that it takes an income of about \$75,000 per year to produce optimal happiness. In other words, any amount over that generally does not make people more happy. The article cited the work of Daniel Kahneman [2]. It left out a crucial variable however; there must be an anchor or reference point by which such comparisons are made, then happiness at any level of income can be the most reliably and accurately gauged. By anchor here I mean a thoroughly researched System II point of reference not subject to facile alteration. Here again, the binary paradigm by which people evaluate their happiness resurfaces. Indeed, several scenarios readily come to mind that convincingly challenge Time magazine’s assertion. When others at a similar life station and/or in similar circumstances are making more than \$75,000 per year, this amount may not generate much happiness or life satisfaction at all. The movement for

equal pay for equal work, the union movement and the progressive tax system are all examples that resoundingly refute Time's assertion. Additionally, participants cannot opt out so easily; they are often stuck with a subjectively unsatisfactory result which causes them to be unhappy or less happy.

Having said all that, there are several non-economic factors that can mitigate the negative effects of income disparity on happiness. One of these, as discussed earlier is withholding or limiting information, which in a free society ought not occur yet does all the time anyway and is perhaps to an unintended degree part and parcel of the notion of satisficing. Caveat emptor.

Another way in which participants may be persuaded to accept an otherwise subjectively unacceptable or less acceptable result is if they are able to vicariously participate in the experience of the winning. This can happen when 'losing' participants are able to identify with the winner in non-tangible ways whether it be geographically, racially, culturally, ethnically, linguistically, etc. The degree that common bonds serve to nudge individuals towards contentment despite outcomes that would otherwise not sit well with them would appear to explain much: the hometown hero who makes it to the big leagues and garners the admiration, pride and acceptance of his hometown; the talented rap artist from an inner city neighborhood who, because of his talent is allowed to opt out of gangs while at the same time earning their protection. Many more examples abound of this type and are admirable.

Trouble arises however when one group or multiple groups in a diverse society are psychologically and socially primed in a particular direction because of, not in spite of group differences [11]. Then participants not of that group, if insightful enough, not possessing any particular affinity or empathy, may perceive the result as unfair or least demand changes or reform in order that their group along with others be socially and psychologically primed for similar success. Of course, priming cannot explain everything but it along with empathy factors [4](which may turn out to be Karl Marx's proverbial opiate of the masses much more so than religion), while augmenting the happiness of one group or at least attenuating its unhappiness, can be viewed with suspicion by other groups and be discounted as illegitimate and antithetical to a meritocracy. Such factors may even result in open hostility between groups. Attenuating factors notwithstanding, this may be a reason why a pluralistic nation such as the US, ranks 18th in overall happiness and life satisfaction. Finland ranks 1st. But why should Finland and not the US rank 1st? Finland has historically been homogeneous and has had less income inequality. When the empathy spotlight is broad[4] not only is the discontent of the "losing" participants attenuated, but the willingness of all to make things more equitable is also greater leading to overall greater happiness. Woody Allen once famously commented "I was happy yesterday I just didn't know it". It is a funny line from a great movie but we do not solely measure our happiness or unhappiness as the case may be, against how we felt in the past. Researchers studying happiness must also account for the aforementioned economic and sociological disparities of the present, i.e. the reference or anchor effects mentioned previously.

Undergirding economic and sociological disparities are the aforementioned empathy factors which may portend a tipping point with regard to social issues such as immigration, race, unemployment, and the criminal justice system [7]. The tipping point will negatively impact people's sense of how much of their income they deem fair to give up in taxes to fund social programs which they view as primarily benefiting dissimilar groups that have not or cannot be readily assimilated. This would unfortunately result in even greater income disparity further eroding overall happiness. It will also bring about more isolation and segregation in complete contradistinction to the notion of a melting pot. This has been well demonstrated by the economist Thomas Schelling who accurately predicted a tipping point in otherwise diversity seeking people who he observed to self-segregate into less diverse residential communities. It appeared that at the tipping point, people felt overwhelmed by groups dissimilar to themselves and moved out of racially and ethnically diverse residential communities. Furthermore, he showed that decisions to move out were not generally driven by racism or anti-immigrant sentiment (although sometimes they were) but rather by the perceived need to preserve quality of life amid instability and uncertainty over the environment. Critics may attempt to dismiss this phenomenon by claiming that self-segregators are simply "afraid of change" but such a claim does injustice to credible measures of happiness or quality of life, which must include measures of stability in the environment.

We have always prided ourselves in being a nation of immigrants bound by a common set of values embodied in our constitution and rightfully so. It is rather ironic then, that America, which places more value on the pursuit of happiness than any other nation I can think of, ranks behind 17 other nations in life satisfaction and happiness. In his book *Happier?*, Historian Daniel Horowitz[3] writes that researchers have found the key ingredients for an optimally happy nation are relative income equality, social trust and a social safety net. Are we wanting in these areas? I would say perhaps so and as a result we risk setting up a vicious cycle of widening income disparity fueling discontent along with it [12]. Discontent in the face of tremendous inequality of wealth, information, opportunity, education, etc. is hardly a surprise but the flipside of this coin may come as one; when it is perceived by dissimilar people that they have little or no stake in a policy, they will likely oppose it just as game theory predicts, even if the macroeconomy would be better off because of it [12]. It would seem that groups are more likely to accept a relative loss (with an overall gain) if either information is withheld or they can somehow vicariously participate in the experience of winning. In an increasingly diverse society this could be a challenging development for those seeking to optimize happiness in America.

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Conflicts of Interest

There are no conflicts of interest to report.

Citations

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