Transcript of the Introductory Speech by
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Prof. Salamon will talk more in detail about the project I am going to touch upon, but my task here is to provide some food for thought. I have been arguing for a long time in favour of overcoming this rigid division between the third sector and the rest of the economy, whereby the rest of the economy is the productive one while the third sector is, somehow, the one of redistribution; and since these days the issue is growth, the third sector is not so relevant. On the contrary, I believe that nowadays there is a greater problem; nowadays Smith would rewrite The Wealth of Nations.

What is the wealth of nations? How is value generated? These are the two great questions. On the background we are faced with a huge challenge: we are 7 billions, we are growing, we must create financial value sustainable from a social and environmental perspective; with limited resources. This is the real issue we have on the background, obviously with great disparities in the cost of labour in the different areas of the world. And this, moreover, is what lies behind the crisis of finance, because finance is indeed the promethean effort of creating immaterial value, that turned against us since those derivates of credit we built were not value, or at least are no longer considered value. Thus, nowadays we are like surfers having huge waves behind: we do not know who will reach first the shore, if it is going to be us or the wave which will sweep us over. We need to redefine what value is and how value is generated. And I want to quote here a statement by a rather overlooked economist, Giuseppe Toniolo, saying something very important, which explains where we are going wrong. In 1873, in Padua, he said that energy from labour, virtue of savings and also the idea that great enterprises exceed individual lifespan – that is to say everything that our government is trying to build right now – depend upon the impulse towards higher values – family ties, wish to uplift it, friendliness, ideals – and not upon petty selfish calculations. This is the point that has been missing. We are reasoning on man and company from one dimension: man as *homo oeconomicus*, doing more and creating more value if he earns more; the company is the organisation that maximise profit. We yielded to this dimension and we are the victims of this cultural reductionism. Unfortunately we are still talking about research of fifty years ago. Nowadays all research goes in a complete different direction. As you all know, studies on happiness are more and more important, because they are the telltale sign of what we missed behind.

“Our nation recognizes that human welfare has not increased and does not increase through mere materialism and luxury, but that it does progress through integrity, unselfishness, responsibility and justice.” This was stated by Franklin Delano Roosevelt in 1933. The issue is all that, then, could not be measured, and here the importance of measuring returns. Einstein used to say that unfortunately not everything that counts can be counted. And up until if it is not being counted, it does not exist. Fortunately today we have data on happiness.

We do not have to maximise happiness, but data on happiness are a telltale sign of the fact that within GDP there is something that does not work, because happiness and GDP do not go in the same direction. We want to recall also the famous Easterlin paradox you may know, referring to the difference between GDP and happiness in the USA after World War II. I wish to quote also a fact that I find even more impressing: when I went to the OECD Forum in Mexico, the speaker before me was the President of Gallup, asking why we should be caring about happiness. The answer was that before the Arab spring in Egypt and Tunisia the GDP there was growing, but policy makers did not notice that life satisfaction was decreasing rapidly. This is why when happiness goes in the opposite direction of GDP, it is the sign that there is something wrong and we need to expand the field of our measurement.

The first fundamental point is: we know that happiness depends upon many factors – as said by Roosevelt or by Kennedy in his famous speech on GDP – but let us keep to the reductionists’ dimension, i.e. the mere measurement of important goods and services. Even keeping to this dimension, we continue to comply with just one of value-
building pillars, that is the one of recorded goods and services, featured in the GDP and sold on the market. For example: someone goes on his own to the restaurant, while someone else invites over for dinner ten friends, each one bringing a plate and sharing the food. Who produced more goods and services? Which one of the two is richer, the first or the second? The problem is the one of accounting: in the first instance, the person on his own at the restaurant generates accurate accounts, because the amount spent is verifiable, while in the second instance the product is undoubtedly greater, because ten people cooked, but that does not fall in the definition of accounts. This is then the first fundamental issue: when we look at the wealth of the nations, goods and services are not only the ones recorded by the GDP, but there are at least two more pillars: goods and services produced by families and good and services produced by volunteers. Our meeting today serves indeed to provide this first evidence, this first demonstration.

But I want to go beyond that. The real problem is that this reductionism, in reality, reduces also our potentials of answering questions we want to solve, our potentials of development, growth, well-being and well-living. All the most recent financial research noticed something: what matters in economics is social dilemmas, i.e. the games of trust, the prisoners’ dilemmas. To put it simply, economics is made of people who do not know each other very well, and who do not have full contracts to be able to ensure themselves against any abuse by the counterparties. To build a social or business relationship, then, what one needs is trust. Trust is the fundamental element creating value. If there is trust, relationships fly. There is a beautiful aphorism by Hume, circa 1700, giving the example of two landowners: if the first one worked today for the second one and the second one worked tomorrow for the first one, helping each other with the harvest, things will go in the best possible way for both of them; but the second one does not believe that the first one will work for him the following day, and therefore is not willing to do the same the previous day. The crop is left unpicked and rots. This is how Hume explains the dilemma of trust. Faced with this, representing the base situation of financial life (we live continuously dilemmas of trust such as that), the homo oeconomicus is the one who behaves in the worst possible way, because he is the one who, because of the paralysis of trust, does not concede anything since is sure of not getting anything in return. While the social and pro-social man works much better.

This is not simply purely philosophical lucubration. It is not so because to date 328 experiments have been carried out all over the world to measure the degree of pro-sociality of people, to find out whether the homo oeconomicus is prevailing or not. The result is that people are not homo oeconomicus: there were 20,800 observations for games of trust and for the dictator game, and 21,000 observations for the trust game. What comes out is that people behaving in the way the old economy – and we are the new economy – pictures man are 30% of the population. The most interesting aspect is that the category where the percentage of those acting in that way is higher is among business schools students. That means that how we do economic culture shapes people, creates what the British call dismal out look (the disheartening gaze, that disheartens). Therefore, if we look at people in a certain way, people will become that way, and will be less useful and productive, less social, less happy and also socially harmful.

The homo oeconomicus, then, not only does not exist, or is however in the minority, but is also socially harmful and businesses realised that. Nielsen gives the last data: 46% of citizens is willing to pay more for ethically and socially responsible goods and 1/3 of businesses already has a CSR department. That is to say that, for businesses, cause-related marketing is very important, because they understood – as Toniolo theorized in the Nineteenth Century – that invisible resources are those more important, that the true motivations driving people to do important things are intrinsic ones, much more powerful that extrinsic motivations. Companies’ dream is to activate intrinsic motivations, but they do not always manage to do that, because they cannot be activated instrumentally.

As Freeman recalls in his paper Working for nothing “The volunteer is the dream of each company,” – that is someone that is so intrinsically motivated to be willing to work for nothing, without pay, representing the top of productivity. Large businesses with idealistic motivations start to realise all that. Let us think about peer-to-peer social lending, let us think also about Banca Etica – an Italian ethical banking institution – with a guarantee fund of about € 10.000.000: people is willing to donate € 10.000,000, because they want something to be done.

Another example of social enterprise that struck me is SERMIG of Ernesto Olivero in Turin. Think about the social services provided by SERMIG: thousands of meals, thousands of beds; and how it collects its resources – 93% of the resources come from people – and the amount of saving it represents for the State. Olivero is someone who was

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able to activate intrinsic motivations, in a symbolic way, transforming an arsenal in a space for peace. This is to give an idea of the huge potential behind intrinsic motivations and gift economy. But, I insist, to realise all that, measurement is needed; and therefore measuring the value of volunteering is a fundamental step.

All the talk about happiness moved from the idle – or in any case philosophical – debate, to something more concrete when questionnaires allowing us to measure happiness in people were disseminated all over the world, from Uzbekistan to USA. And then techniques and determinants of happiness were refined. We saw, for example, how much happiness depends upon relational goods, how much upon the value of voluntary activity carried out by people, how happiness and income are related. And this is a really important step, and my pleasure to participate today to this initiative – which has came a long way up to now - stems from there. To date, ILO has published its *Manual*, then translated it in many languages, French, Spanish, Italian, Montenegrin, Portuguese, and there were numerous international meeting in many countries (Hungary, Estonia, Belgium, Poland and Germany).

I do not intend to deny that, obviously, when you measure something there is always some imperfection, some imprecision. I am the first to know that, being a scholar of happiness myself, with all the problems of heterogeneity of measurement scales, of comparability; in this case we know what the problems are. In the first instance it is important to measure the hours of voluntary work, and on this we all agree, because the hours of voluntary work are the hours of the social capital deposit a country has. Think how important it is, moreover, to know how this gratuity deposit is made of, and thus for what (for what specific activities) people is willing to donate their own time. Think about how important it is to measure social capital in a country such as Italy where, as we historically know from Banfield, from Putnam onwards, one of the main problems is the heterogeneity of social capital; we have regions extremely rich of social capital and regions extremely poor.

The problem arises when we start measuring value, when we try to turn these hours in value, which is, I will say it again, an effort that needs to be done to be able to open a debate, to manage to say what was said earlier by President Marzano, i.e. that what volunteers produce is equivalent to the product of whole productive sectors of the economy. We know there are two ways: opportunity cost and replacement cost. The opportunity cost is a not yet satisfactory methodology, because one hour of volunteering by a manager is worth more than one hour of volunteering by a nurse or by someone earning less than the manager. There are difficulties, but it is important to have foundations, because starting from a first measure one can start to write, research, estimate, debate and methodologies improve.

As far as happiness goes, nowadays we arrived at devising very sophisticated vignettes to compare and manage to understand whether the “very happy” of the Dane is equivalent to the “very happy” of the Italian. There is a whole set of very sophisticated econometric techniques starting with showing to the Dane and to the Italian the same situation and asking them to judge whether and how much the person shown is happy or not, and from that the happiness scales get fine-tuned. Thus, debate gets more and more fascinating, but the important thing is to start from a measure.

I conclude by going back to the beginning: Einstein said once that things that count cannot be counted; nowadays, luckily, all that is no longer true. I remember also the famous joke about the economist who, having lost his keys in a dark alley, goes to look for them under the only streetlamp available, and when asked why he is looking there, he replies that it is the only spot where the light is. It means that if we do not have any other lights, we get lost in other areas of the economy and of the society where we can go and study, measure, see, whether we find that lost key of well-being, of life. It is therefore very important to switch on other lights. So, as a scholar, economist, econometric, I am very happy this is starting and, I restate, it is a first important step for all I tried to explain to you. Thank you.