

# Happiness Economics

Authored by  
**mohammad looti**

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Happiness economics is the quantitative study of happiness, positive and negative affect, well-being, quality of life, life satisfaction and related concepts, typically combining economics with other fields such as psychology and sociology. It typically treats such happiness-related measures, rather than wealth, income or profit, as something to be maximized. The field has grown substantially since the late 20th century, for example by the development of methods, surveys and indices to measure happiness and related concepts.

## **Metrology**

Given its very nature, reported happiness is subjective. It is difficult to compare one person's happiness with another. It can be especially difficult to compare happiness across cultures. However, many happiness economists believe they have solved this comparison problem. Cross-sections of large data samples across nations and time demonstrate consistent patterns in the determinates of happiness.

Happiness is typically measured using subjective measures - e.g. surveys - and/or objective measures. One concern has always been the accuracy and reliability of people's responses to happiness surveys. Objective measures such as lifespan, income and education, are often used as well as or instead of subjectively reported happiness, though this assumes that they generally produce happiness, which while plausible may not necessarily be the case. The terms quality of life or well-being are often used to encompass these more objective measures.

Some scientists claim that happiness can be measured both subjectively and objectively by observing the joy center of the brain lit up with advanced imaging, although this raises philosophical issues, for example about whether this can be treated as more reliable than reported subjective happiness.

Micro-econometric happiness equations have the standard form:  $W_{it} = \alpha + \beta x_{it} + \epsilon_{it}$ . In this equation  $W$  is the reported well-being of individual  $i$  at time  $t$ , and  $x$  is a vector of known variables, which include socio-demographic and socioeconomic characteristics.

## **Determinants**

### **Maslow's hierarchy of needs**

Abraham Maslow theorized that human happiness is the outcome of meeting a set of needs. He listed these in order of priority, leading to a pyramid called Maslow's hierarchy of needs. The set of needs includes physiological, safety, love/belonging, esteem, and self-actualization needs. These needs can be used as a basis for evaluating the overall happiness level of individuals.

## Money

### GDP and GNP

Typically national financial measures, such as GDP and GNP, have been used as a measure of successful policy. Although on average richer nations tend to be happier than poorer nations, some studies have indicated that beyond an average GDP per capita of about \$15,000 (most of the world's nations have less than this), the average income in a nation makes little difference to the average self-reported happiness. Other economists have disputed the accuracy of these studies, finding a logarithmic correlation between GDP per capita and self-reported happiness.

However, a free market think tank Cato Institute points out that since life expectancy has continued to increase in nations wealthier than this, often partly attributed to economic growth, Happy Life Years have continued to increase.

It has been argued that happiness measures could be used not as a replacement for more traditional measures but as a supplement.

### Individual income

Historically, economists have said that well-being is a simple function of income. However, it has been found that once wealth reaches a subsistence level, its effectiveness as a generator of well-being is greatly diminished. This paradox has been referred to as the Easterlin paradox and may result from a "hedonic treadmill." This means that aspirations increase with income; after basic needs are met, relative rather than absolute income levels influence well-being. Happiness economists hope to change the way governments view well-being and how to most effectively govern and allocate resources given this paradox. However, other research suggests that no paradox exists, and happiness is linearly related to the logarithm of absolute (real, PPP-adjusted) income, with little or no relative income component.

Money correlates with happiness, but the rate diminishes with more money. In 2010, Daniel Kahneman and Angus Deaton found that higher earners generally reported better life satisfaction, but people's day-to-day emotional well-being only rose with earnings until a threshold annual income of \$75,000. Other factors have been suggested as making people happier than money. A short term course of psychological therapy is 32 times more cost effective at increasing happiness than simply increasing income. One study, when corrected for social status, showed no correlation between income and happiness.

### Social security

Professor Ruut Veenhoven showed that social security payments do not seem to add to

happiness. This may be due to the fact that non-self-earned income (e.g., from a lottery) does not add to happiness in general either. Happiness may be the mind's reward to a useful action. However, Johan Norberg of CIS, a free enterprise economy think tank, presents a hypothesis that as people who think that they themselves control their lives are more happy, paternalist institutions may decrease happiness.

An alternative perspective focuses on the role of the welfare state as an institution that improves quality of life not only by increasing the extent to which basic human needs are met, but also by promoting greater control of one's life by limiting the degree to which individuals find themselves at the mercy of impersonal market forces that are indifferent to the fate of individuals. This is the argument suggested by the U.S. political scientist Benjamin Radcliff, who has presented a series of papers in peer reviewed scholarly journals demonstrating that a more generous welfare state contributes to higher levels of life satisfaction, and does so to rich and poor alike.

## **Employment**

Work is important to happiness. It creates a sense of purpose, beneficial relationships with co-workers, and also earns money. Losing one's job can be a great source of unhappiness.

## **Relationships and children**

Relationships, particularly those with women, are important to the happiness of both sexes.

Children tend to decrease parental happiness, at least until they leave home, although in terms of a broader life narrative the opposite may be true. Some research shows that at some ages (toddlers and teenagers) they decrease parental happiness, whereas at others they increase it, averaging out to no overall change. Married people are happier, but it is unclear if this is due to the marriage or if happy people are more likely to marry.

Marriage, children and how happy they make us, provide a perfect case study for these questions. Gilberts writes that prospective parents know that raising children will be laborious, yet they believe it will make them very happy. In fact, studies show it does just the opposite, and that levels of parental happiness don't rise until kids leave for college (so much for the empty-nest theory). Still, if happiness is thought of in terms of a broader life narrative, rather than just specific moments of teething, diaper changing and petty-cash culling, it's pretty clear that kids do add value. Happiness politicians know that welfare states need more kids to plug the coming labor shortage -- but should they actively encourage something that will make people unhappy, at least in the short run? Likewise marriage--married couples test happier, but it's unclear if that's because happy people marry. Whether or not politicians back policies that support marriage and having kids doesn't really matter, because people embrace these happiness myths quite willingly. We are the product of our

genes and our societies," says Gilbert. Traditions will trump the empirical evidence that money and kids won't make us happy.

### **Freedom and control**

There is a significant correlation between feeling in control of one's own life and happiness levels.

A study conducted at the University of Zurich suggested that democracy and federalism bring well-being to individuals. It concluded that the more direct political participation possibilities available to citizens raises their subjective well-being. Two reasons were given for this finding. First, a more active role for citizens enables better monitoring of professional politicians by citizens, which leads to greater satisfaction with government output. Second, the ability for citizens to get involved in and have control over the political process, independently increases well-being.

According to a free market think tank Cato Institute, higher economic freedom, as measured by both the Heritage and the Fraser indices, correlates strongly with higher self-reported happiness.

### **Leisure**

The amount of spare time people have, as well as their control over how much spare time they have, correlates with happiness.

Whereas leisure pursuits increase happiness, watching television is an anomaly, as it seems to correlate with lower happiness. This may be because people who watch a lot of television are lacking in better sources of happiness, such as relationships and other leisure pursuits; that is, people watch television if they don't have anything better to do.

### **Health**

Happiness appears to be inversely related to levels of stress, allergy, asthma and other chronic conditions.

### **Indices**

The idea that happiness is important to a society is not new. Thomas Jefferson put the "pursuit of happiness" on the same level as life and liberty in the United States. Jeremy Bentham believed that public policy should attempt to maximize happiness, and he even attempted to estimate a "hedonic calculus". Many other prominent economists and philosophers throughout history, including Aristotle, incorporated happiness into their work.

The Satisfaction with Life Index is an attempt to show the average self-reported happiness in different nations. This is an example of a recent trend to use direct measures of happiness, such

as surveys asking people how happy they are, as an alternative to traditional measures of policy success such as GDP or GNP. Some studies suggest that happiness can be measured effectively. The Inter-American Development Bank (IDB), published in November 2008 a major study on happiness economics in Latin America and the Caribbean ("Beyond Facts: Measuring Quality of Life", <http://www.iadb.org/idbdocs/1776308.pdf>).

There are also several examples of measures that includes self-reported happiness as one variable. Happy Life Years, a concept brought by Dutch sociologist Ruut Veenhoven, combines self-reported happiness with life expectancy. The Happy Planet Index combines it with life expectancy and ecological footprint.

Gross national happiness (GNH) is a concept introduced by the King of Bhutan in 1972 as an alternative to GDP. Several countries have already developed or are in the process of developing such an index. Bhutan's index has led that country to limit the amount of deforestation it will allow and to require that all tourists to its nation must spend US\$200. Allegedly, extensive tourism and deforestation lead to unhappiness.

After the military coup of 2006, Thailand also instituted an index. The stated promise of the new Prime Minister Surayud Chulanont is to make the Thai people not only richer but happier as well. Much like GDP results, Thailand releases monthly GNH data. The Thai GNH index is based on a 1-10 scale with 10 being the most happy. As of May 13, 2007, the Thai GNH measured 5.1 points. The index uses poll data from the population surveying various satisfaction factors such as, security, public utilities, good governance, trade, social justice, allocation of resources, education and community problems.

Australia, Canada, China, France and the United Kingdom are also coming up with indexes to measure national happiness. North Korea also announced an international Happiness Index in 2011 through Korean Central Television. North Korea itself came in second, behind #1 China.

Ecuador's and Bolivia's new constitutions state the indigenous concept of "good life" ("buen vivir" in Spanish, "sumak kawsay" in Quichua, and "suma qamaña" in Aymara) as the goal of sustainable development.

### **Neo-classical economics**

Under neo-classical economic theory happiness, subjectively defined, has long been the standard of measurement used interchangeably with utility as well as the general welfare.

Modern classical economics no longer attempts to quantify happiness or satisfaction through measurements in consumption and profits. Instead, modern neoclassical framework argue that individual's preference is revealed through choice. Therefore, if an individual decided to purchase

an apple over orange, the satisfaction one derived from apple is revealed to be greater than an orange. Similarly, modern economics also consider that work/leisure balance is also matter of individual choice.

The idea that modern neoclassical economics define happiness on the basis of consumption is widely disputed. The basis of utility has been defined as revealed preference.

The assumption within neoclassic economics that satisfactions are highly subjective found expression in the work of Vilfredo Pareto, whose definition of optimal allocation in the nineteenth century was a crucial contribution that allowed further development of the mathematical precision of the discipline. Pareto argued that because satisfactions are subjective, we cannot know for certain that we have increased the amount of satisfaction in the system if we take a dollar from a billionaire and give it to a starving person to buy food; for all we know, the billionaire might have derived as much satisfaction from that dollar as the starving person does in spending it on food.

This counter-intuitive result is the cornerstone of Pareto Optimality: a system is in Pareto Optimality when no one can be made better off (in their own estimation) without making someone worse off (in their own estimation). In practice, "better off" and "worse off" are defined by consumption: by definition, it is always better to consume more. Thus, Pareto Optimality led to the bias in standard economics toward perpetual growth models--models that are increasingly being called into question, as being impractical (and dangerously destructive) in a finite world.

### **Criticism**

Some have suggested that establishing happiness as a metric is only meant to serve political goals. Recently there has been concern that happiness research could be used to advance authoritarian aims. As a result, some participants at a happiness conference in Rome have suggested that happiness research should not be used as a matter of public policy but rather used to inform individuals.

In addition, survey findings can lead to subjective interpretations. For example, a happiness study conducted in Russia during the 1990s indicated that as unemployment grew, the well-being of both those employed and unemployed rose. The interpretation of this could be that it resulted from diminished expectations and respondents who were less critical of their own situation when many around them were unemployed, or it could be interpreted as being the result of everyone benefitting from the unpaid work that the unemployed were able to do for their families and communities with their increased time resource.