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Happiness Economics- A Conceptual Study

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Abstract

Happiness economics is the formal study of the relationship between individual satisfaction and economic issues. It considers subjective happiness related measures as well as more objective quality of life indices. Proponents of happiness economics suggest that once basic needs are met, government policy should focus not on economic growth or GDP, but rather on increasing life satisfaction or gross national happiness. According to them money power and a developed country do not necessarily mean a happy and contented society.

Key Words: Happiness economics, Per capita Income, Well-being, Satisfaction

Happiness economics is the quantitative study of happiness, well-being, quality of life, life satisfaction and related concepts, typically combining economics with other fields such as psychology and sociology. 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.

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. 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.

Significance of the Study

The ultimate aim of Economics is to provide everyone a happy life. Most economists until recently were very suspicious about happiness economics. Actually, the common opinion in the twentieth century was that happiness is not empirically measurable, and consequently, all empirical studies about it could not be different from worthless. And if some concept is believed to be non-measurable, even theoretical studies

about happiness would not be possible as the basic ingredient was a chimera. Actually there is now a growing body of serious economists who are willing, either reluctantly or whole heartily, to include happiness economics as a part of economic science.

Often, well-being has been equated with the material position of a country, measured by its Gross Domestic Product (GDP). However, GDP does not capture all the aspects of human life and it was increasingly recognized that new measures were needed. There is also dissatisfaction among the economists regarding the effectiveness of Human Development Index in capturing different aspects of well-being. In this context happiness economics is gaining importance. An understanding of the major concepts in Happiness economics enables us to conduct further research on how people can be made happy and to what extent people are happy now.

Objectives

1. To understand the major concepts in Happiness Economics
2. To compare the GDP per capita, Human Development Index (HDI) and World Happiness ranks of different countries

Methodology and Source of Data

In this study an attempt is made to understand the major concepts in happiness economics. For that purpose the important studies and theories related to happiness economics are reviewed. The lessons revealed by the various studies on happiness economics are also pointed out.

The study is based on secondary data. Information has been collected from various journals, periodicals, books and web sites. The World Happiness Report 2022 published by the United Nations, World GDP Per capita Ranking 2021 (IMF) and Human Development Report 2022 (UNDP) have been used for the second objective.

1. Concepts in Happiness Economics

1.1 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.

1.2 Neo-classical economics

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

1.3 Easterlin Paradox

The Easterlin Paradox is a key concept in happiness economics. It is named for economist and USC Professor Richard Easterlin who discussed the factors contributing to happiness in the 1974 paper "Does Economic Growth Improve the Human Lot? Some Empirical Evidence." Easterlin found that within a given country people with higher incomes are more likely to report being happy. However, in international comparisons, the average reported level of happiness does not vary much with national income per person, at least for countries with income sufficient to meet basic needs. (Easterlin, 1974).

In 2003 Ruut Veenhoven and Michael Hagerty published a new analysis based on including various sources of data, and their conclusion was that there is no paradox and countries did indeed get happier with increasing income. In his reply Easterlin maintained his position, suggesting that his critics were using inadequate data.

In 2008, economists Betsey Stevenson and Justin Wolfers, both of the University of Pennsylvania, published a paper where they reassessed the Easterlin paradox using new time-series data. They conclude like Veenhoven et al. that, contrary to Easterlin's claim, increases in absolute income are clearly linked to increased self-reported happiness, for both individual people and whole countries.

1.4 Hedonic treadmill (Behavioural Approach)

The hedonic treadmill, also known as hedonic adaptation, is the supposed tendency of humans to quickly return to a relatively stable level of happiness despite major positive or negative events or life changes. According to this theory, as a person makes more money, expectations and desires rise in tandem, which results in no permanent gain in happiness. Brickman and Campbell coined the term in their essay "Hedonic Relativism and Planning the Good Society" (1971), which appeared in M.H. Apley, ed.,

Adaptation Level Theory: A Symposium, New York: Academic Press, 1971, pp 287–302. During the late '90s, the concept was modified by Michael Eysenck, a British psychology researcher, to become the current 'hedonic treadmill theory' which compares the pursuit of happiness to a person on a treadmill, who has to keep working just to stay in the same place. As per this theory humans generally maintain a constant level of happiness throughout their lives - despite events that occur in their environment. The good and bad events may alter our level of subjective happiness temporarily, but in the long run we adapt to changes in our lives from these experiences and our level of subjective happiness tends to adjust back to hedonic neutrality. (en.wikipedia.org/wiki).

1.5 Daniel Kahneman and Angus Deaton

According to their study there are two aspects of well being: emotional well being and life evaluation.

Emotional Well Being = the quality of a person's everyday experience such as joy, fascination, anxiety, sadness, anger, and affection.

Life Evaluation = a person's thoughts about his or her life (on a longer time scale).

From empirical study they found that As people earn more money, their day-to-day happiness rises until they hit \$75,000. After that, it is just more stuff, with no gain in happiness. (Kahneman and Deaton, 2010).

2. Factors Determining Happiness

2.1 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 the average income in a nation makes little difference to the average self-reported happiness (Bruno S. Frey and Alois Stutzer, 2001).

2.2 Individual income and wealth

Historically, economists have said that well-being is a simple function of income and wealth. However, it has been found that once wealth reaches a subsistence level, its effectiveness as a generator of well-being is greatly diminished. Money correlates with happiness, but the rate diminishes with more money.

2.3 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.

2.4 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.

2.5 Health

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

2.6 Leisure

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

2.7 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.

2.8 Relationships and children

Relationships, particularly those with spouse, 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. Married people are happier, but it is unclear if this is due to the marriage or if happy people are more likely to marry (en.wikipedia.org).

3. Indices of Happiness

3.1 Satisfaction with Life Index

The Satisfaction with Life Index is an attempt by the Inter-American Development Bank (IDB) to show the average self-reported happiness in Latin America and the Caribbean. (www.iadb.org).

3.2 Happy Life Years

This index was devised by the Dutch Sociologist Runt Veenhoven. The index measures the degree to which people live long and happily in a country at a certain time. To calculate a nation's mean Happy Life Years, ratings of life satisfaction are multiplied by mean life expectancy at birth.

3.3 Gross national happiness (GNH) (Bhutan)

The term "gross national happiness" was coined in 1972 by Bhutan's then King Jigme Singye Wangchuck, who has opened Bhutan to the age of modernization, soon after the demise of his father, King Jigme Dorji Wangchuk.

The Bhutanese grounding in Buddhist ideals suggests that beneficial development of human society takes place when material and spiritual development occur side by side to complement and reinforce each other. The four pillars of GNH are the promotion of sustainable development, preservation and promotion of cultural values, conservation of the natural environment, and establishment of good governance. (www.grossnationalhappiness.com).

3.4 Thai GNH index

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. 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.

3.5 Second-generation GNH

A second-generation GNH concept, treating happiness as a socioeconomic development metric, was proposed in 2006 by Med Jones, the President of International Institute of Management. The metric measures socioeconomic development by tracking seven development areas including the nation's mental and emotional health. GNH value is proposed to be an index function of the total average per capita of Economic wellness, Environmental wellness, Physical wellness, Mental wellness, Social wellness, Political wellness and Workplace wellness.

3.6 Happy Planet Index(HPI)

This index was developed by the New Economics Foundation(NEF) With wellbeing as the ultimate end and planetary resource consumption as the fundamental input, the New Economics Foundation restate the goal of development as delivering high levels of well being within the constraints of equitable and responsible resource consumption. Happy Planet Index reflects the extent to which countries succeed in achieving this goal. HPI incorporates three separate indicators.

1. Life expectancy (objective indicator)
2. Ecological footprint (objective indicator)
3. Self-reported life satisfaction (subjective indicator)

HPI = Life satisfaction X Life expectancy

Ecological footprint

4. A Comparison of Ranks of Countries Based on Happiness, Human Development Index and GDP percapita.

It would be interesting to compare the GDP per capita rank, Human Development Index rank and Happiness rank for a particular country. Table 1 reveals that money power and a developed country do not necessarily mean a happy and contended society.

Table No. 1.

World Happiness Ranking, HDI Ranking and World GDP Per capita Ranking of Selected Countries

SL NO:	COUNTRY	HAPPINESS RANK	HDI	GDP PERCAPITA
1	FINLAND	1	11	16
2	DENMARK	2	6	10
3	ICELAND	3	3	8
4	SWITZERLAND	4	1	4
5	NETHERLANDS	5	10	13
6	SWEDEN	7	7	12
7	NORWAY	8	2	3
8	AUSTRALIA	12	5	9
9	CANADA	15	15	11
10	USA	16	21	7
12	UK	17	18	22
13	UAE	24	26	20
14	MEXICO	46	86	75
15	PHILIPPINES	60	116	130
16	CHINA	72	79	69
17	NEPAL	84	143	164
18	ALBANIA	90	67	100
19	IRAQ	107	121	97

20	UGANDA	117	166	167
21	PAKISTAN	121	161	156
22	ETHIOPIA	131	175	169
23	YEMEN	132	183	174
24	INDIA	136	132	140

Source: World Happiness Report 2022, World GDP Per capita Ranking 2021 (IMF) and Human Development report 2022.

Lessons from the studies on Happiness Economics

1. Instead of giving unemployment benefits and old age pensions, widow pensions etc. make people do any work they can and give pensions as a reward. This will give more satisfaction and happiness.
2. Youths should be given the freedom to take decisions regarding their future. They should be free to choose the subject of study, course of study, place of study, employment, place of employment, spouse, etc. Parents should not control their children even after they have grown up.
3. Once basic needs are met, Government policy should focus not on economic growth or GDP, but rather on increasing life satisfaction or Gross national happiness (GNH).
4. Facilities for Psychological therapy for increasing happiness and reducing stress should be made available in government hospitals.
5. Spirituality development should occur side by side with material development.
6. Preservation and promotion of cultural values are important.
7. People of the world should be given the orientation to work towards one-planet living by consuming within our environmental limits.

Limitations of Happiness Economics

1. The most fundamental criticism of happiness economics lies in its dependence on the concept of cardinal utility -- that is, that personal preferences are measurable and comparable in an objective fashion by an outside observer. Cardinal utility is, however, a discredited and largely discarded concept in economics.
2. 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.
3. In addition, survey findings can lead to subjective interpretations.

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