

# WHAT CAN ECONOMISTS LEARN FROM HAPPINESS RESEARCH?

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## CONTEXT

- Common knowledge that unemployment generates income loss
- Joblessness can depress well-being
  - Potentially more than negative shocks like divorce/separation
- **Psychic costs:** depression, anxiety, loss of self-esteem and personal control, straining of personal relationships, suicide, alcohol abuse
- **Social costs:** stigma, work defines one's position in life
- Employed people can also experience lower well-being because of a rise in general unemployment

## QUESTION

- How do economic growth, unemployment and inflation, and institutional factors such as governance affect individual well-being?
- Which insight may be important for integrating into economics?

## ANSWER

- **Economic Growth:** Higher income leads to higher happiness
  - True at a point in time
  - Not true over time as aspiration levels increase with income
- **Unemployment:** Unemployment reduces subjective self-reported well-being both personally and for society as a whole
  - New classical macroeconomics says unemployment is voluntary
  - Happiness research provides evidence that unemployment is involuntary
- **Inflation:** Lowers well-being (more when unanticipated)
- **Institutional Factors:** Participation in public decision-making via referenda and a decentralized state contribute to happiness

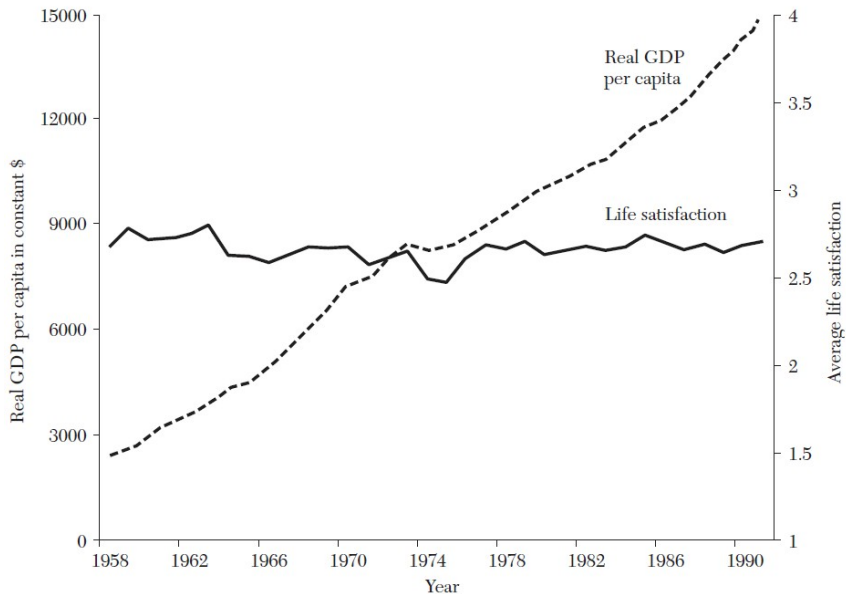


Figure 2. Satisfaction with Life and Income Per Capita in Japan between 1958 and 1991

## POSITIONING

- Standard economic theory uses observed choices to gauge utility
- Happiness is a measure of well-being that is closely related but not identical to utility
  - Subjective happiness is a valuable complementary approach that covers more aspects of well-being
- This survey reviews happiness research to see which insights are important for economics and can inform economic policy decisions
  - Empirically study problems that were previously only analyzed on an abstract theoretical level

## CONCLUSION

- The paper does not attempt to provide a framework to incorporate the insights into economics.
- Even in a democracy, how happy are individuals under different regimes (even when they are not directly affected)?
  - Policies/news → uncertainty → mood/happiness
  - Spills over into work by affecting morale