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Measuring Happiness and its effect on Economy

Introduction

The word 'happiness is quite complex and is not used lightly. Happiness is an aspiration of every human being, and can also be a measure of social progress. Yet, are the citizens of different countries, happy? If they are not, what, if anything, can be done about it? The key to proper measurement must begin with the meaning of the word 'happiness. As per the WHR 2013, the problem, of course, is that happiness is used in at least two ways:-

- i) As an emotion ['Were you happy yesterday?'], and
- ii) As an evaluation ['Are you happy with your life as a whole?'].

If individuals were to routinely mix up their responses to these very different questions, then measures of happiness might tell us very little. Changes in reported happiness used to track social progress would perhaps reflect little more than transient changes in emotion. Or impoverished persons who express happiness in terms of emotion might inadvertently diminish society's will to fight poverty. Fortunately, respondents to the happiness surveys do not tend to make such confusing mistakes. Both the WHRs did show that the respondents of the surveys clearly recognise the difference between happiness as an emotion and happiness in the sense of life satisfaction. The responses of individuals to these different questions are highly distinct. A very poor person might report himself to be happy emotionally at a specific time, while also reporting a much lower sense of happiness with life as a whole; and indeed, people living in extreme poverty do express low levels of happiness with life as a whole. Such answers should spur our societies to work harder to end extreme poverty. The WHR is based on the primary measures of subjective well-being" life evaluations; life satisfaction; and happiness with life as a whole. Thus, happiness, appears twice, once as an emotional report, and once as part of a life evaluation, giving considerable evidence about the nature and causes of happiness in both its major senses.

The Background

In July 2011 the UN General Assembly passed a historic resolution. It invited member countries to measure the happiness of their people and to use this to help guide their public policies. This was followed in April 2012 by the first UN high-level meeting on happiness and well-being, chaired by the Prime Minister of Bhutan. At the same time the first World Happiness Report was published,¹⁴ followed some months later by the OECD Guidelines setting an international standard for the measurement of well-being.

Re-imagining the Idea of Happiness:-

Search for a 'happier' life for humanity has been the ultimate aim of not only saints, seers and philosophers, but of economists too. The whole gamut of economics literature on progress, growth and development is ultimately aimed at bringing more 'happiness' into the lives of human beings. Over the time, diverse ideological currents impressed upon the humanity to take variety of 'meanings' out of the highly subjective term 'happiness'—and finally, the humanity is where it is today.

Discussion

A time also came when many scholars and world leaders raised the ultimate question—are we happier today? And in the wake of this increased 'scrutiny' around the world, there came the UN resolution of 2011 which invited member countries to measure the happiness of their people and to use this to help guide their public policies. The WHR 2012 itself provides a very interesting and eye-opening inquiry into the state of human happiness in the world. To understand the 'shift' which is expected to take place among policymakers around the world in coming years, it will be better to lift some ideas from the first WHR:

(i) This is an age of stark contradictions. While at the one hand the world enjoys technologies of unimaginable sophistication, at the other hand, at least one billion people are living without enough to eat. The world economy is propelled to soaring new heights of productivity through ongoing technological and organisational advances; yet it is relentlessly destroying the natural environment in the process. Countries achieve great progress in economic development as conventionally measured; yet along the way countries succumb to new crises of obesity, smoking, diabetes, depression, and other ills of modern life. These contradictions would not come as a shock to the greatest sages of humanity, including Aristotle and the Buddha, who taught humanity, time and again, that material gain alone will not fulfil our deepest needs. Material life must be harnessed to meet these human needs, most importantly to promote the end of suffering, social justice and the attainment of happiness.

(ii) The WHR 2012 took key examples from the USA—the world's economic superpower—which has achieved striking economic and technological progress over the past half century without gains in the self-reported happiness of the citizenry with the following serious 'concerns' of today:

- (a) uncertainties and anxieties are high,
- (b) social and economic inequalities have widened considerably,
- (c) social trust is in decline, and
- (d) confidence in government is at an all-time low.

Perhaps for these reasons, life satisfaction in the USA has remained nearly constant during the decades of rising Gross National Product (GNP) per capita.

(iii) The realities of poverty, anxiety, environmental degradation, and unhappiness in the midst of great plenty should not be regarded as mere curiosities. They require our urgent attention, and especially so at this juncture in human history. For we have entered a new phase of the world, termed the Anthropocene¹⁷ by the

world's Earth system scientists. The Anthropocene will necessarily reshape our societies. If we continue mindlessly along the current economic trajectory, we risk undermining the Earth's life support systems—food supplies, clean water and stable climate—necessary for human health and even survival in some places. In years or decades, conditions of life may become dire in several fragile regions of the world. We are already experiencing deterioration of life support systems in the dry lands of the Horn of Africa and parts of Central Asia.

On the other hand, if we act wisely, we can protect the Earth while raising quality of life broadly around the world. We can do this by adopting lifestyles and technologies that improve happiness (or life satisfaction) and reduce human damage to the environment. Sustainable Development is the term given to the combination of human well-being, social inclusion and environmental sustainability. There is no doubt in concluding that the 'quest for happiness' is intimately linked to the 'quest for sustainable development'.

(iv) In an impoverished society, the urge for material gain typically makes a lot of sense. Higher household income (or higher per capita GNP) generally signifies an improvement in the life conditions of the poor. The poor suffer from dire deprivations of various kinds: lack of adequate food supplies, remunerative jobs, access to health care, safe homes, safe water and sanitation, and educational opportunities. As incomes rise from very low levels, human well-being improves. Not surprisingly, the poor report a rising satisfaction with their lives as their meager incomes increase.

On the opposite end of the income spectrum, for most individuals in the high-income world, the basic deprivations have been vanquished. There is enough food, shelter, basic amenities (such as clean water and sanitation), and clothing to meet their daily needs. In fact, there is a huge surfeit of amenities above basic needs. Poor people would swap with rich people in a heartbeat. Yet all is not well. The conditions of affluence have created their own set of traps.

Most importantly, the lifestyles of the rich imperil the survival of the poor. Human-induced climate change is already hitting the poorest regions and claiming lives and livelihoods. It is telling that in much of the rich world, affluent populations are so separated from the poor that there is little recognition, practical or moral, of the adverse spillovers (or 'externalities') from their own behaviour.

(v) Affluence has also created its own set of afflictions and addictions (problems)—obesity, adult-onset diabetes, tobacco-related illnesses, eating disorders such as anorexia and bulimia, psychosocial disorders, and addictions to shopping, TV and gambling, are all examples of disorders of development. So too is the loss of community, the decline of social trust and the rising anxiety levels associated with the vagaries of the modern globalised economy, including the threats of unemployment or episodes of illness not covered by health insurance in the United States (and many other countries).

(vi) Higher average incomes do not necessarily improve average well-being, the US being a clear case in point, as noted famously by Professor Richard Easterlin—where GNP per capita has risen by a factor of three since 1960, while measures of average happiness have remained essentially unchanged over the

half-century. The increased US output has caused massive environmental damages, notably through greenhouse gas concentrations and human-induced climate change, without doing much at all to raise the well-being even of Americans. Thus, we don't have a trade off between short-run gains to well-being versus long-run costs to the environment; we have a pure loss to the environment without offsetting short-term gains.

The paradox that Easterlin noted in the US was that at any particular time richer individuals are happier than poorer ones, but over time the society did not become happier as it became richer. This is due to four reasons:

(a) Individuals compare themselves to others. They are happier when they are higher on the social (or income) ladder. Yet when everybody rises together, relative status remains unchanged.

(b) The gains have not been evenly shared, but have gone disproportionately to those at the top of the income and education distribution.

(c) The other societal factors—insecurity, loss of social trust, declining confidence in government—have counteracted any benefits felt from higher incomes.

(d) Individuals may experience an initial jump in happiness when their income rises, but then at least partly return to earlier levels as they adapt to their new higher income.

(vii) These phenomena put a clear limit on the extent to which rich countries can become happier through the simple device of economic growth. In fact, there are still other general reasons to doubt the formula of ever rising GNP per person as the route to happiness. While higher income may raise happiness to some extent, the quest for higher income may actually reduce one's happiness. In other words, it may be nice to have more money, but not so nice to crave for it. Psychologists have found repeatedly that individuals who put a high premium on higher incomes generally are less happy and more vulnerable to other psychological ills than individuals who do not crave higher incomes. Aristotle and the Buddha advised humanity to follow a middle path between asceticism on the one side and craving material goods on the other.

(viii) Another problem is the creation of new material 'wants' through the incessant advertising of products using powerful imagery and other means of persuasion. Since the imagery is ubiquitous on all of our digital devices, the stream of advertising is more relentless than ever before. Advertising is now a business of around US \$500 billion per year. Its goal is to overcome satiety by creating wants and longings where none previously existed. Advertisers and marketers do this in part by preying on psychological weaknesses and unconscious urges. Cigarettes, caffeine, sugar, and trans-fats, all cause cravings if not outright addictions. Fashions are sold through increasingly explicit sexual imagery. Product lines are generally sold by associating the products with high social status rather than with real needs.

(ix) The thinking of becoming happier by becoming richer is challenged by the law of diminishing marginal utility of income¹⁹—after a certain point, the gains are very

small. This means that poor people benefit far more than rich people from an added dollar of income. This is a good reason why tax-and-transfer systems among high-income OECD countries on balance take in net revenues from high-income households and make net transfers to low-income households. Put another way, the inequality of household income is systematically lower with net of taxes and transfers than before taxes and transfers.

(x) The western economist's logic of ever higher GNP is built on a vision of humanity completely at variance with the wisdom of the sages, the research of psychologists, and the practices of advertisers. Economists assume that individuals are 'rational decision-makers' who know what they want and how to get it, or to get as close to it as possible, given their budget. Individuals care largely about themselves and derive pleasure mainly through their consumption. The individual's preferences as consumers are a given or change in ways actually anticipated in advance by the individuals themselves. Some economists even say that drug addicts have acted 'rationally', consciously trading off the early benefits of drug use with the later high toll of addiction.

(xi) We understand that we need a very different model of humanity, one in which we experienced complicated interplay of emotions and rational thought, unconscious and conscious decision-making, fast and slow thinking. Many of our decisions are led by emotions and instincts, and only later rationalised by conscious thought. Our decisions are easily 'primed' by associations, imagery, social context and advertising. We are inconsistent or 'irrational' in sequential choices, failing to meet basic standards of rational consistency. And we are largely unaware of our own mental apparatus, so we easily fall into traps and mistakes. Addicts do not anticipate their future pain; we spend now and suffer the consequences of bankruptcy later; we break our diets now because we aren't thinking clearly about the consequences. We also understand(again!) that we are social animals through and through. We learn through imitation, and gain our happiness through meeting social norms and having a sense of belonging to the community.

(xii) Human beings feel the pain of others, and react viscerally when others are sad or injured. We even have a set of 'mirror neurons' that enable us to feel things from the point of view of others. All of this gives us a remarkable capacity to cooperate even with strangers, and even when there is little chance of reward or reciprocity, and to punish 'non-cooperators', even when imposing punishment on others is costly or puts us at risk.

Of course there are limits to such cooperation and fellow feeling. We also cheat, bluff, deceive, break our word, and kill members of an out-group. We engage in identity politics, acting as cruel to outsiders as we are loving to our own group. All these lessons of human nature matter more than ever, more even than when the Buddha taught humanity about the illusions of transient pleasures, and the Greeks warned us against the tempting Siren songs that could pull us off our life's course. For today we have more choices than ever before. In the ancient world, the choice facing most of humanity most of the time was little choice indeed—to work hard to secure enough to eat, and even then to face the risk of famine and death from bad weather or bad luck.

(xiii) Today, we face a set of real choices. Should the world pursue GNP to the point of environmental ruin, even when incremental gains in GNP are not increasing much (or at all) the happiness of affluent societies? Should we crave for higher personal income at the cost of the community and social trust? Should our governments spend even a tiny fraction of the \$500 billion spent on advertising each year to help individuals and families to understand better their own motivations, wants and needs as consumers? Should we consider some parts of our society to be “off bounds” to the profit motive, so that we can foster the spirit of cooperation, trust and community? A recent analyst of Finland’s school system, for example, writes that Finland’s excellence (ranking near the top of international comparisons in student performance) has been achieved by fostering a spirit of community and equality in the schools. This is in sharp contrast to the education reform strategy at work in the US, where the emphasis is to put on testing, measurement, and teacher pay according to student test performance.

At the End

The introspecting observations of the WHR 2012 simply concluded that there are enough reasons to believe that we need to re-think the economic sources of well-being, more so even in the rich countries than in the poor ones. High-income countries have largely ended the scourges of poverty, hunger and disease. Poor countries rightly yearn to do so. But after the end of poverty, what comes next? What are the pathways to well-being when basic economic needs are no longer the main drivers of social change? What will guide humanity in the Anthropocene: advertising, sustainability, community or something else? What is the path to happiness?

Most people agree that societies should foster happiness of their citizens. The founding fathers of the US recognised the inalienable right to the pursuit of happiness. British philosophers talked about the greatest good for the greatest number. Bhutan has famously adopted the goal of Gross National Happiness (GNH) rather than Gross National Product. China champions a harmonious society. Yet most people probably believe that happiness is in the eye of the beholder, an individual’s choice something to be pursued individually rather than as a matter of national policy. Happiness seems far too subjective, too vague, to serve as a touchstone for a nation’s goals, much less its policy content. That indeed has been the traditional view. Yet the evidence is rapidly changing this view.

A generation of studies by psychologists, economists, pollsters, sociologists and others have shown that happiness, though indeed a subjective experience, can be objectively measured, assessed, correlated with observable brain functions, and to the characteristics of an individual and the society. Asking people whether they are happy or satisfied with their lives, offers important information about the society. It can signal underlying crises or hidden strengths. It can suggest the need for change. Such is the idea of the emerging scientific study of happiness, whether of individuals and the choices they make, or of societies and the reports of the citizenry regarding life satisfaction—the WHR 2012 summarises the fascinating and emerging story of these studies on two broad measurements of happiness:

(i) the ups and downs of daily emotions and

(ii) an individual's overall evaluation of life

The former is sometimes called 'affective happiness,' and the latter 'evaluative happiness'. This is important to know that both kinds of happiness have predictable causes that reflect various facets of our human nature and our social life. Affective happiness captures the day-to-day joy of friendship, time with family and sex, or the downsides of long work commutes and sessions with one's boss. Evaluative happiness measures very different dimensions of life, those that lead to overall satisfaction or frustration with one's place in society. Higher income, better health of mind and body, and a high degree of trust in one's community ('social capital') all contribute to high life satisfaction; poverty, ill health and deep divisions in the community all contribute to low life satisfaction.

Happiness differs systematically across societies and over time, for reasons that are identifiable, and even alterable through the ways in which public policies are designed and delivered. It makes sense, in other words, to pursue policies to raise the public's happiness as much as it does to raise the public's national income. Bhutan is on to something path breaking and deeply insightful. And the world is increasingly taking notice. A household's income counts for life satisfaction, but only in a limited way—other things matter more:

(i) community trust,

(ii) mental and physical health, and

(iii) the quality of governance and rule of law.

Raising income can raise happiness, especially in poor societies, but fostering cooperation and community can do even more, especially in rich societies that have a low marginal utility of income. It is no accident that the happiest countries in the world tend to be high-income countries that also have a high degree of social equality, trust and quality of governance. In recent years, Denmark has been topping the list. And it's no accident that the US has not experienced rise of life satisfaction for half a century, a period in which inequality has soared, social trust has declined, and the citizens have lost faith in its government.

References:-

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