

Introduction

So Midas, king of Lydia, swelled at first with pride when he found he could transform everything he touched to gold; but when he beheld his food grow rigid and his drink harden into golden ice then he understood that this gift was a bane and in his loathing for gold, cursed his prayer.

Claudian, In Rufinem

What makes people happy? This is an age-old question, which over time has captured the attention of philosophers, historians, psychologists, and, most recently, economists. King Midas sought happiness in gold, and, in the end, that pursuit made him miserable. How often do we hear the phrase: ‘more money does not make you happy’? Yet if money does not make people happy, what does? Does money matter at all? Where and how does the average person find happiness? Given the diversity of people, countries, and cultures across the world, can we even venture an answer to that question?

For decades and indeed centuries, the pursuit of happiness was limited to constitutional proclamations and its study to the ephemeral texts of

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philosophers. More recently, though, there has been a burgeoning interest in research on happiness. This interest is evident in the social sciences—particularly economics and psychology—and in the media. Perhaps it was a reaction to the decade of the ‘me’ generation and of the emergence of billionaire CEOs. In retrospect, it may provide a good framework through which to analyze the ensuing economic collapse. Or it may be simply a reflection of how much more adventurous and eclectic the so-called ‘dismal science’ has become. While no serious economist would have used the word happiness in a scholarly paper three decades ago, the number of publications with happiness in the title in economics journals had well passed the one thousand mark by 2007.¹ Study after study on happiness is cited in news reports across countries, whether about what makes particular cohorts, like teens or women, happy or about which countries are happy and which are sad. The study of happiness is increasingly recognized as a science, and there is serious discussion of applying its findings to policy questions, and even of the development of national well-being indicators to complement GNP data.

Why all the interest? Can we really answer the question what makes people happy? Can it really be proved with credible methods and data? Is there consistency in the determinants of happiness across cohorts, countries, and cultures? Are happiness levels innate to individuals or can policy and the environment people live in make a difference? How is happiness affected by poverty or progress? Is happiness a viable objective for policy? If so, how do we define happiness in a way that is meaningful to policy but still is general enough to compare across cohorts, cultures, and countries?

¹ For one review of this progress, see Clark et al. (2008).

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I attempt to answer these questions in this book, based on my own research with several colleagues, as well as on the work of other scholars working in the field. The research takes advantage of the analytical and research tools that are provided by new approaches in economics, as well as from extensive work on the topic by psychologists. These tools allow researchers to address questions that are not well answered by standard revealed preference-based (e.g. consumption choices) approaches in economics, such as the welfare effects of macro and institutional arrangements that individuals are powerless to change, and the explanation of behaviors that are not driven by choice but rather by norms, addiction, or self-control problems.

In the first chapter, I review the theory and concepts of happiness, and how they have evolved historically. I explain how they underpin a new line of research which is, on the one hand, an attempt to understand the determinants of happiness and, on the other, the development of a tool—based on happiness surveys—for understanding the effects of a host of phenomena on human well-being. I also discuss the methods used by economists who study happiness. The second chapter addresses one of the most fundamental questions in happiness research and one over which there is still much debate: the relationship between happiness and income. It highlights how different conclusions can be drawn depending on the methods and data used to study it and identifies some of the methodological challenges involved in the study of happiness.

The third chapter of the book reviews the correlates of happiness in large population samples around the world. These are surprisingly consistent across countries, regardless of their economic development level. I report the results of my research on happiness—as well as that of some others—in countries as diverse as Chile and Kazakhstan, Peru and

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Russia, and the United States and Afghanistan. The chapter also identifies some traits which seem specific to particular cohorts and countries or regions.

Chapter 4 asks the question ‘does happiness matter?’ In other words, does happiness matter to outcomes that we care about, such as in the labor market or health arenas? It explores the effects of happiness on future incomes, on health, and on the probabilities of being married, employed, and of quitting or starting smoking, based on an over time data set for Russia. My co-authors—Andrew Eggers and Sandip Sukhtankar—and I find that happiness does matter to some outcomes that we care about, such as higher levels of income and better health, but not to others.

The fifth chapter is devoted to health, one of the most important variables in the human well-being or happiness equation. It reviews what we know about the relationship between happiness and health, and how it varies according to income levels, health status, and societal norms across countries. It also provides an example of how happiness surveys can contribute to novel measures of well-being, in this case providing a new method for valuing different health states based on life and health satisfaction equations.

The sixth chapter presents what we know about the effects of macroeconomic trends and patterns—ranging from economic growth and financial market crises to inequality, inflation, and unemployment—on happiness. The seventh explores the role of different institutional arrangements, such as political regimes and social networks, as well as that of phenomena, such as crime and corruption. It places particular focus on how individuals adapt to both good and bad equilibriums, via changes in norms and expectations, and discusses the implications of adaptation for both individual and collective welfare.

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The final chapter of the book discusses the potential of happiness surveys to contribute to better public policy. The approach provides a broader picture of the determinants of human welfare than that provided by income-based measures, thereby complementing those measures. It also allows scholars to attach relative weights to the various determinants of well-being, such as how much individuals value health or a stable marriage as compared to income. Such information can surely inform policy choices. Yet the chapter also sounds a note of caution, raising a number of conceptual and empirical challenges that must still be addressed prior to considering a more direct application of the findings of happiness studies to policy. Unresolved issues include the appropriate definition of happiness, how to deal with variance in innate happiness levels and in human capacity to adapt to both prosperity and adversity, inter-temporal problems, and a range of normative questions about which happiness levels should be the priority of policy—for example, misery versus less than complete happiness, and/or the unhappiness of the rich versus marginal increases in the happiness of the poor.