An Introduction to Happiness Economics

Happiness Economics is a social science that people are becoming more and more interested in. Its scope is extremely wide and elements of Happiness Economics touch upon many other academic fields. We aim to combine findings from Happiness Economics research with other related research to design economic policies with a unique core objective: increasing the happiness and wellbeing in society in a sustainable way. This article is split into three sections: firstly, we discuss why happiness and wellbeing are important from a policy perspective, to make it clear what issues we are facing and any potential ideas Happiness Economics offers in terms of solutions; second, we cover at a high-level some of the main findings in Happiness Economics research; and third, we look ahead to the rest of 2019, by covering the current plans for Exploring Happiness in terms of research and fundraising events.

Why should we care about happiness and wellbeing?

Let's start by looking at this through the lens of a traditional economist: people in an economist's world are perceived to be rational, they know what they want, and they believe that more is pretty much always better. Provided that economy functions properly, through Adam Smith's 'invisible hand', the economy will generate the optimal level of happiness, subject to peoples wants and societies resources. The government's role in policymaking is to correct market failures and produce cost effective policies to increase national income (or GDP) and productivity. Broadly this is how most western governments are run today. Since the preferences of individuals are known and more is perceived to be better, national income becomes a good proxy for measuring national happiness in this world. And this is why governments build policies targeted at boosting GDP – they think it will make people happier.

If you don't have a background in Economics, then some of the above might have not made perfect sense to you. But even so, you will have spotted some problems with this approach – we all know that people aren't always rational, and most people don't know their preferences, just to mention a couple[1]. However, the most important issue with the approach outlined above is the following paradox: *the main goal for most people in their lives is to maximise their income, however all measures of happiness[2] have shown that as western societies have become wealthier, people have not become happier.* This is shown in the chart below, which displays the percentage of people in the US that report themselves to be 'very happy' against US GDP between 1972-2016.

In the field of Happiness Economics, this has become known as the 'Easterlin Paradox' and this finding is one of the main drivers behind this field increasing in significance. We know that GDP growth is no longer the be all and end all. It isn't a very good proxy for measuring national happiness, and as such, we need to think about new ways to create economic policies centred around a different goal - increasing happiness and wellbeing in society in a sustainable way.

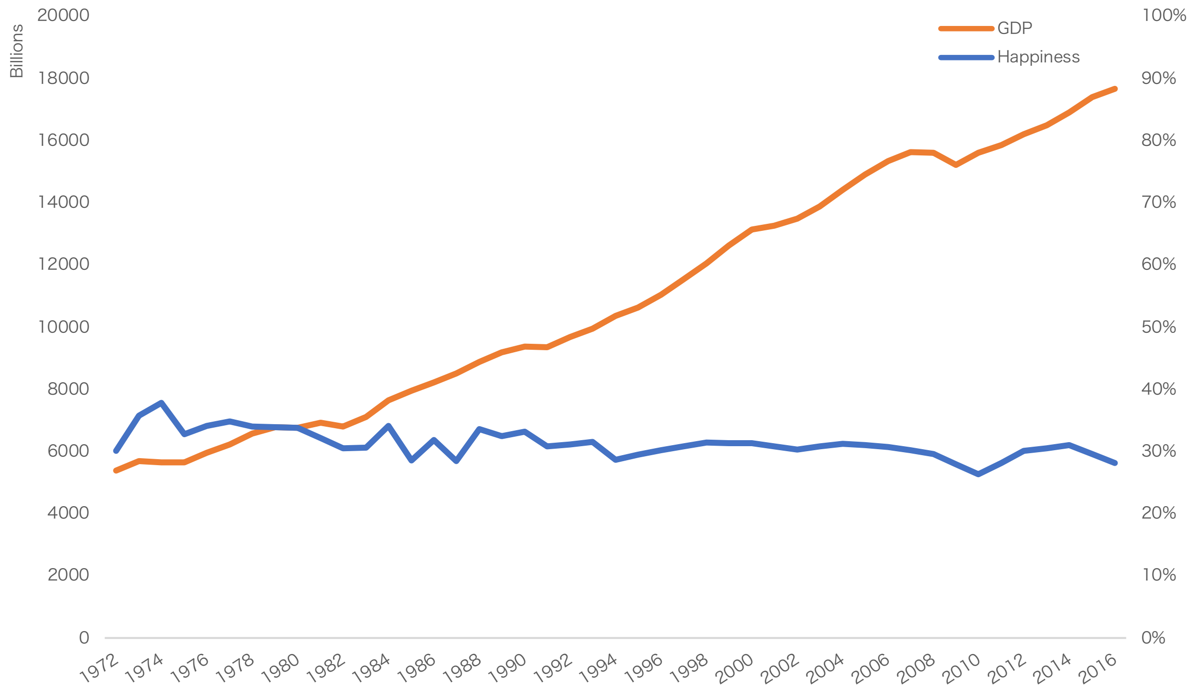
A key element to achieving this goal is discovering what makes people happy. This is important for designing effective solutions and policy. This is part of what Happiness Economics is working towards by combining findings from fields such as Psychology, Sociology and Neuroscience, as well as many different fields of economics - for example health, labour, development and environmental, to mention just a few. In order to a build comprehensive view on what really makes people tick. Clearly, Happiness Economics is not just about taking research already completed by other people, in different fields, and

[1] To be clear here, by rational preferences the assumption in traditional economics is that people always know what goods and services they should buy, given their individual budget, that will optimise their happiness and they make these decisions consistently.

[2] For the sceptics, next month we will cover measures of happiness.

relating it back to the Happiness Economics goal, but also about creating new research using innovative techniques to understand more about happiness and wellbeing.

Figure 1: Happiness and GDP in the US (1972-2016)[3]



Much like with traditional economics, Happiness Economics can be split into micro and macro areas of research. On the micro level the focus is on individual happiness, where mindfulness, positive psychology and behavioural economics can play an important role. On the macro level the focus is on collective happiness where typically the goal is to measure how key economic variables such an unemployment or income affect happiness. Another important macro question is how inequality and happiness interact - a topic we plan to focus at Exploring Happiness over the next couple of years.

Finally, the main goal of Happiness Economics, as we have chosen to define it[4], refers to achieving increases in happiness in a sustainable way. Environmental sustainability will play a central role in our approach to Happiness Economics research as we perceive increases in happiness that negatively impact the environment as a potential net loss to society in the long run. As such, policies aimed at increasing happiness need to be constructed in an environmentally sustainable way, in order to maximise happiness in the long run. This will be covered in more detail in next month's article.

What do we already know?

For this section we have simply picked out some of our favourite findings from Happiness Economics research, this is of course not an exhaustive list and shouldn't be interpreted as a full literature survey of the field. We have split this into six different sections. In each section there has been a great amount of research that has gone into producing these findings. For now, we want to avoid going into too much

[3] Source: Global Social Survey (GSS) and FRED economic data
[4] Our definition of Happiness Economics is: "increasing the happiness and wellbeing in society in a sustainable way". There isn't an official definition for Happiness Economics, but more common definitions simply state that it is the study of individual satisfaction and economic issues like wealth and employment.

detail in terms of methodology and statistics, so we simply highlight the main messages from the research.

- Income: traditional economics assumes higher incomes equal to greater happiness and wellbeing, and that this relationship holds across countries, over time and between different people at a single point in time. Happiness Economics research has shown that this relationship does not hold in all cases. When comparing across countries it is true that happiness and income are positively related. Wealthier countries tend to be happier, on average, than poorer countries. This finding dismisses the rather romantic notion of 'poor but happy countries'. This relationship changes dramatically when comparing increases in income through time. Above a certain threshold, additional levels of income have no effect on happiness and wellbeing. This explains why in western societies, as incomes have increased, measures of happiness have remained flat. There are two important factors that help to explain why this is so. Firstly, people are very quick to adjust to a higher level of income, they are forward-looking, their aspirations levels and spending adjust quickly to their higher level of income, meaning their overall happiness remains unchanged. Secondly, happiness research has shown that what tends to matter more to people is not their absolute income, but their relative income. A person is happier when their income is highest among the group they choose to compare themselves with and is less interested with the actual amount they are being paid.

- Inflation: this is another area where traditional economics and happiness economics differ in their findings. Traditional economics assumes that when inflation is expected then people can prepare themselves for this and it doesn't tend to affect their happiness. However, when inflation changes and this change is not expected, then they are unprepared for this and as a result they are less happy. Happiness research has shown that inflation is one of the most important economic variables that affects happiness. High increases in inflation, whether they are expected or not, tend to decrease people's happiness. Higher inflation is often linked with political and social unrest, which can contribute towards a fear of a lower standard of living.

- Employment: this is a more extensive area of happiness research, with a huge amount of very interesting findings. Firstly, for the employed what matters most is job satisfaction. This is an unsurprising finding, it is a fact of life that many people know already but the happiness data backs it up: if you enjoy what you do, you're more likely to be happy. In terms of being made unemployed, again unsurprisingly, this has a marked effect on people's happiness. Importantly the decrease in happiness is not only caused by the decrease in income that comes from being made unemployed. A person's mental health is more likely to deteriorate when unemployed and this is due to the fact that work gives people a place in society and offers important social benefits. On a macro level, similar with income, it depends on the relative outcome. Research has shown that unemployed people are much less happy during the time when the economy is performing well as compared with during a downturn. In a recession, since it's likely that many other people are unemployed, this has a smaller effect on a person's happiness. Additionally, increases in the unemployment rate can even decrease the happiness of people that remain employed. This is likely to be driven by the fact people feel that their own job security is threatened, and people may fear social unrest that is often associated with spikes in unemployment.

- Fiscal Policy: this section refers to the decisions made by the government in relation to either government spending or taxation. An interesting result is that, thus far, there has been no consistent evidence to show that fluctuations in government spending have a material impact on people's overall happiness. This is of course extremely difficult to measure, since there are so many outside influences that could affect trying to test this relationship. This is an area of Happiness research that we are interested exploring further. Related to the previous section, one particular area of government spending that has already been shown to influence happiness is through increases in unemployment benefits.

- Politics, Democracy and Governance: happiness research has shown that political, economic and personal freedom are all positively related – the difficulty here is depicting where the driving cause in this relationship is coming from, as they are all highly inter-related. In addition, greater political participation rights increase people's happiness. In democracies, governments have an incentive to pursue the wishes of the public. The amount that they can and want to do so indirectly reflects people's perceptions of the governments performance – this is shown in many studies of voter behaviour towards incumbents. Studies of voter behaviour can also be used to support the evidence shown for testing the relationships between economic variables and happiness. Using something called election and popularity functions, researchers have shown that voters tend to care more about changes in unemployment and inflation rather than income in western democracies. This is consistent with the previous findings for these three variables. Finally, it has been found that in the well-functioning democracies of Europe, trust in government is closely related to happiness.

- Inequality: it shouldn't come as a surprise to many people that there is a negative relationship between happiness and inequality. But the findings in this area of research should provide great motivation to governments in terms of policy setting. There are many interesting papers on happiness and inequality which highlight some distinct differences on people's perceptions towards inequality and how this affects happiness. For example, a recent study showed that people that have a preference towards working hard, dislike inequality less than people who care less about hard work. The intuition here is that these people feel as though inequality is less of an injustice and more as a result of the difference in people's attitudes to work.

Exploring Happiness in 2019

We hope that you found this article interesting and have incentivised you to find out more about Happiness Economics. To offer an insight into what we have planned for this year in terms of research, please take a look at our list of currently planned titles for each month of this year:

Plan for the research this year[5]:

- February 2019: A Discussion of Happiness Measures
- March 2019: Mental Health: Making Change in the UK
- April 2019: Neuroscience: Lets Learn About Our Brains
- May 2019: Climate Change and Wellbeing
- June 2019: Positive Psychology and Good News Stories in 2019
- July 2019: The Unhappiest Countries in 2019
- August 2019: Invading Countries: Short and Long-Term Effects
- September 2019: A Comparison of International Health Systems
- October 2019: Happiness and the Labour Market
- November 2019: Happiness and Inequality
- December 2019: Humanitarian Crises

As we mention on our website, research into Happiness Economics is just one element to Exploring Happiness. We also plan to run fundraising events and get involved in other activities where we can affect people's happiness in a more practical way. For all details of the events that we have planned in 2019, please visit the events page on our website.

[5] This is a provisional list and may change throughout the year.

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