

Harvesting happiness in poverty economics essay

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1. Introduction

Among the economists, a wide range of debate going on about the link between relative poverty and happiness. Because the mass thinking is, poorest people usually aren't happier than rich people as they are facing extreme economic hardship, social obstacles and obstacles in maintaining basic standard of living such as: shelter, education, health. Obstacles and problems of their private life would not allow them to become happy. If so, then probably they are happier with having other non-material things which they enjoy. This can be family, freedom, personal values, hobbies or they may have fewer responsibilities or less high stress carrier (Layard 2005). From this perspective happiness has little to do with the level of income or money or even economic hardship but more to do with one's quality of life. Now, the question arises what happens to the opposite side of the coin? Why are rich not always happy having less suffering and more money than poor? Again, the common believe is that having more things (such as: house, brand new car) can make individual happy for a short time. But as soon as the desire of having more things increases they need to buy some more to be happy again. It's the general behavior of demand theory in economics. Many rich people get caught in this trap. So, after passing certain threshold increase in income doesn't contribute much to happiness (Easterlin 1995). With a per-capita GDP of US\$1700 (PPP) in 2011 and 31.5 percent of population living below the poverty line with 17.6 percent of them are extreme poor (HIES 2010), Bangladesh is considered one of the poorest countries in the world. But a recent report from Worcester (1998: 30) using data from the World Values Survey or WVS shows that Bangladeshis enjoy a

higher level of happiness than many other developed countries in the world including Britain. This conclusion contradicts the view that positive evaluation of quality of life associated with higher level of income.

2. Theorization from Academic Literature

Happiness is a complex concept with both economic and non-economic determinants. The relationship between happiness and poverty may vary due to variation in either economic or non-economic determinants or variation in both. In this study we are planning to capture all different determinants of happiness to discover whether and how it could be explained by those variables and what light it throw on the concept of poverty. a. Economic Determinates: There are a large number of surveys done in the field of economic aspects of happiness – some of it belongs to interdisciplinary and some by non-economists. Among them income is the most important determinants and central part of discussion.

Income According to Frey and Stutzer (2002), happiness increases with absolute income at a diminishing rate but not at a proportionate rate. That means income explains a small proportion of variation in happiness and it has a little impact on it. Some of the studies argue that the relationship between happiness and income is weak for low international level of per-capita income. The argument is happiness depends on the gratification of certain absolute biological and psychological needs (Veenhoven, 1991) So, may be not absolute income but relative income by reference group (position in group), past time, or people in mind (neighborhood) that matters. People love to compare themselves with others in society or with themselves in the past. Depending on whether they are doing better or less well than past or

than the competitor, they feel deprived. Ravallion and Lokshin (2001, 2002) use a household panel data set for Russia to rank households according to their subjective poverty and wealth status. But two rankings are significantly different from each other as many of those who classify themselves as subjectively poor are not objectively so, and vice versa. The reason for the discrepancy is for factors like: education, employment status, health status and permanent income. Using Malawian data, Ravallion and Lokshin (2010) report that subjective well-being is negatively correlated with mean income in one's neighborhood but it holds only for the individuals in the upper income category. However, more recent research by Fafchamps and Shilpi (2009) find that relative consumption is an important predictor of subjective welfare. It is true even in mountainous villages of Nepal where households remain isolated from the influence of modernity. In another related study of Kingdon and Knight (2007) also report some evidence of relative income effect. They find close neighbors enter positively while more distant others enter negatively in the well-being function. AspirationThe limited role of absolute income is further suggested that mean happiness may rise over time due to the fact of aspiration. Poor have less aspiration than richer one. So, mean incomes in the society, and happiness varied positively with income but negatively with aspirations (Easterlin, 2001). It means that poor are much happier than rich due to having less aspirations about future.

Employment StatusPeople's employment status may have some impact on current happiness. Having a higher risk of being unemployed can reduce happiness of employed person or being an unemployed person is subject to unhappiness due to depressing effect. Clark and Oswald (1994) and Winkelmann and Winkelmann (1998) report that being unemployed reduce

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happiness independently of its effect on income. Economic Insecurity or RiskEconomic insecurity due to having high inflation or risk of investment may affect score of happiness. It is found that countries and periods with higher inflation display lower happiness, *ceteris paribus* (Di Tella et al, 2001).

b. Non- Economic Determinates: Except the non-economic factors, happiness is influenced by several non-economic factors such as age, sex, marital status, health status, education, social capital, religion, and social and political institutions (Helliwell, 2002). Religion belief provides meaning to life. Religious people feel more secure when they surrender to God, especially in times of difficulty. Chaeyoon Lim and Robert Putnam (2010) argue that friends from church promote happiness more effectively than friends in general.

3. Statement of the Problem

Bangladeshis are enjoying higher level of happiness despite extreme poverty. If it is true then other non-income and social factors may be playing an important role for individual happiness even in a society where basic needs for a secure life are rarely met. On the other hand, governance crisis and corruptions are well known phenomena in Bangladesh. Corruption prevails not only public sector but also it spreads in social sectors (Nabi et, al. 1999). Corruption in public service systems such as health and education is a major cause of concern. How can with such a poor quality of social and legal institution enrich country enjoy maximum happiness? It needs some kind of investigation. Recently Sen and Hulme (2004) report that happiness score of Bangladesh declined from 85% (in 1995) to 60% (in 2000) with a fall in Human Poverty Index (HPI) from 61% (in 1983) to 36% (in 2000). This

gives us an indication of the role of absolute income as the sole determinant of happiness. But the findings are totally opposite of the global happiness puzzle named 'Easterlin Paradox'. In his study, he found that economic growth didn't necessarily lead to more satisfaction. People in poor countries did become happier once they could afford basic necessities. But beyond that further gains simply reset the bar. According to him- Relative income- how much you make compare with other surround you-mattered far more than absolute income (Easterlin 1974: 93). So, it is interesting to see what could explain the Bangladeshi puzzle of declining life satisfaction in an era of economic growth and poverty reduction.

4. Research Questions and Objectives

For reasons related to data unavailability, research related to happiness and poverty puzzles in Bangladesh is still remains unrevealed. More importantly, we don't know much about the role of institutional quality, social trust in the community and religious belief that contribute and shape an individual's happiness. These other non-income related factors are not focused in the published developing country studies; especially in case of Bangladesh it is ignored. We are planning to estimate a well-being function for Bangladesh with its determinants focusing on poverty level. The specific objectives are: Construct and experience of happiness and life satisfaction in condition of extreme and persistent poverty. How happiness is influenced by social, cultural and religious contents? Constraint of pursuing happiness: risk , health hazard, loan for MFIs Sources of Happiness: income, relationship, achievements or gains. Main Research Question Base on the above stated objectives the main research question is set to: Why change in relative

income does not contribute much to change in happiness? Sub questions: Are persons with high income at a given point in time happier than those with low income? What are the influential factors that act behind the difference in feelings of happiness between the mentioned groups? Is it the income or one's quality of life that matters?

5. Relevance and Justification for Policy

If poor are happier than rich, there is no necessity of running the development program or project and also no need of following the pro-poor growth strategies for development. Research on happiness and poverty is important from policy perspective. First: If income is a necessary condition for happiness, then there is a need to increase government expenditure through various social safety net programs so that there is an increase in income while maintaining the happiness. Second: If income matters, then Micro finance institution (MFIs) can play an important role here for increasing the income of poor through various income generating activities (IGAs). Third: If being unemployed reduces the probability of being happiness and it affects poor rather than rich much then definitely we need some economic policy decisions here. Fourth: If the institutional conditions such as quality of governance, accountability, rules of law and control of corruption influence the happiness score and poor's are affected strongly then government should pay attention to its institutional stability. Fifth: High inflation affects poor rather than rich. If inflation affects the happiness score of poor then government should take necessary steps to control inflation of necessary commodities which are commonly consumed by poor.

6. Research Methodology

We are thinking to combine both quantitative and qualitative data for capturing the relationship between happiness and poverty. For the quantitative data, we are planning to look for secondary sources like: World Happiness Data or World Value surveys data (WVS) base. The qualitative part would cover some case studies and Focus group discussion (FGD) to support and strengthen the empirical findings. Based on the nature of the data, rigorous econometric analysis would be used to capture the complex link between happiness and poverty.

7. Possible Challenges

It is a challenging research not only from the point of view of availability of data set but also from the perspective of people's expression of subjective feelings of happiness, which is difficult to justify. The possible difficulties are outlined as follows: Availability of data on all indicators; Unreliability of people's expression of subjective feelings of happiness, that is how they feel and how they reveal their feelings; Limited literature or research on the link between income class and happiness. Individual heterogeneity based on their pessimistic or optimistic nature; Intra household heterogeneity.

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