

Determinants of economic happiness economics essay



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Which of the fundamental economic characteristics of a society such as income, growth, equity, property ownership, organisation, governance, type of goods produced and consumed are the principal determinants of happiness? Does the relative importance of such characteristics change as a society becomes richer?

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This essay is going to look at the determinants of economic happiness and if the relative importance of the determinants change as a society becomes richer.

Different people have their own definition of happiness, Overall happiness can be defined as “ the degree to which an individual judges the overall quality of his life-as-a-whole favorably” (Veenhoven 1984: 22-24). Therefore, happiness is an outlook towards one’s own life, that has some stability of its own and that involve related feelings and beliefs. These feelings and beliefs are seen as ‘ constituents’ of happiness. Happiness in general is considered an ultimate goal in life, everybody wants to be happy.

There are many reasons why economists look at happiness. Firstly, there is economic policy, through the study of micro-economics, social actions causes a social cost to the society, economists must look at the social benefit and of any action. Also, it helps to calculate the compensating variation (the amount of money that compensates an individual for a loss in welfare) for being unemployed rather than having a paid job.

Moreover, economists study happiness because of the effect of institutions, such as the quality of governance within a society and the size of social capital on people's happiness

Lastly, economists study happiness to understand the information of subjective wellbeing. For example, whether people can predict their utilities or whether utilities can remain constant.

Happiness economics has been a much debated topic over recent years, economists have sought after industrialization and the production on more and more goods and services however nowadays they are looking at their happiness of individuals, people have argued that economics is-or should be attaining happiness.

It would not be fair to look at the economics of happiness without looking back at who started this debate ' Richard Easterlin'. In 1974 Eaterlin revealed a paradox which sparked interest on the topic. Easterlin argued that ' richer countries are happier as a group than poor counties as a group and that happiness seems to rise with income up to a point, but not beyond it (Easterlin, Richard A. 1974) . A number of economic studies have also confirmed the effects of rising aspirations as one of the factors that influence happiness(Frank, 1999). Thus people interpret the Easterlin paradox as when ' aspirations increase along with income and after basic needs are met, relative levels of income matter to well-being.

Effects of Income on Happiness

Income is the consumption and savings opportunity gained by an entity

within a specified timeframe, which is generally expressed in monetary

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terms[1]. Two aspects of relationships between happiness and income include;

Are people in rich countries happier than those in less developed countries?

Are people with high income at a given point in time in their lives happier than those with low income?

Are people in rich countries happier than those in less developed countries

Various studies provide evidence that, on average, persons living in rich countries are happier than those living in poor countries. Differences in income between countries are measured by using exchange rates and purchasing power parities; this is in order to control the international differences in living costs.

The relationship between income and happiness across countries is limited in value; the clear association might be generated by other elements such as income. Countries with higher per capita incomes tend to have more stable democracies than poor countries. In addition to democracy, there may be other conditions associated with income, which may produce the observed positive connection between income and happiness. For example, the higher the income is, the better the average health and the more secure the basic human rights. Thus, both health and basic human rights may seemingly make happiness rise with income.

Evidence suggests that across nations, income and happiness are correlated but that the effects are small and diminishing. This indicates that on the one

hand other factors may be more important to explain differences in reported subjective well-being between countries, and on the other hand that the notion that people in poor countries are happier because they live under more “ natural” and less stressful conditions is a myth.

Are people with high income at a given point in time in their lives happier than those with low income?

A recent research carried out at Princeton University’s Woodrow Wilson School, state that earning an income of about \$75000 makes people happy. Also, the lower a person’s annual income falls below that benchmark, the unhappier he or she feels. But no matter how much more than \$75, 000 people make, they don’t report any greater degree of happiness.

Researchers found that lower income did not cause sadness itself but made people feel more ground down by the problems they already had.

People with higher income tend to have more opportunities to achieve whatever they desire in life: in particular, they can buy more goods and services. Besides, they have a higher status in society. Higher income therefore yields higher utility, and equally the poor are unhappy. This relationship between income and happiness at a particular point in time and (country) has been the subject of a large empirical literature. As a robust and general result, it has been found that richer people, on average, report higher subjective well-being. The relationship between income and happiness, both in simple regressions and when a large number of other factors are controlled for in multiple regressions, proves to be statistically (normally highly) significant. In this sense, “ income does buy happiness”.

Additional income does not raise happiness endlessly and not for sure, there is diminishing marginal utility with absolute income.

There may be many different reasons why higher income does not simply translate into higher happiness. Without doubt, one of the most important ones is that individuals compare themselves to other individuals. It is not the absolute level of income that matters most but rather one's position relative to other individuals such as colleagues, friend's family and e. tc. Easterlin (1974, 1995, 2001) acknowledges that people with higher income are, on average, happier, but raising everybody's income does not increase the everybody's happiness, because in comparison to others income has not improved. Easterlin put forward three key points, (1) within a society; rich people tend to be much happier than poor people,(2) rich societies tend not to be happier than poor societies and that as countries get richer, they do not get happier. Easterlin argued that life satisfaction does rise with average incomes but only up to a point. Beyond that the marginal gain in happiness declines. higher income expands individuals' and countries' opportunity set, i. e. More goods and services can be consumed. The few people not interested in more commodities need not consume them; they are free to costless dispose of any unwanted surplus. It therefore seems obvious that income and happiness go together (provided, of course, that the two are correctly measured).

Effects of Economic growth on happiness

Increasing the rates of economic growth has long been the main objective of established economics and politics. To a large extent, most developed economies have been highly successful in increasing economic output. But, <https://assignbuster.com/determinants-of-economic-happiness-economics-essay/>

has such an impressive increase in national output actually improved people's standard of living? Deciding whether economic growth has increased happiness is a personal choice, and it is difficult to make concrete arguments. Growth might be good for an economy, but it has various side-effects which affect the general happiness within an economy.

Economic growth has several benefits such as increased consumption, Consumers benefit from consuming more goods and services. In economics, consumption is related to utility, so as more and more goods are consumed it leads to higher utility which is in turn greater prosperity. Also, economic growth is normally associated with improved public services. Improved health care can improve quality of life through treating diseases and increasing life expectancy. Increased educational standards can give the population a greater diversity of skills and literacy. In this sense, there will be more happiness within the economies. Lastly, when there is reduced unemployment and poverty, economic growth helps to reduce unemployment by creating jobs. This is significant because unemployment is a major source of social problems such as crime and alienation, when these are created it generates happiness.

In contrary, there are certain cases that growth does not generate happiness;

Diminishing returns

If a section of a population is living in absolute poverty, economic growth enables the people to have higher incomes and therefore they will be able to afford the basic necessities of life such as; food and water, When economic

growth can overcome this type of poverty there is a clear link with improved living standards. However, when incomes increase by a small percentage, it is hard to explain the improvement in living standards. Diminishing returns is a basic economic concept; it explains that the third units of a good will give much less satisfaction than the first.

Increased Inequality

It is a puzzle that higher economic growth can cause an increase in relative poverty. This is because those who benefit from growth are often the highly educated and those who already own wealth. When this happens there is generally no happiness amongst the poor.

Higher Economic Growth has led to more hours worked

At the beginning of the industrial revolution which started in England, higher growth led to people working lower hours[2], however, in recent years, higher incomes have led to people working longer hours. This suggests people are valuing earning money more than leisure. However, this trend may also be due to companies wanting people to work longer hours.

There are clearly some benefits of economic growth. These benefits are most visible when for low income countries. Economic growth enables the possibility to deal with many serious problems of poverty, homelessness and lack of basic amenities. There are clearly several issues, which suggest that economic growth, has contributed to serious social, environmental and economic problems, which have reduced happiness. This is not to say economic growth is doomed to bring unhappiness. In fact the challenge is to harness the potential of economic growth to make sure it really does

increase sustainable living standards. As a society becomes richer, it will strive towards increasing growth within the economy and it will try to compete with countries that are in their frontiers of growth.

Effects of organization and governance on happiness

People's happiness is influenced by the kind of political system they live in. It has been found out that people who live in democracies tend to be happier. It is to be expected that people living in constitutional democracies are happier because the politicians are more motivated to rule according to their interests. If they fail to implement the interest of the public, the politicians will not be re-elected at the next elections. The relationship between happiness and democracy has been looked at by various researchers. They found that, the extent to which a constitution is democratic and allows its citizens to take decisions according to their own choice can be captured by various guides of freedom.

People tend to believe that the impact of government on their happiness is low. Headey and Wearing (1992) found that people estimate that governments contribute less to happiness than any other potential source. Such beliefs are understandable since people are primarily confronted with - and interested in- individual differences in happiness within their own nations.

Freedom can be used to show the amount of happiness within an organization or governance, there are three types of freedom (Veenhoven 2000)

Economic freedom- this measures the opportunity for individuals to engage in the free exchange of goods, services and labor. It is based on sub-indices, referring to the security of money, free enterprise, and freedom from excessive taxation and the possibility of undertaking monetary transfers.

Personal freedom measures how free one is in one's private life, for example, to practice one's religion, to travel or to get married

Political freedom measures the possibility of citizens to engage in the democratic process or, conversely, the restrictions on political participation. It is composed of two sub-indices, the first relating to civil rights, such as freedom of speech, and the second to political rights.

To be brief, economic freedom contributes to happiness particularly in poor countries with a low level of general education. While political freedom is more strongly correlated with subjective well-being in rich countries with a high level of education. it remains open whether democracy fosters happiness, or whether happiness is a precondition for democracy. It has been argued, for instance, that high satisfaction with life in a population increases the legitimacy of the political regime in power and it may thus foster democracy (Inglehart 1990, 1999). The extent to which a constitution is democratic and allows its citizens to make decisions according to their own preferences can be captured by various measures. It is found that increased possibilities to directly participate in public decision-making via popular referenda and a decentralized state significantly contribute to happiness.

Effects of property ownership on happiness

Property ownership is defined as anything owned by an entity. Property ownership plays a huge role in determining people's happiness. Abraham Maslow, who was an American psychologist created a chart which shows people's needs, Maslow's hierarchy of needs. Maslow argued that life satisfaction depended on meeting needs. In this sense, housing(property ownership) played a part as it was under the primary psychological need together with warmth and rest. Owning property gives people a sense of belonging.

In a research carried out by a professor of real-estate Grace Wong Bucchianeri, she shows that that while homeowners do experience significant joy, they also face more aggravation, spend less time with friends and are even heavier than renters living in comparable homes (The American Dream or The American Delusion? The Private and External Benefits of Homeownership for Women 2011). Unlike previous research which illustrated home owners showed pride in owning property, her report shows that owning a home does not deliver more happiness than renting a property. She said" Overall, I found little evidence that homeowners are happier by any of the following definitions: life satisfaction, overall mood, overall feeling, general moment-to-moment emotions and affect at home" in short, the average property owner derives less happiness from owning a property.

As a society becomes richer, people will value their property more and they are going to start accruing more property to stock up their wealth, but this will not cause happiness as property ownership does not equal happiness. <https://assignbuster.com/determinants-of-economic-happiness-economics-essay/>

In conclusion, it is often difficult to actually point out the main determinant of happiness in a society as various determinants such as income, growth, organisation & governance and good produced and consumed all determine happiness in different ways.