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THE ECONOMICS OF HAPPINESS IN LATIN AMERICA: INSIGHTS ON THE FINANCIAL CRISIS, GROWTH AND THE INFLATION-UNEMPLOYMENT TRADEOFF

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P R O C E E D I N G S

MR. CÁRDENAS: Good morning. My name is Mauricio Cárdenas. I’m Director of the Latin America Initiative here at Brookings.

I want to welcome you to our institution, and look forward to this panel, which is going to be centered on a new report that was just published by the Inter-American Development Bank on the quality of life in Latin America.

There are different ways in which you can call happiness -- well-being, quality of life, but essentially that’s the topic of this year's report.

We're going to have three panelists starting with our own Carol Graham, who is a senior fellow here at Brookings and has the Charles Robinson Chair.

Carol has been a long-standing researcher in this area, formerly a professor at the University of Maryland, they actually joined the team of people working on this report at the IADB.

Then we will listen to Eduardo Lora, who is the acting chief economist of the Inter-American Development Bank and who was the main person behind the report, which by the way was a report, as it’s always the case at the IADB, prepared by a relatively large team of individuals.

Eduardo is going to give us an overview of the report and its main conclusions.

And then also from the Inter-American Development Bank, we'll listen to Inder Ruprah.

Inder is going to present a paper that he recently finished on the perception of individuals regarding the trade-off between inflation and unemployment in Latin America, which I think is very timely given current events in the world economy and particularly what is happening in economies across the region where central banks have at times been subject to the tension between high inflation and high unemployment.

I really hope that after these presentations, which should be brief, we engage in a conversation, keeping in mind that what this very prolific area of research brings to the table is a better understanding of how people shape their opinions -- their perceptions and through those perceptions influence the policy making.

We want to understand, for instance, why it is the case in many of the countries in Latin America, that in spite of progress in many areas, in terms of income in terms of living standards, perceptions are not necessarily favorable to the current economic structure.

People drive away from market-oriented economies and favor some forms of populism.

We also want to understand why in the region the levels of happiness in general tend to be higher than in other countries with similar levels of income.

So there are many questions and there are many ways of addressing these questions. I want to basically suggest to the panelists that we focus on the information that these types of surveys and the analysis of the surveys gives us in order to understand the way policies are made and implemented throughout our hemisphere.

So without further delay, let me welcome Carol Graham for her presentation.

MS. GRAHAM: Thank you, Mauricio. It's always a pleasure to have any kind of happiness events at Brookings.

I think I remember the first one that we did was in 2002 when if you worked on happiness, people thought you were certified nuts, and we actually managed to fill the room with an event on happiness with a book that was presented by Lord Richard Blair, and I think it's now become one of best-selling books on happiness. And the commentator at that point was none other than Stan Fischer, the former deputy managing director of the IMF.

So, even then, work on happiness was getting into the mainstream or at least on the edges of the mainstream, but I would say now, as you can see by the IDB report on quality of life and the flurry of papers in this area that it has become a recognized approach for getting at questions that other more standard approaches don't answer very well.

So what I thought I’d do with my time is introduce you a little bit to the approach, and then you'll see, I think, how it links to or maybe even underlies what the Inter-American Development Bank report then went on and did on a much larger scale, but in particular focus on how this is an approach that can help us understand public opinion during financial market crises, during political transitions, and possibly even during times of growth.

So, first of all, what does happiness economics do that other approaches don't?

Well, it combines the tools and methods of economists with those typically used by psychologists. And in particular, it uses survey data.

Unlike standard economic approaches, it actually listens to what people say. Standard economics basically focuses on what people do, what they choose to do via consumption choices, and that's how you gauge their welfare.

But happiness economics has been using large-scale survey data and analyzing it with the typical tools used by economists; so it is a combination of what psychologists do with what economists do.

And because of that, it captures broader elements of welfare than just do income data alone.

If you can think of lots of areas, or lots of elements of human welfare that aren’t well captured by consumption choices, you can imagine all of the different areas that we can look into.

And in particular I think happiness

economics is particularly well-suited to answer questions where revealed presences don't tell us very much -- in other words, when people don't make conscious rational choices that reflect their best welfare, their optimal welfare decisions.

And one of the effects -- the welfare effects of institutional arrangements individuals are powerless to change, for example, bad government or inequality or macroeconomic volatility.

We’ll hear from Inder a bit on the inflation unemployment trade-off -- how these things affect people's welfare.

But the average citizen can’t really do very much in terms of affecting the inflation rate or the unemployment rate.

And the other is the explanation of behaviors that are driven by norms or addiction and self-control problems, such as alcohol and drug abuse, smoking, obesity is an area I have been working in.

But if you think about Latin America the very poor don’t have a lot of choice. And their lack of choice does not necessarily reflect conscious decisions to maximize welfare, but it may be that they’re just unable to make choices and they're unable to make choices because of norms or because of low expectations or just because they don't have the agency.

So, there are a lot of areas that we can get at the welfare of different groups looking at what they express via survey data that they are not able to express through choices.

And while economists have traditionally shied away from survey data, over time there's been a lot more usage of it.

What we find is consistent patterns in the determinants of happiness across large samples across countries and across time. I’ve looked at happiness in Europe, Latin America, the USA, Central Asia, Eastern Europe, Africa and now doing even a survey in Afghanistan, and what is remarkable is how consistent the patterns are in the determinants of happiness, and so this gives us some sort of sense that these surveys are robust.

And secondly, there are increasing econometric innovations that can help us account for the errors that serve -- that come with survey data and with the errors that come with all data.

For example, income data also has a lot of error, and I like to remind people that are critical of survey data.

There are lots of reasons why we should be cautious using these surveys. I’m going to skip over those, not as a marketing tool, just because of time. I’m happy to talk about that in the questions.

But how can this approach help us better understand wellbeing in Latin America?

Well, one it’s a question that Mauricio pointed to, which is there are major discrepancies between the positive assessments of the benefit of globalization and market reforms for the poor and for economies in the aggregate and the more negative assessments of the average layperson on the street.

You know, if these things, if these reforms are so good for everybody, why are people voting for populists is the basic question.

And I think these surveys help us answer that question. Indeed, what we find based on surveying thousands of people in Latin America and also in other developing countries both across countries and over time is that there is a great deal of public frustration with certain aspects of globalization and market reforms.

But that is not -- it’s not the poor that are the most frustrated, but, rather, it’s usually upwardly mobile lower- and middle-income groups and you'll see why in a moment.

And basically, the frustration with globalization, the tendency to vote for populists seems to be associated with mobility, inequality, and insecurity rather than with static poverty.

So this is not frustration among the very poor. It’s more complicated than that.

So I won't go into detail about the surveys but we work with the Latino Barometro opinion poll survey, with the Gallup World Poll, some more in-depth surveys that we have conducted on our own via Brookings in collaboration with other research organizations in the region, and the surveys that we use are typically comparable with surveys done in other regions like the Europe Barometro. The Gallup World Poll, which both Eduardo and I use, covers the whole world and obviously it's comparable across large samples of people worldwide.

So, first of all, what do we know? There’s a question that was raised by Richard Easterland years ago in his literature called the Easterland Paradox. And his question was: will raising the incomes of all increase the happiness of all?

And his answer, as he looked across countries, was no. He observed that as countries were getting wealthier over time, happiness levels were not increasing. In fact, in Japan, from 1950 until about 1985, when incomes basically quintupled in three decades, happiness levels went down.

So this so-called Easterland Paradox has now sparked a long-standing debate about the role of income in increasing happiness.

If you look at this chart, the blue countries, the existing countries, are from the World Value Survey, the red countries are where my first study of happiness in Latin America from the Latino Barometro Survey, the vertical axis is percent above neutral and life satisfaction, average per country and on the horizontal axis is per capita income adjusted for PPP.

And you can't really answer Easterland’s question with this chart in my view because on the one hand the wealthier countries are on average happier than the poorer ones.

But if you look among the wealthy countries, there is not a clear correlation between income and happiness and if you look among the poorer countries there’s surely not one. That's Argentina way out on the right, pre-crisis Argentina, but much less happy than much poorer Panama, Venezuela, Honduras.

So you get a sense, whatever you make of this chart, that the relationship between income and happiness at least across countries is complicated at best. It’s not a linear relationship.

A lot of what you read in the press about happiness economics gives a lot of play to these country rankings. The Danes are the happiest people in the world, or Nigerians are almost as happy as Danes.

And when we did this study on Latin America, the number of front page articles saying, you know, Chilenos son mas felices que Peruanos and, you know, the Colombians had a front-page story -- we’re not the least happy country in the region.

The country level rankings are what capture attention.

But in the end, they don't tell us very much, because they’re also picking up just cultural differences in the way people answer surveys across countries that we’re not controlling very well when we do these country averages.

The information that really matters is information at the individual level. And it is a remarkably consistent trend across countries, across regions, across time and it's a happiness and age relationship and it will make you happy or sad depending where you are on the curve.

But the point is that your 20s aren’t it. In fact, there is a sort of an unhappy low sort of middle age spot on the happiness curve. And after that, if this is controlling for health and marriage, if you're healthy and married people seem to get happier until they die.

Now, there could be a senility effect here. Our oldest respondent is 99. But, in any event, beyond joking about, it this is a trend that shows up across really remarkably consistent across countries, across regions with some variants for some countries a little bit older, others a little bit younger, but it’s fairly consistent.

Don't worry about these numbers, but this is basically a regression where the dependent variable is happiness and it’s just telling us what matters basically.

And one of the things -- this is happiness in Latin America -- it conforms very much to the patterns in the U.S. and Europe.

There is no gender difference. Women are happier than men in the U.S. and Europe, but in Latin America there isn’t a gender difference. Married people are on average happier than others. Wealthy people are on average happier than poor people.

So, even though the cross-country relationship between happiness and income is not clear, within countries, it's certainly better to have means than to be destitute, even though, then, the relationship between happiness and income isn't linear.

In Latin America, minorities are less happy on average than others. That accords with the findings for the United States, although perhaps subtle change in the U.S. after yesterday. I hope so.

The retired people in Latin America are no difference. Retired people in the U.S. are happier on average than others, and retired people in Russia are much less happy on average than others. So the unhappy pensioners in Russia come out in these surveys.

Unemployed people anywhere we have studied happiness are much less happy on average than others, and this is even context where they have full income replacement, such as the Scandinavian countries.

So the employment status for people that want to be employed is a very important determinant of well-being.

Health. Self-reported health is incredibly important for happiness, both objective indicators of health and self-reported indicators of health.

One difference between Latin America and Europe and the U.S. is that the self-employed are average less happy than others in Latin America versus self-employed people in the U.S. are happier.

Now why is that? If you think about it, if you are self-employed in the U.S. you're self-employed by choice, likely. If you're self-employed in modern America you're most likely in the informal sector and would probably prefer a more steady job, although, some of the findings in Eduardo's report suggest a remarkable amount of job satisfaction in the informal sector. So we might speak to that later.

Across countries in the region, to be brief on this, because it really is just again country averages. But you will see there’s a pretty steady trend from about the year 2001 until now. The two happiest countries are Costa Rica and Venezuela. You can try and figure that out.

The Venezuelans also say that they are the most satisfied with their democracy. So Venezuela is clearly an outlier on a lot of these surveys.

There’s clearly a dip between 2001 and 2002, so there’s a crisis effect. Crises are bad for happiness.

Let me speak a little bit more about that. I mean, one question -- this is from some older work, but I have revisited it now in light of the crisis in the U.S. -- is does crisis make people unhappy and does it reduce support for markets and democracy?

And this is some work we did just looking at the crisis in 2001 in 2002, and where we compared countries with -- that we defined as crisis countries with negative GDP rates with countries that didn’t have crisis and looked at how did that affect their support for markets and democracy. And we have found something that was both optimistic and surprising.

One was that in the countries that had had big drops in GDP growth, support for markets and democracy as systems, which is preference for a market economy and preference for a democracy as a system, actually increased.

It was lower than average in those countries, in the crisis countries, before the crises and after the crises, it was higher than average.

At the same time satisfaction with how markets and democracy were working in the crisis countries went down.

So what we found is that people were able to distinguish, at a time of crisis, between how the system was working in their country and wanting to dispense with the system in general. And, in fact, support for the systems went up at a time of crisis.

And I think this is a positive trend in terms if you think about support for market economies and democratic systems in the region.

That's the happy part of the story.

The more puzzling part of the story -- and Eduardo will speak more to this, I know -- is that there is no evidence of a growth premium. So in the countries that were doing well, you didn't see any increase in satisfaction with markets and democracy or any increase in support for systems.

So it seems that when times are bad, people may appreciate the system more. But when times are good, there is something that we find called the paradox of unhappy growth and the details of that are to come. I'll let Eduardo speak more to it.

Just a couple more snapshot of things.

One is we did a little estimate where we said what's the potential impact of the U.S. financial crisis on happiness in the U.S. and how can we measure this? No idea really except to look back at past crises that we know about.

So we looked at Russia and Argentina; Russia in 1998, when the ruble crashed, and Argentina in 2002, and we looked at the magnitude of the happiness drop. Happiness fell by about 10 percent in each case, in Russia and Argentina during the crisis.

But that doesn't seem like that much when you think about the extent of the economic crash. But if you go back to this slide and you realize how remarkably stable happiness levels are. They don't change that much across countries over time. A 10 percent drop is a lot.

So we said, well in the U.S. assume there’s a 10 percent happiness drop that might have to do as much from the uncertainty effects of the crisis -- nobody knows how deep it will be, how long it will last -- and that tends to have bad effect on happiness -- as much as the stock market crash.

So take a 10 percent drop and using the coefficient of income on happiness, the income equivalent of a happiness drop, how much would the average citizen in the U.S. have to be compensated for in income terms to make up for a 10 percent happiness loss? And we come up with a figure of about $45,000 for somebody at median income of $60,000. So that’s a lot of money, and it has to do -- again, this is an estimate—with an order of magnitude. It's not precise. It depends on how long the crisis lasts and how deep it is.

But basically we’ve said if the happiness effects are as extreme as they were in Russia and Argentina, it would take a lot of money to compensate the average citizen for the loss of happiness during that period.

Crises are bad for happiness.

Another thing we looked at -- and I think this helps explain the paradox of happy growth – is that the effects of inequality on individual welfare remain a big question in economics. They are unclear and they seem to vary. There is no real effect of inequality on happiness in the U.S. In one study that was done, we find that the only group in the United States that’s made unhappy by inequality are left-leaning rich people.

So the poor are not made unhappy by inequality. And this has to do with attitudes about future opportunity. There is still this very strong belief in prospects of upward mobility in the U.S., even though the data don’t really bear those out.

Beliefs about upward mobility are quite different in Latin America, and, as we looked at the effects of inequality on happiness, we find a very strong negative effect of inequality on the welfare of the poor.

Again, I’ll skip the more technical slides, but basically we find that the average income level for your country doesn't affect your happiness. But your distance from the average for the country you are in has strong effects on happiness.

So the further you are below income, the less happy you are.

And this is just an illustration where we compared -- we said look, somebody in the lowest quintile in Honduras is half as wealthy as somebody in the lowest quintile in Chile. And yet, the poor person in the lowest quintile in Honduras is actually happier than the poor peasant in Chile because his or distance from the average income is less.

So this is very clearly a relative income or an inequality effect.

Why is it?

We think that it has a lot to do with what inequality signals and whether or not mobility levels have changed in Latin America, and I have reason to believe from some data that actually their higher than you would think, that the perception is still that inequality is a sign of persistent advantage for the rich and persistent disadvantage for the poor in region.

And I think that may help explain some of the effects or some of the public attitudes when economies are growing rapidly, because it’s in a context of very high income inequality.

And just to conclude, sort of what is the implications of all this for policy, which is something Mauricio wanted us to speak to, well, one is that, you know, we can just say as a starting point we know the determinants of happiness in Latin America are no different, so there aren't -- there isn't some quirky thing about happiness that renders these surveys useless for other kinds of comparisons.

We know that crises hurt happiness. They hurt happiness in Latin America. They certainly have in the U.S. as far as we can tell.

At the same time, that doesn't mean that citizens in the region are ready to toss out markets and democracy. And, in fact, we find that crises seem to be associated with increased support for these systems. And we also find that happiness levels recover after crises. Certainly, in Latin America they did.

But the conundrum is that there’s a remarkable lack of a growth dividend. So when things are going bad, things aren't as bad as you think they might be. But when things are going well, we find this paradox of unhappy growth.

And then finally, inequality is also bad for happiness in Latin America, and I think it may explain some of the seemingly paradoxical effects on public opinion when things are going well in the region. And there’s a whole other research agenda I could talk about, but I'll speak to that in the questions, and I guess will turn it over to Eduardo, who will, I hope, talk about the paradox of unhappy growth, among other things.

Thank you.

MR. LARA: Thank you, and Mauricio and Carol for organizing this seminar.

And also thank you to both of them for taking part in the production of this book -- Carol as an advisor, and Mauricio also as a researcher back when he was Director of Fedesarrollo, he was in charge of a couple of research projects that were used as background for this book.

I’m not going to pretend to give you a summary of the book. This is an ambitious book, and besides, I want you to buy it. So I don't think it's a good idea to give you a full summary of it.

Basically, what I want to do is to summarize some of the main findings and policy implications, especially in the area that might be related to growth, not so much crisis, but inequality, and in general expectations, as you would say, because, as you will see, because all those things are pretty closely connected.

As Carol already mentioned, the main source of information that we use here in this book is the Gallup World Poll, which is a very ambitious system of surveys that covers over 130 countries, and which includes many questions on satisfaction, many subjective questions, not just satisfaction in general, satisfaction with your life, which is the most general question that the survey has, but also a set of other satisfaction questions -- satisfaction with job, satisfaction with your health, satisfaction with the education system, and so on and so forth.

So we basically exploited that data in the book and tried to find its main regularities and derive some insights from it.

The most important variable of the survey for us is the life satisfaction question. The survey doesn't have a happiness question of the type that Carol used in her presentation, which basically is based in the Latino Barometer.

In the Gallup survey, the closest to it is the life satisfaction question, which basically asks people to place themselves on a zero to 10 scale, where zero is the worst possible life, and 10 is the best possible life. And that’s the way it’s basically framed. It's a very framed question unlike the happiness question, which basically asks how happy you feel -- very happy, not too happy, and so on and so forth.

And here is the summary of the life satisfaction question. As you can see, unlike in happiness where Latin Americans appear as relatively happy people, in the life satisfaction question, Latin Americans are right in the middle of the pack, I would say. And within Latin America, the countries that are more satisfied are Costa Rica, Panama, Mexico, Venezuela.

Interestingly, in this ranking, the richest countries in the region are not the ones where satisfaction is the highest. The richest countries in Latin America are Trinidad and Tobago, Argentina, Chile, and Uruguay.

And you see them all in the middle of the ranking of satisfaction.

This doesn’t mean that satisfaction or life satisfaction is not related with income. They are related and they are very closely related, as you can see here.

This plot represents countries, and in the vertical axis you have every satisfaction level. And in the horizontal axis, you have average income or per capita income in log terms. And you see that the correlation between the two variables is very close, indeed. It’s over 0.8 -- over 80 percent, which is very high. Of course, it’s not perfect, but it's very high.

And there is something important here in this graph, which is that there is no threshold beyond which satisfaction could not increase.

So as income increases, no matter what the level of income is, satisfaction increases in general. So that's an important point.

However, as Carol already mentioned, beyond this, beyond this relation between income and satisfaction, there is the influence of growth and satisfaction. And as you see here, countries that grow slower, like here in the graph Brazil, Mexico, and Japan are examples, are countries where you observe higher levels of satisfaction and the other way around.

So in Latin America some of the faster growing countries -- the fastest growing countries in the last few years have been Ecuador and Peru, and they don't have satisfaction levels as high as Brazil or Mexico, which have grown much less.

And some of the least happy countries in the world -- or satisfied countries in the world -- include, for instance, China or India, where, as everybody knows, have been very fast growing countries.

So there is a regularity here, and the regularity is even stronger when you go not to life satisfaction in general but to satisfaction with those aspects of life that are susceptible of comparisons.

For instance, standard of living. The question of standard of living basically asks people to see how satisfied they are with all the things that they can do and buy. So that's why we call the standard of material living.

And here you see that the correlation is -- or the gradient -- is even steeper, was very satisfied countries in the case in this respect in Latin America Bolivia and Brazil, which are slow growing countries; and very unsatisfied countries like, for instance, Trinidad and Tobago, which not only is the richest country in the Latin America, but it has been the fastest growing country Latin America or Latin America and the Caribbean in the last two years.

So here is even more clear the unhappy growth paradox.

And same holds if you go to job satisfaction, also a very strong relation between fast-growth and lower satisfaction.

So we devote a lot of time and patience and econometric expertise to explore the reasons behind this, and basically what we came up with was a story that says what is behind all this is expectations, and the expectations are basically driven by comparisons. I mean, what you expect to get in life is what you see others get in life, basically.

And this graph, or this table, tries to convey that idea with some simple comparisons of what happens with your satisfaction in different domains when your own income increases and when the income of others, like you, increases. Okay.

So in the first column, you see what happens with satisfaction in the different domains when your income doubles. And you see that in all instances, satisfaction increases.

So there is nothing strange here. There is a normal relationship in all aspects of life between satisfaction and income and your own income -- this is at individual level.

However, when you take into account what is happening to those people that have characteristics similar to yours, that is to say roughly your same level of education, your same gender, your same area of residence, and so on and so forth -- and you assess the effect of the income of others on your own satisfaction, then what you find is very striking.

You find that in those aspects of life that are more susceptible to comparisons, as I was saying, you have the higher the income of others, the lower your own satisfaction. Okay. And that's basically true in the case of job satisfaction or housing satisfaction. It's not the case in health satisfaction, because basically you don't feel envy in this area or the comparisons are not as easy as in other areas.

And interestingly, we do not find this in life satisfaction in general. Apparently, you judge life satisfaction on your own merits, referring to yourself and not referring to others.

So this is very interesting and very

telling, and we explore this in many other dimensions that I don't have time to discuss here. But two important observations I think are worth doing, something that Carol was already alluding to. The richer you are and the richer your country, the stronger the paradox is.

And the other is that it doesn’t hold in the opposite direction. I mean, when you are in crisis, what Carol was already mentioning, when the country is in crisis or when there is negative growth, you don't observe an increase in happiness or in satisfaction. This only occurs for -- basically -- positive rates of growth.

So that’s one of the, I think, most remarkable findings. But their other findings that are also interesting to mention.

In general, although we do find that there is the correlation that you would expect between subjective indicators of satisfaction and objective indicators, that correlation is not very strong. And actually, you find things that are not objective that correlate stronger with satisfaction. And this is what I tried to show in this table.

In the first columns of the table, you see -- well, the first column is the list of satisfaction domains. The second column is the list of variables that you would expect to be related with each of these satisfaction domains. And what you have in the third column is the correlations.

As I already mentioned, life satisfaction and GDP per capita are closely correlated. All these correlations are at the country level.

And you can go along the table and you see that all the correlations have the expected signs, and some of them are relatively high. However, what is interesting is that all the things that are not objective, at least not objective in the sense that economists -- we economists use that word -- satisfaction is very closely correlated, for instance, with culture.

And here we measure culture in a very simple way: we measure here culture as the tendency to respond affirmatively or in a positive way to all the subjective questions that you have in a survey, no matter what they refer to. If you want to say yes, okay, you get one point. And the more says yes that you say, you have more points.

And then, of course, we check if this is just explained by objective variables, and we control for that. But I don't want to get into the technicalities of that.

But basically, what this is saying is that in some areas of satisfaction, the response is just a cultural matter. For instance, the relation is very strong between culture and confidence in the medical system or satisfaction with local education system. And it's also high, for instance, in availability of affordably priced good homes.

In general, culture shows in a stronger way in areas of satisfaction that have to do with public policies, while in your personal areas you tend to be more influenced by your own personal conditions. So this is also important to keep in mind.

However, that doesn't mean that everything is cultural. That doesn't mean that every answer to a satisfaction question is just dominated by culture. It is also dominated by how you understand the question and what are your own conceptions of the dimensions you are being asked about.

In the case of job quality it’s very interesting. If you ask any economist or any government official or any expert of an international organization how is the quality of jobs in Latin America, probably they are going to tell you that it's terrible, that it's really dismal. That informality is tremendous. That there is instability and so on and so forth.

And if you order countries by the level of formality, which would be the standard objective measure of quality of jobs, then this is the ordering that you would get: Chile on top; Bolivia at the bottom.

However, if you ask people about how they feel with the quality of their own jobs, this is what you get: it has nothing to do with how we measure job quality.

And you have countries where people are very satisfied with their jobs, for instance, in Costa Rica but also in Guatemala, where, as we all know, income levels and wage levels are very low, and informality is rampant and so on so forth. And, however, people are very happy with jobs.

And it’s not just culture. You can isolate this variable that I constructed, that I mentioned before, and still there's a lot to it apart from culture.

What is behind these responses?

In this case, we were able to explore that because we conducted a couple of other surveys, in-depth surveys, in a few countries. And basically, what we found was very interesting. What we found was basically that people didn't care about the standard features of jobs that we associate with job quality. Usually, in Latin America, people don't care about Social Security or about getting paid vacation or about stability or things like that.

Rich people do. And especially well-educated people do. But the common folk don't care about that.

What they do care about is basically if they are well treated, if they feel that they have autonomy, if they feel that they have the possibility to do the best everyday.

So a lot of things that we don’t usually care about that people do care about themselves. And, as a matter of fact, we asked them -- we asked people in the formal sector if they would like to move to informality and the other way around. We also asked people in the informals and independent people to see if they wanted and for what reasons they would like to go to the formal sector. And the conclusion of that piece of research was very interesting.

There are more people in the formal sector who would like to become independent than independents who would like to become waged workers.

So all the conception that we have about quality of jobs is essentially flawed, because it doesn't really take into account what people think about their own jobs.

Now the same can be applied to many other dimensions, and the book explores many other dimensions. I don't have the time to describe them here. But to give you just sort of summary of what we found, we did a very simple exercise.

We constructed a subjective human development index. You all know what the human development index is. It’s that index that basically combines indicators of income, education, and life expectancy and mortality, combined in a single indicator.

And this is the ranking of the countries according with the human development index. So Argentina on top. Chile, Uruguay -- the usual suspects on top, and then at the bottom Guatemala, Haiti, and so on.

So using exactly the same methodology, but instead of using objective indicators, we used subjective indicators, we constructed a human development index.

And this is one version of the human development index. This one is based on the answers that people give when they are being asked about their own income, their own education, their own health, and so on. Okay?

And this is what you get: so, again, very, very little correlation. In some countries, you have people that are very satisfied if they -- I mean, if we produce the human development index on the basis of what they think about their own lives, Venezuelans and Guatemalans, of all peoples, are about the ones with the highest subjective human development index.

We produced another version of it based on the questions about how they feel about the policies of the countries in these areas, and this is what we got.

And I have two other findings to report, and I do it very briefly, because I have just a couple of minutes left.

We also found what we call the aspiration paradox. The aspiration paradox is in a way complementary to the unhappy growth paradox. And basically, it tells you that people who are less educated or poorer or more isolated from society tend to have higher levels of satisfaction with respect to social policies -- in general with respect to all public life issues, but especially with respect to social policies.

And here you see that the aspiration paradox is really, really remarkable. It’s tremendous. If you take two cases, two very different cases -- Honduras and Chile, because Honduras has a very low level of education and Chile has very high levels of education -- and you see that people with low levels of education in both countries think by the very large majority that the education systems of the countries is very good.

And those people who are very well educated in two very different countries think that the education systems of the country is very poor.

So the final finding that I think is interesting to mention is this one, which basically tells you that, of course there are many things that matter for satisfaction, and, in this case, for life satisfaction, not just income or not just the income of others, and not just education, but a lot of other things that usually economists don't think about, but psychologists do -- for instance, having friends or having religious beliefs or feeling secure in your ability to buy -- to cover your basic needs -- or your marital status. All those things matter for happiness, and what we do in the book in many instances -- and this is just an example -- is that you can value those things in spite of the fact that those things, of course, don't have any market. But you can value them in a very simple way.

You use what is called in the literature the life satisfaction approach, which basically does the following: if you know that satisfaction is related with income but satisfaction is also related with -- I don't know -- having a religious belief -- then, of course, you can make the calculation. What would happen to you if you lost your religious beliefs? How much money would I have to give you in order to restore your original level of satisfaction? And that's what we do with every one of these features, and what we find is very interesting: that many of the things that matter for people have huge income values. In other words, you couldn't substitute that with just income, because, I mean, the demands would be huge.

But this has policy implications. And let me move then to all the policy implications or some of the policy implications of what I have mentioned, given that I have run out of time.

Well, first of all, we think that the unhappy growth paradox tells us that in general people don't tend to get more satisfied in fast-growing economies, and governments that put all their focus in just growth -- I mean, governments that are run by economists are not usually very popular. You have to deal with other things -- at least those that are run by orthodox economists.

Interestingly, some of the countries that are run by economists are run in a very heterodox way probably for some reason.

Also, as Carol mentioned, feelings of social injustice are more likely during periods of fast growth. And this has noting to do necessarily with what is really happening with objective inequality or with objective poverty or anything of that kind. It's just this matter of expectations and the pressure of not going at the same pace of your peers. And the populist response to that is very simple and very effective.

If that’s the case, then the way to deal with that dissatisfaction is nationalizations, punitive taxation to sectors that are successful, price controls, and so on and so forth. I mean, it's reducing the satisfaction or the level of wealth of those that are so visible that are used for comparisons by the rest of the society.

So this is a very simple explanation -- a tremendously simple explanation of economic populism.

Also, you can explain in a way social populism as a result of aspiration paradox. What the aspiration paradox is telling is that poor people, I mean, the people who are really deserving, don't care much about social policies. You can appease them with very little unlike those that have education and have power and have more expectations, and so on and so forth.

And that explains very easily why social policies are usually tilted in favor of the rich and why if policies just respond to public demands, then they are going to simply reproduce the inequalities that are there already.

And that implies other things that is very important, such as the fact that you need discontent in order to solve social problems. I mean without discontent, it's very difficult that the political system produces solutions that are good for everybody in a general way.

Other policy implications: I think for all of what we have said, it’s very clear that happiness or satisfaction cannot be a measure of the success of governments, maybe the contrary.

And making happiness the objective of public policies is a very bad idea. However, that doesn't mean that you should disregard all the information that is provided by surveys and by analysis like the ones that we have presented, because that information can tell you a lot and tell you all -- and I gave two examples already -- for instance, of what people care about in job policies or in other areas. We also discussed health policies and urban policies and many other areas.

And you have to pay attention to those things, because those things matter even if you have not considered them before.

And also because that information helps you quantify costs and benefits of different social policies and helps you quantify things that you could never quantify because there is no markets for them.

Okay. With that I finish -- no, I finish with a commercial. The book is available at Amazon.com. Thank you.

MR. CÁRDENAS: Thank you, Eduardo. So then, Inder, you have 15 minutes.

MR. RUPRAH: Thanks to Brookings for

arranging this seminar. And thank you for coming out in the cold to listen about happiness.

I’m going to talk about a very specific policy problem and that is how should a central bank deal with the problem of inflation and unemployment.

Unlike the United States where the Fed has a responsibility for both policy objectives, in Latin America increasingly central banks which became -a lot of them became independent in the beginning of the ‘90s often by presidential decree or suppression of Congress have increasingly adopted inflation targeting.

Inflation targeting basically says that the central banks’ responsibility is inflation and that's all they should take into consideration.

It should not bother with unemployment or growth. A recent empirical study on seven Latin American countries showed that this holds empirically not just by law.

This is going to present a problem for the prospect of economics crises in Latin America in the coming years.

So the question I ask is what do people --

what is their trade off, how much more inflation are people willing to accept for a given level of unemployment or vice a versa?

And this is based on the paper I wrote with Pavel who sitting in the audience taking notes and he's going to criticize me afterwards for the presentation.

So economists are trained to say we should look at the social welfare function, where both inflation and unemployment are bad things and we should try to maximize or minimize the welfare loss subject to the trade-off between unemployment and inflation.

In practice, unemployment is forgotten and that is the situation of many Latin American countries.

I am going to use the word Latin America but I'm only talking about 17 countries, which is a common feature.

The data I'm going to use are these questions in the Latin Barometer, which asks people not a happiness question. It asks for life satisfaction questions. In a sleight of hand I'm going to replace life satisfaction with the word happiness.

And there is empirical evidence to suggest the two are highly correlated.

And as Carol has said, these kind of surveys allow us to answer questions where traditional instruments of analysis don't really help in economics, particularly the welfare effects of policies.

So the question is -- writing this little equation -- s how much does unemployment affect happiness and how much does inflation affect happiness controlling for lots of other micro-variables -- age, education, sex, et cetera, cities.

And I’m going to repeat this exercise for sub-groups of people. This is not an objective of our paper, but who’s the happiest in Latin America -- what’s the typical happy person? Well, he’s younger, married man with tertiary education, who’s a wage earner, which is different from what Eduardo said; living in a small city, and it’s not his absolute wealth that matters but relative to his peers, I think most of us would accept we all compare ourselves to our peers rather than other people.

So that’s the kind of happy person. So what did I find in terms of the trade-off between unemployment and inflation. It's about eight to one; that is, people are much more worried about unemployment than inflation.

This is double that now for OECD countries, including the United States.

Here, by the way, or I include inflation is current and also a person’s individual experience inflation during his lifetime. And, after all, Latin America has gone through episodes of hyperinflation and high levels of inflation; where the evidence suggests that experience of high inflation has a permanent effect, right?

It's not just the current inflation or prospective inflation. That question cannot be asked regarding unemployment. There is a lot of evidence to suggest that someone who has an episode of unemployment, even though he or she gets reemployed -- the effect of that unemployment experience has a permanent unhappiness effect.

So, in fact, we may very well be

underestimating why an average Latin American trade off preferences between unemployment and inflation.

You know, basically what these graphs show is that what happens for a 10 percent increase in employment and what happens when there is a 10 percent increase in inflation.

This is a distribution or people who say they're not happy at all or people that say I'm very happy. There are four categories. Now basically, the curve shifts to the left.

There are indistinguishable effects of running a 10 percent increase in inflation.

So what about subgroups?   Subgroups is important because a lot of analysis say during the economic crisis who gets affected more; who is going to -- if you want it more expediently, who's going to protest, who is going to take it to the streets.

So the first thing one thinks of is age. Here there's a negative relation. It's not a U-shaped shape like the literature suggests, but youth are very happy and the elderly don't suffer from the same problems as Europeans and Americans. They get very unhappy relatively as they get older.

The same for education. It’s the opposite. Some do a higher education and very low education is an inverted U-shaped.

Another question is by political participants. The survey asks what do you identify yourself -- left, center, or right.

Now, this analysis presumably political scientists will cringe at my mechanical interpretation.

But left wingers care about unemployment and inflation, but clearly much more about unemployment.

Self-classified right ringers care a lot about inflation and don't care at all about unemployment.

We looked at whether the incidence of unemployment was different between the two groups and it is not.

So presumably it's much more of a value, a political value rather than personal experience.

So for right wingers it is no trade-off and for last wingers there is a trade-off -- very high.

And if you look at the right-hand side of that table, you see that there’s a majority of countries, eight of the 17 are moving left. More and more people are identifying with the left, self classifying themselves as left ringers rather than the center and the right.

Only three countries according to self classification are moving to the right end four countries are a real problem. -- Colombia, El Salvador, Mexico, and Nicaragua, where both extremes are increasing.

Only Chile and Ecuador claim there’s an increase in the middle centrists.

You know, particularly journalists more than economists, they use something called the misery index. And the misery index is basically a sum of inflation and unemployment, and they’re only giving a weight of one to each one. The people don't care between inflation and unemployment.

So in this graph, I’ve drawn three. One is the traditional misery index, and the other is inflation targeting -- that is central bankers, who only care about inflation or the right wingers.

They share that. And, you see a completely different pattern. The weighted misery index shows that since ’97, which is the blue line going up, unhappiness or misery rather increased until about 2004 and then started falling.

While the conventional index suggests that misery kept on falling, although not monotonically.

And the same for inflation targeters. Now that pattern of misery is compatible for with objective indicators.

There was an economic crisis in Latin America between ‘97 and 2006. The definition of the economic crisis was that there was an absolute fall in GDP.

So only by 2006 did unemployment fall back to the level it had in 1997 which means that the typical indicators of welfare that people are using are completely professional economists, central bankers. Politicians are completely at variance with what people think and people's values.

So right-wing partisans are aligned with those monetary professionals who advocate and central bankers that practice pure inflation targeting rule for central banks.

So, however, such advocacy is increasingly divorced from opinions of lax citizens who are increasingly left-ward leaning, and with the youth, who given the population pyramid are going to increase as a proportion of the population and those citizens with secondary education who are also expected to increase as a proportion of the population.

So you are going to have policymakers who are already divorced but will be increasingly divorced from citizens' opinions.

So to conclude: should central target happiness instead of inflation? I think the conclusion is not a yes, perhaps not. The evidence presented in this paper combined with low frequency happiness data may not be sufficiently convincing for central banks to adopt a happiness targeting rule.

I mean, I just wondered if there were central bankers here, how would they respond to this question.

But the fact that unemployment is more costly than inflation is particularly relevant in discussions of the desirability of a gradualist relative to a Draconian policy option.

And that may very well be the situation that policymakers are facing this year and next year.

So using happiness data to inform policymaker regarding the optimal disinflation policy or least in obtaining consciousness of the discontent of a given disinflation strategy -- you know, how many people are to take to the streets in protest -- it wouldn’t violate, which is a principle that monetary specialists invoke, KISS -- keep it simple, stupid -- for inflation targeting. That’s my conclusion. Thank you.

MR. CÁRDENAS: Thank you very much. I think we have time and also lots of material to provoke a discussion and a debate I’d like to encourage you to participate.

So we have a gentleman there.

MR. ADLER: Thank you. Hans Adler with Ernst and Young.

I was very interested going back to the initial presentation. I was very interested in the question or the correlation between financial crisis and the level of happiness.

If I understood your presentation correctly, we don't have data for the current crisis but you went back retroactively and looked at data from previous crises; right?

And if I understood you correctly, what you found was that there was a drop in the level of happiness in the midst of a financial crisis of up to 10 percent, but then as economic conditions got better, there was also restoration of the level of happiness.

Now I was very curious about that factor, and I was actually wondering do you observe something in the data that would tell you -- that would tell the story of a rebound effect; so, in other words, the level of happiness goes down, but then as economic conditions get better, do you see a rebound affect supersized optimism or something along those lines?

MR. CÁRDENAS: Thank you.

MS. GRAHAM: I wouldn't say we get any kind of supersized optimism rebound effect. I mean, I think you get a gradual recovery that sort of follows economic recovery. And it depends a little bit on how clear-cut the recovery is.

You know, for example, Argentina came out of its crisis quite directly and in a straightforward way as did conditions in Russia.

I mean, if you think about this crisis in the U.S., one of the difficulties in estimating the magnitude of the effect is trying to think about, you know, what timeframe are we thinking about. So there’s a levels effect all -- you know, you have a certain level of GDP drop and that has an impact.

But then there’s also a more difficult to measure but I think equally important uncertainty effect.

Everything else-everything we know from the happiness literature is that uncertainty, whether it’s fear of unemployment or sort of macroeconomic volatility, makes people extremely unhappy so that people are basically loss averse.

So in the context of this particular crisis, I think you have an effect that comes from not knowing where the bottom is and not knowing how long it will last.

And that, in turn, will affect the recovery because the other two crisis -- the Russian Argentina crisis were sort of v-shaped drops. You know you've seen market drops described that way. They were v-shaped, so they went down very quickly but then they rebounded quite quickly. And you know happiness levels sort of slowly followed that.

I think this one is likely to be longer-lasting and it will be more difficult to figure out when the end is and, therefore, I think happiness levels will probably take longer to follow.

But, more directly, you don't get sort of super optimism effect after crises. Again, you get kind of a gradual recovery.

MR. CÁRDENAS: Thank you. Let me make a comment and maybe we could discuss this further, because, you know, I’ve come to this literature from the perspective of someone who has been working on the details of very specific questions and very punctual papers on specific dimensions of well-being and quality of life.

But, being here and given the role of moderator of this panel, I basically want to take a different view and approach this with the perspective of really getting to the bottom of what is it that we’ve learned with these efforts and this literature; and what is the relevance of this process.

And, if I try to weave these three presentations together, I'll come with the idea that income matters, that income is positively correlated with happiness. There is some caveats there -- issues of the gradient and the slope.

But in general income is an important determinant of happiness.

There has been a discussion about that in the literature, but certainly the presentations are congruent with that fact.

Then, we know from that from these recent contributions by Eduardo and Carol's presentations that growth tends to have a negative effect; that faster growing economies are countries or economies where people are less satisfied.

And then we know also from Inder's presentation that unemployment generates a lot of dissatisfaction.

So if unemployment is a proxy of lower income that's basically congruent with the idea that income is important.

So here we have these results that say that income has a positive correlation with happiness but growth has a negative correlation.

And if we add to this one of these remarkable findings from the IADB report, which is that people at the lower end of the income distribution tend to be more satisfied with social programs or, say, with the level of the quality of the schooling system or the way their jobs are protected that people at low levels of income tend to have this high level satisfaction, one could end up with this conclusion that policies that promote growth are bad from the point of view of happiness and that there is no demand for better redistribution because people at those levels are satisfied with what they get.

And I think that's a very paralyzing conclusion. That is a very paralyzing conclusion because we need just the opposite. We need growth and we need redistribution.

So, then, the question is if that’s the way people perceive things, how can our understanding of those perceptions inform us about policies -- about what we have to do in terms of policies.

And here I would say that it’s either that we have to appoint policymakers that ignore those preferences and that say, well, we're going to grow no matter what, no matter if you dislike it, and we’re going to be more engaged in redistribution even if these people at the low end of the income distribution are not demanding that.

So that’s difficult, because they know that policymakers -- we like policymakers that are elected, and we know that policymakers that are elected worry a lot about the polls and worry about these surveys.

So that’s an intellectual challenge that I think it's posed by these type of research.

Unless there is a fundamental flaw, and the flaw is that we’re ignoring too much the income dimensions. We’re saying, well, income matters, but then we’re going to worry about these other dimensions, like growth and delivery of social services, because we cannot separate income from growth. We cannot say income is positive; growth is negative, because at the end of the day, the only way to increase income is by having fast growth.

So unless there is a flaw there in the way I’m interpreting this, the final conclusion and the final implications are to me somewhat positive.

So that's what I'd like to, basically bring to the surface and kind of like engage in a conversation about these things and try to understand the implications.

And let me conclude by saying, 40 years, you know, ago, in the early 1970s, when people were discussing development, most of the intellectual world thought that just looking at the per capita income was a too narrow perspective of development; that we had to add other dimensions. And that's when the human development index came about, including life expectancy, including educational attainment.

The UNDP, which actually was the institution that created this index -- it's now thinking about a new wave of human development indexes, a new version of the HDI. So one wonders if these subjective perceptions about quality of life, living standards, should be included as an objective in terms of development.

I agree with the IDB and its report that says no. We should not give equal weight to these perceptions. We just should use those perceptions as information about how to do things, how to deliver the right policies, how to be able to implement the right policies.

But I’m not sure that’s the consensus. And I’d like to promote it as the basis among the panelists on whether we should include this as elements of subjective measures of well-being as an indicator of development and we should basically try to make people with higher incomes more educated with longer life expectancies, but also happier. And I’d like to see what your take is on this issue.

So that’s basically something I want to ask the panelists to comment on. But before that, let’s see if anyone has another comment. Yes, please. And then you.

SPEAKER: (Off mike) -- going along with what you’re saying about the paradox, that the less educated more isolated and poorer people have higher levels of satisfaction with social policies.

The question is why? And why would they be uncomfortable with shifts in their current state of -- the current state of the educational system and so forth? And I’m wondering whether in terms of social policy whether there can be some promise of -- my answer is because it’s safety. There’s a sense of safety despite the fact that it’s a lower level of -- that these institutions that are serving them aren’t maybe as satisfactory as they should be.

But there’s a safety feeling that they have. And I’m wondering how you can kind of preserve that safety feeling while, at the same time, growing and changing the services that they receive. And I’m not an economist, so maybe that's not even.

MS. NELSON: Joan Nelson, Wilson Center, American University. Three short comments or questions. The question concerns how unemployment is measured in most Latin American countries, and specifically what’s -- how does one measure unemployment and under employment in the informal sector, because if the -- the very strong dissatisfaction with unemployment it occurs to me may be partly an artifact of formal employment being mainly an upper-level working-class and middle-class phenomenon. And that -- those strata are hardest hit in a measurable way in crisis. Whereas, it may be a little bit harder to observe in the informal sector.

And I may be off the wall. But it would be interested in a comment on how measurements of unemployment affect the interpretation that -- several of the interpretations that have been offered.

A very quick remark on that how we label or the words we use may trip us up. The fact that a lot of people in the informal sector -- or the fact that more people in the formal sector were interested in self-employment than was true in among people in the informal sector, one suspects that the image of autonomous or non-formal occupation of the part of people in the formal sector was -- may have been a little bit different. It may have been sort of -- that they were going to set themselves up as an independent businessman, for example. Whereas, the person -- the informal sector worker isn’t so sure that he wants a very low-level job in a factory.

So that kind of consideration may be at work.

On the satisfaction of poor and uneducated people with social policies, and particularly with education, I’ve done a little work on that myself. And the -- it’s tremendously important in terms of what we expect by way of political pressures for improving the quality of the education system, not so much the coverage. There is always pressure to go to school.

But what -- to for children to be able to go to school. But quality is very adversely affected and that effect is intensified, of course, by middle class right to private schools.

So I'd underscore that.

MR. CÁRDENAS: Thank you. We have time for one more. And then I'll give the floor back to the panelists. Why don't we go in the same order as we started. Carol? And then Eduardo and Inder.

MS. GRAHAM: Okay. Thanks, Mauricio. To the question of measures of unemployment and the effect on happiness, surely, it's difficult to measure unemployment in these contexts. Typically, it's open unemployment. And open unemployment rates in Latin America obviously disguise a lot of informal employment.

But I think that to the extent there's unhappiness among the informal I think is where you get a negative effect on self-employed for Latin America which is distinct from what you get elsewhere in the world, where the self-employed are happier.

So I think you’re at least able to pick up informality by the declared self-employed.

And also that’s not just a crisis effect. The negative effect of unemployment holds across countries over time regardless of economic conditions. And arguably, the negative effect of unemployment is lower at times that unemployment is higher, because there's less stigma and we have some evidence to that effect as well.

To Mauricio’s question, should happiness be a policy objective in trying to take stock of views on that, as much work as I’ve done on this, I would be in the camp of distinctly no for four reasons: one is that I think what makes happiness surveys such a great survey instrument and tool for understanding human well-being is and that allows us to compare people across countries and regions and over time is that the definition of happiness is left up to the respondent. It's not imposed, and so, therefore, how a Chinese respondent defines happiness could be quite different from how a Uruguayan line one does, but that self-definition makes it a comparable tool across people.

That said, how we define happiness has a huge impact on whether or not we think it’s a policy objective.

So if you define happiness as just contentment, as some people might do, I don’t particularly think that’s a policy objective that holds, that’s robust, versus if you define happiness as contentment, welfare, and dignity. That might be a policy objective that people could agree on.

But you’ve got a big normative question there that’s not resolved.

Secondly, there’s a cardinality versus ordinality problem, which is when we ask people these surveys, they are putting themselves in categories which run from, you know, very unhappy to happy or they’re sort of putting themselves on a ladder scale.

But those responses are ordinal. They just put themselves somewhere. There is no cardinal weight on whether, for example, a high score is worth more than low score or vice versa.

So, but do we care from a policy perspective about making somebody who’s miserable, you know, less miserable or slightly happy than for making somebody that’s already happy very happy.

Again, an unresolved normative question, but before you could apply anything to policy, I think you’d need to resolve that.

Another reason are the paradoxes that we cited in addition to the paradox of unhappy growth and the paradox of aspirations -- I have another one which is the paradox of frustrated achievers and happy peasants, and where you get very poor people who report they’re very happy because they have low expectations or they don’t have much information or they’re just naturally cheerful and much better off people who are doing well report they’re miserable because of high aspirations or they’re natural curmudgeons. We don’t know.

But those data points are incomparable, and they pose a policy problem.

And then finally, there are huge inter-temporal problems with responses to these surveys. So what makes people unhappy in the short term -- raising taxes would probably make a lot of people unhappy in the short term; and yet, from an aggregate welfare perspective might be a necessary measure.

So it’s always a fine line between using the information from these surveys and then polling people. You can imagine politicians going out and polling people about what made them happy and coming up with really bad policies based on that.

That said, I think these surveys provide us with a tremendous amount of information on which we can base policy or refine policy or make better policy.

The fact that rapid destabilizing growth makes people unhappy is a very important thing for policymakers to know. It doesn’t mean that we don’t want to grow. It means that the pattern of growth matters. And I could go on about this, but I think that's, you know, that’s probably enough to make the point. Thanks.

MR. LARA: On the search for a good development measure or a good quality of life measure, my take from that after having read hundreds of papers and books and discussions of this is that that search is pretty futile, I would say.

I don’t think that we should aim at building a single index of quality of life or the dog or anything like that. I mean, going from a human development in this with five or three variables to one with six variables, that’s not going to make any difference, simply because what we -- at least I think, that what I have learned in this research is that quality of life and happiness or satisfaction are things that are truly multi-dimensional. I mean, you cannot reduce them to just one single indicator. It's not a matter of assigning weights this way or the other.

Now it’s that things really cannot be compared with each other or put together in the same scales or even be weighted in a sort of a stable way in any way. I mean, when I’m sick, the only thing that matters is that I’m sick. And that’s it.

Don’t give me a weight with something else. No, it’s that my concern today is that I’m sick or if I’m -- I don’t know -- if I have lost my employment, it's the only thing in life that matters and so on and so forth.

And in a way with society it might be like that also.

So I wouldn’t really go for a long

discussion on what is the best index. And I am afraid that this is what the United Nations and also what the OECD are trying to do in a huge project that they're putting together called "Fostering and Measuring the Progress of Society."

And that's going to go nowhere if that's what we are trying to do.

On the contrary, what we want to do is to store dimensions that have been dimensions that have been hidden or dimensions that might be important for people's lives that they have not discovered or that they have suppressed in a way because they don't think they have the right to something. And that's what happens among the poor. I mean, they think that they don't have the right to go to a good hospital. They don't have the right to some type of protection.

Or if you live in secure cities that you don't have the right to live in a place that is secure, where you can walk at night without the feeling of insecurity.

Bringing those things to life might be more important for development than trying to assign them a weight that reflects how you consider them in your life, because many things that could be very important for you, you don't know even consider them. So I think that this is more subtle and more complicated than we economists try to do when we construct our indexes.

I know that the dream of many people is replacing GDP with something else. Forget about that. GDP it's valid in its own right and measures certain things and happiness measures certain things and so and so forth.

So that's like a general thought about this discussion.

And about Joan's questions. Yeah, I do agree with her interpretation about how people respond when they are in the informal sector. I fully agree with that. But I also agree with what you said about what -- I mean, the political factors that made -- behind increasing coverage and improvement in quality. They are different, and I agree, because coverage increases are always easy to get. That's pretty easy. That's not a problem.

But quality requires dissatisfaction, certainly. And the case of Chile I think is very,

very clear.

For Chileans right now, education is their number one problem. And they have the best education in Latin America. Is that contradictory? No. That’s perfectly consistent. That's exactly the point; that they are very unsatisfied because they do have a good education, because they do know that they can improve it that because they do know that there are lot of people that have been left behind unlike in Guatemala, for instance, where everybody’s happy with what they have.

So I think that’s an important point. Thank you.

MR. CÁRDENAS: Thank you. Inder?

MR. RUPRAH: You know the happiness literature actually helps you avoid the problem of data, of formal and informal unemployment, because we (inaudible) the impact of unemployment on happiness is two components.

One is the unhappiness of the people that are unemployed and the other is, for want of a better word, a fear of unemployment or a non-selfish emphatic response to people that are unemployed.

And that’s the biggest impact. So, yes, you have this combined with the fact that people in the formal sector, a difference to what Eduardo found, the formal sector are happier than those working in the informal sector. Actually, it gives you a way of avoiding this formal-informal (inaudible)

About whether we should target unhappiness as a policy variable. Both the other speakers said no. And not wanting to be the kid out of the block, I would have to agree with them. But, you know, if by saying that policy makers should take into consideration happiness information, you’re saying that policy makers should take into consideration happiness as a policy objective.

Whether or not numerically or replacing GDP with a happiness index or like Bhutan or something else, but, you know, the moment you’re saying this is a valuable information base for policy making, that it’s high signal-to-noise ratio, you’re saying that policy makers should take as one of their objectives happiness.

So there’s a fine line between numerical objectives set by policy makers, which is often rare, and the information that goes into making policy decisions.

And I think we all agree that happiness data has information value, and, therefore policy makers should take it into consideration without necessarily going to say, you know, 50 -- your objective is 90 percent of people should be happy by next year. Thanks.

MR. CÁRDENAS: All right. Well, thank you very much. I think it has been a very interesting session. We've certainly learned a lot. For those of you, that are new to this field, I really recommend reading the IDB report. It's a very well written and comprehensive survey, and I think it's a good starting point for those of you that want to learn more about this. And I thank you very much for coming here and to the panelists for accepting our invitation what we need right because you run out of memory in this right n and sharing with us their recent work on an area that I think is going to be of increasing relevance for policy making in the region. So thank you again, and we'll see you again.

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I, Carleton J. Anderson, III do hereby certify that the forgoing electronic file when originally transmitted was reduced to text at my direction; that said transcript is a true record of the proceedings therein referenced; that I am neither counsel for, related to, nor employed by any of the parties to the action in which these proceedings were taken; and, furthermore, that I am neither a relative or employee of any attorney or counsel employed by the parties hereto, nor financially or otherwise interested in the outcome of this action.

/s/Carleton J. Anderson, III

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