CHAPTER ONE

HAPPINESS: A NEW SCIENCE

All citizens are entitled to "life, liberty, and the pursuit of happiness."

Declaration of Independence of the United States of America, 1776

FOR THE PAST TEN YEARS, I have been studying happiness around the world, in countries as different as Afghanistan, Chile, and the United States. It has been an amazing foray into the complexity of the human psyche on the one hand, and the simplicity of what seems to make us happy on the other. My last book on happiness, published in 2009, ended with a speculative chapter on policy, with the quote above at the top of the chapter.[1] It's either a sign of my lack of imagination or of the speed with which the current public debates have taken up the topic of happiness that I am now boldly leading off with that same quote and writing an entire book on the topic of happiness and policy. That would have been unthinkable just a decade ago.

In recent years, a number of nations—from remote Bhutan to far less remote Britain, France, China, and Brazil—have begun incorporating measures of happiness into their benchmarks of national progress.[2] Even in the United States, high-level policymakers ranging from the chairman of the Federal Reserve Board to the director of the U.S. Census Bureau have been discussing the merits and de-merits of happiness measures.[3] Not surprisingly, the study of happiness has also captured the attention of the public and is now a constant focus of the media, in the United States and abroad.

What has happened? The study of happiness has moved from the fringes of the "dismal science" and the esoteric realm of the philosopher to the center of vociferous debates among economists. The debates cover the relationship between happiness and income and the extent to which happiness metrics can be used as proxies for utility—the streamlined concept of welfare that underlies most economic models. Is Adam Smith turning over in his grave?

A skeptical view is that this is simply a temporary trend, related to the recession-related realignment of priorities, in which the pursuit of an ever-larger house has been replaced by discussions about the value of things like leisure time and socializing. Yet there are already a number of efforts under way that could result in measures of happiness becoming a part of our economic measures of progress and the subject of our policy debates. Indeed, there is an ongoing discussion among prominent academics—and increasingly among policymakers—about complementing our standard measures of gross national product with national well-being indicators, indicators that can similarly be tracked over time and compared across countries.[4]

In 2008, the Sarkozy Commission—led by a number of prominent Nobel Prize–winning economists and sponsored by Nicolas Sarkozy, the president of France—issued a worldwide call for the development of broader measures of national well-being. While national well-being indicators had been a subject of discussion in the academic community for years, the commission placed them at the center of a much more public debate. Ideological critics dismissed the findings of the commission as a couched attempt by the French to make the U.S. economy look more like their "sclerotic" model: underemphasizing economic growth and overemphasizing leisure. Yet, rather ironically, just two years later, the latest government to place serious emphasis on the measurement of happiness was the conservative government of David Cameron in Britain.

Is all of this a good idea? How can more happiness not be a good thing? And what is this new "science" of happiness all about? What do we mean, for example, when we use the term "happiness"? Do we care about happiness per se or about the pursuit of happiness? Should policymakers be in the business of telling people what will make them happy?[5] And whose happiness do we care about? Do we care about the happiness of isolated individuals? The happiness of nations? Or about happiness in some broader global sense?

In the end, the new and rich debates on happiness and policy, on national well-being indicators, and on measures of gross national happiness, among others, are raising the same fundamental question. How can studies of happiness help us to better evaluate the state of human welfare and well-being, in both the present and the future? The tools introduced by happiness economics provide us with broader measures of well-being than do income data alone, and they allow us to test and attach relative weights to the effects of all sorts of conditions, ranging from environmental degradation and commuting time to crime and unemployment rates to smoking and exercising. They are new and powerful tools for scholars and, perhaps, for policymakers.

Yet introducing broader measures of well-being into the policy arena also raises a host of unanswered questions. Among them is a conundrum raised repeatedly by my research: the paradox of happy peasants and frustrated achievers. While poor people are less happy than wealthy people *on average* in countries around the world, very poor people often report that they are very happy. In fact, they often report higher levels of happiness than their slightly wealthier counterparts and at times even higher levels than the very rich (miserable millionaires). This puzzle is explained in part by people's ability to adapt to adversity and related differences in norms and expectations. While better accounting for differences in norms, expectations, and capacity to adapt can enhance our understanding of human well-being, they also complicate comparisons based on well-being data.

My primary objective in this book is to discuss the promise—and potential pitfalls—of delving into the policy realm with happiness research and indicators. In the next chapter, I review the different definitions and conceptions of happiness and provide some examples of how those definitions—such as happiness defined as contentment in the Benthamite sense, or as the opportunity to lead a fulfilling life in the Artistotelian sense—help explain some key relationships, such as that between happiness and income. The definition of happiness also seems to vary across people and societies and thereby helps to explain the paradox of happy peasants and frustrated achievers.

In particular, I focus on the question of whether policy should be concerned with happiness *per se*—for example, happiness with day-to-day life—or with the opportunity to pursue happiness in the sense of building a fulfilling life, as the quote from the Declaration of Independence at the top of this chapter suggests. In other words, should we be listening to Bentham or to Aristotle as we think about happiness in the policy realm? On what basis—theoretical, empirical, or normative—should we make that decision?

In chapter 3, I review what we know about happiness in the United States and around the world, based on my own research and that of several other scholars (that chapter can be skipped by those readers already familiar with the literature). In chapter 4, I focus on the unanswered questions that are posed by the empirical research and, in particular, the conundrum posed by people's ability to adapt to a wide range of phenomena, including crime, corruption, poverty, and poor health, and still report being happy.

In chapter 5, I attempt to bring these issues to bear on the policy debate, both in terms of what they imply for our concrete attempts to develop operational measures of well-being and in terms of deeper philosophical questions about which dimensions of human welfare public policy should be most concerned about. Accepting that determining which dimensions of human welfare are most important to policy poses difficulties for both method and economic theory, I believe that the effort to do so will force us to think deeply and productively about what measures of human well-being are the most accurate benchmarks of economic progress and human development.

A NOTE ON TERMINOLOGY

Before we delve into the deeper conceptual questions or even a description of the general approach taken here, it is important to clarify what we mean when we use the terms "happiness," "well-being," "subjective well-being," and "life satisfaction," among others. They are often used interchangeably in the economics literature, while psychologists take much more care in distinguishing the nuances between them. Meanwhile, the nascent discussion on policy, described in detail throughout the book, is forcing more definitional clarity precisely because the differences in the meaning of these terms could have vastly different policy implications.

While the terms are related, they have distinct meanings. "Happiness" is perhaps the most open-ended and least well-defined of the terms, although it is the one that gets the most public attention and interest. It is also the term that appears in the U.S. Declaration of Independence. A happiness question attempts to gauge how happy people feel about their lives in general. As discussed below, from an empirical research perspective, this question is useful precisely because it does not impose a definition of happiness on the respondents and they conceptualize happiness for themselves.

"Life satisfaction" is a closely related term, and responses to questions about life satisfaction correlate very closely with those to happiness questions. Yet it is slightly more narrowly framed than the term "happiness," and it correlates a bit more closely with income. It is likely that when people are asked about their satisfaction with their lives, as opposed to happiness in general, they are more likely to evaluate their life circumstances as a whole in addition to their happiness at the moment.

The ladder-of-life question, introduced by sociologist Howard Cantril decades ago and now an integral part of the Gallup World Poll, is also often used interchangeably with the question of happiness as a research tool. However, it is a more framed question in that it introduces a relative component by asking respondents to compare their lives to the best possible life that they can imagine. Not surprisingly, responses to the ladder-of-life question correlate even more closely with income than do either happiness or life satisfaction questions, as most respondents compare their lives to a national or international reference norm.

"Subjective well-being" is a term that encompasses all of the ways in which people report their well-being, from open-ended happiness to satisfaction with different domains, such as work, health, and education, among others. Psychologists in particular conduct separate analyses of each of these domains, comparing the results of each with particular variables of interest. As is discussed throughout the book, the definition on which the analysis is based can result in quite different conclusions, with varying degrees of relevance for policy. "Well-being," finally, is the most encompassing of all of the terms: it implies an evaluation of human welfare that extends beyond the components that income can accurately capture or measure.

THE ECONOMICS OF HAPPINESS: AN INTRODUCTION TO THE APPROACH

The study of happiness, long the purview of psychologists, is a fairly new venture in economics. Indeed, the research was initially eschewed by the economics profession. Yet there are now literally thousands of articles based on happiness surveys in mainstream journals; panels on happiness abound at economics association meetings; and happiness research was even featured at the 2011 World Economics Forum in Davos, the annual pinnacle of networking for bankers, business people, and finance ministers.

The economics of happiness approach provides us with new tools and data with which to develop measures of welfare that include income metrics but also extend well beyond those metrics. This approach does not purport to replace income-based measures of welfare but instead to complement them with broader measures of well-being. Those measures are based on the results of large-scale surveys, across countries and over time, of hundreds of thousands of individuals who are asked to assess their own welfare. The surveys provide information about the importance of a range of factors that affect well-being; they include income but also highlight others, such as health, marital and employment status, and civic trust.

The new metrics allow us to place relative weights on the cost of things like a lost job, a divorce, various health conditions, commuting time, and even uncertainty. On the other hand, they also allow us to evaluate the benefits of participating in democracy, of being part of a civic organization, and of exercising, among other things.

This approach departs from economists' standard reliance on revealed preferences as measures of welfare. Put more simply, traditional economic analysis is based on the assumption that information in survey data cannot be believed. Because there are no consequences to what people say, the only credible data come from revealed consumption choices, made within a fixed budget constraint and entailing genuine trade-offs.

> Because we cannot look into a man's soul and find out how happy he really is, traditional microeconomics argues that

> it is best to judge his happiness from measures based on how he behaves. . . . The empirical analysis of revealed preferences has produced a number of fairly robust results. Amongst these are that people regularly act as if they prefer to have more than less money. Most people want bigger rather than smaller houses. . . . The money metric of utility is an offspring of the revealed preferences approach. . . . We can therefore measure the revealed preference utility associated with a good using the price that an individual is willing to pay for it.[6]

Happiness economics departs from that assumption and uses data derived from surveys—for example, data based on expressed preferences rather than revealed choices. That departure has support from a large body of research in behavioral economics, which has gone a long way in showing how "homo sapiens" departs from the hyper-rational, calculating "homo economicus" that underlies most traditional economic models.[7] Behavioral economics research shows that many choices that consumers—and people in general—make are not rational, preference-maximizing choices. Some reflect loss aversion: individuals tend to value something that they already own much more than can be measured by the amount that they were willing to pay for it in the first place.

The example highlighted in well-known work by Daniel Kahneman—in which individuals would not pay more than $2 for a coffee mug, but once they owned it, refused to sell it for less than $4—comes to mind.[8] Other choices may be driven by norms, addiction, or self-control problems rather than by rational choice. Revealed preferences assess the consumption behavior of the obese or of smokers as the result of rational, welfare-enhancing choices, for example, while the detrimental effects of those choices are immediately obvious to the outside (non-economist?) observer.

Happiness economics, therefore, is especially well-suited to answering questions in areas where revealed preferences provide limited information. For example, revealed preferences cannot fully gauge the welfare effects of particular policies or institutional arrangements that individuals are powerless to change and with respect to which they therefore cannot make a choice or take an action that reveals a preference. Examples include the welfare effects of inequality, environmental degradation, and macroeconomic factors such as inflation and unemployment. Along the same lines, the approach is also especially well-suited to evaluating the relative weights that people place on different public goods. The latter are, by definition, difficult to value by taking the consumption-based revealed preferences approach. Yet happiness or life satisfaction surveys can be used to measure the value that people attribute to, for example, clean air and safe neighborhoods, even though they do not make consumption choices as a means of expressing their preferences (at least short of picking up and moving to a different location, which is a rather daunting choice for many people).

Imagine, for example, a poor peasant in Bolivia who is made very unhappy by inequality or by poor governance. Short of emigrating or protesting, it is difficult to imagine how he or she can reveal a preference. Yet those institutional arrangements may have major welfare consequences that can be observed only through expressed preferences, as captured by survey data. In many of his writings, Amartya Sen criticizes economists' excessive focus on choice as a sole indicator of human behavior. His capabilities-based approach to poverty highlights the lack of capacity of the poor to make certain choices or to take certain actions.[9] Well-being surveys give us a metric with which we can assess the welfare effects of situations in which choice is constrained or absent altogether.

Another area in which the revealed preferences approach is limited and happiness surveys can shed light is the welfare effects of addictive behaviors such as smoking and drug abuse and of obesity. While standard approaches assess the consumption behavior of the obese or of smokers as the result of welfare-enhancing choices, research based on happiness surveys (both mine with Andy Felton and that of some others) finds that obese individuals are much less happy than average and that cigarette taxes make smokers happier.[10] Those results make sense only if obesity and smoking are considered the result of problems with addiction and self-control rather than the result of optimal revealed preferences.

Happiness surveys are based on questions in which the individual is asked, for example, "Generally speaking, how happy are you with your life?" or "How satisfied are you with your life?" Possible answers are ranked on a scale of from 4 to 10 points. As noted above, answers to happiness and life satisfaction questions correlate quite closely, and economists use them interchangeably.[11] Psychologists, meanwhile, typically use a wider range of questions, from those that measure emotional states (affect), such as whether the respondent was feeling worried or smiled frequently the day before, to those that seek to evaluate life as a whole in a broader sense, such as life purpose or life satisfaction questions. Ongoing research by both psychologists and economists is exploring the relationship of different questions and variables of interest, such as income, and exploring which are the most suitable for use in measures relevant to policy.

The happiness-based approach is not without methodological challenges.[12] My own research suggests that the deepest challenge is assessing the extent to which answers to the surveys are biased by the context in which individuals live and the capabilities or agency that they have. For example, how comparable are the answers of a destitute peasant who reports being very happy, either because he has low expectations or because he has a naturally cheerful disposition (or both), and those of a very wealthy individual in a developed economy who reports being miserable, either because he holds raised expectations related to affluence and opportunity that are held by members of his society in general or because he is a natural curmudgeon (or both)?

Some critics—Sen included—believe that the answer of the happy peasant is merely misinformed by lack of information and agency and therefore is of no consequence. That conclusion suggests that it is in the purview of policymakers to tell people what will make them better off, or more simply put, happier. My own view, in contrast, is that there is a great deal that can be learned through deeper understanding of what underlies people's responses to such survey questions, even though there are measurement and comparability problems that must be addressed.

A related challenge is determining the extent to which people either are bad judges of what makes them happy or mis-predict what will make them happy in the future, or both.[13] The result in some instances is perverse consumption and other behavioral choices that can be detrimental to the welfare of the individuals making them. While that is indeed an issue, it is not one that is unique to happiness surveys in gauging individual welfare. Income- or consumption-based measures consider all forms of consumption as positive in the utility function (albeit with decreasing marginal returns) even if consumption actually undermines well-being, as in the case of nicotine-addicted individuals smoking cigarettes or of morbidly obese individuals eating junk food.

The very consistent patterns that we find in the standard correlates of happiness across very large samples of individuals across countries and over time suggest that these correlates—which include income but also measures of health, friendship, and access to opportunities and purposeful employment, among other things—may be more consistent measures of human well-being than are consumption choices, which vary more—both across individuals and in their welfare effects—once very basic needs are met. Therefore the extent to which individuals mis-predict what will make them happy remains a challenge for income-based as well as survey-based measures of welfare.

Other methodological problems are solved more simply. Happiness questions must be placed at the beginning of surveys, so they are not framed or biased by prior questions, such as those about the sufficiency of the respondent's income or the state of his or her marriage.[14] As with all economic measurements, the answer of any specific individual may be biased by idiosyncratic, unobserved events. Bias in answers to happiness surveys can also result from unobserved personality traits and correlated measurement errors (which can be corrected by econometric techniques that correct for individual personality traits if and when data for the same respondents are available over time—for example, panel data.[15]

Most of the biases and potential errors in the happiness data are common to all survey data. Indeed, respondents probably have *less* incentive to be dishonest in responding to questions about their happiness than they do in responding to questions about their income. While answers to questions about happiness can surely be biased by strong cultural norms (for example, if it is a point of national pride to be positive), underreporting of income is a problem that afflicts income surveys in countries at all levels of development.

Despite all of the potential problems, cross-sections of large samples across countries and over time find remarkably consistent patterns in the determinants of happiness.[16] In addition, psychologists find validation in the way that people answer happiness surveys based on physiological measures of happiness, such as frontal activity in the brain and the number of "genuine"—Duchenne—smiles.[17]

While it is impossible to measure the precise effects of these variables on each individual's actual happiness, we can use the coefficients in happiness equations to assign relative weights to them for the average person. Danny Blanchflower and Andrew Oswald pioneered this approach over a decade ago, based on data from the United States and Britain, in estimating how much income a typical individual in the United States or Britain would need to experience a level of happiness sufficient to compensate for the loss in well-being resulting from, for example, divorce ($100,000 would be required) or job loss ($60,000 would be required).[18]

Given the methodological and philosophical questions raised above, those figures should be interpreted as relative orders of magnitude rather than as precise income measures. Happiness equations explain only a small amount of the variance in reported happiness; much is driven by innate character traits, by genes, and by other unobservable variables.[19] As a result, scholars are increasingly delving into the realms of genetics, psychology, and other disciplines to disentangle the relative importance of these various phenomena, and despite the challenges entailed in doing so—or perhaps because of them—they are generating novel and exciting areas of research.

WHAT WE CAN LEARN FROM HAPPINESS SURVEYS

What is most remarkable is how stable the standard determinants of happiness are in countries worldwide, regardless of their level of development. Everywhere that I have studied happiness some very simple patterns hold: a stable marriage, good health, and enough (but not too much) income are good for happiness. Unemployment, divorce, and economic instability are terrible for happiness—everywhere that happiness is studied. Age and happiness have a remarkably consistent U-shaped relationship, with the turning point in the mid- to late forties, at which point happiness increases with age as long as health and partnerships stay sound. Among other things, this relationship reflects an alignment of expectations and reality as people "grow up." Indeed, I have studied this relationship in countries as diverse as Uzbekistan, Great Britain, Chile, and Afghanistan, and it holds in all of them, with modest differences in the turning point (see chapter 3 for a detailed discussion).

The stability in the standard determinants of happiness allows us to control for those determinants in large samples of respondents and to look at the differential effects of other variables of interest across individuals, socioeconomic cohorts, or countries. Other variables can range from the welfare effects of institutional arrangements such as inequality or governance structures to the effects of environmental quality or commuting time to the effects of behaviors such as exercising, drinking, or smoking.

Some studies have attempted to separate the effects of income from those of other related factors, such as satisfaction in the workplace. Studies of unexpected lottery gains find that these isolated gains have positive effects on happiness, although it is not clear that they are of a lasting nature.[20] Other studies have explored causality from the reverse direction and found that people with higher levels of happiness tend to perform better in the labor market and to earn more income in the future.[21]

A question that constantly raises debate among economists—and politicians—is how income inequality affects individual welfare. Happiness surveys provide new insights. The results seem to depend on the context. Most studies of the United States and Europe find that inequality has modest or insignificant effects on happiness. Indeed, rather remarkably, the people in the United States who are made unhappy by inequality are left-leaning rich people![22] In contrast, my research on Latin America with Andy Felton finds that inequality is negative for the well-being of the poor and positive for the rich.[23]

The mixed results reflect the fact that inequality can be a signal of future opportunity and mobility as much as it can be a sign of injustice, and in the United States the opportunity interpretation still predominates. Objective data, however, do not show U.S. mobility rates to be higher than average for countries that are members of the Organization for Economic Cooperation and Development (OECD). In Latin America, where inequality is much greater and where public institutions and labor markets are notoriously inefficient, inequality signals persistent disadvantage or advantage rather than opportunity and mobility (even though mobility rates in some countries are at least as high as in the United States).[24]

Happiness surveys also facilitate the measurement of the effects of broader, non-income components of inequality, such as race, gender, and status, all of which are found to be highly significant.[25] That finding is supported by work in the health arena, which finds that relative social standing has significant effects on health outcomes.[26] Happiness research can also deepen our understanding of poverty. For example, while the happy peasant and miserable millionaire conundrum contradicts the standard finding that poor people are less happy than wealthier people within countries, it suggests the role that low expectations play in explaining persistent poverty in some cases.

Happiness surveys can be used to examine the effects of different macro-policy arrangements on well-being. Most studies find that inflation and unemployment have negative effects on happiness. The effects of unemployment are stronger than those of inflation and hold above and beyond the effects of forgone income.[27] The standard "misery index," which assigns equal weight to inflation and unemployment, may be underestimating the effects of the latter on well-being.[28]

Happiness research also shows that political arrangements matter. Much of the literature finds that both trust and freedom have positive effects on happiness.[29] Research based on variance in voting rights across cantons in Switzerland finds that there are positive effects from *participating* in direct democracy.[30] My research in Latin America finds a strong positive correlation between happiness and preference for democracy.[31]

Happiness surveys can also help gauge the welfare effects of various public policies. How does a tax on addictive substances, such as tobacco and alcohol, for example, affect well-being? The above-cited study on cigarette taxes suggests that the negative financial effects may be outweighed by positive self-control effects. How would placing a tax on junk food (one among many factors related to obesity) affect the happiness of the obese? My research with Andy Felton suggests that the consumption choices of the obese are not necessarily making them happy; perhaps a junk food tax would be less deleterious than an income-based evaluation would predict.

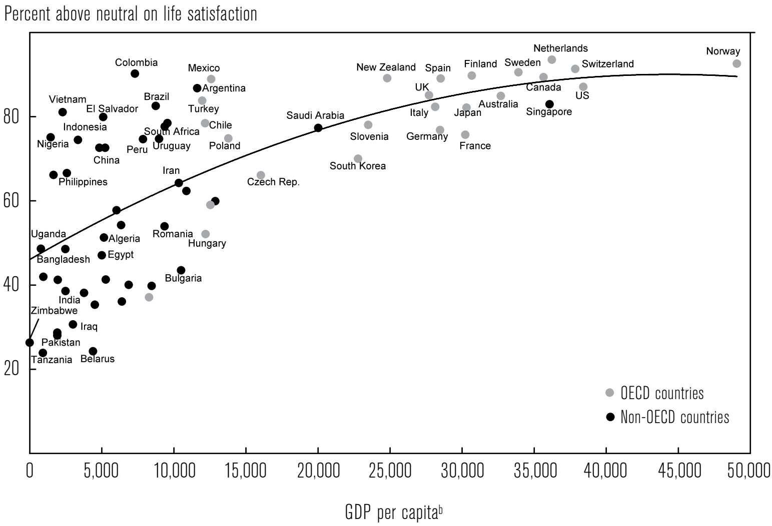
In short, it seems that the world is our oyster and happiness surveys can help us develop a much broader understanding of human well-being—and its determinants—than income data alone can. It all seems rather logical and simple and suggests rather straightforward policy recommendations, such as placing emphasis on health, jobs, and economic stability as much as on economic growth. Bring on National Well-Being Indicators!

Yet precisely because human well-being is a more complex state than income data alone can measure—because it is determined by some combination of exogenous factors related to the environment and endogenous traits related to individuals' genetic and psychological make-up, among other things—there are also some as yet unresolved conundrums that pose challenges for the foray into the policy arena. Foremost among them, in my view, is the remarkable human capacity to adapt to both prosperity and adversity. The discussion of the Easterlin paradox that follows here touches on this topic. Some of the results from my recent studies of happiness around the world bring this conundrum front and center.

THE BIG DEBATE: HOW MUCH INCOME MATTERS TO HAPPINESS

In his original study in the mid-1970s, Richard Easterlin—the first modern economist to study happiness—revealed a paradox that sparked interest in the topic but is still unresolved. While most happiness studies find that *within* countries wealthier people are, on average, happier than poor ones, studies across countries and over time find very little, if any, relationship between increases in per capita income and average happiness levels. On average,

FIGURE 1-1. Life Satisfaction and GDP per Capita, Select Countries, 1998–2008[a]



Source: Author's calculations with Soumya Chattopadhyay (March 2011) using World Values Survey (for life satisfaction) and World Bank *World Development Indicators* (for GDP per capita).

a. R-squared equals 0.498.

b. Purchasing power parity, constant 2005 international dollars.

wealthier countries (as a group) are happier than poor ones (as a group); happiness seems to rise with income up to a certain point, but not beyond it. Yet even among the less happy, poorer countries, there is not a clear relationship between average income and average happiness level, suggesting that many other factors—including cultural traits—are at play (see figure 1-1).

Within countries, income matters to happiness.[32] Deprivation and abject poverty in particular are very bad for happiness. Yet after basic needs are met, factors other than income—such as rising aspirations, relative income differences, and the security of gains—become increasingly important. Long before the economics of happiness was established, James Duesenberry (1949) noted the impact of changing aspirations on income satisfaction and its potential effects on consumption and saving rates. Any number of happiness studies have since confirmed the effects of rising aspirations and also have noted their potential role in driving excessive consumption and other perverse economic behaviors.[33]

Therefore, a common interpretation of the Easterlin paradox is that humans are on a "hedonic treadmill": aspirations increase along with income and, after basic needs are met, relative rather than absolute levels of income matter to well-being. Another interpretation of the paradox is the psychologists' "set point" theory of happiness, in which every individual is presumed to have a happiness level that he or she goes back to over time, even after major changes in that level brought on by events such as winning the lottery or getting divorced.[34] The implication of that interpretation for policy is that nothing much can be done to increase happiness.

Individuals are remarkably adaptable, and in the end they can get used to most things, income gains in particular. The behavioral economics literature, for example, shows that individuals value losses more than gains, as in the case of the coffee mug example cited above.[35] In addition, Easterlin argues that individuals adapt more in the pecuniary arena than in the non-pecuniary arena, while life-changing events such as bereavement have lasting effects on happiness. DiTella and MacCulloch find that the happiness effects associated with a raise in salary last barely one year, while those associated with a promotion last at least five years.[36] Yet because most policy is based on income-based measures of well-being, it overemphasizes the importance of income gains to well-being and underestimates that of other factors, such as health, family, and stable employment.

There is no consensus about which interpretation is more accurate. In recent years there has been a renewed debate about whether or not the Easterlin paradox holds. A recent study by Betsey Stevenson and Justin Wolfers and another by Angus

Deaton, based on new data from the Gallup World Poll, find a consistent log-linear, cross-country relationship between income and happiness, directly challenging Easterlin's findings.[37] That finding has resulted in a heated and at times even acrimonious debate among economists.

Rather ironically, both sides of the debate may be correct. One reason is substantive: on the one hand, it makes sense that people in richer countries are happier than those in destitute countries and on the other, many things other than income contribute to people's happiness, regardless of their level of income. Many of those things—like freedom, stable employment, and good health—are easier to come by in wealthier countries. Still, there is plenty of variance in their availability, even across countries with comparable income levels.

The other reason is methodological. The later studies use new data from the Gallup World Poll, which include many more observations from small poor countries in Africa and from the transition economies than did Easterlin's original data. The transition countries in particular have relatively low levels of happiness, in part because happiness levels fell markedly with the painful structural changes that accompanied the collapse of centrally planned economies. And some of the sub-Saharan African countries have had flat or even negative rates of growth over time. Therefore the story may be one of falling or volatile income trajectories pulling down happiness at the bottom rather than one of higher levels of income pulling up happiness at the top. There is, however, a wide debate over the extent to which that is the case.

There is more agreement on the influence of different questions on the results. Easterlin's work is based on surveys that used open-ended happiness or life satisfaction questions ("Generally speaking, how happy are you with your life?" "Generally speaking, how satisfied are you with your life?"), with possible answers ranging from "Not at all" to "Very" on a 4- or 5-point scale. The

Gallup World Poll uses Cantril's "ladder of life"question: "Please imagine a ladder with steps from zero at the bottom to ten at the top. The top of the ladder represents the best possible life for you and the bottom of the ladder represents the worst possible life for you. On which step would you say you personally feel you stand at this time?"

Both sets of questions are reasonable gauges of happiness, broadly defined, and both correlate in a similar manner with the usual variables. Research based on all of the questions finds that, on average, stable marriage, good health, and enough income are good for happiness (although how much income is enough varies across countries) and that unemployment, divorce, and economic instability are bad for happiness.

At the same time, there is some variance in the findings based on different questions. As noted above, the best-possible-life/ladder-of-life question is more framed than the open-ended happiness questions, asking respondents to make a relative comparison when they assess their lives. Mario Picon, Soumya Chattopadhyay, and I compared how the various questions correlated with key variables of interest in the Gallup World Poll for Latin America. We found that the answers to the best-possible-life question correlated more closely with income—both across and within countries—than open-ended happiness questions and that the difference was greater across countries than within them.[38]

Our results from Afghanistan underscore the same point. Afghanis scored higher than the world average on an open-ended happiness question, on par with respondents in Latin America, where material conditions, viewed objectively, are much better. Afghanis were also 20 percent more likely to smile in a day than were Cubans. Yet when asked the Cantril best-possible-life question, they scored much lower than the world average. That suggests that while they may be naturally cheerful and happy, when the question is posed in relative terms and global standards come to mind, they are much more realistic.

It is possible, therefore, to come to different conclusions about the Easterlin paradox simply because of the methodology adopted—for example, what sample of countries and which happiness questions are used. The substantive question of the factors other than income that make people happy is an additional and more complicated part of the story. Some of the factors, such as public goods, are associated with income. Others, such as cultural differences in the way that people answer surveys, are not.

The chart in figure 1-1 is based on an open-ended life satisfaction question and a very simple linear specification of income (adjusted for purchasing power parity). While the richer countries are, on average, happier than the poorer ones, there is no clear income and happiness relationship *within* each set of countries, making it impossible to draw a clear conclusion about the Easterlin paradox. Figure 1-1 drums home the point that wealthier countries are, on average, happier than destitute ones, but after that, the story becomes more complicated. Country averages are influenced, among other things, by cultural differences in the way that people answer surveys, and those differences cannot controlled for in the cross-country comparisons in the way that they are when we assess happiness across large samples of individuals within and across countries.

To complicate matters further, if we were to show the same figure with a logarithmic specification of the income variable—a specification commonly used by economists that depicts income differences as proportional to the absolute size of incomes—the relationship between income and happiness would then show a much closer fit. The logarithmic specification emphasizes the importance of changes for countries with lower levels of income. Therefore, in addition to which happiness question is used, the choice of the specification of the income variable also influences the relationship between income and happiness. Little wonder that there is a great deal of debate about the Easterlin paradox (and, of course, economists would never shy away from a good debate).

HAPPY PEASANTS, FRUSTRATED ACHIEVERS, AND THE ADAPTATION CONUNDRUM

While there are clearly stable patterns in the determinants of happiness worldwide, there is also a remarkable human capacity to adapt to both prosperity and adversity. Therefore people in Afghanistan are as happy as Latin Americans—happier than the world average—and Kenyans are as satisfied with their health care as Americans. Crime makes people unhappy, but the more of it there is, the less it matters to happiness; the same goes for corruption. Obese people are less unhappy when the people around them also are obese. Freedom and democracy make people happy, but the less common those conditions are, the less they matter to happiness. The bottom line is that people can adapt to tremendous adversity and retain their natural cheerfulness, while they can also have virtually everything—including good health—and be miserable.

In contrast, one thing that people have a hard time adapting to is uncertainty. My most recent research—with Soumya Chattopadhyay and Mario Picon—shows that average happiness in the United States declined significantly as the Dow fell with the onset of the recent financial crisis. Yet when the market bottomed out and some semblance of stability was restored in March 2009, average happiness levels recovered much faster than the Dow. By June 2009 average happiness levels were *higher* than their pre-crisis levels, and they have remained higher since then—even though living standards and reported satisfaction with those standards remained markedly lower than they were prior to the crisis. Once the period of extreme uncertainty ended, people returned to their previous happiness levels, while apparently making do with less wealth (these findings are discussed in detail in chapter 4).

An analog to adaptation to lower living standards is what Eduardo Lora and I have called the "paradox of unhappy growth." In that case, we found that respondents in countries with higher growth rates were, on average, less happy than those in countries with lower growth rates, once average levels of per capita GNP were accounted for (it is important to distinguish between levels and changes in per capita GNP here: people were, on average, happier in countries with higher levels of per capita income). One explanation for our findings is found in the increases in instability and inequality that often accompany economic growth booms.

Indeed, people seem to be better at adapting to unpleasant certainty than they are to uncertainty. The capacity to adapt may be a very good thing from the perspective of the psychological well-being of the individual: for example, that of the majority of Americans who have been able to adapt to the economic costs of the financial crisis and return to their natural happiness levels, or of the average person in Afghanistan, who can maintain cheerfulness and hope despite the situation in which he or she lives. Yet that same capacity may also result in collective tolerance for conditions that would be unacceptable by most people's standards. Indeed, it may help explain why different societies tolerate such different norms of health, crime, and governance, both within and across countries.

This capacity to adapt—and the mediating role of norms and expectations—poses all sorts of measurement and comparison challenges—particularly in the study of the relationship between happiness and income. One issue, noted above, is the difficulty in comparing the happiness levels of destitute peasants with low expectations with those of very wealthy respondents with much higher expectations and awareness.

This is something that I call the happy peasant and frustrated achiever (or miserable millionaire) problem. On one level it suggests that happiness is all relative. On another it suggests that some unhappiness may be necessary to achieve economic and other sorts of progress. The examples of migrants who leave their home countries—and families—to provide better futures for their children or of revolutionaries who sacrifice their lives for the broader public good come to mind, among others.[39] This also begs more difficult questions, such as whether we should tell a poor peasant in India how miserable he or she is according to objective income measures in order to encourage the peasant to seek a "better" life—in effect telling a peasant what will make her happy. It also raises the question of whether we worry more about addressing the millionaire's misery or increasing the peasant's happiness.

This happy peasant and miserable millionaire paradox also raises the question of the appropriate definition of happiness. What makes happiness surveys such a useful research tool is their open-endedness. The definition of happiness is left up to the respondent, and we do not impose a U.S. conception of happiness on Chinese respondents or a Chinese definition on Chilean ones. The open-ended nature of the definition results in the consistent patterns in the basic explanatory variables across respondents worldwide and in turn allows us to control for those variables and to explore variance in the effects on happiness of all sorts of other things, ranging from crime rates to commuting time to the nature of governing regimes.

Yet, as noted above, "happiness" is a catch-all term that is often used to encompass various definitions of well-being, including well-being as an overall evaluation of one's life; well-being as experienced in day-to-day living; well-being as influenced by innate character traits such as positive and negative affect; and well-being as quality of life broadly defined. Those of us who study happiness go to great pains to clarify which of the various components of well-being is the focus of inquiry and select survey questions accordingly. The particular definition of interest—and the "happiness" question that is chosen—can matter a great deal to the relative importance of some critical variables of interest, in particular income, in the empirical results. That definition will also be critical to any discussion of happiness in the policy arena.

BENTHAM OR ARISTOTLE AT THE CENSUS BUREAU?

Clarity in the definition of happiness is essential to our ability to conceptualize it as a policy objective or as a measure of progress. Are we thinking of happiness as contentment in the Benthamite sense or as a fulfilling life in the Aristotelian sense? There is still much room for debate. My research suggests that respondents' conceptions of happiness vary according to their norms, expectations, and ability to adapt, among other things.

Our priors as economists and policymakers likely suggest that some conceptions of happiness—such as the opportunity to lead a fulfilling life—are worth pursuing as policy objectives, while others—such as contentment alone—are not. The libertarian paternalist approach presented by Thaler and Sunstein, which suggests that policymakers can and should "nudge" individuals in particular directions, in part by how they present or frame policy choices, is plausible. Perhaps a middle ground can be found between leaving the peasant ignorant and likely to lead a life that is by most definitions "nasty, brutish, and short" and going the "nudge" route, but finding that middle ground entails making normative judgments and engaging in a public debate that we have not yet had.

It also is plausible that people with agency or the capacity to lead fulfilling lives are more likely to emphasize the personal agency dimension of happiness or well-being, while those without agency may be more likely to find simple contentment in day-to-day living. The process of acquiring agency or opportunity, which can be facilitated by policy, may in and of itself entail unhappiness in the short term—therein the frustrated achievers versus the happy peasants. (I discuss the agency question in detail in chapter 2.) There are all sorts of policy objectives that aim to increase opportunity and aggregate welfare in the long term—ranging from reducing unsustainable fiscal deficits to reforming our health and education systems—which do not bring happiness to mind, at least not in the short term. Yet the same objectives may go a long way toward enhancing our children's happiness, quality of life, and ability to make choices in the long term.

Finally, while it is surely important to be careful before delving too quickly into the policy realm, there may be a built-in safety valve. In contrast to much philosophical work that is *prescriptive* by nature—emphasizing duty, for example—happiness surveys and the conclusions that can be drawn from them are by their very nature *descriptive*.[40] Happiness surveys help us identify the factors that make people happy. They do not, by definition, prescribe that people adopt one or more of those factors—indeed, it is not clear that they are able to. Can unhappy people without friends or a partner just go out and make friends and get married, for example? Therefore, while policymakers could—at their risk—choose to make prescriptions based on the results of these surveys, they could also simply use the information therein as inputs into the broader framework for policy design and decisions. The discussion of *how* to use happiness measures is as important to policy as the discussion of *what* measures to use.

I have introduced the question of happiness and policy cautiously, highlighting the many difficult and unresolved questions pertaining to the study of happiness and to its application to policy. Yet it is equally important to emphasize that this book is a celebration of a new science that has recently come into its own. As in any science, those of us involved in it are working hard to get the details right, to improve the robustness of the results, and to address the unanswered questions. It will, no doubt, be a work that entails trial and error. Yet it has great potential to broaden and deepen the manner in which we conceive of and measure human welfare and well-being and to inform the design of public policies intended to enhance it.