

## The economics of happiness

The Dossier in this *Monthly Report* for July and August is devoted to happiness. We have not been struck down by summer fever nor has the thought of our impending holidays made us frivolous. For years now many economists, with the collaboration mainly of psychologists, have been analysing what makes us happy, using surveys that ask respondents to state their degree of life satisfaction. These are the happiness economists and, in this issue, we explain some of their key findings.

Naturally, one of the focuses of this research has been to explore the relationship between income or wealth and happiness. And the results are very interesting: in any particular country at a certain point in time, people with larger incomes tend to report higher levels of happiness. This positive correlation between income and happiness has also been found in comparisons across countries, although it is not very strong. But, paradoxically, a country's level of happiness scarcely alters over the long term. Twenty years ago, 78% of Spanish people stated they were very or quite satisfied with their lives. Today the proportion is just above 80%, although GDP per inhabitant has grown by 25% and unemployment has fallen slightly. The fact is, once our basic needs are met, our satisfaction does not seem to depend on absolute income but rather on IB relative level.

The human mind uses comparison as a way to assess different situations. In the case of our standard of living, we compare our circumstances with those around us, with our own most recent past and with the expectations or aspirations we had formed for the present. When the economy is booming, the bar is raised, both in social and individual terms. Consequently, more income does not significantly affect happiness. It does have a temporary effect but this only lasts until our aspirations adjust to the new circumstances. Several studies have shown that a large lottery win has a fleeting effect on happiness: after six months or a year, the winners once again report the same degree of satisfaction with their lives as before the win. For the same reason, it might not be a good idea to accept a job simply because it pays better. The opportunities it provides for self-realisation, both on a personal and professional level, its work-life balance and, of course, a good boss are all more important than income.

So if money cannot buy happiness, what makes us happy? The findings of many studies point to other factors being equally or more important than money: especially relations with family, friends and the community around us (ultimately, we are social animals); a stable, rewarding job; good health; individual freedom and our values (Aristotle claimed that happiness depends on the cultivation of virtue).

These lessons are fundamental when designing public policies. Based on these, for example, education, healthcare and combating unemployment should all underpin a welfare state whose aim is to make its citizens happy. Also important are policies that promote a good work-life balance and encourage people to become more involved in society, as well as respect for individual freedoms.

In any case, I hope you read this Dossier while enjoying a pleasant holiday. Of course, also with prudence and temperance.

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30 June 2017