

## IN SEARCH OF HAPPINESS

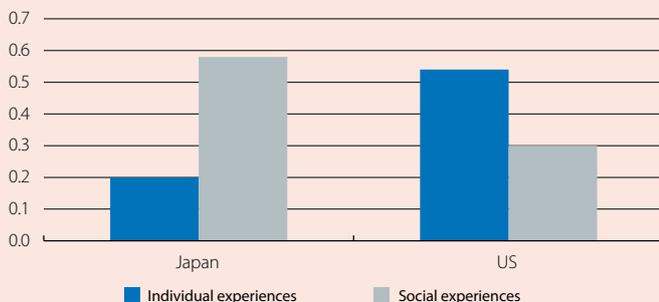
## Are you happy? Happiness and human beings

Seeing as this *Monthly Report* is published at the height of summer, it is very likely you are reading this while enjoying a (no doubt well-earned) holiday. But in-between dips in the sea, what better time of the year than these long, relaxing days to reflect on happiness and its importance, both for individuals and for economics? This first article in the Dossier examines the concept of happiness from a microeconomic perspective; i.e. focusing on the individual. But before we decide whether we are happy or not, we must first clarify what we mean by happiness and how we can measure it. Such issues may seem philosophical in nature but they are nevertheless crucial, as the ultimate aim of economics is to improve people's living conditions.

The literature differentiates between three types of happiness: life satisfaction, emotional well-being and eudemonic well-being. Life satisfaction is how you feel about your life overall and the Cantril ladder tends to be used as the benchmark. People are asked to rate their life satisfaction on a scale from 0 to 10, where 0 is the worst life possible and 10 the best. Emotional well-being, on the other hand, concerns people's emotions and moods in their everyday lives, such as pleasure, sadness, anger and stress. This is measured by the Day Reconstruction Method developed by the Israeli psychologist and holder of the Nobel Memorial Prize winner in Economic Sciences, Daniel Kahneman. People are asked to think about their experiences from the previous day and rate them as positive or negative. Finally, eudemonic well-being<sup>1</sup> focuses on the meaning and purpose of life, asking whether each individual has achieved a quality of life in line with their potential. Economists have recently started to pay more attention to this kind of happiness although it is extremely complex to measure. These distinctions within happiness are important. For instance, Kahneman and another prize-winning economist, Angus Deaton, show that, in the US, higher earnings always lead to greater life satisfaction but when people earn more than USD 75,000, receiving more money has a zero impact on their emotional well-being (for an in-depth examination of the relationship between income and happiness, see the article «Money does not bring happiness, but does it help?» in this Dossier).

### Happiness and cultural factors: US versus Japan

(Correlation between positive emotions and experience type) \*



**Note:** \* The correlation between two variables is between -1 and 1 and measures the degree of lineal relation; a correlation of 1 represents a perfect positive relation and a correlation of 0 represents a zero lineal relation. In the chart, the correlations are obtained by asking a sample of 913 American and Japanese students about various experiences in their daily lives during the academic year and whether these are associated with positive or negative emotions.

**Source:** CaixaBank Research, based on Kitayama, S., Markus, H. R. and Kurokawa, M. (2000), «Culture, and Well-being: Good feelings in Japan and the United States», *Cognition & Emotion*.

measurements, such as how often someone smiles, facial expressions, health indicators, suicide statistics and certain physical measurements of brain activity.<sup>3</sup>

Having looked at the different types of happiness and the complications involved in measuring them, the time has come to reflect on what actually makes us happy. Deaton and Kahneman carried out a revealing comparison between the factors associated with life satisfaction and emotional well-being in the US. In their analysis, these authors concluded that income and education are more related to life satisfaction whereas physical health and loneliness are more connected with emotional well-

The various subjective happiness indicators have an important drawback, namely that it is a relative concept and strongly influenced by cultural factors. According to the psychologists Uchida, Norasakkunkit and Kitayama, in Western countries happiness is defined in terms of personal achievement and the ultimate goal is to maximise the number of positive experiences. In Asia, however, other aspects are important for happiness, such as interpersonal relations with other people. In an influential article<sup>2</sup> comparing the US and Japan, the psychologists Kitayama, Markus and Kurokawa provide empirical evidence for such differences. In the US, positive emotions (happiness, euphoria, relaxation...) are highly correlated with individual achievements. In Japan, however, positive emotions are highly correlated with experiences of a social nature, such as relations with friends. Nevertheless, aside from cultural factors and how they affect our perceived happiness, a lot of literature reports a positive correlation between the happiness stated in surveys and more objective

1. Eudemonia or fulfilment is a classical Greek word that literally means «human flourishing».

2. See Kitayama, S., Markus, H. R. and Kurokawa, M. (2010), «Culture, Emotion and Well-being: Good Feelings in Japan and the United States», *Cognition and Emotion*.

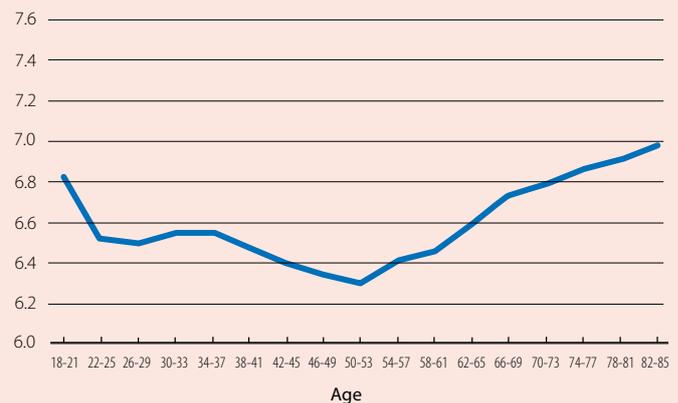
3. For more details see Ferrer-i-Carbonell, A. (2001), «Economia de la felicitat», Els Opuscles del CREI.

being. A lot has also been written about the factors correlated with life satisfaction, although cause-effect relations are very difficult to ascertain: it may be happiness that is having a positive effect on other variables and not vice versa. Whatever the case, the findings are at the very least interesting. For instance, being unemployed is one of the factors with the strongest negative relation to life satisfaction and this effect does not diminish over time, unlike chronic illness, for example.<sup>4</sup> Some studies<sup>5</sup> also point to high qualifications being negatively related to life satisfaction. This might be because more highly qualified individuals have greater expectations which are more difficult to achieve, resulting in negative effects that exceed the positive effects of the opportunities offered by their education.

For a greater insight into happiness, we should also remember that this is a dynamic concept that depends critically on the life cycle. According to a number of studies carried out by renowned economists such as Blanchflower, Deaton and Oswald, in the US and many European countries there is a strong U-shape relationship between life satisfaction and age, irrespective of income, health or generation. People's happiness tends to decrease until reaching its lowest level in the age range of 40 to 59 (the global average is 46), increasing again steadily after this point. Several theories have been suggested to explain this phenomenon, combining economic and psychological factors. It has been argued that people tend to enjoy a better salary when they are middle-aged and they take advantage of this by working harder to save for their retirement. It has also been proposed that older people tend not to worry so much about the future and put a greater value on the positive aspects of their present life. In any case, such empirical evidence has compelling and important implications for economic policy. Western societies are getting older, so we may see an increase in the overall happiness of society. And it might even go further. Since emotional well-being is associated with greater longevity,<sup>6</sup> an increase in happiness might even result in a longer life expectancy.

### Happiness and life cycle in the US

(Life satisfaction from 0 to 10) \*



Note: \* Life satisfaction is measured on a scale from 0 to 10, where 0 represents the worst life possible and 10 the best life possible.

Source: CaixaBank Research, based on data from Stone, A., Schwartz, J., Broderick, J. and Deaton A. (2010), «A snapshot of the age of distribution of psychological well-being in the United States». *Proceedings of the National Academy of Sciences*.

As we have seen in the previous paragraph, studying the happiness of individuals could have significant implications at a collective level. A case in point is when we examine how the happiness of individuals can have an impact upon aggregate levels of social capital; i.e. the set of values that permit members of a society to trust one another and work together. Essentially, the degree of happiness of individuals has implications for society as a whole because it affects how these individuals relate to and treat each other. In economic terms, individual happiness is associated with externalities that influence other individuals. Several academic studies have shown a positive relationship between happiness and social capital.<sup>7</sup> Although causal relations are difficult to establish (do you trust people and cooperate more with society when you are happy, or vice versa?), it has been demonstrated that those countries with manifest inequalities in terms of happiness have significantly low levels of social confidence.<sup>8</sup> In short, an individual-centred view of happiness that includes the resulting externalities produces results at a more aggregate level that could have important repercussions for economic analysis and for improving the degree of development and cooperation of countries (for an exhaustive analysis of happiness at an aggregate level, see the article «How can well-being be compared across countries?» in this Dossier).

By way of conclusion, the concept of happiness is both extensive and multifarious, and it is starting to come to the fore in economic analysis. A word of warning to our readers, however, to ensure they continue enjoying their holidays and life in general. According to the renowned Berkeley psychologist, Iris Mauss, it may be counterproductive to become too concerned about whether we are happy or not, since this increases the likelihood of becoming disappointed and unhappy. After all, as Buddha would say, «there is no path to happiness; happiness is the path».

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4. See Ferrer-i-Carbonell, A. and Van Praag, B. (2009), «Do people adapt to changing circumstances?», EPAG Working Paper.

5. See Clark, A. E. and Oswald, A. J. (1994), «Unhappiness and Unemployment», *The Economic Journal*.

6. See Steptoe, A., Deaton, A. and Stone, A. (2014), «Subjective wellbeing, health, and ageing», *Lancet*.

7. See Bjørnskov, C. (2003), «The Happy Few: Cross-Country Evidence on Social Capital and Life Satisfaction», *Kyklos Journal*.

8. See Goff, L., Helliwell, J. and Mayraz, G. (2016), «The Welfare Costs of Well-being Inequality», NBER Working Paper.