Case study: National happiness

Introduction

This case study has been written by teachers for teachers to support the delivery of a new topic within the specification. It provides ideas and suggestions for teaching approaches and is not intended to provide exhaustive coverage of this topic. It is not intended to be prescriptive or indicative of content and questions in the specification and assessments. The specification must be referred to as the authoritative source of information.

This case study focuses on national happiness. It provides research ideas and practice questions for students for use within class or as homework activities.

National happiness

This resource sheet is designed to support the AS and A level Economics A specification Topic 2.1.1: Economic growth:

g) National happiness:

- UK national wellbeing
- The relationship between real incomes and subjective happiness.

UK national wellbeing

'There is now a rising worldwide demand that policy be more closely aligned with what really matters to people as they themselves characterise their wellbeing,' said Professor Jeffrey Sachs (source: *UN World Happiness Report 2013*).

Richard Layard has worked extensively on the subject of 'national wellbeing'. He has researched the subject of happiness by bringing together findings from psychology, economics, neuroscience, sociology and philosophy. The findings from this research have been used to reassess what really makes us happy and gives us wellbeing in our lives. This understanding can be used to help shift government policies towards helping its citizens become happier.

Layard identified factors which do affect how happy we are. In our adult life, the seven big factors affecting happiness are:

- **family relationships** – having to go through divorce, separation or bereavement will reduce happiness
- **financial situation** – a fall in income is likely to reduce happiness
- **work** – not being employed or job insecurity will reduce happiness
- **community and friends** – not feeling part of a community or lacking trust of people generally in your local area will reduce happiness
- **health** – chronic pain or mental illness significantly reduces happiness, although with some medical conditions it is possible to adapt
- **personal freedom** – lack of political freedom and presence of war reduces happiness
- **personal values** – lack of a religious faith or inability to look for comfort 'within' reduces happiness.

The United Nations happiness report for 2013 ranked the UK 22nd out of the 156 nations surveyed for happiness. It found six key factors which affect happiness. These are:

- real GDP per capita
- healthy life expectancy
- having someone to count on
- perceived freedom to make life choices
- freedom from corruption
- generosity.

The data came from people's own evaluation of their lives. The report found that mental health is the biggest *single* factor affecting happiness in any country. Yet only a quarter of mentally ill people get treatment for their condition in advanced countries.

Research ideas

1. Find out which countries currently feature in the top five happiest nations in the latest United Nations happiness report. Use newspaper articles and/or BBC News to identify what

features in these countries might explain such high levels of happiness. For example, guardianlv.com has a good article ('What is the Key to the Top 5 Happiest Nations?' 10 September 2013, http://guardianlv.com/2013/09/what-is-the-key-to-the-top-5-happiest-nations/(

In 2010 the UK Prime Minister launched the Measuring National Wellbeing programme to 'start measuring our progress as a country, not just by how our economy is growing, but how our lives are improving; not just by our standard of living, but by our quality of life.' The Office for National Statistics (ONS) now compiles data covering 10 domains and 38 measures of wellbeing based on what people in the UK said actually mattered to them. As the ONS states, 'There are objective measures of wellbeing, like life expectancy and levels of unemployment, and also subjective measures – how people actually feel about progress, including overall satisfaction with life and levels of anxiety. It is important to have a mix because objective measures, such as actual crime levels, don't always reflect the way people feel, for example, their fear of crime – and the differences – can have important implications for policy.'

The Better Life Index, launched in 2011 by the Organisation for Economic Co-operation and Development (OECD), also looks at people's subjective judgements on life together with objective indicators.

Make sure you can give examples of the range of objective measures of wellbeing which are often used in happiness studies.

2. Look at the latest 'interactive wheel of measures' on the ONS website. Combine this with reading some newspaper and BBC News stories on UK wellbeing which came out at the same time as the ONS report. From your research, write a summary on the state of wellbeing in the UK. Highlight the main factors affecting this. The latest OECD's *How's life? Country Snapshot UK Report* is also a good resource.

   Current newspaper articles can be very good, eg 'Above-average happiness: Britain is 11th most content nation in Europe', *The Guardian*, 18 June 2014 (www.theguardian.com/world/2014/jun/18/britain-11th-happiest-country-europe).

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The relationship between real incomes and subjective happiness

Politicians and economists have traditionally focused on economic growth as a primary objective of government economic policy. It has been assumed that a rise in GDP/GNP per capita must be a good thing. However, it seems to be the case that, particularly for richer developed nations, economic growth has failed to make people happier. Decision makers are beginning to realise that more purchasing power is not the key to happiness.

Are we happier if our real income rises?

The **Easterlin paradox** (after Richard Easterlin, the man who noticed it) highlights an apparent contradiction:

- Despite extensive economic growth over the last 50 years or so, people in richer countries do not seem to feel any happier than they used to. In fact, a rise in income per person in the US in the 1960s co-existed with a reported fall in the average level of happiness.
- In international comparisons, the average reported level of happiness between countries did not vary much despite very large differences in average incomes (assuming both countries could at least meet basic needs).
- Within an economy, the richer citizens are happier on average than the poorer ones.

Richard Layard concludes: happiness depends on relative income and wealth. In other words, we only feel happier if we feel better off than the people with whom we compare ourselves. It also seems to be the case that individuals get used to their better material wealth and adapt their expectations upwards. The extra purchasing power becomes 'habit' and becomes the norm, so we do not necessarily feel happier.

And why do richer people feel happier than poorer people within an economy? The causal link may be complicated. Is it their extra purchasing power in comparison which explains this? This might be true to some extent but other factors may also be part of the explanation. For example, it might be the status that comes with more senior jobs or the freedom to be able to control how you go about your job, which often occurs in more senior positions.

So if a rise in income does not necessarily promote happiness, maybe it is time to shift policies away from the objective of economic growth and towards a direct attempt to increase happiness.

Research idea

Devise a list (with explanations) of different policies which may directly help to increase the wellbeing and happiness of individuals in the UK. Do any of them conflict with the policy objective of increasing GDP?

Mark Easton's article on the BBC News website ('The politics of happiness', 22 May 2006, http://news.bbc.co.uk/1/hi/programmes/happiness_formula/4809828.stm) is useful, as are others like it.

Chapter 6 of the *World Happiness Report 2013* ('Using wellbeing as a guide to policy') is also worth dipping into.

Short-answer questions

Employment and labour market conditions have deteriorated markedly as measured by higher long-term unemployment, involuntary part-time work and the number of discouraged workers and inactive people.

Between 2007 and 2011, employment rates fell between 5 and 10 percentage points in Iceland, Slovenia, Portugal, the United States, Estonia and Denmark, and by more than 10 percentage points in Ireland, Greece and Spain.

Subjective wellbeing decreased significantly in 2009 and in 2011 in the OECD as a whole, but particularly so in euro area countries most hit by the crisis.

Between 2007 and 2012, the percentage of people declaring being very satisfied with their lives fell by 25 percentage points in Greece and by around 16 and 14 percentage points in Italy and Spain, respectively.

(Source: OECD Better Life Initiative, *How's Life 2013: The 60-second guide*.)

1. From the passage, identify and explain the likely reasons why life satisfaction has fallen in Greece and Spain.
2. What other wellbeing data might be useful to make a more comprehensive assessment of life satisfaction in these countries?
3. A rise in real GDP in an economy must mean that ...

   A Real GDP per capita has risen.

   B Its citizens report higher life satisfaction.

   C The value of output, adjusted for inflation, has risen.

   D Prices have risen in the economy.

4. In 2010, according to the World Bank, the difference between the highest and lowest gross national income per capita (Norway v Burundi) is 543 times. However, with purchasing power parity (PPP) adjustment, the difference between the highest and lowest gross national income per capita (Luxembourg v the Democratic Republic of Congo is 'only' 206 times. (Source: *Economics: The User's Guide*, Ha-Joon Chang, Pelican Publications.)

   a) Explain what purchasing power parity adjustment means and why, with PPP adjustment, the relative difference in income per capita between the richest and poorest countries of the world falls.

   b) Explain the key reasons why a rise in income per capita is more likely to reflect a rise in quality of life for citizens in developing countries, compared with those in richer countries.

   c) In many developing countries, reported life satisfaction is higher than might be expected. Identify some reasons why this may be the case.

5. Decide whether the following statements are true or false. Make sure you can justify your classification.
    - Even with PPP adjustment, income figures such as GNP per capita do not fully correlate with wellbeing and quality of life.
    - A rise in real household disposable income will always be desirable, since it means the household will have more purchasing power.
    - If everyone in a country becomes better off with economic growth, then the reported happiness of its citizens will definitely rise.
    - Some critics argue that happiness studies can be flawed, since happiness cannot be measured and even an individual cannot be trusted to correctly judge their own happiness.
    - Non-monetary factors, such as community life, political freedom etc. affect happiness.

Essay questions

1. Using the information provided and your own knowledge, evaluate whether government policies are likely to change significantly if the UK government focuses more on national happiness as a means of making policy decisions.
2. Evaluate whether the UK government should continue to focus on economic growth as a key macroeconomic objective.

Marking guidance

Essay questions

Question 1

- Many policies which would increase GDP growth would also increase national happiness, eg policies to reduce unemployment often improve confidence, reduce job insecurity fears and reduce anxieties about being able to cope financially. However, even though employment might rise, wellbeing is likely to be lower than it might be. A focus on national happiness would mean policies would shift towards creating stable jobs with good job quality, decent contracts and good working hours, rather than job creation which ignores these.
- Traditionally, government polices to reduce structural unemployment are targeted at increasing occupational and geographical mobility. Geographical mobility means workers have to leave family and friends behind to start again in a new location. Although GDP will rise, for individuals there might be a fall in wellbeing as they lose their community and friendship links. So again, policies to reduce unemployment may need to change to reflect the wellbeing data.
- More resources might need to be allocated to mental health prevention and cure. This is also likely to raise GDP in the long run, but in the short run may mean some government resources are directed away from activities which have a higher impact on raising GDP.

  Integrating more green space into cities is also likely to have a greater focus. Recent wellbeing data suggested the lowest levels of wellbeing in the UK were in London, despite London consistently being ranked as the wealthiest area of the UK.
- The link between income levels and subjective happiness is also complex. It is likely that policies which achieve high economic growth at the cost of a widening income distribution would not be favourable by policy makers if they focus on national happiness rather than just using 'the blunt measurement of increasing GDP to assess the success of the country'. This might mean that policies which create incentives to work, such as reducing benefits and reducing higher rates of income tax, could negatively impact wellbeing despite increasing economic growth. These may become less favourable than policies which achieve lower rates of growth but with greater equality.
- Policies to reduce unemployment, create low and stable inflation, and increase economic growth will also often increase wellbeing. There is often no trade off involved. However, sometimes there can be conflict.
- This means that cost/benefit analysis, which is often used in policy decision making, will have to fully incorporate wellbeing criteria into the analysis.

  In practice, this is a growing subject in economics and it is difficult to know to what extent policies will have to change. This is partly because measuring happiness is difficult, because there is no simple way of doing this. Also what makes us happy may change over time.

Question 2

See the mark scheme for **AS level Paper 2, question 6f** of the sample assessment materials for suggestions on answers which do not bring in the happiness debate. However, this question would lend itself to some discussion on this topic as *part* of the answer. For example:

- Recognition of some benefits of using GDP – for example, rising GDP suggests more jobs and possibly rising wages, a fall in GDP suggests rising unemployment and perhaps increased uncertainty and job insecurity. Therefore, to some extent, changes in GDP are likely to mirror changes in life satisfaction (happiness).
- However, there may not be a clear connection between increases in GDP and national happiness. For example:
  - ‘The hedonistic treadmill’ – people rapidly adapt their expectation to the higher standard of living so they end up not necessarily feeling happier. They also get utility by comparing themselves to others – so if everyone else has a better car, then having a better car yourself does not give you a buzz! Conspicuous consumption does not make you feel happier, it just causes a rat race of frenzied consumption.
  - Rising GDP can be distributed unevenly. If income distribution significantly widens then national happiness may fall. This may be because more individuals compare themselves unfavourably with the richer citizens in their society, since the difference is greater than before.
  - The Easterlin paradox highlights that countries with lower GDPs can report similar levels of happiness. This suggests that there are many factors which significantly affect happiness other than income, such as friendships, sense of community, job satisfaction, work–life balance, health etc.

  However, a fall in GDP within a country is likely to reduce reported happiness. This is because a fall in GDP tends to coexist with rising unemployment and an increase in job insecurity, and possibly individuals accepting jobs below their skill level if they have been made redundant previously.
- Some focus on GDP is important for governments – avoiding negative economic growth is important. However, a focus on policies which directly help to increase happiness would seem optimal. GDP growth may be smaller with this objective, but the welfare of its citizens may be higher! A narrow focus on GDP growth no longer seems ideal. Policies need to take account of happiness indicators rather than on GDP alone.