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Happiness and development policy

Comment to "Happiness Measures as a Guide to Development Policy?" by Carol Graham

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1. Introduction

If we all seek happiness, and living a happy life is our ultimate goal, shouldn't happiness be at the center of the development studies, and be the guide of development policy? In a deep, comprehensive and insightful essay Carol Graham tackles these issues with the balance of someone who has extensively studied the topic and knows its promises as well as its limitations and pitfalls. Graham surveys the happiness literature, highlights its main challenges, illustrates the main points with results of her own research, and provides an assessment of the current state of the debate. In this comment I share some thoughts that were motivated by Graham's arguments and evidence, and illustrate some points with results from my own research.

2. Happiness as an objective for development policy

There is a debate on the relevance that happiness measures should have as benchmarks for development. In one extreme, some people argue that aggregate measures of happiness should be the only indicators to evaluate progress and policy (Layard, 2005).

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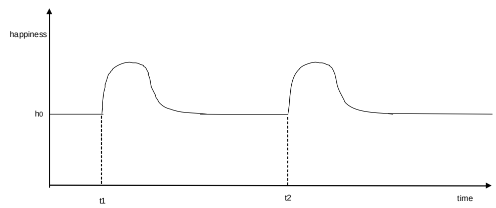
If people behave as to maximize utility, some aggregate indicator of happiness seems to be a reasonable measure for aggregate welfare. On the other hand, others emphasize the several pitfalls of this position, ranging from serious measurement issues to the more conceptual problems of adaptation and awareness (Sen, 1999). In fact, according to many analysts happiness measures should not be of any concern for development policy. That was the overwhelming position in Economics until recently, and it is probably the most widespread view today. In what follows I revise some of the "anti-happiness" arguments.

As stressed in Graham's paper, the adaptation conundrum is one of the main challenges for people advocating happiness as a benchmark for development. This phenomenon has been recently documented by various papers in Economics. For instance, using data from the German Socioeconomic Panel, Di Tella, Haisken-De New and MacCulloch (2007) find that life satisfaction adapts completely to income within four years: growth implies just a temporary boost to happiness. This phenomenon of "hedonistic habituation" is well-know in psychology (Myers, 2000). Humans derive a great deal of enjoyment from any new form of positive experience. However, people quickly become familiar with the new source of joy, and the initial happiness fades away.

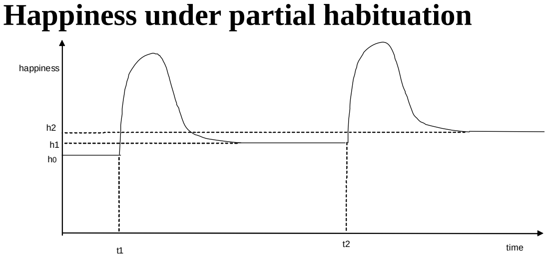
The conundrum triggered by adaptation is illustrated in Figure 1. Suppose due to development policy productivity increases and a person gets a permanent wage rise at time t_1 and that also due to development policy the credit market improves and at time t_2 (s)he gets a loan to buy a house. Under full habituation, happiness jumps at both t_1 and t_2 but always returns to the long-run level h_0.

Figure 1
Happiness under full habituation



In this context, if happiness is our social goal, what is the use of development policy? This conundrum has led many people to discard happiness as a sensible benchmark for development. In my view, and according to evidence provided by Graham and other researchers in this field, there are at least two arguments why discarding happiness indicators may be an overreaction. The first one is that recent studies conclude that although there might be an *overshooting* after a positive change, long-run happiness *is* sensible to economic changes. With new and better data Deaton (2008), Stevenson and Wolfers (2008) and others challenge the Easterlin paradox according to which happiness does not increase with development. These recent studies find that development is good for happiness. Figure 2 - showing happiness under partial habituation - seems to be a better representation of the real world than Figure 1. In this context development policy has a role if maximizing happiness is the social target. Of course, the fact that the initial boost on happiness does not last long might be frustrating for policy-makers, but that is not a valid argument against policies that are successful in increasing long-run happiness.

Figure 2
Happiness under partial habituation



The second argument against the view that adaptation is a very serious problem has to do with the nature of happiness, a topic that is also mentioned in Graham's paper. Let's assume habituation is complete and go back to the world of Figure 1. In that case notice that the even when happiness returns to the long-run value after a policy shock, lifetime average happiness is larger with policy than without it. If policy is able to make a person go through many happiness episodes it will make her life substantially happier on average. In fact, some argue that happiness is no more than brief moments of fulfillment,[1] and that all we can expect is to have more of these moments, but not aspire to a permanent higher level of happiness.[2] In this framework, development policy has a role even when its impact on happiness is only temporary.

Other arguments against the use of happiness indicators are related to measurement issues. However, as remarked in Graham's paper, many of the concerns also apply to more common measures of welfare as income or consumption. Measurement issues today may be more serious in happiness than in income, but that will not be necessarily the case if surveys are improved over time, and new techniques and technology from psychology and neurosciences can be applied at a large scale. In the future it might be easier to measure some dimensions of happiness than estimating all sources of income.

If happiness is our welfare measure, should we give resources to rich people who feel sad? Although valid, this concern also applies to income and consumption: if these welfare variables are used to guide policy, resources should be transferred to lazy or dishonest people whose incomes are low despite they have all the opportunities to work and become non-poor. There are several conceptual problems by having *outcome* variables as happiness, income or consumption as guides for policy. The development

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[1] See Morris (2004).

[2] This is related to the philosophical discussion on happiness as contentment or happiness as a fulfilling life.

literature is increasingly dealing with opportunities rather than actual outcomes. This turn will surely affect the happiness literature.

The previous paragraphs argue that some of the concerns about the use of happiness measures as a guide for development policy may be not too serious. In fact some people disregard these concerns and support happiness measures as the *only* development goal. This extreme view has also problems. Suppose that some policy does not have any positive effect on happiness. For instance, sometimes it is even argued that certain areas of education make people less happy by making them more aware of the injustices in the world, the fragility of life, or their position in society. Even if these arguments were true it is likely that most people will not support a reduction in education. The reason is that happiness is not the only thing that drives our lives. There are values that are more or equally important. People are ready to compromise happiness for other values both in their lives and in the policies they support.

Research in psychology shows that about 50 per cent of overall sense of happiness is genetically determined and cannot be changed, 10 per cent is due to circumstances (income, education) and 40 per cent from the day-to-day experiences and behavior (Lyubomirsky, Sheldon and Schkade, 2005). This is bad news for development policy, since it implies that it is not that important for people's happiness. Of course, that does not imply abandoning policy but instead being aware of the size of the policy impacts we should expect on happiness indicators. It also implies that policy should pay more attention to things that significantly increase people's sense of happiness: mating, employment, friends, holidays. Of course there are limits to public interventions, but there are many things policy can do in these areas. To start with, it can support evidence-based studies in psychology, neurosciences, economics and other areas to know better what can be done to help people feel happier. This kind of research is almost inexistent in most developing countries.

3. Dimensions of welfare and trade-offs

Suppose we agree that self-reported happiness is one of the many dimensions of welfare. Is it possible to ignore it in the analysis given that it is correlated to other objective measures of well-being? In a recent study for Latin America using data from the Gallup Poll and a simple factor analytic model we conclude that welfare can be appropriately summarized by three dimensions: income, variables associated to "basic needs" and subjective welfare measures (Gasparini, Marchionni, Sosa Escudero and Olivieri, 2010). This result speaks about the importance of happiness measures but also suggests that welfare is a truly multidimensional phenomenon that cannot be fully captured by just one dimension. In that sense, any policy aimed at one dimension would likely be "suboptimal" in the others.

In some cases the inclusion of the happiness dimension may not affect the policy debate. For instance, investment in water and sanitation increases measures of objective welfare, and also subjective satisfaction, at least for some time. In other cases, however, there might be a trade-off: there is when the question of happiness as a benchmark for development policy becomes more interesting.

Some trade-offs are mentioned in Graham's paper. For instance, development policy promoting competition and productivity may reduce happiness at least for some time. A wide net of social protection and labor regulations may hinder economic growth but may reduce uncertainty and hence increase happiness.

In Gasparini, Marchionni, Sosa Escudero and Olivieri (2010) we find several areas with potential conflict in terms of policy recommendations when looking alternatively at income or happiness. For instance, in several Latin American countries older people are among the most disadvantaged in terms of subjective welfare but not in terms of income or consumption. This reversion bears relevant implications on the targeting of social policies. The gap between rural and urban areas is enormous in terms of income, smaller but large in terms of consumption and substantially narrower in terms of happiness. For instance while 66% of the income poor in Ecuador live in rural areas just 42% of the “happiness” poor live in those areas. While large family size is associated to low welfare measured by income or consumption (adjusted for demographics), the association with happiness is weaker. For instance, in Latin America while the difference in the average number of children between households in the bottom 30% of the income distribution and the rest is larger than 1, that difference is just 0.2 when comparing the bottom 30% of the happiness distribution with the rest. Targeting schemes in social programs based on familiy size may imply significant biases when other dimensions of deprivation beyond income/consumption are considered.

In many countries poor people -when defining poverty by income or access to goods and services- are on average more satisfied than the non-poor with social policy. In Latin America the difference is not negligible: 7 to 9 points (Gasparini and others 2010). When considering the subjective definition the results change: the “happiness” poor are less satisfied with the efforts to deal with poverty and lack of employment. This result could be driven in part by unobservable personality traits: those who are more likely to rank themselves as poor (even when they are not based on objective measures) are also more likely to be less satisfied with a range of other things, including efforts to deal with poverty. The result is challenging: should we partially disregard the low levels of approval of the subjective-poor since they are in part driven by unobservable individual factors (pessimism?) that lead some of these people to incorrectly consider themselves as poor? Or should we give special attention to this negative view of the social policy, since the happiness-poor are the real poor who our weak scheme to measure poverty with incomes and consumption of a few goods cannot properly identify?

As commented above, new evidence seems to support the view that development is on average good for happiness.[3] However, as it is stressed in Graham's paper the process by which an economy develops matters a lot. Attaching happiness a greater weight as a social goal against for instance GDP will not affect the need for development policies, but may affect the decision on the type of policies and the speed of growth. Large changes seem to be very traumatic. The paradox of unhappy growth documented by Graham and Lora (2009) and others should be taken seriously. Insecurity to rapidly changing rewards structure, volatility and inequality are mentioned to be happiness-reducing factors during high-growth episodes. A factor that is not mentioned in Graham's paper but it is probably relevant is the reduction in leisure in growth episodes. People may feel that they have to take advantage of the boom and may overreact; working too many hours, feeling stressed and frustrated. As Graham acknowledges, people seem to be happier in low growth equilibrium. This is a fact that should not be ignored by development policy. This is not to say that we have to try to avoid any

[3] As in other areas the study of the causal effects of policy on happiness is plagued by empirical problems. One of the more serious is that of bicausality, as stressed in Graham's paper. In fact there is a large body of evidence in psychology on the impact of happiness on income and others indicators of a successful performance in the labor market. In a well-known survey of that literature Lyubomirsky, King and Diener (2005) conclude that if you make people feel happy they perform better in many dimensions. Happiness not only is caused by success but it actually causes it.

change as it could be traumatic: long term gains in happiness may outweigh short term loses.

Summing up, including happiness into the benchmarks for development will not affect the need for development policy but may affect the speed, type and nature of interventions.

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