HAPPINESS (SUBJECTIVE WELL-BEING) AS A WELFARE CRITERION: ECONOMICS VIEWPOINTS

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PURPOSES

- To consider happiness (subjective well-being) as a welfare criterion from the viewpoint of economics, and thereby

- To discuss the pros and cons of the happiness index

which will help

- in constructing better measures of happiness, and
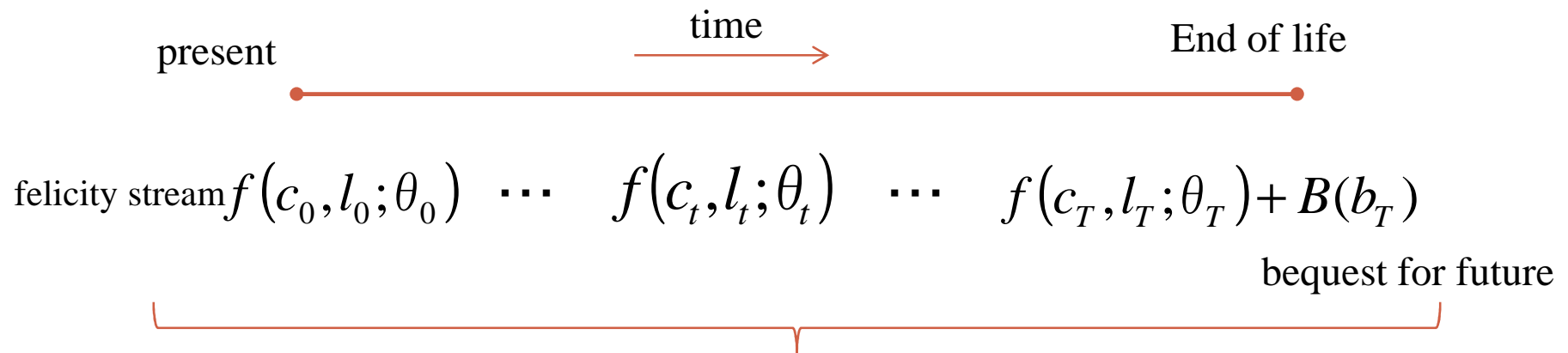- in considering social welfare multidimensionally

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NEED FOR A WELFARE CRITERION OTHER THAN DECISION UTILITY

- Suboptimal behavior under decision utility (revealed preference)

  - Time-inconsistent preferences (hyperbolic discounting)
  - Status-quo bias

- Happiness as experience utility could play a complementary role as an welfare index which helps us to evaluate policy effects

E.g.,

  - Gruber and Mullainathan (2005): "Cigarette taxation enhanced smokers' happiness."
  - Wolfers (2003): One percentage-point decrease of unemployment causes 4.7 times more happiness than a percentage-point decline in inflation.

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CONSIDERING OUR LIFETIME WELFARE

present   time   End of life

felicity stream $f(c_0, l_0; \theta_0)$ $\cdots$ $f(c_t, l_t; \theta_t)$ $\cdots$ $f(c_T, l_T; \theta_T) + B(b_T)$

bequest for future

Lifetime welfare $\quad U = \sum_{t=0}^{T} \left(\frac{1}{1+\delta} \right)^t S_t f(c_t, l_t; \theta_t) + \left(\frac{1}{1+\delta} \right)^T B(b_T)$

Budget constrained by
- weath incl. non-human wealth and human capital
- time constraint
- health (survival rate S)
- technology

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IMPLICATION 1: U matters.

- An ideal welfare index would relate to lifetime welfare U, rather than temporary felicity.

  - Happiness data seem to reflect retrospective satisfaction from past and present life. It should capture more prospective satisfaction from future life and future generation.
  - It could be done by
    1. Designing questions such that the resulting data reflect prospective future satisfaction, or
    2. Evaluating social welfare multi-dimensionally by jointly using some indices which reflect prospective future satisfaction, including:
       1. opportunities for education
       2. benefits from the medical system
       3. social mobility
       4. the equality of political rights
       5. natural resource

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IMPLICATION 2: Income & wealth matter.

- Income and wealth as resource constraints play a critical role in generating well-being.

  - The Easterlin paradox: "Happiness has not been associated with income in time-series aggregate data"
  - Needs for further robustness check using panel data
  - Panel data shows "money buys happiness."
    - Year-by-year strong positive correlation between individuals' happiness and per capita household income
      - Stevenson and Wolfers (2008 BPEA)
      - Deaton (2007, NBER)
      - Osaka University Panel, 2005-2011

IMPLICATION 3: Effects of Reference points

- SWB depends on reference points due to, e.g.,

  - social comparison
  - adaptation (habit)

- Two implications

  - equality of income distribution matters
  - Limitation: SWB depends on arbitrary reference points, which are easily affected by

    - commercial advt.
    - political propaganda
    - information control, etc.

CONCLUSIONS

1. Because decision utility constructed from revealed preference is not always reliable for welfare evaluation, "happiness" (defined as experience utility) could play a complementary role in social and policy evaluation.

2. We should evaluate welfare by incorporating:

   • non-human and human capital stocks as well as income flows as resource constraints

   • factors reflecting prospective as well as retrospective satisfaction, and

   • the equality of income distribution.

3. We should note the limitation of subjective well-being data that they depend on arbitrary reference points.   Because of the limitation, it is hard to compare peoples' welfare levels using such subjective measures.

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THANK YOU FOR YOUR ATTENTION.

Happiness-Income Correlation: 2005-2011 balanced panel
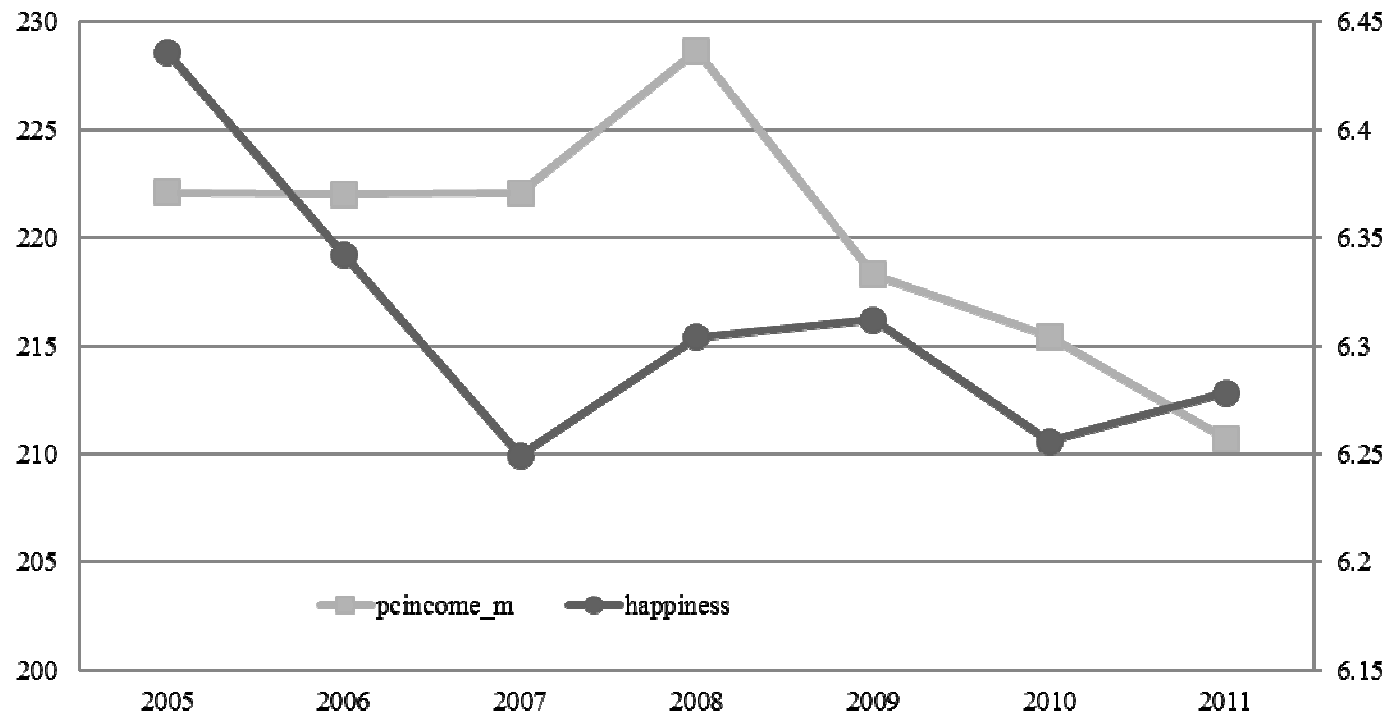
* Osaka University Panel Data (sample 1359*7 man*year)). Happiness takes 11 possible values from is 0 (least happy) to 10 (happiest). Income is percapita household income in 10 thousand JPY.