

Economics of happiness, psychology of welfare

N K Singh

Posted online: Sunday, October 08, 2006 at 0000 hrs IST

The elation in achieving a 9.8 per cent GDP growth in the first quarter masks multiple micro details. How evenly is the growth spread? Does an average Indian outside the metros feel significantly better and happier? Data on interstate comparisons and intrastate disparities only come with a lag.

Those who travel within the country have experienced that the current economic boom is not confined to metros alone, and midsize towns, too, are humming with activity.

Are we at the cusp of experiencing this midtown prosperity even while the metros grapple with multiple problems of unplanned urbanization?

Last week I was in Patna and attended the State-sponsored cultural festivities preceding Vijaya Dashami. The artistes were a full spectrum. Reputed classical exponents like Kishori Amonkar, Kishan Maharaj, Debu Chatterjee, and Shovana Narayan blended with regional folk heroes like Manoj Tiwari. And TV anchor Shekhar Suman delighted audiences for two full nights.

The performance was held at Gandhi Maidan, where close to 80,000 people enjoyed the cultural feast. It was almost unimaginable that a crowd so large, comprising of women and children, could participate and listen with such patience. The streets were an unending stream of people generally enjoying themselves.

Was this an index of prosperity in a state that was at [the rock](#) bottom of India's development index? Or was it a new-found sense of [security](#) which gave them the confidence to participate in their prime festival event? Or was it an index that perhaps in the mid-town prosperity a trickle down effect has occurred, not adequately gauged and reflected in national indices? Or was this just a transient movement away from everyday hassles? Perhaps it was all that - but I suspect a new sense of security was the dominant driving force.

Behavioral economics shows that individuals value losses more than gain, and did this enjoyment represent the loss of shedding the fear of freedom? Only time [will](#) tell if improved governance has led to sustainable improvements.

In his piece, A Non-technical Introduction to the Economics of Happiness, Andrew Oswald has argued that questions such as whether [money](#) buy happiness or economic growth makes people better off are tricky questions.

For instance, despite rising incomes since the 1950s, only 30 per cent people in the United States consider themselves happy. The figure has been consistent

over the years. And the proportion of people who consider themselves not happy has also not fallen. Perhaps relative income conveys most of our material well-being.

Carol Graham of the Brookings Institution who is a leading exponent of hedonics, has argued that “the economics of happiness” is an approach to assessing welfare, which combines the techniques typically used by economists with those more commonly used by psychologists.

Even within a more orthodox framework, focusing purely on income yields a mixed picture about human welfare. Statistical studies generally find a positive relationship of reported happiness being highest with people who are educated, with high income, young or old (not middle aged), are married, looking after the home and self-employed.

People with high levels of education report greater happiness in relations to others and this could be because education makes people more secure. Better education ensures greater job security, a good predictor of over-all satisfaction.

Amartya Sen’s early piece, *Rationality and Social Choice*, opened a new field of research on economics of happiness, which now needs to be addressed.

Empirical research also suggests that while deprivation and abject poverty is bad for happiness, when we escape from poverty and the basic needs have been met, other factors like rising aspiration, relative income differences, uncertainties about the future and predictability of policies influence our state of happiness.

The influence of behavior such as work efforts, consumption and investment; and effects of governance qualities are well known.

The Economics of Happiness is an important tool of public policy. India needs to evolve a robust methodology, develop indices, and undertake representative surveys as these would be important contributors in influencing policy choice. Enhancing productivity is driven by technology and quality of human capital. Fostering an innovation culture is central to our aspirations for becoming a global knowledge

Clearly in the past developmental challenges were driven by compulsions to mitigate debilitating poverty. The neglect of hedonistic economics was understandable.

However, the decline in poverty ratio and the pace of rapid growth now places this more centrally in public debate. Hedonistic economics can be beneficial to all stakeholders. Clearly the saying that “those who say that money can’t buy happiness don’t know where to shop” has only limited validity