



A Publication of  
the Yale School of  
Management

## What are the economics of happiness?



**Betsey Stevenson**

Assistant Professor of Business and Public Policy, The Wharton School of the University of Pennsylvania

*Economists have begun to use research into happiness to explore questions in economics, policy, and management. Betsey Stevenson of the Wharton School of the University of Pennsylvania surveys the work in this emerging field.*

### **Q: As an economist, what led you to research happiness?**

Economists are concerned with human welfare. For a very long time, we believed the best thing to do was just look at what people do and infer their preferences from their behavior. But we've started to learn that there are some domains where that is hard to do, and simply asking people about their well-being can shed light on the situation.

### **Q: What particular domains are most illuminating?**

I think one of the richest potential areas for happiness data is in the area of behavioral economics — in situations where the way people behave may not actually reflect their true, underlying preferences. As an example, if we were to think about raising taxes on cigarettes, we would typically say raising the price is bad for people who smoke, right? But there's a little bit more going on. Lots of people actually want to quit. So we might ask, is it possible to improve welfare by raising cigarette taxes? A pair of economists Jon Gruber and Sendhil Mullainathan found that excise taxes make potential smokers happier. The intuition is that because some people actually quit smoking when the price goes up, they are made better off. And so it is possible to improve welfare by raising a tax that encourages us to kick bad habits.

### **Q: How do we measure happiness?**

Happiness is measured simply by asking people. Surveys ask people, "Taken all together, how would you say things are these days, would you say that you are very happy, pretty happy, or not too happy?" Or "How satisfied are you with your life as a whole?" Sometimes they're asked on a zero-to-ten scale, either about happiness or about life satisfaction. A common question is what's called the ladder question: interviewees are asked to imagine a ladder with ten rungs, where the top rung describes the best possible life for you and the bottom rung describes the worst possible life for you. Respondents then report the rung of the ladder that best represents their life.

The type of happiness questions I've studied are more evaluative and therefore are highly correlated with questions about life satisfaction, but there are other ways of measuring happiness. Daniel Kahneman, the psychologist who won a Nobel Prize in economics, really makes a distinction between how you feel in the moment and the more evaluative assessment of life satisfaction. If there's a difference between happiness in the moment and life satisfaction, that raises questions for policymakers: What is it that we're trying to maximize? Are we trying to maximize people's holistic satisfaction with their life? Are we trying to maximize lots of little moments?

**Q: How good are we at assessing our own happiness?**

We do a pretty good job with these questions. People tend to answer the question in a similar way over time. Psychologists have spent decades showing that these questions measure something meaningful. They have compared the answers to things that we might think of as objective measures of happiness such as brain scans, heart rates, or what are called genuine smiles. The researchers then look to see if the objective data correlated with what the person says. They've also had people bring a friend in and while you're filling out a survey saying how happy you are, your friend's filling out a survey saying how happy they think you are. And it turns out people's assessments are close to what their friends would say.

**Q: Does this research on happiness and satisfaction change how you think about utility?**

There is a real question of whether happiness is the same thing as utility. Gary Becker has argued quite forcefully that they are not the same thing, that they should not be used interchangeably, that instead we should think of happiness as being one component of utility. I agree with his point that there is probably more to life than even life satisfaction. I know that sounds almost oxymoronic, but perhaps we're missing a sense of greater purpose or fulfillment.

The example I give to demonstrate the limits of happiness data is that people with children are less happy than equivalent people without children. The only explanation that I can think of is that parents are more stressed and harried so when they're asked about happiness or life satisfaction, they're not quite as joyous or satisfied as people without kids. But it's hard for me to imagine that they're all making a mistake by having children. If we were to take it too literally, what we would really want to maximize the welfare of the living population is an anti-natalist policy. Alternatively, it may be that utility is a broader concept than happiness, and utility goes up as you have children.

**Q: Can businesspeople make management decisions based on happiness research?**

Income is closely tied to happiness, but there are also smaller measures of happiness. The Gallup World Poll asked questions like, "Did you smile or laugh a lot yesterday?" "Were you treated

with respect yesterday?" "Did you have good tasting food yesterday?" "Did you have choices about how to spend your day yesterday?" And what we find, not surprisingly, is that happiness is correlated with getting choice over how you spend your day, with having people treat you with respect, with laughing and smiling. And other research has shown that happier workers tend to be more productive workers. So the way you treat your workers can have effects on your workers' overall state of mind. That is the type of lesson that businesses can draw.

The other thing I would add as good news is that we can actually get a good sense of how people are doing by simply asking them. That seems very simple, but it's really important. If you want to know how happy your workers are, you should ask them.

**Q: How does income impact happiness?**

If we look at the relationship between happiness and income, we see a very clear relationship, where wealthier people are the happiest people in society and happiness rises quite steadily with income. Beyond that, we usually find that those living in rich countries are much happier than those living in poor countries. So if you take a zero-to-ten life-satisfaction scale, people in the poorest countries tend to place themselves somewhere around three. Mid-range countries fall somewhere between five and six. And then in developed countries, people end up somewhere between seven and eight.

**Q: Are there lessons that policymakers should be pulling out of this research?**

One reassuring thing is that happiness and GDP are highly correlated. There are a lot of naysayers out there who suggest GDP misses a lot. And there's the very famous Robert Kennedy quote, where he says that GDP measures everything except that which makes life worthwhile. Theoretically that's absolutely the case. GDP goes up when we have a natural disaster, and everybody gets busy trying to rebuild things. It misses the time you spend enjoying your children. It misses all sorts of great things. But, in reality, it turns out that GDP and happiness are highly correlated, so despite its theoretical limitations, GDP continues to be a pretty good barometer of social progress.

**Q: There has been press coverage suggesting that happiness plateaus at a certain income level. Are you finding something different?**

I haven't seen a study that actually showed that happiness plateaus. What we see is that happiness rises with the log of income. I think that's where people get confused. A 10% rise in income is associated with a similar change in happiness at any income level. But when your income is \$20,000 that 10% is a lot less money than when your income is \$200,000. As your income goes up, the extra happiness or life satisfaction you get per dollar shrinks because it is a smaller proportion of your income. But we see that happiness rises quite steadily with the log of income.

A poor individual or a poor country is going to get a lot more happiness out of a dollar than a rich person or a rich country. But a 10% increase in income in a poor country is going to get us about the same amount of increase in happiness as a 10% rise in income in a rich country.

A lot of economists had hypothesized that relative income is what matters, so it doesn't matter if I get richer if everybody else is also getting richer. In that case my happiness isn't going to

change. It only changes if my station in society changes. But, in fact, we find that richer countries are happier than poorer countries and as countries get richer, their citizens get happier. I should note, however, that there is one exception. The United States has gotten wealthier over the last 40 years and we haven't gotten any happier on average.

**Q: Why is that?**

We don't have any definitive answer. Things have changed in terms of family life. Things have changed in terms of social cohesion. There have also been changes in inequality; we know that the top 1% of the income distribution has had enormous income gains. And looking at the whole population, even if the top 1% got really, really happy, that wouldn't affect the average happiness very much.

**Q: How are various segments of the population affected?**

Our research has examined differences in happiness by race and by gender. There have been enormous strides in civil rights for African Americans in the United States since the 1970s, and we've seen African Americans in the United States are getting much happier. They are still less happy than whites, on average, but two-thirds of a very large happiness gap that existed between blacks and whites in the 1970s has eroded over the last three and a half decades.

Our findings on gender showed that while women had higher reported happiness than men in the 1970s, that's no longer true. Since the 1970s, women have become less happy in the United States, both absolutely and relative to men. Moreover, in 12 out of the 13 countries that we looked at, we find that the growth in happiness has been smaller for women than for men. That's really puzzling in a period in which we think women have made substantial gains in the workplace — hiring and pay discrimination has fallen substantially. Women have gained in the home with things like having access to the birth control pill as well as having government policies in the United States and Europe that give them more room to take time off to care for children. There has been an increase in the amount of housework men have been doing over the last 40 years, and a decrease in the amount of housework that women have been doing. So with all of this, we would have thought women would be getting happier, relative to men. Instead, what we've seen is women have become less happy, relative to men.

**Q: Why?**

We have several theories. There may be large-scale social trends that we don't think of as being gendered that might have disproportionately made women less satisfied with their lives. Robert Putnam's book *Bowling Alone* talked about the phenomenon of decreasing social cohesion. It is possible a social trend like that could be having an impact.

It also could be women's changed expectations. There are two ways of thinking about this. One is simply that women expect a lot today and their expectations have moved faster than society has been able to deliver, and so we have a bigger gap between expectations and what society is actually delivering. Women may have expected to be sexually harassed in the 1970s, and they got sexually harassed, so there wasn't an expectations gap. Today, women may expect to not be sexually harassed and yet sexual harassment still occurs — at a lower rate than in the 1970s, but it definitely still occurs — and so there might actually be more dissatisfaction today, simply because the expectations moved more sharply than the actual members of society could change

their behavior.

Another way to think about it is that women might be expecting themselves to succeed in many different domains, and it is simply harder to have a truly blissful life in many, many domains. An MBA student told me her mother's idea of the perfect life was having children who are thriving and her home and garden well kept. Her mom always considered herself happy. The student added, I still want my children to thrive, and I still want to have a nice home and garden, but I also want to make a broader contribution to society. I want to have a career with work that's meaningful. To be really happy, I need to be thriving in all those dimensions, and that's just harder to achieve.

*Interview conducted and edited by Ted O'Callahan.*