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Gross National Happiness As an Answer to the Easterlin Paradox?

by Rafael Di Tella and Robert MacCulloch

Abstract

The Easterlin Paradox refers to the fact that happiness data are typically stationary in spite of considerable increases in income. This amounts to a rejection of the hypothesis that current income is the only argument in the utility function. We find that the happiness responses of around 350,000 people living in the OECD between 1975 and 1997 are positively correlated with the level of income, the welfare state and (weakly) with life expectancy; they are negatively correlated with the average number of hours worked, environmental degradation (measured by SOx emissions), crime, openness to trade, inflation and unemployment–all controlling for country and year dummies. These effects separate across groups in a pattern that appears broadly plausible (e.g., the rich suffer environmental degradation more than the poor). Based on actual changes from 1975 to 1997, small contributions to happiness can be attributed to the increase in income in our sample. Interestingly, the actual changes in several of the 'omitted variables' such as life expectancy, hours worked, inflation and unemployment also contribute to happiness over this time period since life expectancy has risen and the others have, on average, fallen. Consequently the unexplained trend in happiness is even bigger than would be predicted if income was the only argument in the utility function. In other words, introducing omitted variables worsens the income-without-happiness paradox.

Keywords: Wealth and Poverty; Happiness; Employment; Income; Mathematical Methods; Welfare or Wellbeing;

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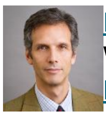

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