**A2 Economics**

**The Economics of Happiness – Measure of Domestic Progress**

At the time of writing, many people will have fresh memories of the Christmas season: the presents, the parties, the opportunity to relax and socialise, and the spending binge at the post-Christmas sales. It might, therefore, be a time when we can expect people to be feeling 'happy', whatever that means.

What is not in doubt is that we have a measure of the standard of living that defines the access we have to goods and services - what we are able to buy. This measure, the gross domestic product (GDP), has gradually risen over the last 50 years. In 1957, the then Prime Minister, Harold Macmillan, told party members at a speech that 'most of our people have never had it so good'. What would he think today?

How might we define happiness? Are there strong correlations with relationships, marriage, divorce, family, sex? How could we measure these things?

Christmas time maybe a period of the year that we associate with being 'happy' but the festivities might be masking a deeper longer term trend about how 'happy' we are with our lives despite all the things we have around us.

It does appear that, despite the massive increase in wealth, incomes and access to material goods and services, our perception of happiness has not really changed that much. Increased wealth has not brought with it similar increases in happiness. Numerous surveys have highlighted relatively stable rates of 'happiness' in rich countries. The wealth of the data suggests that such responses are typical in a variety of countries. Such data might lead us to assume that there is, after all, some way of measuring happiness.

However, we might also need to be aware that not everything we read is necessarily accurate. For example, many people would agree that January can be a very stressful month. In 2006, a number of newspapers and media organisations ran a story suggesting that January 23rd 2006 was going to be the official 'worst day of the year'. How was this arrived at? It appears that someone called Cliff Arnall had devised a formula for calculating it. The formula is: [W + (D - d)] x TQM x NA where W is the weather, D is debt, T is time since Christmas, Q the time since failing to keep to our New Year's resolutions, M is motivational levels and NA the need to take action.

The mathematicians amongst you might not take too long to spot that there are serious questions around such an attempt to formularise something like 'happiness'. Additionally, the inability to really quantify things such as the weather' or 'need to take action' might blow some holes in Arnall's calculation. Indeed, Arnall has faced some severe criticism for his efforts. He is cited by many news media as being a doctor and that he is linked with the psychology department at the University of Cardiff. It appears that he is neither of these things but was a part-time tutor in the lifelong learning department at the University. He is no longer there. Scanning through references to him, however, does give the impression he really knows something - a thousand newspapers surely can't be wrong?

Perhaps we need to look at some information from a more reliable source of research into the economics of happiness. This is a growing area in economics and something in which economists, psychologists and medics are becoming increasingly interested. Collaboration between these different professions is starting to raise a number of questions relating to wellbeing.

It might be argued, therefore, that using GDP as our measure of the standard of living is increasingly redundant. Should we be using other measures to assess the changes in wellbeing over a period? Perhaps some sort of 'happiness index'? One that has been suggested is something called the Measure of Domestic Progress (MDP).

One of the problems in using GDP data as a measure of 'happiness' is that it takes into consideration all expenditure during a time period. This might include spending on all manner of things that might not be associated with happiness - health, crime, stress and so on. As we saw in the 'News' item above, GDP figures have risen steadily over the years but this has not necessarily been associated with any increases in a perception of happiness by people in general.

**What constitutes 'happiness'?**

The formula developed by Cliff Arnall is said to be making some attempt to quantify some way in which measures of happiness (or sadness) can be measured. As also mentioned, its scientific basis has been called into question. Arnall has said that it is useful in triggering discussion and debate about what we understand by happiness and to think of ways we can deal with the effects of how we live our lives on our well being.

Economists have been looking at this problem in more detail in recent years. For many years the concept of 'utility' has been something that has interested economists. This is mainly associated with trying to explain consumer behaviour. It has been recognised that there are problems with measuring something like 'satisfaction' in consumption; that is it a subjective concept.

What is needed, therefore, is a widely accepted set of criteria that is accepted as constituting happiness. Psychologists and economists have found that links between how people see their own happiness and other things that might influence such a judgement are statistically strong. This also seems to apply across different countries. As a result, we might be able to conclude that there are a range of factors that can contribute to a definition of happiness; that if you are fortunate enough to find yourself being able to boast having these characteristics or in some cases managing to avoid them then you are more likely to be happy.

Such characteristics include:

* Level of education
* Health
* Whether you are married, single, divorced
* Level of income
* Wealth
* Job
* Gender
* Age
* Working/unemployed/retired
* Aspirations
* Bereavement

One of the factors above that may be affecting happiness levels more than we might expect is aspirations. You are very likely, whatever your age, to have been regaled by your parents that things were different in their day and that people these days have so much more. That is very true but what might also be the case is that different generations are starting to expect more. If your parents have managed to get to middle age and have a comfortable BMW to drive around in, you might start to expect such a vehicle to be the norm and would hope it might be your first car and so on.

### Alternative Measures of Wellbeing

If we know something of the factors that can contribute to making someone 'happy' and also that our current measure is not the best at reflecting this, then it makes sense to look elsewhere for a measure of wellbeing. One such idea is to use something called the Measure of Domestic Progress (MDP). The MDP looks at many of the factors that we might associate with economic growth but takes into consideration the relative effects of economic growth and factors in other things that GDP calculations do not consider. For example, there is an attempt to place a value on the amount of unpaid domestic work that is carried out, which is taken as being a positive factor in contributing to wellbeing. It also assigns a negative effect to various social and environmental impacts of growth such as pollution, depletion of natural resources and costs of crime and family breakdown.

There is value in the amount of domestic chores done every day in the home - official GDP figures do not recognise the value of this work. Does this distort the effectiveness of GDP as a measure of wellbeing?

Other attempts to suggest more effective measures of improvements in wellbeing include such things as the Measure of Economic Welfare (MEW) developed by James Tobin and William Nordhaus, the Index of Sustainable Economic Welfare and the Genuine Progress Indicator.

It is proving difficult for any of these alternative measures to make a breakthrough and to be accepted in widespread use as a measure of wellbeing. The problems of attempting to measure subjective human behaviour and subject it to rigorous science are once again proving a challenge to economists. We might think that having some form of 'happiness index' would be a good thing, but if it does not really tell us what we want it to tell us, it is not very useful. There again, GDP figures do not seem to be telling us the whole story either!