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Economics of Happiness: What Really Counts?

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Abstract.
The study of happiness was initially examined psychologically, then expanded to incorporate social and, finally, economic aspects to investigate the reasons for the disparities in happiness levels across countries. Numerous scholars from various fields of expertise have developed an interest in studying happiness as a topic, as it has become a global issue. The notable work of Easterlin known as "Easterlin Paradox" postulates that happiness varies linearly with income at a point in time, both within and across nations. However, the long-term growth rates of happiness and income are not significantly linked. The economics of happiness is a multidisciplinary study of the relationship between economic conditions and subjective well-being or happiness. Happiness economics can be examined from both a microeconomic and macroeconomic perspective, providing valuable insights into both individual well-being and societal gain. The economics of happiness has received a lot of attention recently, especially in terms of understanding the differences in life satisfaction between rich and developing countries. Wealthier countries are happier as a group than poorer countries; happiness seems to increase with wealth up to a limit, but not beyond it. Public policy has a substantial impact on happiness economics by changing the well-being of individuals and society through numerous mechanisms such as fiscal policy, public spending, health impact assessment, and family assistance. The expanding national emphasis on subjective well-being accentuates the need to include happiness in governmental decisions.

Keywords: happiness, subjective well-being, Easterlin Paradox

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1. Introduction

Happiness research has piqued the interest of economists in recent years. Numerous scholars from various backgrounds have expressed an interest in studying happiness as a topic, as it has become a global issue. Happiness was first examined psychologically, then expanded to include social and, finally, economic views to investigate the reasons for differences in happiness levels between countries [1]. Happiness has also grown from a micro to a macro perspective, prompting scholars and policymakers to investigate its determinants in depth. Happiness economics is a subfield of behavioral economics that studies the connection between income and happiness. Research in this area has yielded some intriguing results that call into question established economic measurements. While increasing consumption is frequently regarded as a sign of well-being, research has revealed that people who pursue extrinsic objectives, such as wealth and material goods, tend to have lower levels of pleasure and well-being. Money and happiness have a diminishing return connection, which means that the more money one has, the less influence it has on overall happiness.

Easterlin's influential concept, known as the happiness-income paradox, postulates that happiness correlates directly with wealth at a point in time both within and across nations, yet in the long term which normally lasts at ten years, happiness does not rise over time when a country's income increases [2]. By highlighting the relevance of subjective well-being and happiness as key components of human welfare, the discipline of happiness economics contradicts standard economic ideas. It underlines the limits of traditional economic paradigms that place too much emphasis on material success and money as predictors of happiness [3]. The economics of happiness is an interdisciplinary field that explores the relationship between economic factors and subjective well-being or happiness. Researchers in this field aim to understand how economic policies, institutions, and activities impact people's overall life satisfaction and happiness. Recent analysis has reevaluated the relationship between economic growth and subjective well-being, implying that while economic expansion is associated with increased happiness, there may be decreasing returns in terms of happiness as economies advance [4], [5].

The economics of happiness also goes beyond individual happiness to include broader social ramifications, emphasizing the need to analyze resident satisfaction in the context of economic policies and uncertainties [6]. Additionally, the discipline recognizes the impact of socioeconomic conditions on happiness, emphasizing the need to investigate the role of economic factors on happiness across diverse demographic and regional contexts) [7].

2. Literature Review

The economics of happiness can be studied from both a microeconomic and macroeconomic standpoint, providing useful insights into both individual well-being and social benefit. The emphasis in microeconomics is on understanding how individual decisions, preferences, and actions influence happiness. This viewpoint emphasizes the importance of income, work, and personal characteristics in determining subjective well-being. [8], for example, emphasizes the importance of income in affecting individual satisfaction, contradicting the popular wisdom that higher earnings necessarily lead to greater happiness. Moreover, [2] revisits the happiness-income dilemma, demonstrating that short-term economic volatility might affect individual happiness. Furthermore, [9] underlines the relevance of considering individual well-being functions in understanding the drivers of happiness, providing insights into happiness's microeconomic origins. [10] emphasize Keynes' anti-utilitarianism and his belief that material wealth is only a precondition for enjoying the possibilities of a good life, and we draw emphasis on problems of incommensurability imposed by the multiple facets of happiness as considered by Keynes.

The factors of happiness in microeconomics can be investigated from numerous viewpoints using the references provided. The article "Happiness: Lessons from a New Science" by Layard. [11] delves into the psychological and political implications of happiness. [12] research on "Happiness and Economics: How the Economy and Institutions Affect Human Well-Being" Berkey et al. (2003) provides a thorough examination of the impact of economic and political factors on happiness. Furthermore, [13] work on "Happiness and Economics: How the Economy and Institutions Affect Human Well-being" provides useful insights into the emotional and social psychology elements of happiness. These sources collectively contribute to a more comprehensive understanding of the psychological, social, and political causes of pleasure in microeconomics. Furthermore, [14] study on "Subjective well-being, health, and aging" offers light on the multifaceted character of psychological well-being, such as life satisfaction, emotions of happiness, and a sense of purpose in life. Furthermore, Diener et al.'s essay "Subjective well-being: Three Decades of Progress" [15] provides a comprehensive account of psychological advances in understanding subjective well-being. Views on happiness factors in microeconomics are numerous and multifaceted, covering psychological, social, and political elements. These resources offer useful insights into the intricate interplay of economic, psychological, and social elements that influence individual and societal happiness.

The macroeconomic viewpoint, on the other hand, digs at the broader economic and sociological aspects that influence pleasure at the aggregate level. This point of view explores how economic policies, institutions, and national economic indicators affect overall well-being. [16] offer a worldwide view on the relationship between economic development, freedom, and rising happiness, emphasizing the role of democratization and social tolerance in contributing to increased happiness levels. In addition, [17] investigates the impact of macroeconomic parameters on the happiness index, such as GDP and economic development orientation, offering additional insight into the macro-level causes of happiness. Furthermore, [6] provides empirical evidence on the impact of economic policies on resident happiness, emphasizing the importance of macroeconomic conditions in determining well-being.

Public policy plays a crucial role in the economics of happiness by influencing the well-being of individuals and societies. It has been recognized that societal happiness is increasingly important to public policy initiatives globally, supported by interdisciplinary scholarly efforts spanning the social sciences, economics, and public health [18]. Additionally, HIA, which is a cornerstone of Healthy Public Policymaking, can be applied to systematically appraise a policy, plan, or project to understand its wider health and well-being implications [19]. Furthermore, the assessment of public housing policies is crucial for informing best practices and rational decision-making to enhance the well-being of individuals affected by these policies. These examples demonstrate the multifaceted impact of public policy on the happiness and well-being of individuals and communities. Public policy can influence subjective well-being at a national level. emphasizes that policymakers should be interested in subjective well-being not only because of its inherent value to citizens but also because individuals' subjective well-being can have positive spillover benefits for society as a whole [20]. This highlights the broader societal implications of public policy decisions on happiness and well-being. Furthermore, the role of public policy in the context of happiness economics has gained attention in recent years. The literature has turned to the serious applications of public policy to promote happiness and well-being [21]. This shift underscores the increasing recognition of the importance of integrating happiness and well-being considerations into policy decisions.

3. Research Method

This study will employ a qualitative research approach to explore insights from a microeconomics perspective as well as macroeconomics views regarding factors contributing to society's happiness. Using extensive previous research on the happiness economics issue, this paper also aims to explain the distinctions in happiness determinants between rich and developing nations. Lastly, how public policy imposed by the government can affect happiness will also be discussed.

4. Results and Discussion

4.1. Perspectives on Happiness Determinants in Microeconomics

Recent study has looked at the factors of happiness in microeconomics from a variety of angles. For example, Veenhoven's work on "The Origins of Happiness: The Science of Well-Being over the Life Course" [22] provides insights into the science of well-being throughout the life course, emphasizing the necessity of a life course perspective in understanding happiness. This viewpoint provides a full picture of happiness as it grows across a person's lifespan. [11] work "Happiness: Lessons from a New Science" dives into the psychological and political science elements of happiness, offering light on the psychological and political factors that contribute to individual and society well-being. This viewpoint provides useful insights into the psychological and political underpinnings of happiness. Likewise, the study by Cabrera et al. on "Determining factors in the overall happiness and outlook for the future of women living homeless: Evidence from Madrid, Spain" [23] provides a unique perspective on the determinants of happiness among marginalized populations, offering insights into the impact of political and social factors on happiness among vulnerable groups.

The microeconomic literature on happiness examines the utility of an individual household. According to [24] and [25], this utility is (mostly) determined by four variables. Individual consumption (linked to household income) but at the typical diminishing rates, household income relative to the average or mean income in society, predicted future income, and leisure. This conceptual framework also implies that there is some happiness adaptation to income gains; that is, individuals acquire habituated to higher income and consumption levels, and the resulting increase in happiness tends to fade after the first phases [26]. Furthermore, recent research by Bui and Pham on "Aristotle's philosophy on happiness and its meaning to educate Vietnamese today" [27] explores the philosophical and educational dimensions of happiness, providing insights into the cultural and philosophical determinants of happiness.

The influence of income on well-being is not constant but rather follows a logarithmic function [28]. This suggests that as income increases, the proportional gain in happiness decreases. Gains in wealth and income may initially contribute to an improvement in life satisfaction, but as consumption increases, the relationship between higher consumption and happiness becomes negative. Critics claim that the link between happiness and money is weak because people frequently do not spend their money in ways that add to their pleasure. They may prioritize material items and extrinsic aspirations, believing that these would satisfy them, although research indicates otherwise. Hence, it is imperative when evaluating the relationship between happiness and economics, it is critical to include not only money but also other indicators of wealth. In the economics of happiness, the microeconomics paradigm focuses on understanding individual-level causes of well-being and subjective satisfaction. This viewpoint emphasizes the importance of personal choices, preferences, and behaviors in shaping happiness.

Research shows that higher earnings generally lead to greater pleasure, demonstrating the importance of income in affecting human contentment. Easterlin revisits the happiness-income dilemma, demonstrating that short-term swings in economic situations can have an impact on individual satisfaction [2]. Additionally, the significance of studying individual well-being functions in understanding the determinants of happiness is that it will provide insights into the microeconomic roots of happiness. In addition, the microeconomic paradigm investigates the impact of life circumstances on happiness. According to studies by Proto, Oswald living circumstances such as marital status, health, and the type of working environment, all play a role in happiness [29]. Furthermore, the microeconomic approach takes into account the impact of social and cultural elements on well-being. Using Italian household data, [30] presents empirical evidence that "tax morale" – taxpayers' intrinsic motivation to pay taxes – constitutes a new determinant of happiness, highlighting the interconnection of individual and community well-being. The microeconomics paradigm investigates the link between economic variables and happiness. Recent research has changed its emphasis from economic indicators such as the Human Development Index (HDI) and GDP per capita to happiness as an indication of growth, development, and social progress. At the microeconomic level, this emphasizes the developing awareness of the complicated relationship between economic forces and individual well-being.

4.2. Impetus of Happiness from Macroeconomics Notions

Economic development has long been considered the major goal of economic policy, but in recent years, some have begun to argue that greater efforts to raise the material standard of living would not affect well-being. These arguments are based on the "Easterlin paradox," a fundamental discovery in the emerging literature on subjective well-being that demonstrates that there is no relationship between a society's level of economic growth and its residents' overall pleasure. Richard Easterlin has written several papers in which he investigates the relationship between happiness and GDP both across nations and within specific countries across time. In both types of studies, he finds little substantive evidence of a link between aggregate income and average happiness. Good governance may have a direct or indirect positive impact on happiness. Good governance raises the level of happiness. People prefer to engage in decision-making processes if they feel valued and their perspectives are heard, regardless of the political outcome. Indirectly, excellent governance allows people to achieve higher levels of other elements that are directly related to happiness [31]. Controlling corruption, for example, creates more job chances, boosts economic gains, and influences people's happiness by enhancing social trust. There is also evidence that there is a correlation between transparency and happiness. Higher levels of happiness are connected with trust in public institutions, the legal system, and the government [32]. The majority of people desire a strong rule of law system that protects against meritocracy and prohibits inefficiency, injustice, and illegal activities [33].

Income, inequality, macroeconomic policies, and revealed preferences are among the factors considered in researching the economics of happiness [34]. According to Kim, (2016), elements considered in researching the economics of happiness include socio-cultural changes, external influences such as increased non-work time and discretionary income, and internal factors such as post-materialist beliefs and shifts in life interest. Economic growth without happiness is a phenomenon that exists in the United Kingdom, the United States, continental Europe, and Japan. In conventional economic models, it therefore questioned established welfare assumptions that income promotes utility. This requires a reconsideration of policy regulation, with happiness replacing wealth as the major objective for policymakers. Bhutan, for example, measures national progress using the national happiness product (GHP) rather than the GDP.

Numerous studies argue that inflation can impair happiness—people dislike inflation because it creates uncertainty about changes in the cost of living and actual income [36]. In general, studies show that unemployment is far more costly than inflation in terms of happiness losses [37]. In addition, there is also a degree of uncertainty regarding the link between trade openness and average happiness—while trade expansion is an opportunity for the creation of jobs and lower prices, efforts for freer trade around the world frequently face intense opposition (as a result of fears of domestic worker displacement and local industry closure). As a result, much research reveals an adverse connection between trade openness measures and changes in happiness (e.g., [38]–[40]. Several researchers contend that environmental issues hurt happiness because people value the local and global ecosystem services supplied by natural environments [41], [42]. Other factors being equal, people who live in polluted environments have lower levels of subjective well-being [43].

4.3. Does Happiness Vary in Developed and Developing Countries?

In industrialized countries, factors determining happiness are diverse, encompassing economic, social, and cultural elements. In industrialized countries, economic factors such as income, employment, and health have been identified as key drivers of happiness [2];[16].Greater well-being is connected with higher GDP per capita and lower unemployment rates, demonstrating the relevance of economic success in shaping happiness levels [44]. Furthermore, religiosity, social capital, and confidence in family and friends have been found to influence happiness in both developed and developing countries, albeit to varied degrees [45], [46]. Cultural perspectives on happiness must not be disregarded because they influence well-being. Happiness is seen as an interpersonal feature stressing harmony and closeness to others in research from Eastern cultures, particularly Japan, showing the cultural variety in defining and feeling happiness [45]. Political perception and social services influence happiness levels in industrialized countries, suggesting the connectivity of economic and political variables with happiness [46]**.** Furthermore, the relationship between economic progress and happiness in industrialized countries has piqued people's interest. While economic growth is generally connected with better levels of happiness, the extent of this association may fluctuate depending on specific socioeconomic conditions and cultural variations [45].

The financial state of a country is a critical indicator of an individual's happiness. To combat absolute poverty, income only has an impact on well-being through the requirement to provide fundamental wants and necessities such as food and shelter. Then, any more income will not affect your happiness level. As a result, income has no long-term effect on life satisfaction. Life satisfaction is higher in high-income countries than in low-income countries. Income and happiness have a positive linear association in both categories; however, this link is steeper in low-income nations [8]. The economics of happiness in developed countries are broad and linked, embracing economic, social, and cultural elements. Analyzing the dynamics of happiness in these countries necessitates a comprehensive and holistic approach that takes into account the varied character of well-being as well as the various circumstances in which it is experienced. A variety of factors influence the economics of happiness in emerging countries, including economic growth, human development indices, environmental issues, and urbanization. According to research, economic progress has a considerable impact on happiness levels in developing countries [2].

However, the connection between economic progress and happiness is not always clear. [44] for example, discovered that economic freedom and GDP have a positive effect on happiness, whereas inflation and unemployment have a negative effect. This demonstrates the nuanced relationship between economic variables and happiness in developing countries. Furthermore, measures of quality of life and human development have been highlighted as important elements in shaping happiness in emerging countries. According to Lestari et al., (2022)**,** poverty and the human development index have a positive and significant effect on happiness in Indonesia. Similarly, Pontarollo et al., (2020) highlighted individual and contextual factors that may influence subjective well-being in developing nations, underlining the need to take a broad variety of determinants into account. Environmental variables also influence happiness in poor countries. [49] discovered a positive relationship between happiness and human development in former socialist nations, emphasizing the importance of environmental factors in explaining happiness in these circumstances. Furthermore, in the context of urbanization, the relationship between economic development and subjective well-being has been investigated. The complex relationship between urbanization and individual well-being demonstrates that in developing nations, urbanization can have both good and negative consequences on happiness as highlighted in [50]. Understanding how these elements interact is critical for guiding policies and interventions targeted at boosting happiness and well-being in developing countries.

4.4. Happiness and Public Policy: A Multifaceted Perspective

Recent study has focused heavily on the relationship between happiness and public policy. Layard's "Happiness and Public Policy: A Challenge to the Profession" [51] makes a persuasive case for incorporating happiness factors into public policy, challenging the conventional economic paradigm. This viewpoint highlights the need of policymakers prioritizing well-being and happiness alongside economic statistics. Additionally, Diener et al.'s essay on "Subjective well-being: Three Decades of Progress" Diener et al. (1999) highlights the progress achieved in understanding the key role of individuals' objectives, coping attempts, and dispositions in forming subjective well-being. This psychological viewpoint emphasizes the significance of understanding individual well-being as a critical component in the development of public policies. In addition, the literature has turned to the serious applications of public policy to promote happiness and well-being, highlighting the increasing recognition of the importance of integrating happiness and well-being considerations into policy decisions [6]. Furthermore, results from national and international samples suggest that measures of social capital, including trust, have substantial effects on well-being beyond those flowing through economic channels [52].

The influence of public policy on the economics of happiness is significant and multifaceted. Public policy initiatives have increasingly recognized the importance of societal happiness, supported by interdisciplinary scholarly efforts spanning the social sciences, economics, and public health. Public policies can influence subjective well-being at a national level, with policymakers being interested in subjective well-being due to its positive spillover benefits for society as a whole.[53]. Additionally, the assessment of public housing policies is essential for informing best practice and rational decision-making to enhance the well-being of individuals affected by these policies [54]. Furthermore, public policies supporting families with children aim to improve the well-being of children, reflecting the influence of policy on the happiness of individuals within a society. Public policy plays a crucial role in the economics of happiness by influencing the well-being of individuals and societies. It has been recognized that societal happiness is increasingly important to public policy initiatives globally, supported by interdisciplinary scholarly efforts spanning the social sciences, economics, and public health [18]. Moreover, the government has been seen to play an important role in making the public happy by delivering good quality public service, enhancing people's trust towards governments, and making the government accountable [55].

Furthermore, the assessment of public housing policies is crucial for informing best practices and rational decision-making to enhance the well-being of individuals affected by these policies [54]. These examples demonstrate the multifaceted impact of public policy on the happiness and well-being of individuals and communities. Alesina et al.'s research on “Inequality and Happiness: Are Europeans and Americans Different?” delves into the relationship between inequality and happiness, shedding light on the potential impact of public policies on reducing inequality and fostering greater well-being within society [56]. This perspective highlights the role of public policies in addressing social and economic disparities to enhance overall happiness. Musikanski and Polley's work on “Life, Liberty, and the Pursuit of Happiness: Measuring What Matters” provides insights into the grassroots efforts to foster the happiness movement and the role of public policies in guiding a new economic paradigm (Musikanski & Polley, 2016). This perspective emphasizes the need for public policies that prioritize happiness and well-being as essential societal goals.

In addition, public policy can also influence subjective well-being at a national level. emphasizes that policymakers should be interested in subjective well-being not only because of its inherent value to citizens but also because individuals' subjective well-being can have positive spillover benefits for society as a whole [20]. This highlights the broader societal implications of public policy decisions on happiness and well-being. Furthermore, the role of public policy in the context of happiness economics has gained attention in recent years. The literature has turned to the serious applications of public policy to promote happiness and well-being [21]. This shift underscores the increasing recognition of the importance of integrating happiness and well-being considerations into policy decisions.

In their essay “What Can Economists Learn from Happiness Research?” [9] discuss the consequences of happiness research for economics and public policy. The study investigates the interaction of political science, economics, and happiness, shedding light on the potential lessons that economists might draw from happiness research to inform public policy decisions. Furthermore, Proto and Oswald's work on “National Happiness and Genetic Distance: A Cautious Exploration” [29] addresses the cautious exploration of national happiness and genetic distance, revealing insights into the genetic and environmental factors of happiness. This viewpoint adds to a more sophisticated understanding of the varied nature of happiness and its implications for public policy economists can use happiness research to guide public policy decisions. “Investigating the determinants of happiness index in EU-27 countries: a quantile regression approach" [17] gives insights into the macroeconomic drivers of happiness, stressing the impact of income, wealth, and government consumption.

This viewpoint provides important insights into the economic drivers of happiness and the implications for public policy. In industrialized countries, public policy and governance play critical roles in fostering well-being and increasing happiness. Economic competitiveness, innovative ability, and human development have been identified as critical factors for promoting long-term sustainable economic growth and happiness [45]. [7] work on "Impact of socioeconomic conditions on happiness: Evidence from emerging market economies" sheds light on the influence of socioeconomic conditions on happiness, calling for social goals based on the greatest happiness principle. This point of view highlights the importance of public policies that address socioeconomic inequality to improve general well-being. Happiness determinants include the intricate interplay of economic, psychological, and social elements that influence individual and society's well-being. These viewpoints provide a thorough grasp of the drivers of happiness and its consequences for public policy, emphasizing the importance of a holistic approach to policymaking that prioritizes well-being alongside economic considerations.

5. Conclusion

In the economics of happiness, the microeconomics paradigm focuses on understanding individual-level causes of well-being and subjective satisfaction. This viewpoint emphasizes the importance of personal choices, preferences, and behaviors in shaping happiness. According to research, higher earnings generally lead to greater pleasure, demonstrating the importance of income in affecting human contentment. Easterlin again revisits the happiness-income dilemma, demonstrating that short-term swings in economic situations can have an impact on individual satisfaction. Furthermore, underline the significance of studying individual well-being functions in understanding the determinants of happiness, since this will provide insights into the microeconomic roots of happiness. While most happiness studies show that wealthy people are happier on average than poor people, research across countries and throughout time show that there is little, if any, relationship between increases in per capita income and average happiness levels. Wealthier countries (as a collective) are happier than poorer countries (as a group); happiness appears to improve with income up to a point, but not beyond it. Even in the less cheerful, poorer countries, however, there is no apparent association between average wealth and average happiness levels, implying that many other factors, including cultural features, are at work. Public policy has a huge impact on the economics of happiness by changing the well-being of individuals and society through many processes such as fiscal policy, public spending, health impact assessment, and family assistance. The greater spotlight placed on subjective well-being at the national level underlines the need of including happiness in policy decisions.

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