Book Review

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Happiness and Social Policy in Europe
by: Bent Greve
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This edited volume sets out to explore the usefulness of happiness research to inform and improve social policy across Europe. It correctly identifies the importance of new perspectives that have been developed through happiness research challenging orthodox views of wellbeing mainly as an outcome of market-based interactions. After explaining the rationale and approach in the introduction the following chapters focus on specific countries in Europe aiming to explore how social policy and happiness may be related in consistent or country-specific ways in different areas of the continent. In most cases, the chapters introduce countries as belonging to particular welfare regimes and the book explores how happiness and social policy relationships may vary across these different types of regimes and following distinct experiences, such as the transition from communism in Eastern European countries. Apart from the study of the UK (chapter 6) and the introduction, all chapters are based on quantitative research usually combining information on macro-economic variables and individual-level survey data.

As the editor rightly points out social policy approaches often focus predominantly on material or objective circumstances without properly exploring how different policy regimes affect people's subjective wellbeing. However, we could formulate testable hypotheses, as the author of the Sweden study (chapter 8) correctly states. Crucially, in welfare models we would expect that greater provisions should reduce negative impacts on subjective wellbeing if classic understandings about the impact of state provisions hold. This however identifies the key problem of this book: None of the chapters actually conduct the type of analysis required to engage with such a proposition.

In order to identify whether particular policy regimes had distinguishable impacts on the subjective experiences of people in the respective countries, proper analyses would have to be conducted in a systematic multilevel framework. Policy changes can be measured and operationalised at the aggregate level and multi-country studies could then analyse the systematic effects on individual experiences. This book however has taken a different approach: for each country studied there is a description of the social policy arrangements (often with a focus on the welfare state) and a study of correlates of indicators of subjective wellbeing, such as happiness or life-satisfaction mostly using simple regression-based models. That approach however is deeply flawed for the purpose of the book: it allows for the identification of subjective wellbeing correlates and we can then compare whether the correlates are the same across different countries. However, just because the authors present a description of the welfare state arrangements in the respective country does not demonstrate that any differences in correlates of subjective wellbeing are actually caused by the social policy they discuss. There is no coherent analytical structure that would allow for a comparison between the different chapters. Each country study chooses its own indicators and foci – and hardly any operationalise differences to other European countries at the policy-level in any way.

The result is unfortunately disappointing. Most chapters' empirical results are simple reiterations of existing knowledge about what factors correlate with subjective wellbeing at the individual level. There are some discussions of examples where differences to common findings are highlighted, but crucially these analyses miss the objective of the book. The conclusions and implications for policy are then often based on spurious inferential logic. The importance of material provisions for wellbeing at the individual level is used in half of the chapters to justify redistributive or poverty alleviation policies. That of course is an insufficient analysis, as the usefulness of policies was not examined at all, but the impact merely postulated. The book effectively presents descriptions of welfare regimes and analyses of subjective wellbeing correlates for the countries looked at. It does not actually connect differences in social policy and subjective wellbeing in an analytical manner.

This is partially due to the weak conceptual framing of the book. There is an overreliance in the introduction and many chapters on specific authors' views on happiness research (notably Frey, Stutzer and Veenhoven) which limits the scope dramatically and leads to incomplete conceptualisations. The introduction does not do justice to the depth of the happiness research field, partially by suggesting that happiness, life-satisfaction and quality of life effectively could be used interchangeably – which has consequences for the book where different authors treat the concepts in different, sometimes contradictory ways. In the introduction subjective wellbeing approaches are also narrowly defined within a discourse of utility concepts, which of course many scholars researching subjective wellbeing reject in favour of other conceptualisations. The lack of conceptual clarity and depth results in many chapters only applying subjective wellbeing concepts in simplistic ways. Paired with the lack of an analytical framework to properly assess differences in social policy effects on wellbeing across Europe, the analyses remain shallow and unfortunately add very little new insight.

This lack of conceptual and editorial connectedness throughout the book becomes visible in other ways as well that represent bad practice for any academic publication. Several tables are presented without units (for example, in chapter 3) meaning that figures in some tables cannot be interpreted at all. Furthermore, the presentation of results often appears to simply be based on statistical software output without editing, for example, when results tables are presented with up to eight significant digits (chapter 3), computer-based variable names are used unhelpfully (chapters 4 and 10) or tables are even inserted simply as a screenshot (chapter 5).

It is unfortunate that a book with a very valuable ambition has produced so little insight that would be specific to social policy approaches and instead mainly confirmed existing results about individual-level determinants of wellbeing. The lack of a comprehensive conceptualisation of happiness and subjective wellbeing, not coming close to doing justice to the depth the field has developed, and the absence of identifying appropriate analytical structures result in a book that can add little to our existing knowledge.

Book Review

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Happiness, Growth, and the Life Cycle
by: Richard A. Easterlin
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Richard Easterlin's book *Happiness, Growth, and the Life Cycle* edited by Holger Hinte and Klaus F. Zimmermann starts with an introductory chapter in which Easterlin highlights a few major points that are crucial to the development of this book. First, he explains the Easterlin paradox in the following lines: "At a point in time persons with higher income are, on average, happier than those with less; overtime, however, as incomes increase generally in the course of modern economic growth, there is no improvement in the average level of happiness" (p.6). Then, he presents an explanation of why such a paradox may arise. The 'material aspiration' according to Easterlin plays a key role in explaining this paradox. Finally, he explains why self-reported data on happiness obtained through public opinion surveys (soft data) on happiness are reliable. This is important because his empirical analysis of happiness in this book is based primarily on self-reported data.

In Chapter 1 through Chapter 5, Easterlin examines the relationship between economic growth and happiness in different contexts. In Chapter 1, Easterlin introduces data on happiness obtained directly from individuals through either a Gallup-poll-type survey or Cantril's procedure. In both cases, this data is self-reported. Easterlin prefers self-reported happiness data to data collected from outside observers because each individual is considered to be the best judge of his/her own feelings. Using these data, he presents cross-sectional evidence on the income-happiness relationship both within the country and among the countries. Using 29 within-country surveys (16 Gallup-poll type and 13 Cantril type), Easterlin demonstrates that those in higher income groups are happier than those in lower income groups, and that the causality runs from income to happiness. Using average personal happiness data from 14 countries, however, he finds no clear-cut association between wealth and happiness. In other words, the difference in happiness between rich and poor individuals observed within a country is more transparent than the difference in happiness when the comparison is made between rich and poor countries. This difference cannot be attributed merely to cultural differences between the countries because no such strong association between income and happiness is observed among countries with similar cultures.

To examine the trend of happiness with the growth in income over time, Easterlin used the time-series data from the USA. These data include ten surveys ranging from April 1946 to December 1970. In spite of fluctuations in the percentage of individuals in the 'very happy' category, it was found that this percentage in 1947 is almost the same as that in 1970 with no indication of a trend either upward or down-ward. The time series data, like the international cross-sections, thus suggest that the association between income and happiness in the time-series is not as obvious as it is in within-country cross-sectional comparisons.

Easterlin provides an explanation of this weak correlation between income and happiness in both time-series frameworks and between-country comparisons following Duesenberry's relative income hypothesis. Since according to this hypothesis, the utility of an individual depends on the ratio of his/her expenditure to the national per capita average level of expenditure, increasing incomes of all over time will leave this ratio unchanged leading to no increase in the happiness of anyone. Similarly, if the reference point is the current national situation, an increase in the level of national income which is shared by all would not alter the national level of happiness regardless of whether the country is rich or poor, and consequently a richer country will not exhibit a higher average level of happiness than a poor country. This relative consumption comparison explains why typical US families today, whose living standards are comparable to those of wealthy families in colonial the USA, do not feel as wealthy as their predecessors. This is primarily because their consumption standards are not those of colonial US, but are formed by their personal experiences with the human conditions as evidenced in the contemporary USA. This analysis of Easterlin is supported by the evidence of a positive association between income and aspiration in Taiwan which indicated no substantial increase in the perception of financial well-being even though economic conditions improved markedly during the five years prior to the survey. Based on these findings, Easterlin claims that income and aspiration in time and space tend to go together and consequently people do not feel better off even when they experience substantial increases in their incomes over time and across countries.

In Chapter 2, Easterlin examines why raising income of all does not increase happiness of all. He provides two reasons for this evidence. First, increase in own income has a positive effect on happiness, whereas increase in others' incomes has a negative effect. With the growth of income over time, the average income rises leading to a rise in the societal norm. The rise in happiness due to increase in individual income thus is offset by the higher level of societal norm, and consequently the level of happiness remains unchanged even though income increases substantially. Second, norms are influenced by habit formation. Rich sets a higher level of norm than the poor. With the rise in income, both rich and poor compare with their own norms and so no income-happiness relationship is expected even in the cross-section. However, with the interaction of both interdependent preferences and habit formation, the dispersion in norms remains less than the dispersion in income, and consequently, a positive income-happiness relationship is observed in the cross-section.

Easterlin uses the evidence from the USA, Japan and nine European countries to demonstrate that the level of happiness remains more or less unchanged in all these countries even though the incomes have increased significantly for an extended period of time. The evidence suggests that at a given time within a country those with higher income enjoy a higher level of happiness. Over time, however, the level of happiness remains almost the same despite significant increase in income because the material norms that determine well-being increase at the same rate as the rise in actual income.

In Chapter 3, Easterlin examines whether cross-sectional relationships between economic growth and happiness in selected developing countries predict the time trend between these two variables. Thirteen countries were used and two measure of happiness – overall life satisfaction and financial satisfaction – were used to examine this issue. The findings suggest that there is no relationship between expectations based on cross-sectional data and actual time-series experience. Interestingly, this conclusion remains valid even when the relationship between economic growth and financial satisfaction, which is expected to be positive, is examined separately. Although the two measures of subjective well-being trend in the same direction within a country, they do not rise with the growth of income contrary to the cross-sectional expectations.

In Chapter 4, Easterlin examines the trend of life satisfaction in 13 European transition countries which changed from a socialistic system to a capitalistic system around 1990. He demonstrates two important facts. First, the life satisfaction trend during the transition is V-shaped. The life satisfaction declined first with the decline in employment and output, and then it rose subsequently. Around 2005, the life satisfaction came back to its pre-1990 level in most of the transition countries. Second, the recovery of life satisfaction fell short of the recovery of GDP. In other words, the return of life satisfaction to its pre-1990 level in 2005 resulted from an average 25% increase in the per capita GDP above the pre or early-1990 level. In some countries, the average life satisfaction in 2005 still remained below the 1990 level. Easterlin attributes these two findings to stagnating labor market conditions in early 1990s and deteriorating social safety net that prevented a commensurate recovery of life satisfaction despite fast recovery of employment and output in most transition countries. The hardest hit group of people in this transition were less educated and those over the age 30. The positive effects of transition on output were neutralised by its negative impacts on employment, health, family, old-age security, etc. for several groups of people, and consequently they remained lost in transition.

In Chapter 5, Easterlin examines the income-happiness time-series relationship in several countries of the world that include 17 developed, nine developing and 11 transition countries. He finds no significant relationship between economic growth and happiness over time when these three groups of countries are considered either separately or together. Easterlin speculatively attributes the conflicting income-happiness relationship in the short-run and long-run to individual's 'loss aversion'. The evidence of no significant relationship between income growth and happiness in three fast developing countries – China, South Korea and Chile – provides strong support to his prediction that the gain in life satisfaction due to economic gains may be offset either by higher aspirations or by the changes in the non-economic domains of satisfaction, such as family, social capital and the environment.

Chapters 1 through 5 thus focus on the relationship between economic growth and happiness. In the next three chapters (6–8), Easterlin presents theory and evidence of the trend in an individual's life cycle happiness.

Chapter 6 presents a unified economic theory to explain the evidence of three paradoxical issues in the USA:

1 at a given time, those with higher income are happier than those with less income

2 over the life cycle, the average happiness of a cohort remains more or less constant despite substantial increase in income

3 people tend to think that they were worse off in the past and will be better off in the future.

Easterlin provides a fitting explanation to all these issues by taking into consideration both income and aspiration and how they change at a given point in time and over time. He claims that material aspirations change over the life cycle almost at the same rate as the income. As a result, the positive effect of income on well-being is offset by the negative effect of rising aspiration on happiness, leading to observed stability of life satisfaction during the life cycle despite tremendous growth in income. To answer the third question, Easterlin argues that the individual's evaluation of the past is based on the current aspiration which is invariably higher than what it was in the past, and consequently he/she feels having been worse off in the past. The individual's assessment of the future also depends on the current aspiration. If he anticipates growth in income in the future and evaluates it with the current level of aspiration, which is invariably lower than that in the future, he/she is likely to be optimistic about future well-being. The three empirical questions are thus answered succinctly by Easterlin through possible changes in individual aspirations overtime.

To explain why people of different socio-economic groups have similar aspiration levels initially which diverge later, Easterlin suggests that two factors determining aspiration – one's past experience and social comparison – change their roles over the life cycle. Initially during youth, social comparison in the form of peer effects helps pre-adult workers of different socio-economic groups maintain similar aspirations, and so they start alike. However, as they enter the working age, their own life experiences, such as more schooling, more income, etc., play a stronger role in shaping their aspirations, and consequently their aspirations diverge. This argument is clearly supported by the psychologists who claim that an individual's aspiration is influenced by one's personal experience (hedonic adaptation) and experience of others (social comparison).

In Chapter 7, Easterlin examines different phases of life when the individual is the happiest – at the threshold of adult life, mid-life close to the peak of their working career, or the golden years of retirement. Drawing on the theoretical and empirical work in economics and psychology and following the methodology from demography, he examines in this chapter different factors responsible for the life-cycle pattern of happiness. Easterlin presents two extreme views of the life cycle pattern of happiness and shows empirically that both suffer from limitations. Economists view happiness as being driven by life circumstances (bottom-up approach), whereas psychologists rely on the set point theory in which hedonic adaptation to different life events results in happiness being set at a given level based on the individual's personality and genetic make-up (top-down approach). Following a domain satisfaction approach and using data from United States General Social Survey, Easterlin shows that overall happiness of an individual is determined primarily by satisfaction in four domains – family, financial, health and work. Satisfaction in all these domains except the financial domain is determined by the life circumstances, whereas satisfaction in financial domain is determined partly by changes in the material aspiration. The life cycle patterns of satisfaction in all these domains are very different from each other, some rising and some falling at different stages of life. Since overall happiness is influenced by these four major domains, offsetting life cycle movements in these domains result in a life-cycle pattern of overall happiness that erroneously supports the psychologists' view that happiness is more or less set at a given level determined by the individual's personality and genetic endowment. Easterlin's domain satisfaction approach suggests that there is no iron law of happiness and consequently there is some room for improving happiness clearly through appropriate public policies.

Chapter 8 examines whether or not the life cycle pattern of happiness is the same for men and women. Using data from the USA and following the domain satisfaction approach, Easterlin shows that there are cross-overs in the life cycle paths of happiness between men and women. At young-adult ages, females are happier than men. During the course of life, however, female happiness trends downwards and male happiness rises steadily, and the cross-over occurs approximately at the age of 47.5. This reversal results from similar turnaround in the relative satisfaction of men and women in two domains – satisfaction with family life and financial satisfaction. In satisfaction with family life, the cross-over occurs at the age of 53, and in the domain of financial satisfaction, it occurs at the age of 44.5. In the domain of satisfaction with health, on the other hand, males invariably have higher satisfaction than females at all ages. For both genders, however, satisfaction with health declines as they grow older. Easterlin attributes these male-female differences in happiness to gender differential in partnership status. During the earlier years, women are more likely to be in unions which increase not only their satisfaction with family lives, but also their financial satisfaction. This leads to their higher levels of happiness initially. At older age, men are more likely to be in unions and so they are happier during the latter part of their lives, leading to cross-over at mid-life.

In Chapter 9, Easterlin uses two nationally representative data sets – GSS data and Roper data – to provide empirical support to Campbell's hypothesis that satisfaction in a given domain depends on the net balance between aspirations and attainments, and that the life cycle differentials between men and women in their satisfaction with family life and finances are consistent with their life cycle patterns of net balances between aspirations and attainments. Using Roper data that provides information on aspiration and attainment in the domains of happy marriage and 'big-ticket' consumer goods, Easterlin shows that aspiration and attainment of men and women differ in both domains leading to cross-overs. The shortfalls resulting from the discrepancies between aspiration and attainment thus differ between men and women. During young-adult age, the shortfall is lower for women and so women are happier than men. At older age, however, this shortfall is lower for men and so they are happier. The reversal of the life cycle pattern of happiness between men and women leading to a mid-life cross-over as indicated by GSS data thus is supported strongly by the aspirations/attainments model of domain satisfaction and the evidence from Roper data.

In Chapter 10, Easterlin claims that the domain satisfaction model of psychology can truly explain four different patterns of happiness in the USA:

1 positive cross-sectional relation of happiness to socio-economic status
2 nearly horizontal time-series trend
3 the hill pattern of the life-cycle happiness
4 the decline of happiness across generations (cohorts).

The domain satisfaction model suggests that the overall happiness pattern is the net result of the corresponding patterns of satisfaction in four major domains: family life, finances, work and health. To verify whether or not the net effects of satisfaction in four domains just mentioned influence the pattern of overall happiness in cross-section, time-series, life-cycle and generation, Easterlin examines the domain satisfaction by years of schooling (indicator of socio-economic status), year, age and birth cohort, respectively. Estimating the happiness equations in all four domains, Easterlin obtains predicted happiness by years of schooling, year, age and birth cohort, and compares them with their actual patterns. His findings suggest that for years of schooling, year and age, the predicted happiness compares well with the actual happiness. He demonstrates that upward movements of satisfaction in four domains with years of schooling result in a positive correlation between schooling and overall happiness. This confirms that the cross-sectional evidence of a positive relationship between income and happiness is in fact the net result of cross-sectional patterns of happiness in four major domains. The near horizontal pattern of overall happiness in the time-series data is also supported by similar patterns of satisfaction in all four domains. The hill-shaped pattern of life-cycle happiness, on the other hand, follows from a peculiar combination of life-cycle patterns in four domains with family satisfaction and job satisfaction assuming hill-shaped patterns, financial satisfaction following a U-shaped and health satisfaction assuming a declining pattern. Similarly, the declining pattern of happiness across generations (by birth cohorts) results from declining patterns of job satisfaction, financial satisfaction and health satisfaction with family satisfaction remaining constant across the birth cohorts. The psychologists' view that happiness is a net result of satisfaction in various domains of life is thus supported by the GSS data.

In the final chapter (Chapter 11), Easterlin uses the differing views of economists and psychologists and examines their implications for finding a better explanation of happiness. He claims that hedonic adaptation based on the set point theory to life circumstances is less than complete, especially in the domains of marital life and health, and consequently happiness may change over time as a result of changes in these domains contrary to the predictions of the psychologists. In the domain of income, however, the positive income-happiness relationship envisaged by economists is valid in cross-section only, and no such relationship exists over the life-cycle, indicating close to complete hedonic adaptation in this domain. Easterlin thus claims that the hedonic adaptation in different domains of life are different, and consequently they result in differing effects on wellbeing. To explain why the extent of adaptation differs with regards to different life domains, Easterlin suggests that people's aspirations in different domains respond differently to life events. In the socio-economic domain, material aspirations increase commensurately with income, leading to complete adaptation. In marital life and health domains, however, aspirations change less than the actual change in the circumstances, and consequently there is less than complete adaptation.

Easterlin concludes that an individual has a happiness function in which well-being depends on a host of pecuniary and non-pecuniary factors in a variety of domains. A typical individual has certain aspirations and attainments in each domain. The overall happiness depends on the shortfall between aspirations and attainments in each domain and the relative importance of each domain in an individual's utility function. Since the utility one derives from a given set of goods is influenced both by comparison with his/her past experiences (habit formation or hedonic adaptation) and by the amount of the same goods held by others (interdependent preferences or social comparison), and since hedonic adaptation and social comparison are not necessarily uniform across all domains, neither psychologists' view nor economists' view alone can be used to outline a satisfactory theory of happiness based on empirical evidence. A more realistic theory should take into consideration both the socio-economic environment as well as individual preferences (psychological forces). For policy purposes, therefore, Easterlin suggests developing more informed preferences through education and information. He even goes to the extent of suggesting instructions on psychological health to be included in school curriculum with a view to helping young-adults make decisions based on well-informed preferences. Easterlin's theory thus combines both economists' and psychologists' views of happiness, and opens up a new direction of research in the happiness literature.

This book is an excellent piece of work that makes a bold attempt to set the stage for a new direction of research in happiness economics based on both economic and psychological theories. Unlike traditional economists, Easterlin recognises the role of psychological forces in the determination of happiness, and unlike psychologists, he opposes the 'iron law of happiness'. His findings based on sound theory and appropriate empirical evidence clearly have important policy implications and therefore should be taken seriously by not only the academic researchers, but also policy makers.