Book Review

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Happiness and Economic Growth: Lessons from Developing Countries
by: Andrew E. Clark and Claudia Senik (Eds.)
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Does economic growth bring happiness? The well-known Easterlin paradox suggests that the answer is less obvious than expected. The paradox was first named in Easterlin (1974) but the recent studies of Oswald and Wu (2011) on the subjective well-being of people across US states and Deaton (2012) on self-reported happiness of Americans during the recent financial crisis continue to provide supporting evidence.

The debate over the Easterlin paradox is particularly important to developing countries. Even though alternative social indicators have been emerging in the list of developing countries' policy agendas, economic growth remains the primary goal of most countries. This policy priority comes into question if economic growth does not eventually bring happiness to the people. However, studies on the paradox in the literature are mostly for developed countries.

Happiness and Economic Growth: Lessons from Developing Countries, arising from a PSE-CERPEMAP-DIMecon conference, aims to provide such evidence for developing countries. The book begins with an overview by Easterlin on the trend of happiness (happiness, life satisfaction and well-being are used interchangeably here) for several transitional economies in the past decades. Easterlin argues that the uncertainty in employment and the collapse of the social safety net are the main reasons why happiness after reform could not rise beyond the pre-transition period level. Uncertainty in employment markets and a decaying social safety net, without doubt, could have negative impacts on happiness. The magnitude of these effects and how much they offset the income improvement resulting from the reforms, unfortunately, remain unanswered by Easterlin due to the absence of formal econometric tests.

Exploration of the Easterlin paradox and its explanations with more formal happiness regressions, instead, is available in two studies on China. China is always the focus when it comes to any topics related to developing countries. Other than its sustained and substantial growth in the past few decades, China offers other unique features for studying the Easterlin paradox. Relative income is given as one of the explanations for the paradox. Higher income than before may not make people feel much happier but higher income than others does. The great challenge in testing this hypothesis, however, is the identification of a reference group that an individual is comparing to. The relative information-isolated rural areas in China provide an opportunity to overcome this problem. For example, Clark and Senik use data from geographically isolated Chinese villages to show that relative income does matter.

The great urban-rural income gap is another important feature of the Chinese economy. This has led to over 100 million rural-urban migrants in China. These migrants from rural areas earn more in urban cities than their counterparts in rural areas. Are they happier? Knight and Gunatilaka tell us it may not be the case. Explanations are many but evidence from happiness regressions suggest relative income has an important role to play. Rural-urban migrants have higher income in urban cities on average but their information set, compared to that of their rural counterparts, also expands to include the urban residents in their reference group. The higher absolute but lower relative income thus results in less happy rural-urban migrants.

Evidence presented in the book, as well as in the literature, do not suggest developing countries can escape the Easterlin paradox. The Easterlin paradox implies that economic growth may not offer good guidance for development policy. The question is, however, whether self-reported happiness could do a better job. The presence of adaptation and relative income in the happiness regression pose great challenges to this point. Ravallion provides a longer list on the potential challenges from conceptual issues to econometric difficulties. The list is comprehensive and therefore unavoidably includes many problems which are not unique to the use of self-reported happiness, and makes the discussion less focused on different alternatives. The list of challenges given by Ravallion is long but none of the items included could be regarded as fatal. The most critical challenge, instead, is probably the one highlighted by Zhravskaya in the discussion session of the Ravallion chapter. The Lucas critique has long suggested that once the policy interventions and their consequences are expected, individuals change their behaviour. The self-reported happiness by its subjective nature suffers from a similar challenge. Zhravskaya correctly points out that once subjective well-being is used for policy intervention, people would easily distort their responses strategically and thus make this guidance biased.

Clark, Fieche and Senik offer another reason to support the use of economic growth as the policy objective. They find a negative relationship between happiness inequality and income growth. Moreover, this negative relationship is found to be a result of greater improvement in happiness for people in the lower income quartile. Developing countries which are promoting economic growth, therefore, are less misguided.

Happiness and Economic Growth: Lessons from Developing Countries discusses topics surrounding the Easterlin paradox. The book does offer lessons from developing countries by studying the empirical evidence found in these countries. The summaries of the evidence together with the discussions on the prospect of using self-reported happiness in social evaluation; also provide important lessons for developing countries. Discussions in the book, of course, are not exhaustive but the contributions by the best-known researchers in the field including their comments in the discussion sessions do serve as good references for understanding the most relevant issues in the happiness studies to the developing countries.

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Book Review

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Measuring Happiness: The Economics of Wellbeing
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Measuring Happiness is about far more than just measuring happiness. In this book, three economists – Joachim Weimann, Andreas Knabe and Ronnie Schöb – address the historical context, theoretical and empirical rigour, and normative implications of research and discussion about what makes people feel and think that their lives are going well or not. Like other economists, they primarily rely on what large, national surveys tell us about happiness, and their focus is upon economic characteristics and conditions like income and unemployment. In a field where there is conceptual ambiguity about what happiness is and disagreement about how best to empirically capture it, however, the title of the book reflects one of its core strengths; it discusses the definition of happiness, distinguishing between evaluations (how well people think their lives are going overall) and experiences (how people feel on a more moment-to-moment basis).

The distinction is important because, as the authors have shown, evaluations and experiences of happiness have different determinants. Who is happy or miserable and what makes them so depends upon how happiness is conceptualised and measured (e.g., Luhmann et al., 2012). Because happiness research is used to monitor, inform and appraise public policies (Dolan and Metcalfe, 2012), any conclusions we reach about the relationship of happiness with these policies will depend upon what sort of happiness is being considered. Many claims are made about happiness without defining it in the first place but the authors do not succumb to this practice.

The authors have published a paper (Knabe et al., 2010), discussed in chapter nine of the book, that is important because it illustrates how the determinants of happiness can differ depending upon on the component of happiness assessed. Their results show that although people who are unemployed are less satisfied with their lives in an overall, evaluative sense, they have similar experiences to the employed on a day-to-day basis because the unemployed use their free time well. This is not an isolated finding. In informal secondary analyses of the 2012–2013 wellbeing modules of the American Time Use Survey (ATUS), I discover similar results. Moreover, even though work is experienced as quite purposeful in other research (White and Dolan, 2009), I do not find any significant differences between the employed and unemployed in ATUS according to how meaningful people rate their activities. Unemployment does not appear to make people feel worse during the activities of their lives, although data on people's experiences both before and after unemployment are needed to confirm this.

Assuming unemployment does not cause people to experience less happiness or meaningfulness, what are the implications of such as result? According to the authors, "…we believe that affective [experiential] happiness isn't a suitable guide for evaluating social conditions at all" (p.138). But we should not select an indicator on the basis of whether or not it produces results we expect or not, or, worse still, like or not. Otherwise, we risk selecting indicators that confirm existing perceptions about what we believe should matter to other people's lives, rather than discovering what actually does. How to decide what sort of happiness should be prioritised in our assessments of wellbeing is an unresolved debate worth having (Luhmann et al., 2012; Dolan, 2014; Adler et al., 2015; O'Donnell and Oswald, 2015; Dolan and Kudrna, 2016).

Measuring Happiness also tackles one of the most interesting findings in happiness research: the importance of relative economic position. In so doing, the authors engage with two related bodies of literature in rigorous yet accessible detail. The first are studies on the 'Easterlin Paradox', which initially suggested that although GNP per capita has risen over time, happiness has not – even though there is a positive (logarithmic) association between income and happiness at the individual level. There have been several empirical challenges to the findings on GNP and happiness discussed in the book which lead the authors to conclude the paradox is the exception rather than the rule. Given the available evidence to date, this seems a sensible conclusion. The second body of literature is on the 'relative income effect'. These studies show that, controlling for own income, increases in other people's income have a negative effect on happiness. Relative income effects are one of several proposed explanations for the original findings on the Easterlin Paradox (e.g., De Neve et al., 2014). Although people might gain happiness as a result of gains in income, because happiness is negatively affected by the comparisons people make to other, richer people who have also gained in income, the overall effect of national income on happiness is null.

In considering the implications of relative income effects for people and policy, *Measuring Happiness* is cautious about concluding – as some others have – that we should limit positional competition. Positional competition can have positive as well as negative externalities, positive because competition "…releases energy, it provides creative challenges, and, not least, it leads competitors to keep each other's power in check… Without the immense forces that such competitions unleash, neither the scientific progress nor the economic growth of the nineteenth and twentieth centuries would have been conceivable" (pp.149–150). It is indeed important to consider the longer-term, macro-economic benefits of positional competition because these may not be captured by more relatively recent data on happiness. The authors are astutely cautious about concluding that because others' economic successes can make others less happy, we should limit the pursuit of economic progress.

There are interesting exceptions, however, to the typical findings on the relative income effect, which are not focussed upon in *Measuring Happiness*. For example, relative income among Blacks (but not Whites) in the USA is associated with greater evaluative happiness (Davis and Wu, 2014) as is relative county and province income in rural China (Knight et al., 2009), relative income among Russians with similar 'productive characteristics' like years of education (Senik, 2004), and relative income among rural villages and urban suburbs (but not among larger districts) in South Africa (Kingdon and Knight, 2007). Notwithstanding significant problems related to the endogeneity of happiness and reference groups in this literature, resource sharing within groups may account for some of the positive effects of relative income, although another explanation is the 'tunnel effect' – that seeing others like you do better than you serves as a signal that you will do better in the future, too (Hirschman and Rothschild, 1973). This suggests that groups and societies could be structured such that relative income has a positive effect on happiness, perhaps depending upon the availability of opportunities to achieve a higher income.

Finally, there are two important methodological issues in happiness research that are raised by the authors. One of these is that happiness depends not only on the intensity of people's experiences but also on the duration of these experiences. The duration of an experience, however, can be assessed either subjectively (how long an experience feels like it lasts) or 'objectively' (how long an experience lasts when measured by timekeeping devices). Because moments of unhappiness tend to feel like they last longer than moments of happiness (Freedman et al., 2014), we cannot be sure how happy people truly feel – and crucially, for how long – without considering their subjective perception of time. Before accounting for the reported duration of people's experiences, Knabe et al. (2010) found that unemployed people reported feeling sadder than employed people. As discussed in Dolan and Kudrna (2016), this means that "…the greater intensity of sadness found among unemployed people might occur in periods that are perceived to last longer than their actual duration, and this could bring down the total happiness experienced by unemployed people relative to employed ones". The subjective perception of time is an important area of research with significant implications for how we interpret happiness research.

Then there is the issue of the interpersonal comparability of happiness assessments. Essentially, this issue is that one person's seven out of ten, for example, on a happiness scale could mean something quite different to another person's seven out of ten – or to their own seven out of ten at a different point in time, as the scale people use to assess their happiness could change over time. The authors' ultimate conclusion from this is that "…happiness research is of no use as a normative concept. In the end, it fails because of the incomparability of people's feelings of happiness" (p.154). Other concepts are used normatively, however, which also suffer from this interpersonal comparability issue. Public resources are valued and allocated based in part upon people's willingness to pay for these resources, even though willingness to pay estimates are not interpersonally comparable according to standard welfare theory (Cookson, 2005). The question then becomes whether we should rely more on a concept like happiness or on willingness to pay to inform how we assess normative issues like the allocation of scarce public resources, or whether we should even make interpersonal comparisons at all.

Ongoing research, however, may address the interpersonal comparability issue in subjective assessments of happiness. One of these is mentioned earlier in the book (p.119), anchoring vignettes, where people are asked about the happiness of a hypothetical person and then rank their own happiness on the same scale. Happiness scores can then be adjusted according to different interpretations of the scale. Another area of research that may help to address incomparability is the more 'objective' assessment of subjective emotions, such as smiling or neural activity, which can reveal differences between how happy people say they feel and how happy people show they feel. Political conservatives, for example, say they are happier than liberals but their expressed emotions suggest the opposite (Wojcik et al., 2015). This research raises the question of what we should prioritise – how happy people say they feel, or how people show that they feel? Such issues are the future of *Measuring Happiness*.

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