What do happy people choose: rapid economic growth or stable economy?

Beja Jr., Edsel L.

Ateneo de Manila University

17 May 2012

What do happy people choose: rapid economic growth or stable economy?

EDSEL L. BEJA, JR.[*]

How *SWB* affects individual states, outcomes, or decisions is well established in the literature, but how it affects macroeconomic states, outcomes, or decisions remains an open empirical question. This paper focuses on the public policy issue of economic progress defined as either rapid economic growth or stable economy. Results indicate a negative relationship between high *SWB* and choice for rapid economic growth or stable economy. This conclusion holds for people in the upper-income and middle-income countries, but not so for people in the low-income countries. In fact, results suggest that people in the low-income countries attend less to either rapid economic growth or stable economy regardless of their *SWB*.

I. INTRODUCTION

Happiness research is catching the interest of public policy. This development is a welcome change indeed. When doing analyses of states, outcomes or decisions that could be the focus of public policy, however, it is necessary to put "subjective well-

[*] E. L. Beja Jr.

Department of Economics, Ateneo de Manila University, Quezon City 1108, Philippines

email: edsel.beja@gmail.com

being" (SWB) on the right-hand side of the equation, but few do so (Frey and Stutzer 2002; Bosman et al. 2005).[1]

That *SWB* affects individual states and outcomes (Lyubomirsky et al. 2005) and decisions (e.g., Peters et al. 2003, Bosman and van Winden 2010, and Guven 2012) is recognized in the literature. How *SWB* affects macroeconomic states and outcomes (e.g., economic growth) and decisions (e.g., targeting inflation) is wide open for empirical study. This paper deals with the latter issue, but the focus here is on the notion of economic progress.

The concept of "economic progress" can mean either "rapid economic growth" or "economic stability." The two concepts are not necessarily the same, albeit they are treated as equivalent in conventional usage. Rapid economic growth could turn out to be destabilizing and costly for society if the structural transformation that comes with it is not managed well. Economic stability, on the other hand, need not imply rapid economic expansion but, perhaps, relative calmness because economic activities are proceeding in their normal course. In any case, the pursuit of economic progress is central to public policy because of its desirable consequences like more jobs, higher income, greater consumption, etc.

---

[1] "Subjective well-being" refers to how a person considers one's own state of being at a point in time. It is comprised of the separable components of affect and judgment. "Affect" is about emotion, which can be positive or negative. "Judgment" is a cognitive act of self-assessment. The usual way of eliciting judgment is through a life satisfaction question (Part II). In the literature, life satisfaction is treated as synonymous to happiness. In this paper, "subjective well-being" is limited to life satisfaction.

One concern of public policy in the context of happiness research is the following: "*Do happy people choose rapid economic growth or stable economy?*" Part 2 deals with the methodology and Part 3 presents the findings.

II. METHODOLOGY

The approach in this paper follows the "SWB as input" framework. Algebraically, $Y = F(SWB, X)$, where Y is a state, output, or decision; and X is a vector of explanatory variables. The claim is that SWB is a relevant piece of information missing in the standard analyses of states, outputs, or decisions. The actual effect of SWB on Y is an empirical issue. The items in the framework are explained next.

For this paper, Y is the stated choice for economic progress. Data are replies to the question: "*People sometimes talk about what the aims of this country…Which one of these [aims] you, yourself, consider the most important?*" In one query, "high level of economic growth" (i.e., rapid economic growth) is one of the choices; then, in a separate query, "stable economy" is one of the choices. Because both choices do not appear in the same query, the responses are independent to each other. For analysis, a dummy variable takes the value of 1 for "high level of economic growth" and 0 otherwise. The same goes for "stable economy."

SWB is the self-reported internal state of being. By necessity, it is a translation of the internal SWB (SWB*); that is, $SWB = h[H(\cdot)]$, where $H(\cdot)$ is $SWB*$ and $SWB_2 > SWB_1$ if $H_2(\cdot) > H_1(\cdot)$ if the state of being in situation $i+1$ is higher than in situation i. For various reasons, the translation from internal state to declared state is not exact

(i.e., $SWB^* - SWB = e$, where e is an error term), but $SWB \equiv SWB^*$ is possible with a sufficiently large number of observations for analysis. Data are replies to the question: *"How satisfied are you with your life as a whole these days?"* Responses take an integer value from 1 (i.e., completely dissatisfied) to 10 (i.e., completely satisfied). For analysis, two consecutive values are compressed to obtain quintiles. Using the lowest quintile as the reference state, the second to the fifth quintiles take the value of 1 and 0 otherwise. Here, SWB is a cardinal measure.[2]

X represents other explanatory variables. One set of variables comprise the individual profile like age, gender, marital status, educational attainment, job status, and income class. Data for age is in actual years. Gender is coded 1 for male and 0 otherwise. For marital status, the reference is married state; thus, ex-married (divorced or separated) takes the value of 1 and 0 otherwise; widowed is 1 and 0 otherwise; and single is 1 and 0 otherwise. Educational attainment takes "no or limited education" as the reference status; thus, the value of 1 for complete primary education and 0 otherwise; 1 for complete secondary education and 0 otherwise; and 1 for complete tertiary education and 0 otherwise. For job status, the reference state is employed; thus, the value of 1 for unemployed and 0 otherwise; and 1 for "not in the labor force" and 0 otherwise. Income class is the self-assessment of own household's overall income standing and takes the integer value from 1 (i.e., lowest) to 10 (i.e., highest). For analysis, two consecutive values are compressed to form quintiles with the lowest quintile as the

---

[2] The concern that SWB might be too volatile to produce spurious regression results is more valid for affect but less so for judgment. There is also a debate on whether SWB is cardinal or ordinal. Ferrer-i-Carbonell and Frijters (2004) find that their results are comparable regardless of the assumption used in the analysis.

reference state. For income class, the second to the fifth income quintiles take the value of 1 and 0 otherwise.

The other set of explanatory variables is for aggregate profile. The 5-year average of Gross Domestic Product (GDP) per capita in constant dollars is used as aggregate-level control for possible idiosyncrasies within the country groupings

Probit regression is performed on the structural model, $Y = \alpha + \beta_i X_i + \delta SWB + \varphi GDP + e.$[3] Except for *GDP*, which is from the *World Development Indicators*, the rest of the information is from the *World Values Surveys*. The dataset covers upper-income, middle-income, and low-income countries. Separate regression is done for each group.

III. FINDINGS

Table 1 summarizes the results but focusing on *SWB*. The effect of *SWB* is calculated as the percentage reduction on the probability of choosing an indicator of economic progress, *Y*. The right-most column contains the figures for interpretation.

Results for both the upper- and middle-income countries show a negative relationship between *SWB* and choice of indicator for economic progress. On average, people with high levels of *SWB* are less likely to choose "rapid economic growth" or "stable

---

[3] If indicators are on the same level (e.g., own marital status and SWB; c.f., Stutzer and Frey 2006), endogeneity is a cause of concern. If they are not on the same level like, however, as in this paper (i.e., macro-level choice and SWB), then the issue is less of a concern.

economy" as the most important goal. Perhaps, this finding is a validation to the view that people with high *SWB* are more likely to take a positive situation for granted (Veenhoven 1991; Diener et al. 2009); thus, people in the upper-income and middle-income countries think less about economic progress. Yet, the more intriguing finding is from the low-income countries because the results suggest that, regardless of *SWB,* people there think less of "rapid economic growth" or "stable economy" as the most important goal. One way to make sense of this finding is to argue that such attitude is a consequence of shared affairs, namely low economic growth or unstable economy. In other words, people in low-income countries see their experience as not only salient but also normal (c.f. Kahneman and Miller 1986), thereby resulting in the problematic response to the query on the most important goal for the country.

What do the findings imply for public policy? First, policy-makers need to be on the look out from being misled to conclude that economic progress is a goal of secondary importance. Second, economic progress is a very important goal but some people do not see it that way or they are interested in other goals. The challenge, therefore, is to make sure that public policy is responsive, flexible, and inclusive in order that it is able to secure economic progress.

References

Bosman, R. and van Winden, F. (2010) Global risk, investment, and emotions, *Economica*, **77**, 451-471

Bosman, R., Sutter, M., and van Winden, F. (2005) The impact of real effort and emotions in the power-to-take game, *Journal of Economic Psychology*, **26**, 407-429

Diener, E., Lucas, R., Schimmack, U., and Helliwell, J. (2009) *Well-being for public policy*, Oxford University Press, New York

Ferrer-i-Carbonell, A. and Frijters, P. (2004) How important is methodology for the estimates of the determinants of happiness?, *Economic Journal*, **114**, 641-659

Frey, B. and Stutzer, A. (2002) What can economists learn from happiness research?, *Journal of Economic Literature*, **60**, 402-435

Guven, C. (2012) Reversing the question: Does happiness affect consumption and savings behavior?, *Journal of Economic Psychology*, **33**, 701-717

Kahneman, D. and Miller, D. (1986) Norm theory: Comparing reality to its alternatives, *Psychology Review*, **93**, 136-153

Lyubomirsky, S., King, L., and Diener, E. (2005) The benefits of frequent positive affect: Does happiness lead to success, *Psychological Bulletin*, **131**, 803-855

Oreopoulos, P. (2007) Do dropouts drop out too soon? Wealth, health, and happiness from compulsory schooling, *Journal of Public Economics*, **91**, 2213-2229

Peters, E., Slovic, P., and Gregory, R. (2003) The role of affect in the WTA/WTP disparity, *Journal of Behavioral Decision Making*, **16**, 309-330

Stutzer, A. and Frey, B. (2006) Does marriage make people happy, or do happy people get married?, *Journal of Socio-Economics*, **35**, 326-347

Veenhoven, R. (1991) The utility of happiness, *Social Indicators Research*, **20**, 333-354

Table 1. Probit regression results

		Upper-Income Countries				
Dependent	Mean	Indicator	Coefficient	Slope	p-value	%Change
Rapid economic growth	0.4864	Life satisfaction 2	-0.078	-0.031		
		Life satisfaction 3	-0.056	-0.022		
		Life satisfaction 4	-0.109	-0.044	*	-9.0
		Life satisfaction 5	-0.177	-0.070	***	-14.4
Stable economy	0.4624	Life satisfaction 2	-0.014	-0.006		
		Life satisfaction 3	-0.001	0.000		
		Life satisfaction 4	-0.116	-0.046	*	-10.0
		Life satisfaction 5	-0.120	-0.047	*	-10.3
		Middle-Income Countries				
Dependent	Mean	Indicator	Coefficient	Slope	p-value	%Change
Rapid economic growth	0.5725	Life satisfaction 2	-0.0025	-0.0010		
		Life satisfaction 3	-0.0535	-0.0210	*	-3.7
		Life satisfaction 4	-0.1498	-0.0589	***	-10.3
		Life satisfaction 5	-0.3717	-0.1466	***	-25.6
Stable economy	0.5164	Life satisfaction 2	0.0001	0.0000		
		Life satisfaction 3	-0.0529	-0.0211	*	-4.1
		Life satisfaction 4	-0.1328	-0.0529	***	-10.3
		Life satisfaction 5	-0.3480	-0.1381	***	-26.7
		Low-Income Countries				
Dependent	Mean	Indicator	Coefficient	Slope	p-value	%Change
Rapid economic growth	0.6507	Life satisfaction 2	-0.0606	-0.0225	*	-3.5
		Life satisfaction 3	-0.0864	-0.0321	***	-4.9
		Life satisfaction 4	-0.0321	-0.0119		
		Life satisfaction 5	0.0168	0.0062		
Stable economy	0.6048	Life satisfaction 2	-0.0682	-0.0264	**	-4.4
		Life satisfaction 3	-0.1663	-0.0643	***	-10.6
		Life satisfaction 4	-0.1457	-0.0565	***	-9.3
		Life satisfaction 5	-0.1281	-0.0498	***	-8.2

Notes:

1. Robust standard errors; p-values: *** = 0.01, ** = 0.05, * = 0.10

2. Results for the other control variables are not reported but are available from the author.

3. Upper-income countries (*n* = 20,712): Australia, Canada, Finland, Germany, Italy, Japan, France, Netherlands, New Zealand, Norway, South Korea, Spain, Sweden, Switzerland, Taiwan, United Kingdom, United States

4. Middle-income countries (*n* = 33,789): Argentina, Brazil, Bulgaria, Chile, China, Colombia, Egypt, Georgia, Guatemala, Malaysia, Mexico, Peru, Philippines, Poland, Romania, South Africa, Russian Federation, Thailand, Turkey, Ukraine, Uruguay, Venezuela

5. Low-income countries (*n* = 22,344): Bangladesh, Burkina Faso, Ethiopia, Ghana, India, Indonesia, Mali, Nigeria, Pakistan, Rwanda, Tanzania, Uganda, Vietnam, Zambia, Zimbabwe