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What Makes Us Happy? A Review of Happiness Economics

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Abstract: *Happiness economics has gained importance by questioning whether economic growth and higher income necessarily lead to greater well-being. The present study reviews the relationship between income and happiness, focusing on the measurement of subjective well-being and the insights of the Easterlin Paradox. While higher income is generally associated with greater happiness at a given point in time, sustained economic growth does not always increase average happiness. The study also examines key non-monetary determinants of happiness, including health, education, religion, age, gender, and family characteristics. Particular attention is given to the Indian context through a review of existing studies and evidence from different waves of the World Values Survey (WVS). The findings suggest that a large proportion of Indians report themselves as happy, despite variations in life satisfaction over time. Although self-reported happiness measures have certain limitations, they provide useful information for understanding individual well-being and designing public policies. The paper concludes that happiness should be considered alongside conventional economic indicators when assessing social progress and development.*

Keywords: *Subjective well-being; Happiness; Life-satisfaction; Gross National Happiness ; World Values Survey.*

1. INTRODUCTION

Happiness is a subjective concept. Different people can be satisfied in different ways. To Jane Addams, happiness was found by serving the people, to Robert the Bruce it was the Scottish independence. That is why it is better to find out determinants of happiness and understanding the process that underlie happiness. Throughout history, the study of happiness and search for better life was the province of philosophy. Aristotle, Bentham, Mill are notable philosophers who considered happiness to be the ultimate motivation for human action. Psychologists and sociologists have also contributed to the field of happiness. For a long time, economists were not comfortable to work with a subjective concept like happiness. Because, happiness has no market price and is not directly observable in the market as a commodity. It is purely a relative phenomenon, an experience or attitude towards life. Obviously, there are objective happiness measures such as U-index or The Brain Imaging Method, in which certain technical procedures are followed to estimate the extent of happiness. It is possible to collect the information regarding the real time experience of an individual for many days or even for many times per day. The U-index measures how much times per day a person spends in a bad mood. The Brain Imaging Method uses interaction between brain tissue and various types of electromagnetic radiation to scan the brain waves and identify the factors that make the person happy or unhappy. But researchers on happiness are interested mainly on self-reported happiness, that is, individuals have to perceive and state their own level of well-being or satisfaction with life on a pre-determined scale. Happiness, subjective well-being and life-satisfaction are separable construct in the field of psychology but in economics, they are used interchangeably so that individual can relate to well-being in his/her own terms. This self-reported happiness is assumed to serve as the proxy of individual utility under certain assumptions.[1] Several large surveys have asked different questions regarding Individuals' happiness and have recorded the responses in a particular time interval. Table - 1 shows how the self-reported happiness questions has been posed in different surveys.

[1] For a measure of reported subjective well-being to serve as a proxy for individual welfare, an important assumption is necessary – the standards underlying a person's judgements are those the individual would like to pursue in realizing his or her ideal of the good life.

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Table – 1
Happiness Question as asked in Different Surveys

Name of the Survey	Happiness / Life - satisfaction Question	Response Option	Well-being Variable	Geographical coverage
The General Social Surveys (GSS)	Taken all things together, how would you say things are these days?	3 point verbal scale categorized as very happy, pretty happy, and not too happy.	Happiness	USA
The World Values Surveys (WVS)	All things considered, how satisfied are you with your life as a whole these days?	10 point numerical scale where 1 signifies completely dissatisfied and 10 means completely satisfied.	Life Satisfaction	More than 80 countries
	Taking all things together, would you say you are very happy, quite happy, not very happy, or not at all happy?	4 point verbal scale categorized as very happy, quite happy, not very happy and not at all happy.	Happiness	
The Eurobarometer Surveys	On the whole are you very satisfied, fairly satisfied, or not at all satisfied with the life you lead?	4 point verbal scale categorized as very satisfied, fairly satisfied, and not at all satisfied.	Life Satisfaction	European Union member countries
The German Socio-Economic Panel (GSOEP)	How satisfied are you with life in general?	11 point numerical scale where zero signifies completely dissatisfied and 10 means completely satisfied.	Happiness	Germany
The British Household Panel Survey (BHPS)	How satisfied are you with your life overall?	7 point numerical scale where 1 signifies completely dissatisfied and 7 means completely satisfied.	Life Satisfaction	Britain
	Would you say that you are more satisfied with life, less satisfied, or feel about the same as you did a year ago?	4 point verbal scale categorized as More satisfied, less satisfied, and about the same.	Life Satisfaction	

Research on happiness economics has started mainly after the path breaking works of Easterlin (1973, 1974). People assess their level of happiness on the basis of past experience, expectations of the future and comparisons to other persons (Veenhoven 1993). Thus economists are likely to assume ordinality of happiness questions which means the relative difference between satisfaction answers is unknown but all individuals have the same interpretation of all satisfaction answers. Psychologists and sociologists often treat happiness scores as cardinal. But Ferrer-i-carbonell and Frijters (2004) shows that the cardinality or ordinality assumption to happiness questions has very little effect to the results.

Bhutan is worth mentioning in the discussion of happiness. Since 1980s, Government of Bhutan have considered happiness as an essential indicator of development. They coined a term "Gross National Happiness" (GNH) to measure the performance of the country in the field of happiness. Even in policy making, Bhutan gives more importance to GNH than gross domestic product (GDP) as they has taken the happiness as the ultimate social goal. GNH is constructed using nine domains of life. This kind of composite index is superior to an income measure. Use of GDP per capita or simply national income as an indicator of development always stressed material benefits without allocating proper attention to health, culture, good governance, work-life balance, ecological diversity and the like. That is why, an indicator based on happiness is supposed to produce better policy implications from that decided on the basis of income alone.

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2. Easterlin Paradox

Research on happiness economics has started mainly after the pioneering works of Easterlin (1973, 1974). He studied 30 national surveys from different countries and found a positive relationship between income and happiness. It is universally true for all 30 countries that as income rises, happiness increases. But when he compared the average happiness of 1970s in the US with the 1940s, no significant difference in happiness was found. This result is paradoxical and known as Easterlin Paradox. Why? Because there was a significant advancement and growth in income during the period 1940-1970. More money is supposed to bring more material benefits and thus higher happiness. But a rise in national income over time is not accompanied by a rise in happiness. This time-series and cross-sectional mismatch causes the paradox. In summary, he observed that at any particular point high income earners are on an average happier than lower income group. But average self-reported happiness does not improve significantly over time with the growth in income. Some relevant questions arise. Most important one should be regarding the national policy. While current national policy emphasizes on growth of income, there arise one pertinent question. Does growth in income really lead to a better life?

Two possible explanation of Easterlin Paradox can be given. First one is relative income effect. Dusenbery first advocated a hypothesis that people also consider their relative income position in a society. Later it was validated by Clark and Oswald (1996) and Blanchflower and Oswald (2004). People not only assess their well-being in terms of their absolute income but also in relative terms, reference to neighbors or friends or colleagues. An individual could be very happy with his Maruti 800, until his neighbor brings a Honda City in his garages. Thus happiness depends positively on self-income but negatively on income of others. With an overall increase in income level, representative person may not find himself happier as his relative position in the income scale has not improved. Easterlin (1995) suggested that if the relative income effect is larger than the absolute income effect, then the average happiness levels can remain constant. Individuals can make another comparison with reference to their own life variations. People who have already experienced very adverse situations in earlier life, they could be happy even in a difficult time.

Second explanation lies in the relationship of income and aspirations (Easterlin 2001; Stutzer 2004). People with higher income aspirations generally states lower happiness. People who have faced financial constraints in the past, have lower income aspirations and thus greater happiness. As income rises, aspirations increases and chances of making those aspirations true decreases. Additional income brings more material benefits, material goods obviously bring more satisfaction to human life but that is not permanent. With the continuous consumption, that satisfaction disappears and people strive for higher aspirations. This self-defeating process continues. Over time, as aspirations rise, well-being decreases. If aspirations remain constant, then definitely an increase in income will guaranty higher well-being.

3. Role of Money: Does More Money Mean More Happiness?

People always desire more money. But sometimes this extra money does not bring additional happiness. Why so? Happiness of an individual is determined by both monetary and non-monetary domains of life such as health, family, job satisfaction, and so on. Every individual has a fixed time to pursue her life goals. People may fail to recognize the importance of these non-monetary domains. Individuals spend disproportionate time on earning higher income than on family or health care. For example, people sometimes work overtime for additional income by neglecting their health condition. Additional money definitely brings more happiness but the negative effect of bad health or illness may neutralize that higher happiness. In fact, Tuers (2006) showed that working overtime and for longing hours does not bring additional happiness. Extra work obviously rewards more money but at the same time it is associated with family-work interference, depression, and the like. Reallocation of precious time in favor of non-monetary domains of life may increase the satisfaction of life.

Absolute income matters for every individual up to a certain level. After that relative income becomes important. Everyone tries to improve their relative position or status in the societal scale. They want to consume more and more and end up consuming over-optimal quantities. Richer society consider relative income as more important than absolute income. To deal with this “rat race” a consumption tax can be imposed to the richer section of society. Tax will reduce income of all rich people at the same time, therefore satisfaction will not be reduced. Moreover, redistribution of that resources from rich section to other community can improve overall social well-being (Frank 1997). Hence, money alone cannot bring happiness. Relative income position in a society as well as non-monetary domains of life plays a vital role in determining the level of satisfaction.

4. Non-monetary Determinants of Happiness

The most cited factors that affect self-reported happiness are discussed in short.

4.1. Health

Health is one of the most important factor for determining happiness. In general, better health status are associated with more happiness. People having poor health status report lower life-satisfaction (Binder and Coad 2011; Clark and Oswald 1994). Also the Individuals who visit their doctor frequently are less satisfied with their life than those who had no visit at all (Brereton et al, 2008). Blanchflower and Oswald (2008a) examined the relationship between happiness and hypertension for 16 nations and found that happier nations suffer less from hypertension. Freedman et al (2012) observed disabled persons are less happy.

4.2. Education

Higher education can ensure more happiness. Higher education increases the probability of getting a better employment and thus higher income. But studies examining the relationship between education and happiness have not come up with a consistent result. Asadullah and Chaudhury (2012); Blanchflower and Oswald (2004) and Clark and Oswald (1996) found a positive relationship between education and happiness, more educated individuals state higher levels of happiness. But Binder and Coad (2011) and Peiro (2006) did not find education a significant factor of happiness.

4.3. Religion

Whatever may be the religion, studies have found that religious people are happier than non-religious ones. Stronger religious belief or faith in god helps people to adapt against adverse situations in life. Gartner et al (1991) showed that there exists a positive relationship between dependence in god and mental health. Helliwell (2003) observed that Christians who attends church activities are happier. But religion effects the happiness of men more intensively compare to women (Brown and Tierney 2009).

4.4. Age

A number of happiness research have suggested a U-shaped relationship between age and happiness. This relationship means that when the age increases, the level of happiness decreases, reaches a minimum and then increases as age rises (Blanchflower and Oswald 2004). According to Jiang et al (2011) and Oswald (1997) this minimum level of happiness comes around the late 30s or early 40s. One explanation of this U-shaped relationship may be given in terms of aspirations of life. Experienced individual can better adjust their expectations and also can better adapt to new circumstances and enjoy life.

4.5. Gender

Whereas some studies (Blanchflower and Oswald 2004; Brereton et al. 2008; Jiang et al. 2012 and Hartog and Oosterbeeks 1998) have found women happier than men, Binder and Coad (2011), Cunado and Gracia (2013) and Easterlin (2001) found no evidence for this difference in happiness. But Stevenson and Wolfers (2009) with the help of the happiness data of USA showed that despite of several improvements in female working conditions, the women happiness has declined absolutely and in comparison to men.

4.6. Marital Status and Children

In general, the married people state higher level of happiness than single persons and widowed or separated persons (Dolan et al. 2008). Powdthavee (2009) found one partner’s happiness positively influences the happiness of the spouse. But researchers found no evidence that particular one gender gains more benefit than other from the marriage.

On one hand, children completes a family and provide togetherness and thus increase happiness. But on the other hand, rearing a child can cause strain and brings constraints to parents and may decrease happiness. Happiness studies fail to bring any unambiguous result in case of children. Whereas Binder and Coad (2011) and Powdthavee (2005) showed a negative relationship between family size and happiness, Kalyuzhnova and Kambhampati (2008) have found that families with children are happier.

5. The Indian Scenario

Several studies have explored the evolution of happiness among Indian respondents over time using datasets such as the WVS and the Gallup World Poll (Easterlin and Sawangfa, 2010), while others have examined India in a cross-country comparative framework (Diener et al., 1995). However, empirical studies providing cross-sectional evidence on happiness within India remain relatively limited.

Brinkerhoff et al. (1997) analysed village-level survey data from two Indian villages and found that more than half of the respondents in both locations reported being satisfied with their lives. Only a small fraction expressed extreme dissatisfaction, despite facing the challenges and hardships commonly associated with rural living. Similarly, Biswas-Diener and Diener (2001, 2006) investigated the subjective well-being of pavement dwellers, slum residents, and sex workers in Kolkata. Their findings revealed that many respondents reported satisfaction across various dimensions of life, notwithstanding their difficult economic circumstances. The authors suggested that such outcomes may be explained by relatively modest aspirations, emotional support derived from family relationships, and the presence of social protection mechanisms.

Lakshmanasamy (2010) conducted a primary survey involving 315 respondents from the Chepauk and Triplicane divisions of the Chennai Corporation to examine the relationship between income and happiness in India. Respondents were asked questions relating to happiness and well-being, and their answers were classified into three categories. The study found a strong and statistically significant correlation between these two measures. Results from an ordered probit model indicated that both absolute income and relative income exert a positive influence on happiness. However, proportional changes in relative income were not found to affect happiness levels. The analysis of additional explanatory variables showed that respondents with only school-level education were less satisfied than those with college education, public-sector employees reported greater satisfaction than private-sector employees, retired individuals were happier than those currently employed, age was positively associated with happiness, and living in a nuclear family was linked to lower levels of happiness.

Mitra and Majumdar (2026) examined the determinants of happiness among residents of Kolkata using a micro-econometric approach. Based on primary data collected from 312 households located in six areas with varying levels of air pollution, the study analyses how socio-economic, demographic, and environmental factors influence self-reported life satisfaction. The findings from an ordered logit model indicated that better health, higher income, greater educational attainment, freedom of choice, and being married are positively associated with happiness, whereas air pollution has a detrimental effect on life satisfaction. The study also assessed the consequences of the COVID-19 pandemic on subjective well-being. Individuals from households affected by COVID-19 experienced lower levels of life satisfaction, largely due to pressure on healthcare services, economic hardships, and mental health concerns. In addition, anxiety regarding the possibility of future lockdowns further reduced well-being, highlighting the substantial psychological and economic burdens imposed by the pandemic. Overall, the study underscored the importance of both material and non-material determinants in shaping happiness and offers useful implications for policy formulation and regional development.

The WVS is a large scale, cross-national survey carried out at different time periods with a large number of questions on perceptions and attitudes. The surveys were conducted in six waves, namely during 1981-1984 (wave 1), 1990-1994 (wave 2), 1995-1998 (wave 3), 1999-2004 (wave 4), 2005-2009 (wave 5), 2010-2014 (wave 6), and 2017-2022 (wave 7). All these surveys contained questions that ask respondents about their level of happiness and level of life satisfaction. The question on happiness asks, “Taking all things together, would you say you are very happy, quite happy, not very happy or not at all happy?” Table – 2 shows the responses obtained in different WVS surveys conducted in India. It is seen that, on all 5 waves when WVS data are available, more than two-third of the respondents have reported themselves as very and quite happy.

Table – 2
Happiness Level of Indians as Stated during WVS Surveys

Category	Total Respondents	Not At All Happy	Not Very Happy	Quite Happy	Very Happy	Don't Know
Wave 7	1692	2.3	12.7	45.62	39	0.38
Wave 6	1581	4.5	14.5	42.6	38.2	0.2
Wave 5	2001	2.7	21.6	46.4	28.9	0.3
Wave 4	2002	4.5	20.9	47.6	25.3	1.7
Wave 3	2040	2.8	19.8	46	29.9	1.5
Wave 2	2500	3.6	24	48.2	23.8	0.4

Source – www.worldvaluessurvey.org
Note – Feelings of Happiness are in percentages.

The WVS surveys also contain a question on life satisfaction. The question on life satisfaction asks 'All things considered, how satisfied are you with your life as a whole these days?' and the responses are coded from 1 to 10, where 1 means completely dissatisfied and 10 mean completely satisfied. As shown in Table – 3, the mean life satisfaction score reported by respondents show diminishing trend and later increased marginally.

Table – 3
Average Life Satisfaction Scores in Different Waves of WVS Surveys

Category	Total Respondents	Mean	Standard Deviation
Wave 7	1692	7.21	2.41
Wave 6	1581	5.08	2.74
Wave 5	2001	5.8	2.35
Wave 4	2002	5.1	2.23
Wave 3	2040	6.5	2.64
Wave 2	2500	6.7	2.28
Source – www.worldvaluessurvey.org			

6. Conclusion

Self-assessed happiness studies have several limitations. These surveys assume that individuals are the best judges of their own happiness, but responses may be biased because people often provide socially desirable answers and may not always think carefully or accurately when responding. As a result, the reliability of self-reported happiness measures can be questioned. Measurement is another concern. Happiness is typically recorded in a few discrete categories, and average scores are calculated across respondents. Large changes may be needed to move from one category to another, and respondents in the highest category cannot report further increases in happiness. The common assumption that explanatory variables cause changes in happiness is also open to debate.

Despite these limitations, happiness research can be useful for public policy. Bhutan's Gross National Happiness (GNH) framework illustrates how such measures can help identify unhappy regions, communities, age groups, and domains requiring policy intervention, thereby supporting more targeted efforts to improve well-being.

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