

INTERDISCIPLINARY APPROACH TO MEASUREMENT OF WELL-BEING ³³

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Abstract

The global financial crisis brings a crisis of confidence in the traditional ways of measuring welfare and economic performance. The current methods do not sufficiently take into account the problem of speculative risks, environmental expenses, ethics and subjective well-being. So far, the standard indicators are considered as insufficient tool of measurement of economic performance and welfare. Economic well-being is a broader concept than GDP, it contributes to categories such as leisure, wealth, non-market activities. On the other hand, welfare is reduced by uncertainty and unemployment. The role of measurement of well-being is not to replace GDP, but the indicators related to well-being, happiness, social development should be an important supplement in order to provide greater insight into the functioning of society. Economics of happiness focused on links between economics and other disciplines, such as psychology and sociology. The paper deals with GDP limits, the concept of happiness and alternative approaches to measurement of individual well-being.

Key Words: Economics, happiness, well-being, GDP

Introduction

The ancient philosophers like Democritus, Socrates, Aristoteles dealt with the category of happiness in the past. Eudaimonia, preferred by these scholars, is an ethical and philosophical doctrine with morality as a main criterion. The moral basis of human behavior is the desire for happiness - personal or social. Psychology defines happiness as an emotion, or feeling, which is associated with both satisfying basic physiological needs such as the need to breathe, eat, drink, sleep, etc., but also the satisfaction of higher needs related to interpersonal relationships, values, thinking, experiencing beauty and culture. The paper deals with various aspects of economics of happiness as a new interdisciplinary approach to economic theory.

Arguments in favor of a new approach:

One of the lessons learned from the global crisis is a critical review of economic indicators used. GDP is not an adequate indicator to measure the socio-economic development and well-being of society as a whole. It does not reflect the real performance of the economy.

R. Dornbusch and S. Fischer describe the problems that have been associated with the use and interpretation of the GDP as a macroeconomic indicator: "*GDP data are, in practice, used not only as a measure of how much is being produced but also as a measure of the welfare of the residents of a country. Economists and politicians talk as if an increase in GDP means that people are better off. But GDP data are far from perfect measures of either economic output or welfare.*"³⁴

GDP has four major limits that reduce its possibility of measuring welfare. First, GDP includes replacement of amortized capital. Amortization does not encourage prosperity and replace

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³⁴ Dornbusch, R., Fischer, S. et al.: *Macroeconomics*. McGraw-Hill, N.Y., 2008, p.36

worn-out capital. This means that this part of GDP do not contribute to benefit of consumers because it is the only compensation for physical capital.

Second, GDP measures the income generated in the country, but not the size of the income, which remains in the country. Part of the income goes to foreign entities. In other words, foreign entities have significant benefits from an increase in GDP of domestic country.

Third, GDP is based only on monetary transactions. It does not include many other activities eg. care for children or elderly people in their own home. GDP also ignores the value of leisure time spent relaxing with family or friends. It does not include the value of clean air and water, unpolluted environment. Some outputs are not traded in the market and therefore they are poorly measured.

Fourth, GDP includes many items that do not encourage the well-being of people. If a natural disaster such as an earthquake damaged country, the damage and restoration of the original state of the country is seen as stimulation of GDP growth. Expenditure on health as a result of air pollution, or the costs of antidepressants are also included in the GDP.

GDP does not take into account welfare and happiness. Economic well-being is a broader concept than GDP, it contributes to categories such as leisure, wealth, non-market activities. On the other hand, welfare is reduced by uncertainty and unemployment. Economic well-being has a uneconomical dimension such as good health and education, a clean environment, security in cities etc. These factors contribute to the overall well-being of the individual, but it is difficult to quantify these factors. Nevertheless, they are considered so relevant that they should belong to the priorities of economic policy in the social-market economies. The role of measurement and evaluation of well-being is not to replace GDP, but the indicators related to well-being, happiness, social development should be an important supplement in order to provides greater insight into the functioning of society.

Scheme 1: Elements of happiness and welfare

HAPPINESS:	WORKING CONDITIONS :	ECONOMIC WELFARE:
Genetics	Environment	Leisure
Family	Health	Wealth
Activities	(Inequality)*	Non-market activities
Friends	Education	(Unemployment)
Job Satisfaction		(Uncertainty)
Social contacts		

* Words in brackets represent a negative impact

Source: Deutsche Bank Research, p.3

In recent years the category of happiness has become a new concept in economic theory. The concept of economics of happiness focused on links between economics and other disciplines, such as psychology and sociology. The idea of happiness is not a new one. T. Jefferson claimed the right to happiness belongs to the fundamental rights of citizens equivalent to the right to life and freedom. The right to happiness is listed in the Declaration of Independence of the United States of America as one of the three fundamental rights along with the right to life and liberty.

D. Nettle distinguishes three concepts of happiness:

- currently feelings of joy and pleasure. These feelings are often called happiness.
- overall satisfaction with their lives
- quality of life stemming from the fulfillment of an individual potential, which can be described as a "good life".³⁵

Happiness is undoubtedly considered as one of the most preferred targets of human life. In the last decade the economics began to deal with a phenomenon happiness. The origins of this concept, however, are considerably older. J. Bentham, a founder of utilitarianism (based on neoclassical economics), deals with the concept of happiness while makes a distinction between individual and social happiness. He claims that the responsibility of government is to ensure the highest level of happiness for the greatest possible number of people. The current concept of economics of happiness is more developed but the basic theoretical framework has been still based on neoclassical economics.

³⁵ Nettle, D.(2005):Happiness. The Science Behind Your Smile. Oxford. In: Frey, B. et al.

Many current approaches require a broad base combining indicators of socioeconomic factors (individual income, employment status, education, etc.) and macroeconomic factors (GDP per capita, inflation, unemployment, foreign investment, etc.) and finally, institutional and political factors (political freedom, corruption, etc.). These concepts work with a number of indicators that assess and measure different dimensions, not only economic ones. Therefore these indicators can be described as multidimensional ones.

Although happiness by its very nature is very difficult to measure, most studies provide valuable insights into the level and determinants of overall life satisfaction of individuals (Romina, Johansson 2006, Frey, Stutzer 2002; Kahneman, Krueger 2004, Layard 2006).

The first country that started with monitoring of happiness in terms of Gross National Happiness was Bhutan and it was already in 1972. Since then, the index has undergone many changes, but the country continues to use it and publishes an annual report on its progress. It is composed of several sub-indicators, which are divided into the following dimensions:

- Psychological indicators (life satisfaction, emotional balance, spirituality);
- Health (not only physical but also mental health);
- Education (literacy, quality of education, knowledge and values);
- Culture;
- Use of time (working hours, time spent sleeping);
- Government (participation in politics, political freedom, public service, performance of government);
- Social vitality (social support, social relationships, family, crime);
- Ecological diversity and resilience (pollution, environmental responsibility, wildlife, urbanization);
- Living standards (income, assets, housing quality).³⁶

In recent years a Happy Planet Index (HPI) has been introduced. This particular index was constructed in 2006. HPI is composed of three sub-indicators: perceived well-being (happiness), life expectancy and ecological footprint. Welfare (or happiness as was mentioned above) is measured by means of questionnaires, which questioned respondents about their quality of life, general life satisfaction and well-being. The ecological footprint is an indicator reflecting the consumption of resources required to maintain the country's consumption.³⁷ Critics of this approach point to the various imperfections of this concept. Specifically, used indicators are considered to be too subjective and thus the governments can define and then measure them according to their interests. Another weakness of these indexes is the subjectivity of the data itself and data received from the respondents' answers.

Measurement of well-being and optimal functioning of the economy, however, can be problematic for other causes. This type of indicators is to some extent influenced by the "subjective view" of what is considered a functioning society, i.e. what parameters will define the well-being of society. Even if there is a consensus on what constitutes well-being of the society, recording of well-being may show signs of normative economics - subjectivism (Norberg, 2010).

Conclusion

Research devoted to the problem of happiness have shown that the subjective feeling of satisfaction expressed much better individual well-being. It should be noted that the concepts as happiness, individual well-being, subjective feeling of satisfaction are considered as synonyms in the relevant economic literature.³⁸ Happiness research helps to understand the formation of not only subjective - individual happiness but society welfare as well. Moreover happiness research can help to clarify the empirical paradoxes such as the fact that in many countries, despite a significant increase in income, subjective well-being perceived by individuals is not increased respectively is slightly declined. New approaches to measuring performance and well-being of the whole society requires

³⁶ URA, A. et al. 2012.

³⁷ www.happyplanetindex.org

³⁸ FREY, B. et al.: Concepts of Happiness and Their Measurement. In: Jahrbuch Okologische Okonomik. Metropolis Verlag, 219-237

consensus on the necessary assumptions and parameters what welfare means in terms of society, additionally it is required to define the conditions for sustainable development.

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