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Article
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The Economics of Happiness

John F. Helliwell

This emerging field broadens econo-
matic analysis by using measures of subjective well-being to help address a core issue in economics — how to make best use of available resources in reden-
fining “best use.” It is now more than 40 years since Richard Easterlin first advocated using measures of subjective well-being to judge the quality of life.1 I came to see the necessity of such a broadening only after seeing that it was inadequate to assess the consequences of democracy2 and of social capital3 solely in terms of their linkages to economic growth. Measures of subjective well-being seemed like natural candi-
date measures of welfare. But to understand and assess their suit-
ability required new disciplines within the epistemo-
logical perspective. A useful starting point was to see if life satis-
faction and happiness from around the world supported Aristotle’s prediction that peo-
ple would report higher life satis-
faction if they had better life circumstances, in the form of family, friends, good health, and sufficient material means, while also being supported from the one side by positive emotions and on the other by a sense of life purpose. Aristotle’s pre-
sumptions were supported remarkably well by World Values Survey data, with two-level modeling revealing the joint importance of individual and national-
level variables.4 The fact that life eval-
uations could be explained by income and other life circumstances permitted calculation of compensating differ-
ences to compute the relative importance of different aspects of life.5 My subsequent work expanded the analysis to show that life evaluations depend more on the quality of gov-
ernment than on the institutions of democracy,6 especially when the former is at low levels, that workplace trust, as shown in the figure, is a very strong pre-
dictor of life satisfaction, even more so for women than men,7 and that the qual-
ity and quantity of social connections at work, at home, and in the neighbor-
hood are perhaps the most important supports for life satisfaction.8

But what about suicide in those supposedly happy Scandinavian coun-
tries? A proper answer to this ques-
tion required expertise from other disciplines — between the suicide and life satisfaction models.9 Social trust and community connections were strongly and equally important in both mod-
els. Indeed, subsequent research sug-
gested that higher levels of social trust were associated with significantly lower death rates from both suicides and traf-

The apparent usefulness of happi-

ness data spurred deeper digging and a mixture of research methods to untan-
gle two-way linkages between subjective well-being and other variables. It also led to research to establish the mean-
ing and value of different ways of measuring subjective well-
being,10 to assess the extent to which there are interpersonal and international differences in how happiness is measured and determined, to evaluate the extent to which the well-
being effects of income and other factors depend on com-
pared-to-others11 and to use subjective well-being data to focus on the quality of eco-

nomics development.12

Three recent sets of results invite special attention.

Life Evaluations versus Emotional Reports

It is important to distinguish two importantly different measures of sub-
jective well-being: life evaluations and emotional reports. The former are rep-
resented by the main types of survey question: How satisfied are you with your life as a whole these days? How happy are you with your life these days? and the Centrality ladder, used in the Gallup World Poll, asking people to evalu-
ate their lives today on a scale with the best possible life as a 10 and the worst possible life as a zero. These three ways of evaluating lives deliver answers that are structurally identical, in the sense of being explained by the same variables with the same coefficients, despite hav-

ing distributions with different means.13 Emotional reports, or measures of affect, can be either positive or negative, and generally refer to either current emotions or those in a recent time period, usu-
ally yesterday. Typical paper used a range of measures of positive affect including happiness and enjoyment, sometimes bussed with more evidently behavioral measures like smiling and laughter. People answer life evaluation questions and reports of emo-
tions yesterday in appropriately different ways, with weekend effects appearing for yesterday’s emotions but not for life eval-
uations.14 Life evaluations, much more than current or remembered emotions from yesterday, are linked strongly and durably to levels and changes in a vari-
ety of outcomes even when re-navigated within a few years among countries.15 These include not only individual life circumstances, such as income and unemployment,16 but also the quality of public institutions, ranging from prison conditions17 to the honesty and overall efficiency with which public services are delivered.18

The Power of Generosity

Two of my recent co-authored papers, relying on a mixture of experimental lab studies and international survey evidence, find that people are happier performing pre-social acts. The first paper combined experiments in several different cultures with survey data from many countries to establish that people who produce goods and services are better off than those who chose to donate.19 Those who were offered, but did not take, the chance to donate felt some emotional costs, but in the aggregate these were much less than the emotional returns to those who chose to donate.20

Marriage and the Set Point for Happiness

If measures of life satisfaction are to be used as a tool for policy instru-
tment, they must be shown to respond in predictable and durable ways to changes in impor-
tant life circumstances. If, on the con-
trary, there is a happiness set point, deter-

"Measures of Subjective Well-Being and Life Satisfaction: Recent Developments and Prospects," in Happiness and Its Place in Philosophy, edited by Richard Layard and Jeffrey Sachs. The latter three volumes were pub-
lished by the United Nations Sustainable Development Research Network; the series received the 2014 Award for the Betterment of the Human Condition from the International Society for Quality-of-Life Studies. Helliwell is a Fellow of the Royal Society of Canada and an Officer of the Order of Canada. For more infor-
mation, go to http://faculty.arts.ubc.ca/jhelliwell/
vidual’s measured life satisfaction several years in the past to capture any set point effect.

Finally, in attempting to find an explanation for the size and long duration of the happiness effects accompanying marriage in our U.K. sample, we took advantage of a question in another part of the survey asking each respondent to identify their best friend, with spouse or equivalent being one of the categories offered. The life satisfaction effects of being married, relative to being single, were always large and significant, and were more than 50 percent larger for those who reported their spouse as their best friend. The same relationship was also evident for the growing group who were living as a couple but not married—they were on average happier than the singles, but especially so if they regarded their partner as their best friend.

Thus the research showed large and durable life satisfaction effects from a key change in life circumstances, reconciled the life-course and cross-sectional estimates, and developed evidence for a social and friendship-based basis for the well-being benefits of marriage. The paper thereby supports both the ability of life satisfaction measures to capture the well-being effects of changes in life circumstances and the importance of social factors in explaining levels and changes of life satisfaction.  


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18. J. F. Helliwell and H. Huang, “New Measures of the Costs of Unemployment,” NBER Working Paper No. 16829, February 2011, and in Economic Inquiry, 52(4), 2014, pp. 1485–1502. This paper shows that the spillover well-being losses of local unemployment on those still employed are in aggregate larger than the individual costs for the unemployed themselves.  

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