

## **OBJECTIVE WELL-BEING INDICATORS AND SUBJECTIVE WELL-BEING MEASURES: HOW IMPORTANT ARE THEY IN CURRENT PUBLIC POLICY?**

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### **ABSTRACT**

The use of GDP as an indicator of social progress and quality of life has been challenged since the last quarter of the 20th century. The publication of the Stiglitz-Sen-Fitoussi Commission Report in 2009 was decisive in highlighting the limitations of GDP and in confirming the need to shift focus from measuring economic production to measuring people's well-being. The Report also emphasised the multidimensional nature of well-being and recommended it to be assessed using both objective and subjective dimensions. An increasing number of governments are aiming at applying the Report's recommendations and have decided to put people's well-being at the centre of what they do. Most initiatives have decided to incorporate both metrics from objective indicators and subjective well-being measures, obtained from surveys, into their policy decision making.

Quite a lot of criticism has emerged though around the use of subjective wellbeing data to design or to evaluate public policies. Critics describe these measures as inaccurate, irrelevant or easily manipulated, and prefer to rely on hard metrics. But for other scholars, subjective well-being measures are capable of achieving more than what objective indicators can, by providing a fuller and more accurate overview of the consequences of specific situations on people's well-being.

### **1. INTRODUCTION**

Not only scholars, but citizens in general are becoming aware of the damage that can be caused if nations and governments solely focus on economic growth and only have eyes to increase their GDP levels. It has now become clear that GDP, as an indicator, ignores important elements that contribute to our wellbeing or improve our standard of living (leisure, social connections, volunteer work etc.) and also incorporates many activities that reduce our well-being and put in danger our future (activities that increase air and water pollution; deforestation, depletion of other natural resources, expenses associated with crime prevention etc.) GDP per capita has been wrongly used as a measure of social progress. The fact that we divide a nation's total market production by its number of citizens cannot provide an accurate picture of the current levels of inequality in the country, nor does it reflect any improvement or deterioration in people's living conditions (with reference to poverty, education, health, levels of criminality...).

Even though leading philosophers and economists, during the 18th and 19th centuries (Malthus, Bentham, Stuart Mill...), already expressed the view that happiness<sup>1</sup> had to be maximised, no serious

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<sup>1</sup> The terms well-being, happiness, life satisfaction and quality of life will be used interchangeably in this article.

efforts have been made nor formal initiatives have been taken by countries to reflect that in their political objectives, until quite recently.

Clark, Flèche, Layard, Powdthavee and Ward (2018, p.209) state that the goal of governments should be to increase the happiness of people and specially to reduce misery. John Stuart Mill explained, in *Utilitarianism*<sup>2</sup>, that happiness was desirable, and the only thing desirable as an end, all other things being only desirable as means to that end. The 1729 legal code of the Kingdom of Bhutan already stated that if the Government cannot create happiness for its people, then there is no purpose for the Government to exist (2015 GNH Survey Report).

GDP is increasingly being recognised as inadequate as a welfare measure. Several countries have therefore decided to adopt a new paradigm centred on well-being, changing the focus from “inanimate objects of convenience” to “human lives” (Stiglitz, Sen and Fitoussi, 2009) and (Easterlin, 2013).

In this article we first look at the circumstances in which GDP was created and what it was supposed to measure at the time of its construction. We also describe how the generally accepted relationship between income and happiness, and the use of GDP as a proxy for well-being, have little by little become questioned and challenged since the last quarter of the 20th century.

We then describe how new indexes and synthetic indicators have started to appear at the end of the 20th century and how an increasing number of countries have decided to refocus their policies by starting monitoring the evolution of different objective indicators associated with well-being, but also by taking into consideration subjective well-being data.

The following part of the article goes deeper into the subjective well-being concept and analyses the different objections raised against the use of subjective well-being information in policy design and evaluation. We will however also review what makes subjective well-being data and evidence valuable and attractive as a tool.

We conclude the article with a few warning flags raised by economists concerning the use of happiness data to design public policies.

## 2. GOING BEYOND GDP

Rojas (2019) explains that during the first decades of the 20th century, economics abandoned its interest in happiness to instead focus on the study of choice. According to standard economic theory, more choice allows individuals to satisfy more of their preferences. Individuals are considered to be fully informed and rational decision-makers, and they derive their utility mainly from consuming goods and services (Unanue, 2017). All else equal, the more income they dispose of, the more choice they have. Their consumption possibilities expand and therefore their well-being (utility) increases. This summarises the logic behind the use of GDP as a proxy for well-being.

Economists have based their policy recommendations on the presumption that people’s well-being increases with the expansion of the consumption possibilities (Rojas, 2019). As Thin, Haybron, Biswas-Diener, Ahuvia and Timsit (2017) puts it, this perspective has absolved “*policymakers of the responsibility to check whether their decisions actually make people happier: give people more freedom to live as they wish, and happiness will take care of itself*”.

The study of happiness didn’t go further until the last quarter of the 20th century. In the Western world, after the second world war, the reconstruction of the economies was on the agenda and all efforts made to leave behind the years of destruction and scarcity. Following the Bretton Woods conference in

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<sup>2</sup> Mill, J.S. (2000, p. 23).

1944, GDP became the standard tool for measuring a country's economy. Economies had to grow, to provide jobs and let hopes of brighter futures in. It was not difficult under these circumstances to believe that economic growth could be a good proxy for improved life conditions and well-being.

Yet, in 1959, the economist Moses Abramovitz already expressed his doubts concerning the capacity of GDP measures and growth rates to even roughly indicate long-term changes in the rate of growth of welfare<sup>3</sup>. Still many leaders and scholars have continued to believe that economic growth and a country's economic wealth would necessarily bring on its own more happiness to all individuals.

The first country to declare that Gross National Happiness<sup>4</sup> was more important than GDP was the Kingdom of Bhutan, a small country of the size of Switzerland, but with a population ten times smaller. Its Constitution enacted in 2008 declares that "*The State shall strive to promote those conditions that will enable the pursuit of Gross National Happiness*" and that "*The Government shall protect and strengthen the sovereignty of the Kingdom, provide good governance, and ensure peace, security, well-being and happiness of the people*"<sup>5</sup>. It is clearly stated that the government is responsible for ensuring well-being and happiness.

Bhutan's Constitution illustrates the shift in focus away from economic performance and towards the individual and human life. Stiglitz et al. (2009) explain that "*what we measure shapes what we collectively strive to pursue – and what we pursue determines what we measure*". So, if we believe that the individual and his well-being should be the aim of our pursuit, then we should be measuring something different than a nation's economic performance.

In 1974, in his article "Does Economic Growth Improve the Human Lot? Some Empirical Evidence", Easterlin used subjective data to question the implicitly accepted relationship between money and happiness. Easterlin demonstrated empirically, using the answers from 30 surveys on self-reported happiness, that as a country becomes richer, its people do not experience higher levels of happiness.

He explained these results in part by pointing out to the fact that people tend to compare their actual situation with a reference standard or norm. If a person's income increases, but the group to which she compares herself also receives a salary increase, she will not feel more satisfied. "*Earning more or less than others looms larger than how much one earns*" (Kahneman, Krueger, Schkade, Schwarz and Stone, 2006). Easterlin's results have been challenged (Stevenson and Wolfers, 2008) and the debate between critics and followers is still on.

Stutzer and Frey (2012) explain that there is more than absolute income. People form aspirations about their income and these aspirations are based on social comparisons and on processes of adaptation to previous income. The subjective well-being people report depend strongly on the discrepancy between household income and the reported aspirations (Stutzer and Frey, 2012) quoting (Stutzer, 2004; Knight and Gunatilaka; 2012). High-income individuals engage less in income comparisons than low-income people, and colleagues are the most prominent reference group.

Kahneman et al. (2006), for their part, believe that the correlation between income and judgments of life satisfaction overstates the effect of income on subjective well-being. They suggest that more income may do nothing for experienced happiness, and they add that the observed correlation between

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<sup>3</sup> Moses Abramovitz's exact words were "we must be highly sceptical of the view that long-term changes in the rate of growth of welfare can be gauged even roughly from changes in the rate of growth of output." (Abramovitz, 1959).

<sup>4</sup> His Majesty Jigme Khesar Namgyel Wangchuck, the Fifth King of Bhutan describes Gross National Happiness (GNH) as follows "*Gross National Happiness measures the quality of a country in a more holistic way and believes that the beneficial development of human society takes place when material and spiritual development occurs side by side to complement and reinforce each other.*" (2015 GNH Survey Report). The nine GNH domains that are used by the government of Bhutan to measure the happiness levels of its nation are: psychological well-being, health, education, cultural diversity and resilience, time use, good governance, community vitality, living standards and ecological diversity and resilience. (Boniwell, 2017).

<sup>5</sup> Constitution of the Kingdom of Bhutan. <http://www.nab.gov.bt/assets/templates/images/constitution-ofbhutan-2008.pdf>

life satisfaction and income may result from a “focusing illusion”, a tendency by which people exaggerate the importance of a single factor on their well-being. The survey questions used to measure life satisfaction draw people’s attention to their relative standing in the distribution of material well-being and prompt them to compare their income and to focus on conventional achievements when evaluating their life.

### **3. THE INTRODUCTION OF THE WELL-BEING CONCEPT INTO THE POLITICAL ARENA**

In the last three or four decades, research in happiness economics has shown that there is more to happiness and well-being than economic performance and income. Sen (1999) considers that human well-being depends on a range of functions and capabilities that enable people to lead a good life, each of which needs to be directly and objectively measured. One of the first indexes to be developed to measure human quality of life, as an alternative to GDP, was the United Nations’ annual Human Development Index (HDI), combining health, education and income parameters. The initial idea behind the creation of this index was to try to measure the capabilities of people, that is the extent of their opportunity set, based on life expectancy, education level and income.

Many other indexes have appeared since then, either developed by international organisations, foundations, universities, scholars etc., encompassing a combination of other dimensions (social, political, societal, environmental...), assigning different weights to each sub-indicator, and including in certain cases subjective happiness/life satisfaction inputs.

In the last decade, there have been some major developments at countries’ level. Several governments have decided to change paradigm and to put people’s wellbeing at the centre of what they do. For instance, Ohoud Al Roumi, Minister of Happiness and Well-being in UAE states that, “*well-being has to be the outcome of everything the government does (...) and everything has to be reviewed by a well-being lens*”<sup>6</sup>. The well-being agenda in UAE is centrally driven and managed and is slowly reshaping how the government thinks and acts.

New Zealand has in 2019 introduced its first well-being budget based on well-being priorities. The aim is to gauge the impact of public policy on the quality of people’s lives. This is a new approach and ministries are requested to work together and to show how their spending proposals will benefit people. Rigor in economic measures will be maintained but the view will be widened by incorporating other well-being indicators from the Living Standards Framework developed by the New Zealand Treasury. The Minister of Finance, Grant Robertson, explains that “*To set the priorities for this Budget, we used evidence and expert advice to tell us where we could make the greatest difference to the well-being of New Zealanders. Each bid for funding required a well-being analysis to make sure that funding would address those priorities*”<sup>7</sup>. Listening to the country’s Prime Minister, Jacinda Ardern, at the 2019 World Economic Forum Annual Meeting, speaking about New Zealand’s government’s new approach and about seeing politics through a lens of “kindness, empathy and well-being”, it seems clear that New Zealand has a head start.

Wales is an example of a country which has legislated for the well-being of future generations, which means that any political decision has to be made taking into account the impact on future generations and every initiative has to be valued against well-being goals. Wales’ Well-Being of Future Generations Act 2015 has required from Welsh Ministers to set indicators to monitor progress towards achieving seven well-being goals (prosperity, resilience, health, equality, cohesion, vibrant culture and

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<sup>6</sup> 3-4 October 2019, OECD International Workshop “Putting Well-being Metrics into Policy Action”, Paris. <http://www.oecd.org/statistics/putting-well-being-metrics-into-policy-action.htm>

<sup>7</sup> In the Well-being budget 2019, [www.treasury.govt.nz](http://www.treasury.govt.nz).

thriving Welsh language and global responsibility)<sup>8</sup>. Through a consultative process 46 indicators have been selected.

The above-mentioned examples and initiatives reflect one of the key messages in the report produced by the Stiglitz-Sen-Fitoussi Commission (Commission on the measurement of economic performance and social progress), convened by President Sarkozy in 2008-2009: “*the time is ripe for our measurement system to shift emphasis from measuring economic production to measuring people’s wellbeing*”, the reason being that “*there appears to be an increasing gap between the information contained in aggregate GDP data and what counts for common people’s well-being*”.

An increasing number of countries concerned by their citizens’ quality of life have started adopting a multidimensional approach to the measurement of well-being, as recommended by the Stiglitz-Sen-Fitoussi Report<sup>9</sup>. They are developing frameworks for measuring different aspects of well-being, aimed at gaining a better understanding of people’s lives at the individual, household and community level (Exton and Shinwell, 2018). The designed frameworks combine data about people’s economic circumstances with indicators that consider a wide range of quality of life factors, often both objective and subjective (Exton and Shinwell, 2018).

The multidimensional well-being approach provides a more coherent picture of the outcomes of different policies on people’s lives. The Stiglitz-Sen-Fitoussi Report holds that “*the information relevant to valuing quality of life goes beyond people’s self-reports and perceptions to include measures of their “functionings and freedoms”*”. They add that “*while the precise list of the features affecting quality of life inevitably rests on value judgments, there is a consensus that quality of life depends on people’s health and education, their everyday activities (which include the right to a decent job and housing), their participation in the political process, the social and natural environment in which they live, and the factors shaping their personal and economic security*”. However, “*Measures of both objective and subjective well-being provide key information about people’s quality of life*” and “*statistical offices should incorporate questions to capture people’s life evaluations, hedonic experiences and priorities in their own survey*”. Both more traditional objective indicators and subjective measures, such as self-reported happiness, seem to be necessary to get a fuller picture of the quality of life of citizens.

#### **4. SUBJECTIVE WELL-BEING DATA: COMMON OBJECTIONS TO THEIR USE IN PUBLIC POLICY DESIGN**

A general objection to the use of subjective well-being data is that they are considered unreliable, because they refer to what people *say* about their life, based on their unique and personal judgment. This information is not obtained from observations of what they *do*, which has traditionally been the way of capturing data.

Quite a lot of criticism has emerged around the use of subjective measures of well-being to design or to evaluate public policies. As Boniwell (2017) mentions, the objections range from considering that subjectively defined happiness captures irrelevant information<sup>10</sup> or can be easily manipulated, to the fact that governments would be interfering with people’s personal responsibility by trying to increase their well-being.

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<sup>8</sup> <https://futuregenerations.wales/about-us/future-generations-act/>

<sup>9</sup> The Report insists on the need of additional statistical information for the production of more relevant indicators of social progress, that is to work towards the development of a statistical system that complements measures of market activity with measures centred on people’s well-being and by measures that capture sustainability. And such a system must necessarily be plural. The Report also explains that several dimensions needs to be taken into account in order to obtain a good measurement of well-being, well-being is multidimensional.

<sup>10</sup> Or not credible information as there is no consequence to what people say (Graham, 2017).

Other opinions point out that a government has very limited capacity to increase people's happiness given the very personal experience it represents for each of us. As pointed out by Beytía (2015) each person could have their own definition of happiness as well as their own special way of reaching it. Happiness is unique and subjective, but it represents for each one of us something desired and longed for: a feeling, an emotion, a state, a circumstance, a situation that an individual wants to experience as often as possible, or for as long as possible, and which brings him contentment, satisfaction and tranquillity.

Other voices also suggest that happiness-based policies are intrusive and paternalistic and that the state should not be involved in promoting happiness, which should remain a private matter and a personal endeavour (see Thin et al., 2017). In addition, increases in public expenditures generated by the implementation of happiness-based policies could paradoxically contribute to decrease citizens' happiness (Boniwell, 2017).

White (2014) holds that happiness metrics should not be used in designing policies for three main reasons. First, because there is no unique definition of happiness and because we don't know what happiness means to different persons.

Second, there are measurement issues. Data on happiness and subjective life satisfaction is gathered from surveys where the respondents are asked (*and are limited*) to provide a number on a scale between 0 and 10, or 1 and 4, to communicate their level of happiness. The author argues that this way of measuring happiness cannot be scientific. First *"there are issues with the extreme ends of the scale, both of which are difficult to interpret in a way that would allow the results to be normalized, combined, and averaged"*. What do the lower (0 and 1) and upper bounds (10 and 4) of each (finite) scale represent exactly? According to White (2014) we cannot either be sure that all respondents value the intermediate levels on the scales in the same fashion, nor that the distance between two levels can always be considered equal. For him *"assigning fixed quantitative values to arbitrary qualitative categories results only in false precision and gives the impression that the measurement contains more information than the researcher actually has"*. *"Happiness (...) cannot be translated into quantitative terms with any reliable degree of precision or comparability between people"*.

Third, the author explains that there are problems inherent in implementing policies based on happiness measures and he is sceptical about the focus and the goals of a happiness-based policy. For instance, a government could either focus on increasing total happiness or on the contrary work on ensuring a more equitable distribution of happiness. White (2014) explains that a *"maximization goal would indicate that the policy should be focused where it can earn the greatest return (...) at the cost of other hand, an equalization goal would focus on the people who experience happiness less easily"*. Clark (2018) holds that *"...we care about average wellbeing in a society, but we probably care about its distribution too: for given average satisfaction, we would prefer the variance of well-being to be lower, as this would imply fewer people with low well-being"*. Thin et al. (2017) argue that *"happiness policy should be more concerned with reducing unhappiness than promoting happiness"* and that *"unhappiness is at least as much a concern of happiness policy as happiness is"*. Political philosophers, as explained by Thin et al. (2017), *"generally reject the idea that justice demands equality of happiness or well-being, arguing that it is no injustice if some fail to lead happy lives because, despite their opportunities, they have chosen badly"*. Another question raised by White (2014) is whether an optimal level of happiness should be targeted. Or, what is a meaningful change in well-being? (Graham, 2011).

Graham (2011) explains that she and other scholars are sceptical about using happiness as an explicit objective of policy, because it is not a well-defined objective and it can be subject to political manipulation.

For Castellanos Cereceda (2012) we should not aim at transforming subjective well-being into a new synthetic indicator of progress and forget about the abundance of other factors which have an impact

on people's happiness and life satisfaction. Self-report data can however be very useful in various areas, for instance in identifying the causes of distress or unhappiness; in evaluating the impact of a law or a specific measure and compare the well-being levels of affected citizens before and after its implementation; in identifying the effects of institutional changes, altering the relationship between citizens and authorities on people's well-being.

## **5. ADVANTAGES OF USING SUBJECTIVE WELL-BEING MEASURES**

Richard Layard considers that subjective well-being is the single measure that should be used. It is simple, democratic, acceptable and scientifically sound<sup>11</sup>. Subjective measures of well-being allow individuals to assign their own (subjective) weights to the different elements which contribute to their happiness. It is an individual and personal process, a kind of synthesis that each one makes of different factors that affect their life and which takes place more or less spontaneously. According to Adler, Boniwell, Gibson, Metz, Seligman, Uchida and Xing (2017), subjective well-being is considered to be a multidimensional construct, referring to distinct but related aspects that are often treated as a single property called "happiness" and it encompasses how people evaluate their own lives in terms of both affective and cognitive components of well-being.

### **5.1 Obtaining reliable subjective happiness data**

With self-report data the difficult part is to understand the relationship between the individuals' happiness statements and the dimensions, factors and events which prompt them to report a given well-being level. In order to be able to orientate and formulate policies aiming at improving citizens' life satisfaction, it is necessary to identify which variables and circumstances have an impact on people's happiness.

We now know how to measure people's subjective well-being through well-prepared surveys. There are specific guidelines<sup>12</sup> intended to support the design of surveys, helping with the development of questions on subjective well-being and with the identification of strategies to minimise bias due to different measurement effects. For instance, the way questions are worded and the response formats are important. Also, the order in which questions are asked is fundamental in order to avoid situations where previous questions have a direct influence on the following answers provided by the respondent.

How do we use and incorporate these data from surveys in designing and implementing policies that will have as a consequence an increase in happiness levels?

With reliable self-report data, the objective, as suggested by Beytía (2015), is to look for the hidden links between people's happiness statements and different life events and circumstances. Public policy priorities could then be established once these relationships are known. Beytía (2015) recommends obtaining information on what affects individuals' well-being using a two-step process. He suggests that surveys should include a question referring to the level of satisfaction to which different life areas, such as family, work, friendship, community etc. contribute to. This would allow to establish a kind of ranking of priorities in terms of political action. Then in a second phase, it would be necessary to isolate the variables which are most associated with happiness within each of the different life domains, in order to narrow down the focus of political action. This would be the initial theoretical framework or the starting point as additional steps would need to be taken before concluding that a specific variable directly contributes to increasing people's well-being.

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<sup>11</sup> Richard Layard, Co-Director Well-being Programme, Centre for Economic Performance, London School of Economics, 3-4 October 2019, OECD International Workshop "Putting Well-being Metrics into Policy Action", Paris. <http://www.oecd.org/statistics/putting-well-being-metrics-into-policy-action.htm>

<sup>12</sup> Such as the OECD Guidelines on Measuring Subjective Well-being (2013).

A straightforward way of obtaining information on what matters most to people in terms of their happiness could be to ask them directly, once they have expressed their subjective well-being level, what factor(s) could contribute to raise their happiness level. Even though these answers may not be used to provide a definite ranking of priorities that public policies should focus on (not the least because respondents may mention several factors but without assigning weights to each of them), at least these data could help pointing in a specific direction.

## **5.2 Using reliable subjective happiness data**

MacCulloch (2016), Graham (2017), Ritzen (2015) argue that happiness metrics can play a more significant role in evaluating specific and well-defined policy outcomes, such as, for instance, the welfare effects of a cut in unemployment benefits (MacCulloch, 2016). Using subjective well-being measures in this case, allows to capture the overall impact of the policy, that is all of the costs and benefits associated with it, that would otherwise be very difficult to determine. Thus, by using happiness data, that part of the calculation is handed over to the survey respondents who make their own judgment on how a measure affects their quality of life.

In addition, subjective data provide information on the consequences of a policy on the well-being levels of different sub-groups or cohorts. If authorities face a situation where their different theoretical models deliver conflicting results concerning the possible outcomes of a policy, people's self-report can shed light on the best way to go forward. MacCulloch (2016) points out that happiness data require only a minimum of information processing and understanding and rely only on introspection of one's personal level of well-being.

## **5.3 A concrete example of how subjective well-being measures can orientate public policy**

We have seen that some scholars are sceptical about using happiness as a policy objective, particularly because they consider that governments should limit themselves to provide the freedom to citizens to pursue their own preferred objectives, and not interfere imposing their perception of what a fulfilling and happy life is.

Additionally, if happiness is not a well-defined objective, happiness-based policy can be subject to political manipulation. Graham (2017) therefore argues that there is more potential for policies that focus on discreet well-being dimensions.

An increasing number of scholars also agree that taking into account subjective well-being measures allows to obtain a fuller and more accurate overview of the consequences of specific situations, on people's well-being. Indeed, if the focus in an evaluation is on purely economic aspects, some important outcomes may be completely ignored and therefore no attention will be paid to tackle these other aspects.

A good example has to do with the measure of the impact of unemployment on people who have been laid off and on the society as a whole. Stiglitz et al. (2009) point out that people who become unemployed report lower life-evaluations -even after controlling for their lower income- and with little adaptation over time. Subjective measures of their well-being suggest that the costs of unemployment go beyond the loss of income. Individual unemployment involves psychic costs due to a loss of social status, self-esteem, personal relationships and a disciplining time structure bound to a workplace (Frey and Stutzer, 2012).

High unemployment rates also have negative effects on people who are not personally and directly affected by unemployment. This may be associated with the fear of losing one's own job when seeing others being laid off. Increased levels of unemployment in society can also be associated with higher levels of crime and therefore create concern among citizens. Di Tella, MacCulloch and Oswald

(2003) suggest that there may even be a fear among people that tax levels will increase, in order to pay for the unemployment benefits. The stress and sadness experienced by an unemployed person may additionally have an impact on other members of one's family, with the loss of well-being that goes with it.

Unemployment has a negative effect on individual happiness of the same magnitude as bereavement or divorce (Layard, Clark and Senik, 2012), Ritzen (2015). According to Clark, Flèche, Layard, Powdthavee and Ward (2018), it reduces the happiness of each jobless person by 0.7 points on average on a scale from 0 to 10. In addition, the unemployment situation of one person reduces the aggregate happiness of the community by another 2.0 points. People get affected by others' circumstances and depressed by the general situation.

The negative effects of unemployment on a person's subjective well-being can even remain after re-employment (Stutzer and Frey, 2012; Ritzen, 2015). Thus, these results show that in order to ensure national well-being, a government should focus on achieving (near) full employment (Ritzen, 2015) and give strong priority to the aim of economic stability (Clark, Flèche, Layard, Powdthavee and Ward, 2018).

Wolfers (2003) and Di Tella, MacCulloch and Oswald (2001) reached the conclusion that unemployment does greater harm to subjective well-being than inflation. A 1% change in the unemployment rate has an effect on life satisfaction which could be the double of the one produced by a 1% increase in inflation. Odermatt and Stutzer (2017) quote the results of (Blanchflower, Bell, Montagnoli and Moro, 2014) which imply that a 1% increase in the rate of unemployment lowers well-being more than five times as much as a 1% increase in the rate of inflation. In terms of public policy that would imply that governments should aim at implementing an expansive economic policy (Castellanos Cereda, 2012).

## **6. A FEW WARNINGS CONCERNING THE USE OF HAPPINESS MEASURES IN POLICY DESIGN**

The use of happiness data is increasingly regarded as being an important guide for public policy. Subjective well-being measures can capture some aspects of well-being that are difficult to otherwise observe or quantify through more traditional measures. As for other well-being accounts, it is considered that it could be used to monitor progress, inform policy design and for policy evaluation (Dolan, Layard and Metcalfe, 2011)<sup>13</sup>. Howlett (2019) explains that "*Policy design (...) involves the deliberate and conscious attempt to define policy goals and connect them to instruments or tools expected to realize those objectives using logic, evidence and argument*". Subjective well-being measures can provide this evidence and argument, and policy can then be appraised with detailed measurements of well-being.

Evidence from self-reports serves as informational input into the political process at all levels and for all actors involved, it also links possible policy outcomes directly to individual welfare consequences (Stutzer, 2019). It conveys the net effects of different policy interventions and can uncover welfare consequences that remain unobserved when traditional measures of economic and social progress are used (Stutzer, 2019), (Odermatt and Stutzer, 2017). Indeed, self-evaluations express individuals' unobservable psychological content based on feelings, emotions, beliefs, experiences.

Hence if our levels of subjective well-being could be associated with specific outcomes, what would be more natural than to focus on policy measures that we believe strengthen positive outcomes

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<sup>13</sup> Dolan, Layard and Metcalfe (2011) explain that: a) "monitoring subjective well-being can be important to ensure that other changes that affect society do not reduce overall well-being"; b) "Informing policy design requires us to measure wellbeing in different populations that may be affected by policy"; c) Policy appraisal requires detailed measurement of well-being to show the costs and benefits of different allocation decisions.

and diminish negative ones? The objective could be to create that specific set of policies that maximizes our happiness levels.

But things may not be that simple. Odermatt and Stutzer (2017) argue that when thinking about policy interventions, it is fundamental to take into account all the possible effects of the policies, including side effects on other sub-groups of society. Ritzen (2015) says that happiness increasing policies can have winners and losers, so there are risks for governments to introduce happiness-increasing policies<sup>14</sup>. It is important to distinguish between happiness policies that focus on individual choices and the ones promoting collective results and vice versa (Thin et al., 2017). The results of policy interventions on society as a whole have to sum up and make the people better off.

There is also the view, as described by Frey and Stutzer (2017), that “*a maximization of social welfare based on empirically estimated happiness functions reduces citizens to ‘metric stations’*. (...) *People, when reduced to ‘metric stations’, experience a loss in autonomy, which in turn reduces their (procedural) well-being*”<sup>15</sup>. People should be able to decide how to best pursue their happiness. Their individual sovereignty should not be reduced to an obligation to report their well-being. Frey and Stutzer (2017) conclude that the results from happiness research should be taken as inputs in the democratic political process, which should be structured in a way that people’s interests become the principal controlling force in politics. The quality of the political process is key to people’s happiness and the legitimacy of political action finally rests on the voluntary agreements of the citizens involved (Stutzer and Frey, 2012).

## 7. CONCLUDING REMARKS

The limitations of using GDP as an indicator of quality of life and social progress have become obvious to many governments, not the least since the publication of the Stiglitz-Sen-Fitoussi Report in 2009. We are currently seeing an increasing number of initiatives at countries’ level, aimed at improving the measurement of national well-being, through the development of frameworks and the election of sets of indicators. Many countries adopt a multi-dimensional approach, combining data about people’s economic circumstances and material living conditions with indicators that consider a wide range of quality of life factors (Exton and Shinwell, 2018). These indicators include both objective measures and subjective well-being self-reports.

Even though some countries have introduced well-being indicators without having a clear intention to apply the resultant well-being metrics in policy setting (Exton and Shinwell, 2018), others have had their own parliament supporting the well-being frameworks and/or their head of government leading the well-being initiative.

Along objective indicators, subjective happiness reports have been gaining importance in the appraisal of people’s total well-being. The use of happiness evidence is increasingly regarded as being an important guide for public policy, it serves as informational input into the political process at all levels. Leading scholars even consider that it is the single measure that should be used.

Nevertheless, we have also seen that there are objections and criticism against the use of subjective happiness metrics as a tool for public policy, and even against the idea of including happiness as a policy objective. Life satisfaction and happiness reports can be considered unreliable due to circumstances which cannot always be easily controlled for. Several authors (see MacCulloch (2016), Graham (2017), Ritzen (2015)) hold that we should limit the use of happiness metrics in evaluating specific and well-defined policy outcomes.

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<sup>14</sup> See Odermatt and Stutzer (2012), Stutzer (2019), Ritzen (2015) for examples linked to labour market policies.

<sup>15</sup> Frey and Stutzer (2017) call “*procedural utility*” *the well-being gained by citizens from living under institutionalized processes which contribute to a positive sense of self by addressing their innate needs for autonomy, relatedness and competence*.

Frey and Stutzer (2017), on their side, consider that we should not be reduced to “metric stations”, reporting every now and then our life satisfaction levels. They add a new dimension to the well-being approach. Frey, Benz and Stutzer (2004) define this approach as one which focuses on procedures, on how outcomes are generated and on how people are treated by the processes and institutions under which they live and act.

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