March 31, 2019

Does a Nation's Economic Growth Make People Happy?

Jerry Haar

Which of these statements is true?

A. Increased economic growth makes people happy
B. Workers who are happy positively impact economic growth
C. Both A and B

The actual answer (not presented above) is "D"—none of the above.

A thorough review and evaluation of independent, empirical research studies on happiness in Latin America and its relationship to economic growth reveal a surprisingly different portrait than what one would think.

A cursory look to our neighbors to the South and one could conclude that Latin America is an unhappy region. Crime and violence, poverty, income inequality corruption, civil unrest, and emigration paint a gloomy picture. Additionally, low growth rates presumably contribute to people's unhappiness, as well.

However, Latin Americans report high happiness levels; their evaluation of life is also above what income levels would predict. This points towards the existence of a variable almost always omitted in explaining how Latin Americans evaluate their life: *positive affect* (how much people experience affects such as sensations, emotions, and sentiments) and as a consequence how they interact with others and with their surroundings.

Mariano Rojas, a leading economist at FLACSO Mexico, found that positive affect is outstandingly high in Latin America; and asserts that people's affective state absolutely needs to be incorporated when understanding people's overall assessment of their happiness. Findings from the Gallup World Poll on positive affect reveal that Latin America accounts for 8 out of the 10 countries with the highest affective scores, while the Happy Planet Index finds that 6 of the 10 happiest countries in the world are located in Latin America. Recognizably, happiness in Latin America can be explained by the nature and abundance of close and warm interpersonal relations; therefore, creating and sustaining interpersonal relations has an impact on happiness and positive affect.

As for the economic dimension, economic theory stresses income as a good proxy for assessing a person's well-being. Income allows people to purchase goods which add value to their life by satisfying their material needs. Also, higher income is associated with the existence of favorable habitability conditions, such as access to technology, health services, and decent housing.

However, one must look beyond these objective measures to subjective ones. Keeping track of income indicators while neglecting happiness indicators may lead to recommending development strategies which may contribute to higher income but are in detriment of people's well-being. Chile, for example, may show good per capita income indicators but relatively poor happiness indicators.

Returning to the principal question: Does a nation's economic growth make people happy? (Or in the case of Latin America, one of the happiest regions, extend their happiness?)

The seminal and definitive research on the topic is authored by University of Southern California economist Richard A. Easterlin. He found that growth in national wealth is not always accompanied by growing national happiness—a conclusion known as the Easterlin Paradox. (Income inequality can partly explain this: as an economy grows, the growth is not typically shared equally).

In his long-term studies of 37 countries of various levels of economic development, Easterlin found that there is no significant relation between the improvement in life satisfaction and the rate of economic growth. The most striking contradiction is China where, despite a fourfold multiplication in two decades in real GDP per capita from a low initial level, life satisfaction has not improved. A commodity boom may boost Brazil's GDP but people living in Rio's *favelas* do not grow soybeans.

In the case of Latin America, on average respondents reported greater happiness when compared to other regions. In Latin America, income growth has been mostly unequal, aggravating the negative effect – meaning the Easterlin Paradox

The bottom line is that overall, economic development is not a predictor of life satisfaction and happiness in Latin America. In Latin America, economic development does *not* increase happiness. In fact, the relationship between GDP and happiness is *negative* for this region. What this means is that governments in the region can improve the performance of their economies and infrastructure such as education, transportation and health—as they should—but as the gap between haves and have-nots widens, those in the latter group will become more envious and discontented. Finally, culture—family, faith, community—is the principal determinant of happiness, regardless of the state of the economy in a nation. Happiness like charity begins at home.

Jerry Haar is a professor of international business at Florida International University and a Global Fellow at the Woodrow Wilson International Center for Scholars in Washington, D.C.