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- Economic Growth and Happiness -
in the Western World Today

Malin Hansson. *Economic growth and happiness in the Western world today*. SOC452 Globalisation and Transformation in a Comparative Perspective, 41-60 credits. University of Lund. Department of Sociology. Supervisor: Kjell Nilsson. This essay investigates the relation between economic growth and happiness, with regard to the central position of economic growth on the political agenda in the Western world today. In political argumentation it is often claimed that economic growth and existing economic conditions are challenged by processes of change, especially economic globalisation and “de-industrialisation”. In this essay these assumptions are questioned. Welfare is also said to be challenged, since economic conditions by politicians are claimed to be the precondition for welfare, which they also tend to measure in terms of GDP. GDP as a measure of welfare says nothing about happiness, although happiness seems to be an essential part of our understanding of someone being well off, which is the basic meaning of the welfare concept. The essay suggests that although happiness is not directly incorporated in the welfare concept when used by politicians, it might be indirectly incorporated in the sense that it is easily assumed that more wealth leads to happier people and nations. Data on correlations between economic growth and happiness seem to show that this assumption is right at the individual level, but wrong for society as a whole over time. Once a certain level of economic development is met, which has been the case in the Western world for a long time, further economic growth is not correlated with higher average happiness in society. Theories offer different explanations of the fact that average happiness has not risen in the Western world in line with further economic growth and some of these lead to the assumption that it may be possible to actually increase happiness, for example by giving more priority to other things than focusing on further economic growth and the things which lead to it. The essay ends with the question if it is justified to continue to give such priority to further economic growth on the political agenda in the Western world today if economic conditions in fact are not seriously challenged by processes of change, if further economic growth has no impact on average happiness in society and if it in fact would be possible to increase happiness in society by giving more priority to other things.

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1. Introduction

What would our lives be like without happiness? Many of our efforts seem to lose their meaning without happiness or at least without the prospect of achieving it. Few people would argue against the fact that happiness is a basic source for motivation. We all know this from our own lives. We all probably also agree that a society with happy people is something to aim at. In times of globalisation and social transformation, economic growth seems to be the main issue on the political agenda, but how is the question of happiness looked upon?

1.1 Purpose

The purpose of this essay is to investigate the relationship between economic growth and happiness – in political thinking, in statistics and in theory - and see what the results may imply with regard to today's focus on increasing economic growth in the Western world.

Questions which will be discussed are governmental/political thinking regarding why economic growth plays such a major role, how the relation between economic growth and welfare is understood, how welfare is understood and measured and how the relation between economic growth and happiness may be understood. Data on correlations between economic growth and happiness will be shown and theoretical explanations of these data will be discussed.

1.2 Material and method

In order to fulfil the purpose of this essay I have used articles from well known journals as well as books concerning the subject. In order to capture and illustrate the political debate about economic growth I have used records from the Swedish parliament. In all countries in the Western world today politicians seem to stress the importance of economic growth in the same way, which also is put forth in the literature used in this essay. The section about correlation between economic growth and happiness is based on statistics primarily from World Values Surveys (WVS) and World Database of Happiness which the books and articles used in this section are referring to.

This essay focuses primarily on general principles, trends and relations. The broad outlooks are in focus. When taking such a perspective, generalisations and simplifications are necessary. Reality is of course much more diverged and complex than that.

2. Economic growth

The fact that economic growth - or GDP growth, i.e. gross domestic product¹ (or gross national product = GNP) - plays a major role in governments' thinking and policy-making in advanced countries today (and also elsewhere) is a common conclusion. For example, Ovaska and Takashima mean that economic growth is very important in "current mainstream thinking" and that "..governments very rarely omit higher economic growth as one of the main targets of public policies."² Easterlin claims that nations everywhere have subscribed to the ""focus on economic growth""³ and Layard points out that "..governments currently focus on the national income, or gross national product (GNP)"⁴.

Commonly understood economic growth is primarily created by increasing production and consumption. This demands that more people work and that we all work more. It also demands that we are innovative entrepreneurs and strong consumers. If we want the economic wheels to spin, that is what it takes. Consequently, these things are emphasised and described as highly valuable in political debates today. A reflection of this is seen in the following words from the Swedish prime minister⁵:

"I want to thank all the workers, civil servants and employees, men and women in the Swedish industry who accomplish great achievements. I also want to thank all small entrepreneurs and entrepreneurs who establish enterprises growing to an extent we have never seen before"⁶.

¹ Economic growth and GDP growth will be used interchangeably in the following. In the literature which has been used in this essay, economic growth is defined in terms of GDP growth and consequently this will be done in this paper as well.

² Ovaska and Takashima (2006) p. 309.

³ Easterlin (2005) p. 441.

⁴ Layard (2005) p. 133.

⁵ Quotation freely translated from the Swedish parliament's record; document from www.riksdagen.se.

⁶ The parliament's record 2005/06:57 (1 §).

2.1 Economic growth in times of economic globalisation and social transformation

The emphasis on economic growth described above seems to be related to processes of change⁷, especially economic globalisation and changes in the advanced countries' production patterns. These issues are highly debated in society today and governments tend to regard the processes of change as challenging GDP growth.

One process of change is the accelerating economic globalisation. Economic globalisation seems to have generated a more pronounced competition on a global scale and a more intense global market. This is combined with other new conditions in the economic sector. Capital today is more mobile and free and companies are to a higher extent acting on a global scale. In the wake of this, countries seem to have been put in a more competitive situation with each other when it comes to provide advantageous conditions for companies in order to secure working opportunities, income etc - i.e. in the prolonging economic growth⁸. The key factor is that the economy to a higher extent is affected by circumstances outside national borders.

Another process of change is the transformation from an industrial society to a more "post-industrial" one. Of special importance is the fact that the production pattern has become "de-industrialised"⁹. Instead of the older more traditional industrial production the technological and the knowledge sectors are the most capital intensive ones. Since it is very important to be competitive in these areas in order to achieve economic growth, governments throughout the Western world emphasize the importance of keeping up with this development. This is combined with the challenge of replacing older industrial jobs with new working opportunities¹⁰.

The question then is in what ways the described processes may be connected to GDP growth and in that sense have contributed to put economic growth at the top of governments' priorities. It may be argued that the transformation processes have left governments with less control over the economic sector and its development. When new sectors are emerging and

⁷ See for example the Swedish parliament's record 2005/06:98 (5 §), document from www.riksdagen.se.

⁸ See for example Shin (2000) p. 19 ff. for a discussion about the matters mentioned here and also references in this article. (It should also be mentioned that the question about the degree (and importance) of these processes is a debated one. Economic internationalisation is not something new, although it is sometimes put like that. Most seem however to conclude that it has accelerated during the last decades (and perhaps to such extent that it is something new).

⁹ Esping-Andersen (1999) p. 24 ff.

¹⁰ Esping-Andersen (1999) discusses these questions thoroughly.

competition becomes harder governments fear to lose working opportunities and fall behind in the global competition¹¹. Therefore the challenge and importance of achieving growth is so strongly emphasized in political argumentation. It may also be argued that the emphasis is a means to make everyone try their hardest. It is the citizens and their ability which will determine what effect the transformation will have on a nation's economic growth. Accordingly, that is partly why the means for achieving growth - working, producing, consuming etc - have such a central position in today's political argumentation, as well as things and people contributing to keep it up are highly valued.

2.2 Economic growth and welfare

Even though GDP growth plays a major role and governments stress the importance of achieving it - it is almost never described as an end in itself, but rather as a precondition for another goal – *welfare*. Welfare is a concept open for many interpretations, but in its most basic meaning it refers to the fact that a person or a society is *well off*. It is this well off part which allows further interpretation. Commonly understood, it refers to someone being well off regarding material standard and level of security¹² and this interpretation seems to come close to how the concept of welfare is used in political discussions today¹³. The relationship between economic growth and welfare and the importance of the latter are subjects often mentioned in politicians' argumentation. An example of a common way of reasoning today is the following argumentation from a representative of the Liberal party in the Swedish parliament¹⁴:

“How are we in Sweden supposed to handle the completely new, seemingly devastating competition? Are we going to adjust our levels of income to the new competitors? ...No, this is no solution which appeals to us. Low-wage competition is not the way we want Sweden to go. Are we then instead supposed to slaughter our welfare systems? Is it supposed to be as it is in China, where only the one who can afford and can work hard gets food on the table and health-care for himself and his children, so that the one who gets sick perhaps must hope for charity and that we will see more beggars in the streets? ...We are convinced that there are considerably better methods. Competitors are also consumers. With higher standard also follows a middle-class with purchasing power which

¹¹Layard (2005) p. 169 f. claims that this way of reasoning from governments' part is “nonsense” and meant to “frighten the children” (i.e. the workers), and that discussions about the effects from global competition are exaggerated.

¹² *Svensk ordbok* (1986) p. 1445 defines welfare as (freely translated) ”The fact that someone is well off, especially with regard to material standard and security”.

¹³ See quotation below.

¹⁴ Quotation freely translated from the Swedish parliament's record; document from www.riksdagen.se

demands high-quality products.. But we can handle the new competition if we really set our minds to it and realise that it takes a lot of painful reconsideration and a great deal of hard work. We can become as well-educated, hard-working, enterprising which actually is needed.”¹⁵

Indeed this is drastic reasoning. More modified examples can be found¹⁶. In terms of logic, however, many arguments are the same as in the quotation above. New circumstances, such as economic globalisation and transformation described in 2.1 above, are regarded as making it more difficult and challenging to achieve GDP growth. And since economic growth is seen as the precondition for welfare, our welfare will decrease (i.e. we will have lower income and less social security) if we don't achieve it. Then we will all become worse off. On the other hand, if we manage to achieve economic growth, our level of welfare may increase and then we will all be better off. Finally, since economic growth demands that we work more and harder, consume more, become more innovative, enterprising and competitive, that is what we must do and become and consequently these things are highly valued.

As mentioned above, the well off part in the welfare concept commonly refers to a society or a person being well off regarding material standard and level of security. In the quotation above both these things are pointed out. Low income and not having enough food on the table point at the material standard, while not having access to health care and social insurances point at the security part of the welfare concept. For a society to fall into the category “welfare society” or a state to be called “welfare state”, its citizens' needs regarding these matters must therefore be met to a fairly high degree. On the material side this means a level well over the bread-line and on the security side it means access to various kinds of social security. Both these things are by the Liberal representative in the quotation above claimed to be threatened today due to the processes of change.

How welfare states more closely are organised regarding social security depend on their kind of welfare system. The most important dividing line is perhaps the level of “de-commodification”, i.e. how citizens can maintain a standard without dependence on the market. According to Esping-Andersens well-known categorization¹⁷, the level of “de-commodification” is minimal in Liberal systems, maximal in Social democratic regimes and high, at least for some, in Conservative systems. In Liberal systems the market is the

¹⁵ The parliament's record 2005/06:98 (5 §).

¹⁶ Examples of this have been found in the Swedish parliament's record (www.riksdagen.se).

¹⁷ Esping-Andersen (1990) p. 26 ff. and (1990) p. 74 ff..

dominating structure and the state plays no major role in providing social security. In Social democratic regimes the state is the major provider of social security, while social security in Conservative systems is connected to partly state financed employment based insurances.

A couple of years ago it was a rather common assumption, both in theoretical discussions and in political argumentation, that due to the transformation processes discussed above, all welfare states would experience their level of “de-commodification” to decline and all welfare systems would converge into more liberal – or even minimal – ones¹⁸. The most common argument in this debate was the so called “economic logic” of globalisation¹⁹. Changes in the economic sector would force governments to cut back spending on social protection and reduce the taxes financing it, since this would make countries less attractive for foreign investments and less competitive in general. In political discussions, especially in countries with a tradition of a high-degree of “de-commodification”, such as Sweden, this was often, and sometimes still is, expressed in terms of that we no longer could afford the same kind of security we had become accustomed to²⁰. Times were bound to get tougher for everyone and you have to a higher extent earn the security you need by way of the market.

In theoretical discussions some however rejected that present transformations would lead to such drastic changes. They argued instead in favour of “path-dependency”²¹. Particular welfare states would pretty much follow their previous arrangements and meet new circumstances in accordance with them. Some changes would however come about, including some cut backs in social spending and a somewhat lower degree of “de-commodification”. In theoretical discussions today many seem to agree with this approach²². There is no strong evidence that welfare systems are converging into a minimal or liberal model, neither is it possible to see that any drastic cut-backs in social protection spending have been made. On average however the level of “de-commodification” has declined, although moderately²³.

Thus, present transformations, economic globalisation in particular, do not seem to have had any major impact on how welfare systems are organised. This may imply that present

¹⁸ See for example Mishra (1999), Shin (2000) and references in Swank (2005) .

¹⁹ Swank (2005) p. 183 ff..

²⁰ Compare Layard (2005) p. 169. See also Huber and Stephens (2002).

²¹ Esping-Andersen (1999) argues in accordance with this.

²² Swank (2005).

²³ Swank (2005). (Swank however points out that there are examples of individual countries where the level of “de-commodification” has declined more (p. 184) and although no decisive changes yet can be seen, this does not imply that it can not happen in the future (p. 192).

processes of change, especially economic globalisation, are not such strong forces as they sometimes are said to be.

2.3 GDP as a measure of welfare

As mentioned above, economic growth and welfare are in political argumentation often very closely related. In line with this, GDP is an often used measure of national welfare²⁴. What does GDP say about welfare? It says something about a particular nation's economic wealth. GDP divided by the number of people in a country (GDP/capita) also says something about citizens' average wealth (or perhaps purchasing power²⁵). However, it says nothing about how resources actually are distributed among the citizens. If society x contains five people and has a GDP/capita of 10 and thus welfare/capita is also 10 (and hence a total GDP of 50), it may very well be distributed so that one person has, say, 40 and the rest have, say, 10/4 i.e. 2,5. Furthermore, if society y, also with five people, has a GDP of 40, GDP/capita and welfare/capita is 8, but in y the resources are actually distributed, say, 8, 7, 9, 9, 7, we must, if GDP is accepted as a measure of welfare, say that welfare is higher in x than in y. Few would probably accept that. Moreover, GDP as a measure of welfare says nothing about social security in x and y; how social insurances are functioning and are distributed etc.

Even though GDP as a measure of welfare does not say anything about actual distribution and social security and may result in contra intuitive conclusions, it says something about total and average wealth. From this follows that when governments in the Western world today stress the importance of economic growth as a means for welfare, their primary concern is to increase national, and consequently average, wealth. Welfare in its basic meaning (see 2.2 above) refers to the fact that a person or a society is well off. GDP as a measure of welfare thus results in the assumption that wealth will make us better off.

GDP is an often criticized measure of welfare and it has been claimed that it fails to measure welfare in any proper sense. Attempts have also been made to encapsulate other things and calculate differently²⁶. In the wake of this, other measurements have been made up. Two examples are the human development index (HDI) made up by the United Nations

²⁴ Layard (2005) p. 133 f..

²⁵ Compare Layard p. 133 f..

²⁶ Deacon (1997) p. 29 ff. and Layard (2005) p. 133 ff..

Development Project and an index of political freedom (PFI) constructed by annual *Human Development Reports*²⁷. The first includes life expectancy, education and GDP up to a certain level. HDI may also take into account gender, ethnicity and region inequalities for these issues. In order to measure political freedom PFI includes several variables such as freedom of expression, organisation of political parties, equal treatment before the law etc.

Consequently, even though national governments seem to focus on GDP as a measure of welfare, others have tried to improve measures of welfare and widen the welfare concept. However, none of the welfare measures now described include anything about how people *feel*. They do not take peoples' happiness or well-being into account. It seems as if happiness is a basic thing for our conception of someone being well off - which is the fundamental meaning of the welfare concept. If we examine our intuitions it seems incorrect to say that a person with high material standard and high level of security, who is well educated, in good health, enjoying all possible political freedoms etc, but is completely miserable, is well off. On the other hand, it also seems incorrect to say that a person who is under the bread line, in bad health and lives under insecure and repressing conditions, but is completely happy, is well off. Happiness seems therefore to be *a necessary but not sufficient* condition for the fact that someone is well off. Likewise, this seems also to go for nations.

3. Happiness

We are all familiar with the importance of happiness and recognize that it is an important source of motivation. The pursuit for happiness or subjective well-being – these terms will be used interchangeably in the following - is a central part of our lives. By society individuals' happiness are also regarded as very important. The right for the individual to pursue it and the importance for society to promote happiness for its citizens have often been, and still are, emphasized in important social documents. For example it is seen in the US Declaration of Independence from 1776 and in the new European Union constitution from 2004. The first states that all men:

“..are endowed by their Creator with certain unalienable rights, that among these are life, liberty and the pursuit of happiness.”

²⁷ Deacon (1997) p. 30.

and the second that the aim of the Union is to:

“..promote peace, its values and the well-being of its peoples.”²⁸.

The importance of happiness seems indisputable. But in what way may society promote human happiness?

3.1 Utilitarian theory

In the eighteenth century the English lawyer and philosopher Jeremy Bentham formulated a theory later to be known as utilitarianism²⁹. Bentham claimed that happiness is the only thing which is valuable in itself (or the only thing with intrinsic value) and that everything else only has instrumental value, ultimately as a means for happiness. All humans are driven and motivated by the desire for happiness. Bentham therefore defined utility in terms of happiness and concluded that the best society is the society which contains most happiness. Policies should therefore aim at maximize utility, i.e. happiness. Bentham even formulated this in moral terms: The right action for every individual is the one which produces most happiness compared to other alternatives and, likewise, the right policy for society is the one which generates most happiness compared to others.

According to the utilitarian theory policy decisions are consequently a matter of happiness calculations. In theory this is simple. For example, if a policy reducing tax for poor people in society gives the poor a +10 in happiness while, since it is financed by adding to the tax burden of the rich, gives the rich people a –2 decrease in happiness, the net gain of happiness is +8. If instead a tax reduction given to the rich produces +7 in happiness and the added tax burden for the poor leads to a –5 in happiness, the net gain in happiness is +2³⁰. Consequently, the right policy according to the theory is to reduce taxes for the poor.

Is the utilitarian way to think about policies in relation to happiness reflected in governments' thinking in the Western world today? It does not *look* familiar. Politicians rarely discuss in terms of happiness, rather in terms of economic growth and welfare. Perhaps it is the case that

²⁸ See Ovaska and Takashima (2006) p. 308 f. for both these quotations.

²⁹ Layard (2005) p. 4 f. and 111 ff. and *Filosofilexikonet* (1988) p. 62 f. and 562 f..

³⁰ This is in accordance with a common assumption that a plus on the income side produces more happiness for poor people than it does for richer people (compare footnote 46 below).

their emphasis on economic growth and that they use GDP as a measure of welfare have an underlying assumption that more wealth leads to more happiness. If we increase the former we will improve the latter. Rather than defining utility in terms of happiness, they define it in terms of wealth and more wealth will generate more happiness – for persons and for society as a whole. This means that happiness would in fact be incorporated in the welfare concept, although *indirectly*. The underlying assumption seems natural when it is turned around. Poverty seems destructive to happiness and therefore it ought to be the case that the richer person the happier person and the richer nation the happier nation.

It may also be argued that happiness due to its subjective character can not be incorporated in for example policy decisions since it is impossible to measure, and therefore we can not know anything about it. Calculations such as the ones in the utilitarian example above with the tax reduction for rich people or poor people are impossible. Such assumptions are in line with the behaviourist tradition in social science. Behaviourism is based on the assumption that we never can know anything about peoples' feelings, therefore the only thing possible is to study their behaviour³¹. Today however these behaviouristic assumptions are challenged by many social scientists who claim that happiness in fact is possible to measure in a good enough way³². This view has resulted in the fact that happiness has been taken into more serious consideration than before. In the wake of this, correlations between economic factors and happiness have attracted a lot of interest within several fields in social sciences during recent years. Even within economics, the field which have perhaps been most reluctant to study happiness due to measure problems, many seem to accept this and are willing to discuss the issue of happiness and therefore also challenge the more traditional view³³.

3.2 How to measure happiness

If happiness can be measured – how is it defined and how is it done? Bentham defined happiness in terms of pleasure³⁴. Today social scientists define happiness roughly in terms of satisfaction with life in general³⁵. The important thing is that people are as satisfied as possible with their lives on the whole. The way to measure happiness is simply to ask people.

³¹ Layard (2005) p. 127 f..

³² See discussion and references in 3.2 below.

³³ Frey and Stutzer (2002) discuss how new findings within the field of happiness research may contribute to and also challenge the more traditional way to think within economics, also in Frey and Stutzer (2005).

³⁴ *Filosoflexikonet* (1988) p. 63.

This is done by surveys with a set of simple questions such as: “How happy (or satisfied) are you with your life” or “Taken all together, how would you say things are these days, would you say that you are very happy, pretty happy, or not happy”³⁶.

It is easy to understand that this type of questioning may be subject to a variety of insecurities and the reliability and validity of the replies have therefore been questioned. Objections such as that the answers may reflect individuals’ particular mood at the time of the questioning, that people do not answer truthfully and that the environment for the questioning may affect the answers etc have been put forth³⁷. However, it has been claimed that measurement problems are not severe and a common conclusion today is that surveys actually give good enough results. Easterlin claims that:

“The general conclusion of such assessment is that subjective indicators such as those used here, though not perfect, do reflect respondents’ substantive feelings of well-being...”³⁸

It has also been claimed that happiness may mean different things to different people and also different things in different cultures. This would make comparisons between both persons and countries difficult. It has however been claimed that this can be handled as well³⁹.

³⁵ See Graham (2005) p. 202 and Lind (2005) p. 33.

³⁶ Easterlin (2001) p. 466 and Graham (2005) p. 201.

³⁷ See Easterlin (2001) p. 466.

³⁸ Easterlin (2001) (p.466). Also compare for example Graham (2005) p. 201, Lind (2005) p. 33 f., Layard (2005) p. 13 f., Hellevik (2003) p. 248, Frey and Stutzer (2005) p. 209 f..

³⁹ See Easterlin (2001) p. 466, Graham (2005) p. 201 f. and Lind (2005) p. 33. (With regard to possible measurement and comparability problems mentioned in this section, responses have for example been validated by psychologists. They have found that people responding that they are “very happy” in these surveys also are meeting their measures of happiness as well as when respondents’ family and friends have been asked about their opinion of the respondent’s happiness, a high degree of consistency is found between their opinion and the respondent’s answer (Graham (2005) p. 202 and Layard (2005) p. 14). Furthermore, when comparisons have been made across cohorts of individuals a high degree of consistency is shown, within and across countries (Graham 2005 p. 202).)

3.3 Correlations between economic growth and happiness

With the possibility to measure happiness the relation between economic growth/wealth and happiness can be investigated. This has also been done⁴⁰.

What has then been found about the relationship between wealth and happiness? First, when looking within countries it is clear that the richer part of the population is happier than poorer parts. A measuring from US 1994, where the population is divided into 7 income groups, the share of people who describe themselves as “very happy” rises from about 15% in the lowest income group to almost 45% in the highest. The average level of happiness falls from 2,8 in the highest to 1,8 in the lowest income group, while the average level of happiness for the whole population is 2,4⁴¹. The same results have been shown for the EU-countries, for Japan and also for several developing countries, regardless of point of time. These results are therefore claimed to be an empirical regularity, based on significant statistical results⁴². More wealth seems to be clearly correlated with more happiness.

When countries are compared with each other there is also a positive correlation between wealth and happiness. Countries with a high level of GDP/capita have a higher degree of happiness/capita than countries with low GDP/capita⁴³. There are however some exceptions to this. Some poor countries show a high degree of average well-being. This is the case for example Mexico, Colombia and El Salvador. But you can't find any rich countries with a low degree of well-being. It is also the case that countries which show the lowest degree of average happiness not necessarily are the poorest. Several of the former Communist countries such as Russia, Ukraine, Romania and Bulgaria show a very low level of average happiness, lower than poorer countries such as Nigeria and India⁴⁴.

The correlation between higher GDP/capita and higher well-being/capita is however taking another turn when looking at a country as a whole over time. When countries are under a

⁴⁰ As mentioned in the introduction, data from World Value Survey (WVS) and World Database of Happiness are what primarily is used in the references in this text (and consequently also in the text). See bibliography for web-addresses to these data bases.

⁴¹ Lind (2005) p. 36 f. (a three graded scale where used: very happy=4, pretty happy=2 and not particularly happy=0).

⁴² Lind (2005) p. 37.

⁴³ See for example figure in Layard (2005) p. 32, Lind (2005) p. 35 and *Subjective well-being rankings of 82 societies* (2004), document from www.worldvaluessurvey.org/library/index.html

⁴⁴ Layard (2005) p. 33, Inglehart (2000) p. 218 and *Subjective well-being rankings of 82 societies* (2004), document from www.worldvaluessurvey.org/library/index.html

threshold of \$10 000-\$20 000/capita economic growth is correlated with more happiness, which is demonstrated in the fact that rich countries have higher average happiness than poor countries, but once this level is met further economic growth is not correlated with higher well-being/capita⁴⁵⁴⁶. This may seem contradictory and has also been named “the paradox of happiness”⁴⁷. Within any country at any given point in time rich people are on average happier than poorer - which indicates that further wealth (i.e. even after basic needs are met) is correlated with more happiness - but over time when countries are getting richer and everybody’s standard rises several steps, this has no effect on average happiness (i.e. given that a certain level of GDP/capita is met).

In US average GDP/capita has increased about 150% since the fifties, but average happiness/capita has not increased at all, in fact it has even decreased a little⁴⁸. For some other Western countries average happiness has slightly increased during the same time, but in other Western countries it has instead decreased some. Combined, this results in the fact that average level of happiness in all advanced societies taken together basically are the same since the fifties⁴⁹, even though GDP/capita has increased remarkably in all countries. The differences that exist between the average levels of happiness in different Western countries are consequently not related to differences in GDP/capita. For example, Irish people are much happier than Germans even though Germans GDP/capita is twice as high. Americans are wealthier than Germans but have a happiness level slightly lower than Irish people. In Switzerland both GDP/capita and happiness/capita are very high⁵⁰. Thus, these differences in happiness levels must be explained in relation to other social factors than economic ones⁵¹.

⁴⁵ Inglehart (2000) p. 218 claims that the threshold is reached at about \$10 000, Layard (2005) p. 33 says around \$20 000 and Ovaska and Takashima (2006) p. 310 say about \$10 000-\$15 000.

⁴⁶ This is in line with a common assumption that more money give higher gains in happiness when you have a less of it, and especially when you are under the bread-line. When basic needs are met the marginal utility decreases (Lind (2005) p. 35).

⁴⁷ This paradox is often named “the Easterlin paradox” after the American economist Richard Easterlin who discovered this relationship already in the 1970s and this findings have later been supported by several studies (Graham (2005) p. 202). Also compare Easterlin (1995), (2001) and (2005).

⁴⁸ Lind (2005) p. 37.

⁴⁹ Lind (2005) p. 37 and Layard (2005) p. 29 f..

⁵⁰ See figure in Inglehart (2000) p. 217 for these relationships.

⁵¹ The correlation between GDP/capita and average *life-expectancy* is somewhat similar to the correlation between GDP/capita and average happiness. There is a step in life-expectancy when average GDP increases from bread-line level to several thousand dollars a year. But, when we move up to the level of the advanced societies, there are no differences. Even though, as mentioned above, average income is twice as high in Germany than in Ireland, life-expectancy is no higher in Germany than in Ireland (Inglehart (2000) p. 215 f.).

3.4 Explanations of the correlations between economic growth and happiness

The results in the previous section are in need of further explanation. Why has not average happiness risen in the Western world in line with economic growth? When looking within a country and comparing rich and poor countries, wealth and happiness seem correlated, but over time when the whole Western world has become richer average happiness has not risen.

3.4.1 Theories of relative utility

The most common explanations why average happiness has not risen in line with economic growth in advanced countries are two so called treadmill effects, often named the *positional treadmill* and the *hedonic treadmill*, also named theories of *relative utility*⁵².

The positional treadmill refers to the fact that we derive well-being from our relative level of income; that is, our income compared to others⁵³. The same goes for material belongings (which manifest our income level) - we compare them with what others have. For many people income tend to be a measure of how we are valued in the eyes of society and the more “valuable” we are, the higher our well-being is. Therefore income and material belongings are a means for status and social position, which we in turn derive happiness from⁵⁴. This implies that when someone gets a raise this person’s happiness will increase. However, others’ happiness may decline due to the first persons raise. If their income does not increase by the same amount their social position decreases due to the first person’s improvements⁵⁵. For society as a whole, there can never be any total gains in happiness in this struggle for position relative to others, since there can only be one number 1, one number 2, one number 3 etc. If number 2 change places with number 1, number 2’s well-being rises, but number 1’s happiness falls⁵⁶. When someone wins it is always at someone else’s expense.

⁵² Binswanger (2006) p. 368 and Hagerty and Veenhoven (2003) p. 1. (Layard (2005) uses the concepts “social comparison” and “habituation” to describe these things.). Binswanger (2006) also discuss two additional treadmills, but in this essay only the two most often refereed to will be discussed.

⁵³ Binswanger (2006) p. 368 f., Layard (2005) p. 41 ff., Lind (2005) s. 39, Graham (2005) p. 204 f..

⁵⁴ See Layard (2005) p. 41 ff. and 149 ff..

⁵⁵ What primarily is important for your well-being is what happens to your reference group; i.e. the people who are close to you, such as friends, family, neighbours, colleagues etc. If the king buys a castle in France, your happiness wouldn’t be affected. But if your colleague got a raise and you didn’t your well-being would be negatively affected, since what the people in your reference group have represents what could be possible for you as well (Layard 2005 p. 44 f.). (Clark and Oswald (1996) use the assumptions about reference groups and reference level).

⁵⁶ Layard (2005) p. 150 f..

The fact that relative income matters to people has been tested empirically. For example, one investigation shows that when people are asked which situation they would prefer of 1) getting \$50 thousand a year, while others get on average \$25 thousand a year or 2) getting \$100 thousand a year, while others get on average \$250 thousand a year— and prices are the same— most people answer that they would prefer the first alternative. They are thus willing to accept a lower standard of living, provided they were among the ones earning the most⁵⁷.

The hedonic treadmill, on the other hand, refers to the fact that even though income and better material things initially give us higher well-being, this happiness is deceitful because we soon get used to, or adapt to, a higher standard and then our level of happiness moves back to the same level we had before the improvement⁵⁸. In addition to this we have now also developed a need for the new level of income and material standard and if we had to go back to our previous standard our happiness would decline. Thus, if a person gets more income his happiness would rise, say +2. But this will soon decline and he will be back on 0 again. However, if he would go back to his previous income, his happiness would be reduced, say by -2, and consequently he will end up worse than he was before the raise. In order to keep his well-being rising he must therefore continue to increase his income and material standard, but since the well-being derived from new improvements also will decline he is, or so the argument goes, in a treadmill, a hedonic one.

The fact that people adapt to a higher standard and that their aspirations rise has also been tested empirically by means of finding out how actual income affects what income people feel they need. The results from this seem clear. When people's actual income rises the income they think they need also rises, and when they actually reach the level of the latter, the income they think they need rises again⁵⁹.

The theories of relative utility can be interpreted in different ways regarding to what degree the relative aspect is affecting our well-being. In the most drastic interpretation we do not derive any happiness from absolute levels; the relative aspect is all that matters. Then, the positioning treadmill implies that raising the income of all by the same amount, would not have any impact on total happiness at all since relations between people would be the same.

⁵⁷ Layard (2005) p. 41 f..

⁵⁸ Easterlin (1995) and (2001), Biswanger (2006) p. 369, Lind (2005) p. 38 f., Layard p. 48 f., Graham (2005) p. 205.

⁵⁹ Layard (2005) p. 49.

Likewise, if all our happiness were wiped out when increasing our income and standard due to the hedonic treadmill (as in the example above when the +2 is followed by a -2) we would always end back on 0. Consequently, long term gains in average happiness by way of economic growth would be impossible or, in other words, zero-sum games. Proponents of relative theories seem to reject this position and rather claim that absolute levels matter up to a certain extent, at least up to the point when basic needs are met. After this point it depends on the interpretation whether absolute levels matter less or not at all, and the former seem to be the most common conclusion.⁶⁰ It has been suggested that in advanced countries, if everybody's income would rise a step, this would make a person about 2/3 as happy as if only this person's income would rise (due to the positional treadmill) and that 40 - 60% of an increase in income is ruled out by higher aspirations (due to the hedonic treadmill)⁶¹.

Theories of relative utility may provide explanations of the data on correlations between economic growth and happiness. Given that absolute levels do matter up to a certain extent, economic growth has a positive impact on average happiness until at least basic needs are met. This corresponds with the fact that rich countries have higher average happiness level than poor ones. Then, however, further long term gains in average happiness become difficult due to relative factors. The fact that happiness is correlated with further wealth within a country, i.e. that rich people on average are happier than poorer is partly related to the fact that happiness is derived from social position.

Another question is whether other things are as sensitive to position and adaptation as income and material standard. It has been claimed that this is not the case⁶². Tests have shown that people for example care more about absolute levels when it comes to time of vacation. They rather choose to have 4 weeks vacation and other have 8 weeks, than themselves having 2 weeks and others have 1 week. It has also been claimed that we do not adapt as easily to other social goods such as time with family, friends, quality of work, health, hobbies etc⁶³.

⁶⁰ See for example Layard (2005) p. 46 and 49.

⁶¹ Lind (2005) p. 39 and Layard (2005) p. 46.

⁶² See for example Layard (2005).

⁶³ Layard (2005) p. 47 and p. 49. (Easterlin (2005) p. 441 suggests that a model including several factors, and not only material standard, which may affect our happiness, such as family life, work utility, health etc, ought to be developed in order to better understand what makes us happy.)

3.4.2 Other explanations

Another way to explain why happiness levels have not risen in the Western world is to claim that happiness primarily is determined by individual personality traits. These thoughts are found in psychologists' *set point theory*⁶⁴. According to this theory every individual has a given happiness level to which they always come back to regardless of what happens to them – good, bad, major and minor events⁶⁵. This would make long term gains in average happiness impossible. Rather than claiming that rich people have better chances of becoming happy, set point theory is more interested in the opposite relationship: i.e. perhaps happy people have better chances of becoming rich. However, set point theory does not correspond with the fact that average happiness is higher in rich countries than in poor. External conditions do seem to matter for peoples' happiness in the long term perspective.

Yet another explanation why further economic growth is not correlated with higher average happiness is that economic growth is followed by negative consequences which outweigh happiness gains from higher absolute levels. It has even been put forth that further economic growth will influence average happiness negatively, due to consequences following from it⁶⁶. For example, stress and depression seem to have increased in advanced societies during the last fifty years, that is, during the period when we have become so much wealthier⁶⁷. Some thinkable explanations may be that people spend much time working⁶⁸ and perhaps less time with their families than what used to be the case, that the market and media are creating ideals impossible to live up to in terms of beauty and success, that the information supply is much bigger and more intense which may cause stress when trying to keep up with it etc. Another

⁶⁴ Graham (2005) p. 206 f. (Also Hellevik (2003 p. 251 f..)

⁶⁵ Easterlin has argued against this. He claims that research have shown that some people never come back to their set point after some major events (Graham (2005) p. 208).

⁶⁶ See reference in Veenhoven (2005) p. 2.

⁶⁷ Layard (2005) p. 36.

⁶⁸ This is of course only applicable for the ones who actually have jobs – to not have one is also related to stress. It should be pointed out that the question of *unemployment* is left out in this essay. The question of unemployment is a complex one and it would lead too far with regard to the framework of this paper to relate it to the questions which have been discussed. Unemployment is for example a reason for governments to stress the importance of economic growth, since it is assumed that more working opportunities will come out of it (which is a complex question in itself) and that welfare might be threatened if less people work and pay taxes (especially with regard to level of “de-commodification), which then may be related to GDP as a measure of welfare (although this connection and the implications may be discussed). Furthermore, the relation between unemployment and happiness has also been investigated. It is a common conclusion that unemployment is followed by less well-being, see for example Ouweneel (2002) (Ouweneel also examines whether unemployed in countries with high degree of “de-commodification”, i.e. generous social security policy, are less unhappy than unemployed in nations with a lower degree, but this does not seem to be the case (see p. 190 for conclusions)), Layard (2005) p. 67 f. (Layard discuss that the reduction in happiness is much less due to the loss of income than due to the work itself) and Frey and Stutzer (2000).

thing may be that in advanced societies basic needs are met and the struggle for survival is in that sense over for most people⁶⁹. Perhaps instead of the struggle for survival there is today a search for success, beauty and so forth, which causes another form of stress than the struggle for survival did. It has also been put forth that even if higher income generate higher well-being, it is the earning and spending part of it which generates unhappiness⁷⁰. The time and effort we spend on focusing on earning and spending⁷¹ our income is unjustified and result in that we miss out on a lot of things, both in the workplace (companionship, quality etc) and at home (such as more time with family).

The statistics about correlations between economic growth and happiness may be explained in accordance with theories of negative consequences. Up to the point when basic needs are met gains in average happiness are possible, which corresponds with the fact that richer countries on average are happier than poor ones. However, further economic growth produces negative consequences which rules out further happiness gains. The fact that richer people within a society on average are happier than poorer, may then be related to that they are more protected against the negative consequences following from further economic growth. However, this does not seem to explain that even in poor countries richer people always on average are happier than poorer. Perhaps one may argue that richer people in poor countries to a fairly high degree have their basic needs met and therefore have reached the higher average happiness level.

Another possibility is to claim that average happiness *does* increase with further economic growth - i.e. even after basic needs are met. Then it becomes possible to argue in favour of *absolute utility* - i.e. that happiness is derived from absolute levels of income and standard⁷². In accordance with the theory of absolute utility higher income have the ability to fill more

⁶⁹ Inglehart (2000) and Inglehart and Baker (2001) discuss correlations found between GDP/capita and values; poor countries are directed towards what they call traditional orientations against authorities and survival values, and rich countries towards secular-rational orientations towards authorities and self-expression values. How these values may be related to happiness and well-being is an interesting question, which however not will be further investigated here. Also discussion in Hellevik (2003) p. 263 ff..

⁷⁰ Kaun (2005). (Ott (2001) discusses lack of companionship as a source for unhappiness. The lack of companionship is a consequence of market economies, directly because relations are more instrumental, and indirectly due to the focus of income. Ott claims however that improvements in other fields have compensated for this loss.)

⁷¹ Tatzel (2003) claims that the drive for money and possessions (i.e. both the earning and spending part) easily lead to feelings contra-productive to our happiness, such as frustration and dissatisfaction, if the motivation is external instead of internal.

⁷² For example Hagerty and Veenhoven (2003) argue in favour of absolute utility. (Veenhoven (2005) also claims that the distribution of happiness (or life satisfaction) has become more equal.)

and more needs, which in turn generate higher well-being and therefore average happiness may increase as well. This theory may explain data on correlations between economic growth and happiness both regarding the fact that average happiness levels are higher in rich countries than in poor and that rich people on average are happier than poorer within a country. In both cases, more needs are filled. However, the theory can not provide any explanations why happiness levels have not risen in the Western world in line with economic growth – the only possibility is to reject these results and show otherwise. This has been done as well⁷³. However, the data seems to be widely accepted and it has been argued against statistical results which show otherwise⁷⁴.

4. Summary and conclusions

In this essay it has been argued that the main topic for governments and politicians in the Western world today is economic growth. This is a common conclusion in the theoretical literature. Political discussion and argumentation also show that this is the case. Economic globalisation and “de-industrialisation” are by politicians said to challenge GDP growth and therefore also our welfare, since economic growth is claimed to be the precondition for welfare. When referring to welfare, politicians seem to aim at material standard and level of security, but usually use GDP as a measure of national welfare. GDP says something about the state of a nation’s economy and citizens’ average economic condition. It says however nothing about happiness or well-being, which intuitively seem to be a necessary, although not sufficient, condition for claiming that a person or a society is well off – which is the basic meaning of the welfare concept.

Happiness does not seem to be directly incorporated in political discussions; i.e. politicians do not justify or defend political arguments, aims etc in terms of happiness, in accordance with the suggestion of utilitarian theory. Rather, they return to the concepts of economic growth and welfare. However, it may be the case that happiness is indirectly incorporated in the sense that under the focus on economic growth lies the assumption that more wealth leads to happier nations and people. Then happiness would also be indirectly included in the welfare concept when measured in terms of GDP. If there is such an assumption statistics seem to

⁷³ Hagerty and Veenhoven (2003) reach other statistical conclusions

⁷⁴ Easterlin (2005) argues against the results presented in Hagerty and Veenhoven (2003) and claims that they are due to methodological mistakes and also are followed by insufficient explanations.

show that the assumption is both right and wrong. It is *right* in the sense that richer people within a country on average always are happier than poorer parts of the population and that rich countries have higher happiness/capita than poor countries. There is a connection between wealth and happiness. However, data also show that once a certain threshold of GDP/capita is met - which it has been in the whole Western world for a long time - further economic growth is not correlated with higher average happiness for a country as a whole over time. Consequently, the assumption is *wrong* in this sense: there is no connection between more wealth and happiness. Average happiness levels have not risen in the Western world during the last fifty years even though all countries have become much wealthier. These results combined illustrate the “the paradox of happiness”: rich people within a country are on average always happier than poorer parts, but when countries grow wealthier and everybody’s standard rises, this is not correlated with higher average happiness (given that a certain level of GDP/capita is met).

The implications of the previous paragraph are that if governments aim at increasing happiness in society through economic growth, it seems to be a good idea if the country is poor. In that case, long term gains in average happiness seem possible. However, for the Western world it seems not be a successful way. Long term gains in happiness does not seem to be possible. It is true that richer people within a country always are happier than poorer. But if governments and politicians in the Western world have happiness in mind when they stress the importance of economic growth – and encourage people to work more and harder, be innovative, entrepreneurial and so forth – this is hardly what they are aiming at. Rather they would think in terms of more happiness for all through economic growth and not that single individuals may have better chances for happiness if they increase their individual wealth.

Is it then possible to say that economic progress in the Western world has no impact at all, or is completely unrelated to, the happiness of all? It might not have to be the case. If the prospects put forth in political discussions today that globalisation and “de-industrialisation” are forces with such a capacity that they almost can push the Western world under the bread line, i.e. under the threshold level mentioned above, focus on economic growth would consequently be a way to protect the Western world from serious happiness losses. But, as it seems, they are not. A couple of years ago it was assumed (both in theoretical and political discussions) that these processes, and especially economic globalisation, would have such

decisive impact that welfare systems in all countries in the Western world would converge into a model which better would fit the new competitive environment, with heavily reduced levels of “de-commodification” as a consequence. So far, this has not happened. In fact, it may be argued that the power of these processes have been highly exaggerated in the political debate. The power ascribed to them is perhaps more a reflection of the fact that national economies to a higher extent are affected by circumstances outside national borders, with less sense of control as a result, than that they actually have the capacity to seriously threaten GDP in the Western world. In any case, the prospect of falling under the threshold level does not seem likely.

In accordance with theories of relative utility average happiness has not risen in the Western world in line with economic growth due to the fact that well-being to a high extent is derived from relative factors, at least after basic needs are met. According to these theories the importance of social position and the fact that we adapt to higher standard make long term average happiness gains difficult through economic growth. The implications of relative theories are that economic growth is an *ineffective* way to increase happiness, for society as a whole but also for the individual. Proponents of relative theories also claim that all social goods are not as sensitive to relative factors as income and material standard. The fact that people tend to care more about absolute levels when it comes to time of vacation and do not adapt as easily to things such as time with family, friends, quality of work, health etc., implies that someone may win without someone else must lose and that more long term happiness gains are possible. Consequently, according to relative theories there are more effective ways to increase happiness than trying to do so through economic growth. It is done by promoting the things which are not as sensitive to relative factors or, in other words, change our priorities.

According to relative theories people however easily adapt to higher income and standard and if they would go back to a previous level they lose in terms of happiness, even if this level still is very high in absolute terms. This is included in the hedonic treadmill. Even if economic globalisation and “de-industrialisation” not are processes with the power to push the Western world under the bread line, which was discussed above, they may perhaps generate minor negative effects on GDP, which then consequently could result in happiness losses. Trying to *maintain* GDP levels in the Western world may then be related to the question of happiness, in the sense of being a protection against happiness losses. Neither maintaining nor increasing

GDP in the Western world seem however to have any impact on *increasing* happiness in society - only to protect against losses. If the goal is to increase happiness it seems difficult to only use economic growth as a means. This is also what proponents of relative theories claim. According to these theories it may be possible to end up on plus by promoting the things where absolute levels are more important. Further implications of this is here left aside; i.e. whether this would imply negative, or perhaps positive, effects on GDP with possible happiness losses or gains as a consequence and how possible losses perhaps may be outweighed by other happiness generating things etc.

The assumption that it is possible to increase happiness in the Western world may also be said to find support in theories which focus on negative consequences outweighing happiness gains. According to this perspective happiness levels may consequently increase if the negative consequences following from economic growth would be reduced. How this is done is another question. Set point theory however rejects the possibility that happiness may increase. If we change priorities (in accordance with relative theories) or reduce negative consequences following from economic growth, happiness levels may increase in the short perspective, but not in the long run since peoples' psychological constitution is what determines their happiness level and they will soon revert to their given set point no matter what happens. The implication of set point theory is that there is not much society can do to increase the level of long-term average happiness. However, set point theory is not in accordance with data on average happiness in rich and poor countries. According to theories of absolute utility it is sufficient to increase economic growth in order to increase happiness in the Western world - yet this is inconsistent with what data on economic growth and happiness in the Western world show.

The question then is if it is justified to give such priority to further economic growth on the political agenda in the Western world today if economic conditions are not seriously challenged by economic globalisation and "de-industrialisation", if further economic growth does not result in any happiness gains and if it in fact would be possible to increase happiness by giving more priority to other things?

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