The Economics of Happiness: Crash Course Econ #35

Crash Course: Economics
https://youtube.com/watch?v=O-t8-Vq0HO0
https://nerdfighteria.info/v/O-t8-Vq0HO0

Adriene: Hi, I'm Adriene Hill, and this is CrashCourse: Economics. So you want to be happy? Here's your checklist. Get a job where you make about $82,000 a year. Do not get fired from that job. Make sure your commute is no more than 22 minutes, and please, please, you've gotta stop looking at your friends' Facebook profiles.

(Intro)

In the US, the pursuit of happiness is one of our inalienable rights, written into the Declaration of Independence right along with the biggies, life and liberty. The self-help industry is worth billions of dollars. I mean, some of us hire life coaches, and for all that, happiness can seem pretty elusive. Economic thought over the last couple of centuries is built on a model that says we all have unlimited, inexhaustible desires, more equals better, and economists believed that they could tell what makes us better off by looking at how we spend our money and time. But in recent years, those assumptions are being called into question. Economists and psychologists have discovered a disconnect between how we buy and spend and do and what actually makes us feel better off. They've realized that sometimes, getting paid nothing for doing something can make us feel happier than getting paid. Like, say I cooked a friend a dinner for his birthday, and after we finished up the last bite of birthday cake, he offered to pay me for it. All of a sudden, my gesture of kindness, my warm fuzzy feelings, they disappear. Economists have discovered a correlation between greater income and greater happiness that's across cultures, but in some places, the effect is greater than others, but they've also found that more money has diminishing returns when it comes to our day-to-day happiness. Let's go to the Thought Bubble.

Say Stan and I are both successful bakers. Thanks to a combination of my impressive baking skills and some luck, I've become a star baker. I make $500,000 a year in cupcake sales and baking pan endorsements. Stan, on the other hand, is a masterful but not famous baker.

He makes $50,000 a year. Stan and I enter a cupcake contest. I win $10,000 in the cake category. Stan wins $10,000 for his icing and decoration. But that money is going to have very different effects on our lives and our feelings of happiness. For Stan, $10,000 represents a significant portion of his income. That $10,000 may make him feel a whole lot more relaxed and better off. For me, an extra $10,000 is nice and all, but it's not going to change much about how I live my life or what I do with my time. $10,000. Cool, whatevs. Beyond some level of income, the value of each additional dollar has diminishing returns in terms of our day-to-day well-being.

A 2010 study found in the US it was about $75,000 a year, or about $82,000 when you adjust for inflation. After that, the researchers discovered a person's day-to-day happiness levels just don't change that much. But the same researchers also looked at another form of happiness: asking people how satisfied they were with their place in the world, and there, money mattered. The study found that there was a difference between the wealthy and super, duper insanely wealthy when it came to overall satisfaction with their lives. Thanks, Thought Bubble.

So we know that some people have a natural predisposition to be unhappy, and some people seem more inclined to constant joy. Those people are annoying. For a long time, psychologists believed that most people have a set point for happiness, and that most big changes, positive or negative, had only a temporary effect on happiness. But more recent studies show that economic choices and circumstances can have lasting effects on just how happy we are. For one, there's a pretty clear relationship between unemployment and happiness. Basically, being out of work can make people out and out miserable. By some estimates, unemployed people have 5-15% lower life satisfaction scores than people with jobs. Studies have found that the negative effects of unemployment are greater in high income countries.

There's also research showing the happiness of middle aged people is more negatively affected by unemployment than older people. You might be thinking, "duh, people without a job aren't making any money so of course they'd be less happy" but economists have found that the loss of well-being due to unemployment is greater than can be explained by the immediate loss of a paycheck. One explanation is that unemployment makes people worried not just about paying the bills today, but also about the future. Economists have also found that moving from a part time job to a full time job makes people happier, but the correlation between hours worked and happiness doesn't continue up and up and up. At some point, when you're working all the time, happiness levels start declining. Imagine it like an upside down U shape, kind of like an "I'm working all the time and never get to see my friends" sad face. Long work commutes make people less happy. Credit card debt makes people less happy, and inflation, it turns out, especially unpredictable inflation, can make people less happy. We like stability and for our savings to hold their value.

It's not just the ups and downs of what you can afford that affects your happiness. It's also what the neighbors can afford. There's something called the Reference Income Hypothesis, or Ranked Income Hypothesis. It says that the satisfaction I get from my income and consumption level depends on how I'm doing compared to everyone else around me. So if the wealthy star baker version of myself lives around millionaires, I might be less happy than if I lived in a middle class neighborhood, even if I'm making the same income. A 2009 study found this is true to an extent. Researchers found out Americans were happier when they lived in rich neighborhoods in poor counties. The authors wrote, "It appears that individuals in fact are happier when they live among the poor, as long as the poor do not live too close." This idea that status matters, maybe more than absolute income, brings us around to something known as the Easterlin Paradox. It's named after an economist named Richard Easterlin, who back in the '70s, found that as the income level of a country rises, the average level of happiness in those countries doesn't always follow.

This happens even though we know there is at some level a positive relationship between income and happiness. So, what's going on? One explanation is that we derive happiness from status rather than absolute income so if an entire country gets richer, even if our income goes up, our status and relative income stays about the same and we don't get any happier. Another explanation gets back to the set point of happiness we talked about before. Some economists talk about the Hedonic Treadmill or Hedonic Adaptation. Here's Rousseau describing the phenomenon: *Since these conveniences by becoming habitual had almost entirely ceased to be enjoyable, and at the same time degenerated into true needs, it became much more cruel to be deprived of them than to possess them was sweet, and men were unhappy to lose them without being happy to possess them.* I can remember the joy I felt when I got my first smartphone. Now I've adapted to the point that my phone's kind of annoying, but if somebody took it away, I might cry.

There's a third explanation out there regarding the Easterlin Paradox and that's that it's not actually a paradox at all, basically that it doesn't hold. There's been some research that shows the paradox is only true for relatively wealthy countries, where the basic needs of citizens are already being met. In lower GDP countries, the studies find that there are overall increases in happiness when income rises. More recently, economist Betsy Stevenson and Justin Wolfers argued that average levels of happiness rise in countries where income rises, regardless of how wealthy that country is. The data, they say, points to a clear relationship between GDP per capita and average levels of well-being. All of this happiness research matters when you think about how governments measure progress and decide what the right path is for a country. For a long time economic growth has been at the center of economic policy. It explains some of our global fixation on GDP numbers.

But, if you believe that an increase in income and stuff isn't going to make people happier and better off, income growth may not be the best to way to mark or judge the progress of a society. A focus on GDP and growth might hide and even exacerbate issues like income inequality and environmental damage related to increased consumption. In the 1970s, the king of the tiny country of Bhutan proclaimed that "Gross National Happiness is more important than Gross National Product." Instead of measuring economics progress using GNP or GDP, the government tracks GNH- Gross National Happiness, which considers the social, physical, spiritual and environmental health of its citizens. And it's not just Bhutan. In 2011 the United Nations adopted a resolution that calls for member states to give greater weight to happiness and well-being when figuring out how to pursue social and economic development. But this focus on happiness in addition to economic growth isn't a truly new idea. All the way back in 1968, U.S presidential candidate Robert Kennedy got up in front of an audience at the University of Kansas and criticized the focus on economic output alone. "Our Gross National Product, now, is over $800 billion dollars a year, but that Gross National Product- if we judge the United States of America by that-that Gross National Product counts air pollution and cigarette advertising, and ambulances to clear our highways of carnage." He goes on: "it measures neither our wit nor our courage, neither our wisdom nor our learning, neither our compassion nor our devotion to our country, it measures everything in short, except that which makes life worthwhile."

Well, I don't think we could write a better ending to the show, or to the series, than that. Thanks for watching. It's been such a pleasure. Thanks for watching crash course economics which is made with the help of all these nice people who work on the show because it makes them happy. You can help keep crash course free for everyone by supporting the show at Patreon. Patreon is a voluntary subscription service where you can support the show with a monthly contribution. Thanks for watching.