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# Does happiness pay?
# An exploration based on panel data from Russia

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**Abstract**

Well-being research has supported the common sense view that income, health, and other factors affect happiness. We use panel data from Russia to assess the reverse causation — that happiness itself affects income, health, and other factors. We find that people who had higher "residual happiness" in 1995 – people who were happier after correcting for the usual determinants of well-being – made more money and were in better health in a survey 5 years later. Psychologists attribute a large part of well-being to factors such as self-esteem and optimism. The same factors appear to influence individuals' wealth and health.


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The study of happiness, or subjective well-being, and its implications for economic behavior is a fairly new area for economists, although psychologists have been studying it for years. The findings of this research highlight the non-income determinants of economic behavior. For example, cross-country studies of happiness consistently demonstrate that after certain minimum levels of per capita income, average happiness levels do not increase

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as countries grow wealthier.[1] Within societies, most studies find that wealthier individuals are on average happier than poor ones, but after a minimum level of income, more money does not make people much happier.[2] Because income plays such an important role in standard definitions and measures of well-being, these findings have theoretical, empirical, and policy implications.

Some of the earliest economists (such as Jeremy Bentham) were concerned with the pursuit of individual happiness. As the field became more rigorous and quantitative, however, much narrower definitions of individual welfare, or utility, became the norm, even though economics was still concerned with public welfare in the broader sense. In addition, economists have traditionally shied away from the use of survey data because of justifiable concerns that answers to surveys are subject to bias from factors such as respondents' mood at the time of the survey and minor changes in the phrasing of survey questions.[3] Thus, traditional economic analysis focuses on actual behavior, such as revealed preferences in consumption, savings, and labor market participation, under the assumption that individuals rationally process all the information at their disposal to maximize their utility.[4] More recently, behavioral economics has begun to have influence at the margin, as an increasing number of economists supplement the methods and research questions more common to economists with those more common to psychologists.[5]

Most research on subjective well-being relies heavily but not exclusively on surveys and combines methods from both professions. Typically, the questions are very simple ones about how happy or satisfied respondents are with their lives, with responses ranging from not very or not at all to very or fully satisfied.[6] While there are justified criticisms of how accurate such questions are in assessing life satisfaction at the individual level, there is remarkable consistency in the patterns generated by the answers to these questions aggregated across populations and over time. In addition, a number of psychologists have been able to "validate" the use of these questions through other measures, for example, by showing that individuals who answer happiness questions positively also demonstrate other measures of positive affect, such as smiling more frequently.[7]

[1] Easterlin (1974).

[2] See, among others, Blanchflower and Oswald (1999), Diener (1984), Frey and Stutzer (2002), and Graham and Pettinato (2002a). A contrasting view, in a study by psychologist Bob Cummins (2000), starts from the assumption that subjective well-being is held within a narrow range determined by personality and that it then is influenced by a number of environmental factors, including income. This study finds that there are significantly different levels of subjective well-being for people who are rich, those who are of average Western incomes, and those who are poor. They also note that the effects of income are indirect (i.e. in terms of the other resources that income allows people to purchase, ranging from better health to nicer environments).

[3] For a critique of the use of survey data, see Bertrand and Mullainathan (2001).

[4] Assumptions about how much information individuals have and how they process it have become much more sophisticated over time, including the concept of bounded rationality. With bounded rationality, individuals are assumed to have access to local or limited information and to make decisions according to simple heuristic rules rather than complex optimization calculations. See Conlisk (1996) and Simon (1978).

[5] A particularly important sign of support for this line of work was the granting of the 2002 Nobel Prize in economic science to Daniel Kahneman, a psychologist.

[6] Most surveys use a 4-point scale, although more recently psychologists have begun to advocate the use of either 7- or 10-point scales as more accurate.

[7] See, for example, Diener and Biswas-Diener (1999). More recently, Kahneman has been conducting studies to determine differences in the determinants of positive affect from those of life satisfaction at the Center for the