NATIONAL INDICATORS OF WELL-BEING:
A VIEW FROM POLITICAL ECONOMY

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Abstract: Happiness research in economics has made great progress over the last few years. A popular interpretation by many scholars is that this progress allows us to maximize social welfare measured by an aggregate national indicator of well-being. We argue that this is a mistaken approach. The fundamental problems of possible inconsistencies when aggregating individual preferences are unsolved. The approach disregards existing political processes, which in a democracy are constitutionally designed to allow citizens to reveal their preferences and not to be reduced to “metric stations”. Moreover, there would be incentives for manipulations of the measures as well as for strategic misrepresentation of subjective well-being.

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I. **The Concept**

A National Happiness Indicator (NHI) is understood to be an aggregate measure of individual scores of subjective self-reported scores of well-being with equal weight for each individual (or adult).

Proponents of a NHI are, for example, Diener (2000), Di Tella et al. (2001), Kahneman et al. (2004), Diener and Seligman (2004) and Di Tella and MacCulloch (2005).

II. **Advantages**

1. A NHI includes **non-material** aspects of human welfare such as the influence of social relations, autonomy, and self-determination on subjective well-being. It goes in an important way beyond existing extensions of GNP such as the „Measure of Economic Welfare“ (Nordhaus and Tobin 1972), „Economic Aspects of Welfare“ (Zolotas 1981), or „Index of Sustainable Economic Welfare“ (Daly and Cobb 1989).

2. The NHI looks at **outcome** aspects of components already included in GNP via input measures. This holds in particular with respect to the vast area government activity (measured in GNP by the costs of material and of labor). It is also directly relevant for (public) health and educational expenditures. „Social Indicators“ (e.g. the „Index of Social Progress“ by Estes 1988) mostly measure the input side such as the number of hospital beds and of doctors, or of class rooms and teachers.

3. The NHI looks at **subjectively** evaluated outcomes. In contrast, the capabilities approach looks at observable capabilities and functionings (Sen 1985) and has led to the „Human Development Index“ by the World Bank.

4. The NHI provides a **new vision** to government away from the focus on GNP; it serves as a signal.

5. The NHI improves citizens’ opportunity to evaluate the **government’s general performance** according to the criterion of individual well-being.
6. The NHI is **democratic** in the sense of attributing equal weight to every person. In contrast, the prices relevant for assessing the value of goods in the GNP are more determined by those people with strong purchasing power.

7. A NHI tends to raise the **importance of happiness research** and motivates scholars to do more, and better, studies on the determinants of individual happiness and life satisfaction.

**III. Disadvantages**

1. The fundamental problems of possible **inconsistencies when aggregating individual preferences** are unsolved, especially when distributional aspects are taken into account.

2. The NHI disregards, and tries to substitute for, **existing political institutions and processes** which in a democracy are constitutionally designed to allow citizens to reveal their preferences, and to provide politicians (the government) with an incentive to put them into reality.

   Citizens are reduced to “**metric stations**”.

   More concretely:

   Three relationships should be considered

   (1) The *aggregate happiness function* is establishing a relationship between individual happiness $H$ and its determinants

   $$H = H(X, Z),$$

   where $X$ are factors which can be influenced by the government, and $Z$ are exogenous determinants (such as demographic factors as age, or genetic influences).

   (2) The *vote function* representing the influence of $H$, $X$ and exogenous factors $Y$ on the votes received by the government

   $$V = V(H, X, Y).$$

   (3) The *government’s objective function* to be maximized by optimally choosing $X$
U = U (X, I),
where I indicates the ideological goals of the party or coalition in power.
This objective function is maximized subject to resource constraints and subject to the \textit{re-election constraint}
\[ V \geq V', \]
where \( V' \) is determined by the political system (it differs e.g. between a majoritarian and a proportional voting system).
Two states can be distinguished:
(i) When the re-election constraint is non-binding, the government maximizes \( U \),
(ii) When the re-election constraint is binding, the government maximizes votes \( V \).

Against the presumption of the proponents of NHI the government does not generally maximize \( H \); it does so only under very restrictive conditions: Government maximizes \( V \) only when its re-election chance is low, and when the determinants of votes \( V \) are the same as those of happiness \( H \).

In general, the factors \( X \) under the control of government have a different impact on votes \( V \) than on happiness \( H \). In some instances, the voters do not make the government responsible for some impacts of \( X \) (i.e. \( dV/dX = 0 \)) though it influences happiness \( H \), and the reverse. When the governments re-election chance looks good, the government maximizes \( U \) whereby ideological factors enter government behavior; they do not necessarily raise happiness \( H \) but often cater for a special group of the population while negatively affecting others.

It might be argued that the construction of a NHI makes the vote function \( V \) come closer to the happiness function \( H \): voters start to assess the government’s performance in terms of the happiness indicator. But voters can be assumed to be rational enough to understand that the government \textit{cannot} control many determinants of \( H \), and therefore cannot reasonably be made responsible. Moreover, some voters \textit{want} the government to restrict itself; they do not wish the government to interfere extensively into their \textit{personal} pursuit of happiness.
3. The coefficients of the happiness function
\[ H = H(X, Z) \]
forming the basis of NHI are biased if the government’s reaction function
\[ X = X(V, Y) \]
is not explicitly taken into account.

4. Once the NHI has become politically relevant the government, public bureaucracy and interest groups have an incentive to manipulate it. While this is also true for GNP and other economic indicators (vide the manipulations regularly with respect to the measure of unemployment or the budget deficit, the recent cases of Greece and Italy being most prominent), the economic measures are based on quantities and prices which are somewhat more „objective“ than the subjective happiness indicators based on individual values (see Frey and Stutzer 1999). As a result, it is to be expected that a number of National Happiness Indicators will emerge (This is similar to the multitude of university rankings once rankings have become an important determinant of government support).

5. Once the NHI has become politically relevant, the persons asked in a survey have an incentive to respond strategically and to misrepresent their well-being.

**IV. Our Approach**

The insights from happiness research should be used to inform citizens within a constitutional economy. If the process is efficient and fair, the result will contribute to higher individual well-being (Frey and Stutzer 2000).
References


