Why economic growth does not necessarily contribute to human happiness

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Economic growth in developed countries has a dual effect. On one hand, people's living standards and consumer spending are on the rise, but on the other hand, this does not necessarily make people happy and may in fact erode subjective wellbeing and lead to economic crises. A new study by an international team that included Francesco Sarracino, HSE LCSR Senior Associate Researcher, examines the reasons behind this phenomenon.

Numerous studies confirm that rising incomes are associated with higher subjective wellbeing. However, a closer look reveals that the association is not linear, especially when it comes to developed countries where people work hard and consume a lot.

The researchers refer to the Negative Endogenous Growth (NEG) Model which suggests that economic growth may erode free and commonly available goods, replacing them with expensive consumer products. Free goods include natural resources such as sunshine, air and water, as well as social resources such as trust, honesty, altruism, and others. For example, people living in big cities with poor ecology and an unfriendly social environment may want to compensate by purchasing a second home on the coast or in the countryside. Likewise, paying for expensive entertainment, gadgets and items which make spending time at home more enjoyable may be a way for some people to make up for the absence of a satisfying social life.

The negative endogenous growth theory is relatively new. It holds that economic systems are susceptible to economic crises because they produce wealth from the erosion of free and commonly available goods which usually make people happy. This feeds unhappiness and excessive consumption.

The researchers describe it as a vicious circle: the state reports economic growth, while people's material wealth increases, but so do the costs. Driven by advertising and media messages, people engage in competitive consumption and spend more time working so they are able to afford to consume more. As a result, they spend less time socialising or relaxing in nature and accumulate debt Instead of savings to achieve even higher living standards.

The researchers explore the social roots of economic crises and potential solutions to recurrent negative scenarios. They study the case of the US where the financial crisis which started in 2008 quickly spread to other developed economies. It is generally believed that easily accessible consumer loans, new financial instruments and poor regulation were the main causes of this crisis.

'Since private debt is at the heart of the US financial bubble, we need to understand what pushes US society - one of the world's richest - to debt-finance its already high level of consumption', the authors note.

Based on their analysis, the researchers identify a few social indicators signalling negative endogenous growth which is likely to lead to economic crises. These indicators reflect the level of consumption, quality and intensity of social relations, people's values, work-leisure balance, and subjective wellbeing. The study examines the way these indicators change in developed economies over time.

Over many decades, Americans' living standards have been rising. But whether their happiness has also improved is a big question.

A long-term study using US survey data from 1972 to 2006 reports a decline in subjective wellbeing for women compared to men. Other studies show that happiness levels have generally remained unchanged in America since the early 1970s. In Europe, the reported trends are more positive. Despite differences across countries, the overall levels of subjective wellbeing have been increasing.

According to the so-called Easterlin paradox, life satisfaction does rise with average incomes but only up to a point. This means that people with relatively low incomes are more likely to see their happiness increase with more money.

Subjective wellbeing relies on good-quality social connections as well as material things. According to the authors, alarming declines in certain dimensions of social capital - such as social ties, trust and participation - have been observed in the US in recent decades. In Europe, greater differences in these parameters have been reported across countries over time; for example, in the UK, they have become closer to those in the US.

Another potential precursor of a crisis is a change in people's values. According to one study, the proportion of Americans who find it very important to have a lot of money or a high-paying job increased by almost 50% between 1970 and 1990. The number of undergraduates convinced that achieving a high economic status is the main goal in life almost doubled between 1970 and 1995.

Yet another factor discussed by the authors, is the work-leisure balance. The US is one of the countries with the longest working weeks, and about one-quarter of US companies do not offer paid leave to employees, according to the study. There is no agreement as to whether the number of working hours has increased in the US, but even if it has not, the researchers note that in many families, no one has time for household chores. The situation is different in Europe, where labour unions have successfully been pressing for a shorter working week.

Today's economies need reforms to lower the risk of future crises. 'Some countries' higher economic productivity compared to others can signal that their economic systems are not entirely consistent with subjective well-being and basic human needs and thus may be more susceptible to crises', according to Sarracino.

If politicians want to improve people's wellbeing, they should not focus exclusively on economic growth, as it is a deceptive goal, the researcher believes. There is a need for a strategy capable of promoting economic growth, protecting social capital and reducing inequalities all at the same time.

More information: Francesco Sarracino et al, Consume More, Work Longer, and Be Unhappy: Possible Social Roots of Economic Crisis?, *Applied Research in Quality of Life* (2018). DOI: 10.1007/s11482-017-9581-0

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