THE SOCIO-ECONOMIC DETERMINANTS OF HAPPINESS AND WELL-BEING IN INDIA

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Abstract

The relation between income and life satisfaction has been at the heart of economic decision analysis. The conventional economic principle is based on the premise that income is an index of welfare which is reflected in utility and hence income or utility maximization is equivalent to maximizing happiness or well-being. Many empirical studies have consistently shown that vast income differentials across countries do not show any marked differences in the average levels of happiness. In the wealthy western countries, subjective well-being has not correspondingly increased over the years while the income levels have even more than tripled. It seems in many instances people feel deprived. Studies have pointed out that the real force behind such inconsistency has been the obsession of people with positional status in the hierarchical structure of the societies. Individuals compare themselves with their neighbhours in the higher income bracket and feel deprived or less satisfied. This relative income comparison raises the expectations of people and hence they feel unhappy or are not satisfied with their available material well-being. This raises the question that if income does not raise happiness and well-being, then what is the meaning of economic progress or acquisition of material requisites. A solution to this paradoxical observation could explain why people are often striving to maximize wealth.

This paper empirically analyses the socio-economic determinants of happiness and well-being econometrically using a primary sample and applying the ordered probit model. The primary sample consists of 315 respondents from two divisions of the Chennai Corporation in India. The dependent variable is the response to a three way answer to questions on happiness and life satisfaction. The independent variables include a set of individual specific social and economic characteristics, besides income. The income variable is used both in absolute terms and in relative terms. The relative income is measured as the difference between the individual income and the mean/median income. The ordered probit estimates show that the effect of relative income on happiness and well-being is much stronger than the absolute income. The empirical results reveal that individuals are concerned with their relative economic status and their happiness and life satisfaction is depends on this relative ranking.

As the individual's relative ranking improves, the individuals revises his reference neighborhood and compares his relative position with that of the higher ups. Thus, an increase in the income of all individuals leaves the relative position unchanged, though there in an income increase in absolute terms for all individuals. In effect, with a view to 'keep up with the Jones', individuals continue to accumulate wealth though it could not raise his well-being beyond certain threshold.