How is Life?
Understanding the Economics of Happiness

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How is Life?

Understanding the Decline of Happiness (2014-18)¹

Marcelo Neri

Foreword

Does money bring happiness? What are the links between economics and social wellbeing in Brazil and the world? Is the country a point outside the curve? Beyond the structural aspects captured in global figures, in recent years Brazil has suffered the worst recession in its statistically documented history, offering the opportunity to test those aspects in the extreme Brazilian case: has the quality of life declined to a greater or lesser degree than in other countries? What are Brazilians’ lives like? Why is the nation’s general happiness declining more than its GDP? Is it unemployment, inequality, disillusion with politics, or all those aforementioned alternatives? Who has suffered most from the Brazilian recession - women, rural residents and or the illiterate? Or who of the poor, rich or the so-called new middle class has lost happiness most? These are the questions this study looks to answer.

The GDP is used as a synthesis of economic success. If we wish to measure peoples’ progress, we have to take a closer look at other dimensions of human experience. The book “Mis-measuring Our Lives” by Stiglitz, Sen and Fitoussi is worth reading. The book reflects the conclusion of a commission of leading economists on how to measure the progress of the nations named herein from four aspects: prosperity, equality, sustainability and sensitivity. We measured and linked these elements to grasp the pre-crisis relations and understand the sharp decline in social wellbeing during the major Brazilian meltdown of the last four years.

Here we stress the recent change based on objective and subjective microdata. Since 2014 Brazilians have undergone a dramatic decline in their per capita GDP. Now the loss of wellbeing measured objectively and subjectively has dropped even further. This foreword measures, compares and endeavors to understand the immediate determinants of the decline in the nation’s general happiness from the last four years until December 2018 from the microdata of household surveys.

¹ See the survey in https://cps.fgv.br/en/happiness
The Changes in Happiness

The first methodological question is how are changes in the nation’s general wellbeing summed up in a single figure. We offer two complementary views; one based on subjective assessments and the other on objective income data, discounting the effects of the inequality proposed by Amartaya Sen (1973).

Average rating of Happiness, Average Per Capita Earnings and Social Welfare

Source: FGV Social based on the Continuous Quarterly National Household Sample Survey (Pnadc) and Gallup World Poll microdata

In 2018 Brazilians gave a 6.2 rating for life satisfaction on a scale from 0 to 10. It is the lowest rating of the series since it began in 2006. The decline started in 2013, the year of Brazilian public demonstrations when the average rating was 7.1. As we will see, it is one of the three worst overall declines.

The sharpest decline in happiness was 7.14% in 2015, the same as obtained when based on the objective social welfare data calculated from the National Household Sample Survey (PNAD/IBGE), considering the level and distribution of income pocketed by Brazilians. There is a clearer parallel between the course of happiness and of objective wellbeing than with the GDP or mean income. In the
last few years the course of average per capita income and the GDP leaves behind that of subjective wellbeing. Economic recovery is not evident in the following downward responses of happiness in the three-year period 2016-2018, suggesting that the loss of happiness is being influenced by factors other than the economy. Some of the additional factors of disillusion we highlighted are the rise in unemployment and inequality, and a certain discredit in the system (politics, corruption, violence).²

Happiness, the Photo and Movie: Which did worse in the crisis?

<table>
<thead>
<tr>
<th>Brasil</th>
<th>2013</th>
<th>2018</th>
<th>Change 2018-2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>7.1</td>
<td>6.2</td>
<td>-0.9</td>
</tr>
<tr>
<td>Male</td>
<td>7.2</td>
<td>6.1</td>
<td>-1.1</td>
</tr>
<tr>
<td>Female</td>
<td>6.9</td>
<td>6.2</td>
<td>-0.7</td>
</tr>
<tr>
<td>Elementary school or less</td>
<td>6.9</td>
<td>5.7</td>
<td>-1.2</td>
</tr>
<tr>
<td>Less than tertiary education</td>
<td>7.2</td>
<td>6.5</td>
<td>-0.7</td>
</tr>
<tr>
<td>Poorest 20%</td>
<td>6.1</td>
<td>5.6</td>
<td>-0.5</td>
</tr>
<tr>
<td>Second 20%</td>
<td>7.1</td>
<td>5.9</td>
<td>-1.2</td>
</tr>
<tr>
<td>Middle 20%</td>
<td>7.3</td>
<td>6.3</td>
<td>-1</td>
</tr>
<tr>
<td>Fourth 20%</td>
<td>7.4</td>
<td>6.3</td>
<td>-1.1</td>
</tr>
<tr>
<td>Richest 20%</td>
<td>7.5</td>
<td>7</td>
<td>-0.5</td>
</tr>
<tr>
<td>Not full-time for an employer</td>
<td>7</td>
<td>6.2</td>
<td>-0.8</td>
</tr>
<tr>
<td>Full-time for an employer</td>
<td>7.3</td>
<td>6.3</td>
<td>-1</td>
</tr>
<tr>
<td>Thriving – General Life Evaluation</td>
<td>8.4</td>
<td>8.3</td>
<td>-0.1</td>
</tr>
<tr>
<td>Struggling – General Life Evaluation</td>
<td>5.2</td>
<td>4.8</td>
<td>-0.4</td>
</tr>
<tr>
<td>Approve – Political Leadership</td>
<td>7.1</td>
<td>6.7</td>
<td>-0.4</td>
</tr>
<tr>
<td>Disapprove – Political Leadership</td>
<td>7</td>
<td>6.1</td>
<td>-0.9</td>
</tr>
<tr>
<td>Biggest Cities</td>
<td>7.1</td>
<td>6.1</td>
<td>-1</td>
</tr>
<tr>
<td>Rural and Small Cities</td>
<td>7.1</td>
<td>6.3</td>
<td>-0.8</td>
</tr>
<tr>
<td>Married</td>
<td>7.3</td>
<td>6.3</td>
<td>-1</td>
</tr>
<tr>
<td>Not Married</td>
<td>6.9</td>
<td>6.1</td>
<td>-0.8</td>
</tr>
</tbody>
</table>

| Males (-1,1 pt)       |
| Less educated (-1,2 pt) |
| Middle groups (-1 pt)  |

Desapoval grew and satisfaction grades fell (-1 pt)
Biggest Cities(-1 pt)
Married (-1 pt)

Source: FGV Social/CPS based on the Gallup World Poll microdata

Why did it get worse?

Happiness by gender was inverted. Now female indices are higher than the male. Women’s income has risen 2% while men’s income has dropped 5% since 2014. The ratio between income and happiness is clear in the photo and movie: rating 7 for the 20% richest against 6.2 for the total. Just as in education, the main income determinant was rating 5.7 for those with incomplete elementary education. The downturn in the richer and more educated was a smaller function of the rise in inequality.

Smaller but poorer towns lost less happiness than the higher incomes influenced by the deterioration of urban diseconomies in the period. An earlier study of ours shows that the portion of

² Some geographic and social determinants can be accessed in the simulator: https://www.cps.fgv.br/cps/bd/nem2014/IndiceFelicidadeP/index.htm
Brazilians rejecting political leaders drops to overall world record levels in the period. The group’s rating is even lower in the period.³

**Global Map of Happiness (2017-2018)** ⁴

![Global Map of Happiness (2017-2018)](image)


![Global Map of Happiness (2013-2014)](image)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Brasil</td>
<td>6,60</td>
<td>6,50</td>
<td>6,90</td>
<td>6,95</td>
<td>7,05</td>
<td>6,45</td>
</tr>
</tbody>
</table>

*Source: FGV Social/CPS based on the Gallup World Poll microdata*


Summary of Happiness Ranking

As shown in the following table, Brazil ranks 37th in a list of 143 countries for the two-year period 2017-18. The podium featured the egalitarian and wealthy Nordic countries Denmark, Finland and Norway. Those bringing up the rear were Tanzania, Yemen and Afghanistan - countries not only poor but also volatile.

In relation to our South American neighbors, Chile and Uruguay are in front of Brazil followed by Colombia and Argentina. In 2013-14 Brazil was 17th in the global ranking, ahead of every other South American neighbor.

The most intriguing aspect of these statistics is that Brazil has lost so much ground in the ranking of happiness in the last four years. In the loss of happiness ranking for the period, Brazil lies alongside Yemen and behind only Malawi and Zimbabwe in terms of loss of happiness.

<table>
<thead>
<tr>
<th>Geography</th>
<th>Life Satisfaction Mean 2017/18</th>
<th>Life Satisfaction Mean 2013/14</th>
<th>VARIATION*</th>
<th>RANKING 2017/18</th>
<th>RANKING 2013/14</th>
<th>VARIATION*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>5.49</td>
<td>5.44</td>
<td>0.06</td>
<td>1</td>
<td>5</td>
<td>34</td>
</tr>
<tr>
<td>Finland</td>
<td>7.85</td>
<td>7.40</td>
<td>0.45</td>
<td>1</td>
<td>5</td>
<td>34</td>
</tr>
<tr>
<td>Norway</td>
<td>7.60</td>
<td>7.40</td>
<td>0.20</td>
<td>2</td>
<td>5</td>
<td>53</td>
</tr>
<tr>
<td>Denmark</td>
<td>7.60</td>
<td>7.55</td>
<td>0.05</td>
<td>2</td>
<td>1</td>
<td>68</td>
</tr>
<tr>
<td>Chile</td>
<td>6.35</td>
<td>6.75</td>
<td>-0.40</td>
<td>29</td>
<td>24</td>
<td>115</td>
</tr>
<tr>
<td>Uruguay</td>
<td>6.30</td>
<td>6.50</td>
<td>-0.20</td>
<td>33</td>
<td>31</td>
<td>101</td>
</tr>
<tr>
<td>Brazil</td>
<td>6.25</td>
<td>7.05</td>
<td>-0.80</td>
<td>37</td>
<td>17</td>
<td>132</td>
</tr>
<tr>
<td>Colombia</td>
<td>6.10</td>
<td>6.50</td>
<td>-0.40</td>
<td>46</td>
<td>31</td>
<td>115</td>
</tr>
<tr>
<td>Argentina</td>
<td>5.90</td>
<td>6.65</td>
<td>-0.75</td>
<td>56</td>
<td>26</td>
<td>131</td>
</tr>
<tr>
<td>Bolivia</td>
<td>5.70</td>
<td>5.85</td>
<td>-0.15</td>
<td>62</td>
<td>55</td>
<td>93</td>
</tr>
<tr>
<td>Peru</td>
<td>5.70</td>
<td>5.85</td>
<td>-0.15</td>
<td>62</td>
<td>55</td>
<td>93</td>
</tr>
<tr>
<td>Tanzania</td>
<td>3.35</td>
<td>3.70</td>
<td>-0.35</td>
<td>140</td>
<td>137</td>
<td>114</td>
</tr>
<tr>
<td>Yemen</td>
<td>3.30</td>
<td>4.10</td>
<td>-0.80</td>
<td>142</td>
<td>126</td>
<td>132</td>
</tr>
<tr>
<td>Afghanistan</td>
<td>2.70</td>
<td>3.35</td>
<td>-0.65</td>
<td>143</td>
<td>143</td>
<td>127</td>
</tr>
</tbody>
</table>

Source: FGV Social/CPS based on the Gallup World Poll microdata

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5 Access complete rankings in [https://www.cps.fgv.br/cps/bd/docs/ENG-Ranking-Happiness_FGV-Social.pdf](https://www.cps.fgv.br/cps/bd/docs/ENG-Ranking-Happiness_FGV-Social.pdf)
Objective Social Welfare

The Brazilian worker’s income increased 2.3% in 2018, the highest rate in the last four years, more than in the National Accounts. In per capita terms the worker’s income also including informal workers and the unemployed rises 1.54%. The bad news is that equality dropped 0.71% in 2018, closing four years of an ongoing downward trend of this item, which had never even happened before 1989 in our historical peak inequality. The objective measure of social welfare that summarizes both sides resumed growth (0.81%) in 2018 after three years of decline but less than the rise in income as a result of less equality.

Annual Rates of Working Growth, Equality and Objective Social Wellbeing

Source: FGV Social based on the quarterly PNADC microdata – per capita Labor Earnings 15 – 60 years

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6 See: How did the crisis impact poverty and income distribution? [https://cps.fgv.br/Pobreza_Desigualdade](https://cps.fgv.br/Pobreza_Desigualdade)
Conclusions:

Returning to the first questions about the quality of growth in the period 2014-2018:

- How much did it grow? Emphasize income from the view of households (not only the per capita GDP) – The Brazilians’ income that had been increasing more than the GDP until 2014 now declined more.

- Is it inclusive? Distribution measurements: - Inequality that had been on the decline is now increasing, or at least the objective welfare has grown less than the GDP.

- Is it sustainable? Income and employment that give people security dropped and the fiscal situation restricts the possibility of transfers, thereby increasing actual risks.

- Does the population perceive it? Subjective measurements had an even sharper drop than the objective.

- The picture of recent years portrays a major social decline. Brazil of the Brazilians has worsened in the crisis even more than the GDP. Unemployment, inequality and disillusion with politics are some of the added aggravating factors.
DOES HAPPINESS TRACKS INCOME?\(^7\)

This paper deals with the more structural relationship between income and happiness, measured by life satisfaction, reported by people in many countries around the world, with special attention to the Brazilian experience. From the incorporation of specific questions to the SIPS questionnaires, taken from internationally acknowledged research, it was possible to specifically address national issues and compare them to more than 132 countries. Using as a reference the empirical research of Deaton (2007)\(^8\), but with a different functional specification, a high correlation between income and life satisfaction is demonstrated. From the estimation of a "happiness function", weights were established and assigned to each component of the Human Development Index (HDI) concerning satisfaction with current life. The results indicate that income explains about 66% of the variation in life satisfaction, against 31% of life expectancy, leaving less than 3% explained by components of education. Another result of the research was the creation of a wealth indicator to measure the relation of how happiness varies among people from different countries. The results show that there is a positive long-term correlation between present life satisfaction and material conditions, both in Brazil and throughout the world. However, Brazilian happiness is relatively indifferent to material conditions, which is exemplified by the fact that no country in the world, among the 132 surveyed, shows a lower correlation between the two variables than Brazil.

The low sensitivity of Brazilians towards material living conditions and income is shown by the fact that the Northeast region, although the poorest in the country, shows the highest level of current happiness. A good deal of the relation between income and happiness in Brazil is explained by the transition of those with no income at all to the lowest income range studied, indicating a great potential for public policies focused on the poorest. In fact, the relation controlled by several socioeconomic factors between implicit income variation in the expansion of the 

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\(^7\) This is the resume of the paper available in Portuguese.

targeted on the poorest. Data indicates that the beneficiaries of the program earn an additional 0.41 point of happiness in relation to non-beneficiaries. This result indicates that redistributive policies, of which the *Bolsa Familia* is the greatest Brazilian example, can lead, in aggregate terms, to greater overall happiness of the nation in the short run.