

CONSUMPTION AND HAPPINESS

Introduction to this Special Issue

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ABSTRACT

While abundant evidence is available about the relationship between income and happiness, relatively little is known about the effects of the level and composition of consumption on happiness. The present paper provides an introduction to this special issue devoted to Consumption and Happiness. We start by discussing different concepts and measures of happiness. We then briefly review the existing literature on consumption and happiness. Finally, we introduce the papers contained in this special issue by outlining their respective contributions.

Keywords: Subjective well-being, Life satisfaction; consumption, savings

JEL Classification: A12, D12, I31

1 INTRODUCTION

The subject of happiness has long been a playground for philosophers. Since the 1970s, it has become the object of empirical research in the social sciences. In the wake of the social indicators movement, happiness became a common topic in large scale welfare surveys, and a key topic in psychological research on mental health and in medical research on ‘health-related quality of life’. Around 2000, ‘Happiness Economics’ appeared on the scene (e.g., Frey and Stutzer 2002; VanPraag and Ferrer-i-Carbonell 2010).

The starting point of the literature on economics and happiness is an empirical finding, generally referred to as the Easterlin paradox: while across individuals and countries higher income results in higher happiness, over time income growth is not associated to higher happiness levels (Easterlin 1974). Motivated by this puzzling result, a large number of studies in the economics and happiness literature have investigated the relationship between income and happiness (e.g., Stanca 2010). Three main types of explanations have been offered for the Easterlin paradox, based on hedonic, aspirational, or positional discrepancy mechanisms (see Clark et al. 2008 for a comprehensive review). More recently, a fourth explanation has been proposed, based on the interplay between economic conditions and interpersonal relations, the so-called relational treadmill (e.g., Gui and Stanca 2010; Stanca 2009, 2012; Colombo and Stanca 2014). The common theme in all these explanations is that,

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although, our material conditions improve, some other change occurs at the same time with an opposite effect. As a consequence, similarly to the position of a runner during a treadmill workout, our perceived well-being remains unchanged.

The empirical basis of the Easterlin Paradox has recently been challenged on the basis of newly available time series, which shown that average happiness has risen in most nations and more so in the nations that had most economic growth (Veenhoven & Vergunst 2014). Still the effect of economic growth on happiness is small.

Forty years since Easterlin's seminal contribution, a wide body of evidence is available about the relationship between income on happiness. Quite surprisingly, instead, relatively little is known about the effects of the level and composition of consumption on happiness. This special issue aims at filling this gap. It draws on papers presented at a workshop on 'Consumption and Happiness', organized by Ruut Veenhoven within the conference 'Advances in Happiness Economics', held at Erasmus University Rotterdam in the Netherlands, on October 28-29, 2013. This paper provides a short introduction to the special issue. We start by discussing different concepts and measures of happiness in Sections 2 and 3, respectively. We then briefly review, in Section 4, the existing literature on consumption and happiness. Finally, Section 5 introduces the papers contained in the special issue by outlining their respective contributions

2 CONCEPTS OF HAPPINESS

Since the term happiness is used with very different meanings in different disciplines, we start by spelling out alternative definitions, in order to clarify what concept of happiness is addressed in this issue. In philosophy, the word 'happiness' was used as an umbrella term for 'the good life', and different qualities of life were called by this same name.

Four qualities of life

Quality-of-life concepts can be grouped by using two distinctions, one between life chances and outcomes, and another between outer and inner qualities of life. In combination, these two dichotomies yield a four-group taxonomy of qualities of life (Veenhoven 2000): Livability of the environment, Life-ability of the person, Usefulness of life, and Satisfaction with life.

Livability of the environment denotes the meaning of good living conditions, in short, 'livability'. Economists associate livability with access to goods and services and call it 'welfare'. Livability is not what is called 'happiness' here. It is rather a precondition for happiness, and not all environmental conditions are equally conducive to happiness (e.g., Colombo et al 2014).

Life-ability of the person denotes inner life-chances. That is, how well we are equipped to cope with the problems of life. Sen (1992) calls this quality-of-life variant 'capability'. The simple term 'life-ability' can be preferred, as it contrasts elegantly with 'livability'. An ability to deal with the problems of life will mostly contribute to happiness as defined here, but it is not identical to happiness. If one is competent at living, one then has a good chance at experiencing happiness, but being thus endowed does not guarantee an enjoyable life outcome.

Usefulness of life represents the notion that a good life must be good for something more than itself. This assumes a life has some higher values. There is no current generic term for these

external outcomes of life. Gerson (1976: 795) refers to these effects as ‘transcendental’ conceptions of quality of life. Economists would call it ‘externalities’. Leading an objectively useful life may contribute to one’s subjective appreciation of life, but it may also come at the cost of that. Therefore, useful living is not the same as a happy living.

Satisfaction with life represents the inner outcomes of life. That is, the quality of a life in the eye of the beholder. As we deal with conscious humans, this quality boils down to subjective satisfaction with life. This is commonly referred to by terms such as ‘subjective well-being’, ‘life satisfaction’ and ‘happiness’ in a limited sense of the word. This is the kind of happiness addressed in this issue.

Four kinds of satisfaction

Even when we focus on subjective satisfaction with life, there are still different meanings associated with the word happiness. These meanings can be categorized on the basis of the distinction between parts-of-life versus life-as-a-whole, and the one between passing versus enduring satisfaction. These two dimensions produce a four-group taxonomy for satisfaction (Veenhoven 2000): Pleasure, Domains satisfaction, Peak-experience, and Life satisfaction.

Pleasure represents passing enjoyments of life-aspects. Examples would be delight in a cup of tea at breakfast, the satisfaction of a chore done, or the enjoyment of a piece of art. This category can be referred to as ‘pleasures’. Kahneman (1999) calls it ‘instant-utilities’. Though fleeting enjoyment obviously contributes to a positive appreciation of life, it is not the whole of it.

Satisfaction with life domains denotes enduring appreciation of life-aspects, such as marriage satisfaction and job satisfaction. Domain satisfactions are often denoted with the term happiness: ‘a happy marriage’, ‘happy with one’s job’, etc. Yet, one would not call happy a person who is satisfied with her marriage and job but still dissatisfied on the whole because her health is failing.

Peak-experience denotes the combination of passing experience and appraisal of life-as-a-whole. This combination occurs typically in peak-experiences, which involve short-lived but quite intense feelings and the perception of wholeness. This is the kind of happiness poets write about, but not the kind of happiness addressed in this issue. A moment of bliss is not the same as enduring appreciation of life.

Life satisfaction represents lasting satisfaction with one’s life-as-a-whole. This is the meaning addressed in this issue, and is central in happiness economics.

Happiness and consumption are often equated in classic economics and referred to as ‘utility’. Yet, a consumption good such as a house is an external condition for happiness that, in the first taxonomy above, belongs to the Livability of the environment, while happiness itself belongs to Subjective enjoyment of life. Next, not all satisfaction is life-satisfaction. A consumer may be very satisfied in the domain of housing, but not satisfied with his life-as-a-whole, because he had to work all the time to pay for the big house. Likewise, passing pleasures derived from consumption should not be equated with its long-term consequences for life-satisfaction. One may enjoy more than five glasses of alcohol a day, while this consumption pattern still reduces life-satisfaction in the long run. The question at stake in this issue is what patterns of consumption add more or less to enduring life-satisfaction.

3 MEASURES OF HAPPINESS

Since happiness is defined as something that we have in mind, it can be measured using questions. Questions on happiness can be presented in various ways (Veenhoven 2012b). A common direct question is 'Taking all things together, how happy would you say you are?'. Indirect questions ask related things, such as 'Do you think that you are happier than most people in this country' or 'Do you often sing when under the shower?'. An assumed advantage of indirect questioning is that this will reduce response bias. A disadvantage is that something different than happiness is measured.

Rather than using single questions as in the example above, one can ask about the same using multiple questions. Series of questions on happiness are referred to as 'scales' and the Satisfaction With Life Scale (SWLS) is one of the most common questionnaires (Diener et al 1985). An advantage of single questions is that it is clear what is being measured and hence that one can easily see whether that is happiness as subjective enjoyment of one's life as a whole (face validity). A disadvantage is that the particular words used may not be interpreted in the same way by all respondents. An advantage of multiple questions is that such differences in interpretation balance out. Yet a disadvantage is that the questions may not quite address the same thing, such as the last item in Diener's SWLS.

The above mentioned single question calls for a global estimate by the respondent, which may involve various biases (Kahneman 1999). An alternative is to ask repeatedly how happy one feels at the moment and to compute an average. This is referred to as the Experience Sampling Method (ESM), a variant of which is the Day Recall Method (DRM). These method can be used to measure only the affective component of happiness, referred to above as 'hedonic level of affect'.

The hedonic level of affect can also be measured indirectly by asking people about particular feelings in the recent past, such as how often they felt 'cheerful' or 'blue'. The reported number of negative affects is then subtracted from the number of positive experiences. A common scale of that kind is Bradburn's (1969) 10 item 'Affect Balance Scale'. This technique fits well with Bentham's (1789) classic notion of happiness as 'the sum of pleasures and pains'.

An overview of questions is available in the collection 'Measures of Happiness' of the World Database of Happiness, which includes about 900 variants (Veenhoven 2015b). There is a large literature on the quality of these measures, their validity, reliability and comparability across persons and cultures. Comprehensive reviews are presented in Larsen et al (1985) and Veenhoven (2012a).

4 HAPPINESS AND CONSUMPTION

Research in happiness economics has focused mainly on the effects of income and employment, that is, on how much and in what way money is earned.³ As yet, there has been relatively little interest in the effects on happiness of how earnings are spent.⁴ In addition, the available findings are all cross-sectional and generally do not inform us about cause and effect (MacDonald and Douthitt 1992; Headey et. al 2004; DeLeire and Kalil 2010; Perez-Truglia 2013; Lewis 2014).

³ World database of Happiness, Findings on [Happiness and Income](#) and [Happiness and Employment](#).

⁴ Of the 14.000 correlational findings in happiness, only about 100 concern the relationship between consumption and happiness (World database of Happiness, Findings on [Happiness and Consumption](#)).

The problem

In modern multiple-choice society we face several major consumer choices, such as when we buy a house, a car, or a life-insurance. Expectations about happiness play a key role in such decisions. People who spend a large part of their income on a spacious house typically expect that life will be more satisfying in a big house and might take up a heavy mortgage in order to prevent the unhappiness expected from living in a smaller house.

Yet, predictions of future happiness appear to be subject to many distortions (e.g., Gilbert 2006). In this context, Kahneman and Thaler (2006) distinguished between *expected utility* and *experienced utility*, the latter being the ultimate effect on happiness. Likewise, Frey and Stutzer (2014) coined the expression *mis-predicting utility*, which results in a loss of happiness. Their iconic example is the person who accepts a better paying job at a longer distance, expecting that the better pay will add to his happiness, whereas the longer commuting time actually makes him less happy overall (Stutzer and Frey 2008).

Solutions

There are several ways to deal with the problem of misinformed consumer choice. One way is to combat misleading information by means of rules for advertising and counter-information by consumer unions. A related approach is consumer education. Still another way to more informed choice is to gather information about the long-term effects of consumer choice, for instance following the happiness over time of otherwise comparable people who bought a big or a small house. Such information can be used both for correcting misleading claims in advertisements and for consumer education. This approach is comparable to effect research on pharmaceuticals, which is also used to check claims by producers and to inform health education.

The long-term effects of consumer choice on happiness are likely to differ across persons. So the question is not only whether most people are happier in a bigger house, but also among what kind of people happiness depends on the size of the house.

Information re-enquired for informed choice

The first key research question is how much consumption is optimal for happiness. Are frugal people really happier than big spenders, as some studies on happiness and materialism suggest (e.g., Hudders and Pandaleare 2014)?

A second question is what types of consumption are most conducive to happiness. Is experience consumption more satisfying than material consumption? In the case of experience consumption, a more specific question is what kind of experiences add most to happiness. And, when it comes to material consumption, what durable goods add most to happiness? Does investment in housing pay off more than in cars?

In all these issues we are faced with further questions about variations across persons and situations. This leads to a more general fundamental question: to what extent and on what issues can empirical research contribute to more informed choice?

Why so little research?

Given the relevance of these questions, and the size of the market, one would have expected much more research on the consequences of consumer choice on happiness. Why is there only a handful of findings about consumption and happiness, for example, in the World Database of Happiness (2015a)?

One of the reasons seems to be the theoretical limitations of mainstream economics. Many researchers still equate consumption and happiness, implicitly assuming that homo economicus is fully informed about his preferences and that meeting these preferences will make him happy. They are often unaware of the above noted difference between expected and experienced utility. They underestimate the importance of the difference between needs

and wants, and tend to overlook the fact that happiness depends more on meeting the former than the latter (Veenhoven 2009).

Another reason is commercial interest. Producers are interested in selling their products in the first place. They spend large amounts of money on marketing research to obtain a better picture of what consumers expect that will make them happy, and on advertisement to influence these expectations and link to their products. Whether these products actually add to consumers' happiness is not necessarily of interest. Although there is a substantial body of research on consumer's satisfaction with the product, there is little research on the effects on life satisfaction, not even in the domains of housing and residential care.

This lack of research is part of a wider market failure. Since there is no reliable information about the long-term consequences of large consumer purchases for happiness, there is no competition on happiness effects and hence no product development in that direction. The market itself is unlikely to solve this problem. Governments and consumer unions would be, instead, in the position to press for more research on the effects of consumption on happiness

5 CONTRIBUTIONS IN THIS ISSUE

This special issue contains five empirical papers providing new evidence on the relationship between the level and composition of consumption and subjective well-being. Overall, the papers provide a wide range of contributions, from different perspectives, to the understanding of the relationship between consumption and happiness.

In the first paper, Noll and Weick (2015) investigate the effects of the level and composition of consumption on subjective well-being (life satisfaction) among German households. They use cross-sectional data from the German Socio-Economic Panel (SOEP), which includes, since 2010, retrospective information on households' consumption expenditures. Total consumption expenditures are found to exert a positive and significant effect on life satisfaction. The size of the effect is substantial and only marginally lower than that of household income. Turning to the composition of consumption, expenditures on clothing and leisure are identified as key determinants of subjective well being, while expenditures on food and housing are not significantly related to life satisfaction. The explanatory power of the model rises substantially when replacing total expenditures with the amount spent on different categories of goods and services. Finally, the analysis indicates that there are differences in the effects of income and consumption across different parts of the respective distributions. Individuals in the lowest consumption decile are less unsatisfied with their life than individuals in the lowest income decile. In addition, low levels of consumption expenditures are found to reduce life satisfaction only marginally when people voluntarily choose to consume less.

Okulicz-Kozaryn (2015) focuses on the effects of car consumption on life satisfaction. Using the 2011 wave of the American Panel Study of Income Dynamics (PSID), the paper investigates the role played by car ownership, number of cars owned, and type of car (luxury versus frugal). The findings indicate that, controlling for income and house ownership, car ownership does not have a significant effect on life satisfaction. The relationship between number of cars owned and well-being is shown to be sensitive to the set of control variables. Most importantly, luxury cars are not found to contribute to happiness more than frugal cars. An interesting interpretation of these results is that conspicuous, or positional, consumption may help to explain the Easterlin Paradox.

Zhang and Xiong (2015) investigate the effects of consumption choices on several indicators of happiness, focusing on a large set of consumption categories from different life domains and including both monetary and experiential consumption. The analysis relies on a web-based survey carried out in 2010 with 2,178 individuals in various cities of Japan. The results indicate that, while more than half of the 77 consumption variables from eight life domains affect happiness, different happiness domains are influenced by different sets of consumption variables. In particular, income only affects overall happiness and experiences of mildly pleasant moods during leisure activities, while saving is the most important factor for enhancing overall happiness. Happiness is strongly affected by active life consumption variables, and communication with neighborhoods.

The last two papers in this special issue rely on the Life in Transition Survey conducted jointly by the European Bank for Reconstruction and Development (EBRD) and the World Bank in 2010, which includes detailed information on several consumption categories, such as expenditures on food, education and durables. Dumludag (2015) studies the effects of various consumption expenditures on life satisfaction at different levels of development. Interestingly, the findings indicate that the relationship between consumption categories and life satisfaction differs at different levels of development. While expenditures on clothing and footwear and durables have a positive and significant effect on well-being in both developed and transition economies, expenditure on utilities has a positive effect on well-being in transition countries but no significant effect in developed countries. Gokdemir (2015) carries out a similar analysis with a focus on Turkey. The findings indicate that, overall, only expenditures for durable goods and savings are positively and significantly related to life satisfaction.

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