

# The Happiness Equation Summary

By Nick Powdthavee

Two economics professors and a dentist walk into a bar. This may sound like the opening line of a joke, but in *The Happiness Equation*, Nick Powdthavee shares a snippet of a conversation between two economics professors and a dentist. They asked the dentist if he was happy in his profession, and he replied that dentistry made him miserable. So, why did he decide to become a dentist? He replied, 'It's that stupid kid eighteen years ago that chose to become a dentist. Not me.'

*The Happiness Equation*, explores the powerful combination of behavioral economics and research on the psychology of happiness, to explain the importance of deepening our understanding of happiness. By providing us with nine secrets based on rigorous research, it reveals that happiness is within all of our grasps.

Perhaps you've asked yourself one of the following questions? Does money make us happy? Can we attach a value to a life event? Does having children make us more contented? What could make us permanently unhappy? Should governments try to increase their citizens' happiness, or should they continue to focus on economic prosperity?

We think that understanding happiness, and making decisions that can bolster our happiness should be easy and logical. Yet, most of us can think back on disappointing choices, big or small, that we deeply regret. We believe that if we had made a different decision, we would be happier. We have this nagging feeling that there's a simple answer to being happy. We just haven't quite figured it out yet.

This summary will briefly guide you through questions around happiness. We'll look at why many of us are like the dentist, and aren't too good at making decisions about what makes us happy. Powdthavee updates us on the scientific debates around measuring happiness, and gives us valuable insights into our own happiness levels. Furthermore, we explore why it's important to be happy, and whether government involvement in promoting happiness could provide solutions.

## **Some Statistical Dilemmas That Complicate the Study of Happiness**

Is happiness something that can be measured?

Unlike money, we can't count it or save it in a piggy bank, and happiness isn't always based on logical thinking. Traditionally, economists shied away from happiness measurements because they didn't believe that the statistics generated from life satisfaction surveys were sufficiently accurate. A careful differentiation between a correlational and cause-and-effect relationship is also essential in scientific studies, but problematic when it comes to seemingly intangible psychological constructs.

The debate around causation and correlation has been ongoing. However, research by statisticians Richard McKelvey and William Zavoina confirms a statistical method called "ordered probit." Ordered probit reveals that if we can obtain ordered variables in research, we can reliably interpret something as intangible as happiness levels.

A further debate between economists and psychologists has been around rationality and decision-making. Economists have worked on the

assumption that people are rational thinkers. However, if we're rational decision-makers, all of us, including our unhappy dentist, would make wiser decisions. Unfortunately, we're only partly logical. Parts of our brain are rational, deliberate, and deductive, but other parts are more emotional, automatic, and associative. The latter is often the default function we rely on for quick decision-making when we're under pressure or when information is incomplete or too complicated for us.

Our reflections on our past experiences are also not always accurate. This is what Daniel Kahneman and his colleagues call the "peak-end effect." We're inclined to evaluate past experiences (good or bad), according to how we felt when they were at their peak, and what the final experience was like. So we don't necessarily remember past events accurately, and to add to this, the memories we hold on to, tend to be the ones that are firmly etched in our minds, as opposed to the ordinary daily experiences.

Behavioral economists such as Nick Powdthavee, and psychologists studying happiness, have crossed the great divide and joined forces to broaden understandings of happiness. They've discovered a range of internal and external factors that influence our mood.

## **Looking Internally**

Professor of psychology at the University of Wisconsin, Richard Davidson, used MRI scans to analyze our brains when we experience certain feelings. He found that people whose left side of the brain showed more significant activity, reported more positive emotions than the more active "right siders." Those with greater "right-side activity" reported more negative feelings and tended to be rated as unhappy by others who knew them. This finding suggests that our individual

neurology plays a decisive role in our happiness.

A longitudinal study by an American professor of neurology, David Snowdon, also supports this. Snowdon's research involved nuns, which was particularly useful because of their very similar life situations. These similarities make it easier to rule out variables that may complicate the "cause-and-effect" notion. Analyzing the tone, content, and language in the nun's diaries, allowed Snowdon to divide them into two groups â the happy and not-so-happy. Of the not-so-happy nuns, only 40% lived to 85 years of age. However, a startling 90% of the happy nuns lived past their 85th birthdays. The conclusion? Happy people live longer. Additional research also shows that happier people heal more quickly from physical injuries.

Then there's the matter of our personalities. Personality is at the core of our inner being. Researchers found that individuals who are extroverted, agreeable, conscientious, and open to experience, are more likely to report high levels of life satisfaction. The opposite also applies. Those who fall into the neuroticism category (i.e., those who are more angry, anxious, and self-conscious) report greater unhappiness, even when external factors are reasonably constant.

Ultimately happiness is both input and output. A longitudinal study by psychologist Ed Diener indicates a link between students' positive mood, and later earnings. Happy people are also more inclined to pro-social behavior. We also know that happiness correlates with longevity. So it seems like happiness can lead to success, but that success also leads to increased happiness. From a statistical perspective, we have to understand that causality can run in both directions.

**Then There Are All the External Events of Our**

# Lives

Biology isn't everything when it comes to happiness. Our circumstances also play a significant role, and money features strongly in how we view our lives.

## Do You Think You'd Be Happier if You Had More Money?

Our instinctive answer, irrespective of culture, would be an unequivocal yes.

Richard Easterlin's research dating back to the 1970s, challenged this view. His initial findings were unsurprising - in many countries, rich people reported being much happier than poor people. However, then the expectation is that an increase in income for citizens, should lead to a happier society. This assumption sounds reasonable, right? Well, not quite. Easterlin found that, despite the United States having continued economic growth since the Second World War, national happiness did not rise accordingly. So the rich are happier than the poor, but an increase in income for everyone, doesn't increase happiness for everyone.

Powdthavee believes that the explanation for this is that everything is relative. We desire money for two reasons. The first is that we need it to survive, but the second is that we enjoy increasing our social status. That's why many people aspire to drive an Aston Martin instead of an Austin Maestro. Research from Spanish economist Ada Ferrer-i-Carbonell, shows that we compare ourselves to those with similar socio-demographic characteristics. In other words, we want to keep up with the

Joneses. If we earn more than those who share our community, our happiness increases. However, if the income increases are identical for everyone in our community, no one becomes happier.

In China for instance, researchers found that approximately 70% of rural Chinese compare themselves to those living in the same village. However, only 11% compared themselves to people living outside of their village. So we tend to compare ourselves to those we mix with, and if we perceive ourselves as having more than those around us, our happiness increases.

If people see others advance economically in a country undergoing demographic shifts, they see it as an indication of what the future might be like for them too. However, the problem is that if there are no shifts in a short period, their hope may turn into frustration, reducing their happiness. So a more precise understanding of money might be that we care a lot about our relative income. The fact is that we pay attention to rankings, so both absolute and relative income matter.

## **What Helps Us Recover From Bad Experiences?**

An interesting question is whether we eventually adapt to adverse life circumstances, and if specific amounts of money can compensate for this.

Setpoint theory indicates that we eventually revert to previous levels of happiness after a challenging life event. However, the counter-argument is that cross-sectional research that's based on comparing different people's happiness at the same point in time, makes true cause-and-effect challenging to determine. It's a lot easier to extrapolate causal relationships if we evaluate the same individual's reported happiness

over a long period, both before and after specific positive or negative life experiences.

Findings show that unemployment hurts individuals psychologically. What's more is that hurt seems to continue, particularly for men. Psychological recovery after losing a job was not complete even after five years without work.

Another statistical problem is that findings often include the word "average," but as we know, not all of us are average. For example, unemployment affects men more negatively than women, and it affects highly educated men more than those with lower education. The economist Andrew Clark hypothesizes that unemployment is easier to handle when your area's unemployment rate is high. He further argues that the gap between the happiness of the employed, versus the unemployed's happiness, could disappear entirely if the overall unemployment rate in the region were over 24%. This is a social norm effect, and social norms affect our happiness.

## **What About Divorce?**

At the cross-section, that is when the event occurs; separated and divorced people are significantly unhappier than their married counterparts. However, for people going through a divorce, their life satisfaction actually declines before the divorce is finalized. This unhappiness begins about four years prior for men, and two years for women. However, unlike some social conditions such as unemployment, adaptation can be complete reasonably soon after the break-up.

Why would our adaptation vary in these different life contexts?

Our author cites psychologists Dan Gilbert and Timothy Wilson. They suggest that we begin to adapt to an event when our attention is drawn away from it, and we think less about it. So time may heal wounds if the past event isn't continually demanding our attention. Unemployment, disability, and lengthy commutes affect our minute-by-minute experience.

The lesson is that happiness is a state of mind. Yes, we all have a particular genetic and personality wiring, but where we focus our attention daily, also determines how we adapt to changes in our lives.

## **The Importance of Social Relationships**

Marriage is one of the most significant social connections. In terms of marriage, we're happier in the years leading up to the wedding, which peaks when the ceremony takes place. However, this joy seems to diminish after about two years of wedded bliss. Findings also indicate that newly wedded people are happier than single folk.

There's a range of other social relationships that are important. These include seeing friends and relatives who may live elsewhere, and talking to neighbors. People who see friends or relatives almost every day for a year, are happier than those who hardly see friends or relatives. And, people who talk to neighbors nearly every day for a year, are happier than those with few interactions.

Behavioral economists are experimenting with calculations that quantify the amounts of money that would compensate for these situations. For



example, someone who doesn't talk to anyone in the neighborhood, would need to be paid the equivalent of about \$2950 per annum, to be just as satisfied as their more sociable counterparts (as per 2011 calculations).

## **Does Having a Child Make You Happier?**

The debate as to whether or not having a child makes you a happier person, caused a lot of contention when our author made his findings public.

There's evidence that having a child does not increase parents' happiness, and having a child lowers parents' marital satisfaction in the first five years of the child's life. This is how Powdthavee explains this.

We generally believe that having children will make us happy. Our author points out that even if this is a faulty belief, the value of intergenerational transmission is essential because it makes evolutionary sense. We also want to appear socially desirable; therefore, we may over-report the parental experience's positivity.

However, there may be a further reason for these results. Again it could be where we focus our attention. That cute smile that we receive from a baby evokes strong responses of delight, but may be a less frequent experience than the daily anxieties of raising children. We worry about our children, and these small but negative emotions take up most of our attention. And this is what might be showing up in our levels of self-reported happiness.

While children may not give us moment-to-moment happiness, they build

our sense of meaning and self-worth. Powdthavee emphasizes that there are many dimensions of subjective well-being. It's not just positive emotion; it's also about meaningful experiences. It may be better to live meaningfully than to just focus on hedonic happiness.

## **Why Is Happiness Important for Society?**

Happiness has a contagion effect. And if happiness is contagious, we can create a happier society. We just need to make a small number of people happy and wait for this to multiply. If we're happy and optimistic, this has a snowball effect. We can make our hiking friend or work colleague happier, and their increased happiness is likely to have a spillover effect on others. It's a kind of potential epidemic where we can make other people happy by being happier ourselves. The trouble is it works the other way too.

## **Should Governments Be Involved in Promoting Happiness?**

We know that some activities like volunteering, exercising, praying or meditating, reading, and being outdoors are happy and meaningful pursuits. Governments could pursue policies that make these more attractive for their citizens.

However, Powdthavee questions whether this shouldn't just be left to individual choice; where people implement insights to build behavior, rather than governments implementing policy. Developing policy also requires new indicators of happiness, instead of traditional GDP or Human Development Index measures. Powdthavee also questions

whether we would fall into the trap of politicians putting their own needs before the needs of the public, not to mention how costly policy mistakes could be.

A fascinating new development could see economists working with medical experts to create objective measures of happiness, such as the relationship between self-rated happiness and country-by-country hypertension levels. More objective research could build the case for the measurement of happiness.

## **In Conclusion**

Happiness is often seen as quite a nebulous concept. We're told "money can't buy happiness," that "letting go is the secret of happiness," and that "it's the small things that bring us joy." In this pragmatic approach to happiness, we're given exhaustive data and research to dissect a lot of common sense wisdom about what makes us happy and fulfilled.

Our author describes a conversation with his 90-year old grandmother. Apparently, when he explained his findings, she said that she had known this all along. She relayed the ancient Buddhist belief, which is in line with Powdthavee's results. 'Craving leads to suffering and, when our sufficient needs are met, happiness is nothing more than a state of mind, and one that we can train given effort and time.'

So, when it comes to happiness, we need to take agency and view it as a process, rather than an end goal.