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# **ECONOMICS AND HAPPINESS – KEY INSIGHTS AND LATEST FINDINGS**

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### ***Abstract***

*The paper gives an overview of the most important principles and the most recent research in the field of the economics of happiness. Its aim is to improve the basis for public discussion and informed decision-making in policy creation and implementation. The concept of happiness attracted economists early on and their attitude towards it has changed with time. Modern happiness data represent a new, scientifically validated way of measuring progress, although there is still room for improvement. The research shows that key determinants of happiness include physical and mental health, social relations, income and institutions. Happiness in itself leads to a wide range of benefits for individuals and society. This kind of research can help policy creators decide on the role, nature, target recipients and priorities for relevant policies. All this demonstrates that happiness economics has a potential for addressing current needs and future tasks to build a happier society.*

**Keywords:** *happiness, subjective well-being, life satisfaction, economics, economic policy*

## **1. INTRODUCTION**

Last two years have seen the occurrence of COVID-19 pandemic which quickly spread at the global level. It caused millions of deaths and deeply affected people's lives by worsening their physical and mental health and endangering their existence. In addition, Croatia was hit by a series of strong earthquakes, especially in the Zagreb area and later in the Banovina region, which further worsened the situation for thousands of people. The invention of the vaccine and the progress in

vaccination rollout brought about renewed optimism and talk about rebuilding back better, happier society. However, these statements are frequently made in the context of political discourse, but they are often not accompanied by adequate science-based arguments or actions in the public arena.

Happiness economics can be of great use here. It uses surveys directly measuring well-being for hundreds of thousands of individuals within and across the countries as a basis for various types of analyses (Graham, 2017). It can be used as a tool to determine causes and effects of happiness and relevant policy implications in order to make it part of wider policy debate and policy making. In this way it can help to enhance general quality of life for people all over the world. Consequently, the aim of this paper is to give a systematic overview of the discipline's key insights and most recent findings in order to improve the basis for discussions and informed decision making in policy creation and implementation.

The paper contributes to the research literature by giving a summarised presentation of the most important principles and open questions within the discipline together with critical systematisation of latest literature findings and their potential policy implications. It can also be of relevance for decision makers, policy practitioners, economists and wider public.

The paper is organised as follows: after the Introduction, Chapter Two discusses in more detail the definition of happiness and gives the historical context of the interlinkage between economics and happiness. Chapter Three analyses the novelty, validity and suitability of happiness measurement in the context of economic research. Chapter Four gives a short summary of the determinants and effects of happiness. Chapter Five presents the latest debate and relevant research regarding the policy implications of happiness economics. It discusses the role, nature and target recipients of subjective well-being policies and the issue of cost-benefit analysis in this context. The conclusion gives a critical summary of present trends and their implications, at the same time identifying some of the possible directions for future research.

## **2. DEFINITION OF HAPPINESS AND THE HISTORICAL CONTEXT OF ITS INTERLINKAGE WITH ECONOMICS**

One first has to define happiness in order to study it. This word can mean different things to different people and research community reached a consensus on how to use it in their studies. The concept of happiness attracted the attention of economists long ago and their attitude towards it has changed throughout history.

## 2.1. Definition of happiness

When discussing happiness, social scientists usually refer to (one of) 3 aspects of subjective well-being (SWB): momentary feeling of joy and pleasure (affective or hedonic), life satisfaction (evaluative) and fulfilment of one's life purpose (eudaimonic) (Clark, Flèche, Layard, Powdthavee & Ward, 2018, p. 264).

Hedonic aspect refers to emotions experienced during the daily activities. The respondents usually say whether they experienced joy, anger or stress on the previous day. It usually refers to short-term and temporary emotions influenced by one's immediate circumstances. Evaluative aspect captures how people are satisfied with their life as a whole nowadays and implies reflection on one's life – means, capabilities and long-term opportunities. Respondents usually answer on a scale of 0 to 10 or 7 with bottom values representing the lowest level of satisfaction. Eudaimonic aspect describes Aristotelian concept of having control over one's destiny. Respondents answer whether they have purpose or meaning in their lives and rate it on a scale similar to evaluative one. It may also relate to competence, personal growth and autonomy.

The evaluative aspect is the one most often used in economic research (Frey, 2018). It is often called happiness for reasons of brevity (Frey, 2018). That is why the terms subjective well-being and happiness will be used interchangeably in this paper, except where it is necessary to be precise.

## 2.2. Historical development of the interlinkage between happiness and economics

Early on economists were attracted by the concept of happiness. In the second half of the 18th century, Adam Smith proclaimed happiness to be the goal of life. According to him, economists should pay attention to and measure what people enjoy. In addition, they should base their studies on the principle of maximisation of happiness for individuals or some other relevant reference group. In the next 150 years, a very similar position was advocated by English utilitarians such as Bentham, Mill and Edgeworth who envisaged happiness or utility to be the difference between good and bad feelings (Clark, Frijters, Krekel & Layard, 2019).

This approach changed from the late 19<sup>th</sup> century onwards when economic science moved away from the measurement of individual psychology. Economists acknowledged the existence of people's feelings and judgements, but taking them into consideration as valuable outcomes was proclaimed outside the realm of economics. In the first half of the 20<sup>th</sup> century, Robins stressed that happiness or utility can only be indirectly deduced from person's revealed or stated preferences. In this view, people are rational, they try to maximise their utility as they are constrained by budget and/or time.

That position was mostly dominant in economics until the end of the last century. From then on, economists started slowly reaffirming the direct

measurement of happiness as behavioural economics challenged many of the above assumptions (Graham & MacLennan, 2020; Ralašić & Bogdan, 2018). Instead of human hyper-rationality, it reintroduced numerous psychological complexities demonstrating that revealed or stated preferences can differ from self-reported experiences (people are not necessarily very good at predicting what will make them happy. Furthermore, their actual choices are not always in line with what makes them happy). Consequently, happiness economics with its topics and methods gradually started gaining ground as a reputable research field.

### **3. ISSUES RELATED TO MAESURING SUBJECTIVE WELL-BEING**

Researchers studying SWB assume that well-being of a person (either affective, evaluative or eudaimonic) can be measured by means of self-reports. It is usually done using nationally representative surveys with thousands of participants. They also collect respondents' demographic, social and economic characteristics. This type of data implies a different way of measuring progress in economics, which underlines the importance of looking into its novelty, validity and suitability.

#### **3.1. The novelty and validity of SWB measures in scientific research**

Gross domestic product (GDP) has often been interpreted as a measure of well-being. However, the approach has lately faced criticism for its inadequacy in this respect (Ivković, 2016). The increase in well-being may not be proportionate to the increase in expenditure. Noise and pollutants accompanying production may cause loss in well-being. In addition, well-being is not determined by economic factors alone. Moreover, GDP does not take into account grey economy, leisure and family time. Although GDP describes the average income, it does not give a clear picture of the distribution of income among citizens. It is also very difficult to measure government spending because it is often given for free or at a reduced price. The GDP does not distinguish between sustainable and unsustainable practices and procedures. It focuses on short-run economic activity and not the long-term aspects of sustainable development (for example growth of natural, economic and human resources which are important in the long run), (Ivković, Ham & Mijoč, 2014).

All this illustrates the necessity to turn towards directly measuring human happiness. This approach differs from alternative, proxy ways in several respects. In comparison to GDP, it is more comprehensive. It takes into consideration not only material living conditions, but also a wide range of non-material aspects which influence people's lives and their well-being (e.g., social relations, health, institutions and environment). Moreover, with SWB the judgement of well-being

is made directly by the respondents. SWB measures give only one vote to each and every adult irrespective of their social, economic, health or education status. According to Easterlin (2021), these characteristics make it easier for the respondents to identify with the concept which can consequently better capture the complexity of people's lives.

This approach also differs from composite indices. They are based on their creators' theory, policy preferences and presumptions. Each expert decides what components to take, how to construct them empirically and what weights to give to each component. Examples of composite indices include Human Development Index (Anand & Sen, 1994) or OECD Better Life Index (Durand, 2015). The former is the equally weighted average of GDP per capita, healthy life expectancy and average education level. The latter presents a host of indicators (in the fields of housing, income, jobs, community, education, environment, civic engagement, life satisfaction, health, safety and work-life balance) and individual users are required to give their own weights in order to create an overall indicator.

Considerable amount of research shows that SWB scores are valid tools for measuring underlying well-being in a scientific way. They are validated by physiological measures of happiness such as frontal movement in the brain and genuine (also called Duchenne) smiles as well as gene alleles more efficient at carrying serotonin (De Neve & Oswald, 2012). SWB patterns also track robustly with other objective indicators like physical well-being and mortality rates (Diener & Chan, 2011; Graham & Pinto, 2019). Research also shows that individuals are able to a large extent to recognise and predict the satisfaction level of others (Nettle, 2005). In addition, there are very consistent patterns in the determinants of happiness for different countries and regions, across countries and over time by different authors who use different data. Numerous studies (Banks, Batty, Nazroo & Steptoe, 2016; Cetre, Clark & Senik, 2016; Clark & d'Ambrosio, 2015; Frijters, Haisken-DeNew & Shields, 2011) also demonstrate that the cross-distribution of well-being scores at a certain date predicted the distribution of future outcomes for the same individuals regarding labour market, family life and life expectancy.

### **3.2. The suitability of SWB measures**

Although the most recent studies demonstrate the validity of SWB scores as a research tool, it is difficult to know which of the 3 above-mentioned measures would be the most appropriate one. Senik (2011) shows that all 3 variables are closely correlated with each other – individuals who report high results on one well-being measure also do so on the others. Moreover, the variables that determine higher scores on life satisfaction often do so even for affect and eudaimonic well-being. Consequently, the choice of a particular well-being metric is not so important. However, as previously discussed, they are not the same. That is why Graham and MacLennan (2020) advise caution in the metric selection and urge to choose the most relevant metric for a particular context.

In practice, hedonic measures are usually used in assessing the quality of life (Stone & Mackie, 2013). They show that time spent with friends or in purposeful work is much more pleasant than time spent commuting which has proved to be among the most stressful events of the day. Life satisfaction data are usually used for assessing voting-decisions. They are also employed to study the relationship between SWB and various policy arrangements (Helliwell, Huang & Wang, 2020) such as preference for particular public goods. Eudaimonic aspect is the most abstract one, therefore the least well understood and developed. It is usually employed to tease out whether respondents have a sense of meaning and purpose in their lives.

The emerging evidence suggests that life satisfaction is most often used by the scholars in the field (Graham & MacLennan, 2020). This reflects the current consensus that life satisfaction is the most telling metric and should be given a priority in cases where it is necessary to use only one of SWB measures. It is consistent with the findings from Benjamin, Heffetz, Kimball, and Szembrot (2014) who demonstrate that of all the 3 metrics, life-satisfaction is most valued by people.

This does not necessarily imply it is the best one because it comes with some advantages and disadvantages (Clark et al., 2019). On the one hand, it is easy to explain and intuitive for respondents. Respondents are the ones who judge and decide on their level of well-being. There are many studies and data on its determinants and effects. However, people can lie about it, respondents can be manipulated by means of questionnaire designs or formats, individuals can only answer using whole numbers and one needs lots of individuals to make precise estimates of the observed effects.

## **4. DETERMINANTS AND EFFECTS OF HAPPINESS**

In his classic work *The Pattern of Human Concerns*, Cantril (1965) found that people anywhere in the world have common goals, while Fleurbaey and Schwandt (2015) established that close to 90% of respondents seek to maximize their well-being. As happiness is one of the basic human needs, researchers want to explore its causes and consequences.

### **4.1. Determinants of happiness**

The following paragraphs give an overview of the most important determinants of SWB both at individual and national level.

Using objective measures of health (the numbers of hospital days or hospital visits in the past year, the number of chronic health problems, disability, diagnosis of anxiety or depression), Clark, Layard and Senik (2012), Clark et al. (2018) and Clark (2018) find a positive correlation between health and subjective well-being.

Research shows that marital status is systematically correlated with SWB (Frey, 2018). Married people have higher life-satisfaction scores compared to singles, divorced, widowed or separated. As marriage is an individual choice, Frey and Stutzer (2013) find that those who were happier when single (“happy types”) were more likely to get married in the future. Regarding age, the young and the old are happier than the middle-aged, with the dip occurring towards the late forties and the early fifties (Banks et al., 2016). MacKerron (2012) finds mixed evidence regarding the association between having children and SWB. Furthermore, women report higher life satisfaction except in the areas where women’s rights are endangered (Graham & Chattopadhyay, 2013). With respect to race, Deaton and Stone (2016) point out that Afro-Americans systematically report lower life satisfaction scores compared to Whites or Others.

There is no clear-cut consensus about the relationship between education and happiness (Clark, 2018). Those who have obtained higher education might have also raised their expectations regarding their income and the kind of life that would make them happy. Consequently, their current happiness depends of the kind of life they live compared to the expectations they have. As education is also an individual choice, it is entirely possible that those happier in the first place decide to get to a higher education level.

Large empirical literature robustly confirms that people with higher income report higher SWB at a particular point in time and place (Frey & Stutzer, 2013; Lawless & Lucas, 2011). Nevertheless, this is not necessarily true for observations over time (Easterlin, 1974, 2001). Despite economic growth, people do not always get happier with time, particularly in developed countries. Nevertheless, these results have been challenged by Stevenson and Wolfers (2008).

At a point in time people who have higher income report higher SWB score compared to those with lower income and this fact may be explained by the social comparison effect. People compare their own income to that of their peers (of similar age, gender and region) and derive satisfaction from being superior. However, due to the adaptation effect people eventually get used to higher income and do not enjoy extra satisfaction from it. Moreover, if the relevant peers also experienced income raise, increase in happiness may not occur. Consequently, (people in) developed countries do not report higher satisfaction (or report slightly higher satisfaction) in spite of economic growth (Clark et al., 2018; Deaton, 2008; Frey, 2018).

As income is necessary, but not sufficient for happiness (Sheldon & Lyubomirsky, 2007), it is necessary to look further for its determinants. Apart from the level of income, it is important to look at its distribution. The relationship between inequality and SWB is not a clear-cut one. The survey of the papers examining this issue (Clark & d'Ambrosio, 2015) found that half of them pointed towards a negative relationship between these two variables. The effect of inequality on SWB is open to various interpretations. On the one hand, inequality may be undesirable as value of extra income is greater for the poor than for the

rich. It may also instigate social tensions especially when inequality is perceived as unfair. On the other hand, in some societies it is mainly perceived as deserved or as a signal of increased opportunity to make something out of oneself in the future.

Tella, MacCulloch and Oswald (2003), Wolfers (2003) and Frey (2018) consistently found a markedly negative effect of consumer price inflation on SWB. In addition, Dolan, Peasgood and White (2008) show a large negative effect of unemployment on SWB. As documented by Clark et al. (2012), the main impact of unemployment on well-being is not made through the loss of income, but through loss of social status, self-esteem, workplace and social life. High unemployment also has negative spill-over effect on the employed because they feel increased job insecurity. Furthermore, Tella, MacCulloch and Oswald (2001) as well as Blanchflower, Bell, Montagnoli and Moro (2014) demonstrate that at a country level, one point of unemployment has relatively stronger effect on SWB compared to inflation.

Perović and Golem (2010) find that government expenditure as a percentage of GDP positively and significantly influences happiness. This corroborates the view of government as a benevolent actor striving to correct market failures. Governments provide efficiency-enhancing market competition through institutional framework and judicial system. They also contribute to the socio-economic development through productivity-increasing public goods and investment. Finally, they also have a role in ensuring social justice through the redistribution of national income.

Additionally, high level of life satisfaction (Clark et al., 2012) is correlated with more intense social relations (socialising frequently with friends and family, doing voluntary work, participating in social, cultural and sports events) and prosocial behaviour (being generous with one's money, time and support). Happy society is also characterised by high levels of trust between citizens and institutions (trust in police, workplace, judiciary, government, strangers and neighbours), as shown by Helliwell, Huang, Grover and Wang (2018) as well as Helliwell, Layard and Sachs (2019). Other important characteristic is freedom given by the society to its citizens. Happiness is systematically correlated with ability of people to choose the course of their life (Cetre et al., 2016; De Neve & Oswald, 2012). On the other hand, crime is negatively related to aggregate life satisfaction (Clark et al., 2018).

Researchers also explore the relationship between institutions and SWB. They study political (democracy, administrative quality), legal (rule of law) and economic institutions (economic freedom). Functioning institutions for the most part have positive relationship with SWB (Berggren & Bjørnskov, 2020; Helliwell et al., 2018). Moreover, Recher (2021) demonstrates that history is also one of important determinants of SWB. Areas with shared history of Ottoman rule are more similar in their life satisfaction. Institutional heritage may possibly have a significant role in this interaction.

Air pollution is negatively correlated with SWB (Levinson, 2020). Some authors explored the effects of various aspects of globalization on SWB. Import competition is found to have a negative impact (Colantone, Crino & Ogliari, 2019). On the other hand, increasing immigrant population shares have no statistically significant effect on natives' well-being (O'Connor, 2020a). Global terror is negatively associated with SWB, with people who feel more exposed (in urban areas) or genetically/geographically closer to the victims reporting more negative influence on SWB (Akay, Bargain & Elsayed, 2020).

In their latest paper, Andrijić and Barbić (2021) apply psychological principles to economic concepts and empirically confirm that improvements in national economies leading to sustainable well-being require intentional effort and engagement.

Some authors study determinants of subjective economic well-being which, according to Hayo and Seifert (2003), correlates strongly with overall life satisfaction. The authors demonstrate that it is determined by the respondents' satisfaction with their past, expectations for the future, material wealth, age and education. Malešević Perović (2008) proves that it is significantly influenced by inflation, unemployment and GDP (level and growth). Zigante (2008) shows that apart from absolute income, relative income is its strongest determinant.

While studying determinants of SWB, several researchers decided to focus specifically on Croatia. Overall, their results confirm the findings of the studies carried out at the global level. Higher income, education and youth are found to be determinants of SWB for Croats (Frajman, Mioč & Štefanac, 2016; Kaliterna-Lipovčan, Brkljačić & Šakić, 2007; Kaliterna-Lipovčan & Prizmić-Larsen, 2016; Lučev & Tadinac, 2010). Being partnered or married and healthy are also important characteristics of people who are satisfied with their life (Kaliterna-Lipovčan & Prizmić-Larsen, 2016; Lučev & Tadinac, 2010). Permanently employed are more satisfied than those with temporary jobs (Frajman et al., 2016). Moreover, it is empirically proved that happier people have strong social network as well as higher trust in people and institutions. In addition, they are more engaged in leisure activities and community life (Kaliterna-Lipovčan & Prizmić-Larsen, 2016; Lučev & Tadinac, 2010).

## 4.2. Effects of happiness

Increased well-being is associated with a wide range of positive effects. Happy people live longer (Banks et al., 2016; Danner, Snowdon & Friesen, 2001; Frijters et al., 2011). They are doing well across multiple life domains including health, marriage and friendship (Lyubomirsky, King & Diener, 2005). Positive emotions help to reduce inflammatory, cardiovascular and neuroendocrine problems (Ong, 2010). Well-being increases interest in social activities leading to more and higher-quality interactions (Lyubomirsky et al., 2005). When feeling

happy, people have more cognitive flexibility, they are more motivated and successful in their pursuits (Achor, 2010).

Happy people are less likely to be unemployed (O'Connor, 2020b) and more likely to earn significantly higher levels of income in future (De Neve & Oswald, 2012). Happiness also increases workplace performance (Bryson, Forth & Stokes, 2014). It can increase curiosity, creativity and motivation among employees (Davis, 2009). A study of over 1.8 million employees across 73 countries by Krekel, Ward and De Neve (2019) detects a strong positive correlation between employee well-being, productivity and firm performance. De Neve, Diener, Tay and Xuereb (2013) find that higher well-being makes people less attracted to risky behaviours. In this respect, Krekel, Swanke, De Neve and Fancourt (2020) demonstrate that past and present levels of happiness predicted compliance during Covid-19 lockdown (with stronger relationship for those with higher levels of happiness).

Politicians should especially care about well-being. Using cross-country panel data from Europe since 1970 and USA in 2016, Ward (2020) shows that electoral fate of governing parties is associated not only with the state of the macroeconomy, but more importantly, with the electorate's wider well-being.

## **5. POLICY IMPLICATIONS**

Policy creators have mostly focused on classic metrics as the measure of the policy success – income per capita, employment, inflation etc. However, in this way they miss one of the important aspects of the policy success – whether people themselves feel they are better off as a result of a particular policy. Moreover, this approach gives an incomplete picture of what is really going on, as corroborated by the phenomenon of “unhappy growth” described by Easterlin (2001, 2021) or numerous cases of people resigning from their jobs in spite of wage raise due to lack of meaning and autonomy at work (Nikolova & Cnossen, 2020).

Because of these reasons happiness economics has lately started gaining ground not only in academia but also in policy circles. Many governments (e.g., France, Great Britain) and supranational entities (United Nations, European Union) directly or indirectly have cited the well-being of their constituencies as one of the key policy goals underpinning their respective efforts (Exton & Shinwell, 2018). Despite the emerging consensus regarding the importance of SWB, there is still a debate on the best use of SWB measures in public policy.

### **5.1. The role, nature and target recipients of SWB policies**

There is a tension between authors advocating for happiness as an explicit policy goal versus those who are more cautious about it. Clark et al. (2018), Frijters et al. (2011) and Ward (2020) point out that the goal of every action, every

institution and government should be the maximisation of well-being. On the other hand, Graham and MacLennan (2020) as well as Frey and Gallus (2016) are sceptical about happiness as an explicit policy objective, arguing that it is an abstract concept prime for political manipulation. In order to prevent it, they advocate policies that focus on discreet well-being dimensions such as reducing daily struggles for the poor or providing incentives for alternative employment. To further lessen the risk of misuse, they promote dashboard approach consisting of many indicators such as SWB, income, environment, health and education among others.

If SWB field is to have any impact on policy, it is important to systematically collect happiness data and secure their universal distribution. Once they are generally accessible together with the data on possible determinants of happiness, good-quality studies have to be done to explore the effects of particular policies on well-being.

Lessons from those studies can help policy makers decide on the nature of the appropriate policies and their target recipients. However, it is important to check that the chosen policies have not been confounded by the psychological phenomena of adaptation and comparison because people eventually adapt to good or bad events and revert to their baseline level of happiness or because people deem a policy ineffective due to comparison with their peers, their own past or their expectations. However, according to the latest findings (Graham & MacLennan, 2020) people do not adapt to unemployment, noise and long or unpleasant commute. Some pleasant events such as a move to a location with higher levels of SWB, stable partnership and volunteering are also not prone to adaptation. Comparative effect is not present when people are giving their time or other resources to others, improving the quality of relationships and improving the mental health of at least one partner in a relationship. When policy creators decide on the target recipients of a particular policy, it is important to bear in mind that an incremental change in well-being does more for those who have lower rating of well-being than for those at the higher end of the scale. That is why Layard (2011) and some of his colleagues (Clark et al., 2018) as well as Binder & Coad (2011) propose that those on the lower end of the scale should take priority over those with already high levels of well-being.

## **5.2. The role of cost-benefit analysis in the context of SWB policies**

As policy creators often have limited resources and consequently have to identify policy priorities, SWB data and research can help them in this respect. They have typically used cost-benefit analysis which usually adds up economic benefits of a particular policy and weighs them up against computed costs. Regarding health outcomes, they have used cost-effectiveness analysis which compares treatment costs to treatment effectiveness measured by years of life which are saved. Due to the rising importance of well-being in society as well as more developed ways to measure it, academics and policy makers alike try to come

up with new ways to compare costs and benefits/effectiveness of a particular action bearing in mind its well-being aspect.

Using life satisfaction data, Powdthavee and Van Den Berg (2011) as well as Nikolova and Ayhan (2019) tried to put a monetary value on various life events and experiences with the aim of being able to compare their costs and benefits. Powdthavee and Van Den Berg, (2011) calculate how much a person would want to pay in order to avoid a debilitating health condition causing a decrease in life-satisfaction. Nikolova and Ayhan (2019) calculate the amount of money required to compensate life-satisfaction loss for one spouse due to the involuntary unemployment of another one. Similar approach can be used with divorce, air pollution, noise etc.

Layard and O'Donnell (2015) use another form of cost-benefit analysis under the assumption of happiness maximisation for a population with the given budget and the size of the government. In essence, they rank all the policies with respect to extra happiness they produce per unit of expenditure. They start with the most effective ones and go down until the available money has been used. Subsequently, they focus on the last policy which is only just able to qualify for financing. The extra happiness which that policy generates per unit of expenditure gives a critical ratio  $\lambda$ . This value must be exceeded by all the other projects if they are to give relevant value for money.

Finally, Happiness Research Institute has recently published a study (2020) describing their efforts to develop new metric able to quantify the happiness return on investment – well-being adjusted life years (WALY). The ultimate ambition of the project is to develop a universal indicator enabling comparisons across life domains, although at this moment it is particularly applicable to measuring outcomes in healthcare. To calculate WALY, patients themselves (and not the general public) are asked to score their own experienced quality of life. Using these responses, researchers determine the severity of diseases and disabilities in terms of how patients experience them, on a scale from 0 to 1, from lowest to highest level of well-being. After that, potential new treatments can be assessed in terms of their effects on patient well-being. The WALY lost with treatment is subtracted from the WALY lost without treatment to get the resulting WALY gained. Then, the cost-effectiveness of new treatment is estimated in terms of cost divided by WALY gained.

## 6. CONCLUSION

The COVID pandemic and a series of natural disasters in the last few years have made people question their priorities. More well-being and not necessarily more wealth is mentioned in public discussions as one of the key principles which can guide the rebuilding of the society. Due to the growing importance of SWB measures in economics and public policy in general, there has been a growing necessity to understand the phenomenon. This paper gives a systematic and critical

overview of the latest research findings in this respect, demonstrating the potential of happiness economics for addressing current needs and future tasks to build a happier society.

Although happiness economics is gaining ground as science has proved the validity of its methods and results, there are still open questions which will hopefully be addressed and answered with the progress of social sciences. So far, research has proved the key importance of physical and mental health, social relations and good quality institutions among other determining factors for happiness. The consensus has still not been reached regarding the precise role of income at the global level. In addition, there is still room for improvement when translating the happiness research into policy creation and implementation. In that respect social scientists are coming up with various ways to make SWB data an integral part of cost-benefit analyses.

Such efforts could be complemented by further research into happiness efficiency which is still an insufficiently explored issue with important policy implications. It studies whether countries could achieve the same or even higher subjective well-being by using the same resources more efficiently. Moreover, it would be useful to study the possible differences in research findings with data on eudaimonic well-being (compared to evaluative one) when they become more widely available. More generally, as researchers are exploring new aspects of SWB, it would also be valuable to study the role of optimism or hope in instigating behaviour that delivers a better future (in economic and non-economic terms).

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Orcid: <https://orcid.org/0000-0003-0612-6926>**EKONOMIJA I SREĆA – KLJUČNI UVIDI I  
NAJNOVIJE SPOZNAJE****Sažetak**

Članak daje pregled ključnih postavki i najnovijih istraživanja na području ekonomike sreće, u svrhu poboljšanja temelja za javne rasprave i informirano donošenje odluka prilikom stvaranja i provedbe relevantnih politika. Koncept sreće rano je privukao pozornost ekonomista, a njihov odnos prema njemu se mijenjao kroz vrijeme. Suvremeni podatci o sreći impliciraju novi, znanstveno valjan način mjerenja društvenog napretka, s prostorom za daljnja poboljšanja. Ukazuju da su fizičko i mentalno zdravlje, međuljudski odnosi, dohodak i institucije važne odrednice sreće. Sreća, pak, uzrokuje niz pozitivnih učinaka na osobnoj i društvenoj razini. Nadalje, istraživanja ovoga područja mogu pomoći kreatorima politika u odlučivanju o ulozi, prirodi, ciljnim skupinama i prioritetima relevantnih politika. Sve navedeno pokazuje potencijal ekonomike sreće za doprinos u rješavanju trenutnih i budućih društvenih potreba s ciljem izgradnje sretnijeg društva.

**Ključne riječi:** sreća, subjektivno blagostanje, zadovoljstvo životom, ekonomija, ekonomska politika.

**JEL klasifikacija:** I31, D60.

