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World of Labor
Evidence-based policy making

Can "happiness data" help evaluate economic policies?

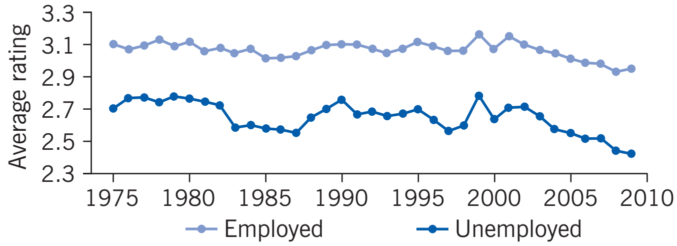
"Happiness data" may help assess the welfare effects of a new labor market policy, like a change in benefit generosity

Keywords: well-being, happiness data, unemployment benefit policy

ELEVATOR PITCH

Imagine a government confronted with a controversial policy question, like whether it should cut the level of unemployment benefits. Will social welfare rise as a result? Will some groups be winners and other groups be losers? Will the welfare gap between the employed and unemployed increase? "Happiness data" offer a new way to make these kinds of evaluations. These data allow us to track the well-being of the whole population, and also sub-groups like the employed and unemployed people, and correlate the results with relevant policy changes.

Average life satisfaction of the employed and unemployed in Europe, 1975–2009



Note: The vertical axis measures the average of the responses to the question: "On the whole, are you very satisfied (4), fairly satisfied (3), not very satisfied (2) or not at all satisfied (1) with the life you lead?"

Source: European Commission, Eurobarometer Survey Series, 1975–2009.

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KEY FINDINGS

Pros

- By measuring the welfare effects of a policy change directly, "happiness data" may lessen reliance on theories; they can capture all of the costs and benefits of a policy that otherwise may be hard to determine and aggregate.
- "Happiness data" can provide estimates of the welfare effects of a policy on different sub-groups.
- "Happiness data" may offer a better way to estimate costs and benefits than "willingness-to-pay" surveys that are notoriously unreliable.

Cons

- It is difficult to determine the best questions to pose to measure well-being accurately.
- It is unclear whether people's happiness scores can be compared as different groups may self-report the same level of well-being differently.
- There is uncertainty over the short- versus long-term impact of shocks on happiness and some studies show strong adaptation to income.

AUTHOR'S MAIN MESSAGE

Estimating the welfare effects of a new policy, like a cut in unemployment benefits, is difficult. Economists lack dependable methods to measure all of the costs and benefits of potential policy changes. As a result, politicians often end up relying on their own discretion when making key decisions. "Happiness data" can be used to measure the overall welfare effect of a change in benefits directly, considering whole populations as well as relevant sub-groups. This provides additional, comprehensive data that can be used when evaluating potential policy options.

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