Income an Economic Development Indicator used as a Parameter of Happiness

*SakshiManchanda
Student & Economics Department &PanjabUniversity , India

Abstract

This paper attempts to highlight the current happiness status of the Indian society. Income and happiness are close knit that is, with rise in income happiness increases. Population belonging to higher socio economic strata are comparatively happier than those of lower and middle income groups. The lower and middle class people suffice in only fulfilling their basic physiological needs and paying their bills whereas the ones on the other extreme enjoy all the luxuries life has to offer. India being a developing country where 95% of the people belong to the lower income group, in order to increase subjective and overall happiness the hike in income becomes essential. The government has introduced various strategies, schemes and plans to provide employment that further leads to income generation and escalation. In spite of all these attempts, the main goal of these agendas has been partially achieved. The paper focuses on each of these areas and attempts to highlight the main issues and problems faced by the population and how can the modifications in current economic policies be used to bring an upsurge in happiness and social harmony. This paper also offers a series of recommendations about ways of responding to the issues raised.

KeyWords:*Economic Development, Income, Happiness, Social Harmony, Government Plans*

I. INTRODUCTION

A. Happiness

Happiness is an indicator of the primary well being of individuals and societies. Social and economical psychology pays heed to happiness to understand the growth and development of a nation. Over the last 15 years, psychologists have importantly contributed to this discussion by empirically investigating measures, behavioral correlates, and determinants of happiness. Websters simply defines it

Many character traits also correlate with happiness. Income, happiness, self confidence, leadership qualities and insight of utilization of resources goes hand in hand. An individual's basic physiological needs must also be met before income comes into play. People cannot be happy in chronic hunger, danger and isolation. Individual happiness and societal happiness are correlated. Once a society reaches a certain threshold of development, further

as ―a: state of well-being characterized by emotions ranging from contentment to intense joy; b: a pleasurable or satisfying experience. Happiness of a person depends on life experiences, situations and to genetics.

Martin Seligman proposed an equation for happiness: $H = S + C + V$, where H is happiness, S is set point, C stands for circumstances and V for voluntary activities. If we try to connect the dots between happiness and income they do coincide at a point. Tibetianmonks said that poor people become happier as they escape poverty, but once people are free from deprivation, the tie between money and happiness begins to fray. Studies in the western culture also have similar findings, happiness is increased with increase in income but the exact measure and extent is debatable. In fact, study after study indicates that acquiring wealth does not significantly increase happiness, with some caveats. In general, people who live in countries with high gross national product, per capita, are happier than those living in poorer countries. However, the increase in national wealth has diminishing returns.vi Middle-class and affluent people who seek more wealth are often stuck on what psychologists call a ―hedonic treadmill‖―a perpetual pursuit of material goods, which reduces the available time for personal relationships and yields minimal emotional rewards. Hence we can say that the individualistic happiness is also subject to personal life and individual experiences and not just the level of income.

But we cannot deny the fact that people with above-average income are relatively satisfied with their lives but are only slightly happier than others in moment-to-moment experience. They tend to be tenser than people with lower incomes and do not spend more time in particularly enjoyable activities. Moreover, the effect of income on life satisfaction is transient.

economic growth brings only minimal gains in both life expectancy and in subjective well-being. After attaining a level of development where people can focus on more than survival, the non-economic aspects of life become increasingly important influences on how long, and how well, people live. Therefore we can say that happiness is increased with the rise in income but, many other factors come into play. Economic and societal welfare, well being and happiness can only be

studied after weighing all the psychological, cultural and economical domains of the society. In this paper we try to study the impact of income on happiness. Now after understanding all the aspects of happiness lets try to understand income and what role does it play in the development of the society and economic enhancement of the nation. We try to improve the current happiness strata of the country, reevaluate the current government schemes and enhance happiness of our country.

B. Income
Origin of the word INCOME:
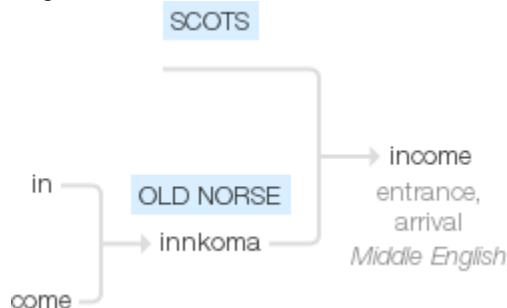
Money received by an individual by rendering some service , selling goods , return from investments , profit from business , interest payments , rent from property during a given time period expressed generally in monetary terms is known as income.

The inflow and outflow of cash and cash equivalent obtained from capital (profit or interest) , work (wage or salary) or land (rent).

The term 'income' is used interchangeably with 'salary' or 'wages'.Suppose a person is earning $100 per week , so an individual is said to have an income of $5200 per year.A business may be said to have an 'income' of many million dollars in a quarter or an year .Here , the term may be used interchangeably with profits or earnings. If a person earns salary which he calls income , then higher the salary higher the income.But for a company who pays salaries to its employees, higher the salaries lower the profits and vice-versa. Therefore, 'income' might sometimes refer to 'everything that comes in' for an individual or a person but in the context of the company 'everything that comes in' which would be many times higher than income or profit.For a company , everything that comes in is termed as sales revenue.If "income" means wages it can be earned only by individuals, whereas if it means "profits" it can be earned only by businesses; the definition therefore directly determines who is being taxed and who is not.

ACCOUNTING-When the revenue is greater than the expenses incurred for an accounting period.This is termed as gross profit or earnings.It may also be defined as the increase in the total assets in an accounting period.

Economics- Income determines the spending capacity of an individual which he can spend without being worse off during a particular period. In other words , consumption that makes an individual to retain the same amount of goods at the end of the period as compared to the beginning of the period.Income is considered to be the driving force of the economy because only it can create demand.

LAW- Regular or periodic incoming of money or other forms of payment from investment, commerce , royalties , endowment , employment etc.

The International Accounting Standards Board (IASB) uses then following definition: "Income is increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions from equity participants."

"The striking thing about the happiness–income paradox is that in the long-term ––usually a period of 10 y or more––happiness does not increase as a country's income rises." The paper studies about the income and happiness status of developed countries.Happiness and income go hand in hand, i.e., happiness declines in economic contractions and increase in expansions.The result of the study says that the rate of increase in happiness declines or becomes plateau when income rises over a period of time.Materialistic and tangible requirements of the individuals rise with the rise in income.Subjectivewell being , happiness and income according to this study increases at a greater rate for a while and then becomes stagnant.Economic growth of a country also varies according to the subjective well being , life satisfaction , subjective and overall happiness and well being.

"The Rich Are on Average Happy."Accordingto the data money is not a matter of concern for happiness, or it is considered that rich people are not happy. However, the study shows that financially well off people are generally more happier than the poor people. As per a research done ,correlation between happiness and income in United States is very small in national samples , but it ain't true that the richest people on an average live a more satisfactory life than the poorest group.Itis also noted that , that the continuous increase in income makes difference at different levels of poverty , Perhaps because it is related to meet the basic requirements.As

one climbs the income ladder, diminishing returns to happiness is produced.

"This paper has used the data from the World Values Survey to investigate how an individual's self-reported happiness is related to (i) the level of her income in absolute terms, and (ii) the level of her income relative to other people in her country."According to this study , the variables taken are statistically significant and there exists a positive relationship between absolute income and happiness ; relative income and happiness.Quantitative measures show that effect of relative income is much higher than that of the absolute income.But the non-pecuniary factors have nullified the effect of both relative and absolute income.In other words , some amount of happiness can be bought by money , but having more happiness depends upon the level of happiness level of the people around that individual as compared to just simply having more.Therefore , happiness bought through money is small as compared to the happiness received from people or things that money can't buy like a satisfactory job , good health , loving spouse etc.But this study rejects the Easterlin's paradox.

"This study utilizes social-psychological measures of happiness and satisfaction in order to test the interdependent preferences model." According to this class of models, in addition to individual characteristics, utility also depends on the well-being of other members of society. Happiness and satisfaction should therefore depend on the average income of society and its distribution among rich and poor. Canadian survey data are used to test this hypothesis. Results differ across alternative measures of subjective well-being. Holding personal characteristics constant, self-reported satisfaction is lower the larger the share of income going to the poorest 40% of the community. A 3-point scale of happiness yields similar results, but not an 11-point scale. The determinants of satisfaction and happiness differ systematically between men and women. Overall, the empirical results support the interdependent preferences model, but defy any simple characterization in terms of inequality aversion and relative economic status.

Income is considered to be an indicator of individual's welfare and is often demonstrated that with the rise in income level material well-being of humans rises due to which utility, subjective well-being, life satisfaction, satisfaction which shows individual's welfare also rises.It has been observed that the correlation between income and happiness is quite small in developing countries but effect is very huge.There is a substantial real increase in happiness in the different strata of society be it poor people or the rich ones , small correlation shows larger results.Easterlin in 1974 has observed that an increase in income does not raise happiness over a period of time , but raises it at a point of time.Further , with a positive correlation between income and happiness at a point in time , it has also been observed that rich people are reportedly happier than the poor ones.This paper attempts to estimate happiness through absolute and relative income.

According to the research conducted by psychologists subjective well-being (SWB), is used as a proxy for life satisfaction , happiness , quality of life and is utilized as a measure of individual's welfare, has risen varying from corrrelates of subjective well-being like coping strategies and changing goals , processes of habituation ,demographic, , internal and external circumstances, processes of underlying adaptation, personal and situational interactions, processes that underlie happiness, and differential determinants at the individual, group and national level.

Economists use objective indicators like income or GDP and preference satisfaction approach or the utility maximization to analyze an individual's welfare. Happiness of people is defined by the desires of the people. Utility or one of the proxies may refer to the experience of some outcome or to the desire for that outcome. According to economists,happinessdosen't change with the rising income due to deviation in the reference point. Happiness is determined by one's relative place in the society.So if the economy of the entire country grows , increasing happiness will be experienced by only those who have received above average gains, and those who experience below average gains will experience a decrease

C. Income And Happiness

Table 1. Average Happiness in 2008 (How much people enjoy their life-as-a-whole on scale 0 to 10)

Country	PPP $ per capita income+ (2006)	Happiness* (2008)	Country	PPP $ per capita income+(2006)	Happiness* (2008)
Albania	5840	4.6	Equador	4400	5.7
Argentina	15390	7.2	Finland	35150	7.8
Australia	34060	7.7	Germany	31830	7.2

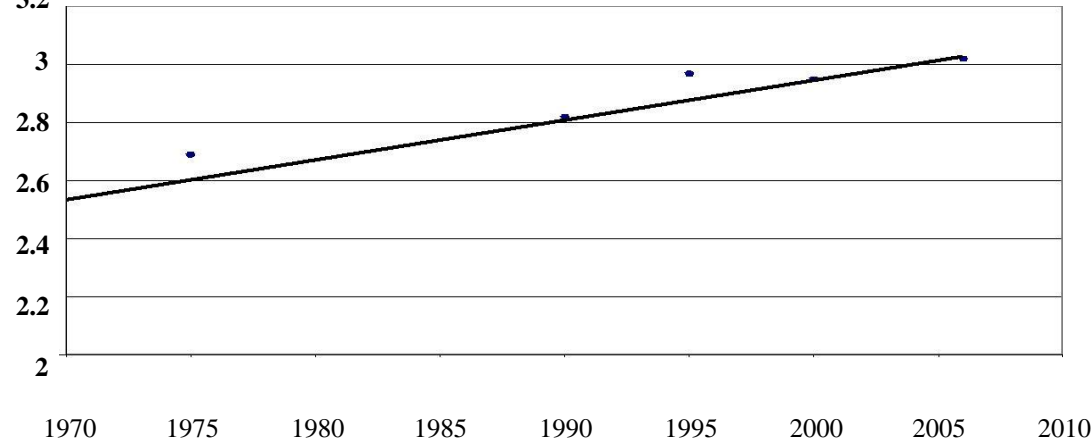| Bangladesh | 2320 | 5.3 | Ghana | 2640 | 5.7 |
Belgium	35090	7.3	Gautemala	4800	7.0
Benin	1160	4.3	India	3800	5.9
Brundi	710	5.0	Singapore	31710	6.8
Macedonia	7610	4.6	Sweden	35070	7.7
Mexico	11410	8.0	Turkey	9060	5.5
Netherlands	37580	7.5	Uganda	1490	5.1
New Zealand	27220	7.3	UK	35580	7.1
Nigeria	1050	6.5	USA	44260	7.0
Norway	43820	7.7	Zimbabwe	1950	3.3
Peru	6080	6.4	Zambia	1000	5.6

Sources: * Happiness: RuutVeenhoven*Average happiness in 148 nations 2000-2008*, World Database of Happiness, Rank Report 2009-1a,

In US , happiness had been stagnant till 1980s(has infact fallen during 1970-80) and has shown an increasing trend over the recent years , while there is a reported increase in the contentment status of India.Although the income gaps between India and US are huge but the mean score have been more or less the same.There is a great degree of dispersion between the standard of living of these states.

In this paper, Diener and Oishi (2000) and Diener and Biswas–Diener (2002) exhibited that the SWB levels of few individuals can and do alter over a period time. Hagerty and Veenhoven (2003) asserted that the economic growth causes an elevation in *Journal of Quantitative Economics*
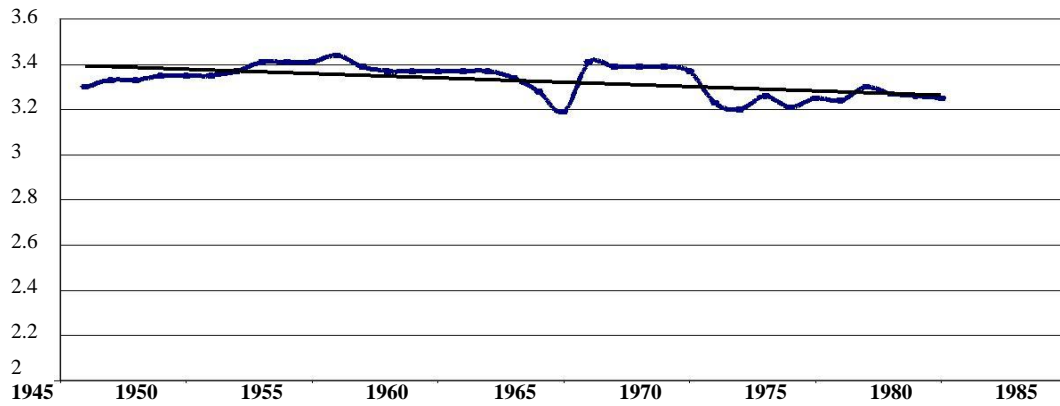
happiness, signaling that income has a positive correlation with happiness in 14 out of 21 nations for which there was an availability of data from 1972 to 1994. Recently, Stevenson and Wolfers (2008) re-evaluate the Easterlin Paradox and established some corroboration for rising happiness level with an increase in income. Analysis of happiness and income signals that life satisfaction and happinessincrease steeply as people deviate to aadequate level of economic security from basic-level of poverty and then levels off. However,there is weak linkage with further rise in income levels to that of the higher SWBs, for the richest societies. The relationship amongst SWB and economic development is curvilinear.
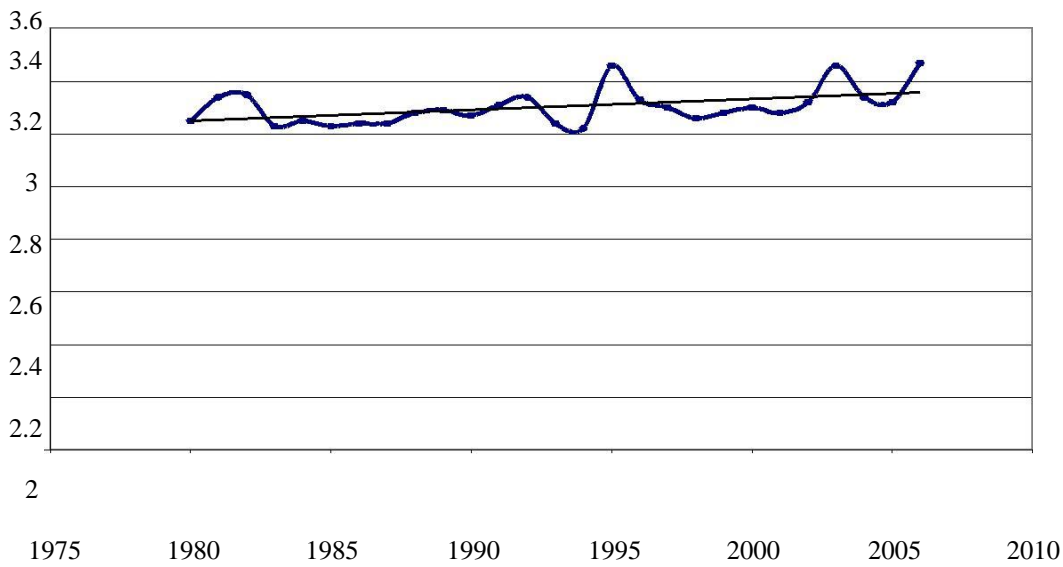

mean happiness in India, 1975-2006

(1= not at all happy, 4=very happy)

mean happiness in U.S., 1946 - 1980

(1= not at all happy, 4=very happy)

mean happiness in U.S., 1980 - 2006

(1= not at all happy, 4=very happy)

Source: Inglehart, Foa, Peterson and Weizel (2008).

Figure 1. Trends in Happiness in India and US

Table 2. Level and Inequality of Happiness (10-step Life Satisfaction in 1999-2001)

Country	Level	Inequality*	Country	Level	Inequality
Netherlands	7.85	1.34	Albania	5.17	2.25
Denmark	8.24	1.82	Nigeria	6.87	2.32
USA	7.66	1.82	South Korea	6.21	2.32
Canada	7.85	1.88	Hungary	5.80	2.42
Britain	7.40	1.94	Dominican Rep	7.13	2.47
Japan	6.48	1.97	Venezuela	7.52	2.50
Indonesia	6.96	2.06	Ukraine	4.56	2.59

Vietnam	6.52	2.06	Georgia	4.68	2.61	
Italy	7.17	2.11	Bulgaria	5.50	2.65	
Slovenia	7.23	2.15	Brazil	7.15	2.68	
Chile	7.12	2.16	South Africa	6.31	2.69	
Bangladesh	5.77	2.18	Romania	5.23	2.77	
India	5.14	2.23	Egypt	5.36	3.35	

Source: Jan Ott (2005).   * Ineqality measured by the standard deviation.

Table 3. Average Happiness among Low and High Status Groups

Country	Year	GDP per capita (Constant 1995$PPP)	Mean happiness (Scale of 1 to 10)		
			Average happiness	Low status group	High status group
Argentina	1995	10346.29	6.93	6.69	7.05
Bangladesh	1996	1249.66	6.41	6.21	6.87
China	1995	2508.53	6.83	5.47	7.94
Columbia	1997	5962.79	8.42	8.36	8.60
India	1996	1938.52	6.53	5.92	7.51
Japan	1995	22596.90	6.61	6.07	7.05
Nigeria	1995	780.57	6.82	6.08	7.39
Norway	1995	27904.94	7.66	7.17	7.95
Russia	1995	5932.60	4.45	3.71	5.25
South Africa	1995	8542.25	6.08	5.53	7.78
Sweden	1996	19855.22	7.77	7.16	8.02
Switzerland	1996	25219.17	8.02	7.56	8.31
USA	1995	27819.88	7.67	7.11	7.95

Source: Ball and Chernova (2005).

According to Economic Panel, "happiness is a relative notion indicating that people derive their perceived well being from being richer and not from being simply rich". Graham and Pettinato (2002) found that relative income differences affect SWB greatly in comparison to the absolute income differences in the developing countries,and there exist people whose aspirations grow at a much higher pace than their income level , i.e. their income is never able to fulfill their needs and desires.there exists a great degree of relationship between relative deprivation and SWB to that of the absolute income and SWB as confirmed by the findings of Easterlin (1974). According to these economists the well-being of an individual is dependent upon their relative position in the society rather than their absolute income level.In other words it can be stated that having more than the others contribute to the level of happiness rather than simply having more because money does buy happiness but it is the relative position which matters. Thus, if utility is relative then "increasing the income of all does not increase the happiness of all"
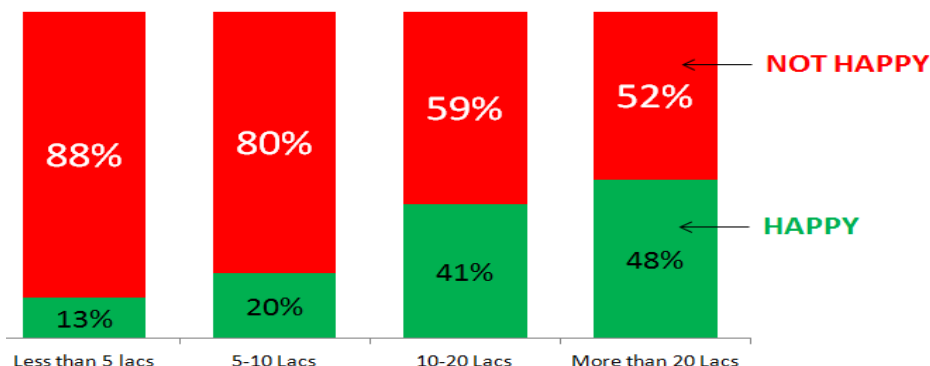
(Easterlin, . 1974).The most widely accepted viewpoint is that income is considered very important , but more for those who have lower level of income.In other words, happiness of an individual or their utility is not dependent only on Income as the traditional economists say , happiness is also affected by an alteration in income over a period of time and at a point in time.Further more , it is even a function of the relative income level.Thecoefficient between SWB and income is higher for developing or low income countries as compared to the developed or high income countries. The reason behind this is that an increase in income in developing countries helps the people to fulfill their basic necessities whereas people in the developed or the high income countries fulfill their desires by buying luxury goods.Althoughaccording to the evidences ,the correlation between income and happiness is positive but is very small.Correlations usually lie within the range of 0.10 and 0.25 , but rich people are found to be comparatively happier than the poor ones.
Stevenson   and   Wolfers   (2008)   have   shown   that

"wealthier societies have greater subjective well-being than poorer societies and, that to a similar degree, wealthier members of a society are happier than their poorer brethren". These economists have asserted that money brings happiness.Higher the money , greater the happiness that means absolute income is considered to have a higher correlation with happiness than the relative income. In Japan, SWB has risen sharply with the increase in the GDP and during the period of economic growth.

Carol Graham (2005, p.4) summed up his empirical findings: people within the country with higher income are comparatively happier than the poor people but correlation between rising income and average happiness over time and amongst the countries is very little.Poor countries on an average are less happier than the rich nations but happiness seems to rise at a point in time and not over time.Evenamongst the less happier or the poor nations , there is no clear establishment of the relationship between average happiness levels and average rise in income , there may be many factors like cultural traits contributing to the average happiness levels of the country.

More Income = More Happy

This bar graph is in Indian context and it shows a positive correlation between absolute levels of income and happiness. Higher the income , higher is the contentment and satisfaction whereas on the contrary lower the income lower is the average happiness of the people.People with less income

have lower level of happiness because they spend most of their income in fulfilling their basic necessities.On the other hand, people with higher income can afford the necessities already and with a further rise in income , they put one step forward to a more luxurious life.

II. SCHEMES OF THE GOVERNMENT TO INCREASE THE INCOME OF THE POOR PEOPLE IN INDIA

A. Direct cash transfer scheme

The Direct Cash / Benefit Transfer scheme gives a provision for direct channelization of money into the bank accounts of those people who are eligibleunder the Employment Guarantee Scheme for scholarship,   pension,   payments   and   for benefits/subsidies under other welfare programs of the Government. This gives the freedom to the people to buy the goods from the market at the competitive prices and have the liberty to choose the basket of goods it needs and the quality desired.This scheme transfers cash directly into the bank account of the people for the difference between the price of the market and the subsidized price in proportion of the quantity purchased from the market.

The scheme :-
- **Depends upon basic two requirements**
A) *Aadhaar*, the Unique Identification (UID) Number which serves as proof of identity and address.
B) *Bank Accounts* will be opened and further expansion of banks in the rural areas.
- **Money Transfer**
A) *Below poverty line* families would get 30000 rupees to 40000 rupees per year.*Aboverpovery line* families would get cooking gas subsidy
B) In all *4,00,000*crore of rupees will be distributed in one year.

- **When**
In January 2013 , the scheme was launched in *51* districts to cover India by April 2014.

- **Why**
A) To provide *income* to the poor people for their upliftment.
B) To check the *leakages* from the system , and eliminate middle man.
C) Ahead of 2014 elections , it is seen as a big *political thrust.*
- **Challenges**
A) About *1,88,000* had banking connectivity in june 2012 , but there are *7,00,000* villages in India.

Further , to improve this scheme PradhanMantri Jan DhanYojana is a National Mission for Financial Inclusion to assure access to Remittance ,financial services, Pension in an affordable manner,namely Banking Savings & Deposit Accounts, Insurance, Credit. Thiscampaign was launched on 28 August 2014 by the Prime Minister NarendraModi and was announced on 15 August 2014.

The much spoken "PradhanMantri Jan DhanYojana" (PMHDY) will not facilitate just the opening of basic bank accounts to unbanked families but will alsolinkto the direct cash bank transfer scheme Government expanding the current direct benefit transfer (DBT) programme so as to transfer the differences between the market price and subsidized price to the PMJDY beneficiaries' bank accounts.It is to encourage banker's to provide overdraft facility , ATM facility and also to stress energies on these accounts.The government make these subsidy payments either through cheques which can be cashed upon realization or by cash.This scheme also seek to provide 2 bank accounts to each an every person of the 7.5 crore unbanked families across the entire nation.Besides the provision of basic bank accounts , a Rupay debit card having inbuilt accident insurance cover of ☐ 1 lakh will be provided.

B. *Drawbacks of this Scheme Linked to Happiness*
Direct cash transfer does not gets revised.The subsidized money has to be indexed with inflation so that it does not erode with inflation to ensure that the people continue to have the same buying power.Since there is no indexation , the income of the people gets reduced.We have seen that income and happiness have a positive correlation , due to which a reduction in the income level will lead to a decline in the average level of happiness.There has been cases where fake aadhaar cards are being made by fraud people due to which the benefit is getting transferred to the people who are not in need.Thus , government's strategy gets failed on these grounds as a specific amount is allocated in the budget and the money doesn't reach the needy..Aadhaar cards are given to those who have an address proof but a large Indian population do not have houses.They do

not have any permanent address due to which a huge chunk of the needy people gets excluded.Therefore , no increase in income levels means no increase in happiness.

III. MAHATMA GANDHI NATIONAL RURAL EMPLOYMENT GUARANTEE SCHEME (MGNREGS)

MGNREGS seeks to provide atleast 100 days of guarantee wage employment in a financial year to atleast one member of every rural household whose adult members volunteer to do unskilled manual work.The national rural employment guarantee act was enacted in september 2005and came into force in February 2 , 2006.This scheme covers all the rual areas of the country.From October 2 , 2009, National rural employment guarantee act was renamed as Mahatma Gandhi national rural employment guarantee scheme.MGNREGS promised a wage rate of rupees 100 per day and if it fails to provide employment , the rural poor have the right to get unemployment allowance.
The main aim of this scheme was:-

- Increasing employment opportunities which helps to increase the level of income of the poor people , which in turn is a reason for an increase in the average level of happiness.

- Enhancing wage earning and increasing the intercept of the minimum wages in the country so that people have more money to buy goods and services which help them fulfill their needs and necessities.With enhancement of the wages the average level of happiness will also be enhanced.

- Increasing outreach of the disadvantaged group.

- Financial inclusion.

- Strengthening the natural resource base.

IV. CONCLUSION
- The wages given to the rural poor are not indexed with inflation which is a major cause of concern because every year the rise in inflation erodes the purchasing power of the people.Thus, there is a decline in the relative income which causes average level of happiness to decline, wherein there is a positive correlation with average level of happiness and relative income.
- There is delay in the payment of wages due to which people get short of money , thus decreasing the average level of happiness at a point in time.

- There is a widespread corruption due to which the actual amount allocated to the scheme doesn't reach the deserving people. Therefore, there is no increase in income due to which happiness level stays constant.

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