

CHAPTER

2

GROWTH, DEVELOPMENT AND HAPPINESS



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*Since 1971, Bhutan has rejected GDP as the only way to measure progress—in its place, it has championed a new approach to development, which measures prosperity through formal principles of gross national happiness (GNH) and the spiritual, physical, social and environmental health of its citizens and natural environment. For decades, this belief that wellbeing should take preference over material growth has remained a global oddity. Now, in a world beset by collapsing financial systems, gross inequity and wide-scale environmental destruction, this tiny Buddhist state's approach is attracting a lot of interest. In 2011, the UN adopted Bhutan's call for a holistic approach to development, a move endorsed by 68 countries. A UN panel is now considering ways that Bhutan's GNH model can be replicated across the globe.**

* As Annie Kelly writes in The Guardian, Washington, DC, 1st December. 2012.

INTRODUCTION

Similar to seers and philosophers economists were also party to human's quest for a better tomorrow. We have been a witness to a number of notions coming in from the literature of Economics in this area—starting with a very humble and layman's word like 'progress' to technical terms like 'growth', 'development' and 'human development'. With greater dependence on the idea of the 'economic man', the world created immense wealth in the post-War decades. It was in the 1980s that social scientists started finer studies in the area of mankind's actions, finally challenging the very idea of the 'economic man' ('rational man'). And there starts mankind's urge to introspect the lives of humanity on the planet earth. Meanwhile, humanity was faced with an unique riddle of climate change. By now, courtesy the UNO, the world has the World Happiness Report.

PROGRESS

Progress is a general term frequently used by experts to denote betterment or improvement in anything. In economics, the term was used for a long time to show the positive movement in the lives of people and in an economy. It had both quantitative and qualitative aspects to it. After a point of time, some economists started using all the three terms—progress, growth and development—interchangeably to mean almost the same thing. But it was only during the 1960s, 1970s and 1980s that a clear meanings of these terms really evolved.¹ The term 'progress' became a general term with no specific meaning in economics or denoting both growth and development. But growth and development were allotted their clear-cut meanings.

ECONOMIC GROWTH

A term coming from the life sciences, 'growth' in economics means economic growth. An increase in economic variables over a period of time is—economic growth. The term can be used in an individual case or in the case of an economy or for the whole world. The most important aspect of growth is its *quantifiability*, i.e., one can measure it in absolute terms.² All the units of measurement may be applied to show it, depending upon the economic variable, where the growth is being studied. We have a few examples:

- (i) An economy might have been able to see growth in food production during a decade which could be measured in tonnes.
- (ii) The growth of road network in an economy might be measured for a decade or any period in miles or kilometres.
- (iii) Similarly, the value of the total production of an economy might be measured in currency terms which means the economy is growing.
- (iv) Per capita income for an economy might be measured in monetary terms over a period.

We may say that ***economic growth is a quantitative progress.***

To calculate the ***growth rate*** of an economic variable the difference between the concerned period is converted into percentage form. For example, if a dairy farm owner produced 100 litre of milk last month and 105 litre in the following month, his dairy has a growth rate of 5 per cent. Similarly, we may calculate the growth rate of an economy for any given successive periods. Growth rate is an ***annual concept*** which may be used

1. Based on the analyses in Michael P. Todaro and Stephen C. Smith, ***Economic Development***, Pearson Education, 8th Ed., New Delhi, 2004, pp. 9–11.

2. As the IMF and the WB considered this yardstick of development as quoted in Gerald M. Meier and James E. Rauch, ***Leading Issues in Economic Development***, Oxford University Press, New Delhi, 2006, pp. 12–14.

otherwise with the clear reference to the period for which it is used.

Though growth is a value neutral term, i.e., it might be positive or negative for an economy for a period, we generally use it in the positive sense. If economists say an economy is growing it means the economy is having a positive growth otherwise they use the term '*negative growth*'.

Economic growth is a widely used term in economics which is useful in not only national level economic analyses and policymaking but also highly useful in the study of comparative economics. International level financial and commercial institutions go for policymaking and future financial planning on the basis of the growth rate data available for the economies of the world.

ECONOMIC DEVELOPMENT

For a comparatively longer period of time after the birth of economics, economists remained focused on aspects of expanding the quantity of production and income of a country's economy. The main issue economists discussed was—how to increase the quantity of production and income of a country or a nation-state. It was believed that once an economy is able to increase its production its income will also increase and there will be an automatic betterment (quality increase) in the lives of the people of the economy. There was no conscious discussion over the issue of quality expansion in the lives of the people. Economic growth was considered as a cause and effect for the betterment of lives of the people. This was the reason why economists till the 1950s failed to distinguish between growth and development though they knew the difference between these terms.

It was during the 1960s and in the later decades that economists came across many countries where the growth was comparatively

higher, but the quality of life was comparatively low. The time had come to define economic development differently from what the world meant by economic growth. For economists, development indicates the quality of life in the economy which might be seen in accordance with the availability of so many variables such as:

- (i) The level of nutrition
- (ii) The expansion and the reach of healthcare facilities—hospitals, medicines, safe drinking water, vaccination, sanitation, etc.
- (iii) The level of education among the people
- (iv) Other variables on which the quality of life depends

Here, one basic thing must be kept in mind that if the masses are to be guaranteed with a basic minimum level of quality-enhancing inputs (above-given variables such as food, health, education, etc.) in their life, a minimum level of income has to be guaranteed for them. Income is generated from productive activities. It means that before assuring development we need to assure growth. Higher economic development requires higher economic growth. But it does not mean that a higher economic growth automatically brings in higher economic development—a confusion the early economists failed to clear. We may cite an example to understand the confusion: two families having same levels of income but spending differing amounts of money on developmental aspects. One might be giving little attention to health, education and going for saving and the other might not be saving but taking possible care of the issues of health and education. Here the latter necessarily will have higher development in comparison to the former. Thus, we may have some diverse cases of growth and development:

- (i) Higher growth and higher development
- (ii) Higher growth but lower development
- (iii) Lower growth but higher development

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The above-given combinations, though comparative in nature make one thing clear, that, just as for higher income and growth we need conscious efforts, same is true about the economic development and higher economic development.

Without a conscious public policy, development has not been possible anywhere in the world. Similarly, we can say, that without growth there cannot be development either.

The first such instance of growth without development, which the economists saw, was in the Gulf countries. These economies, though they had far higher levels of income and growth, the levels of development were not of comparable levels. Here started the branch of economics which will be known as '*development economics*'. After the arrival of the WB and the IMF, conscious economic policies were framed and prescribed for the growth and development of less developed economies.

We can say that ***economic development is quantitative as well as qualitative progress*** in an economy.³ It means, when we use the term growth we mean quantitative progress and when we use the term development we mean quantitative as well as qualitative progress. If economic growth is suitably used for development, it comes back to accelerate the growth and ultimately greater and greater population brought under the arena of development. Similarly, high growth with low development and ill-cared development finally results in fall in growth. Thus, there is a circular relationship between growth and development. This circular relationship broke down when the Great Depression occurred. Once the concept of the '*welfare state*' got established, development became a matter of high concern for the governments of the world, policymakers and economists alike. A whole new branch of economics—***welfare economics*** has its origin in

the concept of welfare state and the immediacy of development.

MEASURING DEVELOPMENT —

Although economists were able to articulate the differences between growth and development (Mahbub ul Haq, a leading Pakistani economist had done it by the early 1970s), it took some more time when the right method of measuring development could be developed. It was an established fact that the goal of progress goes beyond mere 'increase in income'. International bodies such as the UNO, IMF and WB were concerned about the development of the comparatively underdeveloped regions of the world. But any attempt in this direction was only possible once there was a tool to know and measure the developmental level of an economy and the determinants which could be considered as the traits of development. The idea of developing a formula/method to measure the development was basically facing two kinds of difficulties:

- (i) At one level it was difficult to define as to what constitutes development. Factors which could show development might be many, such as levels of income/ consumption, quality of consumption, healthcare, nutrition, safe drinking water, literacy and education, social security, peaceful community life, availability of social prestige, entertainment, pollution-free environment, etc. It has been a real difficult task to achieve consensus among the experts on these determinants of development.
- (ii) At the second level it looked highly difficult to quantify a concept as development constitutes quantitative as well as qualitative aspects. It is easy to compare qualitative aspects such as

3. World Bank, **World Development Report 1991**, Oxford University Press, New York, 1991, p. 4.

beauty, taste, etc., but to measure them we don't have any measuring scale.

HUMAN DEVELOPMENT INDEX —

The dilemma behind comparatively measuring the developmental level of economies was solved once the United Nations Development Programme (UNDP) published its first Human Development Report (HDR) in 1990. The report had a human development index (HDI) which was the first attempt to define and measure the levels of development. The 'index' was a product of select team of leading scholars, development practitioners and members of the Human Development Report office of the UNDP. The first such team which developed the HDI was led by **Mahbub ul Haq** and **Inge Kaul**. The term 'human development' is a corollary of 'development' in the index.

The HDR measures development by combining three indicators—*Health, Education* and *Standard of Living*—converted into a composite human development index, the HDI. The creation of a single statistic in HDI was a real breakthrough which was to serve as a frame of reference for both 'social' and 'economic' development. The HDI sets a minimum and a maximum for each dimension, called *goalposts*, and then shows where each country stands in relation to these goalposts, expressed as a value between 0 and 1 (i.e., the index is prepared on the *scale of one*). The *three* indicators⁴ used to develop the composite index are as given below:

The **Education** component of the HDI is **now** (since HDR-2010) measured by two other indicators—

- (i) **Mean of years of schooling (for adults aged 25 years):** This is estimated based on educational attainment data from censuses and surveys available in the

UNESCO Institute for Statistics database and *Barro and Lee* (2010) methodology.

- (ii) **Expected years of schooling (for children of school entering age):** These estimates are based on enrolment by age at all levels of education and population of official school age for each level of education. Expected years of schooling is capped at 18 years.

These indicators are normalised using a minimum value of zero and maximum values are set to the actual observed maximum value of mean years of schooling from the countries in the time series, 1980–2012, that is 13.3 years estimated for the United States in 2010. The *education index* is the geometric mean of two indices.

The **Health** component is measured by the *life expectancy* at birth component of the HDI and is calculated using a minimum value of 20 years and maximum value of 83.57 years. This is the observed maximum value of the indicators from the countries in the time series, 1980–2012. Thus, the longevity component for a country where life expectancy at birth is 55 years would be 0.551.

The **Standard of Living** component is measured by **GNI** (Gross National Income/Product) per capita at 'Purchasing Power Parity in US Dollars' (PPP \$) instead of GDP per capita (PPP \$) of past. The *goalpost* taken for minimum income is \$100 (PPP) and the maximum is US \$87,478 (PPP), estimated for Qatar in 2012. The HDI uses the logarithm of income, to reflect the diminishing importance of income with increasing GNI.

The scores for the three HDI dimension indices are then aggregated into a composite index using geometric mean. The HDI facilitates instructive comparisons of the experiences within and between different countries.

The UNDP ranked⁵ the economies in accordance of their achievements on the above-

4. *Human Development Report, 2013* and *Human Development Report, 2010*, United Nations Development Programme, New York, USA, 2013.

5. Todaro and Smith, *Economic Development*, p. 58.

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given three parameters on the scale of one (i.e., 0.000–1.000). As per their achievements the countries were broadly classified into three categories with a range of points on the index:

- (i) High Human Development Countries: 0.800–1.000 points on the index.
- (ii) Medium Human Development Countries: 0.500–0.799 points on the index.
- (iii) Low Human Development Countries: 0.000–0.499 points on the index.

The *Human Development Report, 2013* is discussed in Chapter 22 together with India's relative position in the world.

THE DEBATE CONTINUES

Though the UNDP commissioned team had evolved a consensus as to what constitutes development, academicians and experts around the world have been debating this issue. By 1995 economies around the world had officially accepted the concept of human development propounded by the UNDP. Basically, the UNDP designed HDR was used by the World Bank since the 1990s to quantify the developmental efforts of the member countries and cheap developmental funds were allocated in accordance. Naturally, the member countries started emphasising on the parameters of income, education and life expectancy in their policymaking and in this way the idea of HDI got obligatory or voluntary acceptance around the world.

For many years, experts and scholars came up with their own versions of defining development. They gave unequal weightage to the determinants defining development, as well as selected some completely different parameters which could also denote development in a more suitable way according to them. Since quality is a matter of value judgement and a normative concept, there was scope for this representation. Most of such

attempts were not prescriptions for an alternative development index, but they were basically trying to show the incompleteness of the HDI, via intellectual satires. One such attempt was made by the economists and scholars of the London School of Economics in 1999 which concluded Bangladesh as the most developed country in the world with the USA, Norway, Sweden getting one of the lowest ranks in the index.

Basically, it is very much possible to come out with such an index. As for example, we may say that peace of mind is a necessary element of development and betterment in human life which depends heavily on the fact as to how much sleep we get everyday. Housetheft and burglary are major determinants of a good night sleep which in turn depends on the fact as how assured we go to sleep in our homes at night from burglars and thieves. It means we may try to know a good sleep by the data of thefts and burglaries in homes. Since minor housethefts and burglaries are under-reported in police stations, the surveyor, suppose tried to know such cases with data as how much 'locks' were sold in a country in a particular year. In this way a country where people hardly have anything to be stolen or no risk of being burgled might be considered having the best sleep in night, thus the best peace of mind and that is why this will be the most developed country.

Basically, the HDI could be considered as one possible way of measuring development which was evolved by the concerned group of experts with the maximum degree of consensus. But the index which calculates the development of economies on certain parameters might be overlooking many other important factors which affect the development of an economy and standard of living. As per experts, such other determinants affecting our living conditions might be:

- (i) Cultural aspects of the economy,
- (ii) Outlook towards aesthetics and purity of the environment,

- (iii) Aspects related to the rule and administration in the economy,
- (iv) People's idea of happiness and prestige,
- (v) Ethical dimension of human life, etc.

INTROSPECTING DEVELOPMENT ⁶ ■

Confusion about the real meaning of development did start only after the World Bank and the International Monetary Fund came into being, i.e., post-war. As experts were studying the development process of the developing world, they were also surveying the performance reports of the developed world. As the western world had

been declared the developed countries having top twenty ranks on the HDI, social scientists started evaluating the conditions of life in these economies. Most of such studies concluded that life in the developed world is every thing but happy. Crime, corruption, burglaries, extortion, drug trafficking, flesh trade, rape, homicide, moral degradation, sexual perversion, etc.—all kinds of the so-called vices were thriving in the developed world. It means development had failed to deliver them happiness, peace of mind, a general well-being and a feeling of being in good state. Scholars started questioning the very efforts being made for development around the world. Most of

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6. There were diverse opinions about the real meaning of 'development'—by mid-1940s upto almost the whole 1950s it meant 5–7 per cent growth rate in an economy—even by the IMF and WB. By the late 1960s *new views* of development started emerging. **Arthur Lewis** had seen development in the sense of *human freedom* in 1963 itself when he concluded that "the advantage of economic growth is not that wealth increases happiness, but that it increases the range of human choice." For him development means a freedom from 'servitude'—mankind could be free to have choices to lead a life full of material goods or in spiritual contemplation (W. Arthur Lewis, *The Theory of Economic Growth*, Allen & Unwin, London, 1963, p. 420).

For **Dudley Seers** development meant more employment and equality besides a falling poverty (*The Meaning of Development*, a paper presented at the 11th World Conference of the Society for International Development, New Delhi, 1969, p. 3). Dudley Seers was later supported by many other economists such as **Denis Goulet** (*The Cruel Choice: A New Concept in the Theory of Development*, Atheneum, New York, 1971, p. 23), Richard Brinkman (1995), P. Jagdish Gandhi (1996) and many others.

The **International Labour Organization** (ILO) had also articulated by the mid-1970s that economic development must be able to deliver the economic ability that people can meet their basic needs (the concept of 'sustenance') besides the elimination of absolute poverty, creating more employment and lessening income inequalities (*Employment, Growth and Basic Needs*, ILO, Geneva, 1976). **Amartya Sen** articulated a similar view via his ideas of 'capabilities' and 'entitlements' ("Development: Which Way Now?", *Economic Journal* 93, December 1983, pp. 754–57.).

By 1994, the United Nations looked to including the element of 'capabilities' in its idea of development when it concludes that *human beings are born with certain potential capabilities and the purpose of development is to create an environment in which all people can expand their capabilities in present times and in future. Wealth is important for human life. But to concentrate exclusively on it is wrong for two reasons. First, accumulating wealth is not necessary for the fulfillment of some important human choices.... Second, human choices extend far beyond economic well-being* (*Human Development Report 1994*, UNDP, Oxford University Press, New York, 1994, pp. 13–15).

The **World Bank** by 1991 had also changed its view about development and had concluded that for improving *quality of life* we should include education, health, nutrition, less poverty, cleaner environment, equality, greater freedom and richer cultural life as the goals of development.

Amartya Sen, a leading thinker on the meaning of development attracted attention for articulating human goals of development. He opined that enhancing the lives and the freedoms, we enjoy should be the concerns of development known as the 'capabilities' approach to development (see his *Commodities and Capabilities*, North Holland, Amsterdam, 1985 and *Development as Freedom*. Alfred Knopf. New York, 1999.).

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them have suggested a re-defining of development which could deliver happiness to mankind.

Why development has not delivered happiness to the developed world? The answer to this question does not lie in any one objective fact but touches so many areas of human life. First, whenever economists from the outset talked about progress they meant overall happiness of human life.

Social scientists, somehow have been using terms such as progress, growth, development, well-being, welfare as synonyms of '*happiness*'. Happiness is a normative concept as well as a state of mind. Therefore, its idea might vary from one economy to the other.

Second, the period in which development was defined, it was considered that with the supply of some selected material resources human life can be improved. These resources were pin-pointed as, a better level of income, proper level of nutrition, healthcare facilities, proper levels of literacy and education, etc.

Happiness is a broader thing than development. The so-called 'development' for which the world has been striving hard for the last many decades is capable of delivering material happiness to mankind. Happiness has its non-material side also. It means while the world has been trying to maximise its developmental prospects, i.e., material happiness, it could not attend the non-material part of happiness. The non-material part of our life is rooted in ethics, religion, spiritualism and cultural values. As development or human development was defined in material terms, it could only deliver us material happiness which is visibly available in the developed world. Due to partial definition of development the developed world has been able to achieve development, i.e., happiness but only of material kind and for the non-material part of happiness, we naturally need to redefine our 'ideas' of development today or tomorrow.

Somehow a very small kingdom had been able to define development in its own way, which included material as well as non-material aspects of life into it and named it the Gross National Happiness (GNH). This country is Bhutan.

Gross National Happiness: Bhutan, a small Himalayan kingdom and an economic non-entity, developed a new concept of assessing development in the early 1970s—the Gross National Happiness (GNH). Without rejecting the idea of human development propounded by the UNDP, the kingdom has been officially following the targets set by the GNH. Bhutan has been following up the GNH since 1972 which has the following parameters to attain happiness/development:

- (i) Higher real per capita income
- (ii) Good governance
- (iii) Environmental protection
- (iv) Cultural promotion (i.e., inculcation of *ethical* and *spiritual* values in life without which, it says, progress may become a curse rather than a blessing)

At the level of real per capita income, the GNH and the HDI are the same. Though the HDI is silent on the issue of 'good governance', today it should be considered as being promoted around the world once the World Bank came with its report on it in 1995 and enforced it upon the member states. On the issue of protecting environment, though the HDI didn't say anything directly, the World Bank and the UNO had already accepted the immediacy of sustainable development by then and by early 1990s there was a separate UN Convention on the matter (follow up on this convention has been really very low till date which is a different issue).

It means the basic difference between the GNH and the HDI looks at the level of assimilating the ethical and spiritual aspects into our (UNDP's) idea of development.

An impartial analysis sufficiently suggests that material achievements are unable to deliver us happiness devoid of some ethics at its base. And ethics are rooted in the religious and spiritual texts. But the new world is guided by its own scientific and secular interpretation of life and the world has always been suspicious about recognising the spiritual factor in the human life. Rather the western idea of secularism was defined after rejecting the very existence of anything like God and also rejecting the whole traditional hypothesis of spiritualism as instances of ignorance and orthodoxy. And there should not be any doubt in accepting it that the western ideology in the name of development has ultimately, dominated the modern world and its way of life. The idea of development which was followed by the larger part of the world has been cent per cent 'this-worldly'. And anybody can assess today what kind of happiness the world has been able to have for itself at the end.

A recent study by a senior economist from the UNDP on the Bhutanese development experience under the GNH has vindicated the idea of 'gross happiness' which development must result into. As per the study, the period 1984–98 has been spectacular in terms of development with life expectancy increasing by a hopping 19 years, gross school enrolment reaching 72 per cent and literacy touching 47.5 per cent (from just 17 per cent).⁷

After the terror attack on the World Trade Centre in the USA the whole world has gone for a psychic metamorphosis and at least the euphoria of development from this world to that world has been shaken from its very base. The world which

is in the process of globalisation at one hand has started introspecting whether multicultural co-existence is possible. The Human Development Report of 2004 was titled as *Cultural Liberty in Today's Diverse World*. We may conclude that mankind is passing through a phase of serious introspection and transition where the dominant view in the world may metamorphose into redefining the very idea of development by including ethical values and spiritualism as important parts. But till now the proponents of development look shy in believing and accepting that there exists a non-material part of life, which needs to be realised to make our development result into happiness.

HAPPINESS

The *World Happiness Report 2013* was published by the United Nations Sustainable Development Solutions Network, in September 2013. The report—a 156-nation survey—is second of its kind (after the WHR 2012) released by a coalition of researchers.⁸ The report measures *happiness* and *well-being* in countries around the world **to help guide public policy**. The Happiness report ranks nations on the basis of **six** key factors:

- (i) GDP per capita,
- (ii) Healthy life expectancy,
- (iii) Someone to count on,
- (iv) Perceived freedom to make life choices,
- (v) Freedom from corruption, and
- (vi) Generosity.

The happiest nation was Denmark followed by Norway, Switzerland, Netherlands, Sweden,

7. **Stefan Priesner**, a senior economist with the UNDP conducted the study for the John Hopkins University, USA, in 2005.

8. Both the WHRs have three editors: **1. John F. Helliwell**, Vancouver School of Economics, University of British Columbia, and the Canadian Institute for Advanced Research (CIFAR); **2. Richard Layard**, Director, Well-Being Programme, Centre for Economic Performance, London School of Economics; **3. Jeffrey D. Sachs**, Director, The Earth Institute, Columbia University. [The reports were written by a group of independent experts acting in their personal capacities—any views expressed in this report do not necessarily reflect the views of any organisation, agency or programme of the United Nations].

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Canada, Finland, Austria, Iceland and Australia in the top 10 positions, respectively. Interestingly and ironically, the US was ranked number 17, just behind Mexico. Last year, the US was ranked 23. India is ranked 111.

The world is now in the midst of a major policy debate about the objectives of public policy. What should be the world's Sustainable Development Goals for the period 2015–2030—the *World Happiness Report (WHR)* of 2013 is offered as a contribution to that crucial debate. As per Jeffery Sachs, 'there is now a rising worldwide demand that policy be more closely aligned with what really matters to people as they themselves characterize their well-being'.

THE MEANING OF HAPPINESS

The word 'happiness' is quite complex and is not used lightly. Happiness is an aspiration of every human being, and can also be a measure of social progress. Yet, are the citizens of different countries, happy? If they are not, what if anything can be done about it? The key to proper measurement must begin with the meaning of the word 'happiness.' As per the WHR 2013, the problem, of course, is that happiness is used in at least **two** ways :

- (i) As an emotion ['Were you happy yesterday?'], and
- (ii) As an evaluation ['Are you happy with your life as a whole?'].

If individuals were to routinely mix up their responses to these very different questions, then

measures of happiness might tell us very little. Changes in reported happiness used to track social progress would perhaps reflect little more than transient changes in emotion. Or impoverished persons who express happiness in terms of emotion might inadvertently diminish society's will to fight poverty. Fortunately, respondents to the happiness surveys do not tend to make such confusing mistakes. Both the WHRs did show that the respondents of the surveys clearly recognise the difference between *happiness as an emotion* and *happiness in the sense of life satisfaction*. The responses of individuals to these different questions are highly distinct. A very poor person might report himself to be happy emotionally at a specific time, while also reporting a much lower sense of happiness with life as a whole; and indeed, people living in extreme poverty do express low levels of happiness with life as a whole. Such answers should spur our societies to work harder to end extreme poverty.

The **WHR 2013** is based on the primary measures of subjective well-being;⁹ life evaluations;¹⁰ life satisfaction;¹¹ and happiness with life as a whole.¹² Thus, happiness, appears twice, once as an emotional report, and once as part of a life evaluation, giving considerable evidence about the nature and causes of happiness in both its major senses.

Trends in Happiness

The report presents data for the world showing the levels, explanations, changes and equality

9. *Guidelines on Measuring Subjective Well-being*, OECD, Paris, 2013.

10. Used in the *World Values Survey*, the *European Social Survey* and many other national and international surveys. It is the core 'life evaluation' question recommended by the OECD (2013), and in the first *World Happiness Report*.

11. The *Gallup World Poll (GWP)* – the GWP includes the 'life satisfaction' question on 0 to 10 scale on an experimental basis, giving a sample sufficiently large to show that when used with consistent samples the two questions provide mutually supportive information on the size and relative importance of the correlates.

12. The *European Social Survey* contains questions about 'happiness with life as a whole', and about life satisfaction, both on the same 0 to 10 numerical scale. The responses provide the scientific base to support the WHR findings that answers to the two questions give consistent (and mutually supportive) information about the correlates of a good life.

of happiness. The world has become a *slightly happier* and *more generous* place over the past five years despite the obvious detrimental happiness impacts of the financial crisis (2007–08), as per the report. Because of continuing improvements in most supports for better lives in Sub-Saharan Africa, and of continued convergence in the quality of the social fabric within greater Europe, there has also been some progress toward equality in the distribution of well-being among global regions. There have been important continental crosscurrents within this broader picture. Improvements in quality of life have been particularly notable in Latin America and the Caribbean, while reductions have been the norm in the regions most affected by the financial crisis, Western Europe and other western industrial countries; or by some combination of financial crisis, and political and social instability, as in the Middle East and North Africa.

The HDR Linkage

The *WHR 2013* investigates the conceptual and empirical relationships between ‘human development’ (the UNDP idea used in the *Human Development Report*) and ‘life evaluation’ approaches to understanding human progress. It argues that both approaches were, at least in part, motivated by a desire to consider progress and development in ways that went beyond GDP, and to put people at the centre. And while ‘human development’ is at heart a conceptual approach, and ‘life evaluation’ an empirical one, there is considerable overlap in practice—many aspects of human development are frequently used as key variables to explain subjective well-being. The two approaches provide complementary lenses which enrich our ability to assess whether life is getting better.

Conclusion

At the end, it may be concluded that there is now a rising worldwide demand that policy be more closely aligned with *what really matters to people* as they themselves characterise their lives. In past few years, more and more world leaders (such as the German Chancellor Angela Merkel, South Korean President Park Geun-hye and British Prime Minister David Cameron) have been talking about the importance of well-being as a guide for their nations and the world. The 2013 *World Happiness Report* has been published in support of these efforts to bring the study of happiness into public awareness and public policy. This report offers rich evidence that the systematic measurement and analysis of happiness can teach us much about ways to improve the world’s well-being and sustainable development. Now it depends on the nations as how they use the findings of the *WHR*.

THE BACKGROUND

In July 2011 the UN General Assembly passed a historic resolution.¹³ It invited member countries to measure the happiness of their people and to use this to help guide their public policies. This was followed in April 2012 by the **first** UN high-level meeting on happiness and well-being, chaired by the Prime Minister of Bhutan. At the same time the **first** *World Happiness Report* was published,¹⁴ followed some months later by the OECD Guidelines setting an international standard for the measurement of well-being.¹⁵

REIMAGINING THE IDEA OF HAPPINESS

Search for a ‘happier’ life for humanity has been the ultimate aim of not only saints, seers, and philosophers but of economists too. The whole

13. UN General Assembly, **Happiness: Towards a Holistic Approach to Development**, 19 July 2011.

14. J. F. Helliwell, R. Layard & J. Sachs (Eds.), **World Happiness Report 2012**, Earth Institute, New York, USA, 2012.

15. **Guidelines on Measuring Subjective Well-being**, OECD, Paris, 2013.

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gamut of economics literature on progress, growth, development is ultimately aimed at bringing more 'happiness' into the lives of human beings. Over the time, diverse ideological currents impressed upon the humanity to take variety of 'meanings' out of the highly subjective term 'happiness'—and finally, the humanity is where it is today.

A time also came when many scholars and world leaders raised the ultimate question—are we happier today? And in the wake of this increased 'scrutiny' around the world, there came the UN resolution of 2011 which invited member countries to measure the happiness of their people and to use this to help guide their public policies. The *WHR 2012* itself provides a very interesting and eye-opening inquiry into the state of human happiness in the world. To understand the 'shift' which is expected to take place among policymakers around the world in coming years, it will be better to *lift some ideas* from the **first WHR**.¹⁶

- (i) This is an age of stark contradictions. While at the one hand the world enjoys technologies of unimaginable sophistication at the other hand, at least one billion people are living without enough to eat. The world economy is propelled to soaring new heights of productivity through ongoing technological and organisational advances; yet it is relentlessly destroying the natural environment in the process. Countries achieve great progress in economic development as conventionally measured; yet along the way countries succumb to new crises of obesity, smoking, diabetes, depression, and other ills of

modern life. These contradictions would not come as a shock to the greatest sages of humanity, including **Aristotle** and the **Buddha**, who taught humanity, time and again, that material gain alone will not fulfil our deepest needs. Material life must be harnessed to meet these human needs, most importantly to promote the end of suffering, social justice and the attainment of happiness.

- (ii) The *WHR 2012* takes one key example from the USA—the world's economic superpower—which has achieved striking economic and technological progress over the past half century without gains in the self-reported happiness of the citizenry with the following serious 'concerns' of today:
 - (a) uncertainties and anxieties are high,
 - (b) social and economic inequalities have widened considerably,
 - (c) social trust is in decline, and
 - (d) confidence in government is at an all-time low.

Perhaps for these reasons, life satisfaction in the USA has remained nearly constant during the decades of rising Gross National Product (GNP) per capita.

- (iii) The realities of poverty, anxiety, environmental degradation, and unhappiness in the midst of great plenty should not be regarded as mere curiosities. They require our urgent attention, and especially so at this juncture in human history. For we have entered a new phase of the world, termed the *Anthropocene*¹⁷ by the world's Earth system scientists. The

16. J. F. Helliwell, R. Layard & J. Sachs (Eds.), **World Happiness Report- 2012**, Earth Institute, New York, USA, 2012.

17. The Anthropocene is a newly invented term that combines two Greek words: 'anthropo' for human; and 'cene' for new, as in a new geological epoch. The Anthropocene is the new epoch in which humanity, through its technological prowess and population of 7 billion, has become the major driver of changes of Earth's physical systems, including the climate, carbon cycle, water cycle, nitrogen cycle and biodiversity.

Anthropocene will necessarily reshape our societies. If we continue mindlessly along the current economic trajectory, we risk undermining the Earth's life support systems—food supplies, clean water and stable climate—necessary for human health and even survival in some places. In years or decades, conditions of life may become dire in several fragile regions of the world. We are already experiencing deterioration of life support systems in the dry lands of the Horn of Africa and parts of Central Asia.

On the other hand, if we act wisely, we can protect the Earth while raising quality of life broadly around the world. We can do this by adopting *lifestyles* and *technologies* that improve **happiness** (or life satisfaction) while reducing human damage to the environment. Sustainable Development is the term given to the combination of human well-being, social inclusion and environmental sustainability. There is no doubt in concluding that the 'quest for happiness' is intimately linked to the 'quest for sustainable development'.

- (iv) In an impoverished society, the urge for material gain typically makes a lot of sense. Higher household income (or higher per capita GNP) generally signifies an improvement in the life conditions of the poor. The poor suffer from dire deprivations of various kinds: lack of adequate food supplies, remunerative jobs, access to health care, safe homes, safe water and sanitation, and educational opportunities. As incomes rise from very low levels, human well-being improves. Not surprisingly, the poor report a rising satisfaction with their lives as their meager incomes increase.

On the opposite end of the income spectrum, for most individuals in the high-income world, the basic deprivations have been vanquished. There is enough food, shelter, basic amenities (such as clean water and sanitation), and clothing to meet their daily needs. In fact, there is a huge surfeit of amenities above basic needs. Poor people would swap with rich people in a heartbeat. Yet all is not well.

The conditions of affluence have created their own set of traps.

Most importantly, the lifestyles of the rich imperil the survival of the poor. Human-induced climate change is already hitting the poorest regions and claiming lives and livelihoods. It is telling that in much of the rich world, affluent populations are so separated from the poor that there is little recognition, practical or moral, of the adverse spillovers (or 'externalities') from their own behaviour.

- (v) **Affluence** has also created its own set of afflictions and addictions (problems)—obesity, adult-onset diabetes, tobacco-related illnesses, eating disorders such as anorexia and bulimia, psychosocial disorders, and addictions to shopping, TV and gambling, are all examples of disorders of development. So too is the loss of community, the decline of social trust and the rising anxiety levels associated with the vagaries of the modern globalised economy, including the threats of unemployment or episodes of illness not covered by health insurance in the United States (and many other countries).
- (vi) Higher average incomes do not necessarily improve average well-being, the US being a clear case in point, as noted famously by Professor Richard

Easterlin¹⁸—where GNP per capita has risen by a factor of three since 1960, while measures of average happiness have remained essentially unchanged over the half-century. The increased US output has caused massive environmental damages, notably through greenhouse gas concentrations and human-induced climate change, without doing much at all to raise the well-being even of Americans. Thus, we don't have a trade off between short-run gains to well-being versus long-run costs to the environment; we have a pure loss to the environment without offsetting short-term gains.

The *paradox* that Easterlin noted in the US was that at any particular time richer individuals are happier than poorer ones, but over time the society did not become happier as it became richer. This is due to *four* reasons:

- (a) Individuals compare themselves to others. They are happier when they are higher on the social (or income) ladder. Yet when everybody rises together, relative status remains unchanged.
- (b) The gains have not been evenly shared, but have gone disproportionately to those at the top of the income and education distribution.
- (c) The other societal factors—insecurity, loss of social trust, declining confidence in government—have counteracted any benefits felt from higher incomes.
- (d) Individuals may experience an initial jump in happiness when their income rises, but then at least partly return to earlier levels as they *adapt* to their new higher income.
- (vii) These phenomena put a clear limit on the extent to which rich countries can become happier through the simple device of *economic growth*. In fact, there are still other general reasons to doubt the formula of ever rising GNP per person as the route to happiness. While higher income may raise happiness to some extent, the *quest* for higher income may actually reduce one's happiness. In other words, it may be nice to have more money but not so nice to crave it. **Psychologists** have found repeatedly that individuals who put a high premium on higher incomes generally are less happy and more vulnerable to other psychological ills than individuals who do not crave higher incomes. Aristotle and the Buddha advised humanity to follow a middle path between asceticism on the one side and craving material goods on the other.
- (viii) Another problem is the creation of new material '**wants**' through the incessant *advertising* of products using powerful imagery and other means of persuasion. Since the imagery is ubiquitous on all of our digital devices, the stream of advertising is more relentless than ever before. Advertising is now a business of around US \$500 billion per year. Its goal is to overcome satiety by *creating wants and longings* where none previously existed. Advertisers and marketers do this in part by preying on psychological weaknesses and unconscious urges.

18. Among the foremost contributor to the *Happiness Economics*, Easterlin is particularly known for his 1974 article '**Does Economic Growth Improve the Human Lot? Some Empirical Evidence**' (his idea, today known as the **Easterlin Paradox**, was proposed by him in this article). Here he concluded that contrary to expectation, happiness at a national level does not increase with wealth once basic needs are fulfilled.

Cigarettes, caffeine, sugar, and trans-fats all cause cravings if not outright addictions. Fashions are sold through increasingly explicit sexual imagery. Product lines are generally sold by associating the products with high social status rather than with real needs.

- (ix) The thinking of becoming happier by becoming richer is challenged by the law of *diminishing marginal utility of income*¹⁹—after a certain point, the gains are very small. This means that poor people benefit far more than rich people from an added dollar of income. This is a good reason why tax-and-transfer systems among high-income OECD countries on balance take in net revenues from high-income households and make net transfers to low-income households. Put another way, the inequality of household income is systematically lower net of taxes and transfers than before taxes and transfers.²⁰
- (x) The *Western economist's* logic of ever higher GNP is built on a vision of humanity completely at variance with the wisdom of the sages, the research of psychologists, and the practices of advertisers. The economist assumes that individuals are '**rational decision-makers**' who know what they want and how to get it, or to get as close to it as possible given their budget. Individuals care largely about themselves and derive pleasure mainly through their consumption. The

individual's preferences as consumers are a given or change in ways actually anticipated in advance by the individuals themselves. Some economists even say that drug addicts have acted 'rationally', consciously trading off the early benefits of drug use with the later high toll of addiction.

- (xi) We understand that we need a very different model of humanity, one in which we are a complicated interplay of emotions and rational thought, unconscious and conscious decision-making, **fast** and **slow** thinking. Many of our decisions are led by emotions and instincts, and only later rationalised by conscious thought. Our decisions are easily "primed" by associations, imagery, social context and advertising. We are inconsistent or "irrational" in sequential choices, failing to meet basic standards of rational consistency. And we are largely unaware of our own mental apparatus, so we easily fall into *traps* and *mistakes*. Addicts do not anticipate their future pain; we spend now and suffer the consequences of bankruptcy later; we break our diets now because we aren't thinking clearly about the consequences. We also understand (again!) that we are **social animals** through and through. We learn through imitation, and gain our happiness through meeting *social norms* and having a sense of *belonging to the community*.

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- 19. Suppose that a poor household at Rs. 1,000 income requires an extra Rs. 100 to raise its life satisfaction (or happiness) by one notch. A rich household at Rs. 1,000,000 income (one thousand times as much as the poor household) would need one thousand times more money, or Rs. 100,000, to raise its well-being by the same one notch. Gains in income have to be of equal proportions to household income to have the same benefit in units of life satisfaction.
 - 20. On an average across the OECD countries, cash transfers and income taxes reduce inequality by one third. Poverty is around 60 per cent lower than it would be without taxes and benefits. Even among the working-age population, government redistribution reduces poverty by about 50 per cent (*OECD, 2008*).

- (xii) Human beings feel the pain of others, and react viscerally when others are sad or injured. We even have a set of ‘mirror neurons’ that enable us to feel things from the point of view of others. All of this gives us a remarkable capacity to **cooperate** even with strangers, and even when there is little chance of reward or reciprocity, and to punish ‘non-cooperators’, even when imposing punishment on others is costly or puts us at risk ourselves.

Of course there are limits to such cooperation and fellow feeling. We also cheat, bluff, deceive, break our word, and kill members of an out-group. We engage in identity politics, acting as cruel to outsiders as we are loving to our own group. All these lessons of human nature matter more than ever, more even than when the Buddha taught humanity about the illusions of transient pleasures, and the Greeks warned us against the tempting Siren songs that could pull us off our life’s course. For today we have more choices than ever before. In the ancient world, the choice facing most of humanity most of the time was little choice indeed—to work hard to secure enough to eat, and even then to face the risk of famine and death from bad weather or bad luck.

- (xiii) Today, we face a set of real choices. Should the world pursue GNP to the point of environmental ruin, even when incremental gains in GNP are not increasing much (or at all) the happiness of affluent societies? Should we crave for higher personal incomes at the cost of the community and social trust? Should our governments spend even a

tiny fraction of the \$500 billion or so spent on advertising each year to help individuals and families to understand better their own motivations, wants and needs as consumers? Should we consider some parts of our society to be “off bounds” to the profit motive, so that we can foster the **spirit of cooperation, trust, and community**? A recent analyst²¹ of Finland’s school system, for example, writes that Finland’s excellence (ranking near the top of international comparisons in student performance) has been achieved by fostering a spirit of community and equality in the schools. This is in **sharp contrast** to the education reform strategy at work in the US, where the emphasis is put on *testing, measurement, and teacher pay* according to student test performance.

AT THE END

The introspecting studies of the *WHR 2012* simply conclude that there are enough reasons to believe that we need to **re-think** the economic sources of well-being, more so even in the rich countries than in the poor ones. High-income countries have largely ended the scourges of poverty, hunger and disease. Poor countries rightly yearn to do so. But after the end of poverty, what comes next? What are the pathways to well-being when basic economic needs are no longer the main drivers of social change? What will guide humanity in the Anthropocene: advertising, sustainability, community or something else? What is the path to happiness?

Most people agree that societies should foster the happiness of their citizens. The founding fathers of the US recognised the inalienable right to the pursuit of happiness. British philosophers

21. Pasi Sahlberg, ‘Education Policies for Raising Student Learning: The Finnish Approach’, *Journal of Education Policy*, 22(2), March 2007, World Bank, Washington DC, pp. 147–171.

talked about the greatest good for the greatest number. Bhutan has famously adopted the goal of Gross National Happiness (GNH) rather than Gross National Product. China champions a harmonious society. Yet most people probably believe that happiness is in the eye of the beholder, an individual's choice, something to be pursued individually rather than as a matter of national policy. Happiness seems far too subjective, too vague, to serve as a touchstone for a nation's goals, much less its policy content. That indeed has been the traditional view. Yet the evidence is rapidly changing this view.

A generation of **studies** by psychologists, economists, pollsters, sociologists and others have shown that happiness, though indeed a subjective experience, can be objectively measured, assessed, correlated with observable brain functions, and related to the characteristics of an individual and the society. Asking people whether they are happy or satisfied with their lives, offers important information about the society. It can signal underlying crises or hidden strengths. It can suggest the need for change. Such is the idea of the emerging scientific study of happiness, whether of individuals and the choices they make, or of entire societies and the reports of the citizenry regarding life satisfaction—the *WHR 2012* summarises the fascinating and emerging story of these studies on **two** broad measurements of happiness:

- (i) the ups and downs of daily emotions and
- (ii) an individual's overall evaluation of life

The former is sometimes called 'affective happiness,' and the latter 'evaluative happiness.'

This is important to know that both kinds of happiness have predictable causes that reflect various facets of our human nature and our social life. *Affective happiness* captures the day-to-day joy of friendship, time with family, and sex, or the downsides of long work commutes and sessions with one's boss. *Evaluative happiness* measures very different dimensions of life, those that lead

to overall satisfaction or frustration with one's place in society. Higher income, better health of mind and body, and a high degree of trust in one's community ('social capital') all contribute to high life satisfaction; poverty, ill health and deep divisions in the community all contribute to low life satisfaction.

Happiness differs systematically across societies and over time, for reasons that are identifiable, and even alterable through the ways in which public policies are designed and delivered. It makes sense, in other words, to pursue policies to raise the public's happiness as much as it does to raise the public's national income. **Bhutan** is on to something path breaking and deeply insightful. And the world is increasingly taking notice. A household's income counts for life satisfaction, but only in a limited way—other things matter more:

- (i) community trust,
- (ii) mental and physical health, and
- (iii) the quality of governance and rule of law

Raising incomes can raise happiness, especially in poor societies, but fostering cooperation and community can do even more, especially in rich societies that have a low marginal utility of income. It is no accident that the happiest countries in the world tend to be high-income countries that also have a high degree of social equality, trust and quality of governance. In recent years, Denmark has been topping the list. And it's no accident that the US has not experienced *rise of life satisfaction for half a century, a period in which inequality has soared, social trust has declined, and the public has lost faith in its government.*

It is, of course, one thing to identify the correlates of happiness, and quite another to use **public policies** to bring about a society-wide rise in happiness (or life satisfaction). That is the goal of Bhutan's GNH, and the motivation of an increasing number of governments dedicated to measuring happiness and life satisfaction in a

reliable and systematic way over time. The most basic goal is that by measuring happiness across a society and over time, countries can avoid ‘*happiness traps*’ such as in the USA in recent decades, where GNP may rise relentlessly while life satisfaction stagnates or even declines.

The idea of GNH in Bhutan tells a story of exploration and progress since its King declared (1972) the goal of happiness over the goal of wealth. For Bhutan happiness became much more than a guidepost or inspiration; it became an organising principle for governance and policymaking as well. The ‘GNH Index’ is the **first** of its kind in the world, a serious, thoughtful and sustained attempt to measure happiness, and use those measurements to chart the course of public policy. It is believed that in coming years many more countries in the world will be taking clues from Bhutan and the recently published two World Happiness Reports.

INSIGHTS INTO HUMAN BEHAVIOUR

The World Bank in its latest report (*World Development Report 2015: Mind, Society, and Behaviour*) said that development policies become more effective when combined with insights into human behaviour. It further adds that policy decisions informed by **behavioural economics** can deliver impressive improvements in promoting development and well-being in society. It sites some examples from India in the areas of healthcare and education:

- Open defecation dropped 11 per cent from very high levels after a Community-Led Total Sanitation (CLTS) programme was combined in some chosen villages with the standard approach of subsidies for toilet construction and information on the transmission of diseases.
- The likelihood of default on loans became

three times less likely with a simple change in the periodicity of meetings between microfinance clients and their repayment groups to weekly rather than monthly.

- Research showed that boys from backward classes were just as good at solving puzzles as boys from the upper castes when caste identity was not revealed. However, in mixed-caste groups, revealing the boys’ castes before puzzle-solving sessions created a significant “caste gap” in achievement with the boys from backward classes underperforming by 23 per cent (making caste salient to the test takers invoked identities, which in turn affected performance, as per the report).

The *Report* has recommended that the presence of a stereotype can contribute to measured ability differences, which in turn reinforce the stereotype and serve as a basis for exclusion, in a vicious cycle—finding ways to break this cycle could increase the well-being of marginalised individuals enormously.

SOCIAL NORMS, CULTURE AND DEVELOPMENT

Economic development depends not only on getting fiscal policy, monetary policy and taxation right; but it is also rooted in human psychology, sociology, culture and norms—in the economics profession, there has been a bit of resistance to this because it is sort of giving ground to the neighbouring disciplines.²² The recent *World Development Report (WDR)* of 2015 focuses on the behavioural and social foundations of development, and has been very well received.

Government documents (generally, hard-nosed), usually, make no mention of the role of social norms and culture in promoting development

22. Kaushik Basu, Chief Economist, **World Bank**, *Livemint*, N. Delhi, February 3, 2015.

and economic efficiency. However, there is now a growing body of literature that demonstrates how certain social norms and cultural practices are vital ingredients for economic efficiency and growth. Groups and societies that are known to be honest and trustworthy tend to do better than societies that do not have this reputation. There have been broad cross-country studies and also laboratory experiments that illustrate this. More generally, what is being argued is that a nation's success depends of course on its resources, human capital and economic policies, for instance fiscal and monetary policies, but also on the cultural and social norms that permeate society. Societies that are endowed with personal integrity and trustworthiness have the natural advantage that no third party is required to enforce contracts. For outsiders the mere knowledge that a particular society is trustworthy is reason to do more business and trade with it. One reason why these 'social' causes of development do not get enough recognition in the literature on economic policy is that the science of *how* these economics-friendly social qualities are acquired is not yet fully understood. Fortunately, the new discipline of **behavioural economics** is beginning to give us some insights into the formation of customs and behaviour:²³

- It is, for instance, known that buildings and office spaces which are cleaner and aesthetically better maintained result in individuals being more honest and desisting corrupt activity. It is almost as if we have a mental inclination not to defile a good ambience through acts of corruption.
- New York city's notorious high crime was controlled, among other things,

by cleaning up the city and removing graffiti from the walls. New York's police department took a decision to deter vandalism and graffiti that scar public spaces. This act of making the cityscape more aesthetic somehow made potential criminals less prone to crime.

- One sees casual evidence of this in the behaviour of Delhites using the metro. It has been widely noted that people behave better when they travel on Delhi's well-maintained metro (postponing their bad behaviour to when they come up to the surface again, some would add).

All this is in keeping with the influential *broken windows* theory in sociology, which maintains that, if we control low level, anti-social behaviour and take small steps to improve the environment, this will have a natural deterrent effect on larger criminal behaviour and acts of corruption. Also, the sheer recognition and awareness that some collective qualities of citizens, such as honesty and trustworthiness, enable the entire society to do well prompts individuals to adopt those qualities and overcome the ubiquitous free-rider problem.

There is a growing literature²⁴ in economics arguing that **pro-social behaviour**, which includes *altruism* and *trustworthiness*, is innate to human beings and, moreover, forms an essential ingredient for the efficient functioning of economies. In other words, human beings have a natural ability to forego personal gains for the sake of other people or because that is what is required because of a promise the person had made. This trait may well have evolutionary roots but its existence is now well demonstrated in laboratory tests by recent studies.

23. *Economic Survey 2009–10*, Ministry of Finance, Gol, N Delhi, p. 34-35.

24. Over half a dozen contemporary works have been cited as references by the *Economic Survey 2010–11*, Ministry of Finance, Gol, N Delhi, p. 40)

VALUES AND ECONOMICS

There is research²⁵ in psychology and evolutionary biology which shows that **morality**, **altruism**, and other-regarding **values** are an innate part of the human mind, even though the social setting in which a person lives can nurture or stunt these traits. However, the recognition that these human and moral qualities can have a large impact on economic development came relatively late to economics. Hence, the literature on this is relatively recent and brief. In fact, recent research shows that having a few 'good' human beings in society can give rise to dynamics through which we end up with an overall better society. There is also evidence that social norms and habits that at first sight seem ingrained in a society can change over short periods of time. By this argument it is possible for a country to nurture and develop the kinds of social norms that enable a more vibrant economy.

In talking about a nation's economic progress, all attention, including both praise and criticism, is usually focused on the government. It is, however, important to recognise that much also depends on civil society, the firms, the farmers, and ordinary citizens. The social norms and collective beliefs that shape the behaviour of these agents play an important role in how a nation does.

Honesty, punctuality, the propensity to keep promises, the attitude towards corruption are matters shaped in great part by norms and social beliefs and the behaviour patterns can become habitual. Moreover, in a democracy like India, what can be done by government depends in great measure on how ordinary people think and what

people believe in. That is what electoral politics is all about. An important reason why this got so little attention in the past is because so much of traditional economics was written as if these non-economic facets of life did not matter. But we now know that a market economy cannot function if people are totally self serving. While self-interest is a major driver of economic growth, it is important to recognise that honesty, integrity, and trustworthiness constitute the cement that binds society. At times economists treated these social norms, preferences and customs as unalterable. If that were so, there would not be much point in analysing their effect. But we do know that these qualities in a people can be changed. Honesty and integrity can be nurtured and aversion to corruption can be shored up.

If these traits are absent or inadequate in a nation, it is likely that that nation will stagnate and remain in a chaotic poverty trap. Take for instance, **contracts** which enable markets to develop and form the basis of economic life. If the contractual system in a nation is so weak that when a bank gives a 20-year mortgage to a person for buying a house, there is high risk of default, the implication of this is not that banks in this country will make large losses. The implication is that banks will not give loans; and the housing market will remain severely underdeveloped and the total number of houses will be few and far between.

Enforcing complicated or large contracts, especially ones protracted over a long period of time, is the responsibility of the state. The state provides the laws and enforcement to enable people to sign contracts. However, economic life

25. Several recent literature have been quoted by the *Economic Survey 2011-12*, Ministry of Finance, Gol, N Delhi, p. 44:

- (i) Fukuyama, F.(1996), *Trust: The Social Virtues and the Creation of Prosperity*, Free Press, New York.
- (ii) Guha, A. S. and B. Guha, 'The Persistence of Goodness,' *Journal of Institutional and Theoretical Economics*, 2012.
- (iii) Hauser, M. D., *Moral Minds*, Harper Collins, New York, 2012.
- (iv) Hashimoto, T., 'Japanese Clocks and the History of Punctuality in Modern Japan,' *East Asian Science, Technology, and Society*, vol. 2, 2008.

is full of everyday ‘contracts’ (for example, you let me ride in your taxi, and I pay you at the end of it; I pay you money now and you paint my house over the next two days; or you paint my house over the next two days and I pay you after that). In these everyday situations it is too cumbersome to bring in the state and the law courts. Here the main guarantor has to be people’s personal **integrity** and **trustworthiness**. Societies that have successfully nurtured these qualities have done well; societies that have done poorly on these, tend to do poorly in terms of economic progress.

It is not known precisely how these values can be inculcated in society. But, hopefully, writing about their importance will catalyse change, as ordinary people realise that for *economic* advancement these *social* qualities are as important as policies that concern directly with

the economy—like running the stock market or setting the rules of market competition.

Further, basic literacy and better education are helpful since people can then, on their own, reason and reach these conclusions. Literacy has the added value that it implies ordinary people will demand policies which are truly better, rather than those that merely look good on the surface. And, in a democratic setting like India, this will incentivise politicians to adopt better policies. Finally, if the political leaders and policymakers act as *role models* in terms of these qualities of honesty, integrity and trustworthiness, that can set the ball rolling. Inclusion of the behavioural dimension of human existence in policymaking has potential to play a huge role in promoting well-being.