

Does Money Buy Happiness in India? Panel Estimation of the Long-Run Relationship between Income and Subjective Well-being across States

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This paper examines the validity of the Easterlin paradox - despite vast differences in income levels, happiness level across countries is pretty much close, the rise in average life satisfaction level is not systematically associated with growth in average income in any country, and nil long-run income-happiness relationship - in India. Replicating the cross-country analysis, the income-subjective well-being relationship is analysed within-states, between states and across states over 24 years from 1990-2014 using five waves of World Values Survey data. Applying the panel fixed effects ordered probit regression method, individual and average life satisfaction and happiness levels are estimated with NSDP per capita of each state and groups of states. The long-run income-subjective well-being relationship is analysed with changes in average subjective well-being and per capita NSDP. The estimated results reveal that there is considerable variation in subjective well-being levels within, between states and across states over time in India. While life satisfaction levels declined in most states, happiness levels slightly increased in some states. The well-being gain from income growth in low-income states is comparatively better than that of developed states. In the long-run, the change in subjective well-being levels is not commensurate with the change in NSDP per capita. The empirical results of this paper on the income-subjective well-being relationship in Indian states validate the Easterlin Paradox in India. Economic growth in the states of India have not improved the human lot, in fact, it leaves people not satisfied and less happy with their life.

I Introduction

What makes individuals happy? Does money buy happiness? Does economic growth increase happiness? Will raising the income of all, the avowed goal of national governments and policies, increase the average well-being? An empirical search on the nature of the relationship between income and happiness that began in 1974 with the seminal work of Richard Easterlin (1974) has generated more questions than answers. The shocking finding of Easterlin is that the link between income and happiness is paradoxical, aptly termed as the Easterlin Paradox.

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