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Economic Of Happiness: Bhutan's Vision of Development and its Challenges to Europe

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BACHELOR THESIS

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Prohlášení

Prohlašuji, že jsem bakalářskou práci vypracovala samostatně a použila pouze uvedené prameny a literaturu.

V Praze dne   podpis studenta

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ABSTRACT

The thesis mainly focuses on understanding the interconnection between economic outcome and its effect on happiness of economic actors. It aims to challenge the popularly held belief that more money will buy greater satisfaction in life which is mostly true for international comparison showing that countries with higher income tend to report happier than those countries with lower income. One explanation is wealthier people can have better health care, live in safer neighborhoods, and are able to do more fun things. However American economist Richard A. Easterlin (1974) claims that once basic needs are fulfilled happiness at a national level does not increase as income increases and evidence proves existence of the paradox showing that in most industrialized countries people are as happy as they were 50 years ago. Therefore the thesis questions if economic growth doesn't improve the subjective well-being then should it be the main goal of policy maker while happiness should be the desired end. As an example I chose Kingdom of Bhutan who is trying different idea as a development approach promoting an economic policy not maximizing Gross National Product but so called Gross National Happiness. Despite being desperately poor ranking in 135th place GDP terms and the same position in terms of Human Development Index, Bhutanese people are happy ranking in 8th place by life satisfaction measure worldwide. Further the thesis deals with a question what can Europeans learn from them? What could be applied in economic policies to improve life satisfaction of people in Europe?

ABSTRAKT

Tato bakalářská práce se zaměřuje na pochopení vztahu mezi ekonomickým výstupem a jeho vlivem na štěstí ekonomických aktérů. Klade si za cíl vyjádřit pochybnost k všeobecně akceptované víře, že větším množstvím peněz si člověk může zakoupit větší množství spokojenosti se životem. To je pravda v rámci mezinárodního srovnání, kdy reportovaná míra štěstí v zemích s větším důchodem je větší než v chudších zemích. Jedním z vysvětlení může být, že bohatší lidé si mohou dovolit lepší zdravotní péči, život v bezpečnějších podmínkách a mohou trávit volný čas pestřejším způsobem. Americký ekonom Richard A. Easterlin (1974) nicméně tvrdí, že jakmile jsou jednou naplněny základní potřeby, štěstí se na národní úrovni nezvyšuje spolu s rostoucím důchodem. Empirie ukazuje na paradox, že v mnoha rozvinutých zemích jsou lidé stejně šťastní jako před 50 lety. Proto si tato práce klade otázku, zda by měl hospodářský růst být cílem hospodářské politiky, pokud nezvyšuje hladinu štěstí – skutečného cíle života. Příkladem země s takovým přístupem je Bhútánské království, které jde cestou hospodářské politiky zaměřené nikoliv na maximalizaci HDP, ale takzvaného hrubého národního štěstí. Ačkoliv je Bhútán extrémně chudý, patří mu 135. příčka ve světovém žebříčku dle HDP i dle Indexu lidského rozvoje (HDI), Bhútánům celosvětově patří 8. místo dle spokojenosti se životem. Dále se práce zabývá otázkou, co se zde mohou Evropané naučit – co by mohlo být aplikováno v evropské hospodářské politice, aby byla zvýšena spokojenost se životem lidí v Evropě?

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1. INTRODUCTION

Welfare is a perception that people and policymakers generally seek to maximize. However, it is vague notion, requiring universally acceptable definition and often faces with controversial explanation.

In general well-being is connected to material position of the nation, measured by a Gross National Product. Still GDP doesn't capture all the feature of human life and it was increasingly distinguished that new measures are demanded. Therefore new indicators such as education achievement, health outcome and environment degradation were created to accomplish better result in social and environmental aspect that GDP fell short to incorporate. Unlike gross domestic product, happiness is not something that we could record year to year. Even if we could perfectly measure happiness, establishing the nature of empirical relationship between happiness and income faces number of challenge. Hence recently economists are working with psychologists and behavioral scientists to expand boundaries of their field in order to understand people's behavior and attain policy implication that could improve emotional wealth.

I believe that this paper could be of interest and importance due to several reasons. First of all it tries to point out the confusion of people about what makes them happy. Secondly as some may claim happiness is purely personal issue, the paper argues otherwise, state interference is important in the sense that government should create an environment where everyone can pursue their own happiness. Thirdly the thesis tries to find solution to the European economy to improve people's happiness. Plus reader can enlarge their knowledge on isolated little Kingdom of Bhutan.

The thesis proceeds in the following order. Chapter two introduces the concept of economic of happiness, its features and applications. It also analysis Easterlin paradox and deals with the question if it really does exist. Chapter three focuses on the experience of Bhutan and their unique development approach. Chapter four concludes the thesis with some idea that should be adapted from Bhutan to Europe and some policy implication.

2. ECONOMIC OF HAPPINESS

2.1 Main idea

Economic of happiness is a survey of reported well-beings, which combines techniques used in Psychology with those used in Economics. While psychologists have been studying this arena for years, economists only recently started to pay attention to happiness economy. According to Shekhawat (2008) both Aristotle in the Western tradition and Dalai Lama today in the East, agree that happiness is so essentially important because it is an end in itself and we pursue other goals because they can lead us to happiness which therefore should be the main purpose of life. Main focus of happiness economy is connection between economic outcome and satisfaction of economic participants with this outcome. Economic outcomes such as poverty, unemployment can hardly be blamed for its existence but the hope is with successful economic policy there is a chance to eliminate these sufferings thereby to generate happiness. The economics of happiness doesn't aim to replace the income-based measures of welfare but instead try to harmonize it with extensive measurements of welfare. According to Carol Graham (2007, p.2) *"These measures are based on the results of large-scale surveys, across countries and over time, of hundreds of thousands of individuals who are asked to assess their own welfare"*. The surveys provide information about the importance of a range of factors which affect well-being, including income but also others such as health, marital and employment status, and civic trust. The main tool for defining welfare typically based on survey asking people some variant of fundamental question: 'Generally speaking, how happy are you with your life' or 'How satisfied are you with your life' with respond as few as three categories ("not happy", "fairly happy", or "very happy") Then researchers compare these responses to some economic outcome expecting to find the factors that influence the overall level of happiness and life satisfaction the most. As number of survey increased so did number of empirical studies that attempt to explore the connection between economic outcome and happiness. For example: R. Easterlin (1974) compares economic growth with subjective well being and proved that above certain threshold, economic growth doesn't improve human welfare. Research shows that

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beyond that certain threshold people redefine happiness focusing on other relative factors such as position in society instead of material status. Most obviously people must be comparing their income with some level of expectation, the norm. Then this norm is obviously moving upward with real income. This can be explained by human beings surprisingly fast adaptability to its new environment. So when our living condition improves we love it at first but then we get used to it and after sometime it makes no difference. But we can't even imagine going back where we started. Clark and Oswald (1994) studied the effect of unemployment on welfare economics. Their conclusion shows that experiencing unemployment surely causes unhappiness and dissatisfaction. Moreover unemployment reduces subjective well-being more than any other factor measured by participants of the survey. The main tenet of these schools of thought offer key approaches to policymaker into both the research program and the resulting policy conclusions.

2.2   Easterlin paradox

American economist Richard A. Easterlin discussed the feature of happiness in the 1974 paper "Does Economic Growth Improve the Human Lot? Some Empirical Evidence." He demonstrated that within a country people with higher income tend to report to be happier than those with lower income. However in the long run, in international comparisons, average reported level of happiness doesn't vary with national income per person at least for countries income sufficient to meet basic needs. This finding known is as Easterlin paradox and it is indeed very important concept in happiness economics. In 1974 he has done research only on limited number of countries due to lack of datasets comparing rich and poor countries, but in 2009 he has done again the research on very wide datasets and yet again proved that this paradox does exist in the long run and he suggested that if economic growth does little to improve social welfare, then it shouldn't be a primary goal of government policy. In his 1974 paper Easterlin discussed two subjective well-being based theory that contrast to each other. First theory is described by means of "set point theory" which has gained increasing attention in psychology in past decades. This assumption states that life events such as marriage, loss

of job, accident, serious injury or disease doesn't have long run effect on happiness, since after some time people adjust to new circumstances and return to the previous set point. If time is the only treatment of subjective well-being then public policies aiming to improve happiness are useless. Second theory discussed further states that more money makes people happier. So public policy aimed to increase the income of society as a whole will increase well-being. Easterlin agrees neither of them, and claims that life events such as marriage, loss of a job etc does have lasting effect on happiness and he contradict the implication that one can improve his life satisfaction by getting more money. I will leave set- point theory here since it is related more to psychology therefore beyond this thesis and it won't be discussed further. Now I would like to turn my attention to the question "more money makes people happier?" Most of the people think that if you have more money then you are certainly happier. However data set between 1972 and 2000 shows otherwise because during this period income per person almost doubled yet reported happiness stayed unchanged. This paradoxical pattern is explained by simple example. When asked the question would you be happier if your income increased substantially while others stayed constant, returned the result yes. Conversely when asked how would you feel if others income increased substantially while your income stayed constant, most people said they would feel less well off even their real living condition hasn't changed. Above example illustrates the fact that one's satisfaction in life, not only depend on his objective well being, but also affected by the average living level of those around us. Over the time everyone's income increases on average so it undercuts the effect of one's own income increase and as a result happiness remains unchanged. As a conclusion to his paper Easterlin highlighted the important issue which is known as "money illusion" the belief that more money will make them happy, consequently allocate extensive amount of time on monetary goals, putting other matters back such as family and health. Due to this illusion most of the people readily sacrifice family life, which they think will return greater reward not knowing these rewards are likely to be illusionary.

In April 2008 Betsey Stevenson, Justin Wolfers both from University of Pennsylvania came with rebuttal of paradox in paper "Economic growth and subjective well-being: Reassessing Easterlin Paradox" arguing that there is no such paradox and actually money may or can buy happiness even if it doesn't guarantee. According to these

two economists "key result was that estimated subjective well-being-income gradient is not only significant but also remarkably robust across countries, within countries, and over time. These comparisons between rich and poor members of the same society, between rich and poor countries, and within countries through time as they become richer or poorer all yield similar estimates of the well-being-income gradient"(Stevenson, Wolfres 2008 p.3).

After B. Stevenson, J. Wolfers published their work in 2008, R. Easterlin has redone his research on wide dataset including 37 countries across the world average about 17 to 20 years in length resp1. These 37 countries were divided into 3 groups:

> ➤ Non transition European countries plus United States of America, Canada and Australia in total 17 countries

> ➤ 9 Developing countries such as China, Chile, Brazil, Nigeria and The Unions of South Africa.

> ➤ 11 Transition Eastern European countries.

First he has run regression on time series data on separate groups. In first 2 groups there were no significant relation between the growth rate of GDP per capita and the rate of improvement in subjective wellbeing or happiness in the long run. Third group, transition Eastern European countries including Czech Republic, researchers got V-shaped pattern of happiness, paralleling the V-shaped happiness of the movement of GDP per capita. However there is no significant relationship between the long-term growth rate in the economy in those countries and the rate of improvement of happiness. Then pooled all of these 3 sets of countries and yet again there is no relationship between the rate of economic growth and improvement of happiness. R. Easterlin showed that there is a misconnection between the evidence achieved by analysis of cross sectional data and that obtained from analysis of time-series data. In more general in cross sectional data showing that richer people tend to be happier than those with less money but this relationship fails to reproduce over time for data observed in time series analysis stating zero marginal utility in income.

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[1] Transcription of an VoxEU audio interview

2.3 Micro and Macroeconometric function of happiness

Happiness function searches for an econometric relationship between happiness measure and the determinant of happiness. The set of micro factors regarding to estimate of happiness establishment are individual variables such as employment status, income, education and demographic factors. On the other side econometric estimates of happiness mainly regard to macro factors include macroeconomic variables such as unemployment rate, inflation rate, gross domestic product per capita, and unemployment benefit. Table 2.1 shows microeconometric happiness functions for a pooled cross section time series estimate for Germany, 1975-1991(taken from Di Tella et al.1999) and for Switzerland, 1992[2]. Results for both Germany and Switzerland disclose similar effect on happiness. Individual unemployment has strongly negative effect on happiness with highly significant level less than 0.01.

While retirement has positive effect for Germany, on contrast it has negative effect on happiness for Switzerland. Self-employed and work at home individuals tend to report higher subjective well-being for Switzerland. Income measured by quartiles has positive effect on happiness in a highly statistically significant way: Happiness equations are monotonically increasing in income but as marginal effects for Switzerland expose it does so only a little. The third set of factors show up that higher the one has education the more satisfaction he gets from it. Forth set of factors is Demographic factors and they have statistically significant effect on happiness. Happiness is U-shaped with respect to age[3]. People reach their unhappiest moment in early forties. Argument is that when a person reaches 40 there are too many things to worry including job, children and even their look and some call it mid life crises. But they begin to get used to them, by their mid-40s and cheer-up. Table also shows that married people are happier than singles, on the other hand divorced are less satisfied with life than singles. It is clear that microeconomic pattern influence the psychological well being levels in different directions in both Germany and Switzerland.

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[2] Frey and Stutzer 1999
[3] Tucker, (2008)

TABLE 2.1: Microeconomic Condition Satisfaction with Life in Germany and Switzerland

	Germany 1975 - 1991 Di Tella et al. (1999)		Switzerland 1992		
	Coefficient	Standard error	Coefficient	Standard error	Marginal effect
a) Employment status					
employed	Reference group		Reference group		
unemployed	-0.421**	0.036	-0.834**	0.041	-2.84
self employed	0.023	0.029	0.105**	0.023	0.036
at home	0.024	0.022	0.177**	0.023	0.036
school	0.027	0.033	0.047	0.102	0.016
retired	0.079**	0.027	-0.118**	0.039	-0.040
other			0.186**	0.054	0.064
b) Income					
first quartile	Reference group		Reference group		
second quartile	0.186**	0.020	0.056(')	0.028	0.019
third quartile	0.319**	0.021	0.151**	0.027	0.052
fourth quartile	0.452**	0.022	0.263**	0.027	0.090
c) Education					
low	Reference group		Reference group		
middle	0.001	0.018	0.176**	0.017	0.060
high	0.110**	0.023	0.136**	0.025	0.046
d) Demographic factors					
female	Reference group		Reference group		
male	-0.029	0.016	-0.027	0.016	-0.009
age	-0.008**	0.003	-0.010*	0.004	-0.004
age squared	1.20E-04**	2.87E-05	1.76E-04**	4,27E-05	-0.1E-03
marital status: single	Reference group		Reference group		
married	0.154**	0.023	0.107**	0.021	0.037
divorced	-0.330**	0.037	-0.178**	0.033	-0.061
separated	-0.408**	0.076	-0.612*	0.257	-0.208
widowed	-0.078*	0.033	-0.077	0.052	-0.026
no. of young children: one	-0.014	0.021			
two	-0.027	0.028			
three	-0.046	0.049			
Threshold parameters: one	-1.944**	0.0.71	0.302**	0.026	
two	-0.850**	0.069	0.724**	0.027	
three	1.086**	0.070	1.060**	0.027	
four			1.529**	0.027	
five			2.286**	0.027	
six			2.767**	0.027	
Observations	28151		6126		
Log likelihood function	-25881.1		-10321.77		

Source: Bruno S. Frey and Alois Stutzer 1999: Maximizing Happiness p.7

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Table 2.2 represents macroeconometric happiness function of eleven different European countries between the years 1972 to 1991. As shown in the results when unemployment and inflation rate increases that leads to less subjective well-being with highly significance level with p value less than 0.01 and higher unemployment benefit and income per capita mean higher satisfaction with life.

TABLE 2.2: Macroeconomic Condition Satisfaction with Life in 11 European Countries

	(1)		(2)	
	Coefficient	Standard error	Coefficient	Standard error
Unemployment rate (U)	-1.629	0.531		
Inflation rate (π)	-1.116	0.344		
GDP per capita	3.9e-5	3.1e-5	5.4e-5	2.7e-5
Unemployment benefits	0.590	0.155	0.615	0.151
Misery index (U + π			-1.194	0.323
Observations	150		150	
Adjusted R^2	0.16		0.16	

Source: Bruno S. Frey and Alois Stutzer 1999: Maximizing Happiness p.8

2.4 Selected applications of happiness economy

Happiness research has been applied to variety of fields. These researches can be used to examine relationship between income and happiness, the effect of macroeconomic policies aiming to increase individual life satisfaction, and the effects of public policies aimed at controlling addictive substances. In the beginning of 1990s increasing number of economists began to pay attention to the connection between income and life satisfaction. Number of survey challenged to separate the effect of income from those of endogenous factors. Some studies have shown connection of reverse direction and found that happier people tend to perform well in their workplaces, which lead to higher income in the future. Happiness researchers have attempted to examine the effect of different macroeconomic policy arrangements on life satisfaction. Most survey shows that unemployment and inflation have negative impact on well-being and effects on unemployment are stronger than those of inflation. Recently Kahnemen

(2004) and couple of his colleagues analyzed the allocation of time during the day and classification of event and activities, which bring them most satisfaction. Ranking these activities from most satisfied to least satisfied generates in turn "enjoyment scale". This approach called as "Day Reconstruction method" require participants to recall memories from previous day, hoping to determine the satisfaction associated with each event or activity. These surveys have shown that spending time with family, relaxing with friends, having lunch with coworkers, watching television and cooking all bring satisfaction. On the contrary, being around one's boss and working bring dissatisfaction. The effect of political institution also matters. Most of the literature finds that freedom and trust have positive impact on reported level of happiness. The criticisms raising against the use of reported level of happiness data as follows. Firstly by asking about present happiness on ordinary scale can really catch the best assessment of current circumstances or may response be influenced by the factors such as having cold, the weather, headache, their sport team's recent result, sleepless night, or recently watched hard hitting documentary about Third-World basic need shortage. Secondly can we compare different people's happiness and conclude person one is happier than person two, or even person one is happier now than one month ago. Luckily psychologists and other scientists has been working on this issue and concluded that happiness data contains great deal of valid variability. (Diener, 1984 and Kahneman and Krueger, 2006) The work done in this area has earned many implications for policy in number of fields including public finance, macro policy, welfare policy and labor law.

2.5   Should economic policy aim to improve GDP or GNH?

Gross domestic product is the key measurement of national welfare therefore economic growth has long been considered important goal of economic policy. Yet recently some researchers have argued that the improvement in material standard of living will do little on raise of individual well-being. These arguments are based on a key concept of happiness economy "Easterlin paradox", which suggests that there is no link between level of economic development of society and subjective well being of its members. If it is true then why should policymakers even bother trying to raise GDP,

since the goal of economic policy is to improve well-being of economic actors. Social comparison may play key role why countries are in a race over growth. The main prediction is slope between income and happiness is upward sloping within a country at given time than over time by country. This is shown by evidence that wealthier people tend to be happier than poor people. But as demonstrated by Clark, Frijters and Sheild (2006, p.15) *"crucially in over time in a given country the only effect of income on aggregate happiness will be via the consumption component of the utility function"*. This can be easily explained by the figure 2.1.

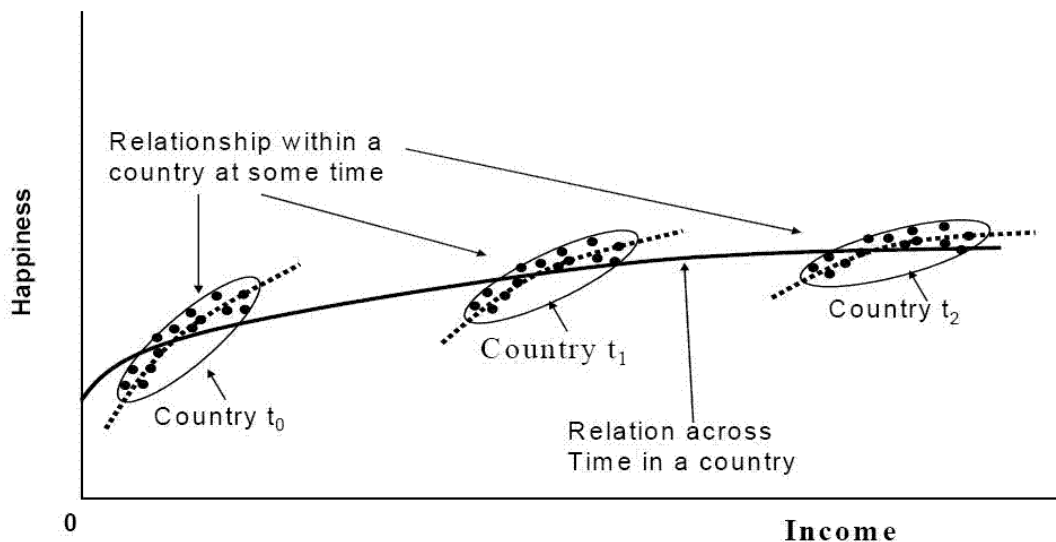FIGURE 2.1: Relationship between Income and Happiness at the Individual and the Aggregate level

Figure source: Andrew E. Clark, Paul Frijters, Michael A. Shield. 2006. "Income and Happiness: Evidence, Explanation, Economic Implication" p.16

At point t_0 the country is poor so gradient between individual happiness and individual income (dotted line) is steep. But as time shifts from t_0 to t_1 slope is less steep due to the improvement of material wealth of the nation. Same change can be observed in movement from t_1 to t_2 and here slope is flatter than previous two periods. In all three period relationship between individual income and happiness is visibly steeper than relationship between aggregate income and happiness. As country gets richer aggregate benefit to higher income becomes less and less observable. This illustration sums up that enjoyment of higher income leads to higher consumption and higher status at given time

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but over the time as everyone's income improves the status gained is fixed the adaptation to surroundings fix our subjective welfare where we started. It is human nature that we always compare our self with the one next to us. Therefore while one country's GDP increase relative to its neighbor, greater satisfaction will belong to the one with higher growth. The most efficient outcome for each country is to have higher growth in GDP when its neighbor has lower income. But the small Himalayan Kingdom of Bhutan has been testing new idea. Aside from obvious development of material well being: increase GDP at national level and income at the household level, Bhutan's development included achievement of less quantifiable objectives such as ensuring subjective well being of the population, protection of Bhutan's rich natural resources and unique cultural tradition. This statement is known as "Gross National Happiness" which was coined by the former King Jigme Singye Wangchuck in 1972. The concept of GNH declare to be established on principle that true development of human society occur when material and subjective development take place side by side to balance and support each other. As demonstrated by S. Priesner (1999, p.27) *The approach is not an intellectual construct detached from practical experience, but rather the translation of a cultural and social consciousness into development priorities*". Empirical data from Bhutan obviously confirm that the policy focused on GNH, which concentrate more on improving emotional well being than material, succeeded. Despite being desperately poor ranking in 135th place GDP terms and the same position in terms of Human Development Index, Bhutanese people are happy ranking in 8th place by life satisfaction measure worldwide.

3. KINGDOM OF BHUTAN

The Kingdom of Bhutan is located in the Central Himalayas, bordered with the People's Republic of China in the north and with the Republic of India in the south (see the figure 3.1). It is also called as Land of the Thunder Dragon, where gross national happiness is more important than gross national product.

FIGURE 3.1: Geographic map of the Kingdom of Bhutan

The population of the kingdom of Bhutan estimated at 782 000 by the World Bank World Development Report in 2000. Other sources such are *CIA World Factbook* and *UN Statistical Yearbook* give the different number about true population number. The difference in population counting is caused by two different ways of counting people: the government of Bhutan's population estimate based upon on who have "official" citizenship, and the CIA accounts the people who claim such status or live in the country and may not be recognized by the government.

3.1   History of Bhutan

Although Bhutan's early history seems to be vague, it may have inhabited as a political unit for many centuries. It wouldn't be far from true, if I note that it was first printed to history when turmoil in Tibet forced countless priests to escape to Bhutan in the 9th century A. D[4]. Political history of Bhutan is closely related to its religious history and relation among the monastic schools and monasteries. Bhutan is one of the only countries that never been governed by others or lost its power to its enemies and has been independent throughout its history. Even though some may claim that Bhutan was occupied by Kamarupa Kingdom and Tibetan Empire between 7th to 9th centuries, the evidence is lacking for the proof. As apparent history shows Bhutan has been fighting for dependence century after century. Bhutan's first ever known hereditary ruler was Sir Ugyen Wangchuk, was supported by British in 1901, and became the most powerful provincial governor. The third hereditary monarch of Bhutan King Jigme Dorji Wangchuk (reigned 1953-1972) known for his role in modernization of Bhutan's society by eliminating slavery and the case system, liberating women, and dividing large estate to small individual plots. He also paid lots of attention to reconstruction of education system. After his death his son Jigme Singye Wangchuk crowned as a king of Bhutan in June 1974 and continued his father's notion by gradually democratizing the Bhutanese government. His effort has been rewarded big time. As recently as 40 decades ago living condition of Bhutanese didn't differ much from those who lived 6 century ago. Most of the population spent their daily life as a subsistence farmer, fully reliant to agricultural land and when there is little surplus left it was traded for other goods since money wasn't virtually known. Health care was only consisted of four hospitals with just two trained doctors for whole country. Since there wasn't any road for four wheeled motors, all the transports had to be done by mule tracks. Due to these circumstances education was considered to be luxury and unnecessary for survival. Therefore in late of 1950s only 440 children enrolled in public schools, which consisted of 11 primary schools[5]. As Stefan Priesner summaries development in recent decades as follows king's contemporary development approach is different from other countries but booming growth in

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[4] http://www.historyofnations.net/asia/bhutan.html
[5] Priesner (1999, p.27)

economical and political performance shows otherwise and despite the fact that 85 percent of the population still lives in rural areas, modernization has reached every corner of the country. Agricultural and livestock extension centers catered to many inaccessible areas of Bhutan and have resulted in increased yield more diversified farming and improved cattle breeding[6]. It is also worth noting that approximately 3000 km roads and hundreds of road has been built and electricity and telecommunication facilities in some part brought the country closer to each other. Income per capita increased to 1,908$ as of 2009 and it even surpassed some of its neighbors[7]. Yet the most inspiring step took place in social infrastructure including both health and education service charging at no cost to its population. 90 percent of population is covered with basic health services by 26 hospitals, 145 Basic Health Unit and approximately 450 outreach clinics which led to spectacular improvement in average life expectancy. Education system is transformed from luxury to normal, necessary good and in last 2 decades literacy rate grew from 17 percent to 47,5 percent. However in some sectors like tourism achieved less attention in order to minimize social and environmental damage.

3.2   Bhutanese development approach: Gross National Happiness

The key explanation why Bhutan's development was taking place the way and the speed it actually happened might be clarified by powerful vision of which development objectives are outlined as not only achieve higher income per capita but also accomplish less quantifiable objectives including population's emotional well-being, maintenance of Bhutan's cultural heritage and protection of natural resource. This development concept as we discussed briefly in previous chapter is called Gross National Happiness and in this subchapter it will be defined extensively. The King Jigme Singye Wangchuk pronouncer of this catchphrase was convinced that happiness is the ultimate desired end, however not necessarily pursued by every human being. Nevertheless the odd thing is that human society is at risk to get confused on the way to achieve this simple desire. GNH offers more rational and human approach to development and even though happiness may not be the exactly deliverable goods and services but it is too valuable to be left to

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[6] Priesner (1999, p.25)
[7] IHS Global Insight Report: Bhutan (Country Intelligence) (2009)

individual's responsibility without state having direct role in it. The major instrument guiding toward GNH, drawn much on the Buddhist culture, is traditional polity in Bhutan. Buddhism or Buddhist science teaches how to manage feelings and emotions and aims at conditioning the mind to give or cause happiness to all beings. This religious belief may best explain why in general Bhutanese should unconventionally approaching to more holistic development that identifies happiness as the primary or perhaps the only goal of development. The backgrounds from which the most constituent elements of the approach are derived are as follows:

♦ Well-being as an objective: the market economic objectives such as increasing consumption and accelerating growth wasn't Bhutan's development perception but objectives were ought to be people-centered, which as a result preferred to invest scarce resources in social capacity rather than in industrialization and diversification of economy to generate growth.

♦ Environmental preservation: Buddhist philosophy's view of the relationship between human beings and environment differentiate from Western approach. While Christians deem "that nature exists solely for the benefit of mankind" the Buddhist concept of *sunyata* holds that no subject or object has an independent existence instead they do exist in a circular relationship with all measurement of its environment.

♦ Self-reliance and Paternalism: Until recently urban settlements were nonexistent in Bhutan and population lived in small scattered villages and isolated farms. Hence Bhutan's traditional socioeconomic system was based on the principle of communal self-reliance. Due to the lack of foreign influence and extremely stable social environment plus interaction of state at very low level, the system was rather characterized by feudal paternalism rather than state paternalism. Empirical data showed that Bhutan was short of almost every aspect of economic self-reliance, the aim to regain self reliance was the first highlighted development objective.

As demonstrated by Stefan Priesner (1999 p.29-30) Bhutan's configuration and the interrelations of the dimensions of Bhutanese development are schematically

demonstrated in the diagram 3.1.

DIAGRAM 3.1: Bhutan's configuration and the interrelations of the dimensions of Bhutanese development
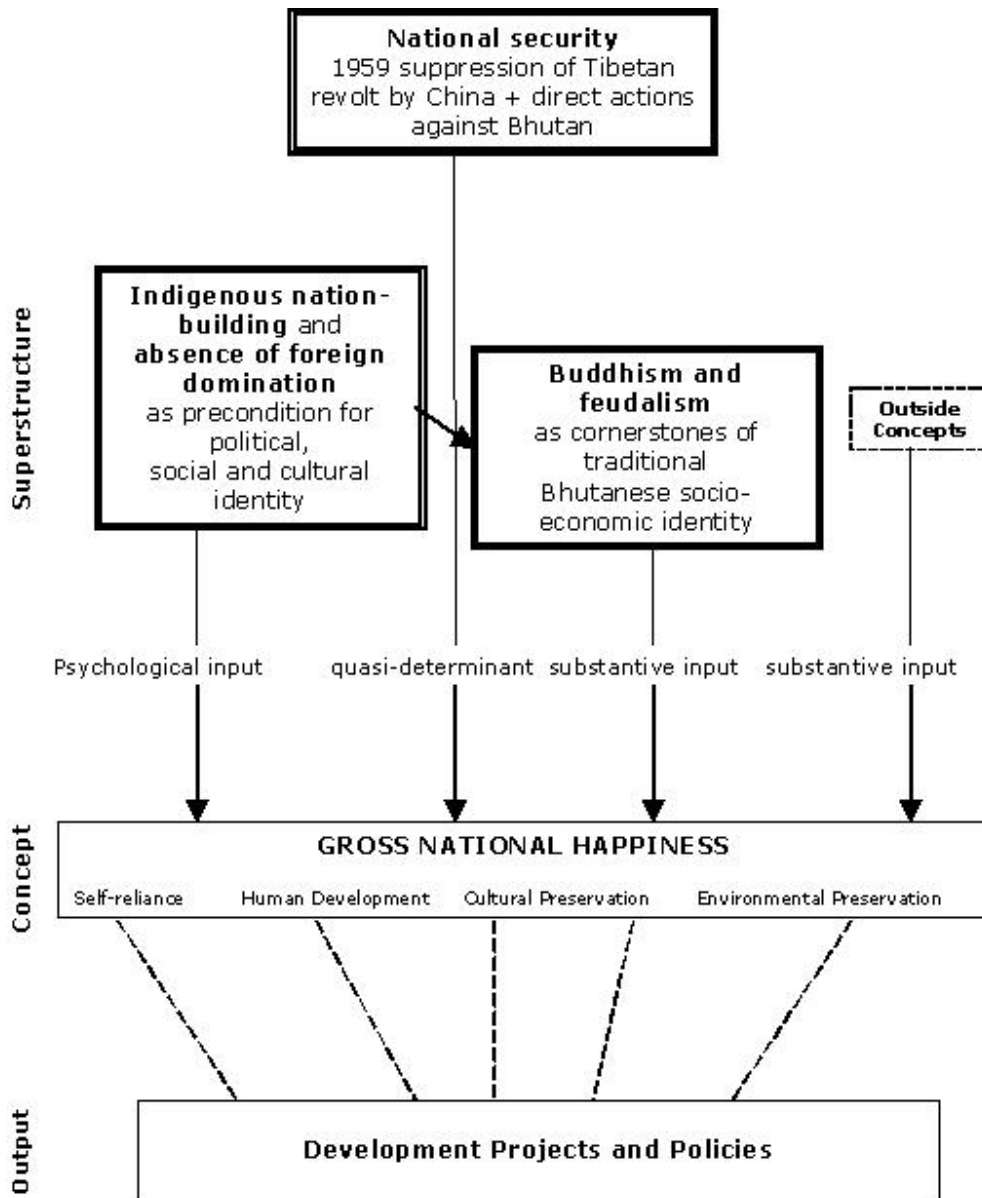
In 2006 Med Yones, the President of International Institute of Management, proposed a second generation GNH concept - treading happiness as a socioeconomic development metric. According to Mr. Yones (2006) 7 development areas including

nation's mental and emotional health to measure socioeconomic development are as follows:

1. Economic Wellness: Indicated via direct survey and statistical measurement of economic metric such as consumer debt, average income to consumer price index ratio and income distribution.
2. Environmental Wellness: Indicated via direct survey and statistical measurement of environmental metric such as pollution, noise and traffic.
3. Physical Wellness: Indicated via statistical measurement of physical health metrics such as severe illness, overweigh etc…
4. Mental Wellness: Indicated via direct survey and statistical measurement of mental health metrics such as usage of antidepressants and rise or decline of psychotherapy patients.
5. Workplace Wellness: Indicated via direct survey and statistical measurement of labor metrics such as jobless claims, job change, workplace complaints and lawsuits.
6. Social Wellness: Indicated via direct survey and statistical measurement of social metrics such as discrimination, safety, and divorce rates, complaints of domestic conflicts and family lawsuits, public lawsuits, crime rates.
7. Political Wellness: indicated via direct survey and statistical measurements of political metrics such as the quality of local democracy, individual freedom, and foreign conflicts.

The above 7 metrics may not be the best and all-inclusive perfect measure but the deliberation of the parameters might be decent start from new metrics for measurement of socioeconomic and policy management. Concluding this subchapter Bhutanese development has always been emotional well-being rather than economic progress.

3.3   Bhutan's economy

Bhutan has arrived long path in eco development in recent decades, let's see how it looks now from the standard macroeconomic point of view.

Kingdom of Bhutan, with a population of 750,000 people covers an area of 46,500 kilometers square in the Eastern Himalayas, has been one of the most isolated nation for centuries, and the lack of integration with the global economy create its most significant challenge. Though Bhutan's economy, classified as a Least Developed country (LDC), is one of Asia's smallest and least open, it has been rising rapidly in recent years becoming

second fastest growing economy in the world with an annual economic growth rate of 22,4 percent in 2007[8]. Bhutan's detailed macro-economic key indicators and forecast is shown in the table 3.1.

TABLE 3.1: Macro-Economic Indicators and Forecasts

|	2005	2006	2007	2008	2009	2010	2011
Real GDP (% change)	8.0	10,2	17,5	9,2	4,1	4,9	6,3
Nominal GDP (US$ bil.)	0,8	0,9	1,2	1,4	1,3	1,4	1,15
Nominal GDP Per Capita (US$)	1,254	1,387	1,848	2,039	1,908	1,997	2,16
Consumer Price Index(% change)	5,3	5,0	5,2	7,3	3,1	3,7	4,2
Population (mil.)	0,64	0,65	0,66	0,67	0,68	0,68	0.69
Exchange Rate (LCU/US$, end of period)	45,1	44,2	39,4	48,5	50,8	51,3	51,0

Source: IHS Global Insight

Bhutan's economy is mainly based on agriculture, forestry and the sale of hydroelectric power to India. More than 80% of the population is providing their livelihood working in agricultural sector, which account for about 40% of GDP. Since most of the populations provide their lives with agriculture products the importance of bringing agriculture to money economy, raise real incomes of rural people and create a domestic market for increased production, never lose its value. Agrarian consist largely of subsistence farming and animal husbandry and products include rice, corn, and grains, apples, buckwheat, barley, chilies as well as root crops and citrus. Due to lack of access to the sea, Bhutanese aren't able to benefit from significant trading of its products and it poses obstacle to private sector development. There is no railway in Bhutan but according to a "free trade" treaty signed in 2008 with India allows Bhutanese import and export from third markets to transit India without tariffs. Recently Bhutan's economy shifting main focus from agriculture to industry due to increasing hydropower development and government gets most of its revenue from selling hydroelectric power to India. As a result of boom in hydropower sector, economy will maintain robust growth and it is expected to accelerate to a higher path. Bhutan's economy is closely tied with

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[8] IHS Global Insight 2009

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neighboring India, which dominates the economic structure. Approximately 90 percent of export goes to India and most development projects such as road construction rely on Indian migrant labor. The Ngultrum is the currency of Bhutan and its value is pegged to the Indian rupee, and rupee is also accepted as legal tender in the country. Moreover, India finances various transportation and development projects and the largest foreign donor to the nation. Bhutan also export food, beverages, wood pulp goods and base metals to Nepal, Bangladesh, Japan, Thailand, Singapore, the united Kingdom, Italy, Republic of Korea, Germany, US, Belgium, Austria, Denmark, Netherlands, Taiwan province of China, Greece, France, Canada, New Zealand and Ireland. Below graph 3.1 shows arrangement of trade items to India.

GRAPH 3.1: Composition with India
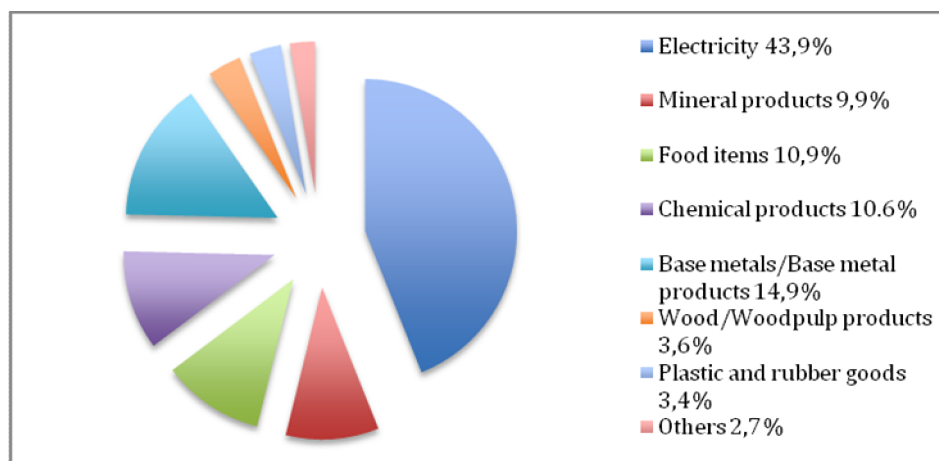
Source: Annual report, 2003-2004, Royal Monetary Authority of Bhutan

Referring to employment, Bhutan is facing two big problems in one hand relating to shortage of human resource for catering to increasing development activities, while on the other hand lack of trained workforce to meet the demand of market. Rural migration to urban centres looking for easier and better paying job is one of the main concerns of the nation. Since many migrants are mismatch to the demand of human resources which further increase unemployment rate and has critical implication for poverty nationwide. Private sector development has only emerged recently with unbalanced and narrow base, providing employment in 1999 to only 5,2 percent of labor force. As maintained by Common Country Assessment (2008, p.6) Seven sets of obstacles which prevent faster

progress in private sector development are legal and regulatory frameworks, high collateral requirements of the financial institutions, interest rates, the tax system, product quality, marketing, and access to convertible currency. Youths resist entering owing to job insecurities, status and career prospects. Tax system development is in its early stages, and Bhutan has one of the lowest tax revenues in the world taking only 6-7 percent of gross domestic product. However government had been taking steps forward to amend the current tax system and to increase tax revenues. Personal income tax was introduced in 2001 rating between zero to thirty percent depending on income and in June 2006, it was announced that collection of PIT accomplished its highest level. The sales tax regime was improved in 2005. Corporate tax rate is 30 percent, which increases revenues to about 19 percent of GDP. In table 3.2 shows the percentage of taxes on income, profit and capital gains out of total tax revenue between the years 1997 to 2004.

TABLE 3.2: Taxation Indicators

	1997	1998	1999	2000	2001	2002	2003	2004
Taxes on income, Profits and Capital Gains (% of total taxes)	56,6	53,6	57,3	53,4	62,2	54.0	46,9	58,0

Turning to service sector, Tourism, the most important service sector, is one of the fastest growing in Bhutan. Earning from tourism rapidly increased between 1995- 2000, and it reached its peak in 2004 but since then it has decreased consistently. The government has adopted policy of "high value-low volume" tourism, controlling the quantity of tourism in order to restrict negative impacts on environment and its rich and unique culture. In October 1991 government privatized tourism to support private sector participation in the service sector. Rural population mostly benefit from tourism, through earning from tourist transport and portage. In table 3.3 the data on earning from tourist industry between years 1995-2004 is shown.

TABLE 3.3: Bhutan's Service Sector Earnings from Tourism

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Earnings (In Million USD)	5,66	6,51	6.50	7,98	8,87	10,3	9,2	8,0	8,3	12,5

Growth strategies defined in five-year plan introduced in 1961, targeting to hold growth steady at average and aiming to expand road and rail network, improving macroeconomic policy, transferring authority to localities, improving the access to social services to that end. Growth strategy hasn't established any improved infrastructure until fifth five-year plan since when Bhutan intensively aimed to become more independent of foreign capital and labor as well as promoting the national identity. Since February 2008 Bhutan's tenth five-year plan (2008-2013) is in practice, which focuses on reduction of poverty and management of the country's new-found wealth with special emphasis on three development areas: rural, regional, and private sector. The plan's goal is achieve economic growth rate of eight to nine percent during this period. This growth ought to allow reduction of poverty rate below 15 percent, including a rural poverty rate of less than 20 percent. Graph 3.2 shows percentage change of economic growth from year to year and its forecasts.

GRAPH 3.2: Economic Growth: Medium Term Look
(Percentage change from a year earlier)
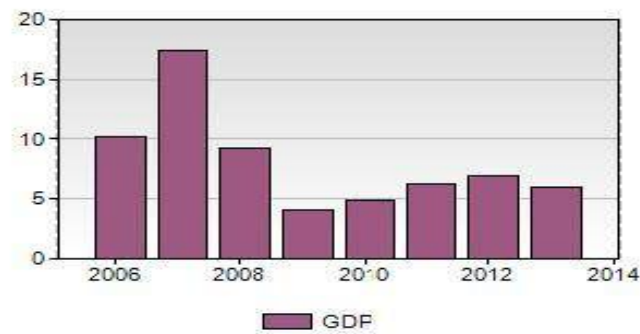
Source: IHS Global Insight

Figure shows that economic growth accomplished its peak in year 2007 and forecasts predict that in coming years it will slightly pick up. Bhutanese are not rushing into Globalization hence taking slow approach to it by keeping in mind that happiness is what matters the most and learning from other nations' mistakes.

3.4   Key Goals by Gross National Happiness Policy

GNH is a measurement component of a plan to maximize social well-being as a whole. Four pillar areas of GNH that should ameliorate and create the condition that should allow every citizen to pursue happiness with an equitable chance to succeed are as follows:

➢ The promotion of sustainable development

➢ The preservation and promotion of cultural values

➢ Conservation of natural environment

➢ Establishment of good governance

For Government aiming to improve collective happiness, GNH must be a serious arbitrator of its public policies. It is essential that the primary goal of state is to remove obstacles to happiness for economic and social changes then state must focus on the content and nature of public policies.

1) Promotion of sustainable development: Most of the developing countries facing serious challenge owing to ignorance of ill health, deprivation and poverty in their most abject form. Eliminating poverty is essential requirement of economic growth. Hence economic policies are what matters most since surviving physically is everyday challenge for most of many countries and huge section of our global community. As stated by Jigmi Y. Thinley (2005, p.7), Bhutan's Minister of Home and Cultural Affairs, three considerations that generally must guide GNH driven economic development are as follows:

A. In terms of economic growth not only it is important nature of chosen economic activity but also their results. As research by Genuine Progress Index has shown, a GNH economy must make qualitative distinctions in the mix of economic activities for the same level of growth and size of economy.

B. There must be difference between measurement system of GNH economy and conventional measurement of GDP. Given the role of the factors such as social and economic contribution of families and households ought to be valued. Protection of social, environmental and human capitals also shouldn't be left out.

C. In reality of living people value satisfaction of reality rather than absolute wealth

and consumption hence GNH economy must concentrate on both redistribution of happiness and income distribution side to side. The fulfillment of actual and absolute needs and the ability to find satisfaction is itself close to impossible; however it is unavoidable challenge for GNH economy.

2) The Preservation and Promotion of Cultural Values: As pointed out in the UNDP's human development report titled "Cultural Diversity in Today's World", as being central to human rights and developments individual is free to choose his cultural identity. Main message delivered by report is that human must have right to choose, change and improve various elements of his multiple cultural identities. Everybody should respect one's right and liberty as basic universal minimum standards to intervene individuals' claims against each other or between the state and individuals. Further exploration of the view can rise only when we see ourselves as relational being, but not just as independent and as separate bearers of universal rights. State regulating most form of human relationships and guiding it at the cost of social and customary norms and practices is state compulsion to conform. The state coercion weakens respect and belief in society and its values. As an example I would like to demonstrate example of married people, who are good to their spouses and children not because of the law requires it with threat of retribution but because it makes them happy.

Conservation of Natural Environment: No happiness researcher has seriously attempted to measure happiness against environmental variables, hence it would seem that biodiversity and happiness are not strongly correlated. However it is hard to deny that our health and visual experience rely on quality of physical environment surrounding us. This particularly holds for Bhutan, since Bhutanese are not only close to nature but also live in it, and their livelihood depends directly on richness of natural environment that support their everyday life with free food, medicine, and pleasure. To protect its fragile nature Bhutan's government has launched vigorous greening and biodiversity preservation policies at cost of industrial and commercial opportunities. It is not sufficient only to take local and national actions since there are so many external factors such as global warming, causing disappearance of glaciers, that can't be preserved by government. Approximately two and a half billion people live on the both sides of Himalayas and the glacial lake outburst floods could cause unimaginable damage to these

people. Since 1967 Bhutan's department of geology and mines has been studying glacial behavior and the latest report has shown that not only Bhutan may become barren desert but also it would go through the overwhelmed painful process. Everybody should nourish and protect our earth and should recognize that finite natural resource is running out at the same time nature's regenerating and replenishing magic's are vanishing.

Establishment of Good Governance: To achieve collective and best result by GNH, Governance orienting to it has to be well established. It is rational that government should reflect ultimate demographic desire and people's opinion, and afterward nature of governance should be standardized to it. However well established system for these proposes is liberal democratic system and Bhutan's current system of government and political structures are theoretically and practically far from it. But Bhutan's king has taken some step toward liberal democratic institution, which is taken as the best conceivable institutional arrangement for securing any public good and good governance. We all live, work and study in institutional structures with rules, norms and expectations and we can always challenge to improve our shared situation from where happiness rises and disappear, depending on the quality of relationship. With that said, everybody can improve any institutional arrangement and circumstances. Alerting call even among democratic states is the question motivational values that guide government processes, both at the national and international level, are associated with search for happiness where everybody's happiness matters at same level.

Above areas may not completely cover all the objects of good policymaking areas for better development but they surely encompass important tasks of concentration to serve the intended purpose. Important task here is to recognize the inter dependence of these four key strategy which in reality, to ensure holistic development.

3.5   Implication: Why Bhutanese People Are Happy?

Throughout this whole thesis I have been studying literatures related to economic of happiness and Bhutan's approach to subjective well-being and the thing I observed that probably makes Bhutanese happier than other industrialized nation is tight relationship between the population and His Majesty King. The king understands the importance of

Buddhist spiritual beliefs that every citizen of Bhutan has and what every individual values most. He didn't follow western development approach, which guaranteed better materialistic well-being, but worse subjective well-being. This in turn inspired residents that it is individual that matters most to government rather than growth. Bhutanese have huge respect in His Majesty and believe that he is doing right thing for the future of the nation. Spiritual belief prevents Bhutanese to harm any living life as well as environment therefore there is almost no violence and very few crime rates. As said by Kinley Dorji, editor-in-chief of Kuensel, Bhutan's national newspaper, "Happiness, as we learn in Buddhism, can only come from within the self, through the understanding of one's own mind. So GNH is the responsibility of the state to create the right environment where the citizen can seek and find that happiness"[9].

Globalization pressures are increasing recently and Western technology, products and know how can improve basic needs in many areas in Bhutan but complicated thing is that while going down the road to enlargement, it is imposable to avoid the damage to environment and society that nearly always accompany Western style development and often worsen off in many ways. For example: business led by Western style force to compete for growth. In order to increase sales firms advertise their products making them to believe inadequate without their product. As a result young people in developing countries lose interest in their parents' values. Another example of negative impact is adopting export-oriented economy due to the debts from for instance World Bank to provide funding for infrastructure construction. With an existence of corruption, economic pressure and weak legal system, Government ends up selling natural resources at less than market price.

Former Prime Minister Thinley stated in 1998 that Bhutan is going to balance globalization by not accepting everything world has to offer but choosing and making decision what best for the nation. Bhutan is taking development steps slowly by learning from others mistakes. And this development approach doesn't fully ignore economic growth, it just aims to achieve as only as one means end which is happiness.

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[9] http://www.developments.org.uk/articles/bhutan-where-happiness-outranks-wealth/

4. SOLUTION FOR EUROPE

4.1 Flaws in European Economic System: What caused less satisfaction with life?

Economic system in European countries has been improving in many areas including technology, medicine and stipulation of essential and non-essential goods and services. However with this development in process, overall impact is increasingly negative. As World Resources Institute and many others reported every life support system excluding some regions is declining such as clean air, clean water, forests, topsoil, fishery and biodiversity. Gap between poor and rich is widening as population grows around the world and social pressure and distress is increasing even in prosperous nations. For example in America people treat themselves with food in order to ease their stress statistically showing that two third is overweight and even more shocking is one third is obese. Also in America people spend on average four hours in front of television and rapidly growing number of people use anti-depressant drugs. As demonstrated by Dixon (2004, p.2) failure to achieve sustainability during the development process may be explained in a number of reasons.

> As cell can't survive without body human can't survive apart from the Earth. And Earth as a whole too complex to be understood by anyone. Accordingly systems are divided into little pieces and studies in isolation rather than in relation to each other. Perception of Buddhism is in seeing the reality that everything is interconnected rather than the illusion perceived by most of the world that individual is separate from rest of the world. Along with experience illustrates, more fulfilling, sustainable, effective existence is led by perspective that sees the whole thing as a part of interconnected system. The wisdom of Buddhism sees individual as important as business and other organization. Advancing awareness of business means helping firms to understand the interconnectedness. Maximizing its well-being means working to maximize well-being of the overall system

➢ Short time thinking is another key driver of unsustainabililty. People think eighty years a long time but from the perspective of the planet, eighty years is almost instantaneous. Firms competing with each other and creating negative externalities to environment and society appears rational and acceptable according to human perspective in short run though from Global perspective it is near to suicidal and unacceptable. The idea of people and firms prospering relative to each other is another illusion caused by short time thinking. It might be true in short-term but in a long run if this prospering destroys environmental and social system, it would be like dining in the luxury room of sinking Titanic. Therefore the real prosperity of human is pursuit over long-term wealth rather than individual perspective

➢ Self-oriented, narrow and short run perspective of the human mind maximizing own wealth at the expense of others is a further driver of unsustainability. All the creators on the planet excluding human act on intuition and do exact right thing as evidenced by the fact that they are sustainable. Thus human ability to think made them least intelligent creators demonstrating that almost all life support systems are destroyed and most of us are unhappy. Bhutan, Traditional culture based country, value greater access to this intuitive wisdom (wisdom of the nature) landing at higher level of happiness, stable family and lack of violence

➢ Letting to lead global economy by young and immature state like United States of America which values physical beauty, physical strength and youth forced to focus on short term. There are plenty of excellent principles founded by US such as each person have right to life, liberty and pursuit of happiness. In addition there are great benefits brought by the US to the world including advances in technology and medicine. However what was thought to be right in short term according to US led global economy was damaging to environment and social system and in some cases it appears destroying

With all these in mind perhaps the largest failure of European economic system is not demanding fully responsibility of firm's social and environmental impacts that forced them to be irresponsible and unsustainable. This might be caused because firms

attempting to diminish negative impacts whose costs would become too high relative to its competitors are forced out of business. It is difficult to calculate or measure how much negative impacts it causes to surroundings yet it is important to put great effort into this subject if society wants to achieve better sustainability.

4.2   What Can European People Adapt from Kingdom of Bhutan

Bhutan's development approach may not work for larger countries like most European countries including Czech Republic. And even in Bhutan not everyone is happy and they admit that there remains serious problem related to poverty and alcoholism. Yet there is a lot to learn from happy little Kingdom of Bhutan. Implementing and developing Gross National Happiness as development process in Europe doesn't guarantee that it will make people happier plus it is naïve to fully believe that it will work, even Bhutan was under lots of pressure to make it work domestically. In addition damages that already caused by modern economic development approach to environment and society can't be undone. (Maybe some of them can be regenerated but it is impossible for most of them) One thing I valued most from Bhutanese experience is that GNH policy creates environment where everybody can pursue his own happiness and discover true happiness, which everyone has in himself. With that said I want to remind once again that happiness is the desired end and government should provide environment people can pursue goals which really lead to emotional wealth. There are plenty of obstacles that prevent state and population to work together. One of them is trust in politicians due to the reason that governments are not composed of purely benevolent politicians wanting to make the population as happy as possible. Rather, the personal interests of politicians also matter. From the other side, individuals also lie about their feeling to benefit from let say unemployment. This dishonest relationship between politicians and individuals preclude both side to accomplish favorable end. Hence there is a certainly a necessity to maintain enhanced quality of relationship between each other. Policy implication for this issue is discussed in next chapter.

4.3   What policy should be used to improve happiness?

Since government intervention plays large role in bringing desired end government should try different ways to achieve that goal. For example tax policy may be effective to reduce income gap between income groups and improve well being. I personally think that more wealth will not remove all the uneasiness in European situation where most of the people's incomes are above the threshold. However income redistribution might ameliorate to direct individuals to maximize their happiness since social comparisons is one finding that influences subjective well-being. It is obvious fact that we compare our income with those who are close to us. It reduces our happiness when others get richer mainly those next to us in the income distribution but if income distribution is reasonably stable the income of this reference group will be proportional to the average income. Layard (2006) proposed interesting model that offers some remarkable policy implication for social comparison. But I would like to highlight here that it is only illustrative mathematical exercise and doesn't have to be true in real life. Individual utility only depends on tangible goods such as goods and services. The simple theory underlines by this standard economic theory is:

$$u = u\ (y, h)\ (u_1 > 0;\ u_2 < 0) \qquad (4.1)$$

Where:
- u is (cardinal) utility
- y is real income
- h is hours

For social comparisons our simple theory would be extended to:

$$u = u\ (y\ -\ \theta\overline{y},\ h) \qquad (4.2)$$

Where $\overline{y}$ is average income. In most empirical analysis done in this field average income attracts highly significant, negative and large coefficient whether it used cross sections or time series. Even in some studies this negative effect of average income is as large as positive effect of own income. Above model proves existence of paradox showing very small correlation between income and happiness (correlation is about 0,15). Many surveys confirm the validity of this analysis. For instance the US General Social Survey provides data on how the individual perceive his relative income where happiness is explained by income relative to income-aspirations, and the average income in the local community increases a person's aspirations. Social comparison is a case of negative externality. We take as an assumption that there are n numbers of identical people with

the same happiness function and the same hourly wage unity. The socially optimal level of individual work effort (h) is now given by:

$$u_1 - nu_1\theta\frac{1}{n} + u_2 = 0.$$

(4.3)

Second part here with negative sign suggests when average income increases it cause unfavorable effect on the happiness of all n people. Another suggested optimal condition is if everyone agreed on how hard they would work then our model (4.3) will look like:

$$u_1(1-a) + u_2 = 0$$

(4.4)

To manage this outcome government should impose tax at marginal rate of t. Everybody works until:

$$u_1(1-t) + u_2 = 0$$

(4.5)

Social optimum is maintained when t = θ which equals society's cost expression exchanged as a gain to individual. People would be working too hard if taxes were zero[10]. So if we considered no negative externality taxes should be higher than it ought to be which in turn reduce work effort to the point when the external cost is fully internalized. Here I should remind once again that above example is just illustrative mathematical example and policy implication driven by Layard is not universally accepted moreover some economists may strictly disagree with him but I assumed it is worth mentioning here. This whole comparison argument is endorsed by enviousness. So solution to this problem might be to educate people away from gluttony and jealousy since they are not correlated with happiness[11].

As we discussed in earlier chapter subjective well being is very sensitive to employment status[12]. Layard (2005) observes that people value work stability and find that work-life balance is critical putting time into community and family relationship[13]. In Bhutan more than 80 percentage of population provides their life by working in agricultural sector in other word self employed and has flexible work hours. Which might accordingly lead to good family relationship since parents could have more time with

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[10] Layard (2006, p.c26)

[11] We could never completely eliminate the drive for status since it is hard wired into our biology, as studies of male monkeys show: when a monkey is moved between groups o that his status rises, there is an increase in his serotonin, a neurotransmitter associated with happiness. Reverse happens when his status falls. Study is done by Brammer *et al*. (1994)

[12] Clark and Oswald (1994)

[13] http://personalethics.suite101.com/article.cfm/twelve_steps_towards_happiness

their children. So implication of this for public policy could be to create family friendly workplace such as flexible hours and as well as high quality affordable child care. This policy in turn should build up stable and respectable family status.

Referring to education Layard argues that one of the main sources of unhappiness is lack of common feeling between people. He suggests that one possibility is to identify and teach morals as "well established principles". In Bhutan people are very spiritual and very protective over culture and environment and truly appreciate beauty of nature, which is their common feeling. So implication from this paragraph is that social harmony is not fully appreciated in Europe therefore government should impose effective strategies to achieve it.

Main implication of my analysis as I mentioned previously is that economic policy should focus on allowing actors to maximize their individual happiness and create assured environment that able them to seek that well-being. Diagram 4.1 shows perfect world for policymakers.

DIAGRAM 4.1: Policy-makers Ideal World
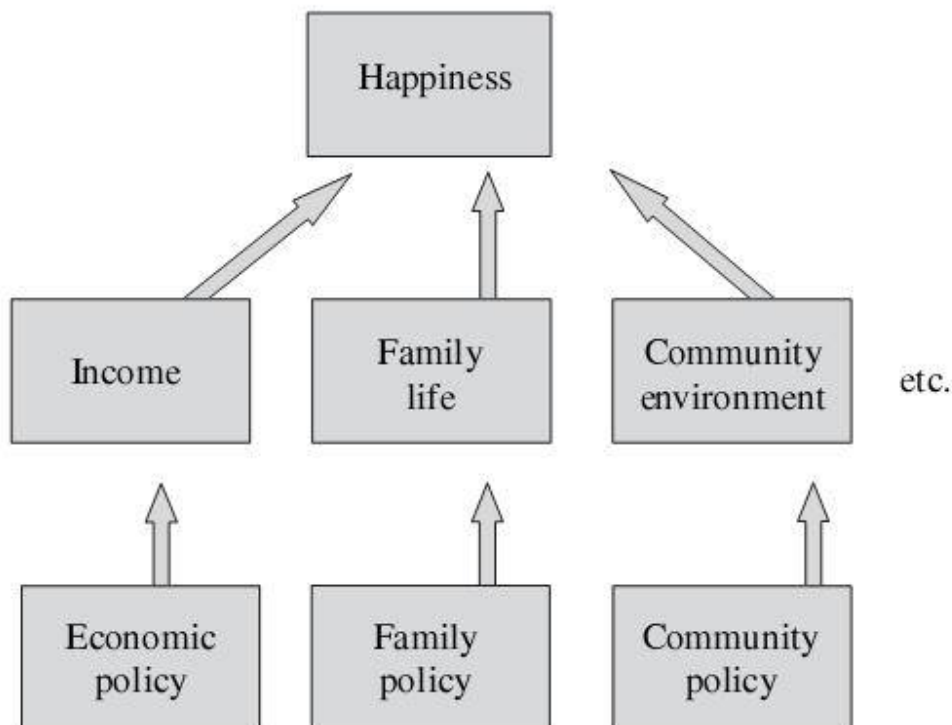
Every policy-maker wishes to see the result as shown in the diagram 4.1.

DIAGRAM 4.2: a reality
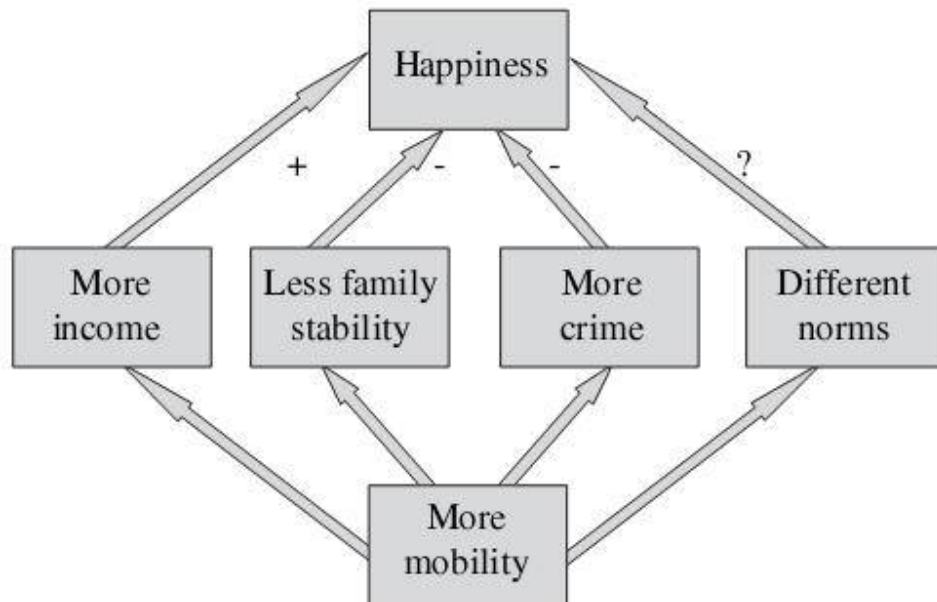
Unfortunately the real world more looks like the one shown in diagram 4.2. Illustrated policy analysis is mobility policy and it is obvious that more mobility increases income in one hand but on the other side it affects people's relationship quality in family and in community. This requires economists to work with other psychologists and behavioral scientists to expand boundaries of their field in order to understand people's behavior and attain policy implication that could improve emotional wealth.

5. CONCLUSION

One of the exciting expansions within economics over the past decades has been explosion of literature of "Happiness Economics" both theoretically and empirically. This increasing number of evidence from economists as well as psychologists facilitated the basis of this thesis. This paper focuses on the latter that analysis two specific issues, motivated by its central importance to economists and policymakers A). The main flaw that decreased happiness in Europe. B). What can European policymakers adapt from Bhutanese, classified as least developed country, but happier than most industrialized countries. The first half of the thesis mainly focuses on widely cited concept Easterlin paradox which states that as real income increases in developed countries, it doesn't improve average individual subjective well-being. Moreover paradox points out important consideration of policy implication that pose the question if economic growth doesn't increase income should it be the main focus of economic policy. Going beyond the paradox that initiated the thesis, the paper further attempts to suggest suitable policy that could improve both economic circumstances and its actors' emotional well-being.

European development approaches mainly focused on economic growth neglecting about environment protection, individual feelings, and cultural inheritance. This may eventually explain the disimprovement of happiness in Europe in last 50 years. Kingdom of Bhutan on the other hand tried out new idea not following Western style by promoting new policy that maximizes so called Gross National Happiness and they succeed in the sense that despite being desperately poor Bhutanese are happy which rang the bell to other nations. This paper primarily studies Bhutan's development approach and then derives policy implication that economic policy should aim to create environment where everybody can pursue his own happiness and discover true well-being, which everyone has in himself and to impose better economic policy, the collaboration between economists and other social scientists, especially psychologists is required. My final conclusion is everybody wants to be happy so happiness should be the desired end of every human society.

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7. APPENDICES

Countries standing according to GDP, Human Development Index, Happy Planet Index, Education Index, Life Expectancy Index, Life Satisfaction Index

Country	Life Sat	Life Exp	EF	HPI	HDI	GDP	loggdp
Norway	7,4	79,4	6,2	39,2	0.963	64193	11,0696494
Iceland	7,8	80,7	4,9	48,4	0.956	52764	10,8735844
Australia	7,3	80,3	7,7	34,1	0.955	34740	10,455647
Luxembourg	7,6	78,5	4,9	45,6	0.949	80288	11,2933754
Sweden	7,7	80,2	7	38,2	0.949	39694	10,5889553
Canada	7,6	80	6,4	39,8	0.949	35133	10,4668961
Switzerland	8,2	80,5	5,3	48,3	0.947	50532	10,8303621
Ireland	7,6	77,7	6,2	39,4	0.946	48604	10,7914611
Belgium	7,3	78,9	4,9	44	0.945	35712	10,483242
United States of America	7,4	77,4	9,5	28,8	0.944	42000	10,6454249
Netherlands	7,5	78,4	4,7	46	0.943	38618	10,5614738
Japan	6,2	82	4,3	41,7	0.943	35757	10,4845013
Denmark	8,2	77,2	6,4	41,4	0.941	47984	10,7786229
Finland	7,7	78,5	7	37,4	0.941	37504	10,5322029
United Kingdom	7,1	78,4	5,4	40,3	0.939	37023	10,5192946
France	6,6	79,5	5,8	36,4	0.938	33918	10,4317011
Austria	7,8	79	4,6	48,8	0.936	37117	10,5218304
Italy	6,9	80,1	3,8	48,3	0.934	30200	10,3155972
New Zealand	7,4	79,1	5,5	41,9	0.933	26464	10,1835406
Germany	7,2	78,7	4,8	43,8	0.93	33854	10,4298124
Spain	7	79,5	4,8	43	0.928	27226	10,2119277
Hong Kong	6,6	81,6	4,6	42,9	0.916	25493	10,1461592
Israel	6,7	79,7	5,3	39,1	0.915	19248	9,86516244
Greece	6,3	78,3	5,4	35,7	0.912	20327	9,91970533
Singapore	6,9	78,7	6,2	36,1	0.907	26836	10,1974995
Portugal	6,1	77,2	5,2	34,8	0.904	17456	9,76743871
Slovenia	6,6	76,4	3,8	44	0.904	16986	9,74014475

Korea	5,8	77	3,4	41,1	0.901	16308	9,69941106
Cyprus	6,9	78,6	4	46	0.891	20214	9,31361872
Barbados	7,3	75	3,1	52,7	0.878	11088	9,31361872
Czech Republic	6,4	75,6	5	36,6	0.874	12152	9,40524904
Malta	7,5	78,4	3,5	53,3	0.867	13803	9,53264124
Brunei Darussalam	7,6	76,4	5,6	41,2	0.866	25754	10,1563452
Argentina	6,8	74,5	2,6	52,2	0.863	4799	8,47616284
Hungary	5,7	72,7	3,5	37,6	0.862	10814	9,28859687
Poland	5,9	74,3	3,6	39,3	0.858	7946	8,98042394
Chile	6,5	77,9	2,6	51,3	0.854	7124	8,87122464
Estonia	5,1	71,3	6,9	22,7	0.853	9727	9,1826608
Lithuania	4,7	72,3	3,9	29,3	0.852	7446	8,91543225
Qatar	7	72,8	9,5	25,5	0.849	43110	10,6715103
United Arab Emirates	7,4	78	9,9	28,2	0.849	27700	10,2291877
Slovakia	5,4	74	3,6	35,8	0.849	8775	9,07966205
Bahrain	7,2	74,3	6,6	34,4	0.846	18403	9,82026897
Kuwait	7,2	76,9	9,5	27,7	0.844	26020	10,1666208
Croatia	5,9	75	2,9	43,7	0.841	8675	9,0682006
Uruguay	6,3	75,4	2,6	49,3	0.84	5274	8,57054437
Costa Rica	7,5	78,2	2,1	66	0.838	4620	8,43814998
Latvia	4,7	71,6	4,4	27,3	0.836	6862	8,83375422
Saint Kitts and Nevis	7,4	70	2,3	56,1	0.834	10895	9,29605925
Bahamas	7,7	69,7	4,1	44,9	0.832	18062	9,80156556
Seychelles	7,4	72,7	2,6	56,1	0.821	8556	9,05438807
Cuba	6,3	77,3	1,4	61,9	0.817	3471	8,89535562
Mexico	6,9	75,1	2,5	54,4	0.814	7298	8,89535562
Tonga	6,6	72,2	1,6	57,9	0.81	2106	7,65254569
Bulgaria	4,3	72,2	2,7	31,6	0.808	3459	8,14873481
Panama	7,2	74,8	1,8	63,5	0.804	4794	8,47512041
Trinidad and Tobago	6,9	69,9	2,3	51,9	0.801	12625	9,44343425
Libya	5,7	73,6	3,1	40,3	0.799	6696	8,80926561
Antigua and Barbuda	7,4	73,9	2,3	59,2	0.797	10727	9,28051921

Macedonia	4,9	73,8	2,3	39,1	0.797	2810	7,94093976
Malaysia	7,4	73,2	3	52,7	0.796	5042	8,52555811
Russia	4,3	65,3	4,4	22,8	0.795	5349	8,58466491
Romania	5,2	71,3	2,7	37,7	0.792	4539	8,420462
Brazil	6,3	70,5	2,2	48,6	0.792	4320	8,37101068
Mauritius	6,5	72,2	2,4	49,6	0.791	5029	8,52297644
Grenada	6,5	65,3	1,9	49	0.787	4670	8,44891435
Belarus	4	68,1	3,2	25,8	0.786	3031	8,01664788
Bosnia and Herzegovina	5,1	74,2	2,3	41	0.786	2384	7,77653503
Colombia	7,2	72,4	1,3	67,2	0.785	2656	7,88457651
Dominica	7,3	75,6	1,8	64,6	0.783	3947	8,28071108
Oman	7,3	74,1	4,4	43,9	0.781	12664	9,4465186
Albania	4,6	73,8	1,5	42,1	0.78	2673	7,89095672
Thailand	6,5	70	1,6	55,4	0.778	2659	7,88570539
Samoa (Western)	6,9	70,2	1,4	61	0.776	1832	7,51316355
Saudi Arabia	7,3	71,8	4,4	42,7	0.772	13410	9,50375598
Venezuela	7,4	72,9	2,4	57,5	0.772	5026	8,52237972
Saint Lucia	7	72,4	1,6	61,3	0.772	4963	8,50976568
Ukraine	3,6	66,1	3,3	22,2	0.766	1766	7,47647238
Peru	5,6	70	0,9	55,1	0.762	2841	7,95191138
Kazakhstan	5,8	63,2	2,8	36,9	0.761	3717	8,22067217
Lebanon	5,6	72	2,3	43,6	0.759	6034	8,70516542
Ecuador	5,6	74,3	1,8	49,3	0.759	2761	7,92334821
Armenia	3,7	71,5	1	36,1	0.759	1140	7,03878354
Philippines	6,4	70,4	1,2	59,2	0.758	1168	7,06304816
Saint Vincent and the Grenadines	7,2	71,1	1,7	61,4	0.755	3950	8,28147086
Suriname	7,3	69,1	2,3	55	0.755	2637	7,87739719
China	6,3	71,6	1,5	56	0.755	1709	7,44366368
Paraguay	6,5	71	2,2	51,1	0.755	1288	7,16084591
Belize	6,9	71,9	2,6	52	0.753	4146	8,32989929
Tunisia	6,4	73,3	1,4	58,9	0.753	2829	7,94767857

Jordan	5,1	71,3	1,9	42	0.753	2317	7,74802852
Fiji	6,7	67,8	1,7	54,5	0.752	3349	8,11641707
Sri Lanka	6,1	74	1,1	60,3	0.751	1200	7,09007684
Turkey	5,3	68,7	2	41,4	0.75	5062	8,52951694
Dominican Republic	7	67,2	1,6	57,1	0.749	3411	8,13476078
Maldives	6,6	66,6	1,6	53,5	0.745	2350	7,76217061
Jamaica	7	70,8	2,6	51	0.738	3657	8,20439842
Turkmenistan	4	62,4	3,1	24	0.738	3406	8,13329386
Iran	6	70,4	2,1	47,2	0.736	1700	7,43838353
Georgia	4,1	70,5	0,8	41,2	0.732	1480	7,29979737
Azerbaijan	4,9	66,9	1,5	40,7	0.729	1493	7,3085428
Palestine	5,4	72,5	1,1	52,6	0.729	800	6,68461173
Algeria	5,2	71,1	1,5	45,9	0.722	3086	8,03463103
El Salvador	6,6	70,9	1,2	61,7	0.722	2468	7,81116339
Cape Verde	5,8	70,4	1,3	52,4	0.721	2066	7,63336965
Syria	5,1	73,3	1,9	43,2	0.721	1464	7,28892769
Guyana	7,2	63,1	1,5	56,6	0.72	1039	6,94601399
Vietnam	6,1	70,5	0,8	61,2	0.704	618	6,42648846
Kyrgyzstan	6,6	66,8	1,1	59	0.702	473	6,15909539
Indonesia	6,6	66,8	1,2	57,9	0.697	2767	7,92551898
Uzbekistan	6,4	66,5	1,9	49,2	0.694	444	6,09582456
Nicaragua	6,3	69,7	1,1	59,1	0.69	850	6,74523635
Bolivia	5,5	64,1	1,2	46,2	0.687	993	6,90073066
Mongolia	6,7	64	1,9	49,6	0.679	736	6,60123012
Moldova	3,5	67,7	1,2	31,1	0.671	861	6,7580945
Honduras	7,2	67,8	1,4	61,8	0.667	1148	7,04577658
Guatemala	7	67,3	1,2	61,7	0.663	1995	7,59839933
Vanuatu	7,4	68,6	1,1	68,2	0.659	1530	7,33302301
Egypt	4,8	69,8	1,5	41,6	0.659	1265	7,1428274
South Africa	5,7	48,4	2,8	27,8	0.658	5106	8,5381716
Equatorial Guinea	5,2	43,3	2,5	23,8	0.655	6205	8,7331107
Tajikistan	6,1	63,6	0,6	57,7	0.652	364	5,89715387

Gabon	6,2	54,5	1,7	40,5	0.635	6397	8,76358441
Morocco	5,6	69,7	0,9	54,4	0.631	1713	7,4460015
Namibia	6,5	48,3	1,6	38,4	0.627	3022	8,01367414
São Tomé and Principe	6,7	63	1	57,9	0.604	430	6,06378521
India	5,4	63,3	0,8	48,7	0.602	1283	7,15695636
Solomon Islands	6,9	62,3	1	58,9	0.594	611	6,41509696
Burma (Myanmar)	5,3	60,2	0,9	44,6	0.578	219	5,38907173
Cambodia	5,6	56,2	1,1	42,2	0.571	430	6,06378521
Botswana	5,4	36,3	1,3	25,4	0.565	6439	8,77012853
Comoros	5,9	63,2	0,8	52,9	0.547	615	6,42162227
Laos	5,4	54,7	1	40,3	0.545	485	6,18414889
Bhutan	7,6	62,9	1,3	61,1	0.536	1126	7,02642681
Pakistan	4,3	63	0,7	39,4	0.527	728	6,59030105
Nepal	5,5	61,6	0,6	50	0.526	322	5,77455155
Papua New Guinea	6,3	55,3	1,3	44,8	0.523	662	6,49526556
Ghana	6,2	56,8	1,1	47	0.52	512	6,23832463
Bangladesh	5,7	62,8	0,6	53,2	0.52	400	5,99146455
Timor-Leste	6,6	55,5	0,8	52	0.513	352	5,86363118
Sudan	3,6	56,4	1	27,7	0.512	820	6,70930434
Togo	4,9	54,3	0,9	36,9	0.512	377	5,93224519
Congo, Dem. Rep. of the	3,3	43,1	0,7	20,7	0.512	117	4,76217393
Uganda	4,7	47,3	1,5	27,7	0.508	303	5,71373281
Zimbabwe	3,3	36,9	1	16,6	0.505	383	5,94803499
Madagascar	5,8	55,4	0,8	46	0.499	282	5,64190707
Swaziland	4,2	32,5	1,1	18,4	0.498	2336	7,75619534
Cameroon	5,1	45,8	0,9	32,8	0.497	952	6,85856503
Lesotho	4,3	36,3	0,6	23,1	0.497	621	6,43133108
Djibouti	4,8	52,8	1,3	32,7	0.495	973	6,88038408
Yemen	6,2	60,6	0,7	55	0.489	586	6,37331979
Mauritania	5,3	52,7	1,1	37,3	0.477	663	6,49677499
Haiti	5,5	51,6	0,5	43,3	0.475	478	6,16961073

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Kenya	5,6	47,2	0,9	36,7	0.474	560	6,32793678
Gambia	5,7	55,7	1,1	42,5	0.47	306	5,7235851
Guinea	5,1	53,7	1	37,4	0.466	355	5,87211779
Senegal	5,6	55,7	1,2	40,8	0.458	738	6,60394382
Nigeria	5,5	43,4	1,2	31,1	0.453	678	6,51914729
Rwanda	4,4	43,9	0,7	28,3	0.45	242	5,48893773
Angola	4,8	40,8	0,8	27,9	0.445	2129	7,66340766
Eritrea	4,4	53,8	0,7	34,5	0.444	209	5,34233425
Benin	5,4	54	1	40,1	0.431	592	6,38350663
Cote d'Ivoire	4,5	45,9	0,9	28,8	0.42	900	6,80239476
Tanzania	5,5	46	0,9	35,1	0.418	336	5,81711116
Malawi	4,6	39,7	0,7	26,7	0.404	161	5,08140436
Zambia	4,9	37,5	0,8	25,9	0.394	627	6,44094654
Congo	5,7	52	0,9	41,6	0.385	1785	7,48717369
Mozambique	5,4	41,9	0,7	33	0.379	331	5,80211838
Burundi	3	43,6	0,7	19	0.378	107	4,67282883
Ethiopia	4,7	47,6	0,7	32,5	0.367	153	5,03043792
Central African Republic	4,9	39,3	1,1	25,9	0.355	335	5,81413053
Guinea-Bissau	5,4	44,7	0,7	35,1	0.348	190	5,24702407
Chad	4,5	43,6	1,3	25,4	0.341	654	6,48310735
Mali	5,3	47,9	1,1	33,7	0.333	432	6,06842559
Burkina Faso	4,7	47,5	1,1	30,1	0.317	430	6,06378521
Sierra Leone	5	40,8	0,9	28,2	0.298	223	5,40717177
Niger	4,5	44,4	1,1	26,8	0,281	274	5,61312811

8. TABLE OF DIAGRAMS, FIGURES, GRAPHS AND TABLES

9. FORMULÁŘ TEZE BP

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AKADEMICKÝ ROK 2008/2009

TEZE   BAKALÁŘSKÉ   PRÁCE

Student:	Ariunaa Davaadorj
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Garant studijního programu Vám dle zákona č. 111/1998 Sb. o vysokých školách a Studijního a zkušebního řádu UK v Praze určuje následující bakalářskou práci

Předpokládaný název BP:

Economic of Happiness: Bhutan

Charakteristika tématu, současný stav poznání, případné zvláštní metody zpracování tématu:

Struktura BP:

Abstrakt

Over the past decade, economists have increasingly focused on happiness research. The main focus has been on understanding the interconnection between economic outcomes and the resulting happiness of economic actors. Historically, economists have said that well-being is a simple function of income. This bachelor thesis mainly focuses on income based subjective well-being paradox, and as an example I will demonstrate Kingdom of Bhutan. Being one of the least developed country, Bhutanese people are one of the happiest in the world. For decades Bhutanese king promotes an economic policy not maximising GDP growth, but so called Gross National Happiness. Further I will try find solution to the question: what can we learn from them? What could we apply in economic policies to improve life satisfaction of people in Europe?

Osnova:
- Acknowledgements
- Introduction
- Theoretical Part
- Analysis
- Conclusion
- Appendix
- References

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