

Human Development and Economics of Happiness Utility Enters through Back Door

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Abstract: This paper is set explore the concepts of Human Development and Happiness. In the process an attempt is made to trace the origin of the concepts as well as the components that constitute the core of human development index and happiness indices so as to examine if any correlation exists between the two. The role of utility is examined through the components of the indices as well as the theoretical framework. The paper argues that the measurement in terms of capabilities as advocated by Sen and Nussbaum has nearly freed welfare and well-being measurements from the clutches of “utility”, while the measurement in terms of happiness, as being attempted by many, has invited utility through the back door. It appears that the Neo-classical utility will continue to rule the roost through happiness studies.

Index Terms: Economic History, Neo Classical, Utility, Normative Criteria and Measurement, Capability Approach, Human Development, Welfare Economics and Economics of Happiness.

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I. INTRODUCTION

Drawing on the intellectual contributions of Amartya Sen, Martha Nussbaum, John Rawls and others (Stewart, 1985; Morris, 1979 and Stanton, 2007), the UNDP achieved a breakthrough by publishing the first Human Development Report (HDR) and the Human Development Index (HDI) under the guidance of Mahbub ul Haq in 1990. As maintained by Hicks, Sen’s capability approach is the ‘central theoretical framework behind the annual Human Development Reports’ (Hicks, 2002:138) and Clark adds that the capability approach ‘has revitalized much of contemporary development studies by providing the conceptual foundations for the human development movement’ (Clark, 2009:22).

Scottish economist and moral philosopher, also known as the Father of Economics, Adam Smith’s book, *An Enquiry into the Nature and Causes of the Wealth of Nations* was published in 1776. Smith was concerned about the problems of his time and how nations could increase their wealth and prosper through division of labour and free trade. After 200 years, since the publication of the *Wealth of Nations*, the UNDP in the HDR 1990 and later 2010 replaced “material wealth” with “human beings” by stating that ‘People are the real wealth of a nation’ (HDR, 1990:9 and HDR, 2010:1). Thus, wealth is still the

enquiry and concern of economics but the only difference is that wealth is now defined in terms of the human person and the development of the nation is also measured in terms of human development.

Happiness is the most desired end of all human endeavours. Happiness and what it means to live a good life has been the basis of philosophical, religious and scholarly debate for centuries (Norrish and Vella-Brodrick, 2008:393; Easterlin, 2004:26). Gradually with the birth of the new sciences, happiness has been studied and analysed by spiritualists, psychologists, economists, sociologists, political scientists and other experts. Philosophers and theologians engage in speculative discourse on happiness (Kesebir and Diener, 2008:117 and Easterlin, 2004:24) while the spiritualists define happiness as a state of mind (Powell, 1989). However, psychologists, economists, sociologists and others have attempted to quantify and measure happiness in a comparable manner. Their efforts have given birth to various theories and analytical tools such as “Set-point Theory” (Brickman, Coates and Janoff-Bulman, 1978 and Headey, Muffels and Wagner, 2010), “Hedonic Treadmill Theory” (Diener, Lucas and Scollon, 2006) and indices such as “Gross National Happiness Index”, “Well-being index” and “Happy Planet Index” and a host of other indices. Thus, we find a gradual movement in the mainstream economic literature away from growth to utility-to development-to human face of development-to happiness. Therefore, along with human development, happiness/subjective well-being has come to stay as a measure of development and well-being within the economic framework. Though both measures are a reaction to the traditional measures of national income based on the utility approach, they both differ from each other. While the capability approach to human development rejects utility, happiness/well-being studies reinforce utility.

II. OBJECTIVES AND METHODOLOGY

The primary objective of this paper is to examine the role of utility from the intellectual journey and the theoretical basis of the concepts “Human Development” and “Happiness/Subjective Well-being”. In this exercise the paper critically looks at the role of the Neo-classical concept of “utility” in both the approaches—“capability” and “happiness studies”. The role of utility is examined through the components of the indices as well as the theoretical framework. The methodology of this paper is analytical. The paper largely relies on the secondary sources in examining the role of utility and to draw conclusions.

III. THE ORIGIN OF HUMAN DEVELOPMENT AND HAPPINESS STUDIES

The progress and material well-being of people and nations have traditionally been at the centre of economic enquiry from Adam Smith, David Ricardo to Karl Marx. By 1870s the Marginalist Welfare School which included economists such as Willam Stanley Jevons, Carl Menger, Leon Walras, and Alfred Marshal, ushered in the marginal revolution and focused on utility. Elizabeth A. Stanton argues that ‘they changed the focus of economics, away from the centrality of economic growth emphasized by Adam Smith and the distribution among classes emphasized by David Ricardo and Karl Marx, towards the ‘analysis of constrained maximization or allocation problems’ (Stanton, 2007:5). Stanton’s account of the intellectual history of the UNDP’s Human Development Index beginning with the early history of welfare economics and culminating in the theory of human development, offers a good perspective of the gradual development of the very concept of human development. Stanton traces the basis for most modern economists’ understanding of human well-being as far as to Aristotle (Stanton, 2007:4). Jeremy Bentham’s *Introduction to the Principles of Morals* posited that human behaviour is motivated by pleasure and pain; and “Utility” was initially conceived as a balance of pleasures and pain (Stanton, 2007:4 and Burchardt, 2005:28). Hirschauer, Lehberger and Musshoff opine that Jeremy Bentham, considered to be the founding father of utilitarianism, equated utility with happiness (Hirschauer, Lehberger and Musshoff, 2014:5). In theory, utility could be summed across individuals to determine “social welfare”. The main point to note is that the Utilitarians insisted on the importance of having a single measure of human well-being and Amartya Sen opposed this approach in *The Standard of Living* defending a pluralistic understanding of well-being (Stanton, 2007:4).

The following statements provide a summary of Stanton’s account of the journey of economics from “Utility” to “Capabilities” and it is essential to take note of this journey to gauge the role of utility. By the 1890s the Marginalist Welfare School applied mathematical tools to their analysis while preserving the basic precepts of Utilitarianism. In neo-classical economics “utility” came to imply an individual’s mental state of satisfaction. The rational economic agent was seen as one maximizing one’s utility. This understanding of utility has become the dominant measure of human welfare in mainstream economic theory since the 1930s. The marginalist school advocated money as a “measuring stick” and as measurement became increasingly central to the field of economics, the accepted metric for social or aggregate welfare was defined in terms of money. With these developments national income and per capita income became the dominant measures of welfare and development. The utilitarian definition of social welfare was gradually replaced in welfare economics by the idea of “Pareto optimality.” In Pareto optimality, individual welfare was still utility, but social welfare was evaluated on the basis of the presence and absence of Pareto optimality. In modern usage, the applied economics of social welfare has taken the form of cost-benefit analysis and compensation. The cost-benefit principle runs counter to Pareto optimality since a change that improves the welfare of some while diminishing that of others still somehow qualifies as social welfare improvement on the basis of

net benefit over cost. Thus, in applied neo-classical welfare economics, inter-personal comparability, which was rejected by Lionel Robbins, re-enters through the back door of cost-benefit analysis and at the macro level, Pareto optimality combined with compensation leads to income per capita as a measure of progress, improvement and development (Stanton, 2007:5-8).

Stanton opines that based on Rawlsian philosophy, Amartya Sen and Nussbaum focused their attention on what human beings can do rather than what they have; and moved the discussion away from utility towards ‘capabilities’. If for neo-classical economists, well-being was individual utility, a mental state, for Sen and Nussbaum, both well-being and freedom were important, and utility was not adequate as a measure of well-being. Their humanist revolution became a critique of theoretical neo-classical welfare economics (Stanton, 2007:9). Burchardt holds similar opinion and maintains that the capability approach proposed a shift away from measuring utility and related concepts towards identifying functionings and capabilities (Burchardt, 2005: 16).

On the pitfalls of the utility approach Nussbaum notes that the ‘utility-based analysis encounters a problem: traditionally deprived people may be satisfied with a very low living standard, believing that this is all they have any hope of getting. A capabilities analysis, by contrast, looks at how people are actually enabled to live’ (Nussbaum, 2000:99). Nussbaum’s makes clear the difference between utility and capability approaches. Utility approach focuses on how individuals feel about what is happening to them, whether dissatisfied or satisfied and capability approach focuses on what they are actually able to do and to be’ (Nussbaum, 2000:62).

The origin of happiness studies have to be traced to ancient philosophers. Kesebir and Diener affirm that the ancient Greece was the place and time in which the topic of good life received serious philosophical attention and Democritus is considered to be the first philosopher in the Western world to inquire into the nature of happiness (Kesebir and Diener, 2008:117). Veenhoven shares the same idea that happiness was a major issue in early Greek philosophy and, in addition, he states that the speculations about happiness produced a lot of ideas, but little operational knowledge and many theoretical controversies could not be solved by the logic of reasoning alone making empirical validation impossible (Veenhoven, 1995:300). Easterlin traces the beginnings of scientific enquiry to the 1950s in the ‘mainstream social sciences’ (Easterlin, 2004:29). Though Easterlin opines that the social sciences undertook enquiry on happiness since the 1950s, Peggy Schyns dates the same to the 1970s. According to Schyns, ‘The origins of research on happiness or quality of life lie in the 1970s’ disenchantment with the traditional economic approach to measuring progress’ (Schyns, 1998:3). Carol Graham gives credit to Richard Easterlin for pioneering research in economics of happiness in 1970s (Graham, 2005:202). It is worth noting that the term ‘Gross National Happiness’ was first expressed in 1972 by the King of Bhutan, His Majesty Jigme Singye Wangchuck. Therefore, it may be maintained that though the origin of Human Development and Happiness studies goes as far back as the ancient philosophers, the modern approach can be traced back to the 1970s.

IV. HUMAN DEVELOPMENT, HAPPINESS AND WELL-BEING: THE CONCEPT

The concept of Human Development is well defined and explained in the first Human Development Report (HDR) published by the UNDP in 1990, which defines human development as a 'process of enlarging people's choices'. The most critical choices are to lead a long and healthy life, to be educated and to enjoy a decent standard of living. If these essential choices are not available, many other opportunities remain inaccessible (HDR, 1990:10). As the HDR 1990 highlights, human development has two sides, namely, the formation of human capabilities and the use people make of their acquired capabilities. The formation of human capabilities includes improved health, knowledge and skills while the capabilities are employed for leisure, productive purposes or being active in cultural, social and political affairs. It also implies that human freedom is vital for human development. Thus, human development defined as the process of enlarging people's choices clearly considers income as only one of the options that people would like to have and it cannot be the sum total of one's life. Development is, therefore, more than just the expansion of income and wealth. Human development views human persons not as means to an end but ends in themselves. Human development finds the theories of human capital formation and human resource development inadequate as they view human beings primarily as means rather than ends. HDR 1990 clearly states that these theories are concerned only with the supply side where human beings are seen as instruments for furthering commodity production. 'Human beings are more than capital goods for commodity production. They are the ultimate ends and beneficiaries of this process' (HDR, 1990:11).

It is easier to trace the origin of the enquiry on happiness rather than define what entails or constitutes happiness. The study of happiness is inter-disciplinary and, therefore, in any attempt to define happiness one must focus on the terms used in research literature in social sciences. Kesebir and Diener acknowledging the difficulty of defining happiness and at the same time emphasizing the need for a working definition for research state that the 'Philosophers of happiness tend to agree, if on nothing else, on the difficulty of defining happiness. For science to progress, however, clearly defined and operationalized concepts are indispensable' (Kesebir and Diener, 2008:118). If Philosophers could not agree on a workable definition of happiness, psychologists who pioneered the scientific study of happiness proposed the term 'subjective wellbeing' to refer to people's evaluation of their own lives. The term subjective well-being includes the cognitive judgements of satisfaction as well as evaluation of moods and emotions. This approach emphasises the subjective nature of happiness (Kesebir and Diener, 2008:118).

Richard Easterlin, pioneer of economics of happiness, uses the terms happiness, utility, well-being, life satisfaction, and welfare interchangeably stating that 'Although there are subtle differences between happiness and life satisfaction, I will treat them for the present purpose as interchangeable measures of overall feelings of well-being, that is, of subjective well-being' (Easterlin, 2003:11181 and 2004:26). Evaluating the scientific pursuit of the study of happiness Norrish and Vella-Brodrick opine that the terms happiness and subjective well-being have been used interchangeably with the latter being the more

scientific term. They also hold the view that the substantial ambiguity and variation is evident within the scientific discourse regarding the definition of happiness (Norrish and Vella-Brodrick, 2008:394). R. Veenhoven bemoaning the slow progress of scientific enquiry on happiness finds the confusion of tongues to be one of the reasons:

The second reason is the confusion of tongues. Words like happiness and life-satisfaction denote different phenomena. Currently most investigators define it as subjective appreciation of life-as-a-whole. However, some authors also include objective notions of mental health and appropriate behaviour. Consequently, indicators of happiness used in empirical research tend to be different and often incomparable' (Veenhoven, 1995:301).

As Graham puts it, economists who work in the area happiness broadly define happiness or subjective well-being as satisfaction with life in general. They ask the simple questions such as how satisfied are you with your life? or how happy are you with your life? (Graham, 2005:202). Karma Ura equates happiness with utility. According to Ura, in micro economics the starting hypothesis is that the choices made by individuals are motivated by maximization of happiness or utility (Ura, 2005:603). Neil Thin, working on social happiness, approaches the issue by stating that happiness cannot be defined as an entity but as an evaluative conversation, dynamic and interactive, existing as a process rather than as an entity. Thin also opines that the term 'subjective well-being', used as an alternative term, is much narrower term than happiness as well-being is more concerned with the body and basic provisioning (Thin, 2012:34). The above discussion brings to light the fact that a universally acceptable definition of happiness does not seem to appear in research literature due to the use of interchangeable terms.

V. COMPONENTS OF HUMAN DEVELOPMENT AND HAPPINESS/WELL-BEING INDICES

The Human Development Report defines human development as a 'process of enlarging people's choices' (HDR, 1990:10). Human Development is multidimensional and therefore, the indicators have been measured with a composite index so as to enable comparisons across the globe. Since the HDI is a summary measure of average achievements in three key dimensions of human development, it becomes a composite index. The Human Development Index is based on three dimensions and four indicators. The three basic dimensions of human development are longevity, knowledge and decent living standard. The indicators are: Life expectancy at birth, Mean years of schooling, Expected years of schooling, and Gross national income (GNI) per capita. HDR 1990 explains, in short, the three dimensions and their significance in measuring development. The importance of life expectancy lies in the common belief that a long life is valuable in itself and in the fact that various indirect benefits (such as adequate nutrition and good health) are closely associated with higher life expectancy. This association makes life expectancy an important indicator of human development. Literacy is a person's first step in learning and knowledge-building, so literacy figures are essential in any measurement of human development. In the recent measurements the HDI uses mean years of schooling and expected years of schooling data. The third key component of human development

- command over resources needed for a decent living - is perhaps the most difficult to measure simply. Burchardt observes that the UNDP refers to longevity, education and human rights as choices—capabilities in Sen's terminology—but the index in fact measures functionings (Burchardt, 2005:66).

Richard A. Easterlin who pioneered the economics of happiness approached the issue focusing on well-being which is the alternative term in use for happiness. Well-being is measured in terms of material living conditions, family circumstances and health (Easterlin, 2004:27). The term 'Gross National Happiness' (GNH) was first expressed by the King of Bhutan His Majesty Jigme Singye Wangchuck. It is rooted in the Buddhist notion that the ultimate purpose of life is inner happiness. The objectives of Bhutan and Buddhist understandings of happiness are much broader than what is referred to as 'happiness' in Western literature which reduces happiness to single question of asking are you happy on the whole? Under the title of happiness in GNH comes a range of domains of human wellbeing. The GNH measure has been designed to include nine core domains that are regarded as components of happiness in Bhutan and the domains include many indicators. The nine core domains are: 1) Psychological wellbeing 2) Health 3) Time use 4) Education 5) Cultural diversity and resilience 6) Good Governance 7) Community vitality 8) Ecological diversity and resilience and 9) Living standard. The index identifies as happy any person who has achieved sufficiency in six of the nine domains, or in 66% of the weighted indicators (Centre for Bhutan Studies).

World Happiness Index is published in the World Happiness Report (WHR) since 2012 by the United Nations Sustainable Development Solutions Network. It is based on the notion of well-being following the guidelines given by OECD. The OECD in the *Guidelines for the Measurement of Subjective Well-being* quotes in its introduction the following definition and recommendation from the earlier Commission on the Measurement of Economic and Social Progress:

Subjective well-being encompasses three different aspects: cognitive evaluations of one's life, positive emotions (joy, pride), and negative ones (pain, anger, worry). While these aspects of subjective well-being have different determinants, in all cases these determinants go well beyond people's income and material conditions. All these aspects of subjective well-being should be measured separately to derive a more comprehensive measure of people's quality of life and to allow a better understanding of its determinants (OECD, 2013).

The WHR uses six key variables for the world happiness index. These variables include GDP per capita, healthy life expectancy, social support (having someone to count on), freedom to make life choices, generosity and the absence of (freedom from) corruption. It also shows how measures of experienced well-being, especially positive and negative emotions, and judgments about life purpose can combine with life circumstances to support higher life evaluations (Helliwell, Layard and Sachs, 2015).

VI. UTILITY AND ITS ROLE IN THE INDICES

At the outset, it may be maintained that if human development is a measure of development per se, then happiness is the measure of human well-being or subjective well-being. Both the approaches can be viewed as a rejection of the

traditional economic approach of measuring growth or wellbeing in terms of a single measure called national income. Peggy Schyns opines that the origins of happiness-research or 'quality of life' research are to be found in the 1970s' in the disenchantment with the traditional economic approach to measuring progress (Schyns, 1998). A similar view is suggested by Széll regarding the 'Gross National Happiness' of Bhutan. 'Bhutan being a Buddhist country, Bhutan's King felt the responsibility to define development in terms of happiness of its people, rather than in terms of an abstract economic measurement such as GNP' (Széll, 2011:548). As alternatives to GNP and other monetary achievement measures, human development and happiness/well-being as measures of development and progress have been gaining ground in recent economic literature.

A careful observation of the indicators used in the human development index and happiness indices reveal that they quite dissimilar. It is also important to note that human development indicators are objective indicators, goalposts, against which the performance of any given country is measured. It is not the same in the case of happiness index. The indicators in the happiness index are a combination of subjective and objective evaluations of people's perception. Both the 'Gross National Happiness' measurement of Bhutan and the 'Happiness Index' of the U.N. are indices which combine the subjective and objective element. The subjective nature of the study has been stated even as a problem by Széll, 'the problem of the measurement of happiness and its correlatives is that these are very subjective, depending on the respective aspirations, education, and the level of development of a society' (Széll, 2011:549). Therefore, it may be maintained that the happiness indices are neither fully subjective nor objective but a combination of both, while the human development index is objective.

Turning to the question of "utility", it may be stated that the capability approach of Amartya Sen and Martha Nussbaum kept utility away from human development measures, even though income is one of the indicators. It is clear from Stanton's account, which cites Crocker (Crocker 1992, 1995), that Sen and Nussbaum focused their attention on what human beings can do rather than what they have and moved the discussion away from utility and towards 'capabilities' (Stanton, 2007:9) and similar view is suggested by other economists. Burchardt maintains that the 'capability approach proposes to replace utility with functionings as the space in which well-being is to be evaluated' (Burchardt, 2005). Clark also notes that over the past decade Amartya Sen's capability approach has emerged as a leading alternative to mainstream economic frameworks for conceptualizing and assessing human well-being and development and Clark favours the capability approach over economic concepts of wellbeing based on welfare or utility (Clark, 2009:21-22). Nussbaum herself emphasises that the capability approach is rival to utility approach, 'It [capabilities approach] specifies a space within which comparisons of life quality (how well people are doing) are most revealingly made among nations. Used in this way, it is a rival to other standard measures, such as GNP per capita and utility' (Nussbaum, 2000:6). Thus, the capability approach, based on the humanist revolution, shuts the doors to utility and shifts the analysis of

human well-being and development towards functioning and capability.

On the other hand, the economics of happiness which deals with subjective as well as objective indicators in measuring subjective well-being, has no option than to rely on utility function to estimate happiness. Easterlin, the pioneer of economics of happiness, in *Explaining Happiness* begins the analysis by affirming the utility function, 'Let us start with the economist's notion that the typical individual has a utility or happiness function such that well-being depends on a variety of pecuniary and non-pecuniary conditions, or domains (Easterlin, 2003:11181). In addition, the terms happiness, utility, well-being, life satisfaction, and welfare are taken to be interchangeable in Easterlin's analysis (Easterlin, 2003:11176). Concerning the method of happiness studies Frey Stutzer observes that 'in happiness studies, instead of inferring "utility" from data on income and prices, people are directly asked about their subjective well-being' (Frey and Stutzer, 2000 :145).

Easterlin rejects the conclusions of set point theory of happiness in psychology. The set point theory states that an individual has a fixed set point of happiness or life satisfaction which cannot be increased or decreased because of the adjustment process called hedonic adaptation. The set point theory implies that there is no scope for improving one's happiness/well-being. However, as maintained by Easterlin (2004:27) in economics the emphasis is on the life circumstances especially income and employment through which well being can be improved. But the question is how will this be measured without falling back on utility? Easterlin concludes his study stating that contrary to the set-point theory, life circumstances such as marriage, divorce and disability have lasting effects on happiness and also contrary to the economic theory more money does not make people happier. It is not difficult to conceive that life circumstances can be evaluated only through the use of "utility". In addition, Easterlin's contention is that 'on the life-cycle approach as income increases over the years, happiness does not increase' (Easterlin, 2004:31). This is again nothing but the diminishing utility of money.

Hirschauer, Lehberger and Musshoff though view that utility is a mismatch for happiness, accept that happiness studies have given new life to utility. In their opinion 'in many of these [happiness] studies, researchers associate happiness measures with the classic utilitarian concept explicitly or implicitly' [and therefore] 'economics is brought back to Bentham' (Hirschauer, Lehberger and Musshoff, 2014:7). Thus, in the economics of happiness, utility enters the analysis of welfare and economic well-being through the back door.

VII. CONCLUSION

The journey of the development of the two contemporary popular measures, as has been discussed in the paper, began in ancient times. Human persons and their well-being have been at the centre of the intellectual discourse since the time of ancient philosophers. Elizabeth Stanton's account traces the journey of human development index from early utility approach to capability approach. While the emergence of happiness studies is traced to ancient philosophers, the scientific approach can be found in the 1970s. Though happiness study is acquiring the

nature of scientific enquiry, it is still a growing field of study (Veenhoven, 1995) and is in its infancy stage.

National income per capita has been used as the measuring yard-stick of growth and development over the years in the traditional method. However, in the effort to find some alternative measuring tools, economists have found the HDI and Happiness/Subjective Well-being measures to be of great help. These measures have not only created greater interest among the academia and civil society but also have received increasing acceptance as measuring tools. While the HDI is an important tool for monitoring long-term trends in human development (HDR, 2010:138), happiness is considered a proper measure of social progress and a goal of public policy (Helliwell, Layard and Sachs, 2015). Thus, the indices of 'Human Development' and 'Happiness' will continue to dominate academic discourse and function as a critique of national income measurements. While the efforts of Sen and Nussbaum in advocating the capability approach kept "utility" at a distance, the infant field of economics of happiness has brought back "utility" to mainstream analysis through the back door. It appears that economics is wedded to utility forever and the Neo-classical concept of utility will rule the roost as happiness studies gain popularity.

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