Measuring Wellbeing: Individual Based Approach

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Abstract:
Output based measures of economic development, such as GDP and GNI per capita, measure only one relatively narrow aspect of wellbeing: value of goods and services produced or consumed over a given period. This has a number of well-known shortcomings. We propose an alternative measure based on objective individual-level determinants of wellbeing. We proceed in two steps. First, we identify factors that are associated with individual-level happiness. In this way, we obtain a happiness production function, relating individual happiness to a broad range of objectively measurable individual, regional and national determinants. Then, we use the resulting relation to construct an indicator of ‘predicted happiness’. The resulting indicator is closely correlated with the actual happiness but can be decomposed into the contributions of the various determinants. Furthermore, although happiness is a highly subjective and abstract concept, our indicator is constructed entirely based on objective and measurable factors.