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Happiness Domestic Product Poland and Ukraine

We hold these truths to be self-evident: that all men are created equal, that they are endowed by their Creator with certain unalienable Rights, that among these are Life, Liberty and the pursuit of Happiness [...].

Thomas Jefferson,
*The Declaration of Independence
of the United States*, 4.07.1776

Abstract. The article deals with alternative indicators of development levels of nation states which do not use traditional economic indices. It becomes especially important under the conditions of the world economic crisis to estimate the future potential of society and take into consideration different aspects of social structures.

Key words: happiness, NGP per capita, social satisfaction estimation, HDI (Human Development Index), HPI (Happy Planet Index), LPI (Legatum Prosperity Index), economic transformation

Happiness is a magical issue which since the times of Socrates, or earlier, has been a subject of consideration for philosophers, poets, and more recently also for economists. They have been looking into the nature of happiness and the limits of its attainability. The philosophers represent a variety of positions. Many of them treat happiness as an ideal, and therefore, they believe that happiness is unattainable in our earthly lives, but can be achieved in paradise as a reward for good behaviour. According to Aristotle, happiness is acting in accordance with nature.

Hedonism is the doctrine which recognizes pleasure as the highest good and purpose in life, the main motivation for human conduct. Ethical hedonism says that people should strive to attain someone else's or their own happiness, because it is ethically good and right. Psychological hedonism holds that people desire happiness, but says nothing as to how to achieve it. Materialistic hedonism

sees the highest, or the only, value in the collection and consumption of material goods.

Abraham Maslow is considered to be the forerunner of the economics of happiness. He is the author of a formula for happiness, published in 1943, which in purely theoretical terms describes the requirements for securing happiness.

$$W_{it} = \alpha + \beta x_{it} + \varepsilon_{it} \quad (1)$$

where W is the level of individual's i happiness in time t , x is the vector of variables, which include socio-demographic and socio-economic characteristics. Besides social factors, such as love and self-fulfilment, Maslow pointed also to material factors. In this way, the Maslow's pyramid, the pyramid of fundamental human needs, came into being.

Also British scientists developed a formula for happiness.

$$\text{Happiness} = P + (5 \cdot E) + (3 \cdot H) \quad (2)$$

Letter P stands for personal characteristics which include elements such as adaptability skills, approach to life and flexibility. E denotes existence, for example: health, financial stability and friendship. Letter H refers to higher order needs: self-esteem, expectations, ambitions and sense of humour. Numbers 3 and 5 define the importance of individual factors – the impact on happiness of higher order needs is 3 times greater, and of factors associated with existence 5 times greater than of personal characteristics¹.

One of the key achievements of the economics of happiness is the paradox of Richard Easterlin, according to which richer societies are not happier than poorer ones, and the fact that the state grows wealthy does not affect the happiness of its citizens². Today's economists show in their research work that happiness can be measurable, but also that one can find a direct correlation with economic conditions³.

For Ruut Veenhoven of Erasmus University in Rotterdam, the important thing is how many years of life a man is likely to live in happiness. He has collected information from 148 countries and assessed the data on a scale of 1-10. The higher the value, the happier the society.

¹ <http://thesecret.hend.pl/prawda,wzor-na-szczescie.html> [9.03.2010].

² Published in 1974 in *Does Economic Growth Improve the Human Lot? Some Empirical Evidence*.

³ Five most important scientific institutions dealing with the Economics of Happiness:

1. Department of Economics, University of Chicago, Chicago.
2. Faculteit der Economische Wetenschappen en Bedrijfskunde, Vrije Universiteit, Amsterdam.
3. Woodrow Wilson School of Public and International Affairs, Princeton University, Princeton.
4. Wirtschaftswissenschaftliche Fakultät, Universität Zürich, Zürich.
5. Institut für Empirische Wirtschaftsforschung Fakultät, Universität Zürich, Zürich.

Table 1. World Happiness Ranking 2009

Ranking	Country	Indicator's value	Expected lenght of happy life
1	Costa Rica	8.5	66.7
20	USA	7.4	58.0
44	France	6.6	52.8
56	Poland	6.3	48.1
106	Ukraine	5.0	33.7
148	Zimbabwe	2.6	12.5

Source: author's own elaboration based on: World Database of Happiness, <http://worlddatabaseofhappiness.eur.nl/hapnat/natfp.php> [15.03.2010].

Ruut Veenhoven came to the conclusion that “happiness is a life that is more perfect than reality. Some live in paradise-like conditions, but still feel unhappy, because they have not realized their dreams”. Interestingly, he also argued that “equality of income and generous social security do not seem to be necessary to have a long and happy life”. However, the conclusion in a paper he wrote with Michael Hagerty, published in 2003, was unequivocal. Citizens of a country become happier if the GDP grows. In response, Easterlin has maintained his position, pointing out that the critics of his Paradox used inadequate data⁴.

The Gross Domestic Product created by Simon Kuznetza, under the SNA system, describes the aggregate value of final goods and services produced within the territory of a country during a year. However, it is worth stressing that although the GDP is a good measure of the pace of economic development of a country, it does not really reflect the prosperity level of its citizens. Therefore, GDP per capita is used as an indicator of the wealth of a society inhabiting a given area. This allows one to illustrate how the strength of an economy translates into an average economic power of an individual.

Nevertheless, politicians and economists gamely seek a condition and development index which, unlike GDP, would take into account the level of satisfaction with life. Nicolass Sarkozy acknowledged that we need to be freed from the “magic of numbers” and ordered Nobel laureates (among them A. Sena and J. Stiglitz) to develop an alternative indicator of prosperity. The French President could not stand the fact that in statistics France is far behind the U.S. (see Table 2), although the prosperity of an average Frenchman, seen with the naked eye, is significantly higher than the prosperity of an average U.S. citizen⁵.

⁴ <http://bpp.wharton.upenn.edu/betseys/papers/Happiness.pdf> [15.03.2010].

⁵ R. Stefanicki, “Szczęście krajowe brutto”, *Tygodnik Powszechny* 26.01.2010.

Table 2. GDP per capita in 2008

Ranking	Country	According to PPP, 2008 USD
1	Qatar	85 868
6	The USA	46 859
23	France	34 208
50	Poland	17 482
94	Ukraine	7 347
180	Democratic Republic of Congo	328

Source: author's own elaboration based on: International Monetary Fund, World Economic Outlook Database, April 2009.

The Satisfaction with Life Index was developed by Adrian G. White of the University of Leicester. It is an attempt to measure the satisfaction with living standards in a given country. The author argues that there is a close relationship between satisfaction with life and health (correlation of 0.7), property (0.7), and access to education (0.6). In the 2006 ranking of 178 countries, Poland was classified only at place 99, right behind Iran, Vietnam and Tajikistan! To the contrary, Ukraine occupied one of the last places – place 174, right before Moldova, Congo and Burundi!

Table 3. Satisfaction with Life Index. Ranking 2006

Ranking	Country	SWL Value
1	Denmark	273.40
23	The USA	246.67
62	France	220.00
99	Poland	196.67
174	Ukraine	120.00
178	Burundi	100.00

Source: author's own study based on: http://en.wikipedia.org/wiki/Satisfaction_with_Life_Index [9.03.2010].

A synthetic measure describing the effects of the socio-economic development of each country is called HDI – Human Development Index. This index was developed in 1990 by the Pakistani economist Mahbub ul Haq. Since 1993, a UN agency, the United Nations Development Programme (UNDP), has used it in its annual reports.

To calculate the HDI synthetic measure, basic measures are used: life expectancy, the general index of gross scholarization for all levels of education, the index of reading comprehension and writing skills, as well as GDP per capita in U.S. dollars (calculated at the purchasing parity of the currency (PPP \$)). In

Table 4. Human Development Index, Ranking 2007

Ranking	Country	HDI Value*
1	Norway	0.971
8	France	0.961
13	The USA	0.956
41	Poland	0.880
85	Ukraine	0.796
182	Niger	0.340

* HDI value above 0.9 – extremely developed countries, between 0.8 and 0.899 – highly developed countries, between 0.5 and 0.799 – averagely developed countries, below 0.5 – poorly developed countries.

Source: <http://en.wikipedia.org/wiki/Happiness> [9.03.2010].

comparison to the year 2006, Poland outdistanced Slovakia and Hungary, and Armenia was ahead of Ukraine.

The HPI, Happy Planet Index, proposed in 2006 by the New Economics Foundation (NEF), must arouse much controversy. Undoubtedly, many Ukrainians and Poles, and every other Cuban (7th place in the ranking) or Vietnamese (5th place) would move to the “unhappy” United States (position 114), if they had the possibility (see Table 5).

Table 5. Happy Planet Index. Ranking 2007

Ranking	Country	HPI Value
1	Costa Rica	76.1
71	France	43.9
77	Poland	42.8
95	Ukraine	38.1
114	The USA	30.7
143	Zimbabwe	16.6

Source: author's own study based on: Happy Planet Index http://en.wikipedia.org/wiki/Happy_Planet_Index [9.03.2010].

The HPI index is a controversial attempt to undermine the validity of the level of prosperity measured by GDP per capita and HDI. Its developers particularly reject the importance of GDP. They believe that the primary goal of most people is not to be rich, but to be happy and healthy.

The 2009 Legatum Prosperity Index⁶ is an attempt at a comprehensive assessment of the abundance and prosperity of a country. The authors of the

⁶ Legatum is an international investment group, headquartered in Dubai, whose mission is promoting sustainable development. The index, which has been in development for 3 years, analyses and assesses 104 countries embracing 90 percent of the Earth's surface.

index assume that it is not necessarily best to live in a country that has high Gross Domestic Product, but in one, where citizens are happy, healthy and free. Table 4 presents the value of the index in a ranking from 2009.

Table 6. Legatum Prosperity Index 2009

Ranking	Country
1	Finland
9	the USA
17	France
29	Poland
61	Ukraine
104	Zimbabwe

Source: author's own elaboration based on: Legatum Institute for Global Development, <http://www.prosperity.com/downloads/2009LegatumProsperityIndexRankings.pdf> [13.03.2010].

The value of the index is the result of evaluation of nine factors: the state of the economy, innovation and entrepreneurship, democratic institutions, education, health, safety, the system of government, personal freedom, and human capital. The distance in various fields among (starting from the centre) Ukraine, Poland, France and the U.S. is presented in Fig. 1.

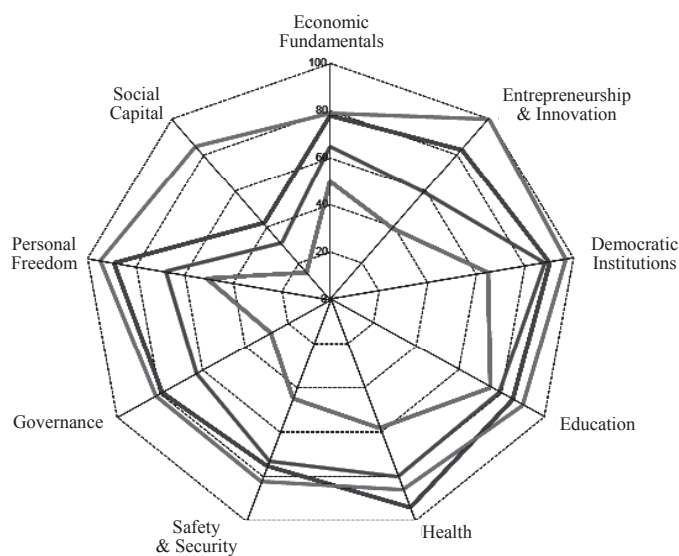


Fig. 1. Values of constituents of the 2009 Prosperity Index for selected countries

Source: <http://www.li.com/ProsperityIndex.aspx> [15.03.2010].

Since the 1970s most social scientists have recognized the truth of the Easterlin Paradox and indicated that only relative wealth affects the sense of happiness. In other words, a relatively wealthy citizen of Zimbabwe with a flock of goats and a few cows can be just as happy as a businessman in the U.S. or France as long as he does not know that this businessman spends the equivalent of his entire estate on an exquisite dinner at a renowned restaurant.

In 2008 a research paper by J. Wolfers and B. Stevenson of the University of Pennsylvania was released. It seems to turn upside down what scientists had previously thought about the relationship between wealth and happiness. Three fundamental conclusions of the analysis are: 1) rich people are happier than poorer people, 2) more affluent societies are happier than poorer ones, and 3) usually, with the increase of national prosperity, the happiness of citizens also grows⁷. Thus, their studies yielded different results from the analysis of Easterlin. Using the Gallup World Poll, covering over 130 countries, and data on the Gross Domestic Product per capita corrected by the purchasing power (PPP), economists have proved that there is a close relationship between happiness and wealth (correlation of 0.82). This relationship is linear (an increase of wealth by 10% causes an increase in satisfaction of about 10%), and goes beyond the level of 15,000 dollars, considered a threshold of wealth or satisfaction above which income growth was not to translate into happiness.

The results show that efforts to achieve economic growth are measures to improve citizens' life satisfaction. People do not become happier because they have more money, but because of the goods and services they may buy with this money (better health care, better access to education, increased consumption of higher-order goods, etc.)

And what do the Poles themselves think about their lives? Poles are not satisfied with their standards of living (38 percent unequivocally assessed it negatively, 33 percent neither as good nor bad). When asked about what makes a happy life, more than 60 percent of Poles answered health, a good marriage (nearly 60%), and money (40%). The research shows that Poles do not value highly the higher-order needs. Only 3 percent of the respondents indicated that the condition necessary for a successful life is freedom, and 4.5 percent mentioned education⁸.

Poland and Ukraine, two Slavic nations which are free, do not fight wars, and are rich in natural resources, stood in 1989-1990 before a similar opportunity. The only significant difference between us is the cultural roots: Latin Catholic and Greek Orthodox. The Gross Domestic Product in Poland after 20

⁷ B. Stevenson, J. Wolfers, "Economic Growth and Subjective Well-Being: Reassessing The Easterlin Paradox", *Brookings Papers on Economic Activity*, Spring 2008, <http://bpp.wharton.upenn.edu/betseys/papers/Happiness.pdf> [15.03.2010].

⁸ „Diagnoza społeczna” – a report on research conducted under the supervision of Prof. Janusz Czapliński since 2000. In 2009 it was carried out on 12 381 households and 26 178 respondents.

years of transition is higher by more than 80 percent than at the beginning of reforms, and in Ukraine it is lower by 40 percent. The evolution of GDP per capita in the first 10 years of transformation is presented in Fig. 2.

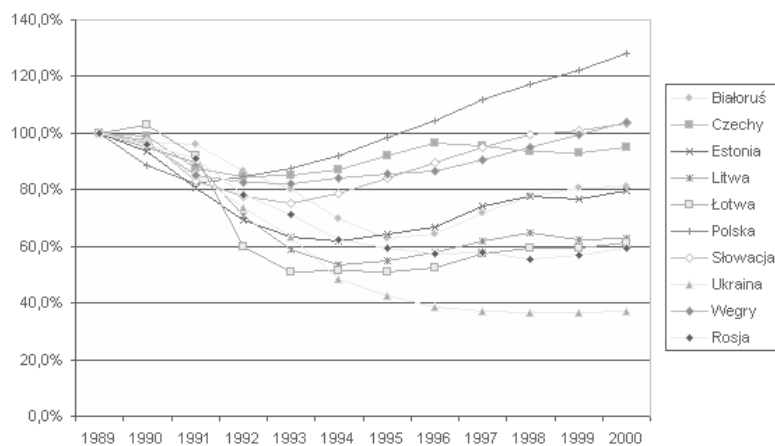


Fig. 2. Changes in the real GDP per capita in the years 1989-2000 in selected countries

Source: author's own calculation based on EBRD data.

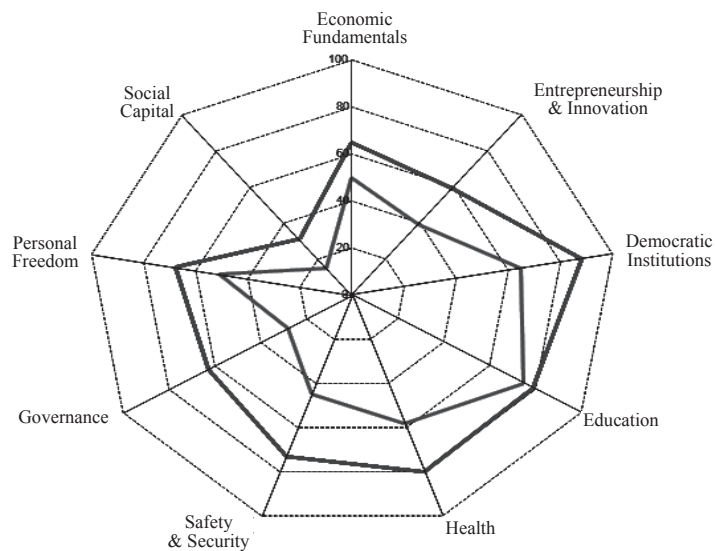


Fig. 3. The distance between Poland and Ukraine with regard to 9 factors – according to the 2009 Prosperity Index

Source: <http://www.li.com/ProsperityIndex.aspx> [15.03.2010].

The average income of a Ukrainian, expressed in EUR, is now more than four times as low as that of a Pole, with a similar level of prices in both countries. In 1989 the expected statistical life span on the Vistula and the Dnieper was 71 years. In 2010 the average Pole already lives up to 76 years, and a Ukrainian only till the age of 68⁹.

As the presented data show, in the course of the 20 years of transformation, the Poles have managed to make a significant progress, though the Ukrainians are as if still waiting for their chance, a chance that really depends only on them.

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⁹ „Co z tą Ukrainą”, *Gazeta Wyborcza* 1.03.2010, p. 31.