ECONOMISTS, PSYCHOLOGISTS AND HAPPINESS: Testing Economic and Psychological Theories with Long Term Panel Data from Australia, Britain and Germany

Bruce Headey, Ruud Muffels & Gert G. Wagner

Psychologists and economists take contradictory approaches to research on what psychologists call happiness or subjective well-being, and economists call subjective utility. The German (SOEP), British (BHPS) and Australian (HILDA) panel surveys provide the longest available time series on individual life satisfaction (the most commonly used measure of happiness) and enable us to assess the merits of the competing approaches. In particular, direct tests of the most widely accepted psychological theory, *set-point theory*, show it to be flawed. The main claim of set-point theory is that adult happiness is stable in the long term – mainly due to genetic traits – and only fluctuates temporarily in the face of major life events. Results from the SOEP panel show that, over 25 years, about a third of respondents have recorded long term and apparently permanent changes in life satisfaction. Results from the BHPS and HILDA are similar, but for shorter time periods.

These results from the three national panels mean that a key task now for happiness researchers is to explain long term change, and not just stability. In the second part of the paper, using an economic 'choice' model, we show that five sets of preferences and choices help to account for long term change. These choices relate to the characteristics of one's partner, life goals and priorities, working hours, participation in social and community activities, and a 'healthy lifestyle'. Results replicate across the three countries. We believe these results are important precisely because they show that preferences and choices matter to happiness. Set-point theory – the previously dominant theory – had implied that neither individual nor public policy choices could make much difference.

Data and methods

Data come from the three panels: SOEP (1984-2008), the BHPS (1991-2008) and HILDA (2001-2008). The main method is GLS panel regression analysis - random and fixed effects.