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On the Economics of Happiness and Climate Change

A doctoral thesis analyzes climate change impacts and politics from the perspective of happiness. For the purpose, it takes the case of floods of varying intensity as examples of extreme climate events and compares the decrease in income resulting from the current crisis with the one resulting from climate policies. In studies both effects in terms of subjective well-being, and concludes that while the perception of risk reduces life satisfaction, this is not always the case with income reduction.

Expressing all climate change impacts and policies in monetary terms has been criticised for failing to fully acknowledge the multiple dimensions of human well-being and ecosystems. Alternatively, studying changes in human well-being rather than changes in monetary flows caused by climate change and climate policy can deepen our understanding of the impacts and ways to slow down global warming. In my doctoral thesis I analyse both climate change impacts and policies from a happiness perspective.

In the literature, happiness and life-satisfaction, often considered components of subjective well-

being, are normally measured using questionnaires and numerical scales that later provide a basis for an econometric analysis. I take floods as examples of extreme climate occurrences and study their effect on subjective well-being. Results can then serve to estimate some of the non-monetary, or intangible, costs of extreme climate change. In particular, I test how floods of various intensity, occurring between one and seven years ago in Bulgaria affect well-being.

Results indicate that experiencing a flood and living with the perception of the associated risks leads to a lasting and considerable decrease in life satisfaction for people in all ages and income groups. This impact is even stronger for floods of higher intensity. If the type of events selected can serve as proxies of the natural disasters that climate change is expected to bring about, one conclusion to draw from this result is that while happiness tends to adapt to changes in income over time, it might not adapt to extreme climate change.

My second research question concerns the way happiness research can inform climate policy and how stringent climate policy could affect well-being. Assuming that effective climate abatement implies a reduction in the rate of economic (income) growth and carbon intensive consumption, I look at how income decline influences subjective well-being in the context of the economic crisis in Spain, taking the city of Barcelona as a study area.

Data collection amounted to 950 observations, among randomly selected individuals in all city districts. The econometric analysis indicated that flexible working conditions and overworking have a pronounced negative effect on life satisfaction, while sports, spiritual activities and the voluntary sharing (of a house or other objects) emerge as positive determinants of happiness. In a few of the specifications having higher income five years ago tends to lower life-satisfaction. Interestingly, however, the decline in income occurring one or two years ago does not lead to a decrease in the level of happiness. On the contrary, recent reductions in income exhibit a positive relation with subjective well-being. Entry in unemployment, however, substantially downgrades the life-satisfaction of the surveyed individuals. This could imply that income reduction which does not lead to unemployment, but rather to an increase in the availability of free time, might be one reason for the higher level of life-satisfaction among the ones who report lower earnings over the last year.

The relation between income reduction and subjective well-being suggested by the results implies that climate policy which affects income and consumption will not alwayws reduce overall happiness. This is especially the case if climate policy corrects for habituation and rivalry, and at the same time is able to stimulate compensatory life-style changes that lower working efforts and reference consumption standards.

To explore the happiness effect of a wider range of climate change mitigation strategies, including ones which are not purely top-down, I take the sharing of goods as a case of a community-based initiative resulting in a reduction of greenhouse gas emissions. One of the relevant insights of this analysis is that increased house-sharing, understood as a higher level of person-occupation per square meter, is a highly socially attractive meta. It represents the most common type of sharing, generating substantial environmental benefits and a number of positive environmental spill-overs while incentivizing sharing in other domains. While it requires a minimum level of trust in society to be commonly adopted, sharing has the potentials to generate savings on environmental deterioration and mediate conspicuous consumption, and thus to eventually increase human well-being.

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References

“On the Economics of Happiness and Climate Change”, Filka Sekulova doctoral thesis, read at ICTA and supervised by Dr. Jeroen van den Bergh.

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