

# An Economic Study on Happiness Index and Gross Domestic Product

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**Abstract** - While measuring a country's development we usually look upon its quantitative results and tend to overlook its qualitative aspects like happiness. The GDP Growth Rate alone cannot reveal the true development of a nation. And thus, this calls upon research on the relationship between happiness and economic growth. Through this research, the paper is trying to enquire if a higher Happiness Index necessarily means a higher GDP Growth Rate or vice-versa. If the Happiness Index falls, will the GDP growth rate also face a drop or will it show a rising trend? The research is based on secondary sources and offers a comparative analysis of the influence of GDP growth and happiness on development through a literature review of data from worldwide databases and previous research works. The research is descriptive and aims to find whether a relation between the two can be concluded by tabulating, assessing data, and studying the causes and taking 7 South Asian countries as the study cases.

**Keywords:** GDP Growth Rate, Happiness Index, South Asian Countries, World Happiness Report (2023)

**Introduction** - As defined by IMF, GDP measures the monetary value of final goods and services—that is, those that are bought by the final user—produced in a country in a given period which is usually calculated by the national statistical agency. The international standard for measuring GDP is contained in the System of National Accounts, 1993. GDP is important because it gives information about the size of the economy and how an economy is performing. To compare the GDP of economies, the usual method is to convert the value of the GDP of each country into U.S. dollars.

But GDP is not a measure of the overall standard of living or well-being of a country. GDP does not capture things that may be deemed important to general well-being like increased output may come at the cost of environmental damage or other external costs such as noise, the reduction of leisure time, and the depletion of non-renewable natural resources. The quality of life may also depend on the distribution of GDP among the residents of a country, not just the overall level and apart from this, it does not include other factors like happiness, corruption, freedom, etc.

World Happiness Report is one such report which includes all other essential factors that must be considered while comparing the overall growth of the nation. The report is a publication of the Sustainable Development Solutions Network, a global initiative of the United Nations. The rankings reflect self-reported well-being, which is measured

by questions asked in the Gallup world poll covering quality of life and well-being. The results tend to be predicted by six factors that contribute to whether people view their lives positively. These are GDP, social support, healthy life expectancy, freedom, generosity, and absence of corruption.

## Literature Review:

AANagwanshi, Prabu D, Suganya P, Rajmohan M, Bharathwaj V V, Sindhu R, Dinesh Dhamodhar, Prashanthi M R (2021) analyzed the association of the happiness index with the Gross domestic product (GDP) and Quality of life among various countries in the world in their research paper "A COMPARATIVE ANALYSIS OF HAPPINESS INDEX WITH GROSS DOMESTIC PRODUCT AND ITS IMPACT ON QUALITY OF LIFE ACROSS THE GLOBE". They considered the happiness index, GDP, and quality of life of 15 different countries across the world based on their happiness index ranking (2019). They collected data on the quality of life and gross domestic product of these 15 countries with the help of an electronic database using keywords. After the collection of data, they tabulated and analyzed using descriptive analysis. Their research concluded with the analysis that countries with moderate happiness indexes had very high GDP rankings compared to countries with the highest and lowest happiness index ranks.

Esmail and Shili (2017) conducted a study on the

relationship between happiness and economic development of the Jazan region and found that happiness positively impacts economic development. However, happiness is realized through the improvement of social factors. They also mentioned that economic theory endorsed the view that money makes you happier. However, many surveys deduced that contrary to what economic theory assumes about money and happiness is not correct.

Easterlin (1995) explains that just because your income has increased doesn't mean you will be happy for a certain period. The Easterlin paradox states that at a point in time happiness varies directly with income both among and within nations, but over time happiness does not trend upward as income continues to grow.

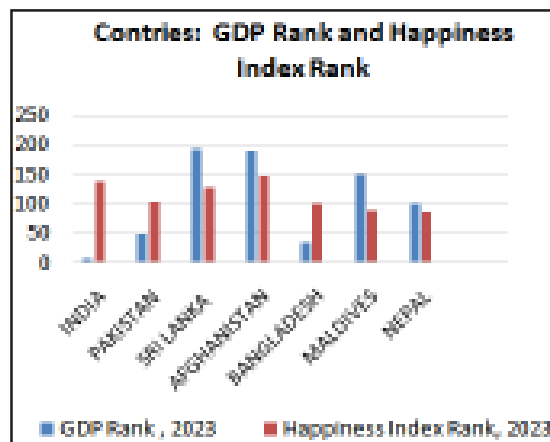
**Methodology:** This paper uses desk research which involves the collection, comparison, analysis, and interpretation of data from existing research, global databases, journals, articles, and other electronic databases. This research attempted to find if there is any relationship between GDP and happiness index by assessing the global rankings of South Asian countries namely Afghanistan, Bangladesh, Bhutan, India, Nepal, Maldives, Pakistan, and Sri Lanka. This paper has taken inspiration from the paper "A COMPARATIVE ANALYSIS OF HAPPINESS INDEX WITH GROSS DOMESTIC PRODUCT AND ITS IMPACT ON QUALITY OF LIFE ACROSS THE GLOBE" (2021) and the same technique has been used to find the results for South Asian countries. To evaluate the relation between the given quantitative and qualitative parameters GDP and Happiness index rankings were collected and represented in tabular and graphical presentations. According to the data obtained, countries with high moderate, and low happiness indexes were respectively grouped. Then a descriptive analysis is provided to explain the reasons for the respective positions of each country. Finally, a relation between them is observed and a comparison is made to conclude the study.

### Results And Discussions:

Countries	GDP (Billions of dollars)	GDP World Rank	Happiness Index Score	Happiness Index Rank
India	3732.224	5	3.819	136
Pakistan	340.64	46	4.934	103
Sri Lanka	76.19	193	4.325	126
Afghanistan	14.17	189	2.523	146
Bangladesh	446.35	33	5.025	99
Maldives	6.98	149	5.198	87
Nepal	41.34	98	5.269	85

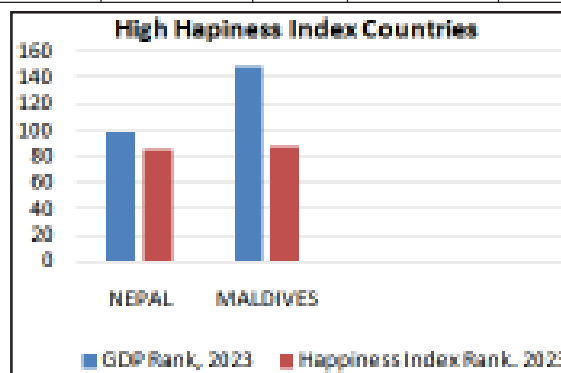
Based on the data mentioned above, we have considered 7 South Asian Countries and characterized them based on their Happiness Index Rank as mentioned in the World Happiness Report (2023) and then analyzed their Happiness Index along with their GDP performance in 2023. The categories are as follows: High Happiness Index Countries, Moderate Happiness Index Countries, and Low

Happiness Index Countries.



#### A) High Happiness Index Countries Analysis

Countries	GDP (Billions of dollars)	GDP World Rank	Happiness Index Score	Happiness Index Rank
Maldives	6.98 bn	149	5.198	87
Nepal	41.34 bn	98	5.269	85



Starting with the analysis of countries with the highest Happiness Index Score according to the World Happiness Report 2023, Nepal and Maldives top the list among the South-Asian Countries with a Happiness Index Rank of 85 and 87 respectively. Nepal and Maldives are examples of those countries where quantitative growth is not affecting their level of Happiness Index Score because both countries do have the highest rank in happiness among south Asian countries but some countries are performing much better than them in the context of GDP Growth. Both may be performing low in various parameters but some growth can be seen there, like their HDI Scores. The life expectancy of Nepal in 2023 was 71.74 years, a 0.4% increase from 2022. The life expectancy of the Maldives in 2023 was 79.89 years, a 0.36% increase from 2022. People in Nepal are also happy due to the organizational support they are receiving which further helps them to balance their work-life. In the Maldives, people are not very efficient in balancing their work-life as compared to Nepal which is indicated by their GDP Growth Rates.

Nepal's GDP World Rank is 98 (41.34 Billion Dollars) while Maldives' GDP World Rank is 149 (6.98 Billion Dollars)

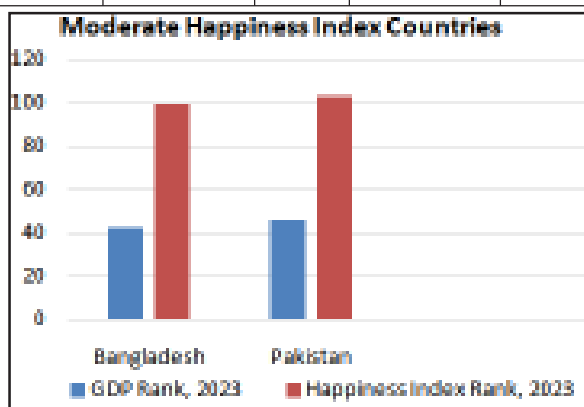
according to International Monetary Fund (2023). Now, if we talk about the GDP Components of Nepal, the Service sector has contributed about 52.5% to the GDP. Similarly, the Service Sector has the largest share of 70.76% in the GDP Composition of Maldives. The second largest component of Nepal's GDP is the agriculture sector. According to recent data from the World Bank, the agriculture sector employs 64.5% of the population in Nepal. However, the agriculture sector is still having a high number of subsistence farming cases, which is leading to low productivity in Nepal resulting in poor GDP performance. The Industrial Sector is the second largest component of GDP in the Maldives having a share of 11.23%. The Maldives has experienced low GDP due to reasons like political instability, global economic decline, and a lack of a diversified economy.

However, even though the Industrial Sector is the second largest component of GDP, there is the presence of a high level of disguised unemployment resulting in low productivity.

### B) Moderate Happiness Index Countries

As per the World Happiness Report 2023, Bangladesh and Pakistan are among the South Asian countries with moderate happiness indices at ranks 99 and 103 respectively.

Countries	GDP (Billions of dollars)	GDP World Rank	Happiness Index Score	Happiness Index Rank
Bangladesh	355.689	42	5.025	99
Pakistan	292.217	46	4.934	103



Bangladesh's average life expectancy in 2023 was 73.57 years, 0.39% higher than the previous year. Similarly, Pakistan's life expectancy, which is 67.79 years, increased by 0.23% from the previous year.

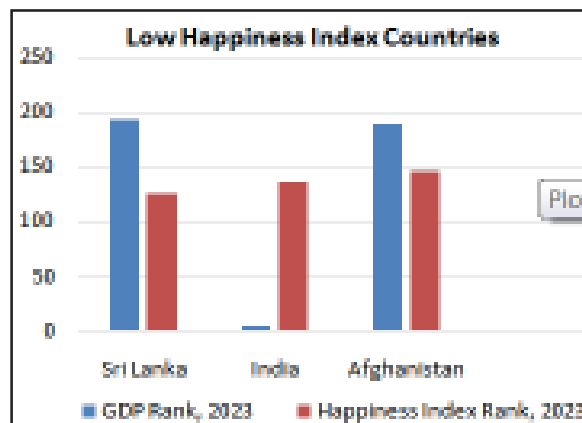
According to WHR 2018-2022 freedom to make life choices in Bangladesh is way better than that for people in Pakistan which has a low ranking. Similarly social support received by the people of Bangladesh is more than what the people of Pakistan receive. However, as per the global ranking, both countries hold a far lower position in this criterion. Along with these a combination of other parameters show that Bangladesh and Pakistan are

moderately happy countries or could be considered as countries that are a little above the level of unhappy countries.

Moving on to the GDP contribution, in 2023, the service sector contributed approximately 58% of Pakistan's GDP, while agriculture contributed approximately 23% and industry contributed 19%. Income inequality, energy crisis, terrorism, corruption, lack of good governance, wealth concentration, and poor educational institutions are some of the reasons for Pakistan's slow economic development. Bangladesh experienced a 5.78% growth in FY23, down from 7.1% in the previous year. In FY22, the service sector continued to contribute the most to GDP (51.04%), followed by industry (33.92%), and agriculture (11.22%). Bangladesh demonstrated resilience in sustaining real GDP growth, while the majority of South Asian countries entered the recovery phase in 2021. Bangladesh is one of the world's largest clothing exporters. Despite this Bangladesh faces a lot of economic barriers. The introduction of a multiple exchange rate in 2022 disincentivized foreign exchange inflows. Some obstacles to sustainable development in Bangladesh are overpopulation, unemployment, poor infrastructure, corruption, price instability, political instability, and slow implementation of economic reforms.

### C) Low Happiness Index Countries Analysis

Countries	GDP (Billions of dollars)	GDP World Rank	Happiness Index Score	Happiness Index Rank
Sri Lanka	76.19 bn	193	4.325	126
Afghanistan	14.17 bn	189	2.523	146
India	3732.224bn	5	3.819	136



Coming to the analysis of countries with the Lowest Happiness Index, we consider Sri Lanka with Happiness Index Rank of 126, India having a rank of 136 and Afghanistan with a rank of 146. These countries have the lowest Happiness Index among the 7 South Asian countries but have varied GDP Growth rates.

Sri Lanka acquires the 126<sup>th</sup> position in the GDP World Rank issued by the International Monetary Fund. It has an annual GDP of 76.19 billion dollars. The economy

contracted by 7.8% in 2022 and 7.9% in the first half of 2023 post the economic crisis of 2021-22. Construction, manufacturing, real estate, and financial services suffered the most amid shrinking private credit, shortages of inputs, and supply chain disruptions, worsening the negative welfare impacts of income contractions and job losses registered in 2022. Sri Lanka's longstanding structural weaknesses were elevated by several shocks, which ultimately plunged the country into an economic crisis. Poor governance, a restrictive trade regime, a weak investment climate, episodes of loose monetary policy, and an administered exchange rate contributed to macroeconomic imbalances.

Afghanistan is in the 189<sup>th</sup> position with an annual GDP of 14.17 billion dollars. For Afghanistan, services, which make up 45% of the country's GDP, shrank by 6.5% last year, following a staggering 30% drop in 2021. The agriculture sector, which accounts for 36% of GDP, declined by 6.6% in 2022 due to unfavourable weather conditions and farmers' lack of resources to cope. The industrial sector also saw a contraction of 5.7% last year, as businesses—especially those owned by women—faced closures due to limited access to resources and financial challenges. 79% of people in Afghanistan rely on agriculture for their daily sustenance but the share of the agriculture sector in GDP is not as high as its employment rate because most of the farmers have small farm holdings which don't allow them to practice commercial farming and earn higher wages. As a result, subsistence farming takes place at a higher rate which results in low productivity and less contribution to GDP.

India stands at the 5<sup>th</sup> position in the GDP World Rank, closing 2023 with a GDP of US\$ 3.73 trillion, GDP per capita at US\$ 2,610 and a projected GDP growth rate of 6.3 percent against the global average of 2.9 percent. The service sector has the largest share in the contribution of India's GDP i.e., 53.3%. Post-pandemic, India, instead of stressing the traditional consumption-driven approach, has focused more on an investment-led growth strategy. India has also strengthened its export of services.

Due to controversies of corruption, mismanagement, and political infighting, there is an increase in poverty with a steady increase in the number of people living below the poverty line, and a lack of jobs which further results in a low happiness index score for Sri Lanka and Afghanistan. In India, there are frequent instances where robber barons get away after defrauding banks of crores of rupees and corruption at all levels.

A thorough investigation is required to identify mechanisms and strategies that are effective and sustainable to make the social support available today in Sri Lanka more strong and more impactful. Older adults reporting themselves as having poor general health are comparatively more lonely than other older adults reporting good general health. In India, various economic, social, and

psychological reasons are resulting in the neglect of care that elder members must receive from their families. According to Prakash (1998), a lonely environment is one of the major issues of female elders of a family but the changes in life situations are also playing their part to create problems. The concept of modernization and especially that of the nuclear family has proven to be a significant factor in causing socio-economic and psychological problems for Indian elder women. Stress, depression, and anxiety are prevalent in almost half of the Afghan population. The Government Document states that only around 10% of these people are provided proper psycho-social help by the State. To combat these issues, the Afghan government and international donors can expand the availability of mental health services along with outreach program services.

**Conclusion:** According to the research done above, the paper finds that countries with high happiness index had poor GDP performance relatively. While the countries with moderate happiness index showed a fairly average GDP growth rate. Finally, the South Asian countries with low happiness index showed spread results, and the reason for the same was found to be in the approaches to their policy frameworks, political stability, and economic reforms of respective countries. Countries with strong implementation of policies and political stability like India showed better results in terms of GDP as compared to countries with very poor policy implementation and extremely high political instability like Afghanistan. This shows that the happiness of a country is not proportional to its GDP.

This research suggests that a different measure can be used to calculate the actual development of a nation considering the importance of both happiness index and GDP.

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