

THE MIGRATION PROBLEM IN POLAND: AN ANALYTICAL REVIEW OF THE WORKFORCE

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I. INTRODUCTION

Every year, thousands of young and relatively educated Polish workers leave their country to work abroad. This results in an increasing burden of an aging and largely inactive remaining population on the domestic workers.

This issue has been referred as to “the great migration” and a “skills exodus” in popular and academic literature. This phenomenon is causing fears of an unpredictable future for youth and the talented. Some people argue that Poland is well on its way to becoming a dismal collection of the old and the decrepit, with only those lacking initiative, staying behind to support them. Whether this is entirely true or not, Poland’s labour market is extremely flawed; wages remain very low, economic reform had been inadequate, and the contemporary political situation of the country is as uninspired as it is uninspiring. It seems inevitable this migration trend will continue in the same path, with no realistic possibility of change in a near future.

Yet there is hope for the country. Despite the migration of valuable workers, labour movements seem to be promising in delivering wanted results. In the other hand, the Polish working abroad send remittances to their remaining families and friends, boosting the economy with liquid assets, partially creating a Polish demand that is exceptionally strong, influencing an economic growth between 4% and 5%.¹ The increasing acuteness of problems exacerbated by migration may prompt the government into action. In the best case scenario, the majority of workers will return from abroad, invest money, fresh outlooks and increased human capital into Poland. However, whether this scenario materializes or the “great migration” becomes a disaster, hinges on the manner in which it is managed. Unfortunately, the lack of political will and capacity to enact

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¹ International Monetary Fund, “Republic of Poland – Concluding Statement of the 2006 Article IV Consultation Mission”; International Monetary Fund; available from <http://www.imf.org/external/np/ms/2006/052206.htm>; Internet; accessed on 27 Oct. 2006; World Bank, EU8 Quarterly Economic Report, September 2006; available from http://siteresources.worldbank.org/INTECA/Resources/EU8QERSeptember2006_MainReportFINAL.pdf; Internet; accessed on 1 Nov. 2006.

the domestic labour market seems unable to absorb this demographic bulge, the Polish youth have been quick to seek their fortunes abroad.⁶

It is also true that many migrants are relatively educated. The portion with a degree is higher among migrants than among the population at large.⁷ Again, this should not be surprising since the portion of degree-holders aged 20 to 35 is greater than amongst the entire population.

The primary destinations of these migrants are countries that have opened their labour markets: namely the UK, Ireland and Sweden. Due to historical ties and geographic proximity, Germany remains a popular destination for seasonal workers despite maintaining labour market restrictions. Austria and the Mediterranean countries have also attracted Polish workers.

In the other hand, this emigration is good news for the receiving countries. Several reports have contended that countries taking in EU-8 immigrants, mainly Poles, have benefited themselves in absolute terms, compared to EU countries maintaining restrictions of this character.⁸ The labour market impact of Polish immigrants is complementary, as they take poorly paid jobs, creating a strong labour supply at minimum wage, despite fears this migration has not had a negative impact on wages, unemployment rates or the social costs of host countries.⁹ The government of the UK, which has over half a million registered workers from the EU-8, has reported that very few Poles are seeking benefits and housing supports while an overwhelming majority (97%) are working full-time for minimum or slightly above minimum wage.¹⁰

Also the racially, religiously and culturally similarities makes it easier for Poles to be socially accepted. Therefore, political opposition to their arrival has been limited.

The demand for Polish workers does not look like it will decrease any time soon, since the benefits from this supply of labour in current host countries seems to motivate other countries in European Union to change their migration policies as their economies benefit from this. Meanwhile,

⁶ Edward Lucas, "Cheer Up: A Survey of Poland," *Economist*, 13 March 2006; 11.

⁷ Marcin Baba and Wojciech Przybylski, "Wjazd czy walka?" *Nowe Panstwo*; available from <http://www.nowe-panstwo.pl/>; Internet; accessed on 21 Oct. 2006.

⁸ Commission of the European Communities, "Report on the Functioning of the Transitional Arrangements set out in the 2003 Accession Treaty (period 1 May 2004-30 April 2006). Communication from the Commission to the Council, the European Parliament, the European Economic and Social Committee and the Committee of the Regions. (Brussels, 2006); 11-13.

⁹ Commission of the European Communities, 11; World Bank, *Labour Migration*; 18-21.

¹⁰ BBC, "Migrant workers: What we know," BBC News; available from http://news.bbc.co.uk/go/pr/fr/-/2/hi/uk_news/5384516.stm; Internet; accessed on 6 Oct. 2006.

remaining Euro-zone countries will have to remove existing restrictions by 2011, most likely causing an increase in demand for Poland's cheap labour.¹¹ Presently, recruitment campaigns that urge Poles to cross the border and join a foreign labour force are becoming a booming business.¹² This prompts the inevitable questions that will guide the following sections of this paper: why are Poles leaving the country, what are the implications for Poland, and what government intervention is needed?

III. THE CAUSES OF THE MIGRATION

The World Bank asserts that economic motivation is the driving force behind this massive migration. Polish wages are only about one-sixth of what UK wages are, and one-fifth of those in the EU-15 countries, while GDP per capita is only half the Euro-zone average (including the EU-8).¹³ The low wages are a result of several serious flaws in Poland's labour market. If left uncorrected, it is most likely that the wages will remain relatively low. In this section, major labour market flaws and their effect on wages will be examined. I will also discuss the reasons for the lack of faith on political leadership existence, which have a huge impact on economic variables.

Low wages and the labour market

In part, wages in Poland are low because of the high tax burden imposed on workers by those not working. Half of the population is composed of the old, the ill, and the unemployed.¹⁴ At 53.5%, Poland's employment rate trails other EU-8 countries, and is well below advanced capitalist economies.¹⁵

This is disturbing for several reasons. It indicates the presence of a large informal economy. In Poland, nearly a quarter of the economic

¹¹ Commission of the European Communities, 4.

¹² Tim Whewell, "Can Poland woo back its emigrants?" BBC News 6 July 2006; available from <http://news.bbc.co.uk/go/pr/ft/-/2/hi/programmes/newsnight/5154002.stm>; Internet; accessed on 1 Nov. 2006.

¹³ World Bank, Labour Migration; 16, 17.

¹⁴ This refers to all the people out of the labour force (46.5% of the population) and all the people who are part of the labour force but are unemployed. They make up 15.2% of the labour force and just under 7% of the population at large; Główny Urząd Statystyczny. "Miesięczna informacja o bezrobociu w Polsce we wrześniu 2006 roku"; GUS: Monitoring Rynku Pracy, 25 September 2006; available from http://www.stat.gov.pl/dane_spol-gosp/praca_ludnosc/index.htm; Internet; accessed 27 Oct. 2006; 1.

¹⁵ While the employment rate among remaining EU-8 countries increased to 60% between 1998 and 2004, Poland's employment rate plunged from 59% to 51% during that time; Economist, 4.

activity takes place outside of the formal sector, raising even further the tax burden for the legally employed.¹⁶ Secondly, there is a disproportionate amount of “economically inactive” people who claim to be sick. Nearly a quarter of the people not in the labour force claim illness or disability as a cause of inactivity. This figure is roughly twenty times as high as neighbouring Slovakia, and almost four times as high as the Organization for Economic Co-Operation and Development (OECD) average, and the problem persists despite reforms to disability benefit schemes.¹⁷ The number of “sick” people indicates corruption in the medical sector, as doctors likely charge premiums to diagnose an incredulous one in four non-working people (and one in eight Poles in general) as “too ill to be productive”. This has had a curious effect on the migration of workers from the medical sector. As Marek Okolski points out, doctors most likely to emigrate are those with limited ability to supplement their relatively meager wages with bribes.¹⁸ Indeed, it is anaesthesiologists and surgeons who lead the pack of emigrating medical specialists.¹⁹

The social tolerance of the decidedly unlikely sickness rate can partially be explained by a long-standing anti-authoritarian mentality among many Poles.

This attitude buttresses the belief that cheating the government, or working against the system, is not only acceptable, but somehow desirable. However, considering the virtually non-existent reports of social welfare abuses in the countries that Poles emigrate to, it is reasonable to assume that when compliance with the law entails better employment prospects, higher wages and higher standard of living, the historical tendency to work against “the system” can be overcome.

The burden of the old

Polish pensioners account for a large portion of dependents. However, for the past 15 years the burden of the old has been larger than it should, and current trends indicate that is not about to change. At the time of transition, the economy was reorganized for the free market leading artificially high employment rates to plummet. As part of an attempt to

¹⁶ Aleksander Surdej, “Managing Labor Market Reforms: Case Study of Poland,” Draft background paper prepared for the World Development Report 2005. (Krakow University of Economics, 2004); 13.

¹⁷ Organization for Economic Co-Operation and Development (OECD), “Economic Survey of Poland, 2006”; OECD Policy Brief, June 2006, available from www.oecd.org/publications/Policybriefs; Internet; accessed on 11 Oct. 2006; 9.

¹⁸ As quoted in Dominika Pszczolkowska, “Czeka nas milion emigrantow”; *gazeta.pl*, 11 May 2006; available from <http://serwisy.gazeta.pl/swiat/2029020,34181,3334402.html>; Internet; accessed on 27 Oct. 2006.

¹⁹ World Bank, Labour Migration; 23.

lower the resulting high rate of unemployment, many workers whose jobs disappeared along with state-run industries and collective enterprises, were pushed into early retirement. This was done as successive governments “propagated the economic fallacy that there exists a lump sum of jobs in the economy; so by sending the elderly on retirement, jobs are freed for the young.”²⁰ The immediate effect of this policy was that the working life of an entire generation of Poles was effectively shortened by a decade, with average retirement ages being 55 for men and 57 for women.²¹

Even now, retirement schemes remain generous. Unemployed men and women with a working record of 35 and 30 years, respectively, may retire early, if they worked in jobs where conditions are considered “adverse”. Aside from foregone productivity, the social costs of Poland’s retirement strategy continue to be significant. Currently, pensions and retirement schemes account for 50% of social expenditure, while the rate of pension contributions has grown threefold since the time of the transition, from 15.5% to 45%.²² On the bright side, as most developed countries worry about the aging proportion of their populations, Poland is in the unique position of being able to offset an increasing burden of the aged by raising a below-optimal retirement age. However, a recent OECD report shows that this is not happening. In fact, the growth of pre-retirement schemes and unreformed access to certain types of benefits has actually lowered the retirement age in recent years.²³

The burden of the aging population goes a long way to explain Poland’s low employment rate and high dependency ratio, which in turn, is translated into high taxes that provides a disincentive to work, and curtails foreign investment by raising per-unit labour costs. It seems equally clear that the burden will not become any lighter in the foreseeable future.

Low productivity

The low productivity of the Polish worker is a noteworthy consequence of socialist economic policies. On average, Polish workers are only about a third as productive as their American counterparts.²⁴ This is a huge counterweight to the low-labour cost incentive Poland offers. Worse yet, this low labour productivity actually leads to higher per-unit costs than in

²⁰ Surdej, “Managing Labor Market Reforms: Case Study of Poland”; 9.

²¹ Surdej, “Managing Labor Market Reforms: Case Study of Poland”; 9.

²² Surdej, “Managing Labor Market Reforms: Case Study of Poland”; 10, 12.

²³ OECD, 9.

²⁴ Bart van Ark, Edwin Stuivenwold and Gerard Ypma, “Unit Labour Costs, Productivity and International Competitiveness.” GGDC Research Memorandum; Available from Groningen Growth and Development Centre, Item 200580; <http://ideas.repec.org/p/dgr/rugggd/200580.html>; Internet; accessed 27 Oct. 2006; 11.

more technologically advanced countries. Predictably, this curbs foreign direct investment (FDI) and considerably slows down the rate at which industry develops and wages grow.²⁵

Using the motor industry as an example, Romy Husan notes: "... there have been no generalized, major investments outside the [technology frontier areas] by the leading manufacturers, and consequently, no transfer of the motor vehicle industry to low labour cost regions."²⁶ Husan also points out that this is despite the motor sector being the industrial sector that has attracted more attention from international companies in Poland than any other sector.²⁷

This begs the question: why are Poles relatively unproductive? When looking to answer that question, it is important to begin by examining two of productivity's main determinants: skills and knowledge gained at school, and skills and knowledge gained at work. In both regards, pre- and post-transition, Poland has considerable problems.

First and foremost, schools are not teaching what the labour market demands. When surveyed, foreign investors claimed that it takes an average of 6.5 months of training to bring a university level graduate to the same level of productivity, as a comparable worker in their home countries.²⁸ Other problems arise, as a result of sub-par technological abilities, and poor managerial skills possessed by Polish graduates.

The communist-era educational system is partly to blame for the lack of synthesis between what people know and what the labour market needs. In line with their ideology, communists emphasized vocational training over general education with many students receiving only specialized vocational training in secondary school. This left many people "ill-prepared for coping with the changing demands of a market economy", since their skills, concentrated in largely defunct sectors of the economy (eg. mining and steel), were rendered useless, and their lack of general education made them very difficult to retrain.²⁹

That being said, there has been no real efforts to change this educational system. This trend continues, even in light of the high long-term structural unemployment prompting the OECD to grant Poland the dubious distinction of a country that "really stands out in its meager

²⁵ Van Ark et al., 28.

²⁶ Romy Husan, "The limitations of low labour costs as an inducement to foreign direct investment: an example from the motor industry"; *European Business Review* 96 (1996): 29.

²⁷ Husan, 26.

²⁸ Feldmann, 281.

²⁹ Feldmann, 278.

provision of training for the unemployed.”³⁰ In addition to neglecting the unemployed, post-transition governments have reduced the amount of spending on education as a percentage of the GDP.³¹ Between 1995 and 2000, there was a drop from 5.5% to 5.2% of GDP spent on public education. This is unfortunate, since Poland has a fair amount of catching up to do, not just compared to western democracies, but even compared to other EU-8 countries. Around 42% of Poles possess only basic reading, writing and arithmetic skills, with only a quarter of the population possessing adequate prose literacy skills. By comparison, nearly half the population of the Czech Republic possesses adequate literacy skills.³² Ironically, a decision to completely eliminate vocational schools is now being blamed for a nation wide shortage of trades people.³³

Furthermore, the decline in educational spending has done nothing to improve the quality of post-secondary education. Apart from a handful of respected institutions, most fully-funded public universities are mediocre, riddled with an extensive bureaucracy and rife with cheating.³⁴ Indeed, Horst Feldmann, author of a report on labour market flexibility in three EU accession countries, concludes that although the number of tertiary graduates is increasing, “the Polish education system is still releasing many young people with insufficient qualifications to the labour market – in spite of the fact that the trend in labour demand towards higher qualifications has even accelerated in the past few years.”³⁵

The private sector is attempting to fill this gap, however, the OECD reports that a massive increase in the amount of private, tuition-charging higher, educational institutions has resulted in inequity, a misallocation of resources and a large gap in the quality control and accreditation system.³⁶

The problems plaguing higher education in Poland have resulted in comparatively low returns to education, with every year averaging a return of 7% increase in wages as compared to over 9% in the U.S.³⁷ The problem with the post-secondary education system is to identify a central cause behind the high proportion of educated people among migrants. It is not, as often argued, a significantly high level of education of Poles that accounts for the many educated emigrants, but the low returns to education, which cause the educated to leave.

³⁰ OECD, 8.

³¹ Feldmann, 278.

³² Feldmann, 279.

³³ Stefan Wagstyl, “Skills exodus worries Polish employers,” *Financial Times*, 9 Feb 2006, 6.

³⁴ Lucas, 11.

³⁵ Feldmann, 280.

³⁶ OECD, 7.

³⁷ Feldmann, 281.

Low regional labour mobility

History has bestowed the Poles, the world's fifth most dispersed population, with a high propensity to migrate.³⁸ Several waves of migration, from the post-WWII resettlement of Poles in western lands to the quarter million that left during the imposition of martial law in the 1980s, to the current emigration, have resulted into large groups of Poles often being on the move.³⁹ Paradoxically, this has not been observed on an intra-national level as Poland's regional mobility is very low. This suggests, that if people are going to move, they will not simply move to obtain work, but to obtain work that pays well. Given the relatively high wages in the West, relocating for employment has come to mean leaving the country.

Low regional labour mobility is also symptomatic of problems in the housing market where shortages, rent-controls and high mortgages make it difficult for people to find housing in cities. Increased benefits for regions with higher unemployment, and a high level of subsidy to farmers and their dependants, also act as disincentives for people to leave economically unproductive regions.⁴⁰

Politics and expectations of the future

The politics of Poland are the key in determining expectations about the future of the country. Like many post-communist countries, the politics of Poland are defined by conflict, unstable coalitions and a lack of ability or desire to undertake many necessary reforms.

According to Aleksander Surdej:

“Increasingly bad governance has been identified as the main obstacle to economic development, and to the legitimacy of democratic government, whereas corruption has been indicated as its worst consequence.”⁴¹

“In a mature democratic system, the tendency to exploit public positions for private gain is tempered by the desire to be re-elected, bylaws about admissible and inadmissible

³⁸ Martyna Bunda, “Wielki odjazd”; Tygodnik Polityka, August 2006; available from http://www.polityka.pl/polityka/index.jsp?place=Text01&news_id=171719&news_cat_id=602&layout=1&page=text; Internet; accessed 1 Nov. 2006; 2.

³⁹ Stefan Alscher, “Country Profile: Poland”; Migration Research Group; available from http://www.migration-research.org/dokumente/focus-migration/CP03_-_Poland.pdf; Internet; accessed 23 Oct. 2006.

⁴⁰ OECD, 9.

⁴¹ Aleksander Surdej, “Political Corruption in Poland: Sources of Corruption in Post-Communist Poland,” A publication of the Research Centre for East European Studies. (Bremen, 2005): 5.

behaviour, and by ethical codes. These three restraints do not function well in Poland.”⁴²

IV THE EFFECTS OF LABOUR MIGRATION IN POLAND

The effects of the migration have been becoming evident on recent trends; the fall in unemployment is the most evident upshot with the current unemployment rate of 15.2%, this being the lowest in several years.⁴³ The link between the emigration and this downward trend is clear, since the drop is mainly due to a drastic reduction in the youth unemployment rate. This drop on the unemployment rate is welcome by populist politicians, since it reduces the burden of the unemployed and takes some pressure off the labour market.

Another positive effect is the high amount of remittances sent by Poles from abroad. In this respect, Poles are leading the EU-8 countries with the amount sent home by workers, reaching a billion USD per quarter during the second part of 2005. This money keeps the domestic demand strong. It is encouraging to know that some of the remittances are also being increasingly spent on augmenting the human capital of household members, primarily by investing in their tertiary education.⁴⁴

In terms of labour, the demand for labour has grown, particularly for trades people and people with tertiary education.⁴⁵ Despite the still high unemployment rate, Poland is beginning to experience labour shortages in certain sectors.⁴⁶

The labour shortage is prompting some employers to boost salaries and/or offer bonuses to highly demanded workers, leading to a hike in wages. Consequently, wages have increased in certain sectors, but wages, on average, have not kept pace with inflation, and the average real wage has actually fallen slightly.⁴⁷

⁴² Surdej, “Political Corruption in Poland: Sources of Corruption in Post-Communist Poland,” 19.

⁴³ Główny Urząd Statystyczny. “Miesięczna informacja o bezrobociu w Polsce we wrześniu 2006 roku”: 1.

⁴⁴ World Bank, Labour Migration; 25, 26.

⁴⁵ Główny Urząd Statystyczny. “Popyt na Prace w I Polroczu 2006 Roku”; GUS: Monitoring Rynku Pracy, 25 September 2006; available from http://www.stat.gov.pl/dane_spol-gosp/praca_ludnosc/index.htm; Internet; accessed 27 Oct. 2006: 4.

⁴⁶ Whewell, <http://news.bbc.co.uk/go/pr/fr/-/2/hi/programmes/newsnight/5154002.stm>.

⁴⁷ Wages have risen particularly in the agricultural and construction sectors; World Bank, Labour Migration; 23. The real wage has fallen and in the second quarter of 2006 it was at 95.1% of the previous period; Główny Urząd Statystyczny, “Przeład podstawowych danych w kwartalach 2004-2006,” Tablica 1. 28 September 2006;

A closer look at some recent trends also reveals further cause for concern. Although unemployment, as a portion of the labour force has fallen, the size of the labour force has also decreased. Two hundred thousand people left the ranks of the economically active between mid-2005 and mid-2006.⁴⁸ Meanwhile, the amount of economically inactive people has risen by over 300,000 most of them are discouraged workers, retirees, and people staying home for domestic reasons. The proportion of long-term unemployed rose, as did the number of people quitting their jobs due to personal reasons or illness.

It is clear, that these statistics are not telling the whole story. The shifts of population in and out of the labour force are not corresponding to what should theoretically be occurring. Of the 700,000 people that left the ranks of the unemployed, 500,000 were absorbed by the Polish labour market. It can be presumed that the remaining 200,000 people went to work abroad. The fact that the youth unemployment rate dropped, corresponds with data that points to the predominance of youth among the migrants. That still leaves questions as to the increase of 300,000 people considered economically inactive. Also, every estimate shows that much more than 200,000 people are leaving the country to work. This means migrants are continuing to be classified as unemployed (perhaps explaining the exceedingly high long-term unemployment rate) or are classified as sick, retired, discouraged, or occupied with family duties. The latter two groups do not receive benefits and their numbers are relatively small.⁴⁹ That leaves benefit-recipients as a probably source of migrant labour, something that has been acknowledged as a growing problem by the country's political establishment.⁵⁰ The discrepancies in the profiles of the unemployed, the demand for labour, and the amount of people working abroad, suggests that this is indeed the case.

For example, demand for industrial workers and tradesmen accounts for the largest share of labour demand with more than one third of new jobs.

http://www.stat.gov.pl/dane_spol-gosp/praca_ludnosc/zatr_wyn/2006/02/; Internet; (Retrieved 31 Oct. 2006).

⁴⁸ Please see corresponding chart in Appendix A.

⁴⁹ Out of the 51.3% of the economically inactive who are considered of productive age, 17.8% were out of the labour force due to domestic duties and 7.7% were discouraged. It is likely that the number of people out of the labour force due to family duties is legitimate due to low-quality, high-cost childcare; Główny Urząd Statystyczny, "Miesięczna informacja o bezrobociu w polsce we wrzesniu 2006 roku": 15, 16.

⁵⁰ Yahoo News. "Polish leader admits some Poles abusing British welcome"; Yahoo, 7 Nov. 2006; available at http://news.yahoo.com/s/afp/20061107/wl_uk_afp/britainpolandlabour_061107185223; Internet, accessed on 7 Nov. 2006.

Yet, these workers comprise the largest portion of the unemployed.⁵¹ This is problematic because it means that either workers are not being matched up with jobs, perhaps due to lack of regional mobility, or that they are claiming unemployment, and at the same time, they are working abroad or in the informal sector. Either way, if this trend continues, nothing will change for the better of the economy; taxes will remain high, as employment rates stay low.

A falling amount of students attending post-secondary education seems to be another effect of this migration. The number of students has fallen by 4% since 2005, a figure that suggests that people are beginning to forfeit post-secondary education in order to work abroad.⁵² In the long term, a trend to this effect will mean a lower level of human capital. Even in the short term it is a very negative indicator, as it shows people are not training for the jobs that are available in Poland. A very low unemployment rate for people with tertiary education, and the growing demand for workers with that education level would suggest that more people, not less, should be attending post-secondary institutions.⁵³

Another source of further concern is the exploitation of the workers by western employers. Reports of slave labour camps, full of Polish workers in the Mediterranean countries, and groups of Polish trades people in Ireland, are being paid less than a third of the country's legislated minimum wage, highlight the extreme extension of this exploitation.⁵⁴ However, even in the legal realm, the reality is such that Poles are mainly working below their qualifications in jobs called "D" – dirty, dull and dangerous – and doing so for minimum wage.⁵⁵

V. IMPLICATIONS OF THE MIGRATION

How long will the emigration last? What will the net effect on the country be? How drastically should the government act? The answer to

⁵¹ Główny Urząd Statystyczny, "Popyt na prace": 4; Główny Urząd Statystyczny, "Kwartalna informacja o aktywności ekonomicznej ludności": 13.

⁵² Główny Urząd Statystyczny, "Miesięczna informacja o bezrobociu w Polsce we wrześniu 2006 roku": 15.

⁵³ The unemployment rate for tertiary graduates has fallen from 6.8% to 5.4% since the second quarter of 2005. All other levels of education have unemployment levels in the double digits. 17.3% of job vacancies is for specialists with a higher education and almost a third of all vacancies are for people with higher education; Główny Urząd Statystyczny, "Miesięczna informacja o bezrobociu w Polsce we wrześniu 2006 roku": 12; Główny Urząd Statystyczny, "Popyt na prace": 4.

⁵⁴ Lucia Kubosova, "Brussels moots EU penalties for black market employers," Euobserver.com, 19 July 2006; available at <http://euobserver.com/?aid=22134>; Internet; accessed on 20 Oct. 2006.

⁵⁵ Bunda, www.polityka.pl/

these questions is derived from a simple, cost benefit analysis of the migration issue. Simply put, people will choose to leave as long as their private benefits exceed their costs. When the social costs begin to exceed the benefits, the government should put practical policies in place to provide incentives for workers to remain in Poland.

When choosing to emigrate, a rational individual will weigh the costs and benefits of leaving. Costs will include the logistical cost of getting out of the country, the loss of family, social and cultural connections, the high likelihood of forfeiting career advancement, increased difficulty in establishing a family, and a lowered status as an immigrant.

Family and social connections are likely to be the biggest consideration for emigrants, but it is not as much of an aversion to emigration as it may have been in the past. Most people leaving Poland are only planning to do so for a short term, and the existence of cheap flights enable workers to return home frequently. Also, if they are young, it is likely they do not have a spouse and children to return to, and as far as social connections are concerned, the existence of large numbers of their peers working abroad may even act as an incentive.

The high likelihood of forfeiting a career is a more relevant consideration, since around 75% of those working abroad are working below their qualifications.⁵⁶ Again, the short-term duration of their terms abroad limit this consideration, and many people believe that they will leave the country to work for a while, make some money to buy a car or an apartment in Poland, and find work in their field when they return. This is the optimal, mind-frame of an emigrant.

The private benefits of emigration are access to employment, higher wages, improved living standards, and the ability to send money home and to support the family, etc. As well, most emigrants improve their language abilities and skill sets, while permanent emigrants can raise their children abroad, and confer upon them all the benefits of citizenship in a rich, well-functioning country. Again, it is crucial to underline the importance of expectations in determining the behaviour of migrants. If they believe their country will be able to offer them access to employment, higher wages and a better standard of living in the future, they will plan to return. If not, greater numbers may choose to leave permanently. In short, the likelihood of the best-case scenario described above diminishes along with expectations of positive change.

In terms of social benefits, the most obvious effect of this migration are remittances sent home from abroad. A billion USD per quarter is a

⁵⁶ Baba and Przybylski, www.nowe-panstwo.pl; World Bank, Labor Migration: 15.

significant infusion into domestic consumption.⁵⁷ Also, people tend to return from abroad with augmented human capital, a better understanding of well-functioning democracy, and advanced capitalism, better business practices and money.⁵⁸ This can, and should be, harnessed by the state to speed Poland's economic development. Unfortunately, these benefits are in danger of being eclipsed by the rise in social costs. The falling real wage, labour shortages, a declining taxpayer base, and widespread benefit abuses are threatening to become huge problems in the future.

VI. POSSIBILITIES FOR GOVERNMENT ACTION

Countries like Spain and Ireland have shown that migration, accompanied by a sound government with efficient policies in place, can help the country dramatically to improve its economic situation. In Poland, the key phrase "sound government policy" requires the political establishment to first, and foremost recognize the problem as one of domestic labour market flaws, and policy failures, rather than as a consequence of economic openness.⁵⁹ Second, there must be political will for reform, which requires a cohesive government and a shift of focus away from populism and power politics. Thirdly, reform efforts must be multi-faceted and range across several time periods. As such, the following policy suggestions will be organized as short-term, medium-term and long-term.⁶⁰

Short-term

The government can begin by reforming the social transfer system. Abuses must immediately be curtailed by tying social benefits to conditions such, as work training or retraining, participation in job-placement programs, and relocation for work when necessary. The work capacity of disability and sickness benefit recipient should be regularly reassessed and the illnesses qualifying for benefits should be reconsidered. People claiming an easily falsified illness should need a minimum of three diagnoses from separate doctors in order to be considered for benefits.

Curbing abuses to the social benefit system entails tackling corruption in the medical sector. This can be accomplished through a carrot and stick approach: a simultaneous increase in the wages of medical workers, and an

⁵⁷ World Bank, Labor Migration: 26.

⁵⁸ Lucas, 11.

⁵⁹ See Whewell, <http://news.bbc.co.uk/go/pr/fr/-/2/hi/programmes/newsnight/5154002.stm>.

⁶⁰ Many of the reform proposals draw from 2006 reports by the World Bank, the International Monetary Fund and the OECD. All of these reports are contained in the bibliography.

increase in punishments for corrupt behaviour.⁶¹ Retirement benefits must also be reformed. It is unacceptable that as Polish citizens are aging, their already low retirement age should be falling: the average age of a pensioner must rise. To this effect, all pre- and early-retirement programs must be fully phased out, while a retraining program aimed at middle-aged people is implemented.⁶²

Government should lower income taxes to counter the falling real wage, and make the gap between unemployment benefits and wages more significant, so people have a greater incentive to work in the formal sector. It should be noted that any temptation to cut overall unemployment benefits should be resisted, as Poland's level of benefits has already fallen below the threshold where the absolute value of the benefit is so low, that it actually raises the number of claimants.⁶³ In terms of tax reform, the government may want to consider supplanting an income tax cut with a consumption tax, as a form of indirect tax of migrant workers who are, in effect, using the country's social infrastructure at below cost.

Medium term

Tackling low regional mobility should be the next priority. First, the separate social security system for farmers, and the regional differentials in unemployment benefits should be eliminated. The existing differences simply give people an incentive to stay in unproductive areas. Next, the government should focus on the housing market, so that people moving for work also have somewhere to live. A good place to start would be to encourage private housing development by phasing out existing rent controls, and create development-friendly legislation. Currently, foreign investors are buying up apartments in Poland at a frenzied pace, driving up the prices of existing dwellings. New housing developments are being stymied by regulatory problems, and the resulting housing shortage is further boosting prices.

⁶¹ After several strikes, the Polish government has recently raised the wages of medical workers but the increases are too moderate to make much of a difference either to the corruption in the medical sector or to the propensity of medical workers to emigrate. See Agnieszka Domanowska, "Lekarze rowni i rowniejsi"; gazeta.pl, 3 Nov. 2006; available from <http://miasta.gazeta.pl/bialystok/1,35241,3718516.html>; Internet; accessed 6 Nov. 2006.

⁶² OECD, 9.

⁶³ A study on unemployment in transition economies showed that if benefits go below a certain value the amount of claimants actually increases. This happens as authorities, knowing that benefits are not enough to ensure survival, turn a blind eye to people who supplement their benefits through work in the informal sector; see Milan Vodopivec, Andreas Worgotter and Dhushyanth Raju, "Unemployment Benefit Systems in Central and Eastern Europe: A Review of the 1990s," *Comparative Economic Studies* 47 (2005): 621.

Bottlenecks and skills shortages should be remedied through a selective immigration process. This is preferable to target training people, because until wages increase significantly, people trained in demanded professions will simply continue to emigrate. Poland is in a very good position, because although it is an emigrating country, it is a magnet for immigrants from the east, primarily from former Soviet republics such as Ukraine.⁶⁴ Through effective immigration policy, Poland can benefit from labour mobility by strategically employing cheap, willing labour.

Long term

Of utmost importance, in the long term, is ensuring a path of eventual wage and per capita output convergence with other European countries. The only way wages can rise steadily and without being decimated by inflation is if productivity rises as well. In the longer term, productivity can be positively affected by augmenting the human capital of the population. On-the-job training programs should be encouraged through tax breaks, awareness campaigns, and incentives to businesses to upgrade the skills of their workers. Reform to the tertiary education system is necessary, if Polish universities are ever to turn out top-notch graduates.

The OECD rightly comments: "... an advisable reform would allow public Higher Education Institutions (HEI) to charge cost-related fees (not necessarily full-cost recovery) for all students, at the same time increasing the provision of grants to maintain accessibility."⁶⁵ The organization also advises undertaking measures to motivate teachers, as they claim many public-sector universities have "opaque" career structures that "do not depend closely on either teaching ability or research output."⁶⁶

Poland must also continue shrinking the public sector. The communist era left behind a large public sector and all the problems associated with it. Among these are a bloated and inefficient bureaucracy, high levels of regulation, corruption and waste. Poland must continue removing unnecessary public officials, shrinking departments and removing barriers to the further development of the private sector.⁶⁷

VI. CONCLUSIONS

There is not a tremendous amount of debate among leading economists as to what Poland's problems are and how they should be resolved. The

⁶⁴ Alscher, http://www.migration-research.org/dokumente/focus-migration/CP03_-_Poland.pdf: 2-5.

⁶⁵ OECD, 7.

⁶⁶ OECD, 8.

⁶⁷ OECD, 10.

Polish labour market has many evident flaws; unemployment is high, and youth unemployment is very high, wages are low, corruption is rampant, and the education system does not fully suit the needs of the market. The employment rate is the lowest in Europe and nominally, at least, nearly half the population is either retired, discouraged or sick. Meanwhile, the young and educated are leaving the country to work abroad, nearly always beneath their qualifications. Their absence is causing skills shortages and bottlenecks at home, giving a boost to wages, but an even bigger boost to inflation with a negative net effect on the real wage.

The solutions to these problems are also fairly clear, and as such, many policy recommendations in this paper are echoed in reports by the IMF, the World Bank and the OECD. Reforming the social transfer system, improving regional mobility, retraining the population, facilitating immigration, improving post-secondary education, and decreasing the size of the public sector, are steps that would undoubtedly improve Poland's economic development. These reforms would also turn the country into a net benefactor of labour mobility.

Considerably more contentious is whether the political resolve to implement these reforms exists or will exist in the near future. At present, there is no indication of such will. Through elections and opinion polls, Poles have consistently voiced their support for cleaning up corruption and dishonesty by voting for the Law and Justice Party (PIS) and for undertaking liberalizing reforms by voting for the Civic Platform Party (PO). They have also indicated that they want to be ruled by a coalition of the two. That these parties have not been able to form a coalition and give electors what they desire, speaks to the lack of maturity and petty quarrelsomeness that characterizes Polish democracy. Thus, until Polish politicians begin living up to the mandates handed to them by the country's electorate, the great opportunities of the labour migration will continue to be squandered.

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necessary reforms is steering the country towards the second less optimistic outcome.

II. THE SCOPES AND CHARACTER OF THE MIGRATION

It is hard to measure the scope of Poland's labour migration for two reasons. First, no centralized reliable data is available. Therefore, estimates from various sources can be quite different. Second, media reports about illegal workers indicate their existence, but there is no official data, extending the possibility that most figures underestimate the extent of the migration.²

Among data gathering organizations, the World Bank provides the most plausible numbers. The bank found that by 2002, 786,100 Polish citizens were staying abroad for more than two months.³ Every year, from 1994 to 2005, between 130,000 and 290,000 Poles stayed abroad for more than two months. Since the country's accession to the European Union (EU) in 2004, the rate of emigration quickened, and it is estimated that 1 million Poles have left since then. Also, if seasonal workers working abroad for less than two months are accounted for, the yearly rate of workers leaving Poland is between 300,000 to 350,000. These figures would indicate that just under 2 million Poles have left the country to work abroad over the past 12 years. Nearly 70% of workers stay abroad for less than a year, and the increase in emigrants since 2000 has been mainly in short-term workers. Meanwhile, the number of people staying abroad for longer than a year has remained stable since accession.⁴

The increase in the rate of emigration has prompted widespread fears that it is the young and the educated who are leaving Poland. Indeed, it is the young that are leaving, the vast majority of emigrants are between ages 20 and 35 and their proportion among migrant workers has been on the rise since 1994.⁵ This fact alone should not cause such alarm, given the case that young people are more mobile and willing to relocate. In addition, Poland had a small increase in births or a "baby boom" in the late 70s/early 80s, which is the generation that is currently entering the labour force. As

² See Flintan O'Toole, "The European Union's Two Faces on Globalization"; Open Democracy: Free Thinking for the World, 22 March 2006; available from <http://opendemocracy.net/>; Internet; accessed on 23 Oct. 2006).

³ World Bank, "Labour Migration from the New EU Member States," EU8 Quarterly Economic Report Part II: Special Topic. September 2006; available from <http://www.worldbank.org/eu8-report>; accessed on 1 Nov. 2006); 3.

⁴ World Bank, *Labour Migration*; 4, 14, 15.

⁵ World Bank, *Labour Migration*; 14.

ECONOMICS OF HAPPINESS

PATRICK TRUMPY*

Abstract

This paper criticizes the neoclassical economic approach to happiness. One way in which it does so, is by questioning the belief that more money means more goods that in turn, produces greater subjective well being. By observing the income happiness relationship, and the results of several happiness surveys, it becomes apparent that income cannot be used as an exclusive indicator of happiness. In addition, it will be hinted that income's association to happiness is not solely a materialistic one, which neoclassic theory predicts, but rather income can increase happiness because of its effects on social happiness determinants, such as health, matrimony and education. The second part of this paper addresses the question of rationality and happiness. The neoclassical school believes that people will make rational decisions with perfect cognition and information. However, this paper finds that, in reality, this is not always the case. By looking at the apparent lack of self control performed by many members of the community in certain instances, it seems evident that some economic agents do not choose to maximize their utility. The final section of this paper will briefly offer insight into the possible economic theory and real life implications of the content of the paper.

I. INTRODUCTION

The economic approach to happiness and income is both a complex and controversial issue. Traditionally, economics has taken a very materialistic view towards happiness; that, in essence, entails that more money means more goods, which in turn results in greater subjective well being. However, surveys that, until fairly recently, have been ignored by economists, have shown that this is not necessarily the case. Increased income does not always increase happiness at the expected rate. This evidence would indeed appear, to run contrary to popular economic belief. This essay will look into the income-happiness relationship, and offer insight into explaining this apparent paradox. In addition, it will be shown that income association to happiness is not solely a materialistic one, which neoclassical theory predicts, but rather income can increase

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happiness because of its effects on related social determinants. The correlation between income and happiness is thus strengthened because of the relationship between income and other determinants of happiness. Still, the inequality of happiness across nations and individuals with similar incomes shows that there are other determinants of happiness besides income. In addition, it will examine the association of unhappiness with dissatisfaction. This paper will argue that many of these variables are still related to economics. The second part of this paper addresses the question of rationality and happiness. It attempts to offer insight into the question of whether a person's decisions reflect what will actually maximize that individual's welfare. By looking at the apparent lack of self-control performed by many members of the community, it seems evident that some economic agents do not maximize their utility in some instances. The final section of this paper will briefly offer insight into the possible economic theory and real-life implications of the findings of the paper.

II. HAPPINESS AND ITS RELATION ON ECONOMICS

Happiness, a term used interchangeably with subjective well-being, satisfaction, utility and welfare, can be defined as the current evaluation by an individual of his or her own satisfaction with life (Easterlin 2001). It is important not to conflate this definition of happiness with its use in unified utilitarian theory. Under unified utilitarian theory, happiness is differentiated from utility because happiness is the realization or actual utility opposed to hypothetical utility (Sheng 2004). For instance, consider going to a restaurant and ordering a hamburger. Utility would be the expected satisfaction that one would suppose they would receive by ordering the hamburger. Happiness would be the actual amount of satisfaction that the individual receives from consuming the burger. In this essay these two connected concepts will be called expected happiness and actual happiness. However, both forms of happiness have a common attribute that they are both subjective concepts. This makes it difficult to compare different individuals' levels of happiness or tell if the individual is testifying truthfully (Sheng 2004). Although Bentham attempted to put quantitative values to happiness in the seventeenth century, this approach has been generally abandoned because, for the most part, happiness today is looked upon as a relative, rather than an absolute concept (Gertham and Johannesson 1997).

There are variables in the happiness function that make the study of this matter important for economics. The prevalent connection between economics and happiness is the role that economics has adopted in exploring the maximization of welfare and quality of life (Easterlin 2003).

Traditionally, this has been attempted by financial analyses, such as Gross Domestic Product (GDP) per capita, because of the neoclassical view of utility that is concerned primarily with material outcomes that are affected by fiscal traits, such as income, costs and prices. Recently, however, with increased investigation into human behaviour, it has become increasingly obvious that other methods could contribute to creating a more comprehensive and accurate reflection of quality of life. Still, economic variables such as income and prices do have a huge impact on happiness, as is demonstrated in the paper. Research conducted in Europe indicates that increased happiness increases accountability, effectiveness, stability and rule of law: all attributes that provide for a healthy economy (Frey and Stutzer 2002). Consequently, the effects that happiness has on the economy should be mentioned within the paper.

III. METHODOLOGY AND DATA

By nature, happiness is an emotion, and basic logic concludes that an individual experiencing the feeling knows what they are feeling best. Both the neoclassical and behavioural theories predict that preferences can differentiate among different individuals. For this reason, one of the most accepted tools for measuring happiness is surveys that have intensive databases such as the General Social Survey (GSS), World Value Survey, Eurobarometer Surveys, and Satisfaction with Life Scale (Frey and Stutzer 2002). Although psychologists and sociologists have been documenting and analyzing the data from surveys for years, social questionnaires have, for the most part, been neglected by economists (Oswald 1997). A typical questionnaire would pose a question such as “All things considered, would you describe yourself as very happy, pretty happy or not happy these days” (Oswald 1997). When conducting a survey across societies, the question could be revised accordingly to each respected culture, such as replacing “happy” with “satisfied” (Oswald 1997). For the most part, these surveys are not used to determine absolute levels of happiness, but rather relative level or to resolve the determinants of subjective well-being. It is interesting to note that across cultures, the determinants of ‘levels of happiness’, are fairly constant (Easterlin 2001). Some people have criticized the relevance and transitivity of this form of assessment. The wording, ordering and scaling of questions asked can all have effects on the outcome. Another problem with trying to determine the reasons for happiness is the intertwining of characteristics of happiness. For example, suppose that studies show that people who volunteer report higher happiness levels than people who do not volunteer. Additionally, suppose that extroverts report higher happiness levels than introverts and that

extroverts are more likely to volunteer than introverts are. In this instance, it would appear inconclusive, if volunteering or an outgoing nature or both make an individual happy (Frey and Stutzer 2002). A somewhat similar problem occurs when different groups are surveyed. Suppose that older people report higher happiness than younger persons. This could be a result of older people encountering higher well-being, or this could just be an effect of different interpretation and outlook, which alters their responses to questions. Still, despite these concerns, there is a clear trend of the importance appropriately of living levels, family, health and employment across diverse cultures (Easterlin 2001).

In response to the disapproval of direct satisfaction surveys, alternative forms of testing happiness have been created. One such form is by asking questions such as, "have you been thinking of yourself as a worthless person" and then, allowing psychiatric experts to analyze the results (Oswald 1997). This method has been criticized because of the inconsistency of the psychoanalytic assessment. A second approach involves looking at related statistics. An example of this could be the number of suicides per capita. (Oswald 1997). Clearly, taking one's own life could be interpreted as extreme unhappiness, if one assumes a positive relationship between the value of life and happiness. However, this method encounters a problem because it can represent only extreme emotions and may be affected by social norms. As a matter of fact, in Denmark, one out of every 3,000 deaths is a suicide, while in Britain, the number is one out of every 1,200 deaths, does not necessarily mean that generally one country's citizens are more happier than the other. Because of inadequate alternatives, and the frequent consistency, and great sample size of surveys, surveys are the resource used for the findings expressed in this paper.

Gross National Product

The relationship between income as Gross National Product (GNP) per capita and happiness may be surprising to some people. By looking at the connection of income and happiness in its static state, as shown in Figure 1, one can derive two important observations. First, there seems to be a connection between GNP per capita and happiness. In its fixed state, the relationship could be described as marginal decreasing happiness returns to income, which takes a curvilinear shape. In other words, happiness exponentially decreases at a lesser rate than income does. This observation would appear to be in line with conventional economic belief. A second important observation from this static graph is that happiness varies across countries with similar income levels and income fluctuates across

countries with comparable happiness levels. This would seem to indicate that although there is some relation between GDP per capita and happiness, it is not the only factor.

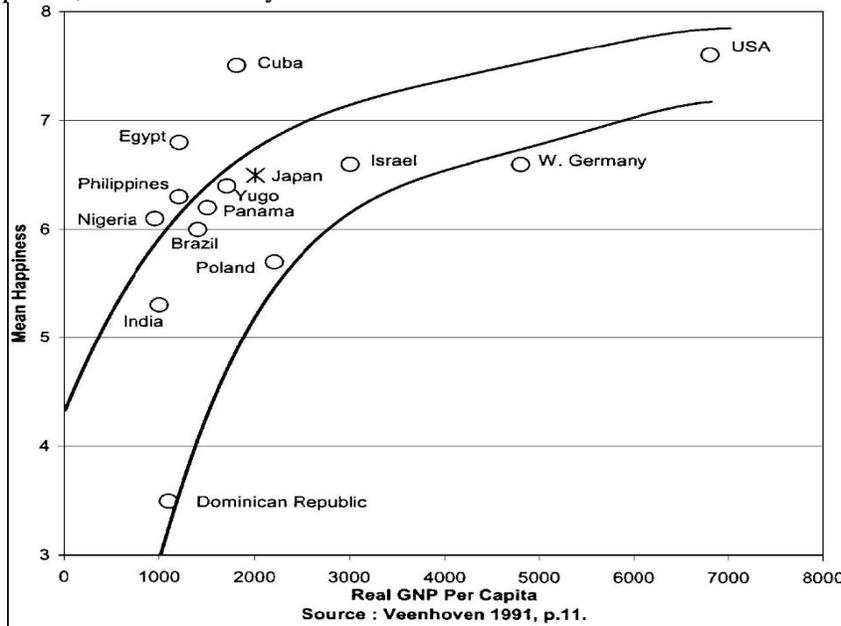


Figure 1. Mean Happiness

Although Richard A. Easterlin recognizes the decreasing marginal utility when comparing countries in a static state, he is unconvinced that this relationship holds when income and happiness are compared dynamically. Comparing income increases across time does not result in a similar manner. In fact, GDP per capita after a certain level only slightly increases happiness. Easterlin uses periodically consistent studies performed in Japan to demonstrate the great increase in wealth since the 1960's. In Figure 2, the two boundaries suggest the growth path of Japan based upon the neoclassical theory derived from comparing different countries' income and happiness. The dots connected by a regression line show the actual measured happiness felt by the Japanese during this period of substantial GDP per capita growth. Although, this does not follow what could be expected from a stagnate, cross-country analysis.

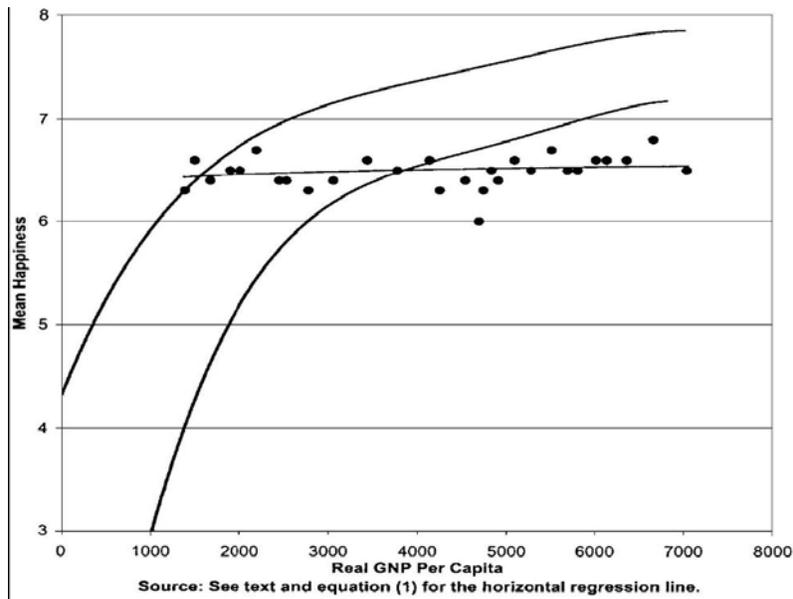


Figure 2. Actual Happiness of Japan 1958-1987 from Easterlin 2004

Mathematical regression can be used to prove this point further.

1. $\text{Happiness} = 0.1255 \ln(Y) + 0.9804$ yields an adjusted regression squared of .917
2. $\text{Happiness} = 0.0692 \ln(Y) + 5.9331$ yields an adjusted regression squared of .042

Y = real GNP per capita and Equation 1 represents the static cross-country analysis and Equation 2 represents the dynamic single-country analysis. The significant co-efficient of Equation 1 suggests that there is decreasing marginal happiness with income whereas Equation 2 proves that there is no marginal utility due to increased income because the coefficient is insignificant. Understandably, individual data on happiness over time also shows that happiness plateaus after a certain point (Easterlin 2001). This data disagrees with the conventional idea that increased income increases happiness at a marginally decreasing rate. For this to be the case; it appeared that neoclassical utility is based on inaccurate assumptions.

There are two mainstream arguments attempting to explain why increased income insignificantly increases happiness after a certain point. The first is that aspirations increase as income rises (Easterlin 2001). Easterlin suggests that income rises at a similar rate to aspirations and thus the two offset themselves, leaving the individual at a similar level of subjective well-being. For example, as a result of a person's increased

income, he or she may not receive the same satisfaction from driving his or her old vehicle. In order to observe the same satisfaction, the person would have to purchase a more expensive car.

The second argument attempting to explain why income does not induce more happiness is that it is relative. This can be looked upon as people compare their income to society, other specific persons or themselves. An example illustrating the relative element of income and happiness is an experiment conducted by Richard Layard. He asked graduating Harvard students if they earned \$100,000 a year, would they prefer the average pay for everyone else to be \$50,000 or \$200,000? The majority answered that they would rather the average be \$50,000 (Layard 2003). Although neither theory of explaining the dynamic income happiness relationship is conclusive, they both offer insight into its explanation.

Other independent variables

The neoclassical assumption of income increasing happiness because of increased availability of goods is further weakened because of income's positive effects on other happiness determinants. Three major determinants of happiness are briefly discussed below, along with their relation to income. The first, debatably, and one of the most influential determinants, is personal health. Surveys indicate that health is positively related significantly to happiness. Basic intuition about health should back up this concept further. In their study, the relationship between happiness, health and social economic factors: results based on a Swedish micro data, Gerdtham and Johannesson incorporate health into the utility function and then produce a function for health, written $h=f(H,M)$ (Gertham and Johannesson 1997). Where h represents health, H denotes health goods such as Medicare, availability of medicine; M represents the initial state of the health of an individual. Although some health problems are obviously genetic and unpredictable, significant portion of health is directly connected to monetary issues. Increased funding improves prevention rates of illness, increases the rate of successful treatments and the comfort of dealing with sickness. A report to the United Nations states that the major determinants of health are health care access and quality (Case 2000). Clearly there is a connection between these determinants of health and income. In addition, increased finances have been proved to increase consumption of more nutritious food, offer better housing and safer environments, all increasing the probability of improved fitness (Case 2000). It is a further stretch, but by no means unconceivable, that increased

income can cause reduced stress, and therefore, lessen the likelihood of sickness.

Several surveys and data back up the income's relation to health. For example, generally speaking, people in wealthier countries have lower morbidity rates and longer life spans than those situated in poorer regions (Case 2000). There is some question, however, of the causal effect of this. For example, if a person is unhealthy, then he or she will not be able to work as much, and therefore, will have a reduced income. This argument, though valid, seems to be overwhelmed by studies suggesting that income generally increases health. It is worth mentioning that the demand of health care is also affected by its price. If medical costs were lessened, then it would seem apparent that more people would purchase medicine and other health goods.

Another major determinant of happiness is one's matrimonial situation. Constantly, people in a marital union are happier than people who are not married (Easterlin 2004b). Furthermore, there have been dynamic surveys that indicate that people are happier after getting married and less happy after separation. Figure 2 (Easterlin 2003) testifies that happiness is related to marriage. However, these surveys do not take into account that people will separate or divorce if the marriage makes them less happy. Therefore, it is self-fulfilling that married persons will report greater happiness. The economic connection to marriage may be surprising to some. Many experts, including Becker, have argued that women's increased role in the work place has resulted in marriage being less appealing (Smock and Manning 1997). However, empirical evidence does not necessarily agree with the negative effect on women working on marriage. Evidence does suggest, however, a man's economic situation directly corresponds to both the likelihood of marriage and the probability of it being sustained (Smock and Manning 1997). If, as suggested, income increases the likelihood of a successful marriage and matrimony increases happiness, then there is a non-materialistic link between income and happiness that is overlooked in neoclassical economics.

The third influential factor on happiness is education. Studies and surveys suggest that people who complete their high school Diploma are happier than those who fail to do so. This can be shown on Fig 4 from (Easterlin 2003).

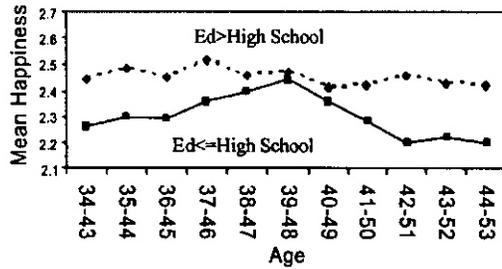


Figure 3. Mean happiness, cohort of 1941-1950 by level of education and age. Three-year average is centered at each age.

There are two reasons for income’s relation to happiness. Firstly, people who have a higher education on average make more money than those with lower education (Pyror and Schaffor 1999).

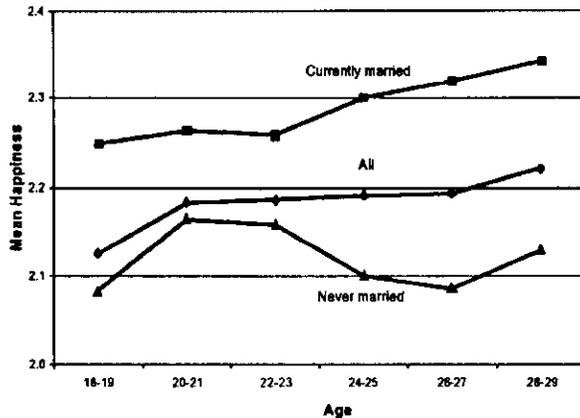


Figure 4. Mean happiness of females by marital status, birth cohort of 1953-1972 from ages 18-19 to 28-29.

The second reason why education is so close to income is because richer individuals are more likely to pursue higher education than lower income persons. A study in India concluded that youth coming from higher income families expected their income to increase with education (Dhesi 2001). Additionally high-income families can pay for expensive post-secondary education and are more likely knowledgeable about subsidies and bursaries. Because income allows for higher education and reflects greater learning, it is important to inspect this relationship to determine its effects on the happiness income correlation.

The effect income has on seemingly non-economic happiness determinants such as family size, marriage, obesity, health, and education should not be disregarded when considering happiness income

relationship. These factors could play an important role in both the explanation and prediction of economic analysis and public policy. It seems that conventional economics have over emphasized the effect of income on happiness but have underestimated other variables that impact happiness.

IV. HAPPINESS AND RATIONALITY

In economics, a major concern, is if people have the ability to make choices to maximize their happiness. Generally, with regard to happiness, rationality requires both that individuals can maximize their happiness, and will make the appropriate choices that do so (Simon 1978). The neoclassical theory makes several rationality assumptions. The foremost of these is that people know the full impact of each of their decisions. As a result, there cannot exist any methodical errors in the decision making. If any sporadic mistakes do occur, these random errors can be disregarded because they are aggregated and thus offset themselves. Humans are assumed to know how much utility they will achieve and be able to compute the present value of future satisfaction. This conventional theory assumes that people are perfectly informed, act completely freely, choose to maximize their happiness, and therefore, have no self-control issues. Moreover, the neoclassical theory contends that every choice made by a human is rational. For example, smoking and unhealthy eating are happiness maximizing rational decisions (Frey and Stutzer 2006). Behaviour economics disputes the neoclassical implied assumption that people always make decisions that maximize subjective well-being maximizing. It does so by attempting to separate the decision from what the individual actually wants. By assuming that people's choices reveal what they truly desire, conventional theory does not allow for their rationality to be questioned. Although most behaviour economists believe that often revealed preferences will equal preferred preferences, there are many instances where they do not; one example is the natural lack of self-control apparent in some people. Both myopic behaviour and procrastination hints toward economic agent's lack of restraint (Frey and Stutzer 2006). As a result there is a difference between what people want and what would maximize their utility.

To show how self-control issues conflict with revealed preference, Frey and Stutzer examine smoking, obesity and television watching. Studies on smoking suggest that eight out of ten smokers would like to quit. Additionally, on average, smokers attempt to quit once every eight and half months and most fail to sustain restraint smoking. The neoclassical theory would suggest that an increased cost of smoking would

decrease utility if there were no externalities because people know what they want. A model that incorporates self-control problems suggests that an increase in cost to cigarette smoking could actually increase happiness. When a fifty-cent tax was introduced in Canada and the United States, there was a reported overall increase in happiness among those smoking at the time (Frey and Stutzer 2006). The increased cost to smoking further discouraged new entrants from consuming cigarettes.

Similar evidence arises when observing obesity. Over the last three decades, the body mass index research has indicated massive increases in obesity over most of the Western World (Frey and Stutzer 2006). A major reason for this is the decreased costs of high calorie foods relative to low calorie options. Again, the neoclassical theory predicts that since people's choices represent their maximized utility, increased obesity increases happiness. After all, people could choose to eat healthy because the absolute value of healthy foods did not rise. A behavioural economic model that incorporates flawed self-control predicts that despite people's decisions to eat less healthy, and therefore, increase body weight, there could be a decrease in happiness. A study of 8,000 women suggests the latter theory to be the more accurate. Increased obesity decreases satisfaction between the individual and partner, work, society and family (Frey and Stutzer 2006). There is also a link between stress, depression and obesity, but because it is unclear which is the cause and which is the effect, it is difficult to blame obesity for these additional damaging factors.

A third instance of apparent lack of self-control is concerned with television watching. In some countries people watch as much TV as they spend time performing paid work. Neoclassical theory predicts that this increase in television watching will necessarily increase utility, while the behavioural economics is not so certain. Some economists contend that the reason why so many people watch so much television is because of the immediate benefits without apparent costs. This means that one hour of additional viewing is not detrimental, but many accrued hours of screening can greatly hurt individuals. Costs such as sleep loss, social isolation, educational disadvantages and career limitation do not necessarily appear in the short run. In addition, some contend that television watching appears to create dissatisfaction with life. An example of this is Canada; because of its sheltered location was unable to receive TV signals until the early 1970's. Studies conducted by Tannis MacBeth Williams indicated that after the television was introduced to the home, overall happiness decreased (Frey and Stutzer 2006). This is not to say that the optimal amount of viewing is zero but rather to indicate that increased watching can have adverse effects on happiness. The underlining common

denominator of all three of these examples is that people chose alternatives that did not maximize their subjective well being.

Frey and Stutzer go further to suggest four instances when a selection is overvalued and as a result people do not choose happiness maximizing behaviour. The first is concerned with human's constant underestimation of their coping ability. The inability to forecast their adaptation capabilities applies to both positive and negative scenarios. For example, a graduate student will claim to be devastated if he or she does not receive tenure. Studies show that the student, over five years, is just as likely to be happy with or without the tenure (Frey and Stutzer 2006). The same underestimation is applicable with managing hardships, such as deaths of significant others. The second tendency is for agents to overvalue or undervalue options due to the distortion of memories. It is necessary for humans to resort to related memories when facing a decision for insights on the "right" choice. Unfortunately, people have an inclination to refer to their most memorable and emotionally intense moments. As a result, humans perform biased and inaccurate assessments and are inclined to overvalue and undervalue options. A third tendency that causes the over and underestimation of options is people's inclination to rationalize. People are constantly explaining the reasons for their choices to both themselves and others. As a result, options whose value is easily articulated tend to be overvalued and those, less expressible, undervalued. The fourth and final reason for inaccurate choices is that people do not necessarily know what makes them happy. This is a very vague and complicated issue. Indeed, people are influenced by multiple factors. At any given moment they are often unsure which factor is giving them the emotion. A simplified example is a group of friends watching a hockey game. One comrade feels good and this person may think he feels good because of the game, when really, he feels this because the companionship of his friends. A fifth factor that should be mentioned is the concept of procedural utility. This is the case when individuals not only care about the outcome, but also the process and conditions that lead to the outcome (Benz 2005). For the most part, neoclassical economics is solely concerned with outcomes, and ignore procedural utility. These five reasons for the wrongful judgment of happiness help explain human's non-happiness maximizing behaviour; a notion that neoclassical theory denies existence.

V. IMPLICATIONS

The implications of findings showing that individuals do not, in fact, follow the neoclassical or conventional view of happiness can have

significant implications. Since these consequences could run into almost every conceivable facet of life, only those directly and obviously applicable to this paper will be discussed. Because income does not significantly increase happiness after a certain point, it can be argued that there should be greater income distribution from the high to the lower income ranges. In addition, perhaps, economics should focus less increasing welfare by focusing on income and prices and more on other variables that are related, but respectively unique. For example, unemployment should not only be seen as an unused resource but also as a significant indicator of overall happiness. If the evidence that is suggested in this paper is correct, a person on welfare would be less happy than an employed person earning the very same amount, *ceteris paribus*. In addition, economic policy could be changed to increase both the likelihood and the sustainability of marriage because by doing so it is increasing welfare. Education does not only generally produce a more effective and knowledgeable workforce, but it also increases the subjective well-being. There is much literature on the affects of health on workplace productivity, but what is often overlooked is the effect health has on happiness. The findings discussed in this essay would conclude that affordable health care option for all is not just a justice or an equality issue, but also one that maximizes utility. In Physiology, the set point theory emphasizes that individuals' happiness is a factor of both personality and genetics, and will remain the same no matter what throughout a person's life (Easterlin 2004). In contrast, the neoclassical economic theory stresses that material substance is the determinant of happiness. However, after looking at the data, it would seem that a comprise of the two ideals would be most accurate in determining and explaining actual human behaviour. The implications of the rationality of happiness also have seemingly far-reaching effects. The evidence in this article would encourage the use of taxes and other government interventions to help people maximize their own utility. In many instances, people don't want to consume a product, but they lack the self-control not to indulge. Perhaps educating people of the consequences of negative characteristics such as obesity, television-watching and smoking can help maximize happiness. The economic model should consider that people are flawed. It ought to show that outcomes are not necessarily the source of all happiness, but that the process of achieving a certain outcome also can affect utility. Of course, all these arguments are debatable because of the multiple ramifications of each, but even so, it is important to discuss and recognize their existence.

VI. CONCLUSIONS

The conventional view of happiness seems to be in need of revision or reconstruction, in light of the increasing information gathered from surveys and data. The materialistic marginally decreasing happiness returns to increased income contrasts with empirical evidence that suggests happiness plateaus after a certain level. Furthermore, the income happiness relationship seems to be the result of not just the possession of the quantity and quality of goods, but also of income's relationship to other happiness determinants such as health, marriage and education. This intriguing finding can offer important insights into welfare economics. The ability of people to maximize their own utility can also be disputed because of lack of self control. By examining certain scenarios that show people making the "wrong" choices, economics can benefit and contribute to other sciences which have already offered insights into this seemingly irrational behavior. There seems to be a great need for altering current mainstream economic assumptions and predictions. Unfortunately, identifying a problem is rarely as daunting as ratifying one.

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