

# CHAPTER I

## INTRODUCTION

### A. Background

Happiness is the purpose of every single human in the world. Happiness can bring positive impacts to daily life, even to the surrounding environment. People who are happy will feel prosperous in terms of their basic life needs and healthy (physically and mentally) as well as have a good social status, high intelligence, a good position within the community. With the accomplishment of these things, it will form a harmony between communities and a sense of mutual care to each other. It is not easy to achieve happiness because it needs several factors. Even every country tries to make its people happy. One way that can be cultivated or done by a country to make its people happy is by improving the people's welfare. As Kapteyn, Smith and Soest (2010) said that the indicator of happiness is the level of welfare because happiness is a reflection of the level of welfare that has been achieved by each individual. Problems often faced by a country related to the prosperity of the people include poverty, unemployment, health, and education. These factors can affect happiness. A study conducted by economists, Frey and Stutzer (2002), investigated happiness empirically. The study proved that unemployment has significant negative impacts on happiness regardless of some factors that can be controlled. In addition, Clark and Oswald (1994) conducted an empirical analysis by using microdata from the United Kingdom (UK) and clarified that unemployment can significantly decrease people's happiness. Di Tella, Macculloch and Oswald (2001) suggested that unemployment and inflation level influence the level of happiness based on the microdata of happiness on 12 countries in Europe. The conclusion of their analysis is that the unemployed people's level of happiness is lower than the

employed ones. Todaro and Stephen C. Smith (2006) said the public welfare can show the community development in achieving a better life. The welfare includes: 1) increased capacity and equitable distribution of basic needs such as food, place, residence, health and protection, 2) increased level of life, income, education to be better and increased the attention of culture and human values, and 3) expanding economics scale and the availability of social choices from individuals and nations. Community welfare is a condition that shows the standard of community life (Badrudin, 2012). Furthermore, there are still many studies which prove that education, health, income, and unemployment can significantly affect happiness. These issues are what every country is trying to solve in order to achieve people's happiness.

Based on theories, welfare can be divided into three parts, i.e. classical utilitarianism, neoclassical welfare, and new contraction approach (Badrudin, 2012). The classical utilitarian emphasizes that the happiness or satisfaction can be increased and measured. The level of satisfaction of human can be compared quantitatively. The theory of neoclassical welfare underscores the principle from Pareto optimality. Pareto optimality is defined by the position that does not allow a reallocation of input or output in order to make a person better without causing at least 1 person or worse. The new contraction approach emphasizes the principle which every individual gets maximum freedom in his life. All of the three theories indicate that happiness cannot be defined in detail but the happiness can be measured.

In 1994, as stated in Bretton Woods Conference, gross domestic product (GDP) plays a role as a measure or benchmark of economic progress and, since 1960, GDP has been used as the indicator of general welfare. Nevertheless, GDP has a weakness. As

claimed by Van Den Bergh (2009), GDP does not take into account social costs such as externalities, attaching importance to absolute income increase, ignoring the distribution of income, not measuring off-market activity or informal transaction, and ignoring the impact of the economic activity on the environment. Fleurbaey (2009) said the GDP ignores the variation of wealth, the destruction of the natural environment, the quality of social relations, household production service, personal safety, life expectancy, and economic security.

Due to the GDP's weaknesses, the economists seek another alternative, including Measure of Economic Welfare (MEW) initiated by Nordhaus and Tobin (1970), Physical Quality of Life Index (PQLI) by Morris (1970), Index of Sustainable Economic Welfare (ISEW) by Daly and Cobb (1989), Human Development Index (HDI) in 1990, The Genuine Progress Indicator (GPI), and Index of Economic Well-Being (IEWB) (Osberg and Sharpe 1998). The use of HDI is already covering the whole world but still encounters some weaknesses. Therefore, the Inequality-adjusted Human Development Index (IHDI) was promoted in 2010.

After the conference of beyond GDP by Europe commission in 2007, there are various alternative measures to correct GDP, including: Index of Sustainable Welfare, The Genuine Progress Indicator, Green GDP, Genuine Wealth (Costanza *et al*, 2009), Index of social progress, Happiness Indicators, Gallup-Healthways Well-being Index, and Happy Life Year Index. These measures include the psychological indicator. The Millennium Development Goals (MDGs) and Sustainable Development Indicators are the complementary measures of GDP. These measures are often used except the MDGs.

In the current situation, the policymakers are interested in using Happiness Index as a livelihood index, which has been used since 2011 by the General Assembly of the United Nations (UN). This is the beginning of the application of Happiness Index and then it begins to be used by several countries such as England, France, Australia, Malaysia, and Thailand. The position of Indonesia in the World Happiness Report in ASEAN Countries can be seen in Table 1.1.

**Table 1.1**  
**Ranking of Happiness**

<b>ASEAN Country</b>	<b>2013</b>	<b>2014 – 2016</b>
<b>Singapore</b>	30	26
<b>Thailand</b>	36	32
<b>Malaysia</b>	56	42
<b>Philippines</b>	92	72
<b>Indonesia</b>	76	81
<b>Vietnam</b>	63	94

Resource: World Happiness Report 2017

Based on Table 1.1., Singapore has the highest position in ASEAN countries, followed by Thailand, Malaysia, Philippines, Indonesia, and Vietnam. The indicators used in calculating the average number of happiness include Gross Domestic Product (GDP) per capita, social support, life expectancy, birth health level, freedom to make

choice in life, generosity, and corruption perception. From the report, we can see the increase in happiness in ASEAN countries except for Indonesia and Vietnam.

The New Economic Foundation (NEF) publishes the happy planet index of 151 countries in the world using life expectancy indicators, Experience Well-Being, and Ecological Footprint. NEF uses this index to measure the efficient use of resources, but in this case, it does not describe fully the welfare of a country. The position of Indonesia in the Happy Planet Index can see in Table 1.2

**Table 1.2**  
**Happy Planet Index**

<b>ASEAN Country</b>	<b>2012</b>	<b>2015</b>	<b>2016</b>
<b>Vietnam</b>	2	2	5
<b>Thailand</b>	41	20	9
<b>Indonesia</b>	16	14	16
<b>Philippines</b>	14	24	20
<b>Malaysia</b>	83	84	46
<b>Singapore</b>	49	90	-

Resource: Happy Planet Index 2017

The Happy Planet Index for 3 periods shows the efficiency in the use of the resources. The most efficient country in using the resources is Vietnam, followed by Thailand (in the newest report) and Indonesia (but with the downward trend). Philippines

and Malaysia have increased but are still on 4th and 5th positions. Singapore, in this report, is a country with the reduced efficiency. Among ASEAN countries, Thailand is the most efficient, which can be seen in their respective positions over the last few years.

In Indonesia, the happiness index measured by the official institution called the Central Bureau of Statistics (BPS) using a survey method. The survey was implemented from 2013 to 2017 with a total sample of 9.500 people. In the scale of 0-100, scale 0-25 shows unhappy, 25-50 shows less happy, 50-75 means happy, and 75-100 means very happy. The survey result shows the increase in happiness. The increase can be seen from 2014 until 2017. In 2014, the level of happiness index is around 68,28 and turns into 70,69 in 2017. There are several factors that have an effect on happiness in Indonesia based on the BPS survey and can be seen on table 1.3:

**Table 1.3**  
**Happiness Index**

<b>No.</b>	<b>Variable</b>	<b>2013</b>	<b>2014</b>
<b>1</b>	<b>Household Income</b>	58,03	63,09
<b>2</b>	<b>The Condition of House and Asset</b>	62,42	67,08
<b>3</b>	<b>Job</b>	58,28	67,08
<b>4</b>	<b>Education</b>	58,28	55,19
<b>5</b>	<b>Health</b>	69,72	66,4
<b>6</b>	<b>Leisure time</b>	68,02	71,74

Continues table 1.3

<b>7</b>	<b>Social Relations</b>	72,43	74,29
<b>8</b>	<b>Family Harmony</b>	78,11	78,89
<b>9</b>	<b>Security Conditions</b>	74,83	76,63
<b>10</b>	<b>Environmental Circumstances</b>	70,43	74,86

Resource; Central Bureau of Statistics (BPS), 2016

Berger-Schemitt and Regina (2002) argue that social cohesion is an important factor for a person's satisfaction in life. Similarly, Helilwell and Putnam (2004) proposed that a factor that plays an important role in happiness is a non-material factor which concerns a social dimension from human well-being. Bartolini and Bilancini (2010) also suggested that the quality and quantity of social relationships are important factors that explain the growth of subjective well-being. The idea about a material factor was confirmed by Stutzer (2010) who asserted that income is an important factor in happiness. In addition, Clark and Senik (2011) claimed that absolute income is not an important factor that determines happiness, but relative income and income comparison are.

In the case of Indonesia, the studies by Sohn (2010) and Ladiyanto *et al* (2011) found important factors in Indonesian people's happiness, i.e. non-material factor and material factor (income). When the basic needs are already fulfilled and the wealth is increased, individual happiness will be strongly influenced by non-material factors such as social relation (Diener and Seligman 2004); Kesebir and Diener, 2008). This is in line

with Maslow's hierarchy of needs theory that when the lowest basic needs are satisfied and income is getting higher, an individual will try to meet higher needs, i.e. social needs, esteem and self-actualization (Sirigy, 1986). Therefore, income has an important role in the human happiness. A person who has a higher income can fulfill his needs and desire to be achieved, so the person will feel happier than the one who has a lower income. Richard (in Arkoff, 1975) suggested that the highest life purpose of the human is to be rich and happy. Studies of subjective well-being were also conducted by Ryan and Deci (2000) and Baard (2002). They found that the satisfaction of psychological needs is an important variable, which will affect an individual's subjective well-being. These also confirm that the people who have a job will be happier than the unemployed because the unemployed will be more difficult to fulfill their needs and their psychological desire.

In this modern era, everyone is in dire need of education in everyday life; with the wider insight, educated people can more easily interact with other people. People who have higher education have a wider network so the job opportunities will be higher than the uneducated people. Moreover, higher education allows a person to get better jobs and higher income. Arkoff (1975) claimed that happiness can be gained from 3 things, i.e. family, health, and the existence of loved ones. Healthy people have more time to spend with their loved ones. Furthermore, Buss (in Franken, 2002) also claimed that there are 8 basic desires; one of them is being healthy. A healthier person can be easier to fulfill his life dreams and purposes.

Indonesia has a law that responds to the people's welfare as stated in the 1945 Constitution article 1 of law no.6 of 1974 which reads "Every citizen is entitled to the best level of social welfare". The law proves that Indonesia is very serious in prospering



its people. It is proved by the programs that the government plans to improve the people's welfare and economic growth. Todaro (2000) claimed that economic growth does not automatically resolve a wide range of welfare issues, but it remains an essential element of every realistic development program designed to eradicate poverty. Along with the construction of public facilities in the education health and sectors, a country needs to expand foreign investment to open more employment opportunities. All of these things can positively affect the happiness, as suggested by Rahayu (2016) who claimed that health, education, income, and social capital can positively affect happiness.

Based on the background above, the author conducted a study entitled: "**THE FACTORS THAT AFFECT SUBJECTIVE WELL-BEING: A CASE STUDY IN INDONESIA**". The study examines the effect of income, health status, education and unemployment status on the level of happiness of Indonesian people. The demographic variables took those living in rural or urban areas.

### **B. Scope of the Research**

This study was limited to the discussion about the effect of people's happiness in Indonesia in 2014. The factors affecting the happiness in Indonesia were limited to income, subjective health status, education, subjective unemployment status, and demography. The dependent variable was Subjective well-being (SWB). This study used the IFLS 5 2014 data.

### **C. Research Question**

Based on the background, the problem statements in this study include:

1. How is the influence of income on SWB in Indonesia in 2014?
2. How is the Influence of Education on SWB in Indonesia in 2014?

3. How is the influence of subjective health status affect SWB in Indonesia in 2014?
4. How is the influence of subjective unemployment status on SWB in Indonesia in 2014?

#### **D. Research Objective**

Based on the above problems statements, the objectives of this study include:

1. To determine the effect of income on SWB in Indonesia in 2014.
2. To determine the effect of education on SWB in Indonesia in 2014.
3. To determine the effect of subjective health status on SWB in Indonesia in 2014.
4. To determine the effect of subjective unemployment status on SWB in Indonesia in 2014.
5. To determine the effect of the people who live in urban and rural areas on SWB in Indonesia in 2014.

#### **E. Contributions**

This study is expected to provide the following contributions:

1. Enrich the literature of what affects the people's SWB in Indonesia.
2. Give a reference for Indonesian government relative to the influence of welfare on people's happiness so that the government can change or create policies that can improve the livelihood and happiness of Indonesian people in the future.