



THE LONDON SCHOOL  
OF ECONOMICS AND  
POLITICAL SCIENCE ■

# The WELLBY

## DEFINITION, MEASUREMENT, AND MONETARY VALUE

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# The WELLBY Definition, Measurement, and Monetary Value

## Definition of Wellbeing

“ *Subjective wellbeing (also referred to as ‘wellbeing’ or ‘happiness’ in short) is defined as a person’s affective and cognitive evaluations of his or her life.* ”

DIENER ET AL. (2002)

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DIENER ET AL. (2002), ADAPTED

## The Two Dimensions of Subjective Wellbeing

### ■ Affective Experiences

- Wellbeing is presence of positive affect and absence of negative affect in given period of time (net affect), i.e. how a person *feels* on average
- Examples: happiness, feelings of purpose, anxiety, worry, etc.

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### ■ Cognitive Evaluations

- Your evaluation of current life circumstances relative to idealised life
- Wellbeing is that evaluation in given period of time (often one year), i.e. how satisfied a person *thinks* they are
- Examples: life satisfaction, job satisfaction, government satisfaction; worthwhileness (Aristotle's eudemonia, a means to an end?), etc.

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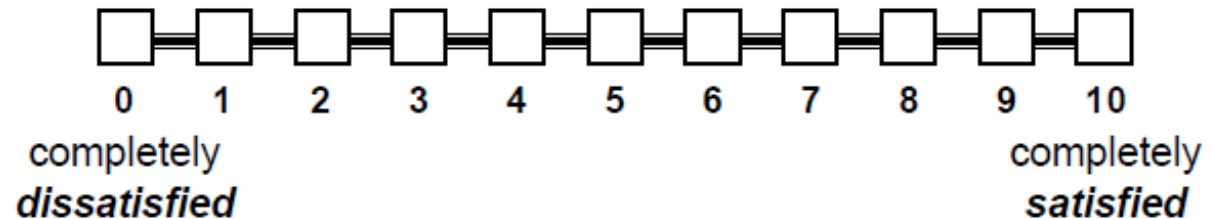
## Life Satisfaction

- Exemplary survey question on individual life satisfaction measured on 0-to-10 Likert scale

*Please answer according to the following scale:*

*0 means "completely dissatisfied", 10 means "completely satisfied".*

**How satisfied are you with your life, all things considered?**



Source: German Socio-Economic Panel Study (SOEP)



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# Wellbeing in Policy

## Life Satisfaction

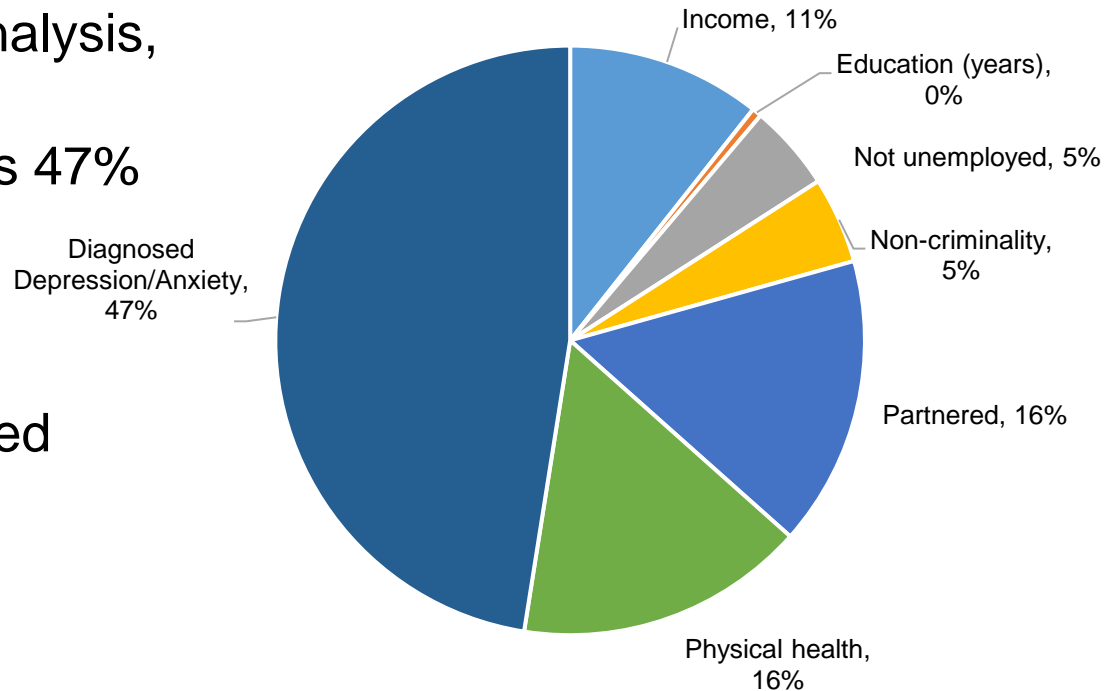
- We (primarily) look at individuals' self-reported life satisfaction, for various reasons:
  - Can be seen as democratic, vote on one's life, one person one vote
  - Seen as key life outcome, comprehensive without 'inner' aggregation
  - Correlates with objective outcomes (e.g. longevity)
  - Predicts individual behaviour (e.g. voting)
  - Uniquely captures behavioural scientific phenomena such as anticipation and misprediction, adaptation, relative comparisons (jealousy), spillovers, and things like being treated fairly or with dignity ('procedural utility')
- Importantly, data on life satisfaction are cheap and easy to collect, interpret, and straightforward to analyse. There exists large and readily usable evidence base on what matters (or not) to people's life satisfaction, in the UK and elsewhere.

## The Green Book

- The Green Book is the official guidance for policy analysis (i.e. policy appraisal and evaluation) published by HM Treasury.
- It now permits (soon mandates?) policy analysis based on wellbeing data, which is detailed in its Supplementary Guidance on Wellbeing, namely:
  - Social cost-benefit analysis (CBA)
  - Social cost-effectiveness analysis (CEA)
- Both types of policy analysis are based on life satisfaction.
- They are actual decision-making tools that help policy-makers across all sectors (i.e. government, business, and NGOs) make the case that a policy is worth funding.

## A Snapshot: Individual-Level Characteristics

- Contribution of different individual-level characteristics to explained variation (about 19%) in adult life satisfaction in UK
- BHPS/UKHLS, cross-section, all years
- Multiple regression analysis, effects standardised
- Mental health explains 47% of overall variation in life satisfaction
- Being partnered 16%
- Both are directly related to *loneliness*



Source: Frijters et al. (2020)



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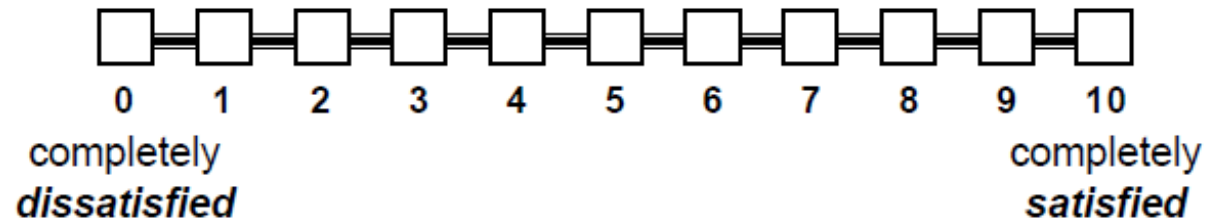
## The WELLBY

- Wellbeing-Year: our measure of wellbeing benefit
  - 1 point of life satisfaction (measured on a 0-to-10 Likert scale) for 1 individual for 1 year

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**How satisfied are you with your life, all things considered?**



Source: German Socio-Economic Panel Study (SOEP)

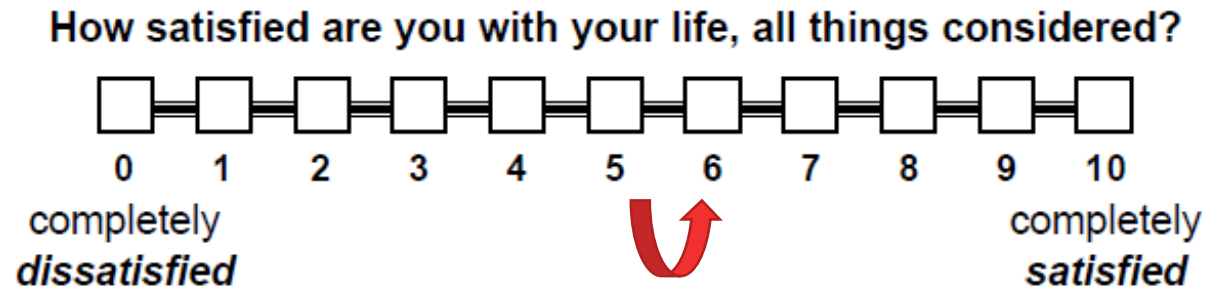


## The WELLBY

- Wellbeing-Year: our measure of wellbeing benefit
  - 1 point of life satisfaction (measured on a 0-to-10 Likert scale) for 1 individual for 1 year
  - GBP 13,000 (in 2019 prices), GBP 15,528 (in 2023 prices)

*Please answer according to the following scale:*

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Source: German Socio-Economic Panel Study (SOEP)

## The WELLBY

### ■ Definition

- 1 point of life satisfaction (measured on a 0-to-10 Likert scale) for 1 individual for 1 year

### ■ Formula

- None

### ■ Example

- Effect of intervention X (reducing *loneliness*) on life satisfaction: 0.15 points (per individual, per year)
- Hence, monetised wellbeing benefit of intervention X:  
 $0.15 \times \text{GBP } 13,000 = \text{GBP } 1,950$  (per individual, per year)



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# Thank you.