Economics focus | The joyless or the jobless

Should governments pursue happiness rather than economic growth?

IN 2006 Richard Layard, an economist at the London School of Economics, argued that unhappiness was a bigger social problem in Britain than unemployment. In the "Depression Report", which he co-wrote, Lord Layard pointed out that more people were claiming incapacity benefits because of depression and other mental disorders than were on the dole.

The subsequent recession fixed that. The jobless now outnumber the joyless—there is nothing like a drop in GDP to remind everyone how much this much-maligned metric matters. But despite the economic gloom, economists and policymakers have not lost their interest in happiness. This month David Cameron, Britain's prime minister, asked the Office of National Statistics to measure the country's "general well-being", as part of his promise to focus on GWB not just GDP.

Lord Layard has long argued that GDP is overrated as a gauge of a country's well-being. Once an economy reaches an income per person of about $15,000 (measured at purchasing-power parity), economic growth ceases to add to happiness, he says. America, for example, is considerably richer than Denmark, but Americans are no more satisfied with their lives. His claim was echoed in "The Spirit Level", a recent book by two British academics, Richard Wilkinson and Kate Pickett.

Influential though it may be, Lord Layard's argument does not make everyone happy. Justin Wolfers of the Wharton School at the University of Pennsylvania says he has read this claim "literally hundreds of times and it irritates me so much". He and Betsey Stevenson, also at Wharton, have never found a formal statistical test of the proposition.

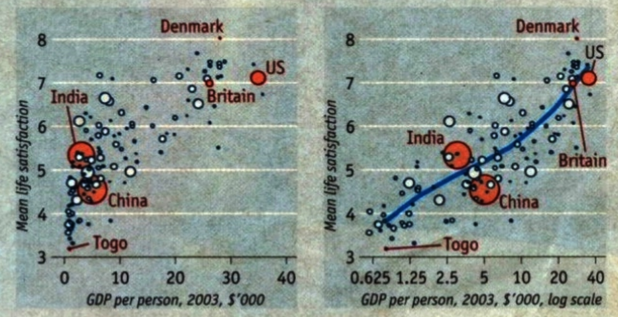
Angus Deaton of Princeton University also doubts the claim. It is based, he points out, on charts similar to the one below (left-hand side), which plots national well-being against absolute levels of per person income. In the chart shown, each increment represents an extra $10,000. Sure enough, well-being rises steeply with income, then levels off, just as Lord Layard contends.

But all the chart really shows is that an extra dollar is worth less to the rich than to the poor. The interesting question is whether the same percentage increase in income means as much to a rich country as to a poor one. Economic growth, after all, is normally expressed in proportional terms: we say GDP grew by 1%, not by $1 billion. The chart on the right-hand side shows the same data plotted on a logarithmic scale, so that each increment represents a 100% increase in income per head. It shows that the relationship between income and well-being remains fairly steady, from the poorest countries to the richest.

Happiness is a logarithmic scale

Life satisfaction and GDP per person at PPP*

Circle size is proportional to population size



Sources: Penn World Table 6.2; Gallup World Poll, Angus Deaton

*Purchasing-power parity

This suggests that governments cannot afford to ignore growth, even if they seek the happiness of their citizens, rather than their prosperity. But is happiness, in fact, the right goal for governments? Lord Layard is an unapologetic follower of Jeremy Bentham, a philosopher born in 1748 who thought that enlightened policymakers should seek the greatest happiness of the greatest number of people.

But Ravi Kanbur of Cornell University points out that happiness is not always a good guide to policy. He retells the story of a Brahmin in colonial India who informed a Benthamite official: "I am ten times as capable of happiness as that untouchable over there." Mr Kanbur contends that governments should "tax the millionaire in favour of the pauper, however great the millionaire's capacity for happiness relative to the pauper."

Sleepy but solvent

Happiness, of course, makes an appearance in America's founding documents. But the Declaration of Independence does not say that government should pursue the happiness of its citizens, only that it should secure its citizens' unalienable right to pursue it for themselves.

If people do not know what will make them happy (just as if they do not realise that smoking kills or calories fatten) governments could helpfully tell them what might. If people know what is best for them, but lack the self-discipline to choose it, some governments might also be tempted to nudge their citizens in the right direction. Mr Cameron's party has flirted with the idea of soft paternalism advocated by Richard Thaler and Cass Sunstein in their book "Nudge". The book suggests lots of ingenious ways to help people choose what they would choose for themselves, if only they had the know-how and the willpower.

But sometimes people have the knowledge and the self-command to choose happiness, and they still fail to do so. That is the surprising finding of a recent study by Daniel Benjamin, Ori Heffetz and Alex Rees-Jones, three economists from Cornell University, and Miles Kimball of the University of Michigan. They persuaded hundreds of people to answer conundrums such as: would you rather earn $80,000 a year and sleep 7.5 hours a night, or $140,000 a year with six hours' sleep a night?

About 70% of people said they would be happier earning less money and sleeping more. Likewise, almost two-thirds would be happier making less money and living close to their friends, rather than more money in a city of strangers. In response to another question, over 40% said they would be happier paying twice the rent to enjoy a shorter commute of ten minutes, rather than 45.

These findings support the notion that money isn't everything. But ask people what they would actually choose, as opposed to what would make them happy, and their answers can sometimes surprise: 17% of those who say they would be happier sleeping for longer and earning less also say they would still choose the higher-paying job; 26% of those prizing short commutes over low rents would still take the cheaper home; and 22% of those who value friends over money would still move to where the money is.

Mr Cameron will therefore need to tread carefully. Even if voters believe that his policies will make Britain happier, they may still choose a party offering lower taxes and bigger subsidies. Money may not buy happiness. But why take the chance? ■