

Should governments try to make people happy?

- What is 'happiness'?
- What is government meant to be doing?
- How relevant in the present crisis
- My own take: myopia and self-control

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THE CHALLENGE OF AFFLUENCE

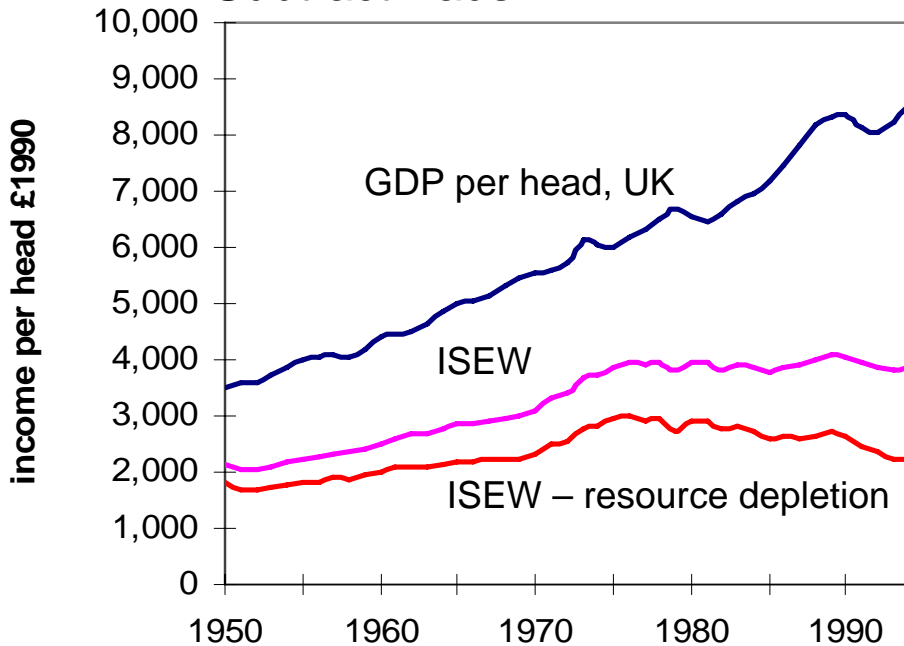
*Self-Control and Well-Being in the United
States and Britain since 1950*

OXFORD

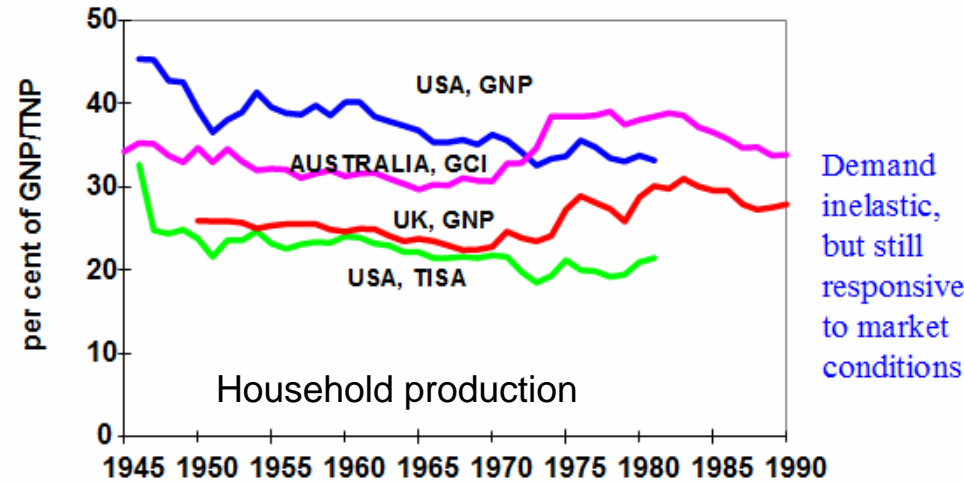
Affluence or Happiness?

- King of Bhutan (1972):
the primary objective of development and progress should be - something Gross National Happiness seeks to bring about
- Diener and Seligman (2004): [leading psychologists of ‘happiness’]
well-being should become a primary focus of policymakers, and its rigorous measurement is a primary policy imperative.
- Layard (2005): [leading proponent of economics of ‘happiness’; New Labour advisor]
We should monitor the development of happiness in our countries as closely as we monitor the development of income
- Kahneman and Krueger (2006): [economics Nobel psychologist & top economist]
acceptance of a national well-being index, as a complement to the National Income and Product Accounts....
- **Four approaches to well-being:** extended accounts, social indicators, hedonic dynamics, capabilities approach

Subtract Bads



Add Housework

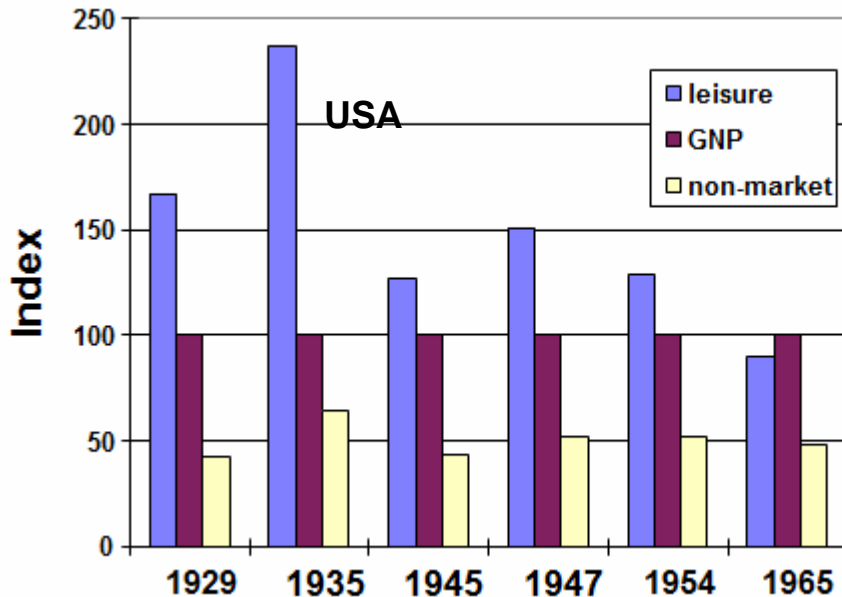


Demand inelastic, but still responsive to market conditions

Sources: Eisner (1989); Snooks (1994); Jackson & Marks (1994)

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Add Leisure



Most 'welfare' comes from outside the market

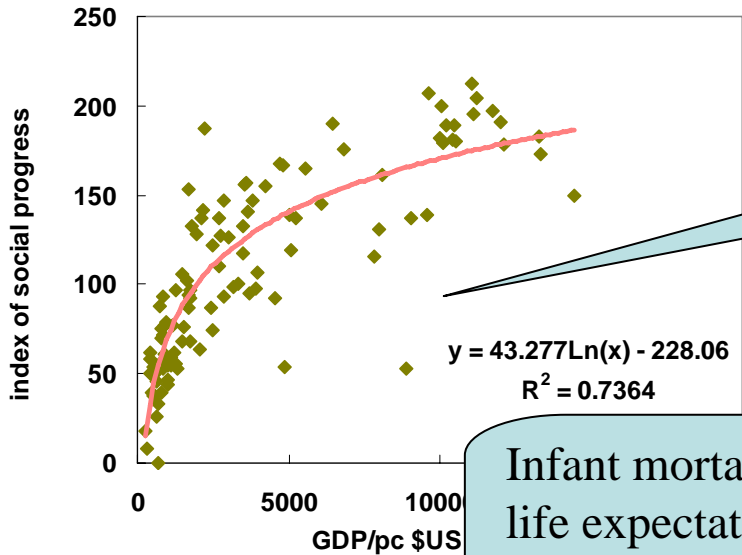
Extended accounts:

ISEW=Index of sustainable economic welfare

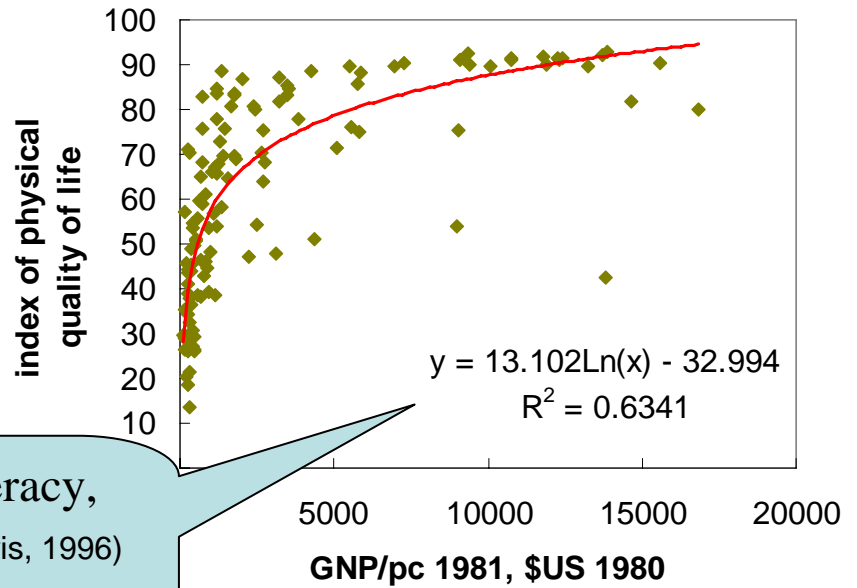
Source: Nordhaus & Tobin, 1972

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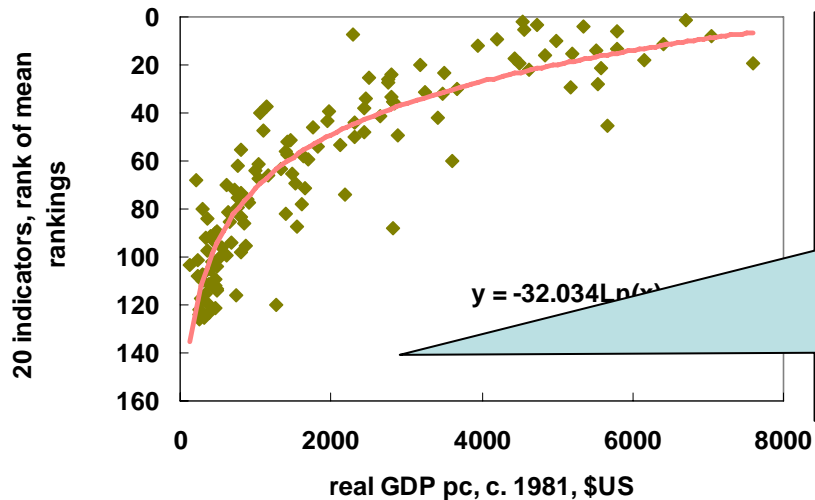
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Estes, 1988



Infant mortality, literacy, life expectation (Morris, 1996)



Slottje, 1991

political rights, civil liberty, household size, militarism, energy consumption, female and children labour participation rates, roads, telephones, life expectancy, infant mortality, medical services, nutrition, literacy, media access, GDP.

Social indicators: Richer is not (much) better
What would be effect of recession?
assymetry of loss and gain

Social Indicators: normative entitlements, non-accounting framework, developing country bias

Dynamics of hedonic experience

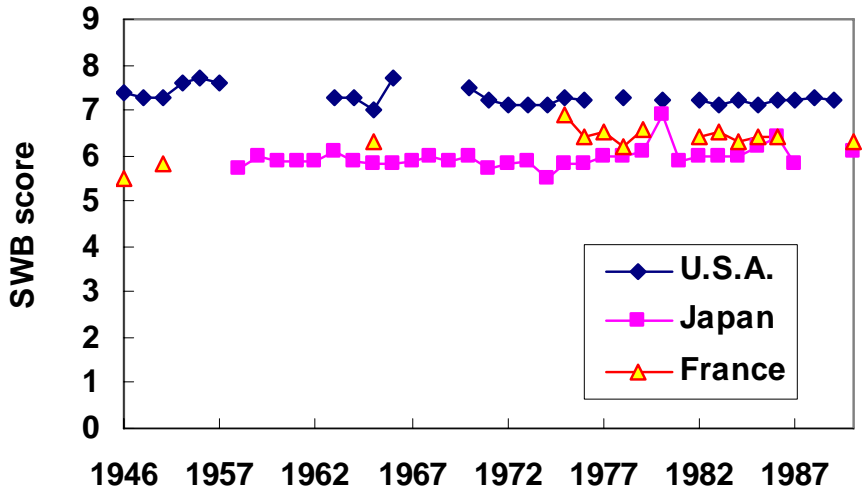
"Taking all things together, would you say you are very happy, quite happy, not very happy, not at all happy?"

"All things considered, how satisfied are you with your life as a whole these days?"

Hundreds of thousands of responses, over sixty years, scores of countries

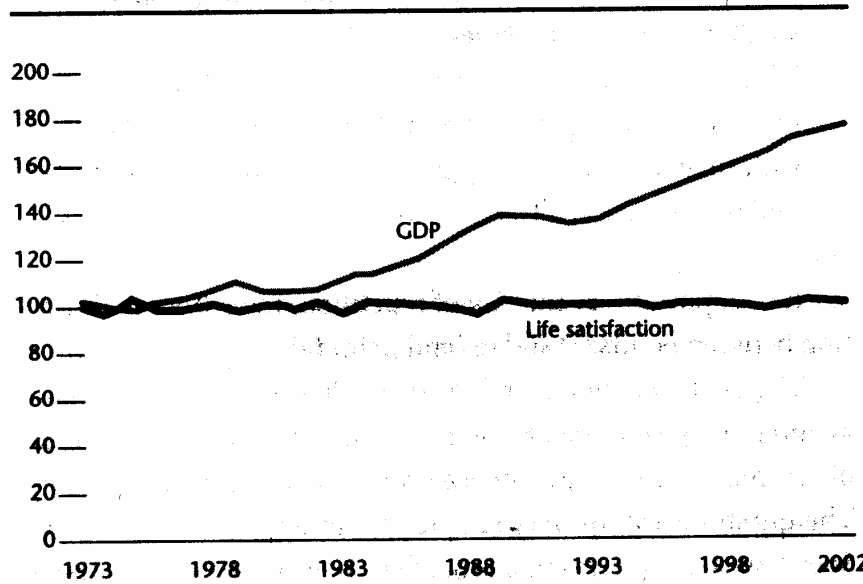
- Does money buy 'happiness'? Does economic growth improve the human lot?
- Economic growth prime test of national performance
- What is at stake?
 - **Right** – Money buys happiness. Justifies 'business as usual' and market liberalism.
 - **Left** – It doesn't – Rejection of market output as sole or prime measure of well-being.

'HAPPINESS' doesn't vary much



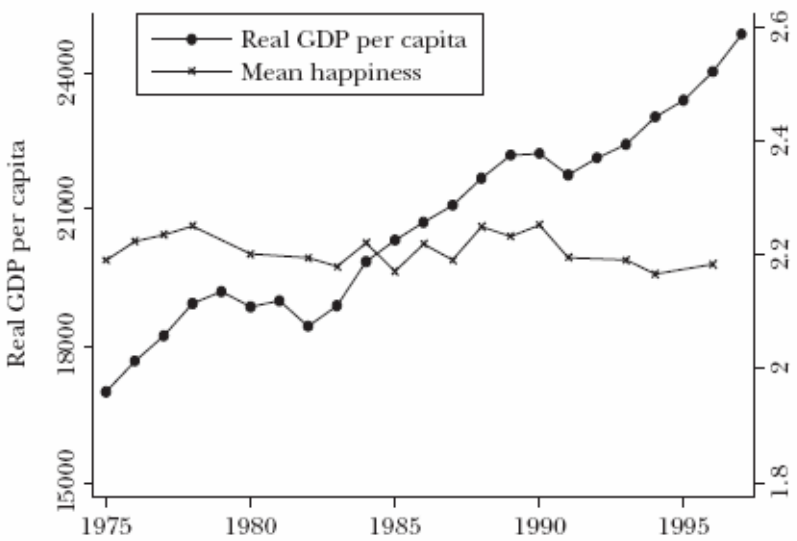
Diener and Suh, 1997

Figure 1 UK life satisfaction and GDP, 1973-2002
1973 = 100

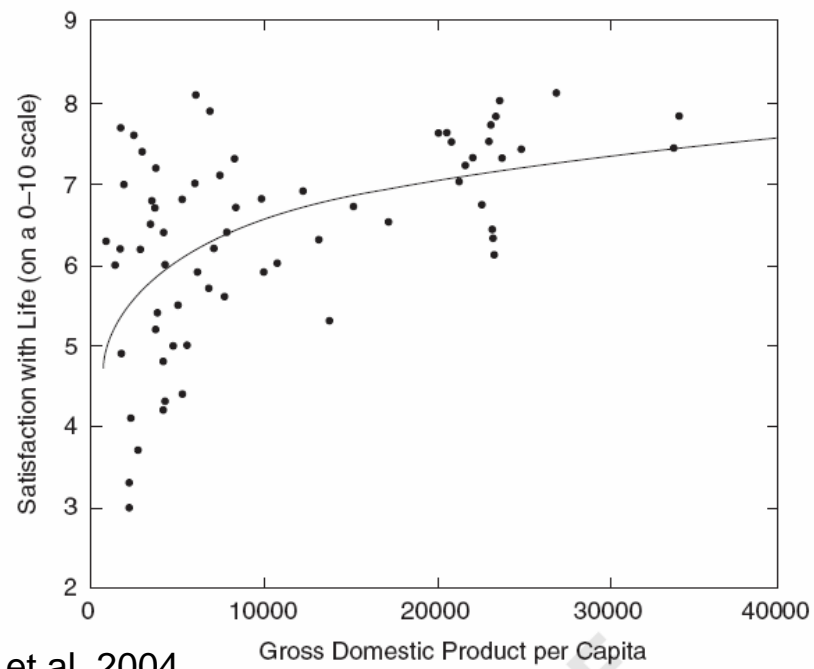


Johns & Ormerod, 2007

Mean Happiness and Real GDP Per Capita between 1975 and 1997 for Repeated Cross-Sections of (Different) Americans



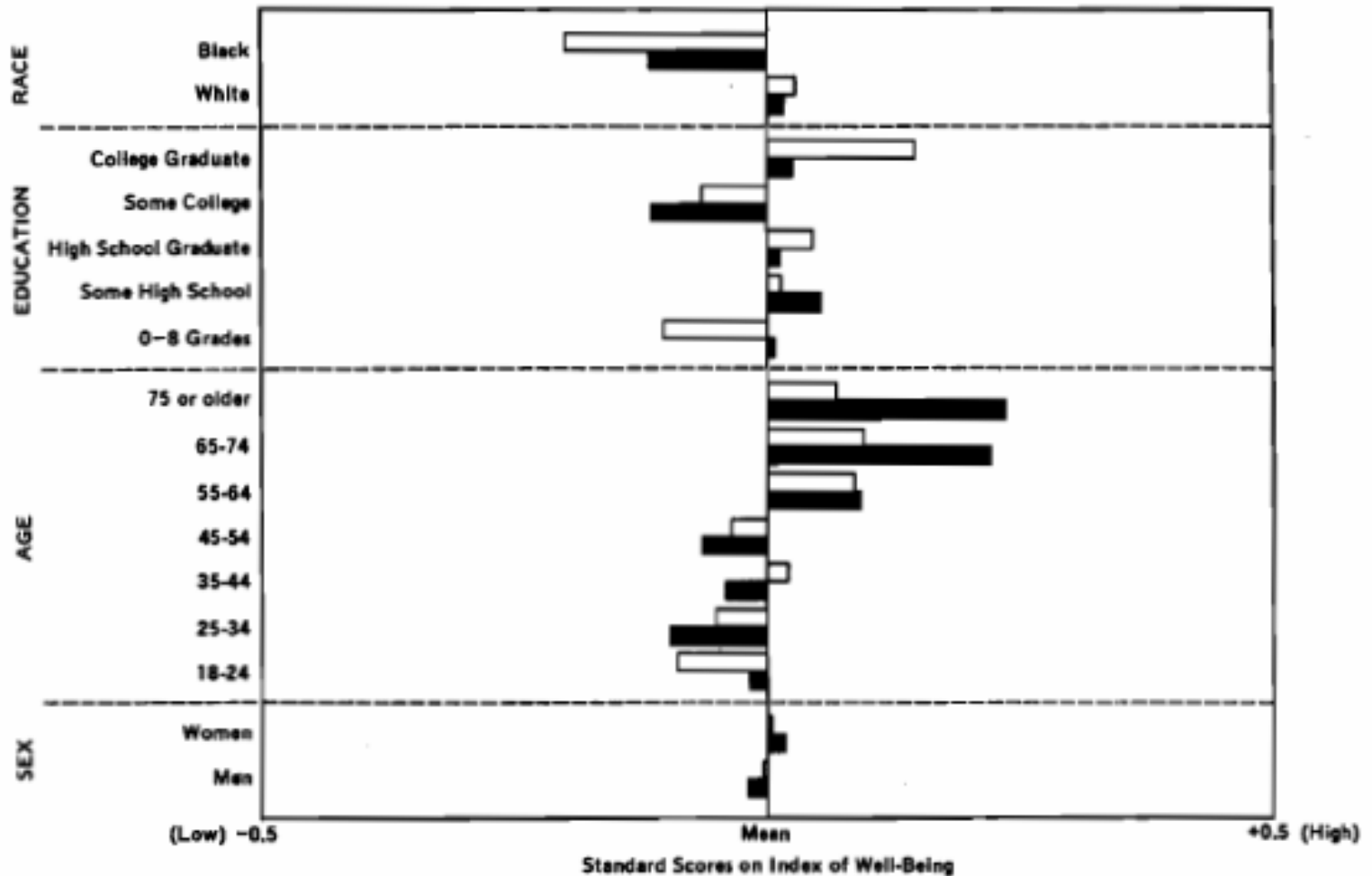
Di Tella et al, 2006



Diener et al, 2004

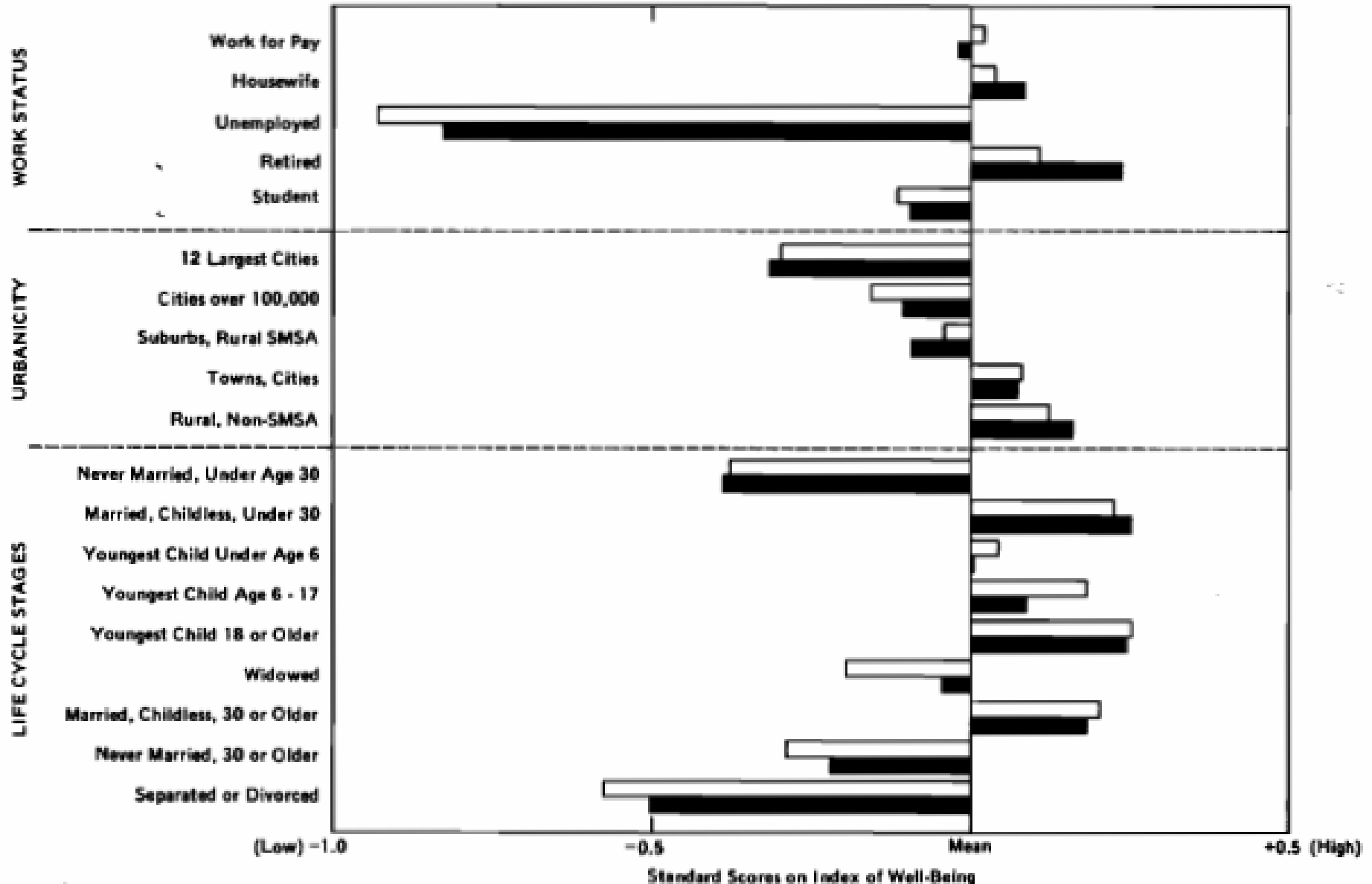
Happiness Equations: Happiness *within* countries: USA c. 1971

Figure 2-5: Average Standardized Scores on the Index of Well-Being, by Demographic Categories, Before and After Adjustment for Income^a



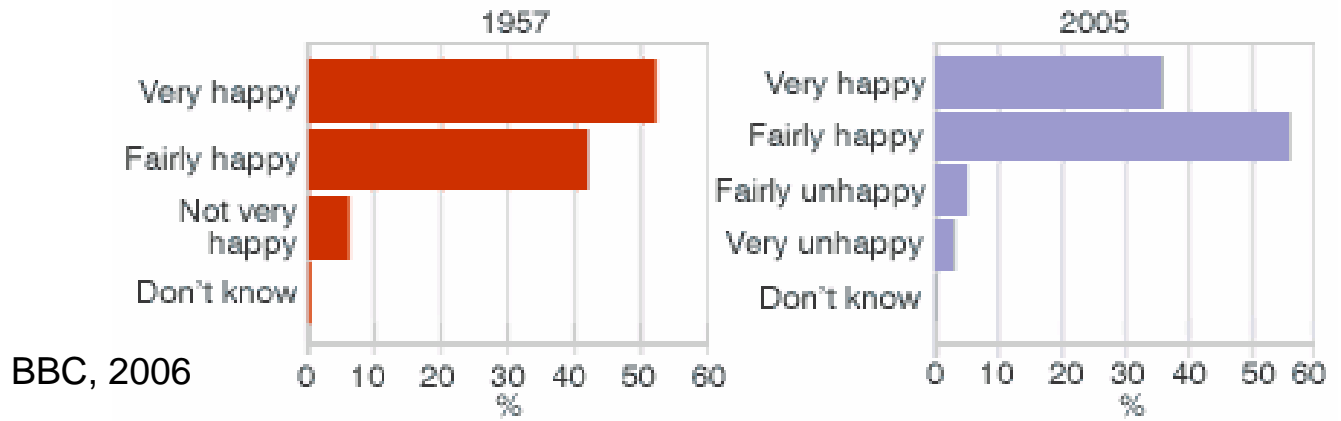
^a The open bars show the average standard scores for the designated subgroups on the Index of Well-Being. The solid bars show these scores adjusted to remove the effects of income differences between the subgroups.

**Unhappiness arises from social exclusion and personal isolation.
Happiness from social connection [‘social capital’?]**



In advanced countries, most people are 'happy'

IN GENERAL, HOW HAPPY WOULD YOU SAY YOU ARE?

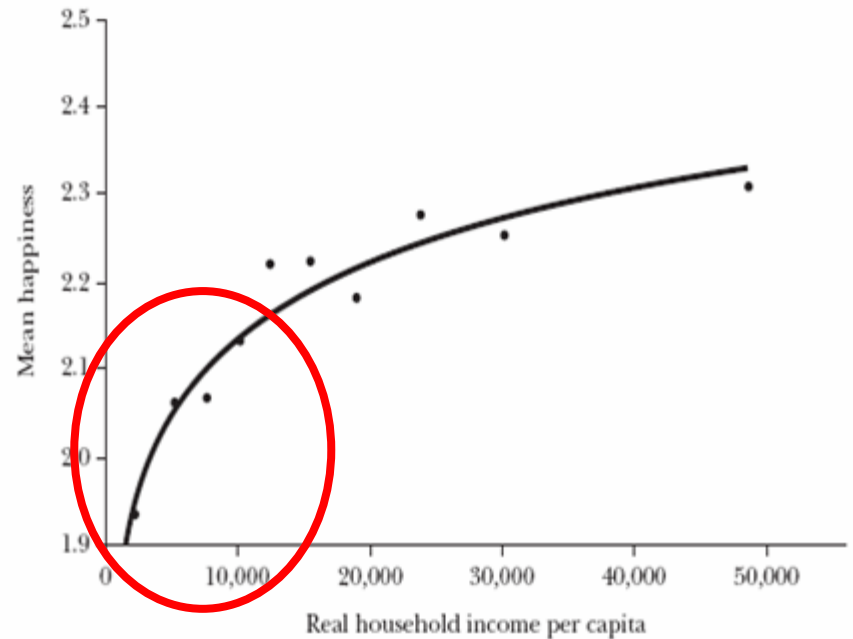


unhappy



Source: BHPS, 1997-2003. N = 74,481

Mean Happiness and Real Household Income for a Cross-Section of Americans in 1994

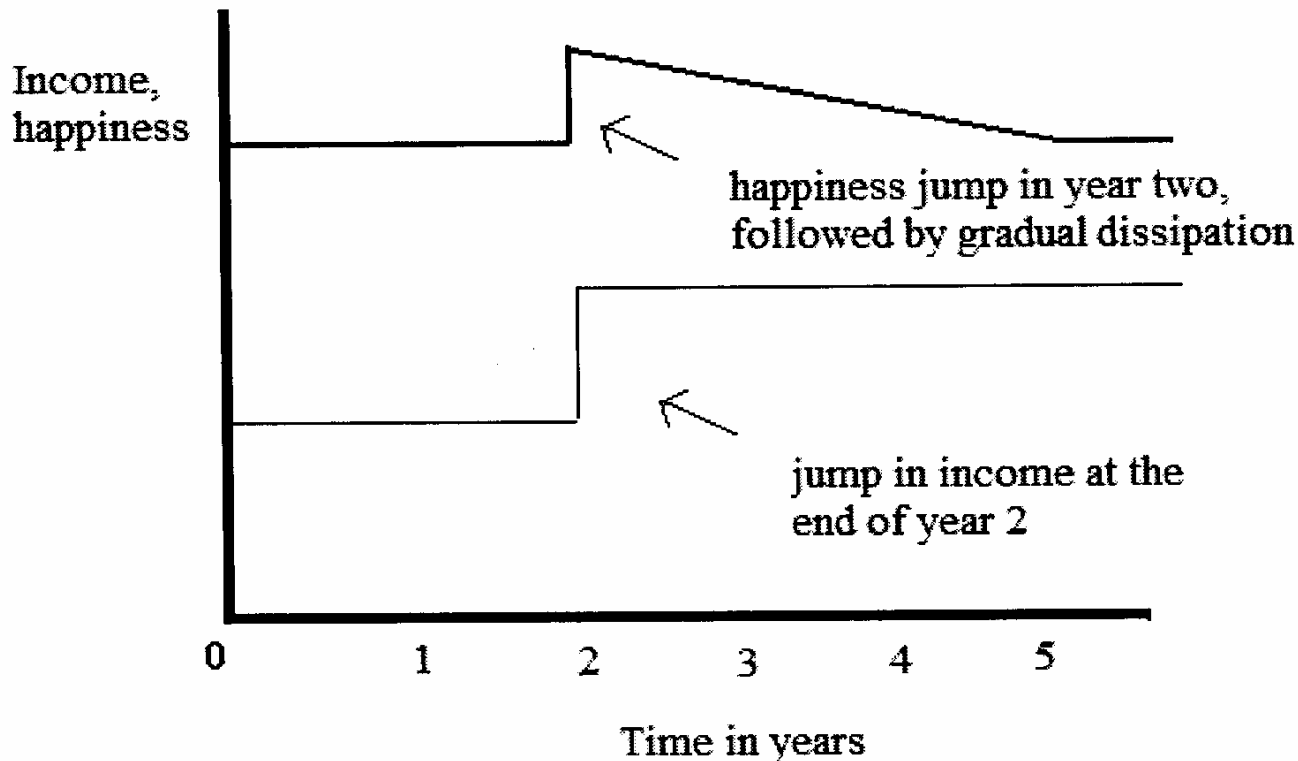


Di Tella et al, 2006--USA

Happiness as positional good

- Raising everyone's income by the same percentage does not change relativities.
'when everybody is somebody, then nobody is anybody' [W. S. Gilbert]
- The 'hedonic treadmill': habituation dissipates 'happiness'
- Useful to know – people 'happy' but 'insatiable'.

Figure 6: Change in Happiness following an Income Shock



So -- does money buy happiness?

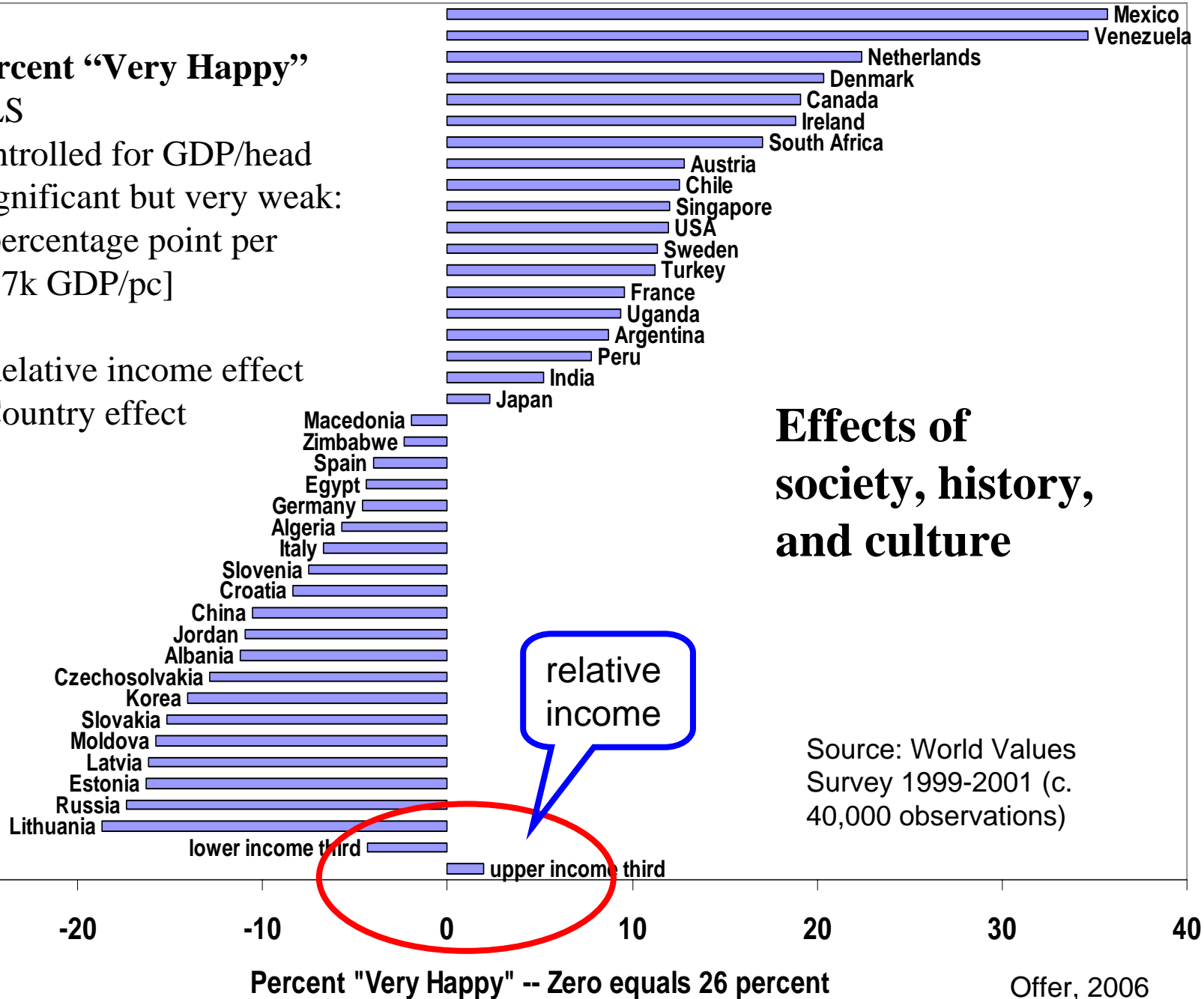
- For poor countries, but not for rich ones.
- Within countries, higher income produces more happiness.
- In rich countries, vast majority of people are happy/very happy.
- Small minority *are* unhappy.
- Predictors of unhappiness: unemployment, loneliness, separation, ethnicity, mental disorder.
- Recession likely to generate more unhappiness
- Materialism weaker than social connection – perhaps a substitute for social connection?

Percent "Very Happy"

OLS

controlled for GDP/head
[significant but very weak:
1 percentage point per
\$9.7k GDP/pc]

- Relative income effect
- Country effect



Effects of society, history, and culture

Source: World Values Survey 1999-2001 (c. 40,000 observations)

Percent "Very Happy" -- Zero equals 26 percent

Offer, 2006

Should government promote “happiness?”

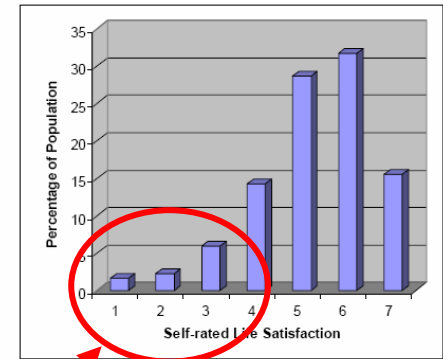
• NO:

- Most people already “happy” or “very happy”
- “Happiness” not responsive to economic growth/levels of income
- Increase in satisfaction short-lived
- Suffering when growth declines.
- So prime objective should be economic growth.

• YES?

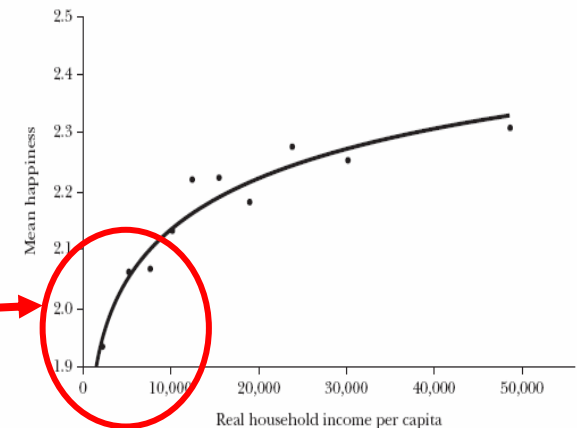
- Status race is wasteful.
 - A loser for every gainer. More pain than gain (asymmetry of gain and loss)
 - Losing stressful. Inequality associated with deprivation
- Do something: “Gongs” cheaper than BMWs.
- Tax positional expenditure, e.g. extra work, luxury
- Target “unhappiness” rather than happiness
 - E.g. unemployment/inflation c. 5:1
 - Mental health [incidence like ‘unhappiness’]
 - Schopenhauer: art and reflection as refuge from status race. E.g. Buddhism, culture.

The distribution of life-satisfaction levels among British people



Source: BHPS, 1997-2003. N = 74,481

Mean Happiness and Real Household Income for a Cross-Section of Americans in 1994



‘Authentic happiness’

- Martin Seligman and ‘Positive Psychology’
- The six virtues:
 - Wisdom and Knowledge
 - Courage
 - Humanity
 - Justice
 - Temperance
 - Transcendence
- Happiness:
 - Positive emotion (hedonic: the pleasant life)
 - Engagement (the engaged life)
 - Meaning (the meaningful life)
- [Aristotelian notion of happiness as virtue over complete life: ‘eudaimonia’]

The therapeutic state? ‘positive thinking’

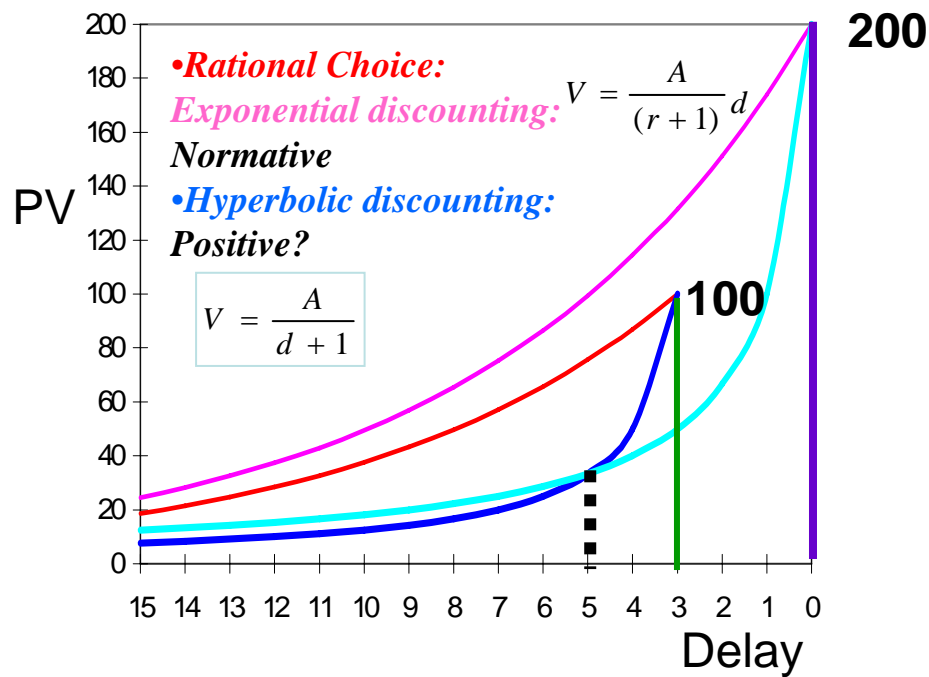
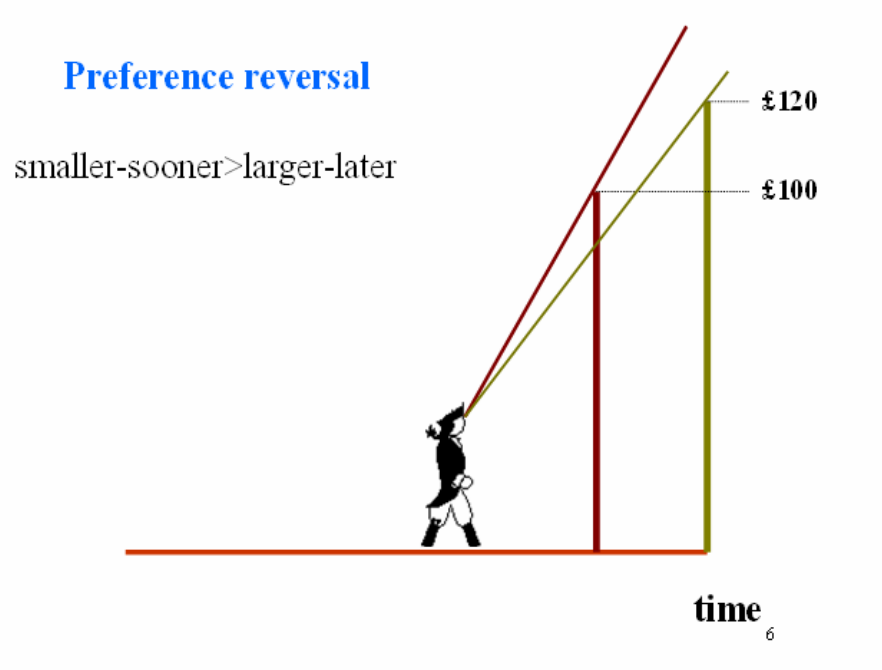
- Form of social conditioning
- Cognitive Behaviour Therapy
- Interventions: e.g. ‘three good things in your life’
- Wellington College (annual fees £24,000)– teaches happiness
- Young Foundation: ‘Local Well-being project’ [Manchester estates] – ‘Can we immunise young people against unhappiness and depression?’ inculcate ‘Emotional resilience’
- Issues:
 - Is virtue an end or a means? Instrumental or substantive?
 - What can motivate engagement in consumer society?
 - Virtue a communitarian conception, happiness a liberal one
 - Is engagement always in a good cause?
 - Tolerate the intolerable, or change it?

‘Affluence breeds impatience, and impatience undermines well-being’

Myopia gives rise to bad choices:

‘There is no quality in human nature, which causes more fatal errors in our conduct, than that which leads us to prefer whatever is present to the distant and remote.’

[David Hume, *Treatise on Human Nature*]



- **Commitment problem:** sacrifice now for something better later?
- **Calculation intractable.** Other problems too – future radically inscrutable.
- **No algorithm** available, so fall back on tried and tested ‘commitment solutions’, like education, insurance, marriage.
- **Role of government** – to act as commitment agent for society. Long-term.

Eating as a commitment problem=>obesity

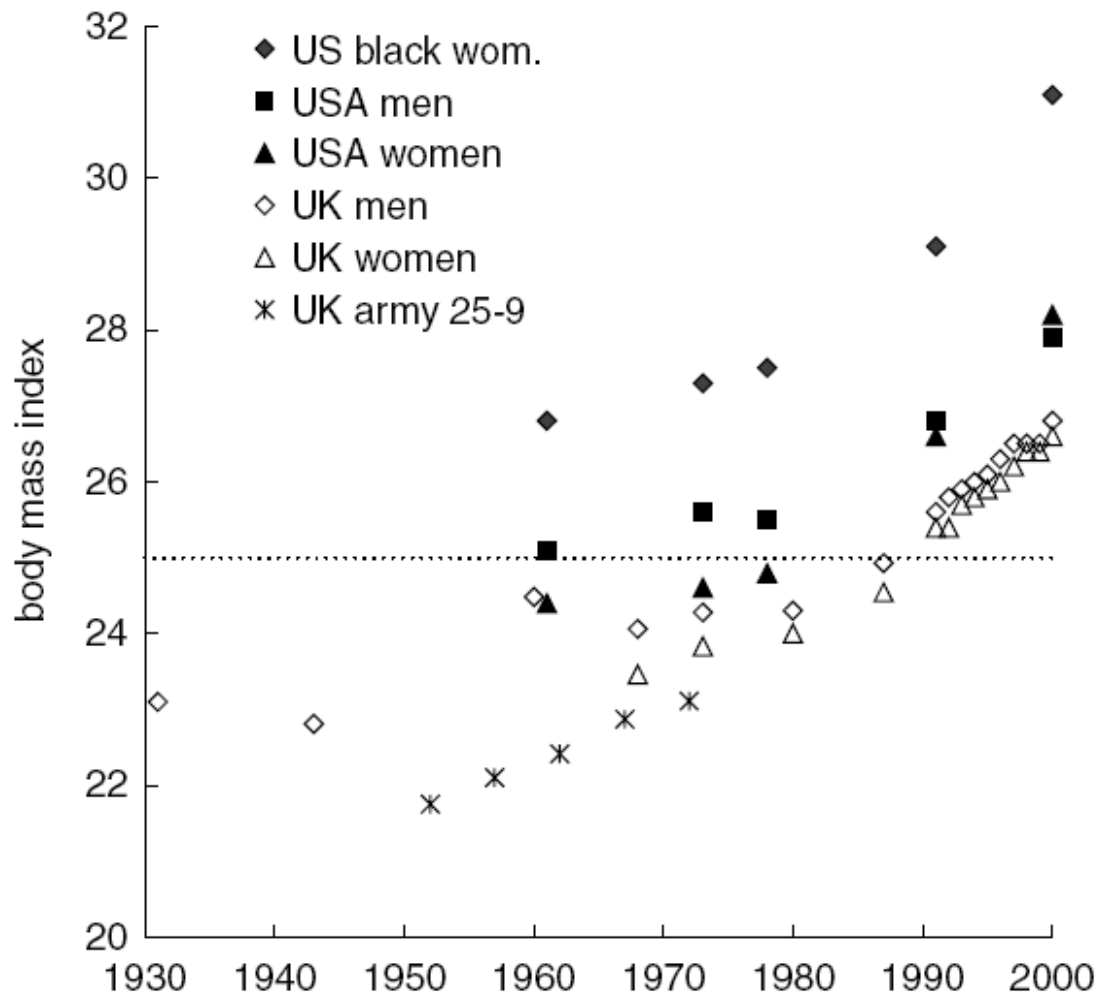


Fig. 7.1. Mean adult Body Mass Index (BMI) in the United States and England and Wales, c.1930–1998

Why? flow of innovations undermines commitment

- Novelty [e.g. fast food] overwhelms existing commitment devices [e.g. family meal]
- Novelty induces short term ('myopic') bias, and habituation.
- Without protection of commitment devices, exposure to swamping and habituation.
- Vendor leapfrogging:
 - Club music: rising volume.
 - McDonald's hamburgers: rising size.
- Hence 'paradox of happiness': rising income, stagnant well-being
- Problem is not to maximise consumption, but to slow it down, to *pace* it.
- Under affluence, scarcity becomes scarce.
- Objective: optimal 'flow' of psychic reward.

What is government for? to solve commitment problems

- If choice were easy, no need for social intervention.
- Problem of **‘internality’**, i.e. self-harm. If choice is fallible, adult choosers can use external help. ‘Optimal paternalism’
 - E.g. drink driving. Judgment deteriorates with each additional glass. Law provides external ‘stopping rule’
 - Gruber & Mullainathan (2001) Tax on cigarettes increased smokers ‘happiness’. Helped them solve self-control problem.
- Distribution of ‘goods in kind’ constrains choice:
 - UK ‘housing benefit’
 - USA food stamps
 - Free education
 - UK – National Health Service
- Mandatory saving: ‘National Insurance’, ‘Social Security’
- Even conservatives don’t act on their own ‘nanny state’ rhetoric. They advocate:
 - constitutional constraints, balanced budget amendments, term limits, war on drugs, salvaging risk-taking bankers.

Free markets make you fat!

Percentage Obese by Welfare Regimes, c. 1990-2000

		Percent Obese	
	Countries	Male	Female
Nordic	5	14.8	15.3
Continental	8	15.1	15.0
Market-liberal	7	22.5	23.8

Difference according to welfare regime:

Male:

One way analysis of variance: $F=7.1, P<0.01$

Post hoc Scheffe test:

Liberal -v- Continental $p<0.05$

Liberal -v- Nordic $p<0.05$

Continental -v- Nordic not significant

Female:

One way analysis of variance: $F=6.8; P<0.01$

Post hoc Scheffe test:

Liberal -v- Continental $p<0.05$

Liberal -v- Nordic $p<0.05$

Continental -v- Nordic not significant

Source of data: International Obesity Task Force Prevalence Data

Rationality, myopia, commitment?

Imply different visions of well-being

- Markets satisfy demand for arousal.
- But ‘creative destruction’ undermines sense of security
- Government as commitment agent
- Pensions: pay as you go.
- Education/health – choice between myopic ‘efficiency’ and long-term stability and ‘intrinsic motivation’
- Labour markets. ‘Race to the bottom’ of ‘flexible labour markets’ vs. ‘high [wage] road’.
- Underwrite parenting: human, social, cultural capital.
- Choice vs. prudence: gambling, drink, drugs, smoking
- Youth. Alternatives to alcohol.
- Urban layout ‘free for all’ or planning
- Large current challenges raised by time-inconsistency:
 - Oil depletion
 - Climate change
- May be beyond resources of the market

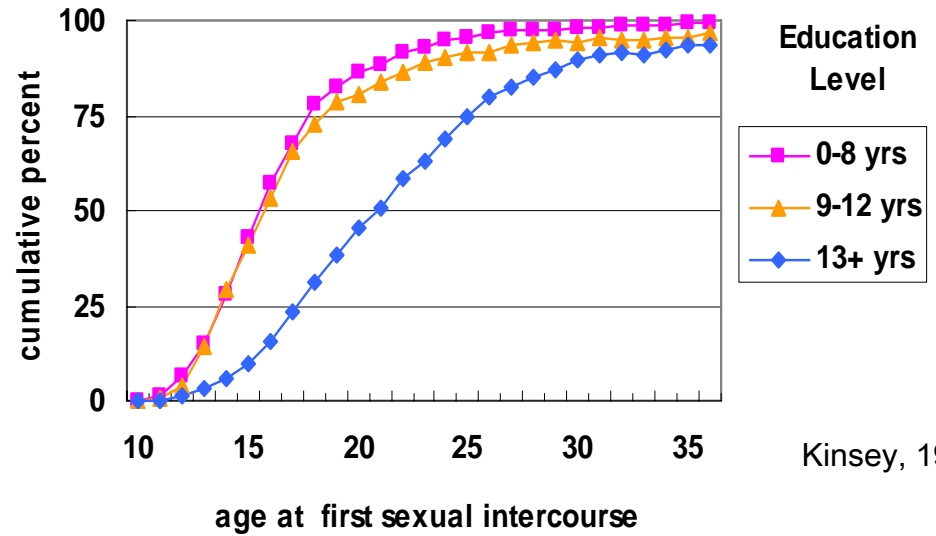
Conclusion: a role for government

- In the short-term, target unhappiness rather than happiness.
- To promote well-being, focus on the long term, which is difficult for individuals to achieve, and beyond the reach of markets.
- Subject of my talk tomorrow

COMMITMENT IS COSTLY

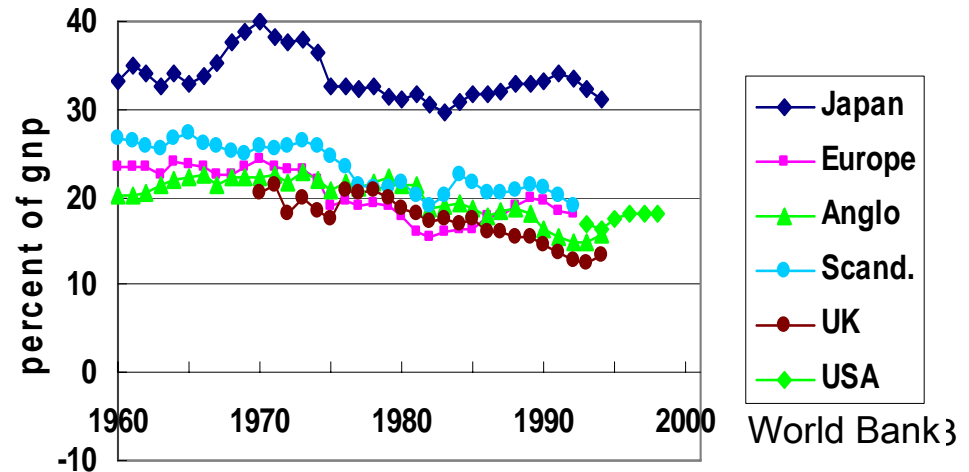
- Cross-section: *Individual* prudence *rises* with affluence
- Over time: *Social* prudence *declines* with affluence
- E.g. sexual initiation.

(a) USA, Male Age at First Sexual Intercourse
c. 1940s, by Level of Education



Kinsey, 1948

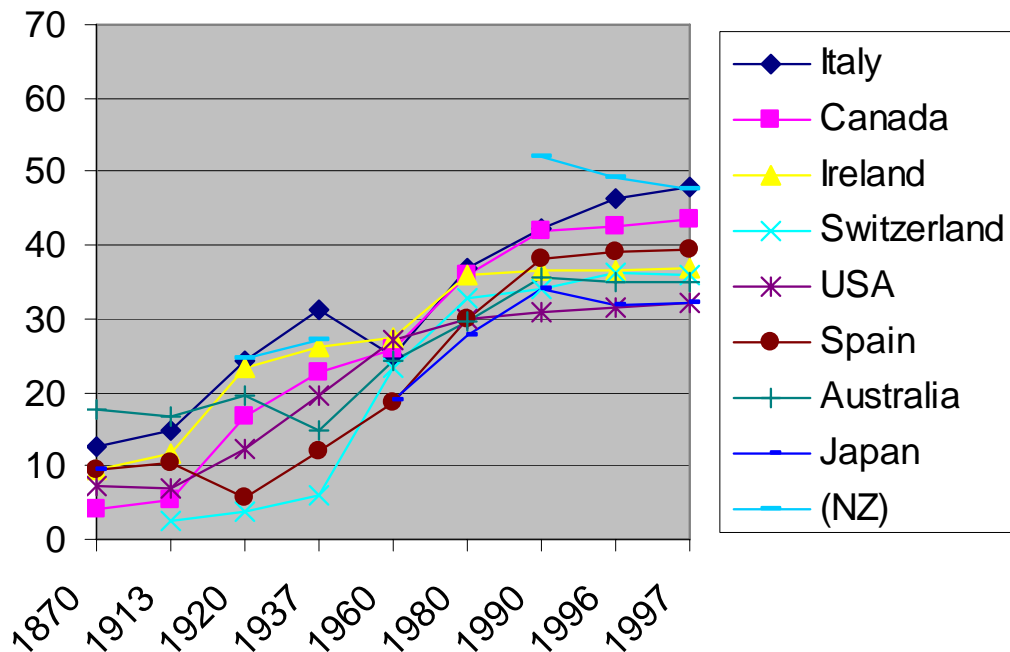
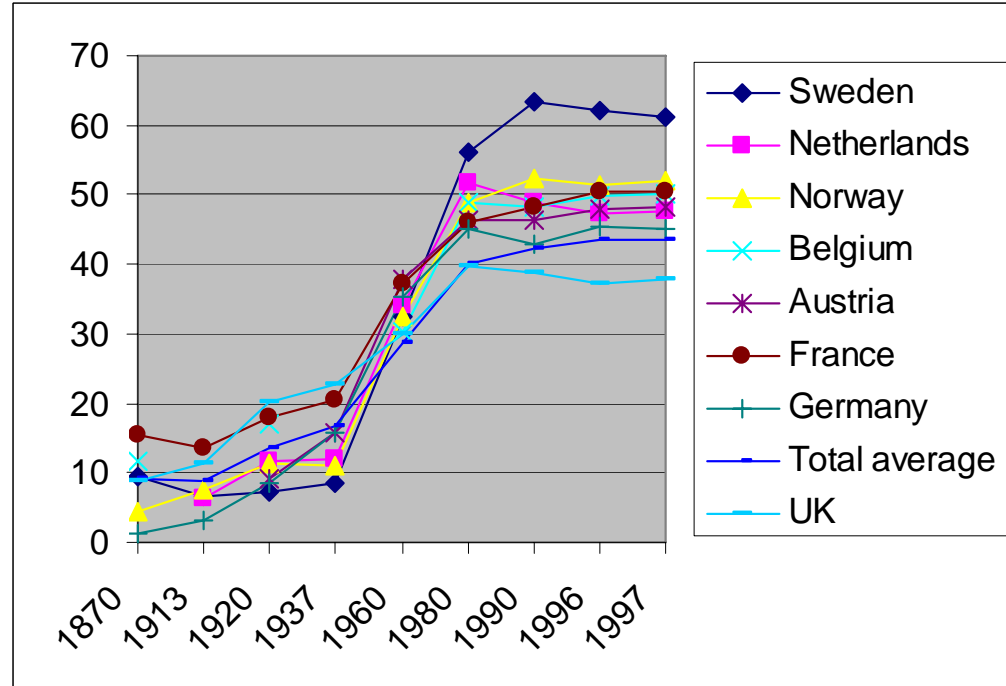
Gross National Savings, percent of GNP



World Bank

- Over time: Savings behaviour

- Paternalism is voters' revealed preference.
- Rise of the public sector. 40% plus in most civilized societies.
- Paternalist countries both rich and "happy".



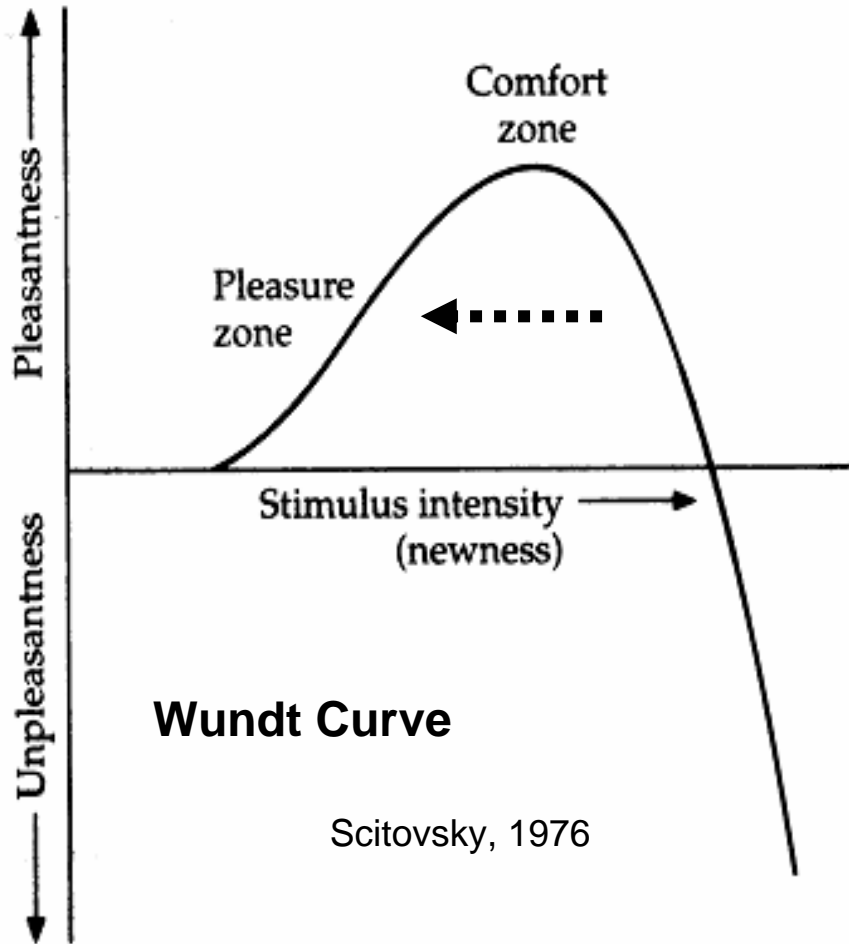
General Government Expenditure as percentage of GDP, 1980 prices

Tanzi et al, 2000

How does government do it?

- Government advantage: Old age, health, education, infrastructure, defence.
- Long-term payoffs difficult for market to provide due to difficulty of long-term contracting.
- Risks: market cycles, currency, inflation, fraud, default, contract ambiguity, inscrutable future. Management costly.
- Government is commitment agent for society's long-term interests.
- Pay-as-you-go solves contracting problem. Dispenses with long-term contract.
- Reflects current democratic equilibrium between providers and recipients.
- Periodic renegotiation keeps it solvent.
- Anchored in reciprocity norms of overlapping generations.
- Markets can undermine social capacity for commitment.

Choice might fail to fulfil: the dynamics of desire



- Changes more important than levels
- Habituation
- New rewards can swamp capacity for enjoyment
- Optimum is not maximum
- Well-being requires matching level of arousal to capacity to absorb it.
- 'Flow', 'Pacing'

Commitment problem: How are choices made?

- **Calculation is intractable. Fall back on ‘Commitment devices’:**
 - *Personal strategies: Self-control*
 - Attention control, personal rules, ‘bright lines’, hostages.
 - *Social commitment technologies: Third party enforcement*
 - Counting, calendar, clock, Sabbath, money, gold standard, central bank, law, constitution, contracts, education, examinations, marriage, insurance, mortgages, pensions, commercial brands, exponential discounting. **‘Civilization is a web of commitments’**
 - Take time to evolve, develop, validate, diffuse.
 - Commitment is slow and costly to build up