SUMMARY PAPER 1

Glasgow Centre for Population Health

The Challenge of Affluence

Avner Offer,
Chichele Professor of Economic History
Oxford University,

Overview

In this lecture Prof Offer suggests that increasing affluence does not bring increasing happiness. On the basis of many studies since the 1950s he suggests that, given our preference for the short term, governments might be best advised to limit their actions to dealing with unhappiness in the short term. In the longer term, the inscrutability of the future is also a challenge. In these circumstances, governments should promote well being through actions to enhance and establish commitment devices, which are difficult for individuals to achieve and beyond the reach of markets to provide.

Key ideas

Hedonic Treadmill: The tendency of a person to remain at, or return to, a relatively fixed state of happiness despite changes in fortune. When income increases, for example, expectations also rise, resulting in no lasting gain in happiness.

Gross National Product: Gross domestic product (**GDP**) is defined as the "value of all final goods and services produced in a country in one year". On the other hand, gross national product (**GNP**) is defined as the "value of all (final) goods and services produced in a country in one year, plus income earned by its citizens".

Gross National Happiness: Concept developed by the former King of Bhutan in 1972 as a response to crticism that his economy was growing poorly. While conventional development models stress economic growth as the ultimate objective, the concept of GNH is based on the idea that worthwhile development of human society requires more than this. GNH includes the idea of equitable and sustainable socio-economic development, preservation and promotion of cultural values, conservation of the natural environment, and establishment of good governance.

Myopia: Literally short-sightedness. This term was used in the lecture as a metaphor to illustrate the fact that people tend to prefer gains in the short rather than the longer term.

Commitment device: An arrangement which society makes to overcome myopia e.g. free state education, marriage, response to climate change.

Eudemonia: The state of wellbeing and well doing, usually (but inadequately) translated as happiness.

SUMMARY PAPER 1

Summary

Professor Offer began by observing that there was a rising tide of concern about happiness from a range of different sources. The King of Bhutan famously has developed the idea of Gross National Happiness as an alternative to Gross National Product, while other commentators, including Diener and Seligman, Layard, Kahneman & Kruger, have suggested that we pay more attention to happiness in the public policy.

He then outlined three perspectives on the measurement of happiness – those of: extended national accounts, social indicators, and hedonic dynamics – before introducing some of his own (myopia and commitment) in trying to understand what governments ought to concentrate on in relation to happiness.

Extended National Accounts: In discussing this, Prof Offer reminded us that much which finds its way into the national accounts derives from activity around social bads, for example resource depletion, the activity associated with accidents or increasing crime, rather than social goods. If one subtracts these 'bads' and then adds in other 'goods' which are not normally counted (for example, household production which stands at 25-40% of Gross Domestic Product in most countries; or leisure, which can involve a sacrifice of income), then it becomes apparent that the market accounts for a minority of our welfare. We were reminded too that the public sector accounts for about 40% of GDP, so that the private sector and market activity accounts for a very small proportion of our welfare. This extended approach still measures welfare in money. Some other approaches do not.

Social Indicators: The use of social indicators – for example civil liberties, infant mortality, life expectancy – to measure welfare gets away from the use of money as the measure. Prof Offer gave several examples of this kind of measurement from a variety of authors. These tended to show that above a certain threshold level, equating to about $10,000 a year, the relationship between income per head and welfare is not linear. In other words, increases in welfare from additional income diminish as income increases. It was pointed out, however, that because of this, above the threshold level, *decreases* in income have twice the impact on welfare that *increases* in income have. Loss affects us twice as much as similar gain. Additionally several countries, while they have lower per capita incomes, do better on a range of such indicators than their counterparts with higher per capita income.

Examining the *dynamics of hedonic experience* was, he suggested, a third way of assessing happiness. This often involves survey and questionnaire based data, in which participants are asked to rank how they generally feel on a scale: for example going from very happy – not all happy. While it must be borne in mind that there are limitations to this type of data and its definition of happiness, most of these surveys suggest that most people are happy most of the time. Offer presented data from the USA, Japan and France which indicated that happiness does not increase much as national income increases. He suggested that it may be that increases in GDP are needed simply to keep populations at the same levels of such happiness. The data also suggest that happiness is a relative concept and often returns to a fixed point after changes. So for example if income increases, so does happiness, but it tends to return to a level similar to that before the income increase in a relatively short period of time. Overall, then, increases in income are more important in poorer countries than richer ones. Within countries, he suggested that improvements in relative income improved happiness. A small minority of people describe themselves as unhappy. The predictors of unhappiness in such situations are robust - unemployment, loneliness, separation, minority ethnicity and mental disorder. He observed that with a downturn in the economy, we may be heading into a period when there is more unhappiness around. The general conclusion which he drew from these data was that materialism is a weaker influence of happiness than social connection; and commentators suggest that materiality is a poor substitute for connection when it comes to happiness. Multi country studies have found that Mexicans and Venezuelans report among the happiest and Italians and Germans among the more unhappy, suggesting that non income factors rather than income differences alone explain most of the differences in happiness.

In summarising this section of his lecture, Prof Offer suggested that most people report themselves as very happy or happy. There seems to be little or no happiness response when GDP increases, and increases from income rises are short lived. Since there is suffering when growth declines, perhaps governments should concentrate more on economic growth than happiness. On the other hand the status race associated with increasing income is wasteful and involves losers (who suffer) as well as gainers. It might be more useful for governments to concentrate on the taxation of positional goods, the relationship between unhappiness and mental health, and the promotion of art and culture as refuges from the status race.

Professor Offer then briefly turned to the idea of "Authentic Happiness" and its identification of six virtues (wisdom, courage, humanity, justice, temperance and transcendence) which are associated with three different kinds of happiness (hedonism or the pleasant life, the engaged life and the meaningful life,) leading back to the Aristotelian idea of 'Eudemonia' (*cf lecture , series 1 when AC Grayling introduced us to this latter idea.).* He asked some questions about this around whether virtue is a means or and end, the meaning of engagement in a consumer society, the purpose of engagement and the differences between virtue, which he considers to be a communitarian concept, and happiness, which he considers to be a liberal one. He suggested that a danger of the Authentic Happiness approach is that it may encourage individuals to tolerate the intolerable, rather than change conditions so that they are more conducive to the emergence of happiness.

Finally turning to his own work, Professor Offer suggested that Myopia, or short-sightedness, in decision making means that people often make decisions which are not in their own, or society's, longer term interest. He suggested that affluence breeds

SUMMARY PAPER 1

impatience and impatience undermines wellbeing. The constant flow of innovations in a consumer society undermines commitment to the idea that gratification might be better put off till later. He used the rising incidence of obesity in the USA as an example of how this problem plays out. The novelty of fast food overwhelms existing commitment devices, for example, the family meal. Novelty induces a short term bias to which we become habituated and without the counterbalancing of commitment devices, existing patterns of behaviour are swamped by the novelty. This gives rise to the “paradox of happiness” - rising income yet stagnant happiness. Consumption needs to be paced to deal with this, not maximised. In affluence, scarcity has become scarce. He noted that countries where market liberalism is strong have more obesity than others where it is not strong.

In this situation a key role for governments is to resolve commitment problems. There are many examples of this: state education, national insurance, drink driving legislation, seatbelt legislation etc. He suggested that even conservative rhetoric on the “nanny state” has recently been exposed as they rush to advocate the salvaging of banks.

Governments and the public sector should in the short term target unhappiness rather than happiness. In the longer term, the inscrutability of the future is also a challenge. In these circumstances, governments should promote well being through actions to promote and establish commitment devices, which it is difficult for individuals to achieve and beyond the reach of markets.

The views expressed in this paper are those of the speaker and do not necessarily reflect the views of the Glasgow Centre for Population Health.

Summary prepared by the Glasgow Centre for Population Health.