

## ... and the Pursuit of Happiness

### SUMMARY

- The idea put forward by the British government that economists and politicians pursue policies directed towards maximising GDP is a 'straw man'. Government has always had a multitude of different objectives and government policy would be very different today if economic growth were the single priority.
- Explicit attempts by government to control GDP, or rapidly increase GDP growth, have normally failed. Such a target-driven mentality is part of the conceit of central planning. Attempts to centrally direct policy towards improving general wellbeing will also fail.
- Contrary to popular perception, new statistical work suggests that happiness is related to income. This relationship holds between countries, within countries and over time. The relationship is robust and also holds at higher levels of income as well as at lower levels of income. This calls into question the assertion that people are on a 'hedonic treadmill' that prevents them becoming happier as their income rises beyond a certain level of income.
- This new work, using a data set of 126 countries, shows that the correlation between life satisfaction and the log of permanent income within a given country lies between 0.3 and 0.5. There is a similar correlation between growth in life satisfaction and growth in income.

- There is no evidence that equality is related to happiness. Indeed, the proponents of greater income equality admit that they are unable to cite such evidence and instead rely on very unsatisfactory forms of indirect inference. The clearest determinants of wellbeing would seem to be employment, marriage, religious belief and avoiding poverty. None of these is obviously correlated with income equality.
- The government is under pressure to bring in further legislation to promote ‘wellbeing at work’. This includes, for example, legislation on parental leave. The theoretical and empirical case for such legislation is weak. There is no relationship between objective measures of wellbeing at work and the extent of employment protection legislation, unionisation, and so on. Given the relationship between wellbeing and employment, any form of employment protection legislation that led to more temporary employment or reduced employment would be detrimental to wellbeing.
- A comparison across 74 countries finds that government final consumption negatively affects happiness levels and that the negative influence occurs regardless of how effective government bureaucracy is or how democratic the country is. Increasing government spending by about a third would cause a direct reduction in happiness of about 5 to 6 per cent. Centralising government decision-making is likely to lead to more intrusive government and lower wellbeing.
- If people wish to maximise their wellbeing and are the best judges of their own wellbeing they will take decisions about how to use their economic resources to pursue their own goals. We should allow people’s preferences for wellbeing to

be revealed by their own actions rather than through surveys of what people say they prefer.

- Happiness measures are short-term, transient and shallow measures of people's genuine wellbeing.
- Those who wish to use happiness economics in public policy have no effective way of determining whether an increase in wellbeing should be traded against justice, moral values or a decrease in freedom. It is a utilitarian philosophy which applies a principle that many might use in their own lives to the organisation of society as a whole. Applying such an overarching principle to the organisation of society as a whole is very dangerous.