

Welcome to Fads & Fallacies, the column that debunks dubious notions. Here, **CHRISTOPHER J. COYNE** and **RACHEL L. COYNE** explore Notion no 1:

GOVERNMENT can make us happy

In a 2006 speech, Prime Minister David Cameron argued: "It's time we admitted that there's more to life than money, and it's time we focused not just on GDP, but on GWB – general well-being."¹ Cameron's suggestion represents a broader trend not just in public policy, but also in the economics discipline, of focusing on the idea of happiness or subjective well-being.

The origins of the emphasis on well-being can be traced back to the research of economist Richard Easterlin in the 1970s. In what has become

actually exists. At the time Easterlin originally identified his paradox, he was working with a limited set of data. More recently, empirical research by Daniel Sacks, Betsey Stevenson and Justin Wolfers, who rely on a more expansive set of data, finds that happiness is in fact higher in countries with a higher average income. Moreover, they find that happiness is higher for people with higher incomes and that happiness within a country increases over time as income grows. These findings have serious implications for proposed

Those in government suffer from both a knowledge problem and an incentive problem when it comes to designing interventions. Even if the intentions behind general well-being policies are benevolent, how will the government know what aspects of well-being to maximise and by how much? Maximising well-being involves trade-offs and the trade-offs are different for different people. As F.A. Hayek famously pointed out, planners suffer from a knowledge problem whereby the relevant information necessary for successful co-ordination and production is context specific and cannot be aggregated in any meaningful way. This is not to say that government cannot provide certain goods and services that benefit narrow segments of society, but there is no way for those in government to maximise well-being across all citizens. This is important because policies that increase the well-being of one segment of society may decrease the well-being of other segments, making the net effect on well-being indeterminate at best and negative at worst.

In addition to knowledge problems, government officials face perverse incentives in both designing and implementing policies. Interventions are not formulated in a vacuum, but rather emerge through a political process characterised by a variety of competing pressures and interests. Those economists working in the public choice tradition have emphasised the central role of "log-rolling", or political vote trading, in the process of democratic decision making. In order to get desired policies



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known as the "Easterlin Paradox", he found that, beyond some level of income, economic growth does not improve reported well-being. This had led to calls for a range of government policies such as progressive taxation, redistribution for egalitarian purposes, job programmes, etc, which are intended to increase society's well-being. Unfortunately, the research on well-being, and the subsequent policy implications, are plagued with significant problems that undermine the claim that government can maximise citizens' happiness through well-designed interventions.

Do we get happier when we get richer?

One problem with the research on subjective well-being is that it is unclear that the Easterlin Paradox

government interventions grounded in the Easterlin Paradox. Whether one agrees with these recent findings or not, at a minimum they should give pause to those who conclude with certainty that government intervention is necessary to solve a problem that may not even exist.

Can government maximise happiness?

Another issue relates to the ability of government to effectively design and implement the necessary policies to maximise a society's happiness. Even if we (very charitably given the recent empirical findings) grant that the Easterlin Paradox holds, do we have reason to be confident that the government can resolve the problem? There is good reason to believe that the answer is no.

¹ Complete speech available at: www.guardian.co.uk/politics/2006/may/22/conservatives.davidcameron

² Source of graph: Fred McMahon. 2011. "Economic Freedom of the World: 2011 Annual Report, Part 1" Available at: www.freetheworld.com/2011/malaysia-conference-2011.ppt

passed, legislators must be willing to garner support by trading their future support for policies that other legislators find desirable. This has important implications for general well-being policies for two reasons.

It means that narrowly-focused special interests can successfully have their agendas passed as legislators garner support for these groups in exchange for supporting future votes benefiting other narrow interests. This is problematic since the stated goal of government policies related to well-being is to increase the happiness of society as a whole and not of specific segments of society who happen to be the most effective at turning their interests into policy. Secondly, through the process of special interests each pursuing their own agendas, overall government spending will tend to be higher than the level preferred by citizens. This excessive spending may have a negative effect on well-being since it means that more income is transferred from citizens to government.

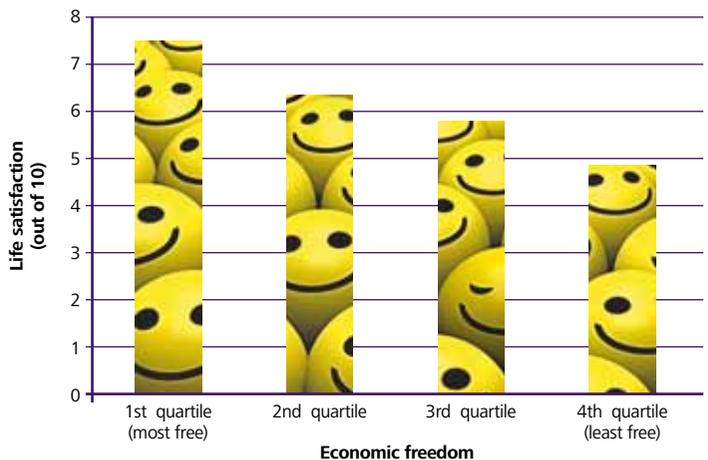


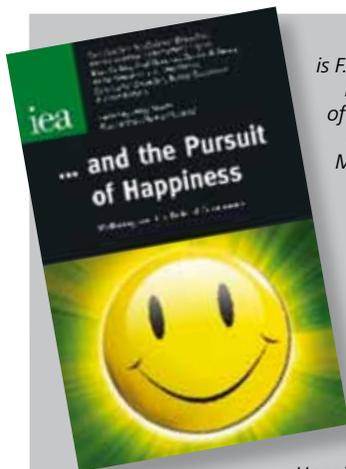
Figure 1: Economic Freedom and Life Satisfaction²

bundle, but rather something that is highly subjective and discovered through individual experience and experimentation. Given that well-being is a fluid concept both across people and across time, what

measured by the Fraser Institute's Economic Freedom of the World Index) and reported life satisfaction by citizens.

As Figure 1 illustrates, there is a positive relationship between economic freedom and well-being, meaning those living in the freest countries report the highest levels of life satisfaction. There is good reason to believe that this is more than correlation. Freedom of choice and experimentation provides each individual the opportunity to determine what it is that they value. For some this may be a workaholic lifestyle while for others it might be spending significant time with family and friends. Economic freedom allows for a diversity of preferences regarding well-being instead of imposing a uniform notion of happiness on all citizens. Moreover, in allowing for experimentation, freedom of choice allows for mistakes and failure. While failure may increase unhappiness in the short-run, it is part of the human experience and also makes success that much more meaningful when it does happen. It should be added also that citizens may derive well-being simply from being in control of their destiny rather than having their lives controlled to a greater extent by government and its agencies.

If the ultimate goal is a free society where private citizens can engage in the ongoing discovery of what makes them happy, then the fad of government-planned well-being must be rejected and replaced with the freedom of individuals to discover and pursue that which they determine to be the good life.



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If you'd like to learn more about these issues, there's a free download of our IEA monograph *...and the Pursuit of Happiness: Wellbeing and the role of Government*, edited by **Philip Booth**, at: www.iea.org.uk
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Well-being is subjective

Taken together, governments lack both the knowledge and incentive to maximise social well-being. But even if we were to put these issues aside, there is a more fundamental problem with the claim that government can maximise society's happiness. In order to measure happiness, one must assume that well-being is something that can be measured and aggregated across people and through time. This neglects the fact that well-being is not a predefined

does this imply for policy?

Ultimately, this implies that the central focus should not be on attempting to micro-manage well-being according to the dictates of politicians, but rather on creating an environment which allows people to engage in the process of discovery. Such an environment is provided by economic freedom which is grounded in individual property rights and freedom of choice. To see this connection, consider the relationship between economic freedom (as