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A Non-Technical Introduction to the Economics of Happiness

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"Those who say that money can't buy happiness don't know where to shop." Anon.

"What we call happiness in the strictest sense of the word comes from the (preferably sudden) satisfaction of needs which have been dammed up to a high degree." Sigmund Freud, psychologist.

"Happiness is the sublime moment when you get out of your corsets at night". Joyce Grenfell, actress.

Does money buy a lot of happiness, not much, or none? Is economic growth really making Britain better off? These are important but tricky questions.

Officially Britain is nearly three times richer than in the first half of the century. Any train ride through our country makes it clear that, despite pockets of poverty, we have enough Sky TV receivers and BMWs to sink a battleship. Is this a sign that we are really getting cheerier, or are we, as some say, locked into a kind of un-

winnable and stressful rat-race for money and status, and in a sense not getting anywhere?

In the United States, quality-of-life surveys have been done since the end of the War. In these, people are asked to rate their own levels of happiness, and asked many other questions about their mental well-being.   Fascinatingly, the proportion of people saying they feel happy with life has stayed almost flat through time since the 1950s. Yet incomes have shot up. This fact has recently been worrying economists and others.

Wealth is apparently not bringing as much contentment as we would have thought. Part of the reason seems easy to find in everyday experience. Human beings look over their shoulders all the time. It is one's relative income that conveys most (though not quite all) of material well-being. A spectator who leaps up at a football game gets at first a much better view of the match; by the time his neighbours are up it is no better than before. If there is something to this, it would explain why intuition is capable of misleading politicians about the benefits of economic growth.

In a nation as wealthy as ours, a focus on GDP (gross domestic product) will in the future probably not be seen as very sensible. Do we need to go up to four cars each? Broader measures of wellbeing will likely assume greater importance as the decades pass – and the rise of the Green movement is one indicator. Before I retire, I expect happiness surveys and job-satisfaction surveys to have become a central part of British life. The News at Seven in the year 2020 will perhaps feature the country's monthly wellbeing score. The acronym GDP may have gone. Perhaps it will have become GHL (gross happiness level). The Office of National Statistics will perhaps employ a team of statisticians constantly working on new forms of subjective wellbeing data.

These seem unusual notions in 1999 (of course it is the job of university researchers to come up with ideas that initially seem strange – other types of research aren't much worth having). In the 1940s it would have been equally odd to suggest that national output and inflation figures would flood into living rooms, every tea time, in the 1990s.

Where will university research fit in? To get a feel for that, it is necessary to look at current work.

Some of my statistical research uses mental health or medical measures of well-being. But simple happiness surveys can make the point more easily here. Imagine we choose a random sample of 100,000 Europeans from 12 countries. We ask them questions – about their age, gender, education, marital status, income, and so on. We also include a question about how highly, using a numerical scale, they rate their own happiness with life as a whole. Then, suspending judgment for a bit, we look at the statistical links between reported wellbeing and other characteristics. Remarkably strong patterns are found in such data. Moreover, these patterns are the same in every country individually. In other words, there are definite patterns to what people say. They look like this (those who would like to see equations can find them on my Warwick web page):

Reported Happiness is Highest Among People who are

Highly Educated
Female
High Income
Young or Old (not middle-aged)
Married
Retired
Looking after the home
Self-employed

(This list uses a statistical technique to allow for all the factors simultaneously – not merely one at a time)

Some of the patterns are summarised in the Table. It shows, for example, that a quarter of European adults classify themselves as "very happy", that money <u>does </u>apparently buy some happiness (compare the figure 28% to 19%), and that having a job if you want one has an enormous effect.

The worst things that happen to people, according to my data, are unemployment, divorce and severe ill-health. Of course this makes good sense.

People with high levels of education report greater happiness scores than do those with low educational levels. The correlation holds true for every country on which I have seen data, and after other factors (including income) are held constant. Currently there is no deep understanding about the mechanism. It may be that education makes people more secure. We know that job insecurity, for instance, is a rather good predictor of overall job satisfaction. The strong statistical link between education and reported happiness is intriguing.

It might be objected that happiness numbers do not mean anything reliable (my 4 might be a 2 to you). Economists have taught such views to their students for decades – largely without thinking hard about them. When averaging across huges numbers within a population, the objection that my 4 is your 2 does not hold so much force. Things average out. Moreover, psychologists and others have done many cross-checks on the validity of reports of subjective wellbeing. It is known, for instance, that those who report high happiness scores also smile and laugh more. Such people, too, tend to be rated happy by their peers. One can argue also that questions about happiness are impossible to translate

precisely into different languages; but researchers have thought of ways to get around even that objection.

One day this kind of statistical research will, I think, shape most aspects of government policy. As Western society grows richer, less attention will be paid to material concerns.

The social science of happiness is probably going to be important.

See over for table

Table

What are the Patterns in Reported Happiness Levels?

Reported Happiness	Everyone	Unemployed people	Marital Status:	
			Married people	Divorced people
% Very happy	23	16	26	12
% Pretty happy	58	51	58	55
% Not too happy	19	33	16	33

Reported Happiness	Sex:		Income Quartiles:			
	Males	Females	People in the lowest quarter of the income distribution	2nd quarter	3rd quarter	People in the highest quarter of the income distribution
% Very happy	22	25	19	21	25	28
% Pretty happy	60	56	54	59	60	59
% Not too happy	18	19	27	20	15	13

Note: Based on a study of 108,802 randomly sampled people from 12 countries. Joint work with Rafael Di Tella and Robert MacCulloch.

This table tells us how different kinds of people respond in a happiness questionnaire. All numbers are expressed as percentages. To read the table: for example 19% of the whole population say they are ' not too happy' , compared to 27% of all people in the bottom quarter of the income distribution, compared to 18% of all men in the population, and so on.