<u>The Economics of Happiness and its Implications on Public Policy</u>
By Lord Richard Layard

Review by Rebecca Zhang

What is progress? How should we define and measure it? These questions are at the heart of the motivations that led President Sarkozy to establish The Commission on the Measurement of Economic Performance and Social Progress, comprising of leading authorities like Joseph Stiglitz (President of the Commission), Amartya Sen (Advisor) and Jean Paul Fitoussi (Coordinator). The Commission's aim is clear: to identify the limits of GDP as an indicator of economic performance and social progress, and consider other relevant indicators of social progress. This symbolic move by President Sarkozy is a clear testament that progress needs to be measured by more than just income-related indicators, thereby reflecting the overall quality of people's lives.

On 5th December 2013, The Economist's Society is honoured to welcome Lord Richard Layard, who gave an insightful talk on the economics of happiness and its implications for public policy. Lord Layard expounded on philosophical justification for the pursuit of happiness as a key measurement for individual and national wellbeing. Lord Layard, who is the distinguished director of the wellbeing programme at the London School of Economics' Centre for Economic Performance, and the author of *"Happiness: Lessons from a New Science",* is renowned for his pioneering work on the economics of happiness. Lord Layard began his talk by alluding to the philosophy of Jeremy Bentham, "the good society is one where there is the **most happiness** and the **least misery**." However rather perversely in the 20th century, doubts start to surface as to how to measure how one feels, and this led economists to conclude that happiness cannot be used as an effective measurement. This in turn gave rise to the emphasis on income-related indicators like purchasing power, and in particular Gross Domestic Product became the dominant measurement of the level of progress in the society.

Lord Layard believes that what ensued was a less-than-ideal period for our value systems, leading to a semi-materialistic and rather narrow-minded perception of the fundamental goals of our societies. People then started to become disillusioned with economic growth: increased income did not seem to make them happier. In spite of all the material progress, people are no happier now than they were sixty years ago. The question here is why do people still pursue higher incomes though it will not necessarily make them happier? Lord Layard answered this by highlighting that if you look at a particular individual in time, a richer individual is indeed happier than a less well-off one because of the differences in relative income. However such a perception does not increase society welfare as whole because as the income of one individual goes up, the relative income of another will go down, reflecting a zero-sum game. As such, there should be a focus on positive sum-goals indicators to measure social welfare. For instance, United Nations held a conference on happiness and we now have developed the World Happiness Report.

Lord Layard then moves on to prove the philosophical justification of using happiness to measure wellbeing. There goes beyond doubt that individuals value many different important factors like freedom. Following from here, the next question is why do you want to be free? Perhaps the typical answer is that if you are not free, then you will feel wretched. Then the next question to ask is why it matters how people feel? Given this intuition, it is almost indisputable that we should consider how people feel and thus, the importance of happiness as a key measurement becomes undeniable. Psychological experiments have shown a great deal of consistency between one's own perception of how happy he or she is, and how other judge their level of happiness. Electrical impulse is also seen as an objective measurement of happiness.

Moving on, Lord Layard shared with us some key findings from his research. How much of the variation in happiness is related to the variation of income? If you only consider income, the relationship between income and happiness is significant. However, if you factor in other factors that affect happiness, the correlation between happiness and income is surprising only 1%. This leads us to conclude that we cannot simply take income as a proxy for happiness. Beyond income, human relations, health and unemployment levels are some of the significant factors that affect income. What I found particularly interesting is the fact that the level of trust in a society has a great impact on individual's happiness. In Britain, the level of trust fell from 60% to 30% over the decade, and is one of the reasons why happiness has not risen in the country. In comparison, Scandinavian countries, which rank high in the happiness league table, is particularly known for its strong social ethic and high level of trust in the society. Furthermore based on Lord Layard's research, mental health is shown to be the most dominant influence over happiness, even more than family. This has profound implications on public policy, and Lord Layard went on to share some of UK's leading policies to provide psychological assistance and clinical help.

To further elaborate his point, Lord Layard shared about an experiment, where test performance, behaviour and emotional wellbeing were tested among a study sample of teenagers to see which would best correlate to the teenagers' happiness later on in life. Not surprisingly, emotional wellbeing was the most dominant factor. This once again underscores the need to place greater emphasis on clinical treatment of mental health, which will have significant influence for the happiness of the society. It is also shown that mental illness is directly correlated to physical illness, indicating that untreated mental illness may in fact drive up the physical illness treatment costs. Given the high economic costs of poor mental wellbeing, Lord Layard clearly drove home the message that governments should provide more assistance to increase the mental health of the population.

To conclude his talk, Lord Layard once again alluded to the Greatest Happiness Principle. For economic powerhouses such as UK, the US and Germany, happiness has long been stagnating. This was one of the triggers for Sarkozy's commission, and governments all around the world are trying to incorporate non-income related indicators to measure progress. Nonetheless, the solution cannot be purely technical. It must be based on the foundations and motivations that we wish to build in our society, and a civilisation based on the Greatest Happiness Principle would be a step in the right direction. All in all, Lord Layard provided a fascinating introduction to the economics of happiness and its implications on public policy. For those that missed Lord Layard's talk, please read his acclaimed book *"Happiness: Lessons from a New Science"* and listen to his talks online. On behalf of The Economist's Society, I would like to thank Lord Layard for his invaluable insights.