

March 2010

Public Policy and Happiness

It is no longer enough for public policy to aspire to increase the electorate's material wealth. Instead, the principal aim of politics must be the greatest happiness of the people. At least this is a conviction which is gaining support around the globe. The United Kingdom is at the forefront of this movement.

Christian Kroll*

Goodbye GDP?

For decades, Gross Domestic Product (GDP) has been treated as the prime indicator of the well-being of nations. It measures the sum of all goods and services produced in an economy within a year. Particularly during the financial crisis, its smallest fluctuations are being observed meticulously, and it appears to signal the ultimate decline or glorious recovery of a country. To an unprecedented degree, the media and voters nowadays judge governments by whether they "create growth". Internationally, however, a consensus is building that GDP is highly unsuited to measuring the quality of life within a nation.

The limitations of GDP were highlighted in late 2009 by the Commission on the Measurement of Economic Performance and Social Progress, which was created by French President Sarkozy

and featured a range of Nobel laureates: GDP increases when oil catastrophes and car crashes happen, it does not say anything about how wealth is distributed or to what ends it is used, and does not account for a range of very important aspects that contribute to human well-being. Consequently, we should no longer measure and increase economic production, but people's well-being, the commission concludes. At the same time, the EU Commission recommended in its report *GDP and Beyond* the complementing of GDP with other economic, social and environmental indicators in order better to capture people's well-being. Likewise, the OECD is currently examining how progress can more accurately be defined, measured and fostered, in an initiative devoted specifically to these ends. A rather extreme example, finally, is the small nation of Bhutan, whose government has made increasing "Gross National Happiness" its main priority.

*Christian Kroll is currently researching the relationship between life satisfaction and social capital at the London School of Economics.

In fact, the critique of GDP is not new. As long ago as 1968, Robert Kennedy argued that GDP measures everything [ō], except that which makes life worthwhile. And in the 1970s, the Social Limits of Growth were discussed for the first time. In Germany, social democrats such as Erhard Eppler dominated the discourse, with then new terms like quality of life. Politically, however, the debate did not lead to significant readjustments. Large parts of the population were then still very much under the spell of the unprecedented economic rise of the post-war decades. Instead, the *Zeitgeist* of the 1980s brought an increase in individualism, materialism and neo-liberalism in the Western world, captured and amplified by Thatcher, Reagan, and Kohl.

The policy efforts of the 21st century described earlier, however, are taking place in a very different societal context. Unlike earlier approaches, they are part of a coordinated network of international initiatives which may bring about a real paradigm shift in policymaking. Moreover, the public mentality has changed significantly over the past 30 years following the discourse on climate change in combination with the rise of more post-material attitudes that invite us to redefine our understanding of progress. Finally, a new science which intellectually supports the re-imagining of policy has emerged. Following past criticism of GDP, for the first time an alternative model for the future seems possible.

The science of happiness

The aforementioned initiatives are backed by the new academic science of happiness. This studies the determinants of happiness and life satisfaction and has been established over the

past few years at the intersection between economics, psychology, sociology and political science. An ever increasing range of representative data from the World Values Survey, the British Household Panel Survey or the Socio-Economic Panel has allowed scientists to study human well-being. The happiness indicators used in such analyses have proven valid and reliable, based on correlations with neurological functioning and many other related quality of life measures.

Happiness research no longer asks how people can get rich, but what makes them happy. In order to overcome the deficiencies of traditional economic theory this research field builds upon the work on Behavioral Economics of American psychologist Daniel Kahneman, who was awarded the Nobel Prize for integrating insights from psychological research into economics. Especially in Anglo-Saxon countries, this research area is increasingly recognised. Thus, the UK Economic and Social Research Council has recently pledged to invest £ 4.4 Million in the study of happiness and its implications for public policy.

Some results discovered by this discipline are in line with common sense expectations and are hardly surprising: good family relationships, health and having a job increase happiness. On the other hand, a range of results are somewhat counter-intuitive and - if taken at face value - suggest new implications for economic and social policy.

More precisely, it seems logical that poor people benefit from each pound they can invest in nutrition, education and housing. Once basic needs are met, however, the correlation between

money and happiness decreases on both individual and country levels. In other words, above a GDP of approximately £10,000 per capita, more money does not increase the average life satisfaction of the people in a given nation. Thus, factors other than merely increasing economic growth should be the focus of attention in those countries.

As early as the 1970s, the American economist Richard Easterlin noted that economic growth in the developed world since World War II had not led to increases in the overall life satisfaction of its inhabitants. The reasons for the so-called **Easterlin-Paradox** are manifold. First, we tend to compare ourselves with our fellow-citizens who have also gradually become richer (negative externalities). Second, we get used to our improved living standard very quickly (adaptation). Third, new desires are constantly created through external influences. Finally, economic progress over recent decades was accompanied by deep changes in the quality of our interpersonal relationships, i.e. our social capital.

In sum, there seems to be a decreasing marginal utility of income. As far as distributional justice is concerned, this finding may give the advocates of a more equal society new kinds of argument. Simply put, a pound in a poor man's pocket seems to be worth more, in terms of life satisfaction, than a pound in a rich man's pocket. Some researchers in fact consider this result to be a justification for progressive taxation, in particular since more income equality reduces the opportunities for negative externalities (i.e. comparisons with richer fellow citizens). Such reasoning offers a new perspective on the idea of super-taxing excessive bonuses.

Given all this evidence, the British Economist Richard Layard, Professor at the London School of Economics and a Labour member of the House of Lords, has advocated a reprioritisation of public policy: it ought to help increase the happiness of the population, not merely economic growth. In some areas, these two concepts oppose each other. For example, while advertising certainly encourages consumption and growth, it also regularly reminds us of the things we do not possess. Thus, it makes us unhappy. According to Layard, in particular, advertising directly aimed at children should be forbidden in order not to expose them to the pressures of consumption at an early age. Similarly, longer working hours may result in a growing GDP, but they may have negative effects on family life. Finally, employees are often expected to be geographically mobile. However, moving around very often leads to the break-up of human relationships, which turn out to be one of the most important factors for happiness.

Some commentators are therefore demanding that all government policies be re-assessed according to whether they enhance people's happiness or **simply** economic growth. In other words, the question was whether humanity is to serve the economy or vice versa.

The Politics of Happiness in the UK

The UK is the leading country in Europe in terms of incorporating the implications of well-being research into public policy. All major parties have examined or are currently examining the question of how public policy can foster people's well-being in a sustainable manner. In so doing, today's politicians . as **new utilitarians** . are rediscovering the works of British economist Jeremy Bentham. Back in 1789 he

declared the best policy to be the one that creates the greatest happiness for the greatest number (the so-called 'greatest happiness principle').

The paradigm shift began when the then new Prime Minister Tony Blair made sustainable development the core theme of his government strategy in 1999. Very early on, he acknowledged that 'delivering the best possible quality of life for us all means more than concentrating solely on economic growth'. It followed that the concept of well-being was for the first time declared an explicit goal of government policy when in 2000 the Local Government Act gave local governments the duty of increasing citizens' social, economic and environmental well-being. Only a few years later, the Prime Minister's Strategy Unit published a much debated discussion paper that summarised the state of the research on life satisfaction and analysed its implications for public policy. New Labour's continuing interest in the topic finally led in 2005 to Blair's National Strategy for Sustainable Development, in which the government set out to further explore the lessons of happiness research for public policy. For this purpose, four studies were commissioned by the Department for the Environment, Food and Rural Affairs (DEFRA).

The Conservative Party, too, has recognised the mentality change and seems keen to incorporate this into its own policies. In particular, the party's leader and candidate for the office of Prime Minister, David Cameron, has taken up the issue himself on various occasions. Not long ago, he declared that politicians must not only think about how to fill voters' pockets, but about what it takes to 'put joy into people's hearts'.

Furthermore, it was time for politicians to acknowledge that well-being cannot be measured in terms of money. Public policy should therefore aim to increase not just GDP but 'GWB - general well-being'. In Cameron's words, 'improving our society's sense of well-being is, I believe, the central political challenge of our times'.

The party leader's remarks are supported by the Tories' own Quality of Life Policy Group. In its final report, the group distances itself from the simplistic equation of growth = well-being, since 'it seems that in wealthy countries, a continued increase in economic growth is not increasing wellbeing'. Therefore, the report suggests a new indicator as an alternative to using only GDP: the state of the nation ought to be monitored by a 'triad' of economic, environmental and social indicators, including a 'social well-being index' featuring objective and subjective measures.

In the Houses of Parliament, the All-Party Parliamentary Group on Wellbeing Economics, chaired by Liberal Democrat MP Jo Swinson and with a secretariat provided by the London-based think-tank nef - the new economics foundation, regularly discusses the lessons of well-being research for public policy. Indeed, an Early Day Motion on 'Wellbeing in Public Policy' issued by the Group has already attracted a number of signatures from MPs of all major parliamentary parties. It states that 'the promotion of happiness and wellbeing are legitimate and important goals of Government' and 'calls for the introduction of official and regularly conducted statistics on national wellbeing in the UK to inform policy-making'.

All in all, eleven government departments and authorities have started initiatives to foster well-being. For example, in a pilot programme called the Local Wellbeing Project, the councils of Hertfordshire, Manchester and South Tyne-side are working to improve people's quality of life on the ground using innovative means - in cooperation with the Young Foundation, the Improvement and Development Agency and Prof. Layard from the London School of Economics. Finally, the Office for National Statistics is examining indicators to measure societal well-being.

Critics of a linkage between happiness and public policy often suggest that happiness is a private matter for every individual citizen. Moreover, in reference to George Orwell, the notion of a nanny state is sometimes evoked including a happiness police and Prozac in our tap water to improve well-being statistics. But, all absurdity aside, such criticism fails to acknowledge that research shows how people in free, democratic societies are much happier than those under repressive regimes. Furthermore, the individual has very little control over his or her surroundings, e.g. safety levels in their neighbourhood or the way the economy is designed and regulated. These factors, however, have a massive impact on a citizen's well-being. They are the core responsibility of the state, and the latter has a duty to create the most favourable conditions for its citizens in this regard. Hence, an individual's happiness is to a very large degree socially determined.

If Britons themselves are asked about what they think should be the government's prime objective, 81 % say that it is the greatest happiness of the people, not their greatest wealth, accord-

ing to a BBC poll. Such high scores are at the same time proof of how much public support initiatives around the politics of happiness have earned so far, as well as a motivation for their continuous advancement in the UK.

Still unused potential in German politics

While economic growth is important to ensure societal well-being it remains only a means to an end, as the Stiglitz-Commission noted. Meanwhile, political parties in Germany still widely ignore the potential that is embedded in a paradigm shift away from simply increasing growth towards a strong commitment to improving quality of life. Carefully selected words spoken by Federal President Horst Köhler (in a speech in October 2009) and Chancellor Angela Merkel (in her videocast in February 2010) give reason to hope that the international debate is now arriving in Germany, too. The government's actions, however, send out different signals.

The *Wachstumsbeschleunigungsgesetz* (i.e. the law for increasing growth recently passed by the new German conservative-liberal coalition) and the political rhetoric around it illustrate how much faith there still is in the belief that simply raising GDP will cure all problems. The biggest weakness of GDP, though, is the fact that, as Robert Kennedy remarked, it does not measure that which makes life worthwhile. This point refers primarily to social cohesion and the quality of human relationships. In fact, the data from happiness research indicate that in the developed world a society's social capital has a stronger impact on people's life satisfaction than material factors.

Consequently, it is time for politicians to think about how a different kind of economy may be

fostered. This is what some have called the %Economy of Regard+ (Oxford historian Avner Offer), the %Hidden Wealth of Nations+ (former Downing Street advisor David Halpern), or the %Core Economy+ (new economics foundation). Each of these terms has its own distinct emphasis, but all refer more or less to the widespread network of non-monetary exchanges, mutual trust and interpersonal ties. Such reciprocal actions are not measured by national accounting. Yet the satisfactions of regard reveal the huge intrinsic benefits of social and personal interaction. In sum, such exchanges are more important than our actions in the real economy - with regard both to their impact on happiness and well-being, and to their material volume (if one assigned even just the minimum wage to all actions in the %Economy of Regard+, such as civic engagement, helping out neighbours or looking after the children of good friends, as David Halpern calculates). Parties that are interested in people's happiness ought to think about how a *Wachstumsbeschleunigungsgesetz* for this particular economy might look. In short, and with reference to Bill Clinton: It's the Economy of Regard, stupid!

For social democracy, focussing on well-being would hold new perspectives and possibilities, as well as underline its core strengths. A political force that strives for the greatest happiness of the greatest number is one that abstains from *Klientelpolitik*. In fact, the %greatest happiness principle+ is an obligation in order to maximise the common good rather than favouring the special interests of a particular group. Moreover, it is a positive development that the German Social Democratic Party's parliamentary group has recently advocated an alternative indicator for progress. In their January 2010 policy paper,

they argue that such an indicator ought to replace GDP as the dominant metric for assessing progress and should incorporate aspects of quality of life, the environment, education and integration. With such an approach, the party indeed finds itself in line with more than two thirds of EU citizens who, according to the Eurobarometer survey, are demanding that progress be evaluated in equal measure by social, environmental and economic indicators.

At the end of the day, happiness research and a political focus on well-being do provide us with some interesting food for thought. But they also offer an innovative grassroots approach to policy making. Developing policy measures based on the question of what makes people happy can produce more effective outcomes that voters can furthermore relate to. Letting the people define the good society, using this evidence based approach, is the antidote to what used to be called %Spaceship Bonn+, i.e. a bunch of politicians designing policy detached from the interests of those they govern. In times of decreasing voter turnouts such an approach may be a helpful initiative in order to revitalise the relationship between the electorate and the elected.

The views expressed in this article do not necessarily reflect those of the FES London.

ViSdP (Person responsible according to the German Press Law): Karl-Heinz Spiegel, Director, FES office London