Book Review: *Happiness, Economics and Public Policy* by Helen Johns and Paul Ormerod London: Profile Books, 2007 107 pp.

Happiness has been a topic of philosophic discussion since ancient Greece. But more recently, it attracted the attention of behavioral and social scientists. Over the last three decades in particular, there has been an explosion of research on happiness—how to measure it and what relationship it has to national wealth and social policy. Indeed, nearly 4,400 articles on this topic were published in the year 2000 alone.

Economists Helen Johns and Paul Ormerod have written a concise and trenchant critique of “happiness economics” as a reliable tool for making policy decisions. They note that strong policy prescriptions are being drawn from the data on happiness. The prime example is one that goes back to the early literature. The happiness data seem to show that over the last several decades, the level of happiness in the developed world has remained constant, while real per capita incomes doubled. This is often referred to as “the Easterlin paradox,” since R. O. Easterlin was the first to provide data that past a certain point, increasing wealth doesn’t increase happiness. A number of researchers have explained this paradox by saying that happiness is determined by a person’s relative as opposed to absolute level of income. The conclusion all too cheerfully drawn by those of statist inclination is that steep progressive taxation is needed to diminish relative income differences and increase people’s happiness.

This conclusion also helps justify high levels of state economic intervention. A number of economic studies have shown that high levels of state control lower economic growth rates—but if economic growth doesn’t increase happiness, the objection loses much of its force.

Johns and Ormerod, however, explore a number of criticisms of this line happiness research and its use to support redistributionist policies. First, they note that while rising GDP doesn’t correlate with rising levels of happiness, there are many other relevant factors it doesn’t correlate with as well. For example, they point out that in the U.K., during a period when government spending increased by 50%, happiness remained constant. But none of the statist policy wonks drew the conclusion that big government is irrelevant to happiness.

More sharply, in the U.S., during a period in which violent crime nearly doubled, then dropped to its earlier level, the happiness level remained constant. During the same period, life expectancy increased, and gender inequality of income decreased, again, while happiness remained constant. It is counter-intuitive (to say the least) to conclude that decreasing crime, increasing longevity and increasing gender equality have no impact on happiness. Moreover, the authors point out, there is no significant correlation between the level of income disparity in a country and the happiness level.

A second critique the authors explore is of the idea of replacing the standard measure of economic success as GNP as a policy-making tool by a happiness-based metric, perhaps “Gross National Happiness.” The authors review the history of alternative measures of economic health, such as “the Measure of Economic Welfare” and “the Index of Sustainable Economic Welfare,” and show that such measures tend to be very subjective and often involve highly dubious empirical assumptions. They note that Nobel Laureate Daniel Kahneman, himself a major player in the happiness research domain, has expressed doubt on its use in policy-making.[[1]](#footnote-1)

A third area of critique Johns and Ormerod investigate is of the suggestion that some happiness metric would help us better measure welfare than material measures such as GNP. The idea here starts with the obvious fact that certain goods are outside market pricing. Public goods, such as a healthy ecosystem, come to mind here—it is clear that green open spaces are important to human flourishing and happiness, but are not given a price by the free market. Of course, the reply is that we can ask people to use money as a trade-off metric: we can assess how much a person values (say) open space by seeing how much of their income they are willing to spend, understanding that they will thus have less of other things they desire. But many happiness policy wonks want to use a “holistic” measure (one that includes the level of happiness) instead.

However, as the authors note, we still have the problem of handling trade-offs. For example, in the U.K., happiness policy mavens advocate spending more dramatically more resources to hire therapists to treat depression. Now, Kahneman and others have shown that after a disabling accident, the disabled tend to return to their prior level of happiness. So are we to conclude that we should eliminate spending for prevention and treatment of disabilities, and put all the money towards therapists for the depressed, on the theory that net happiness will be increased?[[2]](#footnote-2)

Here Johns and Ormerod hit a point that I quite frankly wish they had pursued further. They argue that the drive for a “holistic” conception of welfare is really a manifestation of the statist view that people are intellectually incapable of determining what is truly in their best interests.

This point ties in with the one made earlier: happiness research has been useful from the statist perspective. Faced with the unpleasant fact that freer economies are wealthier, you dismiss it. And faced with the fact people don’t make the same trade-offs as you (the statist) do, you dismiss them.

While Johns and Ormerod have written an excellent critique of the happiness literature two points are worth noting. First, while one might grant Johns and Ormerod that the happiness data is a crude measure of the underlying phenomena, serious problems attend most other data sets economists and social scientists use. Second, the research is still evolving. For example, in a major paper published last year, Betsey Stevenson and Justin Wolfers have provided compelling evidence that the Easterlin paradox is simply false—there is no point at which increasing wealth stops increasing happiness.[[3]](#footnote-3)

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1. Kahneman, D. “The Science of Wellbeing,” Seminar at the Institute for Public Policy Research, London, 1 September 2006. [↑](#footnote-ref-1)
2. Kahneman, D. and A. Krueger “Developments in the Measure of Subjective Wellbeing,” *Journal of Economic Perspectives,* 20: 3-24, 2006. There is a considerable body of research in psychology that argues for “set point theory,” i.e., the view that after a major life event, the happiness level of the individual returns to a prior set level. The theory is by no means settled science. [↑](#footnote-ref-2)
3. Stevenson, Betsey and Wolfers, Justin “Economic Growth and Subjective Well-Being: Reassessing the Easterlin Paradox,” CESifo Working Paper No. 2394, September, 2008. Paper is available for download from the CESifo website or from the SSRN website. [↑](#footnote-ref-3)