

THE BROOKINGS INSTITUTION

A BROOKINGS BRIEFING:

HAPPINESS: LESSONS FROM A NEW SCIENCE

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Panelist:
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P R O C E E D I N G S

MS. GRAHAM: Good afternoon. Welcome, everyone.

It's a real pleasure to have Richard Layard and Stan Fischer here to discuss Richard's new book, "Happiness: Lessons from a New Science," and also the subject of happiness research and its applications to policy more generally. It's also in a way a surprise to have so many people in a room for an event on happiness in a policy town like Washington. In fact, this would have been unimaginable a few years ago. Indeed, only four years ago, when I wrote my first publication on happiness, which was entitled "Happiness and Hardship," with Stefano Pettinato, our then-director of economic studies said to me, "You know, Carol, this is a great manuscript and I'm convinced it's going to be a great book. You've got to change the title. This happiness stuff—nobody's going to take you seriously."

So I refused to change the title. And since then, we've hosted several I would say very serious events on happiness here at Brookings, and there have been many others in different venues. Indeed, in the year 2002, Daniel Kahneman, a Princeton psychologist who works on happiness issues among other things, received the Nobel Prize. And since then, Kahneman and colleagues such as Alan Krueger and Ed Diener have been seriously promoting the creation of national well-being accounts.

So in short, happiness is increasingly on the serious research and policy agenda. In his book, Richard Layard provides a really bold challenge for any number of policies—fiscal policy, labor market policies, other policies—and he's based this on findings from a host of happiness studies. I think his work is extremely provocative, and perhaps it's a sign of things to come.

Richard Layard is director of the Centre for Economic Performance at the London School of Economics, a member of the House of Lords, and one of Britain's most prominent economists.

Stan Fischer, whom most of you know, is vice chairman of Citigroup and, prior to that, served as the first deputy managing director at the IMF, and before that, as professor of economics at MIT, among other things.

We're actually going to reverse the order and turn it over to Stan to start and to get the discussion going. After a discussion between Stan and Richard, we'll open it up to the more general audience for questions.

MR. FISCHER: Thanks very much, Carol. It's a terrific pleasure to be here, particularly discussing Richard's book. Some of you have asked me what a banker is doing worrying about happiness. Well, the answer is we've been friends for a long time and Richard sent me the manuscript, and it's really a very, very interesting book. We discussed it

at various stages, and when he asked me to do this, I thought it would be a great pleasure.

There was a long time in economics that people didn't think you had to discuss happiness. There was a theory of revealed preference, which said basically that you can judge by people's choices what makes them happy. And we about left it at that. We said when I was a student that you couldn't compare interpersonal measures of happiness and that by and large you didn't need to. And that kept us quiet for quite a while. Subsequently, several economists and non-economists have begun to ask themselves questions about happiness. There's an enormous amount of survey information on what people say about being happy. And Richard, who is somebody who loves picking up challenges and explaining things in ways that people can understand, got onto this topic and, being a policy economist above all, also developed some of the policy implications.

What we're going to do is I'm going to ask him a few questions. He'll give perfect answers. And then we'll turn to you for further questions and discussion. We'll be operating under the control of Carol, who is not going to let this get out of hand.

Now, the book—this is a book tour, in case you're unaware of it. The book is called "Happiness." It's in the colors of the Swedish flag, and I don't know what the significance is. It's also in the colors—yesterday we were arranging to get Richard picked up, and he said, But

how will the driver see me? And I said, I'll tell him you'll be wearing a yellow tie. And Richard said, How do you know I'll be wearing a yellow tie? Well, he always wears a yellow tie. So there it is. And that's where happiness is to be found in part, according to this book.

Richard, I think one of the questions which a group like this, which has many economists in it, but many other people, would ask themselves is—first of all, I guess I'll ask you the first question, then turn to ones the economists would ask. Why don't you tell us briefly what the book says.

MR. LAYARD: Okay. I first wanted to tell you a true story to thank you for coming and listening. This is about Michael Howard, leader of our Conservative Party, who recently went to a prison. And he had to speak to the prisoners in the prison yard, and there were these murderers and rapists and so on. And obviously, as he was about to speak, he realized he couldn't say "I'm delighted to be in such distinguished company." And what he said was, "I'm so glad to see you all here."

[Laughter.]

MR. LAYARD: Stan, this book I suppose is something I would like to have written long ago. I was always a Benthamite, in the sense that I believed the good society was the one where people were as happy as possible and the best policy is the one that made the most happiness. Which is actually why I became an economist at a rather

older age than standard, because it seemed to be then the social science that was offering anything like that framework for thinking about public policy.

But I was disappointed rather early on by the rather limited view it had of what made people happy. And I think Stan put it quite well, that people were assumed to be happier the more choices they had. It's a little more subtle than according to their purchasing power, but fundamentally people's happiness was thought to be higher the more opportunities they had for voluntary exchange with other people. And what this seemed to leave out most of was the way in which people interacted with each other involuntarily—the way in which we get our aspirations, our norms from other people, whether we want them or not; the way we get advertised at, whether we want it or not; the way we get smiled at or mugged, whether we want it or not. All of these are very important aspects of our lives which make us happy or not, and didn't seem to be included.

Then I came across this fact, actually in 1980, that happiness has not been growing since the 1950s. And that fact has been confirmed up to the year 2000 for the United States, for Britain and for Japan, and similar facts for most European countries over a shorter period of years, despite obviously huge, unparalleled increases in purchasing power and opportunities of choice. So that calls for an explanation, and obviously the explanation's got to connect to the involuntary ways in which people

are interacting with each other. So we're going to have to have some synthesis of economics and social psychology, to name only one other discipline, in order to explain what's going on and, indeed, to think about sensible policies, because obviously, policies expressed in terms of GDP per capita are not very important for the kind of rich countries I'm talking about. I'm talking now about facts that relate to countries over \$20,000 a year per head.

So that was what I was trying to do. And I wouldn't have done it if I hadn't discovered that psychology had actually made big strides in the last 20 years. They initiated revealed preference. The psychologists invented revealed preference in the early 20th century, followed by the economists. They then rejected it in the '60s when the quality of life became a subject of serious study for psychologists. And I hope the economists are about to reject revealed preference now. The advances of psychology are really substantial. I'm not saying that we have all the answers at all, but I think the idea of carrying out the Benthamite project is now very, very much a more practical one and there are things we really can say which are different from the things which economists have been saying.

MR. FISCHER: Incidentally, the book says that in terms of time of day, people are at the lowest level of happiness early in the morning but there's another local trough at about 4 o'clock. And then things improve throughout the day and they get better and better. I

thought this had something to do with diurnal rhythms, but Richard told me it had to do with how near it is to the time you get off work and then how much more relaxed you feel as the evening wears on. In any case, we started at a good time, because we're all going to get happier and happier as time goes on.

Richard, the question is here you have the—this is basically based on asking people how they feel about various things. And the question is how do we know that's reliable? How do we make interpersonal comparisons? And can you build this whole edifice, which is very interesting, on those responses?

MR. LAYARD: Well, obviously we can ask people how happy they are, but then we wouldn't be sure whether there was some objective reality that they were trying to represent or indeed, if there was, whether they were using the words the same way as somebody else. So the next thing psychologists did is to ask people's friends whether they thought the person was happy. Quite well correlated to whether the person themselves said they were happy. Then they tried asking independent observers and watching them—measuring their smiles and things like this. Quite well correlated again.

But the big breakthrough, and this is actually what finally decided me to write this book—I learned this from Daniel Kahneman about six years ago—is that the neuroscientists have now made serious progress in identifying the areas in the brain which are active when

people feel good and when they feel bad. If you want to know which, it's the left side when they feel good and the right side when they feel bad. But up in this prefrontal area where consciousness occurs. And they can check this both over time for a person—that is to say, you expose the person to some beautiful, lovely pictures of happy, smiling children and they say they're feeling cheerful, and lo and behold, they're more active on the left side. You expose them to some awful pictures of deformed children and they get more active on the right side. So it works over time.

But it also works across people, that if you measure people in a condition of rest, a sort of stable, resting position, and you ask them a general question about their level of happiness, these measurements are also quite well correlated, which provides the basis for the interpersonal comparisons which Stan was talking about.

There's one other thing, of course. Is positive feeling simply the opposite of negative feeling, or are they two different things? Psychologists love arguing about that. But on the whole, having read the literature, I'm convinced—as I wanted to be—that basically positive feeling drives out negative feeling and vice versa. So that they're so negatively correlated that you can think of there simply being one dimension from the pit, misery, to the pinnacle of bliss. Which of course is how Bentham had thought about it, that there is this single maxim and, and I think we can therefore get on on that basis.

MR. FISCHER: There is a question which—maybe it's so obvious I shouldn't ask it, but I'll ask it. Why is it that we should worry about how happy people say they are?

MR. LAYARD: Well, I think there's a—again, there's a controversy here. I'm sure you know that some people think there are lots of goods. You know, there's accomplishment and autonomy and freedom. You can list them. And happiness. So, of course, it's kind of awkward because you need to know the tradeoff between them. But I think one should perform the following thought experiment. I mean, if I ask you why does freedom matter, you, I hope, will say, well, people feel awful, they feel really miserable if they're not free, and I can give you some evidence—communist countries are very unhappy. So, why is autonomy good? Well, people feel better if they have some control over their lives. I think most people would give answers to questions about things like freedom and autonomy for the reasons to do with how people feel.

If you ask somebody does it matter if people feel good, I think it's the end of the conversation. I mean, there's nothing you can say. Of course it does. It's self-evident. I don't know if that's quite what the authors of the Constitution had in mind, but it does seem to me that the desire to feel good and the impulse to feel good is so centrally built in to our evolved natures that it has a different status from everything else. That's why I am persuaded that we can think fruitfully

about the tradeoffs between all the other things in terms of their contribution to happiness.

That's why it matters. Of course, some people—I met George Soros at Davos, where we were last week. I said, I'm working on happiness. He said, I'm against happiness.

[Laughter.]

MR. LAYARD: So I said why? He said people are spending too much time trying to be happy. I said, I completely agree with you. But I don't think of happiness as being something which is best promoted by each person pursuing their own happiness. That is why the Benthamite rule is so important, which says everybody's happiness matters equally. That's a matter of justice. And if you then take that as your personal goal or your goal for society, you will have an outward-looking approach, which will actually, according to psychologists, tend to make you happier and certainly make other people happier if you're more concerned with the happiness of other people and not chiefly of yourself.

So that's a short answer.

MR. FISCHER: I want to go down to another part, but let me just ask you the question that must be on a lot of people's minds, which is, so what is your attitude to drugs and alcohol as ways of getting happy?

MR. LAYARD: Well, if they wanted a hangover, things might be different. I mean, I'm not a puritan. Actually, in my diary for this very week, the definition—let me see if I can find it.

Here. H.L. Mencken. Puritanism: The haunting fear that someone somewhere may be happy.

[Laughter.]

MR. LAYARD: I'm not a puritan. I think, you know, that if we can find a diet that makes people happier, let's promote it. If there were substances which would really make people happier in a sustained way, I'm not against it. But I'm not in favor of substances that produce hangovers.

MR. FISCHER: Okay, so now if we go back to economics, if the basic thesis is within rich countries relative position matters, and the reason there hasn't been any increase in happiness across 50 years is basically the distribution of income has widened, if anything, or hasn't gotten narrower, I think; whereas, you say, for poor countries absolute income does matter.

MR. LAYARD: No.

MR. FISCHER: And how do we know where the break comes, or isn't there a break?

MR. LAYARD: Well, I mean, let's first just look at the scatter of countries, which Carol has also worked on. If you look at the countries above \$20,000 a head, there's no obvious relation between the

average income of the country and the average happiness in the country. And indeed, as I say, in the countries where we can follow them over time, happiness hasn't risen even though income has. If you go back to the other side of the diagram—I'm doing it the way I'm seeing it—to the poorer countries, you will see that the poorer countries are much less happy on average than the rich countries of Europe and North America. Many more unhappy people, and you can see that there is a curvilinear relationship which is flattening off when you're getting to round about \$20,000 a head.

So it makes a lot of sense that when you're near the bread line, absolute income makes a lot of difference. And as you get away from it, income tends to matter more. But there's also the very interesting finding that if you just look country-by-country, at the slope, what is the slope of happiness against income? The effect of income on happiness — is much greater in the poorer countries than the richer countries, which is, again, consistent with the inter-country evidence. So I think that's pretty clear.

But if we come to is it really relative income that's the explanation, I mean, you've got to do micro studies. Now, we've got about five with our report. I didn't dare put math into this book, so I put the math on the Internet. But I've reported five really quite good studies which show absolutely clearly that if you take happiness as the thing to be explained, you can explain it to a degree by the individual's income,

positive. But you can explain it negatively by the average income of either the person's occupation or the area where they live or the whole country.

And you can also get other sort of insights into how this is working. For example, I tried, in the General Social Survey for the United States, regressing happiness on income and—a measure which they have—your perceived relative income: where do you think you are in the income distribution? And of course I was delighted that the actual income of somebody has much less influence on their happiness than where they think they stand in the income distribution.

So a huge amount—this is not just introspection or gossip—a huge amount of evidence of this effect. And I think it's really incumbent on economists now not to keep turning out models which ignore the way in which other people's lifestyles and norms and so on impinge on each of us. That is a completely central issue.

I mean, it also has some policy implications—I don't know if Stan's going to allow me. See, Stan censored this book. Stan told me that what I said about tax was—though it might be correct, was expressed in too extreme a form to be acceptable, at least in this great country. So I put it differently. Shall I tell them how I put it?

MR. FISCHER: It's your book.

MR. LAYARD: I mean, I put it like this: The extent to which people are trying to increase their relative income, they're

obviously engaged in something which at the level of society is fruitless, because it's impossible for a country to improve its relative income relative to itself. And what this corresponds to is obviously the fact that there's a negative externality affecting each of us, coming from the income of other people. And the result of this kind of rat race is that we are induced to try and climb up over our fellows, to put resources into this fruitless effort which would be better spent on time with our children or with our friends our spouses or whatever, because it's having no net gain at the level of society.

What ways are there of controlling this sort of arms race? You could have a sort of collective disarmament agreement, but rather difficult. But lo and behold, the tax system. We have the tax system, which is actually reducing our incentive to engage in this fruitless activity. I think we should be absolutely up front. There must be many of you here involved in the tax debate. We should be absolutely up front. Lower taxes, assuming the money was being redistributed in some way or other, lower taxes would induce people to work harder. I mean, that is a completely central proposition in economics which is completely correct. This is assuming the income effect, because proceeds are being redistributed. And the question you should be asking the tax [inaudible], if you don't agree with them, is do you want people to work harder? Now that you understand what they're working for, something which can't be

achieved, do you want them to work harder? I think that should be a central part of the tax debate.

MR. FISCHER: Richard, intellectually, half the time when I'm listening to you I think that what really matters is relative position, so that the extent of inequality doesn't matter. It just matters that you're below the guy ahead of you. And whether you're 1 inch away or a mile away doesn't make a difference, because you emphasize it's your standing in society that matters. Other parts of the book imply that it's the degree of income inequality that matters. How do you know which it is?

MR. LAYARD: Well, let's leave out the rank for a second. I want to tell you a basic fact, which of course is what the 19th century economists believed from introspection. The 19th century economists believed from introspection that if you took a dollar from Donald Trump, he would suffer less than a poor man would gain if you gave the dollar to the poor man, and that's what you should do because of the diminishing margin of utility of income. Now of course we have these surveys, and this is one of the great possibilities that the new surveys and psychology of happiness provide, that we can estimate the rate at which the margin of utility of income declines with income. And you will find that in every survey. You know, if you put happiness on the left-hand side, income squared, income squared is always having a negative effect. So it's a diminishing margin of utility.

Now, what people haven't done, which Stan is saying that they need to do, is to replace income by the percentile position. And that's a research project which I promise to do, but it hasn't been done. But it would be—it's a good thing to do, of course it is, because how far inequality matters is a crucial element in this. My guess is that if we stick in the percentiles as well as the income itself, it will still be good.

MS. GRAHAM: We've done it for Latin America [inaudible].

MR. LAYARD: Oh, there you go. What did you find?

MS. GRAHAM: Well, in Latin America, how far you are from the mean makes a very big difference, more than average income levels.

MR. FISCHER: Well, we should open this up to any questions, comments. There are quite a few things that Richard hasn't gone to yet, particularly the details on his policy plans. But we'll take a few minutes at the end to come back to that.

Carol, are you going to point your finger at the questions?

MS. GRAHAM: I'm happy to.

If you could, please, identify yourself and your organization.

QUESTION: I'm Alan Schlaifer. I'm with the Wharton School of Business, the one that's up here. I wanted to find out what your thoughts are in terms of the emphasis we have on increasing leisure time, entertainment, all of our leisure activities, travel. If you were in

that field, what would you be trying to do? Given the results of your studies, shouldn't we be trying to increase happiness or— What should we be doing to increase happiness or the pleasure people get on these activities?

MR. LAYARD: Well, I'm not sure that the basic commercial principles wouldn't be the right ones for you to be following. But, I mean, unless there was some obvious distortion involved in the way in which you promoted one activity compared with another, you should be appealing to people in the way that anybody selling anything else tries to appeal to people—find what they're most willing to pay for.

QUESTION: So are you going to face barriers from the difficulty of giving them enough satisfaction? Is happiness difficult to increase significantly?

MR. LAYARD: Well, I'm not sure whether you're raising a very fundamental point when you say happiness is difficult to increase. I mean, there is one theory, which I think is completely wrong, that everybody has a sort of set point of happiness that they just come back to. Whatever happens to them, they come back. Something awful comes about, they bounce back to where they were. If something good happens, they come back to where they were. There is absolutely no evidence on that. You can see happiness varies between countries, or happiness varies between people as a result of things which happen to them and has a permanent effect on their happiness, which you can find from the

longitudinal studies. Both of these kinds of evidence shows there's no set point.

So a good leisure industry, provided people have some leisure, would be a very good way of improving happiness. Somebody asked me once when I'm most happy. Certainly, when I'm at Club Med. So learn from Club Med.

QUESTION: Izzy McRae from the British Embassy. I just wondered what you thought of the French 35-hour week and whether that was effective in increasing—

MR. LAYARD: No, this is of course a very interesting question. I'm saying that I think there is a genuine danger of people being induced to work too hard through the rat race. But that doesn't lead me to suggest a quantitative limit on how long people can work, because people are so different. Some people love their work for itself, other people don't. And I think in general we favor tax ways of dealing with externality problems over quantitative restrictions.

QUESTION: I'm Cliff Gaddy from Brookings. I'm curious to know, as you think about the policy side of this, and presumably then, maximizing happiness, the Benthamite idea, would be the goal. Have you thought a lot about, or has the research told us about the importance of the distributional implications of happiness, distributional aspects of happiness in an analogous way to income? Is it mean happiness that we should try to increase in society, or do we have to be concerned about

distribution, that increasing mean happiness may increase happiness for some people a lot; it may actually reduce happiness for some people. Is that a relevant concern? Is that anything that's been researched?

MR. LAYARD: It's a very good question. I'm happy to say that when I wrote a micro textbook in the 1970s, I took the view that it's more important to increase the happiness of somebody who's very unhappy than of somebody who's very happy. So that you have a kind of welfare function, you know, that's concave, in the jargon, in the individual happinesses. And I think that is important, because the—I think the only at all persuasive, to me, critique of Bentham—I think most of the arguments are very bad that are brought against the Benthamite position—that I think the most serious critique is, you know, if you could make 95 percent of people happier by 1 unit at the cost of, let's say, 10 units less happiness for the other five, according to the greatest happiness principle, without that concavity, you would go for it, and that would authorize the oppression of small minorities by big majorities. And I think that has to be ruled out.

What I think is a sort of natural way of thinking, I think—I'm saying that everybody can't be equal—the happiness of everybody matters to an equal extent. But if their happiness is very low, the increments in their happiness should be weighed more heavily if their happiness is very low.

MS. GRAHAM: There are lots of questions out here, but I am going to take advantage of being in the chair to ask you, Richard, to address one topic that you haven't addressed and I think is quite central. You do address it in your book. You've talked about leisure, but you haven't talked much about health. And I think there are very large implications for the policy debate if one thinks about the health side of the story. Perhaps you could say a bit more about that.

MR. LAYARD: Well, of course happiness affects health and health affects happiness. There's this fascinating study of these nuns. These are nuns who took the vow in the 1930s, and they were asked to write a little essay about why they were doing what they were doing. And 60 years later, these essays were seized upon by some psychologists, who scored them according to the extent of positive emotion which was being exhibited in these essays. They then found out whether these people were still alive, and followed them until they died. And the positivity at the age of 20 was an incredibly good predictor of how long the nun would live.

So happiness is affecting health. We know it over time in individuals—you know, your immune system improves and your heart rate—all these things improve if you're happier. And similarly across people.

And as regards the effect of health on happiness, if you ask people's self-reported health, it comes very high as a factor. But I think

there's a real problem about people's self-reported health, that happy people tend to take a better view of their health. The limited studies that have been done of health show that, obviously the extremes, when you're getting into chronic physical pain has a huge effect on happiness. Obviously, general anxiety is connected with health, as opposed to just not feeling too good. But anxiety, financial anxiety, anxiety about operations, all these things—very bad for happiness.

But of course the health condition which is much the worse for happiness is mental illness. And I wish that the health fraternity, if it's here, would spend much more attention on mental illness. If you adopted the Benthamite view, you would be much more interested in dealing with mental illness than ensuring one or two extra years of life for people who die of physical conditions. If you take the people who are the least happy—this is a British study I did. If you take the people who are least happy, you will find that poor people are only slightly overrepresented in the people who are least happy. That is to say that of the—a quarter of the least happy people are in the bottom fifth of the income distribution. But the people who are suffering from mental disturbance are extremely overrepresented amongst those who are least happy. Something like 40 percent of the people who are in the bottom fifth of the distribution by mental disturbance are amongst those who are least happy.

So I think it needs a lot more serious attention. It's the absolute Cinderella part of the health services in every country. I was very interested to find the fraction of depressed people who see a psychiatrist is the same in the U.S., Britain, and continental Europe. Guess what it is? Ten percent. About 10 percent see a psychologist. I mean, it is absolutely outrageous. I mean, I have mild blood pressure. Of course I see a specialist. How come that people have disabling depressions, who are not able to work, don't see a specialist? It's absolutely extraordinary.

QUESTION: Tom Mann of Brookings. Could you give us a sense of a rough order of magnitudes between, if you will, internal personality-type determinants of happiness versus external conditions that would be amenable to policy responses? The psychologists must have looked into this.

MR. LAYARD: Yes.

QUESTION: Optimists, pessimists, introverts, extroverts, and so on.

MR. LAYARD: Sure. Sure. Well, I mean, crudely I suppose you could say there are at least three sets of factors. There's your genes, there's kind of what's happened to you up to now, and there's your current situation.

I don't like measures of heritability, for all sorts of reasons that everybody here, I'm sure, knows. But the heritability measures of

cheerfulness is fairly high, like 40 percent or something. Not important, really, because another 60 percent become a fact.

Then there's the influence of the parents. And this is now put much lower—the non-genetic influence of the parents is put much lower than it used to be, as a result of the work of Judith Harris and others. But it still comes through as quite important, how you're brought up—whether your parents—and you can get this from adoption studies and so on—whether your parents, you know, have wholesome relationships themselves, treat you well, and so on.

Then there's your current situation. In a sense, over both of the last two, there's something which is different, which is your philosophy of life, the general ideas you have about how you should handle difficulties.

So I think if you're asking what policy can influence it, it cannot influence people's—you know, it should try to influence the stability of families. It should try and influence the availability of work. It should try and influence how well communities function. These are all things which show up as important factors affecting happiness. It should try and influence the availability of mental health, et cetera. But I think leaders, actually, have a really important role in the way they set the tone for what people think matters in life. And I think there is a genuine problem if leaders are talking all the time about getting ahead.

If you go into the British Department of Education now—there's a Labour government—it's a big atrium thing, you will see two huge banners saying "Getting Ahead." This is apparently the role of the British educational system, [inaudible] people to get ahead of each other. I mean, it's really a peculiar kind of mentality.

But I think this is a distortion, an individualistic distortion that our culture's got into, that people feel it's almost their chief moral responsibility is to make the most of themselves and to kind of get the most out of life, rather than to contribute as much as possible to the happiness of other people—and their own happiness. I would like to see a different stance amongst policymakers on that issue as well as all the detailed policies which we all work on.

QUESTION: Joan Nelson. I'm wondering whether the research has tried to distinguish the effects of perceived inequality in the society as a whole on individual happiness, controlling, presumably, for people's status or rank within the society.

MR. LAYARD: Yeah, I think I—all of this is at an early stage. We were discussing the paper that I found the most interesting, by John Helliwell, called "How's Life?", which uses the Royal Values Survey, which covers about 60 countries, to try and explain differences in average happiness. And it has this diminishing margin of utility of income, so that inequality matters directly. But it doesn't have an atmospheric effect of inequality. But of course this may be coming

through other variables. You see, if you ask people do you think most other people can be trusted, this is a very, very good predictor of the happiness level in a country—I mean, amongst other variables in a multi-variable framework. Now, the numbers vary unbelievably, like 60 percent or 70 percent say yes in the Scandinavian countries, and I think 5 percent in Brazil say most other people can be trusted.

So these are measures which are quite well correlated with inequality, as you can see from the two examples that I mentioned. But quite what is causing what—I mean, my own feeling is that the ideology is causing kind of both of these things, that ideology is very, very much more important than people tend to give it credit for.

MS. GRAHAM: Can I just support your point on that with some findings, where we've compared perceptions of inequality in the U.S. to perceptions of inequality in Latin America. And in the U.S., inequality seems to signal for a lot of people opportunity and mobility and fit into a certain ideology, and it doesn't seem to have very strong effects on happiness. But in Latin America, where inequality seems to signal persistent disadvantage for the poor and persistent injustice, perceived inequality has stronger effects on well-being than does people's actual position on an income ladder.

MR. LAYARD: Understand, I'm not sure what your question was, but what I meant by "ideology" is if you have a strong ideology that you should respect other people and treat them as equals—which is a kind

of Scandinavian concept, isn't it—then things will follow from how people behave to each other. They'll behave to each other in a trustworthy way, and that will be reflected in that. And they'll also probably have policies towards income which produce a more equal income distribution. But what is the originating, the forcing variable, is the basic thought about what is the purpose of the society.

MR. FISCHER: I don't want to interrupt too much, but would you at least tell us which are the happiest societies?

MR. LAYARD: Yeah. Scandinavian countries and Switzerland and, to an extent, the Netherlands. The U.S. is quite high there.

QUESTION: Bob Lerman, American U. and Urban Institute. How do you know that at least part of this correlation is not reversed in terms of income itself, especially when you take into account the fact that there are many factors that are linked to both happiness—I mean, there can be third factors also that are linked both to happiness and income. I use one, which would be marital status. Married people tend to earn more, married men tend to earn more, and they tend to be happier. So some of what you may be picking up—you didn't exactly tell us all the different things you were holding constant—some of the things you may be picking up could be an inverse correlation. At least, I'm asking the question.

MR. LAYARD: Now, obviously, you need panel data to sort that out. But if you take, say, the German Socioeconomic Panel, which has been probably the most worked on—but Carol's worked on other panels—you will see a positive effect of income holding constant, you know, the characteristics of the person.

QUESTION: I'm Will Wilkinson from the Cato Institute. I have a question about why we should be Benthamites and give up on revealed preference theory, so I'd hope you'd respond to this argument. The argument is that if people are behaving in ways that don't make them happy, then that just shows that they don't really demand happiness. And so, you've got two objections. One is a scientific objection, which is that a social science based on picking sides in debates about the metaphysics of value isn't really a science. And then from a policy perspective, policy design that's based on taking sides on the nature of value in a pluralistic society in which people disagree is inappropriate. So I'd like you to address those points.

MR. LAYARD: No, I was trying to give you some concrete evidence that the involuntary ways in which people interact on each other has an effect on their happiness—which you couldn't possibly learn about from revealed preference. If I regress happiness on my own income and your incomes, and I find your incomes make me less happy, no revealed preference analysis is going to show that. That's what's fundamentally wrong with economics.

Amongst the sort of psychologists who criticize economics, there are kind of two lines of criticism, broadly. There are the ones stressing the kind of points that I'm stressing, and there are the others that stress irrationality on the part of people when they make decisions, that they make decisions which are not in their own interest or are inconsistent, according to how they're presented. You know, Daniel Kahneman did all this work, presenting the same decision in different ways and getting different outcomes preferred. That's the irrationality that also links up with addiction, self-control—all of that debate.

I think that's very important, that if I'm trying to explain why people have not got happy in the last 50 years that I'm starting from, the irrationality is not going to be the main part of the story. It's something to do with the whole way in which people are affected by each other that is not revealed through revealed preference.

QUESTION: Mary Mullin, and I'm with the Bosnia Support Committee. I was wondering about, I know you were talking about mental illness, but I was talking about depression in what I read about people that have no light or sun, like the Eskimos or the people that live near the North Pole. They have a very high suicide rate, whereas people that live on islands and have a lot of sun and a lot of light, they seem to be a happier people and there is very little depression in these areas.

The second question was about religion. Does religion help or interfere in happiness?

MR. LAYARD: The climatic theory of happiness, I think, has been pretty well exploded. John Helliwell has written a very interesting paper on suicide as well as on happiness, which shows very much the same factors explain suicide rates, which are actually roughly average in Sweden, contrary to what every single person knows. So I think we can leave out the climate.

You asked about religion. One of the absolutely standard findings in all happiness research is if you include the question, Do you believe in God?, you find that people who believe in God are happier. Now, the direction of causality could be argued, but John Helliwell, you see, found this at the national level. [Inaudible] believing in God helped to explain the average happiness in a country, which is, if there is a causality, it would have to be from the one to the other.

I think—and I've talked about this before. I remember some lady came up to me and said you didn't mention gratitude. I think a sort of feeling of gratitude is quite essential, actually, to being happy. And I don't know, this has got to be looked into more carefully, but it's obviously a fact that people who say they believe in God at least think they ought to feel grateful. They may not feel it. They may be slightly more inclined to feel it than others. They may not. But it's the only mechanism which, as a sort of—I'm not an orthodox believer, I could give for explaining that finding, which is very, very strong.

QUESTION: Charlie Schultz [ph]. My scant acquaintance with some of this literature suggests that one of the things that is often observed is that expectations or desires move up with accomplishments, and that in fact there's a [inaudible] over time cross-sectionally that as income rises, you ask them what income would it take to make you happier or satisfied, the gap is always there. Could we be observing—could that be kind of giving a false relationship between income and happiness in the sense that people are always, no matter what they accomplish in the material well-being sense, are never going to be satisfied, but that actually a half-full large glass of water is in fact better than a half-full small glass of water and that there may be all sorts of things associated with education and income in terms of the kinds of things you can appreciate, a greater ability to appreciate things that in some sense give us happiness which we don't ourselves recognize? And it's because of this expectations phenomena, we never quite—we never catch up.

MR. LAYARD: Well, you're almost putting forward the sort of Marxist false consciousness thesis, that you don't really know that you're happy. I mean, you've got these actual opportunities, and you actually are happy but you don't really know it.

I don't know if this will influence you at all, but obviously that is very much what this whole line of research is trying to get away from, that there is an objective happiness and we can know something

about it by asking people, and that tells us more than what analysts sitting in a beautiful academic building think ought to be good for people.

Here's what I find very, very interesting. You take a lot of people and you put a very hot pad on their leg, really painful. It's the same temperature for each person. And you ask them how much it hurts and they give very different answers. And then you see what was going on in the brain. And you can find in the front of the brain a pain center that is in the kind of, as it were, conscious part of the brain, and you will find that is more active in the person who says it's really painful than in the person who says it's not painful. So when they say they feel a lot of pain, they are, certainly as far as what is going on inside the brain is concerned, feeling a lot of pain. What is also quite interesting is you go further back to the less-conscious part of the brain, the activity is exactly the same for everybody and corresponds to the identical stimulus that they're all receiving.

So I think it really is important, how people experience life. And I think that there's something paternalistic, which really bothers me, about the false-consciousness argument. I mean, it comes up—we were talking earlier on—in discussing what are the most important things to do to help peasants. You know, it's really important. I don't want to mention names—some people say that a person can feel all right on the lower income. He ought not to, and he ought not take into account the

fact that he can adjust. I say that if we want a really good life for everybody, the most important thing is to find out what people can adjust to and what they cannot adjust to. It's unbelievably important to find out what are the things that people really can't adjust to, and really do something about that. That's why I'm so exercised about mental health, because people cannot adjust to being depressed. There's no way.

MS. GRAHAM: Charlie, I think, wants to come back.

QUESTION: I come back once more, so maybe you can really persuade me. Let me give you two people. One of them, just for the heck of it—this is going to sound awful [off microphone, inaudible]—is reading, say, War and Peace, and another reading the comic strips. And both have roughly the kind of scale [inaudible] along that line. And they both say they feel quite happy. Nevertheless, wouldn't it be good public policy to get people to the point where they could really enjoy War and Peace, even though they could feel equally as happy reading the comic books?

[Laughter.]

MR. FISCHER: Well, Charlie, he doesn't want to say, but that's how they did it in the Soviet Union.

MR. LAYARD: Well, you know, this is what John's [inaudible] argued, that Pushkin was better than—or whichever—poetry was better than Pushkin.

MR. FISCHER: No. As good as. I thought he argued that—

MR. LAYARD: No, he was bothered about the fact that people, some person might like Pushkin as much as somebody else liked poetry. But no, I mean, I think—I genuinely think that unless you could say that other goods flow from a reading of War and Peace, that they might be more sensible in their approach to war, or something else, that that is a kind of paternalist point of view that one shouldn't— Well, I think you've got to justify it. I don't see how you can desert it.

QUESTION: Carol, can I just ask a question?

MS. GRAHAM: Absolutely.

QUESTION: This may not matter in practice, but take the mentally ill. You were essentially saying give them a lot more resources than you give the average person, so that you can improve their well-being. So now does this generalize? If there are people who generally happy versus those who are generally miserable, we should give more income to the generally miserable and therefore have compensating differentials so that we don't actually equalize the distribution of income, but equalize the distribution of happiness?

MR. LAYARD: No. No, I wouldn't at all want to equalize the distribution of happiness. As I say, I want to maximize the weighted sum of happiness, but I want to give a little extra weight, some extra weight, particularly if the person's getting really miserable, to improving the happiness of the least happy. But I don't think this is going to lead them to have more income than the others because they've got to start

off—I mean, most of them start off with a lot less, including depressed people. And I'm not even saying that in fact treating people's depression is going to cost a fraction of what it costs to treat many of the most prestigious people suffering in the prestigious branches of medicine. I mean, this is low-cost stuff, psychiatry, compared to state-of-the-art physical medicine. So it's not a sort of crude redistribution to equalize happiness, no. There's no idea about equalizing happiness.

QUESTION: Marianne Camerer from the Center for Public Integrity. Two questions. Firstly, in the literature is there a distinction between happiness and joy/bliss, if there is a distinction at all? And then secondly, I was struck by the happiest countries ensure they have over \$20,000 for individuals, what they're earning, or on average. But those are mostly developed democracies. I was just wondering, as a South African, when you're looking at sort of communist countries or countries which have been under authoritarian rule, there's something—and I briefly glanced through your book—there's something to be said for predictability as making people happier. And you get these comments of people who have recently been through a transition, democratic transition, that things were better before. And so it's just trying to get a sense of to what extent uncertainty and transition and change impacts on happiness.

MR. LAYARD: Yeah, I mean, I think the sort of basic in a way new issue that you've raised is the question of gains and losses. A

very important finding from Daniel Kahneman was the finding about loss aversion. You know, if you lose a given amount, it hurts you a lot more than gaining the same amount helps you. And that has obviously been a central reason why, in the transition countries, happiness went down a lot in the early parts of the transition just like income did. But happiness was going down because of the uncertainty and the job losses and all of the rest of it.

If one is then thinking about the process of reform, which probably most of us in this room spend most of our time thinking about, I think there's a very important point, that reforms which involve turbulence are only really justified if there's some major long-term gain. And I feel—I'm looking more at the British experience than here, but I'm sure the same is true here—that there's a tendency to undertake trivial reorganizations with not-that-major benefits, that cause a lot of demoralization, that undermine social capital, trust, et cetera, and that—The reform process should be done— This is a very difficult subject. I shouldn't get into it too much. It has to be, obviously, done where it's feasible at all. But it should if possible be done in a way that involves movements between relatively stable positions. I think that the philosophy of continuous change, which various people have tried to import into the British civil service, for example, is a mistake. It should be periodic change. And that should be based on really serious reappraisals.

MS. GRAHAM: Bruce [inaudible]?

QUESTION: Thank you. Early on, Stan asked you about drugs and alcohol. And as I recall your answer, it was the effect of, well, we don't want that because of hangovers. But it seems to me that in your theory, it should be the negative effects on the happiness of those around those who consume—

MR. LAYARD: Oh, of course.

QUESTION: —that would be the preeminent factor.

Second, in your discussion about mental illness, we have not heard the word "Prozac." It seems to me that we are now a Prozac society, and one should have imagined that that would have had some effect, cost-effective effect on the happiness of the population. Any comment?

MR. LAYARD: Well, this is becoming a serious point, and I completely agree that we ought to be seeing a decline in the symptoms of mental illness if the treatments are working. I think one major reason why they're not is that the fraction of people being treated is actually rather small. I mean, these are millions, but they're still a small fraction of the people relative to a population survey, you know, of 300 million people.

But you're quite right. If we could get treatments which are well administered—they're often not administered by competent physicians—with the right dosage for the right person, we should be—in

the end it should show up in reduced rates of mental illness, and that should show up in reduced rates of unhappiness.

QUESTION: I'm Bruce Baker from the Bureau of Economic Analysis. You said that you are most happy when you're at Club Med. And I agree with that.

[Laughter.]

QUESTION: My basic question is should we not, as a matter of public policy, be pursuing more leisure time instead of more of a rat race to earn more money to buy more stuff? Would it not be better if we had an extra week of vacation time or a shorter work week to spend more time at Club Med or with family and friends?

MR. LAYARD: Yeah, I'm very sympathetic to that, of course.

MS. GRAHAM: Carolyn Roeser [sp]?

QUESTION: [Off microphone, inaudible] —the issue of transitions and turbulence and change. I'm struggling with the actual question. We have an increasing preoccupation with a group of people that commit suicide bombings, and we have an increasing preoccupation with the use and the reasoning behind why such groups of people will commit themselves to voluntarily killing themselves in this way. And I wondered how you relate that to transitional turbulence, change and whether changing perceptions of happiness that go along with that [inaudible].

MR. LAYARD: Well, I think the transition process has been extremely traumatic for many people. And of course, we were talking about health in more general terms before. The extraordinary thing in Russia, which is the country of transition that I know best, that, contrary to what everybody expected, which was that because the pension had been cut, et cetera, and the health services are deteriorating, there would be a lot of old people dying who wouldn't have died otherwise. It turned out that the people who were dying in a huge, huge increase in death rate—the extra death rate was heavily concentrated on so-called prime-age males, people whose rationale for living had been removed. And of course they are also the ones who've been having these higher accident rates, alcoholism, suicide rates, and all the rest of it.

MS. GRAHAM: I think we'll take two more questions and then turn it back to Stan for a last few words.

QUESTION: Since happiness to some degree is dependent upon perceived—one's perception of self and others around them, how does reference group theory and [inaudible] fit into this?

MR. LAYARD: This is a very important question and it's not one that there's a huge, settled literature on, I think it would be fair to say, as far as happiness has been the variable on the left-hand side. Of course it's been studied for ages. The conventional wisdom is that people compare themselves with people who are close to themselves. That's what most sociologists say. And they get most vexed not when Donald

Trump gets an extra billion or two, but when their next-door neighbor gets an extra thousand or two. That person may live close to the person and particularly who they work with that creates tremendous dissention, as we know. And so on.

So all of that needs to be incorporated more specifically in the research which I've referred to, these studies, which often are rather crude representations of the reference group. But of course you can see why the average income in a country would work in these equations, because by and large, over time—the average income in the country is going up, so will the average income amongst your neighbors or amongst the colleagues with whom you're working. So you can pick up some of these—you can pick up in gross data some effects which ought better to be picked up in more specific data.

QUESTION: Chris Rodrigo [sp], presently unaffiliated but formerly at George Mason University. I'm inclining agree with that. Happiness is too general a concept to become a useful measure of economic welfare. For example, somebody mentioned this fact that people who have a strong belief in God are happy. But one could also say that people who have any affiliation to a strong ideological system are also happy. The Dalai Lama is one of the happiest people I have seen, and that's not necessarily related to economic variables, I think. So I'm still doubtful that this is useful as a measure of economic welfare.

MR. LAYARD: Well, I think—I mean, thank you for the question, because it gives me the chance to say that I think there has been a real problem. Kind of what economists wanted, how they would like to think is that there are different things that affect happiness. Income. Economists know about that, and we have some levers that we can pull which will affect income, which will affect happiness. Then this—let's say family. Psychologists know about that, and there are some levers they can pull which will make people happier.

The trouble is that any lever that you try and pull has effects on these other factors that affect happiness. For example, American economists, various institutions that Stan has belonged to at various times, have tended to go around Europe saying that Europeans should move home more. I know that this would increase income, probably reduce unemployment, but, I would add, almost certainly lead to increase in family breakup, almost certainly lead to increase in crime. So there are no economic levers. There's no such thing as an economic policy. There are economic policy instruments, but they—[inaudible] policy is the most obvious—but they still have effects that go through all the factors that affect how happy people are. So that's why it really is important that we try and develop a broader kind of social science that brings these together.

MS. GRAHAM: Stan, I think it is now your turn to speak, after those comments.

MR. FISCHER: Well, I had a few more questions for Richard, and then I'll sum up briefly.

Are there measurable differences in the happiness of men and women?

MR. LAYARD: This is an extraordinary thing, isn't it, that in almost every country men and women are identically happy. The only country where this is really different is Japan—and I won't tell you which way round it is.

MS. GRAHAM: Actually, Russia is also different.

MR. LAYARD: Is it? Russia, too?

MS. GRAHAM: Yeah. Men are much happier than women.

MR. LAYARD: Oh, really? Well, in Russia it's easy to understand, because women get treated so badly. But in Japan, it's the other way around.

MR. FISCHER: Second question. On this inter-temporal comparison, I can't figure it out. So take the United States, 1950 versus 2000. Are you saying the average level of happiness in the United States is no different now than it was in 1950 because the distribution of income has gotten wider—

MR. LAYARD: No, no.

MR. FISCHER: Or do you say it's inherently the case that it won't go up—

MR. LAYARD: No, no, not at all.

MR. FISCHER: —no matter what the policies we pursue are?

MR. LAYARD: No, I'm very against set-point thinking because, as I say, there are big differences between richer and poor countries. There are even big differences within the richer countries that are not connected with income.

But actually, I wasn't—you put it into my mouth a bit at the beginning, that I'm saying the distribution of income is the most important thing that's, as it were, limiting happiness in the United States. I don't think that's so. I was wanting to stress the fact that it's quite difficult for income growth to make people happier, because of this comparative factor, that people compare their income with a norm and the norm goes up both as to what other people have—that's interaction—and also, actually, with their own experience—that's habituation.

So difficult but not impossible, because I do actually think that the higher income has made people happier. Somewhat. And I think that that has been offset by deterioration in relationships. And the question is how to, if we're going to go on having economic growth, which I'm almost certain we shall have forever and ever, how to take advantage of that affluence to not drive ourselves more and more crazy. I find this globalization—life is getting tougher and tougher. We can't afford to give you the quality of life, the work you used to have because we're under competitive threat. Profits look pretty good to me. And I

just can't bear this tough-minded way in which the leadership of the advanced countries is going at the moment, rather than, look, we've got this wonderful affluence that we never had. How can we take advantage of it to have a better quality of life at work, better quality of life at home, not work so hard that we don't have time to bring up the children or relate to spouses, et cetera, et cetera. So it's how to focus on what we know in the rich countries is particularly important, relationships, and not somehow use the pursuit for more economic growth than even is going to fall into our lap to abort that.

MR. FISCHER: There hasn't been a chancellor of the exchequer from the House of Lords for about 100 years. But if you were made the chancellor of the exchequer, what would be the first three things you'd do? We know you'd spend more on mental health. What are the other two?

MR. LAYARD: Well, I would—I'm not allowed to regulate anything, am I? Like advertising to children under 12. I would ban advertising to children under 12. I might even remove tax relief from general pictorial commercial advertising, because I think that creates wants. So that's one area where I would certainly be doing something. I think the other things are actually what [inaudible]'s doing with them. I mean, he is trying to—and this is going to be the theme of our Labour Manifesto, actually—he's trying to protect family life, make it possible for people to have unfrenzied family lives by increasing paid parental

leave, increasing subsidized child-care, subject to a means test. I would add—and this is not very chancellor-like, but having compulsory lessons on parenting in schools and parenting classes available with all ante-natal classes for both spouses. I think that putting the emphasis on trying to rebuild family life is one that is a very, very good one for a chancellor. I'd almost be speaking for Gordon Brown myself.

MR. FISCHER: Anyway, I think Carol will have the last word, but if I may have the second-to-last word. Everybody who's listened must be very grateful to Richard for pushing us in directions we don't usually go and making us think about things we don't usually think about, and making a pretty good case as well for the things he believes in and argues. It's not just beliefs. It's all based on a well-argued set of propositions in this book. And what I think you'll be doing more than anything else is helping open up to more general debate a set of issues which has been explored for some time, but never got the attention it deserved in economics. And whether it will end up precisely where Richard thinks it will or somewhere else, I don't know. But I do know we'll be very grateful to him for pioneering in this area. I'll leave it to Carol to ask for a round of applause for Richard.

MS. GRAHAM: Okay. Well, I would like to thank both our panelists very much for a really wonderful discussion. I think both in social science debates and also in policy debates, particularly in this town, we spend a lot of time arguing for hours about whether we should

raise an interest rate a quarter of a percentage point, or tinkering with policies at the margin. It's not very often that we have debates about—

MR. LAYARD: [Inaudible.]

[Laughter.]

MS. GRAHAM: It's not very often, though, that we really get a chance to think about whether we really should be rethinking how we're doing the whole process and how we're evaluating something as important as human well-being. And I'd really like to thank Richard for provoking us and Stan for all his wonderful, sharp questions.

Before I ask for a round of applause, I would like to thank all of you for coming and invite anyone who would like to a reception in the room next-door, in the Zilkha Lounge, which is across the hall here, if you'd like another chance to ask Richard some questions. For those of you who didn't get a chance to ask your questions, that would be a good time.

And then over to the audience to thank our panelists.

MR. LAYARD: Well, thank you all.

[Applause.]

[END OF TAPED RECORDING.]

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