Understanding the key determinants of people's life satisfaction makes it possible to suggest policies for how best to reduce misery and promote wellbeing. A forthcoming book by **Richard Layard** and colleagues discusses evidence on the origins of happiness in survey data from Australia, Germany, the UK and the United States.

Origins of happiness

In 1961, the OECD organised a conference on human capital that propelled education into the centre of policy-making worldwide (OECD, 1962; Schultz, 1961). In December 2016, the OECD and CEP held a conference on subjective wellbeing that they hope will usher in another revolution, one in which policy-making at last aims at what really matters: people's happiness.

As Thomas Jefferson once said, 'The care of human life and happiness… is the only legitimate object of good government'. But to make policy requires numbers. Human capital took off once people realised its high rate of return. Wellbeing will only take off when policy-makers have numbers that tell them how any change of policy will affect the measured wellbeing of the people, and at what cost.

The first step is a clear unified account of how wellbeing is currently determined. Our forthcoming book, the first draft of which was presented at the conference, aims to provide this, using large surveys from four major advanced countries.

One key issue is to adopt a single definition of wellbeing. The right definition, in our view, should be life satisfaction: 'Overall how satisfied are you with your life, these days?', measured on a scale of 0 to 10 (from 'extremely dissatisfied' to 'extremely satisfied'). That is a profoundly democratic concept because it allows people to evaluate their own wellbeing rather than having policy-makers decide what is more important for them and what is less so.

Moreover, policy-makers like the concept – and so they should. Work in our group at CEP shows that in European elections since 1970, the life satisfaction of the people is the best predictor of whether the government gets re-elected – much more important than economic growth, unemployment or inflation (Ward, 2015).

So the task is to explain how different factors affect our life satisfaction, analysing them all simultaneously. There are of course immediate influences – our current situation, including income, employment, health and family life – but also more distant ones going back to our childhood, schooling and family background.

We can start with the immediate influences. Here, the big factors are all non-economic: especially how healthy an individual is, but also whether they have a partner. Less than 2% of the variance of life satisfaction is explained by income inequality.

An obvious question is: do economic factors play a bigger role if we focus only on those who are least happy – the bottom 10% of the population in terms of life satisfaction. The results are almost the same as before. When we ask what distinguishes this group from the rest, the biggest distinguishing feature (other things equal) is neither poverty nor unemployment but mental illness. And it explains more of the misery in the community than physical illness does.

In fact, it is interesting to ask: if we wanted to reduce the numbers in misery, what change would have the biggest effect – raising incomes, ending unemployment, improving physical health or abolishing depression and anxiety? It turns out that if we could abolish depression and anxiety, it would reduce misery by as much as if we could abolish all of poverty, unemployment and the worst physical illness.

Most human misery is due not to economic factors but to failed relationships and physical and mental illness

Except for poverty, we cannot of course completely abolish any of these things, but we can reduce them all at the margin – and at a cost. The cheapest of the four policies is treating depression and anxiety disorders, which is why CEP has been involved in two major mental health initiatives.

Since 2008, the UK's National Health Service has developed a nationwide service with different local names but known generically as Improving Access to Psychological Therapies. This programme now treats over half a million people with depression or anxiety disorders annually, of whom 50% recover during treatment. Because of financial flowbacks, we believe that in fact it costs the government nothing (Layard and Clark, 2014).

In addition, we should try to prevent mental illness before it occurs, so a second initiative is preventive – a four-year curriculum for children in schools called Healthy Minds, one lesson a week. This too has very low costs since children are already spending an hour a week on life skills lessons of unknown but probably low effectiveness.

The importance of prevention becomes even more evident when we try to predict adult life satisfaction from earlier in a person's life, from their child development – their academic qualifications, their behaviour at 16 and their emotional health at 16.

The evidence shows that the best predictor of an adult's life satisfaction is their emotional health as a child. How on earth did so many policy-makers come to believe that all that promotes 'the interests of the child' is a concentration on qualifications?

The final step in our forthcoming book is the explanation of these child outcomes, using data from the Avon Longitudinal Study of Parents and Children, which has surveyed children born in and around the city of Bristol in 1991/92.

Academic performance is the outcome on which most existing research has focused, and it is profoundly affected by family income. But emotional health is the best measure of the wellbeing of the child, and it is also the biggest determinant of the wellbeing of the future adult. It is affected to some extent also by family income but above all by the mother's mental health. The same is true of the child's behaviour – which also affects the wellbeing of so many other people.

What about the effect of schools? In the 1960s, the Coleman Report in the United

States told us that parents mattered more than schools. Since then the tide of opinion has turned and the data available have become more plentiful and sophisticated. Our data strongly confirm the importance of the individual school and the individual teacher. These are equally important for the academic performance of the children and for their happiness (Flèche, 2016).

Let us end with the thorny question of income. As we have seen, income inequality explains a very small fraction (under 2% in any country) of the variance of life satisfaction. But the effect of log income is well determined, and similar in all countries. One would therefore have expected economic growth to bring considerable increases in life satisfaction. But in many countries, it has not – the so-called 'Easterlin paradox' (Easterlin, 1974).

Our analysis provides an explanation of this. People adapt to higher levels of income over time, but, much more importantly, they also compare their own income to that of their peers. Analysing data from the British Household Panel Survey, we find that life satisfaction (0-10) is predicted mainly by an individual's income relative to that of others in their peer group as defined by age, gender and region. The same is true in Australia and Germany.

At last the map of happiness is becoming clearer and usable for policy analysis. We now need thousands of well-controlled trials of specific policies from which we can obtain estimates of the effects on life satisfaction in the near and longer term (where our book can contribute valuable coefficients). We can then compare those gains to the net cost of the policies. The optimal mix will surely be very different from the one we have now.

Eliminating depression and anxiety would reduce misery by 20% while eliminating poverty would reduce it by 5%

This article introduces *The Origins of Happiness* by Andrew Clark, Sarah Flèche, Richard Layard, Nick Powdthavee and George Ward, which will be published by Princeton University Press.

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Further reading

Richard Easterlin (1974) 'Does Economic Growth Improve the Human Lot? Some Empirical Evidence', in *Nations and Households in Economic Growth: Essays in Honor of Moses Abramovitz* edited by Paul David and Melvin Reder, Academic Press.

Sarah Flèche (2016) 'Teacher Quality, Test Scores and Non-cognitive Skills: Evidence from Primary School Teachers in the UK', CEP mimeo.

Richard Layard and David M Clark (2014) *Thrive: The Power of Evidence-based Psychological Therapies*, Penguin.

OECD (1962) 'Policy Conference on Economic Growth and Investment in Education, Washington, 16th-20th October 1961: Targets for Education in Europe in 1970', paper by Ingvar Svennilson in association with Friedrich Edding and Lionel Elvin.

Theodore Schultz (1961) 'Investment in Human Capital', *American Economic Review* 51(1): 1-17.

George Ward (2015) 'Is Happiness a Predictor of Election Results?', CEP Discussion Paper No. 1343 (http://cep.lse.ac.uk/pubs/download/dp1343.pdf).