

My must-read paper

Richard Layard recommends the paper that pioneered wellbeing economics

I had already read Jeremy Bentham when I was a student – he is the greatest writer who said that what really matters is how happy people are. But I had never seen any numbers measuring that, because no numbers had been produced. Certainly economists hadn't seen any until Richard Easterlin wrote this paper in 1974 called "Does economic growth improve the human lot? Some empirical evidence". In it he publicised the numbers which pollsters had been collecting for about 25 years in the United States.

This had been a period of extraordinarily rapid growth in the United States at all levels of income. Yet the pollsters' answers were saying that people were getting no happier over that period. And that was the main bit of evidence that Easterlin used to raise this question. Are people actually getting happier as they're getting richer? And his answer was no. It's true that, of course, if you compare people who are rich with people who are poor at a point in time, richer people are on average happier than poorer people. But that doesn't then get reproduced over time as countries get richer. They don't, according to him, get happier. And he offered an explanation of this, which was that people are comparing their incomes with other people's incomes. So if everybody's getting richer, the average of relative income can't increase and therefore people can't feel better.

This struck me like a thunderbolt when I read it, as it did many other people. And, I thought, this is very relevant to policy. For, if people are comparing themselves to other people, that means that, if somebody else becomes richer, other people become less happy because they're comparing themselves with somebody who's become richer.

This is what we call in economics an "externality" – one person's income increase imposes an external disbenefit on the rest of the community. Therefore we should do the normal thing we do with external bads – we tax them. So the idea that taxing people is a bad thing is not completely correct because part of the tax performs a useful function. It's a corrective tax, stopping people from overworking and creating even more damage to other people.

So I wrote an article about this called "Human satisfactions and public policy" which came out in the *Economic Journal* in 1980. Richard Easterlin said it was the first article where anybody had looked at the policy implications of his paper. But I didn't do any more work on happiness for quite a long period after that, partly because I was working on unemployment, but partly because the evidence on what actually causes happiness and wellbeing didn't really take off until the late 1980s and 1990s. Then I got to know about it through Daniel Kahneman who was not the originator of it, but who then took it up and ran with it. It got a big boost when he won the Nobel Prize. I thought, why not look at this from different angles, philosophical, psychological and economic and see if one can make some overall sense of what's going on here.

So I wrote this book called *Happiness*. In it I tried to draw out there both the strands that Bentham discussed. First, how can we make the happiness or wellbeing of the people into the goal of public policy? And second, how can individuals lead the good life, which means the life which produces the greatest happiness in the world?

We should obviously be more interested in improving the happiness of people who are at the bottom end than in creating the same increase in happiness for people who are at the upper end. That means it's very important to be clear about what are the main causes of misery. In our work we find very clearly that the main causes of misery are one: health – especially mental health, two: human relationships – your family, at work and in the community, and only third, poverty.

This should be basic to any political debate. And I'm frustrated that we still haven't got the wellbeing evidence put at the centre of the debate of what kind of society we want and what are the real problems we face. If we could get a wellbeing-oriented politics, I think we'd be in a much better place.

Richard Layard was talking to Romesh Vaitilingam. Listen to the full conversation on the CEP podcast *Inspiring Economics*.



Recommended reading

Easterlin, R. (1974) 'Does economic growth improve the human lot? Some empirical evidence' in P.A. David and M.W. Reder (eds) *Nations and Households in Economic Growth*. Academic Press, 89-125.

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