The pursuit of happiness

Key points
- Happiness is now big business with articles and books churning out at a rapid rate.
- Proposals to target Gross National Happiness are unlikely to help promote happiness.
- But investors shouldn’t ignore the rising focus on happiness as it will affect spending patterns over time.

Introduction
It seems that not a day goes by when I don’t come across another article on happiness. Books on the topic are pouring forth with titles like *Happiness: Lessons From a New Science*, *The Loss of Happiness in Market Democracies*, *A Brief History of Happiness*, *The Art of Happiness*, *Authentic Happiness* and *Happiness Now*. This week the Dalai Lama is a speaker at a conference on “Happiness and Its Causes” in Sydney. The common observation is “how come we are materially better off than ever and yet no happier?” With the huge concern now being expressed about happiness one gets the impression that just as reducing unemployment and inflation was the main economic challenge a generation ago, the main economic problem today is how to boost happiness.

I must admit I have to be careful delving into happiness because the last time I wrote on it 1 an economist colleague observed that “when economists look into happiness their minds turn to mush”. But with the financial market soap opera stuck in yet another bout of growth/inflation paranoia maybe happiness is more interesting.

Economics and the “happiness paradox”
Finding happiness is at the centre of our existence. It is what most people seek and there is plenty of evidence that happiness is good for us, eg, happy people live longer, are healthier, more resilient, more creative, are better leaders and are more sociable. Despite often being portrayed as the “dismal science” economics is in fact all about happiness. The economic problem is how to maximise utility or happiness with limited resources. Economists have long assumed that since utility or happiness cannot be measured, a good proxy is consumer spending and the income available to finance it. So if consumer spending or income levels rise then happiness is assumed to rise too.

Real GDP per person today in Australia is more than five times what it was in 1901 and more than three times what it was in 1957. This has led to untold material wealth. Houses are twice as big as they were when my parents built their house in 1956, overseas holidays are the norm as are two car families and huge TV sets while people have longer healthier lives. What’s more, the past 20 years has seen a big decline in what used to be called the misery index (the total of inflation and unemployment). So on this basis economists deserve a tick!

Source: Thomson Financial, AMP Capital Investors

And yet despite skyrocketing prosperity, numerous studies suggest that for Australia and most rich countries happiness has stagnated over the last fifty years. Some even contend that the rising trend in crime, depression, suicide and drug abuse indicate happiness has actually declined. Looking across countries, the evidence suggests that at low income levels a small increase in income results in a big boost to happiness, but for countries beyond a certain income level (around $US15,000 per person) extra income has little impact. See the next chart.

![Happiness Index Chart](chart)

Income has little impact on happiness beyond about $US15,000 per person


Other findings from the happiness studies are as follows:
- Rich people are happier than poor people, and people seem to compare themselves to others.

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1 See “The Art of Happiness”, Oliver’s Insights, August 2005.
Studies suggest most people prefer a lower income if their income is above average to a higher income where they are below average.

- Women are happier than men and more educated people are happier regardless of income.
- Younger and older people are happier than middle-aged people.
- People adapt to their situation with evidence suggesting that we are born with a genetically pre-determined level of happiness to which we return to after both good and bad events.

The failure of happiness to rise with higher levels of income and material prosperity – dubbed the happiness paradox - presents a huge challenge to economics. It is claimed that 80% of the population is simply on an “hedonic treadmill” of working ever harder to attain the material wealth of those above them in the belief that this will make them happier only to find that it doesn’t but then resolving to work even harder to attain even more stuff. The end result is that we all end up working harder in a quixotic quest for more stuff but ending up no happier. If correct, it would suggest that the focus of economics on boosting GDP, with all its adverse environmental consequences, is grossly misplaced. Even the recent lagging in the opinion polls of the Coalition Government in Australia at a time of record prosperity has been put down to a malaise in happiness.

From GDP to Gross National Happiness

There are two schools of thought in relation to all of this. The first is to argue economic policy needs to be refocused on broader measures of wellbeing – eg, Gross National Happiness. The second argues that it is up to the individual to learn how to become happy. The first approach would mean a radical change in economic policy with proposals to boost happiness including the following:

- tax excessive work (as it doesn’t lead to happiness);
- re-distribute income (because inequality leads to envy and keeps people on the “hedonic treadmill”);
- reduce the focus on competition and rivalry;
- wind back economic rationalism;
- spend more money on public goods such as parks;
- refocus on community; and
- limit advertising to information only (because marketing creates demand for stuff we don’t need).

The whole happiness debate has potentially big implications for investors. Moves to adopt these policies would lead to slower economic and profit growth which would in turn lead to lower returns from growth assets.

Legislating for happiness may be harder than thought

There are good reasons to be sceptical of proposals for government policy to target happiness:

Firstly, happiness is very hard to measure, making some of the findings referred to above questionable. For example, happiness surveys typically ask people to rate themselves in terms of various categories such as “fairly happy” to “very happy”. Getting them to move from one to the other may be very hard with incremental increases in income and so the failure of happiness statistics to show an increase over the last fifty years may just be a function measurement.

More fundamentally, happiness is impossible to define objectively because we all have different views of what makes us happy. Nationally determined concepts of happiness, such as Bhutan’s use of the Gross National Happiness concept (conceived in 1972), depend critically on subjective judgements of well being that governments (or ethnic or religious majorities) may define in a way that suits them. This in turn can be used to justify religious or ethnic persecution (such as Bhutan’s expulsion of ethnic Nepalese) or restrictions on movement or immigration in the interest of maintaining close homogenous communities.

Thirdly, just as adaptation to higher material wealth and a reversion over time to genetically determined levels of happiness may explain the happiness paradox, the same applies to many other things. It would have been expected that the huge increase in healthy active life spans that people now enjoy or the huge increase in measured leisure time in Europe would have boosted happiness, but it hasn’t. That does not mean that we should cut back on health spending or that Europe should reduce leisure time. Policies to increase happiness by reducing work effort or income levels by redirecting people to other activities may well founder as those other activities have the same problems as money, ie people just get used to them. More likely less work would just mean more TV time for many.

Fourthly, while material progress may not be leading to increased happiness it is doubtful whether stagnation will either. Curiosity and the desire for advancement are fundamental to humanity. Introducing policies to reduce work effort may actually reduce happiness by suppressing a sense of achievement. The oppression of competition and individual advancement may well have been a factor behind very low levels of happiness in socialist countries.

Finally, it is likely that it is the very economic success of the last century and resulting affluence that is enabling people in rich countries to search for happiness. This is entirely consistent with Abraham Maslow’s hierarchy of needs – people in rich countries have moved through the lower levels of needs such as security of employment and so can now focus on spiritual needs. The danger is that by reversing the key drivers of economic prosperity (such as deregulation, lower top marginal tax rates, freer trade, competition, etc) the current affluence may be threatened.

In short, it is highly dubious whether government policy can or should be focused on boosting “happiness”. There is nothing new in the concept that material wealth won’t lead to lasting happiness. I have always thought it was obvious. But seeking happiness and enlightenment is up to individuals, not the state.

Concluding comments

Perhaps one of the best observations on happiness is that contained in the recent film “The Pursuit of Happiness” where the character played by Will Smith observes that maybe Thomas Jefferson had it right when he wrote in the US Declaration of Independence that all people had the right to “Life, Liberty and the Pursuit of Happiness” in that happiness is something we can only pursue. But whatever the story the pursuit of happiness is becoming big business and whilst policies to legislate for it don’t make much sense, it cannot be ignored. Trends such as downshifting (people shifting to lower income levels or easier jobs to attain a higher quality of life) are real and will have an impact on consumer demand over time.

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