

# APPENDIX **THE SECRETS OF HAPPINESS**

By RICHARD LAYARD

- 1 There is a paradox at the heart of our civilisation. Individuals want more income. Yet as society has got richer, people have not become happier. Over the past 50 years we have got better homes, more clothes, longer holidays and, above all, better health. Yet surveys show clearly that happiness has not increased in the US, Japan, Continental Europe or Britain.
- 2 By happiness I mean feeling good – enjoying life and feeling it is wonderful. And by unhappiness I mean feeling bad and wishing things were different. Most people find it easy to say how good they are feeling, and in social surveys such questions get 99 per cent response rates – much higher than the average.  
[...]
- 3 It is true that, within any particular society at any particular moment, rich people are on average happier than poorer ones. For example, 41 per cent of people in the top quarter of incomes are ‘very happy’, compared with only 26 per cent of those in the bottom quarter of incomes. The problem is that, over the years, the proportions in each group who are very happy have not changed at all although the real incomes in each group have risen hugely. This is true of all the main western countries.
- 4 We also know that clinical depression, assessed professionally through population surveys, has risen in most countries. A survey from London University’s Institute of Education, out this month, shows that as many as 29 per cent of women aged 30 in 2000 reported suffering trouble with nerves or feeling low, depressed or sad; the comparable figure in a similar survey, among those aged 36 in 1982, was just 16 per cent. Researchers disagree over the size of the increase, but nobody believes depression has diminished, despite the much greater ease of our material life.
- 5 Further evidence comes from comparisons between different countries. These show that, where average income per person is less than \$15,000 a year – in other words, where many people are near the breadline – extra money really does make people happier. But comparing countries where average income is above that level, happiness seems to be independent of income. For example, the average American is much richer than the average Icelander or Dane, but also less happy.

- 6 Why is this? Clearly people are comparing their income with some norm and this norm is rising all the time. Thus from 1946–86, the US Gallup poll asked people, ‘What is the smallest amount of money that a family of four needs to get along in this community?’ It turns out that, as actual average incomes rose, so did the income that people felt was needed – and in fact this ‘needed’ income grew in direct proportion to actual income. Likewise, when people were asked ‘Are you satisfied with your financial position?’, the proportion who said they were ‘pretty well satisfied’ fell, despite enormous economic growth.
- 7 Two things drive up the norm with which people compare their incomes. One is the income that they themselves have experienced – which habituates them to higher standards of living. And the other is the income that others get, and which they try to rival or outdo.
- 8 Habituation is a basic psychological phenomenon. It works both up and down: you adjust to good things and to bad. The clearest evidence that you adjust to income comes from asking people with different levels of actual income what income they would consider satisfactory. Typically, the income that people say is satisfactory rises by almost 50p for every extra pound that they have actually acquired. A whole range of studies shows that people adjust their requirements to their recent experience and that they are constantly surprised by this. People overestimate the extent to which the new house or new car will, once they have got used to it, make them happier.
- 9 People also adjust their requirements in response to what other people have: keeping up with (or trying to outdo) the Joneses. [...] When people compare their wages, it is generally with people close to themselves, rather than with film stars or paupers. What matters is what happens to your ‘reference group’ because what your reference group gets might have been feasible for you, while what David Beckham gets is not. Much of the most intense rivalry, therefore, is within organisations and within families. In organisations, calm can often be maintained only by keeping people’s salaries secret. In families, it has been found that the more your spouse earns, the less satisfied you are with your own job. And among women, if your sister’s husband is earning more than your own husband earns, you are more likely to go out to work.
- 10 Change the reference group and you may well change levels of happiness. In the eastern part of Germany, the living standards of those in work have soared since 1990, but their level of happiness has plummeted. Why? Because the east Germans now compare themselves with west Germans rather than with other countries in the old Soviet bloc. Again, women’s happiness in the US has fallen relative to men’s as their pay and opportunities have improved. The most likely explanation is that women now compare themselves more directly with men than they used to, and therefore focus more on the gaps that still exist.
- 11 But we do not find the same effects when we ask people about non-monetary benefits. A sample of Harvard graduate students wa

asked which of two worlds they would prefer: one where they got \$50,000 a year and others got \$25,000, or one where they got \$100,000 and others got \$250,000. The majority preferred the first world. They were happier with lower income, provided their relative position improved. Then the students were asked to choose between a world where they got two weeks holiday while others got half that and a world where they got four weeks holiday while others got twice that. Most preferred the second world. In other words, people are much less rivalrous when it comes to leisure. The rat race is for income and when each of us works more and earns more, this imposes a genuine loss of happiness on others. It is a form of pollution.

- 12 So now we can see why happiness increases so little when countries get richer. People get hurt as their needs rise in ways they did not foresee – a form of self-pollution. And they get hurt by the extra income that others are earning – pollution by others.
- 13 The policy implications are dramatic. For example, if much of the extra income (say 60p in the pound) brings no overall increase in happiness, we should reduce the incentive to acquire it. It would therefore be efficient to have a marginal tax rate of say 60p in the pound – corresponding (on the principle that the polluter should pay) to the 60p worth of pollution caused by the extra pound that is earned. Up to now we have apologised for taxation. The standard economic analysis says that taxation reduces work effort, which is true. But it also says that it is inefficient to reduce work effort, and our analysis shows that, if the aim is to increase human happiness, this is false.
- 14 Indeed taxation is one of the most important institutions we have for preserving a sensible balance between work and leisure. We should be proud of it and stand up for it. As it happens, 60 per cent is the typical level of marginal taxation in Europe if you allow for direct and indirect taxes. I suspect that, in some almost unconscious way, the electorate now understands that the scramble to spend more is partially self-defeating and that this explains why people are more favourable to public expenditure. But the time is ripe to make the argument explicit [...]

[The article goes on to discuss other implications of treating happiness as an important policy goal, then concludes with this paragraph.]

- 15 The scientific study of happiness is only just beginning. It should become a central topic in social science. But for the moment I would recommend four principles. Don't apologise for taxes; foster security; fight glaring evils such as depression; and discourage social comparison.

[Professor Lord Layard is co-director of the Centre for Economic Performance at the London School of Economics. This extract, from an article in *The New Statesman* of 3 March 2003, is based on his Lionel Robbins Lectures, given at the LSE on 3, 4 and 5 March 2003. The full text is now available from <http://cep.lse.ac.uk/layard/RL362.pdf>.]