



DAVID HALPERN



THE HIDDEN WEALTH



OF NATIONS





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David Halpern

polity

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# Preface

I started writing this book in the Spring of 2007. The original intent was to write a series of short articles to update and pull together conclusions from papers I had worked on while at the UK's Prime Minister's Strategy Unit (PMSU), including those on life satisfaction, social capital, public service improvement, personal responsibility and behaviour change. I had spent from 2001 until Spring 2007 in the PMSU, mainly as the Chief Analyst, working on almost every area of domestic policy including leading our 'Strategic Audits'; the Respect campaign of 2005; setting up the Social Exclusion Task Force in 2006; and Policy Review before Blair handed over to Brown in 2007.

It has been a difficult but interesting period to write a book. This isn't a 'kiss and tell' history of my time in Government – that would have been much easier. Rather it is a book that draws heavily on empirical, cross-national material about how societies work and are changing, and the implications for policy. But the world doesn't stay still, and particularly over this last two years. The credit crunch and subsequent recession have wiped trillions of dollars off the world economy, leading to rapidly rising unemployment and changing public concerns, and have challenged and humbled the assumptions of many of my economist colleagues.

Many now see this as an important pivot point in global history. This is certainly the view of the current British Prime Minister, whose relatively optimistic take is that this is the moment at which the world has

finally come to terms with the reality of the profound interconnection of the modern economy and the necessity for nations to work together to solve our common challenges. These challenges are not only about the operation of a global finance system, but also the protection of the environment; global health; and global poverty.

At the very least, the current situation has led economists to dust off their models of long economic cycles and ask whether the world is now entering a 15 to 20-year economic winter of a Kondratiev cycle.<sup>1</sup> I am not really an economist myself, though I did spend three years at Nuffield College, Oxford – the self-styled bastion of hard-nosed empirical economics and sociology in the UK – as a young Research Fellow. My own disciplinary roots lie more in social psychology, which is what I lectured on at Cambridge for seven years. In this sense, I suppose I am apt to look through the ups and downs of particular economic cycles and events to the continuities of human striving that run through them. The recession will come and go, and through it all we will argue and make up; laugh and cry; endure our private tragedies and successes – the flow of life will carry on.

I hope that this book taps into some of these deeper issues, relevant both in times of recession and beyond. Many countries now face a difficult fiscal environment for the next five years or more, with big rises in national debt that will seem to greatly limit the scope of policymakers and societies. But societies have far more assets than are captured by the tally of national debt and expenditure. For imaginative communities and policymakers, especially for those with the insight and daring to tap into societies' hidden wealth, the coming decades can be golden ones.

This book is about some of the big challenges that face advanced industrialized nations at the start of the twenty-first century, and how policymakers and citizens could respond to them. History tells us that many seemingly intractable problems of the day go on to be addressed, though often taking a generation to do so. From the 'great stink' of London's sewage in the nineteenth century, to the inflation and labour unrest of the 1970s, many seemingly intractable problems have gone on to be solved. Similarly, unrelenting negative trends, from rising crime to rising smoking, have been replaced with equally dramatic declines through a mutually reinforcing combination of changing public mood and government action. There is no reason why the challenges of today cannot be overcome, especially if citizens and governments work together.



# Acknowledgements

I need to say thank you to a number of people. This book was written in fragments of time between my main activities of the last two years, and I thank those involved for enduring my periodic absences to work on the book or some obscure analysis connected with it. In this respect, particular thanks go to Lord Sainsbury with whom it has been the utmost pleasure to work with so closely in the creation of the Institute for Government. Anyone who spends a long time working in government – or perhaps in any institution – ends up sure that it could work better. The Institute, through a combination of research and development for top policymakers, should help make this a reality. It has already helped shape my own thinking about how governments and societies can improve their own working. A very special thanks is also due to my fine young research team at the Institute who came up with the title for this book, in particular Simon Parker and Tom Gash. Well done guys!

Other thanks are due to the large numbers of people involved in the Options for a New Britain project, which I edited over the same period. Though much more focused on the nuts and bolts of UK policy, I'm sure that some of my conclusions in this book have borrowed from ideas or analysis that was generated within Options. At the very least, the clear thinking of people like Steve Nickell and Tim Leunig on policy options around the planning system, or Peter Kenway's sober assessment of the Labour Government's attempts to reduce poverty over the last decade, provided a powerful sounding board for many of my own thoughts.

I am grateful to many conversations and reflections that I have had over the content and drafts of this book. These include with Lord Richard Wilson, Dan Corry, Michael Bichard, Bob Putnam, Simon

Szreter, Mike Woolcock, Peter Gooby-Taylor, Geoff Mulgan, Matthew Taylor, Lord Richard Lugard, Avner Offer, Richard Reeves, Edgar Cahn, Susan Hitch, two anonymous reviewers and various past and present members of the PMSU, including Stephen Aldridge, Gareth Davies, Julian McCrae, Nick Canning, Jonathan Brearley, Harvey Redgrave and Jacob West. I am also grateful to those at Polity who have helped navigate this book through to completion, and particularly John Thompson, Sarah Lambert, and Susan Beer.

Most of all, of course, go thanks to my family – my partner Jen and our two wonderful boys, Aaron and Isaac – and to Michael and Amy and my American relatives who forgave me the antisocial few days. I needed to work through the proofs, including to Eleanor for her sharp-eyed corrections. I know it's not quite the same, but books do seem a bit like pregnancy – very painful and you'll swear you'll never do it again, until the next time.

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# Introduction

You can't see the wood for the trees

Common expression

Humans notice change. When someone comes in the office with a new hair cut, everyone comments. If there's a movement in the corner of the room while you're watching TV, it will catch your eye. If the extractor fan in your bathroom that you'd forgotten was even there changes its tone, it will suddenly seem very loud.

On the other hand, things that don't change, or change very slowly, almost disappear from our consciousness. We don't notice the feeling of our toes in our shoes, unless we focus on them. The blind spot in our eyes (where our optic nerve leaves a hole in our retina) is undetectable to us unless we shut one eye and look in just the right place. And for most of us, even if we try our hardest, we can't hear the pounding of our hearts in our ears.

We see changes, contrasts, the edges of things. Fashioned by the hand of evolution, this overwhelming bias in our perception works well in most of life. But it gives us a rather odd viewpoint on the society and economy around us. It's not just citizens: even the sharpest of analysts and policymakers see the world this way too. Our attention is drawn to the latest crisis, the latest technological development, or the latest change in our output, tax take or poll. At the same time we are prone to under-attend to the great mass of things that don't

change much. We see only the 'tip of the iceberg', and are shocked by the result when we hit it. Governments find that their policies often don't have the effect they thought they would. Corporations find that the merger that looked sensible on paper proves much more difficult in practice. And individuals find that what really matters in their lives isn't always the things they thought.

For those in a hurry, the basic argument is set out below.

### **Hidden Wealth: The Argument**

This book is about the parallel world of relationships and habits that forms the backdrop to much of the chatter of contemporary politics. My argument is simple: it's this stuff that, for most part, makes our societies and economies work. If we try to estimate its value even in the crudest way, such as the economic value of all the time we spend supporting our friends and family, it is more than GDP. But of course, the monetary valuation alone doesn't really do it justice. It's the hidden wealth of nations.

This hidden wealth helps explain perhaps the biggest puzzle of contemporary economics: that richer nations are happier, yet economic growth within nations seems to have little impact on our happiness (the Easterlin paradox – see Chapter 1). Our ability to get on with our fellow citizens oils the working of markets, lowering the costs of transactions and speeding the flow of information on which economies rely. But it also affects our well-being more fundamentally. Our relationships to those around us – not just family but strangers too – have big impacts on our psychological and physical wellbeing. A society of trustworthy citizens is a platform for both economic growth and well-being.

But there are cracks in this hidden wealth. By the mid 2000s, public concerns in a number of nations – such as Britain, Spain and Denmark – had become dominated by a fear of other people. The top public concerns had become crime, immigration and terrorism – not a fear of distant others, but those in their midst. This was especially striking in Denmark, a nation otherwise long noted in social surveys as having the happiest citizens in Europe. Perhaps the most striking finding is the sheer gap between public concerns and the objective risks. Chapter 2 examines the underlying causes of these concerns, and what evidence-based policies might look like to do something about them. In many areas, the evidence base takes us in a very different direction from current policies, particularly in the Anglo-Saxon nations.

The onset of the global recession in 2008-9 has pushed some of these fears underground, with public attention shifting to unemployment

and the state of the economy. But the same fears remain just beneath the surface. They colour the reaction to the recession, such as in protests against foreign workers; stories that crime will surge; or nervousness that the social order could break down within a country. Yet once again, the resilience of a community or nation to survive through economically difficult times rests heavily on its hidden wealth – not the money that its citizens have squirreled away under their mattresses, but the preparedness of citizens to help each other.

Chapter 3 shifts attention directly onto what the nature of this hidden, soft ‘economy’ is – such as our common values, the way we look after our children and elderly, or whether we trust and help strangers. The chapter examines how values have changed over the last 30 years, and how in some respects they appear not to have changed at all. Contrary to popular belief – and the widespread expectation of social commentators – religious beliefs appear to have changed very little. However, these beliefs have become less consequential for what else people believe, with the notable exception of North America. Across Europe, religious beliefs have become hollowed out. But this has not been associated with a general ‘moral decline’ – though people have become more relaxed about personal-sexual behaviour, they have become less tolerant in relation to many acts of self-interest.

A common belief of leading politicians is that globalization is leading the values of nations to become more similar, while at home nations are becoming more diverse as a result of immigration and marketization. There can be no doubt that nations share some common challenges, such as the risks and benefits of integrated financial markets on the one hand or of global warming on the other. But analysis shows that in terms of values, this common belief is wrong. Nations are actually becoming less similar in terms of values, with value divergence even within the OECD. Yet within nations, the most common pattern is value convergence. This remarkable result suggests that despite the power of globalization, there remains a dynamic within nations that is even more powerful in the moulding of our common values. The winds of globalization may be driving nations in the same general direction, but we are at the same time also drifting apart.

Another important but subtle change in Western societies is that, although the market economy may have become more dominant in our minds and our political narratives, we are spending less and less time in paid work. As the great economist Keynes predicted – and even despite the current recession – economic growth is gradually setting us free to do other things with our time. Much of this time is spent in the ‘economy of regard’ – a world of friendship, care and gift-based exchanges over which conventional economics has little to say but that

for most people is what makes life worth living. In this sense, there is something fundamentally wrong with the dominant gestalt of our economics and politics – its foreground is the citizen's background. Is there anything the state can do to support this alternative world of relationships and exchange? I think the answer is yes – if we want it to. Chapter 3 starts to explore what kind of policies this might lead to, such as the support of 'complementary currencies' to oil the works of the economy of regard in much the same way as conventional currencies oil the 'real' economy.

Any account of contemporary society is not complete without a consideration of inequality and fairness. This is examined in Chapter 4. Globally, inequality has risen over the last 150 years, but mainly because inequality between countries has become larger. But there is also great variation in levels of inequality between countries, from the yawning gulfs between rich and poor in South America to the relatively narrow gaps within the Scandinavian nations. In respect of inequality, hidden wealth takes on a darker tone. It is argued that one of the reasons that policy efforts to reduce inequality and increase social mobility tend to under-deliver is because efforts focus on inequalities in relation to the conventional economy, such as income or qualifications. Policymakers have been far less successful at addressing the other kinds of capitals that explain persistent inequalities in society. These include inequalities in financial capital, soft skills, social networks and cultural capital. At the same time, public support for addressing inequality and fairness through conventional means, such as through further income support, is close to its limit in many countries.

We need to find ways of addressing inequalities and fairness that tap into these hidden forms of wealth, rather than fight against them. The laissez-faire approaches of the traditional right will clearly make the problem worse. The rational 'Weberian' welfare state, as favoured by the traditional left, faces the dual challenge of lack of public support and a failure to get to the deeper dynamics that underlie inequality. The alternative of 'affiliative welfare' is instead explored. This involves strengthening our support of those that we have some relationship to and stretching it to reach a little further than it might otherwise do. The model leads to some surprising policy conclusions. If we do it right, this approach can also change how we feel about the society around us, and help build the reservoirs of our collective hidden wealth. Perhaps the biggest driver of inequality within countries is the acceptability of income and other differences. Interestingly, recessions change these attitudes, leading to greater sympathy for the disadvantaged and more intolerance for the excesses of the very rich. These value changes can in turn have substantial and lasting impacts.

The changing role of government is considered in Chapter 5. It is examined from three different viewpoints: the division of power (the classic state); the provision of public goods (the practical state); and the guiding of citizen behaviour (the paternalistic state).

In terms of power, a number of common beliefs are debunked, such as the idea that there has been a collapse in trust in politicians, political engagement and political interest. But other concerns are identified, such as the growing dominance of more affluent and advantaged citizens in the arena of alternative political activity and the falling salience of politics compared with other domains of life. The case is examined for the greater use of new forms of democratic engagement, such as citizens' juries and forums. These mechanisms offer ways of addressing the social skew in engagement while respecting the desire of most citizens not to spend their lives engaged in politics.

The expansion of the state into the provision of public services has been one of the great innovations of the post-war period. The discussion reflects on what we have learnt about how public services can be not just 'delivered' but 'co-produced' with citizens. It examines the implications for how we measure, incentivize, and empower through public service provision.

The state has also become re-engaged in the shaping of citizen behaviour, not only in relation to where our behaviour affects others (such as anti-social behaviour or the environment) but where the costs fall mainly on ourselves (such as obesity). The insights of behavioural economists have changed the policy landscape, illustrating the vulnerability of citizens to 'behavioural predators' and giving powerful new tools to policymakers. But policymakers need the permission of citizens to use such tools, powerfully reinforcing the case for the wider use of new democratic innovations.

The state, in partnership with citizens, has the ability to greatly improve the quality of our lives. But its effectiveness also rests substantially on the hidden wealth of nations – the character of its citizens and their relationships to each other – and states neglect this at their peril.

In the final concluding chapter, a shortlist of some of the most promising policy ideas for the next decade is identified. This includes a mix of ideas, some specifically aimed at boosting and building on the hidden wealth of nations, others which are just sensible ideas whose time has come.

# 1



## Prosperity and Well-being

... for the first time since his creation man will be faced with his real, his permanent problem – how to use his freedom from pressing economic cares, how to occupy the leisure, which science and compound interest will have won for him, to live wisely and agreeably and well.

Keynes, *Economic Possibilities for our Grandchildren* (1930)

I hate the 7.45a.m. train from Cambridge to London. It's a good train in principle. I can see the kids at breakfast, and get into Whitehall a minute or two after 9a.m. But it's a good time for everybody else as well, so unless you get to the station very early and stand in just the right spot, you won't get a seat.<sup>1</sup>

It's not just that you have to stand for an hour that makes it mildly unpleasant, it's that it makes my fellow travellers sources of inconvenience and hassle. As the incoming train draws into the platform, we all huddle forward, bunched around where the doors will come to rest. Some will have misjudged their spot to stand, their closeness to the platform edge rendered worthless by the twenty other people that stand between them and the train doors. Meanwhile, ranged opposite us are the people in the train ready to get out. The two packs silently size each other up, like two rugby scrums about to engage. The doors open and we're off! Thank god we're English. Against all the odds, the cold but focused commuters hold back, parted like the Dead Sea to let the arrivals off. But at a certain moment the discipline will break – especially if one of the arrivals dare dawdle – and we surge

forward to get on. If the discipline breaks early – perhaps we have a tourist in our midst – there will be ‘tusking’ and shaking of heads, but it will be everyone for themselves.

I have a double disadvantage. I am carrying a fold-up bike and, even worse, am prone to be over-polite, the mixed blessing of a minor public school education. But I am also a reasonably old hand, and do sometimes get a seat, albeit with guilt. Still, best to take the 6.45, though even that’s getting pretty tight now too.

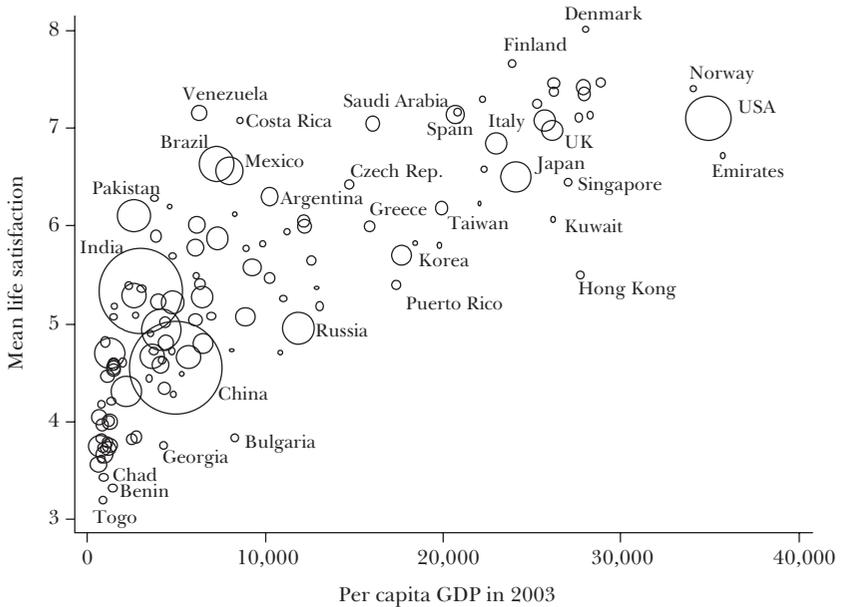
Of course, crowded commuting is not unique to the UK. Commuters in the wealthy cities of New York and Tokyo have long endured their crowded subways, a pattern that economic growth often brings. In the booming city of Mumbai, Indian officials now refer to ‘super-dense crush load’ to refer to times when commuters now regularly exceed train capacities by two and a half (compared with the UK’s peak excess of a mere 1.76).

## **Markets and Well-being**

Well-being is not the only justification that can be used for wanting economic prosperity, but it’s a pretty good start. This chapter looks at this relationship, and also offers some thoughts about what we might do to boost economic prosperity in its own right.

At the time of writing, there are grave concerns about the economy. Across the world, the credit-crunch induced recession has led public concerns about the economy to move back to centre stage. ‘The economy’ was a record-breaking top concern of 70% of the British public by early 2009, up from just 20% at the start of 2008.<sup>2</sup> The worry of losing jobs and houses became something extra for the crowded Cambridge–London commuters to think about. But for some city workers, offered generous redundancy packages, the crunch turned into an opportunity of sorts. Some took their money and went off travelling, or took a step down to a quieter life, and at least escaped the wretched train.

The crowded 7.45 is an everyday example of what Fred Hirsch, more than thirty years ago, called the ‘social limits to growth’.<sup>3</sup> Cambridge is a great place to live, especially with kids, and the 7.45 should be the ideal train to take. But as more and more people reach the same conclusion and buy themselves a place there, the train gets busier and busier, and the comfort and convenience seems to melt away. Yet for all these concerns, people who live in richer nations do seem to be happier, and there seems little surprise that for most people recessions are an unwelcome reversal in their growing fortunes (see Figure 1.1).



**Figure 1.1** *Life satisfaction across nations (Gallup data; graph from Angus Deaton, Harvard). The size of the circles corresponds to population size.*

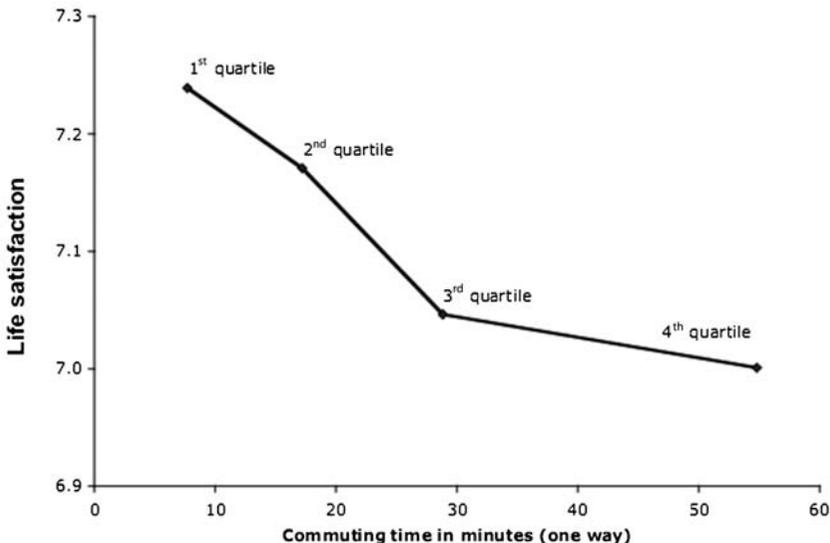
In December 2002, we published a Prime Minister's Strategy Unit paper on life satisfaction, updating the work of Hirsch and reflecting on what the policy implications might be.<sup>4</sup> A number of people within No. 10 thought it a rather odd and potentially inappropriate issue for us to be meddling with, and it had taken more than a year for the workstream to be approved. When the paper did go out, just to be doubly sure there was no confusion, every page had printed at the top 'This is not a statement of government policy'. We were putting our toes in what then seemed rather uncertain political and analytical waters.

Since 2002, subjective well-being has moved steadily from the fringe towards the mainstream both in academia and, albeit more tentatively, in policy. Figures such as the economist Richard Layard raised its profile among the academic community, while commentators such as Polly Toynbee began to pick up on its implications for a wider audience. In the political arena, Labour Ministers began to cautiously explore the idea. A further big leap in profile came from David Cameron, the Opposition leader, who flagged that we should consider following Bhutan's lead and start talking about 'Gross National Happiness' instead of just wealth.

The 2002 paper reflected the body of evidence that had been built up by psychologists and economists in the twenty-five years after Hirsch wrote his book, including the impact on subjective well-being of everyday phenomena such as work, income, leisure and relationships – and even commuting. Classically, economists argued that commuters like me were making a perfectly sensible trade-off: getting on the 7.45 not only allowed me to sleep an extra half hour in the morning, but also meant that I got to live in a slightly bigger and nicer house than I could have got in London, perhaps with schools I liked better, and a more accessible town centre. The net effect is that I and my family made an overall choice that made us happier.

In fact, it turns out that we tend to get it wrong about commuting (see Figure 1.2). The longer you commute, the less happy you are, despite the fact that you might be earning more and living in a nicer place. It also makes your partner less happy – what economists call a ‘negative externality’ – it looks like we’d have been better off in the smaller house with the smaller commute after all.<sup>5</sup>

‘Of course,’ you say, ‘we just need longer trains.’ Alternatively, the operator can just keep putting the price up until enough people give up on the 7.45 for the remainder to all get seats again. No doubt pricing and new trains can help, but Hirsch’s point is that this kind



**Commuting time and average reported satisfaction with life, Germany 1985–1998**

*Data source:* GSOEP.

**Figure 1.2** *The relationship between life satisfaction and commuting time (from the work of Bruno Frey).*

of 'crunch' is an inevitable dynamic that will tend to repeat. It's also quite difficult for me as an individual commuter – or even as an operator – to get the trains to double in size, such as because of the limited capacity of the network or stations run by someone else.

Writing at a similar period to Hirsch, Tibor Scitovsky also described how efficient markets will often fail to increase our well-being, a very troubling line of reasoning for economists who otherwise assume that if two people freely enter into a transaction it ought to be because it is increasing the well-being, or utility, of both. But it often doesn't work like that for lots of reasons. To take an example, imagine that you are a skilled craftsman making beautiful, but expensive furniture. But then along comes Ikea. Though we all liked the old furniture, the Ikea stuff is so much cheaper and still kind of funky, so that lots of us go and buy that instead. So now the old guy who makes the hand-made furniture is out of business, and we can't buy that furniture anymore. So he's obviously less happy and, more controversially, we might not be that much happier either. The point is that individuals each rationally seeking to maximize their own well-being don't always maximize the well-being of society, despite Adam Smith. This may help to explain why it is that decades of unprecedented economic growth have had such little impact on life satisfaction in industrialized nations such as the USA, UK and most of Europe.

A younger generation of economists continues to detail the circumstances under which efficient markets tend to increase well-being, or utility, and when they fail to do so. Much of this new generation of work draws on our growing understanding of behavioural economics – the mental shortcuts that we all use to reach decisions. It turns out that we're not very good 'utility maximizers', at least when we're in a hurry. Our predictions about what will make us happy in the future are strongly distorted by our mood and desires in the present; by a strong discounting of the future that we often come to regret; and by errors in remembering what made us happy in the past (see also Chapter 5). For example, consumers buy far more items that weren't on their shopping lists and pick more unhealthy foods if shopping when hungry. Discounting of the future makes us commit to deferred payment mortgages we often regret, and we repeat activities and obligations that we didn't enjoy, but thought that we did.

One important argument is that markets can sort out some of the errors that we are prone to. David Laibson, a professor of economics at Harvard, has explored how we make choices about investment decisions, including when markets 'save us from ourselves' but also when they amplify our proneness to error. For example, he gives the hypothetical example of someone who decided that an apple was worth

millions, but who would be saved from this misjudgement by the fact that the marketplace would sell him one for 20 pence/40 cents just the same as everyone else. However, markets don't always interact so helpfully with our departures from rationality. For example, our tendency to discount future gains relative to the hassle of making a decision today leads us to procrastinate perpetually— we end up, quite sincerely, always intending to sort out our pension, or other investments, tomorrow.

An everyday example that Laibson gives is banking. The average American pays \$90 per year in add-on charges, against the banks' costs of providing an account of \$40. Customers are drawn to such accounts through freebies such as free toasters or cash gifts. Of course, a minority of savvy customers avoid paying the add-ons through managing their accounts and thereby get cross-subsidized by those who are less careful. The economics textbook, and classic libertarian, would point out that this leaves a market opportunity for a new bank to come along and offer a good straightforward service that dispenses with the gifts and the sneaky add-on charges, and just offers a good service for which you will pay, say, \$50 per year. But as Laibson points out, with a good smattering of equations, this strategy is doomed to fail. If you are a savvy customer, you definitely want to stay with the old bank where your less savvy fellow customers will continue to subsidize you. If you're a normal un-savvy customer, then you don't get the point – and without a \$50 gift you're not going to move anyway. An interesting group are those customers who wise up and *become* savvy customers. But wait – now they're savvy, they realize that they should stay where they are and just manage their accounts a bit better! So the net result is that few customers will move over to the new bank. Existing banks will lose a bit of profit to the unsuccessful newcomer, but not much. It turned out that it was in no banks' interest to rock the boat after all.

Laibson and his colleagues aren't against markets, and indeed highlight many examples where competitive markets will work to increase our total utility. But what his work does show, like that of his predecessors, is that in a significant number of areas markets won't act to maximize our well-being even if they are highly competitive and efficient. This is a particular problem where the attributes of goods or choices are somewhat 'shrouded' or where our own mental shortcuts are prone to certain systematic biases.

The work of Laibson suggests a key role of government policy to overcome these types of subtle, systematic failures that arise between our cognition and efficient markets. But he is still left with the puzzle of what it is that government should be trying to maximize. Behavioural

economics takes away the prop that economists used to rely on: that what people would freely choose was what they wanted.

Returning to the example of commuting, not all is lost. There are a couple of ways of reducing the problem apart from indefinitely expanding the rail network for rush hours. We can, as individuals, simply learn to adjust our habits – in this case to get an earlier or later train, or perhaps arrange to work at home more often. There is clear evidence that we do learn. Again, Laibson *et al.* have shown this in relation to many commercial activities, such as how people learn over several years to avoid charges on credit cards or avoid high interest rates on home loans. Typically around a third of credit card users pay late fees when they first get their card, but this drops rapidly over the first two years of using the card.

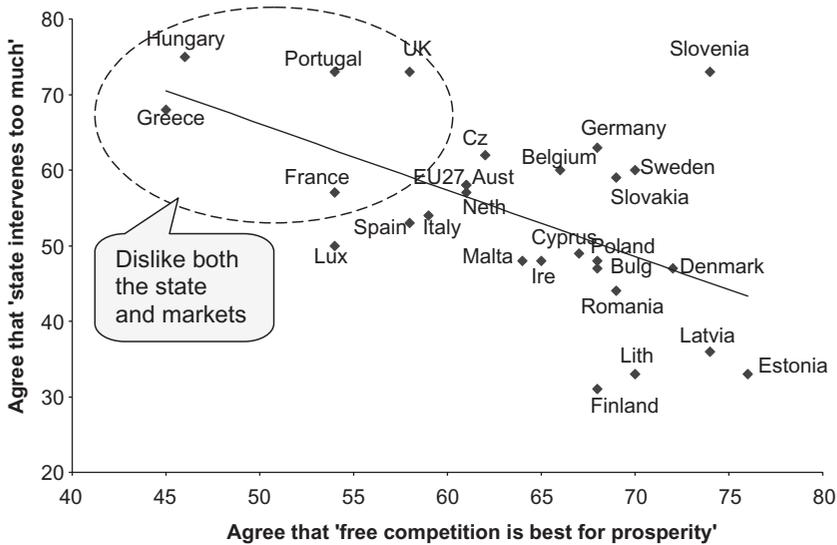
But, if Hirsch is right, economic growth will continue to create ‘limits to growth’ problems like the rush hour. Where this happens, and especially where the resources concerned have a natural limit, the social norms and habits that let us coordinate and get along with others become critical. These prosaic habits of everyday life tend not to get much attention, but they do much of the heavy lifting in both our economy and our society. Basically, they are what make modern life liveable, and will be a major theme through this book, including how they are built and can be strengthened by both state and citizens.

### **Can Well-being be Measured?**

There is a popular argument that you can’t measure happiness. Empirically, this appears nonsense. Though some might wrinkle their noses a little, people across the world seem to have little trouble answering the question ‘Are you happy?’ or its more reflective cousin, ‘Thinking about your life as a whole, would you say you were very satisfied, fairly satisfied, not very satisfied or not at all satisfied?’

How people answer these questions is highly correlated with pretty much any other measure you can think of, such as the answer your friends would give about you; the answer a stranger would give if observing you; the answers you would give to a much more elaborate set of questions about your mood or your mental health; and even evidence from brain scans.

Similarly, it is sometimes said that the big cross-national differences in satisfaction and happiness that are found (see Figure 1.1, p. 8) really just reflect differences in language. However, the evidence is strongly against this hypothesis. In countries where more than one language is spoken, such as Switzerland or Belgium, it is the nation that you are



**Figure 1.3** Cross-national differences in public opinion that ‘free competition is best for prosperity’ versus agreement that ‘the state intervenes too much’ (data from Eurobarometer 69, 2008). A clear majority in most European countries now sees free market competition as the best route to prosperity, but those nations that have least confidence in competition are also most suspicious of the state too – including Greece, Hungary, Portugal and the UK.

in that seems to shape your answer, not the language you speak. For example, German and French speakers in Switzerland are both much happier than their cousins in Germany and France – it’s living in Switzerland that makes you happy, not some artefact of the language you speak. Second, as we shall see, the cross-national differences seem to be highly related to a host of plausible variables, not the random mess that you would expect if the answers people gave were just an artefact of the language they spoke.

This is not to say that there are no language effects. For example, the Nigerians seem oddly happy for a nation in pretty tough circumstances, and some linguists think there is a particular problem with the translation of the word in this case. Similarly, some Danes – who appear to be a particularly happy lot – say that they really mean something more like ‘contentment’. But even for the Danes, this doesn’t explain why they seem to have got happier over the last three decades – unless we also posit that the meaning of the word has also changed.

This isn’t to say that there aren’t some important controversies about the differences between different measures. Layard has championed the idea that there is only one basic dimension of happiness, echoing

the tentative line we took in the PMSU paper that preceded his book. However, leading researchers, including the Noble Prize winner Danny Kahneman, have generally been moving to the conclusion that there are at least two different measures or dimensions of happiness, both of which are important and that are driven by different factors. The first dimension concerns how you feel, almost moment by moment. This can be measured by ‘experiential sampling’ – where you carry a bleeper and have to write down how you are feeling when it goes off, but also to some extent by simple survey questions asking about whether you feel happy. The second concerns more cognitive or reflective appraisals of how your life is going, such as the Gallup ‘ladder of life’ question or the life satisfaction question quoted above. A key difference is that people often, on reflection, appear to ‘misremember’ how happy they were. Hence, you might remember your holiday as having been wonderful, whereas if we look at what you said moment by moment it might not look so good.<sup>6</sup>

These differences have implications both for the decisions that we make as individuals and for policymakers, some of which are picked up below. But these difference of view shouldn’t obscure the fact that, in general, it’s pretty easy to find out if people are, broadly speaking, happy or not.<sup>7</sup>

### **Is Well-being Important?**

Most people think that happiness, life satisfaction or well-being is a good thing, both for themselves and for society.<sup>8</sup> Some go one step further to say that it is not only a good thing, but is our ultimate objective as humans – a hard-wired gold-standard of success. This leads to the argument that maximizing happiness should therefore be the objective of government. We will return to this fundamental question at the end of the chapter. But even if you were sceptical about happiness as an objective in itself, a fairly robust case can be made why happiness is good for other reasons.

For a start, happy and upbeat people live longer. This was famously shown by a study of the longevity of nuns.<sup>9</sup> Danner *et al.* retrospectively analysed the written statements of young nuns and compared these to how long the nuns lived for. They found that, on average, the happy young nuns went on to live for more than a decade longer than their less happy colleagues despite the fact that they were otherwise living in exactly the same conditions. Hence, by age 85, only a third of the least happy quarter of nuns were still alive, while nine out of ten of the happier quartile were still alive.

Happy people tend to have more successful relationships, which is one of the reasons why marriage and well-being are so strongly associated (see below). An elegant illustration of this effect is that researchers have found that graduates who have a real, 'Duchene' smile in their college photographs – about 1 in 3 – are significantly more likely to go on and have successful and lasting marriages in the decades following. Sorry guys, those fake smiles that a further 1 in 3 have for the photo didn't make the cut – you're just as well looking miserable.

Happy people also end up earning more. Ed Diener and his colleagues found that cheerful college students at entry gained a 30% boost to their earnings relative to their peers 19 years later.<sup>10</sup> To put that in perspective, if you wanted to boost your earnings and could choose between being cheerful and going to a top university, choose being cheerful. The cheerful college entry students also ended up with more friends, being more trusted by their neighbours, more liked by their supervisors and workers, and in better health.

There is also growing interest in the relationship between positive mood and productivity at work. When researchers studied work back in the 1960s and 1970s, they generally concluded that there wasn't much of a relationship between work satisfaction and productivity – in other words, happy workers didn't seem to work harder than miserable ones. But in the last decade, views have shifted quite dramatically. Now many researchers have found that happiness, or more specifically workers in a positive mood, tend to be more productive, creative in their thinking and reach accurate conclusions faster.<sup>11</sup> For example, simply giving a doctor a sweet to put them in a good mood before asking them to make a tricky diagnosis, made them reach the diagnosis faster and more accurately than a control group given the same clinical information.<sup>12</sup>

One of the reasons that this literature has turned around is probably because the nature of work has itself changed. If you are working on a factory line, being bored or happy may not have much impact on the quality or rate of your work. If employers want their line worker to work harder, a few 'extrinsic' rewards – i.e. money – will probably do the trick. But for workers who are doing more conceptual and creative work – work which has become more dominant in our economy – positive mood seems to matter. Positive mood also helps in face-to-face interactions, i.e. service industries: for example, it's no great surprise that waiting staff get bigger tips if they are in a positive mood, or that the satisfaction of a bank's customers is strongly affected by the mood of the bank's tellers.

An interesting aside is whether you can be *too* happy. Psychologist Ed Diener argues that you really want to be an '8' or a '9' on a 10-point

scale. There seem to be some downsides to being too happy, at least all the time. It may be an indication of being unrealistic, or it may be linked to irrational optimism that could get you into trouble in a world where not all investments will turn out as successes and where sometimes a bad feeling is telling you something important.

Finally, it's worth asking what are we are trying to maximize if it's *not* well-being. Various candidates have been proposed, such as freedom (maximize people's choices, and let them decide if they want happiness or something else), justice, meaning and so on. But, as Layard has argued, when pressed on these other alternatives, people tend to refer back to some notion of increasing well-being as a major part of the justification for their alternative objective, even if is not reducible to it. What we surely all can agree on, is that if we could increase subjective well-being with other things remaining constant – such as freedom – then we should.

### **The Drivers of Well-being**

Even if you buy the argument that happiness and life-satisfaction is a good thing, it doesn't mean that anything can be done about it, let alone whether government could do anything. For a start, you need to figure out what affects happiness, and assess whether any of these drivers might be amenable to change. Research has focused on four broad drivers of well-being:

- Personality and individual factors
- Money
- How you spend your time: work, leisure and relationships
- Wider context

The section below provides a brief overview of the literature to date. An excellent and more detailed summary can be found in reviews by Paul Dolan, or in more accessible forms by Ed Diener, Marty Seligman or Richard Layard.<sup>13</sup>

#### **Personality and individual factors**

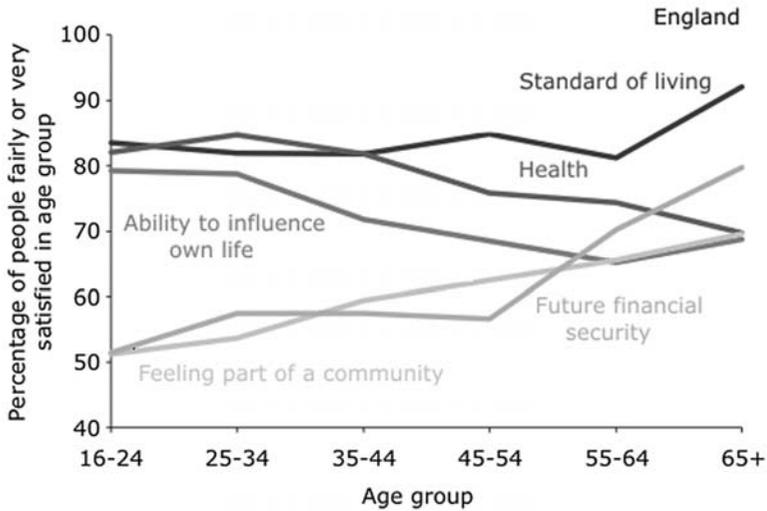
There is no doubt that some people are constitutionally more inclined to be happy than others. How happy you are today is a pretty good indication of how happy you will be in 15 or 20 years' time, and this is thought to at least partly reflect your underlying orientation in life.<sup>14</sup>

Twin studies have suggested that genetics may explain the majority of the individual variability in expressed well-being, at least within a given country and region. However, these studies almost certainly overestimate the overall impact of genes, since the adoption studies on which they are heavily based compare people from within a country, and from very similar settings and families. There is no evidence, for example, that the substantial cross-national differences are explained by genes. National changes over a few decades – such as the rising happiness of the Danes – are even harder to explain in terms of genes.

Women tend to report slightly higher subjective well-being, but also report more negative feelings raising the possibility that women are more open to, or likely to report, their feelings. There is some evidence that the subjective well-being of women has fallen slightly over recent decades, such as in the USA, while that of men has increased. This may reflect the fact that while women have entered the labour market, men still haven't picked up the household chores, despite the claims. Attractive women and taller men are a little happier than their peers, though the effects are modest. These effects seem to vary between countries, suggesting a role for culture too (see context below).

There are some age effects. People seem happier in their early twenties, are a little less happy in middle age, then a little happier again by the time they reach retirement. This is often interpreted in terms of how people's aspirations relative to achievements change over the life span, though there is some evidence that it's partly the hard emotional work of raising children (especially in the teenage years). Although satisfaction with health falls with age, this seems to be more than offset by increasing satisfaction with community and with financial security. If you are a healthy and just-retired 65 year old, statistically this is as happy as you'll get. However, these patterns do vary across countries, and the detail of the measure. For example, measures of vitality tend to fall with age but sense of belonging to a community rises. One recent study found that well-being didn't vary much by age in Scandinavian countries, rose with age in the UK and Ireland, but fell markedly with age in Southern and Eastern Europe, the latter perhaps reflecting generational differences in reactions to the emergence of market capitalism in those countries.<sup>15</sup>

Ethnicity is known to have some associations with well-being. American blacks have been repeatedly found to have lower life satisfaction than whites, for example, whereas Hispanics, controlling for income, have been found to have higher satisfaction. Similarly, minorities in a number of countries have been found to have poorer life satisfaction and mental health. Many of these ethnic differences reflect social and



Source: Defra

Figure 1.4 Changing satisfactions with age (UK data, 2007).

economic factors of the populations, as well as some selection effects in the characteristics of the population who migrated.

There are some individual differences that we acquire through the course of life, sometimes called socially developed characteristics, such as our state of health, our education and, to some extent, our beliefs. These also affect our subjective well-being.

Being healthy is associated with higher subjective well-being, and self-reported health is strongly associated with feeling happy, though this may be as much a symptom as a cause. Acquiring a disability has strong and sustained negative impact on life satisfaction, contrary to the claims of some early researchers. True, the life satisfaction of someone who becomes disabled is not as bad as an able-bodied person *thinks* it will be – we overestimate how bad it will be because when we answer the question the disability is uppermost in our mind and we forget all the other satisfactions that will remain. But disability still leads to a very substantial hit on life satisfaction that shows no sign of falling over the years following.

Being better educated is also associated with higher life satisfaction and happiness, though it seems largely attributable to the better health and higher earnings associated with more education. Some of the positive effects of education may also be relative – higher educational attainment gives us status – but educational attainment may also relate to ‘flourishing’, that is, allowing us to reach our potential.