

REVIEWS:

## **HAPPINESS: LESSONS FROM A NEW SCIENCE**

**Richard Layard,**  
**Penguin Books 2005, London**  
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### **Introduction**

What is happiness? Can it be measured and compared? Do we know what causes happiness? Can we increase it, and if so, how? Should happiness become a matter of state-policy? Those are some of life's bigger questions. Lord Richard Layard claims to have found the answers.

Layard is a British economist renowned for his expertise on the subject of unemployment. He has managed to influence both the Blair and the Brown administration as a top consultant on unemployment and social policies. In 2000 he was appointed member of the House of Lords. In recent years Layard has shown an interest in what is becoming known as 'Happiness Economics'. This is a new science that combines psychology, neuroscience, economics, sociology and philosophy to develop our insights into the workings of happiness. Layard advocates that happiness should be part of government policy. His calls for reforms, such as lessons in emotional intelligence, have been warmly greeted by the Secretaries of Health and Education.

'Happiness: Lessons from a New Science' (*Happiness*) is divided into two parts. Part one (*The Problem*) explains the paradox and the philosophy, and presents captivating experiments and findings from the before mentioned disciplines, including what Layard believes to be the seven main causes of happiness (Chapter I-IV). Part two (*What Can Be Done?*) reveals whether economic models can be the basis for calculating our happiness, and concludes with the proposal to implement policies that shift our goal to achieving a happier way of life (Chapter V-VI).

### **I. The Paradox**

The opening paragraph summarises the problem strikingly: "There is a paradox at the heart of our lives. Most people want more income and strive for it. Yet as Western societies have got richer, their people have become no happier." Layard is one of many to propose this paradox. It is often referred to as the 'Easterlin Paradox', named after economist Richard Easterlin, who

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demonstrated exactly this for citizens in developed countries with sufficient welfare to provide for at least the basic needs of each person.<sup>1</sup>

## II. The Philosophy

Layard's theory is founded on the philosophy of the well-known utilitarian philosopher Jeremy Bentham (1748-1832). Bentham started his professional life as a lawyer. He was appalled by the inconsistency of laws and the lack of rationale of laws and punishments that then existed. According to Bentham, the laws and punishments should be based on some unifying principle. The principle he proposed is the 'Greatest Happiness Principle'. Layard adopts Aristotle's conviction that happiness is life's ultimate goal because, unlike all other goals, it is self-evidently good. Thus doing what produces the greatest amount of happiness is what is morally right.<sup>2</sup>

Bentham also suggested a procedure for estimating the moral status of any action, which he called the 'Felicific Calculus'. He wrote a verse to help people memorise how the Calculus works, so that they could apply it correctly:

*"Intense, long, certain, speedy, fruitful, pure -  
Such marks in pleasures and in pains endure.  
Such pleasures seek if private be thy end:  
If it be public, wide let them extend.  
Such pains avoid, whichever be thy view:  
If pains must come, let them extend to few."*<sup>3</sup>

Even with this verse, it was never easy to apply the Calculus in daily life, because so little was known about the nature and causes of happiness. But Layard believes that now, thanks to Happiness Economics, we can finally start applying the Calculus to produce the greatest amount of happiness.

## III. Experiments and Findings

In order to show the difference in the appreciation of income on the one hand, and leisure on the other, Layard presents an experiment conducted by Solnick and Hemenway in 1998. First, subjects were proposed the following:

*"Suppose you were asked to choose between living in two imaginary worlds, in which prices were the same:*

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<sup>1</sup> R. A. Easterlin, 'Does Economic Growth Improve the Human Lot?' in P. A. David & M. W. Reder, eds., *Nations and Households in Economic Growth: Essays in Honor of Moses Abramovitz*, New York: Academic Press Inc., 1974, pp. 89-125.

<sup>2</sup> Layard is a 'Rule Utilitarian'. Rule Utilitarianism states that moral actions should conform to *the rules* that lead to the greatest good. This is not explicitly stated in *Happiness*, but it can be deduced from the following quotation: "A happy society has to live by rules – Sparing the innocent, telling the truth, keeping promises and so on. People need to honour those principles and to find it repugnant to break them" ... "So the greatest Happiness principle involves a two-stage approach – first to help us choose the 'rules', and then to help us choose the 'action' when the rules conflict. But rules are crucial."

<sup>3</sup> Jeremy Bentham, *An Introduction to the Principles of Morals and Legislation*, London, 1789.

- *In the first world you get \$50 thousand a year, while other people get \$25 thousand (average).*
- *In the second world you get \$100 thousand a year, while other people get \$250 thousand (average).*

*How would you vote?"*

This question was put to a group of Harvard students and a majority preferred the first type of world. To Layard these findings suggest that relative income is more important to most people than absolute income. He mentions that many other studies have come to the same conclusion. Theoretically, the problem with relative income is this: If someone's relative income rises, in effect, someone else's relative income drops by exactly the same amount. Layard concludes from this experiment and from the other studies that we strive to surpass each other, thereby sacrificing time that could be spent with family and friends.

Not only do we compare our income to that of others, we also set a norm for our income based on what we ourselves have grown accustomed to. The more money we make, the more money we think we need. This phenomenon is called 'habituation' or 'adaptation'. It can be compared to building up a tolerance for alcohol or drugs. Layard calls this 'The Hedonic Treadmill': To maintain the same level of happiness, we need to keep running.

The question arises whether spending time with friends and family is less susceptible to adaptation than financial or material gain. Is there such a thing as 'relative leisure'? The second part of the experiment is subtly different to the first:

*"They also offered the students another pair of alternative worlds:*

- *You have 2 weeks' vacation, and others have 1 week.*
- *You have 4 weeks' vacation, and others have 8 weeks."*

Now only 20% of the students chose the first of these worlds. Layard concludes: "So most people are not rivalrous about their leisure. But they *are* rivalrous about income, and that rivalry is self-defeating. There is thus a tendency to sacrifice too much leisure in order to increase income" (p. 47).<sup>4</sup> Layard's conclusion on the matter needs to be put into perspective: the group of Harvard students is a very specific group of people. They do not reflect society as a whole. Furthermore, Layard combines the results on leisure with the results on income, but those variables were not combined in the imaginary worlds. Layard's conclusion is a hypothesis at best.<sup>5</sup>

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<sup>4</sup> This is a value judgment. How much is *too* much?

<sup>5</sup> A possible research proposal to test this hypothesis could for instance be to ask the subjects to choose between a world in which they receive more income and less leisure than others, and a world in which they receive less income and more leisure than others.

#### IV. The Big Seven

So what makes us happy? Layard claims that, contrary to what one might suspect, age, looks and IQ have a negligible effect on happiness (p. 62).

Layard states that the seven causes that affect our happiness the most are: family relationships, financial situation, work, community and friends, health, personal freedom and personal values. He calls them 'The Big Seven'. He presents divorce rate, unemployment rate and the quality of government amongst other factors, to explain the largest variations in happiness. Not surprisingly, they are closely linked to The Big Seven.

#### V. Economic Models

After reading part one of *Happiness' (The Problem)*, we have come somewhat closer to understanding how happiness works. We know how it can be measured, compared and so on. Can we now use this knowledge to apply the Felicific Calculus? If so, can economic models be adjusted to calculate happiness?

Layard states that economic models like the 'Cost-Benefit Analysis' could be of much more use to us if they incorporated the findings of modern psychology (p. 128). These findings include that income matters more to poor people than it does to rich people ('inequality'), that other people affect us indirectly and not only through exchange of money and goods ('external effect'), and that we hate loss more than we value gain ('loss-aversion'). Layard claims that the impact of financial loss on happiness is twice as big as the impact of financial gain on happiness, as illustrated by the following quotation: "On average, if someone loses £100, his mood worsens twice as much as it would improve if he gained £100" (p. 142).

#### VI. Policies

If we have models to calculate happiness, what can we do to achieve the most favourable outcome of these calculations? According to Layard, happiness should become the goal of policy, and the progress of national happiness should be as closely measured and analysed as the growth of GNP (p. 147).

Layard has quite an elaborate view on what should be done differently to achieve a better society in which people feel less threatened and pressured. We should "rethink our attitude on taxes", as Layard carefully puts it, "because they play an important role in preserving our work-life balance". We should spend more money on helping the poor. We should improve family life, subsidise activities that promote community life and eliminate high unemployment. Commercial advertising to children should be prohibited. Finally, and perhaps most importantly, we need better education, including moral education (pp. 233-234).<sup>6</sup>

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<sup>6</sup> The policy of introducing moral education requires "a proper curriculum from the beginning of school life to the end, including detailed study of role models. The curriculum should also cover control of one's own emotions, parenting, mental illness and of course

In my view this list of things we should do is paternalistic. I share this view with Stuart Jeffries, a columnist for The Guardian, who interviewed Layard in June 2008. When Layard elaborated on his policy of moral education, Jeffries asked Layard: “Isn’t this the nanny state gone mad?”

### Conclusion

“If the book does anything, I hope it creates a bit more happiness.”<sup>7</sup> That is a noble cause that anyone will undoubtedly embrace. It is likely that Layard’s general ideas will find widespread support. However, it should be noted that the Greatest Happiness Principle is inherently pro-poor. Layard advocates a redistribution of financial means: the extra happiness provided by financial gain is greatest when you are poor, and declines steadily as you get richer (p. 120).<sup>8</sup>

People may have double standards regarding money: we don’t object per se to policies that redistribute financial means for the greater good, but generally become more reluctant when *our* money is needed to do so. This may be illustrated more poetically by the following Pink Floyd lyrics:

*“Money, it’s a crime.  
Share it fairly but don’t take a slice of my pie.  
Money, so they say,  
Is the root of all evil today.  
But if you ask for a raise it’s no surprise that they’re giving none away.”<sup>9</sup>*

Unfortunately, people who are willing to descend the ladder of prosperity for the greater good are few and far between. The effectuation of the Greatest Happiness Principle through imposed state-policy, such as tax-increase, may therefore be best understood by Robin Hood’s slogan: “Take from the rich and give to the poor”.<sup>10</sup>

This brings us to the main point of criticism on Utilitarianism: The greatest amount of happiness for the greatest number of people could do injustice to a small number of people. Taking ‘loss-aversion’ into consideration (Chapter V), a redistribution of financial means such as Layard advocates, does exactly that. Thus the key question is this: Is net-gain in happiness more important than justice for each individual? To anyone who values equal rights, the answer should be obvious.

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citizenship. But the basic aim should be the sense of an overall purpose wider than oneself.” (p. 234).

<sup>7</sup> See the preface of the book.

<sup>8</sup> In Layard’s words: “Moreover, as we have seen, the gains to the rich can be directly compared with the greater gains which the poor would experience if the money were spread more widely. It is precisely this comparison that provides the strongest argument we have in favour of redistribution.” (p. 120).

<sup>9</sup> Pink Floyd – *Money*, Dark Side Of The Moon, 1973.

<sup>10</sup> Howard Pyle, *The Merry Adventures of Robin Hood*, 1883. It should be noted that, in the story, Robin Hood takes from the king, who embodied the state, to *return* taxes to the poor because tax rates were *too* high. Only in this context can Robin Hood’s actions be considered heroic.

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