The big factors affecting life satisfaction are all non-economic

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Wisdom love happiness courage tranquillity peace, by woodleywonderworks, under a CC-BY-2.0 licence

In 1961, the Organisation for Economic Cooperation and Development (OECD) organised a conference on human capital that propelled education into the centre of policymaking worldwide. This month, the OECD and the London School of Economics (LSE) are holding a conference on subjective wellbeing that they hope will usher in another revolution – where policymaking at last aims at what really matters, the happiness of the people.

As Thomas Jefferson once said, 'The care of human life and happiness… is the only legitimate object of good government'. But to make policy requires numbers. Human capital took off once people realised its high rate of return. Wellbeing will only take off when policymakers have numbers that tell them how any change of policy will affect the measured wellbeing of the people, and at what cost.

The first step is a clear unified account of how wellbeing is currently determined. Our forthcoming book, the first draft of which will be presented as the conference, aims to provide this, using large surveys from four major advanced countries.

One key issue is to adopt a single definition of wellbeing. The right definition, in our view, should be life satisfaction: 'Overall how satisfied are you with your life, these days?', measured on a scale of 0 to 10 (from 'extremely dissatisfied' to 'extremely satisfied'). That is a profoundly democratic concept because it allows people to evaluate their own wellbeing rather than have policymakers deciding what is more important for them and what is less so.

Moreover, policymakers like the concept – and so they should. Work in our group at LSE shows that in European elections since 1970 the life satisfaction of the people is the best predictor of whether the government gets re-elected – much more important than economic growth, unemployment or inflation.

So the task is to explain how different factors affect our life satisfaction, analysing them all simultaneously. There are of course immediate influences – our current situation, including income, employment, health and family life – but also more distant ones going back to our childhood, schooling and family background.

We can start with the immediate causes. Here, the big factors are all non-economic: especially how healthy an individual is, but also whether they have a partner. Less than 1 per cent of the variance of life satisfaction is explained by income inequality.

An obvious question is: do economic factors play a bigger role if we focus only on those who are least happy – the bottom 10 per cent of the population in terms of life satisfaction. The results are almost the same as before. When we ask what distinguishes 'Les Misérables' from the rest, the biggest distinguishing feature (other things equal) is neither poverty nor unemployment but mental illness. And it explains more of the misery in the community than physical illness does.

In fact, it is interesting to ask if we wanted to reduce the numbers in misery, what change would have the biggest effect – raising incomes, ending unemployment, improving physical health or abolishing depression and anxiety? It turns out that if we could abolish depression and anxiety, it would reduce misery by as much as if we could abolish all of poverty, unemployment and the worst physical illness.

Except for poverty, we cannot of course completely abolish any of these things, but we can reduce them all at the margin – and at a cost. The cheapest of the four policies is treating depression and anxiety disorders, which is why the Centre for Economic Performance at LSE has been involved in two major mental health initiatives.

Since 2008, Britain's National Health Service has developed a nationwide service with different local names but known generically as Improving Access to Psychological Therapies (IAPT). This programme now treats over half a million people with depression or anxiety disorders annually, of whom 50 per cent recover during treatment. Because of financial flowbacks, we believe that in fact it costs the government nothing.

In addition, we should try to prevent mental illness before it occurs, so a second initiative is preventive – a four-year curriculum called Healthy Minds, one lesson a week. This too has very low costs since children are already spending an hour a week on life skills lessons of unknown, but probably, low effectiveness.

The importance of prevention becomes even more evident when we try to predict adult life satisfaction from earlier in a person's life, from their child development – their academic qualifications, their behaviour at 16 and their emotional health at 16.

The evidence shows that the best predictor of an adult's life satisfaction is their emotional health as a child. How on earth did so many policymakers come to believe that qualifications were the be-all and end-all – 'in the interests of the child'?

The final step in our forthcoming book is the explanation of these child outcomes, using data from the *Avon Longitudinal Study of Parents and Children*, which has surveyed children born in and around the city of Bristol in 1991/92.

Academic performance is the outcome on which most existing research has focused, and it is profoundly affected by family income. But the emotional health of the child is the best measure of the wellbeing of the child, and it is also the biggest determinant of the wellbeing of the future adult. It is affected to some extent also by family income but above all by the mother's mental health. The same is true of the child's behaviour – which also affects the wellbeing of so many other people.

What about the effect of schools? In the 1960s, the Coleman Report in the United States told us that parents mattered more than schools. Since then the tide of opinion has turned. Our data strongly confirm the importance of the individual school and the individual teacher. This applies equally to the academic performance of the pupils and to their happiness.

Let us end with the thorny question of income. As we have seen, income inequality explains a very small fraction (under 2 per cent in any country) of the variance of life satisfaction. But the effect of log income is well determined, and similar in all countries. One would therefore have expected economic growth to bring considerable increases in life satisfaction. But in many countries, it has not – the so-called 'Easterlin paradox'.

Our analysis provides an explanation of this. People adapt to higher levels of income over time, but, much more importantly, they also compare their own income to that of their peers. Analysing data from the British Household Panel Survey, we find that life satisfaction (0-10) is predicted mainly by an individual's income relative to that of others in their peer group as defined by age, gender and region. The same is true in Australia and Germany.

At last the map of happiness is becoming clearer and usable for policy analysis. We now need thousands of well-controlled trials of specific policies from which we can obtain estimates of the effects on life satisfaction in the near and longer term (where our book can contribute valuable coefficients). We can then compare those gains to the net cost of the policies. The optimal mix will surely be very different from the one we have now.

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Notes:

- *The post gives the views of its authors, not the position of LSE Business Review or the London School of Economics.*
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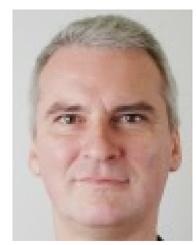

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Richard Layard is Emeritus Professor of Economics at the London School of Economics, where he was until 2003 the founder-Director of the Centre for Economic Performance. He now heads the Centre's Programme on Well-Being. Since 2000 he has been a member of the House of Lords and is a keen advocate of making subjective well-being of the people the central objective of governments. A labour economist by specialisation, he made major contributions on unemployment, inflation, inequality and post-Communist reform. He was an early advocate of the welfare-to-work approach to European unemployment. His influential book *Happiness – Lessons from a New Science* was published in 2005 and has sold 150,000 copies in 20 languages. A second edition was published in 2011. He also advises the British Government on mental health policy and is an architect of the new revolutionary policy of Improving Access to Psychological Therapies (IAPT). His latest book, co-authored with David Clark, Thrive: *The power of evidence-based psychological therapies*, was published in 2014.

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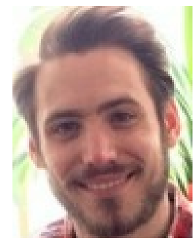

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