

CentrePiece Winter 2011/12

In the latest of CEP's 'big ideas' series, **Richard Layard** outlines the development of the Centre's research on what makes people happy and how society might best be organised to promote happiness.

Big ideas

Wellbeing and public policy



How can we maximise people's happiness and which institutions, policies and norms will best achieve this goal? It was to answer this question that the subject of economics was developed – and it was why I became an economist.

Economics has done a great deal to improve the human lot. But unfortunately it has had too narrow a view of the sources of happiness and misery – too focused on the standard of living. This became obvious nearly 40 years ago when Richard Easterlin pointed to the survey evidence that despite massive rises in living standards, happiness was not increasing (Easterlin, 1974). He attributed this to the fact that people compare their income with other people's incomes and with their own recent experience.

In 1980, I wrote an article about the policy implications if that were true (Layard, 1980). At that time, there was virtually no evidence about the determinants of happiness. Over the last 30 years, all that has changed and there is now a vigorous infant science of happiness. At the same time, we have had the continuing experience of ever rising incomes associated with no increase in happiness in the UK and several other countries, including Germany and the United States.

From these two influences – the science and the popular experience – has emerged a major worldwide movement to establish subjective wellbeing as the accepted goal of public policy. Pioneers of this movement have been the OECD, the French president Nicolas Sarkozy and the UK's prime minister David Cameron.

CEP researchers have also played an important part. In the 1990s, Andrew Oswald (who is now at the University of Warwick) pioneered the analysis of micro-data (including from the then newly established British Household Panel Survey) where the outcome of interest was happiness. He made an enormous impact by using international surveys, such as Eurobarometer, to show how similar were the quantitative effects of bad experiences, such as unemployment and bereavement, in different countries (Oswald, 1997).

Much of Andrew Oswald's work was done with David Blanchflower and Andrew Clark, and all three have become

major figures in the field. He also organised CEP's first conference on happiness in November 1993, where the participants included Daniel Kahneman, a psychologist who a decade later received the Nobel prize for economics, and two other psychologists, Peter Warr and Kamal Birdi from the University of Sheffield. At that time, it was rare for economists and psychologists to work together.

In 2005, I wrote a book on happiness, now in its second edition, in which I tried to juxtapose the philosophical arguments in favour of wellbeing with the evidence on its causes – and thus derive some important policy implications (Layard, 2011). The book has sold over 150,000 copies in 20 languages. From it has followed the Centre's research programme on wellbeing, designed to push forward our understanding but also to produce practical action. We can begin with the practical action.

The first area here has been mental health. By analysing data on a typical group of adults (participants in the 1970 British Cohort Survey, when they were 34 years old in 2004), it is possible to explain their reported levels of happiness and misery. The results show that mental health eight years earlier explains four times as much of the misery in our society as does the level of current family income.

The main aim of social science should be to throw light on the conditions conducive to happiness



Mental illness also has massive economic costs, putting over one million people onto incapacity benefits.

According to another survey, the national Psychiatric Morbidity Survey, one in six adults would be diagnosed as suffering from clinical depression or crippling anxiety disorders, but only 25% of these are in treatment, compared with nearly 100% for most physical illnesses. This is shocking – not only because of the avoidable human misery but also because, as one of our studies shows, if cognitive behavioural therapy (CBT) were made generally available, it would pay for itself through savings on incapacity benefits and lost taxes (Layard et al, 2007).

That 2007 paper was written with LSE's Martin Knapp, the UK's leading expert on the economics of mental health, and David Clark of the Institute of Psychiatry at King's College, who is one of the world's leading experts on CBT. To improve things, we formed the LSE Mental Health Policy Group, which in 2006 produced *The Depression Report*. This included the proposal to train up to 10,000 therapists in the UK to deliver effective therapy services in the NHS (CEP, 2006).

The government essentially accepted our proposals and they are now being rolled out nationally as the Improving Access to Psychological Therapy Programme (IAPT) over a six-year period (2008-14). David Clark and I are actively involved as advisers to the programme, and have published two evaluations of it, (Clark et al, 2009; Gyani et al, 2011) – one on the two pilots and one on the first year of roll-out – which confirm the soundness of our original cost-benefit analysis.

In its original form, the programme covered only adults and not children. But in 2007, I became a member of the Good Childhood Enquiry and was co-author of its final report (Layard and Dunn, 2009). One key chapter was on child mental health, where, with Stephen Scott of King's College, we developed the proposal for an IAPT programme for children. The government has accepted a version of our proposal and the programme begins in 2012.

It would obviously be better to prevent mental illness than to have to cure it once it has developed. Fortunately, there are now many programmes for school children

Evaluation of much of government policy could be undertaken with happiness being the criterion of benefit



that attempt to do that and have shown significant results. One of the best known is the Penn Resiliency Programme, developed at the University of Pennsylvania using the basic ideas that underlie CBT.

With the help of the Young Foundation and the Local Government Association, we found three local authorities that were interested in piloting the programme in England. Altogether 22 schools participated and the programme was found to reduce the incidence of teenage depression significantly, especially for those most at risk (Challen et al, 2011).

Over 60 schools now use the programme, and more and more staff are being trained through the mechanism we initiated. But the programme is quite short: it takes 18 hours per pupil. To achieve a more substantial impact requires many more hours.

In the UK, most secondary school children spend one hour a week for five years on 'personal, social and health education' (PSHE), most of which probably has no effect. Even the most structured programme of 'social and emotional aspects of learning' (SEAL) in secondary schools has been shown to have no effect (Humphrey et al, 2010). To replace this ineffective method, we have

trawled through all the world's best programmes and constructed an evidence-based curriculum for 140 hours, which we are hoping, with government backing, to pilot shortly (Layard et al, 2011).

Having a job is a key element of wellbeing, so we have continued to press two of the Centre's oldest ideas – the apprenticeship guarantee (now an object of government policy) and a limit to life on unemployment benefits. As the recession began, Paul Gregg and I designed what we called the Job Guarantee (Gregg and Layard, 2009), which the Labour government implemented as the Future Jobs Fund. Despite favourable evaluations, this has now been abolished.

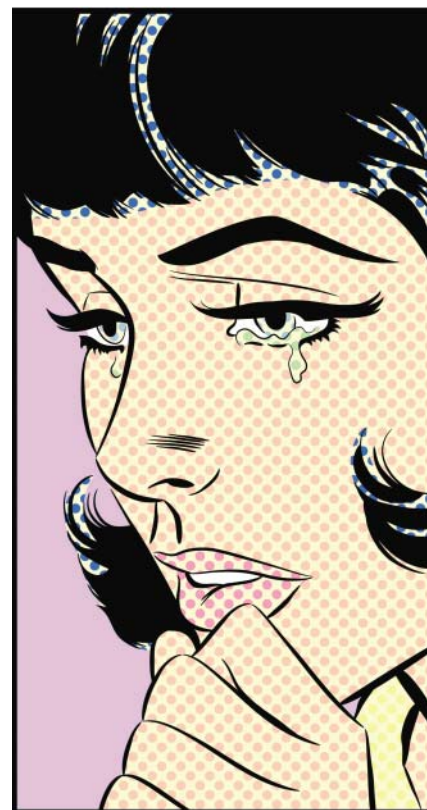
But perhaps our biggest, and least effortful, success has been on the national measurement of wellbeing. In 2008, the Office for National Statistics decided to have some work on this and commissioned me, Robert Metcalfe of the University of Oxford and Paul Dolan, a wellbeing economist recently appointed to an LSE chair in social policy, to advise them (Dolan et al, 2011).

Our proposed questions (see box) are now being asked of 200,000 people in the government's Integrated Household Survey, and the answers will appear regularly in the country's official statistics. Through the mediation of the OECD, most advanced countries can be expected to follow suit.

Integrated Household Survey questions on subjective wellbeing

I would like to ask you four questions about your feelings on aspects of your life. There are no right or wrong answers. For each of these questions I'd like you to give an answer on a scale of nought to 10, where nought is 'not at all' and 10 is 'completely'.

- 1. Overall, how satisfied are you with your life nowadays?**
- 2. Overall, to what extent do you feel that the things you do in your life are worthwhile?**
- 3. Overall, how happy did you feel yesterday?**
- 4. Overall, how anxious did you feel yesterday?**



There have of course been intellectual challenges to the wellbeing movement. To promote understanding of our viewpoint, we sponsored a major collaborative conference on happiness and public policy, the papers from which were published as a special issue of the *Journal of Public Economics* (Besley and Saez, 2008). In it, two colleagues and I investigated the rate at which the marginal utility of income declines as people get richer. We found that marginal utility is inversely proportional to income – an old idea going back to the eighteenth century mathematician Daniel Bernoulli, but never before directly investigated.

More recently, some distinguished authors have questioned Richard Easterlin's original hypothesis. But in one paper, we were able to show that at least in the UK, the United States and West Germany, average happiness has not grown while average real income has shot up. The key reason is that people mainly value their income in relation to the income of others, just as Easterlin first suggested (Layard et al, 2010).

We are now embarking on a major systematic study of wellbeing over the life course, with three aims. The first is to build a comprehensive model that really shows how much different factors matter. The second is to disentangle the true

causal effects of people's experiences by properly controlling for genetic influences. And the third is to use the findings, combined with experimental evidence, to show how policy evaluation of much of government policy could be undertaken with happiness, rather than willingness-to-pay, being the criterion of benefit.

In my view, the wellbeing movement is unstoppable. Happiness is the only good that is self-evidently that, a 'good' – and we are coming to know more and more about the conditions that make us happy or otherwise. But there is a long way to go and the main aim of social science should be to throw light on the conditions conducive to happiness and the ways in which those conditions can be produced.

The CEP and the LSE are the obvious focal point for this work. We are proud of what we have done, grateful to those who have financed us (especially the Esmée Fairbairn Foundation) and impatient to push further with more complete models of wellbeing over the individual life course. London is a great place for all this, with the fruitful interaction of economists, psychologists and psychiatrists that we experience in our seminars. I have no doubt that happiness and wellbeing will become more and more central concepts in our culture – and in labour economics, where so many of us began.

Over the past
50 years, we
have had the
continuing
experience of
ever rising
incomes
associated with
no increase
in happiness



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Further reading

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