

# Richard Layard's *Happiness*: Worn Philosophy, Weak Psychology, Wrong Method and Just Plain Bad Economics!

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## Introduction

PROFESSOR Lord Richard Layard is courting headlines as well as influence among those on the political left. So much so, that it is plausible to present Layard's current work as ideological polemic dressed as social science. His project is to convince the authorities that he has discovered the roots of happiness; and that state policies should be set accordingly. Early presentations were the Robbins Memorial Lectures, delivered at the London School Economics in 2003. A more recent manifestation is *Happiness*, a Penguin paperback. *Ut supra*: worn philosophy, weak psychology, wrong method and just plain bad economics!

## A socialist utilitarian ethos

Two paths to wealth set the general context. Along the economic route, goods and services are voluntarily exchanged to mutual advantage. Along the political route, goods and services belonging to some are expropriated by others: the euphemism is 'income redistribution'. According to Layard, the latter route leads to greater happiness. He bases his conclusion upon 'compelling evidence that, despite economic growth, happiness in the West has not grown in the last 50 years'.<sup>1</sup> Even so, Layard believes that 'we probably live in the happiest society that ever existed'.<sup>2</sup>

Happiness has peaked and Layard's project is to galvanise experts and politi-

cians to direct ordinary folk back upon the road to greater happiness. According to Layard's findings, happiness ceased growing during the epoch of Keynesian economics and the welfare state. It is curious, therefore, that the policy implications drawn by Layard are set within that same ethos: 'low unemployment should be a key goal for any government' as well as 'collective action (including legislation) to provide greater job security'.<sup>3</sup> Modern man would be happier if he worked less (provided that everyone does likewise); and raising (or increasing the progression of) income tax would secure that outcome.

There are engaging parallels between Layard's analysis of 'happiness' and Lord Keynes' analysis of the economy in the 1930s.<sup>4</sup> One, each provides a rationale for political action to reach a specific goal: for Keynes, full employment; for Layard, income redistribution. Two, neither is professionally qualified in the area of his analysis: Keynes had no training as an economist; Layard has no training in psychology. Three, each starts with a conclusion, and tailors arguments to fit that conclusion. Four, the analysis is generally confused, self-contradictory and simplistic:

[h]appiness is just like noise. There are many qualities of noise, from a trombone to a cater-waul. But they all can be compared in terms of decibels. In the same way different types of pain, like toothache and tummy ache, can be compared, and so can different modes of enjoyment. Moreover, as I shall show, happi-

ness and unhappiness are not separate dimensions; they are simply different points along a continuum.<sup>5</sup>

No one would challenge that Mozart's *Requiem* and a caterwaul are comparable in terms of decibels, but there is an essential difference! The 'achievement' embodied in that respective noise does not show as decibels. Likewise, attempts to gauge happiness monotonically ('just like noise') deny the multidimensional experience of humankind: the elation of winning; the boredom in waiting; the pain of torture; the ecstasy of good sex; the despair of bereavement; and much other qualitatively different experience.

Although Layard's approach is unashamedly utilitarian—'any decision, public or private, should be judged by its impact on the happiness of all those affected by it, each person counted equally'<sup>6</sup>—his throwaway remark that 'economics evolved as the study of utility or happiness'<sup>7</sup> will not do. By its earlier classical usage, utility implied *potential* usefulness. Few would doubt the potential usefulness of income, regardless of its impact upon happiness. A century passed before the neo-classical connotation of 'satisfaction' (and the utilitarian notion of 'the greatest satisfaction of all') replaced that of usefulness.

## Policy prescriptions

In general terms, Layard locates happiness in socialist ethics. Children should be taught 'that job satisfaction comes from work well done and not from "getting ahead"'.<sup>8</sup> Indeed, unhappiness is associated with all forms of rivalry, not least for the fact that people really hate to lose: 'a loss hurts roughly twice as much as an equal gain helps' and, because everyone craves security, 'it should be a major goal for society. The rich have quite a lot of it and the poor less. A happy society requires a lot of it all round'.<sup>9</sup>

Layard leaves his readers to complete the analysis: robbing the rich (a hurtful loss) benefits the poor (affording greater security) but, since there are fewer rich, the utilitarian criterion is likely to be met.

Ordinary folk must be made to feel secure and free of anxiety. Their happiness depends on it. So, the state should scrap tax allowances for all 'pictorial advertising by business' because 'it can have such a negative effect on the happiness of those it puts pressure on'.<sup>10</sup> Investment-backed pension plans are inferior to state schemes financed from current tax revenues: 'everyone should be offered a chance to participate, without thinking, in an arrangement that is free of anxiety'.<sup>11</sup> However, by an oversight, no consideration is given to younger taxpayers, whose anxiety is likely to be raised, given the prospect of greater longevity and an ageing population. Security of employment has similar simplistic treatment: 'if it is difficult to fire workers, employers will be less likely to take people on. . . . On balance the two cancel out.' So, if workers want security 'let them have it'. The implicit assumption is that labour is versatile and homogeneous, which obviates any necessity to facilitate changing conditions, technologies and skill requirements. Forget dynamic labour markets: "'flexibility" is not a sensible mantra':<sup>12</sup> it leaves workers insecure and unhappy.

Layard cites a number of experimental findings that financial incentives can have perverse results; for example, when fines are imposed upon individuals who are late, even more are late. The inference is that moral (or internal) pressures to be punctual are offset when individuals pay the price for being late. Yet, such an outcome is not necessarily deleterious or perverse, provided (following the example) that compensation is appropriate to the (potential) disruption. Incentives can be tailored to particular situations—for example, exclusion from a concert until a natural break

in the performance—so as to deliver a general sense of natural justice. Layard, however, reaches a different conclusion:

So we have to consider quite seriously the argument that by upping financial incentives, we diminish a person's internal incentives to give of his best and to live up to the name of his profession.<sup>13</sup>

Following this line of argument, a rational conclusion would be to opt for (say) cheap surgery, to gain the assurance of treatment from a highly motivated surgeon! To be fair, Layard concedes the overall effect to be uncertain.

However, these are side issues. The major theme is that Western man has been duped into playing a zero-sum game of trying to do better than everyone else. Even so, Layard is wrong to suggest that 'the total amount of status available is fixed'.<sup>14</sup> Status does not necessarily derive from positional rank. For example, any number of individuals may achieve the status of civilised behaviour or a licensed driver, and so on. Certainly, in terms of income distribution, ranking may be relevant. However, Layard's proposal for experts to set an optimal income tax rate so that, thereafter, 'taxes preserve a work-life balance' presumes (1) that a given tax regime could be devised so as to leave each individual at his or her optimal work-life balance and (2) the existence of omniscient experts. Even on its own terms, the argument is slipshod:

The right level of tax depends on many considerations, including how much spending is justified on public services and how much on income redistribution. But if you had formed some view on this which did not allow for the arguments in this chapter and you now accept these arguments, you should revise upwards your view about tax levels.<sup>15</sup>

Why 'revise upwards'? Even if there were a tax regime commensurate with an optimal work-life balance for each and every one, that regime might require tax levels to be reset *below* those that net sufficient revenue for public services and income

redistribution. Even with omniscient experts, a conflict of goals is likely.

Casting aside all the multidimensional subtleties in human emotion, Layard purports to show that, above certain, relatively low (by modern Western standards) income levels, happiness remains static even as income levels rise. Conventional utility functions, together with some remarkable simplifying assumptions (although income differentials are the key, a uniform distribution of income is hypothesised) deliver what, to Layard, is the most obvious remedy: a socially optimum marginal tax rate. This tax rate prevents individuals from overworking:

[w]e are talking here of a corrective tax—one that will reduce work effort to a level where the fruitless incentive to raise your relative income has been fully offset . . . taxes only become distorting if they are levied above the optimum level to correct for the negative externality.<sup>16</sup>

Could the analysis be generalised? Could it apply to happiness derived from (say) professional soccer? From a relatively low level (say, Vauxhall Conference), happiness appears to correlate with successive league promotions but, once firmly established at the Premiership level, is there not a futile zero-sum season-by-season quest by clubs to outperform each other? Is there a soccer equivalent to a 'corrective tax'? Is there some measure to reduce 'effort to a level where the fruitless incentive to raise' a Premiership position 'has been fully offset'?

The analogy serves to suggest that the utilitarian cost-benefit paradigm might overlook something. Indeed, it overlooks the very essence of the human condition: a dynamic competitive spirit that repeatedly sets itself difficult, but potentially achievable, objectives; that accepts a bad outcome as part of a rebuilding process prior to taking on the next challenge. The dynamic is that of entrepreneurship (which is not reducible to mere *effort* in

a cost–benefit trade-off) by which individuals continuously set their wits against events. Unhappiness is notable where individuals are denied opportunities to act entrepreneurially, as under former Soviet-style regimes. Without the exercise of intellectual and/or physical challenges, individuals take on the torpor of caged animals.

Entrepreneurship extends beyond betterment in business. It pervades all human activity in that it relates to ‘acting man exclusively seen from the aspect of uncertainty inherent in every action’.<sup>17</sup> *Anyone* who is alert to opportunities for potential gainful action is an entrepreneur; and there is no calculus to show an optimal amount of entrepreneurial activity within a dynamic liberal market economy. Layard presents no discussion of the spontaneous evolutionary processes whereby waste is eliminated and coherence is achieved across extended socio-economic relationships. Moreover, it is a caricature to suggest that, while libertarians would object to a taxation policy that ‘panders to envy . . . [t]hey do not apparently mind pandering to greed’.<sup>18</sup> If either envy (‘desire for the possessions of another’) or greed (‘desire to acquire more than one deserves’) were legitimised as motives to act, the liberal ethos of several property and free exchange (including the supply of one’s labour for hire) would be severely compromised and, with that, the dynamics of a thriving market economy.

Layard’s broad objective is for public policy to inhibit human action that brings extra income without extra happiness: ‘[i]f extra income has done so little to produce a happier society, there must be something quite wasteful about much of it’.<sup>19</sup> Waste, by definition, has no economic justification. So the authorities are required to secure happiness through the implementation of right-minded policies. They must exercise expert judgement in a number of broad areas: on taxation (because people ‘work too hard and con-

sume too much’; on macroeconomic stabilisation, because of ‘loss-aversion’; in regard to tastes, ‘because advertising . . . almost always makes us feel we need more money’; and on the treatment of mental illness, to which it ‘totally impossible to adapt’.<sup>20</sup>

Layard’s analysis and conclusions must be treated with caution. Insignificant correlations between happiness and income are surely no surprise, given that income is irrelevant to unchanging features of the human condition: love, paternity, bereavement, self-esteem and the success of your soccer team. Alternatively, if there had been a close association between income and happiness since *Homo sapiens* first emerged 100,000 years ago, it would be hard to imagine how early man could have survived unfathomed depths of depression, misery and pain!

## Altruism: pseudo-scientific method

In promoting greater altruism, Layard presents a model<sup>21</sup> to show how individuals are happier when their tastes are more regarding of others. There are two people: A is in sole possession of  $x$  and must decide how much to give to B. The model defines

$(x_A)^{1/2}$  as the satisfaction A gets from his own share of  $x$   
 $\alpha(x_B)^{1/2}$  as the satisfaction A gets from B’s share of  $x$

Individual A’s happiness ( $h_A$ )

$$h_A = (x_A)^{1/2} + \alpha(x_B)^{1/2} \text{ where } 0 = \alpha = 1$$

is maximised when

$$x_A = 1/(1 + \alpha^2) \quad (\text{and, of course, } x_B = 1 - x_A)$$

With this distribution of  $x$ , the happiness experienced by A and B, respectively, is as follows:

$$\begin{aligned}
 h_A &= (1 + \alpha^2)^{1/2} \\
 h_B &= (1 - \alpha)^{1/2} + \alpha(1 - \alpha)^{1/2} \\
 &= 2\alpha/(1 + \alpha^2)^{1/2}
 \end{aligned}$$

Clearly, as  $\alpha$  increases, both  $h_A$  and  $h_B$  increase. Hence the conclusion ‘the more other-regarding our tastes, the happier we are’.<sup>22</sup> In Figure 1, values of  $h_A$  are set against values of  $\alpha$  ( $0 < \alpha < 1$ ). The conclusion reached is determined by the specification of the happiness function, where an increase in ‘other-regarding tastes’ shows only as a rise in the value of  $\alpha$ . This cannot be correct: preferences are relative. An increase in ‘other-regarding tastes’ implies a decrease in self-regarding tastes (with a unit total ‘weight’ of tastes). For a rise in the value of  $\alpha$ , there should be a corresponding fall in the coefficient  $(1 - \alpha)$  on the satisfaction individual A gets from his own  $x_A$ . In making that adjustment, A’s happiness

$$h_A = (1 - \alpha)(x_A)^{1/2} + \alpha(x_B)^{1/2}$$

is maximised when

$$\begin{aligned}
 x_A &= (1 - \alpha)^2 / [\alpha^2 + (1 - \alpha)^2] \\
 &\text{(and, of course, } x_B = 1 - x_A)
 \end{aligned}$$

With this distribution of  $x$ , the happiness experienced by A—

$$h_A = [\alpha^2 + (1 - \alpha)^2]^{1/2}$$

—is shown in Figure 2, with values of  $h_A$  set against values of  $\alpha$  ( $0 < \alpha < 1$ ). The result is radically changed: A’s happiness is at a maximum for either the most selfish ( $\alpha = 0$ ) or the most altruistic ( $\alpha = 1$ ) disposition. As always, the result derives from the specification of the function, the symmetry of which corresponds with the symmetry of the graph.

The temptation to tinker further must be resisted. The method is wrong. In focusing upon the roots of happiness, there is nothing to gain from static formulations that are bereft of psychological insight. Even in the context of the method, a presentation is unconvincing when minor amendments produce radically different results.

The broad objections to the analysis are: that it is structured to fit the encompassing ethos of a thesis; that the driving intention is to show how individuals work excessively to gain additional income that brings little, if any, direct happiness to themselves; and that greater altruism is a route to greater happiness. Interesting assertions, but without evidence.

### The case against utilitarianism

Layard’s analysis is stunted by the confines of the utilitarian paradigm; and it

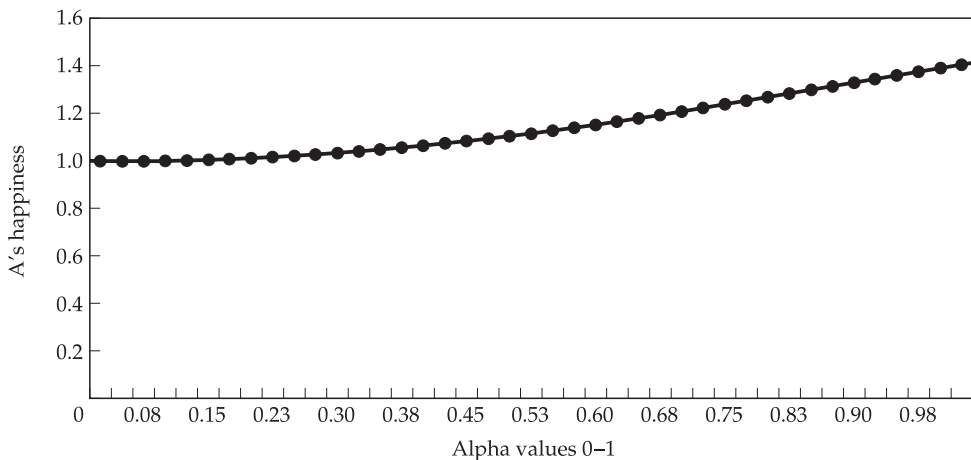
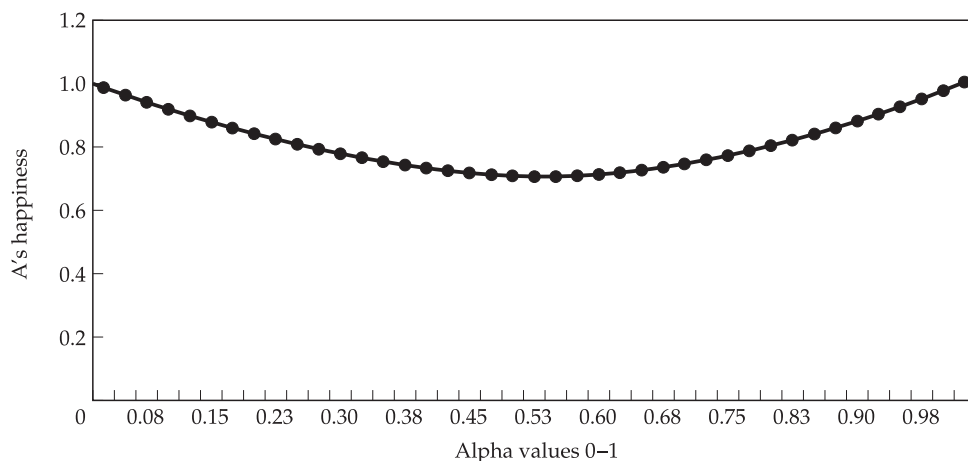


Figure 1: Layard’s Model



**Figure 2:** Layard's Model Amended

ignores a substantial body of research findings in the psychology of happiness where, although causal directions are a moot issue, a wide consensus exists regarding the correlates of happiness. Principal among these are personality traits, personal relationships, mood, satisfaction with life (work, recreation, friendship, marriage and health), meeting psychological needs (competence and autonomy) and demographic/life events.<sup>23</sup> Contrast these with Layard's confused and inconsistent coverage:

John Stuart Mill . . . thought there were two dimensions to happiness, quantity and quality. However, psychologists have not been able to identify a separate qualitative dimension. Mill was surely onto something, but what he should have said is that there are different causes of happiness—those that produce enduring effects on happiness and those whose effects are transient.<sup>24</sup>

No explanation is given as to why Mill 'should have said' this. More interestingly, between Layard's lectures and his book the distinction between enduring happiness and transient happiness is abandoned. The corresponding passage reads:

Mill believed that the happiness of different experiences could vary both in quantity and quality. . . . Mill's intuition was right but his

formulation was wrong . . . he was wrong to argue that some types of happiness are *intrinsically* better than others. In fact to do so is extremely paternalistic.<sup>25</sup>

Layard then proceeds to contradict himself: some types of happiness *are* intrinsically better than others, as he warns against 'enjoyments . . . [that] . . . work against a person's long-term happiness' (taking cocaine is cited) and those that 'decrease the happiness of others' (those of the sadist are cited). Confusion and contradiction reign and the reader has no reference by which to cross-check Layard's representations with Mill's own writing.

The association that Layard makes between left/right-sided neural activity and the utilitarian hedonic scale illustrates an extreme *naïveté* (and brevity) in dealing with 'evidence from neuro-science'. In noting that 'nice' ('horrendous') photographs activate left (right) sides of the brain and that sucking something 'nice' ('sour') does likewise, Layard is led to two bizarre conclusions: '[s]o here we have objective measurements of how feelings change over time' and (incredibly) 'the same measurements can be used to compare the happiness of different people'.<sup>26</sup> Complex neural engagements are reducible to bursts of white noise!

## An alternative to utilitarianism

In his seminal work (*A Theory of Justice*), John Rawls argues convincingly against utilitarianism. Rational individuals are not driven to maximise 'the algebraic sum of advantages'.<sup>27</sup> Three objectives provide a basis for alternative guidelines: one, to reveal the principles of justice that underscore the morality and political views of the period; two, to show that such principles may be derived from a procedure that can be agreed as fair; and, three, to show that such principles describe a workable social arrangement. The result (Rawls argues) is a thesis that is consistent with the dominant Western ideology (liberalism) and that supports the 'common sense' conviction that an individual's legitimate expectations have priority over an elusive common good.

A key concept is that of primary social goods (those that everyone desires). These include rights and liberties, opportunities and powers, income and wealth and (most importantly) self-esteem. The latter relies upon the 'Aristotelian principle' of motivation: that enjoyment and pleasure are not necessarily a consequence of returning to a healthy or normal state. Rather, pleasure and enjoyment arise when we exercise our faculties; and the more enjoyable pleasures arise in engaging with complex problems. The static utilitarian cost-benefit work/effort-leisure/happiness trade-off is only peripherally relevant to 'primary social goods', which derive from the self-esteem that correlates, but is not synonymous, with the happiness arising in the dynamic context of setting difficult but achievable goals.

The extensive corroboration of the Aristotelian principle of motivation suggests that fulfilment (or self-esteem) is a need deeply embedded in the human psyche. And there is an appreciation among economists whose minds encompass a world beyond utilitarianism:

[p]rogress in the sense of the cumulative growth of knowledge and power over nature

is a term that says little about whether the new state will give us more satisfaction than the old. . . . What matters is the successful striving for what at each moment seems attainable. It is not the fruits of past success but the living in and for the future in which human intelligence proves itself.<sup>28</sup>

Behind ends and motivation 'is "the restless spirit of man"', who is an aspiring rather than a desiring being'.<sup>29</sup> There is further corroboration in Alfred Marshall's *Principles*: '[t]he main concern of economics is thus with human beings who are impelled, for good and evil, to change and progress';<sup>30</sup> and from the philosophers, Thomas Nagel and Karl Popper:

life is worth living even when the bad elements of experience are plentiful, and the good ones too meagre to outweigh the bad ones on their own. The additional positive weight is supplied by experience itself, rather than by any of its contents.<sup>31</sup>

[l]ife is a struggle for something; not just for self-assertion, but for the realisation of certain values in our life. I think it is essential for life that there should be obstacles to overcome.<sup>32</sup>

Such features mark the spirit of humankind that motivates curiosity, exploration and all manner of physical and intellectual achievement.

Layard might be applauded for seeking to broaden the remit of economics, but if moral issues (such as income redistribution) continue to be examined by the yardsticks of utilitarianism, social welfare optimisation and the elusive common good, the engagement is destined to remain quixotic. The narrow utilitarian preoccupation with activities that make life better or worse against a linear scale delivers an analysis of an amoral and self-contained agency that reveals virtually nothing of the socio-psychology of the human condition.

## Notes

- 1 P. R. G. Layard, 'Happiness: Has social science a clue?', Lionel Robbins Memorial

- Lectures 1, 2 and 3, London School of Economics, 2003, Lecture 1, p. 4.
- 2 Layard, 'Happiness: Has social science a clue?', Lecture 1, p. 21.
  - 3 *Ibid.*, Lecture 3, pp. 5–6.
  - 4 J. M. Keynes, *The General Theory of Employment, Interest and Money*, London, Macmillan, 1936.
  - 5 Layard, 'Happiness: Has social science a clue?', Lecture 1, p. 4.
  - 6 P. R. G. Layard, *Happiness: Lessons from a New Science*, New York, Penguin, 2005, p. 112.
  - 7 Layard, 'Happiness: Has social science a clue?', Lecture 1, p. 2.
  - 8 Layard, *Happiness: Lessons from a New Science*, p. 160.
  - 9 *Ibid.*, p. 168.
  - 10 *Ibid.*, p. 161.
  - 11 *Ibid.*, p. 172.
  - 12 *Ibid.*, pp. 174–5.
  - 13 *Ibid.*, p. 159.
  - 14 *Ibid.*, p. 145.
  - 15 *Ibid.*, p. 155.
  - 16 P. R. G. Layard, 'Happiness and public policy: a challenge to the profession', *Economic Journal*, March 2006, pp. C24–33; see p. C27.
  - 17 L. von Mises, *Human Action: a Treatise on Economics*, Chicago, Contemporary Books, 1966, p. 253.
  - 18 Layard, 'Happiness and public policy', p. C27.
  - 19 Layard, *Happiness: Lessons from a New Science*, p. 155.
  - 20 Layard, 'Happiness and public policy', pp. C27–30.
  - 21 P. R. G. Layard, 'Annexes to "Happiness"', 1 February 2005, <http://cep.lse.ac.uk/layard/annex.pdf>
  - 22 *Ibid.*, annex 8.1.
  - 23 See S. Lyubomirsky, K. M. Sheldon and D. Schkade, 'Pursuing happiness: the architecture of sustainable change', *Review of General Psychology*, vol. 9. no. 2, 2005, pp. 111–31.
  - 24 Layard, 'Happiness: Has social science a clue?', Lecture 1, pp. 4–5.
  - 25 Layard, *Happiness: Lessons from a New Science*, pp. 22–3.
  - 26 Layard, 'Happiness: Has social science a clue?', Lecture 1, p. 9.
  - 27 J. A. Rawls, *A Theory of Justice*, Oxford, Oxford University Press, 1972, pp. 14–15.
  - 28 F. A. Hayek, *The Constitution of Liberty*, London, Routledge and Kegan Paul, 1960, p. 41.
  - 29 F. H. Knight, 'Ethics and the Economic Interpretation', *Quarterly Journal of Economics*, vol. 36, May 1922, pp. 454–81; see p. 473.
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  - 32 K. R. Popper and J. C. Eccles, *The Self and Its Brain*, London, Springer International, 1977, p. 558.