

## Growth Matters

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*“The Treasurer, Peter Costello, today announced that Australia’s ranking on the Gross National Happiness index rose by 0.3 points during 2010. Mr Costello said that the rise was due to strong pro-happiness policies pursued by the Coalition government. He warned that Labor’s policies would jeopardise the happiness gains of the past decade, leading to a sadder Australia.”*

With Australia richer than ever, a push has arisen for the nation to replace its focus on growth with an alternative measure of wellbeing. “Gross National Happiness” it is argued, should be the new metric by which we judge how our national is performing. Rather than measuring the output of our economy, perhaps we should survey a sample of Australians every month, asking them to rate their happiness out of ten. As a barometer of wellbeing, would this be superior to measuring growth?

In recent years, disparaging economic growth as a measure of wellbeing has become something of a cottage industry. Yet none have put it better than Robert Kennedy, who pointed out nearly forty years ago that the gross national product: “counts air pollution and cigarette advertising, and ambulances to clear our highways of carnage. It counts special locks for our doors and the jails for those who break them”.

At the same time, Kennedy said, gross national product: “does not include the beauty of our poetry or the strength of our marriages; the intelligence of our public debate or the integrity of our public officials. It measures neither our wit nor our courage; neither our wisdom nor our learning; neither our compassion nor our devotion to our country”. He concluded that GNP: “measures everything, in short, except that which makes life worthwhile. And it tells us everything about America except why we are proud that we are Americans.”

Of course, Kennedy is right – economic growth is far from a perfect measure of wellbeing. But without a better alternative, it would be pointless to abandon it. So growth-critics have set about devising a range of alternative indices, including the Genuine Progress Indicator, the Human Development Index, the Green Net National Product, and the Human Poverty Index. Proposing alternatives to growth has become a growth industry.

The latest, and most novel, alternative to growth has been “Gross National Happiness”. The poster-child for this novel concept is the government of Bhutan, a landlocked mountain monarchy where the average income is around \$3 per day. When asked about their goals for the country, Bhutan’s leaders have often claimed that they are pursuing a policy of maximising Gross National Happiness, not the Gross National Product. (If this were not unusual enough, Bhutan in 2004 became the first nation to entirely ban smoking, prompting Slate’s Eric Weiner to remark: “If Bhutan were a celebrity, it would be Johnny Depp – reclusive, a bit odd, but endearing nonetheless”).

Despite their advocacy of Gross National Happiness as a concept, the Bhutanese have not yet measured the level of happiness in their country. A “[World Database of Happiness](#)” maintained by Ruut Veenhoven lists 104 countries that have been surveyed to measure their happiness levels. Bhutan is not one of them – prompting cynics to suggest that Gross National Happiness may be more of an excuse to avoid reform than a real national goal.

Yet this has not stopped the concept of Gross National Happiness from catching on downunder. In Australia, advocates of a Gross National Happiness index have spanned the political spectrum, from the left-wing [Australia Institute](#) to former National Party leader [Tim Fischer](#). While the proposals differ in the details, happiness advocates generally propose that we take more notice of the kinds of surveys compiled in Veenhoven’s database, which ask people about their level of happiness or life satisfaction.

The typical happiness survey question takes the form: “All things considered, how happy are you with your life?”. Combining responses of a few thousand Australians provides us with a snapshot of the average happiness levels in Australia. These data allow us to compare Australia’s happiness levels now with those in other countries, and with our happiness levels in earlier surveys.

Analysing these data, Australians look happy. Asked to rate their life satisfaction on a scale from 0 to 10, the average response among is 7.9. Only one in fourteen Australians rates themselves 5/10 or below, while two-thirds of the population rates themselves 8/10 or above. One in seven people say that they could not be happier, rating themselves 10/10.

In a [recent study](#), Justin Wolfers and I concluded that Australia’s happiness levels compare favourably with those in other countries. We were able to locate 13 separate surveys in which the happiness or life satisfaction of Australians had been compared to other countries. Across these surveys, Australia consistently ranked in the top tier of nations for happiness. Indeed, in both the first survey we were able to locate (in 1948) and the most recent (in 2005), Australia was the happiest nation in the survey.

Yet while Australians do well in comparison with other countries, our happiness levels do not appear to be trending upwards. Indeed, this finding holds true not only of Australia, but also of most other developed countries. As researcher Richard Easterlin has noted, one of the puzzles of national happiness surveys is that within a country, there is little change in happiness levels over time. When the changes in income are large enough, they *do* translate into happiness (researchers Paul Frijters, John Haisken-DeNew and Michael Shields have demonstrated that the vast changes in income experienced in [East Germany](#) and [Russia](#) during the 1990s affected happiness levels in those countries), but for the most part, steady economic growth appears not to have raised happiness levels in rich countries.

One possible answer to the “Easterlin Paradox” was suggested by [Rafael Di Tella](#), [Robert MacCulloch](#) and [Andrew Oswald](#). Using data from the United States and a number of European nations, they show that while rising national income *boosts* happiness, higher levels of unemployment *lower* happiness. The macroeconomic story of most rich countries over the past thirty years has been a rise in both income and

unemployment. Thus the researchers suggest that perhaps the growth and unemployment effects have approximately cancelled one another out.

Another possible answer to the Easterlin Paradox is that as a species, we have proven adept at adjusting to changes in our environment. While our ready adaptability has allowed human beings to survive in a diversity of physical environment, it also has implications for any attempt to use happiness to measure wellbeing. Strongly supported by psychological studies, the so-called *habituation effect* suggests that even changes to the environment that unequivocally improve wellbeing may nonetheless not have an impact on self-reported happiness. If we are naturally predisposed towards happiness, even large positive changes to our wellbeing may fail to make us happier.

To see how the habituation effect might work in practice, take the example of indoor plumbing. Prior to World War II an indoor toilet was considered a luxury for an Australian household. During the 1950s, improvements in sewerage and plumbing (driven by rising incomes) allowed many Australians to add an indoor toilet to their home. Such a shift had a significant positive effect on wellbeing. Indoor toilets are more hygienic, since they are easier to keep clean. They smell better, and are easier to use in the middle of the night. When it is rainy or cold, indoor toilets can be used without braving the elements, which means that children and the elderly are less likely to fall ill when using the bathroom.

Yet despite the improvements in wellbeing that come from indoor toilets, it is quite probable that they have had no enduring impact on self-reported happiness. At the time when households traded their outdoor toilet for an indoor one, it is plausible that there might have been a brief improvement in national happiness. But thanks to the habituation effect, even those who grew up with an outdoor toilet are unlikely to be any happier today because they have the benefit of indoor plumbing.

Indoor toilets are not the only wellbeing-enhancing change to which we have become habituated. Improvements in road safety, educational attainment, medical technology, air pollution, and the variety of foods available in our supermarkets are all changes that boost wellbeing. Within a few years of these changes taking place, they have become a regular part of our lives. Although they have benefited us in tangible ways, it is likely that we have now become habituated to them.

The habituation effect may even have affected the way in which we view increases in life expectancy. In 1901, one in ten babies died before their first birthday, and the average life expectancy was 57. Were our ancestors perpetually depressed at these figures? It seems unlikely. Indeed, it is more probable that they merely saw them as the facts of life. Today, just one in 200 babies die before their first birthday, and average life expectancy is 81. We live longer and healthier lives than Australians at the time of Federation. But it is perfectly possible that our lives are no happier than theirs were.

Habituation is the Achilles heel in using self-reported happiness as a measure of wellbeing. Tempting as it may be to embrace Gross National Happiness, it would be a mistake to see it as a perfect measure of wellbeing, or even a substitute for the workhorse economic indicators that feature in our daily press. Economic growth

counts some “bads” and ignores some “goods”, but it remains a better proxy for wellbeing than self-reported happiness.

But just because Gross National Happiness is an inadequate measure of wellbeing, it does not follow that economists should ignore happiness. Over the past decade, economists working on happiness have come up with a range of fascinating findings that inform our understanding of the world. In Australia, research by [Nick Carroll](#) shows that unemployment has an extremely large negative impact on life satisfaction – emphasising the importance of keeping joblessness low.

Work is not all that matters. Research by Andrew Oswald and coauthors has shown that [marriage](#) makes people happier. The typical person is happier a few years after marriage than they were before marriage. Perhaps more surprising, the same appears to be true of [divorce](#) – the typical divorcee is more satisfied with their life once they have split with their partner than they were in the final years of an unhappy marriage.

Other research, led by Daniel Kahneman, has looked at the activities that make people happy during the day. Analysing a sample of 1000 employed women in the United States, they were able to rank the day’s activities from those that produced the largest amount of happiness to those that produce the least happiness. Of the 19 activities, sex came first. Commuting to and from work came last. At the very least, this suggests that sensible public policies should focus on reducing the amount of time we spend stuck in traffic.

When comparing different activities in a society – employed versus unemployed, single versus happily married, unhappily married versus divorced, commuting versus parallel parking – happiness can tell us which one is generally favoured. But because human beings quickly become habituated to improvements in our standard of living, happiness is a much less useful measure in comparing changes in wellbeing over time. For that, it is better that we focus on growth, which the Australian Bureau of Statistics measures well and which our media discusses regularly. It might also be useful if we were to spend more time on inequality, which is less precisely measured, and more rarely debated.

Winston Churchill once said that democracy was the worst form of government, except for all the others that have been tried from time to time. The same might be said for using average national income and inequality as a proxy for long-run improvements in wellbeing. Happiness research still has plenty to teach us, but it would be a sad day if we adopted a goal of maximising Gross National Happiness.

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