

GOVERNMENT'S "HAPPINESS INDEX" SHOULD BE TREATED WITH CAUTION¹

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Economists have known for a long time that GDP is an imperfect measure of the overall well-being of a country. In fact, no-one has stated this more clearly than Simon Kuznets, the founding father of modern methods of estimating GDP, in his Nobel prize lecture in 1971. In principle, using a wider measure of well-being is unobjectionable. As far back as the early 1970s, for example, the leading economists Bill Nordhaus and James Tobin made the first serious attempt to modify GDP by taking into account environmental factors.

But the devil is not so much in the detail, as in the whole attempt to turn this into a practical measure. For all its faults, GDP has a clear theoretical underpinning, whereas happiness or well-being indices inevitably involve a certain amount of arbitrary judgment on what is in and what is out. The old canard of the lack of correlation between happiness and GNP in the West has been raised again. It is a mystery as to why this persists. There are powerful technical statistical arguments as to why this is not a serious point. Angus Deaton has had much more success in correlating percentage changes in GDP with happiness, which is exactly what the statistical theory would suggest.

Since the government's announced its intention to measure well-being, the media have already carried the standard eulogies found in the happiness policy literature of the Kingdom of Bhutan, the only country in the world to adopt Gross National Happiness rather than GNP as its principal policy target. Despite this, Bhutan is far from an idyllic state. Unemployment is high, and theft is rising. Further, the happiness of the majority is increased by active discrimination against the Nepalese minority, many of whom have been forced into refugee camps.

The danger is that governments will try to manipulate and control any measure of happiness or well-being which they construct. Most of these efforts will almost certainly be futile, in much the same way as short-term forecasting and control of GDP has been shown over the decades to be an essentially fruitless exercise. But it will not stop them from trying.

The real risk is that the happiness fanatics will use this as yet another excuse to show that experts really do know – contrary to almost all available evidence – better than ordinary people what is good for them. The assertion that "people are surprisingly bad judges of what makes them happy" is found throughout the happiness literature. Indeed, these happiness policy activists often claim to know much better than elected politicians what is best for their voters. This elevation of the "expert" armed with a clipboard and some regression analysis is one of the most disturbing aspects of the happiness policy approach.

No-one can object to providing people with more information, and a wider measure of well-being is in principle very helpful. But the government must take great care about how it is used in practice.

¹ Institute of Economic Affairs Blog, November 16, 2010