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Political economy of happiness

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Happiness research has been a great success by yielding new and important insights. These results are often used in a technocratic manner: Governments should maximize, or at least raise, the subjective well-being of the population measured by the national happiness index. Yet the government has strong incentives and a wide range of possibilities to manipulate this index to its advantage. Happiness policy must be part of the normal democratic process where divergent views are considered and aggregated. In particular, competition between parties is a prerequisite for the insights from happiness research put to the benefit of the citizens.

Keywords: happiness; well-being; government policy; manipulation; political economy

JEL Classification: A10; D70; H11; I31; I38

I. Happiness Research and Happiness Policy

Happiness research is one of the most thriving fields in the social sciences, and in particular in economics. One may even speak of a ‘revolution in economics’ (Frey, 2008) as the long enshrined claim that it is impossible to seriously measure utility has been overcome. In addition, many novel insights have been gained both enriching the model of human behaviour and suggesting new approaches to economic policy. The state of knowledge in happiness research need not be repeated here; it is well summarized and documented in surveys,¹ books² and special reports.³

The great success of happiness research has induced politicians to use it for policy purposes. This has been done from early on by the Kingdom of Bhutan, and more recently notably by the French, British and US governments as well as by the government of the People’s Republic of

China. The politicians in charge publicly accept the notion that governments should pursue or – even better – maximize the happiness of their respective populations.

Such a ‘happiness policy’ seems to be an attractive option against which little can be said.⁴ It is certainly better than to pursue a goal such as raising national income. Nevertheless, this article argues that there are grave dangers involved in a policy of maximizing an *aggregate happiness index*. These are rarely seen or discussed. Rather, many happiness researchers,⁵ other scholars and laypersons are convinced that a happiness policy is most desirable and that it introduces something like a Golden Age of policy. They believe that the goal of public policy is therewith well established because ‘all people want to be happy’, an insight that has already been propagated by Aristotle.

Such optimistic views disregard that the adoption of a happiness policy leads to fundamental changes in the

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¹ See, e.g. Frey and Stutzer (2002a), Dolan *et al.* (2008) and Stutzer and Frey (2010).

² E.g. Frey and Stutzer (2002b), Brum and Porta (2005), Gilbert (2006), Frey (2008), Easterlin (2010) and Graham (2011).

³ In particular the so-called Sarkozy Report (www.stiglitz-sen-fitoussi.fr), the United Nations’ ‘World Happiness Report’ (Helliwell *et al.*, 2012), or the reports commissioned and published by nef (see, e.g. nef, 2012).

⁴ On well-being and public policy, see, e.g. Diener *et al.* (2009).

⁵ According to Lord Layard (2005) for instance, one of the most eminent researchers in the field, ‘We need a revolution in government. Happiness should become the goal of policy, and the progress of national happiness should be measured and analysed.’

political process. Some of them undermine the very goal of happiness policy. A ‘performance paradox’ arises because – by focusing attention on the happiness indicator – the latter loses its information content (see Meyer and Gupta, 1994; Meyer, 2005, 2009; Osterloh, 2010). It no longer reflects the well-being of individuals but rather provides a distorted picture of reality. The rationale is similar to Goodhart’s Law (1975) and the Lucas Critique (1976), which state that the quantity of money no longer serves as a useful policy once it has been made an official policy goal.

It is not sufficiently taken into account that once happiness is the sole goal of government policy, the behaviour of two important sets of actors is strongly affected. The *persons surveyed* about their subjective happiness or life satisfaction level⁶ resort to *strategic responses* as they know that the fate of the politicians in charge depends on the happiness level captured by an aggregate happiness index. As long as happiness is not an official policy goal, one could well trust the answers of people surveyed. Indeed, it has been extensively shown that the answers to the most often used survey question ‘Taken overall, how satisfied are you with the life you lead’ are reliable (see e.g. Diener, 2009, 2011). But this does no longer hold when the respondents know that their answers become politically relevant. Take, for example, persons with a left-wing ideology living under a right-wing government. They will be reluctant to support the government by stating that they are happy. Rather, they have an incentive to understate their actual level of happiness. The politicization of happiness undermines its usefulness as an indicator of aggregate subjective well-being. There is a second, even more important, change produced by happiness being an official policy goal. As the voters take the aggregate happiness index as the most relevant indicator of government performance, the *politicians in power* have a strong incentive to systematically manipulate it.

The present article focuses on this second aspect.⁷ Section II discusses the changes induced in the behaviour of politicians when happiness is adopted as the most crucial policy goal. In addition to the incentives to manipulate the happiness index, the possibilities to undertake such manipulation are explored. The following section

discusses how these changes affect a desirable happiness policy. Section IV concludes.

II. Government and Happiness

The pursuit of happiness provides a *clear, one-dimensional goal for government*. Once proclaimed, the *aggregate happiness index*, which is composed of the subjective evaluations of individuals about their well-being, becomes the sole performance indicator on whose basis voters decide whether to support the government in elections. This is in stark contrast to an evaluation of the many different activities that government undertakes, for example with respect to foreign policy, health, education and social programs, transport, the natural environment or the Internet. The aggregate happiness index captures *all* these activities and at the same time provides an overall evaluation by the citizens of how important the single dimensions are and how well they have been achieved. This is a new phenomenon in politics, which is strongly changing the political process.

The politicians in power are forced to take this change into account.⁸ The governing party or parties know that their probability of re-election depends to a large extent on how well they do as measured by the aggregate happiness index. When the government can show that the overall happiness level has increased, this reflects that the citizens are satisfied with the policies undertaken and that they are most likely to support them again. This holds in particular if the government can show that its country’s happiness level has risen more than those in neighbouring and comparable countries. The government can claim to have knowledge of, and to be able to pursue, the right policies to achieve the most important goal of practically everyone: Happiness.⁹ Such a situation presents major problems for opposition parties. As the happiness index constitutes the major indicator for how well the government performed in the past, the parties and politicians in opposition find it hard, and often impossible, to advance a convincing alternative policy. After all, the government is seen to have performed well according to the one and only indicator, aggregate happiness.

⁶ In line with the literature, we do not distinguish here between ‘happiness’, ‘life satisfaction’ and ‘subjective well-being’. This, of course, needs to be done in empirical research.

⁷ Broader aspects of happiness policy have been discussed in previous articles, see Frey and Stutzer (2000, 2009, 2010, 2012) and Frey (2011b, 2012). For further critical analyses of a ‘Happiness Maximization Policy’, see, e.g. De Prycker (2010) and nef (2012). The present paper deepens the particular aspect of the possibilities and limits of manipulating the official happiness indicator.

⁸ This holds most strongly in democracies, to which the analysis in this paper is restricted. For a more general analysis including authoritarian and dictatorial countries see Frey (2012). It suffices to note that such regimes also depend to a considerable extent on the quasi-voluntary support of their populations, though the latter is achieved by ruthless propaganda and hidden or open threats. See the theoretical and empirical literature in Public Choice, e.g. Mueller (2003).

⁹ This was, for instance, claimed to be the case by the French revolutionaries, resulting in the horrible *terreur* of Robespierre and other politicians.

Two situations may be differentiated.¹⁰ First, the politicians in power are confident of being re-elected because the happiness index is high and the competing parties do not pose any serious threat to topple the government. In that case the government politicians do not have to make any additional effort to gain re-election.

The second situation is the more normal one. The party or parties in government fear that they will not attract enough votes to stay in power. As a consequence, they have a strong *incentive* to raise the aggregate happiness index in order to satisfy the citizens. They can use three different types of interventions to reach this goal. These range from desirable reactions within democratic rules (Section ‘Desirable reactions’), over dubious manipulations of the happiness index (Section ‘Dubious reactions’), to illegitimate manipulations (Section ‘Illegitimate reactions’).

Desirable reactions

The government can make an effort to raise its re-election chances by improving those economic conditions that happiness research has identified to be crucial for subjective well-being. Most importantly, it can reduce the rate of unemployment by undertaking suitable policy measures. Persons losing their job without finding a new one experience a strong drop in their life satisfaction. For males, this drop tends to be permanent (women often recover more quickly because they have a better opportunity to perform satisfying work within their families). Moreover, a high unemployment rate has negative effects on the happiness of those who are still employed; the reason being that it creates an atmosphere of insecurity and fear of becoming unemployed. Providing for a good education system is equally important. It reduces inequality¹¹ and gives the citizens the possibility to choose a job that they like and where they can have a flow experience (Csikszentmihalyi, 1990). As stated in Booth (2012, p. 15), ‘happiness is not something we simply want to experience; it’s something we want to achieve’ (see also the Capability Approach, Sen, 1999). Another relevant possibility for politicians is to reduce the rate of inflation. A rise in disposable income improves life satisfaction, but there are marked decreasing returns to such a policy.¹² At the more micro-level, government can stop subsidising commuters as it has been found that the more time people spend travelling from their home to their workplace, the more unhappy they are, keeping all other influences constant (Stutzer and Frey, 2008). Another legitimate way for the government

to improve its re-election chances is to point out ‘exceptional circumstances’ beyond its control. For example, foreign nations may suffer an economic downturn reducing the country’s exports and therefore their economic prosperity. The same may be argued for natural disasters hitting a country. However, such exceptional circumstances are often used as an excuse to cover the government’s insufficient capability to adequately respond to external shocks and challenges.

Dubious reactions

Governments may resort to many different policies, which do not correspond to how politicians are *supposed* to act in a democracy, but which are nevertheless widely practised and to some extent tolerated. It is no secret, for example, that many governments manipulate the statistics they present to their electorate.¹³ In particular, they often make an effort to conceal undesirable economic facts in the statistics they publish. Such activity is known as ‘creative accounting’, leading to ‘shadow government statistics’. Excluding the long-term unemployed from the count for instance artificially reduces the rate of unemployment. Also, governments rarely if ever publish the implicit public debt that is due to formal promises of future expenditures, especially for pensions and health benefits. The following sections will illustrate why a national happiness index would be prone to similar manipulations.

Propaganda. Government politicians may try to influence the perception of the population of how economic conditions affect happiness. This effort may often be in vane, though; individuals are often well aware of how changes in unemployment, inflation and income affect their individual well-being. Yet, in countries where the media are censored and controlled, government has a powerful tool at its disposition. As shown for instance in Deaton (2011), the media has considerable influence on a population’s mood (e.g. fear and uncertainty). While often seen as a platform for individuals to advance their opinion, social networks might be exploited in a similar vein (see, e.g. Morozov, 2011). Where the government’s attempts to influence the responses in advance does not help, it can still resort to downplaying the results *ex post*, for instance by highlighting that the bad outcome is one of the remnants of the former government’s policies. It is indeed likely that political decisions might only in the medium to long run have an effect on people’s happiness.

¹⁰ See also the more extensive discussion e.g. in Frey (2011a).

¹¹ For studies on inequality and well-being, see e.g. Alesina *et al.* (2004), Senik (2005), Winkelmann and Winkelmann (2010) and Oishi *et al.* (2011).

¹² For a more detailed discussion of the relationship between income and happiness, see notably Easterlin (2002).

¹³ See, e.g. Forte (2001), Dafflon and Rossi (1999), Koen and Van den Noord (2005), Milesi-Ferretti (2004) and von Hagen and Wolff (2006).

Survey design. The index aggregating subjective well-being can be raised by judiciously influencing its construction, starting with the design of the survey. As highlighted by Deaton (2011), the order of the questions and other contextual aspects can have an effect on the responses. Asking respondents questions about the political situation before inquiring their well-being can result in a lower average happiness score than when the order of these two sections is inverted. The government might also choose to conduct the survey on Valentine's Day or in spring so as to raise the probability of getting more favourable outcomes. Another possibility of manipulation comes from the fact that it is ill-defined what the 'population' of a country to be included in the statistics is. A government seeking re-election can therefore exclude groups that tend to have lower happiness scores (e.g. immigrants, prisoners or the mentally ill) while including those at the other extreme (e.g. visitors). This would follow the rule obtaining in the United States that persons in prison are not allowed to vote.

Survey implementation. As concerns the actual implementation of the survey, the government can stay passive when persons who are expected to indicate a low happiness level do not respond (e.g. persons living in social housing and neighbourhoods with high unemployment rates). Yet, when those who can be expected to be very content with their current situation do not respond, the government can be more persistent and send them a polite request to respond to the survey. Once the survey has been conducted, 'outliers' – in that case persons who indicated a much lower happiness level than the rest of the population – can be excluded from the sample arguing that they have not been serious when answering the questions (see, e.g. Simmons *et al.*, 2011). Data on happiness are especially prone to such statistical manipulation since they are inherently subjective. There are still more ways to manipulate the aggregate result of the subjective statements of individual happiness.

New happiness indicator. If the manipulations sketched out earlier are not sufficient to produce a notable increase in the national happiness index, the government can propagate a new happiness index that is more favourable to its cause. It can always be argued that it is superior to the previous one, and therefore correctly reflects the population's happiness level. There already exist manifold measures that a government might use and substitute for each other when constructing a happiness indicator. Besides representative surveys, which are most often used and which can be altered in manifold ways, there are the U-Index, which measures the share of the time that

an individual feels unhappy, the Day Reconstruction Method, brain scanning or blood pressure (see, e.g. Oswald and Powdthavee, 2008; De Prycker, 2010), to name but some examples.

Dispensing a happiness pill. An extreme way to jack up a country's happiness level is to hand out a pill raising individuals' subjective well-being (see, more fully, Frey and Stutzer, 2013). Such an approach is not as outlandish as it seems at first. Already now, a substantial share of the population takes some legal (e.g. Ritalin, alcohol, cigarettes, coffee) or illegal (e.g. heroin) boosters serving to raise happiness. The difference is only that the politicians in government exploit these pills for their political goals. This reminds us of Huxley's (1932) *soma*.

Illegitimate reactions

Even in a democracy, government politicians who fear to lose power may resort to direct cheating in the hope that this will not be detected, at least not before the forthcoming election.

The government can simply drop responses of people dissatisfied with life, and invent responses showing high levels of happiness. This is favoured by the subjective nature of happiness surveys, making it difficult – if not impossible – to detect such manipulations. Computerized systems, such as the ones that are increasingly being used for elections, open new possibilities because an individual response can no longer be traced on paper. As a result, the national happiness index will be even more prone to manipulation.

This discussion suggests that the politicians in power have many possibilities at hand to manipulate the aggregate happiness index that voters refer to when casting their votes. The question is to what extent these possibilities will be used once happiness is declared an official policy goal. It may be argued that it is exaggerated to assume that politicians would indeed use the possibilities to manipulate the aggregate happiness index.

Only scant literature exists on the extent to which governments manipulate data in order to present a more favourable picture of the state of the economy and therefore their policy. Yet, there is considerable evidence that unemployment data, for example, are routinely manipulated (e.g. Gregg, 1994; Webster, 2002). In some countries the inflation is falsified downwards. For instance, it has been reported (The Economist, 2012) that the rate of inflation in Argentina is not 9.7% – as officially stated – but rather close to 24%. Researchers on the shadow economy¹⁴ are well aware that some countries (such as Italy) jack up their national income by including parts of the

¹⁴ Schneider and Enste (2000, 2002), Torgler and Schneider (2007); Torgler *et al.* (2008); Torgler *et al.* (2010), Schneider (2008a, b, 2011).

shadow economy, but it remains unknown to which extent that has taken place. In the wake of the present economic and financial crisis, it has become obvious that many countries (such as Greece or Italy) understated their yearly budget deficits by sizeable amounts and that part of the public debt is concealed by outsourcing the debt to bodies outside government as normally defined (see also Balassone *et al.*, 2007; Buti *et al.*, 2007; *Sachverständigenrat zur Begutachtung der gesamtwirtschaftlichen Entwicklung*, 2009). In its *Report on Greek Government Deficit and Debt Statistics*, the European Commission (2010), for example, identifies several instances of ‘deliberate misreporting of figures’.

Manipulating economic statistics in favour of one’s political goals is not an exception but rather seems to be the rule. This is no surprise to Public Choice scholars assuming – on the basis of extensive empirical evidence – that politicians in power are self-regarding and make a great effort to remain in power. However, it is argued here that the incentive to manipulate is considerably stronger once happiness is the major official goal of policy. The attention of the population is directed towards *one* indicator, namely the *national happiness index*. The incentive to manipulate is therefore even stronger than is the case when there are many different economic indicators, such as the ones mentioned above. Moreover, economic indicators are to some extent objective as they measure observable quantities and prices. In contrast, the national happiness index is based on subjective surveys, and can therefore be manipulated even more easily.

III. Happiness Policy

As is the case for all government action, a policy based on the insights of happiness research must be guided by a *constitution* inducing and forcing politicians to act in the interest of the population (Buchanan and Tullock, 1962; Buchanan, 1976; Brennan and Buchanan, 1985; Mueller, 1996, 2003, see also Schubert, 2012). Constitutions set the *rules of the game* in which politics takes place (North, 1981, 1990, 2005). If these rules are badly constructed, one cannot expect that politicians pursue the interests of the population; they will rather just follow their own interest. Well-set rules constrain the politicians’ possibilities to manipulate the national happiness index. They give citizens the means to pursue their own goals and thus their own concept of happiness if they so wish.¹⁵

The most fundamental rule that makes politicians pursue the happiness of their people is a *democratic and open society* with free media. This allows criticism of the

actions of government by opposing politicians, academics and intellectuals of all sorts, as well as by ordinary citizens. It furthers a discussion about divergent views. A happiness policy based on the idea that the politicians will pursue the insights gained by happiness research totally overlooks these crucial elements of a free society. It is based on the mistaken view of a ‘benevolent dictator’. Such a technocratic approach is particularly mistaken with regard to happiness. In fact, it can even be argued to be ‘inherently anti-democratic’ (Ormerod, 2012, p. 56) since it assumes that the technocrat knows better than the individual what makes him or herself happy. Moreover, if government is given the task of maximizing individual well-being – as measured by the national happiness index – the political opposition is muted as the government can always claim that it acts in the full interest of the population. Such a view not only contrasts with democratic theory; it is also naive by assuming that even scholarly research results are unanimous and unchanged over time. While a few results of happiness research seem to be quite robust, others depend on conditions differing between countries and regions, and changing over time. Moreover, a government given the task of maximizing the national happiness indicator may always select those results of happiness research that are in line with its own interests and ideology. Without the existence of competing parties, no policy truly raising the happiness of the population can be expected. Decentralization is a further crucial aspect to be determined at the constitutional level. In a decentralized political decision-making process, individuals feel better informed about the decisions that will directly affect them at the local level. As shown by happiness research, life satisfaction can therewith be raised (Frey and Stutzer, 2002a, see also Diaz-Serrano and Rodriguez-Pose, 2012).

There are still more constitutional rules tending to restrict the government’s efforts to manipulate the aggregate happiness index. For instance, the organization constructing the index can be made independent of government, similar to the Central Bank in countries such as Germany and Switzerland. At present, this is not the case. Rather, the bodies constructing the national happiness index are closely attached to the government, sometimes even directly to the office of the prime minister. It is not far fetched to assume that this is done so as to be able to control how happiness is measured. In other countries, the central statistical office has the task of constructing the national happiness index, but these offices are far from independent and often come under heavy pressure from the government to publish statistics in line with the latter’s interests. The debate about rating agencies and the proposals and threats made by some governments give an

¹⁵ This also provides individuals with the possibility of pursuing goals other than the maximization of their own happiness (e.g. leading a life according to religious principles).

idea about the pressure that governments are willing to exert when it comes to influencing indices central to their political survival.

IV. Conclusions

Happiness research has been a great success by yielding new and important insights. However, these results are now all too often used in a technocratic manner: Governments are asked to apply the insights in order to maximize or at least raise the subjective well-being of the population. More and more governments avidly respond to these calls, or it is even themselves who take the initiative of integrating happiness into their agenda. The paper argues that any government has strong incentives and a wide range of possibilities to manipulate the national happiness index. In contrast to the time when happiness was not yet an official major goal of policy, the happiness data stand to lose their informational content due to the manipulations. As a result, the outcome of elections can be biased and the subjective well-being of the population will not be adequately raised; it may even be reduced.

To ask government to maximize happiness misses an essential aspect of policy. Happiness policy must become part of the normal democratic process in which divergent views are considered and aggregated. In a free and open society, the results of happiness research should become part of the discourse between politicians and the population. Competition between parties is a prerequisite for the insights from happiness research to be put to the benefit of the citizens. Yet, the focus should lie on giving citizens the possibility to pursue their own happiness and providing for enabling constitutional conditions.

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