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HUMAN SATISFACTIONS AND PUBLIC POLICY

There is much casual evidence that people in the West are not becoming happier, despite economic growth. There is also some systematic evidence. Opinion polls reveal no increase in self-rated happiness in the United States since the War. And, more slippery evidence this, rich countries appear to be no happier than poorer ones – at any rate among the advanced countries. But if growth has not brought happiness, the important question is what policy conclusions follow.

That depends, of course, on why growth has not produced the answer. Why, one might ask, do people seek to be rich if riches do not bring happiness? The answer is that riches do bring happiness, provided you are richer than other people. Thus a basic finding of happiness surveys is that, though richer societies are not happier than poorer ones, within any society happiness and riches go together. I shall therefore assume as my first basic proposition that happiness depends, inter alia, on position in some status ranking. This explains for example why people are often quite willing to make sacrifices if they are sure everybody else is going to do the same.

However, other factors may also be at work. An obvious problem with high income is that you get used to it, take it for granted and cannot do without it. The same is true of status. So I shall take as my second basic fact that happiness also depends on income and status relative to what you expected it to be. This explains why people fight much harder against cuts in their income than they fight for increases. It also explains the havoc caused by inflation, which continually reorders people in the status ranking.

Our two psychological facts are well supported by the research on relative deprivation (Runciman, 1966) and must help to explain why happiness has not increased with growth. However, from now on I am simply concerned with the policy implications of these facts, which are only now beginning to become clear. The first fact is particularly relevant to the efficiency branch of government and is discussed in section I of this paper; and the second is


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particularly relevant to equity questions, and is discussed in section II. The conclusions are summarised at the end.

I THE PURSUIT OF STATUS

If status is defined by rank order, the pursuit of status is a zero-sum game – one man’s gain in rank is another man’s loss. It is not quite the same as Hirsch’s example of the situation where everyone stands on tiptoe to see better, and all end up seeing the same but straining to keep on tiptoe. For the status game can lead to changes of view (i.e. of rank order). There might sometimes be an equity case for wanting some of these changes. But, if not, a major task of public policy is to counteract the effects of the desire for status upon human behaviour. For, though individuals are willing to make sacrifices to improve their individual position, the net result of status-motivated action will be no increase in status satisfaction but an increase in sacrifice. So how can the government offset the individual drive for status? As usual, there are three methods – fiscal, institutional and moral.

Taxation

If it could identify the actions that improve status, the government could tax them. For example, if income confers status, it can and should be taxed on efficiency grounds. Thus it may be that the income tax is a lot less inefficient than is sometimes supposed.

The matter is not easy to investigate. The simplest approach is to assume that status depends on income relative to the mean. If in addition we begin with the extreme assumption that net income \( y \) is not valued for its own sake at all, then

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u' = u\left(\frac{y_t}{y}, h_t\right)\]

where \( h_t \) is work effort. In order to concentrate on efficiency issues, let us assume that all men have the same wage rate. In this case the optimal tax rate is unity.

However, this assumes that people do not value income at all for its own sake. This does not seem reasonable. All over the world there is net migration towards richer areas. This does not prove that additional income actually makes people happier. For people may move due to misinformation – they may not realise it is the status which income confers rather than its intrinsic worth which leads them to want it. However, many migrants do not return. Here again one could argue that a person who has migrated would be involved in