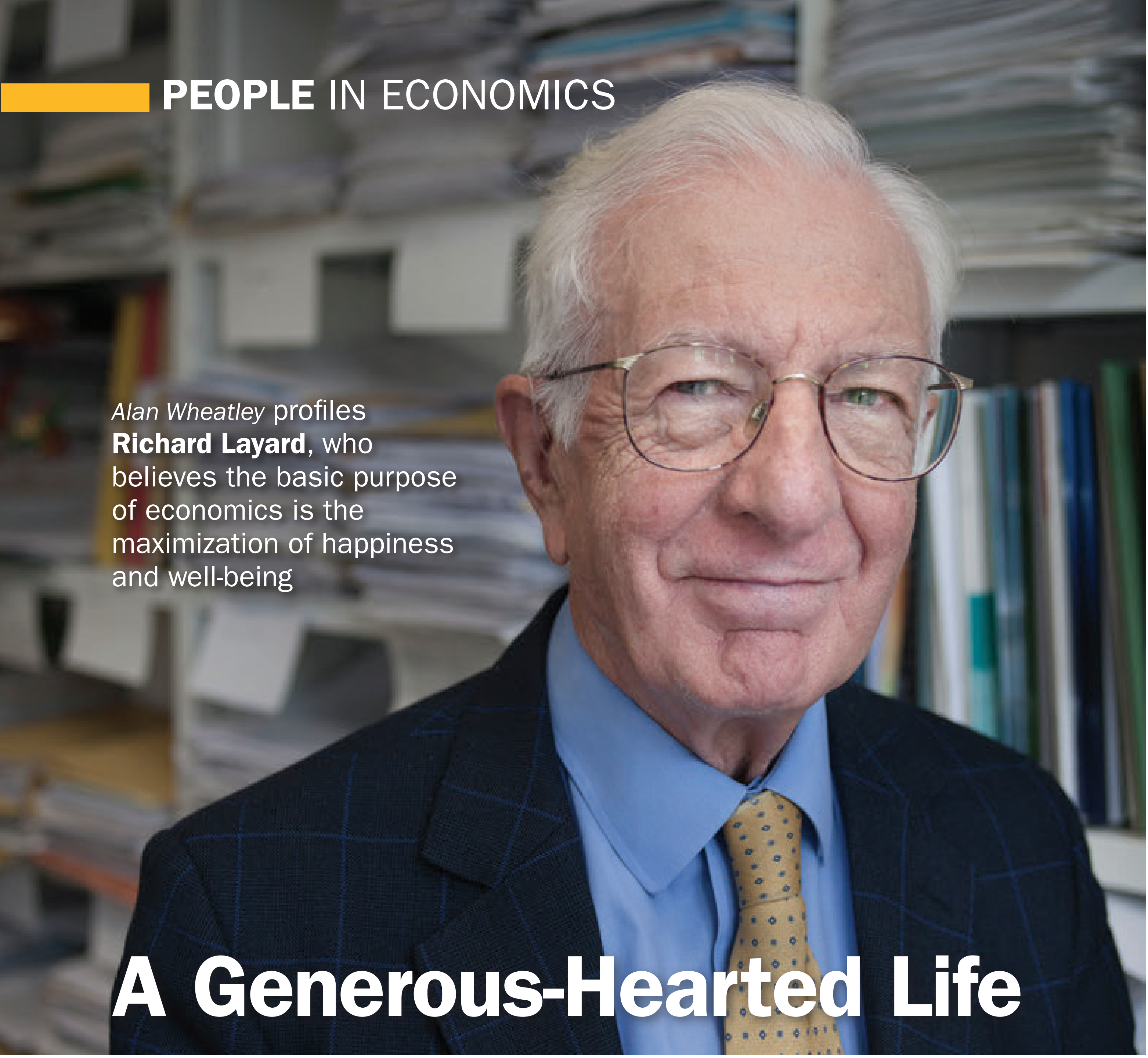

PEOPLE IN ECONOMICS

Alan Wheatley profiles **Richard Layard**, who believes the basic purpose of economics is the maximization of happiness and well-being

A Generous-Hearted Life

A day after sharing a stage with the Dalai Lama, London School of Economics (LSE) professor Richard Layard is still buzzing. As director of the Wellbeing Programme at the LSE's Centre for Economic Performance, Layard focuses on the study of happiness. So it's fitting that he is visibly, well, happy with the previous afternoon's event. The two had spoken at a meeting of Action for Happiness, a grassroots movement Layard cofounded in 2010 to promote practical action for a happier, more caring society. The Tibetan spiritual leader is the group's patron. "I asked the Dalai Lama at the end what is the one thing that we should cultivate more than anything else and he said, 'Warm heart, warm heart,'" Layard recalls with a smile.

Layard was a distinguished labor economist long before he turned his attention to happiness. He is best known for his research in the 1980s on unemployment and for his advocacy of policies to support unemployed people on the condition that they try to find work. This "welfare to work" approach became popular in parts of continental Europe and was a mainstay of British Prime Minister Tony Blair's economic program.

People first

"It's interesting to see how throughout his career he's moved from one area to another, but always centered on the well-being of people," says Martine Durand, chief statistician of the Organisation for Economic Co-operation and Development (OECD) in Paris. "At the heart of all his work is this desire to improve policies and people's lives: putting people at the center."

A cynic might say that the Dalai Lama's wish for a warm heart cannot disguise the cold fact of below-par global growth and persistent poverty in many countries. Isn't happiness economics, which is still viewed skeptically by many in the profession, a self-indulgent distraction from more urgent tasks? On the contrary, Layard argues: to study what makes people happy is to revive the idea of Jeremy Bentham, Adam Smith, and other founders of economics that public policy should aim to secure the greatest happiness for the population. "It has been, since the 18th century Enlightenment, the central idea in Western civilization that the measure of a good society is how happy the people are. So it's not a novel idea," Layard, 81, says in an interview with *F&D* in his office at the LSE.

Unfortunately, as Layard sees it, along the way economics partly lost sight of this original purpose. The maximization of utility, or happiness, became conflated with the maximization of consumption and then with income and GDP. Layard's contribution, along with that of other economists, including Andrew Oswald of Warwick University, is to have helped reassert the importance of factors other than income in determining happiness.

"To understand how the economy actually affects our well-being, we have to use psychology as well as economics," was how Layard put it in one of a trio of lectures he gave on the topic at the LSE in 2003. GDP, he added, was a "hopeless measure of welfare." Those lectures were the germ of a best-selling book published in 2005, *Happiness: Lessons from a New Science,* in which he argued that seven major factors affect how happy we are, defined as enjoying life and feeling wonderful: our family relationships, financial situation, work, community and friends, health, personal freedom, and personal values.

If most of these criteria sound suspiciously subjective, Layard says they are not. They are measurable. He became convinced he could write the book after a neuroscientist, Richard Davidson, showed that measurements of brain activity correspond consistently over time with how people say they feel. "That made me confident that we should take very seriously what people tell us when they self-report about their feelings," Layard says.

A winding path

Layard came to economics in a roundabout way. His parents were Jungian psychologists and, after school at Eton, where he was head boy, Layard studied history at Cambridge. His ambition was to be a social reformer. He seriously considered training as a psychiatrist but went instead into school-teaching with the goal of becoming an educator. A job as senior researcher for the Robbins Committee, whose 1963 report ushered in a vast expansion of higher education in Britain, led to an invitation to help set up a research center on education policy at the LSE. To do that, Layard says, he earned an MSc in economics—at the LSE of course. So he did not become an economist until he was in his thirties.

But he says it would not be quite right to describe him as an accidental economist. For one thing, he had considered studying the subject at university. "I was attracted to economics for the reasons that I've developed later in my life, by the belief that it was the only social science that was interested in the rational selection of priorities on the basis of their impact on human happiness," he recalls.

Happiness economists' contention that poor people benefit far more than the rich from an added dollar of income implies that public policy should aim to reduce inequality—one of the goals of Layard's lifework. Layard favors quite high marginal tax rates and sides with Paul Krugman in opposing

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the view that austerity policies are necessary to restore economies like Britain's to health after the recent global financial crisis. But Layard is at pains to underline that he is not opposed to growth. Growth reflects human creativity and a continuous quest to find ways of doing thing better. "This is certainly not a recipe for a society of lotus eaters," he says. But, he adds, evidence from the United States and western Germany stretching back to the 1950s shows that increased wealth does not make for greater contentment. There is public disillusionment, he reckons, that long-term growth has not led to happier, less stressful lives. "It's not a guarantee of happiness, and we have to be very careful not to sacrifice too much in the name of economic growth," Layard warns. He offers a specific example: banks won the argument that deregulation was good for jobs and long-term growth, but their reckless lending contributed to the 2008–09 financial crisis. Unemployment and uncertainty, a recipe for unhappiness, were the result. "We should never sacrifice economic stability," Layard says. "Security is a hugely important human need."

Disenchantment with growth as a measure of welfare was once largely confined to the Himalayan kingdom of Bhutan and its pursuit of gross national happiness. No longer. In the wake of Layard's book on happiness, the Stiglitz-Sen-Fitoussi commission, set up by French President Nicolas Sarkozy after the 2008–09 crisis, came out in favor of broader measures of well-being. The United Nations now sponsors an annual *World Happiness Report*, and the OECD attempts through its Better Lives initiative to measure life satisfaction. Even the former chairman of the U.S. Federal Reserve, Ben Bernanke, got in on the act. "The ultimate purpose of economics, of course, is to understand and promote the enhancement of well-being," he said in 2012.

Layard was elevated to the House of Lords, the upper house of the British parliament, by Blair after advising him on the labor market. But the Labour Party peer is quick to give particular credit to Conservative Prime Minister David Cameron for directing Britain's statistics office to measure happiness alongside GDP. "It's time we admitted there's more to life than money, and it's time we focused not just on GDP but on GWB—general well-being," Cameron said as far back as May 2006. A number of other countries have since followed suit.

Fringe discipline

Despite the momentum behind the topic, Gus O'Donnell, an economist who used to head Britain's civil service, says economists who study happiness still struggle to get their work published in academic journals. He draws a parallel with behavioral economics, which was also a fringe discipline 30 to 40 years ago. Today it is in the mainstream, and one of its leading exponents, psychologist Daniel Kahneman, was a Nobel economics prize winner in 2002. "The well-being and happiness literature is still slightly behind. I expect in 10 to 20 years' time it'll be a fundamental part of the curriculum," says O'Donnell, who now chairs Frontier Economics, a London consultancy.

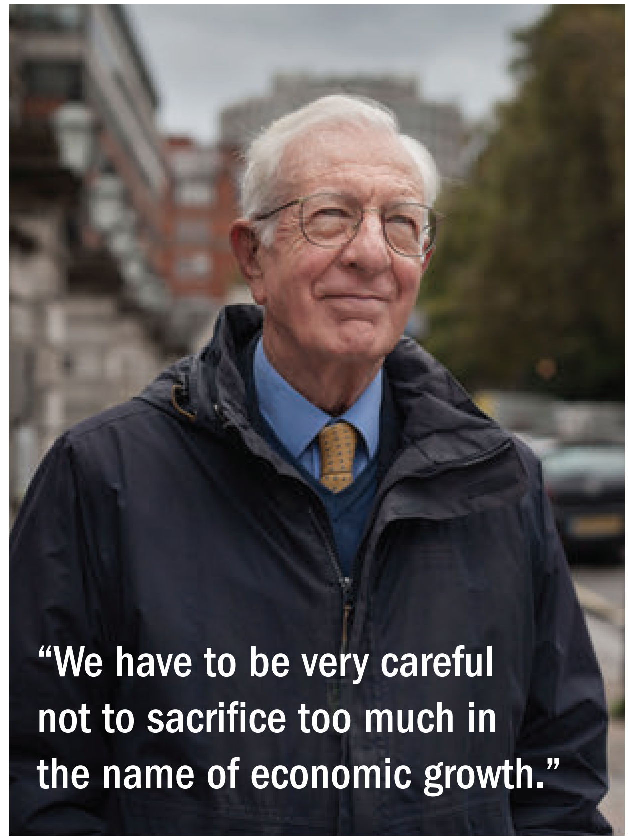
O'Donnell has himself written extensively on happiness economics. He and Layard were coauthors of a 2014 report on well-being and policy commissioned by the Legatum Institute. (Angus Deaton, winner of this year's Nobel Prize in economics, was another.) O'Donnell sees a link between dissatisfaction with GDP as a gauge of how well we are doing and increasing frustration with established political parties, especially in Europe. "The political discourse misses out a lot of things that matter hugely in people's lives, and hence they feel disengaged," he says.

The wellspring of happiness economics is the "Easterlin paradox." A seminal article in 1974 by Richard Easterlin of the University of Southern California posited that rich people are on average happier than poor people but, paradoxically, a society on average does not become happier as a country grows wealthier. One reason for this, Layard and other happiness economists say, is that individuals compare their incomes with those of people around them. "They are happier when they are higher on the social (or income) ladder. Yet when everybody rises together, relative status remains unchanged," wrote Jeffrey Sachs, director of the Earth Institute at New York's Columbia University, in the 2012 World Happiness Report.

Sachs also notes that the concept of diminishing marginal utility means that gains in income must be larger as income rises to produce the same benefit. This explains why the well-being literature points to a clear relationship between income and happiness for low to medium earners, which flattens out thereafter, like a log curve.

More compassion, less competition

Looking at life as a zero-sum game is anathema to Layard. He is all for the spice of a challenge, especially between organizations or in sports. He wants the LSE to outshine rival universities, and he still plays tennis twice a week. But he recoils at the memory of a motto of Britain's education ministry, "Staying Ahead," and says that individualism is the foe of happiness. "It's really important that people don't think that their job in life is to prove that they are better than others," Layard says. More compassion and less competition is the answer: "We have to get into a much more generous-hearted approach to life."



Not everyone analyzes happiness the same way. In an influential 2008 paper, University of Pennsylvania economists Betsey Stevenson and Justin Wolfers reassessed the Easterlin paradox using new time-series data. They did not rule out a role for relative income comparisons, but concluded: "Taken as a whole, the time-series evidence is difficult to reconcile with earlier claims that economic growth yields no boost to happiness."

Layard acknowledges the careful work of Stevenson and Wolfers but says they fail to take account of variables that change along with income. Factors such as health, personal freedom, and the strength of people's social support drive much of the association of GDP per capita with well-being, Layard argues. Indeed, within countries incomes explain no more than 2 percent of the variance in happiness, even in the poorest countries, he says.

British economist Diane Coyle rebuts happiness aficionados' argument that life satisfaction and GDP growth are not positively correlated. "There are some things some people so fervently want to believe that no amount of evidence or logic will persuade them otherwise, no matter how brilliant they are," she has written. Suffice it to say that the controversy shows the need for more research into measurement techniques and the reasons for personal and national variations in happiness.

Layard regards the work he did on unemployment—with Stephen Nickell and Richard Jackman—modeling the so-called nonaccelerating inflation rate of unemployment (NAIRU) as his foremost original contribution to economics (Layard, Nickell, and Jackman, 1991). Their explanation of unemployment departs from assumptions of a perfectly competitive labor market and proposes a model based on wage determination by means of bargaining or efficiency wages. Layard says the model has stood up well to the test of time. It explains, for instance, why Germany, which has embraced labor market reform, enjoys much lower joblessness than some of its neighbors. "Countries like France that have simply refused to take this issue seriously have had absolutely no change in their underlying unemployment rate," Layard says.

Layard, who spent time advising institutions in Russia in the 1990s after the breakup of the Soviet Union, strongly advocates a carrot-and-stick approach to tackling unemployment: active labor market policies to help people find a job, coupled with welfare payments at a level that encourages people to get back to work. This tough-love conditionality appealed to Labour moderates like Blair, but it alienated the party's core trade union supporters. Layard has also come under fire from right-wing commentators. A *Daily Telegraph* reviewer of *Happiness* denounced Layard's proposals to redistribute income through the tax system and to reduce performance-related pay as the "foppish utilitarian suggestions" of an "Old Etonian socialist." Another critic attacked his "reactionary romanticism."

"Richard's taken on people across the political spectrum in the interest of enhancing everyone's welfare," says O'Donnell. "He's incredibly persistent."

Mental health

In the same vein, Layard has become a champion of better treatment of mental illness despite the stigma still attached to the issue in some quarters. "What is shocking is that people still think that to treat people who are mentally ill requires an economic justification, and to treat people who are physically ill doesn't," Layard says. His motivation is simple: mental illness does more to explain unhappiness in rich countries than either poverty or unemployment does. In Britain, it accounts for more than half of all illnesses in people younger than 45. Yet less than a third receive treatment. The cost—in terms of both personal misery and the public purse—is immense. Layard is proud that he was instrumental in persuading the U.K. government to train thousands of therapists to provide psychological treatment for people suffering from depression and chronic anxiety disorders. "This has been a really fruitful combination of economics and clinical psychology," he says.

The Improving Access to Psychological Therapies program, launched in 2008 and described as world-beating by the journal *Nature*, came about after Layard serendipitously met the eminent clinical psychologist David Clark at a tea party. Layard has described Clark as a visionary. The two went on to author the book *Thrive: The Power of Evidence-Based Psychological Therapies* in 2014. Layard also pays tribute to the "incredibly helpful" support of his wife, Molly Meacher, who was chair of mental health services in East London. While Layard is pleased with the government's response, a lot more needs to be done, and money is tight. Before the *F&D* interview, he had been on the phone fighting with government officials for a bigger budget to treat mental illness. Psychological therapies are Layard's obsession, according to O'Donnell. "It's probably a good word to use with Richard because he does have obsessions," he chuckles.

Climate change

Layard's other current preoccupation is climate change. He is one of the drivers of the Global Apollo Program, a project to make renewable energy cheaper than fossil fuels within 10 years through publicly funded, internationally coordinated research and innovation.

Layard says he was alerted to the dangers of climate change by the 1989 book *Turning Up the Heat: Our Perilous Future in the Global Greenhouse*, by the British science writer Fred Pearce. Later, as a member of a House of Lords committee, he pressed for a publicly funded research program to combat the problem—anchored, of course in economic principles. "It seemed to me then, as now, that the surest way to solve the problem is to make sure clean energy is cheap enough that it will outcompete fossil fuels," he says.

The danger that climate change poses to the planet can be seen as one more threat—an extreme threat—to the pursuit of human welfare and happiness that has been the thread running through Layard's career.

Geoff Mulgan, a cofounder with Layard of Action for Happiness, says that the right policies for well-being still have a long way to go. "But Richard has shown late in his career a remarkable hunger to return to the heart of economics, which was always meant to be about well-being but often ended up confusing the ends and the means," says Mulgan, who was director of Blair's strategy unit and is chief executive of the National Endowment for Science Technology and the Arts, a British nonprofit that fosters innovation.

Layard is confident that the well-being movement is here to stay: more and more people want to understand what is standing in the way of a satisfying, fulfilled life.

Which raises the obligatory question of whether Layard is himself happy. "In general, yes, absolutely. I really enjoy life. But, of course, we all go up and down. It comes back to the point about challenge, doesn't it? If you try to make certain things happen, you can't expect to be happy all the time, can you? Because they don't always happen." ■

Alan Wheatley is an economics writer and editor, formerly with Reuters, and editor and coauthor of The Power of Currencies and Currencies of Power.

Reference:

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