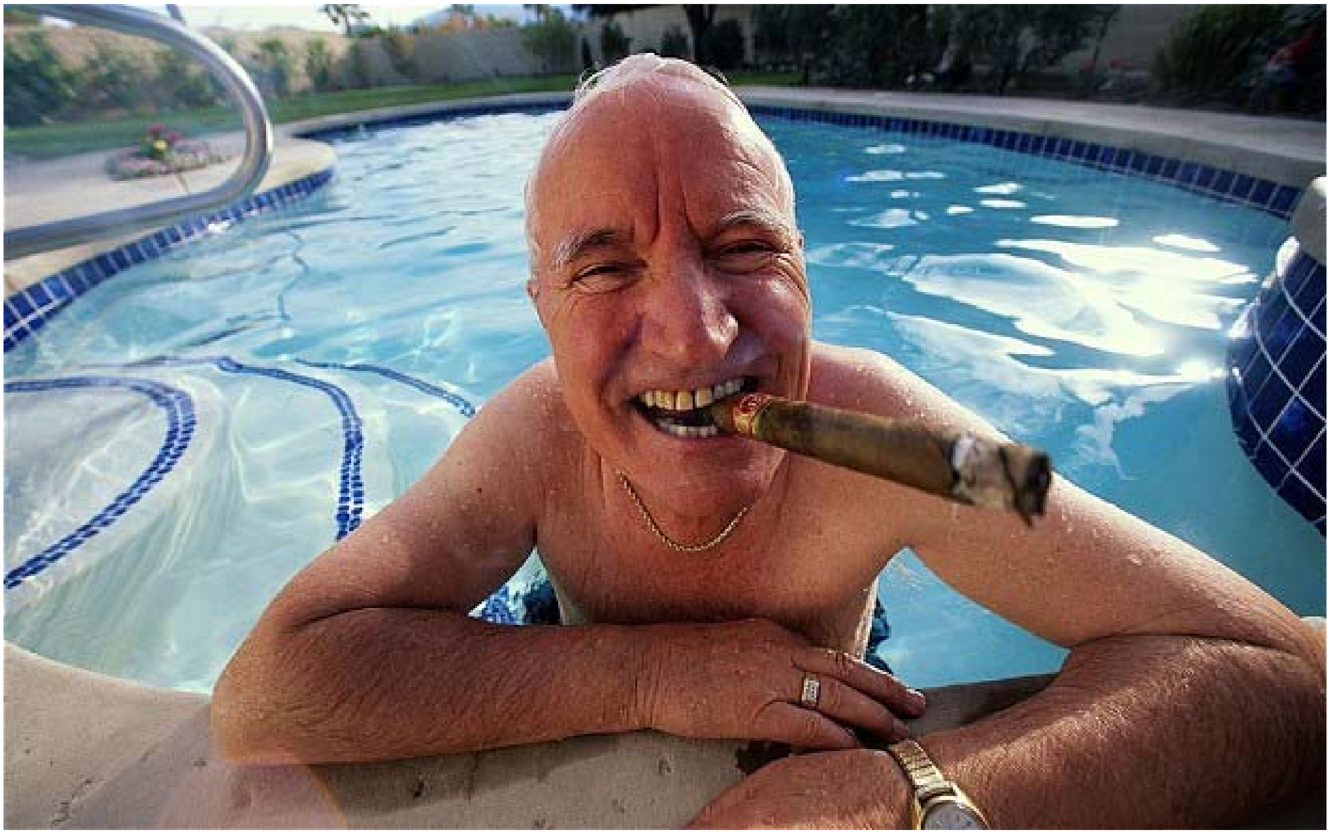
The fact is, the richer you are, the happier you are

We all know that money doesn’t buy happiness, don’t we?



Economic growth – and the higher gross domestic product (GDP) per person and improved wages that usually accompany it – does actually improve happiness and well-being Photo: Getty Images

By Allister Heath

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For years, many economists agreed, arguing that economic growth doesn’t generate more well-being for ordinary folk, a conclusion which came to be known as Richard Easterlin’s paradox, after the academic who first described it in the 1970s. Yet it turns out that once again the economics establishment got it spectacularly wrong.

Economic growth – and the higher gross domestic product (GDP) per person and improved wages that usually accompany it – does actually improve happiness and well-being, according to several recent papers by top economists, drawing on far more data than their predecessors ever had access to and using novel statistical techniques.

The truth, it turns out, is that the aspiring classes were right all along. The richer we are, the happier we are. It’s (almost) that simple, and the evidence is now overwhelming.

One especially brilliant piece of research – by Daniel Sacks, Betsey Stevenson and Justin Wolfers, all US academics – demonstrates that happiness improves as incomes rise. The paper shows that richer citizens report higher well-being than their poorer compatriots, at any given point as well as over time; that people in richer countries are happier than those in poorer countries; and that GDP growth boosts well-being. Most remarkably of all, there is no maximum wealth threshold at which point higher incomes cease to boost well-being: quite simply, the richer, the better, with no upper limit.

These findings are confirmed by an excellent paper from Ruut Veenhoven and Floris Vergunst. Using statistics compiled as part of the World Database of Happiness (yes, there is such a thing), they discover a positive relationship between GDP growth and improving happiness. GDP and happiness have gone up in most countries, and average happiness has risen more in nations where the economy has grown the most.

These results are devastating to the anti-growth crowd, including many environmentalists, and to those who say that it is pointless, too stressful and unsustainable for countries to focus on boosting their GDP, and who are thus secretly enjoying Britain’s current bout of stagnation. They should also shame David Cameron, who famously wanted to replace a focus on hard-headed GDP with a softer emphasis on a new measure of national well-being.

Separate research, by Jan Delhey and Christian Kroll, shows that traditional measures of economic output, while crude, are actually “surprisingly successful at predicting a population’s subjective well-being”. So there you have it: growth is good for us, not just in terms of creating jobs and allowing us to buy iPads, but also in promoting the conditions in which individuals and families can pursue their version of happiness.

This is also terrible news for one influential strand of thinking on the Left, which has long argued that what makes people happy is not what they earn in absolute terms – and whether pay cheques are going up – but merely what they earn compared with others. These Leftist economists claim that people are only happy if they feel richer than their neighbours. Such proponents of “happiness economics” therefore argue that working harder to earn more is tantamount to running to keep still, because everybody else is engaging in the same supposedly pointless race.

Frighteningly, they deduce from this false premise that the answer is to treat emotions such as envy and jealousy as suitable grounds for confiscating incomes, and to tax higher earners much more heavily, with French-style 75pc tax rates, to penalise those silly enough to want to get on in life.

While most readers of this newspaper will find this to be a ridiculous point of view, it is one that remains hugely influential in universities and in parts of the Labour and Liberal Democrat parties. The good news is that this bonkers ideology has now been entirely demolished by the new research.

The best way to promote happiness is to maximise economic growth – and, crucially, to make sure that as many people as possible in society take part and are able to enjoy higher incomes and thus improved well-being. These findings are yet another reason why the Coalition needs to develop a single-minded obsession with expanding the economy and creating more jobs. There should be a new rule: each and every new regulation and tax should be judged against how it will affect the UK's GDP. Any policy that damages the economy, even slightly, or imposes even the smallest extra cost on job-creators, should be ditched.

Real wages have been falling for several years now. The average pay rise over the past year was 1.4pc in the private sector, less than inflation of 3.1pc as measured by the retail price index, translating into a real terms pay cut of 1.7pc. Without much faster growth, and hence bigger pay rises, people will keep on getting poorer and therefore unhappier. At some point, the pressure from this will become unbearable.

Without substantial amounts of growth, it will also become impossible to keep spending more on healthcare without massively hiking taxes, which would be disastrously counter-productive, or slashing spending in other areas, such as on schools. Hospitals will have to be shut, nurses fired and new medicines will become unaffordable. It will be a catastrophe, regardless of who is in power. Without growth, our culture will gradually mutate back into one of managing decline, rather than one which embraces aspiration, entrepreneurialism, progress, technology and growth.

Yet we still have to listen to all of the tired old excuses for why pro-growth policies, especially those of a supply-side variety, should be blocked. We are told that measures to boost job creation and investment will help the rich, so therefore should be blocked; that we need to endlessly punish bankers, even if it reduces credit availability even more; that we must not unleash shale gas, in case it increases our carbon emissions, even though doing nothing will boost the cost of energy and even though other countries couldn't care less; that there isn't enough empty space left in Britain to build the good quality homes our young people so desperately need; that even skilled workers should not be let in to work here if they come from the wrong countries; that airports can't be expanded; and so on.

These are all obsolete arguments from an age of prosperity, even though we are now stuck in an age of austerity. Britain is still behaving as if we were in the mid 2000s, when strong growth allowed our bien-pensant political establishment, especially those of its members drawn from a privileged background, to snobbishly obsess about work-life balances and hugging huskies. The world may look very different today, at least to those struggling to make a living, but it is scandalous how little appetite there still is in Whitehall for tearing down barriers to economic expansion and job-creation. We desperately need pro-growth reforms, and we need them now.

Allister Heath is editor of City AM