Happiness and Policy

Comments on Wolfers and Deaton
NYU/Growth Commission Conference.
8 Oct 2010
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Outline

• Income and Subjective Well Being (SWB)
• Relative Preferences and Policy
• SWB and Policy
Income and SWB

• There are of course issues with self reported scores of happiness, satisfaction, etc.
  – Cultural Differences
  – Focus Illusion eg the rich in Scandinavia
  – Adaptation eg the happy poor
• But I will initially take SWB scores at face value.
Income and SWB

• The Wolfers/Deaton results:
• Within a country, positive association between income and SWB
• For a country over time, positive association between average income in the country and average SWB in the country. (contra Easterlin)
• Across countries, positive association between average income and average SWB. (contra Easterlin)
Income and SWB

• One can always quibble, but for now I accept these results.
• What are the policy implications?
Income and SWB

• Non-income and SWB
  – Unemployment, health, gender, marriage/divorce, friendship, etc.

• Income matters, but so does policy towards “other things”
  – e.g. Monetary equivalent of divorce, $100,000; Monetary Equivalent of job loss, $60,000 (Oswald)
Relativity and Policy

• Easterlin results were interpreted as saying that only relative income matters
• New results do not mean that relative income does not matter
• In fact there is a large experimental and neuroeconomics literature which argues relative position matters in well being, and in predicting behavior (http://www.sire.ac.uk/funded-events/relativity/index.html)
Relativity and Policy

• If relative income matters, how does this affect income tax progressivity?
• Frank, Oswald, Ireland, Kanbur-Tuomala: Progressivity is higher
• Kanbur-Tuomala
  http://www.kanbur.dyson.cornell.edu/papers/RelativityInequalityTaxation.pdf
SWB and Policy

• Problem of Adaptation: unhappy millionaire, happy poor
• “Capacity for happiness”
• Debates of the 1930s, reviewed in Kanbur
  http://www.arts.cornell.edu/poverty/kanbur/CompPrin.pdf
[W]hen I came to the study of economics, I had the strongest bias in favour of utilitarian analysis. The delicate balancing of gain and loss through intricate repercussions of policy...fascinated me;.... But, as time went on, things occurred which began to shake my belief...I am not clear how these doubts first suggested themselves; but I well remember how they were brought to a head by my reading somewhere...the story of how an Indian official had attempted to explain to a high caste Brahmin the sanctions of the Benthamite system. ‘But that,’ said the Brahmin, ‘cannot possibly be right. I am ten times as capable of happiness as that untouchable over there.’ I had no sympathy with the Brahmin. But I could not escape the conviction that...the difference between us was not one which could be resolved by the same methods of demonstration as were available in other fields of social judgment”. (Lionel Robbins 1938)
SWB and Policy

• Individual evaluations of own well being can be an input into, but they are surely not the only input into, social evaluation.

• Optimal taxation example: Does the government maximize welfare as perceived by individuals themselves (“welfarist”), or as perceived by a social evaluation function (“non-welfarist”)?
SWB and Policy

• Non-welfarist optimal tax formulae can be shown to have two components—that due to “externality”, and that due to “internality”.

  http://www.arts.cornell.edu/poverty/kanbur/KPTProspectTheory.pdf
SWB and Policy

• Angus Deaton says in his presentation, “Taxing externalities is OK, taxing internalities is not.” If I understand correctly what he means by these terms:
  • First, even if we did not tax internalities qua internalities, their presence would indeed affect the optimal tax structure.
  • Second, I doubt if upon reflection he would hold on to such a strong view.
  • I for one would be quite happy to tax the millionaire in favor of the pauper, however great the millionaire’s capacity for happiness relative to the pauper.
SWB and Policy

• Social evaluation can of course use individual subjective valuations as an input, but it is quite legitimate to have other elements of valuation.

• How we arrive at these social evaluations is of course an area of great debate: Kantian/Rawlsian contractarian approaches; Nozickian rights based approaches; garden-variety Utilitarian approaches, etc.
SWB and Policy

• Through all of these, income would surely emerge as a powerful (in my view, more powerful than self reported happiness) element in the social evaluation function.

• Sen’s capability approach, and more recent equality of opportunity approaches (Romer), would also take us beyond SWB to income, health, education.
SWB and Policy

• So I am strongly supportive of income and other actual outcomes as a basis of social evaluation.
• As Scott Fitzgerald might have said, “The Poor are different from you and me—they have less money.”
• The fact that they have less money (or less health or less education) should be an impetus to redistributive policy, irrespective of whether in a survey they say they are happy with their lot!
Thank You!