

ROSS PARISH ESSAY COMPETITION

Have two hundred years of liberal capitalism made us any happier?

The annual Ross Parish Essay Competition, open to young people aged eighteen to thirty, was named for Professor Ross Parish (1929–2001), one of the longest-serving members of the CIS Council of Academic Advisors and the CIS Research Director for several years.

For 2007, competition entrants were asked, ‘Have two hundred years of liberal capitalism made us any happier?’ The question was prompted by renewed intellectual interest in happiness, much of it arguing that capitalist society is bad for well-being. The argument has many threads: some of the common claims are that materialist attitudes foster discontent, that we neglect family and friends to become richer, that too much choice causes stress, and that income inequality causes illness.

Comparisons with two hundred years ago proved difficult; empirical happiness research goes back only to the 1940s. But entrants to the essay competition did write well about what social conditions contribute to happiness, and if and how we should measure it. The first prize went to Stephen Whittington from Wellington in New Zealand, and the second prize went to Kim Anderson, who studied in Adelaide before moving to Melbourne.



An Inquiry into the Nature and Causes of the Happiness of Nations

People's actions tell us what makes them happy, argues **Stephen Whittington**

On 4 July 1776, the Second Continental Congress adopted the words of Thomas Jefferson in the United States Declaration of Independence, which says that all men are 'endowed by their Creator with certain unalienable Rights, that among these are Life, Liberty and the pursuit of Happiness.'¹

The declaration was grounded in the principles of individual liberty—of the economic freedom that Adam Smith espoused in *An Inquiry into the Nature and Causes of The Wealth of Nations*, published in the same year as the declaration, and of the political freedom that John Locke advocated in the second of his *Two Treatises of Government*. Both wanted a constitutionally limited role for government. They saw the role of government as being to defend citizens from foreign invasion, to protect them from other citizens' aggression, and to provide a mechanism through which disputes could be impartially settled.

In recent years, the idea that individuals are best placed to pursue their own happiness without government interference has come under attack. A body of 'happiness research' has sprung up, and has been used to advocate for greater governmental redistribution of wealth and greater interference in markets. This essay will explore the nature of this research, examining its weaknesses and flaws, before evaluating what conclusions we can draw from the research and explaining why free markets enable us to pursue our own conception of 'the good life.'

The weaknesses of happiness research

Richard Easterlin has argued that increases in per capita wealth, beyond a low threshold, do not make people happier. He first documented the phenomenon in his paper 'Does Economic Growth Improve the Human Lot?', which observed no

increases in the subjective well-being of Americans between 1946 and 1974 even though per capita income doubled during that period.²

The Easterlin paradox has served as a useful touchstone for statisticians, with happiness research being used to 'prove' the desirability of the welfare state. Benjamin Radcliff, having explored happiness research, concluded that

Life satisfaction should increase as we move from less to more social democratic welfare states. More generally, life satisfaction should vary positively with the dominance in government of political parties committed to the social democratic program of limiting human dependence on the market.³

Happiness research has not just had an impact on academics. Popular books like Juliet B. Schor's *The Overspent American: Why We Want What We Don't Need*, and John De Graaf, David Wann, and Thomas Naylor's *Affluenza: The All-Consuming Epidemic* (not to be confused with Clive Hamilton and Richard Denniss's *Affluenza: When Too Much is Never Enough*) tell us that the way we are acting will not make us happier and that the solution is more

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Endnotes for this article can be found at www.policymagazine.com.

government. We need to be led, even coerced, to do what will result in our personal happiness. Clearly, happiness research is being used to undermine support for the free market and liberal capitalism. But is the scientific basis of happiness research sufficiently strong to base important public policy considerations on it?

At the heart of the problem of happiness research is a question: how do we know what people want? On one hand, happiness researchers say that we can know what people want by asking them how happy they are, and then comparing their answers to other groups living in different conditions.⁴ The difference in happiness will tell us which set of circumstances are preferred. On the other hand, economists explore what is known as *revealed preference*, which is when we discover what people want based on how they act. They reveal their wants and desires when they buy a certain good over another, or work an extra hour rather than spending an extra hour at home. Economists focus on revealed preference because talk is cheap. I may *say* that I would be happier if I worked less and spent more time with my family—but in reality I work a little bit more, and with the extra money I earn I have the ability to do a variety of activities with my family that cost money. As Andy Puzder, CEO of CKE Restaurants and Hardee's Food Systems, says, '[Surveys] show that while consumers say they want to eat healthier, what they actually want is a big juicy burger.'⁵ What people say they want and what they actually pursue are two very different things.

Happiness research also has another problem. The context of the question, 'How happy are you?' has a huge effect on the answers given. Researchers are correct to note that respondents' answers depend on their relative positions in society. What has not yet been fully taken into account is that when the context is supplied within the question, their answers change significantly.

When prompted to compare their relative levels of happiness, participants reveal that they think that they are happier than their parents.⁶ This cuts to the core of Easterlin's paradox. People compare themselves to the society they live in. When asked if they are happier than previous generations, there is no doubt that they are. We are wealthier than previous generations, our lives are made easier by the technological innovations that are the result of the pursuit of profit, and we are happier for it.

The conclusions of happiness research

There is a perception that the consensus conclusion of happiness surveys is that Western liberal democracies like Australia and New Zealand are too reliant on markets, and that we need government to redistribute more wealth. This is false. Even if we trust happiness research, there is a lot of evidence that happiness correlates to wealth and economic freedom.

One study compared the subjective well-being of citizens to the percentage of gross domestic product spent by government. The authors concluded that: 'Our results show that life satisfaction decreases with higher government spending. This negative impact of the government is stronger in countries with a left-wing median voter.'⁷ The interesting

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thing about this conclusion is that not only are people happier with smaller government, but left-wing people are unhappy with larger government (perhaps due to a sense of disappointment at the demonstrative failure of governments to provide positive outcomes for a diverse population).

This makes sense. Large governments tend to provide a uniform set of services for their people. What people want is anything but uniform. The government does not have sufficient knowledge to determine our individual desires, and nor does it have sufficient resources to deliver us all the achievement of our individual ends. As Friedrich von Hayek noted, the economic problem is 'how to secure the best use of resources known to any of the members of society, *for ends whose relative importance only these individuals know*' [emphasis added].⁸

Moreover, happiness researchers point to a difference in happiness between the rich and the poor, and then conclude that we could have equality of happiness if the wealth was sufficiently redistributed. Even if we accept that there is a difference in the happiness of the rich and the poor, such an inference cannot logically be drawn. Ruut Veenhoven compared data from forty countries from between 1980–90, and concluded that '[i]ncreases or reductions in social security expenditure are

not related to a rise or fall in the level of health and happiness.⁹ The only statistical correlation between happiness and welfare is that people *think* more welfare programs will make people happier. This poses a problem for liberal democracy, since people's thoughts on what makes others happy is removed from the reality. It is not a problem for liberal capitalism.

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The benefits of liberal capitalism

We have seen that the scientific basis for happiness research is questionable, and that even if we do accept it, this does not necessarily lead to the conclusion that we should support governmental intervention over liberal capitalism. There is much evidence that we should move more towards free markets if we want people to be able to effectively pursue their own happiness.

The free market is the most effective mechanism for achieving happiness because it allows two very important things: firstly, for individuals to freely choose their ends; and secondly, for individuals to put all available resources towards achieving those ends.

Liberal capitalism is too often associated with the pursuit of profit. It is true that many people will use their freedoms to better their material circumstances—and that should not be deplored. But liberal capitalism is more fundamentally about allowing individuals to pursue their own ends—whatever they may be—provided that they do not harm third parties. Liberal capitalism is such a powerful means of unleashing human happiness because it allows each individual to define their own concept of the good life. Contrast this with the alternative, where the ends that individuals should pursue are dictated to them by government. As Johan Norberg writes, 'we ... know that a system in which individuals had few opportunities to improve their lives, communism, is disastrous to wellbeing.'¹⁰

The second benefit of liberal capitalism is that it allows individuals to put all of their available resources in the service of achieving their ends. The happiness we feel as individuals is primarily the result of the activities we undertake to achieve our ends. We are more likely to feel happy when we achieve the ends we desire as the result of our personal effort than if government achieved our ends for us (if it could adequately do so).¹¹ This is because people are more likely to value things they have spent effort in obtaining. When governments impose high tax rates on individuals, they inhibit the ability of those individuals to pursue their own ends. As a result, those individuals are discouraged from producing value, and encouraged to pursue their ends through political means. Capitalism has allowed us to invest time and money in improving our lot. It has unleashed human potential, and caused dramatic increases in our standards of living.

As noted, when governments grow large, individuals pursue politics, not value. This is important, because political solutions to problems are divisive—they necessarily create 'winners' and 'losers.' This is because governments compel individuals to act in ways that they ordinarily would not if decisions were left to them. Contrast this with the market, where any voluntary transaction that takes place must be thought of as beneficial by all participants in it. This axiomatic truth is often ignored. Any governmental intervention that restricts the ability of individuals to enter into voluntary transactions also restricts their ability to freely choose and to pursue their own ends.

Conclusion

Happiness research needs to be questioned because it places what individuals *say* makes them happy over what they actually *do* to achieve happiness. Even if we accept that happiness research is a valuable scientific development, the conclusions that we draw from it should not necessarily be statist. Much of the research reveals that capitalism makes us happy, but larger government makes us sad. The logic behind this is that liberal capitalism allows individuals to define their own concept of the good life and to freely engage cooperatively with other people, to the benefit of all parties, as they pursue it.