THE BROOKINGS INSTITUTION

HAPPINESS IN AN AGE OF UNCERTAINTY

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P R O C E E D I N G S

MR. DIONNE: (In progress) -- the earnings health, the economic environment, the political system, neighbors, family, and what effect does happiness have on earnings health and the political system? A prodigious contributor to that literature is Carol Graham who has now assembled a masterful review of the subject. So Carol is both masterful and masterly. And I once had a long argument with an editor on the meaning of those two words.

Alan Krueger is Assistant Secretary for Economic Policy at the U.S. Department of Treasury. Happiness for Alan Krueger are jobs numbers that are finally going in the right direction. Congratulations. He was confirmed by the Senate, a miracle these days, on May 6, 2009. He advises Secretary Geithner on all aspects of economic policy including a very, very long list. He is currently on leave from Princeton University where he is Bendheim Professor of Economics and Public Affairs, and he has held a joint appointment in the Economics Department and at the Woodrow Wilson School.

Eduardo Lora is a native of Colombia. He is the Chief Economist and General Manager of the Research Department at the Inter-American Development Bank. He received his master's from the London School of Economics and was a visiting researcher at Oxford before joining the bank, and he served for 5 years as Executive Director of Fedesarrollo. How did I do? Fedesarollo, one of the most important research centers in Latin America, and he has written also a large number of books.

Karen Dynan we are proud to say is our Vice President and Co-Director of the Economic Studies Program at Brookings. She decided to take that job at the very bottom of the economy so she can claim credit for all the improvements since. I guess you could say the same. She came here from the Federal Reserve Board where she worked for 17 years, most recently as a Senior Adviser. She was on the White House

Council of Economic Advisers from 2003 to 2004. I'm sorry. I didn't do everybody's education here. She received her Ph.D. in economics from Harvard and her B.A. from Brown University where I'm told all the students are happy so that explains her mood today.

Carol, it is a joy to be your friend and it is a blessing to all of us that you wrote this book, and now you will tell us all how to be happy.

MS. GRAHAM: First of all, E.J., thank you very much for all the introductions. One thing I do have to say about this book. I know it's a disappointment. I get a lot of calls from reporters saying is this a self-help book? I'm afraid it isn't a book that tells you how to be happy. But it is a book that's summarizes about 10 years of research where I've been studying the determinants of happiness around the world in countries as diverse as the U.S. and China and Chile and Afghanistan. In fact, we just finished the first study of happiness in Afghanistan about 6 months ago.

One of the things that's really remarkable is how stable some of the major determinants of happiness are across countries and cultures of very, very different development levels. So I'll talk a little bit about that briefly. But I wanted to say a little bit about happiness economics which is kind of a new area in economics. It was very much fringes about 10 years. In fact, I wrote a book on happiness for Brookings about 10 years ago that did not get much attention at all. In fact, the then-Director of Economic Studies who was a great friend and colleague of mine said, Carol, this is great manuscript but you have to take happiness out of the title because nobody is going to take you seriously. Needless to say I refused and the book didn't do all that well either.

But anyway, so happiness economics in general is an approach that allows us to study on the one hand what makes people happy or unhappy, but also to at least in orders of magnitude terms look at relative effects of different things so we can measure the unhappiness effects of unemployment or divorce, the effects of commuting time and smoking, are Republicans or Democrats happier. Republicans are. I can tell you why later. Are happier people healthier? The answer is yes, but healthier people are also happier. The causality seems to run in both directions. Do happier people earn more money? The answer to that is also yes. Then what are the unhappiness effects of the current crisis in the U.S.? A whole range of questions we can try and answer with these surveys. And why and how can we do that?

Happiness economics departs from traditional or mainstream approaches in economics with one major thing. We actually listen to what people say. Standard economic approaches basically say you cannot listen to the data in surveys. It's not credible data because there's no tradeoff or no consequence for what people say. You have to look at their consumption choices because they make real tradeoffs. That approach has served economics very well in terms of answering a range of questions, but there are some kinds of questions that it doesn't answer well, and I focus on two sets of those. One is the welfare effects of macro or institutional arrangements individuals can't change. Think about a poor peasant in Bolivia who's made unhappy by inequality or by macroeconomic volatility. He or she just doesn't have the agency to reveal a preference show or immigrating or protesting that can demonstrate the welfare effects of that kind of arrangement, and there are a number of other scenarios like that where people don't have the agency to reveal their preferences in a way that shows whether an institutional arrangement has welfare effects or not. So there are lots of times when individuals are just powerless to reveal their preferences, but we can use well-being surveys to get at the welfare effects of this institutional arrangements.

Then another set of questions that revealed preferences don't answer very well are behaviors that are not explained by optimal rational choices, but by addiction norms or self-control problems. Think about the well-being effects of smoking. There is a great study by Jon Gruber and Sendhil Mullainathan that shows that cigarette taxes make smokers happier in Canada. That doesn't seem to make sense at least not from a traditional economics perspective, but if you think about smoking as a self-control problem then you could see why that might be the case. Obesity is area where I've done some work and we find on average the obese are much less happy than the nonobese and that's addition to the health effects. A standard economics approach would say consumption choices are a revealed preference. Is that's the case, then why if people are overconsuming are they less happy? Again we can get at that through happiness surveys in a way that we couldn't through standard revealed preference approaches.

Finally, if you think about behaviors that are driven by norms. Take somebody in a lower caste in India who doesn't choose his or her child to school because the norm is so strong that the kid is not going to get out of that caste. One could understand that choice or lack of choice in a way that a revealed preference approach wouldn't allow you. So I've been using these surveys to look at the well-being effects of a whole host of institutional arrangements on people across countries in different development levels.

But in addition to being a great survey instrument, happiness has started to enter the policy domain for good or for bad. I think there are some real questions there that I'll try and speak to. There are a lot of efforts to develop national well-being indicators as a complement to GDP data so that we could look at across countries and within countries over time how is well-being doing? How do the well-being effects of health, marriage, employment and all these other things across countries? Do they change over time? Could we complement GNP data with these measures? This isn't just at the margins. In the British government there is an office devoted to the development of national well-being indicators. There is some serious discussion if this in the U.S. Most recently I'm sure a lot of you have heard of the Sarkozy Commission which was chaired by two Nobel Prize winners and commissioned by the President of France which called for the development of broader well-being indicators worldwide. It raised the question should we be pursuing happiness rather than economic growth as a policy objective? Some of the main criticisms of this report came from the conservatives in this country basically saying this is all a plot by the French to make us have a sclerotic economy like French and not have growth as an objective. I'll leave that to you and come back it at the end. I don't think that was the purpose of the Sarkozy Commission, but there are some tradeoffs if one thinks about broader dimensions of well-being versus economic growth.

In short, happiness studies have gone from being at the fringes to being at the mainstream of lots of economics debates, and one of the most important is a major and renewed debate over a key relationship in economics which is that between happiness and welfare on the one hand and income on the other. So there is something called the Easterlin Paradox which was discovered or noticed by Richard Easterlin, the first economist to look seriously at happiness at least in this century about 25 years ago, and he found that if you looked across countries and over time that average happiness levels do not increase as average GDP rates went up. One stark example was Japan where incomes quintupled in three decades but average happiness levels actually fell. The U.S. over several decades of very rapid growth and happiness levels remained flat. So there's been a lot of debate about this paradox. If you look at this chart, it's probably too small to see, but clearly the wealthier countries, the developed countries further to the top where happiness levels are higher, happiness is on the vertical axis and per capita is on the horizontal axis, and the developing countries are slightly lower down, but only slightly, and if you look among the countries there isn't really a clear pattern between happiness and income. The U.S. is the wealthiest country in this particular chart but certainly not the happiest. The Netherlands is scoring much higher on this chart as is Canada and many others. And if you look at the Latin American countries, this is precrisis Argentina by far the wealthiest country, certainly not the happiest, and a lot of very small, poor and unequal countries like Guatemala, Honduras, Panama and Venezuela are all scoring very high on happiness. There is a large debate about this. Some of it depends on which happiness question is used. With an open-ended happiness question on which the original Easterlin study was done, happiness and per capita income correlate much less closely than with a new question, it's actually an old question, but a question that's now used in the Gallup World Poll which is called the best possible life question, it's closely related to happiness but it asks respondents what's the best possible life you can imagine, how does your life compare to that life, and that introduces a relative component. We find that answers to that question correlate more closely with both individual income and with average GDP per capita than do open-ended happiness questions. The most extreme example I have of that is the work we did in Afghanistan where Afghans are happier than the world average on an open-ended happiness question, they also were more likely to smile yesterday than were Cubans and Latin Americans, and yet they score much lower than the world average on the best possible life question which suggested that when you ask them about their lives in relative terms they're realistic, but in general terms they're quite happy.

This kind of cross-country average happiness level relationship is a subject of much debate now. I would actually argue that while it's an interesting debate, there's a lot in these cross-country averages that it's just determined by cultural differences in the way people answer surveys. We were talking before about healthy

French curmudgeonliness as they answered these surveys and there's a kind of a Caribbean cheerfulness that's captured in these average country comparisons, as are unobservable differences across countries that relate to income but may vary so that richer countries in general have more freedom, more democracy and better public goods, but there's variance across countries and how society values those things and that comes up in their happiness responses.

I think more robustly is what we can see when we compare happiness across individuals, across countries, within countries and then we can control for the country that they live in. Then we find incredibly stable patterns in what determines happiness across the world. Here is one of the most robust relationships for those of you who can actually see this. It's the relationship between happiness and age. It's a U-shaped curve. This is controlling for health, for your health status and also remaining in a stable partnership. What is we find is that those of you who thought your twenties and thirties were it, you're all wrong. Happiness levels actually fall until about the mid- to late-forties. I won't tell you how close to that exact point I am. But then after that people actually get happier as they age and one could argue they get monotonically happier until they die. What explains this relationship? One thing is there are an expectations aligning with reality effect. As people hit their mid- to late-forties they figure out what they're going to be when they grow up and they start to deal with it. The low put in the U may also be explained by it's often a time of dependent children and dependent parents, for example. All kind of things about the middle-age years make sense. And as people get older they may get more philosophical. There are a couple of other things going on here. There may be a selection bias because happier people live longer, so the less-happy people are dying off as people age. And finally, one could argue that our oldest respondent, this is from my Latin America sample, was 99 and one could argue there may be a senility effect, but we don't know. In any event, this relationship holds in Latin America, the U.S., Europe, Central Asia, it just held in Afghanistan and Africa. It's incredibly robust.

What else is consistent across individuals across countries? Income does matter to people's happiness. Everywhere we study it, wealthier people are on average happier than poorer ones, but that relationship gets mediated by lots of other things. As soon as people have enough money, then other things start to matter like how much money their neighbors have. So you take two people of the same income level and the one that lives in a wealthier neighborhood is actually less happy than the one who lives in a poorer neighborhood because of relative income effects so that the income happiness relationship exists but it's a fairly complicated one particularly as people get wealthier. Health is incredibly important to people's happiness. Everywhere we've studied happiness, health matters to happiness. As I mentioned, healthier people are happier and happier people are also typically healthier. Employment matters a great deal. Everywhere we've studied happiness, people who are unemployed are less happy than the average even in contexts where they have full income replacement so that there is something about being employed that's beyond the income that has to do with purpose in life and other things that really matter to people's happiness. Friendships matter a great to people's happiness. We found in Latin America a study that Eduardo Lora and I worked on together that after having enough food to eat, the most important thing to people's happiness in Latin America was having a friend or family member you could rely on in a time of need. One interpretation of this it's the social Latin Americans. I'm from Peru. I can say this without criticizing people in my region. But basically I think it's well beyond that. If you think about Latin America, it's a region where there aren't stable safety nets and social insurance systems so that having friends and family members you can rely on in a time of need is incredibly important to people's happiness.

These consistent patterns that we find in terms of the determinants of happiness across countries and over time allow us then to look at the effects of things that vary. Things that I mentioned before, commuting time, the quality of the environment, the inflation or the unemployment rate, the nature of governance, obesity rates, crime and corruption rates, cigarette smoking, exercise, all kinds of things. We can study how these things vary across populations. To some extent if I could stop right now without talking anymore, I would be very happy and I'd say this is a great approach and we can just measure all of these things and the world is our oyster, and to some extent that's true. But there is one major complication or a fly in the ointment so to speak, and that's adaptation. People seem to be able to adapt to high levels of adversity, poor health and all kinds of things and retain their natural cheerfulness or their natural happiness. As I mentioned, people in Afghanistan are as happy as Latin Americans and happier than the world average, even though if you think about objective conditions in Afghanistan, it's sort of unimaginable. Another thing from the study that Eduardo and I did together that he'll tell you a little bit more about, Guatemalans are more satisfied with their health care than are Chileans even though Chilean health standards are at about U.S. levels and Guatemalan standards are at about sub-Saharan Africa levels, and Kenyans are as satisfied with their health as are Americans.

I mentioned obese people are less happy than the average, but the unhappiness effects of obesity are mediated by how much obesity there is in your cohort so that if you're in a high-obesity cohort you're less bothered by being obese, you adapt to a different health norm and you're less unhappy. The same goes for unemployment so that people who are unemployed with more unemployed people are around them are less unhappy. Standard economics would say that this doesn't make any sense. The probability that they'll be reemployed is much lower. But there is less stigma. The more unemployed people around you, a higher unemployment norm and you're less unhappy.

Another one is crime and corruption. Most places we studied being a victim of crime or corruption, we find that it makes people unhappy. If you were a victim or crime or corruption in the past year there's an unhappiness effect. But that effect is mediated by how much crime and corruption there is so that if you're a crime or corruption victim in a context where there's a lot of crime and corruption, you're much less bothered by it. I'll give you two examples of this. The most extreme is from Afghanistan. We find there that crime and corruption victims are not made unhappy by being crime and corruption victims because there is so much crime and corruption. It's just whatever. But there's one exception and that is in Taliban-influenced districts where we were able to interview. These aren't the very extreme districts, but there is more Taliban influence than in other districts, and there are lower crime and corruption rates. If you're a corruption victim in those districts, there is an unhappiness effect because there's much more stigma attached to it.

Another example is from my own experience. About 10 years ago I woke up, waved good-bye to my kids and went out and got in my car to drive to work in Northwest D.C. The car wouldn't go anywhere. I was furious. I was in hurry. I probably had to give a speech at Brookings. I couldn't get there. I got out of my car and it was on four blocks. The tires had been stolen. This doesn't happen in Northwest D.C. This ruined my day. I was absolutely outraged. I couldn't get over it. It took me weeks to get over this experience. If it had happened in Lima where I grew up, Lima, Peru, I would have said, you idiot. Why did you leave the car out all night? You knew the tires would get stolen. Right? Same perfect, very different norms and therefore different happiness or unhappiness effects of the experience.

People really can adapt to adversity. They also adapt to prosperity. As I thought about this around the world and how it aggregated up across societies I thought it's probably really good from an individual psychological perspective that people are able to adapt to adversity and maintain their natural cheerfulness, but it may also result in collective tolerance for bad equilibrium. If you get used to these high crime and corruption norms or poor health norms and you're happy with them that could end up in sort of a bad collective-tolerance equilibrium. One of the things that suggests that this might be the case is that the one thing people really have a hard time adapting to is uncertainty so that people are better able to adapt to unpleasant certainty than they are to uncertainty, even uncertainty that's associated with progress. Let me give you a couple quick examples and then wrap up. In the health arena, people are better able to adapt to mobility problems and go back to their natural happiness levels than they are to conditions associated with uncertainty such as pain, anxiety or uncontrolled epilepsy. There are very, very stark differences in the well-being effects of these conditions. In the economics arena, people adapt very quickly gains and at the same time they don't seem to like the uncertainty and reward shifts and at times the inequalities that are associated with things like rapid economic growth which is obviously associated with progress. We've called the paradox of unhappy growth across countries. People controlling for their own incomes are less happy in faster-growing countries. Eduardo is going to talk a little bit more about this. And at the micro level I found something called the happy peasant and frustrated achiever problem which is when comparing people moving in and out of poverty, we actually find that a higher percentage of the people who have large income gains moving out of poverty are less happy than are people who just stayed the same, stayed with stable income levels, even much lower income levels and more subjective conditions.

Let me give you last example about adaptation. This is from some new work I've been doing with Soumya Chattopadhyay who's sitting right here working the slides based on a daily dataset from Gallup that follows Americans, it's 1,000 Americans a day, a nationally representative sample, from January 2008 until the present with all kind of information about their socioeconomics, their employment status, their health and all kinds of other things. We tracked here average happiness levels in the U.S. compared to the Down Jones Industrial Average as the crisis set on and then abated. Remember that these are on average. If we were to speak about the happiness of particular precarious cohorts you'd get a different curve. But what we found is that happiness levels fell dramatically along with the Dow sort of tracking the drops in the market, and you have to remember that average national happiness levels typically don't change very much at all. They just don't move very much so that these movements are large.

But then in about March or April 2009, at about the end of March 2009 when the bottom stopped falling out of the markets, the uncertainty abated and the Dow sort of sputters up, it doesn't go up that much, average happiness levels go up and in fact were higher at the end of 2009 than they were at the beginning of the crisis. The same respondents report that their economic situation today is worse than it was before. So this isn't a Pollyanna effect. This is people saying they have less but they're reporting that they're happier so that they've adapted to a new if less-pleasant certainty and returned and even surpassed their previous happiness levels.

So there's a lot of adaptation across all kinds of domains, across all kinds of people, and as I said, it may be a good thing, but I think it poses some challenges and it particularly poses some challenges when we think about these measures as policy instruments or in the policy domain, and just a couple of points about happiness and policy. I think this approach has a lot that can contribute to the policy debate, but I think we have to solve some unresolved questions before we go further. One is that the open-ended and undefined nature of happiness surveys is what makes them such a good research tool and allows for comparability across cultures and countries so that we don't define happiness for our respondents, it's the first question, open-ended in the survey, so we're not imposing a Chilean definition of happiness on Chinese people or an American definition of happiness on Afghans. Right? They define it for themselves. But the definition of happiness in my view does matter if we think about it as a policy objective so that there is happiness as contentment in the Benthamite sense, the kind of happy peasant definition of happiness. Then there's happiness in the Aristotelian sense, happiness is the opportunity to lead a fulfilling life where maybe our frustrated achievers are frustrated because they're trying to lead a fulfilling life or make a fulfilling life possible for their children, but the process of getting there is actually producing unhappiness in the short-term.

That leads me to a second unresolved problem which is that of intertemporal problems. What matters? Is it happiness today versus the happiness of our children tomorrow? And there are some objectives that are necessary to achieve in happiness in the long-term or better aggregate welfare levels in the long-term like reducing our fiscal deficits and I'm sure Alan could talk about that and the unhappiness that produces, reforming our health care system or even defeating the Taliban. These are all objectives that don't bring happiness mind at least not today, but they are objectives that we pursue at some vague level to increase the welfare and well-being and possible happiness of large numbers of people in the long-term. These are all questions I think that we still need to have a debate about as we think about whether or not happiness surveys and the results of happiness surveys are instruments that we can introduce into the policy debate, but having unanswered questions is what makes this both a really rewarding research area to be in. It's a nascent science, we don't have all the answers yet, but I think we have a lot more to learn and I'll stop there.

MR. DIONNE: Thank you very much. Having unanswered questions creates the need for more social science research which creates employment for social scientists which makes them happy.

I just want to make two notes. One is you've got to get Carol talking about this aspect which is has always fascinated me, that the happiness levels of couples drops when their children become teenagers. I've thought about this a lot. Two of my kids are teenagers and one is almost a teenager and I'm pretty happy which makes me think either my kids are very good or I am completely out of touch and ignorant, maybe all three. The other is Alan will prove to me that he was an economist because when Carol said we get happier until we die and then Alan whispered to me, "Then we have no more data," so I turn to Alan next.

MR. KRUEGER: Let me say I'm very happy to be on this panel especially on a day when E.J. Dionne wrote such a courageous piece in the "Washington Post" about tax day.

When Carol invited me to participate in this panel she said, "I know you are busy on your job so you don't have to read my book to participate," but I have taken the time to read the book and I wanted to start by praising Carol for performing careful research and tackling such a difficult subject.

I was particularly impressed by the careful comparison of the determinants of well-being measures across countries and by her analysis of unemployment. Some economists have questioned why policymakers are so focused on reducing the effects of recessions when according to their models, business cycle fluctuations have relatively small effects on society's welfare especially in comparison to supply-side policies that in their models spur long-run growth. But the severe, persistent and universal adverse effects of unemployment on psychological well-being that Carol documents in her book provide a convincing reason why policymakers are right to use both microeconomic and macroeconomic policies to reduce the level of unemployment and mitigate its effects for the unemployed. And I would add while I agree with Carol that adaptation is a fairly pervasive phenomenon, one of life's events that people do have difficulty adapting to is unemployment so that that is another reason for focusing on reducing unemployment as quickly as possible in the aftermath of a crisis like the one that we've gone through.

The book has quite broad analysis in it, and in fact I think the title and subtitle misrepresent the content. The title "Happiness Around the World" is much too limiting. The book is really about subjective well-being which is a broader concept that encompasses happiness as part of it. I also don't think there is a paradox of happy peasant and miserable millionaires as the subtitle asserts. The data fairly clearly as Carol mentioned indicate that within countries the millionaires or at least those with higher income report higher levels of happiness than those with lower incomes. The paradox seems to me to be that people think that becoming rich will raise their happiness and reduce their sadness by much more than is actually the case, not that income actually has no effect or a negative effect on happiness, and I'll return to that. I'll focus my remarks on two topics, the Easterlin Paradox and issues of measurement.

These are exciting times for the Easterlin Paradox or as I now prefer to call it the Easterlin Hypothesis. As Carol mentioned, Easterlin argued that when countries become wealthier their levels of happiness don't increase. Using Gallup World Poll data at the country level, my Princeton colleague Angus Deaton showed that the ladder of the best possible life that Carol mentioned before increases with the logarithm of income or even a little bit faster for rich countries. Betsey Stevenson and Justin Wolfers in a Brookings paper found that life satisfaction in the ladder of life have about the same upward-sloping relationship with income across people within a country as they do across countries with different levels of average income. They also found that the growth in income across countries is associated with an increase in the growth of happiness that is about the same magnitude as they found in levels, although their estimates are fairly imprecise here.

I commented on the Stevenson-Wolfers paper here a little over a year ago and one of the things that struck me when they provided their data to me is that the relationship between income growth and changes in happiness varies considerably across countries, and Carol alluded to this in how cultural factors and other factors perhaps mediate the relationship between income and happiness. Some countries seem much more adept at converting income growth into higher levels of happiness than other countries. The U.S. as I'm sure we're most interested seems to have had fairly modest changes in reported life satisfaction or measures of happiness despite growing GDP in the last 40 years. In part, the weak relationship between GDP growth and life satisfaction in the U.S. could be due to the very uneven distribution of the gains in income that we've seen, in part it could be due to the phenomenon of the diminishing marginal utility of income, and I suspect part of it also has to do with the fact that the increases in income that we've seen have not been used to reduce work hours.

Carol Graham extends the past work on the Easterlin Hypothesis by examining Gallup's World Poll and several other datasets for a number of countries. The also emphasizes the role of income growth on the level of happiness. She interprets the negative effect of income growth on happiness as evidence of an aspiration treadmill;

aspirations increase so much in fast-growing societies that higher income does not need to higher levels of life satisfaction or happiness. I'm not so sure that this is the right interpretation of that relationship; however, as I think it would be more appropriate to have the change in happiness or the ladder of life as the outcome measure to reach this conclusion rather than the level of happiness. Indeed, as I'll explain, I think the evidence in the book and elsewhere suggests surprisingly little support for as aspiration treadmill.

Carol notes that the different measures of well-being have different relationships with income. The book interprets this as framing. I would put it differently. Framing is a tendency for the way the same question is posed to elicit different responses. Asking about where people stand on a possible ladder of life and whether they smiled yesterday are not the same question. They address fundamentally different concepts. The ladder of life or life satisfaction are evaluative questions about people's lives overall. Questions about smiling relate to people's affect or mood, how they felt at a particular time. Being in a cheerful mood is not the same thing as being satisfied with one's life as a whole or feeling that one lives in the best possible world. Moreover, I think that measures of the concept of overall life evaluation and those that measure the concept of moment-to-moment feelings are subject to different biases in the way we measure them. Likewise, I suspect that the evaluations of one's life overall are more prone to aspirational effects than are moment-to-moment feelings. So the fact that Carol in this book as well as Stevenson and Wolfers find the stronger effect of income on where people place themselves on the ladder of life or on life satisfaction than on measures that are more closely aligned to moment-to-moment feelings like smiling or feeling happy or feeling sad strikes me as evidence against an aspiration treadmill. The interesting question is why does income have a stronger effect on more general evaluations of life overall than on moment-to-moment feelings.

This brings me to the focusing allusion. The focusing allusion is a tendency for people to focus on a few salient features of the situation in evaluating it. Psychologists have found that people tend to overemphasize these features in making decisions and I suspect this is part of the reason why we can't always trust revealed preference where people's choices don't necessarily reveal what makes them best off or what raises their level of well-being most. For example, my colleagues Dan Kahneman and David Schkade did a study where they asked people in Minnesota to report whether they believed people in California are happier than they themselves are. You might reflect on that for a moment and you might think a little bit about the weather in California and the weather in Minnesota. There is a natural tendency to focus on the weather when thinking of the well-being of Californians and Minnesotans. The Minnesotans strongly believed that Californians were happier. In fact, other surveys show there is no difference in self-reported happiness between those living in California and those in Minnesota. Other things if you reflect on it a bit further matter tremendously for people's happiness which have nothing to do with the weather, but the Minnesotans ignored the smog, congestion and daily hassles of life that affect happiness and instead focused on the weather in answering the question. A study that I did together with Kahneman and Schkade that we published in "Science" found a similar result for income. We asked a representative sample to think of someone who makes less than $20,000 a year or someone who makes more than $100,000 a year. How much time do you think they spend in a bad mood? Respondents on average predicted that the lower-income group spent 58 percent of their time in a bad mood, whereas other data we collected where we had people keep time diaries as they went about their business suggested that people in the low-income group below $20,000 a year actually spent 32 percent of their time in a bad mood. On the other hand, respondents predicted that the higher-income group would spend 26 percent of their time in a bad mood, and the evidence we collected suggested that they actually spent about 20 percent so that the implicit effect of income on spending time in a bad or good mood in this study was overestimated by 20 percentage points. People thought income mattered a lot more for people's mood than appears to have been the case.

When people are asked about their own life satisfaction or to locate themselves on a ladder of life, they are likely to focus on their economic conditions and partly use that as a handle in providing an answer. The exercise that well-off respondents go through is probably something like I'm a fortunate person. I have a high-paying job. I have a big house and an expensive car. I should report myself as satisfied with my life or on a high step on the ladder of best possible lives. Likewise when asked in an international survey to place themselves on an imagined 0 to 10 ladder ranging from the worst-possible to best-possible life, someone is likely to think about whether they live in a rich or a poor country in choosing the rung on the ladder. This tendency is less likely to affect people's moment-to-moment feelings than it is to affect their overall evaluation of their lives. If people are asked in real time whether they are happy or sad or whether they feel anger or pain, they are more likely to report their feelings without going through a filter of focusing on the salient aspects of their life situation or without thinking about how they should feel relative to some aspirational level. This leads me to think that reported life satisfaction or the ladder of life is more likely to be affected by the focusing allusion and aspirations than are questions about moment-to-moment feelings.

Another advantage of moment-to-moment feelings is that people's subjective well-being could be connected to the activities they are engaged in at the time they report their feelings. So as Carol mentioned, her work and other work suggests that that having friends is extremely important for people's overall happiness level and well-being, one could look at how to people their feelings when they're with friends versus in other situations. I should acknowledge that I was a member of the Sarkozy Commission that proposed additional measures of well-being including using what we called national time accounting trying to classify the types of activities people engage in and how they feel during those activities.

I will conclude by saying that the field should focus on measuring dimensions of subjective well-being rather than a single open-ended concept of happiness. I realize this is very difficult to do across countries, but the Gallup World Poll which has questions specifically on feeling sad or feeling angry or feeling in pain which I should also confess I helped design for them offer a new opportunity in a cross-country setting and hopefully they'll also provide time series data so we could look at changes over time. Another opportunity that I wanted to mention in the U.S. is that the Bureau of Labor Statistics has added a module on well-being to the American Time Use Survey starting this year and this will provide information on people's emotional states during periods of the day as well as the information they already collect on the activities that people are engaged in and who they're spending time with and so on.

I think that one of the key questions in this literature is why some countries apparently are subject to an Easterlin Paradox and others are not. Unraveling this paradox will require more refined data and analysis within individual countries as emphasized and I think Carol's book provides a very good start on this agenda.

MR. DIONNE: Thank you very much. I hope the Tea Party folks don't decide that that survey is government intrusion on people's unhappiness. That would be a terrible thing. Thank you. That was very kind of you on my column today. I wrote a column guaranteed to make everybody unhappy this morning. I praised the Internal Revenue Service and the men and women who work there on April 15. Most of the positive responses came from Alan and from people who work for the Internal Revenue Service.

But I discovered I knew I felt something for Mr. Lora. He also writes a column for the Colombian magazine "Dinero" which sounds like a wonderful magazine on economics. It's great to have you here.

MR. LORA: Yes, but I usually talk about happiness rather than dinero.

Thanks a lot. Thanks to Brookings and the organizers of this event for this kind invitation. I suppose that the reason why I'm here is because I have written or co-edited a book with Carol Graham, something that we published a couple of months ago. It was a joint publication of Brookings and the Inter-American Development Bank so that I have a double appreciation for Brookings for inviting me and also for publishing this book that we wrote together, and I hope that this will be the first of a series of joint publications between the two institutions.

Last week a group of distinguished academic economists including several Nobel Prize winners gathered at Kings College, Cambridge, you must have read about this in the press, to discuss the lessons of the global financial crisis for our profession. One of the central conclusions, and here I quote the "Financial Times," was that "economists and market traders alike need to devote far more time to human psychology rather than just the raw economic numbers beloved of many policy wonks." Or as George Soros, the hedge fund investor who sponsored the meeting put it very exactly, economic phenomena involves thinking participants. The problem is that those participants don't think in a way that represents reality which is very remarkable especially coming from such an observer as George Soros and especially in that context when they were discussing what to do about our profession in the wake of the financial crisis.

These are precisely the premises of the so-called happiness science that we have been talking about. The book edited by Carol and me showcases a collection of research papers that explore how people's perceptions and expectations affect the way they value the quality of their lives. However, our book is focused mainly in Latin America although compares Latin America with other regions, but our focus is basically Latin America. And we have found a number of surprises at least for those who expect that people's thoughts and impressions should reflect reality or some type at least of economic rationality.

A good example is how people judge the quality of their health and the health systems of the country, something that Carol alluded to already. Surprisingly, their judgments have nothing to do with their life expectancy or with any other standard indicator of health outcomes. They do not even have to do with health expenditures. For instance, health satisfaction in the U.S. is no greater in South Africa or in Kenya where life expectancy is at around 45 years. In the Americas, Guatemala which is one of the poorest countries in the region is one of the countries with the highest health satisfaction, while Chile is the one with the lowest health satisfaction, exactly the opposite of what you would expect on the basis of any objective indicator. If we take a different area, education, and we make comparisons not across countries but across socioeconomic groups or individuals belonging to different socioeconomic groups within the countries, what we find is that lower socioeconomic groups have a better opinion of the educational system in the countries than higher socioeconomic groups. These findings lead to a very disturbing conclusion, that people are very poor judges of the quality of public policies in general and of the quality of social policies in particular. People are often misinformed and their judgment is influenced by hostile factors, from cultural values to aspirations or lack thereof, about what the health or the educational system should provide, and this is very disturbing because it makes us question the ability of open democratic systems such as that of the U.S. to produce sensible policy reforms in these areas.

Another surprising finding reported in the book is what we call the unhappy growth paradox, and Carol has already referred to this paradox already. David Brooks referred to this phenomenon in a recent op-ed in the "New York Times" that illustrated the complicated relationship between happiness and income. Here is the paradox. I don't know if it is the same way that has been explained already. If you take two countries with similar income levels, let's say Korea and Japan where the income level is not so big and they share some common cultural roots and that's why it also helps for the comparison, if you take these two countries that have as I say similar income levels, the odds are that people in the one that grows faster, Korea in this case, is much less happy than in the other one. It's not about change comparisons, it's not about comparisons in time, it's not how the Koreans were feeling 5 years ago or 10 years ago and how they are feeling now which is what we were discussing before. Here it is what happens with your feelings today when the economy today or in the past year or a couple of years has been growing fast. Another example, for instance in Latin America, as everybody knows, Chile is a fast grower and as has already been mentioned is one of the least satisfied countries in every respect that you take, while Mexico, a slow grower country with about the same income level as Chile, is much happier. Why is satisfaction with life and with other aspects of life lower in fast-growing countries, that is the question that we pose in one of the chapters of the book, apparently has to do with the familiar story of keeping up with the Joneses. I think that's the main explanation that we explore. Basically because many people resent that others make faster material progress than themselves, that's the main explanation that we pose, and I agree with the previous commentator that it's not the aspiration treadmill. It's a different thing. The aspiration treadmill is a different story. The aspiration treadmill is get used to what I am consuming, while the Joneses treadmill, let's put it that way, is that I want to have what others have and I think that that explains what we call the unhappy growth paradox.

An important implication of the unhappy growth paradox is that a governmental strategy focused entirely on economic growth has little chance of political success given that income growth may not result in greater satisfaction with different aspects of life especially if such income growth unequally benefits different groups of individuals or if it substantially changes expectations of material progress. Given this, it is not surprising that Washington consensus policies have been the subject of popular rejection in Latin America especially in the countries where the promoters of such policies tended to exaggerate the potential benefits. This doesn't mean that government should disregard growth and aim at maximizing profit and maximizing happiness. Some prominent scholars such as Richard Layer of LSC are in favor of making happiness an explicit goal if not the main goal of public policies. In the book Carol and I disagreed with this view. We believe that the search for short-run happiness would lead many governments to do things that are damaging for the progress of societies in the long run and I think other commentators have referred to that already. Since many people resent that others make faster material progress than themselves, maximizing happiness could dictate some very harmful policies. For instance, to appease these feelings of envy, governments may be inclined to take measures such as expropriating successful firms, and we know of governments that do that. This is not a theoretical example that I'm presenting. Or imposing price controls or heavy taxes on a few visible activities of firms, et cetera. So these are examples of practices taking place when governments try to make people happy in the short-run. In order to make people happy, governments may also try to reduce people's aspirations to improvements in other areas of their lives, be it health, education or security. Obviously, conformism is not conducive to progress. So this is I think a very important argument of why we shouldn't think that maximizing happiness should be the objective of public policies.

One of the secrets of happiness is that it cannot be obtained directly. The advice of prominent psychologists such as Ed Deener is that happiness should come as a byproduct and cannot be achieved by aiming at being happy. Since John Stuart Mill this has been known as the adonic paradox and I think that you referred to that in your initial quotations. The singular pursuit of happiness can make it more distant, whereas pursuing a life that is rich, engaging and full of challenges may advertently bring happiness closer. I think that this is true not just for individuals. This is also true for nations. I think that aiming for happiness at the country level at the level of public policies is basically wrong. It's something that you should for only indirectly through other means.

Although happiness is not the right criteria to measure the progress of societies, happiness research can provide many useful insights for public policy purposes and we have already heard several examples of that. A very simple and fascinating one is the use of life satisfaction data to value public goods. The reason is as follows. As we have heard, life satisfaction depends on income. Say if your income is doubled you will probably go one rung up in the 10-rung ladder of life satisfaction that has been mentioned. You double your income, you go up one rung. Suppose that research shows that reducing crime in a neighborhood produces the same improvement that is one rung up in the ladder of life satisfaction of the people who live in that neighborhood. You go and do the research and you find that change in the crime conditions in a neighborhood, the conditions are now better and people are now feeling better with their lives. What tells you this? This tells you that the value of improving security is equivalent to doubling people's income because they produce the same result in terms of life satisfaction. You can apply the same methodology to value many other public goods. You have a very simple way of comparing their values and of prioritizing public policy and public expenditures. This is a very simple example. Of course there are a lot of nuances to this and this cannot be applied as simply as I have described it. But this is a very simple example of how this type of research can produce very useful and very important implications for public policy. This is just one of many public examples, one of many examples of usefulness of happiness data and happiness research for public policy is what I am saying. There are plenty of many others in the books that we are presenting today.

I'm finished with this. Once again my thanks to Brookings and to Carol for being such a valuable source of ideas and to you for being here.

MR. DIONNE: That last point is really fascinating. We should talk about that some more. When you talked about keeping up with the Joneses, I realized that so much of Karen's research is about unhappiness. Her recent papers are on the mortgage crisis, household indebtedness, household income volatility, but she always is such a warm and happy person, so I was thinking it's the keeping up with the Joneses phenomenon, she knows how much trouble the Joneses are actually having, obviously some inner spiritual happiness because she takes no pleasure in other people's unhappiness and tries to keel it and that's why she's here. Thank you very much.

MS. DYNAN: That's a lot to live up to. Everyone has talked about the Easterlin Paradox. I'm actually not going to talk about the Easterlin Paradox. But I am going to hit on a couple of themes that I think everybody has also talked about and one is what the government can do, what's the role of the government in promoting happiness. And the second common theme has been that everyone has mentioned the financial crisis and I'm going to key off the financial crisis. And also to key in particular off

Eduardo's point that what we've been through over the last couple of years has really led a lot of us to rethink the premises under which we -- and when I say we I mean we economists -- we think the premises under which we've been operating.

The theme I want to dwell on is the relationship between choice and happiness. I'm going to cheat a little. I'm going to talk about whether more choice leads to better outcomes because I don't have the happiness data to relate to choice, but I think pretty clearly based on what Carol has established about the link between outcomes and happiness I think it's fair to say that you can think of it is does more choice lead to more happiness. The choices that I want to talk about are related to, it's not going to be surprising given what E.J. just said about my research, I want to talk about the financial decisions that households can and do make.

Let me start by giving you a little background. I want to talk about trends we've observed in the financial environment facing households over the past few decades. I'm going to key in on three major changes or trends that we've seen. The first would be there's been a significant increase in households' ability to borrow. Technological advances have made it easier for firms to collect and disseminate information about households' creditworthiness and they've also made it easier for them to develop new techniques to determine underwriting standards and manage risk and these things have all increased the availability of credit. Some part of this has been reflected in an increase in the number of households who can borrow. In the early 1960s about two-thirds of households held some sort of debt and more recently the number has been about three-quarters, and it's also been reflected in households who already had access to credit markets being able to take on more debt by lowering the cost of credit. In the early 1960s the median household had debt that amounted to about 1-1/2 month's worth of their income, and just prior to the financial crisis the median household had debt that amounted to about 7 months' worth of their income so that there has been this big increase. That's one major trend.

The second major trend in household financial opportunities has been greater access to the stock market again facilitated by technological advances that have made it easier to purchase stocks directly but also to own stocks indirectly through things like mutual funds and other more recently developed financial products. I don't have numbers that go back to the 1960s in this case, but 20 years ago, 32 percent of households, about a third, had some sort of equity holdings, and for the last 10 years it's been about half of all households.

A third major trend is the way in which we hold our retirement wealth. Households are much less likely today to have the traditional defined benefit pension plan where the employer calls the shots for you and delivers payments after you retire according to some schedule. The fraction of households with the right to some sort of defined benefit plan has dropped for about 43 percent to 32 percent over the last two decades. What's increased is households' use of defined contribution pension plans. Those are the accounts where you call the shots, where you put the money in and maybe even decide how it's going to be invested so that the fraction of households having a defined contribution plan has risen from about 25 percent to 50 percent over the last 20 years.

Three major trends. What's the common theme here? The common theme is an expansion of household financial opportunities. Households have more choices so that more households have the opportunity to take on debt or invest in stocks if they think that doing so is likely to lead to a better outcome over the longer run. With regard to retirement savings, households no longer have to save today if they think tomorrow will be a better time to save. Rather, they can decide to wait to save and they can decide whether those savings are going to go into lower yielding but safer accounts or whether they're going to go into higher yielding or risky accounts.

What do we make of this expansion of household financial opportunities? Leaving aside the last few years we can say that for the average household there have been significant benefits. More choice has yielded better outcomes. Having access to riskier investments has allowed households on average to enjoy the substantial return premium associated with long-run holding of those investments. And the expansion credit has been very helpful to households in both kind of a short-run business cycle context and a longer-run life cycle context. In terms of the business cycle, in my own research I have found that thanks to the expansion of credit, households are better able to sustain their spending through a temporary shock to their income so that they don't have to suffer that reduction in their consumption which will be bad for their happiness, and particularly given the discussion of norms that we've been talking about, perhaps even worse than a standard model would tell you.

The key example here would be the 2001 recession which was a traditional demand shock driven recession. In that case the Fed aggressively cut interest rates that allowed households to take on a lot of debt. The result was that household borrowing went up and their consumption at least in the aggregate didn't fall very much and it turned out to be a very mild recession by historical standards. There is also working showing that over the life cycle this increase in access to credit has been good for households on average. Young households now have more capacity to buy a home that's more in line with their reasonable expectations of their income over the life cycle so that they don't have to go through the cost and energy of buying a starter home and then trading up, so that there have been these substantial benefits of this expansion of opportunities of greater choice with regard to financial issues, but at the same time of course greater risk has come along with greater choices. For investments it's pretty clear that when you get into riskier investments, thing don't always work out the way you thought they would and given what we've been through through the past couple of years I don't need to persuade you about that. You just don't always get the return on our risky investments at the point at which you need them when you retire or when you're going to send your kids to college because the market may be very bad. With respect to retirement accounts you may be wrong that tomorrow is a better time to save.

On the borrowing side, the increased access to credit has substantially raised people's monthly commitments to pay. Again this is something you can quantify in that the fraction of households with really high monthly commitments to pay, this would be exceeding 40 percent of their before tax income, that's about tripled over the last quarter century. If your income as out as you expected, it puts you in a riskier situation that maybe you won't be able to make those payments which is going to put you in a lot of trouble and impair your future access to credit. More capacity to borrow has increased risk in another important way as some of that borrowing has translated into more investment in risky assets. Again over the last couple of years the big example is housing. Households now own more housing and what this means is that a given percent change in home prices is associated with much larger changes in wealth. Twenty-five years ago a 20-percent decline in your home price would be the equivalent of losing 3 months' worth of income and now it's the equivalent of losing 6 months' worth of your income so that more financial choices have both and good and bad aspects for households' economic security and therefore for household happiness.

Now let me get to the role of government. What can governments do? Governments can restrict choices through regulation. For example, now we have regulations that restrict certain types of loan or certain lending practices. The authority to make those regulations is now with the Federal Reserve Board, but that's something that's being debated as part of financial reform. We can restrict choices, but the really hard question is knowing how much of that we want to be doing. Pretty clearly if we were to undo all of the expansion of financial opportunities over the last few decades we could reduce risk, but then we would lose all the benefits that I just discussed about these greater opportunities. The other thing is that we've just had an exceedingly painful lesson in how regulators are not infallible as they make their decisions about what they're going to restrict and in my opinion that's an issue that both policy-oriented academics and the Washington policymaking community should be very humble about right now.

That said I think it's clear that there are at least a couple of contexts in which restricting choices is clearly justified. The first is when the average person doesn't understand the financial product or in particular it puts them into an unsustainable situation. Even prior to the crisis we were seeing growing evidence that many people don't understand complicated financial products. For example, Karen Pence and Brian Bucks at the Fed, Anna Maria Lusardi at Dartmouth and Peter Tufano at Harvard Business School have documented that some households have a lot of difficulty understanding the terms of mortgages beyond the most basic ones. Households understand if they have a fixed-rate mortgage or an adjustable-rate mortgage because they have an adjustable-rate mortgage, some households don't understand how often or how much it can adjust so that that is one case in which I think the regulation is justified. The second is when there are significant spillovers if people make the wrong choices. The roots of the recent crisis were in a widespread mistake regarding home prices. One thing that Carol says in her book is that there is some survey evidence that people tend to have an optimistic bias about their future income and I think this is the same sort of thing going on with home prices where people saw home prices rising very rapidly and expected them to continue to rise rapidly and then were able to act on it thanks to easy mortgage credit, but in truth they were getting themselves into a situation they couldn't possibly sustain if their expectations turned out not to be correct. In fact, of course they did turn out to be wrong and it was a very painful thing for the people who had made the bad decisions, but the implications were much broader than that of course because it induced this credit cycle which then brought us into this terrible recession so that when there are significant spillovers I think it's pretty clear that the government should be getting involved.

Just to wrap up, I think that choice and especially opportunity are words that are typically used by policymakers as things that contribute positively to welfare and to happiness, and certainly most of us economists were trained to think that choice is always good. In the context of financial decisions I think greater opportunities and choice have many positive aspects, but we need to remember that greater choice comes with more risk so that there is a role for government to restrict choice through regulation with the role of allowing households to benefit from the positive aspects of an expansion of household financial opportunities while being protected from the more negative ones.

MR. DIONNE: Thank you very much. I was thinking as you were talking about a conversation I had with my wife last night. I have a couple of retirement accounts. What I actually told her last night is I think I can open the envelopes again. I decided to let them sit there for a year and I think I will be pleasantly surprised now after not seeing them for a year and that my happiness will increase.

I want to focus on three things and then bring the audience in if I could. I think this whole question about government promoting happiness and the dangers of it, I'd love Alan to reflect Eduardo's from your Sarkozy experience reflecting on what Eduardo said about this enterprise. I want Carol to have a chance to answer and comment on what she's heard. In particular I want to ask a question that might be summarized as happiness isn't what it's cracked up to be by which I mean that from your comments and your research there is something about low expectations that can lead to happiness. Eugene Debs once said there should be a ninth Beatitude, Blessed are they who expect nothing for they will not be disappointed. Yet there's a problem with that, we talked about this before, in that unhappiness and dissatisfaction can actually lead to self-improvement, social improvement, social change, and I'd love you as somebody who has studied happiness so much, perhaps your next book could be The Limits of Happiness, but I'd love you to reflect on this problem whichever order we want to go in there, and also Karen coming in, in response on government's role in this. Who wants to take it first? Why don't we go to Carol since you have brought us all together?

MS. GRAHAM: I think that's a big puzzle in the book and it may be what I'm referring to the in the subtitle, Alan, in terms of the happy peasant versus the miserable millionaire problem even though on average certainly millionaires report to be happier than peasants, but it's the fact that peasants are happier than their situation should predict and millionaires are often less happy than their situation would predict. I think it does relate to this whole issue of low expectations. Having looked at many, many countries going through economic reforms and the development process, there are a lot of times where that process of change and progress products unhappiness in the short-term and with hopes with longer-term benefit and I think it's usually the case. But it in mind it raises, one, some questions about the process. Is progress always an unsettling thing with uncertainty and everything else? And it also raises a huge issue about intertemporal choices. I think a lot in terms of migrants who migrate to a city and very quickly their reference norm becomes not their income before but their income in the town they are and they report to be unsatisfied with their level of income and they're typically less happy than the average. They may have migrated to the city though to provide their children the opportunity to have better schools and a fulfilling life which in the big picture of things is hopefully an objective that's related to some definition of happiness, maybe not the happiness that's reported on a day-to-day survey, and Alan has thought a lot about these different domains of happiness.

Versus you go back to the people who stayed in the rural towns and they don't compare their situation to other people in the city or even other people in the town, they tend to compare their situation to how they were the yet before so that if their harvest was okay then they're okay and they're happy in a lower-expectation sense. I can observe that phenomenon. I'm not sure I know how to answer it as a question, is there a limit to happiness? There are a lot of objectives where unhappiness comes to mind at least in the short-term for longer-term gain and I guess what the happiness surveys do is allow us to think about those tradeoffs. I don't think it suggests that we shouldn't make those tradeoffs at times if the longer-term objective is worth it, but they force us to think about what the process of change entails in terms of well-being at least in the short-term. Very quickly an example of when you look at entire continents, Latin America and even more starkly Eastern Europe that underwent dramatic economic changes from the post-communist time to now turning to the market, we know that happiness dropped dramatically in those contexts and then have for the most part at least in Eastern Europe recovered maybe not fully but almost fully, but that people's satisfaction with different parts of their lives have changed so they tend now to be more satisfied with the material sides of their lives and less satisfied with for example some of the nonmaterial part of their lives. So progress is often associated with whether you want to call it shifting priorities or different parts of people's quality of life changing, and again these surveys allow us to understand those phenomenon. I don't at least I can say whether or not that suggests that there's a limit to happiness, but I do think that it suggests that progress is associated with at least short-term unhappiness much of the time. I haven't answered you very well, but I haven't answered this question yet. It's sort of the question that came out of my book, not the question I can answer.

MR. DIONNE: Thank you. Alan?

MR. KRUEGER: A little bit of stream of consciousness in the answer. I don't disagree with Carol that change can be unsettling and that change can lower happiness even though in material terms that change might look like it's positive. Where I disagreed was the interpretation of that being related to aspirations as opposed to differences in people's routines and the recognition that there are tradeoffs when the world does change, and I certainly agree that uncertainty is a big issue which is also related to change.

In terms of what government can do and how this influences government, that's an interesting question. One of the things I've always been struck by is we economists focus so much on GDP and income and politicians keep an eye on it, but they're also aware of a much broader measure of subjective well-being. After all, they want to be reelected and doing things which make their constituents want to reelect them is important to them.

MR. DIONNE: By the way, if I can interrupt, that chart is one of the few pieces of data I've seen recently that would make Democrats happy thinking about the midterm elections when you look at that line, but go ahead.

MR. KRUEGER: I'm sure if you reflected further you'd think of some more reasons.

MR. DIONNE: I'm not talking about my own subjective views. I'm just talking about data.

MR. KRUEGER: Health care reform I think will also make them feel good. On the Sarkozy Commission and once I joined the administration in February 2009 I resigned by the Sarkozy Commission and they kind of went on their own, but what I recall is that they were focused on more than one measure. If you're an airline pilot you don't look at just one gauge, you have a whole bunch of gauges, and I think that's the way we ought to think about our evaluation of how society is performing and I think to a large extent we do. Maybe GDP was too successful and it's gotten too much emphasis compared to other measures like inequality and poverty which are obviously important for the well-being of society.

I think some of the happiness research does filter into public policy. I was thinking when Karen was talking that one good example is we know that the way that choices are framed affects people's decisions, Karen knows this literature probably better than I do, and then if you give people a default they tend to not want to make a choice and they'll just go with the default option. This played a role in the Pension Protection Act where you offer a plain, safe choice as the default and then people can move away from that if they want to and overwhelmingly people tend to stay with the default so that choosing the default option is very important. You might think if you're involved with a for-profit financial institution on the other side, they might understand this better than the person who's making the choice and might set the default so that it's not necessarily in their interest. In a whole bunch of areas I think the administration has thought about how do we set the default. We're not constraining people's choices but we recognize that they tend often to go with the default, so how do we choose the default if they did take the time to consider and weigh the alternatives they would recognize that it was the right option, and if it's not the right option for them then they are able to change.

One of the things which is difficult in the happiness area when it comes to policy is adaptation because people adapt to their circumstances. At a certain level that means you have to keep continually things, otherwise they'll adapt and they go back to where they were so that that is difficult. I'd also mention that I think the recent focus on time use and people's well-being changes the way you think about policy a little bit. For example, one of the most miserable activities people go through in their daily routine is commuting to work. That suggests to me that we ought to take into account commuting time when we think about investment in public infrastructure, so I think another thing which can make Democrats happy is that the Recovery Act puts a lot of money into high-speed rail and into improving our highways which should ultimately reduce commuting time. That's a small reason and there are other reasons for investing in public infrastructure, but I think if you think about how it affects well-being it pushes you in a particular direction.

MR. DIONNE: I was curious. I found your idea very interesting thinking about whether happiness measures were helpful in determining the distribution of public goods and what public goods you invest in. I was wondering in light of Alan's comments, all this research is almost like a Hallmark card, your family live and your friends are as important as anything in happiness. Is that a fair if oversimplified summary or do they play a very big role?

SPEAKER: They play a big role as long as you're not hungry or destitute.

MR. DIONNE: Right. Thank you. I was wondering when you were talking about commuting time and the like, there are so many public policies that might ease -- you can't make people happy in their family lives, but you can create circumstances in which they're going to be more happy. I'm wondering if that fits your definition of where you put public goods, whether it's commuting time or time off for parents or whatever. I'm just curious.

MR. LORA: It may perfectly well. It doesn't have to be necessarily something that is related with public expenditures. It may have to do with ways of facilitating community life for instance or a way of making people trustful or trust each other and so on so that I think that it can go to a lot of different areas. However, one shouldn't think of public policies as a way of improving people's satisfaction with their private lives. There is a growing area there where you don't want to interfere.

MR. DIONNE: That's why I thinking of the areas around it where you can actually create conditions.

MR. LORA: Exactly. You just create conditions.

MR. DIONNE: Let me ask my second question because I want to get to the audience, and I'll turn to Karen and maybe Carol can come back in. One of the things that's bothering me about this research over time as we've talked about it is I can see it being used as a smug rationale for inequity in that the peasants are happy the way they are, why improve their lives? If you raise their incomes a little bit they become more unhappy. Why are you doing that? Yet if I understand it right, if you look at that chart with different countries, at least among rich countries, the more egalitarian countries seem to have a higher level of happiness. If I remember right, Denmark and the Netherlands for example score quite high on happiness. Is there any sense of inequality, the relationship of the degrees of inequality in a society and happiness levels and should we worry or think about that?

MS. GRAHAM: There are several bodies of research on this. I think one of the things depends on what inequality signals so that in Europe, inequality makes people slightly less happy and particularly the poor which you would expect. In the

United States, the only group that's made unhappy by inequality are left-leaning rich people.

MR. DIONNE: I love that finding. I forgot that.

MS. GRAHAM: It's a bit of a conundrum, but I think it's because in the U.S. we still have this sense that everybody can be Bill Gates and inequality is a sign of opportunity even though the data don't bear it out. Our mobility rates are actually no higher and in fact lower than many OECD countries now which is a change. But what is signals is the public image of it is still what it used to be, a sign of opportunity. In Latin America meanwhile where actually mobility rates have increased a fair amount and they're not all that far off of ours, inequality makes the poor less happy and the rich happier because it still signals persistent advantage for the rich and persistent disadvantage for the poor. I think in the findings for the Scandinavian countries just that they're generally happier may have something to do with more equitable income distribution, probably more importantly is better public goods which probably come with more equitable income distribution. But the inequality story is a complicated one and I think it's because of what inequality signals really differs across societies. Then there is also difference placed on individual effort versus collective outcomes that also differs for example between the U.S. and Europe to some extent.

MR. DIONNE: Do you have any thought on this inequality question?

MS. DYNAN: Carol is the expert on how happiness relates to it, but I think if I can jump in and talk about the w you framed the question, I think it's actually really related to this question of why it's not an official statistic right now. I think Alan has a really nice set of speeches he has done on the data issue and better government data so that government can make better decisions. He talks about we should have this whole dashboard, that we care about growth, that we care about distribution and inequality, and I actually an very supportive of that idea, but I think there are two reasons people resist it. One is that in a way you think we'll just put this all up there and let people weight what they want, people who want to put a lot of weight on growth versus inequality or the left-leaning liberal or whatever Carol was saying, the Democrats.

MR. DIONNE: Think about columns praising the IRS.

MS. DYNAN: Even choosing the set of indicators, whether you're going to put commuting times in there is implicitly telling people how we should weight all these different things and I think that that is one reason there are these objections to the Sarkozy Commission and other efforts like that. I will say what I think the other objection is all these measurement issues that we've been talking about, that it's really complicated to measure happiness and I think we really are not sure if we're doing it right.

MR. DIONNE: Thank you. This gentleman has wanted to get in right from the beginning. Yes, sir. If you could identify yourself, please, that would be great.

SPEAKER: Thank you. I'm the U.S. correspondent of "Helsingin Sanomat" from happy-go-lucky Finland.

MR. DIONNE: They're high on happiness, aren't they, the Finns?

SPEAKER: Yes. My question I guess is to Professor Graham. It's a pity I didn't bring along the "New York Times" poll today, but they had a survey on the Tea Party movement. If I'm not mistaken, the Tea Party activists or the supporters of the Tea Party movement were wealthier, better educated, but at the same time they felt more negative about the economic conditions of the United States at the moment. My question to you is you mentioned before that Republicans tend to be happier than Democrats, but now it seems to me that Republican-leaning parts of the U.S. population are unhappier with what's going on in the country. Can you talk about this perhaps discrepancy and then to what extent in your research globally did the regime in power affect the happiness of people.

MR. DIONNE: That's a great question. Thank you. Also you can talk a little bit about this Republican-Democrat difference.

MS. GRAHAM: Generally speaking, over time Republicans are happier than Democrats in the U.S. We've even looked at it now during the crisis years and even after the change of government from Republican to Democrat and we still get Republicans happier than Democrats so that it isn't determined only by what regime is in power obviously. The Tea Party movement presumably is a rather extreme movement that's very unhappy about how things are going. Why are Republicans happier than Democrats? I think it's a little bit analogous to a finding that people who have faith are happier than people who don't at least in places where there's moderate religion. This is very much an aggregate averaged out statement that the system is basically just and if people work hard they get ahead and their rewards are their just rewards and you really shouldn't mess with it too much. Versus s Democrats are more likely to think the system is unfair at least for some people, or stacked against some people and it's unjust and we want to change it and make it better and we know that believing that things are unjust is linked to unhappiness. In the same way, people who have faith, God will take care of it, it will work out is linked to higher levels of happiness than people who think that maybe things won't work out, maybe nobody will make it better. I think the Democrat-Republican finding can be explained to some extent along those lines, but I'd certainly welcome any other insights on it.

In terms of the regime in power, I haven't done extensive work on this. We certainly know people who live in democracies are happier than people who don't live in democracies. We know that people who participate politically are happier than people who don't participate so that there is something about the democratic process that makes people happy. My guess would be that particularly in more repressive contexts if you are not in the party that's in power that could produce stronger levels of unhappiness than if you're not in the party that's in power in a system that you know is likely to swing back and forth.

MR. DIONNE: By the way, is it true that all things being equal, wealthier people are happier than poorer people?

MS. GRAHAM: Yes.

MR. DIONNE: So that with Republicans you could have this overlapping thing of income and people of faith. Correct?

MS. GRAHAM: Right, although you're controlling for both in the finding.

MR. DIONNE: Right.

MS. GRAHAM: So even controlling for income levels and for religiosity, you get this difference between Republicans and Democrats.

MR. DIONNE: You still have Republicans happier. What I was thinking with the Tea Partiers, and we need data, you should get Gallup to throw a question on --

MS. GRAHAM: Are you a Tea Party member?

MR. DIONNE: I'm sorry?

MS. GRAHAM: Of whether or not you're a Tea Party member?

MR. DIONNE: Yes, because the Tea Partiers seem to be a much more secular part of the conservative movement and I'd just be very curious if that did or did not affect this level of happiness. Who else? That gentleman to your left because he's right there and you won't have to walk and you'll be happy that way.

MR. KOSLOFF: Thanks for all the presentations. They were interesting. I'm Keith Kosloff. I work on the international side of the Treasury Department actually. I had a methodological question, in particular the survey question about imagining what's the best possible life you can imagine and I'm wondering is it necessary to control for what that life is that people are imagining. I guess the context for my question is suppose that I'm a villager in rural India that's completely off the grid and all I know is what's in the boundaries of my village. Then all of a sudden the grid comes and I've got a TV and I watch "Dallas" on TV and I can imagine a much greater life for myself. Does it matter whether the survey was conducted before or after I get my TV and see those greater possibilities?

MR. DIONNE: I realize I've let this go on too long because I was fascinated by all of you. Could I collect a bunch of questions so then everyone could offer a concluding comment? Right down that row. If people could be brief in their questions and then we can get you all in. Sir and then the gentleman down at the end.

MR. SARUM: My name is Sarum and I'm from Uganda. I'm the African Growth Initiative. I wanted to ask whether you observed the impact of catastrophic changes in different type of societies' incomes, if there is a serious illness like cancer or there is like an earthquake or climate change that is really bad, does these things seem to have an differential impact on different income groups for different countries or is it all the same or you have not observed it?

MR. DIONNE: Thank you. Just pass it to that young man who has all his happiness ahead of him from your studies.

MR. KRAFT: My name is Nick Kraft. I'm also at the Africa Growth Initiative. A lot of the comments that all of you have made point to the idea that people don't really seem to be maximizing happiness or utility at least not in measurably consistent way. Thinking about theoretical economics, how do we continue to go forward with neoclassical models that are based on a maximizing utility assumption? Thanks.

MR. DIONNE: That's a great question. Then could I go to that gentleman back there with the beard because he's had his hand up a long time? I'm sorry to cut it off. Sir?

MR. ALTMAN: I'm Fred Altman -- Brookings sessions. The question I have is happiness the way you're defining it seems to be an aggregate of uncorrelated phenomena such as current mood and reaching long-term goals. What's the advantage of aggregating them?

MR. DIONNE: Thank you. That's a fun question. Who wants to take that on? Who wants take on the attack on old-fashioned economics since we've had a bunch of economists up here?

MR. KRUEGER: Behavioral economics is an important and growing branch of economics. It's been recognized. Daniel Kahneman won a Nobel Prize for his work on the limits of people's decision making. I think the real challenge for economics is to know when to apply lessons we've learned from the psychologists and when to return to revealed preference. I'd also caution on how we define utility because I don't think happiness is utility. Maybe it's an element in the utility function along with some of the other emotions that I mentioned before like spending time in a good mood or not being angry all day long and so on. I think we need to be careful not to equate our measures of subjective well-being with utility, and at the same time I think we have to be very careful to define utility in a way that's not tautological because often the way some of our colleagues in economics define utility, it's impossible to reject and what I think the work of Kahneman and others has shown is that people will make inconsistent choices depending upon the way that they're framed. You can change the parameters and they'll make choices which were not consistent with choices that were their interests before, so I think it's possible to demonstrate that people don't always behave in correspondence to the axioms that are necessary for utility maximization. But at the same time I think our measurement of subjective well-being is at a relatively early stage and I would be very cautious about going too far in the direction of equating well-being with utility.

MR. DIONNE: Could I let Karen and Eduardo take on any of those that they want and then go to you so you could close since you are the star of our show here? Could I go to Karen and Eduardo on any of those questions?

MS. DYNAN: I'll just jump in and say I think Alan did a nice job of describing both the potential good that's going to come out the behavioral research and the complications. I'm not a person who believes we need to throw out everything that we've been working with. I think if we could have incorporated cognitive limitations and information costs and biases into our standard models we could have gone a long way toward avoiding what we've been through in the last couple of years.

MR. DIONNE: Eduardo?

MR. LORA: My only reaction to that question about the value of standard economics given all these developments I think is very much along the lines of what Alan said. I don't think that we should throw away what we had. What these new developments lead us to is to understand phenomena that were important for people's well-being that could not be related with standard economics and that's precisely why I see that this area of public goods is so important and so amenable to this approach because certainly the way that we economics were trying to approach many of these problems of public goods didn't go anywhere, they were just approaches that were too convoluted, while this view provides an approach that is very simple and really takes you very far. So I think that the toolkit of economics is a very powerful one and I don't think that it's to be discarded with these developments. I think it's going to be complemented with these developments and I think that there is a strong consensus in the profession about that.

MS. GRAHAM: Quickly let me echo what everybody said that you can't throw out the baby with the bathwater on this one particularly because even though we found a great way to think about things differently and to identify quirks in the way people make choices and all kinds of irrationality, we still I don't think have a lot of questions answered for example about the definition of happiness, how does happiness relate to subjective well-being and all the domains that Alan mentioned, which ones matter more, what definition of happiness do we care about in the policy domain. So it's a new tool, it's great, but it's not ready to replace everything and I think it will always be an important complement and may make us rethink some of our traditional tools.

Very quickly on two other questions that weren't addressed. The best possible-life-question, does it control for access to the media, these surveys are done at particular points in time and so you're capturing some people who have more information than not, but the overall responses to the best-possible-life question in the Gallup World Poll which is a huge poll across tons of countries consistently shows a relationship between having higher levels of wealth and better answers to best possible life. Also the work in Afghanistan that was done suggests to me when you get differences in those responses when people are asked the best-possible-life question in Afghanistan they score low compared to the world average and in open-ended happiness they score high suggests that even in very poor contexts where people don't have a lot of information, they have enough in today's world to know that the best possible life is global and is probably not how they're living.

Then on catastrophes, yes, a lot of events have catastrophic impact. People adapt to a lot of events over time such as economic crises. Two of the things that people have a hard time adapting to are long-term bouts of unemployment as Alan mentioned. That's something that people seem to never adapt back from. And the other are some forms of serious illness, not all. They adapt to mobility problems better than to illnesses associated with a lot of anxiety, pain and unpredictability, but people are remarkably adaptable even in the face of catastrophes.

MR. DIONNE: I want to thank you for a wonderful presentation and a great book. And I want to thank all our panelists. The one quotation I hadn't used earlier is one from George Bernard Shaw who said, "There were two tragedies in life. One is not to achieve your heart's desire; the other is to achieve it." I think it shows the conundrum of figuring out happiness, but I suspect that there is more happiness in our pursuit of happiness than in ever imagining we'll achieve it absolutely and I appreciate your help in getting us closer. Thank you all very, very much.

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