

Dwight R. Lee

Happiness and Liberty

Human happiness and individual liberty are inextricably connected in the minds of most. The most effective way to achieve happiness is with the freedom to pursue it as a person chooses. Liberty does not guarantee happiness, but if one is unlikely to achieve happiness when free, he is even less likely to achieve it without that freedom. The inalienable right to “the pursuit of happiness” in the Declaration of Independence is based on the understanding that each person has more information on how best to achieve his happiness, and more motivation to do so, than anyone else. This understanding is not universal, however.

The academic study of happiness is now a growth industry, and few of our new “happiness experts” are reluctant to give advice on how we can increase our happiness. Giving advice is not the same as restricting freedom, of course, and perhaps many of us might benefit from the insights of these scholars. But purveyors of expert advice are easily frustrated when their advice is ignored. They find it difficult to resist developing arguments to justify government policy “encouraging” people to do what is good for them.

I shall argue that the policy recommendations from prominent happiness scholars would undermine the most important foundation of human happiness—the lib-

erty to control one’s life. I shall also argue that while some passages in Adam Smith seem to suggest he would agree with much that modern happiness scholars are claiming, a more complete reading of Smith’s writings on happiness and liberty shows that he would disagree with their policy recommendations. But first I consider briefly the major findings of happiness experts and the policy proposals that some economists are justifying on the basis of these findings.

More Happiness Requires More Government Taxation and Spending

A strong streak of paternalism is clearly behind the policy suggestions of some happiness experts. For example, Yale political scientist Robert E. Lane observes, “People are not very good judges of how, even within the private spheres of their own lives, to increase, let alone maximize, their happiness.”¹ Few such scholars admit to paternalism, of course, especially when advocating paternalistic public policies: they dress up their arguments in non-paternalistic

Dwight R. Lee is the Bernard B. and Eugenia A. Ramsey Professor of Free Enterprise and Economics at the University of Georgia. He has served as president of the Southern Economic Association and the Association of Private Enterprise Education. This article was prepared with a grant from the Earhart Foundation.

clothing.² Some economists are now arguing that even if individuals do know more about what makes them happy than anyone else (and behavioral economists qualify their acceptance of this proposition, if they accept it at all), perverse incentives created by a negative happiness externality justify government action to protect and promote human happiness.

This negative happiness externality provides an explanation for a robust finding from happiness studies. Beginning with Richard Easterlin's 1974 essay "Does Economic Growth Improve the Human Lot?" a number of papers have examined the connection between happiness and income using data from several countries.³ The finding of interest here, known as the happiness paradox, is that rich people are happier than poor people within a country at any given time, but there is no clear connection between real per capita income and overall happiness in a country over time. This disconnect between the growth in a country's per capita income and happiness is very robust. For example, the real per capita income in the United States almost tripled between 1959 and 2004, yet the happiness of Americans, as indicated by their response to happiness questionnaires, remained effectively constant over this period.⁴

The most popular explanation for this paradox by those who see it as justifying government action is known as the relative income hypothesis—that a larger income affects your happiness primarily by increasing your income relative to the income of others. Your satisfaction from being able to buy a bigger house, a more luxurious car, and nicer and more prestigious things in general comes from being able to impress others who cannot afford such things. No one would deny that there is some truth to this argument, which has long been recognized. For example, Adam Smith observed, "With the greater part of rich people, the

chief enjoyment of riches consists in the parade of riches, which in their eyes is never so complete as when they appear to possess those decisive marks of opulence which nobody can possess but themselves."⁵ This can certainly explain the finding that at a given time rich people are happier than poor people within a country.

But the additional happiness of those whose relative incomes increase is only one side of the coin. Those who experience a decrease in *relative* income can become *less* happy as a result. Smith recognizes this source of unhappiness by rather cynically remarking, "We are glad, we say, on account of our neighbour's good fortune, when in our hearts, perhaps, we are really sorry."⁶ Increasing *relative* income is a zero-sum activity, with the increase in one person's relative income (and happiness, the argument goes) necessarily causing a decrease in the relative income (and happiness) of others. Thus the explanation of the happiness paradox is complete. With minor fluctuations in the pattern of relative incomes over time, there is no general increase in happiness in response to rising per capita incomes overall.

The argument continues that those who earn higher relative incomes are imposing negative happiness externalities on those whose relative incomes decline, with the result that people are trapped in a prisoners' dilemma of excessive work and spending. As Cornell economist Robert Frank describes it, "The problem is that many important rewards in life depend on how much we spend relative to others. If we all cut back, we do better; but someone who cuts back unilaterally often does much worse. To the extent that choices that are smart for one are dumb for all, individual action, by itself, simply won't be enough."⁷ The result is that people are caught in "the grip of luxury fever," buying expensive but essentially trivial trinkets merely to im-

press others. Only by somehow escaping this prisoners' dilemma can people improve their happiness, according to Frank, but they cannot do it on their own. An increase in government taxation is required to reduce high-end earning and consumption for the same reason pollution taxation is justified. Frank argues that "[t]he problem of excessive environmental pollution is caused by an incentive gap virtually identical to the one that gives rise to excessive conspicuous consumption," and he sees a highly progressive consumption tax as the best way to address this consumption "pollution."⁸

Richard Layard, an emeritus professor at the London School of Economics and a member of the House of Lords, is even more explicit than Frank in stating that the economically successful are polluting the relatively unsuccessful by reducing their happiness, although he recommends taxing income rather than consumption. According to Layard,

If a person works harder and earns more, he may himself gain by increasing his income compared with other people. But the other people lose because their income now falls relative to his. He does not care that he is *polluting* other people in this way, so we must provide him with an automatic incentive to do so. Taxation provides exactly this incentive. If we make taxes commensurable to the damage that an individual does to others when he earns more, he will only work harder if there is a true net benefit to society as a whole.⁹

Not only will higher taxes supposedly increase the happiness of those suffering from the negative happiness externality created by the productivity of those earning higher incomes and engaging in conspicuous consumption, but according to Frank and Layard, those paying the higher taxes will probably be happier also. Frank predicts that a highly progressive consumption tax would provide people with "an

incentive to work fewer hours and spend more time with family and friends or more time exercising or more time reading a good book."¹⁰ Apparently Frank is convinced that, when their after-tax income falls, blue-collar workers will develop the preferences of university professors and shift their spending from bowling and watching NASCAR to less expensive but more "elevated" activities. Layard is not as specific about the type of consumption that a tax increase will encourage, but he does inform us that "we need the tax on income from work in order to maintain a tolerable work-life balance."¹¹

But Layard, as well as Frank, is confident that he knows what goods government can provide to increase our happiness. Frank sees additional revenues from a "steeply progressive consumption tax" as freeing "up literally trillions of dollars of resources that could be put to better uses" such as providing more educational opportunities, recycling more newspapers, imposing tougher air-pollution regulation, building more municipal swimming pools, funding more music and art programs, providing health insurance for everyone, and creating more mass transportation.¹² In the same spirit, Layard sees more spending on "nonrivalrous" goods as fostering more happiness, since they can be consumed equally with no one's happiness being threatened by the fear that someone else is getting more than they are.¹³

While Adam Smith would probably not have seen the publicly provided goods mentioned by Frank and Layard as providing more happiness than privately purchased goods (especially at the margin, given the amounts currently being spent by government), he would have agreed that the material possessions for which wealthy people sacrifice typically fail to provide lasting happiness. Smith dismissed much of what the wealthy acquire as nothing more than

“trinkets and baubles, fitter to be the playthings of children than the serious pursuits of men....”¹⁴ In the same vein, he asked, “[H]ow many people ruin themselves by laying out money on trinkets of frivolous utility?”¹⁵

But the most important reason for rejecting more taxation and government spending to promote happiness is that it slowly, subtly, but surely erodes the liberty that is the essential foundation of happiness.

Liberty and Happiness

There is a difference between liberty and license, and obviously some restrictions on our actions in the form of general laws are necessary for genuine liberty. But just as obviously, the host of detailed and discriminatory taxes, regulations, controls, and mandates that are now imposed by all modern democracies are reducing individual liberty while increasing political license. If we take seriously arguments for imposing further restrictions on our productive and consumption choices to supposedly enhance human happiness, then it is hard to imagine what limits remain on reductions in our liberty.

Unfortunately, the political process is biased in favor of those who want to use government to provide specific benefits, either real or imaginary, at the expense of liberty. As Hayek pointed out,

We...never know what beneficial actions we prevent if we restrict [people's] freedom to serve their fellows in whatever manner they wish. All acts of interference, however, amount to such restrictions. They are, of course, always undertaken to achieve some definite objective. Against the foreseen direct results of such actions of government we shall in each individual case be able to balance only the mere probability that some unknown but beneficial actions by some individuals will be prevented. In consequence, if such decisions are made from case to case and not governed by an attachment to freedom as

a general principle, freedom is bound to lose in most every case.¹⁶

The recommendations of Frank, Layard, and other happiness scholars do nothing to moderate Hayek's concern that concentrating on the good government hopefully can do can easily blind one to losses from the further erosion of our liberty. Attempts to increase happiness with policies that reduce liberty are sure to be counterproductive. And this is no less true because the direct effects on happiness of those policies may seem positive and are immediate and easily noticed, while their negative effects on freedom and happiness are indirect, gradual, and therefore easily ignored.

Those who have studied happiness almost unanimously recognize that the freedom to choose one's own goals and pursue them as one sees fit is crucial to happiness. For example, Jonathan Haidt states, “When it comes to goal pursuit, it really is the journey that counts, not the destination. Set *for yourself* any goal you want. Most of the pleasure will be had along the way, with every step that takes you closer.... Pleasure comes more from making progress toward goals than from achieving them.”¹⁷ Daniel Gilbert reports that “people find it gratifying to *exercise* control—not just for the futures it buys them, but for the exercise itself. Being effective—changing things, influencing things, making things happen—is one of the fundamental needs with which human brains seem to be naturally endowed.... [R]esearch suggests that if [people] lose their ability to control things at any point between their entrance and their exit, they become unhappy, helpless, hopeless and depressed.”¹⁸

Frey and Stutzer describe a study which found a strongly positive and statistically significant correlation between happiness and economic, political, and private freedom from a sample of 46 countries, most of

which were developed. After controlling for per capita income, happiness continued to be positively correlated in a statistically significant way with economic freedom, though not with political and private freedom.¹⁹ Lane found, in several studies he examined, no statistically significant correlation between happiness and political freedom (democracy) in developing countries.²⁰ But it is economic freedom, which includes the freedom to exchange goods, services, and labor, and freedom from excessive taxation, that is most threatened by the policy recommendations of Frank and Layard.

The connection between happiness and freedom is obviously complex, and one can always quibble with studies such as those discussed by Lane. The most compelling evidence that freedom promotes happiness comes from the fact that migration is almost always *toward* more freedom. Obviously this observation does not control for things associated with more freedom—such as higher per capita income and the spontaneity, excitement, and vibrancy of a society where others are free—which are also influential in attracting immigrants. But because freedom is part of a package that includes a number of desirable attributes strengthens the case that freedom is important in migration choices, and in the happiness that migrants are surely seeking with those choices.

Frank and Layard do not argue against freedom, at least not directly. Rather, they see their policy recommendations as allowing people the maximum freedom consistent with preventing actions that they believe harm others. Frank argues that he does not want to substitute the preferences of experts for those of consumers by stating his opposition to sumptuary laws in which government outlaws or restricts expenditures on particular items; he points to his agreement with Adam Smith in this re-

gard.²¹ He sees his support of a consumption tax on luxuries as consistent with freedom since everyone is left free to “indulge his heartfelt passion” as long as they pay the tax.²² Even when Frank recognizes that taxes reduce freedom, however, he indicates little concern that this will lead to additional reductions in freedom. While he briefly considers the “slippery-slope” argument that “once we restrict people’s behavior in some minor way and they grow accustomed to that, the stage is set for further encroachment on personal freedom,” he immediately dismisses this concern with the comment, “regulation can indeed be a slippery slope, yet it is one we are repeatedly forced to go down. And in case after case, going part way down this slope does not seem to have resulted in a slide all the way to the bottom.”²³

Baubles, Trinkets, and Liberty

It is not surprising that Frank and Layard occasionally ally themselves with Adam Smith and his impeccable credentials as a champion of freedom.²⁴ But what might seem surprising is that they fail to mention Smith’s own comments on happiness. As we have seen, Smith recognized the relative income argument, and no one has been more eloquent than Smith on the futility of seeking happiness by sacrificing things of real value to acquire wealth to spend on baubles and trinkets. Consider Smith’s story of the poor man’s son,

whom heaven in its anger has visited with ambition, [and] when he looks around him, admires the condition of the rich. [So] he devotes himself for ever to the pursuit of wealth and greatness.... [H]e serves those whom he hates, and is obsequious to those whom he despises. Through the whole of his life he pursues the idea of a certain artificial and elegant repose which he may never arrive at, for which he sacrifices a real tranquility that is at all times in his power, and which, if in the extremity of old age he should at last attain it, he will find to be

in no respect preferable to that humble security and contentment which he had abandoned for it. ... [H]e begins at last to find that wealth and greatness are mere trinkets of frivolous utility....²⁵

Possibly Frank and Layard did not resort to the authority of Smith here because they knew that he did not agree that acquiring wealth to spend on baubles and trinkets harmed others by creating negative externalities. As is well known, *The Wealth of Nations* was a blueprint for how nations acquired wealth, which Smith clearly approved of. Less well known, he believed the desire by the wealthy for baubles and trinkets was important historically in the spread of liberty.

Consider first Smith's approval of pursuing wealth in a statement that follows quickly upon his discussion of the poor man's son:

And it is well that nature imposes on us in this manner [making us believe that the attainment of wealth is "well worth all the toil and anxiety that we are so apt to bestow upon it"]. It is this deception which rouses and keeps in continual motion the industry of mankind. It is this which first prompted them to cultivate the ground, to build houses, to found cities and commonwealths, and to invent and improve all the sciences and arts, which ennoble and embellish human life....²⁶

As economists would say today, Smith saw the production of wealth as producing *positive* externalities far larger than the negative externalities of envy that seem to be all that Frank and Layard can see. Consider the generally available advantages of better health, longer lives, reduced child mortality, improved environmental quality, expanded education and general conveniences, to name a few, that the production of wealth has bestowed.²⁷

While Smith had his doubts whether the rich achieved much happiness from the purchase of baubles and trinkets, he be-

lieved their desire for such items of "frivolous utility" played an important role in advancing liberty. Smith observed that before the spread of commerce, feudal lords could do little with their great wealth other than maintain large numbers of serfs. A great proprietor "is at all times, therefore, surrounded with a multitude of retainers and dependants, who, ... fed entirely by his bounty, must obey him..."²⁸ It was commerce that destroyed the power the feudal lords had over their minions. According to Smith, commerce

gradually furnished the great proprietors with something for which they could exchange the whole surplus produce of their lands, and which they could consume themselves without sharing it either with tenants or retainers.... For a pair of diamond buckles perhaps, or for something as frivolous and useless, they exchanged the maintenance...of a thousand men for a year, and with it the whole weight of authority which it could give them.... [A]nd thus for the gratification of the most childish, the meanest and the most sordid of all vanities, they gradually bartered their whole power and authority.²⁹

Thus, "commerce and manufacturers gradually introduced order and good government, and with them, the liberty and security of individuals, ... who had before lived almost in a continual state of war with their neighbours, and of servile dependency upon their superiors."³⁰

The liberty and security that, according to Smith, began spreading because of commerce and the desire for baubles and trinkets fostered a cascade of wealth-creation that has improved the lives of everyone lucky enough to live in economies based on markets, limited government, and individual liberty. Now, not just wealthy landlords can buy baubles and trinkets. Because almost everyone in industrialized countries can now afford the basic necessities (many of which would have been considered outrageous luxuries a few generations ago) with ever-decreasing amounts of ef-

fort, they are spending much of their incomes on the baubles and trinkets of today. Frank, Layard, and other concerned social scientists see this not as progress but as a serious threat to our happiness that can be addressed effectively only with higher taxes and more government spending. Smith would surely see the increased reliance on political authorities that these happiness experts are recommending as a step back toward the “servile dependency” of feudalism that the demand for baubles and trinkets helped us to escape.

Conclusion

It is not just a few scholars who believe that government should go beyond maintaining a legal framework to facilitate the “pursuit of happiness” and instead take direct action to make people happy. Politicians are beginning to talk as if they are taking this idea seriously. According to a recent newspaper article, “British politicians of various stripes no longer find themselves content with trying to make their citizens healthier, wealthier, and better educated. They want to make them happier too.”³¹ The article quotes Paul Dolan, a professor of economics at Imperial College in London and the lead author of a report on what makes people happy commissioned by then Prime Minister Tony Blair, as saying, “The ideal scenario is that we’re measuring the well-being of everybody all the time, and we can look at what effect everything that happens in their life has on them.” And it is not just Britain’s Labour government that seems to be embracing a happiness role for government. David Cameron, the leader of the British Conservative party, is quoted as saying, “We need to remember what makes people happy, as well as what makes the stock markets rise.... It’s time we focused not just on GDP but on GWB—general well-being.” Such statements may be nothing more than political rhetoric that will

fail to achieve any serious traction. Let’s hope *The Economist* is correct when observing in its review of Layard’s book that “most people value freedom as a greater good than enforced happiness.”³²

There is no better way of concluding this paper than to paraphrase a comment on equality and freedom by the late Milton Friedman and his wife Rose.³³ A society whose government puts happiness ahead of freedom will end up with neither much happiness nor freedom. A society whose government puts freedom first will end up with both greater freedom and greater happiness.

1. Robert E. Lane, *The Loss of Happiness in Market Democracies* (New Haven: Yale University Press, 2000), 8-9

2. Recently, admitting paternalism has become more acceptable, but only when it is referred to as “libertarian paternalism.” Libertarian paternalism has become popular with behavioral economists who observe that most people tend to choose default positions, such as “don’t contribute” to tax-deferred saving plans, even though it would be easy to choose to contribute. Under the assumption that most would be better off if they did contribute even though they don’t choose to do so, the paternalistic recommendation is for government to require that “contribute” be the default position. Since individuals could still choose to override the default, the paternalism is advertised as libertarian. See Cass R. Sunstein and Richard H. Thaler, “Libertarian Paternalism Is Not an Oxymoron,” *University of Chicago Law Review*, vol. 70 (2003): 1159-1202.

3. Richard A. Easterlin, “Does Economic Growth Improve the Human Lot?” in Paul A. David and Melvin W. Reder, eds., *Nations and Households in Economic Growth: Essays in Honor of Moses Abramovitz* (New York and London: Academic Press, 1974), 89-125.

4. The use of questionnaires to measure happiness over time and to compare happiness across countries has been defended by Easterlin, *op. cit.*; also by Bruno S. Frey and Alois Stutzer in *Happiness and Economics* (Princeton: Princeton University Press, 2002); also by Richard Layard in *Happiness: Lessons from a New Science* (New York: Penguin, 2005); and by others. Many economists are skeptical of the questionnaire methodology and the happiness results based on it—for example, see C.J. Coyne and P.J. Boettke, “Happi-

ness and Economics: Insights from Austrian and Public Choice Economics,” in Y.K. Ng and L.S. Ho, eds., *Happiness and Public Policy: Theory, Case Studies and Implications* (London: Palgrave Macmillan, 2006), 89-105.

5. Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*, Volume I (Indianapolis: Liberty Fund, [1776] 1981), 190.

6. Adam Smith, *The Theory of Moral Sentiments* (Indianapolis: Liberty Fund, [1759] 1982), 44.

7. Robert Frank, *Luxury Fever* (Princeton: Princeton University Press, 1999), 193.

8. *Ibid.*, 207, 211-219.

9. Layard, *op. cit.*, 228. (emphasis added) I focus on Frank and Layard because they are two of the most explicit in their recommendations.

10. Frank, *op. cit.*, 222.

11. Layard, *op. cit.*, 230.

12. Frank, *op. cit.*, 249, 250, 254, 256, 261.

13. Layard, *op. cit.*, 47.

14. Smith, [1776] 1981, 421.

15. Smith, [1759] 1982, 180.

16. Friedrich Hayek, “Introduction,” Frederic Bastiat, *Selected Essays on Political Economy* (Irvington-on-Hudson: Foundation for Economic Education, 1995), x.

17. Jonathan Haidt, *The Happiness Hypothesis* (New York: Basic Books, 2006), 84. (emphasis added)

18. Daniel Gilbert, *Stumbling on Happiness* (New York: Alfred A. Knopf, 2006), 20-21. (emphasis in original)

19. Frey and Stutzer, *op. cit.*, 135.

20. Lane, *op. cit.*, 265-266.

21. Frank, *op. cit.*, 199-203.

22. Frank, *op. cit.*, 204-205. Frank seeks support from Adam Smith on luxury taxation by citing a couple of passages from *The Wealth of Nations* in which Smith

recommends taxes on housing and private carriages. But Frank acknowledges that Smith’s concern was not to affect behavior, but rather with finding easy targets for raising government revenues since the government had to tax something. Unfortunately, finding easy ways for government to raise revenue has long ceased to be a problem.

23. Frank, *op. cit.*, 198.

24. Most of Frank’s and effectively all of Layard’s references to Adam Smith deal with qualifications to the “invisible hand,” by pointing out that only if particular conditions are satisfied does pursuing self-interest do the most that is theoretically possible to promote the public interest. Smith was aware of these qualifications, but he was more willing than Frank and Layard to point out that the imperfections of the political process are generally worse than those of the market.

25. Smith, [1759] 1982, 181.

26. *Ibid.*, 183.

27. For a detailed discussion of these positive externalities, see my essay, “Who Says Money Can’t Buy Happiness,” *The Independent Review*, Vol. 10, No. 3 (Winter 2006), 385-400.

28. Smith, [1776] 1981, 413.

29. *Ibid.*, 418-419.

30. *Ibid.*, 412.

31. Don Melvin, “Grin and Blair It,” *The Atlanta Journal and Constitution* (February 4, 2007), E4.

32. *The Economist*, “The Economics of Happiness: Can’t buy it?,” (January 15, 2005), 77-78.

33. Milton Friedman and Rose Friedman, *Free to Choose: A Personal Statement* (San Diego: Harcourt, Inc., 1990), 148. The quotation reads: “A society that puts equality—in the sense of equality of outcome—ahead of freedom will end up with neither equality nor freedom.... On the other hand, a society that puts freedom first will, as a happy by-product, end up with both greater freedom and greater equality.”