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Does economic growth cause unhappiness?

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15feb06

Fortunately most Australians don't think so - after all, reform leads to prosperity.

IN the early 1990s a plethora of books and papers appeared declaring the failure of Australia's economic reforms of the '70s and '80s. The basis of these claims was the recession that opened the decade.

Typical was Shutdown, edited by John Carroll and Robert Manne. It had a subtitle - The Failure of Economic Rationalism And How to Rescue Australia. The nation was the victim of a failed experiment masterminded by the Australian Treasury.

This failure, it said, "is visible in every city and country town, in collapsing businesses, mounting unemployment, and families in economic crisis". The list went on, and on.

The book was published in 1992 as the economy was coming out of recession and was followed by an extraordinary period of sustained economic growth and prosperity - rising incomes and wealth, falling unemployment and inflation. This expansion is now in its 15th year.

An embarrassing experience for the gloom and doom brigade, but they eventually found an answer. They might have been wrong about the economic outcome of reform, but Australians are unhappy with their new prosperity.

Growth, it seems, is bad for you. The higher incomes it brings only create dissatisfaction. We need a broader measure than GDP, that indicates our national wellbeing. As it happens we have one handy.

Earlier this week the 14th Australian Unity Wellbeing Index was released. It combined the 13 earlier surveys to produce a ranking of Australian electorates according to their level of wellbeing (happiness).

The reporting focused on the nine electorates with the top personal wellbeing ratings and the nine with the lowest ratings.

This has naturally created a great deal of interest, particularly among federal politicians.

Peter Costello's electorate of Higgins in Melbourne, which covers wealthy Toorak, was the only inner urban electorate to rank in the top nine. There must be some satisfaction in being rich after all.

On the whole the bush is a bit happier than the cities. But the most interesting fact to emerge from the survey is how little difference there is across the length and breadth of Australia in the level of our perceived wellbeing. As the survey comments: "Australia is clearly a largely homogenous nation", and one can add, a reasonably happy one.

But how do we rank internationally in terms of wellbeing? Last year two economists, David Blanchflower and Andrew Oswald, published a US National Bureau of Economic Research working paper with the fascinating title Happiness and the Human Development

Index: The Paradox of Australia.

Blanchflower and Oswald are also interested in the increasingly popular issue of whether to move away from GDP as a measure and substitute, say, a Gross National Happiness Index. But in looking at alternative measures they discovered their paradox.

One of the best-known attempts to move away from reliance on GDP as a measure of welfare is the UN's Human Development Index. On this measure - which gives a score based on lifespan, educational attainment and real income - Australia ranks third in the world after Norway and Sweden. It ranks above all other English-speaking nations.

But the two economists question whether we should. They look at another survey of happiness by the International Social Survey Program and find quite a different picture. Australia does not show up with notably high levels of wellbeing.

It is close to the bottom in international rankings of job satisfaction. Among English-speaking nations, where a common language should make wellbeing measures more reliable, it performs fairly poorly on a range of happiness indicators.

What do we make of this? Probably not too much. A response to Blanchflower and Oswald by Andrew Leigh, an Australian economist, and Justin Wolfers from the Wharton School in the US, disputes their conclusion.

Using a broader range of data, they find that, if anything, Australians are happier than their ranking in the Human Development Index would predict. For example, in the World Values Survey only one nation, Iceland, has a significantly higher level of both happiness and life satisfaction (a similar concept) than Australia.

Not much sign there that growth and higher incomes are making us unhappy. But what it also tells us is how difficult it is to construct a reliable alternative to GDP. And while growth and income are by no means the only things that matter, growth is crucial to happiness.

However, it is simply wrong to suggest economists think growth is everything. You may not know that the overall government policy objective in the Treasury portfolio, reflected in the department's mission statement, is "strong, sustainable growth and the improved wellbeing of the Australian people".

Treasury has spent a lot of time developing a wellbeing framework as an overlay for its policy advice, which takes account of a range of issues including opportunity and freedom in its broadest sense, social as well as economic.

But achieving strong economic growth is still central to national wellbeing, a point made well by Swedish intellectual Johan Norberg, author of best-seller *In Defence of Global Capitalism*, when he was in Australia last year as a guest of the Centre for Independent Studies.

"If you are looking for a happy European, try someone who thinks his present situation is better than it was five years ago, or even better, someone who thinks his situation will be better five years from now," he says. "If you want to meet a happy Australian, ask someone who thinks that people like themselves have a good chance of improving their standard of living."

Those expectations are driven by economic growth, and while nobody thinks it is all that matters, or wants a return to the simplistic growthmanship policies of the '60s, it is going to matter more than ever as our population ages.