

Appendix VIII – What Makes a Happy Society

If there are, as stated above, more than 50 different shades of capitalism potentially available to us, how should we start to think about which shade would suit us best? An obvious idea is to choose a system which is good for people to live under. One, admittedly subjective, way of assessing the system in any country would be to look at the degree to which the citizens of that country are happy with their lives. Surveys to assess perceived happiness are carried out across the world. The diagrams below are based on the rankings contained in the 2015 World Happiness Report which ranked 158 of the world's countries according to their citizens' perception of their own happiness.

The Top 10 countries, according to the 2015 report, were as shown below.

Figure 54: World Happiness Report 2015 Results

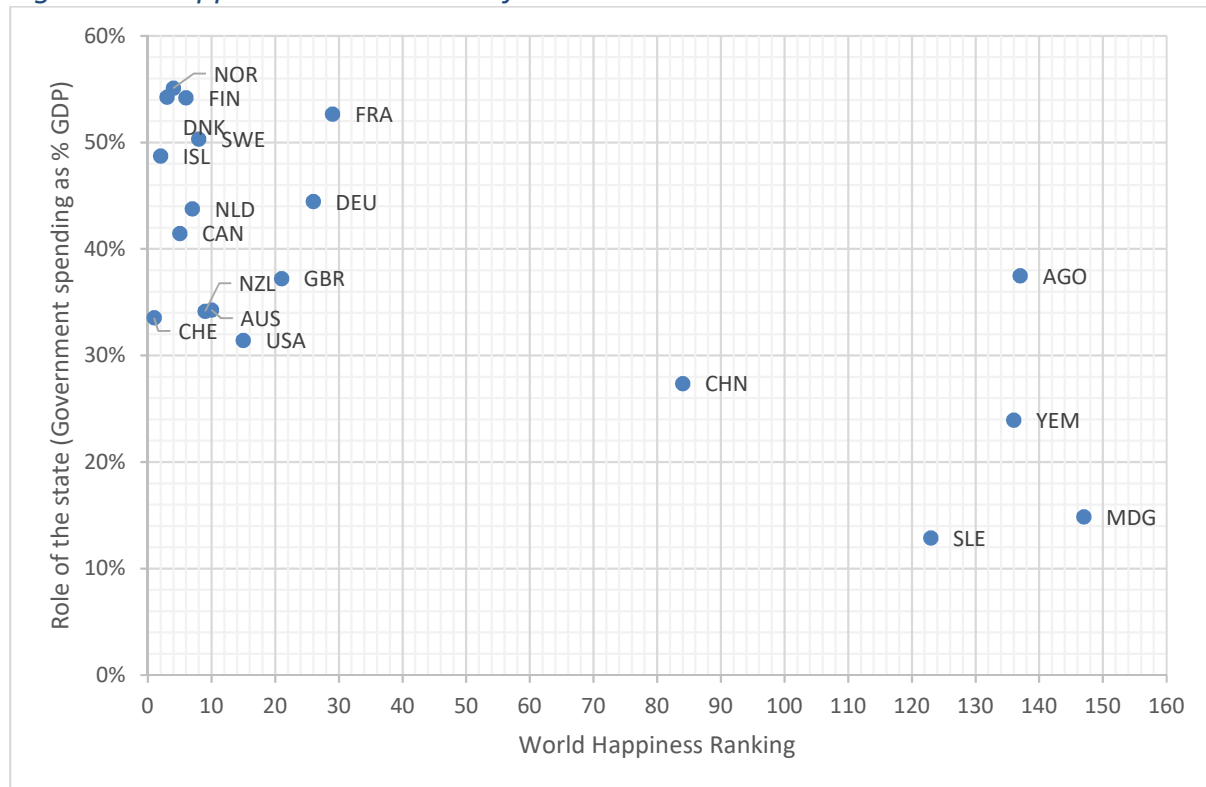
Rank	Country	Score
1.	Switzerland	(7.587)
2.	Iceland	(7.561)
3.	Denmark	(7.527)
4.	Norway	(7.522)
5.	Canada	(7.427)
6.	Finland	(7.406)
7.	Netherlands	(7.378)
8.	Sweden	(7.364)
9.	New Zealand	(7.286)
10.	Australia	(7.284)

Source: World Happiness Report, 2015⁷⁸

It is interesting to look at whether these top countries have anything in common. In particular, is there anything in common about the way these countries are run? The chart below compares the happiness rankings of a selection of countries with the level of activity that the state plays in the running of the economy.

78 (World Happiness Report, 2015)

Figure 55: Happiness and the role of the state



Source: *World Happiness Report*⁷⁹; *WEO database*⁸⁰

The countries shown include all of the Top 10, which is why the diagram is rather congested on the left-hand side, a selection of other developed countries – including the US and the UK – which did not make the Top 10, and a selection of countries whose states play a far more limited role. The Top 10 countries all have governments which are quite active in the economy; no member of the Top 10 has a government which represents less than 34% of the country’s GDP, and several have governments representing around 50%.

At the other end of the spectrum, those countries whose states play a minimal role such as Sierra Leone, Madagascar and the Yemen score far worse on the world happiness ranking. The position of Angola, however, illustrates that having an active government is no guarantee of domestic happiness, and it would be easy to find other examples of this. While we should be careful not to read too much into these data, the facts are that the most successful countries have governments which play an active role.

Although happiness of a country’s citizens is arguably the most important indicator of how well it is governed, it is interesting also to look at a selection of objective

79 (World Happiness Report, 2015)

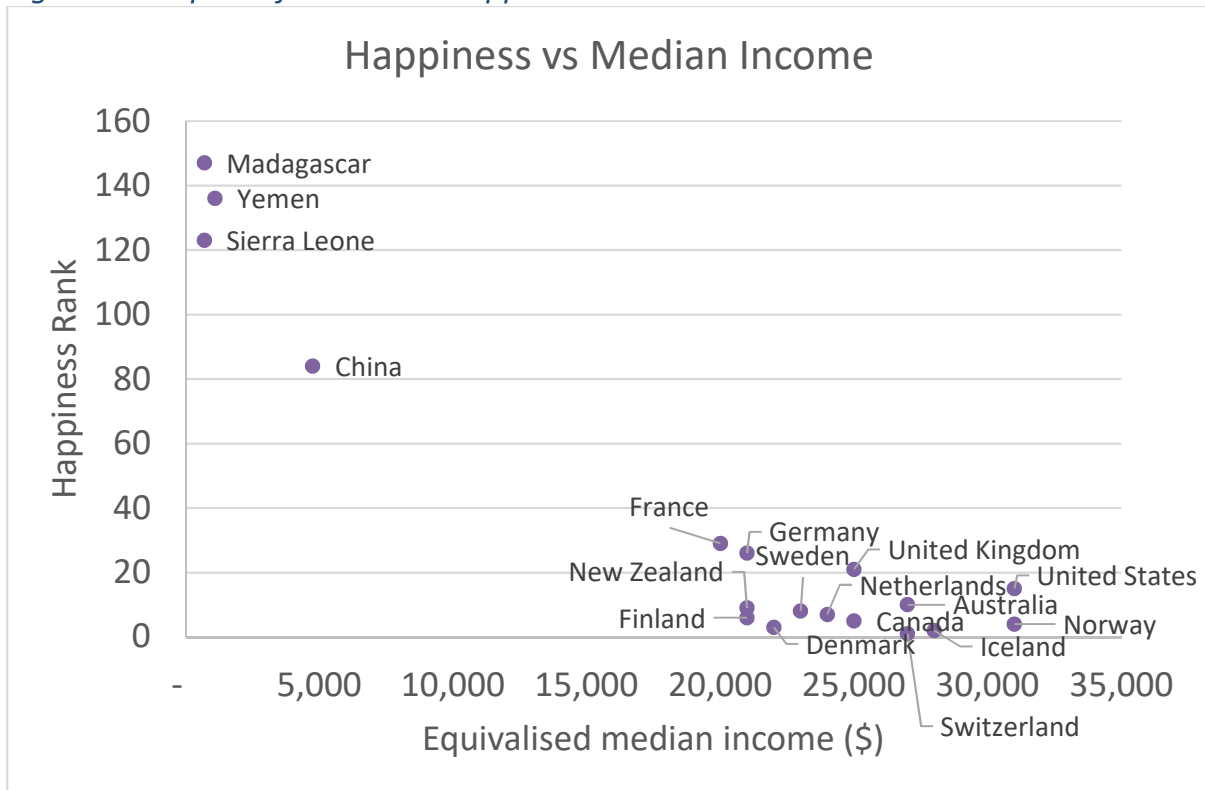
80 (IMF, 2015)

measures such as median income, life expectancy, percentage of the population living in poverty and social mobility.

Median income

The chart below compares each country’s happiness ranking with its median income.

Figure 56: Impact of Income on happiness



Source: OECD⁸¹

Note: The OECD does not give median income data for China, Madagascar, Sierra Leone and the Yemen; these are the author’s estimates

It is clear that where there is a large difference, the higher the income the better the happiness score. Within the high-income countries, however, the picture is less clear. The United States has the highest median income, but it ranks at number 15 in the happiness rankings. Denmark, by contrast, ranks at number 3 but has a median income of only \$22,000.

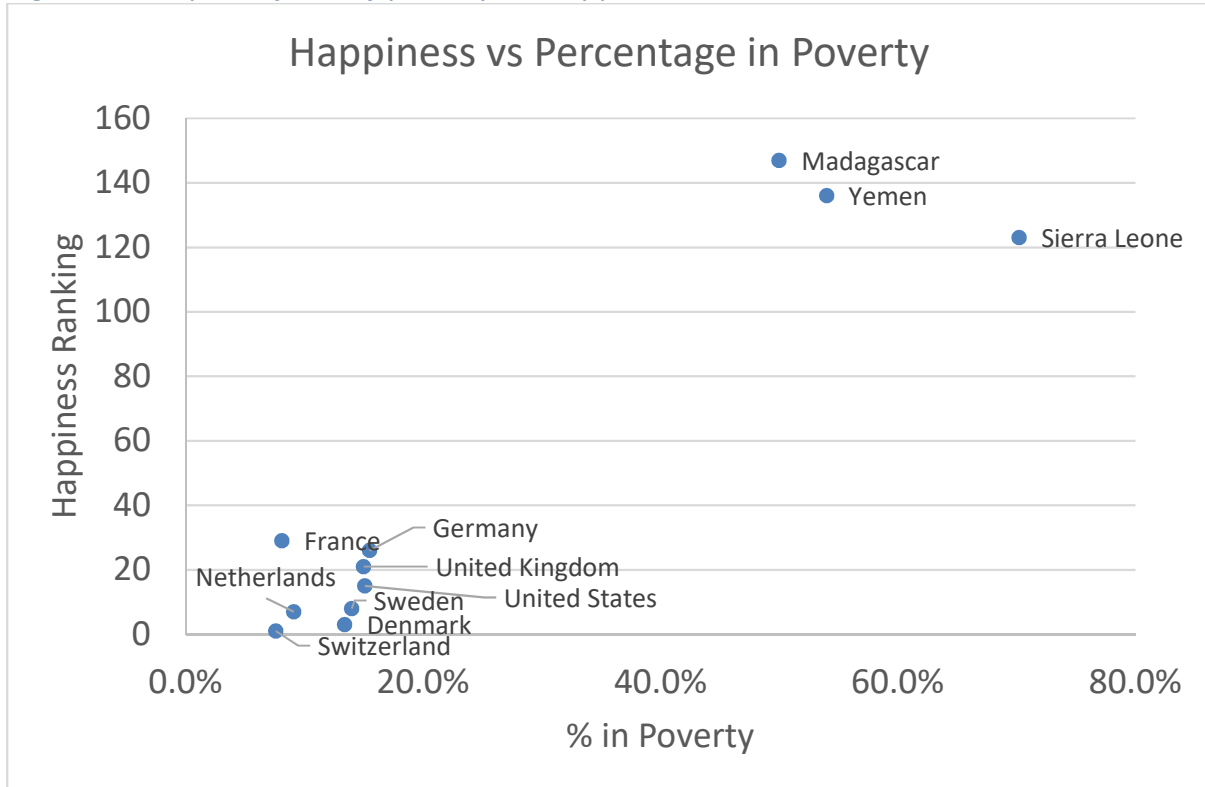
Percentage of the population living in poverty

A different way of looking at the income of the population is to examine the percentage of people in the country who are living in poverty. This picture bears

81 (OECD, 2015)

some similarities to the previous one, but the pattern seems stronger. At the large-scale, those countries where poverty is commonplace score far worse on the happiness rankings; but at the small scale as well, within the group of most prosperous countries, the correlation appears to hold – by and large, the higher the percentage of the population in poverty, the worse the happiness ranking.

Figure 57: Impact of risk of poverty on happiness



Source: CIA⁸²

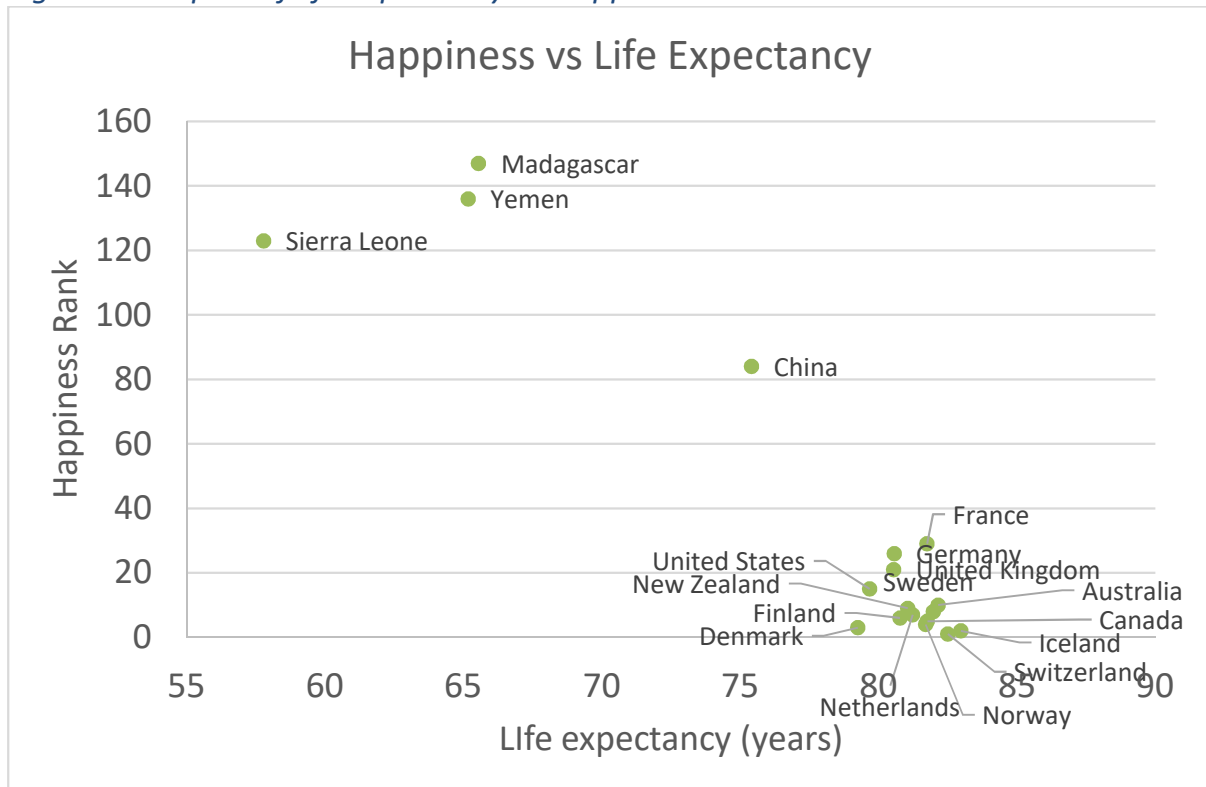
The conclusion is that poverty eradication ought to be a very high priority for all governments – even those in prosperous countries, especially Germany, the United Kingdom and the United States.

Life expectancy

Perhaps unsurprisingly, a country's happiness ranking seems to be quite strongly related to the life expectancy of its people.

82 (CIA, 2015)

Figure 58: Impact of life expectancy on happiness



Source: CIA⁸³

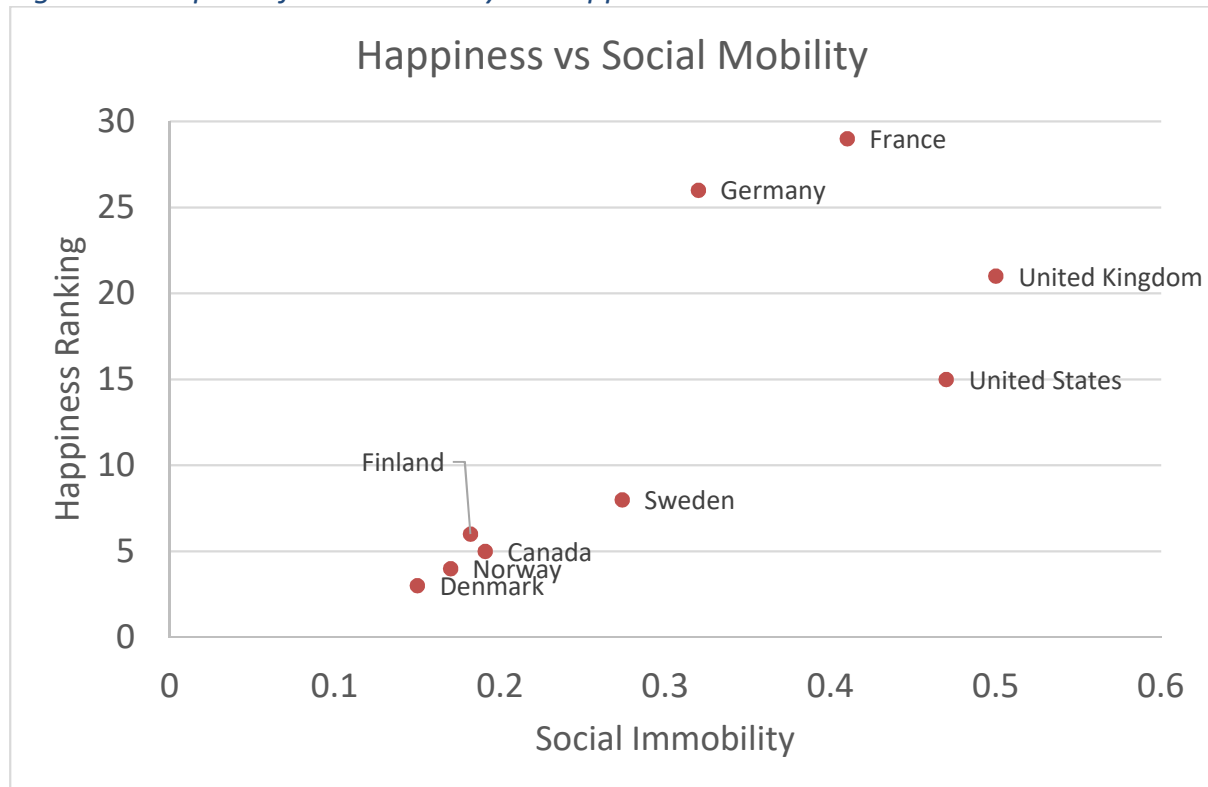
Among the developed countries, all except Denmark and the United States have a life expectancy of over 80 years.

Social mobility

Social mobility, the ability of children to succeed financially even if their parents were not rich, is important to people. The chart shows that the higher the social *immobility* – i.e. the more that a father’s income determines his son’s income – the worse the happiness ranking.

83 (CIA, 2015)

Figure 59: Impact of social mobility on happiness



Source: OECD⁸⁴

The American dream, of course, is a paean to social mobility. Interestingly, the chart shows that of the leading countries, the US scores less well on social mobility than all except the United Kingdom. Conversely, all those countries in the Top 10 for which social mobility data are available have scored extremely well.

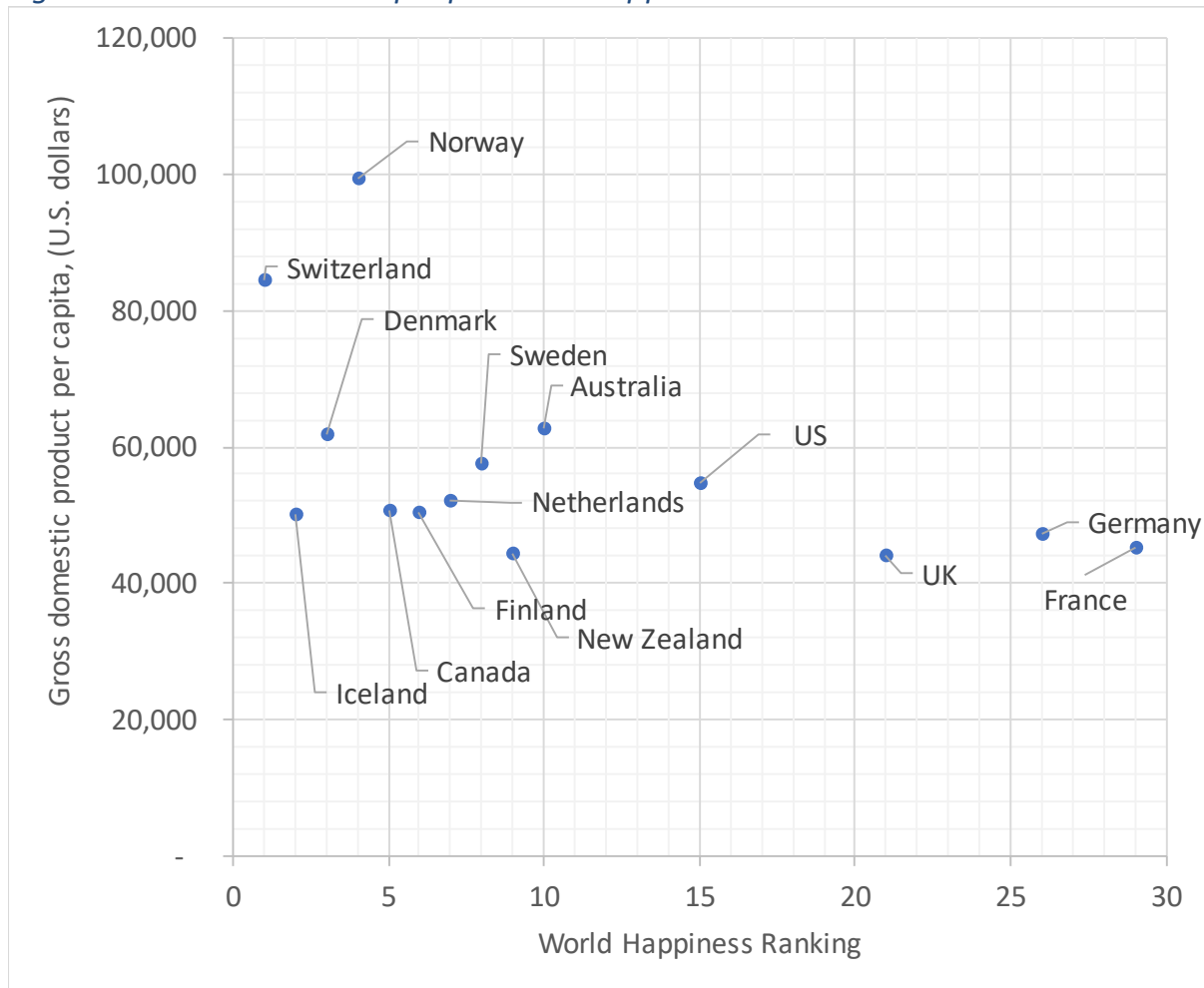
Again, improving social mobility should be a key policy objective even in already prosperous societies, and in particular in the US and in the UK.

Affordability

We have already seen the power of the narrative of unaffordability – even within very prosperous countries – when it comes to discussion of policy choices. This final chart shows that there is no factual basis for such a narrative.

84 (OECD, 2010)

Figure 60: National Wealth per person vs Happiness



Source: IMF⁸⁵; WHR⁸⁶

The United States is about as rich, per person, as every country in the Top 10, with the exceptions of Switzerland and Norway. The fact that the US does not make the Top 10 is not down to lack of money. To a lesser extent, the same point applies to the UK: New Zealand is a slightly poorer country in terms of GDP per capita, but it runs its society in such a way that it is a member of the Top 10, when many richer countries, including the UK, are not.

85 (IMF, 2015)

86 (World Happiness Report, 2015)