

Written evidence – Professor Lord Richard Layard (LBC0306)

The impact of COVID on policy priorities

KEY POINTS

1. In making its policy decisions during the pandemic, **the government** has had to balance the competing claims of keeping people alive and well, supporting the economy, educating our children, and maintaining the mental health of the community (and more). Increasingly people realise that competing claims like these can only be evaluated against some overall criterion. The only plausible criterion is the wellbeing of the people.
 2. **The public** likewise have been forced to re-evaluate their priorities and to reflect more deeply on what things are most important in their lives. This again has led to a greater focus on wellbeing and its most important determinants.
 3. Thus “building back better” should mean “**building back happier**”. And “levelling up” should mean the **reduction of misery** whatever its cause and not simply the reduction of economic disadvantage. In this task the **social infrastructure** will be more important than the physical infrastructure.
 4. The **science of wellbeing** has now reached a point where much is known in quantitative terms about how different life experiences influence people’s wellbeing. This makes it operationally possible to use wellbeing as the criterion for choosing between policy options. The Treasury Green Book now legitimises this approach but it is not being used in practice.
 5. It is in the **political interest** of decision-makers to focus on wellbeing for two reasons. First, the wellbeing of the people has more influence on whether a government is re-elected than the economy does. Second, greater wellbeing will also increase many of their other objectives: productivity, educational attainment and physical health.
 6. An important next step would be a one-off **Select Committee** of the House of Lords to consider what the goal of wellbeing would imply for the conduct of government and the selection of policies.
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An overarching criterion

Governments have multiple objectives. But in the end, they have to decide whether one policy is better than another. Policy A may have a bigger impact on one objective and Policy B may on another objective. How to choose between the policies? The government must implicitly weight the importance of one objective compared with another. It would be much better to make this explicit, by having and applying a single overarching criterion, against which to judge the merit of different outcomes.

That criterion should be the **wellbeing of the people**. There are of course many other good things – health, wealth, freedom and so on. But for each of these goods we can ask ‘Why are they good?’ and expect an answer. For example, health matters because without it people feel lousy. Similarly with wealth, freedom etc. But if we ask ‘Why does it matter how people feel?’, we can give no answer. It self-evidently matters, which is why the subjective wellbeing of the people is the most obvious candidate for the overarching good.

The great philosophers of the 18th century Anglophone Enlightenment came up with just this answer: the ultimate criterion is the happiness of the people – how they feel about their life- the quality of their life as they themselves experience it.¹ As Thomas Jefferson put it “The care of human life and happiness... is the first and only object of good government”².

The typical way of measuring wellbeing is to ask “**Overall, how satisfied are you with your life these days?**” (0= very dissatisfied, 10= very satisfied). This question elicits very similar answers to the question “Overall how happy are you with your life these days?” So when we talk about wellbeing, that is what most policy analysts have in mind.

Fortunately, more and more policy-makers in OECD and elsewhere now consider that policy should be targeted at wellbeing. In 2020 the EU Council of Ministers urged EU countries “to put people and their wellbeing at the centre of policy design”.³ In other words the aim of policy must be to create conditions for the greatest possible wellbeing.

But this approach can only be implemented if we know what causes wellbeing. Until recently there was virtually no quantitative information on this subject, which is why the 18th century ideal could only be implemented crudely even if you believed in it. But over the last forty years a whole new science of wellbeing has developed,⁴ which now tells us enough about the causes of wellbeing for this to become the stated objective of policy.

¹ Bentham (1789).

² Thomas Jefferson to the Republicans of Washington County, Maryland, 31 March 1809.

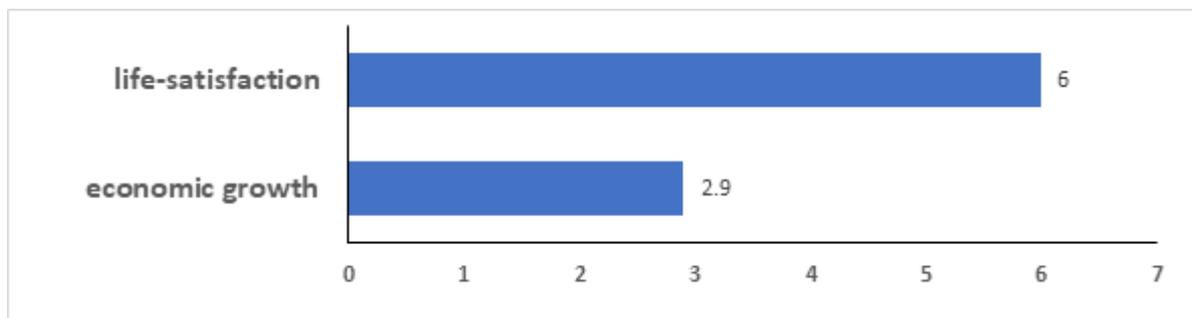
³ Council of the European Union (2019). See also Layard and Ward (2020) pp 76-79.

Political reality

But why would policy-makers want to maximise the wellbeing of society? Isn't their aim to be re-elected? Indeed it is bound to be. But recent research shows that the best way for a government to be re-elected is to maximise the wellbeing of the people. A study of national elections in European countries from 1974 onwards⁵ found that the **best predictor of the government's vote-share in national elections is the life-satisfaction of the people**. The decisive factor is not, as a Clinton aide once said, "the economy, stupid". If we look, country by country, at the variation of life-satisfaction from one election to another, one extra standard deviation of life-satisfaction gives the government an extra 6 percentage points of the popular vote. By contrast, one standard deviation of economic growth gives only 3 extra percentage points of the vote (see Figure 1). So politicians who target the people's wellbeing increase their chances of remaining in (or gaining) power.

Thus it is not pie-in-the-sky to advocate (on ethical grounds) that policy should target wellbeing. For it also makes sense politically, while the new science makes it operationally practicable.

Figure 1. Effect of life-satisfaction and economic growth on the government's % share of the vote
(National elections in Europe since 1974)



Note: Effect of 1 standard deviation increase in each variable on the government vote share (% points)

Source: Ward (2020).

⁴ See for example Kahneman et al (1999) and Clark et al (2018).

⁵ Ward (2020).

Policy-making

In thinking about the priorities for spending, we have to assume that total public expenditure is set by political forces. The task is therefore how to spend this total in the way that produces the most wellbeing. That means choosing those policies which produce the **most wellbeing per pound spent**. There would be some cut-off value for the cost-effectiveness of policies, and policies would only qualify if their ratio of wellbeing-benefit to cost exceeds the cut-off. Similarly, the redistribution of income would only proceed until further redistribution began to reduce total wellbeing. And there would only be regulations when this would increase total wellbeing.

This approach is less revolutionary than it might appear. It has in fact been standard practice in the health field. Health states are evaluated for their quality-of-life (on a scale of 0-1) and medical treatments are evaluated in terms of their impact on quality-of-life-adjusted life-years (or QALYs). They are only approved if they produce enough QALYs per pound spent.⁶ The wellbeing approach is essentially an extension of this method.

There are of course important differences. Wellbeing is how people feel about their whole lives, not just their health. And we are looking at the effects of every aspect of policy, not just healthcare.

Some of these effects are economic. So how does the wellbeing approach differ from traditional cost-benefit analysis, where benefits are measured in units of money? Unlike the traditional approach, the wellbeing approach can cover the whole range of public expenditure. By contrast, traditional cost-benefit analysis can only be applied over a narrow range of issues where the benefits either have an actual price, or a value which is implicit in the choices people make. This condition is not satisfied in most of health, social care, child protection, law and order, the environment and redistribution. Indeed, the reason the state is active there is precisely because in these areas market valuations and outcomes would be sub-optimal. So in these areas there is really no alternative to wellbeing (directly measured) as the criterion of benefits.

However, traditional cost-benefit is a totally valid way of measuring benefits in those areas where it can be applied. So the two approaches are complementary and they can be combined by transforming the money measures of benefit (derived from traditional CBA) into wellbeing measures by multiplying them by the marginal impact of money on wellbeing.⁷ Fortunately the British Treasury's Green Book manual of policy analysis now endorses 'social wellbeing' as the goal

⁶ The UK's NHS provides treatments approved by the National Institute of Health and Clinical Excellence (NICE) using the QALY framework.

⁷ What economists call the 'marginal utility of money'.

and approves the use of direct measures of wellbeing as well as their monetary equivalents.⁸

Social justice

I shall turn to the evidence on wellbeing shortly, but at this point we have to confront a difficult issue. Is total wellbeing really the goal? Or should we not pay more attention to the prevention or relief of misery? In other words, is it more important to raise the happiness of someone who is miserable than of someone who is already happy?

Jeremy Bentham, the founder of the wellbeing approach, opted for the total sum of wellbeing as the goal. But many modern thinkers would take a more egalitarian approach.⁹ They argue that it is more important to increase the happiness of those who are more miserable than to increase the happiness of those who are already happy.

There are two practical ways of implementing this more egalitarian approach. One is to measure social welfare not by total happiness, but in a way that gives less value to additional happiness the happier a person is.¹⁰ So when policies are being analysed, their value would be subject to **sensitivity analysis** to see how their comparative claims change as the analysis becomes more egalitarian.

Another, more practical approach, is to **focus the search for new policies more heavily on areas of life which account for the greatest amount of misery in society**. This, in essence, is what the New Zealand government has done in its wellbeing budget from 2019 onwards.

The science of wellbeing

That brings us directly to the evidence base for selecting the areas for new policy development and for evaluating them.¹¹ What are the main determinants of wellbeing? And what are the main causes of misery? Our team at LSE recently analysed major longitudinal surveys in Britain, Germany, Australia and the US. The findings were similar in all these countries, and Figure 2 gives the results for Britain. It shows how each factor – mental health, physical health, employment, quality of work, relationships, income and education - contributes to the inequality of wellbeing, holding the other factors constant. A parallel analysis

⁸ UK HM Treasury Green Book (2020) and HM Treasury (2021).

<https://www.gov.uk/government/publications/green-book-supplementary-guidance-wellbeing>

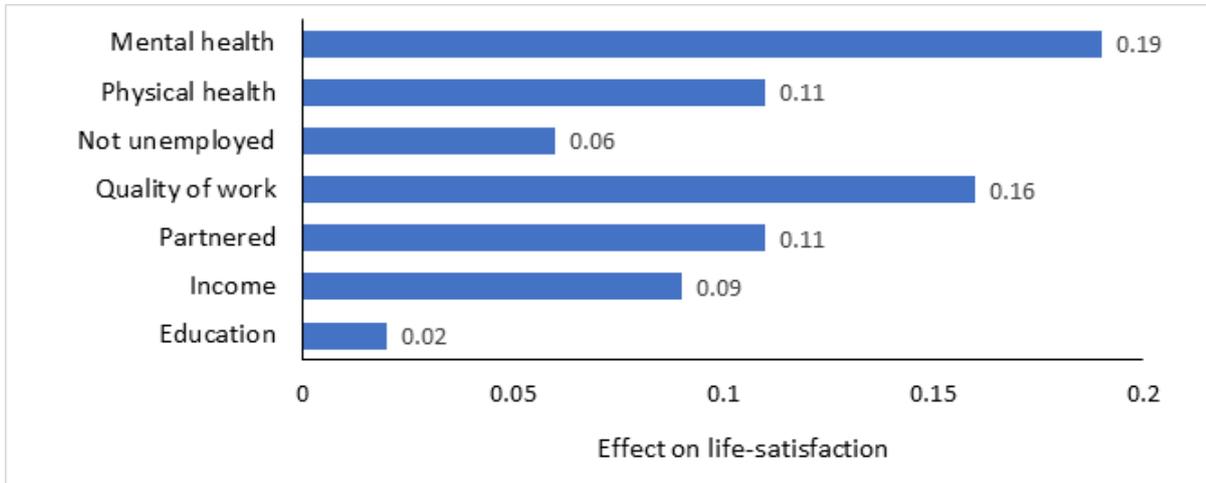
⁹ Parfit (1979).

¹⁰ So social welfare would be not $\sum W_i$, where W is wellbeing. It would be $\sum f(W_i)$ with $f' > 0$ and $f'' < 0$. One version of $f(W_i)$ is W_i^a/a , with $a < 1$.

¹¹ See for example Clark et al (2018) and Frijters and Krekel (2021)

shows how much each factor contributes to the prevalence of misery and the ranking of factors is the same for each analysis.¹²

Figure 2. What matters for wellbeing?
Partial correlation coefficients



Source: Clark et al (2018).¹³

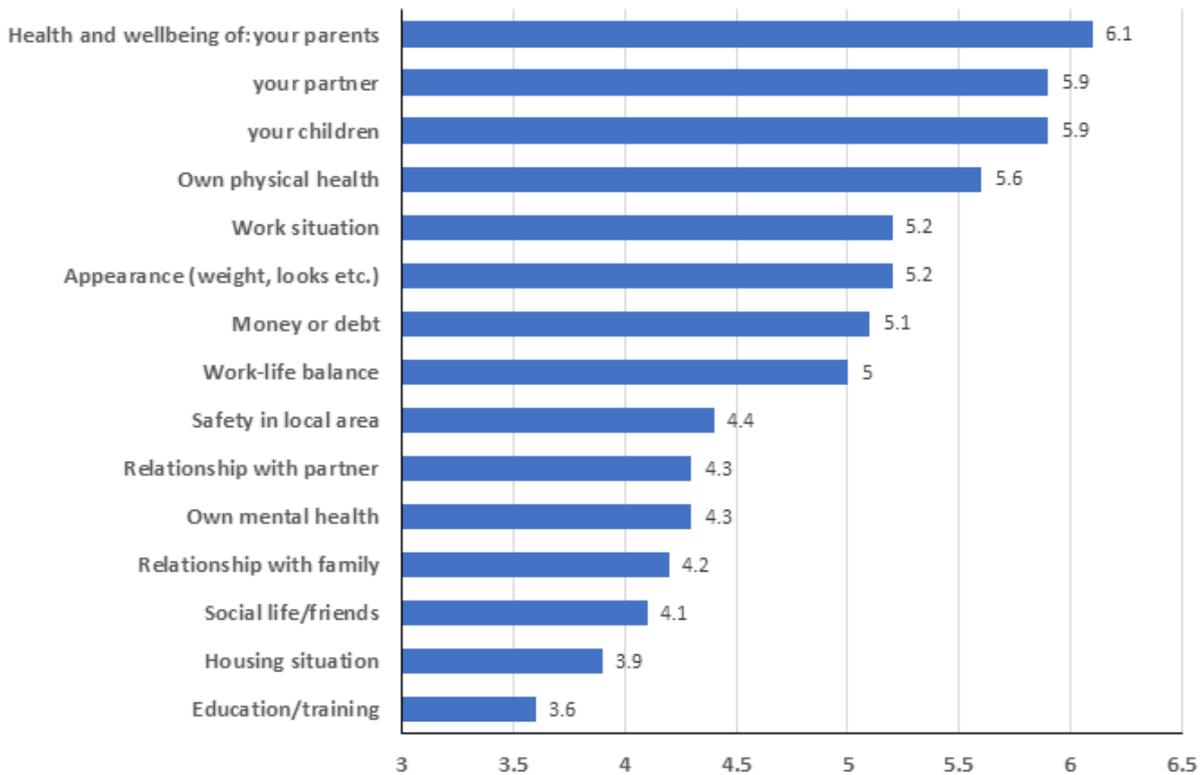
Thus, as Figure 2 shows, **more of the misery in our country is due to diagnosed mental illness than to any other factor** – and physical illness is also important. Next come **human relationships** - at work and in the family - and only then comes income. This finding is repeated in country after country. It is also reflected in people’s responses to COVID-19. So we need a **new, broader concept of deprivation** – the inability to enjoy life for whatever reason, rather than just because of poverty.

An alternative approach to priorities is to simply ask people “How much do you worry about the following issues (0 – never, 10 – a lot)?”. The results for a representative UK sample before COVID-19 are shown in Figure 3. They broadly confirm the ranking of priorities shown in Figure 2.

¹² Clark et al (2018) Table 16.1.

¹³ On the quality of work see p.74; $0.16 = (0.4/1.9) \times \text{Labour force participation rate}$.

Figure 3. “How much do you worry about the following issues (0 never, 10 a lot)?”



Source: Oxford Economics, What Do We Worry About Most? (2018). Survey by NatCen.

Many of our adult characteristics are laid down in childhood, which makes it pertinent to ask which aspects of child development best predict a happy adult life? The answer is that **emotional health at 16 is a better predictor of a good adult life than all the qualifications a person ever gets.**¹⁴ But how can we influence a child’s emotional health? The evidence is striking: **primary and secondary schools (and their teachers) affect the emotional health of children as much as their parents do.**¹⁵

The policy implication of all this is clear. Policy-makers should give much lower priority to long-term economic growth and much higher priority to the services which sustain mental health, physical health, child development, family life and elderly care. It is the **social infrastructure** which matters most, not the physical infrastructure (as so many politicians wrongly seem to assume). To level up those areas which are left behind it requires better services more than better economic infrastructure. And our education system should teach more than the skills of earning a living – it should teach the skills of life.

¹⁴ Clark et al (2018). Figure 1.2.

¹⁵ Clark et al (2018). Figure 1.5(b).

Experiments

But precisely how should we spend the money for these important aspects of life? We can only know what works by the process of experiment. It is not enough to address the right problem and to have good intentions. The next step in advancing wellbeing is through conducting **thousands of experiments** to discover which policies make the most difference to wellbeing per pound spent. Let me give a few examples.

In British schools there have been a series of attempts to **teach life skills**. The last Labour Government introduced a programme called Social and Emotional Aspects of Learning (SEAL). Its impact was evaluated in secondary schools and found to be zero – no effect on emotional, behavioural or academic outcomes.¹⁶ The reason was identified as insufficiently structured materials and a lack of teacher training. By contrast, a more recent 4-year weekly curriculum in secondary schools called Healthy Minds was found to raise the student's life-satisfaction by 0.4 points (out of 10). If we convert this into a measure of quality-of-life, the cost per extra QALY was only £1,000 – well below the standard criterion of around £25,000 for additional health expenditure.¹⁷

Turning to adults, hundreds of clinical trials of **modern psychological therapy** show 50% rates of recovery for depression or anxiety disorders after an average of some 10 sessions. They also show that the patients treated will work on average one additional month over the next two years as a result of the treatment. This generates enough additional income to cover the cost of the therapy. On this basis, Layard et al (2007) proposed a programme of Improved Access to Psychological Therapy. When implemented, the results of the trials were repeated in the field.¹⁸

Clearly the same experimental approach should be used by voluntary organisations as by public policy-makers. For example when the Action for Happiness movement's Exploring What Matters Course was evaluated, it was found to increase life-satisfaction by over 1 point (out of 10).¹⁹

One general point needs to be made about social experiments. Even if the experimenter's main target is not wellbeing, wellbeing should always be measured throughout the experiment.

¹⁶ Humphrey et al (2010).

¹⁷ Layard et al (2018) and Lordan and McGuire (2019).

¹⁸ D.M. Clark (2018). Layard and Clark (2014).

¹⁹ Krekel et al (2021).

The length of life and WELLBYs

Throughout COVID-19 a key question has been how much we value the saving of life. So our measure of the impact of policies needs to take this into account. How? We want people to have lives which are long and full of wellbeing. So the simplest approach is to say that we want for each individual the **maximum total wellbeing-years**, where we simply add up the wellbeing in each year of their life. A natural acronym for wellbeing-years is WELLBYs, (just as medics talk of QALYs measuring quality-of-life-adjusted life years). So we wish that each life will have the largest possible number of WELLBYs. (If the effects are distant – a pure social time-preference rate of say 1.5% a year needs to be applied).

This approach has huge implications for policy, especially for policies involving safety and the risk of death. At present the value of life in terms of money is derived from one of two methods:

- (i) People's preferences, revealed by how much more they would need to be paid to do a job with a higher-risk of death, or
- (ii) People's stated preferences when asked what they would pay for a reduced risk of death.

These methods involve major assumptions. By contrast, the wellbeing approach is very simple: it simply examines the change in WELLBYs.²⁰ And it implies a very different trade-off between money and life-years from that implied by traditional methods. In the wellbeing approach an extra year of life is of equivalent value to around £750,000.²¹ By contrast, existing methods yield values well below £100,000.

Which approach is the more plausible? Traditional values, for instance, would not justify a lockdown to save lives threatened by COVID-19, while the wellbeing approach would.²² And **public opinion supported the lockdowns. So the wellbeing approach would seem to be in tune with public opinion.** Thus it does seem that future policies should give more weight to the preservation of life relative to other objectives – compared with what happened before COVID. This does not mean an increase in public expenditure, which we take as given. But it does mean a rebalancing.²³

²⁰ Dolan (2011).

²¹ In a typical wellbeing equation, Wellbeing = 0.3 log Income. So $d\text{Income} / d\text{Wellbeing} = \text{Income} / 0.3 = \text{say } £100,000$. And the typical life-year provides 7.5 WELLBYs. See Layard and Oparina (2021).

²² Dolan and Jenkins (2020).

²³ If benefits are measured in WELLBYs, the monetary equivalent of a life-year does not appear directly in the calculations, but it is implicit.

The effect of wellbeing on other goods

We have so far focused single-mindedly on wellbeing as the overarching good. We need recruits to this view! But, even if you do not buy that, you should take wellbeing very seriously because of its good effects on other things you value. So here are some important facts.

- **Education.** Making children happier makes them learn better.²⁴
- **Health.** Your wellbeing predicts your subsequent longevity better than a medical diagnosis does.²⁵
- **Productivity.** Greater wellbeing increases productivity.²⁶
- **Family/Social cohesion.** Happy people create more stable families, and happy people are more pro-social.²⁷

The new organisation of policy-making

So, if a government wanted to implement the wellbeing approach, what new procedures would it need? Bids for public money would need to be justified by their effects on wellbeing, and this would apply to current as well as to capital expenditure. Officials would need help in making these estimates. So the Treasury would need to include a Wellbeing Appraisal Group to help train departments in how to make their proposals – and then to vet them when they arrive. At local level there would be Local Wellbeing Agreements between local authorities and local social services about how to raise the wellbeing of residents. There would be an annual report to Parliament on how the nation's wellbeing had developed – and how government policy had impacted on it.

Research on wellbeing

At the same time it will be crucial to expand the knowledge base available to policy-makers and to expand the workforce of analysts well-versed in wellbeing. This requires more funding from UKRI. Cost-effective funding should include a **multi-university wellbeing research institute**. This would bring together brilliant researchers from psychology, sociology and economics to tackle the major problems of modelling the wellbeing of the population. The research would be both proactive, and reactive to the need of policy makers. An institute would

²⁴ The best evidence comes from interventions to improve wellbeing. See Durlak et al (2011), Hanh and Weare (2017), Adler (2016) and Frederickson and Branigan (2005).

²⁵ For UK data see Steptoe & Wardle. (2012). On USA see Lee and Singh (2020).

²⁶ Bellet et al (2020).

²⁷ Idstad et al. (2015),

provide a career path for people joining this new field. And it would provide a user-friendly contact point for policy-makers.

Conclusion

The wellbeing approach is not new. Its adherents have included William Beveridge, architect of the British welfare state. But now its time has really come. There is an explosion of articles (academic and popular) on both wellbeing and mental health. And more and more universities around the world are teaching the subject, producing a body of trained analysts able to apply these ideas to policy. The OECD have persuaded all member countries to measure the wellbeing of their people.²⁸ The governments of five countries have formed an alliance called the Wellbeing Economy Governments partnership (WEGo).²⁹ All these countries are small. It is time for a large country to give a lead.

²⁸ OECD (2013).

²⁹ Scotland, Iceland, New Zealand, Wales and Finland. <https://weall.org/>

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