

World Knowledge Forum 2012

10 October 2012 The New Economics for Humanity

SEOUL, SOUTH KOREA—On October 10th, 2012, Cass Sunstein, Professor at Harvard Business School and former Administrator of the White House Office of Information and Regulatory Affairs of the Obama administration, posed the following question to his audience taking part in the 13th annual World Knowledge Forum: "How satisfied are you with your life?"

The answer to this question, along with its relevance to government policy issues, was subject to a spirited debate between Professor Sunstein and Dean Karlan, Professor of Economics at Yale University and founder of Innovations for Poverty Actions, Todd Buchholz, former White House director of economic policy and author of the best-selling book *Rush*, and Tyler Cowen, Professor of Economics at George Mason University.

The panelists discussed the relatively new discipline of "the economics of happiness" – a discipline that, according to Professor Karlan, is the "most important outcome to look at" when governments or institutions analyze the effectiveness of certain new policies.

Prof. Sunstein opened the forum by laying out the foundations of this new sort of economics, which is based on utilitarian philosophy. According to Prof. Sunstein, the economics of happiness seeks to "measure how much distress or happiness people experience."

Within such a framework, he noted that chronic pain and mental illnesses are "extremely difficult and very rough." As such, he advocated that governments consider mental health issues when discussing policy positions.

Prof. Karlan also championed happiness as an integral factor in driving anti-poverty measures. He told the audience that he "always cringes" when people talk about eradicating poverty. Instead, he explained that the philosophy at Innovations for Poverty Action is "thinking smaller is the best way to think bigger."

Prof. Karlan's organization provides microcredit to impoverished households around the world. "One of the things we found with microcredit is that it has not lived up to its promise in terms of lifting people out of poverty," he said, acknowledging the limitations of his program. "But in two studies, we found that it increased people's happiness," which demonstrated that despite its limitations, microcredit is still effective as an anti-poverty measure.

In sharp contrast to Profs. Sunstein and Karlan, Mr. Buchholz dismissed this focus on happiness as dangerous. "The concept of governments getting in the business of defining, proclaiming happiness is a very dangerous place to go," he said. To further emphasize his point, Mr. Buchholz noted that "Joseph Stalin called himself the 'constructor of happiness.'"

Instead, Mr. Buchholz wants to see a more concerted effort to maintain traditional areas of economics. "I think we need to be careful in giving up standard tools of economics without first exhausting them to try to understand what's going on in the economy," he said.

Mr. Cowen also voiced his disagreement with the current state of this discipline. He argued that measures of happiness can easily be tainted by a sampling bias, asking "Can you see an old man dying on a hospital bed filling out one of these surveys?"

Mr. Cowen was deeply skeptical of efforts to identify standard measures of happiness, especially over time. He cited China as an example, explaining that despite the great economic gains that the Chinese have experienced in the last three decades, their recorded levels of happiness were no better than those recorded twenty years ago.

In the end, Mr. Cowen went on to suggest that it was "absurd" for the audience to be listening to a talk about happiness.

In spite of Mr. Cowan's strong objections, Mr. Karlan said that happiness still has a prominent role to play in shaping policy, stating that he wants to see policies that are "all about reducing the number of people who cry at night."