

“The Determinants of Subjective Well-being at the International Level.”

Éric Noël – Senior Vice President North America, Oxford Analytica (enoel@oxford-analytica.com)

Eric Noël presented the results of the Legatum Prosperity Index (www.prosperity.com ; website has data, methodology and various applications including country scorecards and tools to simulate new ones).

Launched by London-based Legatum Institute, the Prosperity Index is the first global index to gauge the success of a country based on both its happiness and national income. Since 2007, Oxford Analytica has performed methodology development and global research to support it. For 2010, the Prosperity Index was estimated for 110 countries. Norway, Denmark, and Finland (in order) were the top three countries. Canada was ranked seventh while the United States was tenth. At the bottom of the Prosperity Index were the Central African Republic, Pakistan, and Zimbabwe. To calculate the Prosperity Index, Oxford Analytica used eight sub-indices (economy, entrepreneurship and opportunity, governance, education, health, safety and security, personal freedom, and social capital) and scored 89 standard variables (mostly objective data) with demonstrated effect on economic growth or personal well-being. Only about 30 of those variables can be affected by government policies.

It appears that successful countries enjoy a virtuous cycle of self-reinforcing drivers: political freedom, good governance, economic liberty, enterprising and healthy citizens. Choice and opportunity matter a lot, and life satisfaction calls for a limited but wise role of the state.

Noël notes that the top countries in the Prosperity Index exhibit little variation across the 8 sub-indices whereas for the lower-ranked countries there was much higher variance. For example, no country in the top 10 places below the top 30 on any of the sub-indices. Noël described this as evidence that prosperity is associated with balance between economic and social indicators. By promoting economic prosperity, they promote happiness and visa versa.

The key finding of the Prosperity Index is that prosperity is a blend of wealth and happiness, but not as one might think. Material wealth cannot be explained only by economic factors, and happiness cannot be explained only by subjective emotions. Noël explains that it is a blend of economic factors and subjective emotions that explains material wealth and happiness. For example, trustworthiness is strongly linked to economic performance since high levels of trust in a society are necessary for trust-based capital markets to function. Increased level of tolerance towards immigrants results in higher levels of GDP per capita. Employment status, domestic savings rates, internet connectivity and other economic factors influence how satisfied people are with their lives. Noël also notes that prosperity is found in entrepreneurial democracies that have strong social fabrics. The ranking of countries based on the entrepreneurship and opportunity sub-index is more correlated with the overall ranking than any other sub-index. He suggested that this provides evidence that entrepreneurship is important in bringing about prosperity in countries based on both income and happiness. Levels of entrepreneurship and access to new opportunities provide the best proxy to understanding how prosperous a country can be.

Noël analyses that happiness is mostly about opportunity, good health, relationships, and the freedom to choose who you want to be. The ability to build trusting relationships and participate in social networks contributes more to life satisfaction than being helped by a stranger through donations or volunteering. The ability to freely move, worship and choose one's way in life matter more to people's sense of satisfaction than how tolerant their country is. People's capacity to participate in their political systems affects their levels of personal wellbeing more than how much corruption they perceive in their local government and businesses.

When growth occurs as a rewarding output to people's productive pursuits, happiness also follows suit. Remarkably, the process of creating wealth through hard work, creating endeavour and taking risks is more important to happiness than the wealth the process actually creates. Noël emphasizes that fast growth however does not lead to more happiness. Statistically, GDPs that grow too fast are often accompanied by social instability and correlated with lower levels of wellbeing. Thus, while fast growing economies may improve societies, GDP growth pursued through narrow top-down policies that do not take citizens wellbeing into account, may lead to a decrease in a nation's prosperity.

Noël concludes with a few words of warning on issues that require further research and careful consideration. He questions whether there is such a condition as income satiation. Also, when linking variables to happiness, "correlation" is not always "causation". Furthermore, we shouldn't underestimate adaptation. People go through tough times, tolerate poor living standards and yet find resolve and peace.

He warns not to confuse "life satisfaction" and "life statisfaction". Government policy is not about raising individual happiness in a paternalistic way, but to improve the liveability of citizens' environment, notably living conditions conducive to earned success and human flourishing. Whatever Canadian happiness index we use, choosing between fixing the state of a miserable minority, versus maintaining a satisfied majority, will always be a difficult public dilemma.

***Les nations ont le sort qu'elles se font. Rien d'heureux ne leur vient du hasard. Ceux qui les servent sont ceux qui développent leur force profonde.
Édouard Hériot (1872-1957)***

(Nations make their own destiny. Nothing happy comes from luck. Those who serve them are those who enhance their deep strength.)