

Money: the root of all happiness? A speech by Gerard Lemos, Chair, Consumer Financial Education Body, at Royal Society of Arts on Wednesday 9 February 2011

This year is the 400th anniversary of the publication of the King James Bible.

So I intend to follow in a 400-year old tradition tonight – and misquote from the King James Bible.

The 1611 version didn't actually say 'money is the root of all evil.' But everybody thinks it did.

It *definitely* did not say that money is the root of all happiness. But I'm going to argue that it can be.

Before I explore that idea, I'd like to thank everyone for coming.

Money, hope and despair

Gallup and the Worldwide Independent Network of Market Researchers published a survey three days before Christmas. It was their annual survey of international economic prospects. Called – magnificently – the Global Barometer of Hope and Despair.

The nation most hopeful for 2011 was – wait for it - Nigeria.

And the nation most despairing – France. Overwhelmingly, the most prosperous nations in the survey were the gloomiest about the future.

Not for nothing is *ennui* a French word.

But in case I insult anyone in the audience, *joie de vivre* is also a French term – and it's *joie de vivre* we're concerned with tonight.

In a speech in 1968 Robert Kennedy said that 'GDP measures everything except that which makes life worthwhile.'

It's a bit more complicated than that.

I suspect most of us here this evening would find it pretty hard – without much money – to live a life that felt worthwhile.

So the interesting question is not *whether* money is important. Of course it is. But *why* is it important? What difference does money really make? I think we pretty much know the answer to that.

Indicators of happiness

Psychological studies suggest that wellbeing – or happiness – resides in the interplay between your *personal characteristics* and, much more significantly, *objective* and *subjective* indicators in various *life domains*.

All these life domains you could guess without the benefit of a psychology PhD:

- work,
- housing,
- mental and physical health,
- safety,
- leisure,
- family contact and other social contact.

And of course, finances. Money.

Objective indicators are easy to measure and make up *objective quality of life*.

But here comes the interesting thing: The regression analyses – and I promise not to bore you with those – show that subjective quality of life indicators measured on the same domains have a far greater impact on wellbeing than the objective indicators.

In other words, the question is not, '*how big is your house or car?*' but, '*how satisfied are you with your house or your car?*'

You might have a job which involves working long hours, but you love your work – I expect that includes some people here tonight.

That's better than working part-time in a job you hate....And so on.

Subjective satisfaction is the key thing here.

Of course you then have to ask, so what affects satisfaction?

And that's the really interesting part.

I bet you didn't think you were coming to a poor man's version of the Oprah Winfrey show, did you? But here goes.....satisfaction depends on

- Self-esteem
- Autonomy
- Feeling on top of your environment
- Having a purpose in life
- Personal growth

There you have it. These are the things that make the difference.

From this perspective perhaps we can begin to see why one might be happier living in a poor but lively neighbourhood in Rio de Janeiro, with lots of fiestas and weddings, than in a pristine but lonely suburb of Palm Springs.

There's one other factor we have to mention here that has a big influence on happiness and that is social capital.

Money and social capital

Having friends and family is important. Extremely important.

Feeling that your life is as good as the lives of your family and friends is even more important.

Keeping up with the Joneses is quite good for your wellbeing actually.

It's good to make some new friends too. As the composer John Cage wisely noted, *"If you want to make the world a better place, spend more time with people you haven't met yet."*

So where does money fit in to all that?

John Paul Getty, who knew a thing or two about money, was perhaps one of the first to make the connection between social and financial capital – however inadvertently – when he said *'money isn't everything. But it sure keeps you in touch with your children.'*

Those of us not as rich as John Paul Getty but similarly blessed with lovely boomerang kids know how true those words are.

Money helps. But the relationship between money, wellbeing and happiness isn't only about quantity it's about quality.

Quantity, happily, is not one of my responsibilities. Quality – in the sense of how people manage their money – is.

Money, debt and wellbeing

If you look at how we manage our money, you'd think we wanted to be unhappy

- Seven out of 10 couples don't discuss their finances.
- Seven out of 10 people are unprepared for an unexpected drop in income. (The number of people who say they have no spare cash rose by six percentage points in a year to 27%, according to the latest of Neilson's consumer confidence surveys.)
- More than 8 out of ten don't think their state pension is going to be enough...
- ...But a third of them still aren't budgeting for their retirement.

So, us behaving like ostriches is less surprising when you take into account our general financial ignorance.

- Seven out of 10 mortgage holders wouldn't know how much more they'd have to find each month to cover a one per cent increase in their interest rate.
- Some don't even know if they've got a fixed rate or variable or discounted or tracker mortgage.
- Two out of every five people have no idea what an annuity is.

The situation is obviously even worse for people in debt.

The Foresight project on mental capital recognised debt as a significant risk factor for mental disorder. It found mental health is improved by quality time spent with family, friends, colleagues and neighbours. But declines with debt and money worries.

Financial Services Authority research has made a broader connection between money and mental health. The analysis it published in 2009 – looking across 16 years of the British Household Panel Survey – found lower financial capability was associated with higher risks of ill health related to anxiety and depression – *regardless of the level of income.*

The authors even managed to put a figure on it.

Respondents who felt moderately in control rather than out of control of their finances were 15 per cent less likely to suffer from ill-health because of anxiety and depression. And that's a big difference.

Our new research

Today we have published a new analysis of the British Household Panel Survey.

The Institute for Social and Economic Research has mined the data again to explore the long term impact on happiness of financial capability. The main conclusion is that poor money management skills have pretty negative consequences. No surprise there.

This new analysis shows how a person's financial capability at any given point in time doesn't just have an immediate effect on their wellbeing. It has longer lasting consequences for income, living standards and savings behaviour. And while satisfaction with life improves with improving financial capability, past mistakes still leave their scars.

For some people it's even worse. Left to their own devices, many people who are struggling with money today continue to struggle tomorrow. And they will still be struggling years later.

The damage that this does is like smoking – it accumulates over time.

But there is a more optimistic similarity with smoking.

If you quit smoking your body begins to repair itself immediately. Over time, it returns towards the state it was in before you first lit up.

It's similar with money management. Act now and there is an immediate effect. And the sooner you act, the greater the benefit for a longer period of time.

Every cigarette you don't have is doing you good; every bad financial decision you don't make is doing you good.

But you can't get away from it. As far as money is concerned we have inadvertently concocted a recipe for unhappiness, heaven help us.

That's partly because the market has changed and so has consumer behaviour.

There has been a huge change in our spending habits. We save less and spend more. Our lifestyle choices; the availability of credit and consumer goods; the complexity of financial products – all these things have changed dramatically.

Speaking for myself, I don't regard all this as altogether a bad thing. We want competitive, innovative retail financial services market and we want people to have access to responsible credit.

If it's good enough for some then it's our job to make it good enough for everyone.

Solving this conundrum is what attracted me to CFEB.

Most people know what makes them happy. But what we know is not reflected in what we do. It's not reflected in our behaviour. So how do we align knowing with doing – attitudes with behaviour?

Let me put it another way.

In a moment of bleak honesty towards the end of her life the great Anglo-Irish novelist Elizabeth Bowen said that she had '*sought out sensations but withstood emotions.*'

The question for us – in the age of instant gratification – is how can we help people withstand sensations but seek out emotions? Emotions like happiness.

A new approach

It's pretty clear to me that traditional policy approaches won't make much of an impact on this problem.

First, because people are complicated.

Traditional levers use tax incentives or tax penalties to manipulate choices in a certain direction. But choice is much more complex now and people don't always act in the rational way that classical economic theory predicts they will.

Second, because society is less vertical and more horizontal.

We are increasingly getting our information from our peers – many of whom we don't even know – rather than from government, teachers or parents. Of course, the digital world has given us access to hundreds, thousands, millions of voices. We aggregate and amplify the noisy crowd all the time.

Influences from authority are much reduced. Again I don't think that's such a bad thing. A little less deference and a little more free thinking is good for your health, I reckon.

The third reason we need a change is because the traditional policy approach is to compartmentalise groups in order to target action.

But we don't fit so easily into social compartments anymore. People are less willing to be defined by their age or their ethnicity or their social class.

It is not as easy as A, B, C1 anymore.

The Money Advice Service

Put all this together and I think the task of financial education – of raising financial capability – is not just to steer us away from bad decisions, but to enable everyone to achieve their aspirations.

That's why I don't see my organization as just a problem-solving service. We are also, as it were, a happiness service – an aspirations service.

Our job is not just to make people's problems smaller, but to help people to make their lives bigger.

The landmark review of financial advice conducted by Otto Thoresen in 2008 was enormously helpful in pointing the way ahead for us. Building on Otto's work we are about to morph CFEB into the Money Advice Service

We have chosen this name and this approach very carefully.

- We don't want to just give out information. We want to provide advice. Advice that leads to action. Though we will obviously not cross the regulatory boundary.
- We want to provide money advice to everybody that wants it – not just those who can afford it or those in the greatest need but the huge majority in between as well.
- We want people to know our service is unbiased and we want them to know we are not trying to sell you anything.

So these are our watchwords:

- Unbiased
- Universal
- Aspirational

We want our service to be available when, where, and how people want it – so we will be re-launching our online offer from scratch.

And we want it to be a personal service based on a brand new financial health check tool that we're developing and which we'll launch in the spring.

We'll need all your help – in the industry, in government and in the third sector – to promote the health check tool to as many people as possible.

Our intention is that millions of people will use our website as their online destination of choice for money management and financial planning.

These are all demanding, ambitious plans. But we need to go even further than that.

If we want people to take decisions – not just receive information – we need to be there for people when their lives are going through a transition.

We have done good work for people becoming parents and for people getting divorced and separated. We will build up our service at these key life transitions. In particular, we are building an offer for young people as they move into adulthood.

Adding value

We're funded by the levy on the financial services industry and that is a huge privilege in these dark economic times. We absolutely must demonstrate in return that we are making a difference and that we are value for money.

We'll do that in three ways.

First, by tracking who does what as a result of our advice and reporting on that.

Second, by working with and through others wherever we can and by making sure we don't duplicate what others can do better than us.

Third, by making good use of what we learn. Our frontline contact with consumers means we'll be the canary in the coalmine. We'll be picking up the early signs of any new issues emerging, which we can raise with the industry and the FSA – and the CPMA before long.

Over time – by analysing every single click and question – we'll be building up intelligence from hundreds of thousands of connections and conversations with people about managing their money.

We are going to have a vast and unique pool of insight and knowledge and we will want to share that knowledge with our stakeholders, whom we hope will come to think of themselves as members of the Money Advice Club.

Conclusion

So that's a rather breathless gallop through our thinking, our evidence and our plans for the Money Advice Service.

That's how we are planning to make a difference to people's financial planning and decision-making – and perhaps even to happiness.

It was the King of Bhutan who said he wanted to measure Gross National Happiness.

Well, my job is to try and maximize gross national happiness.

That's the closest I'll ever get to being the King of Bhutan!

ENDS