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The Economic Power of Positive Thinking

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Even if our pessimism were grounded in reality, studies suggest it would be better for the economy if we pretended to be optimistic

As Americans size up a new year, optimism appears to be in short supply. Despite strong economic growth and a falling unemployment rate, gloom about the country's long-term prospects remains pervasive. Hopes for the next generation are particularly fragile. A poll by Hart Research Associates and Public Opinion Strategies suggests that 76 per cent of Americans aren't confident that life for their children will be better than it's been for themselves. That's an increase from 42 per cent in December 2001. Europeans are almost as pessimistic. A 2014 Pew Research poll of global attitudes found that in 10 North American and European countries, 65 per cent of respondents said today's children would be worse off financially than their parents.

With memories of the Great Recession still fresh, such pessimism is somewhat understandable. But it's also largely ill-founded—and according to recent economic research, the attitude can be self-fulfilling. Even if our pessimism were grounded in reality, we would have a better chance of improving our economic fortunes if we pretended to be optimistic. For the sake of our children, we need to snap out of our funk about their futures.

People in rich countries do have some legitimate reasons to worry. Median household income in the US is pretty much at the same

Research finds that optimistic people work harder, get paid

level as it was in 1989, and the last few years have been grim for economies across Europe. But it's myopic to base expectations about the next generation so heavily on the last five years of tepid recovery from an enormous economic meltdown. The idea that a whole generation will reach their parents' age and be stuck with median incomes lower than when they started earning would be pretty much unprecedented for North America and Europe since the start of the Industrial Revolution.

more, and get elected to office more

Looking beyond income, there's been enough progress over the last generation to be optimistic about the next one. The violent crime rate is a quarter the level it was in the early 1990s. Over the past three decades, life expectancy in rich countries around the world has climbed by six years. US teens are less likely than the previous generation to get pregnant, drunk, or high—and they're going to end up the most educated American generation ever. More and more countries worldwide are democracies—which very rarely go to war with each other, suggesting the possibility of sustained peace. That's one reason the number of war deaths worldwide, the number of nuclear warheads, and the risk of global thermonuclear war are a fraction of their levels of three decades ago. In short, there's a lot of good news out there if we care to look for it.

A richer developing world is one more reason for optimism. Low- and middle-income countries weathered the global financial crisis well: Gross domestic product per person climbed at an average rate of 4 per cent a year from 2008 to 2013. And wealthier developing countries are good for the West. They help build the global innovation base that leads to cheaper renewable power, medical breakthroughs, and better communications technologies. More rapid growth in the rest of the world is also a force for more rapid growth in the wealthier nations. Ayhan Kose and his colleagues at the International Monetary Fund, writing in the *American Economic Review*, looked at global business cycles a few years ago and found that the overall strength of the world economy was a powerful influence on individual nations' economic performance. Just as financial crises can be contagious across countries, strong economies can be infectious and lift conditions upward. When countries grow faster, they import more goods and invest more abroad. The developing world now accounts for an increasing percentage of global GDP (and more than three-fifths of US exports). If they continue to grow quickly, low- and -middle-income countries will help prop up economies in the rich world.

The faster growth in the developing world over the past few years explains why people there are comparatively optimistic, according to Pew's polling. In China, 86 per cent thought children would be better off than their parents; in India and Nigeria, it was more than 60 per cent. Across 25 emerging markets, only 25 per cent were pessimistic about the financial prospects of their children.

Of course, banking instability, political turmoil, corruption, suffocating pollution, and other crises could slow growth in China, India, and the rest of the developing world. Just as Western pessimism is excessive, perhaps the developing world is too optimistic. However, research suggests overoptimism is a considerably better characteristic to possess than the opposite.

Research by Manju Puri and David Robinson at Duke University finds that optimistic people work harder, get paid more, get elected to office more often, and win at sports more regularly. They even live longer. The effect of optimism spills over into business decisions. David Hirshleifer and colleagues at the University of California at Irvine studied chief executive officers

who were confident enough in their own companies' stock that they retained options after they could exercise them, further increasing their stake in their companies' success. Such CEOs invested more in innovation, spending more on research and development, and their companies not only won more patents but also had more widely cited ones.

These studies are among others that have found people who are happier do better in terms of income and health. Carol Graham of the Brookings Institution looked at people who reported being happy in Russia in 1995. By 2000, the happier people had higher incomes than the less happy ones and were more likely to be in good health. The 2014 Pew survey suggested more than twice as many Russians were optimistic about their childrens' financial future than pessimistic. Given the collapse in oil prices and the value of the rouble that beset the Russian economy late in 2014, those high levels of optimism are going to be tested—but pessimism will only make things worse.

Over the short term, it's unsurprising that fast economic growth makes people more optimistic. Over the long term—periods of 15 years—it appears that happiness and optimism are a driving force behind even stronger economic performance, encouraging risk, experimentation, and hard work, according to a cross-country analysis by Stefano Bartolini of the University of Siena. Some of Bartolini's colleagues found that higher surveyed happiness was associated with more rapid productivity growth across Europe from 2004 to 2010. On a point scale with 10 being extremely satisfied, the average response from Greece in 2006 was 6.2, compared with 8 in Switzerland and 8.5 in Denmark. Greeks were relatively depressed even before the global financial crisis, from which they emerged for the worse.

When it comes to children in particular, a positive outlook on life matters. According to research from 1994 to 2008 conducted by Jan-Emmanuel DeNeve of the London School of Economics and Andrew Oswald of the University of Warwick, US adolescents who reported themselves as very unhappy ended up having incomes as adults that were about 30 per cent less than the average for their age cohort. Happy adolescents went on to earn 10 per cent more than average 14 years later.

There's an irony in these benefits of optimism: The happy really do wear rose-tinted glasses. According to neuroscientist Tali Sharot of University College, London, the group of people who turn out to be most accurate about predicting how long it will take to complete tasks—and how likely they are to succeed—are the clinically depressed. Optimists underestimate how difficult it will be to succeed. But that self-deception is precisely what makes them willing to take more risks and invest in a better future, while the pessimists slouch toward self-fulfilling failure. So, do your children a favour. In the coming year, be of good cheer. Don't condemn the next generation to penury through the tyranny of miserable expectations.