# Consumption, Income, Wealth and Happiness

Consumption is the most important driver of economic growth, but consumption has to be in large part funded from current income, and to the extent that it is funded from borrowing, and thus future income, the ability to repay needs to be considered in the context of risk to future income.
In addition, there is a limit to how long a person can work, and thus a limit to income from employment. Savings for retirement needs to inform the consumption / saving decision in prior years. Returns on investment are an important factor in this estimation. State or employee pension schemes are also factors.

Disregarding or miscalculating any of the above can lead to financial difficulties. Each household needs to consider the above in light of their own circumstances and expectations for the future.

There is therefore no single propensity to consume that is appropriate to all households. Economists who speak of the overly high savings rates in China and the acutely low savings rates in the US are talking about aggregates, and even then, speak in a context which may be misguided or at best outdated, in view of the levels of debt that have accumulated in the world today.

How much consumption is enough or too little? There is the consumers' point of view and there is the producers' point of view. Insufficient consumption from the producers' point of view means insufficient demand for their product. This may seem self serving but is in fact not. Insufficient demand leads to higher unemployment which has implications for households' income assumptions and thus funding ability. Households' consumption decisions impact their own income and wealth through a feedback loop, indirectly, at the aggregate level.

So consumption and employment are circular and it is not very useful to try to determine the ‘right’ level of consumption, within the framework of economics.

We should focus on happiness instead and consumption only in the context of happiness. Consumption is an intermediate measure, the primary metric is this ill defined, elusive concept of happiness. This takes us away from the realm of economics.

Generally, higher incomes don’t translate to greater happiness. Human beings are highly adaptable, and quickly adapt to improved financial circumstances by raising their ambitions. They are also more sensitive to relative wealth than they are to absolute wealth and tend to compare themselves to their fellow humans.

As a species we are a competitive, envious, dissatisfied lot. As the economy continues to languish, some humans will adapt by adjusting their expectations and ambitions to suit a less extravagant future. Others will react by being less cooperative, more selfish, more competitive and more ambitious. On aggregate, as a species, the natural, limbic tendency is the negative reaction. Trade wars, protectionism, mercantilism, and conflict become more likely.

The alternative will take work. Our track record as a species is not reassuring.