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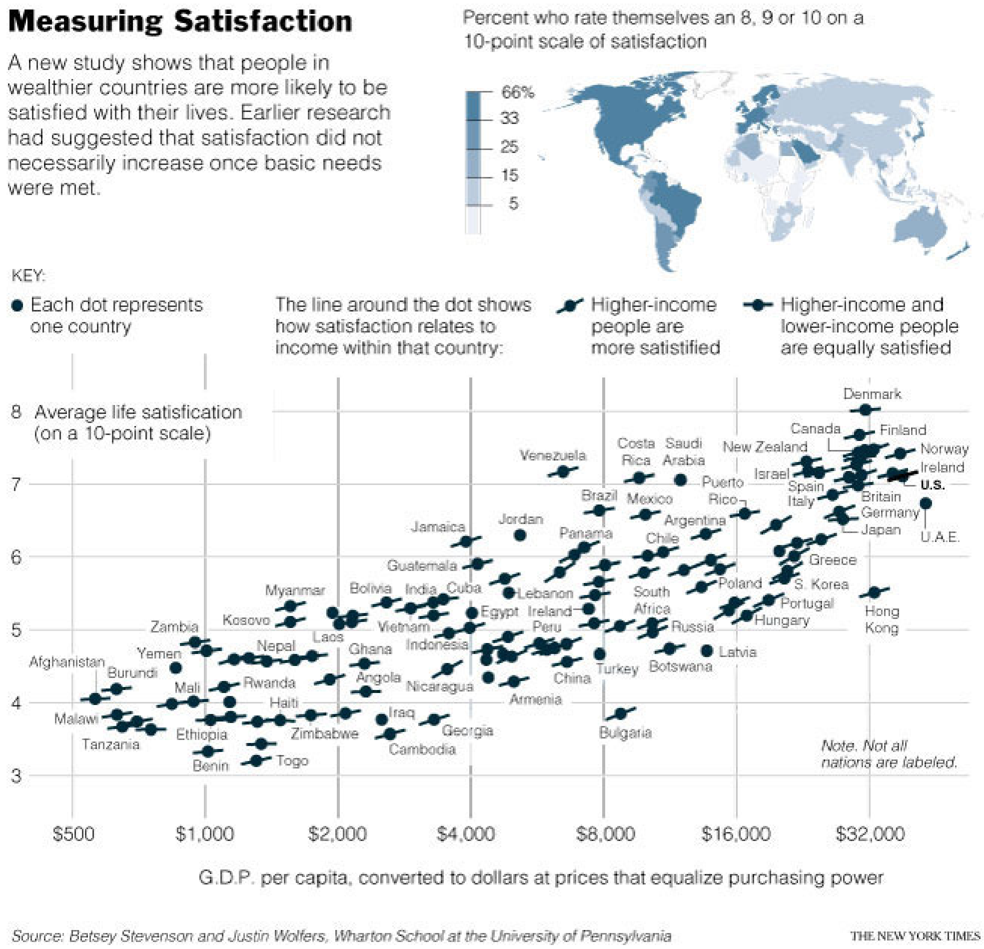
DAVID LEONHARDT | Economic Scene APR. 16, 2008

Money Doesn't Buy Happiness. Well, on Second Thought ...



In the aftermath of World War II, the Japanese economy went through one of the greatest booms the world has ever known. From 1950 to 1970, the economy's output per person grew more than sevenfold. Japan, in just a few decades, remade itself from a war-torn country into one of the richest nations on earth.

Yet, strangely, Japanese citizens didn't seem to become any more satisfied with their lives. According to one poll, the percentage of people who gave the most positive possible answer about their life satisfaction actually fell from the late 1950s to the early '70s. They were richer but apparently no happier.

This contrast became the most famous example of a theory known as the Easterlin paradox. In 1974, Richard Easterlin, then an economist at the University of Pennsylvania, published a study in which he argued that economic growth didn't necessarily lead to more satisfaction.

People in poor countries, not surprisingly, did become happier once they could afford basic necessities. But beyond that, further gains simply seemed to reset the bar. To put it in today's terms, owning an iPod doesn't make you happier, because you then want an iPod Touch. *Relative* income — how much you make compared with others around you — mattered far more than absolute income, Mr. Easterlin wrote.

The paradox quickly became a social science classic, cited in academic journals and the popular media. It tapped into a near-spiritual human instinct to believe that money can't buy happiness. As a 2006 headline in The Financial Times said, "The Hippies Were Right All Along About Happiness."

But now the Easterlin paradox is under attack.

Last week, at the Brookings Institution in Washington, two young economists — from the University of Pennsylvania, as it happens — presented a rebuttal of the paradox. Their paper has quickly captured the attention of top economists around the world. It has also led to a spirited response from Mr. Easterlin.

In the paper, Betsey Stevenson and Justin Wolfers argue that money indeed tends to bring happiness, even if it doesn't guarantee it. They point out that in the 34 years since Mr. Easterlin published his paper, an explosion of public opinion surveys has allowed for a better look at the question. "The central message," Ms. Stevenson said, "is that income does matter."

To see what they mean, take a look at the map that accompanies this column. It's based on Gallup polls done around the world, and it clearly shows that life satisfaction is highest in the richest countries. The residents of these countries seem to understand that they have it pretty good, whether or not they own an iPod Touch.

If anything, Ms. Stevenson and Mr. Wolfers say, absolute income seems to matter more than relative income. In the United States, about 90 percent of people in households making at least $250,000 a year called themselves "very happy" in a recent Gallup Poll. In households with income below $30,000, only 42 percent of people gave that answer. But the international polling data suggests that the under-$30,000 crowd might not be happier if they lived in a poorer country.

Even the Japanese anomaly isn't quite what it first seems to be. Ms. Stevenson and Mr. Wolfers dug into those old government surveys and discovered that the question had changed over the years.

In the late 1950s and early '60s, the most positive answer the pollsters offered was, "Although I am not innumerably satisfied, I am generally satisfied with life now." (Can you imagine an American poll offering that option?) But in 1964, the most positive answer became simply, "Completely satisfied."

It is no wonder, then, that the percentage of people giving this answer fell. When you look only at the years in which the question remained the same, the share of people calling themselves "satisfied" or "completely satisfied" did rise.

To put the new research into context, I called Daniel Kahneman, a Princeton psychologist who shared the 2002 Nobel Prize in economics. He has spent his career skewering economists for their belief that money is everything and has himself written about the "aspiration treadmill" at the heart of the Easterlin paradox.

Yet Mr. Kahneman said he found the Stevenson-Wolfers paper to be "quite compelling." He added, "There is just a vast amount of accumulating evidence that the Easterlin paradox may not exist."

I then called Mr. Easterlin, who's now at the University of Southern California and who had received a copy of the paper from Ms. Stevenson and Mr. Wolfers. He agreed that people in richer countries are more satisfied. But he's skeptical that their wealth is causing their satisfaction. The results could instead reflect cultural differences in how people respond to poll questions, he said.

He would be more persuaded, he continued, if satisfaction had clearly risen in individual countries *as* they grew richer. In some, it has. But in others — notably the United States and China — it has not.

"Everybody wants to show the Easterlin paradox doesn't hold up," he told me. "And I'm perfectly willing to believe it doesn't hold up. But I'd like to see an informed analysis that shows that." He said he liked Ms. Stevenson and Mr. Wolfers personally, but he thought they had put out "a very rough draft without sufficient evidence."

They, in turn, acknowledge that the data on individual countries over time is messy. But they note that satisfaction has risen in 8 of the 10 European countries for which there is polling back to 1970. It has also risen in Japan. And a big reason it may not have risen in the United States is that the hourly pay of most workers has not grown much recently.

"The time-series evidence is fragile," Mr. Wolfers said. "But it's more consistent with our story than his."

So where does all this leave us?

Economic growth, by itself, certainly isn't enough to guarantee people's well-being — which is Mr. Easterlin's great contribution to economics. In this country, for instance, some big health care problems, like poor basic treatment of heart disease, don't stem from a lack of sufficient resources. Recent research has also found that some of the things that make people happiest — short commutes, time spent with friends — have little to do with higher incomes.

But it would be a mistake to take this argument too far. The fact remains that economic growth doesn't just make countries richer in superficially materialistic ways.

Economic growth can also pay for investments in scientific research that lead to longer, healthier lives. It can allow trips to see relatives not seen in years or places never visited. When you're richer, you can decide to work less — and spend more time with your friends.

Affluence is a pretty good deal. Judging from that map, the people of the world seem to agree. At a time when the American economy seems to have fallen into recession and most families' incomes have been stagnant for almost a decade, it's good to be reminded of why we should care.

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