BROOKINGS

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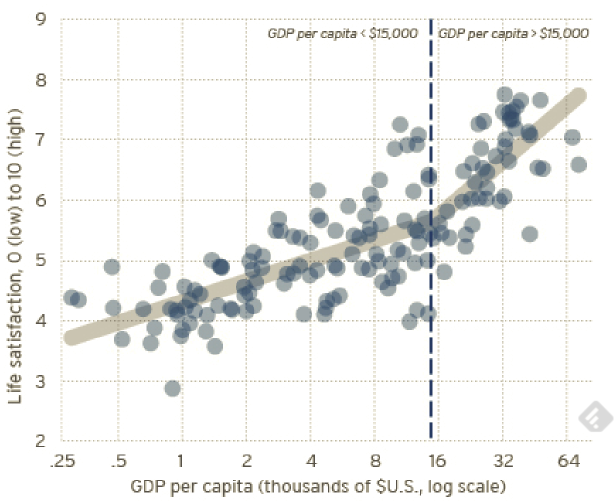
You Can Never Have Too Much Money, New Research Shows

In 1974 Richard Easterlin famously posited that increasing average income did not raise average well-being, a claim that became known as the Easterlin Paradox. Since then, some researchers have acknowledged the existence of a link between income and well-being among those whose basic needs have not been met, but claim that beyond a certain income threshold (a "satiation point"), further income is unrelated to well-being. But new research by Betsey Stevenson and Just Wolfers finds a robust link between income and well-being among both the poor and the rich. This finding holds true when making cross-national comparisons between rich and poor countries, and when making comparisons between rich and poor people within a country.

Income and well-being: cross-country comparisons

(Gallup World Poll, 2008 to 2012)

Each circle represents a country surveyed in the Gallup World Poll. The grey line approximates the satisfaction-income relationship, segmented for richer countries and poorer ones. The horizontal axis shows GDP per capita on a log scale, meaning that each tick represents a doubling of income.

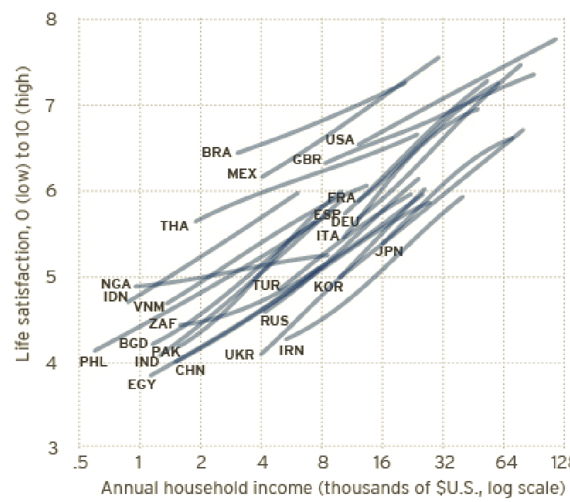


If extra income no longer mattered for well-being once basic needs were met, we would expect the line to be flat, or to plateau for richer countries. Instead the slope of the line actually steepens for richer countries, indicating that the well-being–income relationship extends to them as well.

Income and well-being: within-country comparisons

(25 most populous countries; Gallup World Poll, Dec. 2007)

Gallup data also sheds light on income and well-being *within* nations. The lines below approximate the satisfaction-income relationship for the world's 25 most populous countries. The horizontal axis shows household income on a log scale, meaning that each tick represents a doubling of income.



While there are some differences in the slopes, the more remarkable feature is simply that for every country, the relationship estimated at low incomes appears to hold in roughly equal measure at higher incomes. In particular, there is no evidence that the slope flattens out beyond any particular "satiation point" in any nation.

Notes:

Gallup question wording: "Please imagine a ladder with steps numbered from zero at the bottom to ten at the top. Suppose we say that the top of the ladder represents the best possible life for you, and the bottom of the ladder represents the worst possible life for you. On which step of the ladder would you say you personally feel you stand at this time, assuming that the higher the step the better you feel about your life, and the lower the step the worse you feel about it? Which step comes closest to the way you feel?"

For most countries GDP comes from the World Bank's World Development Indicators.