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Economists Nail It: You Can Never Be Too Rich

By Peter Coy on April 29, 2013
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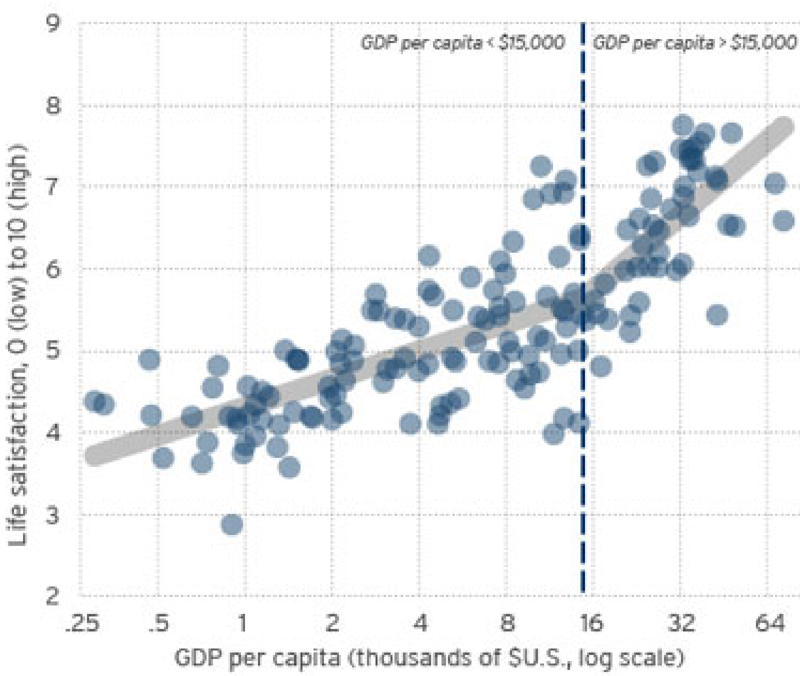
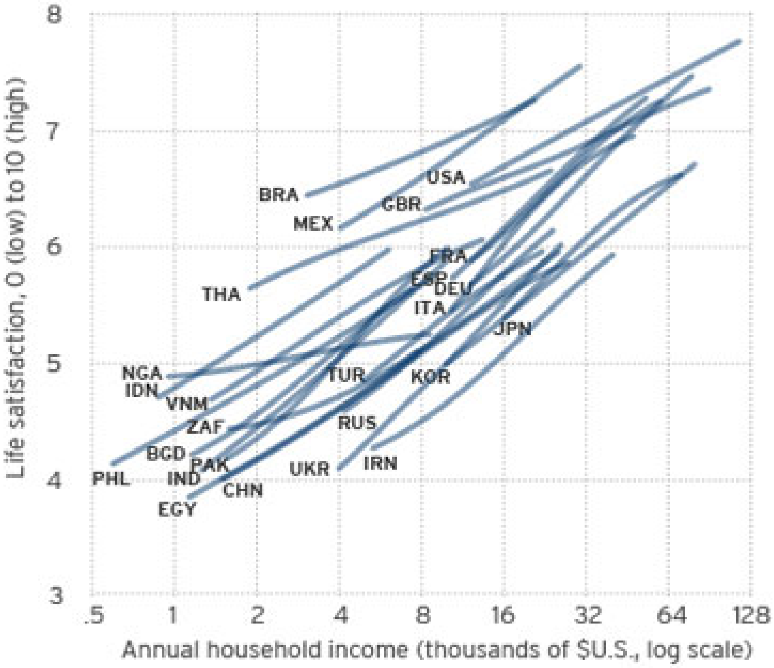
I just spoke with Justin Wolfers, co-author of a short but important new paper that concludes the more money you have, on average, the happier you are. That may seem to deserve a Homer Simpson "Duh!" award for most obvious research finding of the month, but in fact it contradicts an assertion made in 1974 by Richard Easterlin, who said that increasing average income did not increase average well-being.

The wife-and-husband economist team of Betsey Stevenson and Wolfers, who teach at the University of Michigan, showed that happiness and life satisfaction are higher in rich countries than in poor countries. And within any given country, rich people are happier than poor people. Not always, of course. Some poor people are happier than some rich people. But that's not the pattern.



I asked Wolfers about the implications of his work. For one, he said, it undercuts the argument of some on the green left that the world should stop striving for economic growth, since it damages the environment and (if you believe the Easterlin thesis) doesn't increase happiness much.

Doesn't the paper also undercut the argument for using the tax system to redistribute income from the rich to the poor? I asked Wolfers. After all, once you accept the Stevenson-Wolfers claim that having even more money makes the rich happier, then you have to admit that they'll be less happy if some of that money is taxed away, right? There's no free lunch.



True, but redistribution will still increase society's overall happiness, Wolfers said. A 10 percent gain in income produces roughly the same amount of happiness at all income levels. So taxing 10 percent of the income from one person earning $1 million a year would be enough to fund 10 percent income increases for 1,000 people earning $1,000 a year. "You just need to move the rich person from extremely happy to merely very happy," Wolfers said.

There are other arguments against redistribution, such as the conservative case that government has no right to grab citizens' assets to achieve social goals. But to Wolfers, anyway, the argument for Robin Hood taxation isn't undermined by his and his wife's work.