
Easterlin's Paradox Revisited

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July 8, 2011 04:12 PM

In 1973, the economist Richard Easterlin wrote a paper called "Does Economic Growth Improve the Human Lot? Some Empirical Evidence." It proposed what's been known since then as the Easterlin paradox. On the one hand, data showed that making more money makes you happier; at the same time, comparisons amongst nations revealed that richer nations weren't necessarily happier than poorer ones. This paradox, Easterlin suggested, showed that we derive happiness from wealth only in a relative way. From the point of view of happiness, it doesn't matter whether we have one car and an apartment, or two cars and a McMansion -- what really matters is what our neighbors have.

Taken to its logical conclusion, the Easterlin paradox suggests, controversially, that economic development is a game with diminishing returns. In recent years, one of its biggest critics has been the young, dashing economist Justin Wolfers. In this talk at the Aspen Ideas Festival, Wolfers lays out his best evidence against the paradox, then debates one of its defenders.

According to Wolfers, social scientists are now armed with "fantastic new measures of subjective well-being" which they didn't have even a few years ago. Their survey questions about happiness are now more fine-grained, and they now know more about how income is distributed within individual nations. This new data explains things that, earlier, seemed 'paradoxical.'

U.S. GDP, for instance, has been steadily rising, while 'gross national happiness' has remained stagnant -- but, now that we know that most of the gains in American incomes have gone to the very rich, it makes sense that most Americans aren't getting happier. Similarly, Japanese GDP has risen, while happiness there has remained stagnant: It turns out, though, that Japanese surveys on happiness have been changing the way they "happiness" is construed. In the 1950s, the happiest option on Japanese surveys was, "Although I'm not innumerablely satisfied, generally speaking, things are okay." (18% chose this option.) Then, in the 1960s, this was changed to read, "I am extremely satisfied." Only three percent of Japanese respondents chose the revised description -- creating the illusion, Wolfers says, that "happiness had plummeted," when it had not.

The data show, in short, that "rich countries are overwhelmingly happier than poorer countries." And that comprehensive finding is backed up impressively specific results on a variety of 'inputs' and 'outputs' to happiness. According to surveys, rich people smile more than poor people. They feel more respected, say that their food tastes better, experience less pain and depression, and say that they'd like to experience "more days just like yesterday" at a greater rate than poorer people. You'd be forgiven for feeling that decades of debate have only proven a truism -- that money does make you happier, even if it can't exactly buy you happiness.

But the story doesn't have to end there. It's not necessarily wealth, as such, that makes life more enjoyable: As your high school science teacher explained, correlation doesn't equal causation. It could very well be that the conditions that make wealth possible also make happiness more likely -- that, as Wolfers puts it, it's "whatever it is that creates economic growth," and not growth itself, which is so "enormously uplifting for people all around the world." After all, societies aren't Rube Goldberg machines, unfolding in a linear order; they're networks, full of feedback loops, with each part owing something to the whole.
