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It's official: money buys happiness

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Abstract (Summary)

A new study from Betsey Stevenson and Justin Wolfers, both economists at the University of Pennsylvania's Wharton School of Business, takes a closer look at a raft of new and old data, and its conclusions couldn't be more stark: forget the caveats, the qualifications, and most jarring of all—forget the paradox. Easterlin and others have argued for decades that government's preoccupation with economic growth is misguided, and that more attention should be paid to fostering social well-being.

Full Text (1001 words)

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About two years ago, I wrote an article that tried to answer one of the most enduring questions in modern Western society: can money buy happiness?

The debate is timeless, and yet it remains emotionally loaded. Many of us were raised to reject this notion out of hand. And though most of us say we'd rather be happy than rich, we can't shake the sense that we'd feel a little better with a little more cash on hand.

And so, economists and academics keep coming back to the money=happiness equation in hopes of finding something definitive. As I found out, dig in to all that study and you'll come away with the kind of heavily qualified answer that doesn't much help. Does money buy happiness? Well, yes. Sort of. But not really. Or, at least, not always.

For years, the dominant theme in the field was a phenomenon known as "the Easterlin paradox," after the University of Pennsylvania economist Richard Easterlin, who first started writing about wealth and happiness in the early 1970s. It was based on the observation that while people living in richer countries are happier, on average, than those living in poorer countries, it wasn't clear that more money led to greater happiness on an individual level. Easterlin argued that greater economic growth doesn't lead to more happiness, and that governments have sacrificed our well-being in a misguided pursuit of a rising standard of living.

Subsequent studies suggested that the thing that really matters is relative wealth—it's not enough to be rich; to be happy, one must be richer than those around them—and that our focus on wealth creates a so-called "hedonic treadmill" in which we must consume more and more in order to maintain a constant level of satisfaction.

Interesting, sure. But now it appears all that was just muddled thinking, arising from murky data.

A new study from Betsey Stevenson and Justin Wolfers, both economists at the University of Pennsylvania's Wharton School of Business, takes a closer look at a raft of new and old data, and its conclusions couldn't be more stark: forget the caveats, the qualifications, and most jarring of all—forget the paradox. All around the world, money and happiness are inextricably and undeniably linked: the more dough you have, the happier you're likely to feel.

As Wolfers wrote last week on the New York Times' Freakonomics blog, "There is no Easterlin Paradox... 1) Rich people are happier than poor people. 2) Richer countries are happier than poor countries. 3) As countries get richer, they tend to get happier."

So how could we have been so wrong for so long? That's where things get intriguing.

For one thing, happiness is a pretty tricky thing to measure. Back in the days when Easterlin first started examining this question, he was relying on a hodgepodge of international surveys. Some asked people if they were "very happy," merely "satisfied," or "unhappy." Others asked people to rank their happiness on a scale of one to four, or one to seven, or one to 10. Drawing definitive conclusions from that kind of data is bound to be pretty sketchy.

Gallup solved the measurement problem last year by asking people in 132 countries an identical question as part of its world

poll. They asked people to imagine a ladder or a mountain with steps from one to 10 leading upward. At the top of the ladder (step 10) was perfect happiness, with the bottom (step zero) being utter despair. Gallup then asked people what step they felt they were on. The results revealed a strong and undeniable link between wealth and well-being, both at a national and individual level.

But there was also a basic scientific error that clouded this question for years.

Easterlin and many others in the field confused a lack of positive evidence as proof of the contrary. For example, think about the scientists searching for intelligent life in space. So far, we have no really convincing evidence that there is alien life out there in the cosmos. But that lack of evidence does not prove that no such life exists. Just because we haven't heard from the little green men doesn't mean they're not out there somewhere.

Similarly, when researchers had trouble finding any compelling statistical evidence linking wealth with happiness, they mistakenly concluded that no such link exists. And that mistake may have arisen from the fact that deep down, the researchers didn't really want to find a link.

Happiness research is more than merely interesting, it informs the way we set individual and public priorities. Easterlin and others have argued for decades that government's preoccupation with economic growth is misguided, and that more attention should be paid to fostering social well-being. Understandably then, Easterlin said last week that he remains unconvinced by Stevenson and Wolfers' new research.

The problem is that the question has been clouded by generations of puritanical teaching that equated wealth with greed. But the two are not the same. Indeed, the desire to be rich is rarely a purely selfish pursuit.

Last month, a University of British Columbia-Harvard Business School study found yet more evidence that people with more money tend to be happier. But they found that the greatest happiness was achieved by those who give away the highest proportion of their wealth. The ability to give money away is a luxury that many of us aspire to, at least as much as the bigger house and the luxury car. Generosity, in other words, is a value that isn't diminished by affluence, it is more often enhanced by it.

Money is inextricably linked with happiness because money provides freedom and power. What we do with that freedom and power is all about our personal values. And on closer examination, our values are not nearly so selfish as the scolds might fear.

Time to embrace it: with money comes happiness. And that's not such a bad thing.

[Sidebar]

Money is freedom. What you do with it is up to you.

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