



- SUBSCRIBE
- RENEW
- GIVE A GIFT
- DIGITAL EDITION

Print | Close

Yes, Money Does Buy Happiness: 6 Lessons from the Newest Research on Income and Well-Being

By Derek Thompson

For a long time, we knew that there was a happiness plateau, a point where more money basically stopped buying greater satisfaction. Maybe we were wrong.



Reuters

Fittingly or ironically, the dismal science has a lot to say about happiness.

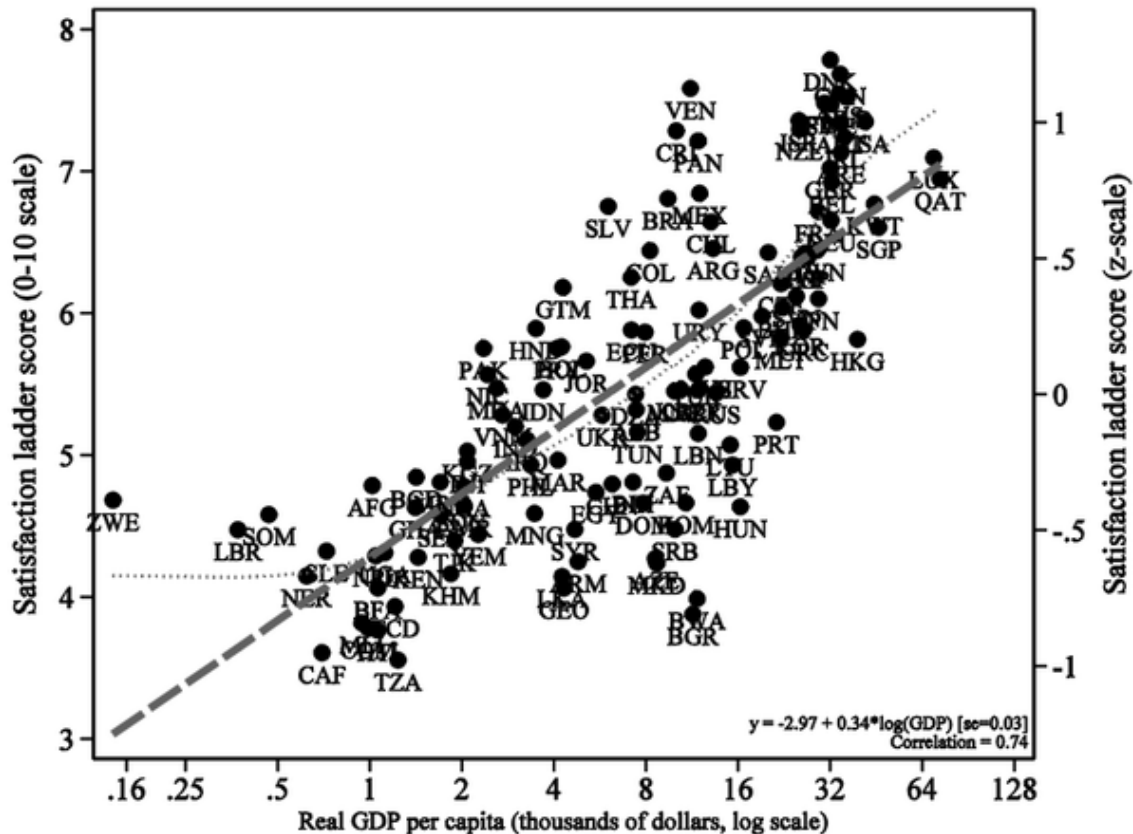
The [classic economic story about money and well-being](#) goes something like this. Money buys happiness, sure, but only up to a point. Once basic needs are taken care of, extra money has diminishing (or non-existent) returns. Perhaps richer people use their money to move to richer areas, where they no longer feel rich. Perhaps *relative* income -- how much you have compared to your friends -- is matters much more than *absolute* income -- how much money you have, period.

Economists call it the "Easterlin Paradox." You call it the "Keeping Up With the Jones' Principle."

And a new research paper calls it total bunk. Or, in the economists' parlance, "based on empirical claims which are simply false." People with more money have higher reported well-being, they say, all the way up to the top 10 percent of earners. Here are the 6 most interesting observations from "[The New Stylized Facts about Income and Subjective Well-Being](#)," a discussion paper by Daniel W. Sacks, Betsey Stevenson, and Justin Wolfers.

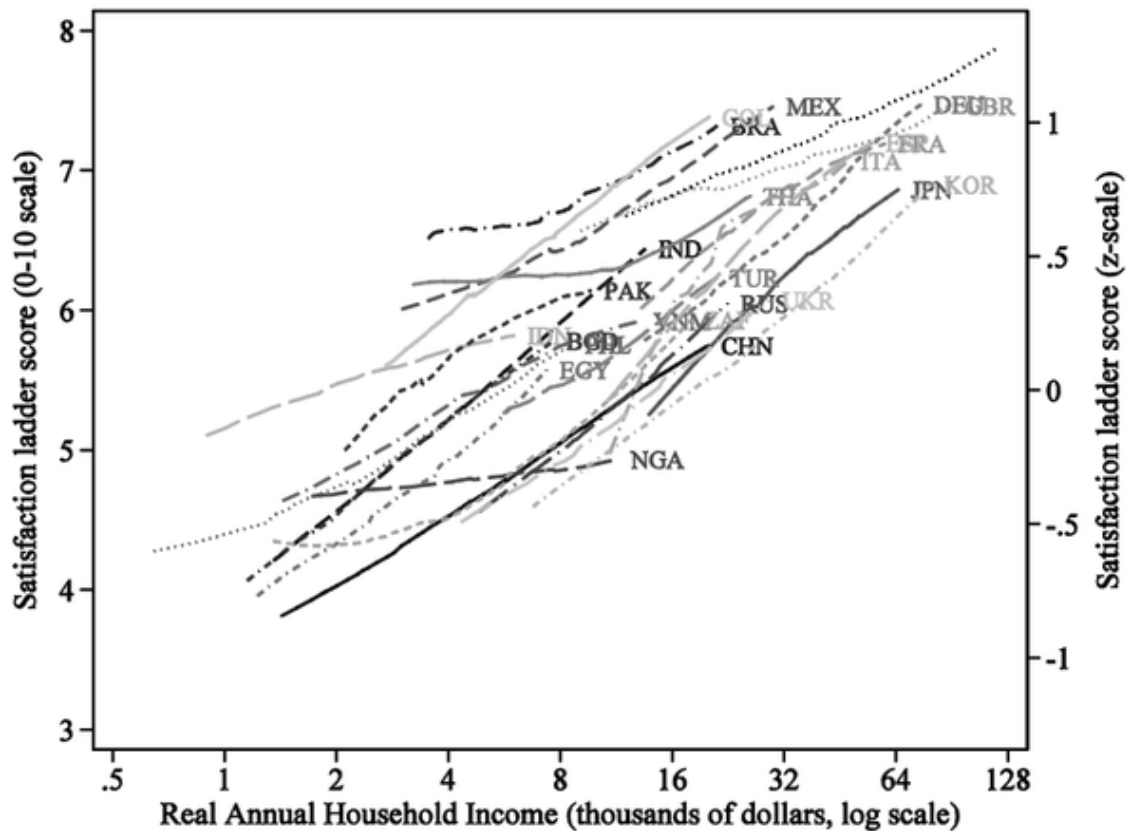
(1) Richer countries are happier. Here's a simple graph to make a simple point. The researchers plotted 122 countries' responses to a Gallup World Poll on well-being against each nation's real GDP per capita (adjusted for purchasing power) and found a strong correlation.

Upshot: Well-being rises with income at all levels of income, across countries.



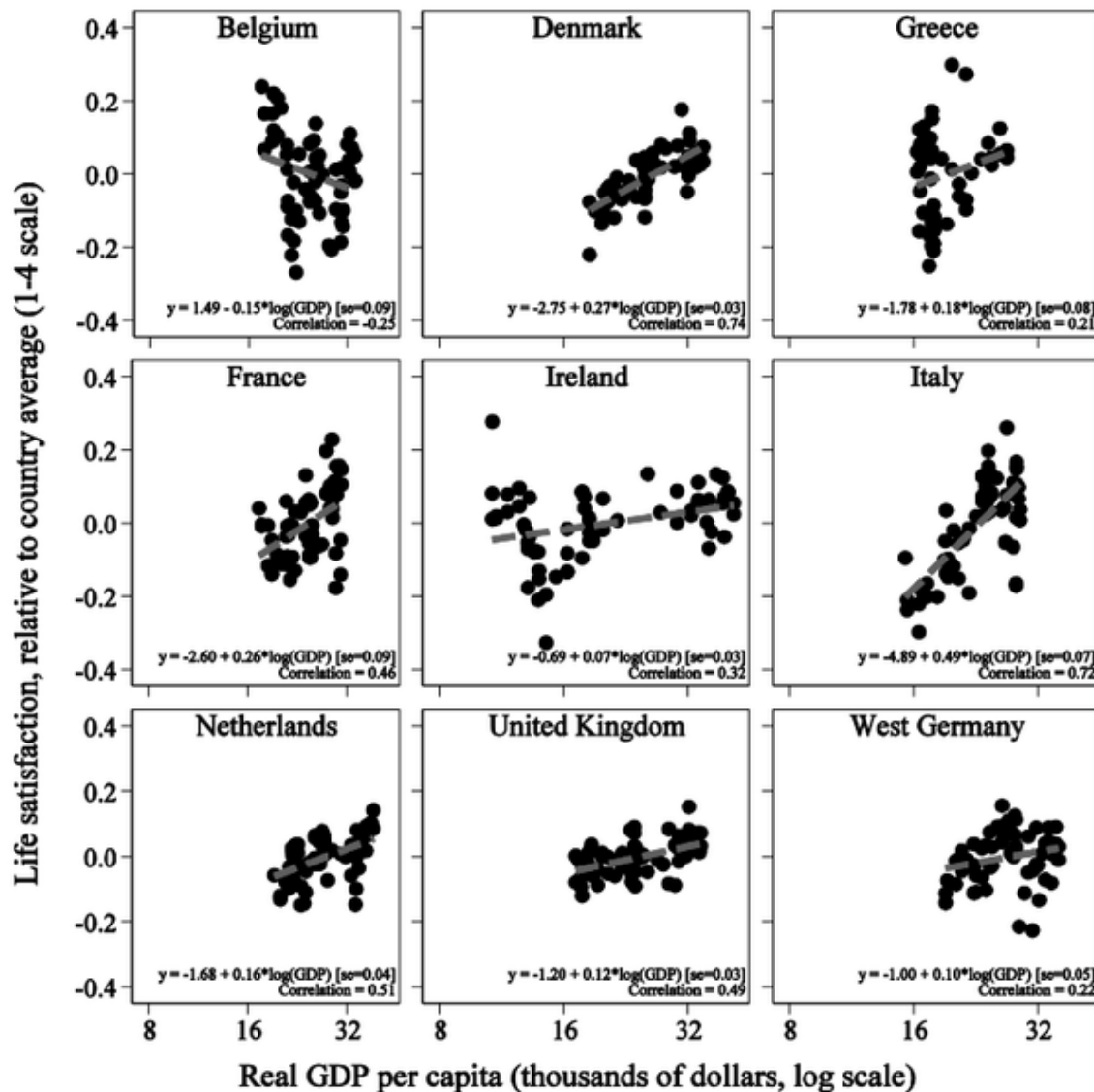
(2) ... But every next dollar won't buy the same amount of happiness. The straight line can be deceptive at first blush. The graph is *not* telling you that every next \$1,000 on your paycheck is worth the same gains in satisfaction. Instead, the relationship is logarithmic. That means doubling your income from \$1000 to \$2000 raises satisfaction by the same amount as doubling your income from \$10,000 to \$20,000. Not that these findings are as binding as the law of gravity, but this would suggest that, to equal the happiness boost you felt from getting raise from \$30,000 to \$60,000, another \$30,000 wouldn't do the trick: You would have to double your income again, to \$120,000.

(3) Richer countries get happier as they get richer. That first graph answers the question: Do countries with more income report more happiness? The answer seems to be yes. But what about a different question: Do individual countries report more happiness as their incomes rise? Also, yes. The next graph looks the 25 biggest countries in the world and shows the linear relationship between well-being and household income.



(4) There is no "happiness plateau" (or it's much higher than we thought). Those lines tell us three important things. First, the lines go up. More money, more happiness. Second, the lines go up *in parallel*, more or less. Across language, culture, religion, ethnic background, the same amount of extra money seems to buy the similar amount of extra happiness. Third, the lines go up *in parallel* **and they don't flatten out.** There is no "Easterlin plateau", no satiation point, no bright line where money suddenly loses the ability to improve well-being.

(5) Europe's lesson: A steadily rising level of satisfaction from a steadily rising level of income. The graphs below are a bit more pointilist and messy, but they make a similarly compelling point. The Eurobarometer survey, which has measured life satisfaction across the continent since 1973, clearly shows that in eight of the nine countries for which the researchers have the most data, well-being has increased through time with economic growth. Except for Belgium. You're weird, Belgium.



(6) The American exception is also a lesson: Income inequality is a tax on happiness.

The U.S economy has doubled in size since the early 1970s. But self-reported well-being has declined. Huh?

The authors make two reasonable excuses. First, economic growth correlates with improved happiness in most countries, but that doesn't mean GDP is the overwhelming determinant of happiness. Social changes, such as the increase in single-family households, could play an equally powerful role in moving self-reported satisfaction in America. Second, it's well known the U.S. is a world leader in economic inequality and that the fruits of a doubling GDP have hardly been shared equally. "In European countries, inequality has increased by half" the amount it has in the U.S., the authors find.

According to the modern godfather of income and well-being research, Richard Easterlin, it is better to be rich than poor, but rich countries don't get any happier as they got richer. They hit a happiness ceiling, essentially. This idea matters a great deal, because in a world where only *relative* income matters, there might be less need to care about growth or pursue policies that maximized lower-income families' post-tax incomes. The work by Sacks, Stevenson, and Wolfers suggests Easterlin was simply

wrong. Absolute income matters absolutely, and voters, economists, and policy-makers have everything to gain by putting the spotlight on income gains for the average family.

This article available online at:

<http://www.theatlantic.com/business/archive/2013/01/yes-money-does-buy-happiness-6-lessons-from-the-newest-research-on-income-and-well-being/267016/>

Copyright © 2013 by The Atlantic Monthly Group. All Rights Reserved.