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I write about businesses that merit attention, for better or worse.

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Mom Was Wrong: Money Does Buy Happiness. There's Research To Prove It

Money buys [expensive toys](#) and [ocean-view mansions](#). It [excuses bad behavior](#), makes [redemption possible](#) and [enables construction of entire mock Old West ghost-towns](#). And contrary to decades-old research on income and well being, it does appear to buy happiness, too.



(Image credit: AFP/Getty Images via @daylife)

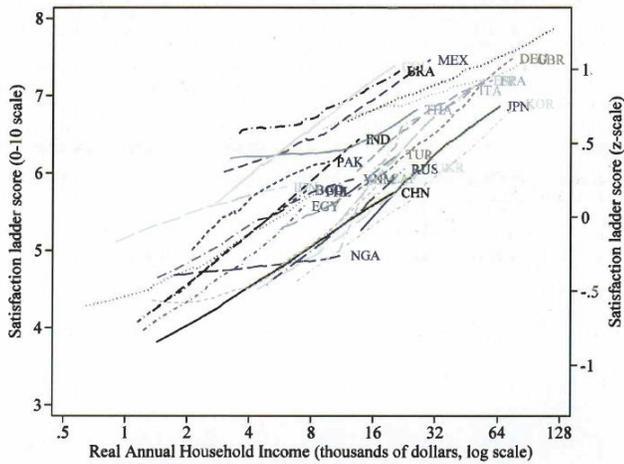
Before we thought money could, indeed, increase happiness, but only up to a certain point. Richard Easterlin, a USC professor and elder statesman of this science, in 1974 established what's called the Easterlin Paradox. Conclusion: *Relative* income matters more than *absolute* income; a Goldman Sachs trader is not necessarily any happier than the [General Electric](#) factory floorman. It's because if you buy a Ford, you then want a Mercedes. You spruce up your home, neighbor Joe adds a pool room, billiards-envy ensues.

A [new research paper](#)—written by a group of economists who have long tried to [debunk Easterlin's research](#)—reached the exact opposite position. That more money will always make us feel better.

The economists, Daniel W. Sacks, Betsey Stevenson and Justin Wolfers, found that the relationship between income and happiness is logarithmic. Huh? Well, doubling your income by \$100,000 to \$200,000 increases satisfaction by the same amount as doubling your income by \$200,000 to \$400,000. Satisfaction would increase if your salary went from \$400,000 to \$600,000, but not as much. To achieve the same growth in satisfaction, you'd need for your salary to double again. So, that trader and floorman can both be happy, as long as they both see their wages grow.

Moreover, the economists used Gallup data and the venerable Eurobarometer survey to establish that across cultures, across countries, across continents, money buys happiness. The graph here details that:

Figure 2 Life satisfaction and income in 25 Countries, Gallup World Poll 2010



Notice all the lines go up, each following a roughly similar path. (Folks in [Japan](#) are especially happy and enriched.) This underscores the new findings. Under the long-held assumptions by Easterlin, as well as the treadmill thesis created by Nobel prize-winning economist Daniel Kahneman—a similar conclusion to Easterlin’s that supports his research—those lines should eventually taper off. They don’t, which adds a significant amount to the latest research.

This all, of course, means that the happiest group on Earth must be the billionaires that *FORBES* so exhaustively tells you about, right?

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