

## Opinion

### Opinion

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Editorials

Letter to the Editor

## People living in rich countries are happier than those in poor countries, new research says

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Economists have found that income growth, if evenly distributed, makes populations happier over time. Picture:

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**DOES money buy happiness? Until very recently, the surprising consensus among economists was that no, it does not.**

At least, not beyond a certain level needed to secure the most basic needs of food, shelter and care.

Beyond that, as countries get richer they don't necessarily get happier, the theory goes, because happiness is a relative

concept.

It's not the amount of money you have that makes you happy, but whether you have more money relative to other people.

You only get happier if you beat the Joneses, or at the very least keep up with them.

Happiness, on this account, is a zero sums game with gains for one person only coming at the expense of another.

The idea dates back to a seminal paper published in 1974 by a US economist, Richard Easterlin, titled 'Does Economic Growth Improve the Human Lot?'

In it, Easterlin confirmed the obvious: that within the same country, rich people are happier than poor people. But when Easterlin looked across countries for evidence that richer countries were happier than poor countries, he couldn't find it. Countries had the same average levels of happiness, despite their absolute income levels. The "Easterlin paradox" was born: the idea that higher income does not necessarily buy higher happiness.

US psychologist Daniel Kahneman has called it the "hedonic treadmill" that we all work harder and harder, buying more cars, bigger TVs, bigger houses, but because everyone else is buying those things too, we never get happier. After a certain income point measured as being about \$US75,000 in the United States every extra dollar earned has no impact on boosting wellbeing.

But groundbreaking new research by a trio of American academic economists Daniel Sacks, Betsey Stevenson and Justin Wolfers, has turned the theory on its head.

Drawing on newer and bigger data, including the Gallup World Poll of citizens in 122 countries, the economists have proved what many non economists had always suspected. That yes, money can buy you happiness. Finally, some good news from the dismal science.

In their paper 'The New Stylized Facts about Income and Subjective Well-Being' the trio find there is, in fact, a strong correlation between countries absolute levels of gross domestic product per capita (a measure of income) and their levels of self-reported well-being.

The Gallop World Poll asks people to imagine a ladder with 10 rungs, with the top rung representing "the best possible life for you" and the bottom "the worst possible life for you". It then asks people to describe which rung they are on now.

In countries like Tanzania and Zimbabwe, the average person is struggling to get off the 3rd or 4th rung. In wealthier countries, like Denmark and Qatar, people perceive themselves, on average, to be on about the seventh rung.

Unlike Easterlin's paper, which surveyed fewer countries over a shorter time period, the new data confirms that people living in rich countries are, on average, happier than people living in poor countries.

Perhaps one to file the heading: "things poor people know that rich people have spent a lot of time scratching their heads about."

Furthermore, the economists find that income growth, provided it is fairly evenly distributed, makes populations happier over time.

"Rich countries enjoy substantially higher subjective well-being than poor countries, and as countries get richer, their citizens experience ever more well-being."

There is no "happiness plateau" an income point beyond which extra money has no impact on happiness. Rather, every pay rise makes you happier. But the returns diminish the higher up the income chain you go. Say you got a pay rise from \$50,000 to \$100,000, it would take another pay rise to \$200,000 to buy as much happiness as the first.

So why does money buy happiness?

More money brings with it an increased sense of financial security that psychologists have found is very important to our sense of well-being.

But in its most obvious sense, money is also just a means to an end; it gives us the ability to consume more.

To the extent that incomes rise faster than the cost of buying things, we are able to improve our standard of living. The bigger TVs, bigger houses and multiple cars make us happier because we enjoy consuming them.

"We find that average global wellbeing has grown with the global economy," conclude Sacks, Stevenson and Wolfers.

The process of industrialisation has brought with it the highest levels of material comfort ever seen. And as US Federal Reserve chief Ben Bernanke observed yesterday, the rapid industrialisation of poor countries like China and India is the best anti-poverty strategy mankind has come up with so far.

What if, for all the uncertainty in this world, the current generation of humans living on earth, enjoying the highest levels of income ever amassed, are in fact happier than any generation before us?

For Australians, living in a relatively rich country enjoying real income growth, could it be that the best time to have lived is, in fact, right here and right now?

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Herald Sun