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Money may buy happiness (or not): economists renew debate

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The saying goes that money can't buy happiness. But inquiring economists have been working for decades trying to prove or disprove the notion.

Resarchers at the University of Pennsylvania's Wharton School of Business released a study in April showing "a clear positive link" between wealth and "subjective well-being," based on global surveys.

While this may seem logical to some, the research flew in the face of a longstanding theory that happiness of a country's population does not rise with income, after certain basic needs are met.

This theory, dubbed the "Easterlin Paradox," was developed in 1974 by Richard Easterlin, an economist currently on the faculty at the University of Southern California.

Easterlin's research had drawn on surveys notably from Japan, where surveys had shown little or no increase in national happiness despite the country's post-World War II economic miracle.

Wharton economists Betsey Stevenson and Justin Wolfers contend in the new research that better data over the past three decades and a closer analysis suggests the Easterlin Paradox is flawed.

They found that the wealthiest countries in terms of gross domestic product (GDP) per capita rank near the top of surveys on happiness, with the poorest at the bottom. More significantly, within each country, higher incomes translated to higher ratings of life satisfaction, they found.

"There appears to be a very strong relationship between subjective well-being and income, which holds for both rich and poor countries, falsifying earlier claims of a satiation point at which higher GDP is not associated with greater well-being," they said in a paper to be published by the Brookings Institution.

"The Easterlin Paradox says that what I care about is my relative ranking in society," Stevenson told AFP. "It says economic development doesn't matter at all -- that the United States is no better off in 2008 than it was in 1920."

The results have important implications for public policy. Stevenson and Wolfers note that economic growth might not be considered an important policy goal if it does little to raise well-being.

The Wharton researchers said multi-nation surveys such as the Gallup World Poll and the Pew Global Attitudes Survey reveal "quite powerful effects of income on happiness."

"There is no evidence of a satiation point," Wolfers told AFP. "Even as rich counties get richer they appear to get happier."

The researchers said they were not seeking to make any political point or support an ideology.

Although backers of the Easterlin theory say it argues against unbridled pro-growth capitalism, Stevenson said the new research could also be used to promote more distribution of wealth.

"A 10 percent increase in income for a poor person will give you the same gain (in happiness) as a 10 percent gain for a rich person but it would cost a lot less," she said.

Accordingly, she said redistributing income from the rich to the poor could increase a country's overall happiness quotient.

Easterlin meanwhile stands by his research, updated several times since the 1970s.

In a 2004 paper, Easterlin said surveys continue to support his thesis.

"Contrary to what economic theory assumes, more money does not make people happier," he wrote.

"Most people could increase their happiness by devoting less time to making money, and more to nonpecuniary goals such as family life and health," Easterlin said.

"It's necessary to separate shorter term fluctuations in which GDP and happiness are positively related from the long-term association between growth and happiness," Easterlin said in comments emailed to AFP.

"The conclusions of (the Wharton) paper appear to be based on the short-term association and do not contradict the findings regarding the longer term."

The new research meanwhile has set off a fierce debate among scholars.

Andrew Oswald, a self-described "happiness economist" at Britain's Warwick University and visiting fellow at Cornell University, called the Wharton paper "interesting" but argued that "the bulk of the evidence is on Easterlin's side."

Oswald, who has studied the issue for 15 years, said, "There is extrmely strong evidence that we are no happier than in the 1970s across the industrialized countries."

Oswald said Easterlin's research "is about 80 to 90 percent right."

"Economic growth buys only the most marginal amount of happiness for a country that is already rich. But in developing countries, there is very little dispute -- economic growth does make people happier."

Angus Deaton, a Princeton University economist, said Stevenson and Wolfers expanded on some of his research, and that "they are raising questions that are important" about the link between money and happiness.

But he added: "I think the question is far from settled. There may be some parts of the Easterlin Paradox that are still valid."

One problem, says Deaton, is that it is difficult for surveys to identify happiness and separate that from other measurements of well-being.

"These surveys ask people how happy you are," said Deaton. "The problem is you could think your life was great overall, but not be particularly happy."

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