

Wealth of the nation

By Chrystia Freeland

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You don't have to be a Marxist to take a little pleasure in the recent humbling of many of Wall Street's most swaggering Masters of the Universe. And you don't need to be a neocon to suspect that a sentiment as old-fashioned as envy might have had something to do with the reluctance of some pundits and policymakers to offer remedies to a financial disease that, at the start, seemed like it might afflict only plutocrats.

The inescapable fact is that money and who has it ineluctably influences our views about a lot of what happens in the world. If this fact has ever made you squeamish, then you may have taken comfort from the Easterlin Paradox.

This intriguing assertion, based on a 1974 paper by Richard Easterlin and subsequently elaborated by other economists, is that once societies exceed a (relatively low) overall standard of living, further increases in a country's wealth don't actually make that nation's citizens happier. Within countries, though, a more intuitive logic seemed to hold – being richer makes you happier. Hence, the paradox.

Certainly, anyone who isn't a billionaire will be hard-pressed to deny the personal appeal of a theory that suggests wealth and happiness don't always go together. But the Easterlin Paradox has important policy implications too. Imagine you run a country – France may come to mind – that doesn't top the world's Midas charts but that seems richly endowed with a lot of the other things that make people happy. You might, like French president Nicolas Sarkozy, argue that it is time to ditch gross domestic product and come up with a more nuanced way of measuring your nation's well-being.

The idea that making a country's GDP grow doesn't make its citizens happier can also be extremely handy for environmentalists. If you worry that human consumption is wrecking the planet, you are probably ambivalent about the rising incomes of hundreds of millions of people in what we used to call the developing world. But if getting richer doesn't necessarily make nations happier, liberal western greens don't need to feel quite so guilty about their hopes that the Chinese will stick to their bicycles.

The Easterlin Paradox has also offered intellectual ammunition to those of us who are concerned about the possibly malign political and social consequences of the growing income inequality in many western countries. One way to resolve the Easterlin Paradox is through the notion that the main impact of wealth on happiness is relative, not absolute: we become happier as we get richer than our neighbours – or sadder as they get richer than us – but the overall increase in our country's wealth doesn't create an increase in general cheer. If this is the case, then the advent of a New Gilded Age, even if it brings with it an overall increase in GDP, might make most of us less happy.

This week, however, two of the brightest up-and-coming economists in America have produced a forthcoming paper that argues that the Easterlin Paradox doesn't exist. Wharton's Betsey Stevenson and Justin Wolfers have combed through masses of international and historical data on happiness. They conclude that we do, in fact, become happier overall as our country becomes richer. This is true over time – as generations get richer they get happier; and over space – people living in rich countries are happier than people in poor countries. They also refute the concept of a "satiation point" or the belief that, beyond a certain income threshold, further increases in national wealth cease to increase national happiness.

Stevenson and Wolfers' research is a big deal. Personally, I hope it stands up to the intense scrutiny I am sure it will attract. For one thing, their argument makes intuitive sense, and I am always pleased when the dismal science gets around to concluding that what we civilians instinctively believed is, in fact, true. After all, if getting richer over time didn't make people happier why would so many of us set, as one of our life's principal objects, the goal of ensuring that our children are richer than we are? And if only relative and not absolute wealth matters, why have so many millions of immigrants flocked from poorer countries to richer ones, very often sacrificing their relative social status in the process?

This is not to say that I won't miss the Easterlin Paradox. For ordinary folks living in an era of plutocracy, the notion that money doesn't always buy happiness has a certain charm. Part of the attraction is that, even if you think capitalism is pretty swell, it also seems important to find space for measures of value other than money. Being a brilliant composer might not make you rich but it is surely worthwhile. An emergency room doctor or an inner-city teacher will never earn as much as Steve Schwarzman but that doesn't mean their contributions are smaller. Perhaps the real significance of the debunking of the Easterlin Paradox is to remind us that these are the kinds of judgments we shouldn't expect economists, or happiness researchers, to be making for the rest of us.

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