Business weekend
Can money buy happiness? New research pays out on theory that wellbeing does not increase with income

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MONEY can't buy happiness - or so the saying goes, and inquiring economists have been trying for decades to prove or disprove the notion.

Now, researchers at the University of Pennsylvania's School of Business have released a study showing `a clear positive link' between wealth and `subjective wellbeing', based on global surveys.

While this may seem self-evident to some, the research flies in the face of a longstanding theory that the 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 who is now employed at the Economics faculty at the University of Southern California.

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

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

They found that the wealthiest countries in terms of gross domestic product (GDP) per capita rank near the top in surveys on happiness, with the poorest at the bottom.

More significantly, within each country, higher incomes translate to higher ratings of life satisfaction, they found.

``There appears to be a very strong relationship between subjective wellbeing 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 wellbeing,'' they said.

``The Easterlin Paradox says that what I care about is my relative ranking in society,'' said Ms **Stevenson.**

``It says that 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 cease to be considered an important policy goal if it does little to raise wellbeing.

The researchers said multi-nation surveys such as the Gallup World Poll reveal `quite powerful effects of income on happiness'.

``There is no evidence of a satiation point,'' said Mr **Wolfers.**

``Even as rich counties grow richer, they appear to grow happier.''

The researchers said they were not seeking to make any political point, nor to support an ideology.

While backers of the Easterlin theory say it argues against unbridled pro-growth capitalism, Ms **Stevenson** said the new research could be used to promote wider distribution of wealth.

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

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

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

In a 2004 paper, Professor Easterlin said surveys continued 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 non-pecuniary goals such as family life and health.

``It is necessary to separate shorter-term fluctuations in which GDP and happiness are positively related from the long-term association between growth and happiness.

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

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

Andrew Oswald, a self-described `happiness economist' at Britain's Warwick University, called the Pennsylvania paper `interesting', but argued that `the bulk of the evidence is on Easterlin's side'.

``There is extremely strong evidence that we are no happier than in the 1970s across the industrialised countries.''

Professor Easterlin's research `is about 80 to 90 per cent right', said Professor Oswald, who has studied the issue for 15 years.

``Economic growth buys only the most marginal amount of happiness for a country that is already rich,'' he said.

``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** expand on some of his research, and that `they are raising questions that are important' about the link between money and happiness'.

``I think the question is far from settled,'' he said.

``There may be some parts of the Easterlin Paradox that are still valid.''

One problem, said Deaton, is that it is difficult for surveys to identify happiness and separate that from other measurements of wellbeing.

``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.''

`There is no evidence of a satiation point - as rich counties grow richer, they appear to grow happier'

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