In the aftermath of World War II, the Japanese economy went through one of the greatest booms the world has ever known. From 1950 to 1970, the economy's output per person grew more than sevenfold. Japan, in just a few decades, remade itself from a war-torn country into one of the richest nations on earth.

Yet, strangely, Japanese citizens didn’t seem to become any more satisfied with their lives. According to one poll, the percentage of people who gave the most positive possible answer about their life satisfaction actually fell from the late 1950s to the early '70s. They were richer but apparently no happier.

This contrast became the most famous example of a theory known as the Easterlin paradox. In 1974, Richard Easterlin, then an economist at the University of Pennsylvania, published a study in which he argued that economic growth didn’t necessarily lead to more satisfaction.

People in poor countries, not surprisingly, did become happier once they could afford basic necessities. But beyond that, further gains simply seemed to reset the bar. To put it in today’s terms, owning an iPod doesn’t make you happier, because you then want an iPod Touch. Relative income — how much you make compared with others around you — mattered far more than absolute income, Mr. Easterlin wrote.

The paradox quickly became a social science classic, cited in academic journals and the popular media. It tapped into a near-spiritual human instinct to believe that money can’t buy happiness.

To see what they mean, take a look at the map that accompanies this column. It’s based on Gallup polls done around the world, and it clearly shows that life satisfaction is highest in the richest countries. The residents of these countries seem to understand that they have it pretty good, whether or not they own an iPod Touch.

If anything, Ms. Stevenson and Mr. Wolters say, absolute income seems to matter more than relative income. In the United States, about 90 percent of people in households making at least $250,000 a year called themselves “very happy” in a recent Gallup Poll. In households with income below $30,000, only 42 percent of people gave that answer. But the international polling data suggests that the under-$30,000 crowd might not be happier if they lived in a poorer country.

Even the Japanese anomaly isn’t quite what it first seems to be. Ms. Stevenson and Mr. Wolters dig into those old government surveys and discovered that the question had changed over the
In the late 1950s and early '60s, the most positive answer the pollsters offered was, “Although I am not innu-
merably satisfied, I am generally satisfied with life now.” (Can you imagine an American poll offering that option?)
But in 1964, the most positive answer became simply, “Completely satisfied.”
It is no wonder, then, that the percentage of people giving this answer fell. When you look only at the years in
which the question remained the same, the share of people calling themselves “satisfied” or “completely satisfied” did
rise.
To put the new research into context, I called Daniel Kahneman, a Princeton psychologist who shared the 2002
Nobel Prize in economics. He has spent his career skewering economists for their belief that money is everything and has
himself written about the “aspiration treadmill” at the heart of the Easterlin paradox.
Yet Mr. Kahneman said he found the Stevenson-Wolfers paper to be “quite compelling.” He added, “There is just
a vast amount of accumulating evidence that the Easterlin paradox may not exist.”
I then called Mr. Easterlin, who’s now at the University of Southern California
and who had received a copy of the paper from Ms. Stevenson and Mr. Wol-
fers. He agreed that people in richer countries are more satisfied. But he’s
skeptical that their wealth is causing their satisfaction. The results could instead reflect cultural differences in how
people respond to poll questions, he said.
He would be more persuaded, he continued, if satisfaction had clearly risen in individual countries as they grew richer.
In some, it has. But in others — notably the United States and China — it has not.
“Everybody wants to show the Easterlin paradox doesn’t hold up,” he told me. “And I’m perfectly willing to believe it
doesn’t hold up. But I’d like to see an informed analysis that shows that.”
He said he liked Ms. Stevenson and Mr. Wolfers personally, but he thought they had put out “a very rough draft without
sufficient evidence.”
They, in turn, acknowledge that the data on individual countries over time
is messy. But they note that satisfaction has risen in 8 of the 10 European coun-
tries for which there is polling back to 1970. It has also risen in Japan. And a
big reason it may not have risen in the United States is that the hourly pay of
most workers has not grown much recently.
“The-time-series evidence is fragile,”
Mr. Wolfers said. “But it’s more consist-
tent with our story than his.”
So where does all this leave us?
Economic growth, by itself, certainly isn’t enough to guarantee people’s well-
being — which is Mr. Easterlin’s great contribution to economics. In this coun-
try, for instance, some big health care problems, like poor basic treatment of
heart disease, don’t stem from a lack of sufficient resources. Recent research
has also found that some of the things that make people happiest — short com-
mutes, time spent with friends — have little to do with higher incomes.
But it would be a mistake to take this argument too far. The fact remains
that economic growth doesn’t just make countries richer in superficially materia-
listic ways.
Economic growth can also pay for investments in scientific research that
lead to longer, healthier lives. It can allow trips to see relatives not seen
in years or places never visited. When you’re richer, you can decide to work
less — and spend more time with your friends.
Affluence is a pretty good deal. Judg-
ing from that map, the people of the
world seem to agree. At a time when
the American economy seems to have
fallen into recession and most families’
incomes have been stagnant for almost a
decade, it’s good to be reminded of why
we should care.
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