Does money buy happiness?

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TWENTY YEARS ago in this journal, Richard Easterlin argued that richer societies are no happier than poor ones. However, Easterlin argued, within any one country richer people are happier than poorer people. He explained this anomaly as follows: People judge their economic welfare by that of their neighbors. If only national income rises, an individual's status, vis-a-vis his neighbors, remains unchanged.

But since then, new studies have almost completely reversed Easterlin's conclusions. These studies have found that economic growth does materially increase a country's collective sense of well-being and that differences in well-being within a country are not significantly related to income.

Why the reversal? First off, we simply have better data. For instance, Gallup's 1976 transnational study concluded that a nation's poverty pervades all aspects of life, for it "adversely

†I will frequently use the term "sense of well-being" or simply "well-being" instead of "happiness." The latter is a mood or emotion, whereas many of the studies I will rely on use more cognitive measures such as "satisfaction with life as a whole," or complex indices of satisfaction and mood.
colors attitudes and perceptions" as well as feelings. "Although one could probably find isolated places in the world where the inhabitants were very poor but happy," said Gallup, "this study failed to discover any area that met this test." And, in the most probing transnational analysis so far, Alex Inkeles and Larry Diamond found in 1980 "a strong indication ... that personal satisfaction rises with the level of economic development of the nation." Indeed, for national populations taken as a whole, money does buy happiness.

Comparisons within a society tell quite a different story, one that challenges some of our basic, commonsense assumptions. For here, money does not buy happiness. In almost all developed countries there is no substantial relation between income and well-being. In perhaps the best of the many single-country "quality of life" studies, Frank M. Andrews and Stephen B. Withey found in 1976 that "The groupings by socioeconomic status show very meager differences [in sense of well-being] ... and no significant single steps for [satisfaction with] Life-as-a-Whole." Two years later Jonathan Freedman reported in *Happy People* that: "The rich are not more likely to be happy than those with moderate incomes; the middle class is not more likely to be ... happy than those with lower incomes... For the majority of Americans, money, whatever else it does, does not bring happiness."

However, Freedman found that the poor are different: "fewer of them say that they are very happy or moderately happy and more of them say that they are very unhappy than people with higher incomes." Freedman's qualification is crucial: Among the poor money does buy happiness and a greater sense of well-being.

**Happiness is ...**

As that respected but iconoclastic economist Tibor Scitovsky wrote in his 1977 book *The Joyless Economy*, many of life's pleasures are not bought and sold. Among these, he said, are work satisfaction, friendship, and the pleasures of solitary thought, reading, and other forms of non-commercial leisure. He was largely right.

Quality of life studies tend to divide the sources of well-being into two categories: external circumstances, such as available community services or family life, and internal dispositions, such
as self-esteem or the sense that one controls one's own fate. As regards the first category, most studies agree that a satisfying family life is the most important contributor to well-being. Beyond that, the joys of friendship often rank second. Indeed, according to one study, an individual's number of friends is a better predictor of his well-being than is the size of his income. Satisfying work and leisure often rank third or fourth but, strangely, neither is closely related to actual income. (In contrast, neither church membership and piety nor good government and civic pride make much difference in well-being. Political activity is often last on the list; it is at best a duty and almost never a pleasure.) None of these factors is a market commodity. But the market is not irrelevant, for even if actual income is not a good predictor of well-being, satisfaction with one's income or standard of living (which is not itself closely related to level of income) is. It is the subjective rather than objective aspects of income that enter into the hedonic calculus.

Among the internal sources of well-being, self-esteem and sense of effectiveness rank first and second in some studies. Neither is related to level of income. In other studies the belief that one has met life's challenges ranks first. Money might be relevant here, but more as a token of social esteem than for what it buys.

If the things that contribute most to well-being are unrelated to money, we cannot buy them. This is the principle cause of money's curious failure to produce happiness.

**Satisfaction vs. income**

If income and satisfaction are not closely correlated, why do people pursue the former? Perhaps people have an insatiable desire for money, or for the social esteem that money sometimes buys. People may then adapt to their circumstances so that each increment of money soon creates a new standard against which they measure themselves. There is something to that theory. Still, there is evidence which suggests that the desire for more money tapers off as income increases. Furthermore, as mentioned, there is no evidence at all that money buys self-esteem. In fact, there is evidence to the contrary.

Consider the biological fixity of moods: We are born with happy or unhappy dispositions. As the physiological psychologist
Jan Fawcett said of “joylessness,” “We seem to be measuring a biological characteristic, like blue eyes, that doesn’t change.” Of course, since there are many reports of measured changes in long-term moods, this biological fixity must be seen as only a limiting condition.

Daily pleasures are different from overall satisfaction with one’s life, but they too lack any significant relation to income. When Gallup asked Americans in 1981, “What gives you the most personal satisfaction or enjoyment day in and day out?” family activities again ranked first, but then, in order of preference came: television, friends, music, books and newspapers, house or apartment, work, meals, car, sports, and clothes. Few of these require expenditures that those below the poverty line cannot afford, even cars. The pleasures yielded by many of the others are purely comparative. Possessions may be important (in another study, a sample of primary grade school girls believed that their own identities were better defined by “the clothes that you wear” than by who their fathers were!), but at least enjoyment of these activities is not entirely income-dependent. As a society we have focused so much on possessions that we forget that it is not so much what one owns as what one does that gives pleasure.

And what about work? Don’t higher paid jobs afford more power, discretion, challenge, and therefore pleasure? In 1985 Thomas Juster (reporting on several surveys in the 1970s and early 1980s) found that family and friendship were enjoyed most. But most striking was the high rank given “the actual work that you do,” which was ranked right after family and social activities and well ahead of television, sports, movies, gardening, reading, and shopping. Strangely, Juster found little correlation between job status and job enjoyment. Other studies dispute this, but we may assume at least that the relationship is much looser than many middle-class intellectuals imagine. (I once interviewed a wallpaper-hanger who found his skill in handling corners a source of great delight.)

Well-being has as much to do with relief from pain as it has to do with pleasure; indeed, more so, because losses hurt more than gains please—and pain is remembered longer than is pleasure. Take the question of worries, which one would think to be more frequent among the poor than the rich. Not so. Andrews
and Withey's surveys in the early 1970s found that when it comes to the amount of worrying "there are virtually no differences associated with socioeconomic status." But, as another study revealed, the worries are different: Whereas the poor and less educated worry about health and income and things they cannot easily control, the richer and better educated worry more about their relations with their spouses and children and the more controllable features of their lives. Money does not reduce worrying; it simply changes the subject.

Of course worries about security of income do vary with income, but less than one would think. For example, a 1976 study of Detroit and Baltimore workers showed that whereas the income levels of blue- and white-collar workers were almost identical, the blue-collar workers worried more about security of income than did white-collar workers. At the upper levels of income, people tend to worry more about rate of increase than about income cessation. And there, at comparable income levels, business managers are much more likely to worry about their rate of increase than are professionals. The point is that money does not always buy a sense of security.

We know from Andrews and Withey's study that a sense of being treated unfairly does lower people's sense of well-being, but in that study there is little evidence that the less well-paid believe they have been treated less fairly than do the better paid. Treatment is evaluated by comparing oneself to others in the same income group. Thus the national distribution of income is largely lost from sight. This pattern of within-group comparisons is one reason why Marxist predictions of class conflict failed. Indeed, except for the high salaries of film stars and sports heroes, this country's distribution of income meets with wide approval (including that of those very close to the bottom of the heap).

What about people who are unhappy? What do they do about it? Thomas Langner and Stanley Michael found in 1963 that the actual incidence of social stresses—such as physical illness, loss of spouse, lack or loss of close friends, and failure to "get ahead"—is not very different by social class, but that the coping strategies are very different. Where the middle and upper classes tend to plunge into work, a strategy that has some therapeutic effect, the working class tends toward expressive acts such as drinking
or aggression, acts which only make matters worse. The relation between money and well-being is mediated by the superior coping strategies of those with more education and more money.

Why we think money matters

Most people think that a 25 percent pay increase would make them much happier. Yet those whose incomes are now at that higher level are no happier or more satisfied with their lives. Why are we so easily deceived? One reason is that changes in income do briefly influence our sense of well-being. But even the happiness that comes with an increase in income does not last long, for very soon the new level of income becomes the standard against which we measure our achievements. That relative satiation does not occur with, for example, friendship, work, or family life.

Another reason we are deceived is that the market culture teaches us that money is the source of well-being. Many studies show that people are not very good at explaining why they feel good or bad. Instead, people tend to use conventional explanations. And the conventional explanation is that the source is money. Nevertheless, I have found that most of my friends, on reflection, agree that it is not the things they buy or own that make them happy, or the lack of these things that depresses them. Instead, it is their relations with their spouses and colleagues, the well-being of their children, and their satisfaction with their work. I invite my readers to engage in similar introspection.

Market economists such as A.C. Pigou, Ludwig von Mises, and Tjalling Koopmans all report that the purpose of their studies (and inferentially of the market itself) is to maximize the satisfaction of human wants. But they measure that satisfaction, called "utility," in a circular manner: Satisfaction with something is revealed by the very fact that it was bought, regardless of the joy or sorrow that something may bring or of alternative, non-market uses of a person's time and effort. Moreover, economists refer to work as a "disutility"—the pain necessary to earn the pleasures of money and leisure. This is directly counter to the evidence we have seen showing that what one does at work is often a greater source of pleasure than are leisure activities (and a far greater pleasure than shopping). And it is contradicted by
the studies showing that a sense of achievement and of mastering skills at work is more important for both work satisfaction and general well-being than is the income derived from work. The economists have their pain-pleasure calculus all wrong.

Around the world

Why are our conclusions today so different from Easterlin's? First, there are problems with Easterlin's data. In the 1965 study that Easterlin used, three of the nations at the poorest end of the scale (Cuba, Egypt, and Yugoslavia) had just experienced a revolution and enjoyed the exhilaration of defeating their "oppressors" and the (false) hope that their societies would now prosper. With the happiness scores of the poor nations thus artificially elevated, Easterlin was bound to find smaller differences between the poorer and the richer nations. And, as reported, when Inkeles and Diamond sorted out the effects of occupation and income, the difference made by income virtually disappeared. Later studies finding genuine differences in well-being between poor and rich nations avoided some of these problems.

When it comes to differences in well-being within countries, there has also been a real change. Among the more prosperous nations a revolution of values has occurred. In Europe, as in the United States, youth who grow up in times of peace and prosperity tend, when they become adults, to value money less than do people who grew up during the Depression or the Second World War. Instead, they give high priority to self-determination (including self-direction at work) and cultural expression. For this relatively prosperous group of postmaterialists money does not buy happiness.

But how is it that the collective good of national wealth, but not the private good of individual wealth, increases the sense of well-being? One reason is that the benefits of collective wealth generally increase the incomes of the poor, for whom money does buy happiness. Moreover, money can help reduce the particular afflictions of the poor, such as higher rates of infant mortality. Along the same lines, richer countries have better welfare systems than poorer countries. Thus, collective wealth buys both objective and subjective well-being for the poor. Or, more accurately, it buys relief from sorrow—a relief that does more to increase well-being than any similar increment of joy. A
second reason is that, to the extent that “a rising tide lifts alloats,” each “boat” is better off than it was before the tide came
in and, finding pleasure in this comparison, is thereby discour-
aged from making invidious comparisons with others. These self-
comparisons, as compared to social comparisons, are more likely
to favor well-being. And a third reason is that in periods of
general prosperity when most incomes are rising, people (Ameri-
cans more than Europeans) attribute their higher incomes to
their own efforts, rather than to such general factors as in-
creased investment or higher economic productivity.

Observe the dilemma: Richer nations, made richer by their
focus on productivity, have happier citizens than do poorer na-
tions. But focusing on productivity and wealth reduces individual
happiness. In other words, an increase in national wealth re-
quires a sacrifice of the well-being of the present generation, by
distracting them from the things that make people happier now:
family life, friendship and social esteem, and especially a work
environment that places work satisfaction first and economic gain
only second. One might say that the sacrifice of well-being now
for the well-being of our children is like saving for one’s chil-
dren. Clearly, it is a generous act. But it may be that in retro-
spect our children would prefer to have had happier parents
taking care of them than to have, as adults, whatever financial
increments might accrue to them.

The hedonic treadmill

So let us look again at individual happiness. If desires, expect-
tations, and standards of comparison increase as rapidly as
“achievements,” no increase in income, no matter how large, will
increase subjective well-being. This process leads to what two
psychologists, Philip Brickman and Donald Campbell, have called
the “hedonic treadmill.” Is there no escape?

Perhaps there is. As we have seen, it is family, friendship,
and work that contribute most to well-being. So far as I know,
no research has suggested that these are satiable pleasures, that
one tires of the satisfactions derived from friends and family, or
that they have declining marginal yields. And from research on
the pleasures of challenging, self-directed work, we know that it
is characterized by the desire to continue working in “free time.”
Rather than being satiable, that kind of work is addictive.
We see today a partitioning of the population such that some are condemned to walk a hedonic treadmill while others take a pleasanter path. At the bottom, as noted, the poor and the near-poor will profit from economic growth because for them increased income, whether collective or individual, does buy happiness. And for the better-off and better-educated, the latter a growing group, there is the postmaterialist path of self-directed work and even, it may be hoped, "a society where ideas count more than money." But for the materialist middle, who are quite indifferent to whether or not "ideas count," more money will not buy greater well-being and the hedonic treadmill lies before them—unless, with some help from outside, they come to realize that their families and friends and a fulfilling job are the true path to happiness.

Can government help?

As I have noted, much research shows that people are not very good at explaining and understanding the sources of their own well-being. However paternalistic it may sound, people do need help in structuring their choices and in understanding their situations.

Of all the sources of well-being, a satisfying family life is the most important. For the top 80 percent of the population, this form of satisfaction does not vary with income. But at the bottom, things are different. For poverty and family misery often go hand in hand. Therefore, policy should attempt to relieve poverty. Also, whenever markets disrupt communities they thereby undermine family life. Protecting families would do more to maximize happiness than would increasing productivity. But firms do not profit much from employees' family felicity, and even if they did, a competitive economy limits what they could do.

Because satisfaction with work is central to well-being, I advocate a two-pronged policy: First, full employment, not greater per-capita income, should be the primary goal of economic policy. And second, because work enjoyment and work learning depend on the use of skill and self-direction, firms converting routine jobs to jobs where workers can use their own discretion should be rewarded by government. It is true that the current "upskilling" of jobs has been in response to market forces, but these same market forces preserve the low security and low skilled (and low
wage) jobs at the bottom. To maximize the "utility" derived from work (and not just to minimize "disutility") governments must intervene.

These proposals will do more to favor success in the popular pursuit of happiness than proposals to equalize income, which, for most of the population, would not alter the outcome of that pursuit at all.

Market economies have made us prosperous, but they do not maximize "utility" or the satisfaction of human wants. With skill and restraint, government policy can convert markets to that purpose. To this end governments must, so to speak, go off the gold standard and treat per-capita GNP as a useful but inadequate means to the true end of both governments and markets: maximizing well-being.

In 1930, anticipating future economic growth, Keynes wrote a letter to his "grandchildren" advising them to try "encouraging, and experimenting in, the arts of life as well as the activities of purpose [earning a livelihood]." "But chiefly," he said, "do not let us overestimate the importance of the economic problem, or sacrifice to its supposed necessities other matters of greater and more permanent significance." Keynes thought that "the permanent problem of mankind" is learning not just to live, but to live well.