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Happiness rethink

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For many years the received wisdom in economics has been much the same as that in Buddhism: money doesn't make you happy (see, for instance, "**The Seven Secrets of a Happy Life**", FT Weekend Magazine, August 28/29).

I should probably modify my statement though. Economists who study the subject have tended to believe that beyond some minimum, absolute income has little effect on happiness. In any given society, the rich tend to be happier than the poor, but citizens of rich countries are not notably happier than citizens of middle-income countries, and while we are richer than our parents were at our age, we are no happier.

This finding has been called the Easterlin Paradox, after Richard Easterlin, the economist who first observed it back in the 1970s. The paradox has an explanation: what matters is keeping up with the Joneses. If we care only about our place in society, the pattern Easterlin discovered in the data is readily explained.

But two recent pieces of research suggest a different conclusion. "The concept of happiness has to be reorganised," says Daniel Kahneman, a psychologist who won the Nobel memorial prize in economics in 2002. Much happiness research focuses on "life satisfaction", where researchers ask people whether they're satisfied with life as a whole. But Kahneman studies mood: do people, moment by moment, feel content, relaxed or joyful – or stressed, depressed or frustrated?

Kahneman and Angus Deaton, in research published in August in the Proceedings of the National Academy of Sciences, looked at these two measures of happiness in half a million responses to a daily survey of Americans. They found that money is correlated with life satisfaction, but beyond an income of about $75,000, it doesn't improve your mood: so whether or not Easterlin is right depends on what you mean by happiness.

A new working paper released by three Wharton School economists, Daniel Sacks, Betsey Stevenson and Justin Wolfers, amplifies the finding on life satisfaction. Not only is money correlated with life satisfaction, but this is true whether they compare the happiness of two people in the same country, one 10 per cent richer than another; or the average happiness in two countries, one with 10 per cent higher income per capita; or the increase in happiness after a period of economic growth has made a single country 10 per cent richer than it used to be. It is absolute income, not relative income, which matters for happiness. The attractions of living in a rich man's world are back on the table.

Justin Wolfers claims that the relationship between life satisfaction and income is "one of the highest correlations you'll ever see in a cross-country data set in the social sciences, ever." If so, why has this not been clear before? Wolfers blames problems with the older data – for instance, it became apparent, after retranslating the questions asked in Japan, that life satisfaction seemed to stagnate as the economy boomed only because the questions kept changing.

But not everyone is so quick to dismiss Easterlin's work, which has survived careful scrutiny over the years. Andrew Oswald of Warwick University points out that the Wharton research may not have successfully disentangled income from unemployment, which has long been known to be one of the most depressing of experiences.

And everyone seems to agree on one thing: for whatever reason, life satisfaction in America itself has been stagnating for decades. "Score that one for Easterlin," says Justin Wolfers. Perhaps Barack Obama has been taking note: three leading happiness scholars, Betsey Stevenson, Kahneman's co-author Alan Krueger and Cass Sunstein all have senior government positions. Maybe they can figure out how to improve the nation's mood.

Tim Harford's latest book is 'Dear Undercover Economist' (Little, Brown)

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