"Summary of article by Richard Easterlin: Will Raising the Incomes of All Increase the Happiness of All?" in Frontier Issues in Economic Thought, Volume 2: The Consumer Society. Island Press: Washington DC, 1997. 25-27.

Social Science Library: Frontier Thinking in Sustainable Development and Human Well-being

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In his widely cited 1974 article on income and subjective well-being[1], Easterlin drew three major conclusions from a review of empirical evidence: first, within a country rich people are happier than poor people at any point in time; second, increases in average income over time do not lead to increases in average happiness; and finally, people in rich countries are no happier, on average, than those in poor countries. The present article returns to the subject of income and happiness, finding that an additional twenty years of data and analysis have strengthened support for the first two conclusions but rendered the third problematical.

Theoretical Model

For most people, judgments of their own economic well-being depend on the incomes and living standards of others. If your income is unchanged while everyone else receives an increase, you will probably feel poorer. In formal terms, happiness varies directly with one's own income and inversely with the incomes of others, as suggested by Duesenberry's model of interdependent preferences (see summary in Section 5). This model predicts that income and happiness are positively correlated at any point in time, as is actually observed. It predicts that increases in everyone's income need not make anyone happier, since the increase in happiness from one's own gains is offset by the effect of everyone else's success. This, too, is consistent with observation.

A more realistic model would also take account of habit formation: the utility resulting from one's current income depends in part on habits and expectations, based on past income. This should diminish the correlation between income and happiness: the rich have high expectations, reducing the satisfaction they get from large incomes; the poor have low ones, increasing the satisfaction they experience from small incomes. If spending habits and expectations were all that mattered, there might be no relationship between current income and happiness. More realistically, the combination of interdependent preferences and habit formation predicts some connection between income and happiness, though less than that which would prevail in the absence of habit formation.

Empirical Evidence

Numerous studies from the U.S., Europe, and Japan confirm that increasing per capita incomes do not result in increasing happiness. In the U.S., real incomes rose substantially between the 1940s and the 1970s; new, detailed studies of that period have confirmed Easterlin's 1974 finding that happiness peaked in the late 1950s and then declined. From 1972 through 1991, a period when per capita income after tax rose by one-third, annual survey data from the National Opinion Research Center likewise show no upward trend in happiness.

Surveys of life satisfaction in nine European countries from 1973 through 1989 show a slight upward trend in two countries, a slight downward trend in two, and no trend in the remaining five; during those years real per capita gross domestic product (GDP) rose from 25 to 50 percent in the nine countries. A study of Japan found no increase in subjective well-being from 1964 to 1981, despite the fact that real per capita GDP more than doubled. Other survey evidence shows that people's expectations and standards for a given level of satisfaction rise at about the same rate as incomes. The income requirements for being "completely happy" move upward over time, as do the much lower standards for "minimum comfort." One historical study found that minimum comfort standards, over a long period of time, were a roughly constant percentage of per capita gross national product.

The evidence for a positive relationship between income and happiness at any point in time is also extensive. Some analysts have pointed out that the statistical relationship is a weak one if other factors such as educational level are controlled; however, these other factors may be mechanisms through which income produces its effects.

For international comparisons of happiness, theoretical predictions are unclear, as is the evidence. It has been established that there are durable cultural differences between countries in the tendency to answer questions positively or negatively. Similarly, there are differences in the tendency to answer moderately or extremely. One attempt at international comparison found that Brazilians were among the most satisfied, but also among the most worried and dissatisfied, on a range of measures; the likely explanation is that Brazilians are among the most immoderate in their responses. Such difficulties underscore the importance of single-country studies for analysis of the relationship between subjective well-being and economic development.

Conclusion

Rich people are happier than poor people in the same country at the same time. However, raising the incomes of all does not increase the happiness of all. Despite the obvious relevance of such findings for economic theory, economists have, with few exceptions, ignored the issue. A survey of more than 200 studies on the measurement and determinants of subjective well-being found only two in economics journals. The reluctance of economists to consider new research on subjective well-being doubtless reflects, in part, the continuing commitment to utilitarianism, and the often-stated commitment to positive rather than normative analysis. Recently there have been encouraging signs of an emerging interest in normative economics. "An economics that is engaged actively and self-critically with the moral aspects of its subject matter cannot help but be more interesting, more illuminating, and ultimately more useful than one that tries not to be."[2]

Notes

1. Richard Easterlin, "Does Economic Growth Improve the Human Lot?", in Paul David and Melvin Reder, editors, *Nations and Households in Economic Growth: Essays in Honor of Moses Abramovitz* (New York: Academic Press, 1974).

2. Daniel Hausman and Michael McPherson, "Taking ethics seriously: economics and contemporary moral philosophy," *Journal of Economic Literature* 31 (1993), 723, quoted in Easterlin.