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Gross Domestic Happiness: What Is the Relationship between Money and Well-being?

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Most of us have seen the bumper sticker: "Anyone who says money can't buy happiness just doesn't know where to shop." It's an amusing sentiment, but it provokes an important question: What exactly is the relationship between money and happiness?

On one hand, there is an unquestionable link. Certainly no one would deny that having enough money to cover basic needs -- to provide food, clothing and shelter -- makes you happy, or at least relieves stress which leads to greater contentment. And the more money you have, the more stuff you can buy that makes you happy: that sleek iPhone 4, that fancy new car or that luxurious cashmere wrap. On the other hand, those material objects tend not to bring us the same joy as say, spending a morning with your children at the beach, or having a good conversation with an old friend.

"The relationship between money and happiness is a complicated one," says Ed Diener, emeritus professor of psychology at the University of Illinois, who conducts research on the measurement of happiness. "All things being equal, having more money is always going to be a good thing. But while money may make you happier, there are things that [lend complexity to] that correlation."

So while more money may make us happier, other considerations -- such as whether you live in an economically advanced country, how you spend your money, how you compare your wealth to others and how you think about your time -- also play into the equation.

Back in the 1970s, only a handful of people were studying the subject of human happiness, and very little reliable data measuring individual or national well-being existed. At the time, research on the topic suggested that beyond some minimum, income had only a modest effect on happiness. In a society, rich people were happier than poor people, but citizens of rich countries were not remarkably happier than citizens of middle-income, or even poor countries. This finding, known as the Easterlin Paradox, after Richard Easterlin, the economist who first observed it, suggested that relative income, rather than absolute income, most parallels happiness. In other words, what matters is keeping up with the Joneses.

But happiness research has come a long way since then. Today, much better data and many more representative samples help measure both national and personal levels of happiness. Also, many more people are working in the field -- from economists to sociologists to psychologists -- and most now agree that there is a strong link between a country's level of economic development and the happiness of its people.

Indeed, political leaders including British Prime Minister David Cameron and French President Nicholas Sarkozy have said happiness may be the key to improving measures of how we gauge rising living standards in nations. Rather than simply looking at gross domestic product, or the amount of goods and services produced in a country, they say elements such as peoples' life satisfaction should be considered.

The connection between money and happiness, or even a simple, universal definition of happiness, is difficult to pin down, however. And critics note that coming up with a definitive way of determining a nation's success through well-being would be equally tough.

Country by Country

Wharton business and public policy professors Betsey Stevenson and Justin Wolfers and doctorate student Daniel Sacks recently unearthed every multi-national study on well-being they could get their hands on and cross-referenced it with cross-national statistics on economic development. The team's data, which spans over 40 years, looks at 155 countries and hundreds of thousands of individuals. Their findings: "There is a robust relationship between well-being and economic development," says Wolfers. Their research is discussed in a paper titled, "Subjective Well-Being, Income, Economic Development and Growth" (PDF).

Money is closely associated with well-being, a finding that rings true when comparing the happiness of two individuals in the same country, one 10% richer than another, or the average happiness of two countries, one with 10% higher income per capita. "Easterlin's paradox intuitively makes sense, but as it turns out, the earliest findings of happiness research were things that we wished were true, rather than [being] actual facts," Wolfers notes. "It was an enormously reassuring hypothesis and made it easier for us to sleep at night without worrying about the human suffering in Burundi, knowing that people in Burundi were just as happy as we were."

For his part, Easterlin, who teaches at the University of Southern California, has not backed down. Last month, he published a new paper concluding that in 37 countries around the world, rich and poor, levels of well-being have not risen in line with levels of income over the long term. He notes that in Chile, China and South Korea, per capita income has doubled in under 20 years, yet surveys show mild declines in life satisfaction in those countries.

But Wolfers maintains that economic growth helps pay for investments in scientific research that lead to longer, healthier lives. He points to several economic indicators that have a strong correlation with people's sense of well-being. Child mortality is one. In the U.S., the probability that a newborn baby will die before reaching age five has dropped considerably over the past 50 years: Today the probability is 7.8 deaths per thousand births compared with 30 in 1960. In Burundi, one of the poorest countries in the world (and one that ranks toward the bottom on every world happiness survey), that figure today is 166.3, according to data from the World Bank. Life expectancy in the U.S. has increased by nearly a year every decade over the past 30 years. Today, if current mortality patterns remain the same, the average number of years an American newborn is expected to live is 78.44, compared with 70.81 in 1970, the World Bank reported. In Burundi, average life expectancy is 50.43.

"These are transformational things," says Wolfers. "The greater productivity we have in the U.S. means that we have choices that our friends in Burundi don't have. And those choices are enabled by greater purchasing power."

Relative income matters but only on the margins, according to Wolfers. "The claim is that all we care about is keeping up with the Joneses. But if 'Jones' lives in a rich country and you [also live in a] rich country, you're both happier than you would be if you lived in a poor country. Levels of economic development are vastly different country to country, and so the little buzz you might get off being richer than 'Jones' doesn't really matter in a country like Burundi where you're worried about your child dying."

And yet, people are remarkably attuned to relative position and status. Comparisons and relative judgments matter a great deal in the U.S., according to Sonja Lyubomirsky, professor of psychology at the University of California, Riverside, who studies human well-being. "Research suggests that when only your salary is cut, or you lose your job, do you become considerably less satisfied with your life," she says. "But when everyone becomes worse off, your life satisfaction remains pretty much the same."

A well-known, decade-old study revealed that people prefer to live in a world in which they receive an annual salary of $50,000, when others are pulling in $25,000, than an annual salary of $100,000 when others are making $200,000. "To some, these findings show the dark side of human nature, but to me, they reveal an all-too-human truth: We care more about social comparison, status and rank than we do about the absolute value of our bank accounts or reputations," notes Lyubomirsky.

But, she adds, regardless of how much money each of us has, there are strategies for spending it that will maximize our individual happiness. For instance, spending money on others, whether through philanthropy or taking a friend out to lunch, makes us happier than spending money on ourselves.

Spending money on anything that promotes personal growth -- French lessons, say, or a cooking class -- tends to make us happier, as does spending money on social outings, compared to spending money on solitary endeavors.

Spending on lots of little things rather than one big thing also makes us happier. "The reason being that if you spend your money on one big thing, you become accustomed to it, but with lots of little things, there are more adaptation periods so the happiness lasts longer," Lyubomirsky says.

Spending money on experiences -- a special trip, say -- rather than possessions also makes us happier. "Experiences [that] are social ... are more likely to be remembered and less likely to be compared," she adds. "You don't necessarily know if your neighbor had a better honeymoon than you did."

The Philosophical Approach

However, when most people are asked a variation of "What makes you happy?" money typically doesn't rate very high. Generally speaking, respondents to such surveys most often say things like cultivating high-quality relationships with friends and family, making a positive contribution to the world, and "having time for themselves, to restore and rejuvenate," according to Stewart Friedman, a management professor at Wharton.

Friedman, whose research focuses on the intersection of organizational behavior, work and life integration, teaches a class on leadership that grew out of a two-year assignment at Ford. In the class, he guides students through exercises to identify their core values and recognize what matters most to them, and then helps them figure out ways to manage their work, family and community commitments to better align their lives with their values. "The outcomes people pursue have a lot to do with well-being and happiness," he says. "They want to contribute to making the world a better place, a safer place. They recognize the importance of meaning."

Then there is the matter of how individuals define happiness, according to Diener, who is also a senior scientist with Gallup. This summer, Gallup conducted a worldwide survey of more than 136,000 people in 132 countries that included questions about happiness and income. The survey asked respondents questions about their income and standard of living, whether their basic needs for food and housing were met, what kinds of conveniences they owned and whether they felt their psychological needs were satisfied. The survey included a global life evaluation, which asked respondents to grade their lives on a scale that ranged from zero (worst possible life) to 10 (best possible life). The poll also asked respondents whether they felt respected, whether they had family and friends they could count on in a pinch, and how free they felt to choose their daily activities.

The results show that while life satisfaction usually rises with income, positive day-to-day feelings don't necessarily follow. "Looking at life satisfaction -- when you stand back and make a judgment about your life -- you might say 'As a whole it's pretty good: I'm married, I have a job, I am in good health.' You see a pretty strong correlation around the world between personal and national income and happiness," Diener says. "On the other hand, when you look at life enjoyment [or] experienced moment-to-moment happiness -- Are you enjoying your job? Are you learning new things? Are you spending time with friends? -- there is only a small correlation with money. Instead, these are much more strongly associated with other factors, such as feeling respected, having autonomy and social support, and working at a fulfilling job."

According to Diener, one of the impediments to happiness is the "rising aspiration problem," also known as plain old materialism. "Aspirations rise so quickly that people become disappointed with the amount of money they make because they always want more of it," he notes. "Every day we see movies and TV shows about people who make a lot of money and are buying $20 million yachts. This is pervasive all over the world; our survey tells us that more people in developing countries own television sets than have running water in their homes. The media has driven people's aspirations quickly."

There's also the issue of how you got the money, how you spend it and how you spend your time, he points out. "If you got the money because you're an attorney at a big firm, working 80 or more hours a week, then you're probably tired. You work long hours and you commute, and there isn't a lot of time in your life for anything other than work. And maybe you're spending your money on your nanny, your housekeeper and all the other things you need to keep your life afloat, not things that really make you happy."

Time on Your Mind

Cassie Mogilner, a Wharton marketing professor, studies precisely this issue. Her research focuses on the relationship between time and happiness, and looks at how a person's decision to think in terms of time -- rather than money -- can influence him or her to spend time in happier ways.

In a series of experiments, Mogilner analyzed what happened when participants thought about time, even fleetingly or subconsciously, and whether or not it had an effect on their behavior and happiness. The first experiment took place online. Participants were given scrambled word tasks that exposed them to time-related, money-related, or neutral words, and were asked to create as many sentences as possible with those words in three minutes. (Those primed with time-related terms were given phrases that included words such as "clock," "days" and "hours"; whereas those primed with money-related vocabulary were given words like "wealth," "price" and "cash".)

After that, participants were asked to complete an ostensibly unrelated questionnaire about how they planned to spend the next 24 hours, which also asked them to rate how happy those activities made them. Those who had been primed with time words said they would spend more time socializing with family and friends and engaging in intimate relations -- activities that also provided them with more happiness. But those who had been primed with money words said they would spend more time working or commuting -- activities associated with the least amount of happiness.

A second experiment was set at a café popular with college students. As students entered the café, they were asked to do the same word scramble where they were primed with time-related, money-related, or neutral words. They were then told to go about their business. Unbeknownst to them, however, there was a researcher in the café observing their behavior, looking to see whether they were chatting on the phone, texting and talking to people at the café, or working on their computer or reading for school.

Similar to the first study, those who had been primed with time words were more apt to be socializing, whereas those who had been primed with money words were more apt to be working, Mogilner says. When students left the café they were asked to rate their happiness levels at that moment; those who had spent more time socializing were happier than those who had spent more time working. The results of her research are described in a paper published in the journal *Psychological Science*, titled "The Pursuit of Happiness: Time, Money, and Social Connection" (PDF).

The obvious conclusion is that we all need to spend more time socializing with friends and loved ones in order to be happier, right? Not necessarily, according to Mogilner. "I'm not saying that people should stop working. Work is a great source of personal fulfillment for many people," she says. "But my research indicates that family and social relationships are worth fostering in addition to one's career. On the margins of one's day -- when you're thinking about putting in an extra hour at the office versus going home to spend time with your family or heading out to meet up with friends -- you might opt for the latter to bring you more happiness."