CHAPTER 3

DOES MONEY BUY HAPPINESS?

Being a slave to money is a dead-end road, for money can never bring us lasting happiness and peace.
—Billy Graham

Those who say that money can’t buy happiness don’t know where to shop.
—Anonymous

In the preceding chapter, we saw numerous examples of seemingly useful things we could have bought if we had been willing to settle for slightly smaller houses and slightly less expensive automobiles. Many social critics regard as self-evident that we would have done better to have spent our money differently. Yet the mere fact that there are useful things we could have bought does not, by itself, imply that we have chosen poorly. An alternative interpretation—the one strongly favored by defenders of the status quo—is that the pleasures of additional material goods are more than enough to compensate for the sacrifices they make necessary in other areas. Life is full of trade-offs, they say, and the people whose own money is at stake are in the best possible position to resolve them.

Our goal in this chapter is to explore which of these competing interpretations is best supported by available evidence. If the defenders
of the status quo are correct, we should expect to find at least some indications that further accumulations of material goods continue to provide significant increments in satisfaction, even after countries achieve levels of affluence like those currently enjoyed in the United States. But as we shall see, the scientific literature provides no support at all for this position. Behavioral scientists find that once a threshold level of affluence is reached, the average level of human well-being in a country is almost completely independent of its stock of material consumption goods.

DOES HAPPINESS MATTER?

The sources of human satisfaction have been a subject of discussion and debate through the ages. Does happiness spring from wealth and power, romantic love, and steadily improving golf scores? Or do the sources of true and lasting happiness lie, as many insist, beyond the self—in helping others, or in religious devotion?

Philosophers have even questioned whether happiness, in and of itself, is an important human goal. Thus Robert Nozick asks us to imagine an opportunity to hook up to an "experience machine" capable of simulating any experience we might desire. This machine could "make you think and feel that you were writing a great novel, making a friend, or reading an interesting book. All the time you would be floating in a tank, with electrodes attached to your brain."1

You could choose from a huge library of the experiences that have been found satisfying by people from all walks of life. You would even be free to program in intervals during which the machine would shut down, allowing you to reconsider and adjust your mix of experiences.

While the machine is in action, however, the experiences it delivers will constitute perfect virtual reality. Subjectively, you will experience them exactly as if they were actually happening. Given this opportunity, Nozick's question is, should you plug in?

He concedes the powerful attractions of doing so. Yet no matter how pleasurable the experiences you might imagine, he argues,
there are even more compelling reasons for refusing the offer: "we want to be a certain way, to be a certain sort of person. Someone floating in a tank is an indeterminate blob. There is no answer to the question of what a person is like who has long been in the tank. Is he courageous, kind, intelligent, witty, loving? It's not merely that it's difficult to tell; there's no way he is. Plugging into the machine is a kind of suicide." 12

Nozick's vivid thought experiment drives home the point that feeling happy is hardly the only important goal in life. And it reminds us that a society cannot be judged solely by how happy its citizens are. Perhaps most important, it underscores why freedom is such an important value. Given the multitude of competing conceptions of the good life, perhaps the most we can hope for in our social institutions is that they grant each of us the widest possible latitude to forge lives that suit us.

How are we to evaluate the extent to which an economy succeeds at this task? In the context of modern democracies in which fundamental political liberties have been assured, the approach most often taken by economists is simply to measure the aggregate value of the economy's goods and services. This sum is essentially the same as national income, and the presumption, explicit or implicit, is that the economy that serves up the largest per-capita national income is the one that best serves the interests of its citizens.

This is not as stupid as it sounds to many noneconomists. Critics lambaste national income as a measure of human welfare, noting that it is augmented by additional production of non goods like food and shelter but also pollution-control equipment, burglar alarms, and drug counseling services. Yet economists themselves are well aware that the composition of what we produce matters; they concede that the national income measure could be improved, in principle, by adjustments that take account of crime, pollution, diminished leisure, congestion, and other factors that affect the quality of life.

Another criticism of national income is that it ignores the value of work performed within the family. For instance, if a man marries his accountant, national income goes down even though the amount of ac-
counting services she performs remains the same. To such complaints, economists respond that it would be perfectly acceptable to adjust national income to account for estimates of the value of work performed within the family.

Critics also complain that national income rises when sophisticated advertising campaigns manipulate us to buy goods and services we don’t really need. Yet economists are by no means oblivious to the fact that people often make foolish or ill-informed decisions about how to spend their money. It’s an imperfect world, they concede. But does that mean we’d be better off if we entrusted government with the decision of what goods to produce? The unhappy experience of collectively managed economies provides little support for that alternative.

Despite the obvious shortcomings of using national income as a measure of national well-being, economists believe that it has one deeply attractive feature—namely, that the larger per-capita national income is, the more resources people will have for pursuing their respective visions of the good life.

The economist’s belief that national income is a good measure of national well-being is not predicated on the view that happiness is the only thing that matters. Yet neither does it imply that happiness is unimportant. On the contrary, if happiness could actually be measured, most economists would predict that people in rich countries would be happier, on the average, than people in poor countries; and that, in an environment in which incomes are rising over time, people should be happier today, on the average, than they were in earlier times.

Unlike economists, psychologists and other behavioral scientists tend to have few preconceptions about the extent to which free-market transactions promote human satisfaction. Their approach is an empirical one that attempts to measure human satisfaction and identify the factors that influence it. Whereas economists simply assume that money buys satisfaction (because having more of it broadens one’s options), psychologists try to measure individual differences in satisfaction and then investigate how these differences are related to differences in income and other factors.
Measuring Subjective Well-Being

In the economist's parlance, it is customary to speak of happiness but of utility. The analogous construct in the psychological literature is subjective well-being, a composite measure of overall life satisfaction. For present purposes, little will be lost if we view both expressions as being roughly synonymous with satisfaction.

Other things being equal, people who experience a greater balance of positive over negative emotions will tend to experience higher levels of subjective well-being. Yet the relationship between the balance of emotions someone experiences and her overall level of subjective well-being is by no means simple and deterministic. Although it might seem natural to think that a person must be either in a good mood or in a bad mood at any moment in time, in fact it is possible for people to experience both strong positive and strong negative emotions simultaneously. Indeed, neuroscientists now recognize that positive and negative feelings are governed by two largely independent sets of neural circuitry and that emotions in the two classes are not strongly correlated with one another.

The stereotypically happy person is someone who experiences frequent and intense levels of positive affect, and infrequent and mild levels of negative affect. By contrast, the stereotypically unhappy person is someone for whom frequent and intense levels of negative affect are coupled with infrequent and mild levels of positive affect. People who experience high levels of both positive and negative affect are often described as volatile or highly emotional, while those with low levels on both scales are called phlegmatic.

These stereotypes notwithstanding, an individual's overall level of happiness or life satisfaction is not perfectly correlated with the frequency and intensity of positive and negative affect. People who experience a preponderance of positive emotions are more likely than others to describe themselves as happy and to report high degrees of life satisfaction. Yet many such people describe their lives as unsatisfying, thereby confirming Nozick's skepticism about the quality of a life lived in an experience machine. Moreover, a significant proportion of
people who do not experience a preponderance of positive emotions nonetheless report high levels of life satisfaction.

It thus appears that many factors other than the cumulative totals of positive and negative feelings enter into people's evaluations of their lives. Even so, psychologists find that the overall balance between positive and negative affect is an important component of life satisfaction, and it hardly appears controversial to assume that most of us would prefer to feel happy rather than unhappy.

Psychologists measure life satisfaction in various ways. By far the most popular approach has been simply to ask people how happy or satisfied they are. For example, people may be asked to respond, on a numerical scale, to a question like, "All things considered, how satisfied are you with your life as a whole these days?" Or, "Thinking of your life as a whole, would you consider yourself (a) very happy; (b) fairly happy; or (c) not happy."

Another approach measures the frequency and intensity of positive emotions by asking people the extent to which they agree with such statements as:

When good things happen to me, it strongly affects me.
I will often do things for no other reason than that they might be fun.
When I get something I want, I feel excited and energized.
When I'm doing well at something, I love to keep at it.

Some find it difficult even to imagine that there are people who fail to agree strongly with such statements. Yet many individuals appear remarkably unresponsive to the kinds of circumstances that others find highly rewarding. The strength with which people agree with statements like the preceding ones turns out to be a consistent and reliable measure of high positive affect. High levels of negative affect are consistently associated with failure to agree with these statements.

More recently, neuroscientists have also used brainwave data to assess positive and negative affect. Subjects with relatively greater electrical activity in the left prefrontal region of the brain are likely to
indicate strong agreement with statements like the previous ones, while those with relatively greater electrical activity in the right prefrontal region are much more likely to disagree with these statements. The left prefrontal region of the brain is rich in receptors for the neurotransmitter dopamine, higher concentrations of which have been independently shown to be correlated with positive affect.

High satisfaction levels as identified by any of these measures are predictive of a variety of observable behaviors that most of us take to be indicative of well-being. For example, people who call themselves happy, or who have relatively high levels of electrical activity in the left prefrontal region, are

- more likely to be rated as happy by friends;
- more likely to initiate social contacts with friends;
- more likely to respond to requests for help;
- less likely to be absent from work;
- less likely to be involved in disputes at work;
- less likely to die prematurely;
- less likely to attempt suicide; and
- less likely to seek psychological counseling.

People who consider themselves happy are “less self-focused, less hostile and abusive. . . . They are also more loving, forgiving, trusting, energetic, decisive, creative.” And people who call themselves unhappy are more likely to experience a variety of symptoms of physical distress, such as frequent headaches, digestive disorders, rapid heart-beat, and dizziness.

For any given individual, the various self-reported measures of subjective well-being tend to be strongly positively correlated over time. In one pair of surveys taken eight months apart, for example, fewer than 2 percent of respondents switched between extreme categories—reporting “not happy” in one survey and “very happy” in the other.

Observed consistency is, if anything, even more powerful for the brain-wave measures. In a sample consisting mostly of American college students, the neuropsychologist Richard Davidson found that people who registered high positive affect on one occasion (as mea-
sured by a high level of electrical activity in the left prefrontal regions of their brains) tended to register similarly high levels one month later. Davidson observed similar stability among subjects showing high levels of negative affect. (Davidson notes with interest that, on both occasions, the brain waves of one particular individual in his sample—a Tibetan monk who was in the United States for a brief visit—registered dramatically higher positive affect levels than any other subject.)

Ratings derived from interviews with mental-health professionals are highly correlated with self-reported subjective well-being. People who describe themselves as happy are able to recall more positive events from recent experience, and fewer negative events. And the various measures of subjective well-being also respond to good and bad life experiences, and to therapy, in the expected ways. Someone who has experienced the recent death of a loved one, for example, is likely to exhibit sharply reduced subjective well-being, irrespective of the measure chosen.

In short, it seems that what the psychologists call subjective well-being is a real phenomenon. The various empirical measures of it have high consistency, reliability, and validity. What is more, it seems clear that social arrangements that enhance subjective well-being should be counted as a good thing, provided they do not cause commensurate harm in the process. Again, I stress that this is not the same as saying that the only goal of a person or a society should be to achieve the highest possible subjective levels of well-being. (As philosophers are fond of asking, would you rather be Socrates dissatisfied or a pig satisfied?) The argument that unfolds over the coming chapters requires only that an increase in subjective well-being constitute an improvement if it is achieved without having to compromise other important values.

Let us turn now to the first substantive step in this argument, an assessment of the relationship between subjective well-being and income. Throughout the industrialized world, average incomes have been growing sharply for the past several hundred years, and the amount and quality of the goods and services we consume have increased accordingly. Are we significantly happier on that account?
Income and Subjective Well-Being

One of the central findings in the large scientific literature on subjective well-being is that once income levels surpass a minimal absolute threshold, average satisfaction levels within a given country tend to be highly stable over time, even in the face of significant economic growth. The diagram above, for example, plots the percentage of Americans surveyed who respond "very happy" when asked, "Taken all together, how would you say things are these days—would you say that you are very happy, pretty happy, or not too happy?" Although per-capita income was 39 percent higher in real terms at the end of the period shown than at the beginning, the proportion of people who considered themselves very happy actually declined slightly over the period.

Of course, other factors affect satisfaction levels besides income and the material goods it commands. Perhaps a large income effect on happiness during the period shown was offset by some other negative effects. Yet average satisfaction levels are also found to be unresponsive to changes in average income levels in other countries and during other time periods. As shown in the diagram below, for example, the average satisfaction level reported by survey respondents in Japan remained essentially unchanged between 1978 and 1986, a particularly striking finding in view of the fact that per-capita income rose more than five-fold during that period.

In automobile and appliance ownership, Japan in the late 1950s was essentially no different from many developing countries today. Yet the pattern in the previous diagram cannot be extrapolated to conclude that people are equally satisfied no matter how poor they might be. On the contrary, most careful studies find a clear relationship over time between subjective well-being and absolute income at extremely low levels of absolute income. Thus, in a country in which most people lack minimally adequate shelter and nutrition, across-the-board increases in income appear, not surprisingly, to yield significant and lasting improvements in subjective well-being. In the same vein, average satisfaction levels are significantly lower in extremely poor countries than in rich ones.

Our concern here is with how differences in consumption affect citizens’ well-being in countries that have already achieved a measure of affluence. And for such countries, average satisfaction levels are not significantly correlated over time with income.

INCOME REQUIRED FOR AN "ACCEPTABLE" STANDARD OF LIVING

A second approach in the psychological literature has been to investigate the relationship between absolute income levels and the levels of income thought necessary for achieving an acceptable standard of living. The Gallup Poll, for example, has for many years asked its respondents the following question: "What is the smallest amount of money a family of four needs to get along in this community?" The median re-
sponse rises steadily from year to year, in absolute terms, but when expressed as a percentage of per-capita disposable income, this trend largely vanishes.

The same pattern has also been found in numerous other surveys. For example, Eugene Smolensky reports that the median values of reported estimates of "minimum-comfort" budgets for workers in New York City have hovered around half of average per-capita national income since the beginning of the twentieth century.23 Lee Rainwater reports that for surveys taken between 1950 and 1986, the "income necessary to get along" has grown at the same rate as per-capita national income.24 And Bernard van Praag and Arie Kapteyn have found similar patterns in European data.25

Most people certainly think that having more money would make them happier. As John Kenneth Galbraith once put it, "Wealth is not without its advantages and the case to the contrary, although it has often been made, has never proved widely persuasive."26 And yet the more we have, the more we seem to feel we need. Our real per-capita income is now almost two-and-a-half times as high as when Galbraith's The Affluent Society was published in 1958. Why didn't the actual experience of having more money live up to our expectations? One answer, as we shall presently see, is the speed with which we adapt to new standards.