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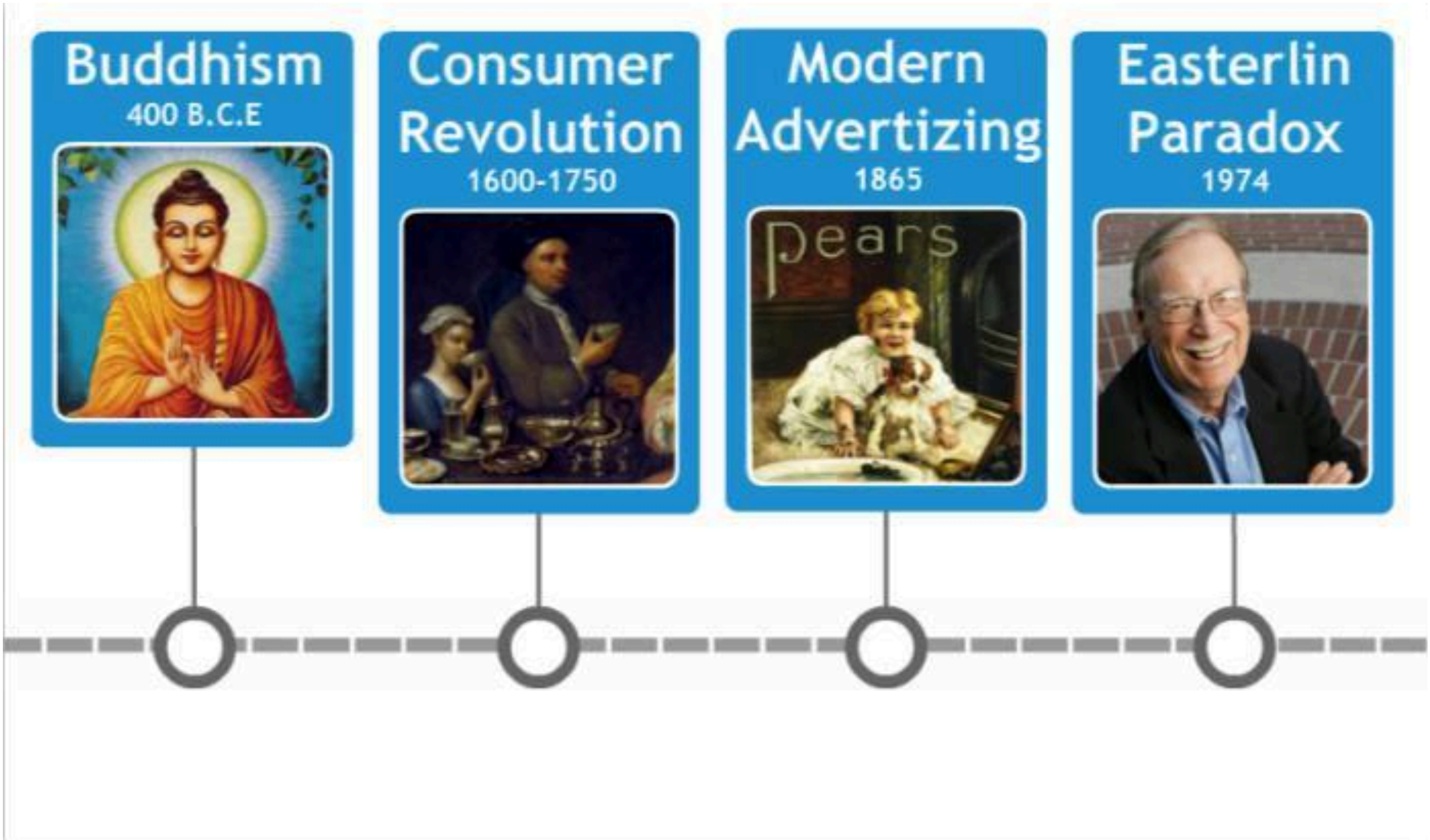
Group 3. Can Money Buy Happiness?

Introduction

This wiki looks at the relationship between personal finances and happiness by asking if money can buy happiness. In our a day to day lives our personal finances often play a big role in our decisions, from the food we buy to what career we decide to pursue, money will often be an influential factor. Because of this many might feel like money can limit their individual freedom and keep them from living the life they truly want. Hence it is not uncommon for people to feel like if they had more money or financial independence they would live a happier life. This wiki will first look at the historical and philosophical connections that have been made between money and happiness all the way up to some recent research. The following section tries to answer if money can buy happiness on an international and national level by presenting current developments and controversies. The section on theories presents theories that can be used to explain the relationship between happiness and money. Thereafter this wiki assesses how personal finances impacts on individual happiness; some practical real-world advice on how to spend money is also provided here. Lastly a case study on the King of Bhutan and the measure of Gross National Happiness is presented.

What's the historical relationship between money and happiness?



Aristotle

Aristotle argued that every object had two uses; the original purpose for which the object was designed or to conceive the object as an item to sell or barter.

400 B.C.E ≈ Buddhism

Siddhārtha Gautama grew up surrounded by wealth and privilege, being given anything he needed and was shielded from the outside world, ignorant of the concept of suffering. Upon seeing the sick, aged and suffering caused Siddhārtha began his path to grapple with the concept of suffering. He forsook all worldly goods and pursued asceticism. Finding both indulgence and asceticism to have failed him, he found a path of moderation that Buddhists call The Middle Way. After his enlightenment, Siddhārtha taught others his philosophy so that they too may be free from suffering. Ultimately his philosophy is acknowledging that all temporary states are unsatisfying and changing, being able to let go and not act on impulses is the key to success. Therefore, a desire for money would not ultimately aid the pursuit of happiness.

1600-1750 ≈ Consumer Revolution

Approximated between 1600 and 1750, individuals from all of the socioeconomic classes in England were using their money to buy more "luxury" goods as opposed to just necessities. The consumer revolution changed society in many ways. Items such as tea, coffee, sugar and tobacco were being purchased more, society's interest in fashion grew, marketplaces changed into shopping centres and so on. This is the first time in England when the relationship of money and happiness began to intertwine, with those who had more money having more luxury items to bring them happiness. BBC2 - The Consumer Revolution

1865 - Modern Advertising

Thomas J Barratt is considered "the father of modern advertising" having paved the way in advertising techniques that are still used today. One of his techniques is to associate the product with domestic comfort and aspirations of high society. The technique, still being used today, is playing on the idea that humans desire to spend their money on products they believe will improve their lives and make them happier. By presenting the product beside a desired state of being, the consumer is lead to believe that buying the product will in turn lead to being a step closer to their desired life.

1974 - Easterlin Paradox

In 1974, Richard Easterlin wrote a book in which he talked about what is now called the Easterlin Paradox. The paradox is that:

- Given one point in time, individuals with high earnings are more likely to report being happy.
- However, as income increases in an individual's lifetime their reported happiness stays constant.

Easterlin explains these findings by suggesting that the correlation is between happiness and education rather than income. Individuals with more education usually are employed in jobs with higher earnings - explaining why individuals with higher earnings report more happiness. Furthermore he believes happiness ratings do not increase along with income increase as we judge our financial success on our surroundings. For example, if our income increases at the same rate of which our peers is increasing it will have no effect on our happiness. Happiness is not dependant upon an individual's objective condition but is more so determined by their internalized living level norm which is affected by the average living level norm of those around us (Easterlin, 2004). For more on this see 1.5.2. Social Comparison Theory.

What does the recent research say?

Sheldon & Krieger (2014) *"Service job lawyers are happier than money job lawyers, despite their lower income"* - though they get paid less, service job lawyers report higher wellbeing than lawyers who work for the highest pay suggesting there are stronger links with the type of work and happiness as opposed to money and happiness.

Kushlev, Dunn & Lucas (2015) *"Higher Income Is Associated With Less Daily Sadness but not More Daily Happiness"* - Kushlev and colleagues have taken a different approach to assessing money's relationship with mood. They found that individuals with more money experienced less daily sadness however it did not increase their daily happiness.

Kim (2014) *"Does a money-is-all attitude cause alienation? A cross-cultural comparison of Korea, the US and Sweden"* - Kim found that a love of money within individuals correlates with social isolation and alienation across cultures, suggesting a love of money being a hindrance to happiness.

Settle (2014) *"Does Money Truly Buy Happiness? A Study of 56 Countries' Levels of Happiness and the Contributing Factors"* - looking at factors which contribute to happiness across 56 countries, though more money was found to have a significant effect on increasing happiness ratings, other contributing factors like health and religiosity have a greater effect on increasing happiness.

Does money buy happiness? A national and international perspective

For a long time the prosperity and development of a nation was measured in economic achievement (Sarracino, 2013). At face value this makes sense as the wealthier a society is the more resources they would have to allocate to education, health care and other services that are related to standard of living. Gross Domestic Product (GDP) was, and still is, the most common way to measure a nations economic development and is generally viewed as an indicator of a societies standard of living (Sarracino, 2013), alluding to the idea that money does buy happiness.

However, the relationship between GDP and standard of living has been questioned. One empirical discovery that questioned GDP as an indicator of standard of living was the Easterlin paradox. The Easterlin paradox refers to the observation that as a country develops economically happiness increases up to a set point where it then levels off, despite further economic successes (Easterlin, 1995; Clark et al., 2008; Di Tella & MacCulloch, 2008). A notable example used by Easterlin was USA from 1973 to 2004 where GDP doubled while happiness ratings stayed the same (see below graph) (Clark et al., 2008).

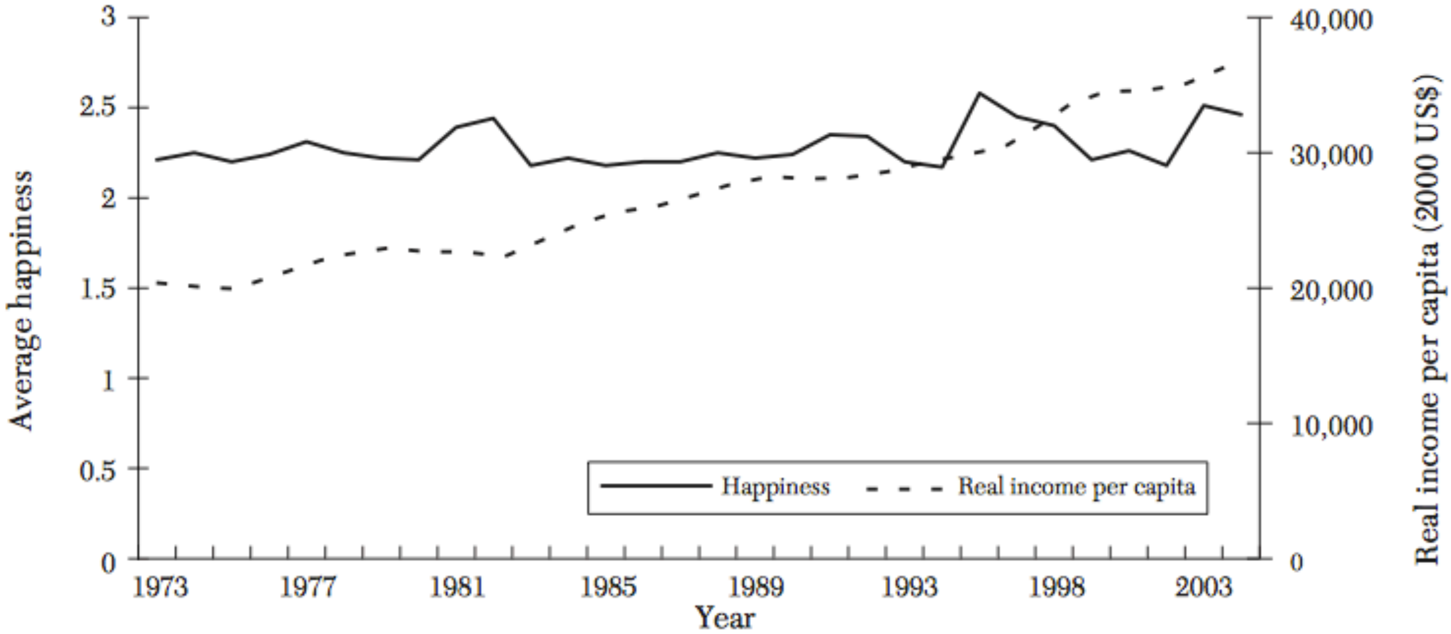


Figure 1. Happiness and Real Income Per Capita in the United States, 1973–2004

"*[It] does not allow for the health of our children, the quality of their education, or the joy of their play. It does not include the beauty of our poetry or the strength of our marriages, the intelligence of our public debate or the integrity of our public officials. It measures everything, in short, except that which makes life worthwhile...*" - Senator Robert Kennedy on GDP (Clark et al., 2008 p. 22)

It should be noted that the Easterlin paradox is still a topic of debate and it should not be taken as a fact (Arthaud-Day & Near, 2005). For example, Hagerty & Veenhoven (2002) and Stevenson & Wolfers (2008) both analyzed national data from multiple countries and both conclude that increased GDP does increase a nations happiness. Easterlin et al. (2010) answered this criticism by demonstrating the Easterlin paradox in a sample of South American and Eastern European countries. Easterlin et al. (2010) also claims that the results from his critics are either due to statistical artefacts or a confusion of short-term gains in happiness to long-term stability of said happiness. Hence there are two opposing sides when it comes to the question if money buys happiness on a national and international level.

Before we conclude this section there are a couple of considerations and factors that need to be addressed. First of is that the debate over the Easterlin paradox does have important implications on public policy. If the Easterlin paradox is shown to be true then the traditional aim of a nation (i.e. increasing GDP) could be questioned and subjected to reassessment. This has already started to happen and a prime example of this development is the French Commission on the Measurement of Economic Performance and Social Progress whose main goal is to "identify the limits of GDP as an indicator of economic performance and social progress" (Stiglitz et al.

2010, p.7). Further, this development is also visible in the many measures (some presented in the box below) that have been developed to compliment (or in some cases replace) GDP as a measure of economic and social development.

<u>Examples of wellbeing measures used in a national and international context</u>

World Happiness Report
Gross National Happiness (GNH)
Human Development Index (HDI)
Where-to-be-born index
OECD Better Life Index
Canadian Index of Wellbeing

Another important factor that is relevant to this topic is that the relation between happiness and money on a national scale is primarily an area of Economics ("**Happiness Economics**"). Hence an argument can be made about *Positive Psychology rebranding traditional topics*. A further relevant factor is that there are some *wild uncritical claims that exist in the field* . Most notably is that it might be unsupported to compare happiness ratings across different nations, mainly because there is no agreement on comparability between subjective wellbeing across cultures (Sarracino, 2013); for a bit more on this point see section 1.5.2 Social Comparison.

Key paper

Francesco Sarracino (2013) Determinants of subjective well-being in high and low income countries: Do happiness differ across countries? *The Journal of Socio-Economics*, **42** , pp. 51 - 66

The paper by Sarracino (2013) gives a good starting point for the relationship between money and happiness on an national and international level. The introduction and discussion covers most aspects brought up in section 1.4.

Relevant Theories

Need-fulfillment Theory

Need-fulfillment theory assumes that humans have certain needs, arranged in a hierarchy, ranging from Physiological needs, Safety needs, Love/belonging, Esteem and, at the top, Self-actualization (Maslow, 1970). Hence, according to this model, money and happiness are related in a positive fashion for basic human needs (Physiological and Safety needs). However, money is not as important for higher level needs unless it explicitly grants an individual access to higher level needs that would otherwise go unfulfilled (i.e. money being used in order to spend time with friends and family; prosocial spending). Consequently this model argues for a ceiling effect when it comes to money and happiness, and by extension a supportive model for the Easterlin paradox.

Social Comparison Theory

Social comparison theory argues that life satisfaction is dependent on how the individual compares to his or her social environment. In other words this theory argues that relative income is more important than absolute income. One implication of this theory is that it poses a problem for cross-culture comparisons when it comes to money and happiness. For example, a person in a country with low GDP might still score highly on measures of wellbeing or happiness but if we take this individual to a country with a high GDP his/her social environment changes, as might his/her view on their own happiness.

Adaption Theory

Adaptation theory is based on the idea of a hedonic treadmill/adaptation, which suggest that even though we react strongly to changes in our life circumstances we quickly become used to our new circumstances and adapt to it. Hence this theory argues that if money increases happiness it does so only in the short-term as Easterlin et al. (2010) argues. Illustrative examples of this theory is lottery winners that return to their baseline happiness a time after the initial win (Brickman et al. 1978), and Fujita & Diener (2005) who followed 3608 German residents for 17 years and found that only 9% of participants experienced significant changes to their life satisfaction.

Goal (or Gap) Theory

Goal or Gap theory suggests that happiness is based on a person's ability to achieve their personal goals. A point to note is that Goal/gap theory is based on internal as opposed to external motivation/comparison. Relating this theory to the relationship to money and happiness, money does increase happiness as long as an individual's goals can be achieved with an increase in wealth. This theory contrasts both social comparison and need-fulfillment theory in that it puts the emphasis on the individual's own goals and expectations rather than on social comparison or theoretical needs.

Theory summary

Altogether these theories explain parts of the variability of happiness on a national and international level (Arthaud-Day & Near, 2005). However, to choose one theory over another is problematic as different papers use different measures and definitions of both happiness and income/wealth, there is also no consensus on how these concepts should be operationalized. Further, cultural variables (norms and status related to income and money) and changes across time might modulate the expected effect of each theory. Moreover, a factor that is not raised by these theories is individual differences between citizens, especially in regards to genetic factors. Recently genetics have been proposed as an important factor influencing happiness and wellbeing. Multiple twin studies (Lykken & Tellegen, 1996; Weiss et al. 2008) support this idea and argue that genetics might play a large role in an individual's subjective level of wellbeing and happiness.

Effect of Money on Individual Happiness

Is a wealthy person a happy person?

Rhetoric would have us believe that people who are rich are no happier, and possibly even less happy, than people who are not rich. This belief was evident in early research such as that by Duncan (1975) and Easterlin (1974). However, since the publication of these early studies, extensive research has identified that, although money has an impact on well-being and happiness, it matters less than people think (Aknin et al.,, 2009). There is a curvilinear relationship between money and happiness, in that happiness does not necessarily increase exponentially with wealth. Need Theory attempts to explain this relationship, proposing that increased wealth can increase well-being in poverty because in this situation, money is used to satisfy basic physiological needs (Howell et al., 2013).

Can money protect us from sadness when bad things happen?

Subjective well-being (SWB) is the term used to refer to how people experience the quality of their lives, originally defined by Diener (1984), also encompassing experience of emotion and mood. Smith et al. (2005) identified a **buffer effect** of wealth on subjective well-being, using a longitudinal study of people around retirement age. They found that those whose wealth was above average experienced a much smaller drop in SWB after the onset of a new disability than those whose wealth was below average. The implication here is that money can protect us from negative affect when we encounter negative experiences.

Can money make us sad?

An increasing number of studies have identified that even simply thinking about money encourages behaviours that are misaligned with happiness, such as being less likely to help others (Vohs et al., 2006) or less likely to socialise with friends and family (Mogilner, 2011). It has been suggested that instead of increasing happiness money actually inhibits wealthier individuals' ability to **savour** everyday positive emotions and experiences. This has the knock-on effect of undermining the positive effect of money on happiness.

Money also seems to be inherently associated with conflict (and thus negative affect) in the context of marital discussion (

Papp, L. M., Cummings, E. M., & Goeke-Morey, M. C. (2009). For richer, for poorer: Money as a topic of marital conflict in the home. *Family Relations,58(1),* 91-103.

Papp et al., 2009). When compared to discussion concerning non-monetary issues, conflict more often arises when discussing money, and is more pervasive, problematic and recurrent.

Is it how we spend our wealth that makes us happy?

An extensive body of research has addressed the question of whether the way we spend our money is a factor which influences the happiness we experience. Prosocial spending is the term used to refer to the concept of spending money on others, as opposed to on oneself. A vein of research initiated by Dunn et al. (2008) has provided compelling evidence that spending money on other people has a more positive impact on happiness than spending money on yourself. These results have been replicated in numerous studies across cultures, and recent evidence identifies the possibility of a **psychological universal** (Aknin et al., 2013). In support, stinginess can lead to the experience of of shame and more negative affect, as evidenced in a study by Dunn et al. (2008).

PROSOCIAL SPENDING AND WELL-BEING

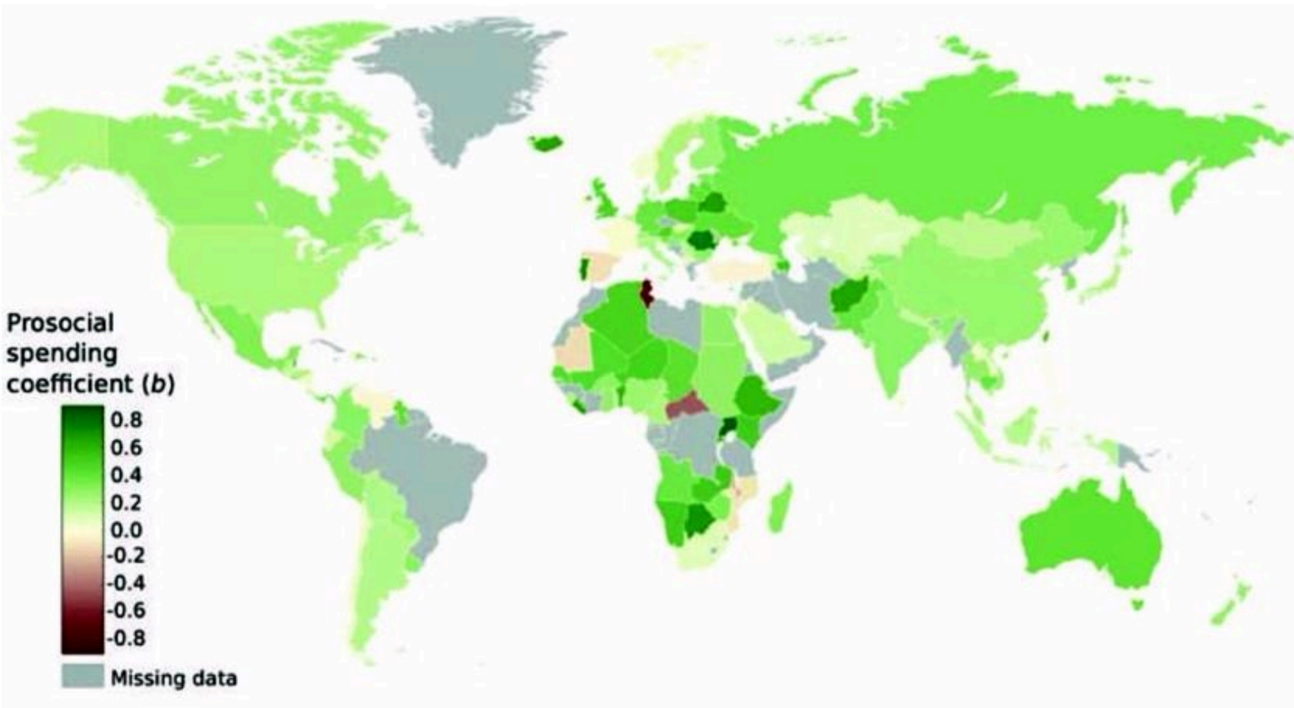


Figure 1. World map display of prosocial spending coefficients.

Key paper

Elizabeth W. Dunn, Lara B. Aknin & Michael I. Norton (2008). Spending Money on Others Promotes Happiness. *Science, 319(5870),* 1687-1688.

This key paper marks the beginning of the vein of research which addresses the possibility that how we spend our money has a equal if not greater effect on our happiness as how much we earn. It is suggested that spending money on others has a more positive impact on our happiness than spending it on ourselves. This finding constituted a significant milestone in research on money and happiness.

How Can Your Money Make You Happy? Some Practical Advice

Buy Your Financial Security

Insecurity over money is a frequent source of financial stress in our lives. Particularly among college students, credit card debt is positively correlated with stress (Grable & Joo, 2006). The next time you have some cash to spare, put some of it towards paying off debt and buying back your happiness.

Buy Experiences

Intriguing research consistently finds that increases in material goods do not correspond to increases in happiness (Diener & Biswas-Diener, 2002; Easterlin, 1995). Research has shown that simply thinking about making purchases to acquire life experiences produces more positive emotions than thinking about making purchases to acquire material possessions (Van Boven, 2005).

Buying experiences instead of material things benefits from the social aspect of experiences: being social makes us happy, and continues to make us happy by allowing us to talk about experiences later on. Dan Gilbert, author of 'Stumbling on Happiness' and Harvard University psychology professor, suggests that 'A wandering mind is an unhappy mind, and one of the benefits of experiences is that they keep us focused on the here and now'.

Buy For Others

Sometimes seeing someone else smile can do more for you then making yourself smile. As was identified in Dunn et al. (2008), spending money on others promotes happiness.

Giving money or giving trinkets is not the only way to spend your money prosocially. Try investing in others, and getting a better happiness return rate. If you know a child who's learning to read, buy them some books, then appreciate the happiness you'll get in return when you hear them read them out loud to you. Finding a way to invest in someone else can create significant happiness for both of you.

Buy The Right Stuff

Buying material items is a typical part of life, but there are ways you can increase the chance of them actually making you happy. Purchasing 'experiential items' will repeatedly bring happiness over extended periods of time.

A general rule: Spend your money where you spend your time. This rule is known as 'the comfort principle' by the website 'Lifehacker': a website concerned with saving money and personal productivity. For example, if you work in an office, the chances are that an incredibly comfortable office chair will make you happy, even if it doesn't appear to be the most instantly exciting purchase.

Buy Time

In our ever increasingly busy lifestyles, time can become even more precious than money. It is possible to use the money you have to buy more time. Buying time is possible in the form of services which can do your grocery shopping or a babysitter to look after the kids once or twice a week. Although some are expensive, if the extra time you gain is well spent, it may prove to be well worth the price.

Buy A Waverunner

Tosh (2007) takes a more simplistic perspective on the question of whether money can buy happiness based on a sample from the USA.

Case Study: The King of Bhutan

In 1972 the King of Bhutan desired to build a society whose success was measured in happiness rather than in standard economical terms. That is when the idea of Gross National Happiness (GNH), rather than Gross National Product (GNP), was introduced - a measure to assess the overall happiness of a country's inhabitants. Though it was built upon Buddhist ideals, the concept of GNH does not require Buddhism to be a factor in a country's success and theoretically could be implemented in any country. The four primary cornerstones of GNH are:

- Promotion of Sustainable Development
- Promotion and Preservation of Cultural Values
- Conservation of the Environment
- Establishment of a Good Governance

In trying to achieve his goal of increasing Bhutan's GNH, in 2006 the King retired and in his place created a democratically elected leader. What should be noted is that money is not associated with increasing the GNH. The King believed that though money and economic growth was needed in order to fund health services and provide security, GNH is increased in other ways such as involvement in culture and community.

Med Jones (2006) proposed a revised version of measuring GNH with statistical power that could be applied to any country:

1. Economic Wellness
2. Environmental Wellness
3. Physical Wellness
4. Mental Wellness
5. Workplace Wellness
6. Social Wellness
7. Political Wellness

Glossary

Buffer Effect - in the case of wealth and subjective well-being (SWB), wealth is able to absorb some of the negative impact (e.g. stress) on subjective well-being caused by negative experiences, it is said to have a 'buffer effect'.

Happiness Economics -Happiness economics attempts to use econometric analysis to uncover the factors that increase and decrease human well-being and quality of life.

Psychological Universal - a core mental attribute shared by all humans.

Savouring - the ability to enhance and prolong positive emotional experience.

Subjective Well-Being (SWB) - how people experience the quality of their lives, including both emotional reactions and cognitive judgments.

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