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Can money buy happiness?

Introduction

Forty year ago, Easterlin (1974) posed an important question, “Will raising the incomes of all increase the happiness of all?” Though most people would implicitly assume that the answer is ‘yes’, theories of relative preference predict that the answer may be ‘no’. This is just one of the many theories posed to explain the relationship between wealth and happiness, adding to the debate about whether money can buy happiness. This question has been addressed on both a macro level, with researchers looking at countries' wealth and happiness levels, and on an individual level, with researchers analysing how people's happiness levels differ among varying levels of wealth.

History

The psychological and philosophical understanding of the relationship between wealth and happiness began nearly 2,500 years ago with Buddha and Aristotle. Buddhism pursues happiness by using knowledge and practice to achieve mental equanimity. In Buddhism, equanimity, or peace of mind, is achieved by detaching oneself from the cycle of **craving** that produces *dukkha*, which is mental dysfunction or suffering. Dukkha can be eliminated by way of the Eightfold Path. The Eightfold Path is a practical and systematic way to bring oneself out of ignorance, eliminating dukkha from one's mind and lifestyle through mindful thoughts and actions. So by achieving a mental state where a person is detached from all the passions, needs and wants of life, they can free themselves and achieve a state of transcendent bliss and well-being. In this case, people need to stop focussing on materialistic objects that they want or need in life since focussing on wealth is destructive (Smith, 1991).

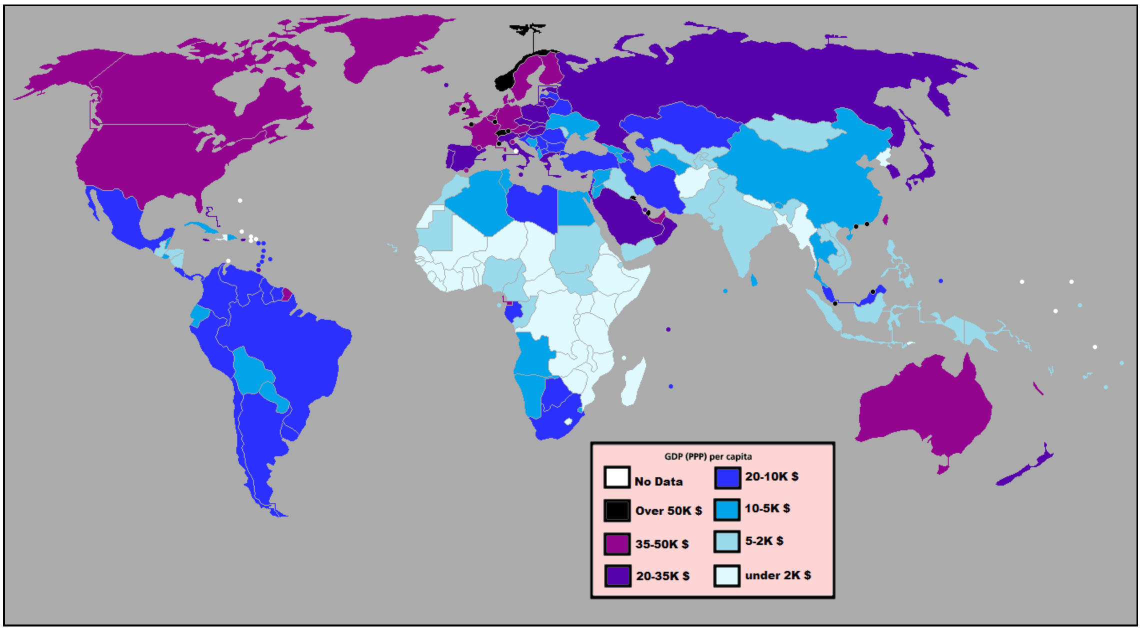
One of the first to describe a theory about happiness while also addressing the influence of wealth is Aristotle. According to Aristotle, happiness is an activity of the soul rather than physical luxury. Happiness is not measured by wealth or fame but rather happiness is living your life with virtue. For most people, happiness equates with living a life that is easy. By having money, and extravagant things, people believe they can be happy. For Aristotle, the definition of happiness does not depend on material things. Happiness depends on self-fulfillment and happiness in accordance with virtue. Happiness is the highest good and the end at which all activities and the use of resources ultimately aim. Wealth is used to gain some end, though most of these ends are means toward other ends. For example, people go grocery shopping and spend money to buy food, but buying food is itself a means toward the end of eating. Eating is also not an end in itself but a means to other ends such as having the energy to go to class. Only happiness is an end in itself, so it is the ultimate end at which all our activities aim. As such, it is the supreme good (White, 2008).

Recent perspectives

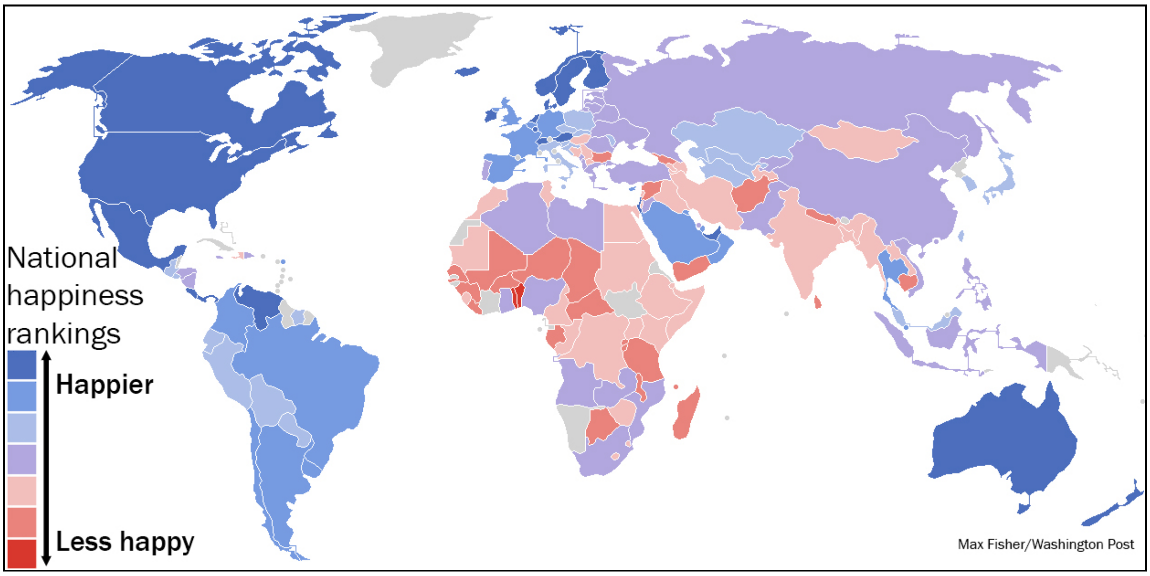
The concept of Gross National Happiness (GNH) was first expressed by King of Bhutan in the 1980s in response to Western economists visiting his country who said that they regarded Bhutan to be a “poor” country by standards of Gross Domestic Product (GDP). He claimed that his country would score high on an indicator measuring happiness (Ura, Alkire, Zangmo, Wangdi, 2012). Nowadays, the link between income, or GDP, and happiness is still being discussed. Easterlin (1974) found that there was no significant relationship between aggregate income and happiness. In his study the results showed that US income per capita almost doubled (1974-2004), but the average level of happiness did not show a noticeable increase. However, Stevenson and Wolfers (2008) suggest that life satisfaction does increase with income. They investigated life satisfaction across nations and claim that there is a positive relation between GDP and life satisfaction in developed countries.

How much money do you need to buy happiness? Switzerland, one of the world's wealthiest countries, is voting on a guaranteed basic income (http://www.psmag.com/navigation/business-economics/much-money-need-happy-73181/) for all legal residents, whether they work or not. Every Swiss citizen of legal age will receive $33,000 a year, if this basic income proposal passes. The aim is to provide a financial safety net for the population. Enno Schmidt, who is a key supporter of universal basic income, claims that universal income would create more freedom for people to decide what they want to do in their lives (Chayka, 2014). Informing this proposition, Vox found that life satisfaction hits its "bliss point" at GDP of $33,000. These economists claim that life satisfaction does increase as the GDP metric rises, but that the increase after $33,000 is negligible when compared to the increase before. Vox also measured satisfaction and income within Europe alone, to compensate for other variables between countries, and came out with the same surprising result: $30,000-$33,000 produced the happiness bliss point (Proto & Rustichini, 2014). In contrast, Kahneman and Deaton (2010) recently found that for Americans not $33,000 but $75,000 was the point above which money had little effect on happiness. Therefore, the question still remains: how much money do you need to buy happiness? It appears that the answer to this question is still up for debate.

Are wealthy countries happier? Macro effects of wealth on happiness



The above map shows the gross domestic product (GDP) per capita in purchasing power parity of countries in 2011 (The World Bank, 2014). GDP is a widely used measure of a country's average standard of living. Although this is just one perspective on how to measure a country's wealth, it provides a good starting point for comparing different countries' average wealth with their average levels of happiness.



This map shows average national happiness rankings from 2010 to 2012 using reported emotional states and life satisfaction as measures of happiness (Helliwell, Layard, Sachs, 2013).

On the face of it, it would appear that money does buy happiness on a national level – the countries that rank the highest in terms of GDP are also the countries that rank highly in national happiness. However, on closer inspection researchers have found an array of contrasting findings.

In general, researchers have found mixed support for the association between wealth and happiness on an international level. Easterlin (1974) began a debate on this topic when he discovered that income and happiness were highly correlated within countries but not strongly correlated between countries. Easterlin (1974) also found evidence that as the wealth of a country increased, the happiness of its people did not increase. This phenomenon became known as the **Easterlin paradox**. Later research replicated Easterlin's research and found support for an international correlation between wealth and happiness when different measures of wealth were used (Hagerty & Veenhoven, 2003). As measures have evolved and theories developed, this relationship has been studied in a variety of different way, and the debate is still ongoing as to whether a nation's wealth increases national happiness (Easterlin, 2005; Stevenson & Wolfers, 2008; Easterlin, McVey, Switek, Sawangfa, Zweig, 2010). Four major theories have been put forward with regards to how a country's increased wealth generally affects happiness.

Theories of the global effects of wealth on happiness

The **needs-fulfillment** theory rests on Maslow's (1943) hierarchy of needs, claiming that money plays a large role in the acquisition of resources located at the bottom of the hierarchy (e.g. food, shelter) but less of a role in higher level resources (e.g. self-esteem, sense of achievement) (Sirgy, 1986; Arthaud-Day & Near, 2005). By this theory, an increase in wealth will have the greatest impact on the wellbeing of underdeveloped countries and the least impact on highly developed countries.

Social comparison theory argues that happiness is determined on a local level, with wealth affecting happiness only inasmuch as one's wealth separates one from the crowd (Hagerty, 2000). This theory is based on Festinger's (1954) social comparison theory which proposes that people evaluate themselves based on their comparison with others rather than by objective standards. This relates to Duesenberry's (1949) relative income hypothesis as well as the Easterlin paradox in stating that people will only respond to increases in wealth if their income increases relative to those around them. If Easterlin's (1974, 2005) findings are correct, they could be explained by social comparison theory in the sense that if the distribution of wealth remains the same within a country as the country becomes more wealthy, their citizens will not experience any increase in relative wealth and, by extension, happiness.

Adaptation theory proposes that changes in people's lives only affect them in the short-term, but in the long-term they return to a baseline level (Brickman & Campbell, 1971). In terms of wealth and its effects on happiness, adaptation theory holds that increases in wealth affect happiness in the short-term, but after a while people become used to their wealth and desire further wealth to make them happy. This was exemplified through lottery winners who experienced high levels of happiness immediately after winning the lottery but later returned to a level of happiness on par with control participants (Brickman, Coates, Janoff-Bulman, 1978).

Goal/gap theory follows a similar line of thought to social comparison theory in that people do not judge their economic situation based on objective standards, but goal/gap theory posits that people judge their economic success and thus their life satisfaction and wellbeing on the basis of goal achievement. This is based on evidence that the gap between what a person wants and what they have is responsible for a large amount of the variance in happiness and life satisfaction (Michalos, 1985). This theory is particularly useful in that it brings in other variables that may have to do with what a person perceives themselves as capable or deserving of. On a global level, this theory delves beyond raw measures of wealth and investigates how people have reacted to changes in their financial situation.

Overall, there is mixed support for the previously mentioned theories. Much of the differences are due to the dispute surrounding what the best ways to measure wealth and happiness are. In a meta-analysis focussing on these four theories, Arthaud-Day and Near (2005) claim that each of these theories may explain a portion of the variability of happiness globally, and the effects proposed by these theories may be moderated by cultural and temporal variables, resulting in the current unclear picture of how wealth influences happiness on a global level.

A case study

A recent study addressed this topic by analysing a country renowned for its huge economic growth in recent years – China. **Brockmann, Delhey, Welzel and Yuan (2009)** found that despite a massive rise in the standard of living and average income and the decline of poverty, subjective wellbeing and life satisfaction declined in every income group. This finding contrasts even with the Easterlin paradox which would predict that wellbeing would remain the same rather than decline. This study is an interesting read and highlights the fact that the relationship between a country's wealth and wellbeing is not as straightforward as it would seem and is moderated by a range of different factors that may not even be generalisable beyond the country studied or the specific rate and range of the economic change.

Wild uncritical claim

Researchers suggests that there must be a link between money and happiness (Easterlin, 1974; Hagerty & Veenhoven, 2003; Stevenson & Wolfers, 2008; Easterlin, McVey, Switek, Sawangfa, Zweig, 2010). But is it possible to use the same measurement of happiness across different countries and cultures? Some people think happiness is the same for everyone. But could the mysteries of love, happiness, fulfillment, success, disappointment, heartache, failure, experience, random luck, environment, culture, gender, genes, and all the other myriad ingredients that make up a human life be reduced to one single measurement? Others think happiness differs among cultures, where people value different things in life as happiness. Does happiness differ among geographical location? Would people be able to buy happiness in the United States, but not in South Africa?

Are wealthy people happier? Micro effects of wealth on happiness

Money as a buffer

It is often said that money doesn't bring happiness and this statement is also reflected in early research (Campbell, Converse & Rodgers, 1976; Headey & Wearing, 1992). But it is not necessarily true, as there are numerous publications indicating that wealth does indeed go hand in hand with happiness or subjective well-being (SWB). For instance, the **homeostatic theory** of SWB suggests that there is an integrated psychological system comprising of internal (e.g., genetically set perceived control, self-esteem and optimism) and external (e.g., beliefs, attitudes) buffers. Money can affect this system through the external buffer, for instance, when a person experiences a financial boost, which generates more positive attitudes. Also, higher income stabilizes the SWB by protecting a person from adverse circumstances. However, there is a 'ceiling' beyond which money can no longer influence a person's subjective well-being (Cummins, 2000).

To illustrate the buffer effect of wealth Smith and colleagues (2005) conducted an experiment testing how money affected happiness after the onset of disability. The findings showed that wealth buffered individuals' well-being against the negative affect. However, this effect was temporary as in 2 years most of the disabled individuals with lower income reached normal levels of happiness. This shows that although money cannot really buy happiness, it does help when a person's personal circumstances become adverse.

Wealth and sadness

The research on sadness and buying suggests that self-focus mediates this relationship. For instance, in an experiment participants watched a positive or a negative clip and afterwards could purchase a common commodity (Cryder et al, 2008). Those who were assigned to a 'sad' group offered as much as 3 times higher price for a product than those in the 'happy' group. It is thought that when we are sad we tend to devalue ourselves and this affects the buying behaviours. {So, when you are sad, think twice before going shopping, because you might spend more than you expect in the attempt to make yourself feel better :D }

Materialistic pursuits are also associated with sadness. Dunn and colleagues (2010) explored the psychological and biological effects of our every day financial decisions. In an economic game, participants had a choice to donate varying amounts of money to others and the remaining sum was left for themselves. Those who made more stingy decisions had less positive affect and felt shame. In turn this produced higher levels of stress hormone cortisol. This interesting study indicates that materialistic attitudes affect our psychological as well as physical well-being.

Money also inhibits the ability to savor positive experiences (Quoidbach et al, 2010). Self-reports show that when individuals are exposed to thoughts concerning wealth, they experience negative emotions that override emotional benefits connected to money matters. This **experience-stretching hypothesis** was also confirmed by objective measures of savoring. This included measuring time participants spent enjoying a piece of chocolate. Interestingly, those who were reminded about money spent less time savoring their snack. Therefore, money is inherently associated with negative thoughts, which also impacts our behaviours.

Happiness and ways of spending

It seems that sometimes it is the way we spend money rather than how fat our wallets are is what causes us to feel happy or sad. Research shows that thinking of and actually spending money to acquire life experiences rather than materialistic commodities makes people feel happier (Van Boven, 2005). There are 3 reasons explaining this. First, experiences improve in time, because we tend to preserve positive memories. Second, experiences evade social comparisons, because they are harder to quantify. Lastly, experiences are often shared with others and so they have higher social value than material possessions.

Similarly, Aknin and colleagues (2013) suggest that **prosocial spending** – spending money on others – has a consistent and universal effect of making us feel happy. Participants from Uganda and Canada, two culturally and economically very different countries felt a psychological reward higher subjective well-being. Partly, it is because altruistic behavior makes us generally feel better about ourselves. But prosocial spending also strengthens social relationships and social integration correlates with happiness (Herrero & Gracia, 2011).

Practical exercise

Money and happiness are two intertwined concepts and they have practical value as well. A Social Psychologist Elizabeth Dunn and Michael Norton, a Professor at Harvard Business School, have recently published a book "Happy Money: The Science of Smarter Spending." It's a fun and evidence-based read suggesting practical advice how money can bring happiness. The authors set forth **5 key principles**, which elaborate on previously mentioned points.

1. Buy experiences. Instead of buying a new watch, camera or a dream car try spending that money on a dream vacation, for instance.

2. Make it a treat. The authors say that "Abundance […] is the enemy of appreciation". People generally like surprises because when the timing is right, they help us break out from our daily routines. This brings spontaneity and a little bit of unpredictability which stimulates our brain. So try to use your money to purchase a gift for someone or allow yourself to buy that little something you just saw and for some reason you really really want it. Better yet, try **NOT** buying something that you purchase on daily basis, such as coffee. After a few days, you'll appreciate your coffee more than ever.

3. Buy time. Sometimes just having a day off can make a big difference and money can literally buy us time. Spend it on items or services that will save you time. So instead of cleaning your home during the weekend, pay someone to do it for you and use this time to ride a bike or to be with your family, friends, dog, fish or whatever it is that makes you happy.

4. Pay now, consume later. It seems that paying for something that we can enjoy later brings that extra bit of happiness. When we book a holiday in advance, we delay the 'consumption' which gives us time to anticipate it, put our imagination to work and at the same time to plan the experience and maybe save some money (which is a bonus on its own!).

5. Invest in others. Buy something for another person. It will make you happy seeing how this other person appreciates the attention and thought. (See **prosocial spending**).

Watch this video to see Michael Norton explain these principles himself.

Overall, money plays a big role in our lives and it's OK to want to have money and it's more than OK to think about money. However, the important thing to remember is **HOW** you spend it. The principles of money spending are suggested in the way that they could be applied together rather than independently. So according to the authors, the key thing is to try and apply as many of the above points as you can in ways that suit you.

Quick advice: for the next few days try to keep track of where your money and how much of it is spent. But instead of lumping it to usual categories of food, rent etc put them into the 5 categories as outlined above. Hopefully this will contribute to your and others' well-being.

Happy spending!

Papers to read

Our strongest recommendation in terms of practical advice would be to read the book *Happy Money: The Science of Smarter Spending* (http://books.google.co.uk/books?id=DSWyIrWYrYgC&printsec=frontcover&dq=happy+money:+the+science+of+smarter+spending&hl=en&sa=X&ei=XCgDU-rGNfKY0QXP6YHYBg&ved=0CC8Q6AEwAA#v=onepage&q&f=false) by Dunn and Norton. However, the book is not available in the University library, so the 2nd recommendation is **Aknin et al (2013)** (http://psycnet.apa.org/doi/10.1037/a0031578) and their exploration of *prosocial spending* or **Dunn et al (2010)** (http://hpq.sagepub.com/content/15/4/627.short) who elaborate on the effects *stinginess* has on our well-being.

For further reading about the effects of money on happiness on a global level, we recommend **Arthaud-Day and Near (2005)** (http://link.springer.com/article/10.1007%2Fs11205-004-6397-8) for an overview of theories and recent evidence. If you're looking to better understand the complicated mixture of factors involved in the relationship between money and happiness, **Brockmann et al. (2009**) (http://link.springer.com/article/10.1007%2Fs10902-008-9095-4) covers this well in their analysis of the effects of money on happiness within modern China.

Conclusions

All in all, can money buy happiness? The answer appears to be 'yes' and 'no'. On an individual level, if spent the right way, money certainly *can* bring happiness to its owner through a variety of mechanisms such as increasing prosociality or inhibiting negative affect (Aknin et al., 2013; Smith et al., 2005). However, wealth can also lower its possessor's happiness in other ways such as by interfering with a wealthy person's savoring ability (Quoidbach et al., 2010). Globally, it is still unclear *how* money affects national levels of happiness, but the relationship is not typically as straightforward as 'more money = more happiness'. The relationship between money and happiness on a national level is affected by a variety of factors including a country's baseline wealth, the change in economic inequality, the time period across which the change is being studied, people's expectations and self-appraisals, and the culture and time period in which the change is taking place, to name few (Arthaud-Day & Near, 2005; Brockmann et al., 2009). So in total, money definitely *influences* happiness, but the specific way in which happiness is influenced depends on a vast range of factors.

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