Money can buy happiness – but only up to a point. Richer people tend to be happier than poorer people, but if a whole society becomes richer, there is no evidence that they all become happier. Economists are developing new measures of wellbeing that could revolutionise the subject.

The study of happiness and human wellbeing has moved from being a fringe interest to become a mainstream part of economic research within the space of a few decades. Economists now seek to use the techniques of their discipline to calculate happiness and wellbeing, and establish what makes people happier. Research into wellbeing is slowly changing how politicians think.

Does money make you happy?
There is a link between money and happiness. Forty years ago, economists in the United States found that rich people were a lot happier than poor people, regardless of where they were in the world. “I would say that there’s overwhelming evidence that money buys happiness,” says Andrew Oswald, Professor of Economics at the University of Warwick, who led the ESRC Wellbeing and Economics research project.

However, it is not always true that a rise in income for all increases happiness for all. The balance of the evidence shows that even if a country becomes richer over time, its citizens will not necessarily become happier. Research by American economist Richard Easterlin found that although the US enjoyed continued economic growth for 50 years after the end of the Second World War there was hardly any increase in happiness.

One reason for this ‘Easterlin paradox’ may be that the impact of a rise in income is neutralised when other people’s incomes rise too. Separate ESRC-funded research by Professor Oswald found that other people’s incomes have a negative effect on our personal satisfaction. In other words, someone who receives a pay rise will be no happier if all his or her co-workers do as well. “People care about their relative income,” he says.

Effect of lottery windfalls
People who receive medium-sized lottery wins go on to enjoy significantly better psychological health.

Professor Oswald took 137 winners of UK National Lottery prizes of between £1,000 and £120,000 and looked at their responses to 12 questions in the General Health Questionnaire. He compared the results with those of a group with no wins and those with prizes of £1 to £999. He found that those with medium-sized wins were significantly happier than both groups after two years.
Happiness is changing policy
There is a growing realisation among policymakers of the need to move beyond focusing on purely financial criteria to judge the success of a policy on the wellbeing of society. Standard measures of a country’s wealth – such as the level of Gross Domestic Product (GDP) – are well known and widely collected. Yet if they are to do their job effectively, politicians and policymakers arguably have to go beyond GDP. They have to try to understand, and measure, the happiness and mental health of their country’s citizens.

In November 2010, Prime Minister David Cameron announced that the Coalition Government would start measuring progress “not just by how our economy is growing, but by how our lives are improving”. The UK’s Office for National Statistics is now carrying out happiness surveys. The outgoing Premier of China, Wen Jiabao, said “improving people’s wellbeing was the starting point and goal of all the government’s work”.

The ability to accurately measure happiness could have wider policy implications. For example, these measurements could be used to put happiness values on emotional damage, and change how the courts allocate damages in accident cases.

Professor Oswald says there was a growing consensus that countries needed to move away from measuring how well economies are doing according to acquisition of material things. “Ultimately, politicians need to work out how to create happier citizens – and maybe we’ve been over-emphasising, possibly for 100 years, the role of income in all of that.”

Looking ahead, bringing together researchers from a range of disciplines – including psychology, economics, medicine, statistics, sociology, and management science – looks likely to lead to a better understanding of what really determines human wellbeing and how best to measure it.

Does GDP measure wellbeing?

“Our gross national product ... if we should judge America by that – counts air pollution and cigarette advertising, and ambulances to clear our highways of carnage... It measures neither our wit nor our courage; neither our wisdom nor our learning; neither our compassion nor our devotion to our country; it measures everything, in short, except that which makes life worthwhile.”

- Robert F. Kennedy Jr.

In his famous 1968 speech, the younger brother of US President John F. Kennedy claimed that the pursuit of GDP ignored the happiness of the population. GDP is the sum of the amount of money we spend as consumers, investment by businesses, spending by the Government and the difference between the amount a country exports and the amount it imports. It is the measure of economic growth used by most policymakers and central bankers; however, it does not attempt to measure wellbeing.
How do economists calculate wellbeing?
If the amount of money we have does not give a full account of our happiness then it is important to identify other factors that may contribute, and researchers have found ways to study wellbeing in a systematic, experimental way.

By asking a large number of people to assess their wellbeing on a numerical scale, economists can compare the answers according to criteria such as age, marriage, gender, physical health and diet as well as income. This has produced some surprising – and less surprising – results.

Health shows up very strongly in happiness equations; ill health towards the end of life is associated with a lot of unhappiness. There are positive effects from being young or relatively old with the lowest satisfaction occurring in middle age. One of the strongest happiness effects comes from marriage: one economist has put a value of $100,000 on it. There is little link between having children and being happy; if anything, having children probably has a slight negative effect on happiness.