Why Money Doesn't Buy Happiness

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Economists and psychologists—and the rest of us—have long wondered if more money would make us happier. Here's the answer:

All in all, it was probably a mistake to look for the answer to the eternal question—"Does money buy happiness?"—from people who practice what's called the dismal science. For when economists tackled the question, they started from the observation that when people put something up for sale they try to get as much for it as they can, and when people buy something they try to pay as little for it as they can. Both sides in the transaction, the economists noticed, are therefore behaving as if they would be more satisfied (happier, dare we say) if they wound up receiving more money (the seller) or holding on to more money (the buyer). Hence, more money must be better than less, and the only way more of something can be better than less of it is if it brings you greater contentment. The economists' conclusion: the more money you have, the happier you must be.

Depressed debutantes, suicidal CEOs, miserable magnates and other unhappy rich folks aren't the only ones giving the lie to this. "Psychologists have spent decades studying the relation between wealth and happiness," writes Harvard University psychologist Daniel Gilbert in his best-selling "Stumbling on Happiness," "and they have generally concluded that wealth increases human happiness when it lifts people out of abject poverty and into the middle class but that it does little to increase happiness thereafter."

That flies in the face of intuition, not to mention economic theory. According to standard economics, the most important commodity you can buy with additional wealth is choice. If you have $20 in your pocket, you can decide between steak and peanut butter for dinner, but if you have only $1 you'd better hope you already have a jar of jelly at home. Additional wealth also lets you satisfy additional needs and wants, and the more of those you satisfy the happier you are supposed to be.

The trouble is, choice is not all it's cracked up to be. Studies show that people like selecting from among maybe half a dozen kinds of pasta at the grocery store but find 27 choices overwhelming, leaving them chronically on edge that they could have chosen a better one than they did. And wants, which are nice to be able to afford, have a bad habit of becoming needs (iPod, anyone?), of which an advertising- and media-saturated culture create endless numbers. Satisfying needs brings less emotional well-being than satisfying wants.

The nonlinear nature of how much happiness money can buy—lots more happiness when it moves you out of penury and into middle-class comfort, hardly any more when it lifts you from millionaire to decamillionaire—comes through clearly in global surveys that ask people how content they feel with their lives. In a typical survey people are asked to rank their sense of well-being or happiness on a scale of 1 to 7, where 1 means "not at all satisfied with my life" and 7 means "completely satisfied." Of the American multimillionaires who responded, the average happiness score was 5.8. Homeless people in Calcutta came in at 2.9. But before you assume that money does buy happiness after all, consider who else rated themselves around 5.8: the Inuit of northern Greenland, who do not exactly lead a life of luxury, and the cattle-herding Masai of Kenya, whose dung huts have no electricity or running water. And proving Gilbert's point about money buying happiness only when it lifts you out of abject poverty, slum dwellers in Calcutta—one economic rung above the homeless—rate themselves at 4.6.

Studies tracking changes in a population's reported level of happiness over time have also dealt a death blow to the money-buys-happiness claim. Since World War II the gross domestic product per capita has tripled in the United States. But people's sense of well-being, as measured by surveys asking some variation of "Overall, how satisfied are you with your life?," has barely budged. Japan has had an even more meteoric rise in GDP per capita since its postwar misery, but measures of national happiness have been flat, as they have also been in Western Europe during its long postwar boom, according to social psychologist Ruut Veenhoven of Erasmus University in Rotterdam. A 2004 analysis of more than 150 studies on wealth and happiness concluded that "economic indicators have glaring shortcomings" as approximations of well-being across nations, wrote Ed Diener of the University of Illinois, Urbana-Champaign, and Martin E. P. Seligman of the University of Pennsylvania. "Although economic output has risen steeply over the past decades, there has been no rise in life satisfaction … and there has been a substantial increase in depression and distrust."

That's partly because in an expanding economy, in which former luxuries such as washing machines become necessities, the newly affluent don't feel the same joy in having a machine do the laundry that their grandparents, suddenly freed from washboards, did. They just take the Maytag for granted. "Americans who earn $50,000 per year are much happier than those who earn $10,000 per year," writes Gilbert, "but Americans who earn $5 million per year are not much happier than those who earn $100,000 per year." Another reason is that an expanding paycheck, especially in an expanding economy, produces expanding aspirations and a sense that there is always one more cool thing out there that you absolutely have to have. "Economic success falls short as a measure of well-being, in part because materialism can negatively influence well-being," Diener and Seligman conclude.

If money doesn't buy happiness, what does? Grandma was right when she told you to value health and friends, not money and stuff. Or as Diener and Seligman put it, once your basic needs are met "differences in well-being are less frequently due to income, and are more frequently due to factors such as social relationships and enjoyment at work." Other researchers add fulfillment, a sense that life has meaning, belonging to civic and other groups, and living in a democracy that respects individual rights and the rule of law. If a nation wants to increase its population's sense of well-being, says Veenhoven, it should make "less investment in economic growth and more in policies that promote good governance, liberties, democracy, trust and public safety."

(Curiously, although money doesn't buy happiness, happiness can buy money. Young people who describe themselves as happy typically earn higher incomes, years later, than those who said they were unhappy. It seems that a sense of well-being can make you more productive and more likely to show initiative and other traits that lead to a higher income. Contented people are also more likely to marry and stay married, as well as to be healthy, both of which increase happiness.)

If more money doesn't buy more happiness, then the behavior of most Americans looks downright insane, as we work harder and longer, decade after decade, to fatten our W-2s. But what is insane for an individual is crucial for a national economy—that is, ever more growth and consumption. Gilbert again: "Economies can blossom and grow only if people are deluded into believing that the production of wealth will make them happy … Economies thrive when individuals strive, but because individuals will strive only for their own happiness, it is essential that they mistakenly believe that producing and consuming are routes to personal well-being." In other words, if you want to do your part for your country's economy, forget all of the above about money not buying happiness.

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