

# Growth Triumphant

The Twenty-first Century in  
Historical Perspective

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Ann Arbor

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## CHAPTER 10

### **Does Satisfying Material Needs Increase Human Happiness?**

The spread of modern economic growth is much to be welcomed for the accompanying rise in real income per capita means the eventual freeing of humanity from hunger, inadequate clothing, and insufficient shelter. This improvement in *objective* material conditions is often assumed to imply that people will also feel better off, that *subjective* well-being or, put simply, happiness, will also increase as income grows. This inference is suggested directly by traditional economic theory, which sees an increase in income (an outward shift of the “budget constraint”) as moving individuals to progressively higher levels of well-being (“subjective utility”). Thus, as material needs are increasingly satisfied, people are seen not only as living better but as feeling better off. Moreover, according to some analysts, as people become more satisfied with their material condition, their attention will increasingly turn to nonmaterial pursuits.

The concern of this chapter is with the question of whether the evidence, in fact, supports the view that economic growth and happiness go together and lead to a turning away from material concerns. Happiness does not depend, of course, only on material well-being. In a thoughtful essay, Moses Abramovitz notes that “since Pigou . . . economists have generally distinguished between social welfare, or welfare at large, and the narrower concept of economic welfare,” with “national product . . . taken to be the objective, measurable counterpart of economic welfare.”<sup>1</sup> Happiness corresponds to the broader of these two concepts, namely, social welfare, or welfare at large. However, as Abramovitz points out, economists have normally disregarded possible divergences between the two welfare concepts and operated on Pigou’s dictum “that there is a clear presumption that changes in economic welfare indicate changes in social welfare in the same direction, if not in the same degree.”<sup>2</sup> In view of the great improvement in material living levels that accompanies modern economic growth, one would certainly expect that Pigou’s dictum would apply.

Empirical study of subjective well-being is made possible by surveys conducted in a number of countries since World War II that have explored in detail subjective feelings of happiness and satisfaction. These surveys have led to the

development of a rich analytical literature.<sup>3</sup> In what follows, this literature is drawn upon to examine the association between income and happiness, both at a point in time and over time. Specifically, this chapter asks: are richer members of society usually happier than poorer? As a nation's per capita income grows during modern economic growth, does human happiness advance—or, as Inkeles puts it, does raising the incomes of all increase the happiness of all?<sup>4</sup> As background, the first section of this chapter examines the concept and measure of happiness. The second presents the principal findings from empirical studies of the happiness-income relationship at a point in time and over time and the third an interpretation of the findings. As will become evident, the results turn out to be quite paradoxical. In the final section I consider the implications of the analysis for the question of whether economic growth leads to growing attention to nonmaterial concerns.

### Meaning and Measurement of Happiness

Happiness data consist principally of responses to a Gallup-poll-type survey in which a direct question of the following sort is asked: "In general, how happy would you say that you are—*very* happy, *fairly* happy, or *not very* happy?" Sometimes this is preceded by a question asking the respondent to state "in your own words, what the word *happiness* means to you." Thus, the measurement of happiness implicitly relies on the subjective evaluation of the respondent—in effect, each individual is considered to be the best judge of his or her own well-being.

The approach has a certain amount of appeal. If one is interested in how happy people are—in their subjective satisfaction—why not let each person set his or her own standard and decide how closely he or she approaches it? Alternative approaches, such as obtaining evaluations by outside observers or seeking to use objective indicators of happiness, inevitably run into the problem of what observers or what indicators should be chosen.

Using self-reports to measure happiness, however, immediately raises the question of comparability. If each individual has his or her own definition of happiness, how can happiness be compared? How can one say whether the rich are happier than the poor or whether the more affluent American society of 1990 is happier than its much less affluent counterpart a century ago?

The essence of the answer is this: in most people's lives everywhere the dominant concerns have always been making a living and matters of family life, and it is these concerns that chiefly determine how happy people are. This is not to say that the happiness of any one individual can directly be compared with that of another. But if one is concerned with comparing the happiness of sizable groups of people, such as social classes or nations, there turns out to be a marked similarity in what people typically mention when they are asked about

the meaning of happiness. In effect, though each individual is free to define happiness in his or her own terms, in practice the kinds of things chiefly cited as shaping happiness are, for groups of people, much the same.

An example is provided by the results of one of the most probing surveys of human happiness, which was conducted by social psychologist Hadley Cantril in twelve countries, rich and poor, communist and noncommunist, scattered over five continents.<sup>5</sup> In his survey Cantril asked each respondent to define in his or her own words the "best of all possible worlds"—that set of conditions corresponding to the greatest possible happiness for the respondent. After classifying the responses into nine broad categories, Cantril came up with a pattern of concerns that was strikingly similar among countries (table 10.1). In every country, personal economic concerns were far and away those mentioned most frequently.<sup>6</sup> (This was true even though a separate category "job or work situation," which might logically be classified with economic concerns, was included separately as one of the nine groupings.) Two other types of concerns, those relating to family and health, turned up next most often in most countries. In contrast, concerns relating to broad international or domestic issues, such as war, political or civil liberty, and social equality, were mentioned by only a small proportion of respondents. The specific concerns mentioned under any one head, of course, differed among countries. Some evidence of this relating to economic concerns will be offered below. But clearly the general nature of the dominant factors affecting happiness is quite similar among countries, even countries differing widely in cultural, political, and socioeconomic conditions. The preeminence of personal economic, family, and health concerns no doubt reflects the fact that it is these matters that take up most of the time of people everywhere. It is this similarity in the general pattern of human life and, thus, of human concerns that gives credence to the comparison of self-reports on happiness for sizable groups of people.

In addition to the question of the comparability of happiness, there are a number of measurement issues. These relate to matters such as the reliability and validity of the replies, whether respondents are likely to report their true feelings, and possible biases resulting from the context in which the happiness question is asked. These issues have been subjected to close scrutiny in the scholarly literature and will not be gone over here. For our purpose, the relevant conclusion of such assessments is that measures of the type used here, though not perfect, do have substantive meaning as regards the relation between happiness and income.<sup>7</sup>

### **Happiness and Income: The Evidence**

How does happiness compare among income groups within a country at a given time? The answer is that, on average, income and happiness go together. In a 1970 survey of the American population, for example, not much more than a

TABLE 10.1. Personal Concerns by Country, ca. 1960<sup>a</sup>

Country	Economic	Family	Health	Values and Character							Status Quo	Total
				Job/Work	Social	International	Political	Character	Health	Family		
Brazil	68	28	34	8	1	1	—	14	155			
Cuba	73	52	47	14	4	3	15	30	239			
Dominican Republic	95	39	17	25	2	—	9	15	202			
Egypt	70	53	24	42	9	2	4	39	243			
India	70	39	4	22	8	—	—	14	159			
Israel	80	76	47	35	10	12	2	29	295			
Nigeria	90	76	45	19	14	—	—	42	286			
Panama	90	53	43	26	3	—	1	26	243			
Philippines	60	52	6	11	5	—	—	9	143			
United States	65	47	48	10	5	10	2	20	218			
West Germany	85	27	46	10	3	15	1	11	202			
Yugoslavia	83	60	41	20	4	8	—	18	236			

Source: Cantril 1965.

a. Percentage of population mentioning concerns that fall in indicated category. The sum of the percentages in the last column exceeds 100 percent because some respondents mention concerns falling in more than one category.

fourth of those in the lowest income group reported that they were "very happy." In the highest income group, this proportion was almost twice as great, and in successive income groups, from low to high, the proportion considering themselves very happy rose steadily (table 10.2). This does not mean that any given higher income person is happier than any given lower income person. The relationship refers only to average differences among groups of people.

This positive association between income and happiness is typical of the point-of-time pattern within countries. A comprehensive survey of the literature summarizes it as follows:

There is an overwhelming amount of evidence that shows a positive relationship between income and SWB [subjective well-being] within countries . . . This relationship exists even when other variables such as education are controlled . . . Although the effect of income is often small when other factors are controlled, these other factors may be ones through which income could produce its effects.<sup>8</sup>

A question arises as to the direction of causality. Does higher income make people happier? Or are happier people more likely to be successful and thus receive higher income? It would be naive to suppose that the question has a clear-cut answer. But among the many factors that economists usually advance to explain income differences among persons, subjective well-being is noticeably absent. Typically, the leading factors mentioned to explain income differences are education, training, experience, innate ability, health, and inheritance. Although subjective well-being might plausibly be added to this list, it is doubtful that its influence on earnings would stand out as clearly as is repeatedly found in simple bivariate comparisons of income and happiness.

**TABLE 10.2. Percentage Distribution of Population by Happiness at Various Levels of Income, United States, 1970**

Level of Income (in \$1,000)	(1) Very Happy	(2) Fairly Happy	(3) Not Very Happy	(4) No Answer
All classes	43	48	6	3
15,000+	56	37	4	3
10-15,000	49	46	3	2
7-10,000	47	46	5	2
5-7,000	38	52	7	3
3-5,000	33	54	7	6
Under 3,000	29	55	13	3

Source: Easterlin 1974, 100.

Moreover, as has been seen, when people are asked about the things that make them happy, personal economic concerns are foremost. Other studies have found that the worries of less happy respondents differ most from those who are more happy in their emphasis on financial security.<sup>9</sup> It seems reasonable to conclude, therefore, that the causal connection underlying the bivariate association here runs principally from income to happiness.

These results from point-of-time comparisons would lead one to expect that within a country, as per capita income grows over time, happiness would increase, especially in view of the sizable magnitudes of income improvement accompanying modern economic growth. In fact, there is no evidence that this is so.

The evidence on income and happiness over time comes from the United States, nine European countries, and Japan. For the United States, on which the most work has been done, the most comprehensive studies of historical experience are those of Smith and Campbell.<sup>10</sup> In a detailed analysis of data from forty-five happiness surveys covering three decades through 1977, Smith concludes that there is a swing in American happiness that peaks in the late 1950s but little indication of a trend. The absence of a trend in happiness is noted also by Campbell and extended by him to include questions on general life satisfaction. Campbell also points out that movements in happiness sometimes occur in a direction opposite to what one would have expected based on economic trends.<sup>11</sup> Local area surveys yield similar results: thus, a study of the Detroit area reports that "there was no change in the distribution of satisfaction with the standard of living among Detroit area wives between 1955 and 1971, although . . . constant dollar [median family] income increased by forty percent."<sup>12</sup>

These studies cover American experience in the post-World War II period through the 1970s. What of experience since then? The answer is, again, no trend in happiness. The evidence for this is annual data from the General Social Survey from the year when the survey was initiated, 1972, through 1991 (fig. 10.1). Indeed, the trend line for this period seems tilted in a negative direction, although the slope is not statistically significant. Together with the results for the earlier part of the post-World War II period, the conclusion is that there has been no improvement in average happiness in the United States over almost a half century—a period in which real GDP per capita more than doubled.

Trends in life satisfaction in nine European countries from 1973 to 1989 are much like that for happiness in the United States (fig. 10.2).<sup>13</sup> Satisfaction drifts upward in some countries and downward in others. The overall pattern, however, is clearly one of little or no trend in a period when in all these countries real GDP per capita rose between 25 and 50 percent.

The experience of Japan after its recovery from World War II is of special interest because it encompasses a much greater range of income than the evi-

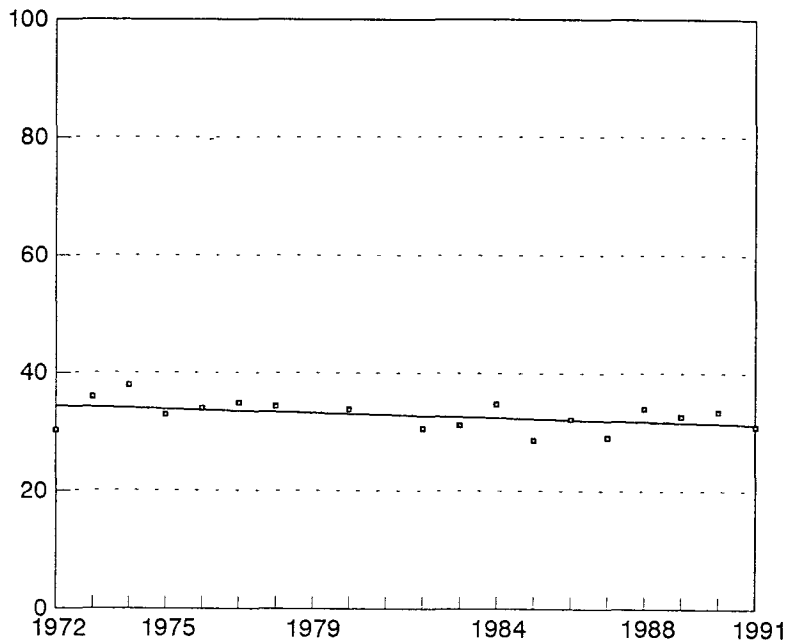
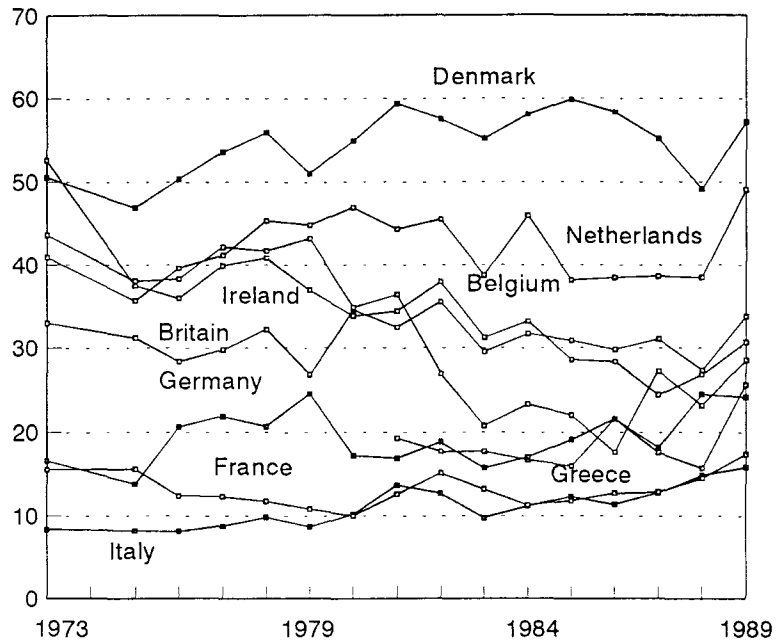


Fig. 10.1. Percentage of population "very happy with their lives in general," United States, 1972-91. (Data from National Opinion Research Center 1991. The question is, "Taken all together, how would you say things are these days—would you say that you are very happy, pretty happy, or not too happy?" An ordinary least squares regression line is fitted to the data; the time trend is not statistically significant.)

dence for the United States and Europe. Historical estimates of real GDP per capita put Japan's living level in 1958 at only about one-eighth that of the United States in 1991.<sup>14</sup> In 1991, in Third World areas other than Africa a number of countries already equaled or exceeded Japan's 1958 income level:

	Number of countries with estimates for 1991	Number of countries equal to or higher than Japan in 1958
Asia (excluding Japan)	24	16
Latin America and Caribbean	24	15
Africa	43	11

Hence, in considering the experience of Japan, one is looking at a country ad-



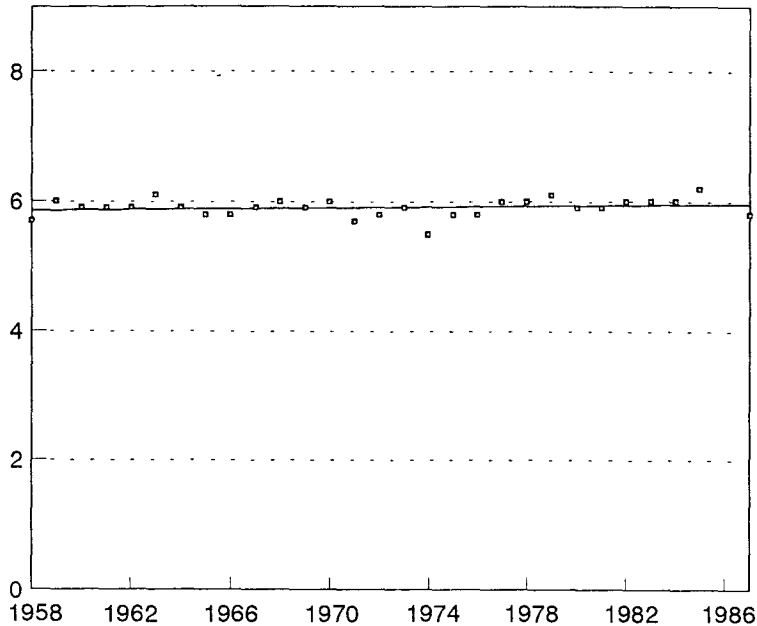
**Fig. 10.2.** Percentage of population "very satisfied with their lives in general," nine European countries, 1973-89. (Data from Inglehart and Reif 1992. The question asked is, "Generally speaking, how satisfied are you with your life as a whole? Would you say that you are very satisfied, fairly satisfied, not very satisfied, or not at all satisfied?" Ordinary least squares regressions yielded time trends that were not statistically significant for five countries, significant and positive for two, and significant and negative for two.)

vancing from an income level lower than or equal to those prevailing in a considerable number of today's developing countries.

Between 1958 and 1987 real per capita income in Japan multiplied a staggering fivefold, propelling Japan to a living level equal to about three-fourths that of the United States. Consumer durables such as electric washing machines, electric refrigerators, and television sets, found in few homes at the start of the period, became well-nigh universal, and car ownership soared from 1 to about 60 percent of households.<sup>15</sup>

What happened to happiness in Japan during this period? The answer is that, despite this unprecedented three-decade advance in level of living, there was no improvement in average subjective well-being (fig. 10.3).<sup>16</sup>

When Japan's population near the start of this period is classified into three income groups, average happiness in the highest group is substantially greater



**Fig. 10.3.** Mean subjective well-being, Japan, 1958–87. (Data from Veenhoven 1993. An ordinary least squares regression is fitted to the data; the time trend is not statistically significant.)

than in the lowest, consistent with the point-of-time relationship noted above.<sup>17</sup> Given the remarkable growth of incomes that occurred, the proportion of the population at the end of the period with incomes equaling or exceeding that of the highest group at the beginning must have risen substantially. Yet the average level of satisfaction remained unchanged.

Some scholars of subjective well-being argue that the relation of subjective well-being to income is curvilinear—that is, that it may be nil in richer countries but that it is positive in poorer countries, although no consistent time series evidence to this effect has been presented.<sup>18</sup> Presumably, a positive relation will be observed in poorer countries as the population is freed from subsistence-level needs for food, clothing, and shelter. In 1958, Japan was somewhat beyond this stage, as are a number of Third World countries today. Yet the magnitude of Japan's subsequent advance in living levels does encompass a transformation from a "subsistence level" of consumer durables to plenty, with no impact on subjective well-being. One would suspect that the spread of consumer durables among the Japanese must have involved widespread satisfaction of perceived needs. The total absence of any subjective wel-

fare effect would seem to raise doubts about the hypothesized curvilinear relationship.

### **Explaining the Happiness-Income Paradox**

At a point in time happiness and income are positively related; yet, over time there is no relation. Why this paradoxical pattern? A simple thought experiment suggests the basic reason. Imagine that your income increases substantially while everyone else's stays the same. Would you feel better off? The answer most people would give is yes. Now suppose that your income stays the same while everyone else's increases substantially. How would you feel? Most people would say that they feel less well off. This is because judgments of personal well-being are made by comparing one's objective status with a subjective living level norm, which is significantly influenced by the average level of living of the society as a whole. If living levels increase generally, subjective living level norms rise. The individual whose income is unchanged will feel poorer, even though his or her objective circumstances are the same as before. As Karl Marx observed: "A house may be large or small; as long as the surrounding houses are equally small it satisfies all social demands for a dwelling. But if a palace rises beside the little house, the little house shrinks into a hut."<sup>19</sup>

Put generally, happiness, or subjective well-being, varies directly with one's own income and inversely with the incomes of others. At any given time, the incomes of others are fixed, and those who are more affluent feel happier, on average. However, raising the incomes of all does not increase the happiness of all because the positive effect on subjective well-being of higher income for oneself is offset by the negative effect of a higher living level norm brought about by the growth in incomes generally.

There are models in economic theory consistent with this argument, although they lie outside the mainstream. One is a model of interdependent preferences in which each individual's utility or subjective well-being varies directly with his or her own income and inversely with the average income of others.<sup>20</sup> Similar theoretical reasoning is found outside of economics in studies of relative deprivation and reference groups.<sup>21</sup>

Although the model of interdependent preferences generates paradoxical cross-sectional and time series relationships between happiness and income of the type observed, a more realistic model might incorporate habit formation, in which the utility one attaches to one's current income level depends also on one's past income.<sup>22</sup> Many of those with higher incomes come from higher income backgrounds and conversely for those with lower incomes. The difference in living level experience implied by the difference in income history might be expected to give rise to similar differences in living level norms—that is, higher norms for the affluent and lower norms for the poor. Indeed, if habit

formation alone shaped norms, one might arrive at a dispersion in norms in direct proportion to the dispersion in income and no significant income-happiness relationship even across income groups at a point in time. With the more realistic assumption of habit formation plus interdependent preferences, however, the dispersion in norms is less than that in income because norms at all income levels are pulled toward the income average. The result is a positive happiness-income relationship in the cross section but one weaker than that which would prevail in the absence of habit formation.

In these theories, the key reason why higher income does not lead to greater happiness is that material aspirations increase with a society's income. But is there evidence supporting the view that material aspirations rise? The answer is yes. Perhaps the most striking comes from comparing responses in India and the United States to the question mentioned earlier, what would be the "best of all possible worlds," that scenario needed to make the respondent "completely happy." Here are some statements by Indians:<sup>23</sup>

I want a son and a piece of land since I am now working on land owned by other people. I would like to construct a house of my own and have a cow for milk and ghee. I would also like to buy some better clothing for my wife. If I could do this then I would be happy [thirty-five-year-old man, illiterate, agricultural laborer, income about \$10 a month in dollars with a 1960 purchasing power].

I wish for an increase in my wages because with my meager salary I cannot afford to buy decent food for my family. If the food and clothing problems were solved, then I would feel at home and be satisfied. Also if my wife were able to work the two of us could then feed the family and I am sure we would have a happy life and our worries would be over [thirty-year-old sweeper, monthly income around \$13].

I should like to have a water tap and a water supply in my house. It would also be nice to have electricity. My husband's wages must be increased if our children are to get an education and our daughter is to be married [forty-five-year-old housewife, family income about \$80 a month].

I hope in the future I will not get any disease. Now I am coughing. I also hope I can purchase a bicycle. I hope my children will study well and that I can provide them with an education. I also would sometime like to own a fan and maybe a radio [forty-year-old skilled worker earning \$30 a month].

Now compare the responses of Americans:

If I could earn more money I would then be able to buy our own home and have more luxury around us, like better furniture, a new car, and more vacations [twenty-seven-year-old skilled worker].

I would like a reasonable enough income to maintain a house, have a new car, have a boat, and send my four children to private schools [thirty-four-year-old laboratory technician].

I would like a new car. I wish all my bills were paid and I had more money for myself. I would like to play more golf and to hunt more than I do. I would like to have more time to do the things I want to and to entertain my friends [bus driver, twenty-four years old]

Materially speaking, I would like to provide my family with an income to allow them to live well—to have the proper recreation, to go camping, to have music and dancing lessons for the children, and to have family trips. I wish we could belong to a country club and do more entertaining. We just bought a new home and expect to be perfectly satisfied with it for a number of years [twenty-eight-year-old lawyer]

Based on evidence of this sort, the researcher who conducted the survey, Hadley Cantril, concludes:

People in highly developed nations have obviously acquired a wide range of aspirations, sophisticated and expensive from the point of view of people in less-developed areas, who have not yet learned all that is potentially available to people in more advanced societies and whose aspirations concerning the social and material aspects of life are modest indeed by comparison.<sup>24</sup>

In addition to documenting that material aspirations vary with a society's level of economic development, these comments also make clear that individuals believe that higher income will increase their happiness, even though, in fact, it does not. The explanation of this paradox is that individuals, when projecting the effect on their happiness of higher income, are basing their projection on their current aspiration level. In fact, as incomes rise, the aspiration level does too, and the effect of this increase in aspirations is to vitiate the expected growth in happiness due to higher income.

Time series comparisons relating to material norms provide additional evidence that material aspirations increase over time with the level of income. For example, when Americans are asked to think about the "good life—the life you'd like to have," the proportion identifying goods such as "really nice

clothes" and "a vacation home" as essentials of the good life grew considerably in only thirteen years, from 1975 to 1988.<sup>25</sup>

Perhaps most important are time series findings indicating that material norms and income increase not only in the same direction but at the same rate. For example, "minimum comfort" budgets of New York city workers in this century "have generally been about one-half of real gross national product per capita."<sup>26</sup> Similarly, Rainwater finds that in the United States the income perceived as "necessary to get along" rose between 1950 and 1986 in the same proportion as actual per capita income.<sup>27</sup>

These results and their interpretation have been dismissed on the grounds that happiness is such a broad concept that one would hardly expect economic improvement, however great, to make a significant impact on reports of subjective well-being, particularly in an age of nuclear threat like that prevailing since World War II.<sup>28</sup> Alongside such catastrophic prospects, it is claimed, mere economic gain must pale.

However, this criticism misconceives the hopes and fears that dominate happiness judgments. As we saw in table 10.1, in countries all over the world, personal concerns about economic, family, and health matters—but most of all economic—are of overwhelming importance, and broader social and political concerns are mentioned infrequently. If reports on happiness fail to reflect substantial improvement in material conditions, it is not because broader social or national concerns dominate judgments of happiness. Rather, it is because the material scale that goes into forming judgments of happiness itself increases with a society's level of income.

### **Summary and Implications**

Today, as in the past, within a country at a given time those with higher incomes are, on average, happier. However, raising the incomes of all, and thus satisfying material needs more generally, does not increase the happiness of all. This is because the material norms on which judgments of well-being are based increase commensurately with the growth of society's per capita income.

There is a widespread view that many of today's developed economies, and particularly the United States, have entered an era of satiation. Modern economic growth, it is said, tends to eventuate in the "mass consumption society," the "affluent society," the "opulent society," or the "postindustrial society." The analysis in this chapter raises serious doubts that such a terminal stage of economic growth exists. The view that the United States is now in a new era is based in part on ignorance of the rapidity of growth in the past. Consider the following statement made by Henry L. Ellsworth, Commissioner of Patents, in 1843: "The advancement of the arts from year to year taxes our credulity, and seems to presage the arrival of that period when human improvement must

end.”<sup>29</sup> Similarly, a writer in the *Democratic Review* of 1853 predicted that electricity and machinery would so transform life that fifty years hence “men and women will then have no harassing cares, or laborious duties to fulfill. Machinery will perform all work—automata will direct them. The only task of the human race will be to make love, study and be happy.”<sup>30</sup>

Chapter 2 noted the succession of new goods and advances in lifestyle that have followed, one upon the other, over the last two centuries. Is there any reason to suppose that the present generation has reached a unique culminating stage in this evolution and that the next will not have its own catalog of wonders that, if only attained, would make it happy? The answer suggested by the evidence considered here is that economic growth does not raise a society to some ultimate state of plenty. Rather, the growth process itself engenders ever growing “needs” that lead it ever onward.