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Does Money Make Nations Happy?

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The images that reach us from the poor countries of this world tell an ambiguous story. On the one hand there are the desperate poor, the garbage collecting children of Dhaka, the AIDS afflicted families of Johannesburg, of whom it would be cynical to say they lead a happy life. On the other hand there are the happy poor, the laughing, barefooted soccer-playing children of Rio's suburbs, or the hospitable taxi driver in Dakar. From our own experience, we also know that a little more money generally does make us happy, but we also know Scrooge, the grudging millionaire who doesn't even know the meaning of the word 'happiness'. So, if we generalise, what is the relationship between money and happiness?

In the last decades, extensive research has been done regarding this relationship. Happiness is generally measured by subjective indications such as "very satisfied" to "not satisfied at all". Objections that those measures are subjective are very true in a way—but they do not bite because it is precisely the subjective experience that we are eager to measure, but in an objective way. Important is the fact that careful methodological studies found that appropriate measures of happiness produced consistent, meaningful, and reasonably reliable data.

So what pattern do the data reveal? On an individual level and at one point in time, a link seems to exist between income and happiness, but just a small one. Moreover, the link is mainly about relative income. In other words, the neighbours' grass is always greener. More specifically, people become substantially happier as they move from the bottom to the average of their country's income range, but only slightly happier as they progress towards the top.

When we compare countries, the link between happiness and GDP per capita is stronger. This is due to the law of large numbers: outliers cancel out and disturbing factors may be less influential in this case.

The question arises whether the "green grass effect" is also playing a role in cross-country comparisons. For example, national incomes in Western Europe have increased sharply over the last 50 years (The Netherlands experienced a growth of 200% between 1950 and 1992), but happiness has not. It would then be plausible to assume that because relative incomes remained fairly constant, the "grass didn't turn greener or less

green", causing happiness to remain constant. Notably, happiness in the richest of all nations, the U.S., seems to decline after 1970, even though real per capita income increased by 38% between 1970 and 1992.

So far so good, a consistent picture emerges. However, the Japanese example questions our nice, little "green grass" theory. Japanese happiness-studies started already in 1958. By today's standards Japan was a poor country at that time. Since then, Japan's economic development skyrocketed. Until 1987, real per capita income increased by 400 %, increasing car ownership from one to sixty percent of households. It ended up, in 1992, ranking 7th in terms of per capita income, corresponding to 84 percent of 1992 US income. By contrast, it ranked 32nd in 1958, making the equivalent of 26 percent of that time's US income, or of Jamaica's 1992 income. Did the Japanese become happier during that time? The answer is they did not, at least not to any substantive degree.

So, the Japanese data do not support theories of a direct causal influence of income on happiness. Of course, the Japanese situation could be a statistical outlier. One should also be careful not to take the Japanese data to an extreme. There can be little doubt that someone who cannot even feed her children will become happier, or less unhappy, if her income rises. But, if the Japanese case holds, Jamaicans, for example, cannot expect to become a lot happier by rising living standards.

Thus, the scattered data we have give the following picture: rich countries tend to be happier than poor ones, but moderately poor nations won't become happier through economic development. Consequently, income seems not to be the *cause* of the richer nations' happiness, but merely a by-product of another variable, one with a stronger link to happiness.

The omitted variable seems to be culture. A study of the relationship between income, happiness, and the cultural dimension of individualism/collectivism as defined by Hofstede produced stunning results: individualism correlated $r=.77$ with happiness and even stronger (.80) with per capita income. Interestingly, individualism correlated even stronger with happiness than did income (.59). Also, it strongly correlated with happiness after controlling for income, but income became insignificant and negative when individual-

ism was controlled for.

A cogent theory of how individualism might relate to happiness has been proposed by Aaron Ahuvia from the University of Michigan. Referring to a solid body of research by psychologists Kasser and Ryan, he argues that “the secret to SWB (subjective well-being, the psychological term for happiness, ed.) is meeting one’s intrinsic needs”, which in turn is “dependent on ‘being true to one’s inner self’ rather than conforming to social pressure”. The independent self, in turn, is the “psychological hallmark of an individualist culture”. This does not necessarily mean that intrinsic needs have to be egoistic..They may very well be deeply social, but they emerge from an individualistic consciousness rather than from a collectivist identity, i.e., an identity that defines itself to a much larger degree as an integral part of a group. The individual’s liberation from “networks of social obligation”, Ahuvia argues, increases one’s ability to make choices that cater to one’s intrinsic needs, or, in economic terminology, the individualist’s preferences are directed to more intrinsic desires, and these are more rewarding in terms of utility than the fulfilment of preferences derived from desires external to the independent individual.

Perhaps the reason for the striking correlation between individualism and per capita GDP, which Ahuvia does not attempt to explain, is the particular compatibility between individualism and competition. Collectivist attitudes, *e.g.* seeking consensus before a decision is taken, may come in the way of profit orientation, while individualist traits, *e.g.* self-attribution of success and failure together with the ideal of self-determination, may be conducive to a competitive disposition. Competition, in turn, is assumed to be the primary engine of economic growth in the Western world. This does not mean that the only path to eco-

nomical prosperity is via individualism and competition, as the example of Japan and the Asian “Tiger States”, all ranking low on individualism, show. In general however, individualism certainly seems to play an important role in economic development.

Summing up, individualism might nurture a competitive attitude, and stimulate the pursuit of individual rather than collective desires. While the first effect may promote material prosperity, the second tends to produce more happiness. As a result, wealth and happiness go together, but not because the one produces the other, but rather because they seem to share the same origin. Again, the thin statistical basis does not allow drawing any definite conclusions, but it nevertheless questions the existing belief that income strongly affects happiness.

Politically correct folks might argue that the claimed link between individualism and happiness reflects a Western sense of superiority because it implies that only the Western cultures can make people truly happy. Such criticism is misguided, however. In fact, it is precisely such criticism that suffers from Western-centrism because it presupposes that happiness is the ultimate purpose in life. Yet, this view is not shared by all cultures. Surveys clearly show that happiness has much less priority in collectivist cultures. Saying that collectivist cultures discourage the unfettered pursuit of happiness is therefore a value-free statement. It only becomes a normative judgment when it is understood from within the Western perspective.

This article is derived from my thesis “Happiness and Economics” which contains references to sources and a number of figures on the topic. It can be downloaded from <http://johanneshirata.gmxhome.de/thesis/>.