

## **Zicklin Center Funding Proposal**

Project: Economic Growth and Happiness: Reassessing the Easterlin Paradox

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Time Frame: July 1, 2008 – April 30, 2009

### Project description

It is virtually an article of faith among economists that economic growth is an important goal of economic policy. Yet empirical evidence documenting a link between economic development and happiness remains scarce. Indeed, one of the key findings in the emerging literature on subjective wellbeing, the “Easterlin Paradox”, suggests that no such link exists. Examining changes over time in GDP and happiness in the US, Japan and Europe, Easterlin (1974, 1995, 2004) finds no significant evidence of a link, leading him to conclude that surveys of subjective wellbeing “undermine the view that a focus on economic growth is in the best interests of society.”

Despite this absence of evidence that economic development within a country raises average happiness, there is robust evidence that rich individuals within a country tend to be happier than poor individuals. When the two observations are combined one is naturally inclined to conclude that relative income comparisons lie at the heart of happiness, and these observations have spurred the formulation of various models of reference-dependent preferences.

### Importance of the study

These conclusions have important policy considerations, suggesting not only that economic growth should be willingly sacrificed in light of other policy goals, but also that productive economic activity yields negative externalities, reducing the wellbeing of others. In turn, this has important implications for how policymakers should regulate economic behavior.

Our findings also speak to the debate about whether data on subjective wellbeing are useful for the purposes of formulating policy.

The conclusion that absolute income does not impact happiness is built upon a surprisingly fragile empirical foundation, and certainly a foundation too fragile for the reliance some seek to place upon it. The passage of time since this paradox was first raised has led to an accumulation of new data spanning recent decades and a broader array of countries, demanding a reassessment.

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