

# Income and Happiness

April 24, 2005

Martin Seligman and I, as well as many others, have now collected a substantial amount of data on the relation of money and well-being, but these data are often misunderstood. Below I clarify some of the conclusions from this area of study, many of which were presented in the July 2004 *Psychological Science in the Public Interest* report, “Beyond Money: Toward an Economy of Well-Being.”

## The Rich Are on Average Happy

Some people think that our data show that money does not matter for happiness, or even that rich people are unhappy. To the contrary, it is a highly replicated finding that individuals who are well-off financially are on average happier than poor people. Although the correlation between income and happiness in national samples is small in the United States, it is nevertheless true that the richest people are on average more satisfied with their lives than the poorest group. It also appears, however, that increasing income makes more difference at varying levels of poverty, perhaps because it relates to the meeting of basic needs. As one ascends the income ladder, it produces diminishing returns for happiness.

The relation between income and happiness must also be considered in a cultural context. The Maasai of Africa have virtually no cash income — they have their cattle. But the Maasai can meet most of their basic needs, and they are not exposed to western media. In contrast, homeless people in California — who often have much greater income than the Maasai — are on average not nearly as happy. They do not possess what others around them have, and it requires much greater income to meet basic needs in their society. Thus, income must be considered in the context of people’s needs and desires.

## Wealth of Nations

There is a strong correlation between the wealth of nations and the average happiness found in them. Again, the effects are strongest when viewing the poor nations, and there is a leveling off of well-being after nations reach a per-capita income in the \$12,000 range. The unhappiest nations, even unhappier than poor nations, are the former Soviet-bloc countries where the political and economic system disintegrated. It appears that instability and the loss of income may be worse than simply having low income.

## The Toxic Effects of Materialism

Quite a few studies now show that it is detrimental to happiness to think that money is more important than other values. It seems that this kind of materialism can detract from social relationships, which are very important to happiness. And because income is an open-ended goal, one’s aspirations for money can rise forever — thus it might be more difficult than other goals to achieve unless one puts a cap on desires. We do find that the gap between the happiness of materialists and nonmaterialists is much greater for poor people, and considerably smaller for rich people. Furthermore, materialists do end up earning more income, which softens the blow of materialistic values to some extent. Thus, although materialism can be bad for well-being, the findings are a bit more nuanced.

## Rich Kids, Poor Kids

There are a lot of data showing that poor kids often suffer from a number of problems. There are a few data showing that rich kids might be somewhat less happy than middle-class adolescents. I have written an unpublished piece about why this might be so, and have offered suggestions for raising children in wealthy families. To view the piece, click [here](#).

## Casual Direction: From Happiness to Wealth?

It has usually been assumed that the correlation between income and happiness is due to money affecting feelings of well-being. But some of our recent research suggests that at least some of the causal influence goes in the other direction — that cheerful people are likely to make more money than unhappy people. Cheerful people are also more likely to make friends, and as we discovered, quality of well-being may be more influenced by the strength of a person's relationships than by money.

Read [“Beyond Money: Toward an Economy of Well-Being”](#).

## References

- Diener, E., & Biswas-Diener, R. (2002). Will money increase subjective well-being? A literature review and guide to needed research. *Social Indicators Research*, 57, 119-169.
- Diener, E., & Seligman, M. E. P. (2004). Beyond money: Toward an economy of well-being. *Psychological Science in the Public Interest*, 5, 1-31.