CHAPTER SEVENTEEN

IF MONEY DOES NOT BUY HAPPINESS, WHAT DOES?
A MULTILEVEL ANALYSIS ON THE IMPACT OF ABSOLUTE
AND RELATIVE INCOME, SOCIAL VALUES AND MODERNIZATION
ON SUBJECTIVE WELL-BEING IN EUROPE

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Introduction and research questions

From the rich literature on happiness and subjective well-being we know that money does not buy happiness (Diener, 1999; Headey, Muffels & Wooden, 2008). This is known as Easterlin’s paradox, which posits that beyond a certain level of gross domestic product (GDP) per capita wealthier nations are not better off in terms of subjective well-being than less wealthy nations, whereas within countries absolute income pays off in terms of happiness though at a diminishing rate (Easterlin, 1974, 2001, 2003). The Easterlin paradox is explained by the mechanism of habituation or adaptation, according to which people are presumed to be in a sort of ‘hedonic treadmill’: due to rising aspirations, increases in wealth do not lead to steady increases in happiness. The paradox is challenged in a seminal paper by Stevenson and Wolfers (2008), who used the World Values Survey, the Eurobarometer, the General Social Survey and Gallup’s World Poll Data for various years to examine the relationship between subjective well-being (SWB) and absolute income. From their findings, they conclude that there is no such paradox; money matters for explaining the substantial differences in levels of SWB across nations, but also within countries absolute income pays off for happiness. Easterlin and Angelescu questioned their analysis and conclusions in 2009, arguing that Stevenson and Wolfers (ibid.) had mixed up the short-term and long-term income-happiness relationship. In their study, using some of the same data (combined EVS and WVS data) they show evidence for 37 countries that there is no significant relationship between economic growth and

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improvement in happiness. Speculating on the reason for the different results found for the short term and long term, the authors refer to the impact of 'loss aversion', meaning that hedonic adaptation is asymmetric, people don’t habituate to income losses whereas they do to income rises but only in the long term. However, the controversy is not yet clarified, and the discussion continues. The first question raised in this chapter, therefore, is to what extent the 2008 EVS data covering 47 countries provide supportive evidence on the Easterlin paradox. The second question asks, ‘When money does not buy much happiness, what does?’ From a theoretical perspective we presume that countries in Europe differ substantially with respect to their stage in the modernization process and that this variation in levels of modernity as expressed in people’s values and the country’s level of modernization as expressed by its social and economic performance will impact levels of happiness or SWB.

Theoretical framework

Absolute and relative income impact on SWB

The Easterlin paradox (Easterlin, 1974) constitutes our starting point for the analysis, supplemented with sociological notions about the possible impact of social and modernization values on happiness. Research on SWB from a modernization perspective is rather scarce in the social sciences. An exception is the work of sociologist Ruut Veenhoven (1996, 2008), who examined the relationship between post-materialistic values and happiness, and that of Wilkinson and Pickett (2010), two epidemiologists, who in their seminal book in 2009 *The Spirit Level* studied the relationship between income inequality and a variety of indicators measuring social and economic progress including SWB. The findings in the Stevenson and Wolfers (2008) paper show that money matters for explaining the substantial differences in SWB across nations. These findings are based on repeated cross-sectional data analysing correlations between SWB and absolute income, after controlling for correlates such as gender, unemployment and age. The question is whether these findings will be challenged once a richer explanatory model is used or when the analyses are based on long-term evidence instead of the short-term evidence on which the Stevenson and Wolfers (ibid.) findings are based.

The best data to research the income-happiness relationship are panel data that permit the examination of the relationship between changes in income and SWB changes. Yet longitudinal data including information on SWB