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MONEY AND HAPPINESS: A CONCEPTUAL INTEGRATION

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Abstract: *This paper propose a general overview of the concept of happiness in an economics context. Many economists draw attention to the role that money can play to increase the level of happiness. We have identified two perspectives in the literature: one according to which there is no linear relationship between income and happiness, and another saying that sometimes money can buy happiness.*

Keywords: behavioural finance, money, happiness, well-being

JEL Classification: G40

INTRODUCTION

Words such as *job satisfaction, life satisfaction, financial satisfaction, happiness, well-being, income, salary* were and can be at any time used as keywords in empirical research. These topics have sparked interest among psychologists and economists. One of the most debated issues of increasing interest in social sciences is the relationship between the *economy* and *well-being*.

According to Johns & Ormerod (2007, pp. 21-22) "happiness research also has implications for economic theory" more than "the postulates on which individual behaviour is based in such theory". For example, macroeconomic policy has a strong effect on this variable.

In the existent literature, some studies investigate happiness and the factors which can influence its increase or decrease (e.g. unemployment, inflation are a few good examples). It is argued that by quantifying these variables, governments can be better informed about the consequences of the compromises they can make regarding inflation and unemployment, the so-called Phillips curve (Johns & Ormerod, 2007). The results are then used to suggest the best policy implications.

Levels of subjective well-being are distributed in society not only based on the genetic and psychological characteristics of individuals, but also on the conditions under which the individual lives (Bălţătescu, 2006).

Campbell, Converse & Rodgers (1976) identified that the enormous levels of economic growth in the United States of America (USA) don't eliminate the emergence of social problems (apud DeVoe & Pfeffer, 2009).

In our opinion money can buy happiness, but only to a certain extent. Moreover, the relationship between income and happiness is not proportional.

Income is one of the most frequently used factors which can influence happiness, life satisfaction, job satisfaction positively and this variable has been given the highest theoretical importance. Many synthesis articles have been written on this subject by psychologists (Cummins, 2000; Diener & Biswas-Diener, 2002), sociologists (Schyns, 2001) and especially economists (Easterlin, 1995; Graham & Pettinato, 2002) and so on.

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As far as social comparison is concerned, according to Layard (2006), the aspect which stands out the most is that people compare what they have with what others have ("process of rivalry").

LITERATURE REVIEW

Happiness, well-being and satisfaction

Studies on happiness and well-being (SWB) have been on the rise in the last 30 years, yet the concept of happiness has been elusive. Diener and Emmons, (1984) argued for the use of SWB, which, unlike happiness, is a scientific term. Veenhoven (1991) makes no distinction between the concept of happiness and that of satisfaction; Lane (2000) attempts to theoretically distinguish between the two terms, but still does not use this distinction in his research.

Many researchers consider that welfare or well-being includes two parts: *life satisfaction* (cognitive component) and *happiness* (affective component), which are strongly correlated. Gundelach & Kreiner (2004) believe that these two variables measure the same thing, but, according to Mayraz, Wagner & Schupp (2009), the tool used to study the relationship between wealth and income is life satisfaction. In other words, the term SWB is used as a generic term for how we think and feel about our lives (Diener, Suh, Lucas & Smith, 1999 apud Dolan, Peasgood, & White, 2007). Defining a good life can be called *subjective well-being,* and, in familiar terms, *happiness.*

One of the most important results that Kahneman & Tversky (2000) have obtained refers to the asymmetry between how people view to gain or loss. People feel more pain when they lose 10,000$ than pleasure when gaining the same amount.

Moreover, psychologist Edward Diener, also called Dr Happines, conducted numerous specialized studies and designed many instruments, of which the following are but a small fraction: *Satisfaction With Life Scale* (SWLS), *Scale of Positive and Negative Experience* (SPANE), *Affect Intensity Measure* (AIM). A life full of meaning and satisfaction should lead to a higher score on the SWB scale than a life which is as meaningful, fulfilling and joyful, but sadder and tense.

Veenhoven (1991), one of the most prominent researchers of the concept of happiness and the creator of an international database (World Database of Happiness- http://worlddatabaseofhappiness.eur.nl/) and editor of the *Journal of Happiness Studies* said: "life satisfaction is conceived as the degree to which an individual judges the overall quality of his life as a whole favourably".

One of the largest studies on the definition of happiness was conducted by Oishi et al. (2013). The authors sent an invitation to participate in a study to their collaborators in various countries, asking them to define happiness in their language. The results showed that of the 30 nations, 24 nations use the word luck at least in partial association with happiness. It is completely absent in the definitions given by the United States, Argentina, India, Kenya, Spain, Ecuador.

Much of the research has shown that people who have more money are slightly happier compared to people who have less money. Thus, Dunn, Aknin & Norton (2014) have shown that how people spend money also makes a difference in their happiness. Experimental studies have shown that people who spend money on others reported greater happiness levels compared to people who spend it for personal gratification.

To carry out our case study, we chose to use different tools for measuring satisfaction and happiness, by Diener & Seligman (2002).

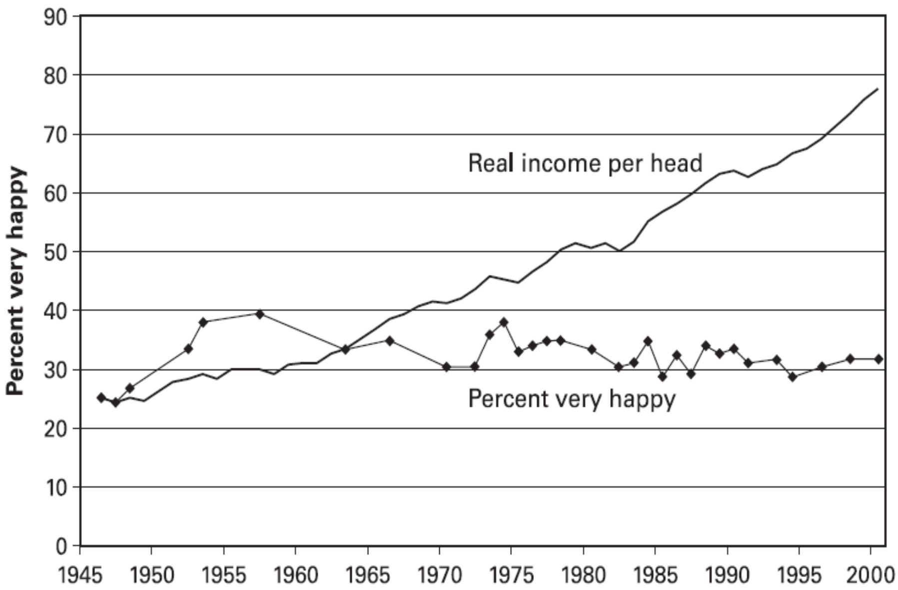
The state and well-being

"An important moderator of the effects of income on SWB is the wealth of the society" (Diener & Biswas-Diener, 2002).

Derek Bok has recently published a book called *The Politics of happiness: What Government Can Learn from the New Research on Well-Being*. The researcher recognizes the strengths and weaknesses of the research on happiness and examines the implications of economic growth, equality, early retirement, unemployment, education, various policies a.s. Based on what makes people happy, Bok believes that government policies could promote an increase in satisfaction.

Russel (2012) summaries the likely routes which may lead to the happiness as defined in the book referred to above: meaningful work, confidence in organizational management, the perception of health, marriage (direction of causality unknown), religious beliefs and social interaction. He also mentions what makes us unhappy: unemployment, pain, insomnia.

A study in the United States shows that following answers to the question: Generally speaking, how would you describe yourself these days – as very happy, fairly happy or not happy at all? A significant increase or decrease in happiness for the period 1950 – 2000 was noted, although real income per capita increased from year to year. This can be seen in the graph below:



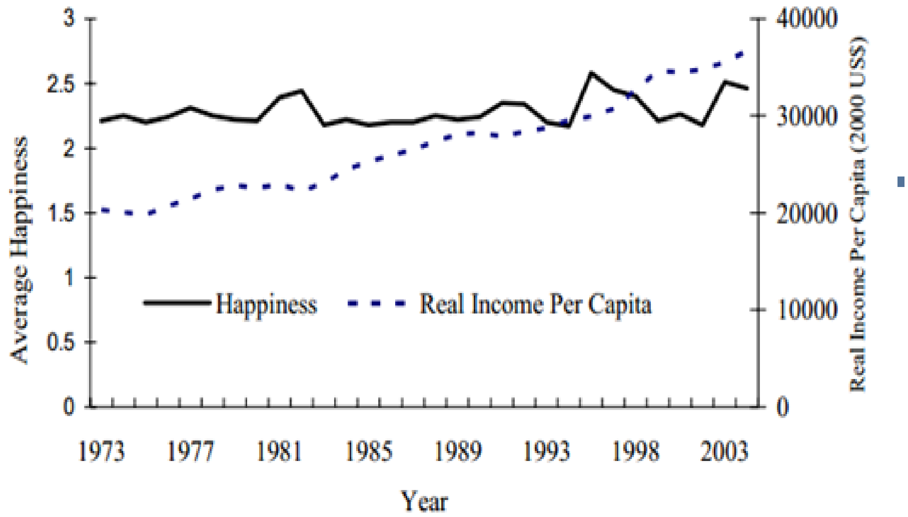
Graph 1. *Evolution of happiness and real income per head for the period 1950-2000.*
Source**:** Layard (2006, pp. 156)

Similar results were registered in Japan, the UK and several European countries.

Is there a causal relationship between money and happiness?

According to conventional (neoclassical) economics, money can buy happiness. In other words, it assumes that the two are causally related and higher incomes should lead to a greater level of happiness (Boyce et al., 2009).

Studying human happiness in terms of growth/decline of income has become one of the most researched topics among economists over the past decade. One of the most popular papers belongs to Easterlin (1974, updated and reissued in 1995), which contains what is known in the specialised literature as Esterlin's paradox:

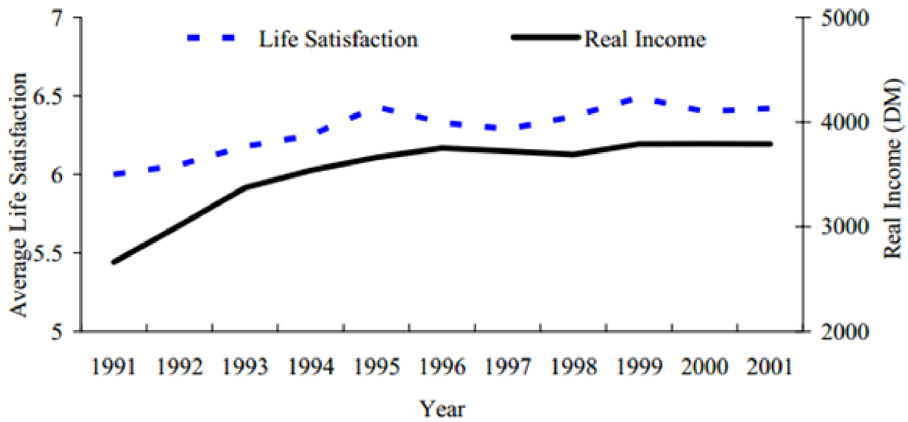


Graph 2. *Happiness and real income per capita in the US during the period 1973-2004*
Source**:** Clark, Frijters & Shield (2008)

We can observe that for the period 1973-2004, real per capita income almost doubled, while the level of happiness (according to the General Social Survey), shows no substantial increase or decrease in the US.

Easterly's paradox is not only met in the US, but also in other countries, such as Japan. In developed countries where there is an income of over 20,000 dollars per head of the population, there is no connection between income and happiness (Layard, 2006). The results of a survey carried out on 450,000 Americans show that an annual income of 70,000 dollars provides maximum happiness (Kahneman & Deaton, 2010).

Schnittker (2008) claims that the main reason which has led to the decrease in happiness could be explained by the drop in the number of Americans who work and are married. This trend was largely independent of income trends.



Graph 3. *Life Satisfaction and Real Income in East Germany during the period 1991-2002*
Source**:** Clark, Frijters & Shield (2008)

Another important result, obtained by Frijters, Shields & Haisken-DeNew (apud, Clark, Frijters & Shields, 2008), refers to the evolution of real income and life satisfaction.

We can observe in *graph 3* a slight increase in real income in Germany at least for the first half of the reviewed period, which differs from the life satisfaction trend. Life satisfaction was measured using a Likert scale from 0-10, where 0 is completely dissatisfied with the answer, and 10 completely satisfied. The question was: “All things considered, how satisfied are you with your life as a whole these days?”

However, although the graphs above illustrate bivariate correlations, revenues appear not to buy happiness in developed countries (Clark et al., 2008).

A strong positive relationship between income and well-being may exist because individuals focus more on economic factors when assessing their happiness (DeVoe & Pfeffer, 2009).

Is there a correlation between money and happiness?

The correlation between money and happiness is often small, but the effects are higher in the economies of developing countries (Howell & Howell, 2008, apud Boyce, Brown & Moore, 2009), and even small correlations may reflect the substantial differences regarding the pursuit of happiness (Lucas & Schimmack, 2009, apud Boyce et al., 2009). Such results do not necessarily reflect a causal relationship between money and happiness (Easterlin Paradox). Layard (2006) highlights the fact that an increase in income leads to an increase in momentary happiness.

Swiss economists Frey & Stutzer (2002) wanted to prepare studies on happiness as a new part of economic theory. Paradoxically, the investigation has concluded that income contributes into the small extent to happiness.

Individual options and happiness prove to be different concepts, which may deviate systematically and considerably one from the other (apud DeVoe & Pfeffer, 2009).

Marks & Fleming (1999) found a high level of SWB at a time preceding income growth (apud Diener & Biswas-Diener, 2002). Besides, the current SWB had a strong influence on unemployment rates later on, since less happy respondents are more prone to subsequent unemployment (Diener et al., apud Diener & Biswas-Diener,2002).

DeVoe & Pfeffer (2009) argue that the relationship between income and happiness can be influenced by exposure to organizational practices. An example of an organizational practice is compensation of employees per hour.

The authors mentioned above based their first two studies on an overall evaluation of happiness and in the third study they used the Satisfaction With Life Scale (SWLS) and the General Health Questionnaire (GHQ), which is a good proxy for welfare.

Is there a correlation between income and job satisfaction?

According to Al-Zoubi (2012), "job satisfaction has a great importance in the theoretical and the practical reality of the organizations." When individuals were asked why they worked, money was one of the reasons they most invoked the frequently (Jurgensen, 1978 apud Judge, Piccolo, Podsakoff, & Rich, 2006).

Bender & Heywood (2004, apud Al-Zoubi, 2012) “found that university professors who receive high income – in comparison with other jobs – have low job satisfaction because they think that PhD holders who work in industry earn more than them. Such a comparison may affect job satisfaction because of the feelings of injustice”.

Although these issues have sparked interest in economists and psychologists, the relationship between wage levels and job satisfaction has not been intensively studied. According to Gerhart and Rynes (2003, apud Judge et al., 2006), there are no studies which relate these topics. Theoretically, there may a direct or indirect relationship between them. Studies which claim that an increase in salary brings more job satisfaction are: (Smith, Kendall & Hulin, 1969, Heneman and Judge,2000 apud Judge et al., 2006; Beutell & Wittig-Berman, 1999, Igalens & Roussel, 1999, apud Young et al., 2014)

Research carried out by Judge et al. (2006) was based on an analysis of the journals: *Academy of Management*, *Journal of Applied Psychology*, *Organizational Behavior and Human Decision Processes*, and *Personnel Psychology*. The authors have searched for items using keywords such as: satisfaction, salary, income for the period 1990 - 2007. In the end, 86 studies were selected (119 correlations from 92 independent samples), which are included in their database. They concluded that there is a positive correlation between wage levels and job satisfaction.

Life satisfaction and income

According to Johnson & Krueger (2006, apud Young et al., 2014, two individuals who earn the same salary can charge very different satisfaction levels.

Young et al. (2014) conducted a study based on the classical notions of job satisfaction. The study has been implemented in the online environment and the respondents were adults with a stable job. Their annual gross salary ranged from 6,000 dollars to 400,000 dollars, with an average of 85,000 dollars. The final sample included 79 participants (60% male and 40% female). As for the results, assumptions regarding the existence of a direct link between salary and job satisfaction, salary and life satisfaction were rejected. Popular wisdom says that income levels rise and problems arise.

Bakan & Buyukbese (2013) empirically demonstrate the existence of a relationship between salary and job satisfaction. But they draw attention to the direction of the causal variables. There are situations where employees can report higher levels of job satisfaction because they are financially motivated. On the other hand, it is possible to obtain high income because they are motivated by achieving a high level of job satisfaction and therefore are willing to make efforts.

Tools

In 1972, the United States' General Social Survey (GSS) asked the following question: " Generally speaking, how happy would you say that you are: very happy, fairly happy or not very happy?" (Easterlin, 2001).

Staubli, Killias & Frey (2013) believe that we can distinguish three categories of well-being:

- "*short-term reaction* to pleasant experiences;
- *eudaimonia* – it reflects a *good and moral life*
- *Life satisfaction* is the answers of individuals to the question: 'Taken overall, how satisfied are you with the life you lead?" (pp. 2).

There are many articles in the existent literature, which use different methodologies and refer to different time periods, such as: Veenhoven (1991); Kahneman & Tversky, (2000); Lane (2000); Diener (2000), Gundelach & Kreiner (2004); Mayraz, Wagner & Schupp (2009); Leyden et al. (2011); Staubli et al., (2013); Kesebir & Diener, 2008; McMahon, 2006; Oishi, 2012, apud Oishi et al., (2013);

Here is an overview of some of the tools which appeared in the literature:

- *Subjective Happiness Scale* (Lyubomirsky & Lepper, 1999),
- *The Satisfaction with Life Scale* (Diener et al., 1985),
- *The Satisfaction with Life Scale for Children* (Gadermann et al., 2010),
- *Job Satisfaction Survey* (Spector, 1994),
- *Job Satisfaction* (Constantin, 2004).

Factors that can influence SWB

Previous papers on this subject (e.g Dolan et al., 2008, Leyden et al., 2011) have found several factors that influence the SWB: revenues, attitudes and beliefs, social development, marital status, workforce, social capital, health; personal freedom, personal values, socio-demographic and economic aspects.

Also, Dolan et al. (2008) found that:
- *Age:* people over 65 are generally happier than others;
- *Gender*: women are happier than men;
- *Relationship status*: married people are happier than others;
- People who have a job are happier compared to the unemployed;
- Citizenship: Apparently, Switzerland is the world's happiest country.

According to Layard (2006), the main factor associated with happiness is described as about personal values. Belief in a higher power is associated with happiness. So is caring for others and making a difference in the world around us (apud Leyden et al., 2011).

When people focus on money, for example, they are simply concerned with earning more, so they may be less honest in their relationships with others (see Vohs, Mead & Goode, 2008; Yang et al., 2013; Zhou, Vohs & Baumeister, 2009, apud Gino & Mogilner, 2014).

A large part of the investigations has shown that persons who have more money are somehow happier in comparison with people who have less money. Thus, Dunn, Aknin & Norton (2014) have demonstrated that how people spend their money also makes a difference in their happiness. They have shown by experimental studies that persons who spend money to the benefit of others report a greater level of happiness in comparison with the persons who spent for personal use.

CONCLUSION

Happiness and *income* are some of the most complex notions of economic and social research. This paper should help people understand that we do not make rational decisions and we not buy everything with money. We have feelings, expectations and assumptions concerning work and life in general; even if money does not seem to buy happiness, failing to achieve the optimal level of financial security renders us dissatisfied and unhappy. This is the major difference between classical finance and behavioural finance.

We have identified two perspectives in the literature: one according to which there is no linear relationship between income and happiness, and another saying that sometimes money can buy happiness.

Few people doubt that happiness is not very important. In fact, as far back as ancient Greece, the concept has been a subject of continual debate. And this would not have been so if people had thought that happiness did not matter (van Hoorn, 2007).

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