Link between income and happiness is mainly an illusion

While most people believe that having more income would make them happier, Princeton University researchers have found that the link is greatly exaggerated and mostly an illusion.

People surveyed about their own happiness and that of others with varying incomes tended to overstate the impact of income on well-being, according to a new study. Although income is widely assumed to be a good measure of well-being, the researchers found that its role is less significant than predicted and that people with higher incomes do not necessarily spend more time in more enjoyable ways.

Two Princeton professors, economist Alan B. Krueger and psychologist and Nobel laureate Daniel Kahneman, collaborated with colleagues from three other universities on the study, being published in the June 30 issue of *Science*. The new findings build on their efforts to develop alternative methods of gauging the well-being of individuals and of society. The new measures are based on people's ratings of their actual experiences, instead of a judgment of their lives as a whole.

"The belief that high income is associated with good mood is widespread but mostly illusory," the researchers wrote. "People with above-average income are relatively satisfied with their lives but are barely happier than others in moment-to-moment experience, tend to be more tense, and do not spend more time in particularly enjoyable activities."

The Princeton researchers collaborated with psychologists David Schkade of the University of California-San Diego, Norbert Schwarz of the University of Michigan and Arthur Stone of the State University of New York-Stony Brook.

The researchers have developed a tool to measure people's quality of daily life known as the Day Reconstruction Method (DRM), which creates an "enjoyment scale" by requiring people to record the previous day's activities in a short diary form and describe their feelings about the experiences. Their 2004 study using this method, which surveyed 909 employed women in Texas, provided evidence that higher income played a relatively small role in people's daily happiness.

For the new study, the researchers examined data from the 2004 survey to illustrate misperceptions that more money buys more happiness. Their experiment extended previous studies in which people have exhibited a "focusing illusion" when asked about certain factors contributing to their happiness -- attributing a greater importance to that factor once it has been brought to mind. For example, when people were asked to describe their general happiness and then asked how many dates they had in the past month, their answers showed little correlation. But when the order of the questions was reversed for another group, the link between their love lives and general happiness became much greater.

To test whether this illusion applied to income, Krueger, Kahneman and their colleagues studied the responses given by the women in the 2004 DRM survey. After they were asked to report the percentage of time they spent in a bad mood the previous day, they were asked to predict how much time people with certain income levels spend in a bad mood.

Survey respondents expected women who earned less than $20,000 a year to spend 32 percent more of their time in a bad mood than they expected people who earned more than $100,000 a year to spend in a bad mood. In actuality, respondents who earned less than $20,000 a year reported spending only 12 percent more of their time in a bad mood than those who earned more than $100,000. So the effect of income on mood was vastly exaggerated.

To provide further evidence on the role that income plays in people's lives, the researchers conducted an additional DRM survey of 810 women in Ohio in May 2005. In this survey, respondents reported their experiences from moment to moment as well as their annual household income and overall life satisfaction. The new survey found that income was more weakly correlated with individuals' happiness from moment to moment than it was with their overall life satisfaction.

"If people have high income, they think they should be satisfied and reflect that in their answers," Krueger said. "Income, however, matters very little for moment-to-moment experience."

Finally, the researchers examined data from a nationwide Bureau of Labor Statistics survey on how people with varying household income levels spend their time. These data show that people with higher incomes devote relatively more of their time to work, shopping, childcare and other "obligatory" activities. Women surveyed by the researchers in Ohio associated those activities with "higher tension and stress." People with higher incomes spend less time on "passive leisure" activities such as socializing or watching television, which the respondents viewed as more enjoyable.

According to the government statistics, men making more than $100,000 per year spend 19.9 percent of their time on passive leisure, compared to 34.7 percent for men making less than $20,000. Women making more than $100,000 spend 19.6 percent of their time on passive leisure, compared with 33.5 percent of those making less than $20,000.

"Despite the weak relationship between income and global life satisfaction or experienced happiness, many people are highly motivated to increase their income," the study said. "In some cases, this focusing illusion may lead to a misallocation of time, from accepting lengthy commutes (which are among the worst moments of the day) to sacrificing time spent socializing (which are among the best moments of the day)."

The researchers noted that the two DRM surveys focused on women because the method was in developmental stages and they wanted to study a homogeneous group. They are in the process of collecting data on men as well as women for a national sample to use in further studies.

Source: Princeton University