Who Says Money Cannot Buy Happiness?

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Economists have discovered, or so they think, that money doesn't buy happiness. This idea, however, is hardly a new discovery, even for economists. Adam Smith discussed people's limited ability to achieve happiness by acquiring material wealth in his 1759 book *The Theory of Moral Sentiments.* The real discovery by some economists and other social scientists in recent years is that the money-doesn't-buy-happiness claim can be used to justify higher taxes and more government spending.

Although most people have long expressed agreement with the proposition that obtaining more money doesn't lead to more happiness, that admission has had no noticeable effect on their behavior. Economists recently have provided empirical backing for the proposition. Surveys asking people how happy they are indicate that the average level of happiness has not increased over several decades, despite large increases in income per capita. For example, in the United States, real income per capita has more than doubled since 1950, yet the percentage of respondents who say they are "very happy" has not increased, and the percentage who say they are "not very happy" has not declined significantly. Similar disconnects between happiness and income have been found in Japan, the United Kingdom, and continental Europe.[1] Two explanations are typically offered. First, any additional happiness from more

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1. The first study of the connection between happiness and income was done by Easterlin (1974). Some of the more recent studies are discussed in Layard 2005, chap. 3, and in Frey and Stutzer 2002, chap. 1. Although increased income does not seem to improve the average happiness, there is evidence that rich people are happier than poor people.

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income results primarily from increasing our relative income, but we can increase our relative income only by reducing the relative income of others, which reduces their happiness. Second, the pursuit of money becomes addictive and reduces the time available for family and friends, community service, intellectual pursuits, exercise, and other activities that result in "genuine" happiness and, it is claimed, do not reduce the happiness of others.

In this article, I argue that the proposition that money and happiness are not positively related is problematic; among other things, it is wrong. More real purchasing power (or wealth, which is what must be meant by "more money") brings about a tremendous amount of human happiness, despite what empirical studies and an incomplete reading of Adam Smith suggest. The claim that money doesn't buy happiness is being used to make bizarre arguments for higher taxes and more government spending by exaggerating the costs of acquiring wealth and completely ignoring the personal and social benefits of additional wealth. Otherwise respectable economists have concluded that earning income is—I'm not making this up—a form of pollution, a negative externality that should be taxed to internalize the externality and to improve the allocation of resources by transferring more wealth to government. These economists consider the production of wealth as, at best, a zero-sum activity, and they recommend increasing taxes and government spending as a positive-sum activity that can improve our happiness.

The Mexican Fisherman and Adam Smith

Adam Smith can be interpreted as sympathetic to the proposition that acquiring more wealth is ultimately a futile way of achieving happiness, but even a casual reading of Smith quickly dispels any notion that he did not favor the pursuit of wealth. Consider how he would have responded to a story that I was told recently by a student who was critical of what he perceived as economists' belief that more money means more happiness. The story goes as follows:

> While visiting a small Mexican fishing village, an American saw a fisherman dock his boat and complimented him on the quality of his fish. When the American asked how long he fished every day, the Mexican answered, "Not very long." He went on to explain that a small catch was sufficient for the needs of his family. "But what do you do with the rest of your time?" asked the American. "I sleep late, fish a little, play with my children, and take a siesta with my wife. In the evenings, I go into the village to see my friends, have a few drinks, play the guitar, and sing a few songs. I have a full life." Rather impatiently the American responded, "Look, I have an MBA from Harvard and I can help you! You should fish longer every day and sell the extra fish you catch. With the extra revenue, you can buy a bigger boat. With the extra money the larger boat will bring, you can buy a second one

> and a third one and so on until you have an entire fleet of trawlers. Instead of selling your fish to a middleman, you can negotiate directly with the processing plants and maybe even open your own plant. You can then leave this little village and move to Mexico City, Los Angeles, or even New York City! From there you can direct your huge enterprise." "How long would that take?" asked the Mexican. "Twenty, perhaps twenty-five years," replied the American. "And then when your business gets really big, you can start selling stocks and make millions!" "Millions? Really? And after that?" asked the fisherman. "Well," responded the American, "After that you'll be able to retire, live in a tiny village near the coast, sleep late, play with your grand-children, catch a few fish, take a siesta, and spend your evenings drinking and enjoying visiting with your friends."

Adam Smith probably would have enjoyed this story and, up to a point, agreed with it. After all, in *The Theory of Moral Sentiments* he tells a similar story of "a poor man's son, whom heaven in its anger has visited with ambition." The son notices the luxuries of the wealthy and "thinks that if he had attained all these, he would sit still contentedly, and be quiet, enjoying himself in the thought of the happiness and tranquility of his situation." So "he devotes himself for ever to the pursuit of wealth and greatness. To obtain the conveniences which these afford, he submits in the first year, nay in the first month of his application, to more fatigue of body and more uneasiness of mind than he could have suffered through the whole of his life for the want of them" ([1759] 1982, 181). In his pursuit of wealth,

> he serves those whom he hates, and is obsequious to those whom he despises. Through the whole of his life he pursues the idea of a certain artificial and elegant repose which he may never arrive at, for which he sacrifices a real tranquility that is at all times in his power, and which, if in the extremity of old age he should at last attain it, he will find to be in no respect preferable to that humble security and contentment which he had abandoned for it. It is then . . . that he begins at last to find that wealth and greatness are mere trinkets of frivolous utility, no more adapted for procuring ease of body or tranquility of mind than the tweezer-cases of the lover of toys. (181)

Smith continues, "In his heart he curses ambition, and vainly regrets the ease and the indolence of youth, pleasures which are fled for ever, and which he has foolishly sacrificed for what, when he has got it, can afford him no real satisfaction" (182).

If Smith had stopped here, we could draw the same conclusion from him that most people take from the story of the Mexican fisherman and the Harvard MBA—that there is no advantage in striving for wealth. Yet Smith rejects the notion, fashionable in his day as well as in ours, that the ambition for material riches is an unworthy one. He insists that we are well served because nature deceives us with this ambition, prompting mankind "to cultivate the ground, to build houses, to found cities and commonwealths, and to invent and improve all the sciences and arts, which ennoble and embellish human life; which have entirely changed the whole face of the globe, have turned the rude forests of nature into agreeable and fertile plains, and made the trackless and barren ocean a new fund of subsistence, and the great high road of communication to the different nations of the earth" (183–84). The person who spends his life pursuing money does little to improve his happiness, but the rich, despite "their natural selfishness and rapacity" and their desire to benefit only themselves, end up dividing "with the poor the produce of all their improvements" (184). At this point, Smith makes the first use of his most famous metaphor by stating that the rich "are led by an invisible hand to make nearly the same distribution of the necessaries of life, which would have been made, had the earth been divided into equal portions among all its inhabitants, and thus without intending it, without knowing it, advance the interest of the society and afford means to the multiplication of the species" (184–85).

In other words, the advantage Smith sees in nature's deceiving some with ambition is that it moderates the unfortunate effects of a full-scale prisoner's dilemma. Consider what conditions would prevail if no one possessed the ambition to work hard to achieve an illusory (or, as I argue shortly, a temporary) happiness. In such a world, everyone would choose to occupy the slow lane, to catch a few fish or grow a few vegetables or raise a few chickens, spending most of their day enjoying their family and friends. In this case, however, the easy life would not be nearly as attractive as the one available to the Mexican fisherman. The fisherman's life would not sound so idyllic unless some people followed the general advice of the Harvard MBA by constantly striving to do a better job improving quality, lowering costs, and beating back the competition in growing and distributing food; developing and distributing medicines; generating and distributing electricity; producing and distributing beer, wine, and whiskey; making and distributing guitars; and so forth. Such efforts have increased the general abundance of wealth so that people can afford more of all desirable things, including leisure. The ambition for wealth makes it possible for everyone, including those who reject the pursuit of material success as unworthy, to live longer with more leisure and material comforts than would be possible otherwise.

Temporary Happiness and Productivity as Pollution

One cannot dismiss out of hand the proposition that money doesn't buy happiness for the person pursuing it. No doubt the studies showing that the average level of happiness has remained unchanged despite large increases in income per capita reflect an important reality. Certainly, these studies are consistent with my casual introspection—I don't feel any happier today than I recall feeling as a graduate student, even though my income and wealth are much higher now. Yet how can anyone really believe that money doesn't buy happiness when almost everyone wants more money and willingly makes sacrifices to get it? If human behavior means anything—and what people do is surely a more accurate reflection of how they feel than what they say on surveys—it must mean that more money does increase happiness. If money failed to increase happiness, would the pursuit of more money be as universal and persistent as it is? Not likely. Can we reconcile the studies suggesting that more money doesn't increase happiness with behavioral evidence indicating that it does? I think we can do so with two different arguments that imply that more money does increase happiness, but only temporarily.

Relative Income

The most common argument is that the happiness people realize from having more income results from having more relative to others in some reference group, not from having more absolutely. Evidence suggests that people do care about relative income. For example, when people are asked to choose between a real income of, say, \$75,000 a year in a world where the average income is \$37,500 and a real income of \$100,000 a year in a world where the average income is \$150,000, a majority typically chooses the former (Layard 2005, 41–42). This argument is not a new one; again, it goes back at least to Adam Smith in *The Theory of Moral Sentiments:*

> For to what purpose is all the toil and bustle of this world? What is the end of avarice and ambition, of the pursuit of wealth, of power, and preeminence? Is it to supply the necessities of nature? The wages of the meanest labourer can supply them. We see that they afford him food and clothing, the comfort of a house, and of a family. . . . Do they [the rich] imagine that their stomach is better, or their sleep sounder in a palace than in a cottage? The contrary has been so often observed, and, indeed, is so very obvious . . . that there is nobody ignorant of it. From whence, then, arises that emulation which runs through all the different ranks of men, and what are the advantages which we propose by that great purpose of human life which we call bettering our condition? To be observed, to be attended to, to be taken notice of with sympathy, complacency, and approbation, are all the advantages which we can propose to derive from it. It is the vanity, not the ease, or the pleasure, which interests us. . . . The rich man glories in his riches, because he feels that they naturally draw upon him the attention of the world. . . . The poor man, on the contrary, is ashamed of his poverty. He feels that it either places him out of the sight of mankind, or, that if they take any notice of him, they have, however, scarce any fellow-feeling with the misery and distress which he suffers. ([1759] 1982, 50–51)

So the observation that a person can become happier when his income increases because of the increase relative to others with whom he compares himself has a long pedigree. Yet the increased happiness is no doubt temporary (an aspect consistent with Smith's previously discussed views on happiness and wealth). As more recent commentators have emphasized, those who achieve a higher income will soon find their happiness fading as either their original reference group also experiences increased income or their reference group shifts to include more higher-income people. Moreover, of course, the temporary happiness one person realizes from additional income is the source of unhappiness for others who, at least temporarily, suffer a decline in their relative incomes.

Whereas Smith regarded any temporary unhappiness caused by the relative increase in the income of others as more than offset by the general improvements created by the ambition of the financially successful, more recent writers have focused attention primarily on the unhappiness they believe to be caused by a decline in relative income. For example, Layard refers to earning higher income as tantamount to pollution because it imposes unhappiness on others, and he views such pollution as a justification for the imposition of higher income taxes (2005, 47, 228).[2] In his view,

> If a person works harder and earns more, he may himself gain by increasing his income compared with other people. But the other people lose because their income now falls relative to his. He does not care [that] he is *polluting* other people in this way, so we must provide him with an automatic incentive to do so. Taxation provides exactly this incentive. If we make taxes commensurable to the damage that an individual does to others when he earns more, he will only work harder if there is a true net benefit to society as a whole. (228, emphasis added)

If accepted, this productivity-as-pollution argument would provide an open-ended rationale for policies to penalize all productive activity. An entrepreneur who puts existing firms out of business by providing consumers with better products at lower prices is, according to this argument, polluting those who own and work for the bankrupt firms, and the government should impose an entrepreneurial tax to correct this externality. We might ask Layard: Why not tax academics when their articles or books are accepted by prestigious journals or university presses in order to internalize the distress (pollution) this acceptance imposes on their colleagues who are now seen as relatively less successful?[3]

2. Layard was probably influenced here by Frank, who states, "The problem of excessive environmental pollution is caused by an incentive gap virtually identical to the one that gives rise to excessive conspicuous consumption" (1999, 207). Frank then goes on to recommend a highly progressive consumption tax as the best remedy for this excessive consumption. University of Southern California law professor Thomas Griffith agrees with both Layard and Frank that relative income considerations can justify higher taxes. According to Griffith, "As a positional good, the additional income earned by one individual reduces the relative position and thus the welfare of others. This decline in the welfare of others is a negative externality associated with earning additional income. Thus, the argument that taxation produces inefficiency by reducing work effort may be only half true. Taxation will reduce work effort, but that reduction may not be inefficient" (2004, 1384).

3. Critics of the pursuit of financial wealth are not content merely to claim that such pursuit imposes negative externalities; they also claim that the benefits from activities that create genuine happiness are ignored by market decision makers. For example, Yale political scientist Robert E. Lane asks, "Is there something

Such questions, however, seem mere quibbles to those who recommend taxing away more of our money to improve our happiness because they see another happiness advantage in higher taxes. The revenue raised can be spent to provide and subsidize projects and activities that these individuals have determined are sources of "genuine" happiness. Frank enthusiastically informs us that not only can a "steeply progressive consumption tax help free us from the grip of luxury fever...[but] it is a step that would free up literally trillions of dollars of resources that could be put to better uses" (1999, 249–50). These better uses, according to Frank, include better schools (256), more public-sector jobs recycling newspapers and removing graffiti from buildings (261), tougher air-pollution regulation (254), more music and art programs (254), municipal swimming pools (254), universal health insurance (254), and more public transportation (261). Layard (2005, 47) and Griffith (2004, 1392) also recommend more spending on "nonrivalrous" goods because such goods can be consumed equally without anyone's having to worry that someone else is getting more than he is and therefore can provide lasting happiness.

It is fine to have more of these goods and services (even though they all are not nonrivalrous) as long as the benefits exceed the costs, and indeed we do get more of them when our wealth increases because people pursue more money. I argue in the next section, however, that we have no reason to believe that these publicly provided goods provide more lasting happiness than do the rivalrous goods that people can buy with their own money.

The relative-income explanation of why money doesn't buy lasting happiness is the one most social scientists emphasize, especially those who use the "money doesn't buy happiness" argument to justify an expansion of the economic role of government. Another explanation can be offered for the temporary effect that changes in income have on happiness—one that is less useful to those who favor bigger government.

Sensory Adaptation

Another reason why more (less) income increases (decreases) happiness only temporarily springs from our sensory adaptation to changing circumstances. It has long been observed that things people are at first intensely aware of soon blend into the background and go largely unnoticed. Our sensory receptors no longer respond to the continuous presence of this stimulus, whether an irritating one (for example, a noise, a foul odor, a flashing light, or the pressure from eyeglasses or hearing aids) or a pleasant one (for example, the sight of attractive and artfully arranged furniture, a beautiful view, or the coolness of an air-conditioned room on a hot day). More

immanent in market forces that leads to unhappiness and depression in post industrial societies—and then leads to its cures?" His tentative answer is that the market "contains nothing within its incentive struggle to ameliorate its hedonic failure....The things that contribute most to subjective well-being (family integrity, warm friendships, intrinsic work enjoyment) are *externalities* to markets. This deprives markets of any self-correcting tendencies" (2000, 327, emphasis added).

complicated stimuli, such as a new car or a new companion, which activate many of our sensory receptors in various ways that depend on a wide range of circumstances, resist sensory adaptation for a longer period, but they are not immune to it. According to psychologist Martin Seligman, "this process [of adaptation or habituation] is an inviolable neurological fact of life. Neurons are wired to respond to novel events, and not to fire if the events do not provide new information" (2002, 105). In other words, our sensory receptors are economizers, becoming activated only when new information becomes available. They may be compared to market prices, which rest in an equilibrium state until new information becomes available, at which point they become active in response to that information. Once they have responded to the new information, they become inactive until another change in information makes further activity useful. This process suggests that the higher income we are receiving and the new clothes, nicer car, and bigger house it allows us to purchase soon become old information, no longer able to activate our sensory awareness and keep us on an elevated level of happiness.

The ability of greater income to increase our happiness only temporarily is consistent with longitudinal studies that find no clear relationship between income per capita and the average level of happiness in a country as well as with cross-sectional studies that find a positive relationship between income and happiness. With any degree of income mobility, those with high incomes will include disproportionately more people whose incomes have recently increased than people whose incomes have recently declined. Similarly, those with low incomes will include disproportionately more people whose incomes have recently declined than people whose incomes have recently increased. So the cross-sectional studies are picking up the temporary effect that a change in income has on happiness. Because the effect of greater income on happiness is temporary, the average level of happiness over the entire population does not increase as income per capita increases. Of course, this explanation for why richer people are happier than poor people at any particular time, even though happiness does not increase with income over time, does not depend on why the positive effect of income on happiness is temporary.

In an important sense, however, sensory adaptation is a more fundamental explanation of the temporary effect of income on happiness than is the relative-income argument. Without adaptation to old information, the effect of relative income on happiness would be more persistent. The relative-income argument can explain why those who become relatively richer find their initial increase in happiness disappearing as others catch up with them or as they begin to compare themselves with a richer reference group. Without adaptation, however, relative income cannot explain why the increased happiness of people who become permanently richer than those in their reference group doesn't last. People often become much richer without leaving their communities or changing their network of friends, yet the initial euphoria they experience does not last very long even though they remain permanently richer than their friends and neighbors. To pick an extreme case, Bill Gates has been richer than Warren Buffett and Larry Ellison for many years, and no one else on the globe is richer. But is Gates happier than his closest rivals on the most-wealthy list because he is number one? Probably not. Gates would no doubt suffer some loss of happiness if Larry Ellison surpassed him, and Ellison would surely experience a boost in happiness, but neither the decrease nor the increase would last long. Changes in relative income or wealth soon become old information to which people have adapted, eliminating any effect on happiness.

Sensory adaptation also suggests that economists such as Frank, Griffith, and Layard are mistaken when they argue that we would realize more lasting happiness from our money if the government increased income taxes to pay for more nonrivalrous goods and services. No one denies the benefits of a cleaner environment and more convenient public transit (which is hardly a nonrivalrous good), but we soon adapt to more of these goods, just as we adapt to having more money, and their effect on our happiness is also temporary.

By recognizing the importance of adaptation in the determination of happiness, we are forced to accept the temporary nature of any improvement in happiness, regardless of the reason for the improvement.

As Good as It Gets

We ought not to belittle the pursuit of money simply because its effect on happiness is only temporary. That's as good as it gets. Nothing can increase happiness permanently. For example, few things should make people happier than a longer life. If I were informed today that my life expectancy had just increased by six years, I would surely experience a surge in happiness. Just as surely, however, my elevated happiness would not last long. After all, my additional life expectancy would bring me up only to the level of life expectancy for women, and happiness studies show that women are only slightly, if at all, happier than men.[4] Women have adapted to the old news of their longer life expectancy, focusing their concerns on unsettled issues in their lives, and so would I. Consider anything we value and seek more of because we believe it will make us happy—sexual satisfaction, religious fulfillment, professional success, a loving family, good friends, robust health, more education, or better looks, to name just a few. Like more money, more of these things increases our happiness, but only temporarily. We soon adapt to them and soon take them for granted, and though they

4. Psychologist David Lykken concludes, based on studies he cites, that "there is no appreciable difference between happiness, on the one hand, and . . . gender . . . on the other" (2000, 17). Based on his own studies of twins, Lykken states that "married twins were slightly happier than the single ones, but the difference was not enough to sneeze at. The mean difference between men and women was even smaller, with the women slightly higher" (18). Layard, on the basis of research he cites, finds that "in nearly every country men and women are roughly equally happy" (2005, 62).

are important ingredients of a satisfying life, they lose their ability to boost our sense of happiness much, if at all, above the level we would experience with less of them once we had adapted to the loss.

Achieving happiness is an ongoing project, not something that can be accomplished once and for all by earning more money, marrying the love of your life, having wonderful children, finishing a Ph.D., or receiving tenure at a prestigious university. The argument that the pursuit of money, which after all is a general claim on a wide range of things, is futile because more money doesn't permanently increase happiness can be generalized to almost all, if not all, pursuits.

But what if the temporary happiness we realize from making more money is offset in large measure, if not totally, by the temporary unhappiness of those who suffer a decrease in relative income? As discussed earlier, the argument for higher taxes on income or consumption is that higher relative income and consumption are positional benefits, with not everyone being able to increase his relative income simultaneously. If making more money is a zero-sum activity, not much is lost if it is discouraged by taxation. Higher taxes on income or consumption will motivate people to spend less time earning income and more time engaged in truly meaningful activities—activities that increase their happiness more than making more money does—such as spending time with their family and friends, reading great books, attending cultural events, becoming involved in community service, exercising, and taking educational trips. Layard follows up his argument that earning more income is pollution by stating that "taxes discourage us from overworking" and "we need the tax on income from work in order to maintain a tolerable work-life balance" (2005, 229, 230). Frank supports a steeply progressive consumption tax with the statement that people subject to such a tax "would have an incentive to work fewer hours and spend more time with family and friends or more time exercising or more time reading a good book" (1999, 222).[5]

Unfortunately for this line of argument, the genuine happiness-producing activities that would supposedly be substituted for making more money, once the proper tax increase had been imposed on income or consumption, can also produce positional goods that create the same type of envy externalities that making money is supposed to create. Why wouldn't the person who gave up the "blind pursuit of material prosperity" to spend more time exercising and losing weight impose a negative externality on his flabby friends and associates whose relative weight had increased?[6] Working on your golf or tennis game improves your performance at the expense of your competitors. Can anyone deny that some people become patrons of the arts or wine connois-

5. All academics seem to maintain that the things *they* claim to value are the sources of real happiness. I have yet to encounter an academic who argues that happiness would be improved by spending more time attending NASCAR races, going bowling, shooting pool, or watching soap operas, despite the popularity of these activities.

6. According to Whybrow, the "blind pursuit of material prosperity" is responsible in part for "rising levels of greed, anxiety and obesity" (2005, 15).

seurs to impress others with their superior sophistication? Surely the person who has a happy and harmonious family life increases the misery of her colleagues who either feel trapped in bad marriages or are going through messy divorces. Hosting more dinner parties for friends and neighbors with the assistance of Martha Stewart's latest book can lead to a competition that affects one's relative position in the community. Reading books that have received critical acclaim and discussing them as a member of a fashionable book club can elevate your position relative to others (Rosman 2005). The activities that result in competition for position include taking ecotours, working in your yard, exhibiting religious devotion in your church, coming up with a clever justification for increasing taxes and increase government spending—the list can be expanded indefinitely. One who takes seriously the relative-position argument has no reason to focus on earning income, which is only one of countless activities that increase some people's well-being only by foisting offsetting dissatisfactions on other people.

Layard recognizes that pursuits other than earning more income might make others feel worse off, but he dismisses this possibility by citing a survey indicating that people are less concerned with the relative leisure time they have than they are with their relative income (2005, 47). Notwithstanding the paucity of this evidence for it, let us assume that the proposition is true. The basic problem nevertheless remains because if, as Layard, Frank, and others desire, other activities replaced making money as matters of paramount importance to us, then surely our relative performance in these other activities would increase in importance as well.

Layard also attempts to distinguish making money from other activities by stating that "income is addictive" in that when we get more income, we soon find that it is not enough, and the amount desired continues to increase. No doubt income is addictive for some, but who doubts that losing weight, becoming a better golfer, excelling as a piano player, acquiring more exotic tropical fish, collecting rare books, publishing academic articles, or getting in shape for a marathon can become addictive in the same sense, as can many other activities? The question is not whether people are difficult to satisfy and always eager to improve their situations and to acquire more of the things they enjoy. Of course they are, and no doubt some carry their desire for more beyond the point that others consider healthy. The important question, however, is not whether others think your activities harm you, but whether your activities harm others. Even if envy of others' higher incomes qualified as a negative externality, any reasonable assessment of main externalities generated when someone becomes wealthier in the marketplace will find them to be overwhelmingly positive.[7]

7. One must be careful in making this statement because someone might seize upon it to justify the government's subsidization of the pursuit of money. I emphasize, therefore, that I am claiming that the inframarginal externalities of making money are overwhelmingly positive; the marginal externalities probably hover around zero.

Accentuating the Positive

Anyone who wants to talk about externalities from earning income through productive activity will find that it is far easier to accentuate the positive than the negative because there is much more of the positive to accentuate. Still, we may be charitable to those who have focused their arguments almost entirely on the negative. Most or perhaps all of us can recall suffering pangs of envy, or worse, over the pay raises some of our colleagues have received or over the sky-high incomes of people we have read about on the financial pages. In contrast, few of us have experienced even the mildest and most temporary increase in happiness from considering the benefits we were receiving from the financial success of someone whose good fortune we could not expect to benefit from directly ourselves. However, we do receive benefits from others' earnings in ways that go almost entirely unnoticed.

The general increase in wealth created by those who pursue material gain can be thought of as a positive externality. The benefits from living in a wealthy country are wide ranging and significant. Wealthier countries experience less infant mortality, less childbirth mortality, fewer heat-related deaths, improved job safety, fewer traffic deaths, longer life expectancy, better health at all ages, better and less painful dental care, reduced poverty as measured by what people consume, increased leisure time, improved educational opportunities, cleaner environments, better and cheaper communication, and more opportunities for women and minority groups, to name but a few general benefits of wealth.[8] These benefits clearly augment our well-being more than our envy of others' financial success diminishes it, even if we accept the claims that wealth causes such problems as hectic lifestyles, threats to communities, the breakup of marriages, and the substitution of impersonal relationships for personal ones. As Nathan Rosenberg and Leon Birdzell have observed, "it is, after all, in the nature of social change to supply society with a new set of problems in exchange for an old set, and people are hardly to be blamed for preferring the problems of wealth to those of poverty" (1986, 5).

If we accept the evidence from survey responses that people become no happier as their incomes increase, then we have to conclude that they become no happier as fewer of their children die, as they live longer and healthier lives, as their environmental quality improves, as their educational opportunities expand, as their jobs become more interesting and less dangerous, and as their leisure time increases. Maybe they are not happier because they have adapted to what, upon reflection, anyone would recognize as a far better state of the world. Can anyone argue, however, that it makes sense to dismiss these improvements as of little importance? Does it make any more sense to impose high taxes on income or consumption to discourage the production of wealth that makes longer lives, better health, and a cleaner environment possible?

8. Most of these improvements and many others that have occurred with increased wealth are documented in Moore and Simon 2000.

The external benefits that any one person receives from another person's becoming wealthy, even fabulously wealthy, are hardly worthy of note, and as a result they are not noted. However, the general wealth that others' productivity generates and the benefits that accompany that wealth are significant for all of us. These benefits, too, receive little notice because they are spread so widely and increase so gradually that our ability to adapt to them and to begin taking them for granted increases at more or less the same pace. There has not been a day or even a month when it was possible to report accurately that the infant mortality rate had declined or that life expectancy had increased or that nationwide air quality had improved or that leisure time had increased that day or that month. However, these kinds of long-term wealth-related improvements in our lives would be impossible without the market discipline that often does occur in dramatic episodes that lend themselves to negative news reports. For example, we often hear reports about the hardships and losses experienced by identifiable people and communities from bankruptcies and layoffs, but we never hear a news report about the small benefits millions receive from the improved allocation of productive resources made possible by such bankruptcies and layoffs.[9]

Also, the connections between others' financial success, the general economic prosperity that results, and the myriad benefits we receive from that prosperity are so indirect that even if we did notice the benefits, few of us could trace them back to their source. Think of the "invisible hand" of *The Wealth of Nations* as a metaphor for the positive externality that the pursuit of money generates. In the lead-up to the sentence containing the term *invisible hand,* Smith refers to the difficulty of recognizing this positive externality when he states that each individual "neither intends to promote the public interest, *nor knows how much he is promoting it*" ([1776] 1981, 456, emphasis added). If, as is surely true, those pursuing wealth do not know how much they are benefiting others, then just as surely the others do not know how much benefit they are receiving. That benefit is difficult to appreciate, and it makes no mark on the happiness people report to pollsters.

The most valuable benefit we realize from others' pursuit of money is the most difficult to appreciate and to connect with its cause: when people are busy making money, they are not busy doing other things. Layard, Frank, and others assume, as we have seen, that this alternative forgone is a cost of pursuing money. In their minds, if people were discouraged by tax increases from spending so much time making money, they would spend more time with their families, serving the community, reading the great books, and engaging in other character- and happiness-building activities. Unfortunately, history is filled with examples of people who used their time in ways not nearly as conducive to others' happiness as making money.

9. The short-sighted tendency to focus on the concentrated costs of increased productivity and to downplay the dispersed benefits is reflected by Lane when he states, "whenever markets disrupt communities they thereby undermine family life. Protecting families would do more to maximize happiness than would increasing productivity" (1993, 64).

In the eighteenth century, a primary advantage that many prominent philosophers, economists, and social observers saw in the commercial activities that were becoming increasingly noticeable was that the pursuit of money deflected people's energies from such socially harmful activities as dominating others and fighting over religious truth. For example, Muller argues that "the great historical fact that served as the moral backdrop for thinking about capitalism was . . . war, civil war, between men with rival views of ultimate salvation, men who were so sure of their view of salvation that they were prepared to shed the blood of their fellow man in order to save his soul" (2002, 15–16).[10] That market-oriented activity succeeded in shifting people's focus to more worldly and peaceful concerns is reflected in Voltaire's observations on

> the Royal-Exchange in London, a place more venerable than many courts of justice, where the representatives of all nations meet for the benefit of mankind. There the Jew, the Mahometan, and the Christian transact together as tho' they all professed the same religion and give the name of Infidel to none but bankrupts. . . . At the breaking up of this pacific and free assembly, some withdraw to the Synagogue, and others to take a glass. This man goes and is baptiz'd in a great tub, in the name of the Father, Son, and the Holy Ghost: That man has his son's foreskin cut off, whilst a set of Hebrew words (quite unintelligible to him) are mumbled over his child. Others retire to their churches, and there wait for the inspiration of heaven with their hats on, and all are satisfied. ([1734] 1999, 30)

The pacifying nature of market exchange was also observed by Montesquieu, who in *The Spirit of Laws* (1748) wrote, "It is the most general rule that wherever the ways of man are gentle there is commerce; and wherever there is commerce, there the ways of man are gentle" (qtd. in Hirschman 1977, 60). In 1769, William Robertson, a Scottish historian, reinforced Montesquieu's view with the statement, "Commerce tends to wear off those prejudices which maintain distinctions and animosity between nations. It softens and polishes the manners of men" (qtd. in Hirschman 1977, 61). Almost two centuries later, John Maynard Keynes also saw the advantages of making money, arguing that "dangerous human proclivities can be canalized into comparatively harmless activities by the existence of the opportunity for money-making and private wealth, which, if they cannot be satisfied in this way, may find their outlet in cruelty, the reckless pursuit of personal power and authority, and other forms of self-aggrandizement. It is better that a man should tyrannize over his bank balance than over his fellow citizens" (1936, 374).

Even if the pursuit of money were responsible only in part for reductions in wars between nations and violent conflicts between citizens within nations, that positive externality alone would far more than offset any negative externality that schol-

10. In a delightful book of his speeches and short articles, economist Ben Rogge emphasizes this point with the observation that "the serving of this idol [the almighty dollar] probably produces less of heroism and glory, but also less of cruelty, fanaticism, and bloodshed than does the serving of such idols as patriotism or the one true church or the New Jerusalem" (1979, 156–57).

ars such as Layard, Frank, Griffith, Lane (1993, 2000), and Whybrow (2005) claim result from that pursuit. Like the other benefits from wealth, the social harmony motivated by the attraction of monetary gain is a benefit easily overlooked and taken for granted. That violent death is far less common today in capitalist countries than it was in the sixteenth century is not something many people currently think about or appreciate, given their pressing concerns over trace amounts of Alar in apples, lead in the atmosphere, or mercury in salmon fillets—not to mention the threat of genetically modified tomatoes and the use of chemical fertilizer to grow their squash. Even when people take time to reflect on the benefits from the reduction in violence, it is far more likely that they credit the United Nations, the diplomacy of politicians, or the power of prayer for those benefits rather than the love of money and the capacity of market exchange to channel that love into productive activities.

Conclusion

Earning more money will not give any one of us lasting happiness. It is in our nature that we adapt to improvements in our lives, whether those improvements arise from more money or other desirable things, so that the additional happiness they bring is temporary. This fact of life, however, is hardly reason for pessimism or for believing that greater and longer-lasting happiness can be achieved by relying more on government and less on ourselves. There is much wisdom in the commonplace that the journey is more important than the destination. Human happiness comes from striving for improvements and from the sense of achievement gained by overcoming the challenges we face along the way, not from docile dependence on others.[11] The happiness gained from struggle and achievement may be temporary, but fortunately our insatiable desire for more of life's good things guarantees that new struggles and achievements are always available for replenishing our happiness. Furthermore, we can take pleasure in knowing that when we struggle to improve our conditions by pursuing money in the marketplace, we are increasing opportunities for others to improve their conditions as well.

Happiness can also be heightened and extended by taking a little time out from our struggles each day to appreciate how much we have achieved already and how blessed we are in comparison with most people who are alive today and almost all who came before us. Consider how much the pursuit of wealth has added to the length, comfort, health, beauty, and meaning of our lives and of the lives of our loved ones. If that contemplation does not increase your happiness, then do not expect that higher taxes and more government spending on mass transit and recycling programs will do so.

11. As John Stewart Mill stated, "Those only are happy who have their minds fixed on some object other than their own happiness; on the happiness of others, on the improvement of mankind, even on some art or pursuit, followed not as a means, but as itself an ideal end. Aiming thus at something else, they find happiness by the way. The enjoyments of life are sufficient to make it a pleasant thing, when they are taken *en passant,* without being made a principal object. Once make them so, and they are immediately felt to be insufficient" ([1873] 1989, 117–18).

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