Happiness-Income Relationship: A Cross-Country Comparison

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ABSTRACT

The link between happiness and income has been widely studied, yet countries show different patterns as they grow. Higher income often improves people's lives, but many findings also show that happiness does not rise at the same pace in richer nations. These varied results are often highlighted in debates like the Easterlin Paradox, which suggests that while happiness rises with income in the short run, it tends to stop increasing significantly, as countries move to higher income levels. This study examines the complex relationship between the income and happiness across 15 countries using data from the World Value Survey (1990-2022) and World Happiness Report (2012-2024). The research covers the time span of a 34-year period (1990-2024). The study applies linear regression models to analyse interlinkages between income and happiness for selected countries. The findings validate the Easterlin Paradox, demonstrating that the income significantly influences happiness in developing economies, while its effect shows diminishing nature in economically developed nations. The study reveals that high-income countries experience happiness saturation, where additional income growth contributes to minimal well-being gains, while middle and lower-income countries continue experiencing positive happiness trends which are tied to economic growth. These findings have significant implications for policymaking which further suggests that development strategies should evolve from income-centric approaches in emerging economies to major well-being frameworks in advanced nations, ensuring institutional quality, social trust, and economic security alongside income growth.

Keywords: Easterlin Paradox, Happiness-Income Relationship, Subjective Well-Being.

INTRODUCTION

The relationship between income and happiness has long engaged economists and social scientists, representing one of the fundamental questions in understanding human well-being. The assumption that increased income necessarily leads to greater happiness has been greatly challenged by empirical evidence suggesting a far more distinct relationship. This investigation centres on the Easterlin Paradox, a concept given by economist Richard Easterlin in 1974, which fundamentally redefined our understanding for the income-happiness relationship. The Easterlin Paradox presents three seemingly contradictory observations about happiness and income. **First, within individual countries** at a given point in time, people with higher incomes consistently report greater life satisfaction and happiness compared to their lower-income counterparts. **Second, when comparing happiness levels across nations,** the relationship proves surprisingly weak—wealthier countries report only marginally higher happiness than poorer nations, with notable exceptions where middle-income countries like Costa Rica outpace wealthy nations like Japan in subjective well-being. **Third, despite decades of economic growth in developed nations,** happiness levels have remained remarkably stagnant. The United States exemplifies this pattern: real GDP per capita has multiplied several times since World War II, yet reported happiness levels have shown negligible improvement.

Understanding these patterns requires examining multiple dimensions of the happiness-income relationship within a contemporary global context. This research transcends simple documentation of these relationships by integrating international survey data from established sources—the World Value Survey and World Happiness Report—to conduct a systematic cross-country comparison encompassing 15 nations across three income classifications. The investigation employs the time-series analysis applying regression modeling to determine whether the material progress of economic development universally enhances well-being or whether once

reaching certain development thresholds, non-economic factors become the primary drivers of happiness. By selecting countries representing different developmental stages and institutional contexts, the research illuminates how cultural values, social structures, governance quality, and economic systems mediate the income-happiness relationship.

The significance of this research extends beyond academic inquiry. Policymakers globally face fundamental choices about resource allocation and development priorities. If income growth directly translates to population well-being, development strategies should concentrate on GDP expansion. However, if the relationship weakens or disappears at higher income levels, more sophisticated policy approaches emphasizing social institutions, inequality reduction, and quality-of-life dimensions become essential.

Rest of the paper is arranged as follows - **Section two** presents the review of literature relevant to the happiness–income relationship. **Section three** outlines the research methodology, including data sources, country selection and specifications of the econometric models applied in the study. **Section four** highlights the key results and discusses the major findings across income groups. **Section five** concludes the study and offers policy suggestions based on the overall analysis.

REVIEW OF LITERATURE

Relevant literature related to the present research work is as follow;

- **Helliwell, Layard, Sachs, De Neve, Aknin, and Wang (2023)** in the World Happiness Report provided comprehensive evidence that countries with strong social welfare systems, trust-based institutions, and lower inequality consistently report higher happiness levels, regardless of GDP. The report highlighted that noneconomic factors such as social support, freedom, and generosity are as significant as income in predicting national well-being.

- **Oishi, Kesebir, and Diener (2018)** explored cultural differences in their paper "Income Inequality and Happiness". They discovered that in societies with higher levels of income inequality, happiness levels tend to be lower, especially among individuals at the lower end of the income distribution. The findings emphasized that fairness, social trust, and equality are central to national well-being, reinforcing that institutional factors can either strengthen or weaken the link between income and happiness.

- **Clark, Frijters, and Shields (2008)** in their work "Relative Income, Happiness, and Utility: An Explanation for the Easterlin Paradox" provided further empirical support for the importance of social comparisons. Analyzing panel data from Europe, they found that individual well-being depends strongly on relative, rather than absolute, income. This study confirmed that people derive happiness not only from what they earn but from how their income ranks relative to others.

- **Diener, Lucas, and Scollon (2006)** examined the "Rising Aspirations Theory", which suggests that as income levels increase, individuals raise their expectations and redefine what they consider sufficient for happiness. Their research highlighted how growing material aspirations can offset the benefits of higher income, leading to a constant pursuit of more wealth without sustained gains in well-being. This study reinforced the concept that beyond a certain point, happiness depends more on psycho-social dimensions than on financial accumulation.

- **Clark and Oswald (1996)**, in their study on "Satisfaction and Comparison Income", empirically validated the role of relative income in shaping happiness. Using British panel data, they found that an individual's job satisfaction and well-being depend not only on their absolute earnings but also on how their income compares with that of peers. The study concluded that relative income differences significantly affect overall life satisfaction, supporting Easterlin's view that happiness is not solely determined by wealth.

- **Easterlin (1974)** in his paper "Does Economic Growth Improve the Human Lot? Some Empirical Evidence" studied the economic aspects of well-being and life satisfaction across developed countries. Using secondary datasets from national statistics and sample surveys between 1970 and 1973, Easterlin found that while individuals with higher incomes within a country tend to report greater happiness, this relationship weakens across nations and over time. His empirical analyses showed that economic growth does not automatically

result in higher happiness once a nation reaches a certain income level. This study marked the foundation of the Easterlin Paradox, highlighting that beyond basic needs, non-economic factors such as relative income and social context play a crucial role in determining well-being.

- **Brickman and Campbell (1971)** introduced the concept of the "hedonic treadmill", explaining that people tend to return to a baseline level of happiness despite changes in their life circumstances. Their research suggested that individuals quickly adapt to improvements in income or living standards, meaning that the happiness effects of financial gains are often short-lived. This process tells why sustained economic growth not lead to long-term in happiness.

All these studies are related to understanding the link between income and subjective well-being, but most of them focus either on single-country evidence or limited regional comparisons. In contrast, the present study conducts a broader cross-country comparison across different income groups to examine how the happiness–income relationship varies with levels of development. This approach addresses the existing gap in the literature by providing a comprehensive multi-country perspective supported by long-term trend analysis.

RESEARCH METHODOLOGY

The present study adopts a quantitative and comparative approach to examine the relationship between happiness and income across countries with varying levels of economic development. The research design integrates crosssectional and time-series data to provide a multi-dimensional understanding of the happiness–income linkage, focusing on both long-term trends and income-based variations in subjective well-being.

Data Sources

The study relies on three major secondary data sources to ensure analytical reliability and cross-national comparability:

- **World Values Survey (WVS)** – The WVS provides data on individuals' subjective happiness levels across multiple waves from 1990 to 2022. The survey includes a standardized question on happiness measured on a four-point scale (1 = not at all happy to 4 = very happy). This dataset enables longitudinal analysis of happiness trends within and across countries.

- **World Happiness Report (WHR)** – The WHR, published annually by the Sustainable Development Solutions Network, ranks countries based on life evaluations measured through the *Cantril Ladder* scale (0–10). Data spanning from 2012 to 2024 is used to validate the consistency of happiness trends observed in the WVS dataset.

- **World Bank Income Classification** – The World Bank's income categorization is employed to classify countries into three income groups: high-income, upper-middle-income, and lower-middle-income. This classification ensures that comparisons are grounded in consistent economic groupings.

Combining these three datasets allows for a comprehensive cross-country analysis that captures both temporal and economic variations in subjective well-being.

Country Selection Process

A four-step process was used to select 15 countries. First, countries were screened using the World Bank income classification. Second, only those with at least 20 years of World Value Survey happiness data were retained. Third, the shortlisted countries were regrouped by income level, and finally, World Happiness Report data consistency (2012–2024) was verified.

Final List of Selected Countries:

- **High-Income:** Australia, Germany, Japan, New Zealand, South Korea

- **Upper-Middle-Income:** Brazil, China, Iraq, Russia, South Africa

- **Lower-Middle-Income:** India, Morocco, Nigeria, Pakistan, Philippines

Time Frame- The study covers the data of 34 years, from 1990–2024, combining long-term WVS happiness data (1990–2022) with recent WHR rankings (2012–2024) to analyze both short-term fluctuations and long-run trends in national well-being.

Model Specification: Income–Happiness Model

The empirical framework of this study is designed to investigate the relationship between happiness and income (across fifteen countries) representing three distinct income groups—high, upper-middle, and lower-middle income economies. To achieve this objective, an **income-based model** is specified to quantify the direct influence of income on happiness levels.

The model explores the direct relationship between income and happiness using per capita income as the independent variable. It is specified as:

$H = \alpha + \beta Y + \mu$

where:

- H = Average national happiness level (from World Values Survey)
- Y = Average income level or GDP per capita (from World Bank data)
- α = Baseline level of happiness when income is zero
- β = Income coefficient measuring the marginal effect of income on happiness
- μ = Error term

In this model, a positive and significant β indicates that higher income contributes to greater happiness, whereas an insignificant or negative coefficient implies that additional income does not translate into higher well-being. The R^2 value measures how strongly income variations explain differences in happiness across countries and income groups.

This model provides empirical grounding for assessing the diminishing marginal utility of income. According to prior research (Kahneman & Deaton, 2010; Clark et al., 2008), happiness initially increases with income but eventually reaches a plateau as non-economic factors such as social relationships, health, and life satisfaction begin to dominate.

RESULTS AND DISCUSSION

The results for Table 1 reveal a clear pattern of **positive income–happiness relationships** across a majority of the countries studied. In the group of **High-Income Countries**, Germany displays a strong and significant positive association ($R^2 = 0.70$), indicating that rising income levels contribute meaningfully to improved happiness supported by a 0.21% rise in happiness for every 1% increase in income. Among **Upper MiddleIncome Countries**, Brazil ($R^2 = 0.79$) and Russia ($R^2 = 0.70$) also show robust positive results, where higher income appears to enhance well-being, strengthen life satisfaction, and improve quality of life. Even though Iraq exhibits a positive but insignificant effect, the overall direction remains upward. In the category of **Lower Middle-Income Countries**, India, Pakistan, and the Philippines all demonstrate significant positive causal relationships, implying that increasing income levels help individuals access better living standards, social security, and more stability, consequently raising happiness. These Emerging and developing economies, seem to benefit from income growth because it directly supports life improvements, stronger social ties, and overall well-being gains.

In contrast, the **negative or weak income–happiness relationships** emerge distinctly when observed together. Australia, being a high-income nation, shows a **negative relationship**, where a 1% increase in income leads to a 0.14% decline in happiness. This counterintuitive pattern is often explained by factors unrelated to money—

such as **loneliness, poor social connections, weakened family bonds, and a lack of meaningful relationships**. These social and psychological concerns reduce the emotional benefit that income might otherwise provide. Similarly, New Zealand, Japan, and South Korea present low R^2 values, suggesting that income alone cannot explain happiness in societies where cultural pressures, work-related stress, and declining community ties limit the emotional returns of financial growth. In the **Lower Middle-Income category**, Morocco depicts a negative but significant relationship, while Nigeria shows a positive yet insignificant connection, indicating that income does not reliably translate into higher happiness due to social challenges, instability, and non-economic stressors. The detailed illustration is shown in figure 1 (a), 1(b) and 1(c). These contrasting results highlight how, in some settings, emotional well-being depends more on relational and societal factors than on financial improvement.

Table 1: Regression Result for cross-country analysis (1990–2022)

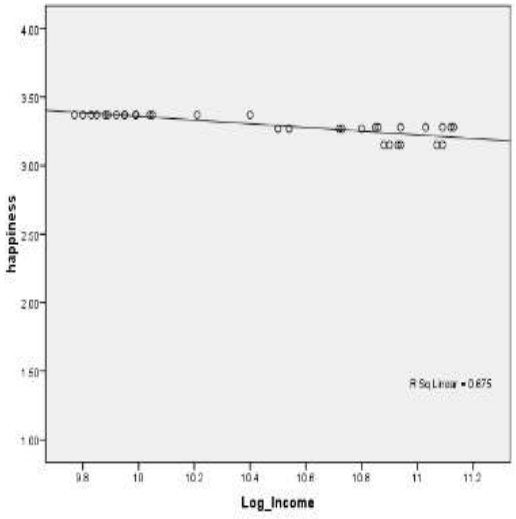
HIGH INCOME COUNTRIES			
Countries	**α (P value)**	**Income (P value)**	**R^2**
Australia	4.706 (0.00)	-0.135 (0.00)	0.675
Germany	0.785 (0.005)	0.214 (0.000)	0.708
Japan	-0.192 (0.834)	0.319 (0.001)	0.306
New Zealand	3.261 (0.00)	0.003 (0.803)	0.002
South Korea	2.182 (0.00)	0.092 (0.003)	0.252
UPPER-MIDDLE INCOME COUNTRIES			
Countries	**α (P value)**	**Income (P value)**	**R^2**
Brazil	1.383 (0.00)	0.200 (0.00)	0.793
China	2.642 (0.00)	0.045 (0.00)	0.336
Iraq	2.466 (0.00)	0.026 (0.184)	0.056
Russia	1.399 (0.00)	0.156 (0.00)	0.706
South Africa	1.692 (0.00)	0.160 (0.003)	0.244
LOWER-MIDDLE INCOME COUNTRIES			
Countries	**α (P value)**	**Income (P value)**	**R^2**
India	2.036 (0.00)	0.155 (0.00)	0.772
Morocco	3.238 (0.00)	-0.034 (0.014)	0.179
Nigeria	3.222 (0.00)	0.014 (0.835)	0.001
Pakistan	-0.294 (0.213)	0.489 (0.00)	0.874
Philippines	2.590 (0.00)	0.101 (0.00)	0.762

Source- Own calculation.

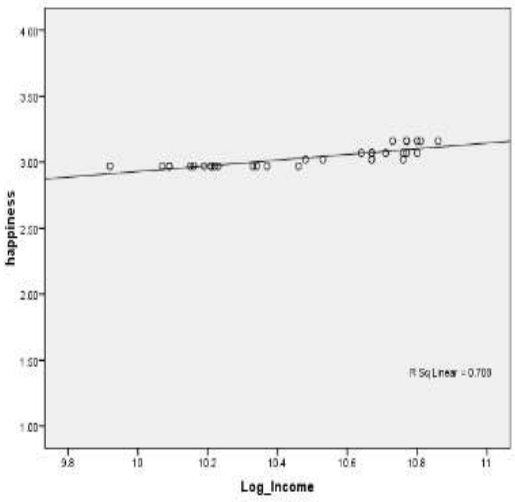
Note: Figures in the bracket show P value.

Figure 1(a) Regression Analysis of Happiness Trends across High-Income Groups Countries (1990–2022)

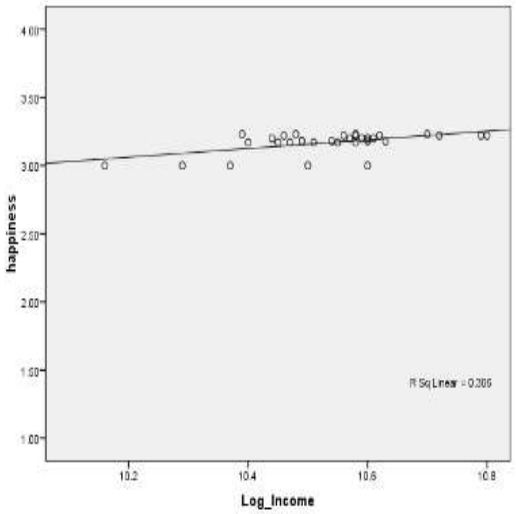
Australia



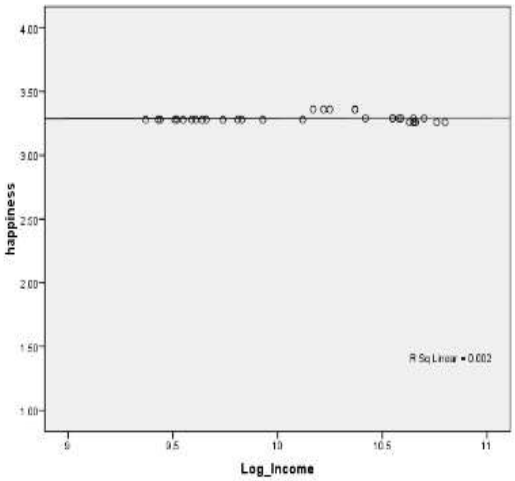
Germany



Japan



New Zealand



South Korea

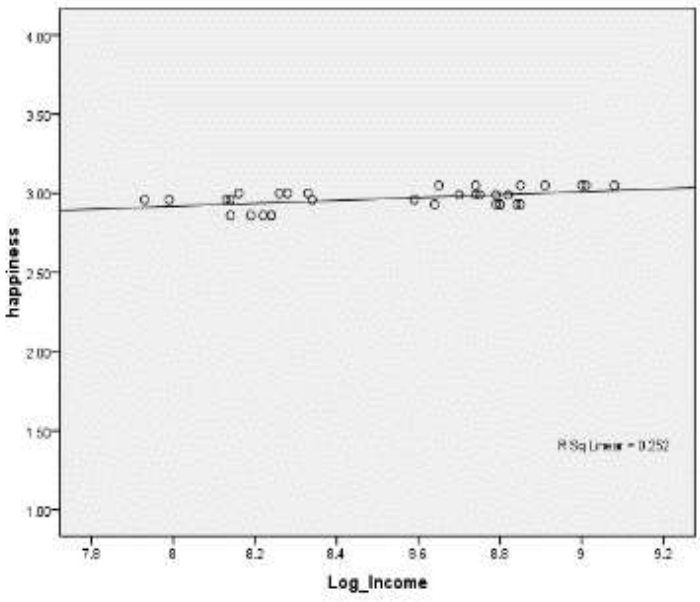
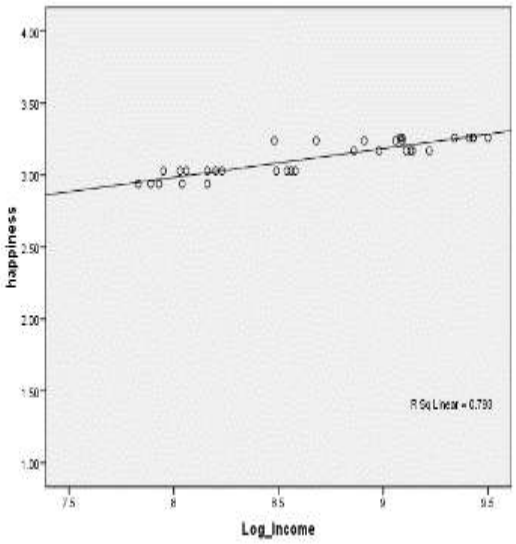
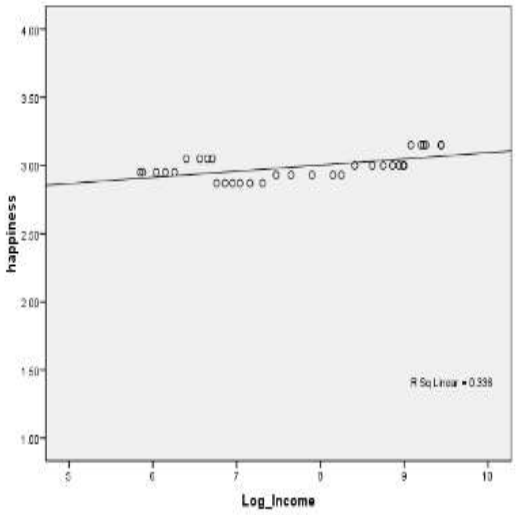


Figure 1(b)
Regression Analysis of Happiness Trends across Upper-Middle Income Groups Countries (1990–2022)

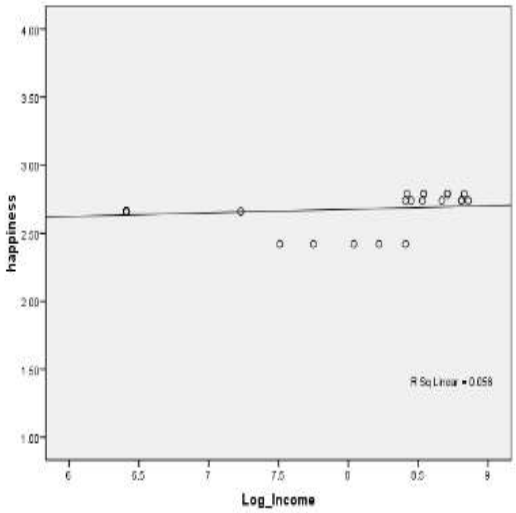
Brazil



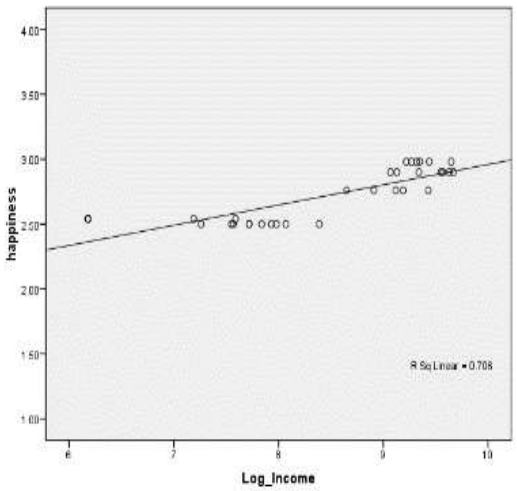
China



Iraq



Russia



South Africa

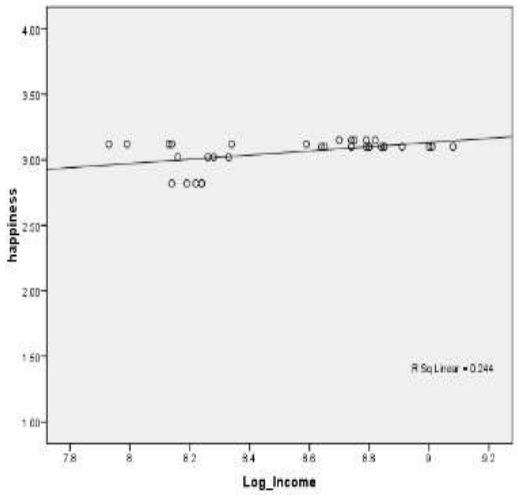
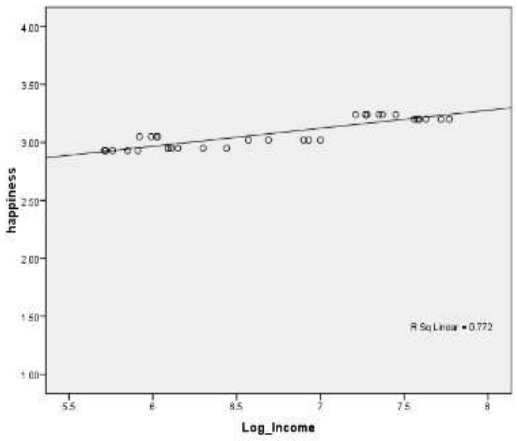


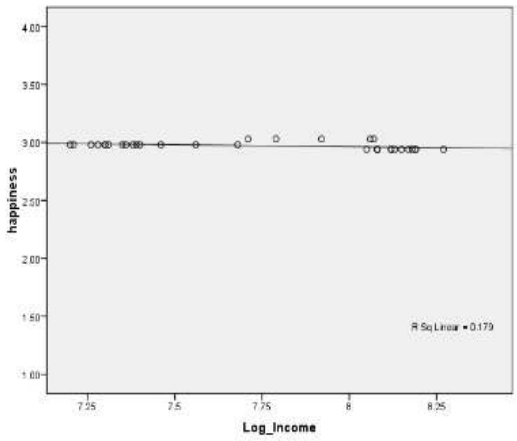
Figure 1(c)

Regression Analysis of Happiness Trends across Lower-Middle Income Groups Countries (1990–2022)

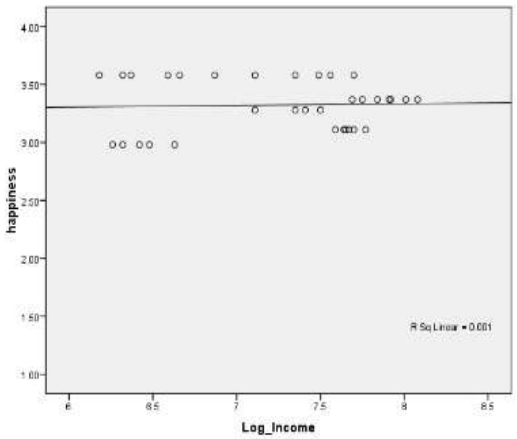
India



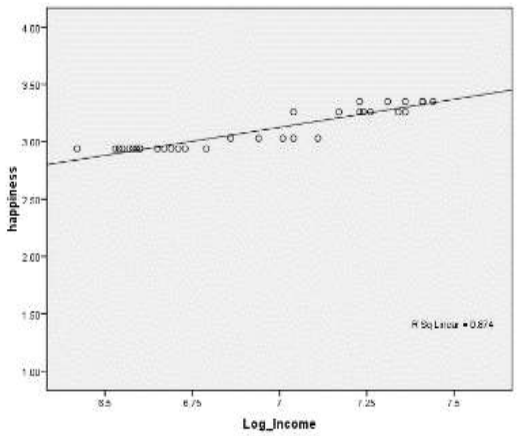
Morocco



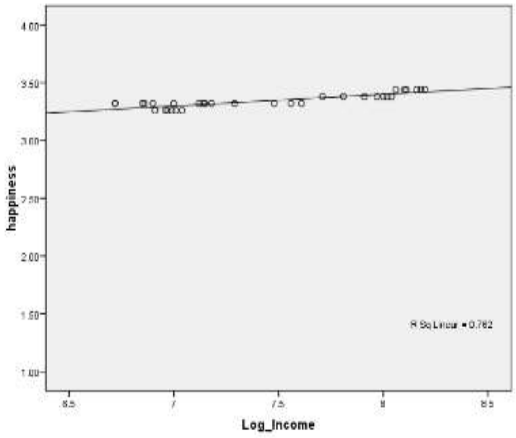
Nigeria



Pakistan



Philippines



Another observation drawn from the computed result is that a country with high R^2 (implied that income level is the main determinant of the happiness level) devise low level of average happiness level (depicted by value of

α). From the lower-middle-income group, India shows a strong and positive link between income and happiness, supported by a high R^2 value. This suggests that as financial stability improves, people experience a clear rise in well-being—reflecting India's ongoing shift from basic economic needs toward greater security and opportunity. Similar patterns appear in Pakistan and the Philippines, where income continues to play a central

role in shaping happiness. In countries like India (R^2= 0.772), Pakistan (0.874) and Philippines (0.762) are still moving toward broader economic security that is why an increase in the income is directly contributing to their improved happiness levels and well-being. Here, the intercept value (α) reported to be very low which signifies that in the absence of Income i.e. the inherited happiness levels of the people in these countries remain low in the relative sense.

In contrast to this, the countries with low R^2 (implied that income level is a very little determinant of the happiness level) devise high level of average happiness level (depicted by value of α). In countries like New Zealand (R^2 = 0.002), Japan (0.306) and South Korea (0.252) who have reached the level of economic sufficiency are reporting their happiness levels to be affected by non-income factors like relationships, work-life balance, mental well-or being personal growth. Such kind of divergence do support the significance of the Easterlin Paradox where countries do get affected by the Income up to a certain point but after that threshold, the non-income factors do play vital roles in determining the happiness levels of an individual. However, some countries showed notable exceptions regarding this observation like Australia showed a negative income–happiness relationship, and Germany showed a strong positive one despite being a high-income nation; both cases differ from the general trend. These divergences remind us that happiness is shaped by many factors—such as inequality, social structures, cultural norms, and non-economic conditions—and income alone does not explain everything. To conclude, the results highlight broad patterns, but they should not be taken as absolute or universally applicable to all contexts or countries.

CONCLUSION

Present research paper analyses the happiness-income relationship across 15 countries from different income groups confirms the fundamental insights of the Easterlin paradox while revealing important nuances about how context shapes this relationship. Cross-country validation of happiness measures shows strong consistency between World Values Survey scores and World Happiness Report rankings, with 14 out of 15 countries exhibiting matching trends between 2010-2024. This methodological convergence strengthens confidence in using both datasets to track subjective well-being across countries and time periods, providing a robust foundation for comparative happiness research. Income-happiness regressions uncover a clear pattern aligned with diminishing marginal returns: countries still pursuing financial stability (India, Pakistan, Philippines) show strong income-happiness, while economically sufficient nations (New Zealand, Japan, South Korea) exhibit weak relationships. This divergence supports the core Easterlin insight that income becomes less predictive of happiness as basic needs are met and non-material factors gain prominence.

The analysis reveals that high baseline happiness often coincides with low-income sensitivity, suggesting that countries reaching economic sufficiency derive happiness more from social relationships, institutional trust, economic security, and work-life balance rather than additional income. This pattern explains why Nordic welfare states consistently rank highly in happiness despite moderate income growth rates, emphasizing the importance of comprehensive social protection systems. Policy implications emerge clearly from these findings, while income growth remains important for developing economies, advanced nations require broader strategies focused on inequality reduction, social trust, economic security, and institutional quality to enhance population well-being. The findings demonstrate that while money does matter for happiness, its role is neither universal nor unlimited, varying significantly across development levels and institutional settings. The evidence suggests that additional gains in happiness depend more on how wealth is distributed and how societies structure work, relationships, and security than on absolute income levels. These findings emphasize that sustainable happiness policy must evolve with development levels, shifting from income-focused strategies in emerging economies to comprehensive well-being approaches in advanced nations that prioritize social cohesion, economic security, environmental quality, and institutional trust alongside continued but more inclusive economic growth.

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