Does Higher Income Contribute To Happiness?
An Exploratory Study

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Introduction

"In my view, the prime purpose of social science should be to discover what helps and what hinders happiness." (Richard Layard)

The quest for individual happiness and a better life for all is an important economic objective in many countries as different as South Africa and France or Zimbabwe and Sweden. All of us want to be happy and lead more fulfilling lives, but not everybody is happy. Formerly, happiness was studied mainly by philosophers and psychologists. In recent years happiness has been a topical subject in Economics too. The Economic Journal states "Economists from different backgrounds …. all believe that happiness must play a more central role in economic science again" (Dixon, 1997: 1812). Psychologists are examining happiness through brain signals, personality traits and environmental factors. Philosophers have probed happiness by looking at maximization of pleasure or enjoyment and minimisation of pain and virtuous qualities in life contributing to a flourishing of the human condition. Sociologists consider the issues of friendship, family, communities and groups on happiness. Economists have focused on

the effects of consumption and income on happiness and also look at the effects of income, economic growth and development on happiness and well-being (Dutt and Radcliff, 2009).

Many individuals seek happiness through acquiring wealth, working for long hours to gain money often at the expense of leisure and good social relations. They believe that happiness lies in material possessions, through the satisfaction of physical and material desires. Income is earned primarily through employment. The more income individuals can earn, the more goods and services they can afford to buy and the more satisfaction they can enjoy. In utilitarian theory, more income is better, as it enables individuals to maximize utility through a greater demand for goods and services. At the national level, the aggregate annual value of final goods and services produced in the country is a reflection of its GDP and serves as a basis to measure economic growth.

More goods produced entails more demand for labour, more employment and more income generation to buy the goods and services produced. As economic growth increases real per capita income, people can afford to buy more goods and services. This in turn may result in enhanced well-being and subjective happiness. Economic reasoning would suggest a positive relationship between income and happiness. Empirical studies suggest that higher income resulting from high rates of economic growth contribute to poverty alleviation and greater life satisfaction in low income countries. Higher income raises the happiness of the poor at a point in time and place. In developed countries, higher income does not seem to 'buy' higher happiness over time, once a threshold level of income is reached (Easterlin, 2001, Frey and Stutzer, 2002, Layard, 2006). Does income contribute to happiness in a developing country? If increases in income and consumption do not make people significantly happier, at least beyond a certain level, what economic choices and environmental conditions do? Thus, this exploratory study examines the influence of income and non-income factors on happiness.

Literature Review on Happiness

Classical economists argue that more wealth is just a means of being happy (Smith, 1759: 166), and 'to increase the wealth of a state tend also, generally speaking, to increase happiness' (Malthus, 1798: 303). Recent studies show that happiness increases with income and entire nations can be happier with an expansion in economic growth (Veenhoven and Hagerty, 2006: 21). The traditional view of the economist is that 'more is better.' So as GDP per capita increases, consumption rises, and so does aggregate well-being.

Happiness is not defined in a uniform way in the literature. Happiness in economics takes reported subjective well-being as a proxy for utility (Frey and Stutzer, 2005: 116). Ng (2006) defines happiness as 'welfare'; for Oswald (1997), happiness means hedonic 'pleasure' or 'satisfaction.' Layard (2005) regards happiness as synonymous with subjective well-being (SWB). Individuals are said to have high SWB if they experience high life satisfaction and frequent pleasant emotions such as joy and affection and only infrequently experience unpleasant emotions. In Lane's view (2000: 15), happiness is subjective well-being, but it includes pleasure, enjoyment and peace of mind Easterlin (2001: 465) views happiness in a broader way: "I use the terms happiness, subjective well-being, satisfaction, utility, welfare interchangeably."

Traditional economic theory takes an objective view of utility and assumes that consumers rationally spend their income in order to maximize their utility. Jeremy Bentham and John Stuart Mill associate utility with happiness. Bentham (1789: 368) argued that 'utility is … that property of any object whereby it tends to produce benefit, advantage, pleasure, good or happiness, all this in the present case comes to the same thing." Indeed, according to the Utilitarian and Benthamian philosophy, the individual's conduct as well as government policies should be directed toward promoting the greatest happiness for the greatest number of people and minimizing pain, enabling a rightward shift in the social welfare function.

Furthermore, people with higher incomes have a higher status in society, intrinsically making them happy and enabling them to enjoy positional goods. These are exquisite and expensive goods that are scarce in some absolute or socially imposed sense and are subject to crowding through extensive use. In this sense, "income does buy happiness" (Frey and Stutzer, 2002: 40). High income earners can augment their own happiness and that of poorer people too through their altruistic actions and donations of money to charitable organizations (Black et al., 1999: 61). The marginal significance of a Rand gained in utility to the poor is more than a Rand lost in utility to the rich. In his 'Theory of Moral Sentiments', Smith (1759: 232) postulated that leaders should "secure the internal tranquility and happiness" of their fellow-citizens.

The behavioural school, in particular Daniel Kahneman, the Nobel Prize winner for Economics in 2002, treats happiness as a subjective issue that is measurable through surveys. This is possible by asking respondents, for example, how happy they are on a scale (0 to 10, at a given moment and over time (Layard, 2005). Frey and Stutzer (2002: 405) argue that in evaluating happiness in relation to income, it is sensible in Economics to rely on the judgments of people as they are reckoned to be the best judges of the overall quality of their own lives. Stutzer (2001:37) asserts that the measures of subjective well-being have a "high consistency, reliability and validity", as well as a high stability over time (Konow and Earley, 1999).

Life Satisfaction, Income and Happiness Paradox

Despite the above, there may be differences in the way people report their true feelings of life satisfaction. People may have a lower tendency to report themselves happy when inequality is high. Inequality has negative effects on reported happiness (Graham and Felton, 2006: 107). Inequality increases the social distance between different groups of people. Societies with greater income inequalities tend to have lower levels of trust among individuals and tend to be less happy.

Contrastingly, societies high in trust tend to be happier (Heliwell, 2005; Wilkinson and Pickett, 2010). In South Africa, poverty, income inequality and HIV/AIDS are apparently on the rise or at high levels, all of which can detract from happiness. Higher income raises the happiness of the poor in areas where people live below the bread line. In developed and richer countries, higher income does not seem to 'buy' higher happiness, once a threshold level of income is reached. But several studies show that, on average, individuals in wealthier countries are happier than those in poorer countries, and there is a significant relationship between happiness and income at a particular point in time and in a given country (Frey and Stutzer, 2002: 10). However, some studies, involving long-term time series, suggest that, on average, people in America, Japan and Europe have gained sharp increases in real income and wealth over the past three decades, but they are currently no happier than in earlier times (Oswald, 1997). In the case of United States, as figure 1 shows, there has been no significant increase in happiness over the period 1945-2000, although real income per head increased considerably during that period.

While happiness is positively associated with income at a point in time, in developed countries higher income does not seem to translate into significantly higher happiness over time. Happiness levels fail to rise further as rich countries get still richer. Research indicates that among industrialized countries with incomes over $20,000 per head, there is no relation between average income and average happiness (Layard, 2007: 156). This may seem like a paradox. Easterlin (2001) argues that absolute income matters to individual happiness up to a point, but once basic needs are met, relative income matters more for happiness. People compare their incomes and style of living with those of others in the income distribution. Raising everyone's income does not raise everyone's happiness because, in comparison to others, income has not improved (Easterlin, 2001: 481). However, if others become richer, this reduces our satisfaction with whatever we have (Layard, 2005).

This result is curious because, at any given time, richer people claim to be happier than poorer people do. However, measuring households' well-being by the amount of money they have is a questionable issue. Individuals seeking more income to increase their happiness are unlikely to be satisfied as they keep aspiring to get more and more. As they earn higher income, their aspirations change. They feel unsatisfied with what they have and they may wish to possess more material goods and indulge in conspicuous consumption, probably beyond their means by contracting debt. As people buy more on credit, and consume more, they do not save enough and their level of debt increases. High levels of outstanding debt, other than home mortgaged debt, can reduce their happiness (Dutt, 2009). This debt would be an added burden in their lives, if credit is taken simply for consumptive motives. It is partly against this background that the National Credit Act was introduced in South Africa in June 2007 as a may of protecting consumers from attaining high debt that they could not afford. However, debt may not necessarily be an impediment to happiness if it is directed to investment with a potential for generating higher income. Increased debt usage in this instance can actually enhance happiness when the investment payoffs lead to increased financial security.

People do not save enough for precautionary purposes as they are often induced to spend through consumerism advertising, the media and habits of celebrities. These make individuals want to consume what other rich people do and seek that status or the appearance of that status. The lack of satisfaction with what individuals currently have and the need to emulate others and get more to "keep up with the Joneses" leads to what Oliver James (2007) describes as the 'affluenza' virus. This entails placing a high value on acquiring money and possessions, looking good in the eyes of others and wanting status.

Frank (1999) calls this the 'luxury fever' that can impose a negative externality from consumption on society. This arises as the super-rich person's consumption of luxury or expensive goods cascades to individuals down the income scale, creating a desire for such items. They struggle to compete and keep up. As individuals pursue incentives to increase conspicuous consumption and increase their relative status, they get caught in a spiral of ever increasing wasteful consumption with few or diminished gains in happiness. Those who fail to reach or cling to the status ladder consider the successful persons with bitterness and themselves with shame. So it is possible that these consumption patterns and values make individuals vulnerable to depression, anxiety, substance abuse and personality disorders, all of which detract from happiness (Wilkinson and Pickett, 2010). Further, more income can lead to more comfort but also less stimulation, possibly contributing to a "joyless society" (Scitovsky, 1976).

Non-income Influences on Happiness

Individuals earn an income primarily from supplying their labour services and talents to the market. People with more education tend to earn more; they tend to be happier than those with less education. Research indicates that people with more capabilities and freedom, tend to earn more income and, are happier than those with fewer capabilities (Sen, 2010); individuals in democratic societies are happier than those who live under repressive regimes and living in an environment of economic and social security has a powerful impact on an individual's well-being (Inglehart, 2009). Quality of relationships one has at work, in the community and in the family environment has a bearing on individual happiness. People derive a degree of their satisfaction and happiness from how they feel at work and from what work they do. Individuals with better family ties, with children and friendships and a good working environment are happier than others where these qualities are lacking. Thus, social capital impacts on the well-being of individuals.

Social connectiveness keeps individuals less isolated, better supported, more bonded and thus happier (Putman, 2000; Lane, 2001). Further, people who have good health, who are more extroverted, more agreeable and less neurotic and have good social and romantic relations are happier than others. The happiest group tends to experience generally positive feelings (Diener and Seligman, 2002). Intrinsic religious commitment tends to have a positive effect on life satisfaction as it often promotes virtuosity, spirituality and the values of caring concern for others and mankind (Hamilton, 2004). Further, married people tend to be happier than single, divorced and widowed persons (Oswald, 1997; Layard, 2006). Further, people are happier when they enjoy high quality government with democratic freedoms and have religious faith (Layard, 2005).

Economic Growth and Income Growth in South Africa

Income and its increase matter a great deal to happiness when people live in poverty. In the past 16 years since democracy dawned on South Africa, the country has consistently registered positive economic growth rates, as high as an average rate of 5% in the period 2005-2008 (SARB, March 2010). Economic growth improves human welfare and happiness. In his book 'The Moral Consequences of Economic Growth', Benjamin Friedman (2006) argues that economic growth is a vital precondition for social progress and happiness. People whose incomes are growing rapidly find it much easier to be generous toward others than those whose incomes are static or declining in real terms.

Recently, new initiatives such as the Accelerated and Shared Growth Initiative for South Africa (ASGISA) and broad-based BEE schemes have been put into place to further fast-track the growth and poverty alleviation process. With all these empowerment strategies, considerable employment opportunities for disadvantaged individuals have emerged, and these together with the benefits of economic growth have definitely resulted in significant income gains for the average working citizen.

Real GDP per capita has increased from R28536 in 1994 to R35905 in 2009 (SARB, March 2010). But does higher income contribute to greater happiness?

Sample Particulars

This study explores the relationship between the level of income and happiness, in the form of a survey in the greater Durban region of South Africa. A questionnaire was used to gather data on the respondents' self-reported level of happiness on a Likert scale 1 to 5 and their socio-economic attributes. The data was analysed by using SPSS. The sample size is rather limited (n=220), but it is proportionally drawn according the population dynamics of the region.

The sample consisted of 151 black, 45 indian, 18 white and 6 coloured individuals. There were 114 female and 106 male respondents. Of the sample, 151 were single, 61 married, 6 divorced and 2 widowed. With regard to age, 120 were in the 18-30 group, 74 in the 31- 45 group, 21 in the 46-60 group and 5 were retired. The aim of the study is to capture the quantitative and qualitative sources of happiness, then consider whether non-income factors are more important in contributing to happiness than income and examine whether happiness varies with gender.

Methodology and Results

The methodology initially used is the GLM regression analysis, in which the level of (self-reported) happiness (H) is the dependent factor, income is (Y), b is partial regression coefficient of the independent factor, and e is the error term, expressed in the equation below.

$$H = a + bY + e$$

Thereafter, a factor analysis and a principal component analysis with a Varimax rotation is undertaken. The usual t-test is used to examine differences in happiness between the male and female group. The results are presented in two stages. Initially the descriptive findings are presented and then follow the regression results. Finally, there is a discussion of the findings of the factor analyses.

Descriptive Results

The study found that the majority of the people surveyed were happy. Only 4.1% reported being ‘not happy at all’; 8.2% reported being ‘not being very happy’, 36.3% reported being ‘fairly happy’ and 33.2% reported being ‘very happy’ and another 18.2% reported being “extremely happy.”

The gross monthly income of the respondents ranged from R1000 to R18000 and over. In the low income group R1000- 2000, there were 31.4% of the respondents, 26.8% in the R2001-R4000 group; 19.1% in the R4001-R8000 group and 31.4% in R14001 – R18000 and over group.

With regard to the education of the respondents, 8.6% had an education level between grade 4 and 11, 57% had matric, 30.5% had a university degree or tertiary education and about 4% had a postgraduate education.

The effect of gender on happiness was examined by comparing the mean happiness levels of women (n=114) and men (n=106) in the sample. Women reported a mean of happiness level (3.61) that is marginally higher than that of the men (3.44). However, the difference was not found to be significant (F = 0.475, p = 0.492).

Married people are reportedly happiest, with a mean happiness score of 3.61. Single people had a mean happiness score of 3.51, divorced people had a mean happiness of 3.50 and widowed people had an average happiness score of 3.

With regard to debt usage, 27% of the respondents reported that they did not use any credit. Of those who contracted debt, female respondents used more credit cards only (14.9%) than male (8.5%), had more car loans only (1.8%) than male (0.9%) and had more in-store accounts only (31.6%) than male (22.6%). The Chi-square test indicated that there was a significant association between gender (being female) and types of debt ($X^{2\,=}$ 18.56; p= 0.046).

Regression Results

The regression results show that income is a significant predictor of happiness (R-Square = 0.57; p= 0.013, F= 3.234). Although income is found to be a significant predictor of happiness, the explanatory power is rather weak. But the finding is similar to other studies on happiness in the literature. According to set point theory, people have a natural level of happiness and the genes coding that set point will always serve to keep a person at that level of happiness. Happiness is believed to be in one's DNA. About 50% of the variance in subjective well-being is apparently genetically determined, and the remainder may be accounted for by intentional activities, i.e what the people do for good or ill, and by circumstances (Sheldon and Lyubomirsky, 2009).

Factor Analysis

To capture the influence and significance of other non-income factors on happiness, a factor analysis using the Principal Components approach with Varimax Kaiser normalization is undertaken. A set of seven factors with eigenvalues greater than 1, emerged as key clusters influencing happiness. The first cluster, consisting of two factors, explained 14.4% of the variation in happiness (Table 1). The two factors influencing happiness are marital status and number of children (Table 2), with a weight of 0.828 and 0.822 respectively.

Table 1: Total Variance Explained

Table 1: Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	2.022	14.444	14.444	2.022	14.444	14.444	1.771	12.653	12.653
2	1.805	12.891	27.335	1.805	12.891	27.335	1.701	12.151	24.804
3	1.437	10.262	37.597	1.437	10.262	37.597	1.401	10.006	34.809
4	1.338	9.558	47.155	1.338	9.558	47.155	1.377	9.835	44.645
5	1.232	8.802	55.957	1.232	8.802	55.957	1.244	8.884	53.529
6	1.054	7.528	63.485	1.054	7.528	63.485	1.236	8.827	62.356
7	1.014	7.246	70.731	1.014	7.246	70.731	1.172	8.374	70.731
8	.789	5.634	76.365						
9	.739	5.282	81.646						
10	.673	4.807	86.454						
11	.587	4.191	90.644						
12	.507	3.624	94.268						
13	.421	3.005	97.273						
14	.382	2.727	100.000						

Extraction Method: Principal Component Analysis.

The second set has three factors (health, working environment, and religion with weightings 0.809, 0.731, 0.570 respectively); it explained 12.8% of the variation in happiness (Table 1 and Table 2). Of these factors, health and the work environment have a greater influence on happiness than religion. People who are healthier and have a good work environment are less prone to sickness and appear to be happier than others. People who are religious perhaps suffer from fewer health risks and this integrates with their work environment and thus contributes to their happiness.

Table 2: Rotated Component Matrix(a)

	Component						
	1	2	3	4	5	6	7
Marital status	.828	-.053	-.026	.051	-.067	-.152	-.033
Number of children	.822	.010	.041	-.043	.079	.182	.048
Health	-.245	.809	.079	.057	-.045	-.029	.089
Job/Working environment	.106	.731	-.096	.083	-.073	.191	-.218
Religion	.205	.570	-.041	.298	.114	-.227	.394
Income received	.351	-.052	.782	-.089	-.106	-.027	-.078
Level of education	-.369	.027	.764	-.076	.090	.018	-.067
Debt level	.027	-.001	-.043	.792	.075	.060	-.151
Friendships	-.035	.304	-.092	.655	-.168	-.012	.056
Debt feel	.002	.057	-.064	-.188	.866	-.060	-.168
Age	-.003	-.276	.081	.325	.631	.125	.319
Types debt	.136	-.022	.220	.172	-.058	.788	.062
Ethnic group	-.133	.092	-.325	-.125	.078	.667	-.120
Gender	-.009	-.008	-.102	-.131	-.048	-.015	.880

Extraction Method: Principal Component Analysis.
Rotation Method: Varimax with Kaiser Normalization.
a Rotation converged in 8 iterations.

The third group, consisting of two factors (income and education, with weightings of 0.782 and 0.764 respectively) explained 10.2% of the variation in happiness (Table 1 and Table 2). More educated people tend to be more productive and earn a higher income, and hence tend to be happier relative to their counterparts with low education or income. Income differences influence happiness; individuals with lower income levels have a significant difference in current level of happiness relative to those in the higher income group.

The influence of debt and friendship on subjective well-being was also examined. These two factors belong to the fourth cluster and explain nearly 10% of the variation in happiness. One's friendly relationship with others is seemingly associated with the level of debt. Perhaps this has a demonstration effect, in that people who have more friends perhaps contract more debt or rely on friends for loans. People often contract debt to impress others, to enhance consumption and to have access to durables and thus tend to be happier.

Younger people tend to be less conservative and are more likely to contract debt; this may influence their happiness level. Age and how people feel about debt explain almost 9% of the variation in happiness. Different ethnic groups tend to gravitate towards certain types of debt. Hence, types of debt and the ethnic groups, jointly explaining just over 7% of the variation in happiness (Table 1 and 2).

The last factor is gender, with a weighting of 0.880, accounting for about 7% of the variation in happiness. Jointly, all the above factors explained about 70% of the variation in happiness. Overall, married people with education and children are found to be happier than others, but there is no significant difference in happiness between male and female.

Recommendations and Conclusions

A tentative conclusion can be drawn; there is not a sole determinant that exclusively explains wholesome subjective well-being. Income has a relatively small influence on happiness. Higher income may enable an individual to buy material goods and influence his happiness; but material possessions do not contribute to lasting happiness. While improvements in income can make people happier for a while, the effect fades rapidly as aspirations change over time. Therefore, money cannot buy happiness. The individual does not seem to be satisfied with what he has; he is on hedonistic treadmill. He is concerned with more material needs, which increase with higher income. Due to insatiable wants or greed, the acquisition of money becomes an obsessive life-goal. He spends too much time at work, fails in relationships, has little leisure and no family time. But non-income factors, such as having children in the household, the warmth in the working environment, a good level of education and having good social and marital relationships with religiosity, good health and certain types of debt can make a person happy. On average, marriage brings greater happiness whereas marital dissolution reduces happiness. The quality of life and relationships are critical for happiness and wellness, rather than just income. One cannot be happy in isolation!

From the above, it is clear that different conditions and outcomes make different people happy. At the individual level, people can enhance their happiness and life satisfaction if they can try to devote more time and energy to building family, friends and social networks that promote well-being. As Lane (2001) puts it, it is friendship and other social connections to other human beings that are important contributors to a rewarding and happy life.

Time is a critical finite resource that can be spent on production (work) and consumption (leisure). More time spent at work implies less leisure. It is understood that at times people may have to work long hours purely for financial reasons. Also, social pressures to work more and engage in status consumption that provides temporary satisfaction, often with debt creation, may be too strong to overcome individually. While more money can be earned through spending more time at work, this could be at the detriment of social and family relationships. Therefore, there needs to be a balance in allocating one's time between work and leisure, so that 'quality' time is spent on looking after one's health and building up social relationships that result in higher levels of happiness and a better quality of life. Any action will contribute to our happiness as long as it is performed in a spirit of loving devotion (Schoch, 2007: 89). Wilkinson and Pickett (2010: 274) put it succinctly as most "people know how much we sacrifice to consumerism and know that there are few things nicer than relaxing with friends and equals", and add that "it is family, friends and community that matter to happiness."

As income is gained mainly from work, the job or working environment has an impact on happiness, employers can have a role in influencing happiness and hence productivity of employees. If employees are satisfied with their job and work in a positive environment, they become happier. Stress at work can transcend into the family environment. It is in the employers' interests to ensure a good working environment, as happier workers are more productive and they absent themselves less frequently from work. This can contribute to greater profits for the firm they work for. And employers may obtain better productivity by improving the work environment rather than just improving pay.

Good health and education is found to be associated with happiness. It is therefore suggested that policymakers should implement measures that allow for adequate access to health care and education for all citizens, enabling them to enjoy a better quality of life and higher levels of happiness. Expansion of capability and empowerment through education is invariably welfare enhancing and augments human happiness (Sen, 2010: 286). Increased access to education will also help to reduce South Africa's high levels of inequality through narrowing the divergence of wealth and opportunities in the country. Societies with more trust and less inequalities have fewer crimes and thus are happier (Wilkinson and Pickett, 2010).

Debt may not necessarily be a limitation on happiness if it is entrepreneurially used to finance income generation activities and meet basic needs for shelter. Loans for activities that pay for themselves can raise the wealth and financial security of individuals. Hence debt instruments that finance income generating investments rather than consumption are to be supported as these can lead to their holders attaining a higher level of happiness, and possibly reduce stress in their lives.

At the national level, high economic growth levels are necessary for enhanced employment creation, income generation and national prosperity. Some commentators have even mentioned that instead of GDP, countries should pursue GNH (gross national happiness) as a goal. It is, therefore, important for policy makers to ensure that sustainable economic growth, compatible with labour absorption and employment creation, takes place. Studies in different countries clearly show that unhappiness stems from unemployment (Oswald, 1997; Stutzer, 2001). Growth with employment can help alleviate poverty, as people can earn higher incomes, allowing them to attain more goods and services, and lead a better and happier life. On the other hand, a growing economy can also enable the government to reduce sources of unhappiness and improve the quality of living, possibly with higher quality of health cares, lower mortality rates and better safety and security. Although GDP and wealth do not buy happiness, they do contribute indirectly to human prosperity and happiness.

Some people seek happiness through worldly objects and material possessions. The quest for more never ends. To expect to receive permanent happiness from impermanent worldly objects is quite illogical. Accordingly, some people seek spiritual happiness rather than material happiness. This may be a matter of individual taste. But good tastes are those that increase happiness, and vice versa (Layard, 2006: C30). Happiness thus involves more than just economic growth and income.

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