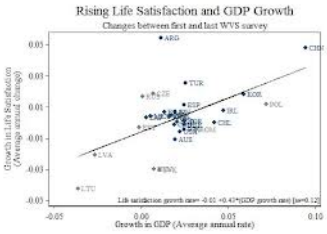
Published on *Adam Smith Institute* (http://www.adamsmith.org)

Adam Smith and the solution to the Easterlin Paradox [1]

Written by **Tim Worstall** [2] | Sunday 12 January 2014



We have yet another attempt [3] to solve the Easterlin Paradox. This one telling us that actually, it's not just that everyone getting richer doesn't make us all more happy, it's that everyone getting richer makes us all more unhappy. It's really not something that I find all that persuasive.

Those with long memories will recall that I have touched upon this subject before. And I've claimed that the mistake that is being made here is that people are looking at levels of incomes. Whereas, given what we know of human psychology (things like loss aversion and so on) what we actually ought to be looking at is changes in incomes. Rising incomes make people happier: falling incomes make them less happy. The link to levels of wealth is simply that the currently rich countries have had rising incomes for a couple of centuries or so. What's slightly confused me as I make this point is that I can't find anyone else making it and I didn't understand why.

Until, of course, I opened the good book for a bit of a reread [4]:

> It deserves to be remarked, perhaps, that it is in the progressive state, while the society is advancing to the further acquisition, rather than when it has acquired its full complement of riches, that the condition of the labouring poor, of the great body of the people, seems to be the happiest and the most comfortable. It is hard in the stationary, and miserable in the declining state. The progressive state is in reality the cheerful and the hearty state to all the different orders of the society. The stationary is dull; the declining melancholy.

Adam Smith got there a couple of centuries before either I or Easterlin. It is the changes in incomes that produce the happiness, not the levels.

Ah well, worth being reminded in 2014, as I have been in previous years, that I am capable of coming up with good ideas just as I am of coming up with original ones. We're still on the hunt for that one that is both of them at the same time of course.

blog comments powered by Disqus [6]

Source URL: http://www.adamsmith.org/blog/economics/adam-smith-and-the-solution-to-the-easterlin-paradox

Links:
[1] http://www.adamsmith.org/blog/economics/adam-smith-and-the-solution-to-the-easterlin-paradox
[2] http://www.adamsmith.org/taxonomy/term/5778
[3] http://www.voxeu.org/article/gdp-and-life-satisfaction-new-evidence

[4] http://www.econlib.org/library/Smith/smWN3.html
[5] http://disqus.com/?ref_noscript
[6] http://disqus.com