The New York Times

Why Prosperity Has Increased but Happiness Has Not

Our well-being is local and relative — if you live in a struggling area and your status is slipping, even if you are relatively comfortable, you are probably at least a bit miserable.

By Jonathan Rauch
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Aug. 21, 2018

In 1990, Prime Minister Margaret Thatcher of Britain was challenged by a Labour member of Parliament on the subject of growing inequality. "All levels of income are better off than they were in 1979," she retorted. "The honorable member is saying that he would rather that the poor were poorer, provided the rich were less rich. … What a policy!"

That slap-down was an iconic formulation of a premise of the Thatcher-Reagan conservative revolution: Poverty is a social problem, but inequality, as such, is not. Governments should aim to increase the incomes and opportunities of all, especially the poor, but to worry about the gap between the rich and the rest is "the politics of envy."

Morally speaking, Mrs. Thatcher and Ronald Reagan should have been right. As long as I am better off, why should I begrudge your doing better still? Yet something was amiss with this consensus — something that goes far to explain why Reagan-Thatcher conservatism has caved in under pressure from the populisms of President Trump on the right and Senator Bernie Sanders of Vermont on the left.

In America (and also in other countries), an impressive postwar rise in material well-being has had zero effect on personal well-being. The divergence between economic growth and subjective satisfaction began decades ago. Real per capita income has more than tripled since the late 1950s, but the percentage of people saying they are very happy has, if anything, slightly declined.

Why? Researching happiness and age, I did a deep dive into the relatively new discipline of happiness economics and emerged impressed by two findings. One is that all happiness is local. According to World Bank data, the share of the world's population living on less than $1.90 a day (inflation adjusted) declined to under 10 percent in 2015 from 44 percent in 1980, an astounding achievement.

But ordinary people's well-being depends mainly on their immediate surroundings. If you are an autoworker who loses your job in Massena, N.Y., when G.M. closes its local plant (moving some jobs to Mexico) and who spends years out of work and who watches as schools shut down and shops go dark and young people flee — for you, the fact that America's big coastal cities are doing great, or that more than half a billion Chinese have been lifted out of extreme poverty, merely rubs salt in your wounds.

Second, all happiness is relative. Although moral philosophers may wish Homo sapiens were wired more rationally, we humans are walking, talking status meters, constantly judging our worth and social standing by comparing ourselves with others today and with our own prior selves.

According to the Brookings Institution economist Carol Graham, poor whites are far more unhappy and pessimistic than poor blacks, even though, in absolute terms, they are better off. That would not make sense if absolute standing determined subjective well-being. It does make sense, however, when we look at relative standing. Less-educated whites (especially men) have seen their relative standing decline sharply, both compared with their parents and with rising nonwhites. Blacks, by contrast, have seen themselves doing better than expected and closing the economic and social gap.

Absolute standing is not irrelevant, and people will tolerate and sometimes even embrace inequality if they believe the system is fair and lets them get ahead. Still, the witticism (frequently attributed to Gore Vidal) that "it is not enough for me to succeed; others must fail" is uncomfortably accurate. In a striking experiment, certain households in Kenyan villages were randomly chosen to receive large financial windfalls. The lucky beneficiaries were pleased, of course, but their increased happiness was much more than offset by the increased unhappiness of other households, which lost nothing in absolute terms but suddenly saw themselves falling behind. Pondering the accumulated evidence, the British happiness economist Richard Layard concluded, "These studies provide clear evidence that a rise in other people's income hurts your happiness."

Inequality, in short, is immiserating. One could cite more evidence in the same vein. Places in the United States with more inequality have higher stress and worry, more political polarization and lower social connectedness, even among the wealthy. Moreover, what counts for subjective well-being is not just reality but also perception. If social media and reality TV disproportionately depict millionaires and amazing homes, or if talk-radio pundits insist that government takes from hard-working whites to subsidize lazy minorities, resentment grows, never mind what the statistics may say.

In a poor country with low inequality, rising national income should make people happier, and of course reducing poverty is a good in and of itself. But in a wealthy, unequal country like today's America, gains in national income can decouple from well-being.

"Each person would become happier because he was richer, but less happy because other people were richer," Mr. Layard writes. "The two effects would cancel each other out, because relative income would be unchanged."

Moreover, if inequality is growing (as is the case in the United States), economic growth pushes the rungs of the socioeconomic ladder farther apart even as it lifts the ladder. Because people tend to compare upward when gauging status, they perceive themselves to be losing ground.

In light of what happiness economists have had to say, the interesting question is not why the Reagan-Thatcher consensus finally failed but why it prevailed for two generations. Partly, I think, because its call to transcend envy is morally appealing, and partly because, in the 1980s and 1990s, pro-growth policies and free-market economics seemed to have turned around a troubled economy. But partly also because there was no viable alternative. Mainstream liberalism worried about inequality but offered only policies that much of the public viewed as discredited or unfair.

Now the Reagan-Thatcherist alternative has crumbled, too. In 2008, the economic meltdown made the system look rigged and ignited a populist backlash. In 2016, the backlash coalesced behind the populisms of Mr. Trump and Mr. Sanders, each of whom had a compelling story to tell those suffering from real or perceived loss of status: We will de-rig the system with radical solutions like trade wars and socialized medicine. Those may be (as I believe) wrong answers to the problem of inequality, but they are answers, and their appeal is evident.

Today it is free-market conservatism that is voiceless. After insisting for two generations that inequality does not matter, the heirs of Mr. Reagan and Mrs. Thatcher — people like the House speaker, Paul Ryan — have neither a coherent program to reduce inequality nor a philosophical rationale to seek one.

Like it or not, inequality in today's America drives politics toward rage and polarization, and toward destabilizing and dangerous populisms of both left and right. Trumpism and Sandersism have something to say about inequality, but mainstream conservatism does not, and it will be no match for them until it does.

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A version of this article appears in print on Aug. 22, 2018, on Page A21 of the New York edition with the headline: More Wealth Has Not Made Us Happier