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To What Extent Does Economic Growth Lead to Greater Happiness? A Cross-Country Analysis (2022-2024)

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Abstract

This paper explores the impact of short-term economic growth on subjective well-being in countries worldwide. Based on a global cross-country dataset of 126 countries for the years 2022 to 2024, the research investigates the link between percentage changes in real GDP per capita (PPP) and percentage changes in national happiness scores. The study, relying on graphical representations, Pearson correlation coefficients, and income group division, concludes that there is no significant global correlation between economic growth and the changes in happiness ($r = 0.049$). Low-income countries exhibit a weak positive association, whereas high-income countries display a weak negative correlation, and middle-income countries show no systematic relationship. These results are consistent with the concept of diminishing marginal utility of income and hedonic adaptation, indicating that after satisfying basic material needs, additional income growth makes a minimal contribution to well-being. The findings point to the fact that policymakers aiming to increase national happiness should, instead of concentrating on GDP growth, enhance the quality of institutions, extend social protection, focus on mental health, and work on reducing inequality. The main drawbacks are the short period considered and the lack of inflation-adjusted household income data.

Keywords: Economic Growth, Subjective Well-being, Happiness, GDP per Capita, Easterlin Paradox

Introduction

The connection between human welfare and economic development has long been central to debates in the fields of economics and public policy. Typically, with economic development being gauged through an increase in GDP per capita, it has been generally perceived as the key feature of national progress that opens the door to higher living standards, poverty alleviation, and material security. Meanwhile, the concept of happiness or subjective well-being is progressively being considered as a worthy alternative for evaluating the performance of a nation, a measure reflecting the idea that increasing incomes do not automatically lead to improvements in life satisfaction or general living standards.

The core disagreement in the studies is the struggle between two different views. To support the first idea, cross-country data analysis results are very robust in showing a positive correlation between wealth and average happiness in different countries. Meanwhile, several scholars, including Richard Easterlin (1974, 1995), argue that a rise in incomes and wealth over time in a certain country is not followed by a continuous increase in subjective well-being. The puzzle indicates that even though social comparison, adaptation, and diminishing marginal utility continue to operate after basic needs are satisfied, they do so in such a

way that the effects of income growth on happiness become weaker with time. Recent studies argue against this point of view by suggesting that longer time-series datasets reveal a positive association between income growth and life evaluation (Stevenson & Wolfers, 2008); however, they still recognize that emotional well-being does not increase as much as evaluative well-being (Kahneman & Deaton, 2010). In all, the debate portrays a complex and subtle bond between the two phenomena, which significantly depends on how one measures them, the time period considered, and the social context.

This paper contributes to this debate by empirically examining whether short-term economic growth translates into higher happiness across countries. Using data from 2022–2024, a deliberate choice to avoid economic volatility caused by COVID-19 lockdowns (2020–2021), the study investigates whether percentage changes in GDP per capita (PPP) are associated with percentage changes in national happiness scores. Through scatter plots, income-group analysis, and Pearson correlation coefficients, the paper evaluates the strength and direction of the income–well-being relationship across different levels of development. The results indicate a near-zero global correlation ($r = 0.049$), suggesting that short-run economic growth did not lead to meaningful improvements in happiness during this period. Differences across income groups and several country-level anomalies further illustrate that the relationship between GDP and happiness is highly conditional, influenced by institutional quality, social capital, inequality, and cultural dynamics.

This study addresses the following research question: To what extent does short-term economic growth translate into higher national happiness across countries?

Based on existing literature, the primary hypothesis tested is:

H1: Countries experiencing higher percentage growth in GDP per capita between 2022 and 2024 will also experience larger increases in national happiness scores.

The null hypothesis (H0) is that there is no statistically significant relationship between short-term economic growth and changes in happiness.

Literature Review

The Easterlin Paradox and Diminishing Returns

Richard Easterlin's work introduced the idea that even though wealthier individuals and wealthier countries tend to be happier at any given moment, income and happiness do not increase together over time. This paradox is commonly explained through diminishing marginal utility of income and hedonic adaptation. This paradox helps explain why high-income societies experience rising GDP but stagnant happiness, and why the marginal happiness effects of income are much stronger in lower-income environments where basic needs remain unmet (Easterlin, 1974; 1995).

Critiques and Revised Interpretations of the Paradox

Contrary to Easterlin, Stevenson and Wolfers (2008) argue that the paradox is overstated. By using longer-run international datasets, they find that increases in national income do correlate with increases in life evaluation, albeit weakly. Their critique suggests that earlier studies relied on limited or short-term data, which obscured longer-run relationships. However, their work also acknowledges that happiness responds less sharply to income growth in high-income countries. Thus, the modern consensus is not binary. Instead, the relationship between income and happiness is context-dependent, mediated by baseline wealth, inequality, and societal expectations.

Evaluative vs. Experienced Well-Being

A major conceptual development comes from Kahneman and Deaton (2010), who distinguish between

two forms of well-being:

1. **Evaluative well-being:** life satisfaction and global judgments about one's life (e.g., the World Happiness Score).
2. **Experienced well-being:** emotions felt in daily life, such as stress, joy, and worry.

Income correlates strongly with evaluative well-being across countries, but experienced well-being appears to plateau once a certain income threshold is reached. Because this study uses the World Happiness Report's life evaluation data, it primarily reflects evaluative well-being.

Beyond Income: Alternative Drivers of Happiness

Recent literature highlights a range of variables that often explain differences in national happiness more effectively than GDP:

- Social trust and social capital
- Freedom to make life choices
- Quality of governance and institutions
- Inequality and social protection
- Physical and mental health
- Cultural norms relating to survey responses

Studies by Helliwell, Layard, Sachs, and others consistently show that these institutional and social factors contribute at least as much to national happiness as income does.

Methodology

Variables

Two variables were constructed for each country:

1. Percentage change in GDP per capita (PPP) from 2022 to 2024
2. Percentage change in the National Happiness Score from 2022 to 2024

GDP per capita (PPP) data were obtained from the World Bank. Happiness scores were obtained from the World Happiness Report (Helliwell et al., 2023). A total of 126 countries had complete data for both 2022 and 2024. The decision to use percentage changes rather than absolute levels enhances comparability across countries with vastly different income levels. It also isolates growth effects rather than wealth differences.

Measurement of Happiness

National happiness is gauged by the World Happiness Report score, which is a product of Gallup World Poll survey data (Helliwell et al., 2023). The moving averages over three years are used to report happiness rankings, aiming to minimize short-term fluctuations. Consequently, the rankings for 2024 combine survey responses from 2021 to 2023, and earlier editions refer to similar rolling windows. The average for a country without survey data in a certain year is computed from the years that fall within the three-year window and for which data are available.

The happiness score is based on six key components: GDP per capita, social support, healthy life expectancy, freedom to make life choices, generosity, and perceptions of corruption. In order for the components to be comparable across countries, each one is adjusted to a hypothetical benchmark country ("Dystopia") that represents the lowest observed values for all dimensions. Next, the six standardized components are combined into a single composite happiness score that roughly varies between 0 and 10. Such a composite index mainly mirrors evaluative well-being, i.e., the overall assessment made by individuals of their life situations, rather than their momentary emotional experiences. Although three-

year averages are used, thus changes in well-being between 2022 and 2024 cannot be interpreted as being contemporaneous, changes in happiness are still partly due to lagged effects rather than purely current economic conditions.

Data Selection and Time Frame

Years 2020–2021 were excluded due to extreme pandemic-related distortions. By 2022, global conditions stabilized, making 2022–2024 a clean, reliable period for analysis.

Statistical Techniques

- Scatter plot: (X-axis: % change in GDP per capita; Y-axis: % change in happiness score). A fitted linear trendline was added.
- Pearson correlation coefficient (r): Used to measure the strength and direction of the linear relationship.
- Income-group segmentation: Countries were grouped according to World Bank income classifications—High, Upper-Middle, Lower-Middle, and Low income—to test for heterogeneity.

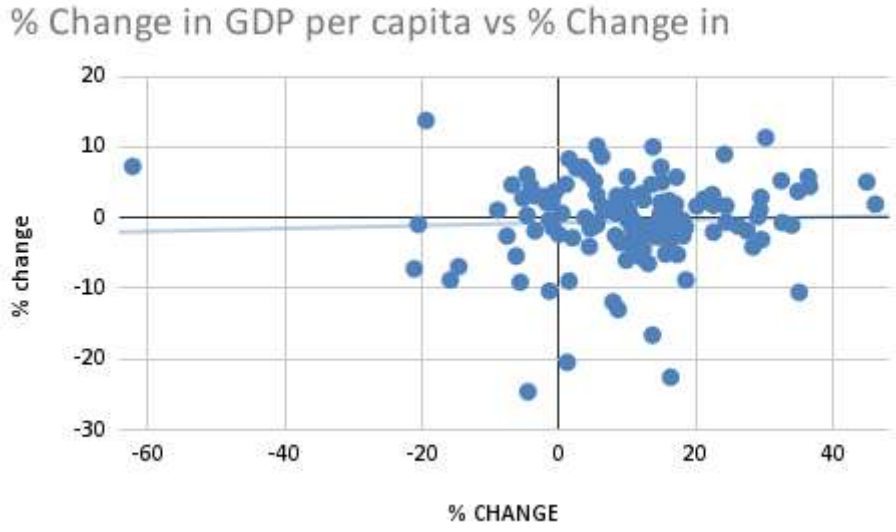
Theoretical Framework

The relationship between economic growth and happiness can be conceptualized as an indirect process. GDP growth may increase household income and material consumption, which can improve well-being by reducing poverty and economic insecurity. However, this pathway is moderated by several factors, including income inequality, institutional quality, social trust, and hedonic adaptation.

Results

Global Correlation

Figure 1: Figure 1: Relationship Between Percentage Change in GDP Per Capita and Happiness Scores



The global Pearson correlation coefficient was: r = 0.0490. This value indicates an extremely weak and statistically insignificant relationship. On average, countries with higher economic growth did not experience greater improvements in happiness over the 2022–2024 period.

Table 1: Income-Group Correlations

Income Group	r-value	Interpretation
High Income	-0.1386	Weak negative correlation
Upper Middle	0.00038	Essentially zero
Lower Middle	-0.0336	Essentially zero
Low Income	0.2300	Weak positive correlation

Discussion

Income Levels and the Easterlin Pattern: Cross-Sectional Evidence (2024)

While the main analysis of this paper focuses on changes in GDP and changes in happiness from 2022 to 2024, it is useful to first examine the levels of happiness across income groups in 2024.

Table 2: Average 2024 Happiness Scores by Income Group

Income Group	Average Happiness Score (2024)
High Income	6.66
Upper-Middle Income	5.65
Lower-Middle Income	4.98
Low Income	4.17

The pattern is clear: richer countries are systematically happier in absolute terms. However, this pattern coexists with the paper's main finding: Short-term growth (2022–2024) does not translate into additional happiness gains. This duality, where levels differ but changes do not, is a defining feature of the Easterlin paradox.

Why High-Income Countries Display a Negative Growth–Happiness Relationship

High-income economies in the dataset show a weak negative correlation (r = -0.1386) between GDP growth and happiness change. Several structural explanations account for this:

1. Diminishing Marginal Utility of Income: High-income countries already operate far above the threshold where income satisfies basic needs. Life satisfaction in wealthy societies is more sensitive to non-income factors—mental health trends, loneliness, political polarization, and institutional trust.
2. Growth Driven by Sectors Unrelated to Well-Being: Rich countries often achieve economic growth due to exports or capital markets, which do not necessarily translate to improved household welfare (Stiglitz et al., 2009).
3. Adaptation and Rising Expectations: Hedonic adaptation occurs faster in high-income contexts. Expectations rise in unison with income (Clark, Frijters, & Shields, 2008).

4. Psychological and Social Trends: Many advanced economies face worsening mental health and reduced social cohesion, offsetting small improvements in material prosperity.

Why Low-Income Countries Have the Strongest Positive Relationship (r = 0.23)

1. Growth Directly Improves Basic Needs: In low-income contexts, economic growth usually corresponds to expanded access to food, improved sanitation, and healthcare (Sen, 1999).
2. Income Growth Enhances Security: Modest increases in income reduce vulnerability to shocks and food insecurity.
3. Social and Community Structures Amplify Gains: Income gains often benefit whole households or communities in these societies.
4. Positive Expectations: Rising incomes signal future opportunity and national progress.

Case Studies: Understanding Outlier Countries

- Kuwait (High income, negligible or negative happiness change): Kuwait has one of the world's highest GDP per capita figures, driven overwhelmingly by the oil sector. However, happiness has stagnated. This is likely because economic growth is concentrated in hydrocarbons rather than household income, and expatriate population dynamics affect survey composition.
- Norway & Switzerland (High income, negative happiness change): These countries consistently rank among the happiest, yet showed slight declines in 2022–24 despite stable GDP growth. Explanations include the saturation of material needs (no meaningful gain from marginal growth), rising cost of living, and social expectations rising faster than incomes. Their cases underscore diminishing marginal returns to income at the frontier of global development.
- Luxembourg (Extreme income levels, stagnant happiness): Luxembourg's GDP per capita is inflated by cross-border financial flows and a large commuting workforce. GDP growth reflects financial profitability, not residents' daily living standards, making it a poor proxy for individual welfare.
- Bangladesh (Middle income, significant happiness shift unrelated to GDP): Bangladesh experienced political instability, inflationary pressures, and rising concerns about safety. These social and political stresses affect happiness more strongly than modest GDP changes, showing the importance of governance.
- Nigeria (Large happiness swings despite unstable GDP): Nigeria's significant happiness fluctuations reflect extreme inflation, currency instability, and insecurity. GDP growth numbers in such volatile contexts often do not capture the harsh reality of day-to-day conditions.
- Liberia & Comoros (Low income, large happiness changes): In very low-income countries, changes in happiness scores often reflect shifts in political stability or humanitarian conditions. Even small improvements in economic or security conditions can dramatically influence well-being scores.

Conclusion

This research quantified the degree to which economic growth from 2022 to 2024 led to an increase in happiness worldwide. After determining the percentage changes in GDP per capita (PPP) and happiness scores, the study concluded that there is no significant global link between economic growth and an increase in subjective well-being.

The relationship of low-income countries to the global trend of economic growth and well-being was positive but weak, implying that income growth is still important for the improvement of well-being where material needs are unmet. In contrast, the correlation of high-income countries was weakly negative. The results indicate that the concept of diminishing marginal utility of income, hedonic adaptation, and the

dominant role of institutional and social factors are at play here. It is preferred that policymakers focus on mental health, social protection, and inequality rather than solely on GDP growth.

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