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Different Versions of the Easterlin Paradox: New Evidence for European Countries

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Abstract

Richer people are happier than poorer people, but when a country becomes richer over time, people do not become happier. This seemingly contradictory pair of findings of Easterlin has become famous as the Easterlin Paradox. However, it was met with counterevidence. To shed more light on this controversy, we distinguish and test in this study four different versions of the Easterlin Paradox. In particular, we differentiate between the Easterlin Paradox as either applying to groups of countries or individual countries, and as either applying to the medium or the long term. We test these variants with Eurobarometer data for 27 European countries by estimating country-panel equations for mean life satisfaction in terms of trend and cyclical components of *per capita* GDP. When testing variants of the paradox that apply to groups of countries, we find a clear and robust confirmation of the medium- and long-term versions of the paradox for a group of nine Western and Northern European countries. Moreover, we obtain a non-robust rejection of the medium-term variant of the paradox for a set of eleven Eastern European countries. On the level of individual countries, the medium-term variant of the paradox turns out to clearly hold for the nine Western and Northern European countries, but to be consistently rejected for Greece, Ireland, Italy, and Spain. In the case of the Eastern European countries, this rejection is also found to hold for Bulgaria, Lithuania, and Poland. As the Western and Northern European countries have a high *per capita* GDP as compared to that of Southern and Eastern European countries, our results are in line with the finding of Proto and Rustichini (2013) of a non-monotonic relation between *per capita* GDP and life satisfaction over time which is positive for poorer countries, but flat for richer countries.

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