

Why I'm an Economic Optimist but Happiness Pessimist

Seven years ago, my mentor Tyler Cowen did an interview with *The Atlantic* entitled, "Why I'm a Happiness Optimist but Economic Pessimist." His point: Though GDP growth has been disappointing low for decades, the internet does give us tons of free, fun stuff. The more I reflect on the Paasche price index, though, the more I'm convinced that Tyler's picture is exactly upside-down. At least in the First World, the sensible position is *economic* optimism combined with *happiness* pessimism.

How so? To repeat, we shouldn't take the ultra-optimistic Paasche calculations of GDP at face value, but neither should we dismiss them. The judicious position is that U.S. growth has been excellent, though not astronomical. Even so, we're way richer than we were in 1990. Yet sadly, Americans' measured happiness has barely changed. We have abundance, but not bliss.

What's going on? Well, we already knew that income has a very modest effect on happiness. But when you upwardly revise your estimate of prosperity, you automatically *downwardly* revise your estimate of the effect of prosperity on happiness. Such is life.

When I insist that standard measures sharply underestimate economic growth, it's easy to accuse me of motivated reasoning. Before you make this accusation, however, consider the whole picture. What possible agenda could I advance by simultaneously claiming that GDP has greatly increased, but brought us little joy?

So what's the real story? Simple: I look at the world and see great economic growth. I take a second look at the world and see that money doesn't buy happiness. Then I report my observations. This picture isn't ideologically convenient for me. But when I put ideology aside and stare at the world, this picture is what I see.