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Does More Income Buy More Happiness? Empirical Evidence from the World Values Survey in Pakistan

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ABSTRACT

This study examines the empirical validity of the Easterlin Paradox in the context of Pakistan, drawing on nationally representative microdata from 1,995 adult respondents in the most recent Wave 7 of the World Values Survey. The paradox posits that while income is positively associated with happiness at a given point in time, long-term increases in income do not necessarily lead to sustained improvements in subjective well-being. We examine this relationship through a combination of descriptive statistics and a two-level mixed-effects ordered logistic regression model, which accounts for both individual- and community-level heterogeneity. The analysis confirms that income has a statistically significant positive effect on happiness; however, the inclusion of a squared income term reveals a non-linear, concave relationship, indicating diminishing marginal returns to income—a core tenet of the Easterlin Paradox. Beyond income, a range of non-material factors such as good health, perceived autonomy, confidence in institutions, and social class emerge as significant predictors of happiness. Conversely, factors like food insecurity and being a victim of crime negatively impact subjective well-being. These findings align with the capability approach and recent global literature emphasizing the multidimensional nature of happiness. The study contributes to filling a critical gap in South Asian happiness research by providing country-specific, methodologically rigorous evidence from Pakistan. Policy implications suggest the need for a broader, human-centered development strategy that prioritizes healthcare, education, institutional trust, and social protection, rather than focusing narrowly on income growth. By shifting the focus toward inclusive and holistic well-being, Pakistan can better align its development goals with what truly enhances the lives of its citizens.

1 Introduction

Happiness, long relegated to the domain of philosophy and the humanities, has emerged as a central focus in modern economics and social policy discourse. A rapidly expanding field of subjective well-being (SWB) research now challenges the conventional notion that economic growth and material prosperity are sufficient indicators of human progress. At the heart of this inquiry lies the Easterlin Paradox—a seminal hypothesis proposed by Richard Ainley Easterlin (1974)—which posits that while income increases within a society are associated with higher individual happiness at a point in

time, long-term economic growth does not necessarily lead to sustained improvements in average happiness across the population. This counterintuitive claim has provoked sustained empirical and theoretical debates and remains an unresolved paradox in both developed and developing countries (Diener et al., 1995; Clark et al., 2008; Andersen & Curtis, 2012; Sacks et al., 2012).

In developing economies like Pakistan, where growth has been uneven and socio-economic inequalities persist, the validity of the Easterlin Paradox warrants empirical scrutiny. Does higher income guarantee happiness in a country marked by income volatility, inflation, social insecurity, and weak public institutions? Or does happiness depend more on intangible factors such as perceived autonomy, education, trust in institutions, and personal security? These questions are especially relevant in the Pakistani context, where macroeconomic indicators often suggest growth, yet human development indicators remain stagnant or decline. This paper contributes to this ongoing global inquiry by testing the empirical relevance of the Easterlin Paradox using nationally representative data from the latest wave 7 World Values Survey (WVS, 2022).

1.1 Background and Rationale

The last two decades have witnessed a growing consensus that Gross Domestic Product (GDP) and other traditional economic indicators are insufficient proxies for societal well-being. Influential works such as Sen's *Development as Freedom* (1999) argues for multidimensional measures of well-being that go beyond income. In this context, subjective well-being data—such as self-reported happiness, life satisfaction, and perceived quality of life—have become essential to understanding how individuals evaluate their own lives.

The Easterlin Paradox challenges a core assumption in classical economic theory: that more income leads to more utility. Using time-series data from the United States, Easterlin (1974) found that despite large increases in per capita income over several decades, the average happiness of Americans had remained largely unchanged. Since then, empirical evidence across countries has shown mixed results. While some cross-sectional studies find that richer individuals tend to be happier than poorer ones (Diener et al., 1999; Deaton, 2008), longitudinal and panel studies often show that national happiness levels are not tightly coupled with income growth (Layard, 2006; Easterlin & Angelescu, 2009). The paradox is typically explained through adaptation theory (people adapt to higher income) and social comparison theory (relative income matters more than absolute income).

This study takes these debates into the Pakistani setting—an under-researched context in global well-being literature. Pakistan offers a unique case: a lower-middle-income country that has seen moderate economic growth, yet faces high levels of income inequality, social unrest, and institutional mistrust. The heterogeneity of communities (poor versus rich societies) and regions (urban vs rural, provincial disparities), combined with deeply rooted cultural norms, makes Pakistan an ideal case for testing the Easterlin hypothesis through a multi-level lens.

1.2 Gaps in the Literature

Most empirical research on the Easterlin Paradox has focused on developed economies or large middle-income countries such as China and India. Studies such as Knight and Gunatilaka (2010) and Easterlin et al. (2012) demonstrate how rising expectations, inequality, and status competition often dilute the positive effects of rising income. However, there remains limited econometric evidence from South Asia that incorporates multidimensional predictors of happiness in conjunction with income, especially using advanced modelling techniques such as multi-level ordered logistic regression.

While Pakistan has been included in cross-country datasets, country-specific, micro-level analyses that control for demographic, institutional, and geographic heterogeneity are scarce. Moreover, past analyses have often relied on simple correlations or single-level regressions, neglecting the clustered nature of happiness data (individuals nested within communities). This study addresses these

methodological gaps by using a two-level mixed-effects ordered logistic model, allowing for a robust test of both individual-level and community-level variation in happiness.

1.3 Objectives of the Study

This study aims to provide rigorous empirical evidence of the Easterlin Paradox in Pakistan by addressing the following objectives:

1. To estimate the marginal and non-linear effects of income on happiness, controlling for a rich set of individual, household, and contextual variables.
2. To evaluate the mediating and moderating roles of non-income factors such as health, education, perceived autonomy, institutional trust, social class, and geographic location.
3. To apply a two-level mixed-effects ordered logistic regression model to account for hierarchical clustering and provide generalizable insights at both micro and macro levels.

By achieving these goals, the study not only contributes to the growing literature on subjective well-being in developing countries but also offers policy-relevant insights for designing human-centered development strategies in Pakistan.

1.4 Theoretical Framework

The conceptual foundation of this study is grounded in utility theory, adaptation theory, and social comparison theory. According to classical utility theory, utility is derived from the consumption of goods and services, which implies a positive linear relationship between income and well-being. However, Easterlin (1974) challenged this premise by showing that beyond a certain point, this relationship flattens, particularly over time.

Adaptation theory posits that individuals adapt to improvements in income, which causes initial happiness gains to erode (Brickman & Campbell, 1971; Frederick & Loewenstein, 1999). This "hedonic treadmill" suggests that as income increases, expectations rise accordingly, and the benchmark for satisfaction moves, making sustained happiness elusive.

Social comparison theory, on the other hand, argues that happiness is not determined by absolute income, but by relative income—how individuals perceive their wealth in relation to others (Frank, 2005; Clark et al., 2008). In societies with high income inequality and visible status symbols, people may feel less happy even as their absolute income rises, due to upward social comparisons.

We also incorporate Sen's capability approach, which emphasizes that well-being is not solely determined by income, but by what people are able to do and be—their functionings and freedoms. This highlights the importance of health, education, empowerment, and institutional trust as co-determinants of happiness.

1.5 Subjective Well-Being and Income: Empirical Controversies

The empirical literature on the income-happiness relationship remains inconclusive. Cross-sectional studies often find a positive association between income and happiness within a given society. For instance, Deaton (2008) found that higher income is associated with higher life evaluation scores globally, and Stevenson and Wolfers (2008) contested the Easterlin Paradox by showing a continuous relationship between income and happiness across and within countries. However, these studies have been criticized for failing to account for time dynamics, contextual factors, and adaptation effects.

Longitudinal analyses, on the other hand, tend to support the Easterlin hypothesis. Studies by Easterlin and Angelescu (2009) and Clark et al. (2018) show that long-term trends in national income are not consistently linked to long-term changes in national happiness, particularly when income inequality or status competition intensifies. Additionally, research in developing countries like China (Knight & Gunatilaka, 2010) and Latin America (Graham & Pettinato, 2002) has emphasized that

rising income may increase anxiety, aspirations, and social comparisons, thereby neutralizing the potential well-being gains from economic growth.

The mixed findings underscore the need for context-specific, multidimensional, and methodologically robust studies, especially in underrepresented regions like South Asia. This study contributes to that effort by rigorously modeling the complex interplay between income, non-income factors, and happiness in Pakistan.

1.6 Pakistan: A Context of Economic Growth and Social Inequality

Pakistan provides a unique empirical setting for testing the Easterlin Paradox. While the country has experienced periods of economic growth, the benefits have not been equitably distributed. According to the Pakistan Bureau of Statistics (2022), over 30% of the population remains below the national poverty line, and income inequality—measured by the Gini coefficient—has widened in recent years. In urban areas, rising affluence and consumption coexist with growing slums and informal labor markets.

Moreover, Pakistan's socio-political landscape is marked by ethno-linguistic diversity, regional disparities, governance challenges, and weak institutional trust. These features make it likely that happiness in Pakistan is influenced by factors beyond income, such as social cohesion, community safety, public services, and religious or cultural values. These contextual dynamics cannot be captured by simplistic income-happiness models, necessitating more nuanced analyses.

In addition, Pakistan's cultural context—where family structures, social expectations, and religious beliefs play a dominant role—may shape both income aspirations and subjective well-being in distinctive ways (Naeem & Khalid, 2015; Jabeen & Khan, 2016; Rafique & Iqbal, 2020; Waqar & Waqar, 2020). For instance, joint family systems may dilute the material benefits of income increases, while strong religious or communal affiliations may enhance resilience and perceived life satisfaction independent of income levels.

This paper's methodological innovation lies in its use of a two-level mixed effects ordered logistic regression, which allows us to model happiness as an ordered outcome while accounting for clustered data structures (e.g., individuals nested within communities). Most previous studies in Pakistan or comparable contexts have relied on linear models or single-level regressions that assume homogeneity and independence of observations—assumptions that do not hold in complex, stratified societies.

By incorporating both individual-level variables (e.g., age, income, education, health) and contextual variables (e.g., geographic location, food insecurity, institutional confidence), this model provides a richer and more realistic estimation of the determinants of happiness. The use of quadratic income terms further allows us to test for non-linearities, which are central to the Easterlin Paradox.

2 Method

This section outlines the data source, variables, econometric strategy, and model specifications used to empirically test the Easterlin Paradox in Pakistan. We apply a two-level mixed-effects ordered logistic regression model to evaluate the association between income and happiness while accounting for hierarchical data structures and a wide range of covariates.

2.1 Data Source

The analysis uses microdata from Wave 7 of the World Values Survey (WVS, 2022), which offers a nationally representative sample of adults in Pakistan. The WVS provides rich individual-level information on subjective well-being, socioeconomic status, health, education, values, institutional trust, and perceived freedoms. It also includes geocoded information to enable clustering at the

provincial level. The final sample includes 1,995 respondents after excluding missing values for key variables such as happiness, income, and education.

2.2 Dependent Variable

The outcome variable in this study is self-reported happiness, measured on an ordinal four-point scale: 1 = Not at all happy, 2 = Not very happy, 3 = Quite happy, and 4 = Very happy. This scale is widely used in the literature on subjective well-being and aligns with previous studies such as Diener et al. (1999) and Clark et al. (2008), which utilize similar categorical scale to assess happiness levels. The structure of the scale captures increasing degrees of reported happiness. Given the ordinal nature of the dependent variable, the use of ordered logistic regression is methodologically appropriate, as it models the probability of an individual being at or above a certain level of happiness while preserving the rank-order characteristics of the response variable.

2.3 Core Variables

The main explanatory variable is household income, which is self-reported on a scale from 1 to 10, where "1" represents the lowest income group, while "10" represents highest income group. In the regression model, income is treated as a continuous variable, with an additional income squared term included to capture potential non-linear effects and diminishing marginal returns, consistent with the Easterlin framework. A positive coefficient on income alongside a negative coefficient on income squared would provide statistical evidence of a concave relationship between income and happiness, supporting the existence of the Easterlin Paradox.

2.4 Control Variables

To account for alternative explanations of happiness, the model includes a comprehensive set of individual-, household-, and geographic-level covariates, informed by prior literature (Dolan et al., 2008; Helliwell & Putnam, 2004; Helliwell et al., 2023). Demographic controls comprise age (treated as a continuous variable), gender (male/female), and marital status (married versus others). Socioeconomic factors include education level (categorized as primary, secondary, or tertiary), an indicator for employment and work ethic (based on attitudes toward hard work), self-assessed social class, household size, and a binary variable for moderate food insecurity. To capture psychosocial and institutional influences, the model incorporates self-reported health status (good health dummy), perceived autonomy (measured by free choice and control over life), confidence in government and judicial institutions, belief in gender equality, and whether the respondent has been a victim of crime. Lastly, geographic and structural variables include urban versus rural residence and province-level dummy variables for Punjab, Sindh, Khyber Pakhtunkhwa (KP), and Balochistan. These controls enable a more accurate estimation of the income–happiness relationship by accounting for contextual and non-material factors that may mediate or moderate subjective well-being in the Pakistani setting.

2.5 Econometric Specification

Given the nested nature of the data (individuals nested within communities), a two-level mixed-effects ordered logistic regression is used. This method accounts for hierarchical data structure, allows for random intercepts at the community level, and improves estimation efficiency and standard error accuracy. The basic model specification is:

$$ologit\left[P\left(Y_{ij} \leq k\right)\right] = \alpha_k - \left(\beta_1\, Income_{ij} + \beta_2\, Income_{ij}^2 + \gamma X_{ij} + \varepsilon_{ij}\right) \quad (1)$$

Where:

$ologit$ means ordered logistic regression. Y_{ij} denotes the reported happiness level for individual *i* in community *j*. α_k is a vector of cut-points (thresholds) between ordinal categories of happiness. β_1 and β_2 are the coefficients on income and income squared. X_{ij} represents a vector of control variables, while γ are vectors of respective control variables. β_1, β_2, and γ measure fixed effects of individual-level variables, while α measures random effects of community-level variation. ε_{ij} is a random effect

at community level. The model operates under the proportional odds assumption, which implies that the estimated coefficients uniformly shift the log-odds of an individual being in a higher versus a lower happiness category, irrespective of the specific threshold.

We estimate three models sequentially: Model 0 is an empty (null) model, which includes only the random intercept and is used to assess the extent of community-level variation in happiness. Model 1 introduces income and income squared as the sole predictors, allowing us to evaluate the baseline effect and potential non-linearity in the income–happiness association. Model 2 builds on this by incorporating the full set of demographic, socioeconomic, institutional, and geographic control variables, enabling us to observe how the income coefficients change after accounting for potential confounders. This stepwise modeling strategy allows for a systematic assessment of how individual and contextual factors mediate or moderate the effect of income on subjective well-being. Model performance is evaluated using the Wald chi-square test for overall model significance and the intra-cluster correlation coefficient (ICC) to quantify the proportion of variance in happiness attributable to differences across communities.

3 Results and Discussions

3.1 Descriptive Analysis

Table 1 provides a cross-tabulation of self-reported happiness levels—ranging from *Not at all happy* to *Very happy*—against key individual, household, and geographic variables. The majority of respondents reported being either *Quite happy* (41.40%) or *Very happy* (47.92%), which is consistent with global patterns in happiness data (Inglehart et al., 2008).

Table 1

Descriptive Analysis

Variables	Not at all Happy (n_1 = 50)	Not very Happy (n_2 = 163)	Quite happy (n_3 = 826)	Very Happy (n_4 = 956)
Individual Characteristics				
Male (%)	2.41	7.23	41.27	49.08
Female (%)	2.61	9.19	41.54	46.66
Age (years)	36.52	38.18	36.22	34.51**
Illiterate (%)	3.63	12.38	41.91	42.08***
Primary education (%)	1.13	8.65	39.47	50.75
Secondary education (%)	1.75	6.00	41.27	50.98***
Tertiary education (%)	4.35	4.83	43.00	47.83**
Marital status (%)	2.60	7.98	41.66	47.76
Hard work (%)	2.2.1	6.00	39.81	51.99***
Free choice and control over life (%)	2.37	7.38	40.34	49.90***
Good health (%)	2.07	7.86	40.95	49.12***
Confidence in government (%)	1.85	6.67	39.39	52.09***
Confidence in court (%)	1.69	6.59	39.44	52.29***
Gender equality (%)	2.79	7.23	40.47	49.50**
Crime victim (%)	2.70	11.49	43.92	41.89***
Household characteristics				
Household size (No.)	6.14	6.79	6.47	6.15
Household Income (score)	2.51	8.17	41.40	47.92***
Social class (score)	1.98	2.34	2.42	2.58***
Moderate food insecurity (%)	4.25	12.02	45.01	38.71***

Geographic Characteristics				
Urban (%)	2.41	4.82	41.57	51.20***
Rural (%)	2.55	9.84	41.32	46.28***
Punjab (%)	2.37	7.81	40.91	48.90
Sindh (%)	2.43	9.53	44.22	43.81
KP (%)	3.68	8.46	36.40	51.47
Balochistan (%)	1.10	4.40	47.25	47.25

Note: T-test is used for continuous variables, whereas Chi-squared test is used for categorical variables to recognize the differences in mean values.
Note: ** and *** represent the level of significance at 5% and 10%, respectively.
Data Source: World Values Survey (2022)

The most direct test of the Easterlin Paradox lies in the observed relationship between household income class and reported happiness. Although the share of individuals identifying as *very happy* is higher among the rich (67.11%) compared to the poor (49.88%) and the middle-income group (50.75%), the increase is modest and not proportionate—suggesting diminishing marginal returns to income in line with Easterlin's hypothesis. Happiness appears to rise with income only up to a point, a trend supported by earlier findings (Clark et al., 2008; Stevenson & Wolfers, 2008). The association between income and happiness is statistically significant at the 10% level ($p < 0.10$), indicating the presence of a gradient, albeit a weak one—thus reinforcing the paradox in the Pakistani setting.

Beyond income, several non-material factors show strong associations with happiness. For instance, individuals with secondary and tertiary education are more likely to report being *very happy* compared to those with lower educational attainment. This relationship is significant at the 1% and 5% levels, respectively and aligns with prior literature that links education to long-term life satisfaction (Dolan et al., 2008). Similarly, respondents reporting good health and greater perceived control over life choices exhibit significantly higher levels of happiness, supporting Diener et al.'s (1999) assertion that subjective well-being is more closely tied to health and autonomy than to economic metrics alone. Furthermore, confidence in political and judicial institutions is also positively associated with happiness, suggesting that institutional trust may play a key role in shaping well-being, particularly in low- and middle-income contexts (Helliwell & Putnam, 2004).

Among demographic characteristics, gender also emerges as a relevant factor. Both men and women report similar levels of happiness, though men are slightly overrepresented in the *very happy* category. This finding is consistent with prior research showing that gender differences in subjective well-being are often context-dependent (Frey & Stutzer, 2002). In contrast, moderate food insecurity and exposure to crime are significantly associated with lower levels of happiness, reflecting the impact of capability deprivation on well-being—an idea central to Sen's (1999) capability approach.

Geographic differences are also evident. Urban residents report higher levels of happiness (51.20%) than their rural counterparts (46.28%), possibly reflecting better access to services and opportunities in urban areas. However, this advantage may be offset by higher stress levels and urban congestion (Easterlin & Angelescu, 2009). While provincial differences are generally modest, respondents from KP report the highest proportion of *very happy* individuals (51.47%), suggesting that regional factors such as cultural norms, social cohesion, or governance quality may influence subjective well-being independently of income.

3.2 Econometric Analysis

To robustly test the empirical relevance of the Easterlin Paradox—that beyond a threshold, increases in income do not correspond to sustained increases in happiness—we estimated a two-level mixed-effects ordered logistic regression model. This approach appropriately models the ordinal nature of happiness (ordered from "Not at all happy" to "Very happy") while accounting for hierarchical

clustering at the community level, thereby mitigating biases from unobserved communal heterogeneity.

Given the nested structure of the data (individuals within community), standard ordered logistic regression would violate the independence assumption of observations. The multilevel modeling framework addresses this by incorporating random intercepts at the cluster level, which in our case is the community (see Table 2). This model captures both individual-level predictors of happiness and community-level variation, enhancing the explanatory power and validity of the findings (Rabe-Hesketh & Skrondal, 2022). Furthermore, ordered logistic regression is chosen over OLS because the dependent variable—happiness—is ordinal, not continuous. Treating it as such preserves the structure of subjective well-being and avoids inappropriate assumptions of cardinality (Ferrer-i-Carbonell & Frijters, 2004).

Table 2

Results of Two-Level Mixed Effects Ordered Logistic Regression

Happiness	**Model 0**	**Model 1**	**Model 2**
Fixed Effects			
Female	-	-	0.9729
			(0.1455)
Age	-	-	0.9842***
			(0.0046)
Illiterate	-	-	-
Primary education	-	-	1.0957
			(0.1748)
Secondary education	-	-	1. 0100
			(0.1292)
Tertiary education	-	-	0.6750***
			(0.1315)
Marital status	-	-	1.296*
			(0.1761)
Hard work	-	-	1.3556***
			(0.1470)
Income	-	1.4441***	1.2858***
		(0.0080)	0.0078)
Income square	-	0.0998**	0.0841**
		(0.0079)	(0.0061)
Free choice and control over life	-	-	1.5398***
			(0.1782)
Good health	-	-	2.5219***
			(0.5153)
Confidence in government	-	-	1.2531**
			(0.1415)
Confidence in court	-	-	1.3766***
			(0.1541)
Gender equality	-	-	1.2312*
			(0.1414)
Crime victim	-	-	0.8255*
			(0.0995)
Household size	-	-	0.9695*
			(0.0181)

Social class	-	-	1.2551***
			(0.0722)
Moderate food insecurity	-	-	0.5788***
			(0. 0630)
Urban	-	-	1.2511*
			(0.1999)
Rural	-	-	-
Punjab	-	-	1.0950
			(0.3912)
Sindh	-	-	0.9437
			(0. 3502)
KP	-	-	1.0842
			(0.4278)
Balochistan	-	-	-
Cut 1	-4.0264	-3.8568***	-2.4566***
	(0.1623)	(0.2199)	(0.5537)
Cut 2	-2.4253	-2.254***	-0.7913***
	(0.1025)	(0.1814)	(0.5415)
Cut 3	0.0817*	0.2586*	1.8591***
	(0.0286)	(0.1726)	(0.5434)
Random Effects			
Cluster-level variance	0.7460***	0.7646***	0.6488***
	(0.1275)	(0.1307)	(0.1218)
Residual intracluster correlation (ICC) (%)	18.4866***	18.8590***	16.4931***
	(2.5768)	(2.6176)	(2.5839)
Wald χ^2	1.1275***	3.5600***	157.0400***
Observations	1995	1995	1995

Odds-ratios are reported with standard errors in parentheses.
Note: *, **, and *** represent the level of significance at 1%, 5% and 10%, respectively.
Data Source: World Values Survey (2022)

In Model 0, the ICC indicates that approximately 19% of the total variation in individual-level happiness is attributable to differences between communities. This substantial proportion of variance confirms the presence of significant clustering in the data, thereby justifying the use of a two-level model over a conventional single-level specification.

In Model 1, income is positively and significantly associated with happiness (OR = 1.4441, $p < 0.01$), supporting the idea that higher income increases the odds of being in a higher happiness category. However, the income squared term is negative and significant (OR = 0.0998, $p < 0.05$), suggesting a concave relationship: the marginal utility of income declines as income rises—providing statistical evidence for the Easterlin Paradox. This pattern remains in Model 2, which controls for individual, household, and contextual variables. Here, the marginal effect of income becomes even weaker (OR = 1.2858, $p < 0.01$), and the quadratic term remains significant (OR = 0.0841, $p < 0.05$), reaffirming that happiness does not increase indefinitely with income. This curvilinear relationship echoes findings from Easterlin (1974) and later works (Clark et al., 2008; Stevenson & Wolfers, 2008) that highlight diminishing returns to income and the mediating effects of relative income, expectations, and adaptation.

Model 2 includes a richer set of covariates and reveals the multidimensional nature of subjective well-being. For instance, health status (OR = 2.5219, $p < 0.01$) and perceived control over life (OR = 1.5398, $p < 0.01$) are among the strongest predictors of happiness—consistent with Diener et al. (1999) and Sen's (1999) emphasis on non-material capabilities and autonomy.

Education reveals a nuanced relationship: surprisingly, tertiary education has a negative association with happiness (OR = 0.6750, $p < 0.01$), suggesting possible aspiration gaps, unemployment mismatch, or status anxiety among the highly educated—a phenomenon noted in the South Asian context (Knight & Gunatilaka, 2010).

Confidence in institutions (government and courts) significantly improves happiness, reinforcing the idea that institutional trust bolsters subjective well-being in developing democracies (Runciman, 1996; Helliwell & Putnam, 2004).

Being a victim of crime (OR = 0.8255, $p < 0.10$) and experiencing food insecurity (OR = 0.5788, $p < 0.01$) are both negatively and significantly associated with happiness, emphasizing the psychological toll of insecurity and deprivation, as echoed in global well-being research (Clark et al., 2009).

Urban residency slightly improves happiness (OR = 1.2511, $p < 0.10$), but geographic fixed effects for provinces i.e., Punjab, Sindh, and KP show no statistically significant differences compared to Balochistan, implying that urban-rural dynamics matter more than provincial boundaries.

The Wald χ^2 test shows a significant improvement in model fit from Model 0 ($\chi^2 = 1.13$) to Model 2 ($\chi^2 = 157.04$), confirming the added explanatory power of individual-level predictors.

5 Conclusion and Recommendations

This study provides robust empirical evidence in support of the Easterlin Paradox within the Pakistani context. Utilizing nationally representative data from the latest wave 7 of World Values Survey and a two-level mixed-effects ordered logistic regression model, we find that while household income is positively associated with happiness, the relationship exhibits diminishing marginal returns, and flattens beyond a certain threshold. This non-linearity—evidenced by the significance of the income-squared term—strongly aligns with the original hypothesis by Easterlin (1974), as well as subsequent findings in both developed and developing countries (Clark et al., 2008; Knight & Gunatilaka, 2010; Easterlin & Angelescu, 2009). Our results underscore that while economic improvement is necessary, it is not sufficient for sustained gains in subjective well-being.

Importantly, the study finds that non-income factors, including good health, perceived autonomy, institutional trust, education, and personal security, are often stronger predictors of happiness than income alone. For example, respondents with good health and a sense of control over life choices were significantly more likely to report higher happiness—echoing the capability approach by Sen (1999), which emphasizes that well-being is shaped not merely by resources, but by individuals' freedom to pursue meaningful lives. Similarly, trust in institutions such as courts and government emerged as significant contributors to subjective well-being, reinforcing evidence from Helliwell and Putnam (2004) and Graham (2009) that social capital and governance quality play crucial roles in shaping life satisfaction, particularly in low- and middle-income countries.

The study also reveals that urban residents tend to report slightly higher happiness than their rural counterparts, and that regional disparities in subjective well-being are modest but notable. These findings suggest that geographic inequalities in service delivery and opportunity structures may influence well-being, further complicating the simplistic assumption that income alone drives happiness.

Based on these findings, several policy recommendations emerge. First, while promoting inclusive economic growth remains important, policymakers should recognize that raising incomes alone will not guarantee increased national happiness. Social policy must be reframed to emphasize

multidimensional well-being, incorporating health, education, social inclusion, and institutional effectiveness as core pillars of development. Second, public investment in primary healthcare and education—particularly in underserved regions—should be prioritized, as these factors contribute directly to individual capabilities and life satisfaction (Dolan et al., 2008). Third, the government must work to restore citizen trust in institutions by promoting transparency, accountability, and legal reform. Perceptions of fairness and justice have strong psychological and emotional consequences that shape subjective well-being beyond material circumstances. Fourth, social protection programs should be expanded not only to address material poverty, but also to reduce insecurity, food instability, and crime exposure, which were all found to negatively impact happiness in our sample. Finally, given the significance of relative income perceptions, policies should aim to mitigate social inequality and status anxiety—for instance, through progressive taxation, equal access to quality services, and community-based empowerment initiatives. These policy interventions would align Pakistan's development agenda with contemporary evidence that shows happiness is not merely the product of rising GDP, but of a just, inclusive, and enabling society.

In conclusion, this study reinforces the need to rethink traditional growth paradigms in light of subjective well-being evidence. It urges Pakistani policymakers to adopt a holistic view of progress, one that balances economic advancement with improvements in human capabilities, social trust, and quality of life. By recognizing the nuanced dynamics between income and happiness, Pakistan can craft policies that are not only economically sound but also psychologically and socially enriching.

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