Happier than thou
Reassessment of Progress

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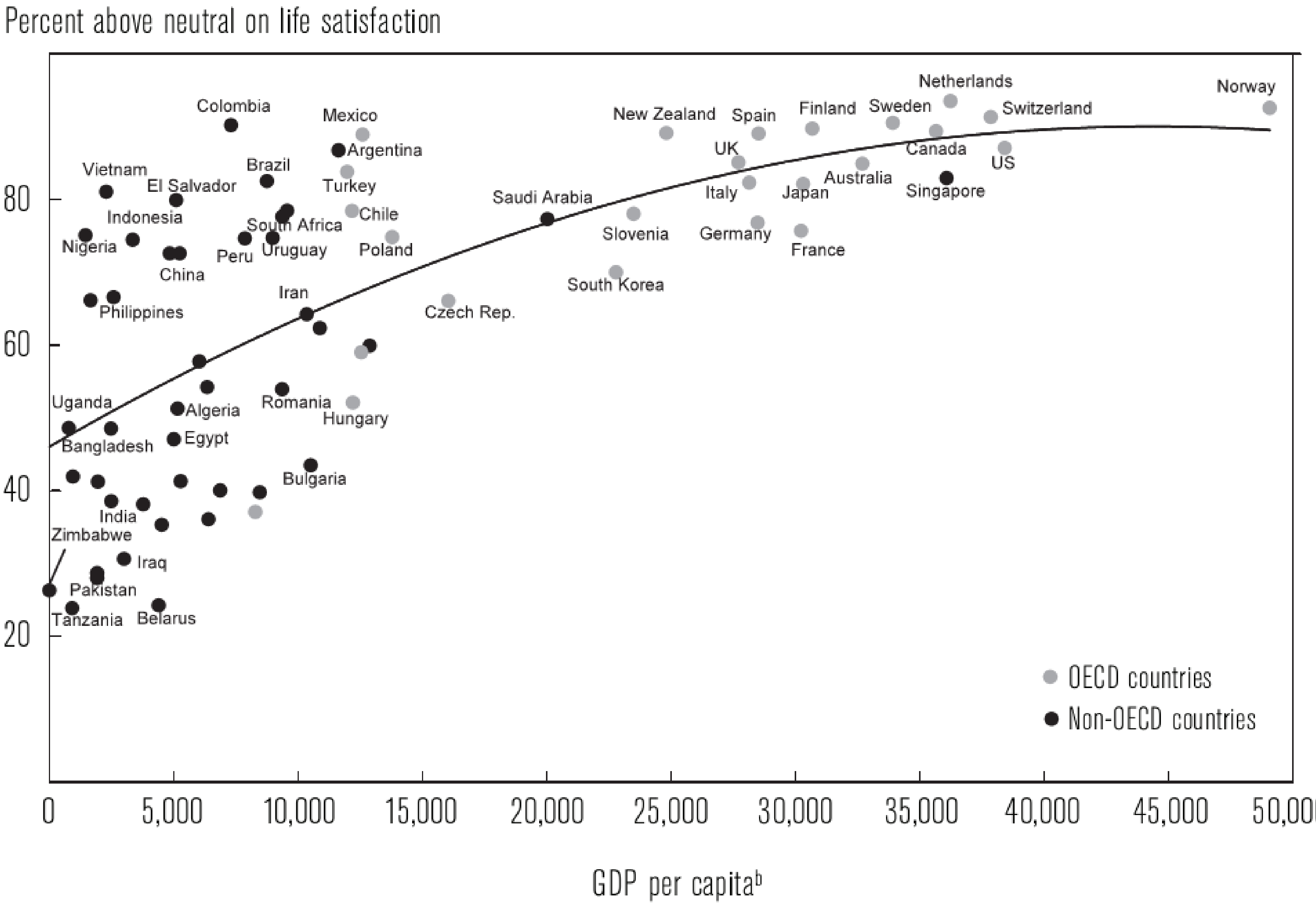
Fundamental Questions

- Are economic growth policies sufficient in themselves to raise people's happiness, that is, their subjective well-being?
- Are there intrinsic country or region level invariants, or is SWB inherently elastic?
- Are there non-fiscal policies that might raise SWB?


Percent above neutral on life satisfaction
80
60
40
20
0
5,000
10,000
15,000
20,000
25,000
30,000
35,000
40,000
45,000
50,000
GDP per capita[b]
Colombia
Mexico
Argentina
Brazil
Vietnam
El Salvador
Turkey
Indonesia
South Africa
Chile
Nigeria
Peru
Uruguay
Poland
China
Philippines
Iran
Uganda
Algeria
Romania
Hungary
Bangladesh
Egypt
Bulgaria
India
Zimbabwe
Iraq
Pakistan
Tanzania
Belarus
Saudi Arabia
Czech Rep.
New Zealand
Spain
Finland
Sweden
Netherlands
Switzerland
Norway
UK
Italy
Japan
Australia
Canada
US
Singapore
Slovenia
Germany
France
South Korea
OECD countries
Non-OECD countries

New research and the need for rethinking core arguments

- A lot of new research out in the past year.
- Sacks, D. W., B. Stevenson, and J. Wolfers (2012)
- Carol Graham (2012): “different elements of well-being, some of which are behavioral and others that are determined by socioeconomic and demographic variables.”

Zombie Args: Loa & Graham (2009) Graham, Chattopadhyay (2012)

- Income, age, health, stable partnerships, employment, and friendships all matter to individual happiness, in essentially the same way
- Paradox of unhappy growth: “people seem to have trouble adapting to uncertainty”
- Based on what? “countries with faster growth rates report lower happiness levels”
- Already addressed this in November presentation:
- Even 20% Growth on 500$ income means you’re still miserably poor, while growth at (rich) technological frontier will rarely exceed 2%.

Sacks, Stevenson and Wolfers (2012)

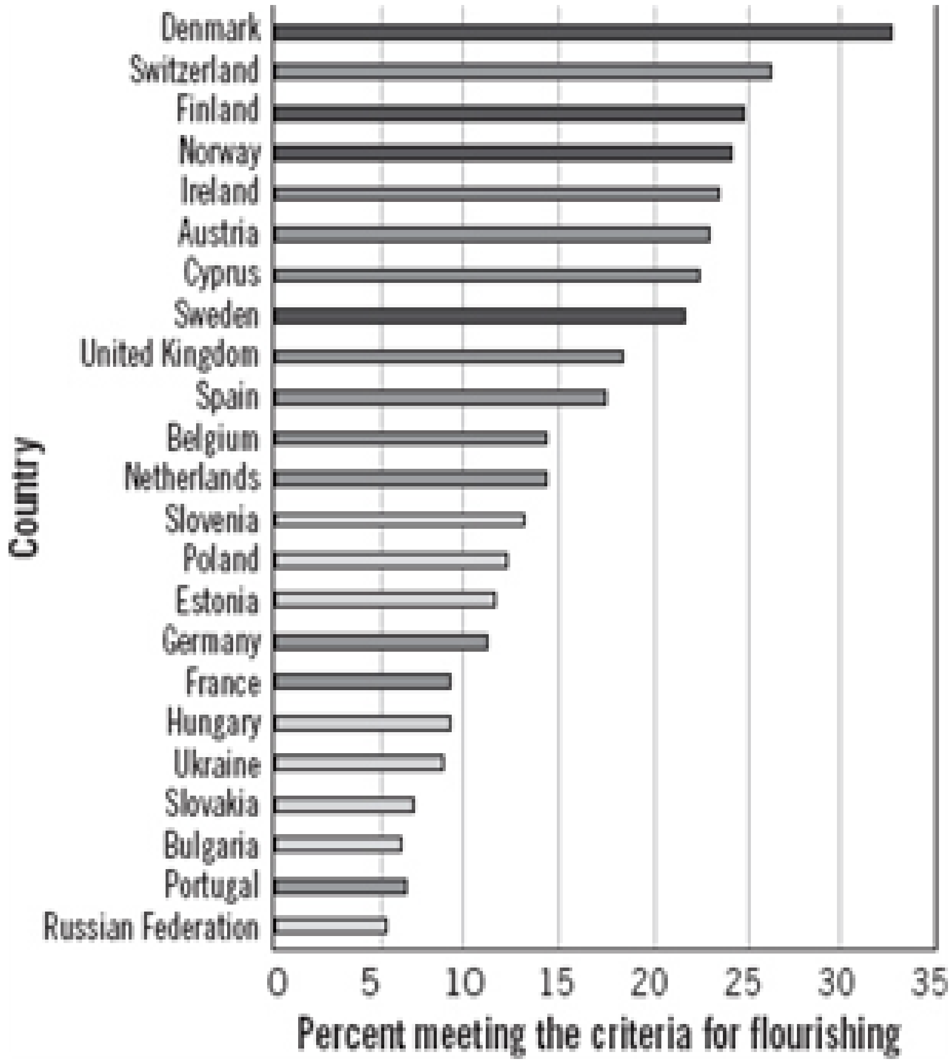
1. Within a given country, richer individuals report higher levels of life satisfaction.
2. Richer countries on average have higher levels of life satisfaction.
3. Analysing the time series of countries observed repeatedly, , they show that as countries grow, their citizens report higher levels of satisfaction.

- Importantly, the magnitude of the relationship between satisfaction and income is roughly the same across all three comparisons, which suggests that **absolute income** plays a large role in determining subjective wellbeing.

Age Health and SWB

- Deaton (2010)
- Satisfaction with health declines with age, and is lowest among the elderly.
- More interesting is the fact that the rate of deterioration is much faster in poor than in rich countries,
- In some of the richest, satisfaction with health actually rises toward the end of life.
- Seems that a <u>complex</u> interactive model is needed.

Seligman (2012), Huppert & So (2009) Flourish PERMA theory



- Positive emotion,
- Engagement,
- (Positive) Relationships
- Meaning,
- self-esteem,
- optimism,
- Resilience
  - ESS better suited than WVS at measuring the syndrome.

The Easterlin Weathervane

- Easterlin (2012) Happines, Growth and Public Policy. – after arguing for decades that tehre is a baseline for happiness that societies return to, we now find that happiness can be changed!
- “Economic growth in itself will not do the job. Full employment and a generous and comprehensive social safety net do increase happiness”
- But especially the latter is a strong (partial) correlate of net societal wealth!

Measurement Problems

- WVS conducted every 4 to 6 years, sometimes with longer time lags between measurements.
- Plenty of time for the country to enter and leave a recession, with overall GDP still higher than at the previously measured level.
- However, the effects of this recent drop in GDP per capita would still have psychological after-effects (human psyche resents loss more than it appreciates a win)

Potential Work-Arounds

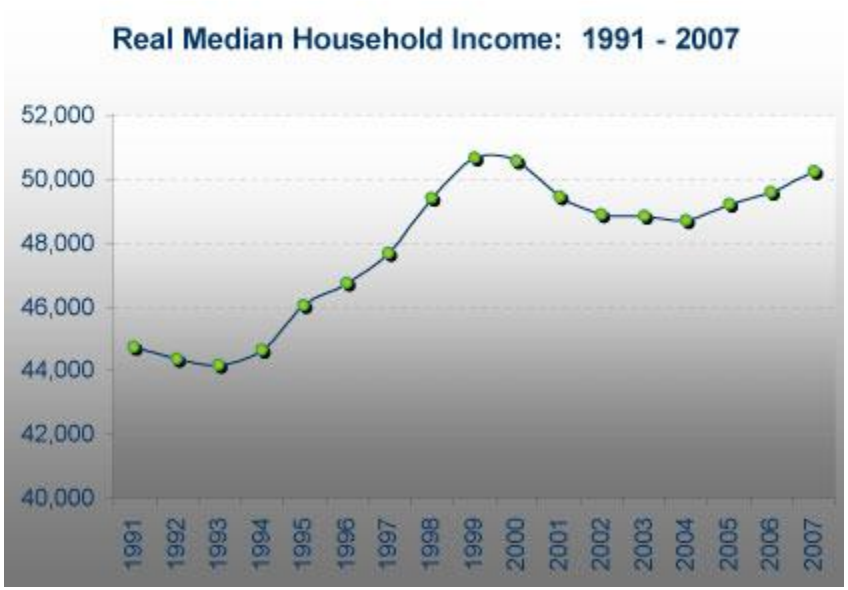
- Use non WVS data. Gallup conducted regularly in a number of countries and measures life satisfaction variables. However, data is behind paywall.
- Adjust WVS data to account for this discrepancy.
  - Account for recession in recent past (for instance, past 3 years) and take into consideration depth of recession.
  - A 1% dip sustained for 3 months should probably have less of an effect than a 36 month drop in GDP leaving the country 25% poorer (Latvia, Estonia).

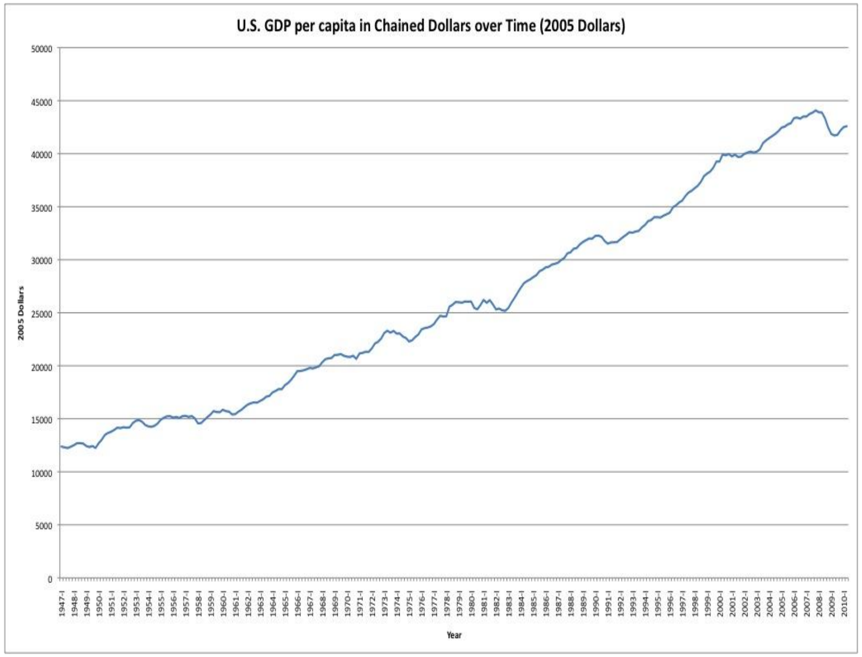
Potential confounders

- Recessions are relatively common, with one on average every 7 years in the US.
- Use long time-spans of at least 20 years, limiting number of countries. WVS 2012 very helpful in this regard, dramatically increasing number of cases and credibility of analysis.
- Verme, P. (2011) GDP vs GINI – importance of inequality

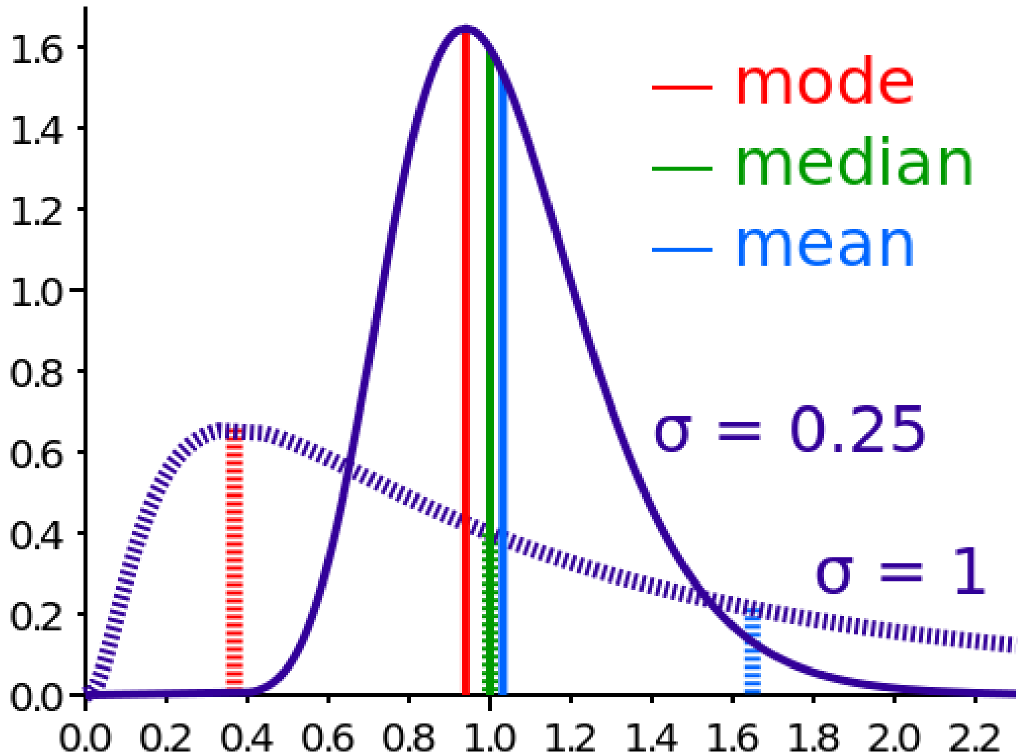
Financial Satisfaction vs Life Satisfaction

- Rise in median income vs rise in GDP per Capita





Mean and Median



Coconut island metaphor

- Imagine you live on an island with a hundred people, where each owns a coconut tree. Each tree produces one coconut per day.
- Average GDP per capita and median income are the same, at 1 coconut/capita

Coconut isle

- Now imagine a technological or globalization driven deux-ex-machina that makes 1 of the coconut trees produce 101 coconuts per day.
- That means that 1 individual gets 101 coconuts, and 99 still get 1.
- Average income has doubled to 2 coconuts per capita.
- Median income is still 1 coconut.

Psychology of Coconut Island

- If you were a coconut islander, would your SWB
  - Increase?
  - Stay the same?
  - Decrease?
- Arguably if extra income helps with SWB, for 1 islander SWB would increase.
- But the other 99 are at constant income, and may even be jealous of the sudden coconut bonanza of their neighbor. Envy → unhappiness.

Other confounders

- Are the Danes really happy, or are they simply used to giving positive answers to questions about personal happiness and well-being?
- The cultural post-communist vs Latin-American gap.
  - Atomization of family structure
  - Erosion of social trust?
  - Crime rates and GINI in much of Latin America
- Better weather? Average sunshine index (CL Huang, YJ Goo 2008)

Suggested Model

- Multi-level, accouting for both literature-derived individual-level measures
- income, age, health, stable partnerships, employment, additional flourishing indicators, and friendships

Suggested model

In adition, also use country-year level macro-level drivers to create a complex SEM model,

- the state of the economy,
- the quality of the physical enviromnent (ecological quality, sunshine)
- background emancipative values peer expectations, and
- the quality of political/representational institutions (effective democracy). Welzel and Alexander (2010)

Limits on number of variables to keep model identified.

New Contribution

- Looking at the median income instead of GINI skewed GDP/cap should provide a truer snapshot of state of financial progress of the majority of the people.
- Idea of relative income not new: Ball, Chernova (2008), also Dynan, Ravina (2007), but none cross-national, multilevel, large span time-series.

Unsolved conceptual issues: R4

- Mean household or person income do not account for the value of direct and indirect government transfers.
- Example: the unemployment and old age safety net, healthcare and childcare subsidies, also quality of physical, educational and social infrastructure (Rides to school, Roads to drive, Rhodes scholarships and Rows of theater seats)

Unsolved conceptual issues

- Currently using a relatively rough and geographically limited indicator – transfers per capita
- Cannot distinguish between waste and effective spending
- Unclear that I can establish a clear causal path – plausible causal stories both ways (Well-being engendering safety net vs. stifiying nanny state)

State of Progress

- Data mostly gathered (still some work to be done to expand sunshine index and try to broaden median income data (so far using Luxembourg Income Study data and “real wage” data from ILO.))
- Currently working to intergrate new indicators with WVS dataset.
- Some of the “flourishing” indicators only present in more restricted ESS data.
- Using ESS would eliminate a lot of interesting variation in income, education levels, and culture.
- Given similarities between ESS and WVS, running both models would not be terribly hard.

Progress Timeline

- Paper should be in final draft by end of February, publishable by March.
- Still time to make significant changes;
- Vast literature, rapidly expanding (15 major papers (>300 citations) on topic in last 3 years), easy to miss new important developments;
- Any and all suggestions more than welcome, especially as concerns data acquisition!

The End

THANK YOU FOR YOUR ATTENTION AND COMMENTS!