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Happier Than Thou: A Reassessment of the Happiness-Income Paradox

PROGRESS REPORT

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Progress Report Contents

- Subjective Well-Being: Face, Content and Criterion Validity.
- Assessment of new research out since last presentation.
- Exploring the Disagreement Paradox
 - Variants of Income Operationalization
- Future Directions

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Validity of Life Satisfaction measures

- 98% response rate on WVS shows significant respondent interest.
- $R=.94$ country level correlation between WVS and Gallup, and similarly high for WVS and ESS.
- Convergence with Nonself-Report Measures
 - Schneider and Schimmack (2009) meta-analysis
 - Zou et al (2012) social network study.
 - Expert raters convergence (Diener 1985).

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New research out: disagreements persist

A lot of new research on SWB out in the past half-year:

- Sacks, D. W., B. Stevenson, and J. Wolfers (2012), C. Graham (2012).
- Loa & Graham (2009) return:
Graham, Chattopadhyay (2012)
- Easterlin (2012)
- Veenhoven (2013)

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.

The New(est) Easterlin Argument

- Easterlin (2012) Happiness, Growth and Public Policy. – after arguing for decades that there 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!

Veenhoven (2012)

- GDP growth and SWB are related:
 - On average a 1% growth of the income per capita in a year was followed by a rise of average happiness on scale 0-10 of 0.00335.
- Veenhoven argue that 60 years of 5% growth yield a full point advance.

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Two Academic Camps in SWB Literature

Pessimists:

Average national happiness does not increase over long spans of time, in spite of large increases in per capita income (Easterlin 1974)

Optimists:

Empirical research shows a clear relation between income and happiness. (Deaton 2008, 2010)

Two Academic Camps in SWB Literature

Pessimists:

- Adaptation (MacCulloch 2007)
- ‘relative deprivation’ (Stouffer 1949)
- ‘hedonic treadmill’ (Cambell 1971)
- ‘negative effects of growth’
 - stress (Schorr 1993)
 - health effects of mass consumption (Scitovski 1976)
 - deadening materialism (Lane 2000)

Optimists:

- Ascending the Maslowian pyramid of needs (Veehoven 1991)
- Step function: Zero marginal gains for rich countries ? (Layard 2005)
- Human Empowerment (Robbins 1998, Welzel 2010)
- Sacks et al (2012) see no evidence for a satiation point above which income and well-being are no longer related.

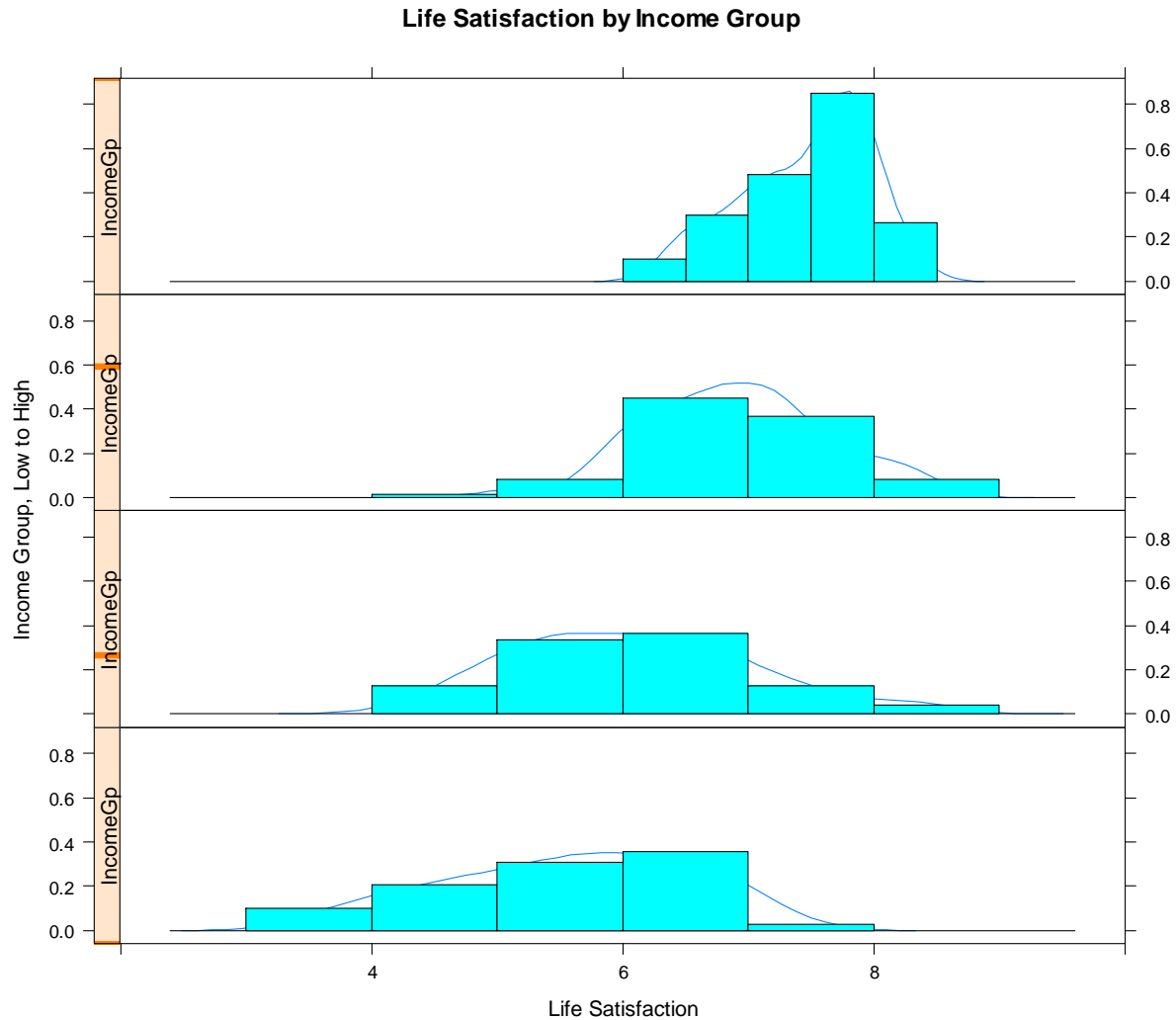
Paradoxical Disagreement

- How can so many educated people who have studied the same phenomena for decades disagree?
 - They all use the same or similar data (WVS, ESS Gallup)
 - They all measure happiness in roughly correspondent ways (>90% correlation between reported measures in replications)
 - Wide differences in “Income” operationalization stands out as possible explanation.

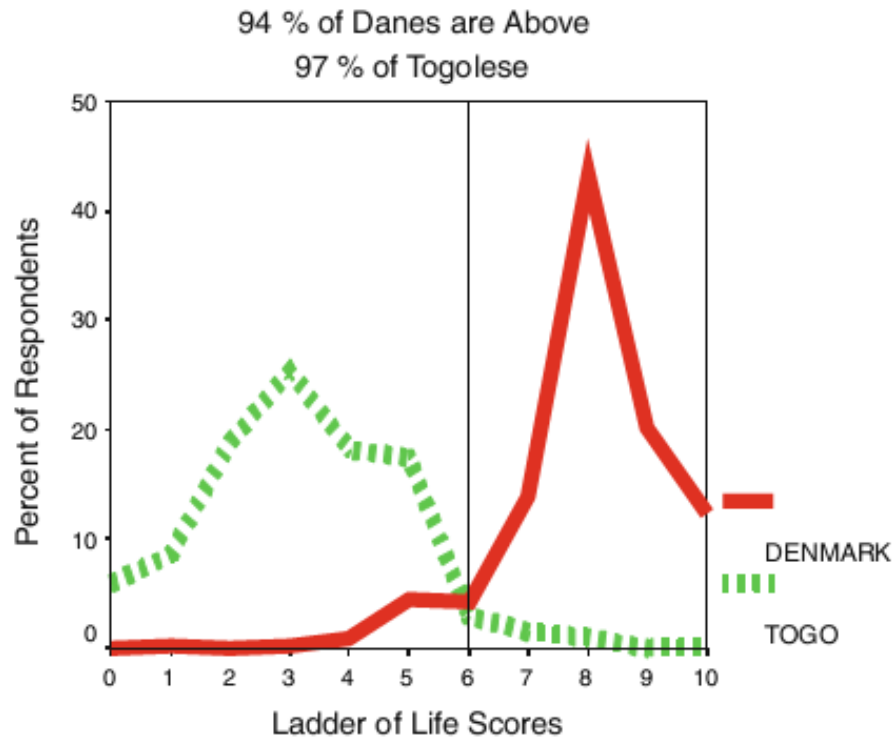
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The Rich are Happier than Thou Art



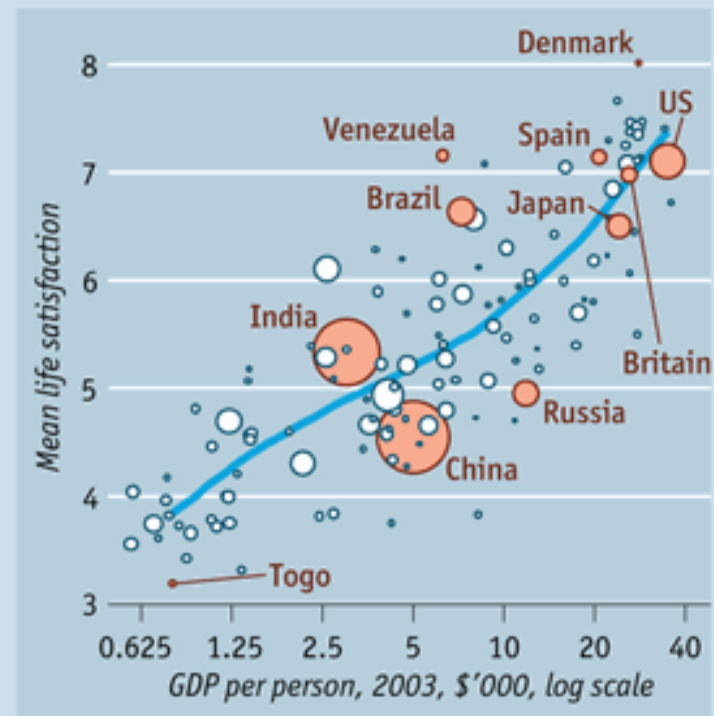
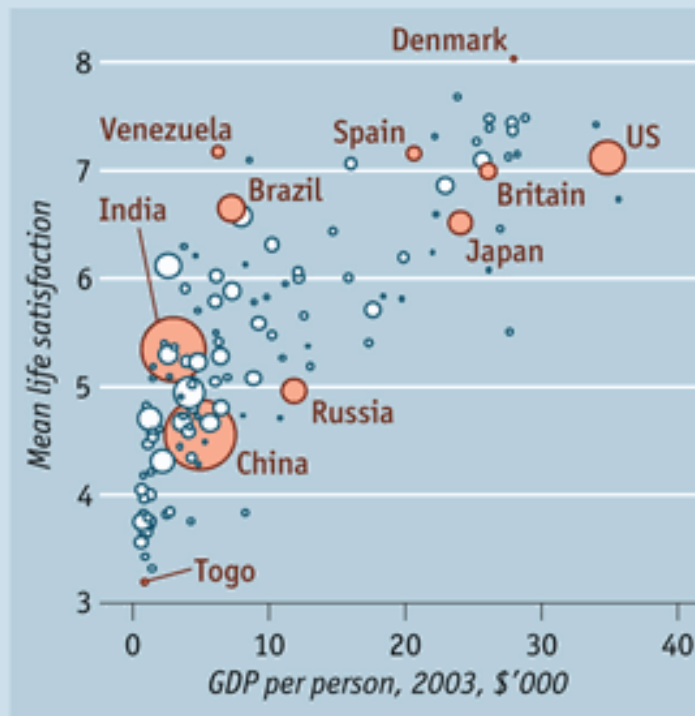
Highest responses in Northern Europe, lowest in Sub-Saharan Africa



Log GDP vs. Absolute GDP

Life satisfaction and GDP per person at PPP*

Circle size is proportional to population size



Sources: Penn World Table 6.2; Gallup World Poll, Angus Deaton

*Purchasing-power parity

Advantages of Logarithmic Form

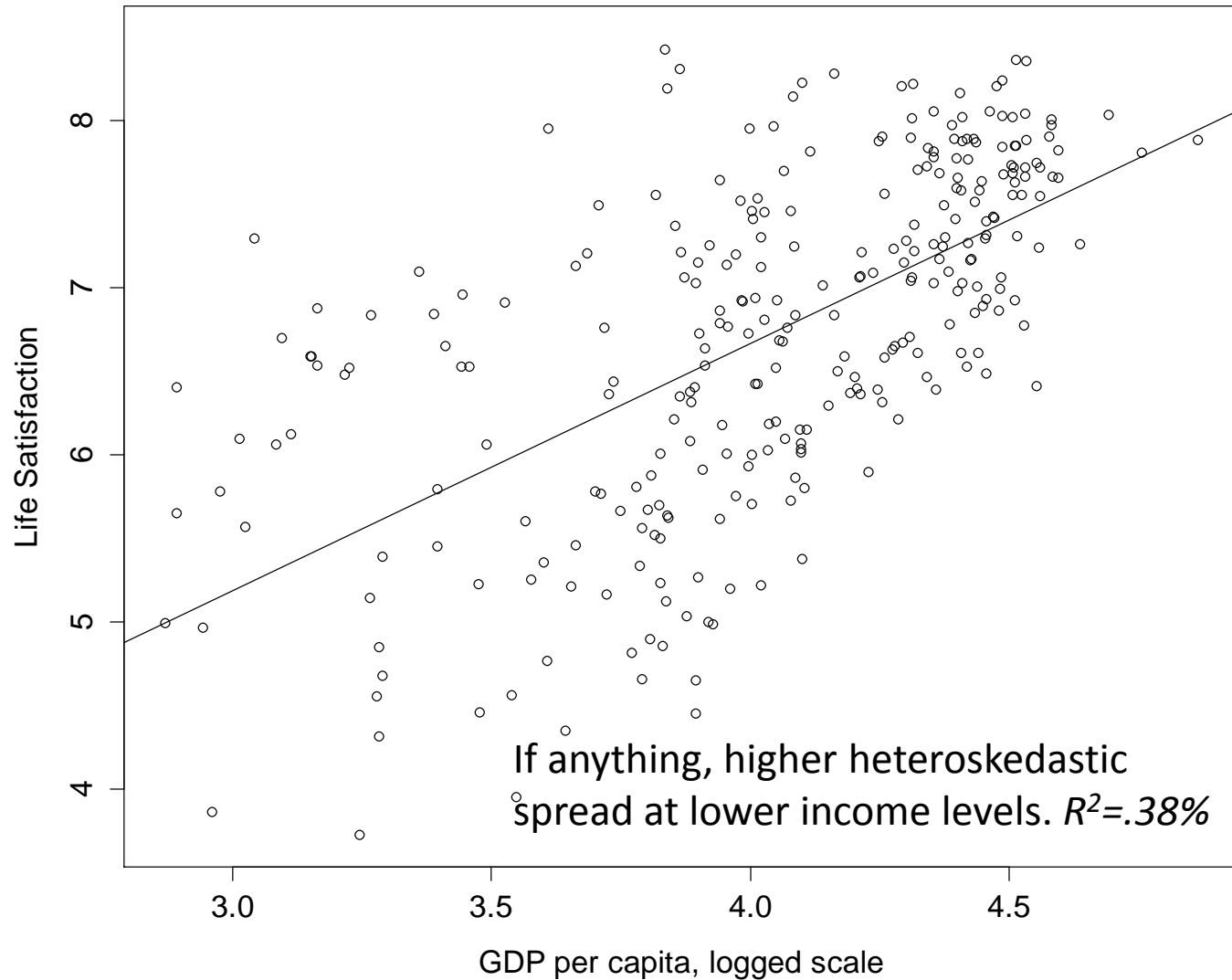
- If you have no money and someone gives you \$10, that is quite meaningful. Now you are able to take the subway, get something to eat, and make a call at a pay phone, three things you would not have been able to do when you had nothing.
- Those \$10 mean a whole lot to you in a way they wouldn't if you had \$10,000 and I gave you \$10. With your \$10,000 you would already have been able to do all the things I mentioned above. Having an extra \$10 would not make much meaningful change in your immediate material conditions or your investing options.
- The intuition here is that as our income rises, new happiness-rising activities become possible that were out of reach before.

The Washing Machine Threshold?



(Rosling 2010), also (Layard 2005)

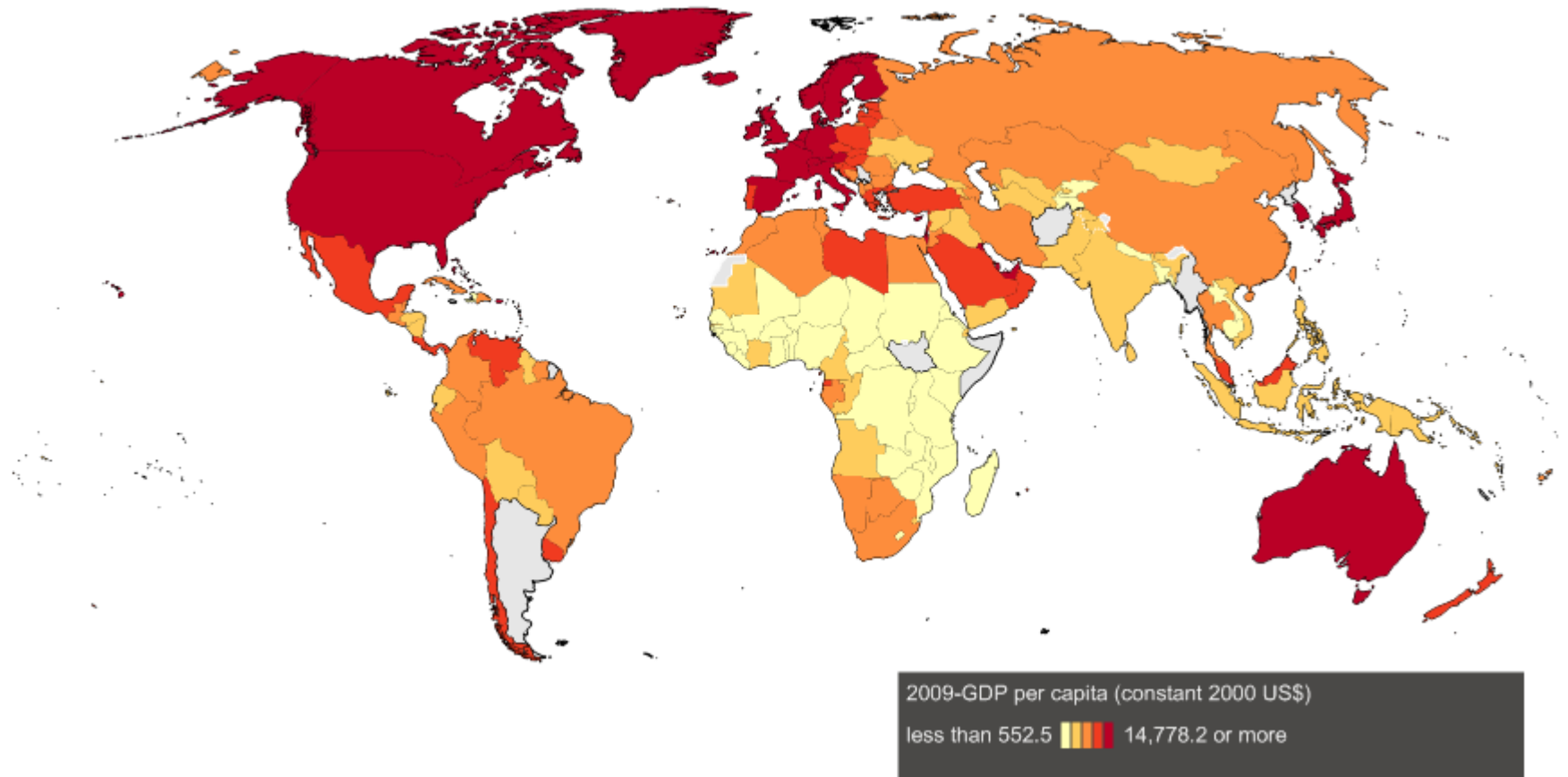
No Clear Washing Machine Threshold



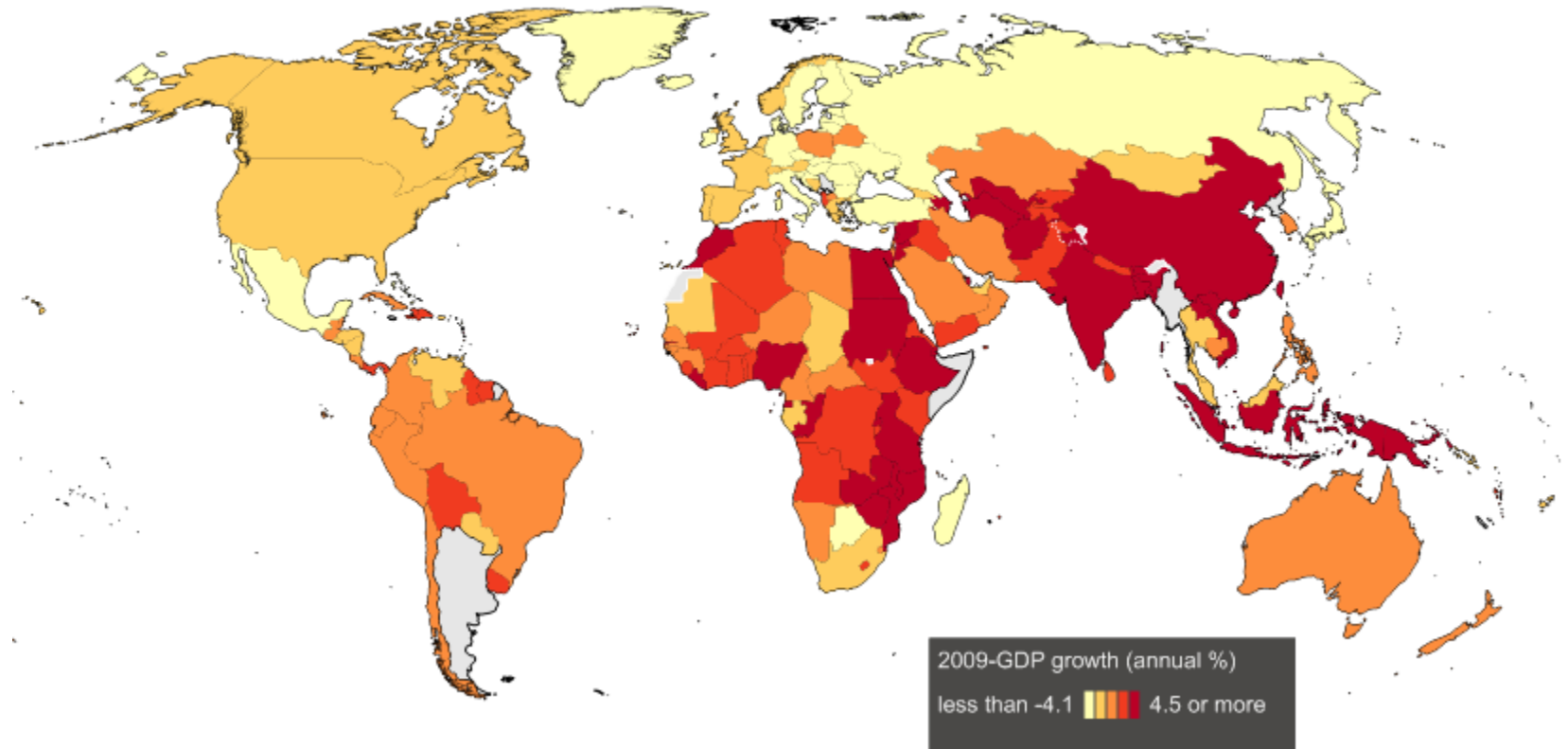
GDP growth paradox

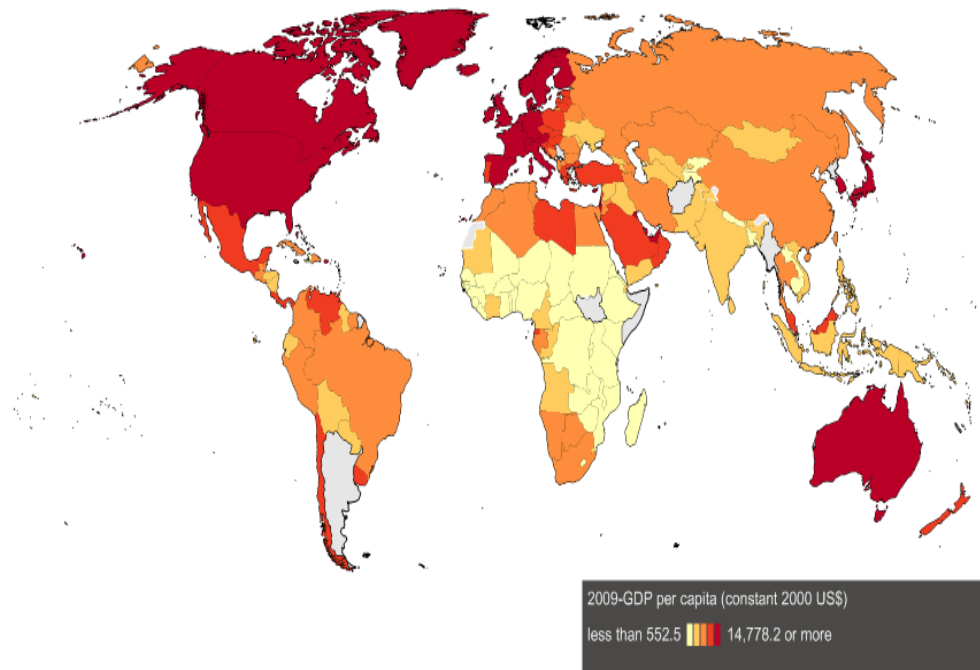
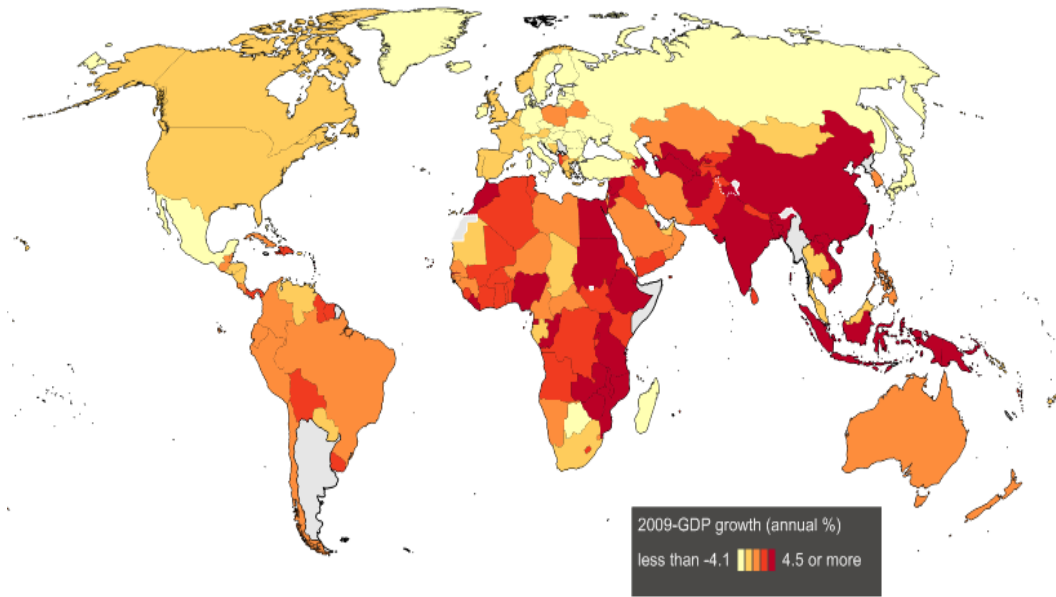
- Easterlin (2005, 2012), and Lo and Graham (2012) use a different operationalization, namely, GDP growth.
 - Marginal argument, based loosely on the economic literature: change in GDP should result in a corresponding change in SWB;
 - But percentile change rates are income-level dependent
 - Percentile change rates need not inform about absolute income level

GDP per Capita (2009)

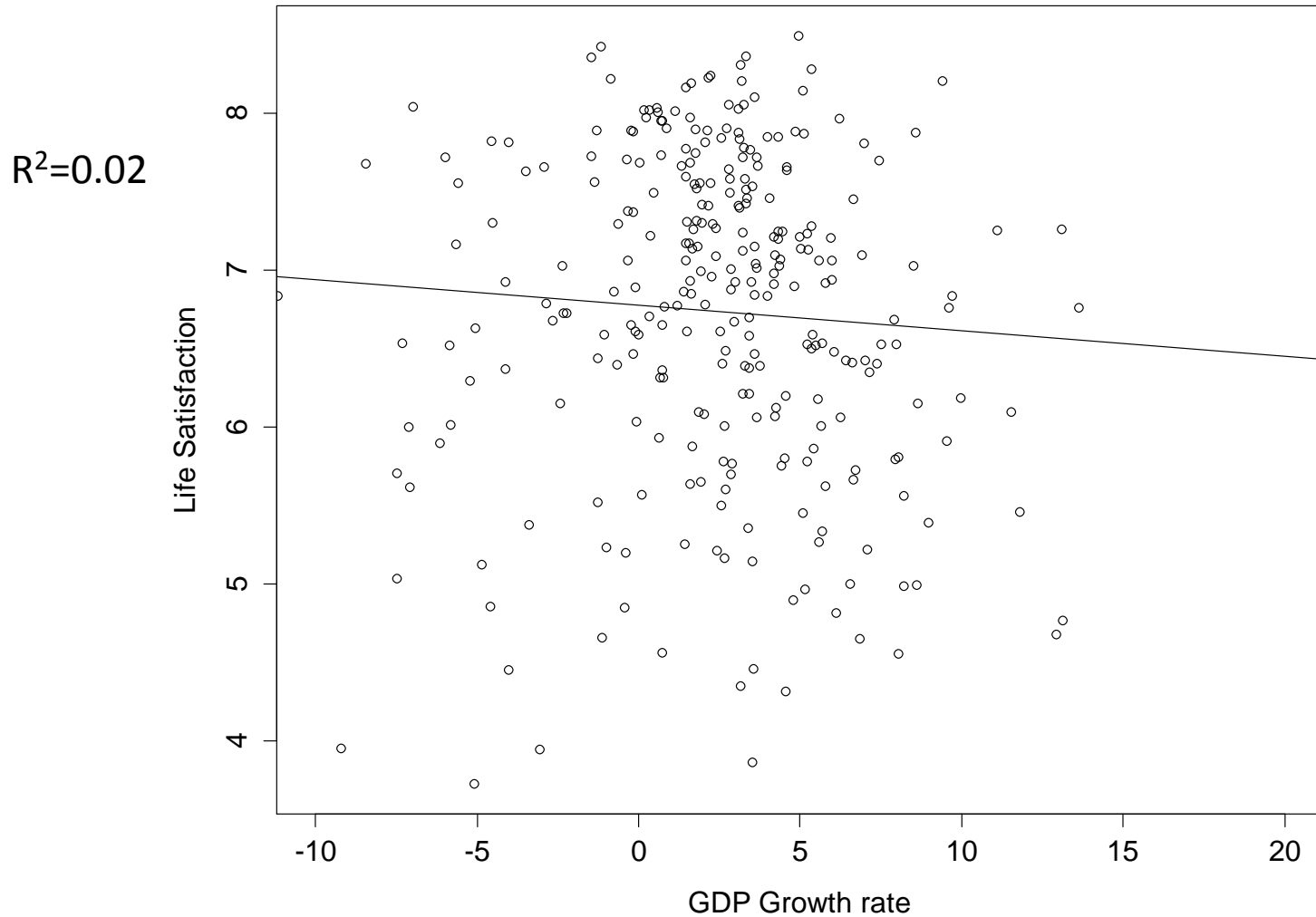


GDP Growth per Capita (2009)





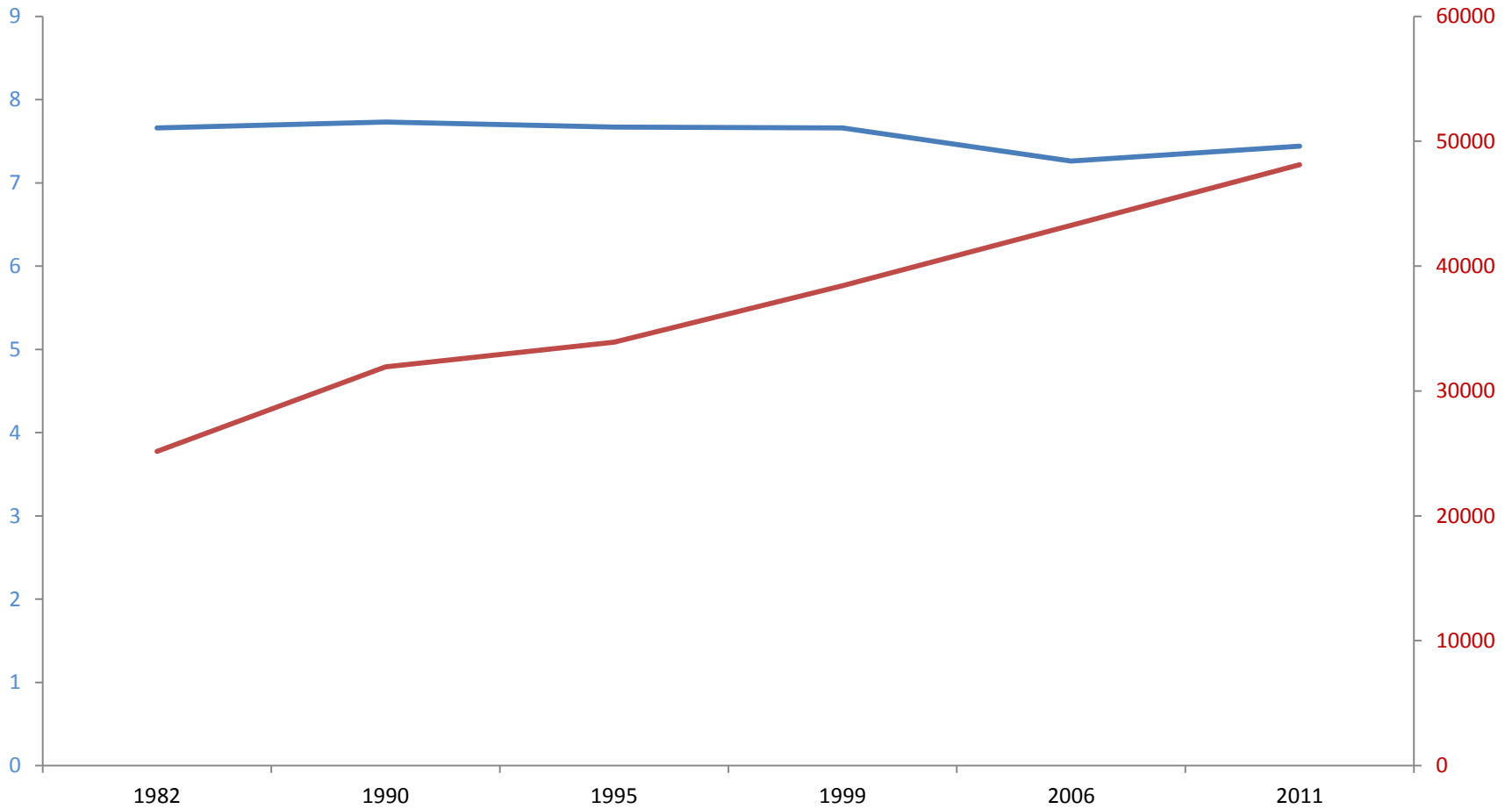
Growth rates are not relevant



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USA: unhappy huddled masses?

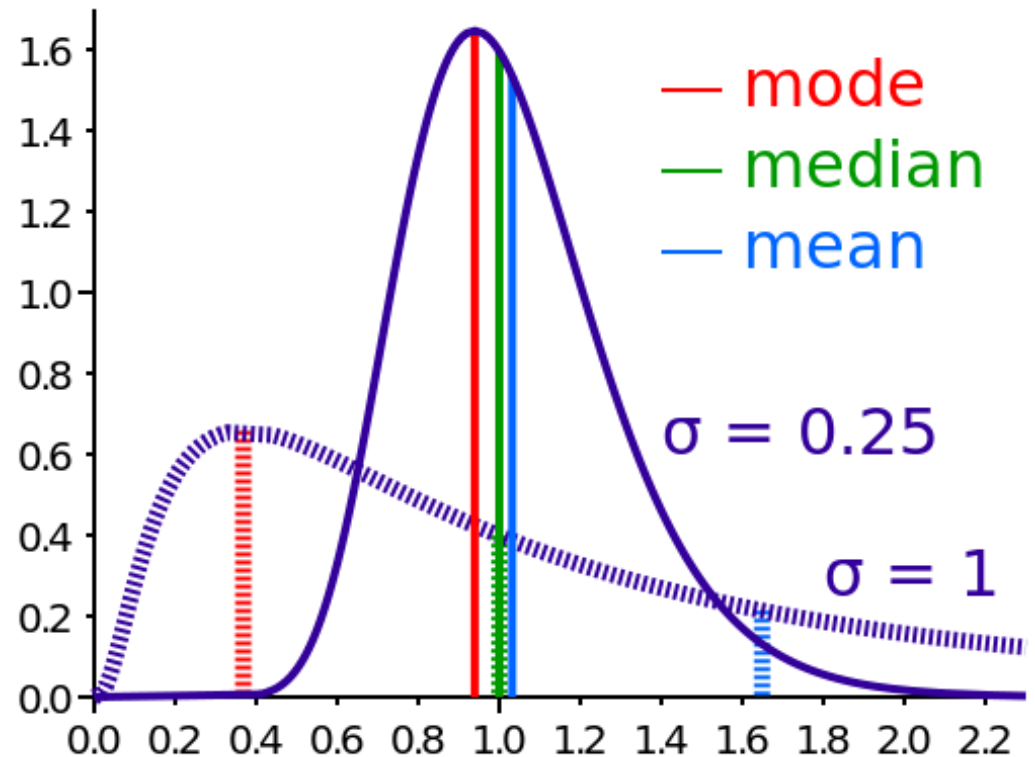


American Paradox – Rising Inequality?

- The US, remains a paradoxical counter-example: GDP has approximately doubled since 1972 and well-being has remained roughly constant (WVS) or, as measured by the General Social Survey, even decreased slightly.
- While the average income has increased by 0.8 log points, the average of log income in the General Social Survey—which is what we would expect to influence well-being—has increased by only 0.17. That is, perhaps the well-being of those Americans in this survey has not grown much, because few survey respondents shared in the fruits of rising GDP.

Long Tails of Economic Growth in the USA

- Globalization and automation have led to a decline in real wages for low-skilled American males between 1971 and 2013.
- This could affect national SWB and neutralize the effect of income gains



Median Household Income

- Compiling year-by-year data on median household income. Especially with regards to poor countries, I have had great difficulties finding reliable and comparable indicators.
 - Most extant measures country-level and in local currency;
 - Few cross-national (OECD, LIS) have limited coverage and generally rich countries.

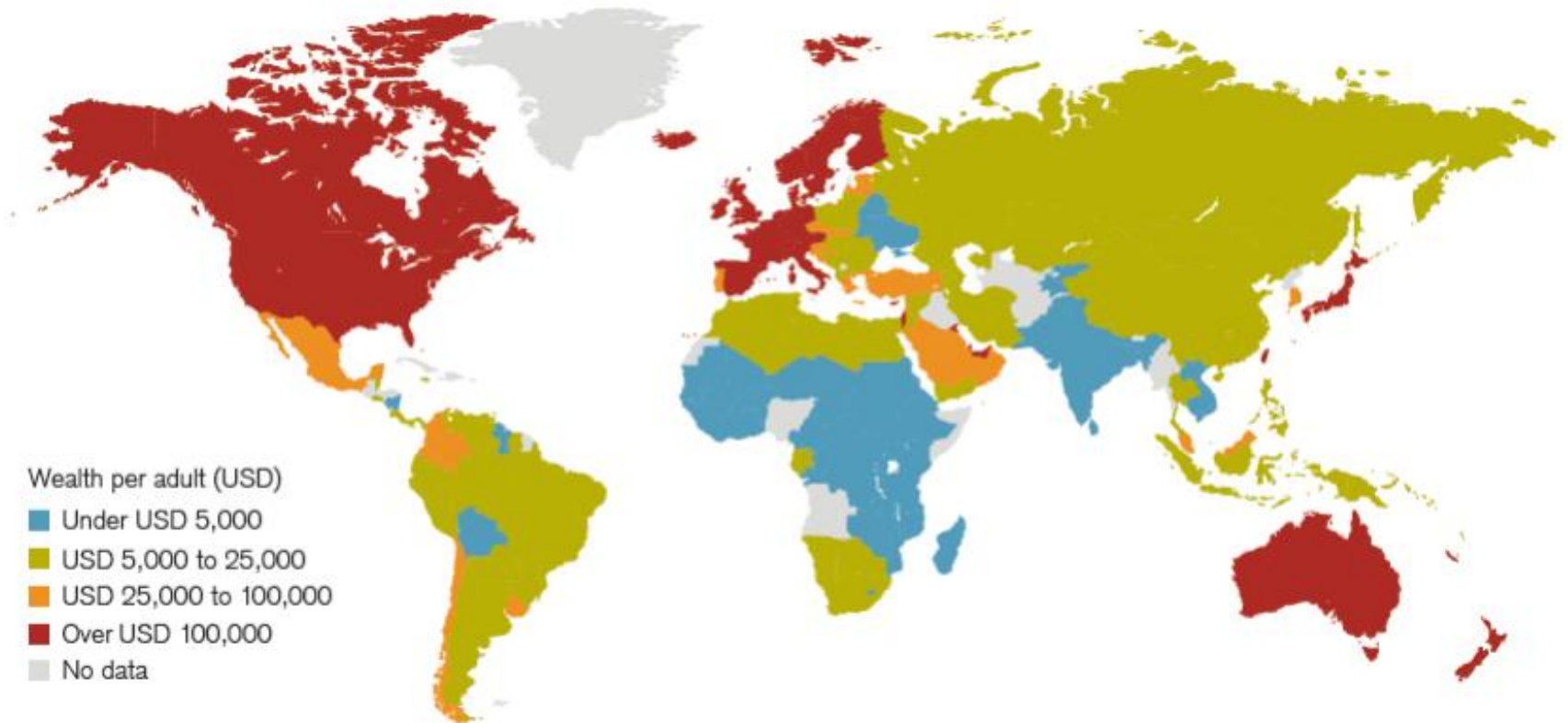
Proxy and Alternative Measures

- GINI or $\delta(\text{GINI})$ – not powerful enough;
- Interaction of measures of income and measures of inequality:
 - Interpretation Problems - measure overlap (high GINI low income vs. low GINI high income - same value);
- Compare individual level actual income distribution at PPP for constant price real log-income from each country.

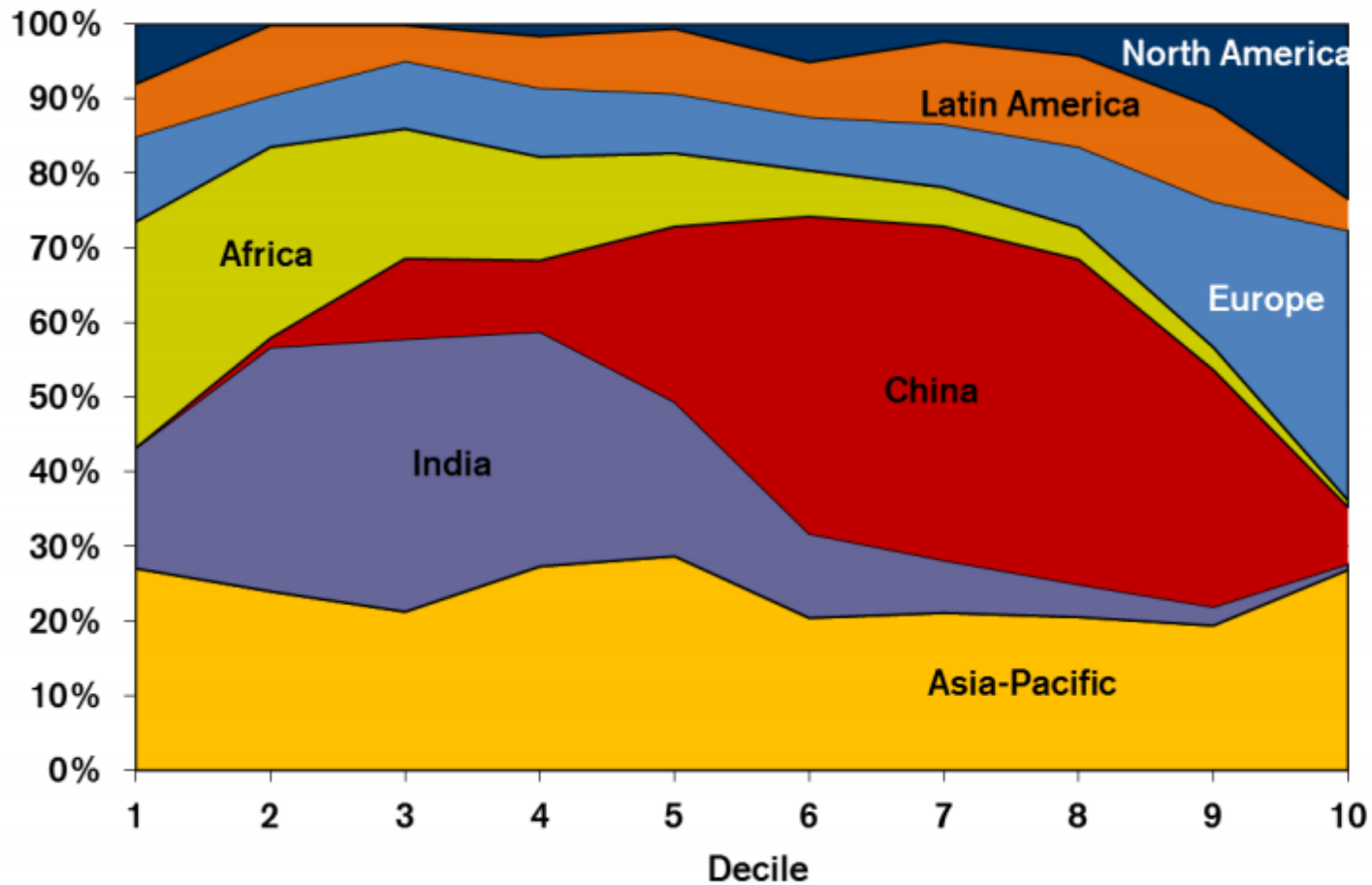
Net Wealth and SWB

- Headey & Wooden 2004 –using Household, Income and Labour Dynamics in Australia (HILDA) Survey: wealth (as a proxy for economic security) is at least as important to well-being as income.
- Oshio, Kobayashi (2010) in Japan.
- Kim 2012: HILDA, Health and Retirement Study (US), and Korean Longitudinal Study of Ageing

World wealth levels, 2012

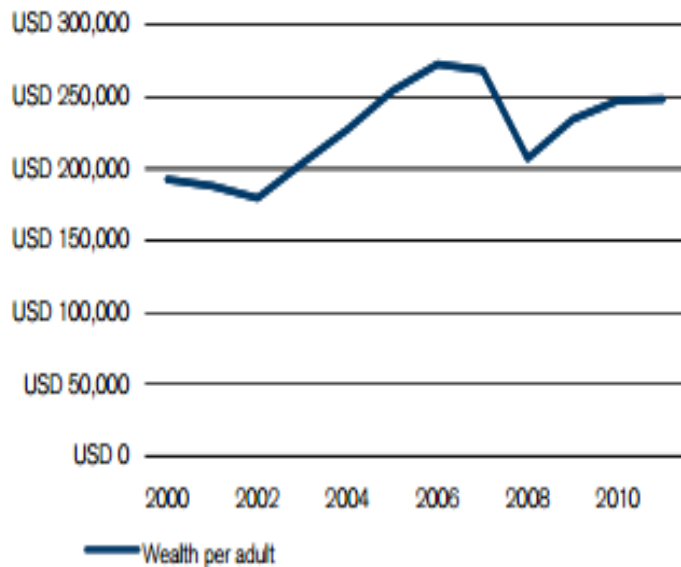


Regional composition of global wealth distribution, 2012



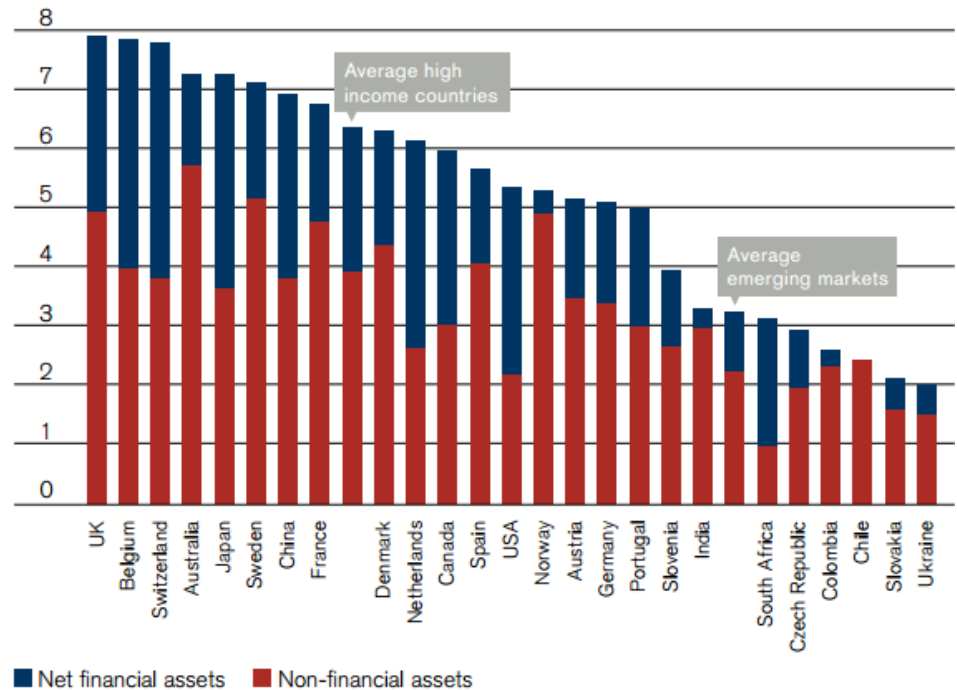
Net average (and median) wealth data is better for rich countries

Wealth per adult over time



Net worth as multiple of disposable income, 2000–8

Source: James Davies, Rodrigo Lluberas and Anthony Shorrocks, Credit Suisse Global Wealth Databook 2011



Current Sources for Net Wealth

- Current source: Credit Suisse Global Wealth Databook, only 17 countries
- OECD: Measuring the Global Distribution of Wealth (Davies, Lluberas 2012) – wider geographic coverage, but only average, not median data, and limited time coverage.

Log Consumption per Capita

- Data of this sort could explain China's happiness deficit – a lot of the wealth is invested, not consumed, making an income measure overestimate qualitative improvements in SWB.
- Current source: Eurostat;

The End

**THANK YOU FOR YOUR ATTENTION
AND COMMENTS!**