

Income or Consumption: Which Better Predicts Happiness?

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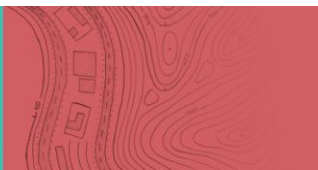
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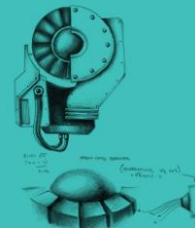
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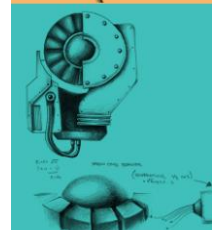
Precursors

- Stiglitz-Sen-Fitoussi (SSF, 2009) recommend, *inter alia*, that in thinking about welfare we should:
 - Concentrate on consumption & wealth (over production)
 - Emphasise the household (rather than individual) perspective
- Deaton (2010, 2016) demonstrates the veracity of self-rated measures of wellbeing
- Europe's EU-13 index is a 13 item material deprivation index that reflects these ideas
- New Zealand's (NZ) Economic Living Standard Index (ELSI) incorporates both consumption-based and self-reported items to measure material wellbeing

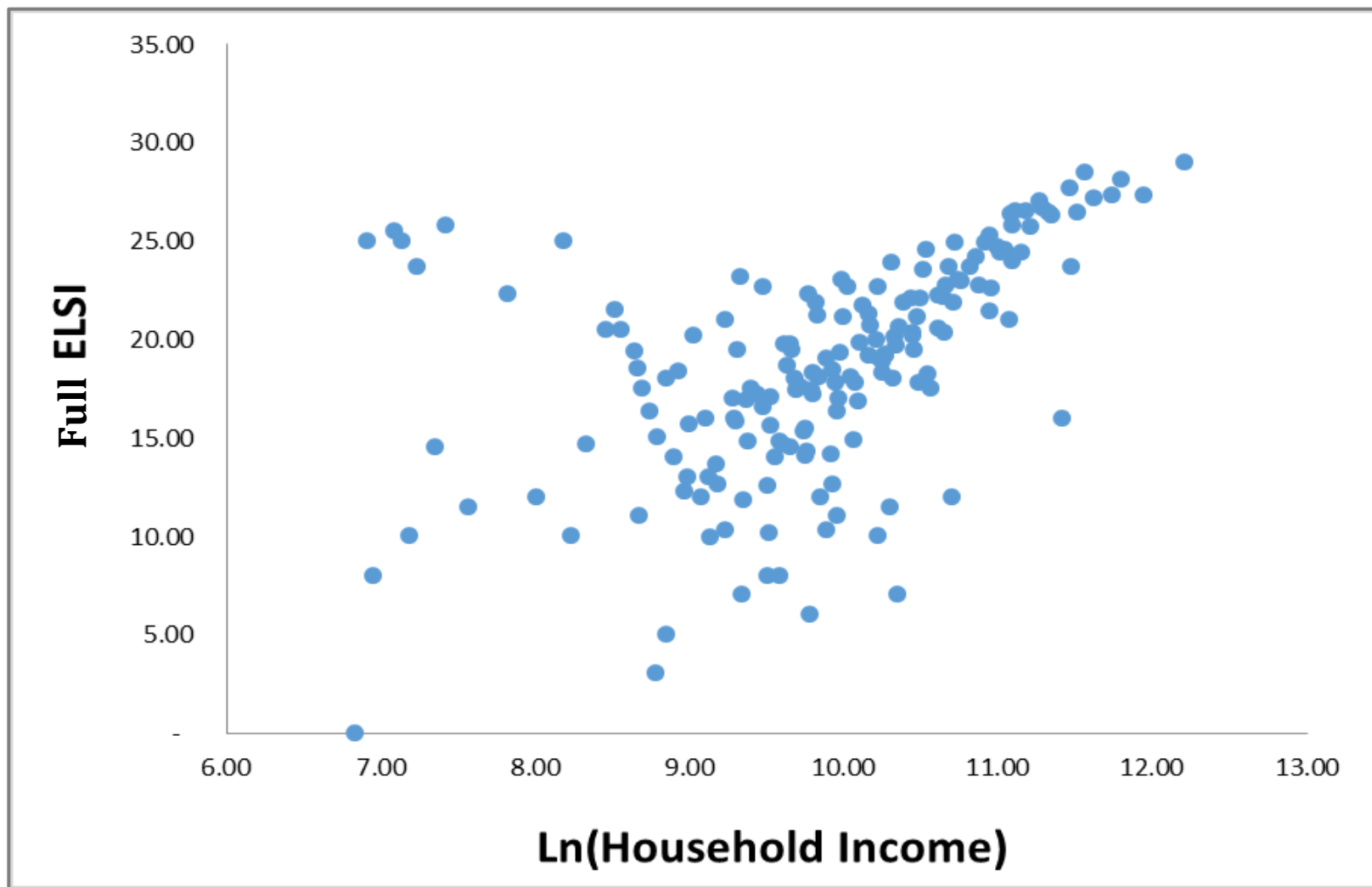


ELSI (economic living standards index)

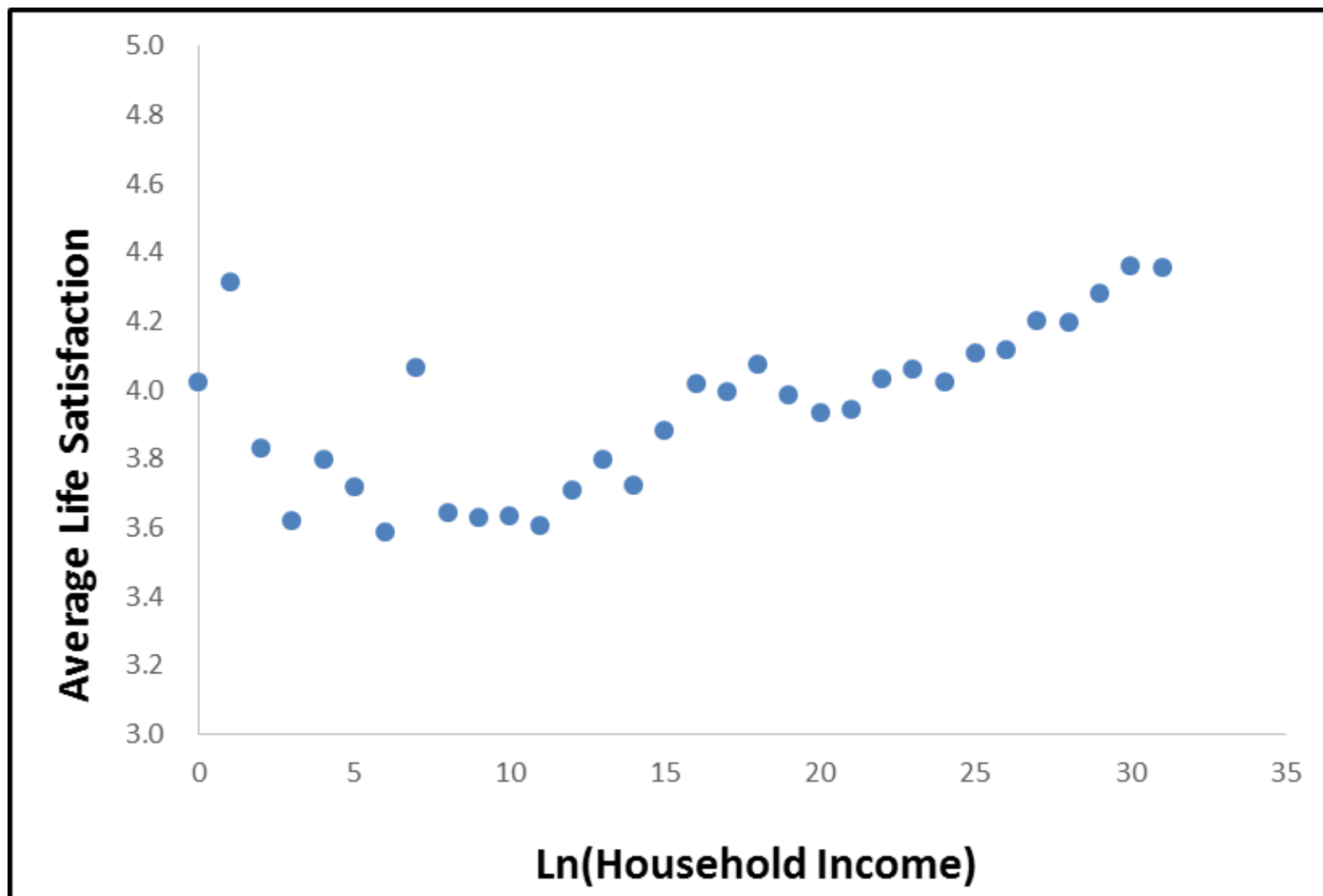
- Created by NZ Ministry of Social Development (Jensen et al, 2005)
 - 7 years prior to GSS
 - (i.e. not retrospectively fitted to SWB data)
- 3 key elements:
 - Essentials
 - Economising
 - Self-assessments
- ‘Full ELSI’ includes all 3 elements
- ‘Objective ELSI’ includes only first 2 elements
- ‘Subjective ELSI’ includes only self-assessment elements



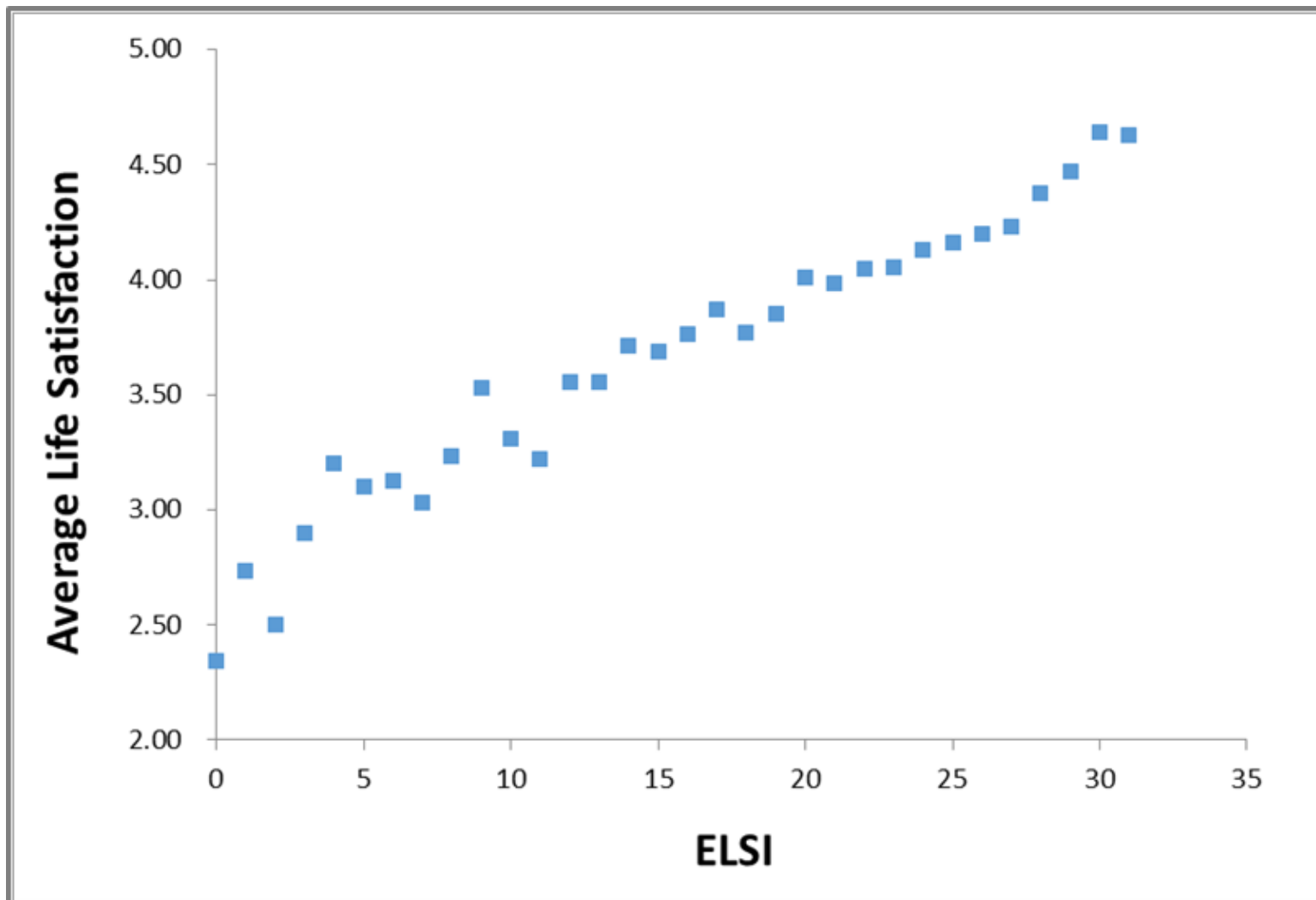
Full ELSI vs log(Income)



SWB vs (log)Income

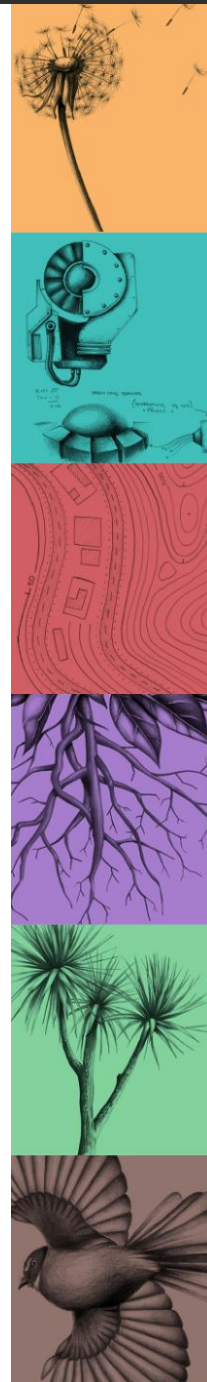


SWB vs (Full) ELSI



Key findings

- LS (SWB) +ly related to income when ELSI excluded
- LS +ly related to ELSI when income is excluded
- **Income never significant when (full) ELSI included**
 - **This is the case for all sub-groups!**
- With only *objective ELSI*, ELSI remains significant at 1% while income just significant (at 10%)
 - Both objective & subjective ELSI significant when included separately, and then income is again not significant
- **ELSI significant (& dominates income) for all groups**
 - Even for wealthier sub-groups
 - And despite ELSI being designed as a deprivation measure



Conclusions

- Consumption-based ELSI is far superior to income as an objective measure that predicts individuals' SWB (LS)
- This result supports life-cycle theory & is general across:
 - rich/poor,
 - urban/rural,
 - old/young
 - ethnicities
 - equivalisation methods
- Both objective & subjective factors are related to SWB
- **Results indicate that public policy should concentrate on consumption-based measures of poverty & welfare rather than on income-based measures if citizens' wellbeing is of policy interest**

