

Subjective Well-Being, Income, Economic Development and Growth

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Implications of the Easterlin Paradox

- ❑ *“Why do national comparisons among countries and over time show an association between income and happiness which is so much weaker than, if not inconsistent with, that shown by within-country comparisons?”* –Easterlin (1974)
 - ▶ Reference-dependent preferences
 - Relative income matters [Other people’s consumption matters]
 - Habit formation = hedonic treadmill [Other period’s consumption]
- ❑ Policy implications:
 - ▶ Growth: *“My results, along with mounting evidence from other time series studies of subjective well-being, do on balance undermine the view that a focus on economic growth is in the best interests of society.”* –Easterlin (2005)
 - ▶ Public finance: If preferences are interdependent
⇒ Pigouvian rationale for taxing labor supply / conspicuous consumption

Subjective Well-being

- ❑ “**Subjective well-being** refers to all of the various types of evaluations, both positive and negative, that people make of their lives. It includes reflective cognitive evaluations, such as life satisfaction and work satisfaction, interest and engagement, and affective reactions to life events, such as joy and sadness.” (Diener, 2005)
- ❑ Typical questions:
 - ▶ Happiness
 - “Taking all things together, would you say you are: very happy; quite happy; not very happy; not at all happy.”
 - ▶ Life satisfaction
 - “All things considered, how satisfied are you with your life as a whole these days?” [1=Dissatisfied – 10=Satisfied]
 - ▶ Satisfaction ladder:
 - “Here is a ladder representing the ‘ladder of life’. Let's suppose the top of the ladder represents the best possible life for you, and the bottom, the worse possible life for you. On which step of the ladder do you feel you personally stand at the present time? [0-10 steps].”

Research Question: What is the Relationship Between Subjective Well-being and Income?

Types of comparisons	1970s view “Easterlin Paradox”
<i>Within country:</i> Rich v. poor people in a country	Big effects
<i>Between country:</i> Rich v. poor countries	Statistically insignificant effects interpreted to be zero
<i>National time series:</i> Country when rich v. poor	No effects (Japan, USA, Europe)
<i>International panel:</i> Countries with fast v. slow growth	Largely unexamined
Implications	Relative income determines well-being
Policy conclusions	De-emphasize growth

“My results, along with mounting evidence from other time series studies of subjective well-being, do on balance undermine the view that a focus on economic growth is in the best interests of society.”
– Richard Easterlin (2005)

Research Question: What is the Relationship Between Subjective Well-being and Income?

Types of comparisons	1970s view "Easterlin Paradox"	1990s view "Satiation"
Within country: Rich v. poor people in a country	Big effects	Big effects for income <\$15k - But not for the rich
Between country: Rich v. poor countries	Statistically insignificant effects interpreted to be zero	GDP<\$15k: Strong effects GDP>\$15k: No effects
National time series: Country when rich v. poor	No effects (Japan, USA, Europe)	No effects (Available data are for rich countries)
International panel: Countries with fast v. slow growth	Largely unexamined	Largely unexamined
Implications	Relative income determines well-being	Relative income determines well-being... once "basic needs" are met"
Policy conclusions	De-emphasize growth	Rich countries should de-emphasize growth and tax labor supply

"once a country has over \$15,000 per head, its level of happiness appears to be independent of its income"
 - Richard Layard (2003)

Research Question: What is the Relationship Between Subjective Well-being and Income?

Types of comparisons	1970s view “Easterlin Paradox”	1990s view “Satiation”	New view:
Within country: Rich v. poor people in a country	Big effects	Big effects for income <\$15k - But not for the rich	Strong effects: $\beta^{\text{within}} \approx 0.35$
Between country: Rich v. poor countries	Statistically insignificant effects interpreted to be zero	GDP < \$15k: Strong effects GDP > \$15k: No effects	Strong effects $\beta^{\text{between}} \approx 0.35$
National time series: Country when rich v. poor	No effects (Japan, USA, Europe)	No effects (Available data are for rich countries)	Strong effects $\beta^{\text{time series}} \approx 0.35$
International panel: Countries with fast v. slow growth	Largely unexamined	Largely unexamined	Strong effects $\beta^{\text{panel}} \approx 0.35$
Implications	Relative income determines well-being	Relative income determines well-being... once “basic needs” are met”	There’s no paradox (and never was)
Policy conclusions	De-emphasize growth	Rich countries should de-emphasize growth and tax labor supply	

Why revisit the stylized facts?

1. Theoretical implications: Reference-dependent preferences
2. Yielding important policy implications (and big policy claims)

What explains our new findings?

1. New data:
 - Longer time series (1946-2010);
 - More countries (n=140)
2. Statistical inference: Absence of evidence v. evidence of absence
3. What are “big” versus small effects? \Rightarrow Focus on the magnitudes

What we won't do

- ❑ Assess causality: $Happiness = \beta \log(Income)$
- ❑ Revisit what subjective well-being data “mean”



Outline: Assessing the Happiness-Income link

- ❑ Within-country cross-sectional comparisons
 - ▶ USA
 - ▶ All countries

 - ❑ Between countries:
 - ▶ In past and current data
 - ▶ Multiple datasets
 - ▶ For both happiness and life satisfaction
 - ▶ No evidence of satiation

 - ❑ National Time Series and International Panels
 - ▶ Japan
 - ▶ Europe
 - ▶ World Values Survey
 - ▶ USA

 - ❑ Newly-available measures of subjective well-being
-

Within-Country Comparisons: USA

“Taken all together, how would you say things are these days?”

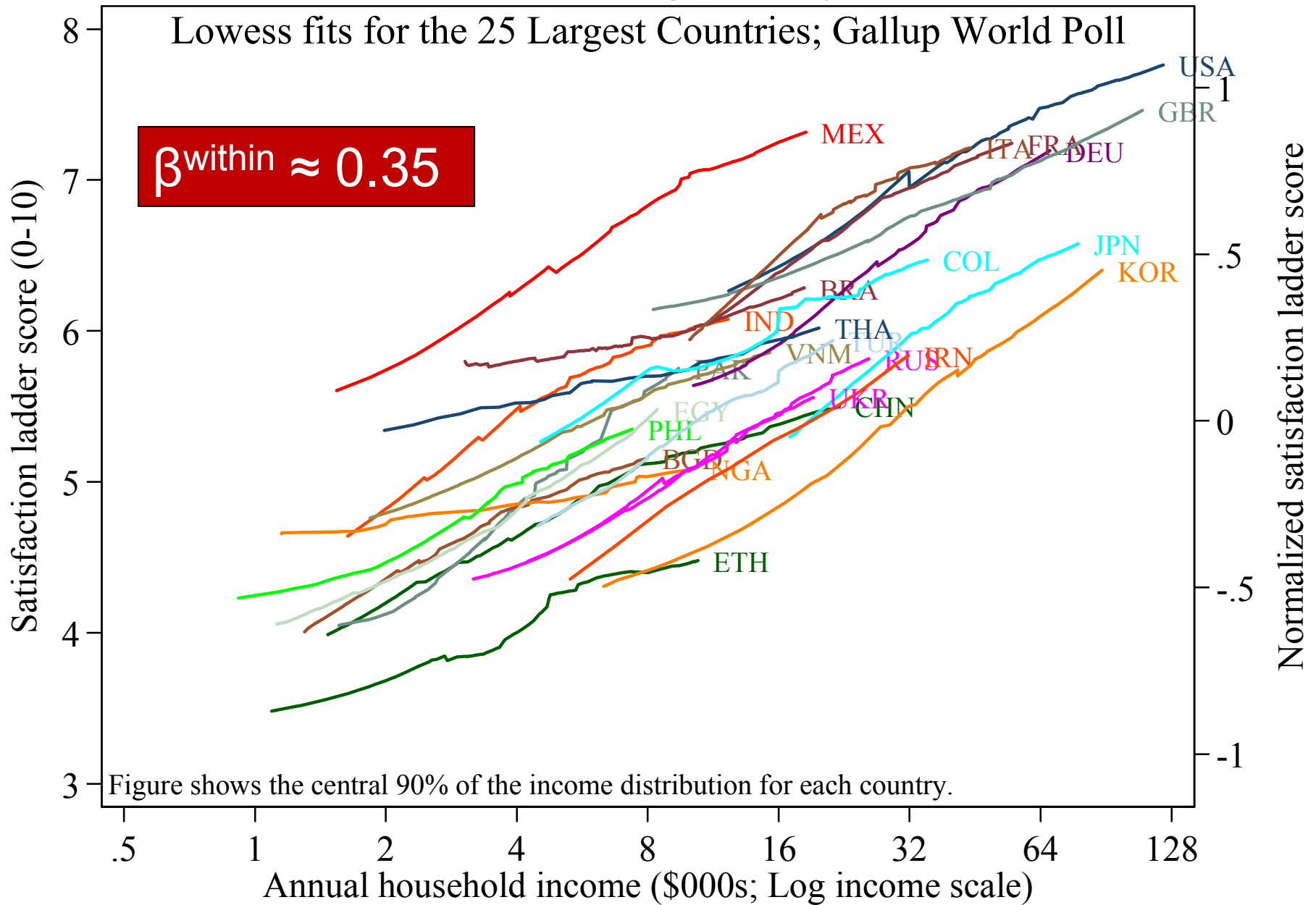
Family income	Very happy	Pretty happy	Not too happy
<\$12,500 (bottom 10%)	21%	53%	26%
\$12,500-\$49,999	25%	61%	13%
\$50,000-\$149,999	40%	54%	6%
≥\$150,000 (top 10%)	53%	45%	2%

Source: U.S. General Social Survey, 2006

*“When we plot average happiness versus income for clusters of people in a given country at a given time, we see that rich people are in fact much happier than poor people. It’s actually an astonishingly large difference. **There’s no one single change you can imagine that would make your life improve on the happiness scale as much as to move from the bottom 5 percent on the income scale to the top 5 percent.**”*

- Robert Frank (2005)

Satisfaction and Log(Family Income)



Within-country : Rich are happier than poor

$$\text{Standardized satisfaction}_{ic} = \sum_{\text{countries}} \alpha_c + \beta^{\text{individual}} \ln(\text{Income}_{ic}) + X_{ic}\delta + \varepsilon_{ic}$$

	<i>Without controls</i>	<i>With controls</i>	<i>Permanent Income Adjusted</i>	<i>IV</i>	<i>Sample size</i>
Gallup World Poll: Ladder question	0.236*** (0.014)	0.232*** (0.014)	0.422	0.449*** (0.027)	171,900 (126 Countries)
World Values Survey: Life satisfaction	0.216*** (0.017)	0.227*** (0.037)	0.413	0.26*** (0.035)	116,527 (61 Countries)
Pew Global Attitudes Survey: Ladder question	0.281*** (0.027)	0.283*** (0.027)	0.515	0.393*** (0.033)	32,463 (43 Countries)

Notes: The table reports the coefficient on the log of household income, obtained from regressing standardized life satisfaction against the log of household income and country fixed effects using the indicated data set. Additional controls include a quartic in age, interacted with sex, plus indicators for age and sex missing. Our permanent income adjustment is to scale up our estimates by 1/0.55; see text for explanation. We instrument for income using full set of country×education fixed effects. We report robust standard errors, clustered at the country level, in parentheses. For further details on the standardization of satisfaction and the exact wording of satisfaction question, see the text. ***, ** and * denote statistically significant at 1%, 5% and 10%, respectively.

Outline: Assessing the Happiness-Income link

□ Within-country comparisons

- ▶ USA
- ▶ All countries

$$\beta_{\text{within}} \approx 0.35$$

□ Between countries:

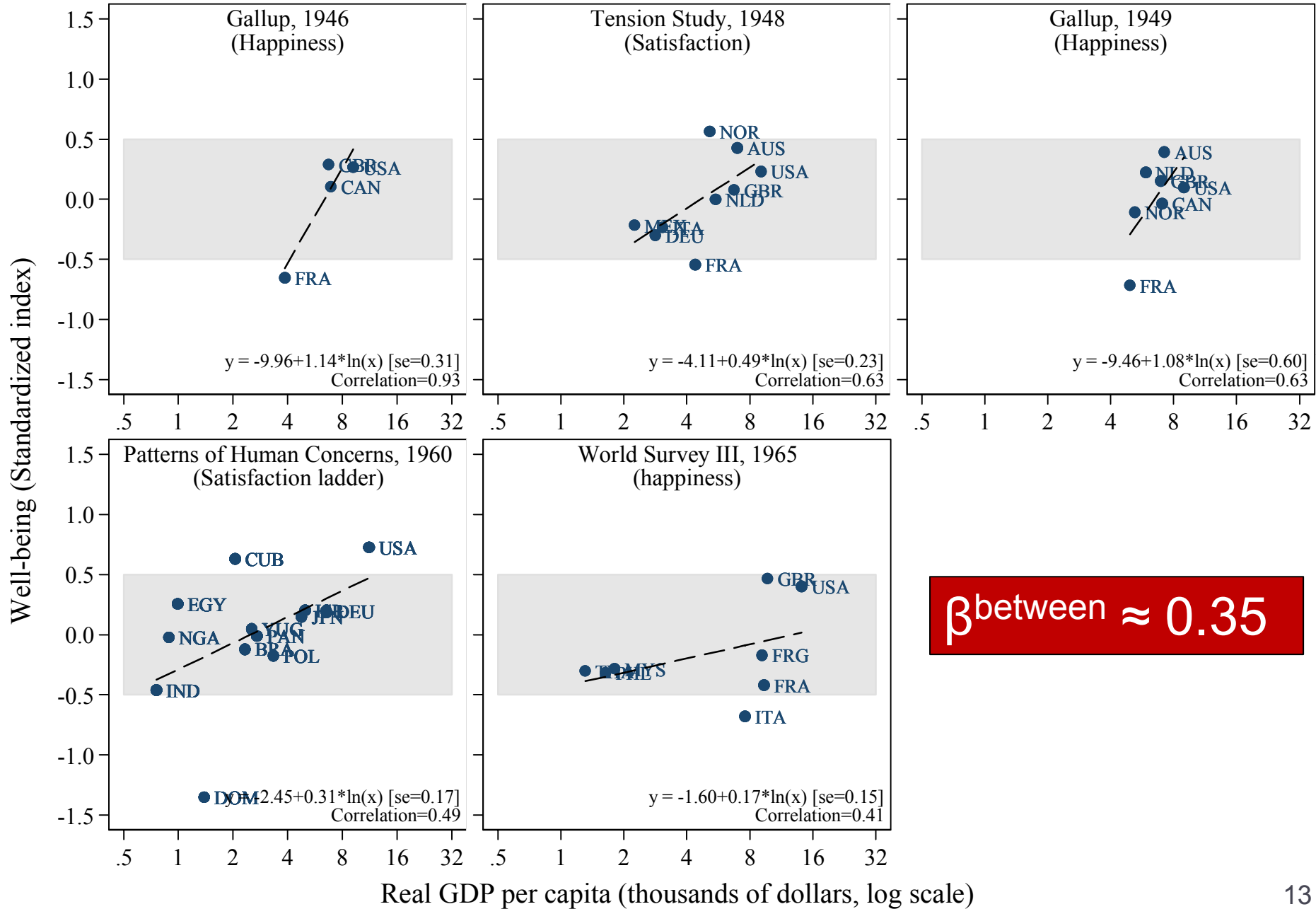
- ▶ In past and current data
- ▶ Multiple datasets
- ▶ Both happiness and life satisfaction
- ▶ No evidence of satiation

“the happiness differences between rich and poor countries that one might expect on the basis of the within country differences by economic status are not borne out by the international data.” – Easterlin, (1974)

□ National Time Series and International Panels

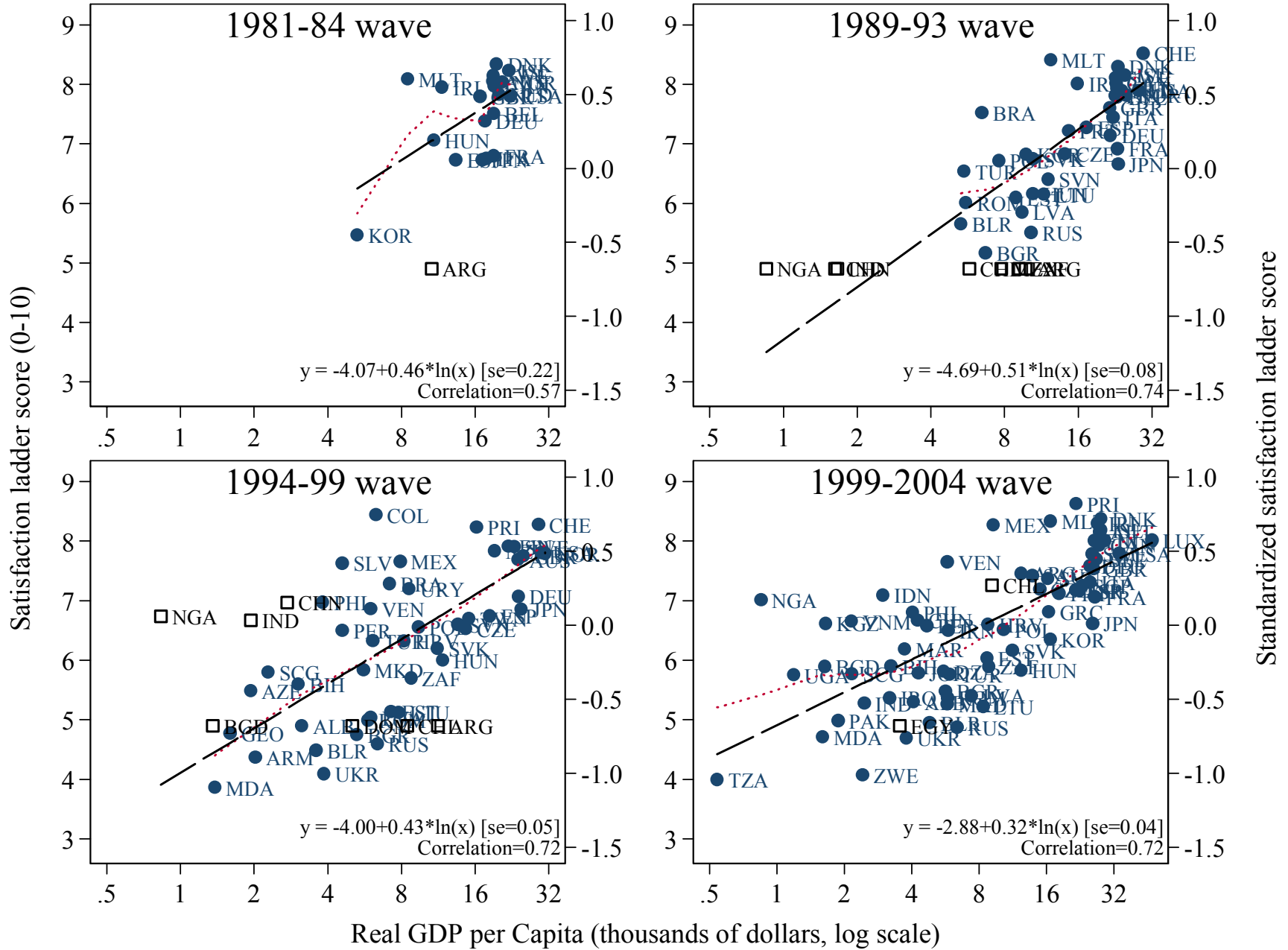
- ▶ Japan
- ▶ Europe
- ▶ World Values Survey
- ▶ USA

Early Cross-National Studies of Well-Being and GDP



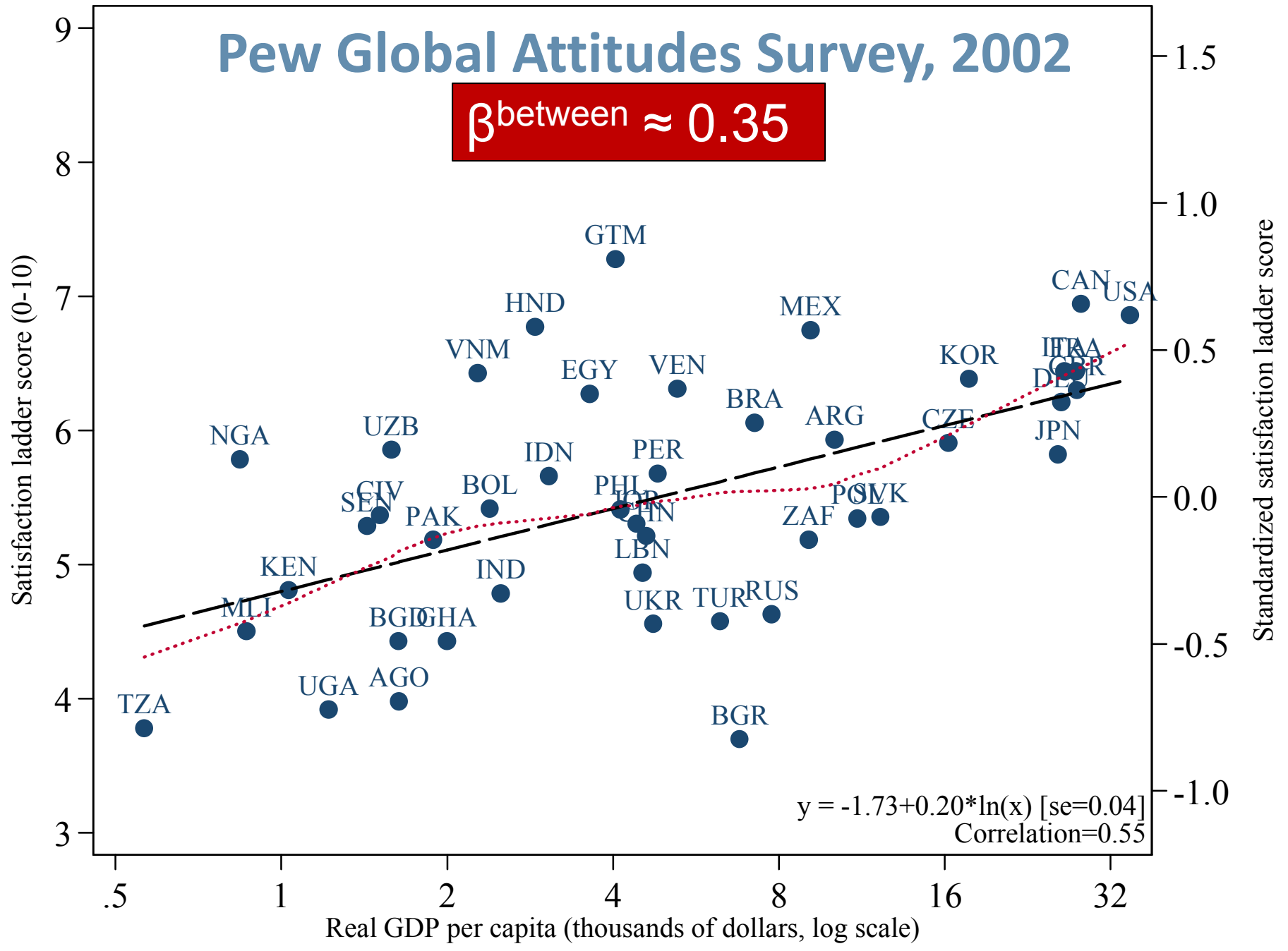
World Values Survey

β between ≈ 0.35



Pew Global Attitudes Survey, 2002

β between ≈ 0.35

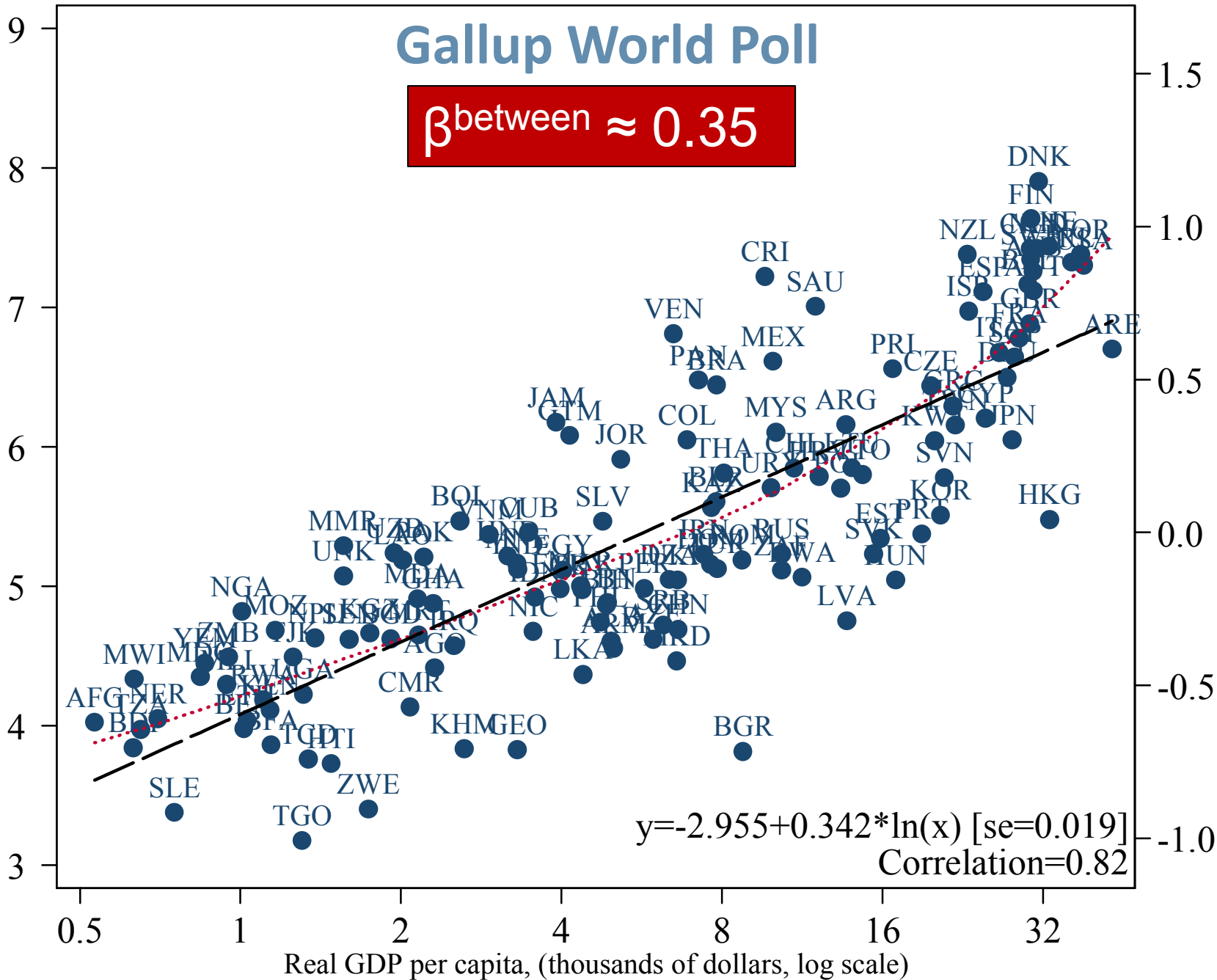


Gallup World Poll

β between ≈ 0.35

Satisfaction ladder score (0-10)

Standardized satisfaction ladder score



$y = -2.955 + 0.342 * \ln(x)$ [se=0.019]
Correlation=0.82

Between Countries: Rich Countries Are Happier

$$\text{Standardized satisfaction}_{ic} = \alpha + \beta^{\text{between}} \ln(\text{GDP per capita}_c) + X_{ic}\delta + \varepsilon_{ic}$$

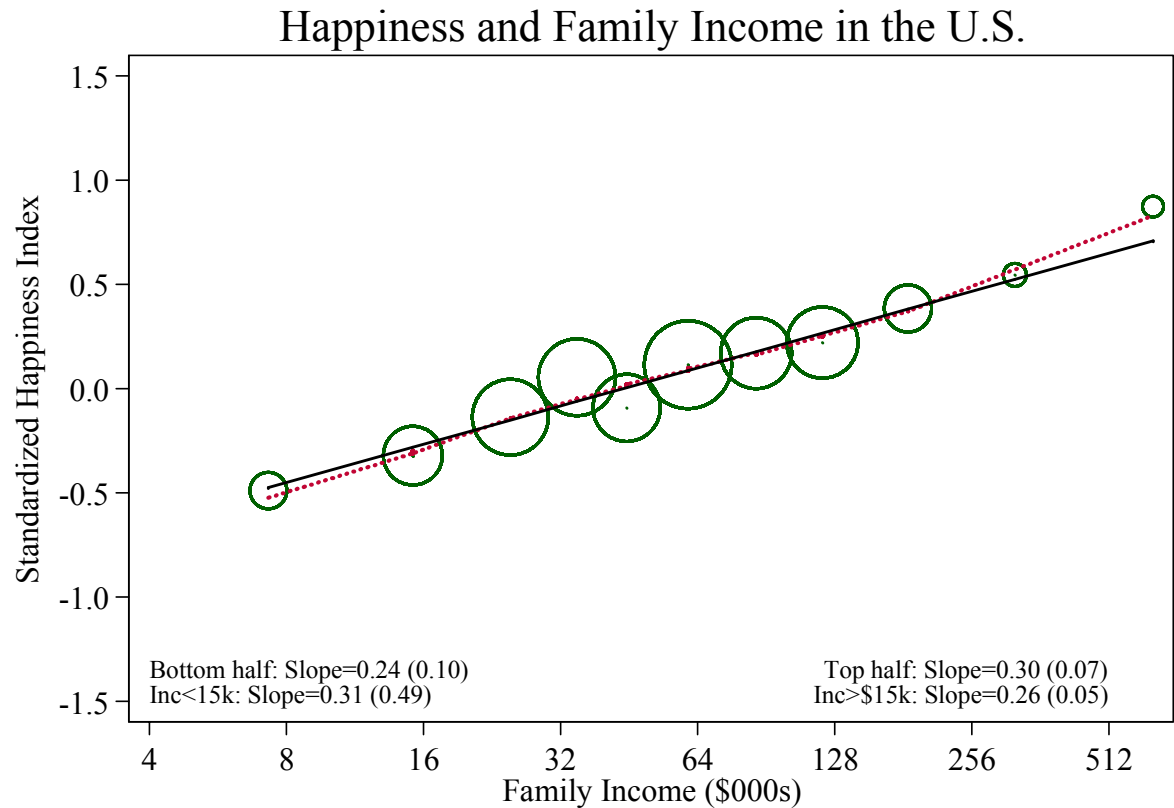
Estimates of β^{between}	<i>Microdata</i>		<i>National Data</i>	<i>Sample size</i>
	<i>Without controls</i>	<i>With controls</i>		
$\beta^{\text{between}} \approx 0.35$				
Gallup World Poll: Ladder question	0.357*** (0.019)	0.378*** (0.019)	0.342*** (0.019)	291,383 (131 countries)
World Values Survey: Life satisfaction	0.360*** (0.034)	0.364*** (0.034)	0.370*** (0.036)	234,093 (79 countries)
Pew Global Attitudes Survey: Ladder question	0.214*** (0.039)	0.231*** (0.038)	0.204*** (0.037)	37,974 (44 countries)

Notes: This table reports the coefficient on the log of per capita GDP, obtained from regressing standardized life satisfaction against the log of GDP, using individual data with and without controls, and using national-level data without controls, in the indicated data set. In the national-level regressions, we take the within-country average of standardized life satisfaction as the dependent variable. GDP per capita is at purchasing power parity. The additional controls include a quartic in age, interacted with sex, plus indicators for age and sex missing. We report robust standard errors, clustered at the country level, in parentheses. For further details on the standardization of satisfaction, the exact wording of satisfaction question, and the sources for GDP per capita, see the text. ***, ** and * denote statistically significant at 1%, 5% and 10%, respectively.

Are There Satiation Effects?

There exists no dataset in which the well-being-income gradient changes at incomes above \$15,000

There exists no income level above which further income does not raise happiness



Source: Gallup Poll, December 2007

[Source: Betsey Stevenson and Justin Wolfers \(2010\), "Subjective Well-being and Income: Is There Any Evidence of Satiation?"](#)

Outline: Assessing the Happiness-Income link

□ Within-country comparisons

$$\beta_{\text{within}} \approx 0.35$$

- ▶ USA
- ▶ All countries

□ Between countries:

$$\beta_{\text{between}} \approx 0.35$$

- ▶ Through time
- ▶ Multiple datasets
- ▶ Both happiness and life satisfaction
- ▶ No evidence of satiation

□ National Time Series and International Panels

- ▶ Japan
- ▶ Europe
- ▶ World Values Survey
- ▶ USA

“income growth in a society does not increase happiness”. - Easterlin (1995)

Happiness & Economic Growth: Time Series Evidence

□ Japan

- ▶ Old view: Life satisfaction flat, despite robust post-war growth
- ▶ New view: Robust growth in life satisfaction
...apparent only when taking account of breaks in the data

□ US

- ▶ Old view: No increase in happiness since 1972 despite GDP growth
- ▶ New view: True.
...but few sample participants experienced income growth

□ Europe

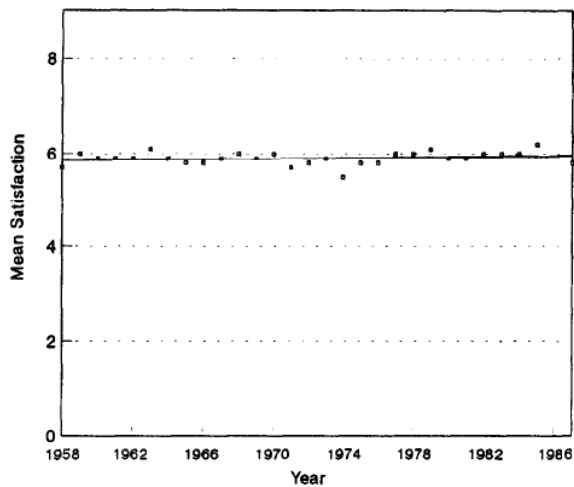
- ▶ Old view: No clear evidence of growing life satisfaction (1973-89)
- ▶ New view: Extending data through 2007 yields clearly rising satisfaction

□ Around the World

- ▶ Old view: No clear evidence of growing life satisfaction
 - ▶ New view: Clear positive relationship between income and growth
... when comparing comparable samples
-

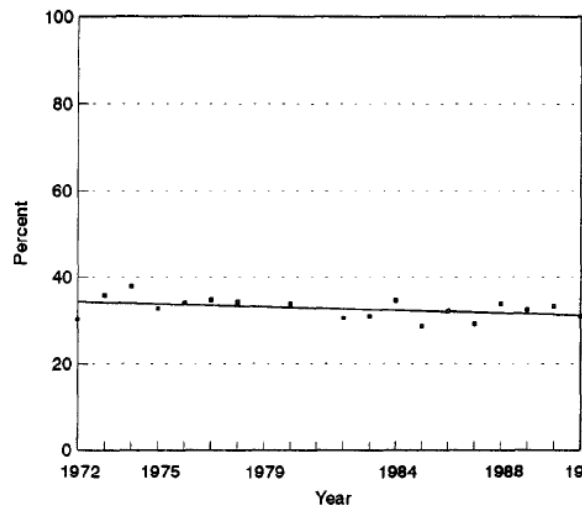
Time Series: No rise in happiness, despite growth

Japan	U.S.A	Europe
Life in Nation Surveys	General Social Survey	Eurobarometer



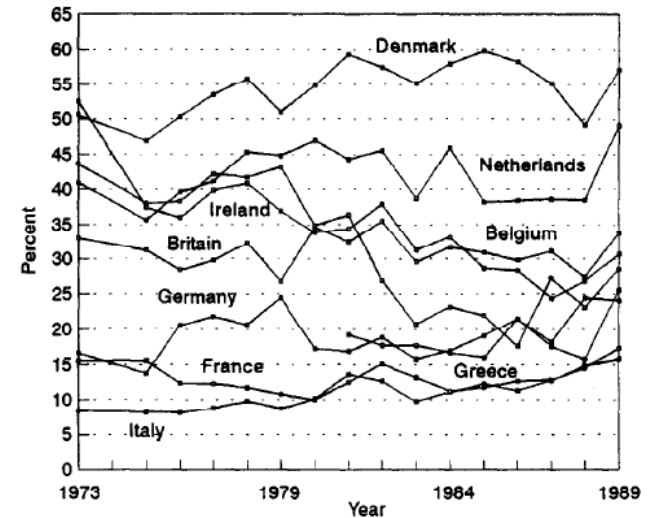
Source and notes: Veenhoven, 1993. An ordinary least squares regression is fitted to the data; the coefficient of mean satisfaction on year is not statistically significant.

Fig. 3. Mean subjective well-being, Japan 1958–1987.



Source and notes: National Opinion Research Center, 1991. The question is, "Taken all together, how would you say things are these days -- would you say that you are very happy, pretty happy or not too happy?" An ordinary least squares regression line is fitted to the data; the time trend is not statistically significant.

Fig. 1. Percent very happy, United States, 1972–1991.

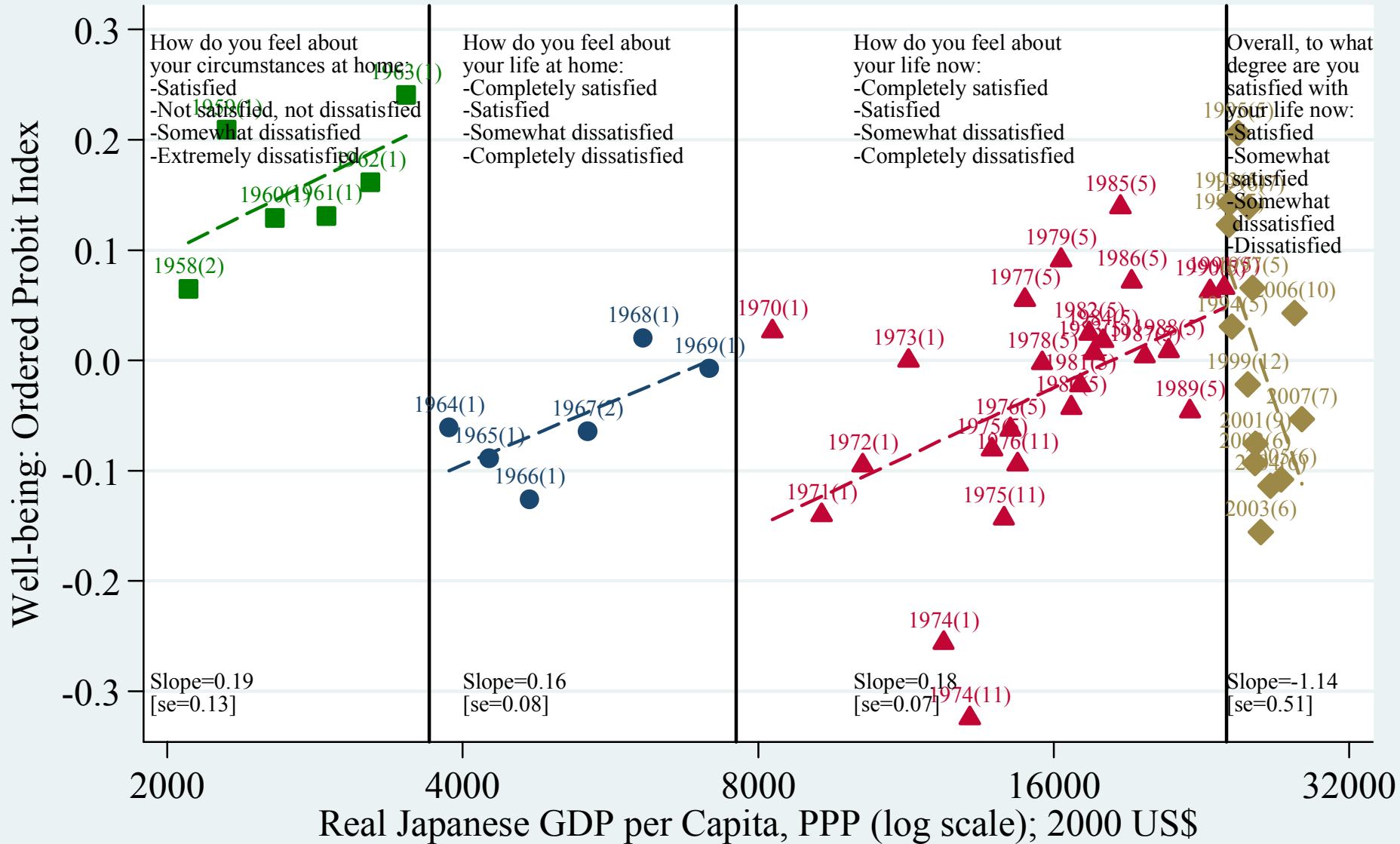


Source and notes: Inglehart et al. 1992. The question asked is, "Generally speaking, how satisfied are you with your life as a whole? Would you say that you are very satisfied, fairly satisfied, not very satisfied, or not at all satisfied?" Ordinary least squares regressions (not shown) yielded time trends that were not significant for five countries, significant and positive for two, and significant and negative for two.

Fig. 2. Percent very satisfied with their lives in general, nine European countries, 1973–1989.

Evolution of Subjective Well-Being and GDP in Japan

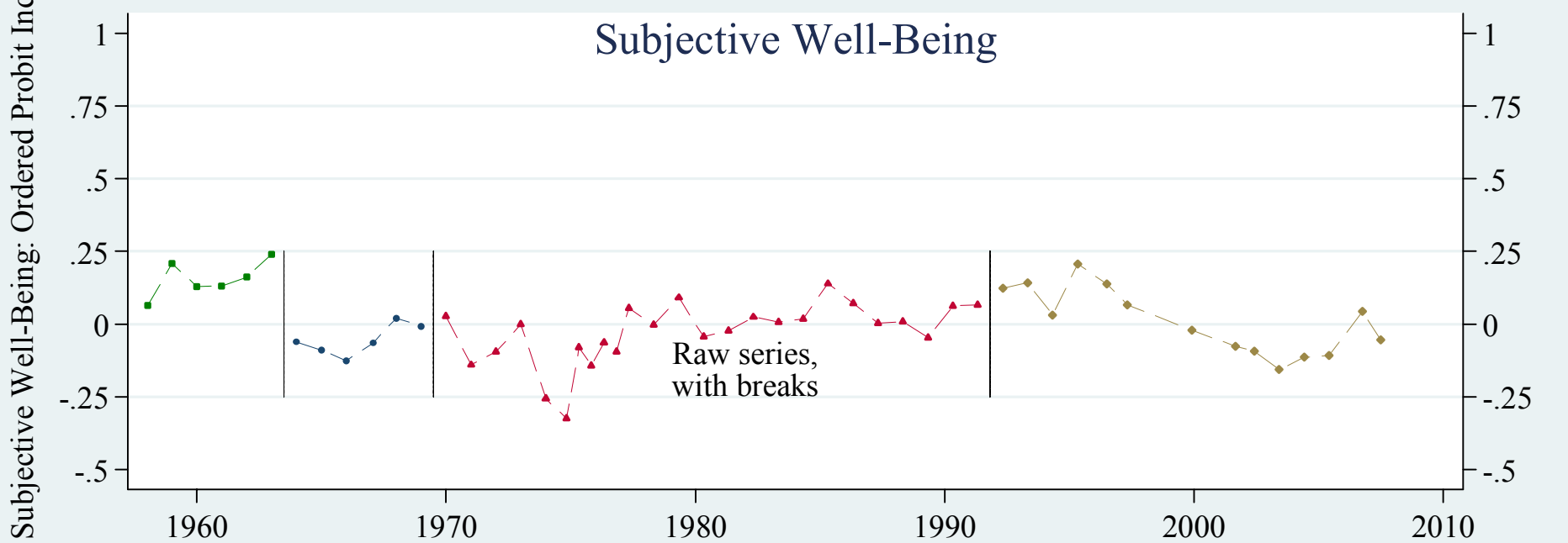
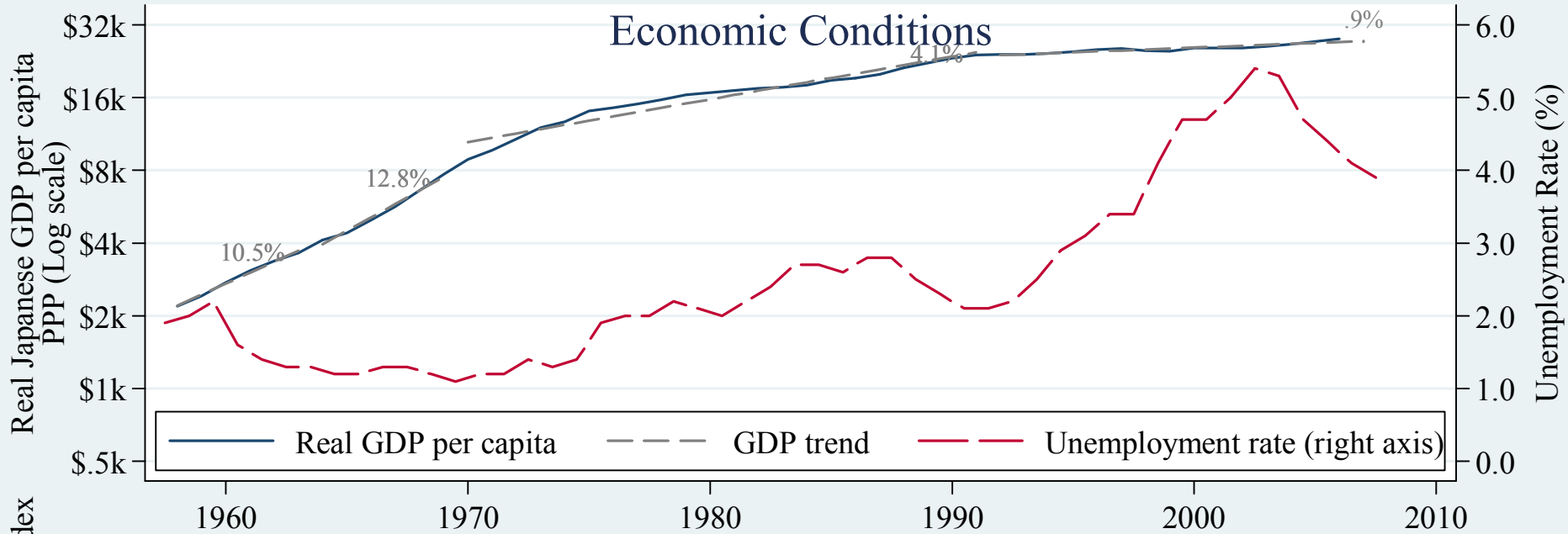
Pattern of responses from four different questions



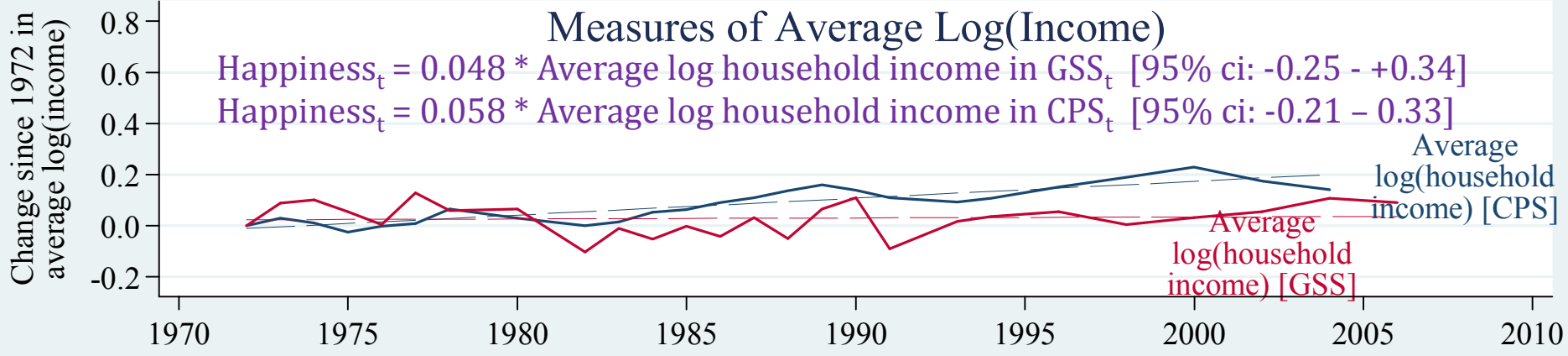
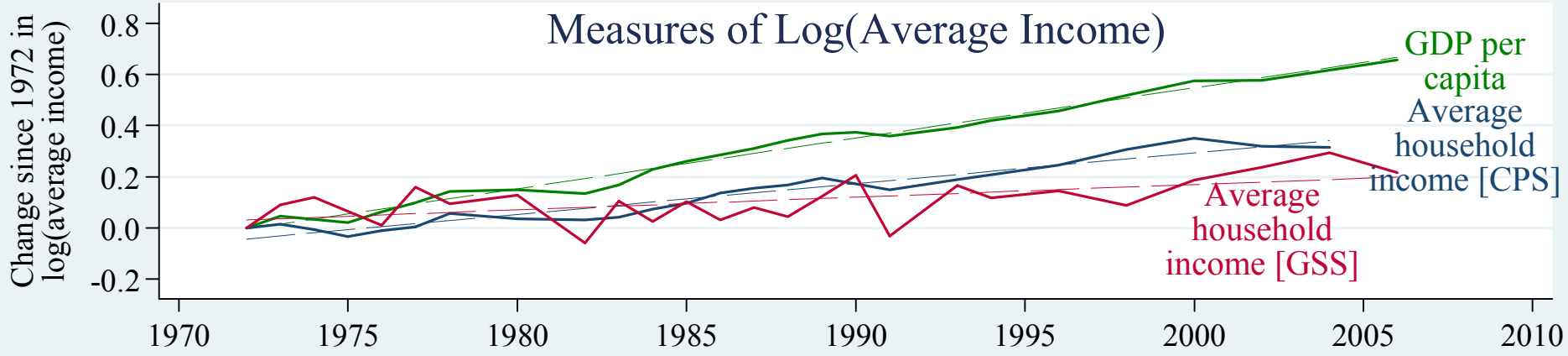
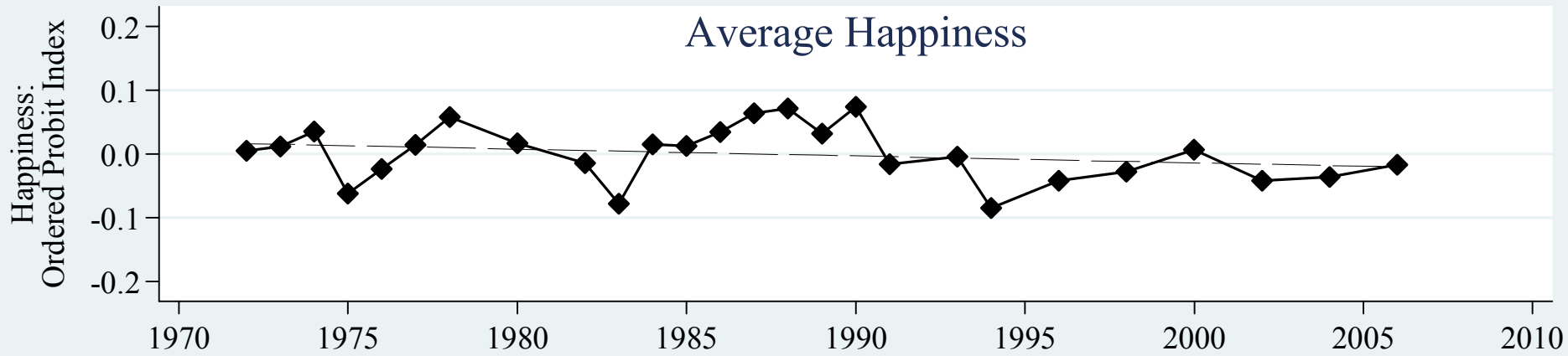
β time series ≈ 0.35

on surveys, 1958-2007.

Japan: 1958-2007

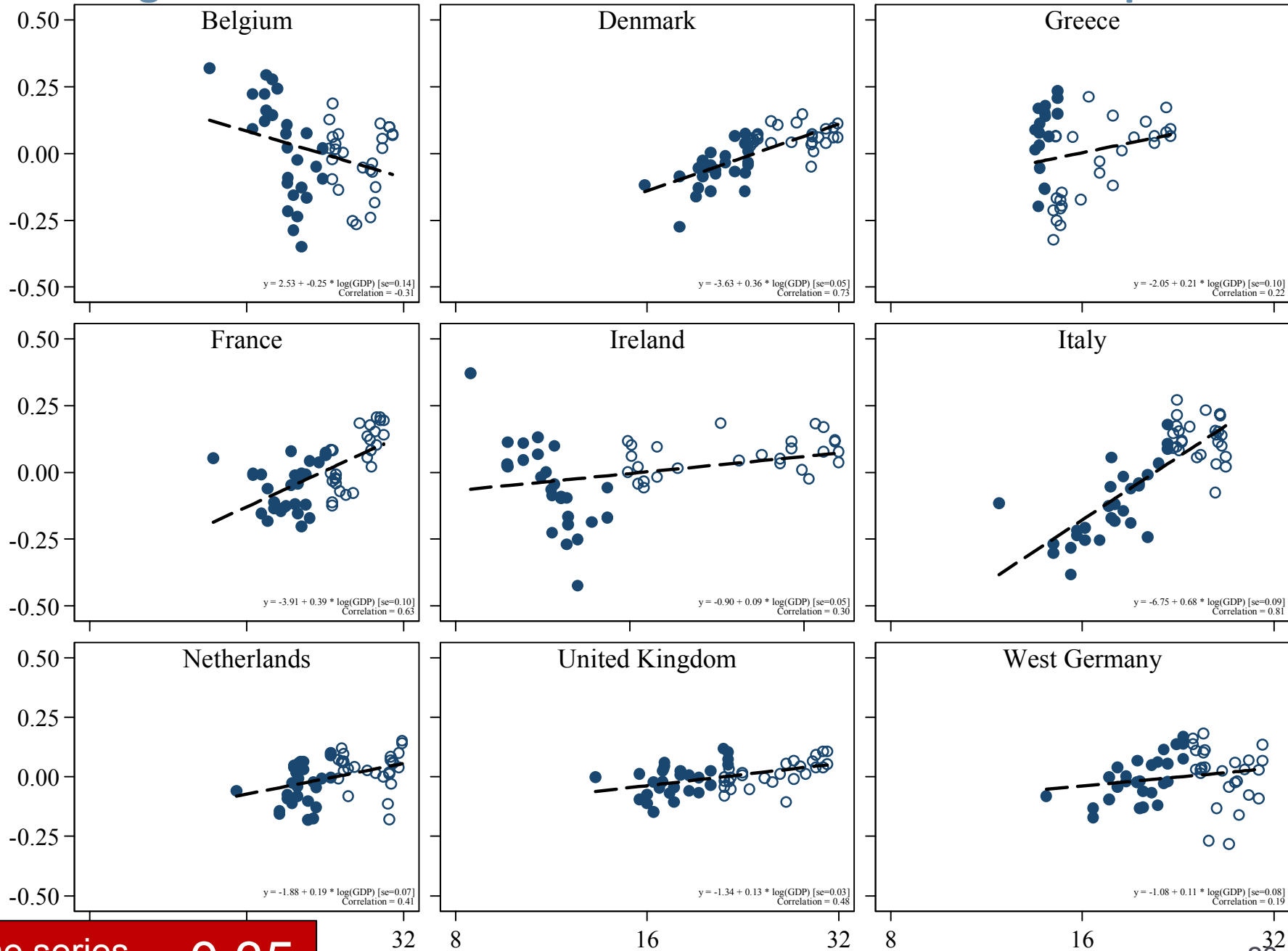


Income and Happiness Trends in the U.S.



Change in Life Satisfaction and Economic Growth in Europe

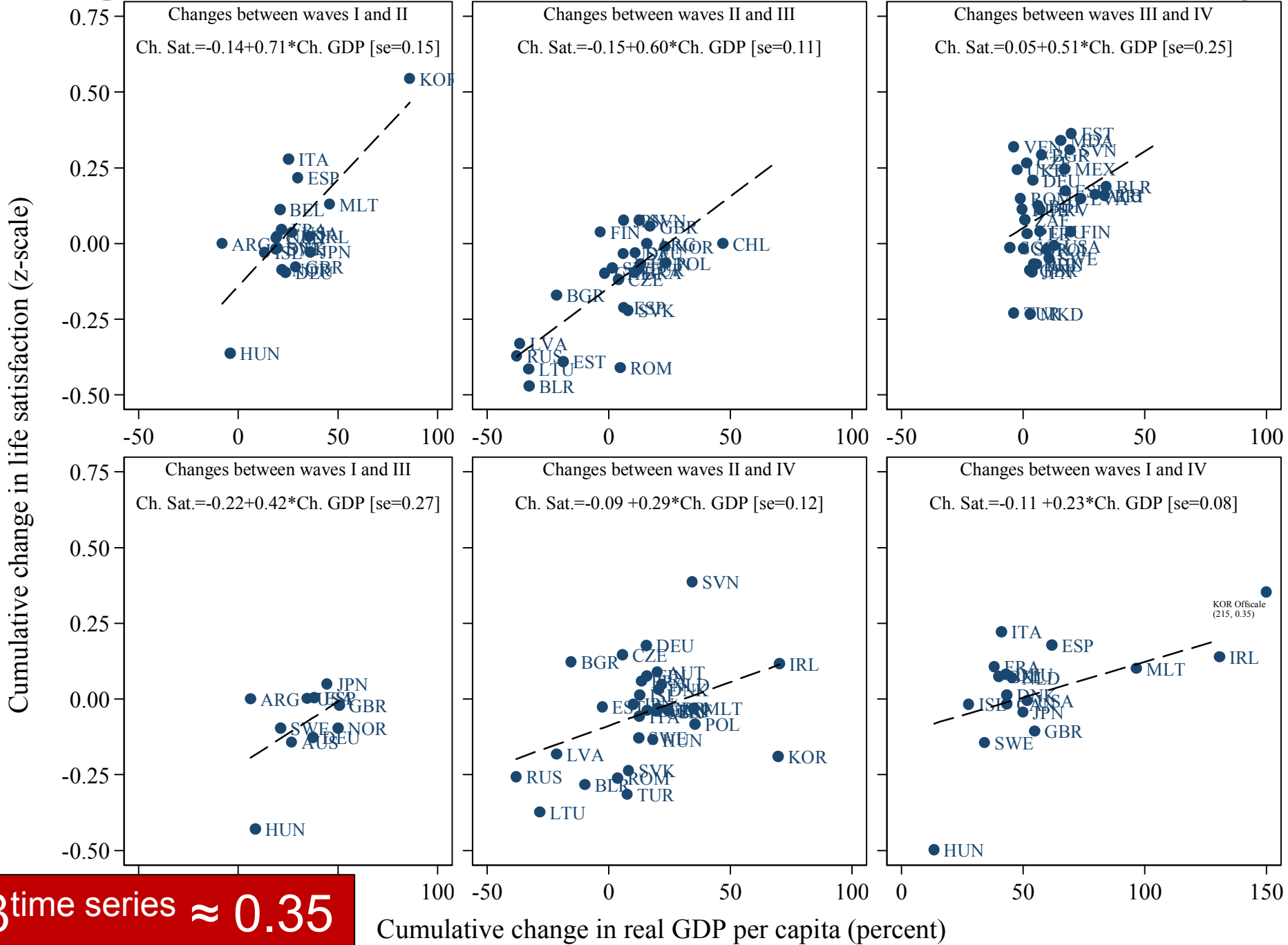
Life Satisfaction, 0-10 Scale



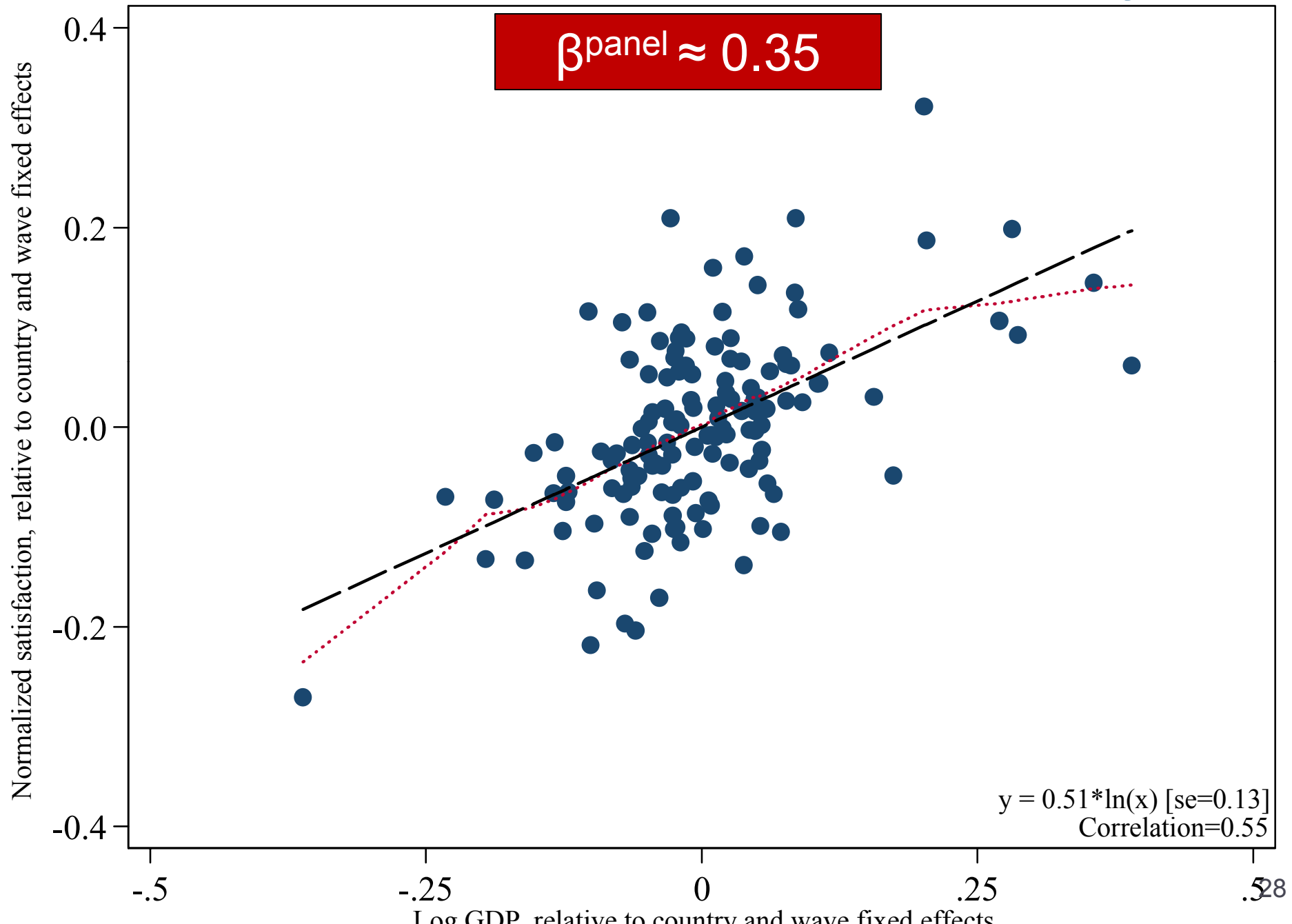
β time series ≈ 0.35

Real GDP per capita (thousands of dollars, log scale)

Change in Life Satisfaction & Economic Growth: World Values Survey



International Panel Data: World Values Survey

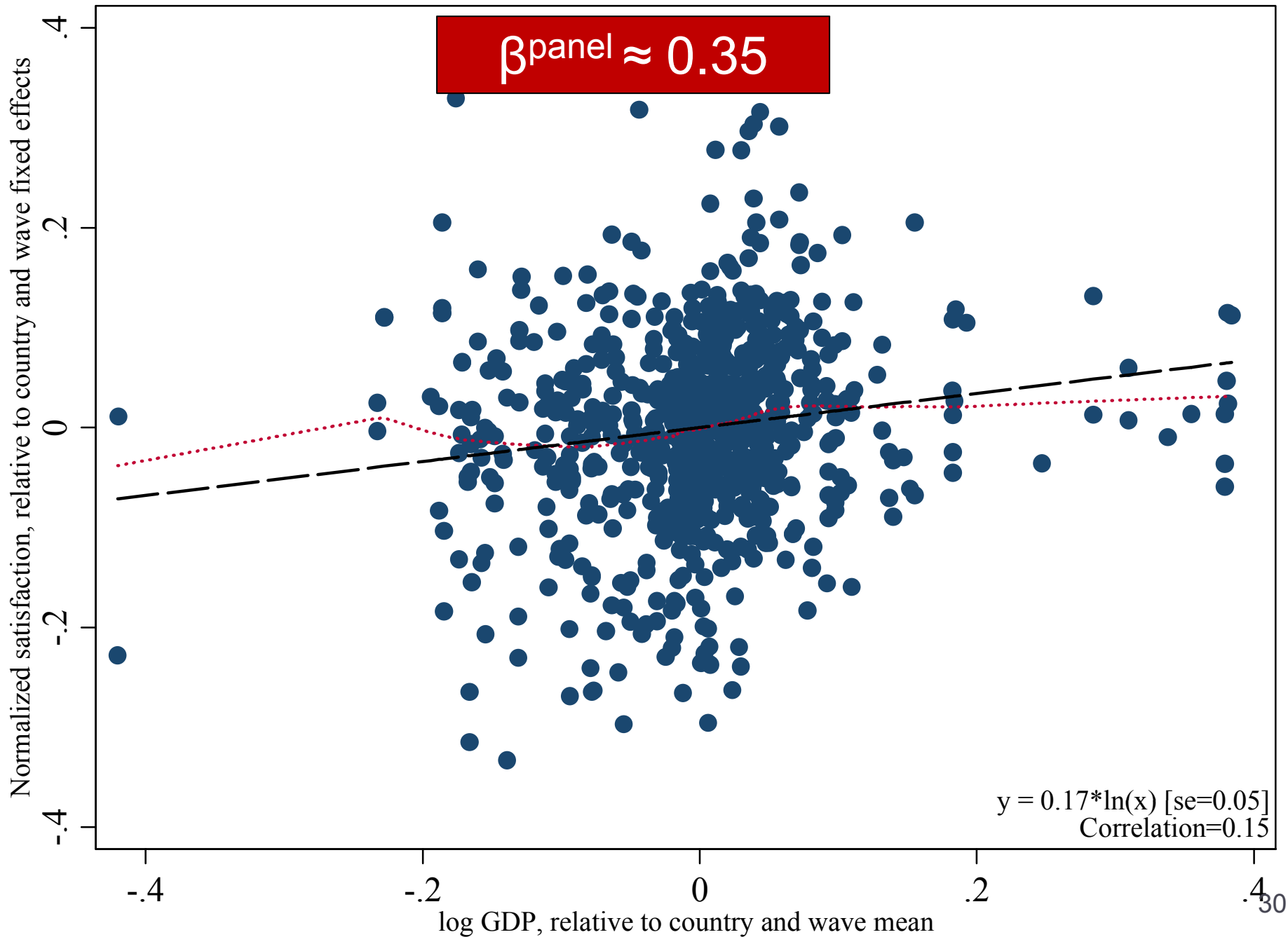


Satisfaction and Growth: International Panel Regressions

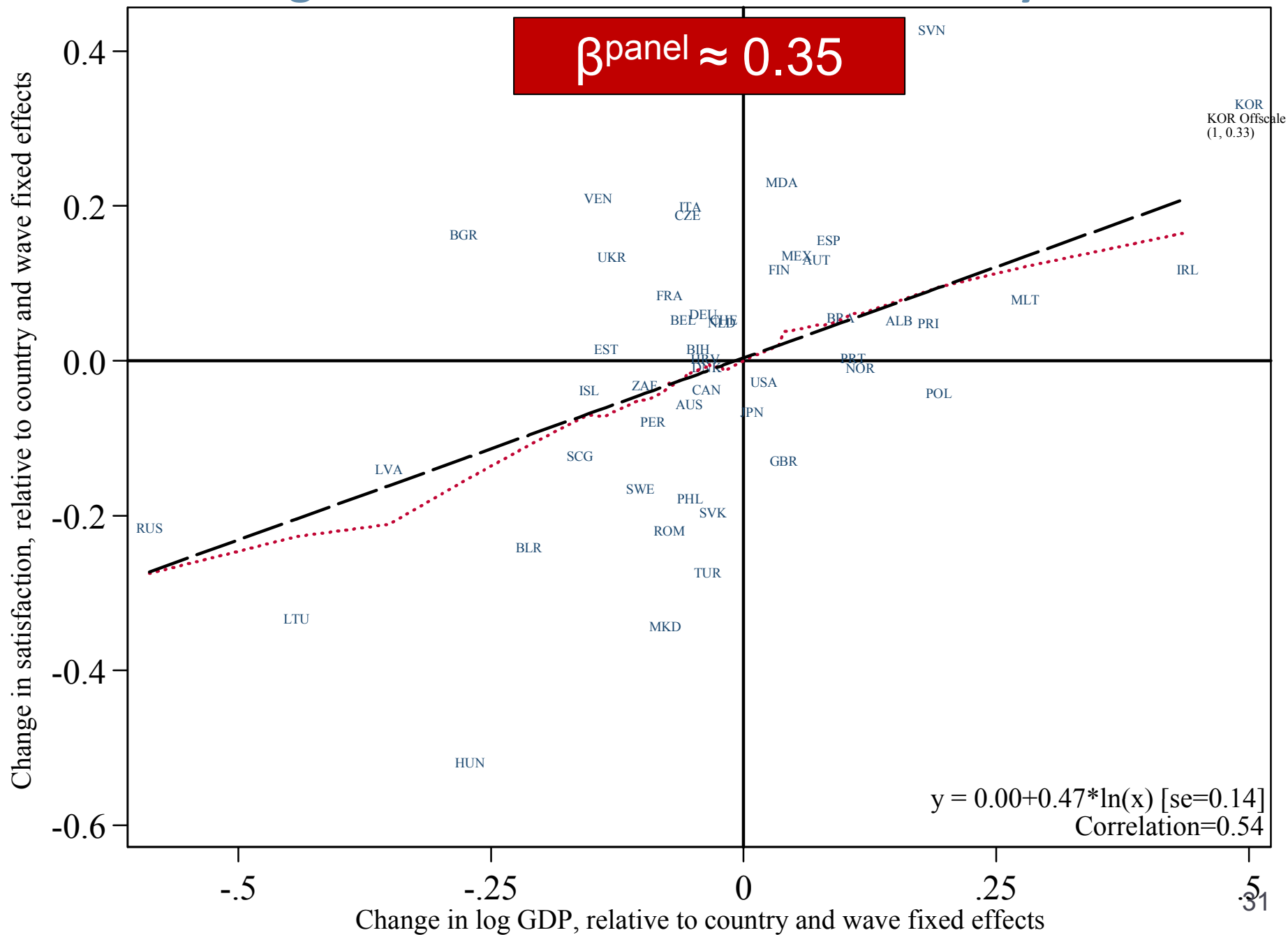
	<u>World Values Survey</u>			<u>Eurobarometer</u>
	<i>All Countries</i>	<i>Transition Countries</i>	<i>Non-transition Countries</i>	<i>All Countries</i>
Panel A: Panel Regressions				
<i>Life Satisfaction_{ct} = β log(GDP_{ct}) + country and wave fixed effects</i>				
In(GDP)	0.505 ^{***} (0.109)	0.638 ^{**} (0.239)	0.407 ^{***} (0.116)	0.170 ^{**} (0.074)
N	166 observations 79 countries	31 observations 10 countries	135 observations 66 countries	776 observations 31 countries
Panel B: Long differences				
<i>ΔLife Satisfaction_{c,t} = β Δlog(GDP_{ct})</i>				
In(GDP)	0.47 ^{***} (0.128)	0.694 [*] (0.387)	0.35 ^{**} (0.163)	0.278 [*] (0.164)
N	66 differences	10 differences	46 differences	30 differences

β_{panel} ≈ 0.35

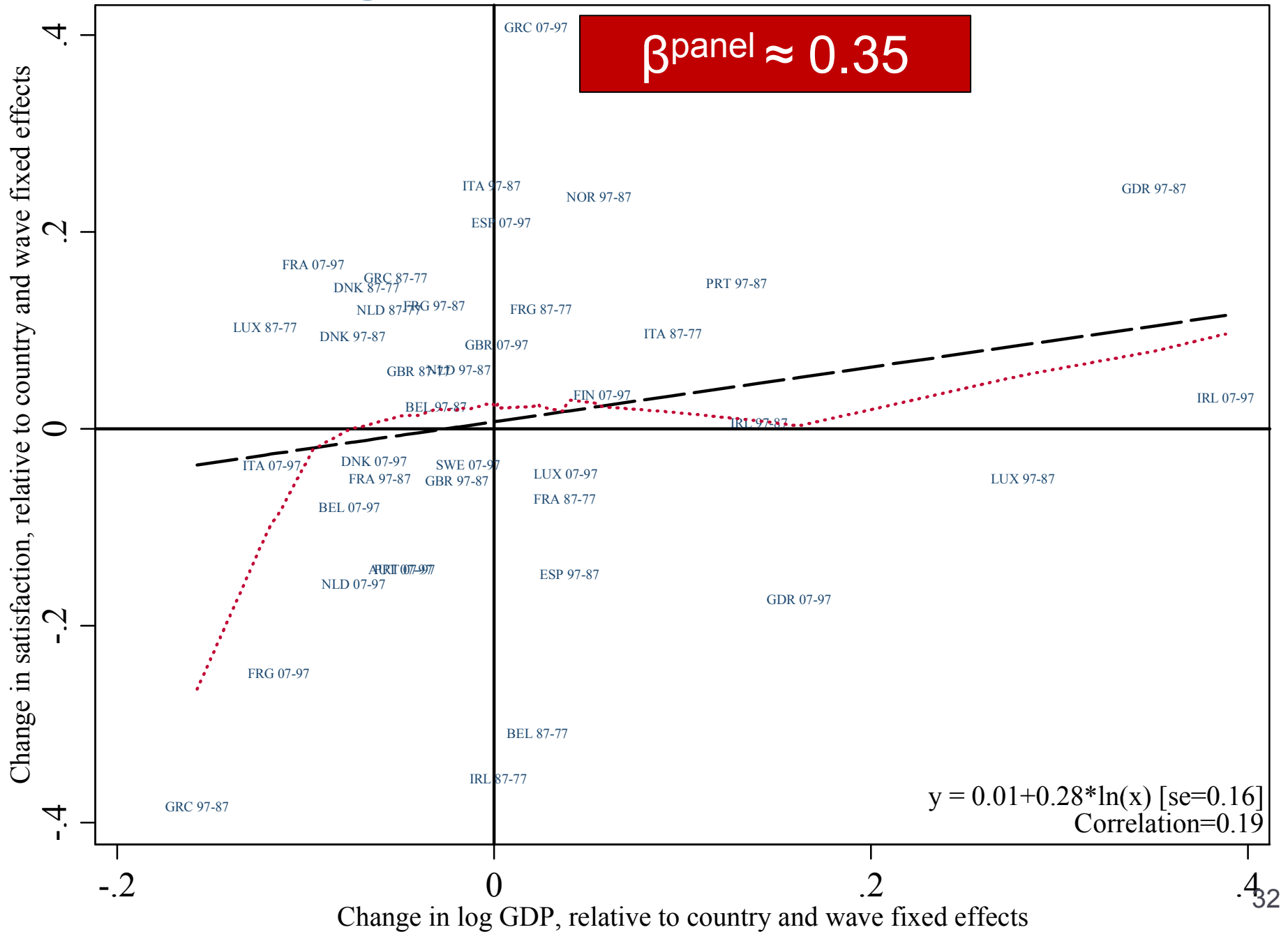
International Panel Data: Eurobarometer



Long Differences: World Values Survey



Long Differences: Eurobarometer



Conclusion: Stylized Facts about Well-being and Income

❑ Within-country comparisons

- ▶ USA
- ▶ All countries

$$\beta_{\text{within}} \approx 0.35$$

❑ Between countries:

- ▶ Since 1946
- ▶ Multiple datasets
- ▶ Both happiness and life satisfaction
- ▶ No evidence of satiation

$$\beta_{\text{between}} \approx 0.35$$

❑ National Time Series

- ▶ Japan
- ▶ USA
- ▶ 9 European nations

$$\beta_{\text{time series}} \approx 0.35$$

❑ International Panel data

- ▶ World Values Survey
- ▶ Eurobarometer

$$\beta_{\text{international panel}} \approx 0.35$$

❑ Other measures of well-being

- ▶ Pain, depression, smiling, good tasting food to eat, respect

Is there any evidence of satiation?

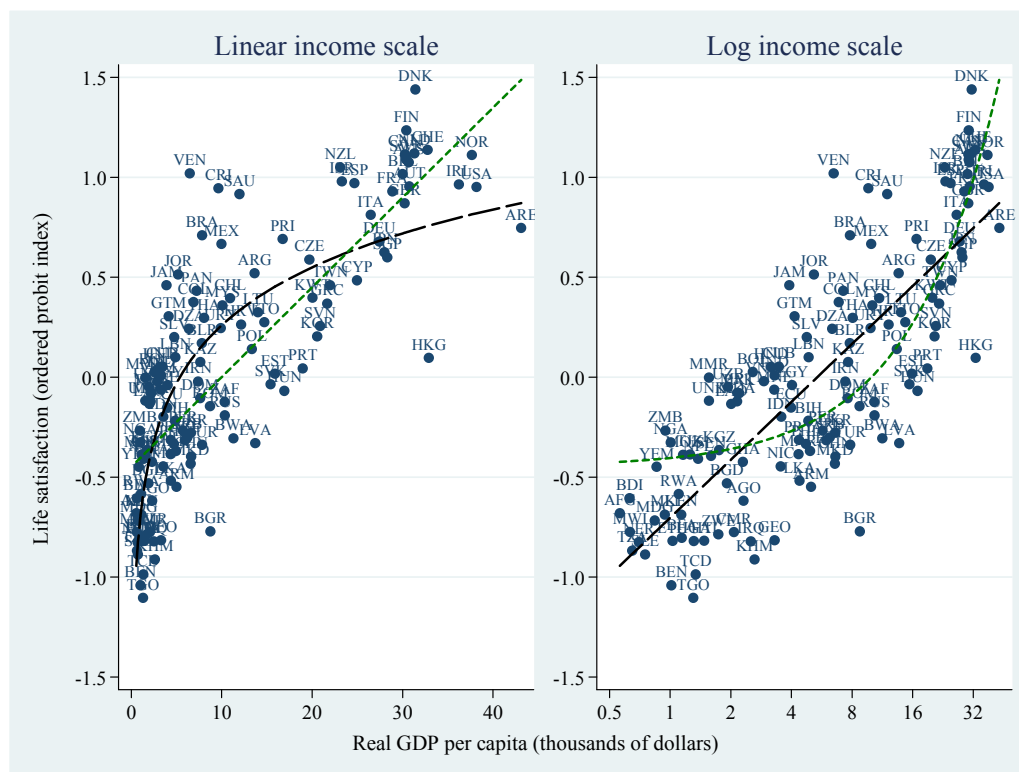
“if we compare countries, there is no evidence that richer countries are happier than poorer ones – so long as we confine ourselves to countries with incomes over \$15,000 per head.” - Layard (2005)

- ❑ Rich countries (GDP>\$15,000)
 - ▶ Satisfaction= $1.08 \cdot \log(\text{GDP})$ [se=0.21]
- ❑ Poor countries (GDP<\$15,000)
 - ▶ Satisfaction= $0.35 \cdot \log(\text{GDP})$ [se=0.04]
- ❑ A 1% rise in GDP:
 - ▶ Has three times larger effects in rich countries than poor countries
- ❑ A \$100 rise in GDP
 - ▶ 3x larger effect in Jamaica than US
 - ▶ 20x larger effect in Burundi than US

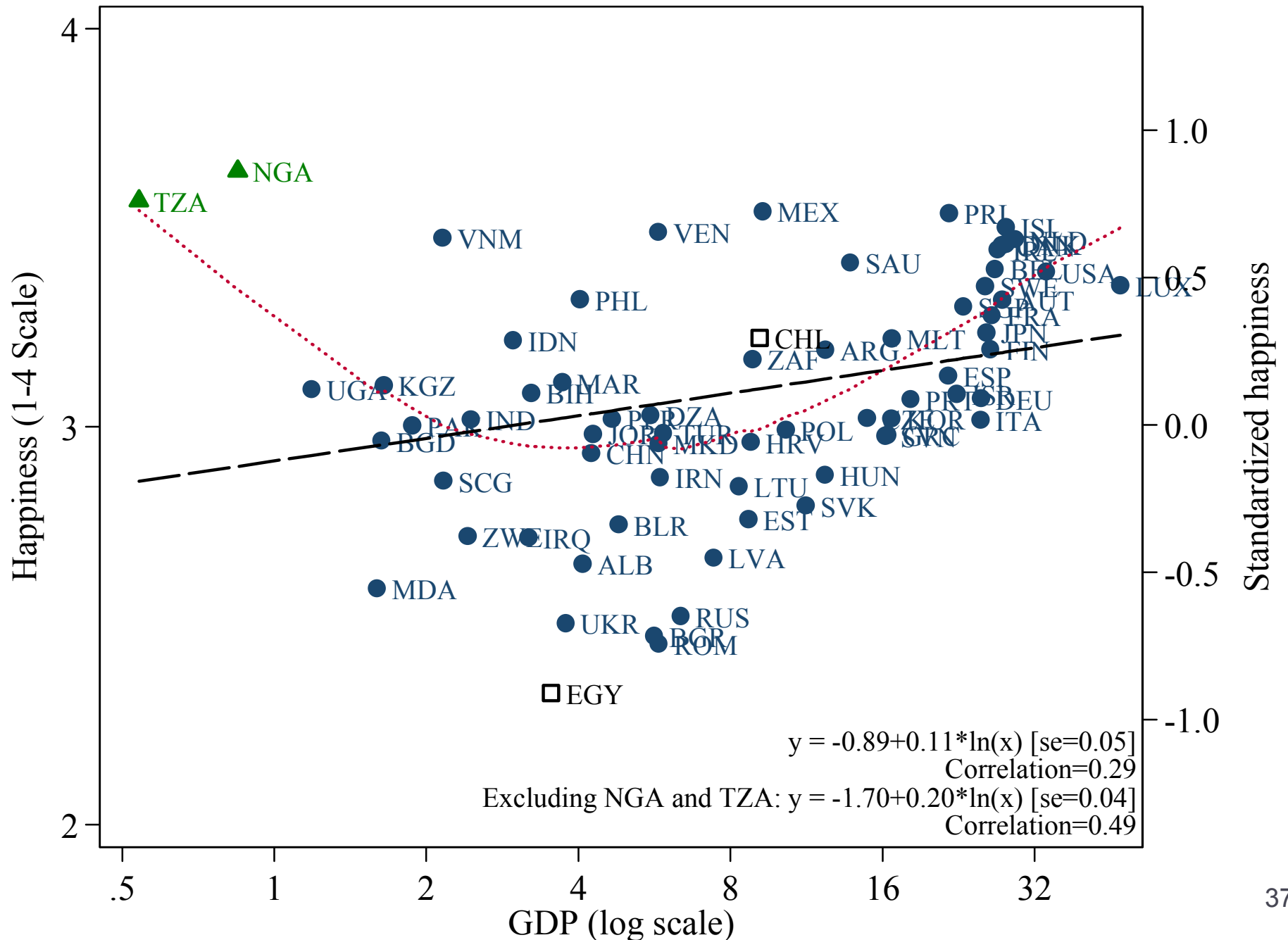
Is there any evidence of satiation?

□ “if we compare countries, there is no evidence that richer countries are happier than poorer ones – so long as we confine ourselves to countries with incomes over \$15,000 per head.” - Layard (2005)

- Rich countries (GDP > \$15,000)
 - ▶ Satisfaction = $1.08 * \log(\text{GDP})$ [se=0.21]
- Poor countries (GDP < \$15,000)
 - ▶ Satisfaction = $0.35 * \log(\text{GDP})$ [se=0.04]
- A 1% rise in GDP:
 - ▶ Has three times larger effects in rich countries than poor countries
- A \$100 rise in GDP
 - ▶ 3x larger effect in Jamaica than US
 - ▶ 20x larger effect in Burundi than US



Happiness and GDP (World Values Survey)

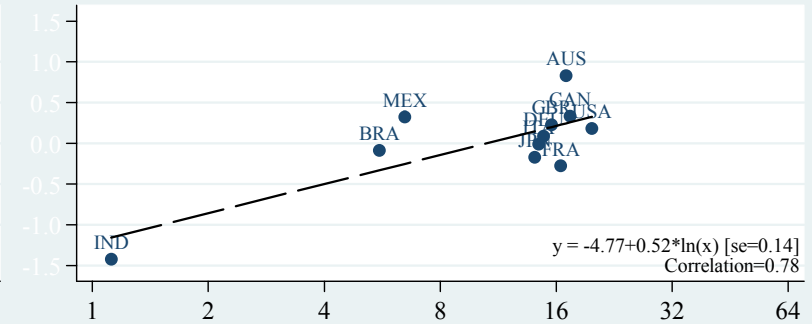
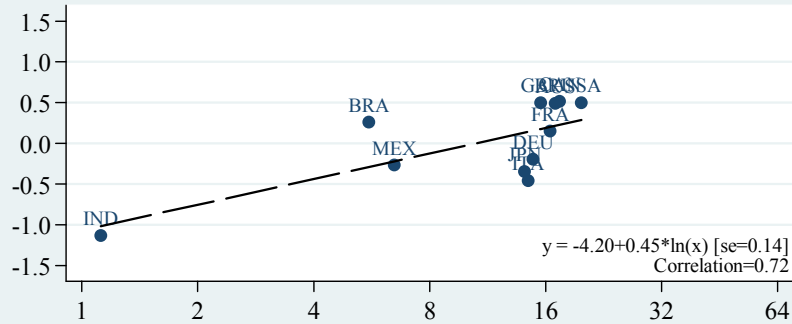


Happiness versus Life Satisfaction

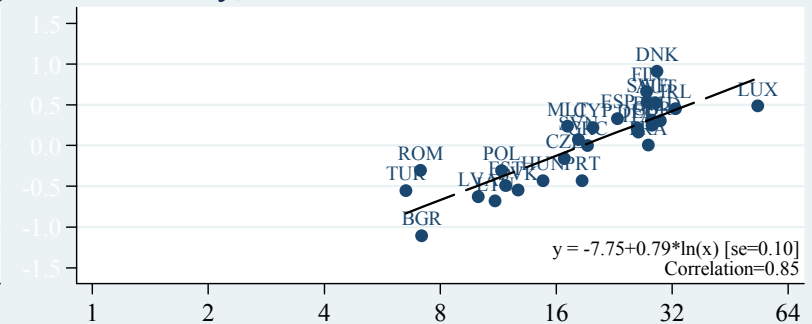
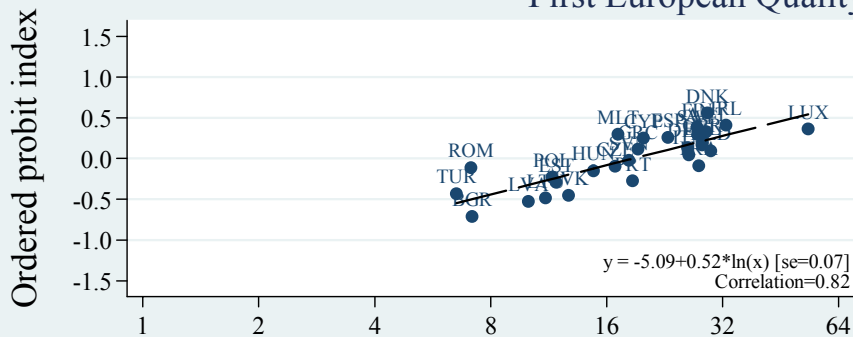
Happiness

Life satisfaction

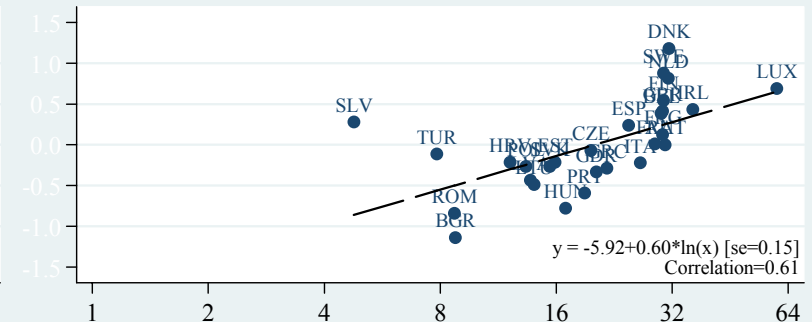
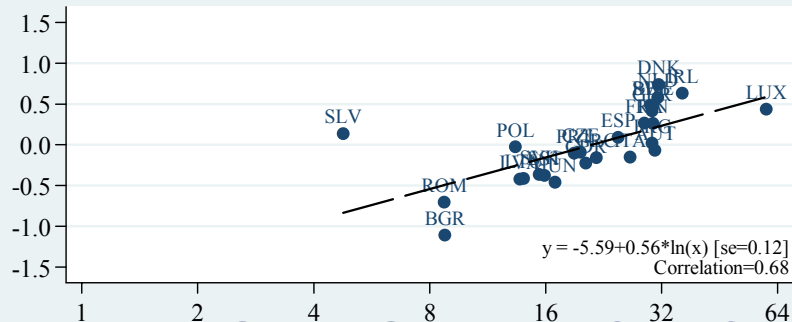
Kettering-Gallup Survey, 1975



First European Quality of Life Survey, 2003



Eurobarometer, 2006

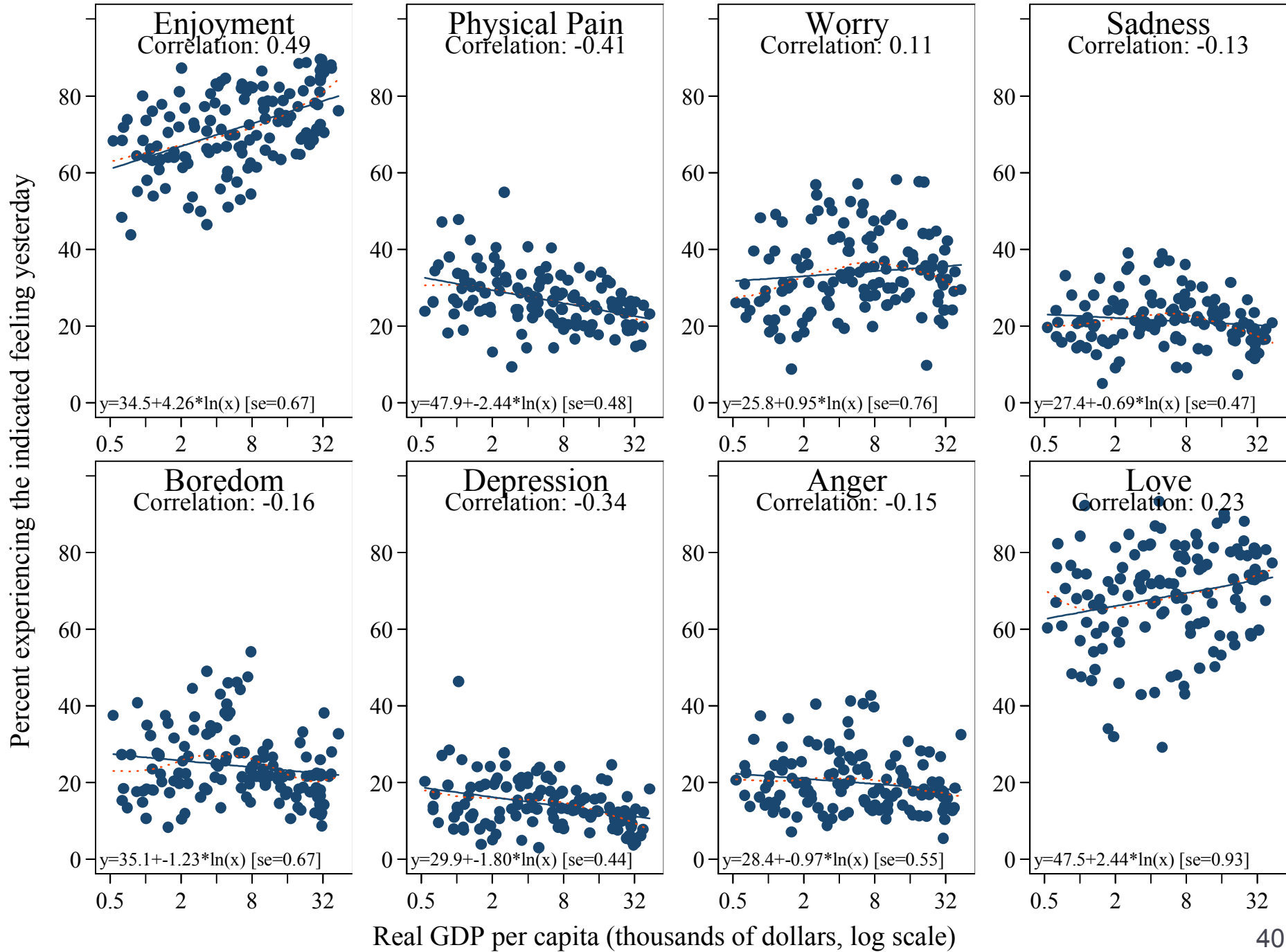


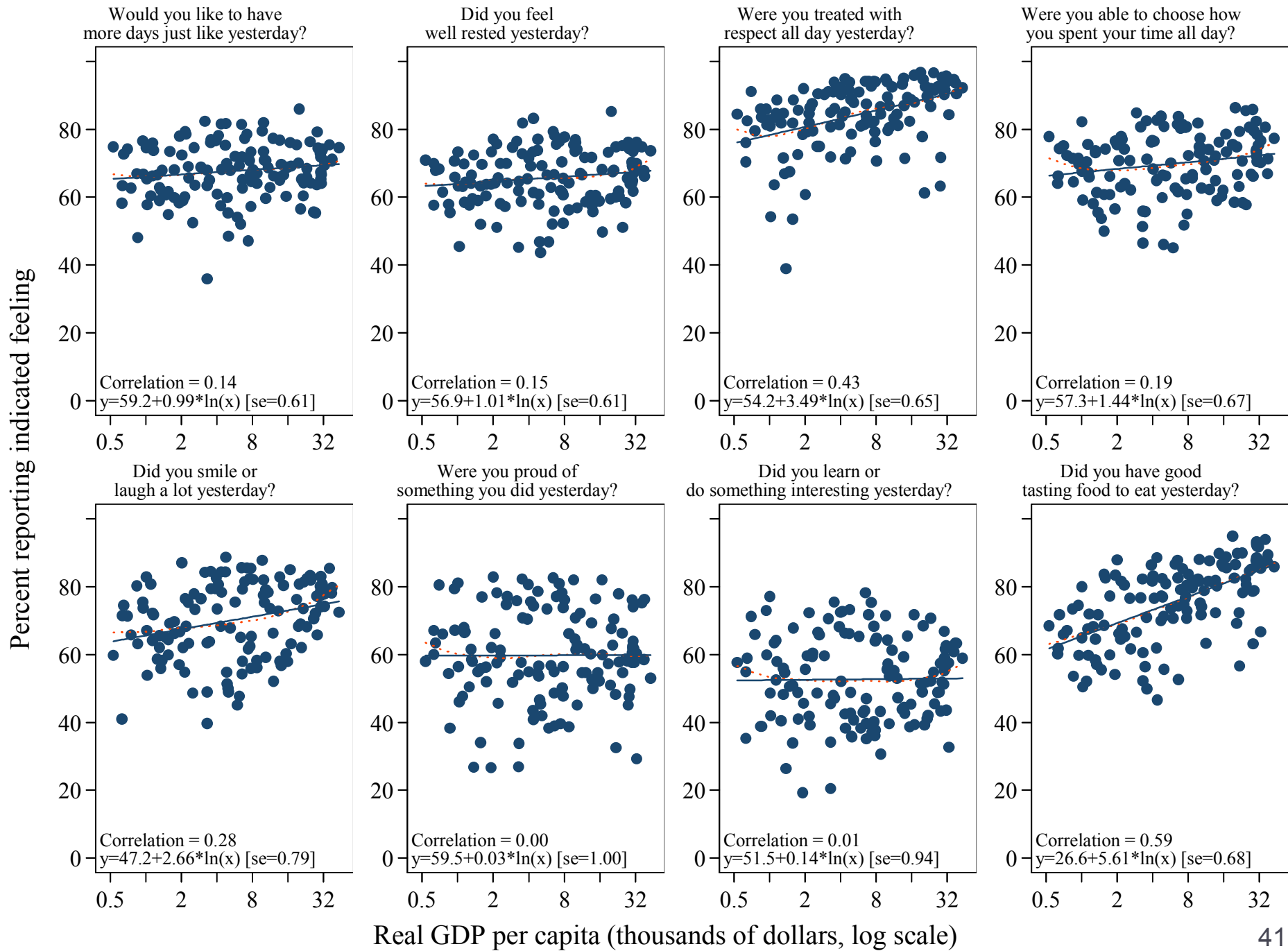
Sacks, Stevenson & Wolfers, Income and Happiness

Real GDP per capita (thousands of dollars, log scale)

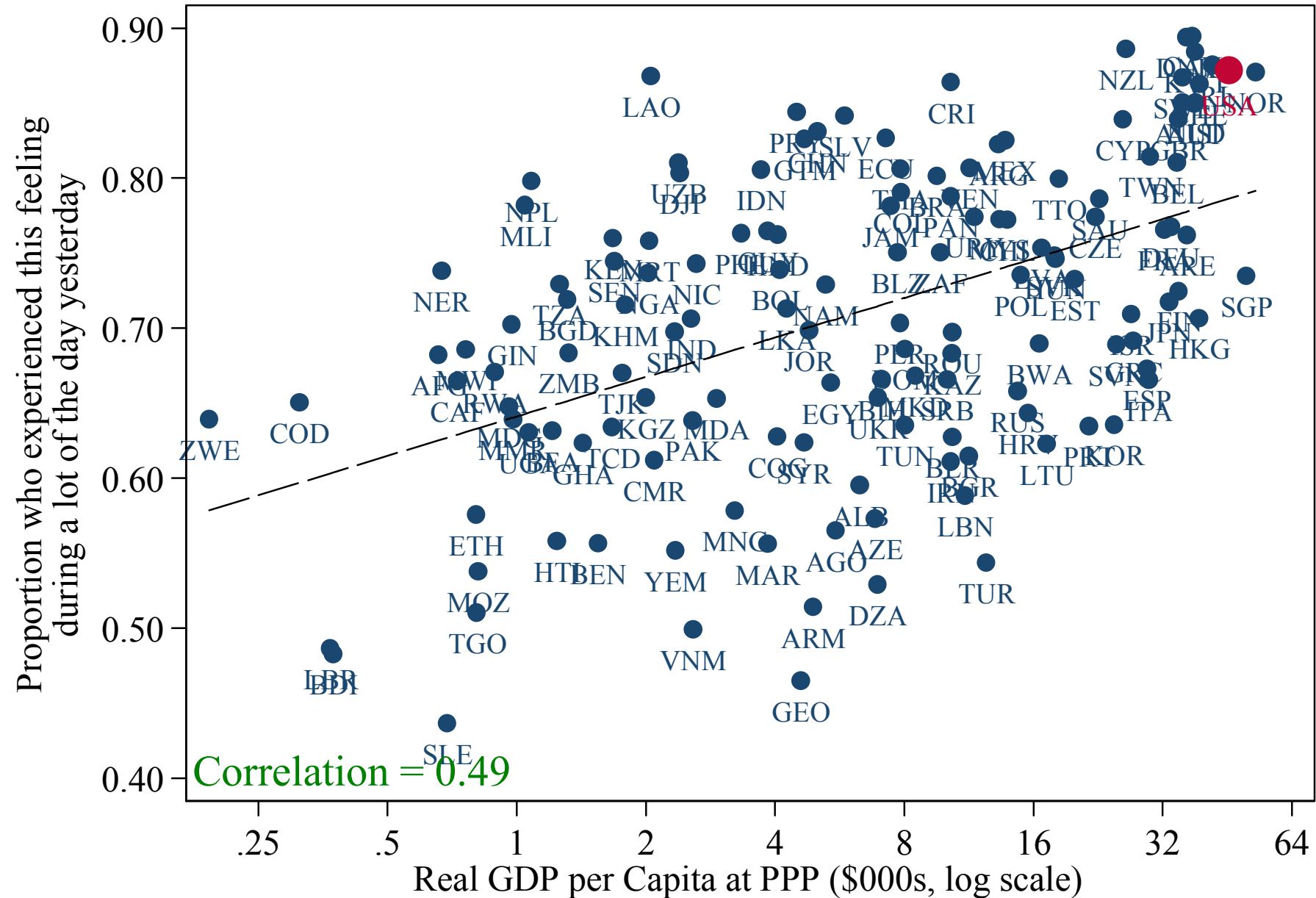
More Income is Associated with

- ❑ Less Pain
- ❑ More Enjoyment
- ❑ Less Depression
- ❑ BUT More Stress
- ❑ How do people's days differ with income?
 - ▶ More likely to be treated with respect
 - ▶ More likely to eat good tasting food
 - ▶ More likely to smile or laugh
- ❑ And people are more likely to want to have more days like the one that they just had

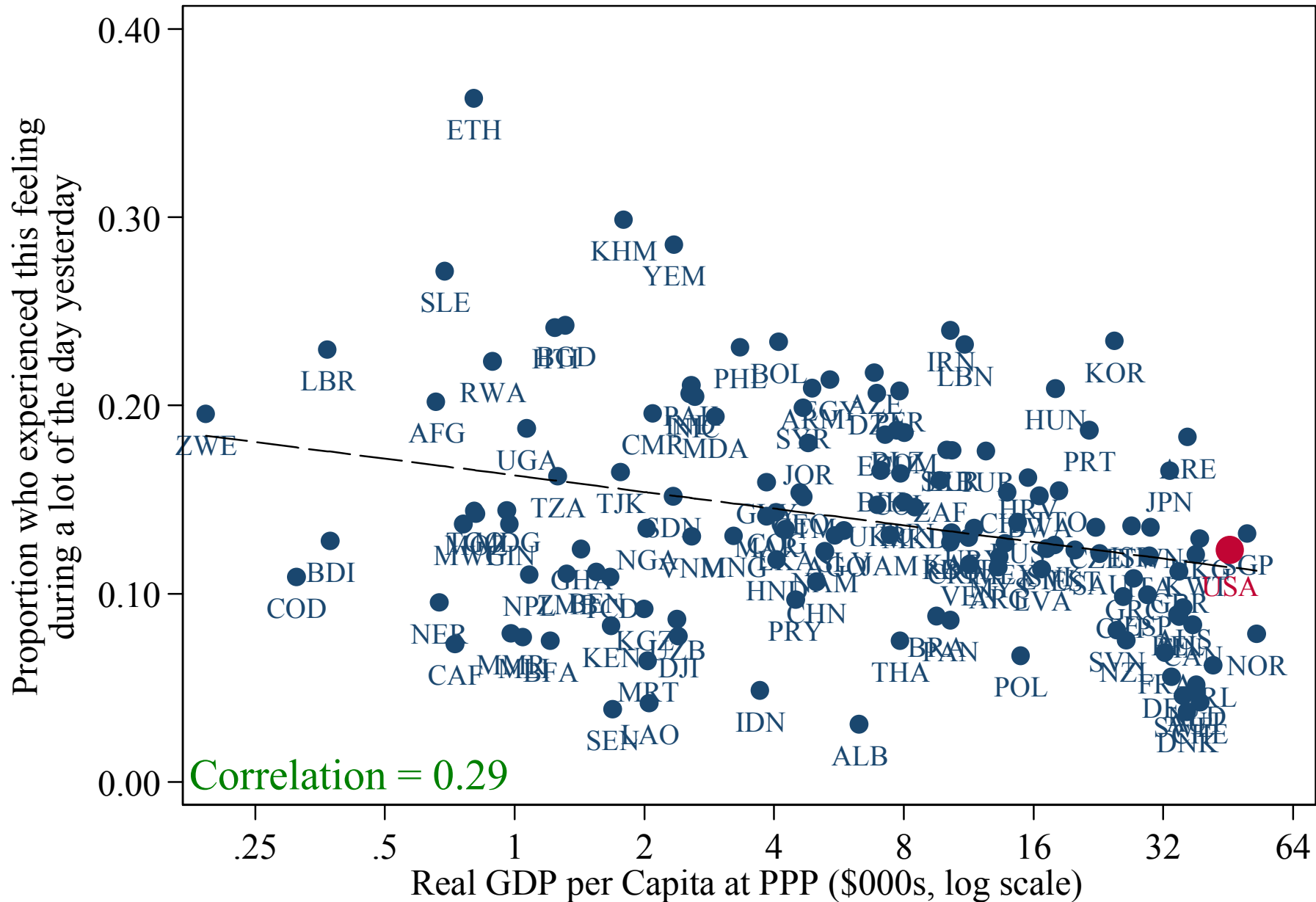




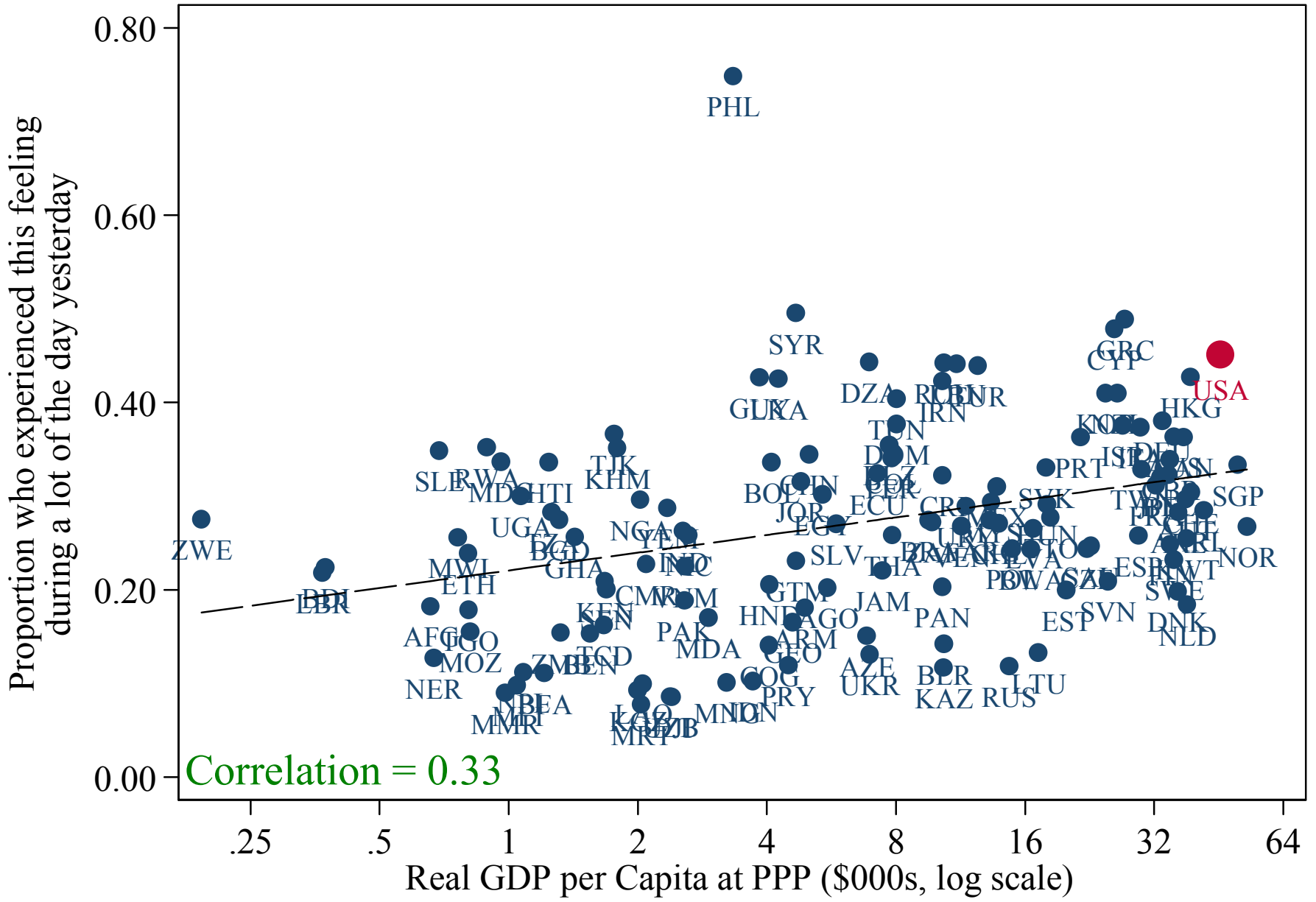
Enjoyment



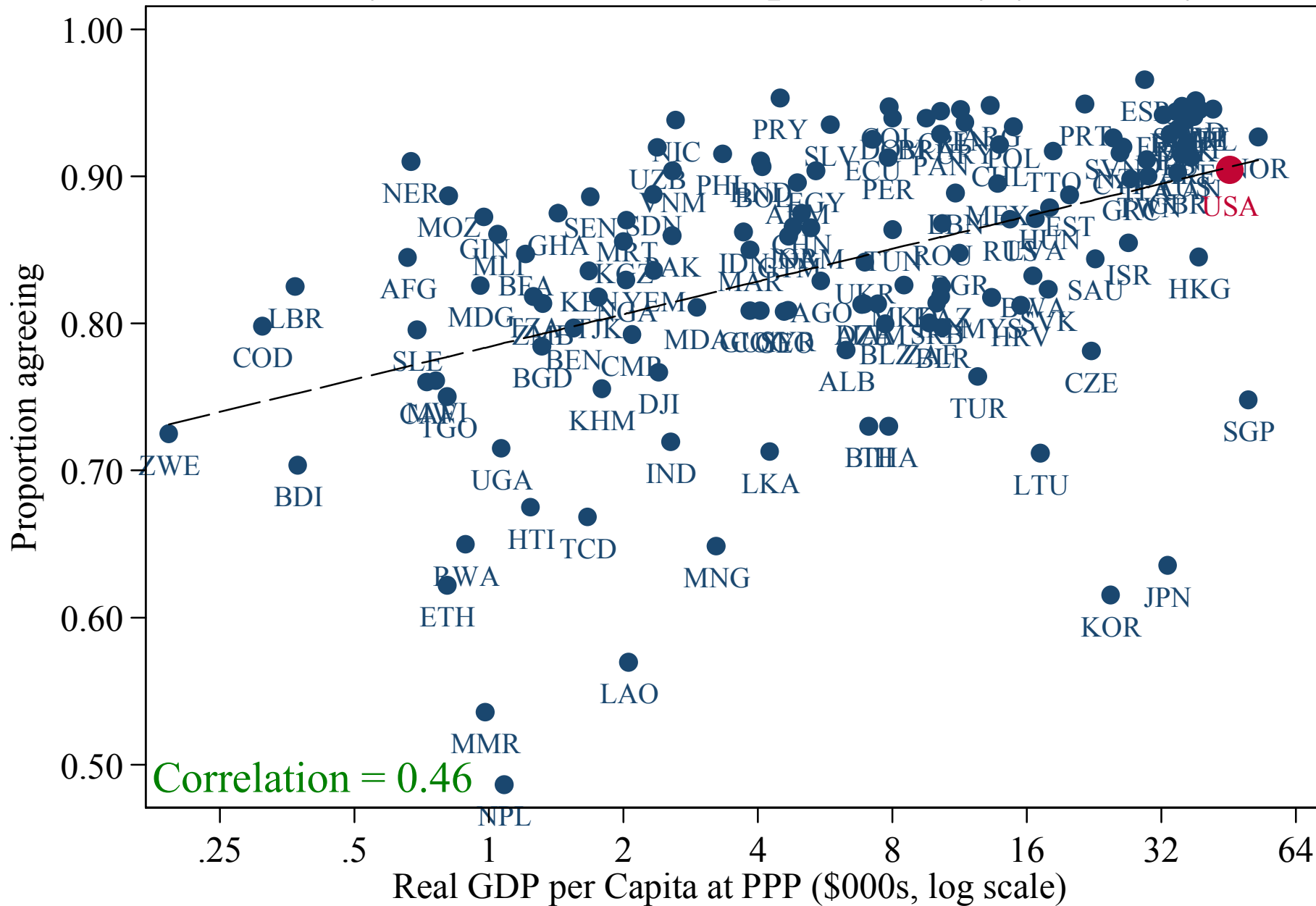
Depression



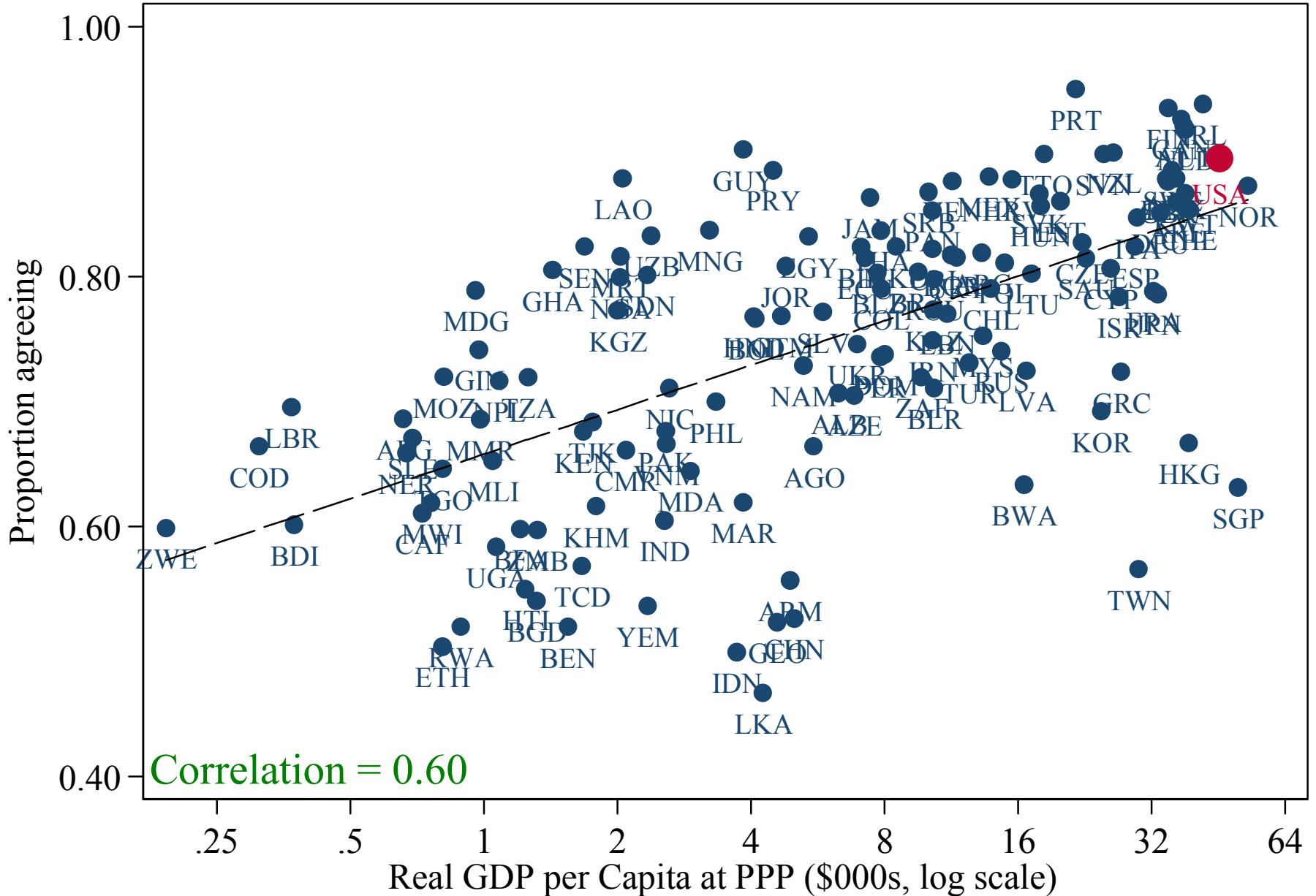
Stress



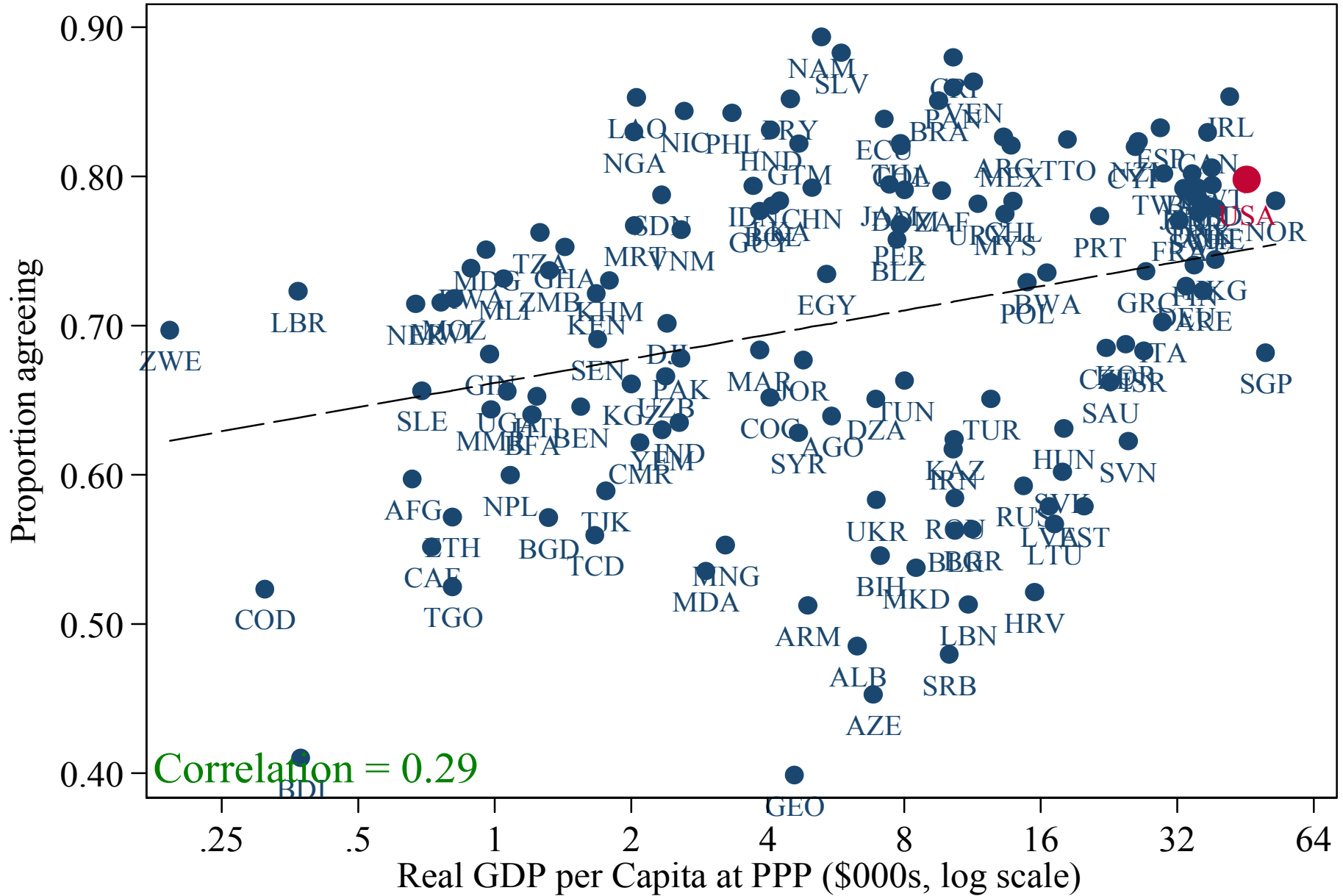
Were you treated with respect all day yesterday?



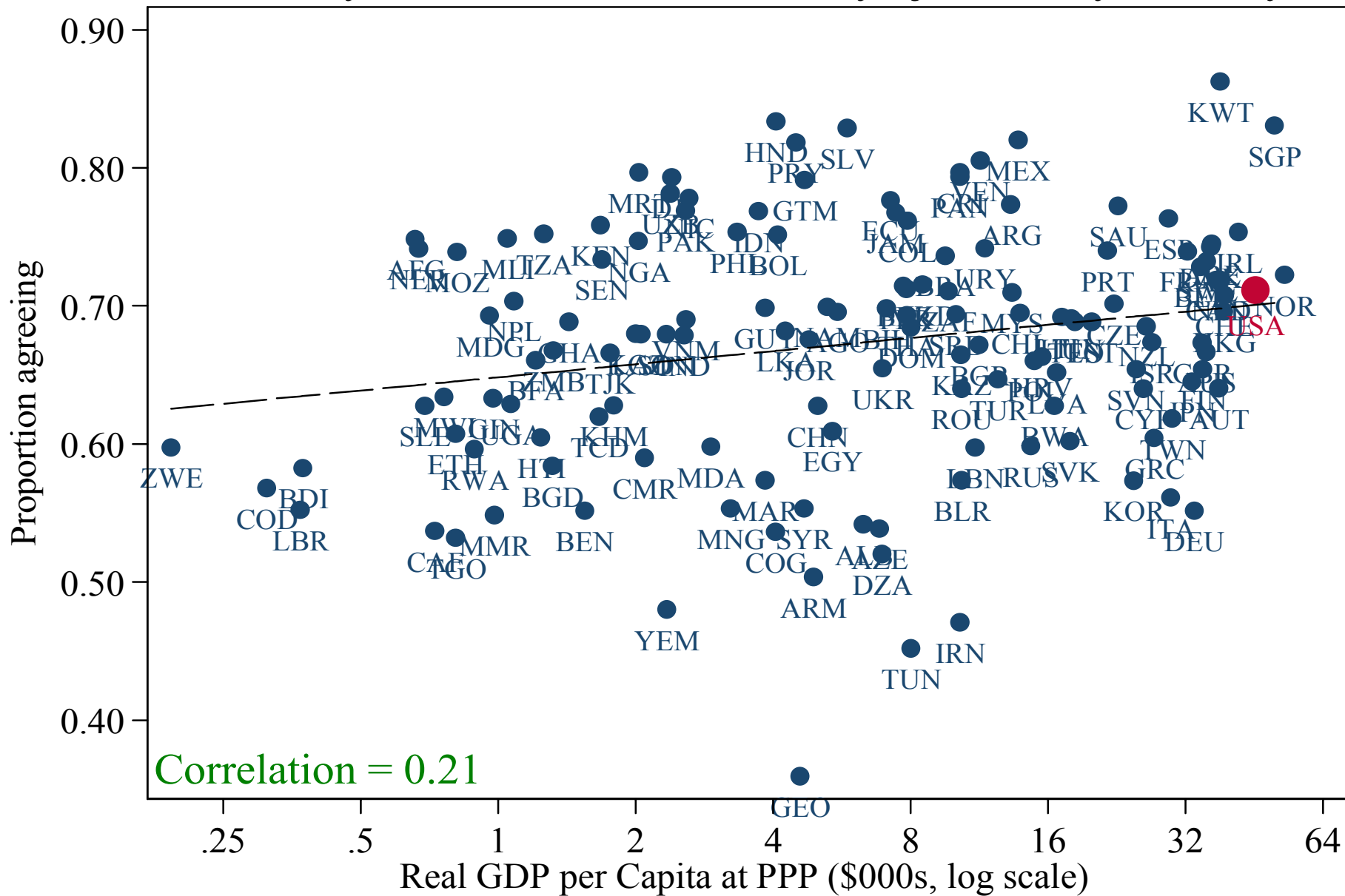
Did you have good tasting food to eat yesterday?



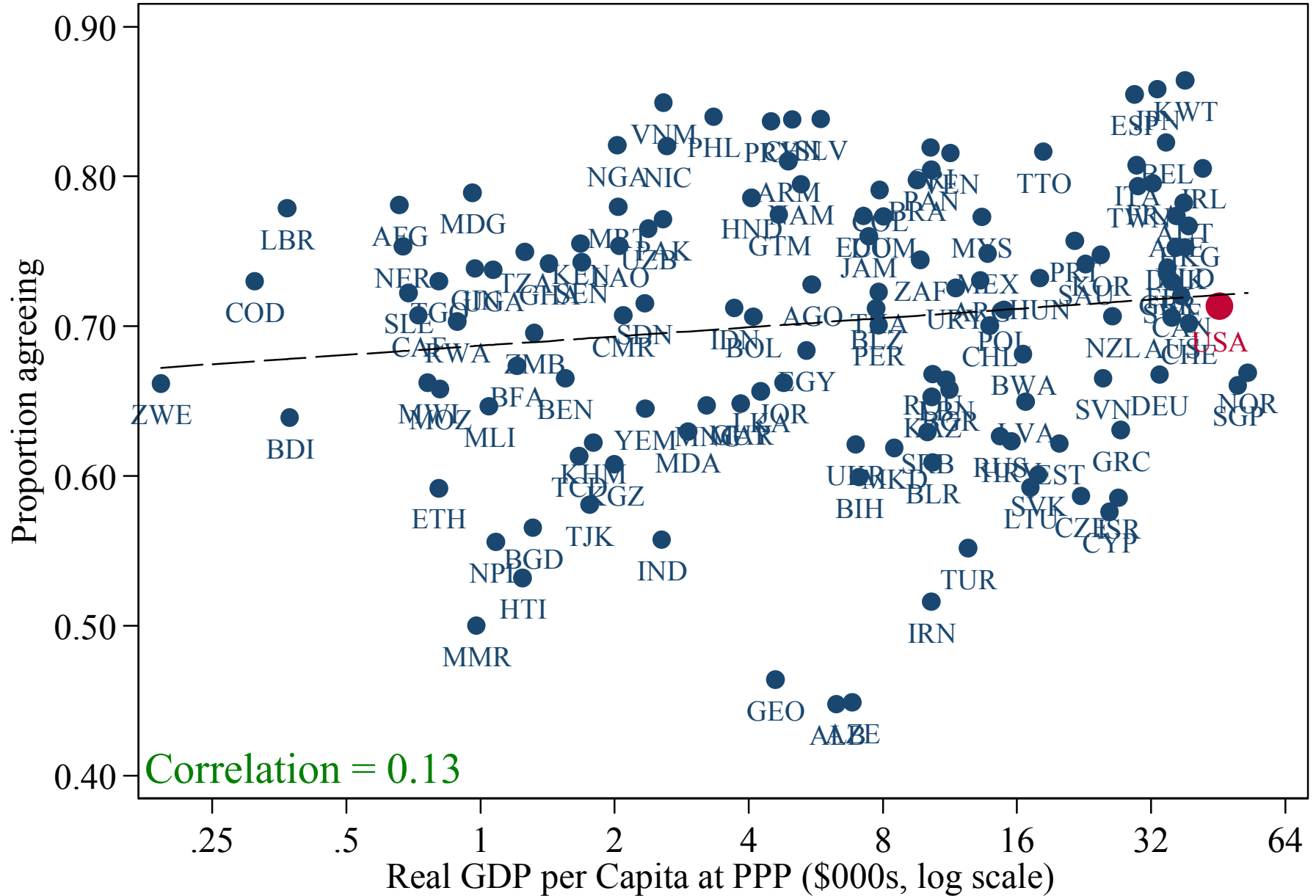
Did you smile or laugh a lot yesterday?



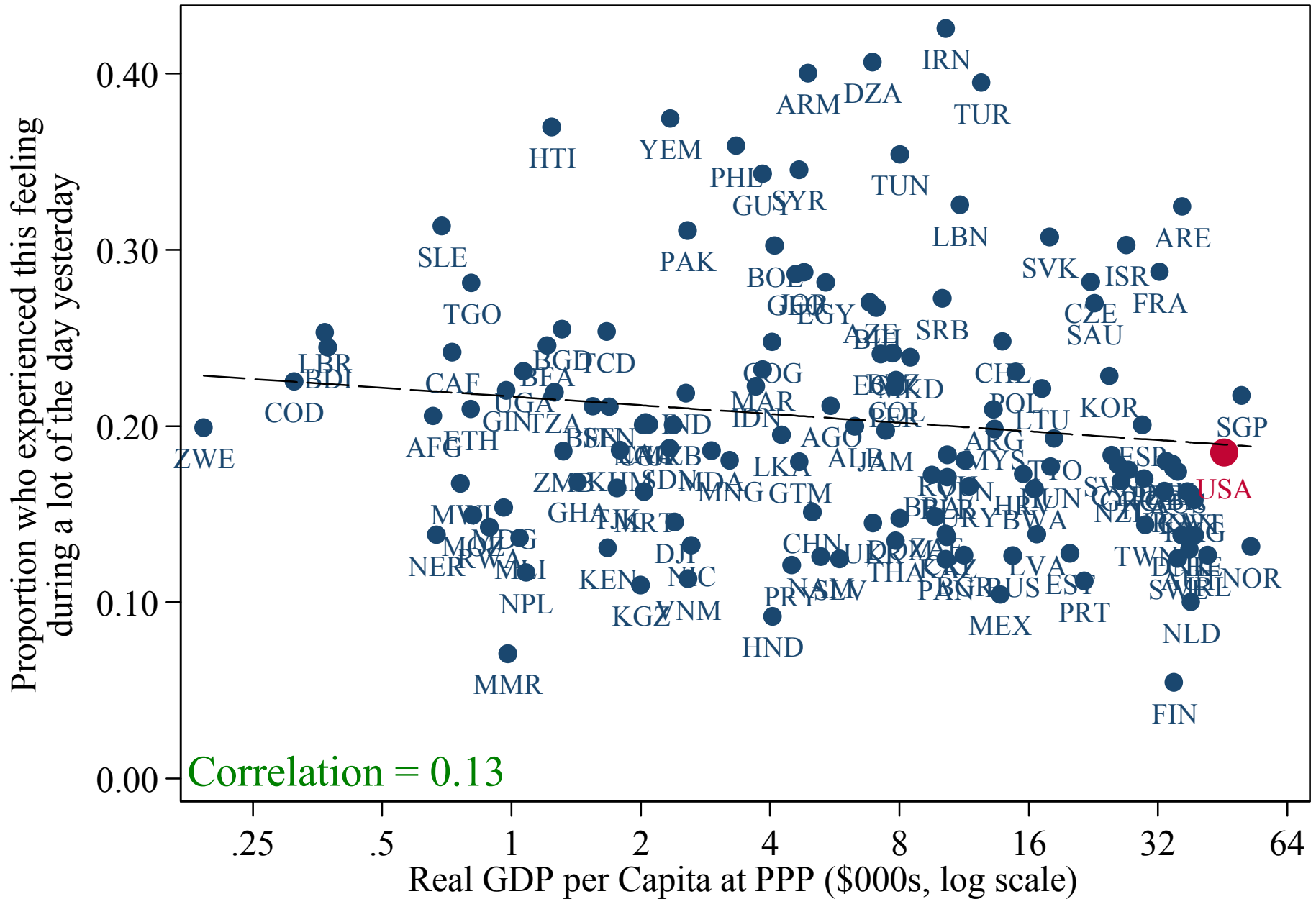
Would you like to have more days just like yesterday?



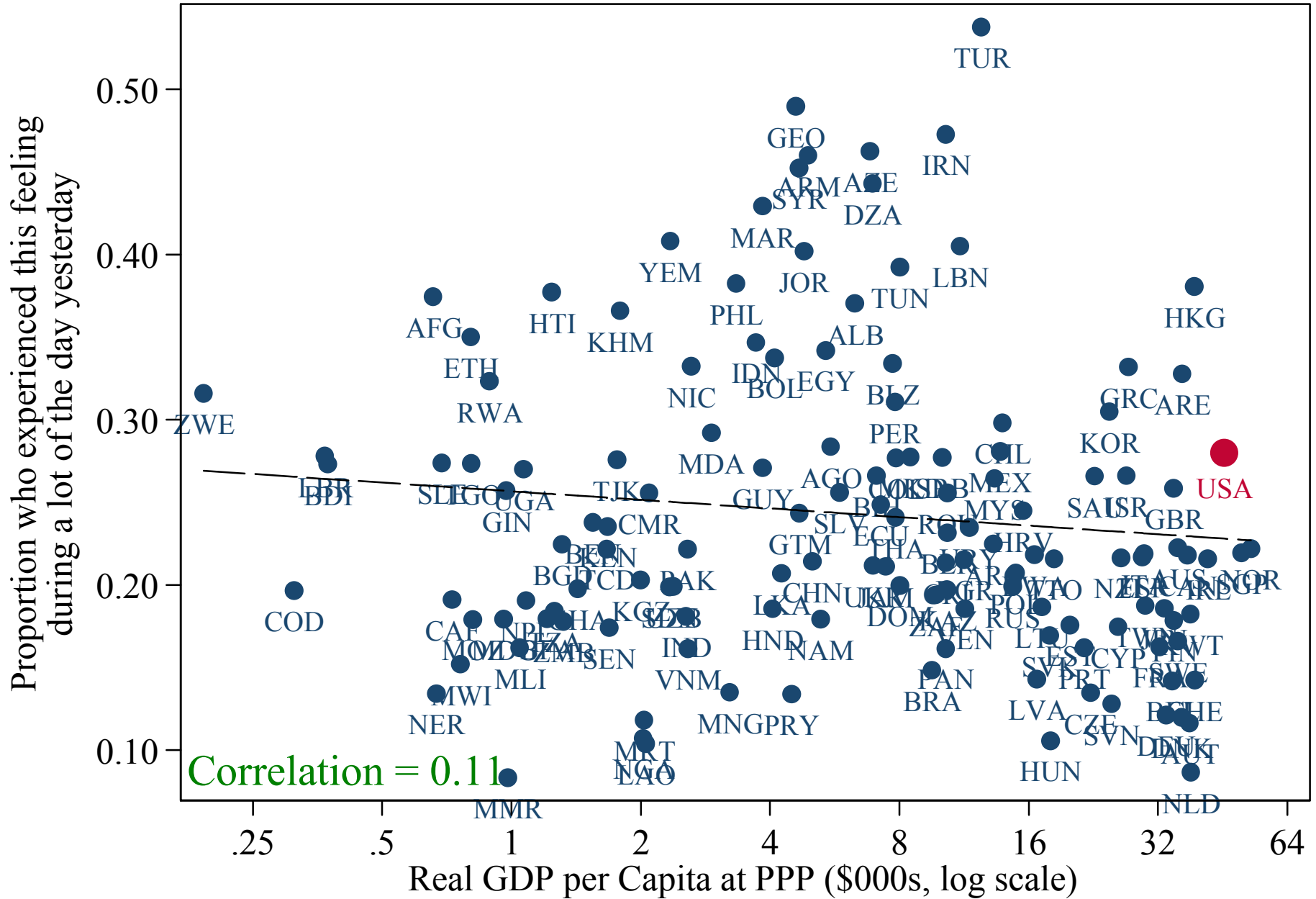
Were you able to choose how you spent your time all day?



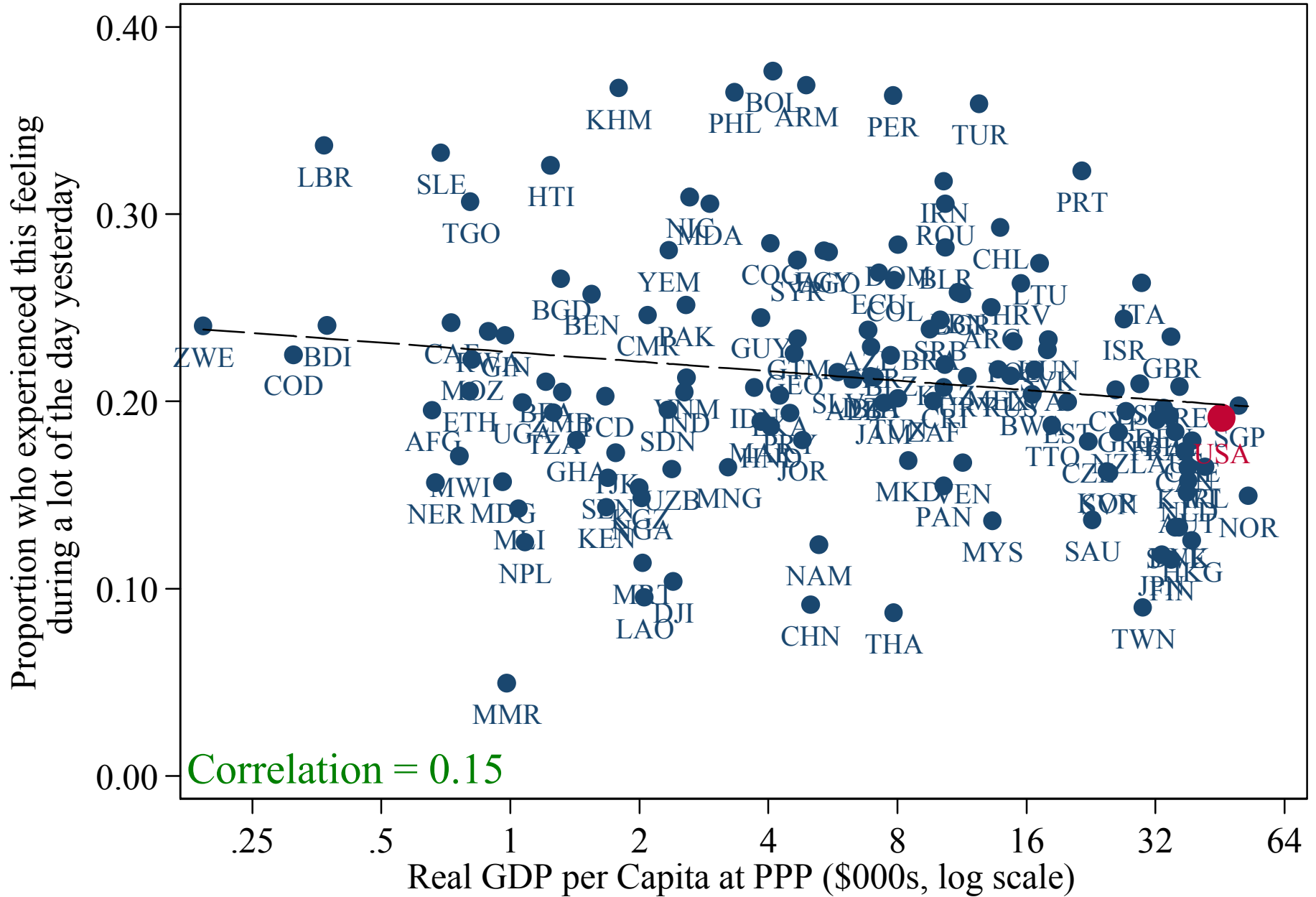
Anger



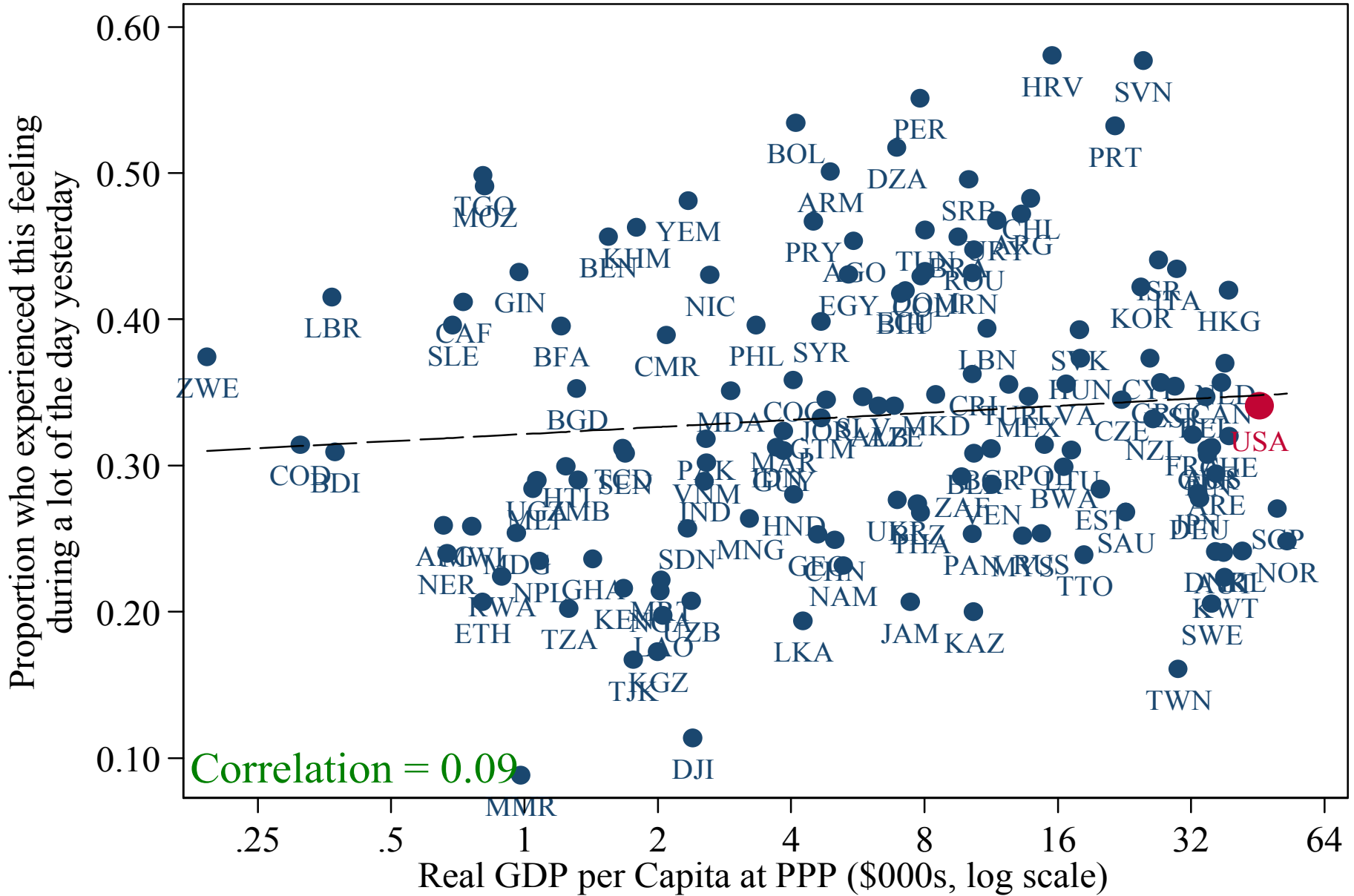
Boredom



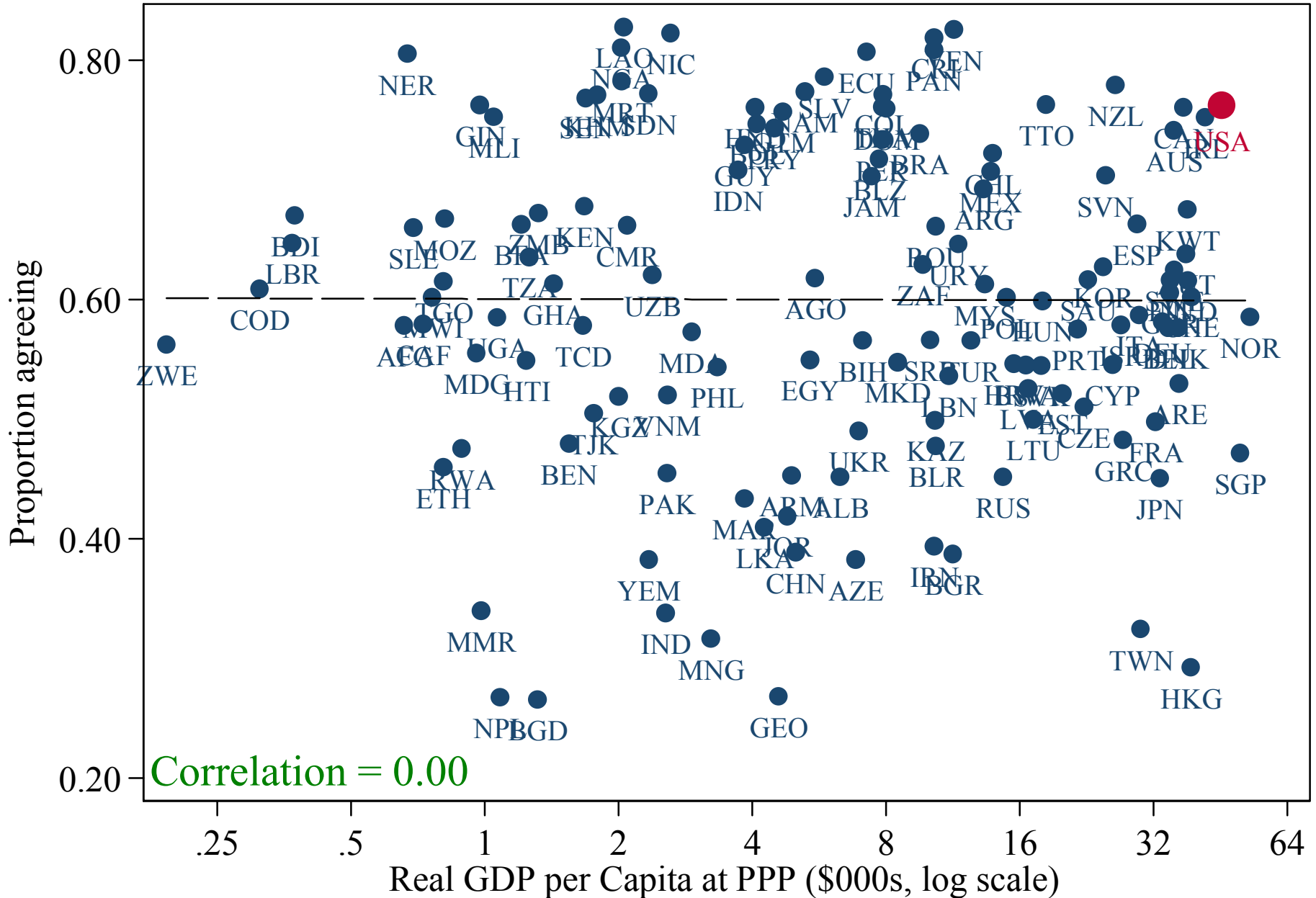
Sadness



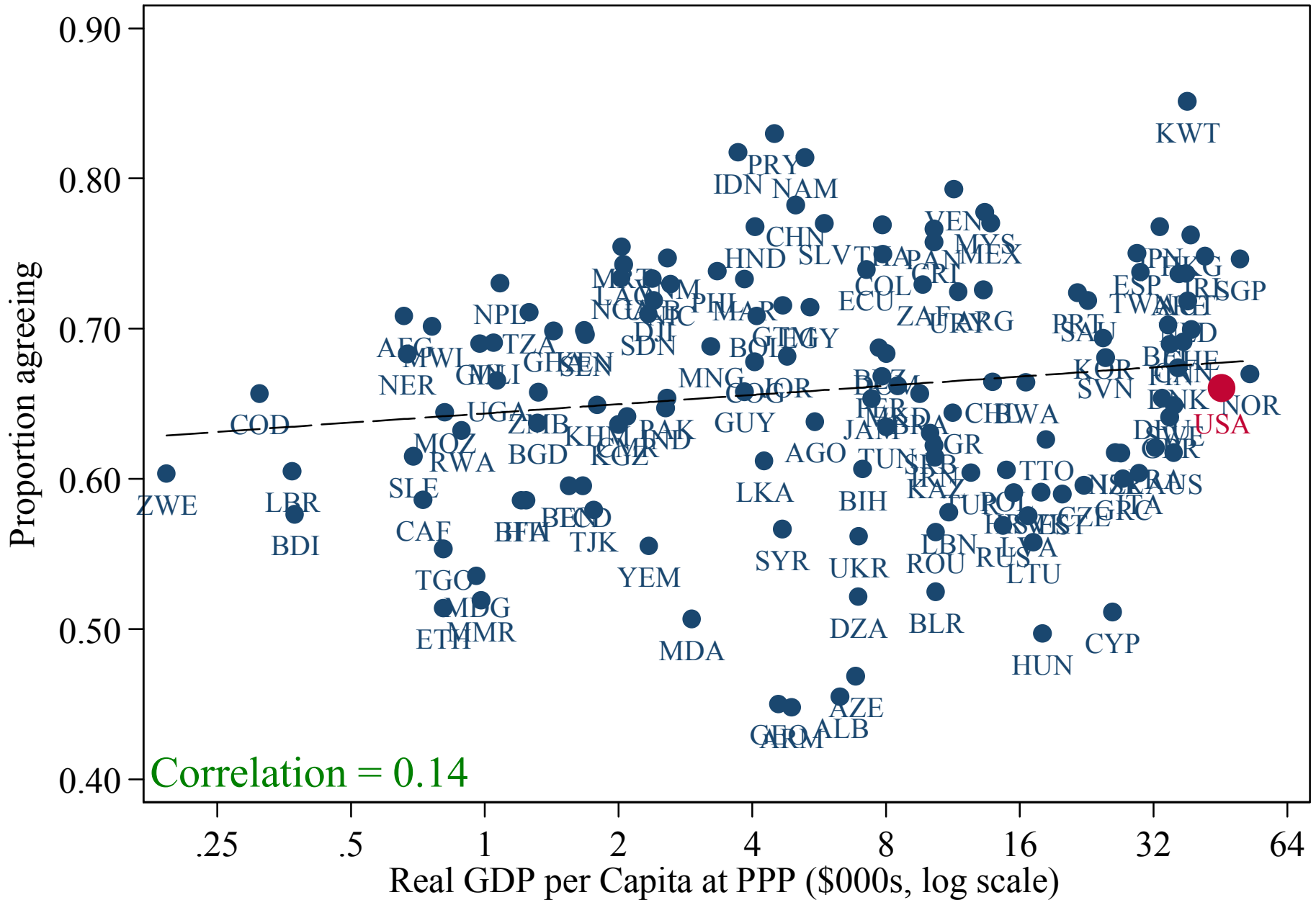
Worry



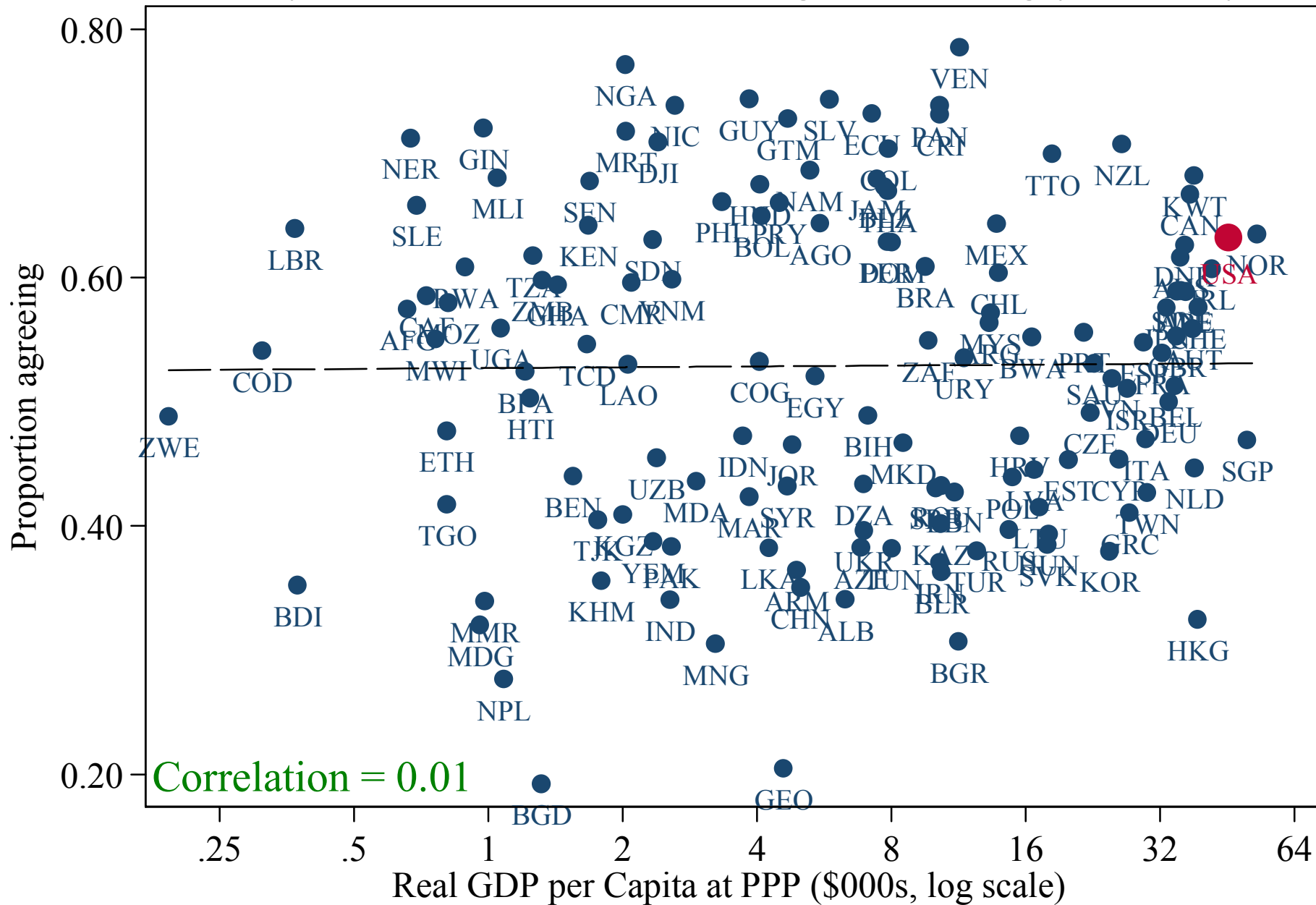
Were you proud of something you did yesterday?



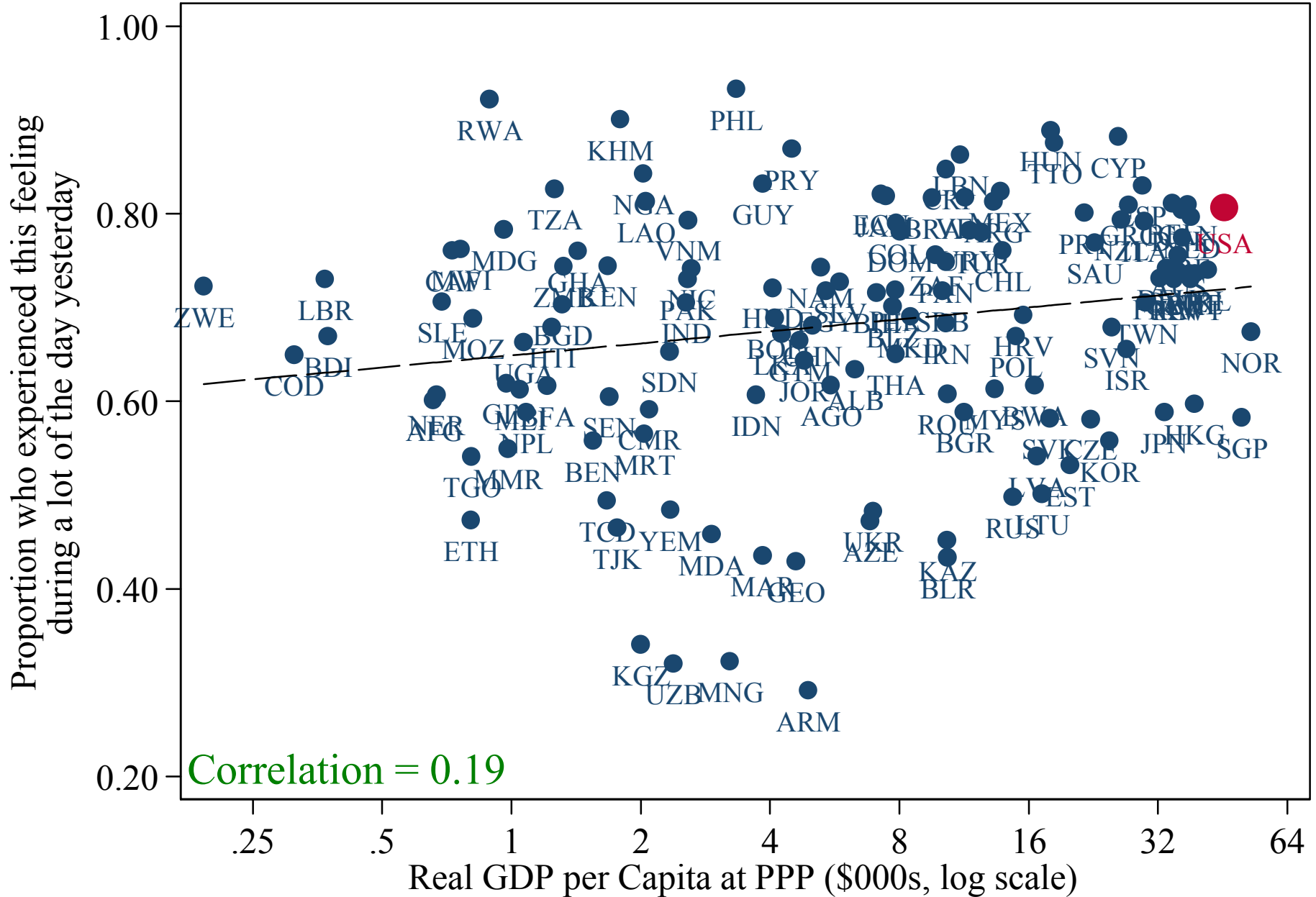
Did you feel well rested yesterday?



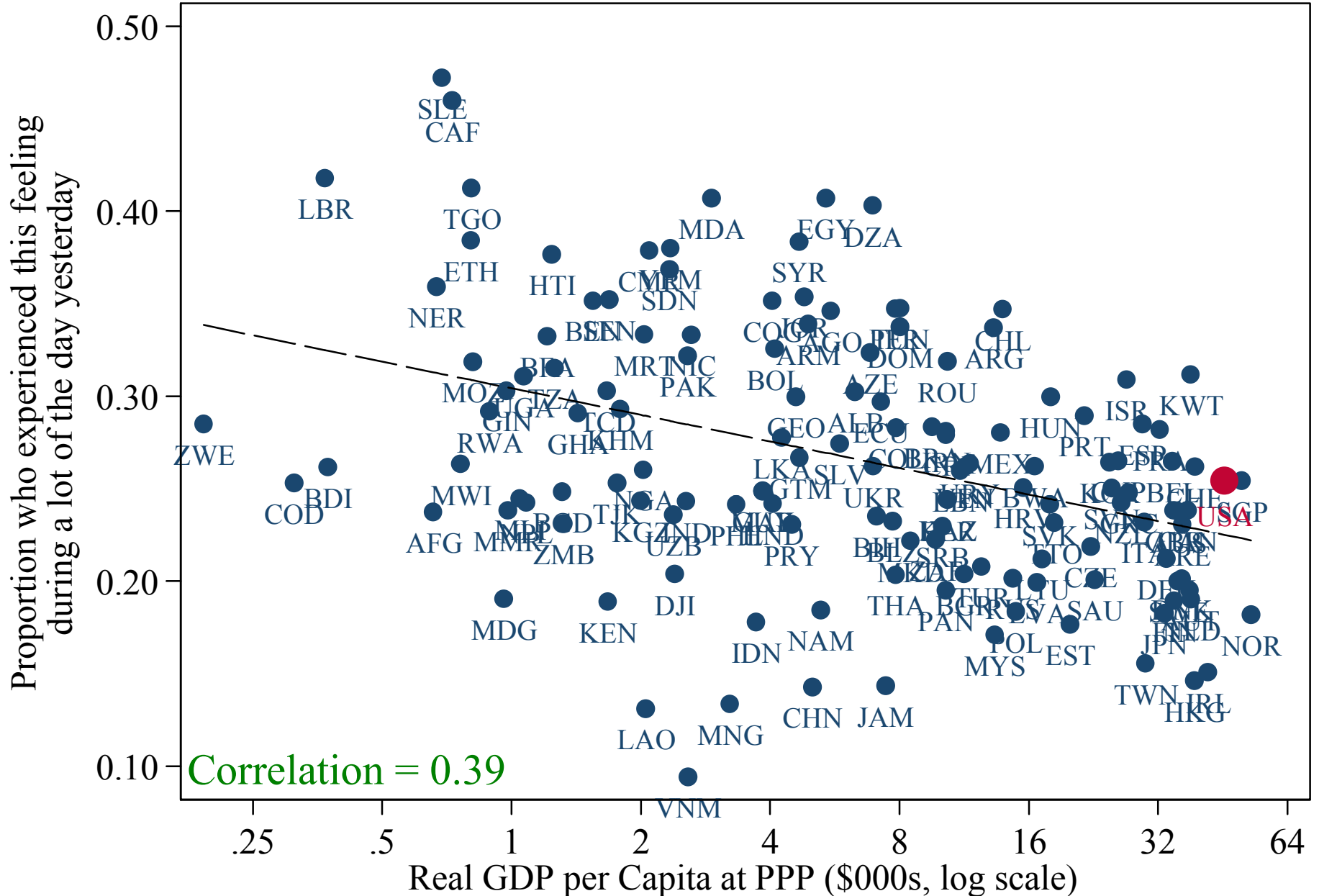
Did you learn or do something interesting yesterday?



Love

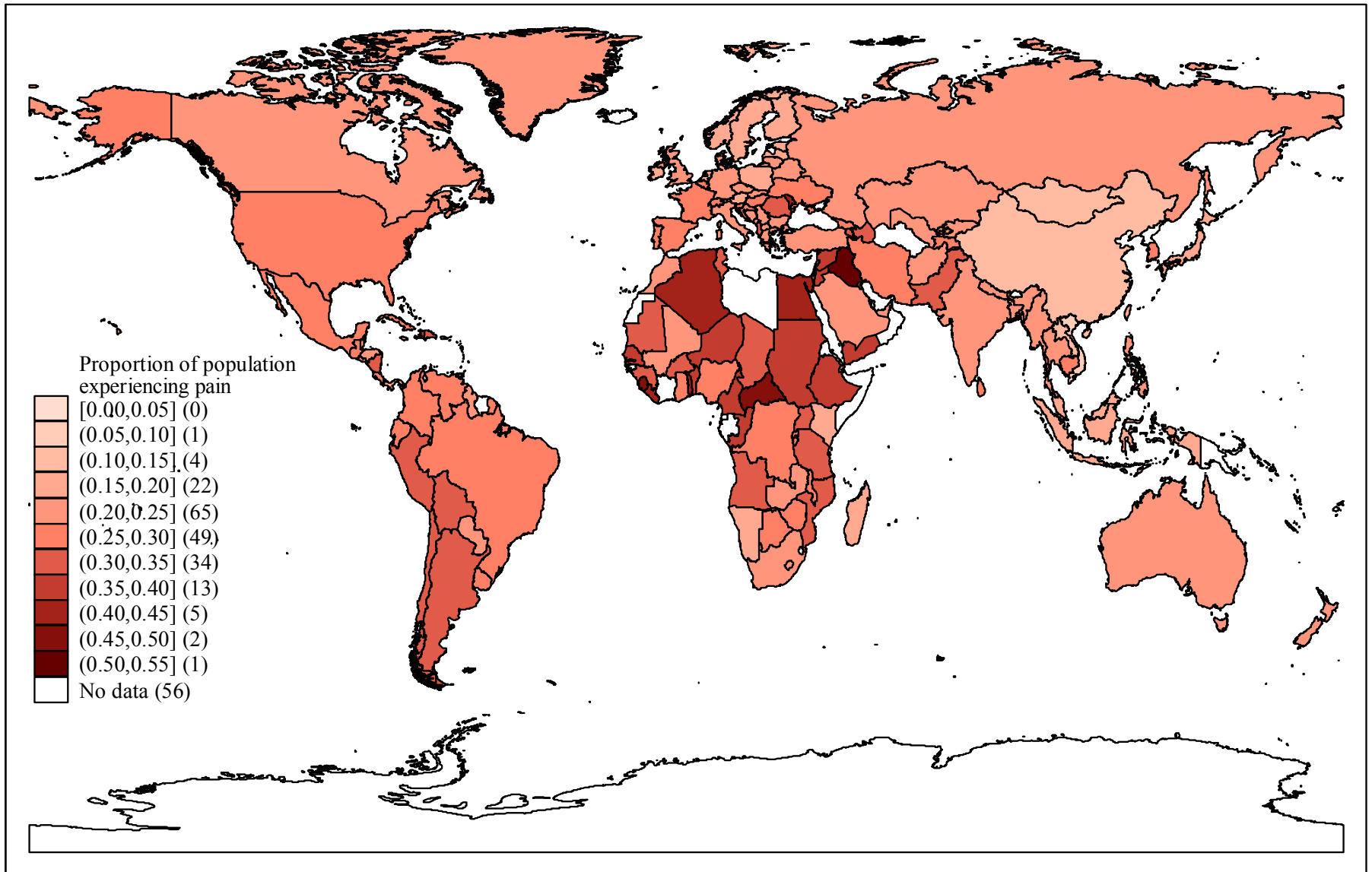


Physical Pain



Source: Alan Krueger, Betsey Stevenson and Justin Wolfers, "A World of Pain".

Global Map of Pain



Did you experience the following feelings during a lot of the day yesterday? How about physical pain?

[Source:](#) Alan Krueger, Betsey Stevenson and Justin Wolfers, "A World of Pain".