The Unequal Pursuit of Happiness? Inequality in Agency, Optimism, and Access to the American Dream

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The Unequal Pursuit of Happiness?
Inequality in Agency, Optimism, and Access to the American Dream

Carol Graham
The Brookings Institution

UNLV
November 20, 2014
Unequal Dreams? Insights from Happiness Economics

• The pursuit of happiness is in the U.S. Declaration of Independence – not about guaranteed outcomes but about opportunities to seek fulfilling lives; grounded in Aristotle and Mill; combines individual freedom and social justice.

• Is the American Dream and the right to the pursuit of happiness equally available to all citizens today? U.S. is more unequal by any number of measures; are U.S. attitudes about inequality and opportunity still exceptional?

• Opportunity attitudes affect individual choices about investments in the future. Does the increasingly unequal distribution of opportunity mean that disadvantaged cohorts of society are more likely to focus on the short term, at the expense of investments in their own and their children’s futures?

• Insights from the new “science” of well-being measurement
A new science?

- Until five or so years ago, I was one of a very small number of seemingly crazy economists using happiness surveys, and surely the only one working on developing economies.

- Today the study of well-being has become an entire new approach in the social sciences, entailing collaboration between economists, psychologists, medical doctors, and geneticists among others.

- Remarkable interest in the policy community; reflects the work of many academics, and experiments like those of Bhutan (and now the UK) that have taken the science and the metrics seriously; UN; OECD guidelines; NAS panel on well-being metrics for policy and U.S. statistics.

- The metrics give us novel insights into age-old policy questions. Help explain why individual behavior so often departs from standard economic models, in which humans are assumed to be hyper-rational utility maximizers. Instead, the metrics help us understand *homo sapiens*.
The approach

- Based on surveys of reported well-being rather than on observed consumption choices

- Can answer questions as diverse as: effects of commuting time on well-being; why cigarette taxes make smokers happier; why the unemployed are less unhappy with higher unemployment rates; and why people of the same income level are less happy when they live in wealthier neighborhoods.

- Method well-suited for questions that revealed preferences (the basis of economic models) do not answer - situations where individuals do not have the *agency* to make choices and/or when consumption decisions are not the result of optimal choices.

  - a) macro/institutional arrangements individuals cannot change – *like* *inequality*
  - b) behaviors driven by norms, addiction or self-control problems
Happiness and Income per Capita

Life Satisfaction and GDP per capita
Select countries, 1998-2008

Percent above neutral on life satisfaction (WVS)

GDP per capita, PPP constant 2005 international $ (WDI)

Source: Chattopadhyay and Graham (2011) calculations using World Values Survey (for Life Satisfaction) and World Development Indicators, The World Bank (for GDP per capita).
Happiness and Age!

Happiness by Age Level
Latin America, 2000

Years of age vs. level of happiness
Happiness patterns across the world

- Happiness and age (figure)
- Income
- Health
- Employment
- Marriage (you can’t be happier than your wife…)
- Friendships
- Gender (less clear)
The metrics we use

- Econometric equations: \( W_{it} = \alpha + \beta x_{it} + \varepsilon_{it} \)

- \( W \) is the reported well-being of individual \( i \) at time \( t \), and \( X \) is a vector of demographic and socio-economic characteristics (which have stable patterns). Unobserved traits are captured in the error term.

- Can then explore “happiness” effects of things that vary or change more, such as inflation and unemployment rates, environmental quality, or personal behaviors, such as smoking, exercising, and commuting time and much more.

- Do not ask people if these things make them un/happy.

- Despite the public focus on “happiness”, we make clear distinctions between several well-being dimensions.
Bentham or Aristotle in the statistics offices?

- Broad agreement among scholars on two related but distinct dimensions of well-being;

- **Jeremy Bentham**: maximizing the contentment and pleasure of the greatest number of individuals as they experience their lives on a day-to-day basis – e.g. hedonic or *experienced well-being*.

- **Aristotle**: happiness as *eudaimonia*, a Greek word that combines two concepts: “*eu*” meaning well-being or abundance, and “*daimon*” meaning the control of an individual’s destiny. Falls under the rubric of *evaluative well-being*; implicitly includes the opportunity to lead a purposeful or meaningful life.

- Hedonic well-being measures better for assessing QOL and life at the moment; evaluated well-being better for assessing people’s capacities to make choices and to seek fulfilling lives.
Measuring Daily Experience and Life Fulfillment

• Hedonic metrics (daily experience and mental states) – we measure happiness/smiling at the moment and stress and anxiety as respondents go about their daily lives (usually 0-1, yes-no scale).

• Evaluative metrics (respondents’ attitudes about their lives as a whole, including the ability to lead meaningful/purposeful lives) – we measure satisfaction with life, usually 0-10 scale.

• Individuals with more positive attitudes about future mobility are happier (and visa versa). Virtuous circle – these attitudes also linked to willingness to invest in the future and to better future outcomes.

• Those with more limited future opportunities and lower levels of well-being (in some dimensions) – have higher discount rates – less capacity to make investments in the future and less confidence they will pay off.
Time Horizons, Discount Rates, and Adaptation

- Respondents with different future outlooks may emphasize one or the other well-being dimension more;

- Those with limited capacities – such as deep poverty – tend to focus on the hedonic dimension as daily experience is stressful/difficult to plan ahead (religion, friends)

- Those with more capabilities and opportunities may focus more on the longer term dimensions of their lives even at the expense of daily quality of life in the short term (education investments)

- People adapt to all kinds of circumstances; adaptations are coping mechanisms; easier to adapt to unpleasant certainty (and emphasize the day to day) than to uncertainty, even that associated with progress (frustrated achievers, unhappy growth)
Adaptation! Best Possible Life and the DIJA

Dow and Happiness (2008-2009)
Inequality, Opportunity, and Attitudes

• Much new research on inequality/mobility – Piketty explosion

• Does U.S. exceptionalism persist in spite of it all?

• Not really. When asked whether inequality has increased and/or whether the economic system is fair to most; 61% of Americans think it favors the wealthy vs. 35% think it is fair (falls in between UK and Australia).

• More important, 62% of Americans think their children will be worse off than they are, only 33% think better – compares to many OECD, but in LAC, only 13% of Chileans and 38% of Argentines (regional pessimists) think their children will be worse off than they are

• Percent of Americans that think people can get ahead if they work hard has fallen in past decade, from 68% to 60%.
Two Americas?

- Leonhart social media study, Google search:
  - Common words in poor America are: guns, religion, hell, diabetes, video-games, and fad diets (living in the moment).
  - Common words in rich America are: iPads, baby joggers, Baby Bjorns, and exotic travel destinations like Machu Picchu (investing in the future).
Research in Progress

• Data from Gallup Healthways Surveys (1000 Americans per day from January 2008-2013) and from Gallup World Poll (app 1000 people per country per year in 162 countries for 2005-2013).

• Extensive detail in both surveys on socio-demographics and income, attitudes, and well-being across both dimensions.

• Compare well-being metrics and attitudes about future mobility in the U.S. and Latin America, region long known for exceptionally high rates of inequality (although in the past decade poverty has fallen a lot and inequality has fallen a bit).

• Simple averages, some regressions, and then some quantile regressions, to explore how attitudes vary depending on where in the well-being distribution respondents are.
Experienced Stress – USA vs LAC

Experienced Stress
Yesterday
(1=Yes, 0=No)

Within Country Household Income Quintile

LAC difference: -0.04

USA difference: -0.06
Smile Yesterday – USA vs LAC

Smile Yesterday (1=Yes, 0=No)

Within Country Household Income Quintile

LAC difference: 0.07
USA difference: 0.12
Life Satisfaction – USA vs LAC

Within Country Household Income Quintiles

Best Possible Life (0-10 scale)

USA difference: 1.21

LAC difference: 1.30
Belief in Hard Work – USA vs LAC

Hard Work Gets You Ahead
(1=Yes, 0=No)

Within Country Household Income Quintile

USA difference: 0.08
LAC difference: 0.004

1 Poorest
2 Second
3 Middle
4 Fourth
5 Richest
## Regression of Belief in Hard Work Attitudes – USA versus LAC

<table>
<thead>
<tr>
<th>Hard Work Gets You Ahead: 1=Yes, 0=No</th>
<th>USA</th>
<th>LAC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age</td>
<td>-0.008***</td>
<td>-0.003***</td>
</tr>
<tr>
<td>Age squared/100</td>
<td>0.008***</td>
<td>0.003***</td>
</tr>
<tr>
<td>Gender: 1=Female, 0=Male</td>
<td>-0.036***</td>
<td>0.016***</td>
</tr>
<tr>
<td>Married: 1=Yes, 0=No</td>
<td>0.006</td>
<td>0.011***</td>
</tr>
<tr>
<td>HS Education or beyond: 1=Yes, 0=No</td>
<td>-0.006</td>
<td>-0.026***</td>
</tr>
<tr>
<td>Household Income (International $), in logs</td>
<td>0.010**</td>
<td>0.001</td>
</tr>
<tr>
<td>Best Possible Life (0-10)</td>
<td>0.025***</td>
<td>0.007***</td>
</tr>
<tr>
<td>Experienced Stress Yesterday: 1=Yes, 0=No</td>
<td>-0.019**</td>
<td>-0.029***</td>
</tr>
</tbody>
</table>

**Controls**
- Year dummy variables (Base: 2013) | Yes | Yes
- Country dummy variables (Base: Argentina) | Not applicable | Yes

| Observations | 4,960 | 118,413 |

*** p<0.01, ** p<0.05, * p<0.1
Table 3A: Life Satisfaction in the U.S.

Best Possible Life Quantile Regressions, United States

<table>
<thead>
<tr>
<th>Employment Categories (Ref. Group: Out of the Labor Force)</th>
<th>(1)</th>
<th>(2)</th>
<th>(3)</th>
<th>(4)</th>
<th>(5)</th>
</tr>
</thead>
<tbody>
<tr>
<td>No Health Problem</td>
<td>1.266***</td>
<td>1.373***</td>
<td>0.797***</td>
<td>0.542***</td>
<td>0.215</td>
</tr>
<tr>
<td>Belief in Hard Work</td>
<td>0.805**</td>
<td>0.654**</td>
<td>0.692**</td>
<td>0.659***</td>
<td>0.371</td>
</tr>
<tr>
<td>Freedom</td>
<td>1.268**</td>
<td>0.613**</td>
<td>0.589**</td>
<td>0.347*</td>
<td>0.054</td>
</tr>
<tr>
<td>Some College/College Diploma</td>
<td>0.862***</td>
<td>0.356**</td>
<td>0.278***</td>
<td>0.096</td>
<td>-0.126</td>
</tr>
<tr>
<td>Log Household Income</td>
<td>0.442***</td>
<td>0.473***</td>
<td>0.207**</td>
<td>0.028</td>
<td>0.041</td>
</tr>
<tr>
<td>Smiled Yesterday</td>
<td>1.221***</td>
<td>1.004***</td>
<td>0.722**</td>
<td>0.716***</td>
<td>0.567***</td>
</tr>
<tr>
<td>Learned Yesterday</td>
<td>0.503</td>
<td>0.498***</td>
<td>0.441***</td>
<td>0.308**</td>
<td>0.111</td>
</tr>
<tr>
<td>Age</td>
<td>-0.076**</td>
<td>-0.048**</td>
<td>-0.056***</td>
<td>-0.039*</td>
<td>-0.016</td>
</tr>
<tr>
<td>Age Squared/100</td>
<td>0.075**</td>
<td>0.051*</td>
<td>0.056***</td>
<td>0.043**</td>
<td>0.018</td>
</tr>
<tr>
<td>Female</td>
<td>0.796***</td>
<td>0.321***</td>
<td>0.377***</td>
<td>0.172</td>
<td>-0.004</td>
</tr>
<tr>
<td>Married or in Civil Partnership</td>
<td>0.053</td>
<td>0.133</td>
<td>0.210*</td>
<td>0.234</td>
<td>0.161</td>
</tr>
<tr>
<td>Urban Area</td>
<td>-0.298</td>
<td>-0.286*</td>
<td>-0.318***</td>
<td>-0.311**</td>
<td>-0.254**</td>
</tr>
<tr>
<td>Child in Household</td>
<td>-0.123</td>
<td>-0.173</td>
<td>-0.269**</td>
<td>-0.069</td>
<td>0.22</td>
</tr>
<tr>
<td>Household Size</td>
<td>0.031</td>
<td>0.004</td>
<td>-0.009</td>
<td>-0.025</td>
<td>-0.048</td>
</tr>
<tr>
<td>Religion Important</td>
<td>-0.089</td>
<td>-0.008</td>
<td>0.055</td>
<td>0.230**</td>
<td>0.281</td>
</tr>
<tr>
<td>Year Dummies</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Observations</td>
<td>1,417</td>
<td>1,417</td>
<td>1,417</td>
<td>1,417</td>
<td>1,417</td>
</tr>
<tr>
<td>Pseudo R²</td>
<td>0.185</td>
<td>0.183</td>
<td>0.088</td>
<td>0.069</td>
<td>0.045</td>
</tr>
</tbody>
</table>

Table 3B: Life Satisfaction in LAC

<table>
<thead>
<tr>
<th>Best Possible Life Quantile Regressions, Latin America and the Caribbean</th>
<th>(1)</th>
<th>(2)</th>
<th>(3)</th>
<th>(4)</th>
<th>(5)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q10</td>
<td>Q25</td>
<td>Q50</td>
<td>Q75</td>
<td>Q90</td>
<td></td>
</tr>
<tr>
<td>No Health Problem</td>
<td>0.722***</td>
<td>0.514***</td>
<td>0.501***</td>
<td>0.498***</td>
<td>0.236**</td>
</tr>
<tr>
<td>Belief in Hard Work</td>
<td>0.257***</td>
<td>0.216***</td>
<td>0.258***</td>
<td>0.254***</td>
<td>0.194***</td>
</tr>
<tr>
<td>Freedom</td>
<td>0.273***</td>
<td>0.239***</td>
<td>0.256***</td>
<td>0.278***</td>
<td>0.197***</td>
</tr>
<tr>
<td>Some College/College Diploma</td>
<td>0.592***</td>
<td>0.555***</td>
<td>0.524***</td>
<td>0.241***</td>
<td>-0.042</td>
</tr>
<tr>
<td>Log Household Income</td>
<td>0.467***</td>
<td>0.353***</td>
<td>0.211***</td>
<td>0.125***</td>
<td>0.017</td>
</tr>
<tr>
<td>Full-Time Employee</td>
<td>0.196***</td>
<td>0.102***</td>
<td>0.079**</td>
<td>-0.003</td>
<td>-0.016</td>
</tr>
<tr>
<td>Self-Employed</td>
<td>-0.141***</td>
<td>-0.127***</td>
<td>-0.136***</td>
<td>-0.181***</td>
<td>-0.056</td>
</tr>
<tr>
<td>Voluntary Part-Time</td>
<td>0.187***</td>
<td>0.047</td>
<td>-0.051</td>
<td>-0.081*</td>
<td>-0.031</td>
</tr>
<tr>
<td>Unemployed</td>
<td>-0.656***</td>
<td>-0.500***</td>
<td>-0.524***</td>
<td>-0.552***</td>
<td>-0.205*</td>
</tr>
<tr>
<td>Involuntary Part-Time</td>
<td>-0.245***</td>
<td>-0.264***</td>
<td>-0.269***</td>
<td>-0.312***</td>
<td>-0.172**</td>
</tr>
<tr>
<td>Smiled Yesterday</td>
<td>0.581***</td>
<td>0.483***</td>
<td>0.474***</td>
<td>0.496***</td>
<td>0.559***</td>
</tr>
<tr>
<td>Learned Yesterday</td>
<td>0.336***</td>
<td>0.295***</td>
<td>0.349***</td>
<td>0.407***</td>
<td>0.175**</td>
</tr>
<tr>
<td>Age</td>
<td>-0.059***</td>
<td>-0.050***</td>
<td>-0.054***</td>
<td>-0.058***</td>
<td>-0.023***</td>
</tr>
<tr>
<td>Age Squared/100</td>
<td>0.048***</td>
<td>0.042***</td>
<td>0.047***</td>
<td>0.056***</td>
<td>0.025**</td>
</tr>
<tr>
<td>Female</td>
<td>0.044</td>
<td>0.090***</td>
<td>0.127***</td>
<td>0.226***</td>
<td>0.127***</td>
</tr>
<tr>
<td>Married or in Civil Partnership</td>
<td>0.038</td>
<td>0.004</td>
<td>-0.01</td>
<td>-0.017</td>
<td>-0.036</td>
</tr>
<tr>
<td>Urban Area</td>
<td>0.243***</td>
<td>0.201***</td>
<td>0.201***</td>
<td>0.180***</td>
<td>0.062***</td>
</tr>
<tr>
<td>Child in Household</td>
<td>-0.159***</td>
<td>-0.184***</td>
<td>-0.147***</td>
<td>-0.122***</td>
<td>-0.023</td>
</tr>
<tr>
<td>Household Size</td>
<td>0.028***</td>
<td>0.022***</td>
<td>0.030***</td>
<td>0.018**</td>
<td>0.004</td>
</tr>
<tr>
<td>Religion Important</td>
<td>-0.019</td>
<td>0.004</td>
<td>0.064**</td>
<td>0.072**</td>
<td>0.098**</td>
</tr>
<tr>
<td>Year Dummies</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Country Dummies</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Observations</td>
<td>64,728</td>
<td>64,728</td>
<td>64,728</td>
<td>64,728</td>
<td>64,728</td>
</tr>
<tr>
<td>Pseudo R²</td>
<td>0.146</td>
<td>0.097</td>
<td>0.103</td>
<td>0.056</td>
<td>0.06</td>
</tr>
</tbody>
</table>

Tentative Conclusions

- **Two Americas**: Stark evidence of major differences in well-being and in attitudes about the future between poor and rich Americans.
  - **Wealthy group**: High levels of life satisfaction and corresponding ability to plan for and invest in the future.
  - **Poor group**: Lower life satisfaction, higher levels of stress, living in the moment, much less optimism about the future.

- Gaps between the well-being scores of the poor and the rich were the greatest for mobility attitudes – belief that hard work gets people ahead.

- Potentially more positive story is that belief in hard work seems to mediate the unhappiness of the least happy in the U.S. Continuing to believe in the American Dream provides some solace for those respondents who do.

- Individuals with higher levels of well-being have better future outcomes, in productivity, health, and social behaviors, either because of intrinsic motivation or because of the capacity to have longer time horizons. If current patterns also translate into behavioral outcomes, then gaps between the lives of the rich and poor will only grow larger.
Keeping Track of Jefferson’s Dream: Well-Being Metrics in our Statistics

• Including these metrics in our statistics would allow us to track quality of daily lives as well as people’s opportunities and capacities to lead fulfilling lives (as Jefferson promised).

• Much debate about how far to go in this direction; most scholars agree that a single happiness measure is NOT appropriate.

• Low risk step: adding a few robust questions to our statistics to complement GNP (as the British have done/OECD is recommending):
  » General life satisfaction (happiness or life satisfaction)
  » Experienced well-being, via positive and negative affect questions, such as smiling yesterday or worried yesterday
  » Eudemonia – meaning or purpose in life

• Our stats offices are open to the idea!
Remaining Questions

- a) Cardinality versus ordinality – reducing misery or raising aggregate levels of well-being (the stress of the poor as a priority?)

- b) What is a meaningful change in well-being? Do we know? How do we translate this for the public?

- Happiness/well-being is a more complicated concept than is income. We can compare income across people with clarity on what it seeks to measure. Yet it took us years to get GNP right……

- We need keep track of the American dream!