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Commentary on 'Income and Happiness: A Philippines Context'

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Abstract

The commentary discusses five items pertinent to Palanca-Tan (2021), namely: Easterlin Paradox, Easterlin Hypothesis, happiness-income model, happiness survey question, and happy poor. The goal is to offer clarification and to help enrich the understanding of readers of Palanca-Tan.

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1. Introduction

Palanca-Tan (2021) analyzed the relationship between income and happiness using cross-section data from Koronadal in South Cotabato.[1] She found that the impact of income on happiness was small compared to other factors like asset ownership and social capital, among others. In addition, the threshold in which income had an impact on happiness was found at PHP 20,000, which could be viewed as an estimate of the income poverty threshold for Koronadal.

The commentary seeks to offer clarification and to help enrich the understanding of readers of Palanca-Tan. The following sections present five items that I saw to be most important for me to discuss.

2. Easterlin Paradox

Economic theory stipulates that higher levels of income mean higher levels of well-being or, in this case, happiness. Presumably, happiness rises over time as income grows over time. But Easterlin (1974) found no empirical relationship between income and happiness over time (Easterlin 2017; Easterlin and O'Connor 2020). More specifically, Easterlin (1974) found that an income-happiness relationship existed with cross-section data but not with time-series data.

Time is a crucial element to the Easterlin Paradox. Thus an investigation on the paradox would need time series data. Palanca-Tan resorted to Stevenson and Wolfers (2013) because she only had cross-section data.

I should mention that there is a debate between the "Easterlin Group" and "Stevenson-Wolfers Group" (Beja 2014, 2015a). The latter group would tend to redefine the Easterlin Paradox, apply creative techniques like threshold regression, and resort to cross-section data. Stevenson and Wolfers (2013), for instance, does not confront the core issue of the Easterlin Paradox head on.

The key insight of the Easterlin Paradox is that, ultimately, income contributes very little to happiness. By extension, wealth, fame, achievement, and the like are not very important to happiness. But social relations, meaning and purpose, security, and health turn out to be some of the very important factors to happiness (c.f., Putnam 2000, Graham 2008, and Valiant 2015). What Palanca-Tan found would be consistent to this view.

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[1] The paper is downloadable from the PJS website: https://philjournalsci.dost.gov.ph/accepted-articles/108-vol-150-no-5-october-2021/1447-income-and-happiness-a-philippine-context]

3. Easterlin Paradox Vs Easterlin Hypothesis

Palanca-Tan referred to the Easterlin Paradox as the "Easterlin Hypothesis" and, in other parts of the paper, she wrote "Easterlin hypothesis or paradox" (p. 951, p. 954) due to the labels introduced in Stevenson and Wolfers (2013). I would like to point out that there is specificity to the labels "Easterlin Paradox" and "Easterlin Hypothesis", because they refer to different scientific contributions of Richard Easterlin (c.f., footnote 2 in Stevenson and Wolfers (2013)).

In particular, the Easterlin Paradox springs from Easterlin (1974), the seminal paper in the field of happiness economics; whereas the Easterlin Hypothesis arises from Easterlin (1961), a pioneering explanation to the mid-20th Century baby booms, in the field of demography economics. The Easterlin Hypothesis argues that the positive relationship between fertility and income is based on relative income. Easterlin (1974) also presented relative income as a factor behind the Easterlin Paradox.

4. Conceptual Model

The standard economic model of utility, $U = f(\cdot)$, would not be problematic to use as a starting point for an analysis of the income-happiness relationship. Palanca-Tan referenced its theoretical foundation by citing Arthur Pigou; but I would go further back and mention Jeremy Bentham. In this regard, Kahneman et al. (1997) showed that subjective well-being could be used to represent utility, a proposition that I think Palanca-Tan also agreed (p. 953).

In turn, the expression $U = f(\cdot)$ could be restated as $H = f(h(\cdot))$, where H is reported well-being and $h(\cdot)$ is latent well-being. The claim is that "true" well-being is latent because it is an internal experience of a person. Another claim is that reported well-being is some transformation of latent well-being. There could be discrepancies between H and h—that is, $(H - h) = e$, where e means error—because of cognitive biases, cultural predispositions, etc. An additional claim is that e does not come from a change in the valence of life circumstances but only from the interpretation of experiences. Thus, if $e \sim N(0, \sigma_e^2)$, then $H \equiv h$ when there is a sufficiently large set of observation. Indeed, a version $H = f(h(\cdot))$ was used by Palanca-Tan.

I would argue, though, that results shown in Table III of Palanca-Tan could be read following marginal analysis. I could then state that the marginal happiness of income decreases as income increases. Indeed, what Palanca-Tan found was that the impact of income on happiness for "poor" households was greater than that for "rich" households.

5. Happiness Survey Question

Palanca-Tan stated in p. 954 that her happiness survey question was based on the pioneering work of Hadley Cantril and Robert Inglehart. I would like to stress that Cantril and Inglehart imply different metrics.

Cantril (1965) developed the ladder method for eliciting well-being. Specifically, respondents are shown a ladder with 10 rungs, with the best possible scenario being at

the top rung, and the worst possible scenario at the ground level or below the first rung. The rungs are also numbered, with 1 at the first rung, etc. Zero is placed at the ground level or below the first rung. Respondents are asked to evaluate their own lives on that 0 to 10 scale. The Cantril Ladder is the setup used by Gallup; it is an 11-point scale.

World Values Survey (WVS), which Richard Inglehart directed for many years, contains separate queries for happiness and for satisfaction. The happiness query is: 'Taking all things together, would you say you are very happy, rather happy, not very happy, not happy at all'. Respondents are asked to state their well-being using those labels. Meanwhile, the query for satisfaction is: 'All things considered, how satisfied are you with your life as a whole these days?' Respondents are next shown a card with numbers 1 to 10, where 1 means 'completely dissatisfied' and 10 means 'completely satisfied', and asked to state their assessment using that 1 to 10 scale. The WVS happiness query is a 4-point scale whereas its satisfaction query is a 10-point scale.

I do not see any problem if someone wishes to develop a happiness query or a satisfaction query using existing surveys as starting point. I ventured in this area before (Beja 2015b, 2019, and Beja and Yap 2013). The issue that I wanted to point out here is that the labels "completely unhappy and dissatisfied" and "completely/perfectly happy and satisfied" (p. 954) in Palanca-Tan are not usual, because the norm in happiness research is to use separate queries for happiness and satisfaction.

Of course, happiness and satisfaction are related to each other; but they are not identical concepts. And the stylized fact is that happiness and satisfaction queries elicit different responses, because the former draws more on emotion and the latter draws more on evaluation. The phrasing of scale labels actually affects the outcome of a survey (Schwarz 1999).

Palanca-Tan did not discuss survey question validity. Thus I am not convinced that her survey question elicited happiness responses only or elicited satisfaction responses only. Or Palanca-Tan could be asserting that the responses to her survey question could be read as net assessments of well-being (c.f., Campbell et al. 1976). But Palanca-Tan did not discuss how one ought to read the responses.

Nonetheless, I would suggest that Table II of Palanca-Tan be read as follows: values between 0 and 4 as 'suffering', between 5 and 6 as 'struggling', and between 7 and 10 as 'thriving'—that is, a reading along the lines of Gallup. In this manner, the findings in Table II would indicate that people with incomes below PHP 20,000 were actually struggling (mean scores between 6.31 and 6.87) whereas people with incomes above PHP 20,000 were already thriving (mean scores between 7.02 and 7.57).

6. Happy Poor

The "happy poor" was alluded to by Amartya Sen in his work on capabilities in order to highlight the problem with the utility approach to analysis. Sen argued that human adaptation could lead poor people to experience great pleasures from small positive changes in their life circumstances. As Sen (1985, p. 21) wrote:

> "A person who is ill-fed, undernourished, unsheltered and ill can still be high up in the scale of happiness or desire-fulfillment if he or she has learned to have 'realistic' desires and to take pleasure in small mercies. The physical conditions of a person do not enter the view of well-being seen entirely in terms of happiness or desire-fulfillment, except insofar as they are indirectly covered by the mental attitude of happiness or desire."

Human adaptation is in fact a process that happens over time. If so, an application of 'happy poor' would need time series data. Therefore, in my view, the reference to the 'happy poor' in Palanca-Tan was misleading.

The poor is generally less happy than the well-off. In fact, hunger and poverty are positively correlated with low level of happiness, as the data from Social Weather Stations indicate. The aim of public policy then would be not to make a poor person happy but rather to make her not poor so that she could experience a better well-being in life.

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