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What do self-reports of wellbeing say about life-cycle theory and policy?☆

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ABSTRACT

I respond to Atkinson's plea to revive welfare economics, and to consider alternative ethical frameworks when making policy recommendations. I examine a measure of self-reported evaluative wellbeing, the Cantril Ladder, and use data from Gallup to examine wellbeing over the life-cycle. I assess the validity of the measure, and show that it is hard to reconcile with familiar theories of intertemporal choice. I find a worldwide optimism about the future; in spite of repeated evidence to the contrary, people consistently but irrationally predict they will be better off five years from now. The gap between future and current wellbeing diminishes with age, and in rich countries, is negative among the elderly. I also use the measure to think about income transfers by age and sex. Policies that give priority those with low incomes favor the young and the old, while utilitarian policies favor the middle aged, and men over women.

1. Introduction

In a paper published in 2011 and titled “The restoration of welfare economics,” Atkinson mourned the absence of explicit discussions of welfare economics from the contemporaneous teaching and practice of economics. He noted that economists routinely make welfare claims on the basis of an implicit utilitarianism that neglects other approaches that might lead to different policy recommendations. Traditional welfare economics starts from the assumption that individual welfare is represented by a utility function that is also the basis of decisions. The magnitudes needed for applied welfare economics—cost benefit analyses, price indexes, consumer surplus—can then be inferred from behavior under the assumption that people are well-informed and do what is good for them. By contrast, modern behavioral economics thrives on the supposition that people make mistakes, sometimes systematically so because of widespread behavioral biases, so that we lose one of the supports of the traditional approach. Decision utility and welfare utility need not be identical.

Atkinson (2011) approvingly quotes Samuelson's (1947, 220) statement that it is “a legitimate concern of economic analysis to examine the consequences of various value judgments,” to which I want to add the words “and alternative measures of welfare.” In this paper I want to examine how different measures of welfare and different value

judgments affect policy; my examples are largely illustrative but some of their features will certainly carry through to more comprehensive analyses. In particular, I want to experiment with the use of self-reported wellbeing (SWB) measures as a basis for doing welfare economics, and to see how they interact with alternative ethical frameworks, not just utilitarianism. The policies I use to illustrate are those that affect people differently depending on their age, for example in redistribution from young to old.

Self-report wellbeing measures do not need to be related to behavior. If decision utility differs from welfare utility, and if people sometimes behave against their best interests, the direct measurement of wellbeing might still give an accurate measure, and might even enable people to do better, either through paternalistic government policies, or external nudges, but more simply by providing information on the circumstances and choices that promote wellbeing, what Halpern calls “deshrouding,” see Dunn and Norton (2013, 154) and O'Donnell et al. (2014, 71–2) for discussions of the concept. If people have little idea what is good for them, providing that knowledge might be a public service, as in, “don't become a lawyer because lawyers are typically unhappy with their lives.” We also know that people sometimes choose away from the options they believe will make them happiest, or will give them the best possible life, and that this happens in both hypothetical and in high-stakes real life choices, Benjamin et al. (2012, 2014).

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Direct measures may also capture aspects of welfare beyond real income, which is what economists typically use to proxy utility. Health is the most obvious example; education, civil liberties, civic participation, respect, dignity, and freedom are others. The provision of public goods may or may not affect market behavior, but it may show up in self-reports. The literature reports “happiness regressions” in which self-reported wellbeing is related to health, to public goods, and to other measures that are beyond the reach of market-based welfare measures, including religiosity, race, ethnicity, gender, friendship and unemployment. For Benthamite utilitarians, happiness is *the* measure of wellbeing and its aggregate is the appropriate target of public policy; if self-reported wellbeing (SWB) actually captures Benthamite utility, its measurement is all we need for welfare economics and for policy, see [Layard \(2005\)](#) who argues along these lines.

Legitimate doubts remain. There are many different measures of happiness that capture different aspects of feelings and self-evaluation; they do not correlate perfectly with one another, and they correlate differently with circumstances like income that affect wellbeing, [Kahneman and Deaton \(2011\)](#). It is sometimes not clear what it is that people have in mind when they tell you about their wellbeing, or even whether they understand or can answer the questions. For these and other reasons, economists have traditionally been skeptical of the value and usefulness of self-reports of wellbeing. Such skepticism is reinforced if experimenters can manipulate reported SWB by irrelevant cues, or by the order in which questions are asked, see [Schwarz and Strack \(1999\)](#) though [Yap et al. \(2017\)](#) document more positive findings. The stability and reproducibility of self-reports is an important topic that remains unsettled. For example, the effects of an immediately prior question about the state of the country had a large negative effect on the reports about state of the respondent using the Cantril ladder in [Deaton \(2012\)](#) and [Deaton and Stone \(2016\)](#), and those effects are large enough to compromise its use in at least some contexts, such as time-series monitoring of national wellbeing.

In spite of the complexities, there are many passionate defenders of the measures, in both economics and psychology, and there is general agreement even among skeptics that these measures usually behave in a sensible way, and provide insights that would not be available otherwise.

My context here is the life-cycle, I shall examine how self-reported wellbeing varies with age, and try to tell whether the welfare measure it provides makes sense, what standard concept of welfare (if any) it might correspond to, and what policies might result under alternative ethical approaches if we were to accept the measures in place of those that are standard in economics, such as real income. In this, I am again following Atkinson, whose attention to the life cycle was a constant theme throughout his work, starting with [Atkinson \(1971\)](#) on the distribution of wealth and the life cycle. As he noted there and many times since, national measures of poverty, income, wealth, and inequality must be interpreted with an understanding of age-patterns of wealth, income, and consumption. Society contains individuals of many ages, whose wellbeing is different by virtue of their age, and who often have competing interests. Important government policies must trade off the welfare of the young, the middle-aged, and the elderly.

I take a consciously schizophrenic approach that reflects my dual purpose. On the one hand, I am examining whether SWB measures makes sense, are internally consistent, and respond sensibly to variables that we think of as affecting wellbeing. On the other hand, I will try to explore the consequences of using the measure on the assumption that it does actually make sense. The second use should obviously be conditioned on the first.

The measure I use is an *evaluative* measure of wellbeing that asks people to report, on an eleven-point scale, from 0 to 10, how their life is going. The question is originally due to [Cantril \(1965\)](#), and is asked in exactly the same way of all individuals sampled by Gallup in their World Poll. The question is “Please imagine a ladder, with steps numbered from 0 at the bottom to 10 at the top. The top of the ladder represents the

best possible life for you and the bottom of the ladder represents the worst possible life for you. On which step of the ladder would you say you personally stand at this time?” There is no mention of happiness, so the ladder is explicitly *not* a hedonic measure that enquires into momentary mood or feelings. Rather it asks people to assess how their life is going “at this time,” an answer to which requires cognitive effort by the respondent, and which is a more considered assessment of wellbeing than trying to weight together or average the host of emotions and feelings that make up the evanescent texture of everyday life. In the surveys I use here, the Cantril ladder question is immediately followed by a question identical to the ladder question but with the last sentence replace by, “*Just your best guess, on which step do you think you will stand in the future, say about five years from now?*” I shall use this question too.

The Gallup World Poll has collected data on individuals ages 15 and above in countries around the world since 2006. I use more than 1.7 million observations from 166 countries from 2006 until the end of 2016. Not all countries are included in every year, and the sample sizes range upwards from a baseline standard of 1000 observations per year, see the note to [Figs. 1a and 1b](#) for sample sizes for each country. Data are usually collected over a period of a few months, and so do not necessarily capture the means for whole years; this could be important in largely agricultural countries. Data are collected by telephone in countries where telephones are owned by at least 80% of the population, and face-to-face elsewhere; in common with other commercial telephone surveys, response rates are low in rich countries, with a median of 14%, but much higher in face-to-face settings, where the median is 69%. I shall also present material from the Gallup–Sharecare Well-being Index (GSWBI) poll, which is a large-scale telephone survey of 1000 (most recently 500) Americans every evening. Both surveys provide weights that are used to correct means for the sampling design and for non-response. The response rates and survey timings should be kept in mind when comparing the results with those from other, especially official, surveys that employ questions about life satisfaction that differ from the Cantril ladder.

2. Life-cycle patterns of evaluative wellbeing and their interpretation

[Figs. 1a and 1b](#) show the global patterns of evaluative wellbeing (the ladder) by sex and by region of the world. Those aged 15–24 comprise the first age group; other age groups, 2 through 6, are for those aged 25–34, through to 65–74. I have deleted individuals aged 75 and over, not through lack of interest, but because there are relatively few such people in the sample in some regions. Within each region, I have counted each country equally irrespective of population so that, within regions, I average over countries without weighting. I have used survey sampling weights within countries. The countries in each region are listed in the notes to [Fig. 1a](#) together with the numbers of observations in each. The two figures are identical except for choice of scales. [Fig. 1a](#) uses the same scale for all regions while, in [Fig. 1b](#), each region has its own scale. The first allows us a clear perception of differences across regions and their importance compared with differences by age and sex while the second allows a much clearer picture of age and sex within each region. In some regions, such as Africa and the World as a whole, the range is quite small and [Fig. 1b](#) can tend to exaggerate the effects associated with age and sex.

Immediately noticeable are:

1. Average ladder values vary greatly around the world, from around 4 in Africa, to between 7 and 8 for the rich countries of Europe and the English-speaking world. Earlier work with the World Poll has established an approximately linear relationship across countries between average ladder scores and the logarithm of price-adjusted per capita GDP, [Deaton \(2008\)](#), [Stevenson and Wolfers \(2008\)](#).
2. Differences between men and women within regions are smaller than differences between regions. Women tend to evaluate their

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