Tamás Keller: The connection between life satisfaction and material aspirations

Hungarian society in 2012
Trends and perspectives in EU comparison

Why is life satisfaction important in Hungary?

Personal satisfaction in the EU
(satisfaction with job, household finances, life in general and neighbourhood quality)

Arithmetic country averages:
-10 = ‘not at all satisfied’;
-5 = ‘not very satisfied’;
+5 = ‘fairly satisfied’;
+10 to ‘very satisfied’
Why is life satisfaction important in Hungary?

Falling life satisfaction in Hungary since 1982

Structure of the presentation

1. A theoretical dilemma
2. Data and definition
3. Some empirical findings
4. Summary
A theoretical dilemma / Easterlin paradox

Percentage of „very happy” by family income

Satisfaction with life and growth of income in Japan
A theoretical dilemma / Easterlin paradox

Income and happiness in the United States

Some explanations for the paradox

1. Relative income hypothesis
2. Income aspiration hypothesis
Relative income hypothesis

If the level of income rises against of a specific reference group

*that creates satisfaction*

If everybody’s income rises and the relative income differentials between individuals stay constant

*that does not lead to satisfaction*

Empirical findings

Somewhat ambiguous results

The connection between relative income and life satisfaction (happiness) was found

*Positive*

Senik: 2004

*Negative*

McBride: 2001
Hajdu and Hajdu: 2011
Income aspirations hypothesis

Rising income aspirations counterbalance the positive income effect

The connection between income aspirations and life satisfaction (happiness) was found

Negative

Stutzer: 2004

The aim of the research

1. Do people adapt to a given standard of living?
2. How frequently do the aspirations exceed the level of material resources?
3. What is the impact of (excessive) income aspirations on life satisfaction?
4. What differences are to be found in the impact of income aspirations?
Research questions, data and definitions

Data

Special Eurobarometer survey

Year: 2009, Reference number: 321, wave number: EB.72.2
Year: 2010, Reference number: 355, wave number: EB.74.1

Definitions

Life satisfaction:

“All things considered, how satisfied would you say you are with your life these days? Please tell me on a scale of 1 to 10, where ‘1’ means you are very dissatisfied and ‘10’ means you are very satisfied”

Income aspiration:

“In your opinion, what would be the very lowest net monthly income that your household would need in order to have a minimum acceptable standard of living, given the present circumstances and composition of your household?”

Material circumstances:

Self-placement on a 1-to-10 scale / available in Eurobarometer
Disposable household income / EU-SILC
Do people adapt to a given standard of living?

\[ A_{\text{country}} = \beta_1 \times \text{DPI}_{\text{country}} + \varepsilon \]

- \( A_{\text{country}} \) = Country means of equivalized net minimum income in Euros
- \( \text{DPI}_{\text{country}} \) = Country means of disposable household income in Euros
- \( \varepsilon \) = Error term

Empirical findings / Adaptation hypothesis

Income aspirations and disposable income in the EU

R-Squared = 0.8335

Tamás Keller: The connection between life satisfaction and material aspirations
Empirical findings / Excessive aspirations

How frequently do the aspirations exceed the level of material resources?

**The problem:**

Material circumstances and income aspirations are measured on different scales.

**The solution:**

\[
ZA_{ic} = \frac{(A_{ic} - \bar{A}_c)}{\sigma A_c}
\]

\[
ZM_{ic} = \frac{(H_{ic} - \bar{M}_c)}{\sigma M_c}
\]

\[
\text{Diff}_{ic} = ZA_{ic} - ZM_{ic}
\]

Standardized income aspiration of i-th individual in country c

Income aspiration of i-th individual in country c

The mean value of individual income aspirations in country c

The standard deviation of individual income aspirations in country c

**Descriptive statistics by excessive aspirations by country**

<table>
<thead>
<tr>
<th>Country</th>
<th>Min.</th>
<th>P5</th>
<th>P50</th>
<th>P95</th>
<th>Max.</th>
<th>Mean</th>
<th>St.dev.</th>
</tr>
</thead>
<tbody>
<tr>
<td>LV</td>
<td>-3.15</td>
<td>-1.85</td>
<td>-0.16</td>
<td>2.18</td>
<td>13.33</td>
<td>0.03</td>
<td>1.41</td>
</tr>
<tr>
<td>IT</td>
<td>-3.36</td>
<td>-1.73</td>
<td>-0.14</td>
<td>2.27</td>
<td>7.42</td>
<td>0.00</td>
<td>1.27</td>
</tr>
<tr>
<td>EE</td>
<td>-4.10</td>
<td>-1.86</td>
<td>-0.12</td>
<td>2.22</td>
<td>16.63</td>
<td>0.01</td>
<td>1.38</td>
</tr>
<tr>
<td>HU</td>
<td>-4.10</td>
<td>-1.92</td>
<td>-0.08</td>
<td>2.15</td>
<td>15.95</td>
<td>0.02</td>
<td>1.33</td>
</tr>
<tr>
<td>IE</td>
<td>-3.34</td>
<td>-1.88</td>
<td>-0.06</td>
<td>2.26</td>
<td>6.78</td>
<td>0.00</td>
<td>1.31</td>
</tr>
<tr>
<td>MT</td>
<td>-3.83</td>
<td>-2.29</td>
<td>-0.06</td>
<td>2.27</td>
<td>7.49</td>
<td>-0.02</td>
<td>1.41</td>
</tr>
<tr>
<td>FR</td>
<td>-3.78</td>
<td>-1.85</td>
<td>-0.06</td>
<td>2.10</td>
<td>14.21</td>
<td>0.04</td>
<td>1.34</td>
</tr>
<tr>
<td>BG</td>
<td>-3.34</td>
<td>-1.84</td>
<td>0.01</td>
<td>2.06</td>
<td>5.61</td>
<td>0.03</td>
<td>1.18</td>
</tr>
<tr>
<td>RO</td>
<td>-3.06</td>
<td>-1.83</td>
<td>0.04</td>
<td>1.87</td>
<td>15.30</td>
<td>0.07</td>
<td>1.30</td>
</tr>
<tr>
<td>DK</td>
<td>-4.02</td>
<td>-2.03</td>
<td>0.06</td>
<td>2.13</td>
<td>6.14</td>
<td>0.03</td>
<td>1.26</td>
</tr>
</tbody>
</table>

Tamás Keller: The connection between life satisfaction and material aspirations
The impact of (excessive) income aspirations

\[ S = \beta_1 \times A + \beta_2 \times M + \beta_3 \times C + \beta_4 \times Y + \beta_5 \times V + \varepsilon \]

- **S** = Life Satisfaction
- **A** = Income Aspiration in *Specification I.*
- Excessive Aspirations in *Specification II.*
- **C** = Country fixed effects
- **Y** = Year dummies
- **V** = Vector of control variables, including: gender, age, education, type of settlement employment status
- \( \varepsilon \) = Error term

**Explaining life satisfaction, unstandardized OLS coeff.**

<table>
<thead>
<tr>
<th></th>
<th>Specification I</th>
<th>Specification II</th>
</tr>
</thead>
<tbody>
<tr>
<td>Material circumstances</td>
<td>0.544***</td>
<td>0.52***</td>
</tr>
<tr>
<td>Income aspirations</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equivalized minimum income (ln)</td>
<td>-0.086***</td>
<td></td>
</tr>
<tr>
<td>Excessive aspirations</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(standardized aspirations minus standardized material circumstances)</td>
<td>-0.035**</td>
<td></td>
</tr>
</tbody>
</table>

*Other control variables are included in the model, but not in this table*

*** \( p<1\% \); ** \( p<5\% \); * \( p<10\% \)
Social differences in the effect of income aspirations

The model

\[ S = \beta_1 \times A + \beta_2 \times M + \beta_3 \times C + \beta_4 \times Y + \beta_5 \times V + \epsilon \]

The aim

The application of the same model in various “income groups”

The definition of „income groups”

<table>
<thead>
<tr>
<th>Income Group</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poor</td>
<td>Material circumstances are low: values 3, 2, 1, on the 1 to 10 scale. Net income of the household is much less than the indicated minimum income.</td>
</tr>
<tr>
<td>Rich</td>
<td>Material circumstances are high: values 10, 9, 8, on the 1 to 10 scale. Net income of the household is much more than the indicated minimum income.</td>
</tr>
</tbody>
</table>

The impact of aspirations, unstandardized OLS coeff.

<table>
<thead>
<tr>
<th>Definition of income status</th>
<th>A: Material circumstances</th>
<th>Income aspirations</th>
<th>B: Excessive aspirations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poor</td>
<td>0.54***</td>
<td>-0.09***</td>
<td>-0.04**</td>
</tr>
<tr>
<td>Household is much less than minimum income</td>
<td>0.64***</td>
<td>-0.22**</td>
<td>-0.13***</td>
</tr>
<tr>
<td>Rich</td>
<td>0.55***</td>
<td>-0.16*</td>
<td>-0.07**</td>
</tr>
<tr>
<td>Household is much more than minimum income</td>
<td>0.2**</td>
<td>0.06</td>
<td>0.05</td>
</tr>
<tr>
<td>Other control variables: yes; country fixed effects: yes. The selection criterion is defined in the first row of the table. *** p&lt;1%; ** p&lt;5%; * p&lt;10%</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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Summary

1. Respondents adapt to a certain level of income and articulate their aspirations on the basis of this income level.
2. People tailor their aspirations to the perceived level of income. Discrepancy, however, is much higher if aspirations exceed perceived material resources.
3. Income aspirations and excessive aspirations both decrease life satisfaction.
4. The negative impact of aspirations is stronger among the poor.

Thank you for your attention!

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Mismatch between facts and its perceptions

Y axis: The relative poverty rate relates to those with income below 60% of the median in the 2008 income year – from Eurostat, EU-SILC, 2009.


Response to Heinz-Herbert Noll

Mismatch between facts and its perceptions

X axis, source of data: Special Eurobarometer Survey, Reference Number: 321, wave: EB.72.1 (2009), pooled dataset.

Y axis, source of data: Eurostat

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