

23. November 2012., Mercure Budapest City Center

Tamás Keller:

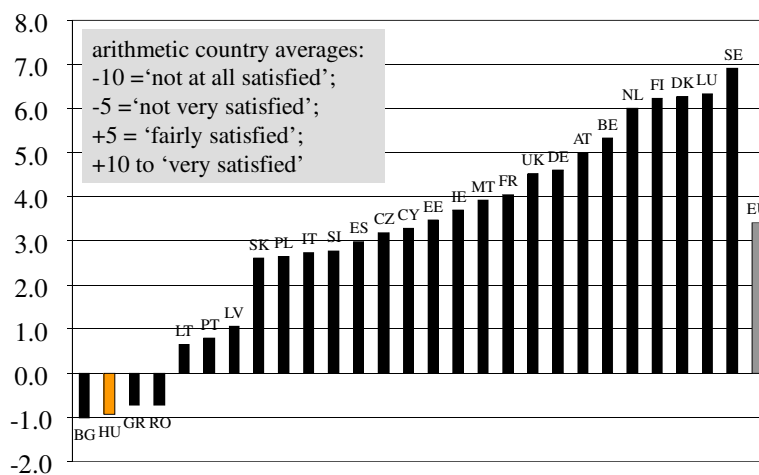
The connection between life satisfaction and material aspirations

*Hungarian society in 2012
trends and perspectives in EU comparison*

Why is life satisfaction important in Hungary?

Personal satisfaction in the EU

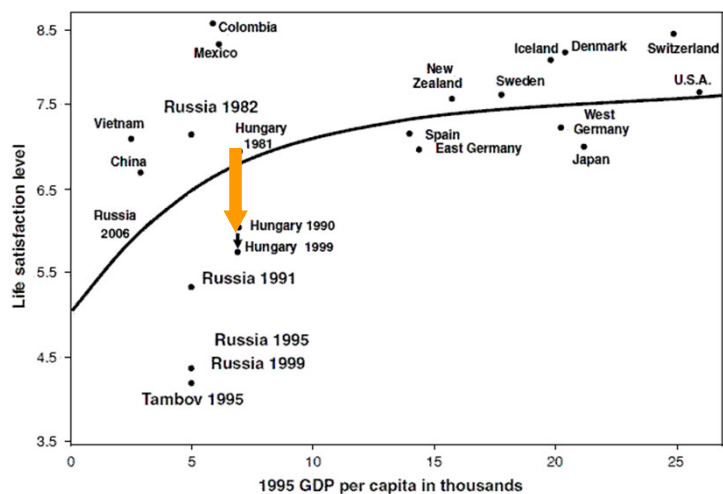
(satisfaction with job, household finances, life in general and neighbourhood quality)



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Why is life satisfaction important in Hungary?

Falling life satisfaction in Hungary since 1982



<http://moldovanpress.files.wordpress.com/2010/09/communistsshut.png>

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World Value Survey

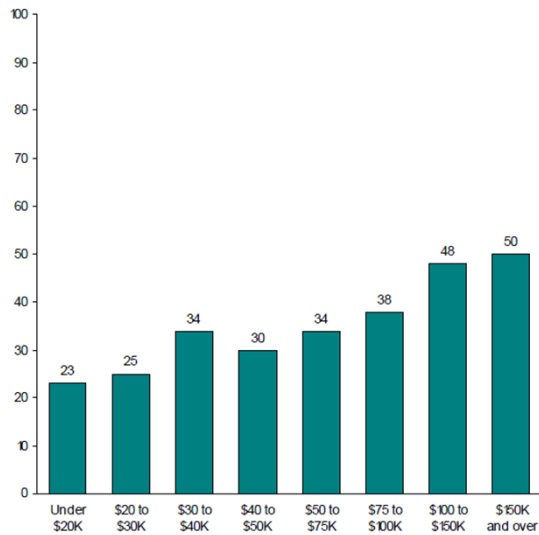
Structure of the presentation

- 1 A theoretical dilemma
- 2 Data and definition
- 3 Some empirical findings
- 4 Summary

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1 A theoretical dilemma / Easterlin paradox

Percentage of „very happy” by family income

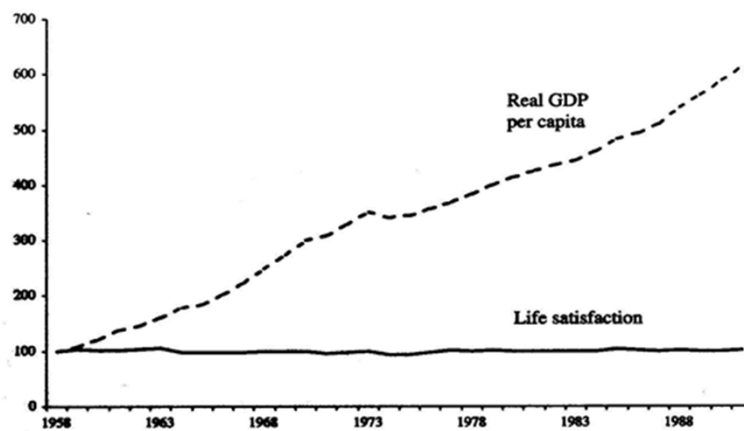


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Pew Research Center

1 A theoretical dilemma / Easterlin paradox

Satisfaction with life and growth of income in Japan

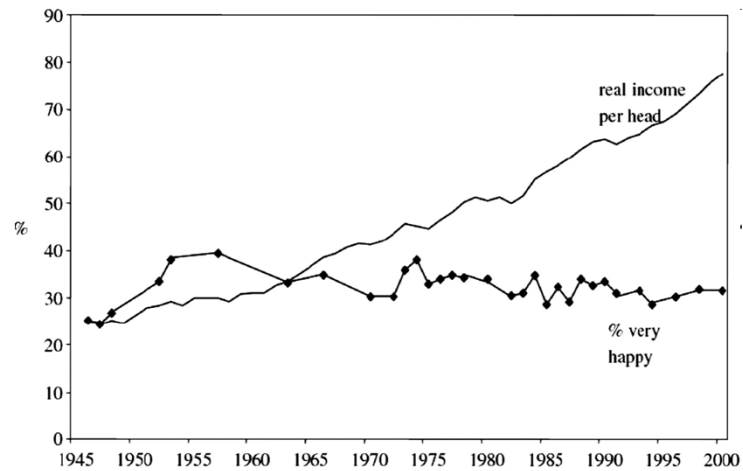


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Pen World Tables & World Database of Happiness

1 A theoretical dilemma / Easterlin paradox

Income and happiness in the United States



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Layard: 2006
Choudhary et al.: 2011

1 A theoretical dilemma / Easterlin paradox

Some explanations for the paradox

- 1 Relative income hypothesis
- 2 Income aspiration hypothesis

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1 A theoretical dilemma / Easterlin paradox / Relative income 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

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1 A theoretical dilemma / Easterlin paradox / Relative income hypothesis

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

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1 A theoretical dilemma / Easterlin paradox / Income aspiration hypothesis

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

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2 Research questions, data and definitions

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?

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2 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

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2 Research questions, data and definitions

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

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3 Empirical findings / Adaptation hypothesis

Do people adapt to a given standard of living?

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

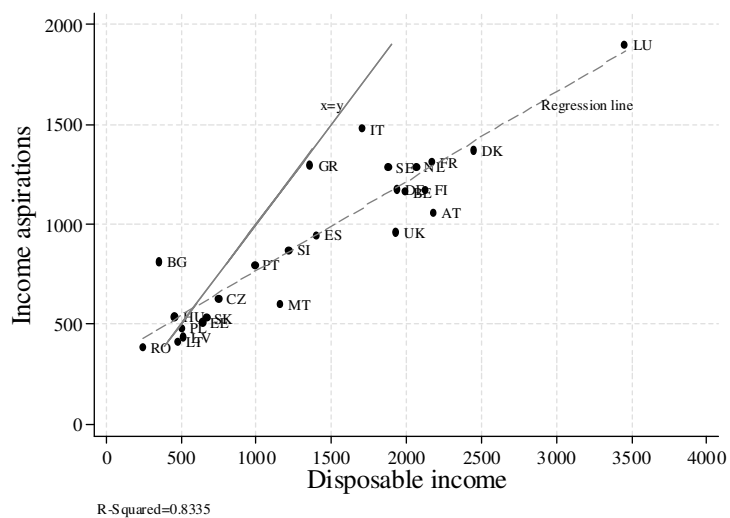
A_{country} = Country means of equivalized net minimum income in Euros

$\text{DPI}_{\text{country}}$ = Country means of disposable household income in Euros

ε = *Error term*

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3 Empirical findings / Adaptation hypothesis

Income aspirations and disposable income in the EU

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Special Eurobarometer and EU-SILC

3 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:

$$ZA_{ic} = (A_{ic} - \bar{A}_c) / \sigma A_c$$

$$ZM_{ic} = (H_{ic} - \bar{M}_c) / \sigma M_c$$

$$Diff_{ic} = ZA_{ic} - ZM_{ic}$$

ZA_{ic} = Standardized income aspiration of *i-th* individual in country *c*

A_{ic} = Income aspiration of *i-th* individual in country *c*

\bar{A}_c = The mean value of individual income aspirations in country *c*

σA_c = The standard deviation of individual income aspirations in country *c*

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3 Empirical findings / Excessive aspirations

Descriptive statistics by excessive aspirations by country

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

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3 Empirical findings / The impact of (excessive) income 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

ε = Error term

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3 Empirical findings / The impact of (excessive) income aspirations

Explaining life satisfaction, unstandardized OLS coeff.

	Specification I.	Specification II.
Material circumstances	0.544***	0.52***
Income aspirations Equivalentized minimum income (ln)	-0.086***	
Excessive aspirations (standardized aspirations minus standardized material circumstances)		-0.035**

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

*** $p < 1\%$; ** $p < 5\%$; * $p < 10\%$

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3 Empirical findings / Social differences

*Social differences in the effect of income aspirations*The model

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

The aim

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

The definition of „income groups”

Poor

- ① Material circumstances are low: values: 3, 2, 1, an the 1 to 10 scale
- ② Net income of the household is *much less* than the indicated minimum income

Rich

- ① Material circumstances are high: values: 10, 9, 8, an the 1 to 10 scale
- ② Net income of the household is *much more* than the indicated minimum income

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3 Empirical findings / Social differences

The impact of aspirations , unstandardized OLS coeff.

Definition of income status		The impact in the whole sample	Poor		Rich	
			Low material circumstances	Household is <i>much less</i> than minimum income	High material circumstances	Household is <i>much more</i> than minimum income
A	Material circumstances	0.54***	0.64***	0.55***	0.2**	0.41***
	Income aspirations	-0.09***	-0.22**	-0.16*	0.06	0.05
B	Material circumstances	0.52***	0.56***	0.51***	0.22**	0.43***
	Excessive aspirations	-0.04**	-0.13***	-0.07**	0.05	0.02

Other control variables: yes; country fixed effects: yes.
The selection criterion is defined in the first row of the table.
*** $p < 1\%$; ** $p < 5\%$; * $p < 10\%$

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4 Summary*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.

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Thank you for your attention!

