

POVERTY COMPARISONS

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Presentation & Discussion:

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How does Income Poverty affect self-reported Well-Being (Life Satisfaction) ?

- Issue: Does Subjective Poverty depend on context?
 - Do people feel better/worse themselves when others are worse off?
 - How much does the context of personal poverty matter?
- Method:
- Cantril Ladder [0-10] Life Satisfaction of individuals
- Fixed Effects Regression: Poor / Near-Poor / “Rich”(+ controls)
 - (Local Poverty Rate) + Interaction of (Local Rate)* (Own Poverty Status)
- Data:
- German Socio-Economic Panel (SOEP) 1985-2012
 - 440,000 observations on 54,000 individuals aged 16+

Fixed Effects

$$wb_{it} = \alpha_i + \gamma_t + \beta C_{it} + \theta PI_{it} + \epsilon_{it}$$

- RHS: = Change in:
 - Controls (not reported explicitly): Age by Decade, Education (<HS, HS, HS+), Gender, Marital status, East/West, Employed/Unemployed/NLF/Retired, number of children in household
 - Household Annual Income => LIS equivalent individual income Y_i
 - Poverty Criterion = 60% of National Median equivalent income (Y^M)
 - “Quasi-Poor” = 150% of Poverty Line = 90% of Y^M
 - **LO: context** in Canada, povline = % of median eliminates poverty impacts of business cycle
 - “Poor” : $Y_i < 0.6 * Y^M$ 11.3%
 - “Quasi-Poor” : $0.9 * Y^M > Y_i > 0.6 * Y^M$ 24.3%
 - Rest = “Rich” : $Y_i > 0.9 * Y^M$ 64.4%
 - Local Poverty (and Quasi-Poverty) Rates calculated by Lander by Year
- LHS = Change in:
 - *“according to the following scale: 0 means completely dissatisfied and 10 means completely satisfied: How satisfied are you with your life, all things considered?”*

Table 2: Life Satisfaction, Poverty and Relative Poverty: Fixed Effects Within Regressions.

		1	2	3	4	5	6
Self becomes poor	P	-0.206*** (0.012)	-0.271*** (0.013)	-0.273*** (0.013)	-0.400*** (0.056)	-0.146* (0.083)	-0.271*** (0.100)
Becomes Quasi-Poor	QP		-0.098*** (0.008)	-0.100*** (0.008)	-0.113*** (0.034)	-0.252*** (0.054)	-0.264*** (0.064)
Δ Local Poverty Rate	P_R			0.957*** (0.201)	0.817*** (0.217)	0.961*** (0.201)	0.822*** (0.217)
Δ local Quasi-Poor Rate	QP_R			0.759*** (0.155)	0.765*** (0.155)	0.659*** (0.165)	0.667*** (0.165)
Interactions:	$P * P_R$				1.090** (0.469)		1.099** (0.469)
	$P * QP_R$					-0.522 (0.338)	-0.531 (0.338)
	$QP * P_R$				0.116 (0.294)		0.113 (0.294)
	$QP * QP_R$					0.616*** (0.218)	0.615*** (0.218)
	Constant	7.486*** (0.024)	7.502*** (0.024)	7.194*** (0.054)	7.208*** (0.055)	7.219*** (0.056)	7.232*** (0.057)
Explained Variance	R^2	0.03	0.03	0.03	0.03	0.03	0.03
Very Large N	N	368,790	368,790	368,788	368,788	368,788	368,788

Large positive impacts of poverty rate: “Misery Loves Company” – but so much ?

Is *everyone* really more satisfied with life when regional poverty rises?

	Change in life satisfaction as regional poverty rises (dLS/dP_R)	Change in life satisfaction as regional quasi-poverty rises (dLS/dQP_R)	% <u>Pop</u>
Poor	1.921	0.667	11.3%
Quasi-Poor	0.822	1.282	24.3%
Rich	0.822	0.667	64.4%
Weighted			
Average	0.95	0.82	

Unpalatable Implications?

- Mean life satisfaction = 6.997
- Could a 3 percentage point increase in the poverty rate mean that Germans become on average “almost completely satisfied with life” ?
- $6.997 + 0.03 * (-0.271) + 0.95 * 3 = 9.827$

“Fixed Effects” – a costly technique

- Benefit:
- **IF** regression relationship is linear, FE “differences out” influence of time-invariant unobservables, reducing omitted variable bias
- Costs:
 - Regressions on differences drop crucial time-invariant observables
 - E.g. education – changes after 25 are rare & hardly representative
 - Long-term poverty has well-being impact, but no *change* in poverty status
 - Assuming Linearity imposes symmetry of impacts
 - Rules out loss aversion (D’Ambrosio: Economic Insecurity measures ?)
 - Is the process symmetric? (e.g. Change in number of kids? death \neq - birth)
 - Becoming Unhappy is not just the negative of Becoming Happy

Many Big Things to like about this paper !

D'Ambrosio, Clark & Ghislandi recognize:

1. Poverty Context is Crucial: Real People live in social relationships
2. In rich countries, Life Satisfaction impacts of \$\$ poverty do matter,

Rigorous + Best Practice Tech + Socially Important + Well-Written

Breaks out of individualist straight-jacket paradigm

- Suggest:
- Present OLS Level effects
 - Use lags to explicitly test symmetry of shock impacts + & –
- Use all Income info
 - Disregard / Test “Focus Axiom”
 - Loved by theorists – but is it true?
- Pool with geo-coded data to test for locus of comparisons
 - Lander / city / neighbourhood

TIME	-2	-1	NOW	1	2
PERSONS					
i			↑		
j			↑		
SELF	←	←	$U_{ST}(C_{ST})$	→	→
k			↓		
l			↓		