Poverty Profiles and Subjective Well-Being

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Much of the analysis in the burgeoning literature on subjective well-being has, with relatively few exceptions, been resolutely atemporal: outcomes at date t are correlated with well-being measures at the same date in order to make (hopefully) causal statements about the determinants of individual welfare. At the same time, theoretical work on poverty has insisted on the importance of income profiles over time, with the broad idea that persistent periods of poverty are worse, in a number of ways, for individuals than are sporadic episodes.

In this paper we aim to bring these two literatures somewhat closer together, by appealing to long-run panel data which critically include information on both income and well-being. While it is relatively uncontroversial to note that (contemporaneous) income is negatively correlated with individual well-being, we here plan to go further and show that history matters: it is not only where you are now, but also how you got there. Our overarching aim is to show that measures of subjective well-being at time t do not only depend on income at time t, but on the history of income up to that point. Our emphasis here is particularly on poverty. We wish to show that past periods of poverty matter for current measures of psychological functioning, such as income, life and health satisfaction, controlling for current income. The key hypothesis to be tested is that persistent poverty is worse for well-being than is more episodic poverty.