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**Is Reported Happiness Five Years Ago  
Comparable to Present Happiness? A Cautionary Note**

ABSTRACT: In the United States reported happiness five years ago is not comparable to present happiness. The improvement in happiness over the last five years obtained by differencing current reports of happiness today and happiness five years ago is not significantly related to the actual improvement in happiness over the same period. The currently reported five-year change in happiness is highly sensitive to current economic conditions, varying inversely with both the inflation and unemployment rates.

Ordinarily, happiness five years ago as currently reported is less than present happiness, but the worse current economic conditions are, the better the past looks relative to the present. If current economic conditions get bad enough, past happiness will be rated higher than present. Reports of happiness five years ago are not telling us about the utility respondents actually experienced at that time; they are telling us, instead, about respondents' current decision utility – which situation, today's or that five years ago, they would opt for if given the choice today.

KEY WORDS: past happiness, present happiness, decision utility, experienced utility.

If any evidence were needed, the fascinating issue of the Journal of Happiness Studies (2001, vol. 2, no. 2) on “Happiness in Russia” demonstrates the unique value of this new journal. I want to express a concern, however, about the time series of happiness (and life satisfaction) presented in the issue, specifically the use of happiness in

1988 *as reported in 1993* as comparable to actual happiness in 1993 and subsequent years.<sup>1</sup>

The basic problem is that reports today of happiness five years ago tell us, not how the respondents *actually* felt five years ago, but how they would feel *now* if placed in conditions like those five years ago. In short, they are essentially responding to the question “how happy would you be today if conditions were like those five years ago?”

In countries experiencing long term economic growth, material conditions trend upwards; hence people typically rate past happiness as less than present happiness, because they would not want to go back to the inferior conditions of five years ago (Easterlin 2001, pp. 471-472). In the United States in the 21 years between 1964 and 1985 for which data are available the average difference between today’s happiness and happiness five years ago *as currently reported*, with happiness measured on a 0-10 scale, is 0.4, ranging from -0.1 to 0.9 (Table 1, column 1). But happiness as actually reported in each year exhibits little trend over time, positive or negative; the average difference for the same five year intervals is 0.1, ranging from -0.3 to 0.5 (column 2). There is little indication of a long-term trend in actual happiness, as other studies of the United States have consistently found (Blanchflower and Oswald, 2001; Easterlin 1995; Kenny 1999).<sup>2</sup> If one were to use current reports of present and past happiness to infer the change in happiness over the last five years, one would mistakenly conclude that there had been an upward trend. Statistically, the change in happiness over the past five years as currently reported (column 1) provides no basis for estimating the actual change (column 2). The ordinary least squares regression coefficient of column 2 on column 1 is not significantly different from zero.

A recent study of the United Kingdom and the United States has demonstrated that current subjective well-being tends to vary inversely with both the inflation rate and the unemployment rate (DiTella, McCulloch and Oswald, 2001). Reports today of happiness five years ago are also quite sensitive to current economic conditions, and if conditions have recently worsened, people tend to look at the past more favorably. In Table 1 the years are rank ordered in terms of the improvement in happiness over the last five years implied by current reports. As one goes from top to bottom in the table there is a clear tendency for the magnitude of improvement in happiness to be smaller the higher the current rate of inflation and the higher the current unemployment rate. In other words, the worse current economic conditions are, the better the past looks relative to the present (compare cols. 1, 3, and 4).

The ordinary least squares regression of column 1 on columns 3 and 4 in Table 1 is:

$$\Delta rh = 1.704 - .0457 \Delta cpi - .1388 ur$$

$$(5.879) \quad (-3.429) \quad (-3.900)$$

where  $\Delta rh$  is the currently reported change in happiness since 5 years ago,  
 $\Delta cpi$  is the inflation rate in the past year, and  
 $ur$  is the current unemployment rate.

The coefficients on both the inflation and unemployment rates are negative and significant (t-statistic in parentheses), confirming that the reported improvement is lower the higher the inflation and unemployment rates. The relative magnitude of the coefficients implies that a one point change in the unemployment rate has three times the impact of a one point change in the inflation rate. This is offset, however, by the greater

variability in the inflation rate, which has a standard deviation about three times that in the unemployment rate.

It is the reported difference between present and past happiness that is chiefly sensitive to current economic conditions. If current happiness and reported happiness five years ago – the minuend and subtrahend of the difference in column 1 – are separately regressed on columns (3) and (4), only the coefficient of past happiness on the unemployment rate is statistically significant, and then barely so.<sup>3</sup> And it is economic conditions in the last year, not the last five years that chiefly explain the reported change in happiness. If column (1) is regressed on the increase in consumer prices and the average unemployment rate over the last five years, only the coefficient on the consumer price index is statistically significant.

If current conditions become bad enough, the past will actually be rated more favorably than the present. In Table 1 the one year in which past happiness is rated higher than present happiness is 1982, the year in which the United States experienced its highest rate of unemployment in the entire post-World War II period (see columns 1 and 4).

The deterioration in United States economic conditions that reached its worst in 1982 is nothing like the deterioration of the Russian economy between 1988 and 1993. It should come as no surprise, therefore, to find that Russians in 1993 say that they were happier in 1988. But what they are telling us is that, given a choice today – that is, in 1993 – between the economic conditions of 1988 and 1993, they would be happier under those prevailing in 1988. They are not telling us how happy they actually were in 1988 when they experienced the conditions of that year, any more than Americans reporting on

their happiness five years ago are telling us how happy they actually were at that time. In the absence of 1988 survey data, we will probably never know the actual happiness of Russians in 1988.

The distinction drawn by psychologists between decision utility and experienced utility helps explain why reports today of happiness five years ago can not be taken as comparable to present happiness (Kahneman et al., 1997; Tversky and Griffin, 1991). Decision utility is the satisfaction that people anticipate when choosing among alternatives; experienced utility is the satisfaction actually realized in any given situation. People's *actual* happiness today or five years ago is the utility they actually enjoy at that time – their experienced utility. But when asked today about well-being five years ago, people are telling us, not about their experienced utility, but about their decision utility – which situation they would prefer if they were to choose today between present conditions and those five years ago. Simply put, decision utility – what people say today about their happiness five years ago – should not be assumed to be the same as experienced utility – how happy they actually felt at that time. This does not mean that retrospective evaluations of happiness are meaningless. They do tell us how people feel today about past conditions relative to the present, and, in Russia's case, clearly suggest dissatisfaction with the present.

I have used here the inflation and unemployment rates in Table 1 as indicators of economic conditions in the United States, because they are known to influence subjective well-being. But they do not exhaust the economic circumstances potentially relevant to well-being. Additionally, current social and political conditions may affect judgments of past well-being. Clearly, there is opportunity for further research. My aim has been to

demonstrate that there is good reason to be wary of treating current judgments of past happiness as substitutes for actual happiness at that time.

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### NOTES

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<sup>1</sup> See, for example, Saris and Andreenkova (2001), p. 103, Figure 3 and Table II, and Veenhoven (2001), p. 114, Figure 1, and p. 116, Figure 2.

<sup>2</sup> In Easterlin (2001), I propose a theory to explain both the constancy over time in actual happiness and the usual evaluation of past happiness as less than present.

<sup>3</sup> The DiTella, McCulloch, and Oswald (2001) study cited above that does find a significant inverse relation of current subjective well-being to the unemployment and inflation rates regresses life satisfaction *residuals* on these rates. The residuals are obtained after controlling for a number of person-specific characteristics.

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Table 1  
Reported and Actual Change in Happiness since Five Years Ago,  
And Current Economic Conditions,  
United States, Selected Years 1964-85

Current year <sup>a</sup>	(1)	(2)	(3)	(4)
	<u>Present Minus Past Happiness</u>		Increase in consumer price index since 1 year ago (percent)	Unemployment rate in current year (percent)
	Reported improvement since 5 yrs ago <sup>b</sup>	Actual improve- ment since 5 years ago <sup>b</sup>		
1964	0.9	0.3	1.3	5.2
1984	0.7	0.5	4.3	7.5
1978	0.5	n.a.	7.6	6.1
1977	0.5	-0.2	6.5	7.1
1976	0.5	-0.3	5.8	7.7
1985	0.3	-0.2	3.6	7.2
1979	0.3	0.3	11.3	5.8
1983	0.3	0.4	3.2	9.6
1980	0.2	0.2	13.5	7.1
1981	0.1	0.0	10.3	7.6
1982	-0.1	0.1	6.2	9.7
Average	0.4	0.1	6.6	7.3

Sources: Happiness from Lipset and Schneider, 1987, p. 131. Respondents rated present and past happiness on a "ladder of life" with a 0-10 integer scale. Multiple entries for the same year in the source have been averaged. Consumer price index and the unemployment rate are from U.S. Council of Economic Advisers, 1993, pp. 383, 411.

n.a. = not available.

a. Years are ranked in order of column (1).

b. Negative entry indicates decline in happiness since five years ago.