Happiness for All: Living the Dream?

Life should be better and richer and fuller for everyone, with opportunity for each according to ability and achievement regardless of social class or circumstances at birth.

—James Thurlow Adams, The Epic of America

Sukhov went off to sleep, and he was completely content. Fate had been kind in many ways that day; he hadn’t been put in the cells, the gang had not been sent to the Socialist Community Center, he’d fiddled himself an extra bowl of porridge for dinner. . . . The day had gone by without a single cloud—almost a happy day. There were three thousand six hundred and fifty-three days like that in his sentence, from reveille to lights out. The three extra days were because of the leap years.

—David Malouf, quoting Aleksandr Solzhenitsyn in One Day in the Life of Ivan Denisovich

The U.S. Pledge of Allegiance promises liberty and justice for all. The U.S. Declaration of Independence guarantees the rights to life, liberty, and the pursuit of happiness to all citizens. These promises are not about guaranteed outcomes, but about opportunities to seek fulfilling lives. They have a long grounding in history and philosophy, beginning with Aristotle’s concept of happiness. This concept—eudemonia—is not about contentment, but about having sufficient means to be able to seek purpose or meaning in life. When Jefferson conceived of the pursuit of happiness, he was grounded
in the works of Plato and Aristotle, as well as in the kind of liberalism articulated by John Stuart Mill, which combines notions of individual freedom and societal fairness (Malouf, 2011; Reeves, 2007). These promises are the basis of the American Dream, with its strong focus on individual freedom, opportunity, and faith in future mobility.

Yet there is increasing debate—both academic and political—about the extent to which the American Dream—and the right to the pursuit of happiness—is equally available to all citizens today. U.S. trends in opportunity and in distributional outcomes are becoming more unequal by any number of measures. Is the ability to pursue happiness as unequally shared as income in the United States? While U.S. attitudes about inequality and opportunity have historically been exceptional, are they still? Do these attitudes, which are closely linked to happiness and to optimism about the future, affect individual choices about investments in the future and therefore life chances and outcomes?

This book answers these questions, using metrics and tools from the novel science of well-being measurement. It is conceptually distinct from the extensive literature on inequality and growth and from the smaller literature on measured inequality and well-being, although it clearly builds and benefits from both. The focus is the related but less studied link between well-being and attitudes about the future, and the implications of that link for the behaviors and future outcomes of different socioeconomic and demographic cohorts.

A modest body of research (including some of my own) has shown that people with more positive attitudes and/or more positive attitudes about their future mobility have higher levels of well-being, with causality running in both directions. As a result, they are more willing to invest in those futures. People with limited future opportunities have higher discount rates—meaning that they are present-biased and place less value than the average on future income, health, and other outcomes. This tends to be because they have less capacity to set aside their limited means to make such investments, and because they have less confidence that those investments will pay off (De Neve et al., 2013; De Neve and Oswald, 2012; Oswald, Proto, and Sgroi, 2009; Graham and Pettinato, 2002a, 2002b; Graham, Eggers, and Sukhtankar, 2004). The patterns across individuals and socioeconomic cohorts in these beliefs tend to be self-perpetuating, meanwhile (Lerner, 1982; Butler, 2014).
Does the increasingly unequal distribution of opportunity in the United States thus imply that disadvantaged cohorts of society are more likely to focus on the short term, at the expense of investments in their own and their children’s futures? Are increasing sectors of U.S. society simply living in the moment, not as badly as Sukhov perhaps, but without the opportunities to seek better and more fulfilling lives, as James Thurlow Adams posits? How does the United States compare with other countries on this score?

Well-being metrics give us a novel tool to measure the linkages between mobility attitudes and well-being in its various dimensions. So-called hedonic metrics capture daily experience and respondents’ mental states—such as happiness at the moment, stress, and anxiety—as they experience their daily lives. Evaluative metrics capture respondents’ attitudes about their lives as a whole, including how they change over the life course and the ability to lead meaningful and purposeful lives. Respondents with different attitudes about the future may emphasize one or the other well-being dimension more. If capabilities and opportunities are limited, individuals focus more on the daily experience aspects of their lives and well-being, as they live from day to day without the capacity to plan for the future (Graham and Lora, 2009; Graham and Nikolova, 2013; Haushofer and Fehr, 2014). Those with more capabilities and opportunities often focus more on the longer term dimensions of their lives and well-being—such as purpose and fulfillment—even at the expense of daily quality of life, at least in the short term.

This book builds on my research on well-being and on mobility and opportunity in countries around the world. I explore the linkages between the distribution of income, attitudes about inequality and future mobility, and well-being in the United States, and also provide some comparisons with other countries and regions. This scholarship is distinct from existing work on inequality in its focus on the well-being–beliefs channel and its implications for individual choices about the future. The “Gatsby curve” in economics posits that children from different backgrounds will have even larger gaps in outcomes than their parents did, since better-off parents have more resources to invest in their children (Krueger, 2012). In this instance, we are exploring the role of beliefs, which are also passed on from parents to children, with the gap growing ever larger between children from different socioeconomic backgrounds as the differences in the opportunities and life experiences of the rich and the poor grow.
If we are an increasingly divided society now—from the perspective of both available opportunities and attitudes about what the future holds—will we be even more divided in the future? The Declaration of Independence promises the opportunity to seek life fulfillment and happiness—in its fullest sense, for all U.S. citizens. Is happiness for all an increasingly elusive dream?

Inequality: A Complex Topic

Inequality is a controversial topic. After years of being off the table, it is now front and center in political and polemical debates. It is complex to measure, and the standard metrics that are used, such as the Gini coefficient or the 90/10 ratio, while useful for economists, are difficult for the average layman or laywoman to understand. In addition, these measures provide snapshots of distributions at one point in time, and do not change much in time periods that are relevant to political or policy cycles. The measures also mask very different trends in mobility and opportunity across societies and cohorts within them. Meanwhile, the data that are necessary to measure mobility and opportunity are rare, as they entail following the same individuals or cohorts over time.

There is a vast literature on the linkages between inequality and growth, with some of the linkages being positive, and many others negative (see Salverda, Nolan, and Smeeding, 2009, and the many essays therein for a comprehensive review). Some inequality is constructive and rewards productivity and innovation; some is destructive and creates disincentives for disadvantaged cohorts to invest in their futures and in those of their children (Birdsall and Graham, 1999). These vary across and within societies, and are also affected by structural trends in the world economy, such as technology and skill-driven growth. The standard inequality measures tell us very little about these more complex phenomena.

Because it is relatively easy to measure them, most of the debate, at least among economists, has been about trends in income inequality and, less frequently, about trends in mobility over time. Yet regardless of trends in the data, the channel by which inequality has the most direct effects on individual welfare and resulting behaviors may be what it signals in different societies and among different cohorts. In other words, if inequality—and particularly the
gains of those who are being successful—is a sign of hope and potential future progress to others in society, then it has positive signaling effects. Alternatively, if it is a marker of persistent advantage for some and disadvantage for others, it has negative effects. What inequality signals is, in turn, linked to behavioral outcomes, such as effort in the labor market and investments in health and education.

Studies of inequality and individual well-being—in the United States, the European Union, and Latin America—have yielded mixed results, precisely because inequality has different implications in different contexts. Albert Hirschman’s well-known “tunnel hypothesis” provides a good conceptual frame for interpreting these mixed results. In a seminal article published in 1973, Hirschman described two kinds of signals and their potential effects. He compared inequality in the development process to a traffic jam in a tunnel. When one lane of traffic begins to move, initially it gives those in the other lanes reason for hope, a signal that they may also soon move forward. Yet if only that lane continues to move and the others stay stalled, then the drivers in the stalled lanes become frustrated and engage in dangerous behaviors such as jumping the median (Hirschman and Rothschild, 1973).

Partly as a result of these multiple possible meanings, there is no consistent pattern in the results of studies of inequality and life satisfaction and other measures of well-being (Alesina, Di Tella, and MacCulloch, 2004; Graham and Felton, 2006; Oishi, Kesebir, and Diener, 2011; Van Praag and Ferrer-i-Carbonell, 2009). Of the many studies that I review in Chapter 3, some find a negative correlation between inequality and life satisfaction, others a positive one, and some none at all. This is likely because there can be negative comparison effects—e.g., if those in your reference group have higher incomes you feel less well-off—or positive signaling effects, or they may both operate at the same time, depending on the context. In more stable economies, such as the United States and Europe, comparison effects seem to dominate, while in contexts of economic transition or change, inequality seems to provide a sign of positive progress (at least initially), as in the tunnel example.

The reference or peer group that individuals are comparing themselves to plays a role, as well as their belief structures. Positive signaling effects are more likely in smaller areas, such as neighborhoods and small towns, perhaps because public goods such as schools and parks are shared at this level. In
contrast, in larger reference groups, such as large cities, comparison effects are more likely. In the latter instance, the large differences in wealth are quite visible, and at the same time the lives of those at the top and the bottom are much further apart from each other. Thus the “success” of the very wealthy seems much more out of reach for those at the bottom.

Belief structures about what determines “success” also matter. In contexts where the majority believes that connections or unfair advantage determine success, inequality typically has a negative relationship with life satisfaction. In those where high income gains are seen as a just reward for hard work, skills, productivity, and innovation (as used to be the case in the United States), inequality usually has a positive or at least neutral association with well-being. And, as described in subsequent chapters, individual experiences along these lines, such as being rewarded fairly or unfairly at school or in the workplace, can result in persistent belief structures about the ability to get ahead in the future.

An important question in the debates today is whether the United States’ long-held reputation as a land of opportunity is still backed by exceptional rates of mobility. High levels of inequality were traditionally seen as rewards in a dynamic and fluid labor market and as a positive signal to individuals of where they might end up in the future. Material success was seen as a just reward for hard work and innovation. Yet there is now significant evidence that U.S. mobility rates—both inter- and intragenerational—are actually lower than those in many other countries in the OECD (Brunori, Ferreira, and Peragine, 2013). We know less about public perceptions of inequality in the context of these changes, and belief structures tend to lag behind objective changes. Yet the new data that I present throughout the book suggest that they have indeed changed a great deal.

**Attitudes about Future Mobility**

For decades U.S. citizens accepted and even supported exceptionally high rates of inequality and relatively low rates of redistributive taxation because of a widely held belief in the inequality-opportunity link (Bénabou and Ok, 2001). Bénabou and Tirole (2006), based on World Values Survey data, found that only 29 percent of Americans believed that the poor are trapped
in poverty, while only 30 percent believed that luck rather than effort or education determines income. In contrast, the figures for Europeans were nearly double that—60 and 54 percent, respectively. Conversely, Americans were twice as likely as Europeans (on average) to believe that the poor “are lazy or lack willpower” (60 percent vs. 26 percent) and that “in the long run, hard work usually brings a better life” (59 percent vs. 34–43 percent).

These beliefs tend to correlate with actual levels of redistribution across countries, even though they are often out of touch with reality—as in the case of U.S. mobility rates. Bénabou and Tirole cite various studies that show that such beliefs are chosen and held on to despite what the data show about actual trends in inequality and mobility; the average individual believes that there is more mobility than there actually is. This phenomenon was described by Lerner (1982) as the “belief in a just world”—such as the nearly universal human tendency to want to believe that people generally get what they deserve.\(^1\)

Yet these studies were based on data for the 1990s, and objective trends in inequality—and more recently awareness of them—have changed a great deal. The explosive amount of public attention given to Thomas Piketty’s (2014) excellent but highly technical book on inequality in capital was an indication that attitudes might be changing, at least in some circles. The 2016 electoral debate and the remarkable support for antisystem candidates such as Bernie Sanders, promising to address the plight of those who have fallen behind, also revealed significant levels of public concern about the issue.

In addition to the high levels of concern, there is evidence that attitudes about inequality are increasingly divided across ideological lines. A recent Pew poll, for example, found that 57 percent of Republicans believed that people who became rich did so because they worked harder than others, while only 27 percent of Democrats thought the same. In contrast, only 32 percent of Republicans felt that people were poor because of circumstances beyond their control, compared to 63 percent of Democrats (Blow, 2014). Kuziemko et al. (2015), meanwhile, find that the difference between

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\(^1\)Their theoretical model of just beliefs brings together (1) a demand side, for motivated beliefs, resulting from imperfect willpower (or divergent parent-child preferences) and/or anticipatory feelings about this world or the next and (2) a supply side, taking the form of selective recall/awareness or that of parental indoctrination and then (3) general equilibrium interactions between individuals’ cognitive choices, arising endogenously via collective policy decisions.
liberals and conservatives is the most important explanatory variable in the determinants of attitudes about inequality.

The latest Gallup data (Jones, 2015) show that a reasonably high percentage of Americans—56 percent—say that the amount of income tax they pay is fair (down from a recent high of 64 percent in 2003). Yet there are differences across groups, with lower and upper income groups displaying less support than those in the middle. And, among lower income groups, it is those who identify as Republicans who have become less likely to view their taxes as fair, while lower income Democrats have not changed their opinions. This again reflects a deep ideological divide and the fact that antigovernment sentiment is increasing in the United States (Jones, 2015).

Programs targeted to the poor tend to be stigmatized in general, and are generally believed to create dependence on government. They tend to have very little support among the broader U.S. public (Swenson, 2015; Gilens, 1999). Indeed, the functioning of these programs reflects the differential levels of public support for them. Swenson (2015) describes how the bureaucracies that support programs that provide universal benefits, such as social security and Medicare (which function like semiprivatized programs), are much more user-friendly than those for programs targeted to the poor, such as Temporary Assistance for Needy Families, food stamps, and Medicaid.

Robert Putnam (2015) describes the evolution of our social welfare system as “the privatization of risk,” with the majority unwilling to support the neediest because they do not conceive of them as part of a broader social collective. Gilens’s work, meanwhile, suggests that sympathy for welfare beneficiaries varies broadly depending on how racially homogenous neighborhoods are and on whether or not respondents have had friends or relatives on welfare.

Misperceptions about poverty, inequality, and mobility extend well beyond the ideological divide. Two recent psychological studies find that Americans across the economic spectrum misjudge the amount of upward mobility there is. There may be psychological utility to that: it helps the rich justify their wealth and provides hope for the poor. The studies were based on experiments where three thousand respondents were shown pictures of income quintiles and asked to estimate the likelihood that a randomly selected person born in the bottom quintile would move up to each of the others in his or her lifetime. Respondents’ estimates were compared with ac-
tual trends based on Pew data. Participants overshot positive probabilities by nearly 15 percent points, and respondents with less than a college education were more likely to overshoot. Responses to questions about how many college students come from families in the bottom 20 percent of the income bracket demonstrated similar bias. The respondents thought that the poorest attend college at a rate five times more than they actually do as shown in the Current Population Survey data (Kraus, Davidai, and Nussbaum, 2015).

There are more puzzles about who supports redistribution, as shown by two recent studies (Ashok, Kuziemko, and Washington, 2015; Kuziemko et al., 2015). While support is increasing among some cohorts, it is falling significantly among the elderly and blacks. For the elderly, trends are in part linked to the extent to which Medicare and its bureaucracy has been disassociated from the government. Rather remarkably, 40 percent of Medicare recipients do not think they receive support from a government medical insurance program! For blacks, it may be due to the narrowing of wage differentials, although that has stalled somewhat in recent years. Blacks are more likely than whites to say that people get ahead due to luck rather than hard work, but that differential has narrowed in the past decade. Those blacks who believe it is luck rather than hard work, meanwhile, are more supportive of redistribution. I discuss my research findings on high levels of optimism for the future among blacks—and particularly poor blacks compared to poor whites—as well as how the findings are related to the above trends in Chapter 4.

More generally, my research finds stark differences in attitudes about the future—and in beliefs about the value of hard work in particular—across rich and poor cohorts in the United States. Indeed the gaps are much greater than they are in Latin America, on average. Rather remarkably, belief that hard work will pay off in the future among the U.S. poor is significantly lower than among the poor in Latin America and the Caribbean (LAC), while the rich in the United States score much higher on hard work beliefs than do the rich in LAC. This may be an example of Lerner’s beliefs in a just world explanation.

The available data show that public confidence in the American Dream/U.S. exceptionalism is not what it is reputed to be. My research highlights clear markers between low-income cohorts living at the moment with little faith in or ability to invest in the future and wealthy cohorts who believe in
and make major investments in their own and their children’s futures. The outcomes of the latter cohorts—in the wealth, health, and life fulfillment arenas—are further and further away from the realities lived by those at the bottom.

It is difficult to establish a direction of causality, as beliefs and behaviors seem to interact and often become self-fulfilling prophesies. Even so, these growing differences coincide with and perhaps cause our increasing inability to conceive of societal welfare as a collective responsibility. The tattered support for extending health insurance to the millions of uninsured is one marker of this. The huge division in attitudes about the causes of poverty is another. An increase in mortality rates among uneducated whites, driven by suicides, drug addiction, and other self-destructive behaviors, signaling desperation, is perhaps the most troubling marker of all.

Well-Being Dimensions and Metrics

While it is not easy to measure the effects of inequality on individual welfare, well-being metrics provide a promising tool. The relatively new science of well-being has developed into an increasingly accepted approach in economics and in the social sciences more generally. The metrics are particularly useful for exploring questions that revealed preferences (e.g., analysis based on data that measure consumption and other choices within a fixed budget constraint) do not provide good answers to, such as in situations where respondents do not have the capacity to reveal a preference or because their behaviors are driven not by rational or optimal choices, but rather by norms, addiction, or self-control problems. Such questions include the welfare effects of macro and institutional arrangements that individuals are powerless to change, with inequality a prime example, and of strong normative arrangements, such as discrimination and/or caste systems, and of behavioral choices such as excessive smoking and/or obesity.

The most recent research makes clear distinctions between two well-being dimensions mentioned earlier: evaluative—how people think of their lives as a whole—and hedonic—capturing how people experience their daily lives (Stone and Mackie, 2013; Graham and Nikolova, 2015). Individuals with higher levels of evaluative well-being have more of a sense of what their fu-
I define “agency” here as the capacity to pursue a purposeful and fulfilling life (Graham, 2011b) and “capabilities” as “the freedom to achieve various lifestyles,” which in turn requires having the means (both material and emotional) to do so (Sen, 1984).

Another important and related dimension of well-being, which we know less about, is eudemonia—the extent to which people have purpose or meaning in their lives. It is implicitly captured in evaluative well-being metrics. There are some new efforts under way to measure it explicitly, including in the well-being modules of the British Office of National Statistics, using a question that asks respondents the extent to which they feel that the things they do in their lives are worthwhile (Adler, Dolan, and Kavetsos, 2014; Office of National Statistics, 2015). Not surprisingly, eudemonic well-being tracks more closely with life satisfaction, the evaluative metric, than with the hedonic metrics. Whether or not people have the capacity to lead fulfilling and purposeful lives—and how that is linked to their future outlooks and discount rates—is an important theme in this book.

The scientific analysis of these issues has now developed to a point that scholars are also able to tease out causal channels related to different dimensions of well-being and related attitudes. One suggestive set of findings, noted above, is that individuals with higher levels of well-being (on average) tend to also have higher prospects of upward mobility and, as a result, invest more in their own and in their children’s future, investments that are in turn reflected in better labor market and health outcomes (Graham, Eggers, and Sukhtankar, 2004; De Neve and Oswald, 2012; De Neve et al., 2013). What is less well understood is how this actually works.

Work in the field of experimental economics suggests an important role for positive emotions, such as optimism, in inspiring effort and productivity (Oswald, Proto, and Sgroi, 2009). Psychologists have shown that positive emotion influences self-control and performance, as well as the capacities of choice and innovative content, memory recall, and tendency toward altruism.
(Isen, 2000; Isen et al., 1978). Both bodies of work, while at an early stage in their development, suggest there is a role for intrinsic versus external motivation—in other words effort that is driven by individuals’ own motivation to achieve certain goals rather than by the need for external rewards or validation (see also Bénabou and Tirole, 2003). Recent work on well-being in the United States by Kahneman and Deaton (2010) shows that while emotional well-being is correlated with income up to median levels of income, below which day-to-day living is often a struggle, emotional well-being no longer correlates with income once those levels are surpassed. Thus after a certain point, more income does not “buy” positive emotions, but insufficient income is more likely to result in negative ones.

In Chapter 4, I also look at the role of negative daily experience, such as chronic health problems, pain, anger, and stress, all of which are starkly divided across rich and poor cohorts in the United States. Poor cohorts are much more likely to be concerned about daily existence, stress, and struggles, and less able to think about or plan for the future. The rich have much higher levels of evaluative well-being, in large part because they can envision and plan for their future lives. I also look at the extent to which inequality plays a mediating role, and find differences depending on the local distribution of income.

Psychologists define stress as a feeling of strain or pressure. Humans perceive stress when they do not believe that they have the resources to cope with the obstacles facing them. Small amounts of stress can be beneficial and play a positive motivating role, as in athletic performance or reacting to the environment (Schneiderman, Ironson, and Siegel, 2005). Yet excessive stress can result in increased risks of harmful conditions, such as heart attacks, strokes, and depression. I explore these differences in Chapter 4, including the extent to which there are different kinds of stress across cohorts, with “good” stress associated with goal achievement and related challenges and “bad” stress associated with daily struggles and circumstances beyond individuals’ control.

A related trend is new evidence that inequality in life satisfaction in the United States has increased recently. Life satisfaction typically becomes more equal as countries grow wealthier (in per capita GDP terms). This leveling off is usually driven by trends at the bottom of the distribution—for example, there are fewer respondents with very low levels of life satisfaction, as the numbers of the very poor living precarious existences fall. The United States
fit this trend for several decades, but there is some new evidence that this has now changed with inequality in life satisfaction increasing in the past five or so years (Stevenson and Wolfers, 2008; Clark, Fleche, and Senik, 2016; Helliwell, Layard, and Sachs, 2013; Goff, Helliwell, and Mayraz, 2016).

Our initial analysis of the Gallup Daily U.S. data for 2008 to the present suggests that inequality in life satisfaction increased at the time of the 2009 financial crisis—a time when, not surprisingly, average life satisfaction was also falling markedly (Graham, Chattopadhyay, and Picon, 2010a). This increase was probably driven by an increase in low scores at the bottom of the well-being distribution as the number of vulnerable individuals—including the long-term unemployed—grew. These same cohorts also benefited disproportionately less from the recovery.

Another related but distinct trend is that although the relationship between life satisfaction and per capita GDP levels is typically positive, the relationship with economic growth (e.g., changes) is more mixed and contested. Indeed, the relationship between life satisfaction and growth tends to be negative during periods of very rapid growth, as in China in the 1990s and Korea several decades earlier (Graham and Lora, 2009), and is often associated with increases in inequality and insecurity as rewards to different skill sets change. This could plausibly be a factor in the trends observed in the United States in the recent decades, not least because those who are falling behind typically do not have the skills and education necessary to succeed in an increasingly skills-driven economy.

There are currently many efforts under way to incorporate well-being metrics into the official statistics that are collected by governments around the world. This would allow scholars and policy makers to track trends in well-being (or ill-being) across cohorts within countries and across countries over time, as a complement to the metrics that are already in GNP data. The British government began to include these metrics in its national statistics in 2012, and the OECD has issued guidelines for best practice for statistics offices around the world interested in doing so. Even the U.S. Committee on National Statistics has entered into this discussion, as a response to a National Academy of Sciences panel report on well-being metrics and policy, and well-being metrics are currently included in a number of U.S. surveys.²

²I served on this panel. For the full report, see http://www.nap.edu/catalog.php?record_id=18548.
As I note in Chapters 5 and 6, tracking well-being trends in a consistent and timely manner would allow us to better understand some of the worrisome pockets of ill-being and desperation that are described later in the book, and possibly help prevent some of their worst manifestations. Better understanding of variance in well-being (across its many dimensions) among different cohorts, and why some maintain hope for the future and make related investments and others do not, might also provide new insights into how to improve policy in the future.

Well-Being, Beliefs, and Behavior

The proposition that people’s beliefs and hopes about the future influence behaviors and outcomes stems from my own past research linking well-being to future outcomes in the income and health arenas (Graham, Eggers, and Sukhtankar, 2004; Graham and Pettinato, 2002b), and, more importantly, from new research by others that explores the links between well-being and future outcomes across a wider range of areas (De Neve et al., 2013; De Neve and Oswald, 2012).

This relationship between beliefs and behaviors and its implications for the outcomes of future generations is one of the most important themes in the book, and yet the one that we know the least about. There are many empirical and experimental studies that highlight its existence, but there are still unanswered questions about when and how it operates, as well as about the direction of causality. Causality could run in two directions. While experiencing inequality and injustice may reduce individuals’ confidence in their ability to get ahead in the future (and thus how much they are willing to invest in the future), individuals who are innately less happy (e.g., due to genes or repeated negative shocks in the past) and less confident may be more upset by awareness of inequality and/or less able to rebound from negative experiences.

Despite all of these unanswered questions, there is a growing body of work that highlights this channel from beliefs to behaviors and its important role. Experimental work based on interventions that increase optimism is suggestive of the direction of causality, even if it cannot fully account for the role of innate differences in character traits. For example, Jeff Butler’s (2014)
research shows that introducing salient—i.e., visible—inequality affects people’s beliefs about their own ability rather than the effort they put into things. Individuals who are in an artificially constructed low pay group in his experiments put forth more effort and perform about on par as those in the artificially constructed high pay group (and actually higher in the tasks that were based on effort rather than ability), but salient inequality—e.g., being told that they are earning less—affects their beliefs about their ability.

Hoxby and Avery (2012) find that even when offered a free college education, high-ability disadvantaged students tend to choose less prestigious rather than more competitive schools. Disadvantage itself seems to diminish prospective students’ assessments of the value of attending college if they believe that they cannot compete with students from more privileged backgrounds; they may also have less information about what constitutes a good school at the same time. The colleges simply seem beyond their reach. Along the same lines, social psychologist Daphna Oyserman (2013) has researched how students’ identity affects how they perceive “impossible” versus “important” tasks and how they feel they rank on those tasks. She has found that when prompted about their identity as minorities prior to undertaking particular tasks, high school students were more likely to perceive the tasks as “impossible” than when they were not.

These differences in both real and perceived ability can begin very early on in the life cycle. Psychologists Betty Hart and Todd Risley (1995) in the United States in the 1990s found that there were “intractable differences in rates of vocabulary growth” depending on socioeconomic status because of the kinds of words—and exposure to positive versus negative words—that the children of different socioeconomic cohorts received.3 There are many other examples and studies, many of which are reviewed in greater detail in Chapter 5.

Throughout the book, I incorporate the more recent research that explores the distinct well-being dimensions and I use these metrics as a lens into the very different lives and future outlooks that are depicted in the above studies. Individuals with higher levels of evaluative well-being, for example, who have more of a sense of what their futures look like and more capacity to craft those futures may experience lower levels of hedonic well-being (such

3For a more complete review of this literature, see Meerman (2009).
as more stress) as they work to make investments in those futures. Individuals with less agency or capacity to craft their futures (and lower prospects of upward mobility for example) may focus more on the daily experience dimension of well-being precisely because their future outlooks are far less certain. The effects of the stress that they experience, typically associated with circumstances that they cannot control, are very different, as discussed in Chapter 4.

Research based on experiments on the benefits of programs that transfer income to poor individuals in Kenya finds that the stress associated with living day to day contributes to shortsighted and risk-averse decision making. Stress may limit attention, resulting in an emphasis on habitual behaviors at the expense of goal-oriented ones (Haushofer and Fehr, 2014). Similarly, Eduardo Lora and I (Graham and Lora, 2009) find in Latin America that the most important variable to the well-being of the poor, after having enough food to eat, is friends and family whom they can rely on in times of need, while the most important variables to the well-being of the rich are work and health. Friends and family are critical safety nets in the day-to-day survival challenges faced by the poor, while work and health are the things that give respondents with more means the capacity to make choices about the kinds of lives that they want to lead.

A consistent trend that emerges from well-being metrics and reflects these different time horizons is something that I identified years ago: the happy peasant and frustrated achiever paradox, which provides a micro-level mirror into the paradox of unhappy growth. In data from around the world—such as Peru, Russia, and China—I have found that poor people with very little or no income mobility will report to be happy, while respondents who have recently made income gains and exited poverty report to be unhappy and frustrated with their economic situations (Graham and Pettinato, 2002a). In part this can be explained by the rising aspirations, new awareness, and uncertainty that often accompany the economic development process. But it is also explained by what dimension of well-being respondents are emphasizing as they answer these questions. The very poorest typically focus on the daily experience dimension of well-being, as they do not have the luxury of thinking about longer time horizons.

This contrasts strongly with the perspective of those with greater capabilities and life choices. Thus when respondents with more means are asked
about their own lives and well-being, they are more likely to think about
their lives as a whole—the evaluative dimension. This difference shows up in
the data when specific questions pertaining to each dimension are included.
The above-cited Kahneman and Deaton (2010) work shows that not having
enough means is bad for both dimensions of well-being, but after a certain
point more money does not make daily experience better. More money does
not make a long commute less annoying or time with friends more pleasurable,
for example. In contrast, the correlation between income and evaluative
well-being continues up to the highest levels of income. This is because
people with more income have a greater capacity to lead the kinds of lives
that they desire.

Some of our newest work, which is based on where respondents are in the
well-being distribution and their associated behaviors, confirms this gener-
ally positive link between well-being, health, and productivity, on average.
Yet we also find that respondents at the very top end of the well-being distri-
bution (e.g., the happiest) diverge a bit, and value full-time employment and
income less than the average, but learning and creativity more (Graham and
Nikolova, 2015), while the least happy respondents are more likely to value
money. The likelihood of being in this top well-being quantile, meanwhile,
and having the luxury to choose between more creative and meaningful pur-
suits, which may yield less income, hinges to some extent on having sufficient
means. Happier respondents also tend to have more happy life years (Gra-
ham and Ruiz-Pozuelo, 2016).

Nickerson and colleagues (2003)—in “The Dark Side of the American
Dream”—use panel data for college students and find that having financial
success as an important goal early in life is, on average, negatively correlated
with life satisfaction later on. They also find that the negative effect of valuing
financial success is much worse for those who start at lower levels of house-
hold income, who will have a more difficult time achieving it. Thus while the
least happy value material/pecuniary dimensions of life more, there seems to
be a doubly negative effect of being poor and in this category.

Respondents with higher levels of well-being also seem to have more re-
silience when they experience negative shocks like unemployment. Martin
Binder and Alexander Coad (2015) find that those respondents in the high-
est well-being/life satisfaction quantile suffer about one-third the well-being
costs of being unemployed than do those in the least happy quantile (e.g., the
latter suffer greater losses in well-being). They also find distinct differences when they use markers of mental health rather than life satisfaction. Those in the lowest mental health category suffer twice as much from being unemployed than do those in the best off category. In contrast, the highest mental well-being categories do not differ from each other as much from the lowest as do the highest and lowest life satisfaction categories (a one-half difference in the former case and a two-thirds difference in the latter).

As such, and as psychologists are careful to explain, negative affect/moods and depression are not the direct analogue to high levels of life satisfaction. In other words, depression and happiness are not one construct that can be measured on a continuous scale. The depressed have distinct negative traits, and the happiest have distinct positive ones. How the traits of those with the highest and lowest levels of well-being (e.g., those at the tails of the well-being distribution) interact with behaviors is one of the questions in this book. Most of the research in this area is exploratory rather than definitive, but has the potential to contribute to the debate on heredity versus the environment in determining individual behaviors and outcomes.

The very different time horizons and life prospects that people with different means and opportunities have is a key theme in this book and in the channel from beliefs to behaviors more generally. Indeed, making clear distinctions between these two dimensions and how they vary across respondents in different situations and with different capabilities is one way to bridge the gap between well-being as measured by the capabilities approach famously introduced by Amartya Sen (1984) and well-being as assessed by self-reports. Sen’s early critiques of the happiness literature focused on the “happy slaves”—those respondents in compromised situations with low expectations who reported to be very happy because they had adapted to their situation, as in the case of the happy peasants and frustrated achievers paradox mentioned above.

The capabilities approach assumes that welfare hinges on an individual’s capability to achieve certain key functionings (such as being nourished and avoiding premature mortality) and having the agency or autonomy to decide what he or she wants to achieve. Binder (2014) suggests exploring how different well-being dimensions vary across people, as well as assessing how the value respondents attach to certain functionings changes over time. The importance of income or nourishment matters may also change as individuals
achieve the capability to pursue other dimensions of well-being, such as purposefulness, and at the same time it will also vary depending on where in the well-being distribution individuals are, that is, how much food or money they already have.

The framework introduced in this book complements these lines of thinking, and hinges on the capacity of individuals to experience both dimensions of well-being, thereby having the capabilities and the agency to seek life fulfillment if they want or choose to do so. Individuals who are compromised in their expectations, due to limited education, poverty, or other constraints, primarily experience the hedonic dimension—either because daily living is a struggle or because of limited expectations and time horizons they have lower levels of overall well-being within this frame and are also less likely to invest in their future outcomes. The capacity to experience well-being in its fullest sense, therefore, is often closely linked to an individual’s position in the income distribution, and this is especially true in the United States today.

In the next chapter of the book I review trends in inequality and mobility in the United States over the past few decades, and how those compare with what has happened in other countries, particularly but not exclusively in OECD countries. Chapter 3 then goes on to ask who still believes in the American Dream. It begins with a review of what we know about the relationship between inequality, well-being, and attitudes about future mobility. It summarizes what we know from survey data on attitudes about inequality and opportunity in the United States, and then places those attitudes in the context of those in other countries and regions, based on our new data and analysis with a focus on individuals’ beliefs in the role of hard work in future success.

Chapter 4 focuses on what it means to be poor in the United States and how poverty affects expectations about the future. I explore patterns in optimism across different racial and socioeconomic cohorts. I find surprising differences, for example, with poor blacks and Hispanics (particularly the former) being much more optimistic about the future than poor whites. These differential levels of optimism can result in very different discount rates across individuals, with those with less faith in the future far more likely to live in the moment, focused on the day to day, and less likely to make investments in their own and their children’s future. The most vivid example of these differential levels of optimism—and the extreme desperation among
some cohorts—is the increase in mortality rates due to preventable causes such as suicide and opioid addiction. Increasing support for populist and nativist politicians with unrealistic promises among the same cohorts is another manifestation.

I also examine the extent to which these patterns are mediated by stress and inequality. Stress that is associated with constant uncertainty and circumstances beyond individuals’ control, which characterizes the lives of many of the poor, is particularly deleterious to well-being. It erodes individuals’ capacity to plan ahead, as is highlighted in the well-known research of Sendhil Mullainathan and Eldar Shafir (2013). High levels of inequality, meanwhile, which make success seem out of reach, can contribute to lack of faith in the future among those at the bottom of the distribution.

Chapter 5 reviews the nascent research on the linkages between well-being, optimism about the future, and behavioral outcomes of interest in the health, wealth, and social arenas, among others. It discusses the implications of the beliefs and behaviors channel for the children of cohorts with different beliefs and thus for intergenerational patterns in inequality and opportunity. I also discuss my new research in progress, which aims to further tease out the direction of causality in the beliefs and behaviors channel, as well as to test the extent to which aspirations can be shifted via interventions as a means to break vicious cycles.

Finally, in Chapter 6 I offer some modest suggestions for policies that might begin to revive the fragile American Dream. I also highlight the role that well-being metrics and markers can play in identifying negative beliefs and behaviors channels before they result in the kinds of desperate outcomes that are described in the book, such as rising mortality rates. The metrics can also play a role in informing and assessing policy interventions going forward.

A Note on Data

I rely on a number of extensive data sets of well-being, both for the United States and around the world, and examine the link between attitudes about inequality/future mobility and well-being. I examine U.S. trends in comparative perspective, both with those in other countries in the OECD and with trends in countries in Latin America, where despite traditionally high levels
of inequality, rates are gradually falling and rates of mobility are concurrently rising.

I use detailed individual-level data for the United States (the Gallup Healthways data) as well as worldwide data (the Gallup World Poll and the Latinobarómetro, among others). Unfortunately, the larger worldwide data sets are cross-section rather than panel, which makes it much more difficult to explicitly explore how attitudes about inequality and mobility link to behavioral outcomes of interest, such as investments in the labor markets and education. Going forward, I am planning to explore these questions, in collaboration with several others, in country-level panel data sets for the United States and Latin America, as well as via experiments in smaller scale surveys (discussed in Chapter 5).

*I am a Senior Scientist at Gallup and, as such, have access to the Gallup data sets.*