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The Effects of Income Shocks on Happiness

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Introduction

On an individual level, mental health, physical health, quality of life, material wealth, and social relationships are all effects of happiness (DeNeve 2013). The need for happiness stems from human nature because happiness leads to success. Happiness and success form a bidirectional relationship. Success leads to greater happiness and greater happiness leads to successful life outcomes (Lyubomirsky 2005). Since happiness could be influenced by anything and everything, it is important to see only the key aspects in happiness. When it comes to modern times, money has a big influence on happiness. In modern society, money could be earned in a variety of ways. Monetary wealth, assets, investments in stocks, crypto-currency, and even Non Fungible Tokens (NFTs) all hold monetary value. The most widely known is income. For the purposes of this paper, income is defined as any form of money that an individual gains or loses. However, individuals across the globe all make different amounts of income. If an individual makes a consistent income, there doesn't seem to be much correlation. The influx, or shocks, of income affect personal happiness" (D'Ambrosio 2020). Thus, when analyzing the direct impact that income shocks have on happiness levels, the question arises: how do income shocks influence an individual's happiness?

Effects of a Raise or a Cut in Income

One of the most preeminent influences of happiness is the accessibility of financial capital (Kamberi 2015). In other words, income largely affects the happiness of an individual. Most individuals that make an income get it through a job. The way that they could get a higher income or a lower one is through their performance. In the workforce, each employee works differently. This could lead to one of two things: they could receive a raise for consistent high achievement or they could get a cut in their paycheck for underachieving. Interestingly enough,

income losses reduce a subject's happiness while any gain in income doesn't necessarily increase it (D'Ambrosio 2019). The familiar assumption would be that getting a raise would make an employee happier, but the truth is that it is only temporarily true. In the long-term, a raise may positively add to an individual's happiness. A consistent stable increase in income is proven to be beneficial for a subject's happiness levels (Kamberi 2015). When it comes to an increase in income, it refers to a growing net salary over the course of time. Some jobs that people take on require a growth in income, if not the company won't survive. Most commonly, companies pay their employees on an hourly rate, and if the company sees significant increases in revenue, they may raise the income of their employees. Some companies give a raise based on an individual assessment. No matter the type or the way of getting a raise, it comes down to one main factor: is the employee being consistent in putting in full effort and achieving significant accomplishments? If they are, then a raise could be expected. For those employees who aren't always consistent, a raise should not be expected. Instead they should be expected to get a warning, a reduction in income, or even getting fired. An employee's performance relies greatly on their mental state and subject well-being (Salgado 2019). If an employee is overall satisfied in life and emotionally stable (happy, content, joyful), they are more likely to excel in job performance (Salgado 2019). If an employee isn't satisfied in life and is emotionally unstable (afraid, angry, sad), they are seen to perform worse in their dedicated jobs. This direct correlation is also reasonable. If someone has a proper state of mind, they are able to devote their full focus to work. If someone is stressed or sad, their mind is distracted, which would lead to mistakes and a deficiency in performance. Thus, a sudden change in income could be a direct effect of poor or proper job performance. The job performance relies directly on the subject well being, the same

is true in reverse order too. Therefore, it is crucial to identify the correlation between an income shock and happiness of the individual.

Cultural and Ethnic Differences in Relation to Income Shocks

In some countries, individuals of the lower income percentile, regardless of financial situation, have recorded high levels of happiness (Guardiola 2013). The way in which researchers explain this is through the ‘paradox of happy peasants and miserable millionaires’ (Graham 2009). In her research, Carol Graham explains this phenomenon through the cultures and ideas that define happiness. No two groups of people may think the exact same, so it is assumed that any thought process would change based on the individual and what they believe in. On a deeper analysis, one study compared American and Chinese college students on what happiness is to them. Surprisingly enough, the American students described happiness to be ‘excitement’, while the Chinese students defined it as ‘a calm and peaceful feeling’. These two responses could be viewed as polar opposites. The researcher concluded the study by saying that in the United States happiness is most closely related to excitement, while in East Asian countries it is evaluated as good fortune (Oishi 2010). This in itself shows that different cultures define happiness differently. Within these two completely different countries, they both have individuals of low and high income. Depending on the group of people or the individual itself, how they perceive to be happy in their income situation changes.

The importance of identifying a cultural significance in income and then with happiness is within its roots. In the workforce, many different cultures can be seen integrated within a company. With this comes discrimination (Nguyen 2018). It can be seen that with the integration of diversity in the workplace, a variety of negative interactions occur between cultures. With this discrimination not only in the workplace but also in the application process, some employers see

certain cultures as a chance to pay them less than other cultures (Gordon 2014). Specifically, immigrants tend to get put into jobs of cheap labor. Meaning they get paid minimum wage or even less for the tough work they put in. This causes them to be unhappy due to the income they make. It is important to identify the discrimination in its correlation to income. Some immigrant workers even get fired or moved elsewhere. The movement of jobs could be to a higher paying job or one that is even the same as their previous one. For the better in some cases and for the worse in others. This sudden change is better known as income shocks. In modern times, many immigrants experience income shocks. This is due to the sudden unemployment and discrimination within a job setting. This causes many to be unhappy with being unemployed and hated against for being from a certain ethnic background (Auer 2017). This heavily targets their income. Since many immigrant workers do not make much because of discrimination, they tend to become unhappy. Thus, there is eminent and suggestive data that shows the correlation between ethnic background with discrimination and their subject well being based off of their income.

Conclusion

To no surprise, income shocks do impact happiness. A raise in income due to proper work ethic, or even a sudden cut in salary all influence an individual's happiness in their current lives. (D'Ambrosio 2019). Along with this, sudden racial discrimination inhibits certain demographics of workers from getting a stable income or even equality in the workforce (Auer 2017). These factors could all be categorized as income shocks. Without a doubt, income shocks do affect happiness. The real issue is how; it's clearly seen that income shocks cause a sudden change in subject well being. Since money is such a big factor for individuals, any small change could change a subject's happiness even in the short-term.

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