The Easterlin Paradox Re-examined
Using Propensity Score Matching
on Philippine Social Weather Station Data

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Abstract: We subject a portion of Easterlin's controversial yet correlational claim of a non-monotonic relationship between happiness and income (the so-called "Easterlin Paradox", 1974) to a stronger test of causality. We do this by using propensity score matching (PSM) techniques to create "matched pairs" that mimic treatment and control groups on a non-experimental dataset, the 2008 wave of the Philippine Social Weather Survey. By matching individuals based on similar propensity scores, we are able to make causal claims over a subset of the data, the "region of common support." In implementing PSM, we use two versions of the outcome variable subjective well-being: self-reported happiness and life satisfaction; we also use three income proxies (class of dwelling, self-rated poverty, and number of hard-up times per month) in the absence of direct measures within the survey. Our findings indicate that Easterlin's assumed positive relationship between income and happiness within countries is reproduced in only four of six possible runs, either with naïve regression or PSM. However, in only one case does using PSM increase the significance of the effect; in all others, using a causal effects methodology reveals how naïve regression overstates the happiness-income relationship. Finally, in all cases where the treatment effect is significant, the magnitude of the relationship nevertheless remains weak.

Key words: Easterlin Paradox; happiness and income; propensity score matching