

Abstract for “Does Happiness Adapt to Poverty? And, Poverty to Happiness?”

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This paper studies to what extent poverty and psychological well-being can be thought of inputs in a feedback loop by which poverty may exert an influence on unhappiness and, at the same time, past low levels of general satisfaction with life may lead to economic hardship. This interrelationship is studied by means of an econometric strategy with feedback effects using data from the German Socio-Economic Panel (SOEP) for the period between 1992 and 2010. Results indicate that when accounting for high-order dynamics, past poverty experiences do not increase the probability of feeling unhappy which can be interpreted as a certain degree of psychological adaptation to poverty. On the other hand, unhappiness has a (short-lived) positive influence on the probability of being in poverty. Evidence suggests that psychological uneasiness can be added as an explanation to persistent poverty.