

SUBJECTIVE WELL-BEING, ASPIRATIONAL BIASES, AND ETHNICITY IN SLOVAKIA

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Abstract

In accordance with the theory of socially determined aspirations, an optimal level of aspirations is believed to be situated at a reasonable distance from an individual's current situation. Deviating from this optimal level may lead to aspirational biases, encompassing aspirations failure, when individuals do not aspire to reach their potential, and an aspirational gap, arising when socially generated aspirations surpass an individual's current socio-economic status.

This study seeks to investigate and compare the prevalence of aspirational biases within both the majority population and the Roma minority in Slovakia. We contribute to the existing literature by explicitly examining the relationship between subjective well-being (SWB) and aspirational biases. To operationalize these biases, we calculate the relative difference between individuals' income aspirations and their current disposable income. We show that these biases are strongly correlated with subjective well-being. In both contexts, we report a negative correlation between aspirational gap and SWB, and a positive correlation between aspirations failure and SWB.

Our analysis draws from the 2018 EU-SILC survey. Additionally, we leverage a dataset acquired upon request from the Office of the Slovak Government Plenipotentiary for Roma Communities, aimed at describing the living conditions of Roma residing in marginalized communities within Slovakia.

Key words: Subjective well-being, aspirations, aspirational biases, ethnicity, Slovakia.

JEL Code: D31, I31, J15

Introduction

Aspirations commonly refer to individuals' future desires concerning various aspects of their lives, including those of their descendants. They are often seen as multidimensional and motivating (Fruttero, Muller, and Calvo-Gonzalez, 2021). These domains can encompass income, wealth, education level, type of job or occupation, good health, social status, cultural heritage, dignity, recognition, political power, and more (Ray, 2006; Genicot and Ray, 2020). They are typically elicited through survey questions in development research. Aspirations are one of several factors that shape or determine people's future outcomes, including educational attainment, occupation, and income. Research in economics on the concept of aspirations has been steadily growing over the past two decades. The study of aspirations in economics is primarily linked to economic development and poverty. This body of literature often makes reference to the work of anthropologist Arjun Appadurai, who argues that '*strengthening the capacity to aspire, [...], especially among the poor*', would help them '*find the resources required to contest and alter the conditions of their own poverty*' (2004, p. 59).

The capacity to aspire and the associated aspirational biases have become key concepts investigated by economists. Inspired by this concept, Ray (2006) views poverty as both a result and a cause of the failure of aspirations. Building on his approach, Dalton, Ghosal, and Mani (2016) introduce a theoretical framework and demonstrate that, due to external constraints, impoverished individuals are more susceptible to failing to aspire to their own potential, which they refer to as an aspiration's failure. However, they extend the model to account for an aspirational gap, which Ray (2016) describes as the difference between socially generated aspirations and the current socio-economic level that an individual enjoys. Genicot and Ray (2017) further develop a formalized theory of socially determined aspirations, including an aspirations-based theory of poverty traps, arguing that aspirations should be set at a reasonable distance from the individual's current situation. La Ferrara (2019) combines these two models into a two-stage principal-agent setting. These theoretical frameworks underscore the importance of aspirations in economic development research, as exerting lower effort due to setting aspirations too low or experiencing frustration from setting aspirations too high can both contribute to a poverty trap.

Previous research has demonstrated a strong relationship between aspirations and subjective well-being (SWB), suggesting that high aspirations are associated with lower levels of SWB (Stutzer, 2004; Knight & Gunatilaka, 2010; Hovi et al., 2021). Both Stutzer (2004) and Knight & Gunatilaka (2010) employ the minimum income question (MIQ) as a proxy for

measuring income aspirations. This approach aligns with Easterlin's (2001) theory of aspirations, which is grounded in the psychological framework proposed by Kahneman and Snell (1992). This framework advocates for the differentiation between decision utility (the utility expected at the time of making a choice) and experienced utility (the utility subsequently experienced from that choice).

We build upon this body of literature with the aim of examining the relationship between SWB and aspirational biases, including the aspirational gap and aspirations failure. Additionally, we contribute to research on differences in SWB across cultures, ethnicities, and religions (for example, see the excellent collection of works by Diener, 2009). Our focus extends to studies examining cultures and ethnicities within a country, as demonstrated by Biswas-Diener, Vittersø, and Diener (2005). Prior research has indicated that the correlation between income and SWB, operationalized as satisfaction, is stronger for the lower-income (Roma) group than for the higher-income (majority population) group (Želinský, 2022). We further enhance this line of research by investigating aspirational biases as a determinant of SWB.

1 Methodology and data

We operationalize the dependent variable, subjective well-being, through the use of a standard life-satisfaction question: *'Overall, how satisfied are you with your life these days?'* This question is measured on a scale ranging from 0 (not at all satisfied) to 10 (completely satisfied). Since SWB is assessed on an ordinal scale, we employ the POLS (Pseudo-Ordered Logit Score) transformation of SWB, as introduced by Van Praag (2007). This transformation renders the data continuous, allowing us to utilize ordinary least squares (OLS) regression instead of ordered probit or logit models (Pagan, 2014).

The central explanatory variables in our study are grounded in income aspirations. Much like other researchers (Stutzer, 2004; Knight & Gunatilaka, 2010; Hovi et al., 2021), we operationalize income aspirations, particularly aspirations to escape poverty, using the following question: *'In your opinion, what is the very lowest net monthly income that your household would have to have in order to make ends meet, that is, to cover its usual necessary expenses? Please provide your answer in relation to your household's current circumstances and what you consider to be its typical necessary expenses to make ends meet.'* This question is a well-established instrument in the field of subjective poverty research. By adapting this

question within the context of income aspirations, we aim to capture individuals' aspirations to escape poverty.

In line with Ray (2016), we adopt a relative approach to the operationalization of the key explanatory variables, the aspirational biases. We define *aspirational gap* as:

$$g(a, s) = \max\left\{\frac{a-s}{a}, 0\right\}, \quad (1)$$

where a denotes an individual's income aspirations and s refers to their current living standard proxied by disposable income.

In a similar fashion, we define *aspirational failure* as:

$$f(a, p) = \max\left\{\frac{p-a}{p}, 0\right\}, \quad (2)$$

where a denotes income aspirations and p refers to their potential living standard operationalized by the expected level of income an individual would earn (adopting the assumption that individuals with similar characteristics have similar expected income).

Since aspirations are elicited at the household level, we utilize disposable household income as the proxy for the current living standard of the individual. Operationalizing the individual's potential living standard is a challenge, and the existing literature provides limited guidance on this matter. In our study, we adopt a simple approach based on the assumption that individuals with similar characteristics (including household characteristics) should enjoy a similar potential living standard. To estimate expected values of disposable household income corresponding to individuals with specific characteristics, we employ a linear regression model.

In the regression model, we control for a set of characteristics that the literature suggests as potential determinants of subjective well-being. This set of characteristics includes:

- Age at the time of interview (in years).
- Sex of respondent (1 = male; 0 = female).
- Suffer from any chronic (long-standing) illness or condition (1 = suffers from illness; 0 otherwise).
- Highest educational level attained ()
- Self-defined current economic status (1 = employed; 2 = unemployed; 3 = in retirement; 4 = other inactive).
- Marital status (1 = single; 2 = married; 3 = separated; 4 = widow/er; 5 = divorced).
- Degree of urbanisation (1 = city; 2 = town; 3 = rural area)
- Log of total disposable household income in EUR/month.
- Severe material deprivation status of the household (1 = deprived; 0 otherwise).

- Number of current household members.
- Type of ownership of the dwelling (1 = outright owners, plus households with accommodation provided for free; 2 = owners paying a mortgage; 3 = tenants paying either full market or reduced rent).

This study is based on two distinct sets of cross-sectional 2018 European Union Statistics on Income and Living Conditions (EU-SILC) microdata. The first dataset (SO SR, 2019) serves as the official data source for reporting income and living conditions statistics in Slovakia, coordinated by Eurostat. The second dataset (OSGPRC, 2020) is specifically designed to depict the living conditions of Roma communities living in marginalized areas in Slovakia. The OSGPRC dataset was compiled in response to a request from the Office of the Slovak Government Plenipotentiary for Roma Communities (OSGPRC). It is worth noting that both datasets were collected by the Statistical Office of the Slovak Republic, using the same research methodology.

The OSGPRC dataset exclusively consists of households from marginalized Roma communities. In contrast, the general EU-SILC survey gathers data from the wider population but also includes a limited number of observations related to Roma families living among the majority population. Because the main (national) survey does not collect data on the ethnicity of individuals or households, it is impossible to distinguish Roma households among the integrated observations. Nonetheless, it is believed that the small number of such observations should not introduce bias into the results that are generalized to the broader (non-Roma) population.

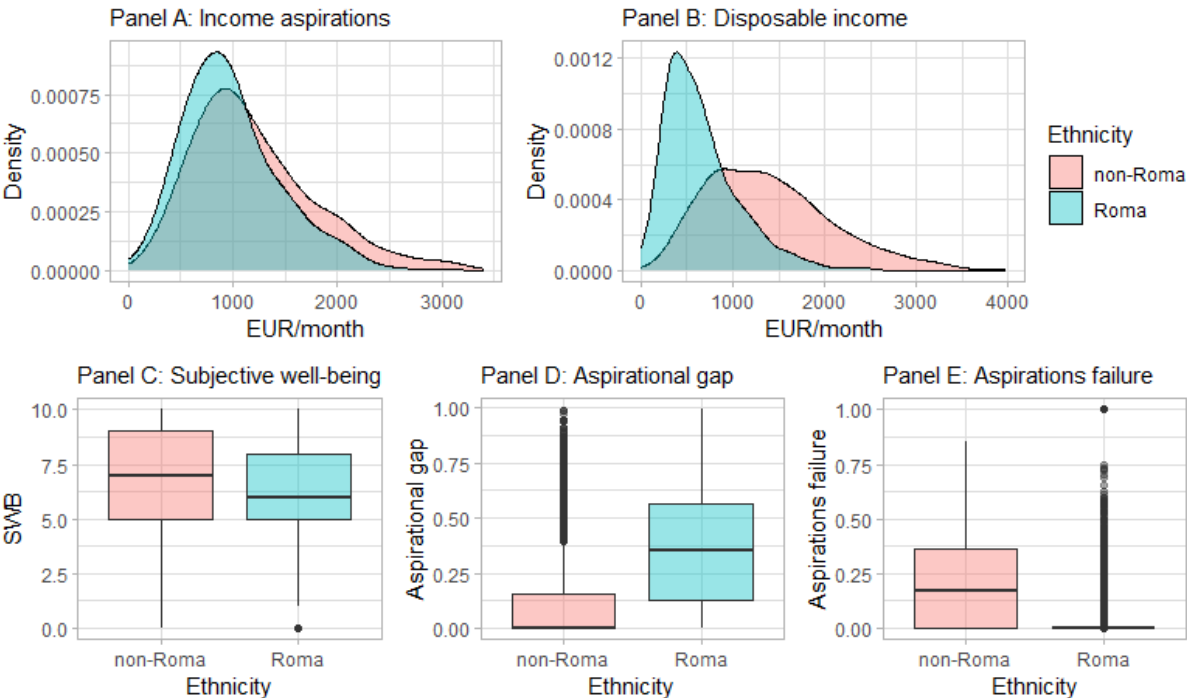
Both datasets feature a well-being module, with associated variables collected for household members aged 16 and older. This study employs two proxies, each capturing distinct aspects of subjective well-being.

2 Results and discussion

The distributions of the key variables used in this study indicate differences between the Slovak Roma and the Slovak majority populations (Figure 1). The Roma population aspires to slightly lower income levels than the non-Roma, although the difference is relatively small (panel A). In contrast, the total disposable household income of the non-Roma population is significantly higher than that of the Roma respondents. Additionally, Roma respondents report somewhat lower levels of SWB.

From the perspective of aspirational biases, we observe a notably higher aspirational gap for the Roma respondents compared to the non-Roma respondents. On the other hand, we notice a higher level of aspirations failure among non-Roma respondents, suggesting that they are less likely to achieve their income aspirations compared to Roma respondents. These two observations regarding aspirational biases can be attributed to the fact that the average income of the Roma population is extremely low, resulting in a higher aspirational gap and lower aspirations failure.

Figure 1: Distribution of key variables by ethnicity



Source: Authors research

Regression analysis of SWB on aspirational biases yields mixed results. The relationship between aspirational gap and SWB for the majority Slovak population is initially negative and strongly statistically significant (columns 1 and 2 of Table 1). However, once we introduce household income as a control variable, the coefficient becomes statistically insignificant. We also observe a negative relationship between SWB and aspirations failure. With the inclusion of income as a control, the coefficient's magnitude significantly decreases, yet it remains weakly statistically significant. These results indicate a negative relationship between SWB and both types of aspirational biases.

Table 1: Regression estimates of SWB by aspirational biases (majority Slovak population sample)

	<i>Dependent variable: SWB</i>					
	(1)	(2)	(3)	(4)	(5)	(6)
Gap	-0.502*** (0.049)	-0.372*** (0.047)	0.024 (0.053)			
Failure				0.041 (0.044)	-0.186*** (0.042)	-0.053 (0.042)
Constant	0.054*** (0.010)	0.881*** (0.055)	-1.602*** (0.174)	-0.007 (0.012)	0.848*** (0.055)	-1.521*** (0.154)
Controls	None	Except income	All	None	Except income	All
Observations	12,194	12,194	12,194	12,194	12,194	12,194
R ²	0.008	0.185	0.200	0.0001	0.182	0.200
Adjusted R ²	0.008	0.184	0.198	-0.00001	0.181	0.199

Notes: The table presents regression coefficients with standard errors (SE in parentheses). Control variables include age, sex, chronic (long-standing) illness or condition, highest educational level attained, current economic status, marital status, degree of urbanization, log of total disposable household income in EUR/month, severe material deprivation status of the household, number of current household members, and type of ownership of the dwelling.. * p<0.1; ** p<0.05; *** p<0.01

Source: Authors research

The relationship between the aspirational gap and SWB in the Slovak Roma subsample (Table 2) shows qualitative similarities to the majority Slovak population but is considerably weaker. The regression coefficient is not statistically significant when controlling for income (column 3) and other control variables (column 2).

In contrast, the regression results for the relationship between SWB and aspirations failure in the Slovak Roma subsample differ from those in the majority Slovak subsample. The coefficient in the model without control variables (column 4) is positive but not statistically significant. However, when controlling for socio-demographic characteristics, the coefficient becomes weakly significant, and when controlling for household income, it becomes statistically significant ($p < 0.05$). This suggests that individuals experiencing higher aspirations failure are more likely to have higher levels of SWB.

It is essential to interpret this result with caution. As shown in panel E of Figure 1, a considerable share of Slovak Roma individuals reports zero aspirations failure. This occurs when income aspirations exceed potential income, a common occurrence in the Slovak Roma subsample due to their overall low income levels, resulting in low predicted potential income and income aspirations exceeding potential income.

Table 2: Regression estimates of SWB by aspirational biases (Slovak Roma sample)

	<i>Dependent variable: SWB</i>					
	(1)	(2)	(3)	(4)	(5)	(6)
Gap	-0.124 (0.075)	-0.116 (0.080)	0.130 (0.109)			
Failure				0.314** (0.146)	0.276* (0.146)	0.334** (0.147)
Constant	0.057* (0.033)	0.947*** (0.107)	-0.129 (0.338)	-0.002 (0.021)	0.882*** (0.101)	0.097 (0.236)
Controls	None	Except income	All	None	Except income	All
Observations	2,466	2,422	2,422	2,466	2,422	2,422
R ²	0.001	0.105	0.109	0.002	0.105	0.110
Adjusted R ²	0.001	0.097	0.101	0.001	0.097	0.102

Note: *p<0.1; **p<0.05; ***p<0.01

Notes: The table reports regression coefficients with standard errors (SE in parentheses). Control variables include age, sex, chronic (long-standing) illness or condition, highest educational level attained, current economic status, marital status, degree of urbanization, log of total disposable household income in EUR/month, severe material deprivation status of the household, number of current household members, and type of ownership of the dwelling.
*p<0.1; **p<0.05; ***p<0.01

Source: Authors research

Conclusions

This study explores differences between the Slovak Roma and non-Roma populations concerning aspirational biases and subjective well-being. Key findings show that Roma respondents have lower aspirations, significantly lower total disposable household income, and somewhat lower SWB compared to the non-Roma population. The aspirational gap is notably higher among the Roma population due to their low income, while aspirations failure is more prevalent among the non-Roma respondents.

The study highlights the complex relationship between aspirational biases and SWB within the Slovak Roma and non-Roma populations, emphasizing stark disparities in income, aspirations, and SWB. Income plays a significant role in shaping SWB, often rendering regression coefficients statistically insignificant when controlled for.

In conclusion, the study underscores the importance of addressing income inequalities to enhance SWB in these populations. It also emphasizes the need for nuanced interpretations of aspirational biases in specific socio-economic conditions. Further research is required to fully

understand these complex relationships and inform effective policies to improve well-being among both Roma and non-Roma communities in Slovakia.

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