

Literature Review

Subjective and Objective Well-Being

The literature on self-rated poverty stems from the larger umbrella of literature about the subjective economic well-being of individuals which itself deviates from the literature employing objective approaches in measuring well-being.

Subjective well-being is a measure that is determined by the individual in question rather than a more objective measure like that of income or life expectancy. In the context of economic well-being, it is the utility gained by the individual from their income or how satisfied they are given their income level (van Praag and Frijters, 1997). The study of subjective well-being came as a result of the recognition that well-being and, in-turn, poverty has more dimensions than what is objectively measured in official statistics and literature. This is a critique most notably made by Sen's (1991) capabilities framework. In this framework, well-being also includes and is contingent upon the individual's functionings, capabilities, freedoms, and agency. As such, the well-being literature had then begun considering a more participative and self-rated perspective in the study of well-being where people are assumed to be able to verbally communicate the utility levels of their lives. Furthermore, van Praag et al (2003) found that the responses to such subjective questions may be appropriate proxies of individual satisfaction or well-being.

Measuring Subjective Well-Being

In doing so, the means of measuring subjective well-being had expanded ranging from overall happiness or satisfaction with one's life (Clark and Oswald, 1994; McBride, 2001; Frey and Stutzer, 2000; Oswald, 1997; van Praag et al, 2003) to their relative economic position in general or relative to their community (Pradhan and Ravallion, 2000; van Praag and Frijters, 1997). Focusing on the latter, relative economic position has also taken many forms: the Income Evaluation Question (IEQ), the Minimum Income Question (MIQ), and the Economic Welfare Question (EWQ).

The IEQ is primarily concerned with how individuals or households feel about their own economic situation. Their utility is measured through the Leyden approach which involves individuals marking income thresholds that they consider to be "good," "bad," "insufficient," "sufficient," and other verbal qualifiers (van Praag and Frijters, 1997). Similarly, the MIQ surveys households' perspectives on the necessary income for a household to function at its most basic level (Kapteyn et al, 1988). Finally, the EWQ takes into consideration how the household if they consider themselves poor or non-poor, introducing the subject of self-rated poverty, employed by the European Union's Eurobarometer (Riffault, 1991) and the Philippines' Social Weather Stations (Mangahas, 1995). So this paper's contribution is to examine and study the determinants of participants' responses to these measures in the context of the Philippines.

Determinants of Self-Rated Poverty

The applied literature investigating this subject would follow a pattern observed by van Praag et al (2003) where, through some measure of subjective economic well-being that is based on any of the three measures, individuals' responses on self-rated poverty are explained

by probit or logit models that include objective and potentially related factors such as gender, income, and etc.

Ravallion and Lokshin (2002) used the Russian Longitudinal Monitoring Survey from December 1994 to October 1996 to investigate the cause of discrepancies between the objective and subjective welfare indicators. The former being the natural logarithm of the welfare ratio, the total household income as a proportion of the poverty line, while the latter is the household's self-rated economic position between being the poorest (score of 1) and the richest (score of 9). The subjective welfare indicator had a weak relationship with only the objective welfare indicator, so they found that including lagged household income, total household expenditure, and having a household head older than 51 years old would significantly, positively contribute to subjective economic well-being. On top of that, being divorced/widowed as well as being younger than 51 years old would have a significantly negative impact. Particularly, variable capturing household attitudes of optimism or trust in government reduce the odds for a household to view themselves as poor.

Mahmood et al. (2018) examined if the determinants that would normally influence objective poverty would have a similar effect on a household's self-rated poverty in Pakistan as measured by their self-rated economic position between being poor (score of 1) and rich (score of 10). It was found through a probit model that income, household size, male children, and education of the household head have significant and positive contributions towards the subjective economic well-being of a household. Meanwhile, consumption, unemployment, and physical insecurity are factors that make households more likely to consider themselves poor.

Wang et al. (2020) used the China Rural Development Survey of 2016 to evaluate the determinants of rural households' responses to the minimum income required per household member. Also through a probit model, it was found that the age and gender (being male) of the household head, family size, and the per capita income of the household seem to have a negative effect on the feeling of subjective poverty. However, rural households that are more educated, equipped with more physical capital, and exhibit more social capital are more likely to consider themselves poor. This relationship is possibly due to raised expectations for their quality of life from such aspects, and when these expectations are not met, households would be more likely to feel subjectively poor.

Benfield (2008) investigated the Jamaican case in 2001 which shared contrasting findings with Wang et al where male household heads seem to be more likely to classify themselves as poor than their female counterparts. On top of that, household size was suggested to contribute to feelings of subjective poverty as a result of overcrowding and growing number of dependents which may lead these households to perceive themselves as poor.

Alem et al. (2014) looked to the experience of subjective poverty of 1,500 households in urban Ethiopia for the years 1994, 1997, 2000, 2004, and 2009. Two of their models, a random effects probit model and the subjective Woolridge conditional maximum likelihood estimator,

yielded the same findings with one another. Lagged poverty and consuming less than the median amount both contribute to the feeling of subjective poverty which suggests the psychological persistence of poverty even after the fact. Meanwhile, the variables that negatively affect this chance of self-rated poverty has already been mentioned with family size, male household head, educational attainment of the household head.

Cracolici et al. (2011) employed the Italian Survey on Income and Living Conditions of 2005 with 22,032 households' responses. Subjective economic well-being is measured here by how difficult it is for the household to make ends meet (1 meaning difficult while 6 means easily done), which was then converted into a four-point scale of how satisfied the household is with the economic aspect of their life (1 meaning unsatisfied with 4 meaning very satisfied). Notably,

In the Philippines, there are two relevant papers that identify key determinants for self-rated poverty. Mapa et al. (2012) used a logit regression on quarterly Social Weather Station data from 1994 to the fourth quarter of 2009 where households identify themselves as either "poor" or "non-poor". They found that a one percent increase in agricultural output and government expenditure decreases the chance to feel subjectively poor by 8 and 11 percentage points respectively. Conversely, the underemployment rate and food inflation (measured by the food component of the consumer price index) is directly correlated with the chance of feeling poor. Meanwhile, Mangahas (2001) looked at the profiles of the July 2000 Social Weather Station Survey of the self-rated poverty scores and found that educational attainment of the household head is a significant determinant of self-rated poverty as the literature suggests. Meanwhile, household size would only have an impact to self-rated poverty in the extreme ends of the spectrum (very small or very large families).

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