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Comment David Laibson

This is another chapter in a line of influential and important subjective well-being research by Angus Deaton and Arthur Stone. The current chapter features the following findings. In the United States: (a) older adults living with kids have lower life satisfaction than older adults not living with kids; (b) older adults living with kids have fewer positive emotions and more negative emotions than older adults not living with kids; and (c) these associations are considerably weakened by the addition of controls, but the signs of the associations do not change and the magnitudes remain large. Throughout my discussion, I willl reserve the word kids to mean "kids under the age of eighteen." I will refer to "the negative association" as the robust negative association between living with kids and (various measures) of subjective well-being (among older adults). I will also assume that the older adults living with kids are typically living with their middle-aged children and grandchildren. It is the grandchildren that are the "kids" in most of these cases.

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The results are a bit different outside of the United States. The first two results are unchanged and the third result is more paradoxical: the negative associations are unchanged or even *strengthened* by the addition of controls. Finally, the authors show that the results reverse in high fertility countries, where older adults living with kids show *higher* levels of life satisfaction, *higher* frequencies of positive emotion, and *lower* frequencies of negative emotion.

As the authors point out, these relationships need not be causal. Indeed, I believe that selection probably lies behind most of the results in this chapter, a position that is probably aligned with that of the authors. Four kinds of selection—both adverse and advantageous—are present in this setting:

1. Adverse selection on the characteristics of older adults: "Grandpa is disabled so he's going to move in with us so we can take better care of him."
2. Adverse selection on the characteristics of middle-aged adults: "We need to move in with Grandpa, since we can no longer afford to live independently."
3. Advantageous selection on the characteristics of older adults: "Grandpa is rich and has invited us to move in with him."
4. Advantageous selection on the characteristics of middle-aged adults: "We have decided to ask Grandpa to move in with us since we are doing so well."

Adverse selection will induce a negative association between subjective well-being and living with kids. Moreover, the existence of adverse selection would imply that adding the relevant controls weakens the magnitude of this negative effect. On the other hand, advantageous selection will induce a positive association between subjective well-being and living with kids. The existence of advantageous selection would imply that adding the relevant controls weakens the strength of this positive effect. In most societies, both adverse and advantageous will be present, generating scope for a wide range of reduced form associations.

To illustrate the potential richness of these various mechanisms, consider the following hypothetical example. First assume that most selection is adverse (e.g., older adults with low cognitive function are more likely to move in with their kids). However, some selection is advantageous (e.g., older adults with high levels of pension income are more likely to support their middle-aged kids by allowing them to move in). Assume as well that advantageous channels have less measurement error than the adverse channels. Then it follows that there will be a negative association between subjective well-being and living with kids (among older adults), and that adding controls *increases* the magnitude of the negative association (since the advantageous channels are disproportionately partialed out).

On a related point, survey responses from older adults are likely to have higher measurement error than survey responses from middle-aged adults

for two reasons. First, a substantial fraction of older adults have cognitive deficits. For example, about half of people age 80–89 have dementia or CIND (cognitive impairment not dementia). Second, older cohorts have relatively lower levels of literacy than middle-aged adults (particularly in developing countries), reducing their ability to comprehend survey questions (even when they are asked verbally). So it is natural that adding controls absorbs more variance for middle-aged adults than it does for older adults. Consequently, adding controls is more likely to control for selection effects of middle-aged adults than it is to control for selection effects of older adults.

To further explore the selection issues raised in this chapter, consider a simple model of cross-country differences. Assume that countries differ (exogenously) on two dimensions: the "taste" for independence and intergenerational income growth. The taste for independence varies from cultures that value personal space and personal autonomy (like the United States) to cultures that take a more communal view of family duties and intergenerational caregiving (like traditional societies). Note that these communal societies may still value independence/autonomy, just not as much. For example, in the United States, living with your kids/grandkids is a sign of distress—why else would an independence-valuing household give up independence? In communal societies, living with your kids/grandkids is not a sign of distress and might even be a sign of high social capital (e.g., intergenerational ties, filial bonds, etc.).

We formalize these ideas in the following way. For an older adult, living independently yields utility:

$$u(y) + \alpha.$$

For an older adult, living communally yields utility:

$$u\left(\frac{y + y_{+1}}{\sqrt{2}}\right),$$

where y is own income for the older adult and y_{+1} is the income of the middle-aged child of the older adult. The utility function also reflects returns to scale from living together. The strength of the taste for independence is capture by the parameter α. We further assume *ln* utility. Let $\theta = y/y_{+1}$, so θ is the inverse of the (gross) rate of intergenerational income growth. Finally, assume that the grandparents make the decision about whether they will or will not move in with their adult children. Then the indifference value of α is

$$\alpha = \ln\left(\frac{\theta + 1}{\theta}\right) - \frac{\ln 2}{2}.$$

This yields the equilibrium diagram in figure 8C.1. Older adults will live independently when the taste for independence, α, is sufficiently high and when the inverse of the rate of intergenerational income growth, θ, is

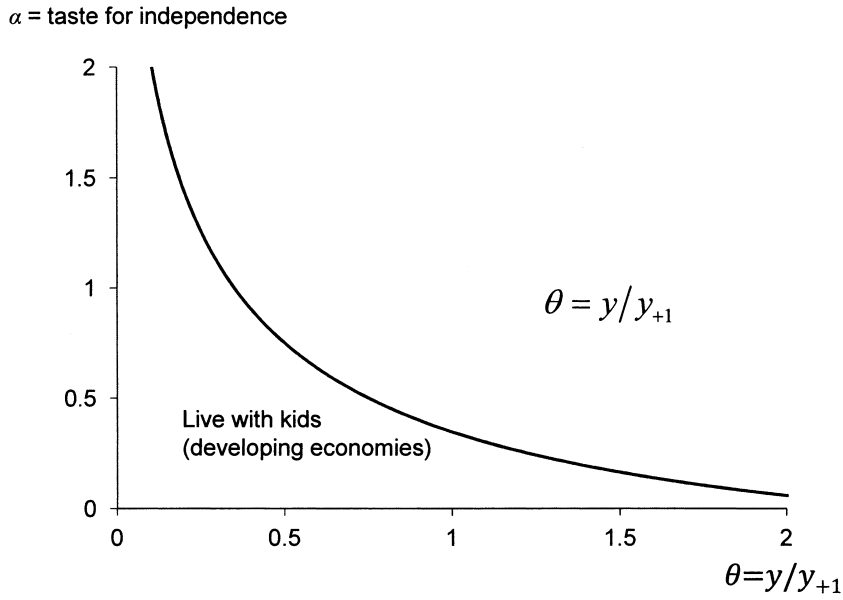

Fig. 8C.1 Selection in choice of household structure

Notes: Older adults above the curve choose to live independently. Older adults below the curve choose to live with their children. In developed countries, living with your children (as an older adult) is atypical, so those households tend to have unobserved adverse characteristics. In developing countries, living with your children (as an older adult) is typical, so those households tend not to have unobserved adverse characteristics.

sufficiently high. These features tend to be associated with developed countries, which also tend to be countries with low rates of fertility.

Finally, there is a natural extension of the model that further links this model to the findings in the chapter. In developed countries, living with your children (as an older adult) is not typical, and older adults with this arrangement tend to have *adverse* characteristics. In developing countries, living with your children is the norm, so those households will not tend to have adverse characteristics and might tend to have advantageous characteristics. Hence, one would expect that in developed countries (low fertility countries) older adults who live with their adult children would tend to have low levels of subjective well-being, whereas in developing countries (high fertility countries), older adults who live with their adult children would tend to have high levels of subjective well-being. This is what Deaton and Stone find in their data, since living with kids (children under eighteen) is a proxy for living with your adult children.