

Subjective Well-being and Social Evaluation: a Case Study of China

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1. Introduction

Surely China's remarkable economic growth has raised welfare?

To question this seems naïve or absurd

But the evidence for advanced countries suggests that subjective well-being (swb) has not risen

As Krueger showed, even the Stevenson and Wolfers result to the contrary is reversed given individual slopes rather than a common slope

Maybe poor countries are different?

Poor people have basic physical needs, whereas non-poor people are more concerned with their position and achievement in relation to society?

So, absolute income important at low levels of income but relative income more important at higher levels?

What about China? Some time series data but very limited explanatory variables and no panel
So an indirect approach, through membership of CHIP

The 2002 national household cross section survey has questions on swb in each subsample and a module on swb in the rural subsample

Five papers published on swb in China: rural, rural-urban comparison, migrant, rural aspirations, and a summary paper relating these results to economic growth

The swb questions in CHIP 2002 were an innovative experiment – I had to get my own funding for them

Ideally, their promising results should have led to a better swb module in CHIP 2007

But opposition from NBS (cooperation essential) - so no happiness questions in 2007 (except..)

In China – and elsewhere – we need a ‘second generation’ of swb surveys –designed with swb research in mind, not just attached

Otherwise open to doubt and interpretation...

The dependent variable normally used: five categories of happiness, converted into a cardinal score

In each subsample, we find many of the same regularities as in happiness studies around the world

2. Rural happiness

Although rural people have been left behind in China's development, rural China is not a hotbed of unhappiness

The conventional economic variables raise happiness but substantively weak contributions of In income and wealth

Instrumenting income raises its coefficient, but the effect is still small

Yet two-thirds of the unhappy give lack of income as the reason

Maybe happiness is a negative function of aspirations, and aspirations are governed by the income of the reference group?

More than two-thirds of respondents say their reference group is within the village – due to information sets and interactions?

Happiness is highly sensitive to perceived position in the village income distribution

But somewhat less so for those whose main reference group is outside the village

3. Urban happiness

Again, the effect of \ln income is substantively small and the effect of relative income within the city looks large (Big differences in mean income across cities)

The coefficient on \ln mean city income is negative; alternatively, large monotonic effect of perceived position in the city income distribution

A huge urban-rural income divide in China: ratio of income per capita 3/1

But mean rural happiness is **higher** than mean urban happiness! Our explanation, based on the results:

Rural happiness

- Limited information sets and narrow reference groups
- Income is generally expected to rise in future
- High value placed on community and personal relationships

Urban happiness

- High insecurity: the end of the 'iron rice bowl'
- E.g. both the experience of unemployment and our proxy for the prospect of unemployment had a negative effect
- High aspirations, governed by reference groups, give rise to relative deprivation
- The remarkable economic changes, marketisation, and withdrawal of institutional support might have created a state of 'anomie'

4. Migrant happiness

Growing number of rural-urban migrants (rural *hukou*): maybe 130 million in 2002

They are second class citizens in urban China – jobs, housing, social security...

But the urban-rural income gap provides a strong incentive to migrate

Contrary to economic theory, rural-urban migrants have *lower* happiness than rural people

Not due to arrival problems: our sample is of settled migrant households with average stay 7.5 years

Again, low importance of absolute income and high importance of relative income in the city (rising with length of stay)

Migrants compare their situation with others in their new surroundings, and do so increasingly as they become more settled?

Various proxies for migrant disadvantage – job dissatisfaction, perception of job discrimination, measure of job insecurity – depress happiness

Decomposition analyses -

Migrant-rural:

Due to differences in happiness functions

Expectations of future income were important

With static expectations the omitted category, the coefficients for migrants were uniformly lower

Migrants have higher aspirations relative to their current income?

To be expected if aspirations depend on reference group income

Rural respondents are representative of rural society, but migrants occupy the lower ranges of the urban income distribution

Migrant-urban:

The higher mean happiness of urban residents is due to their superior mean characteristics

- Their higher mean income
- Their superior position in the urban income distribution

5. Aspiration income

Much evidence consistent with the importance of aspirations in relation to current income for happiness, but so far only indirect

A proxy for 'income aspirations' in the rural data set – the minimum income needed by the household

Several determinants of minimum income suggest that aspirations are important, e.g. own income (positive), income of reference group (positive), a fall in income over the last five years (positive)

When aspiration income was added to the happiness equation, it raised the positive coefficient on \ln income but itself had a negative coefficient - suggesting a partial hedonic treadmill

Instrumenting to eliminate the effect of unobserved personal characteristics produced the same pattern (but no longer significant)

6. Why has happiness not risen with rising income?

In our paper we use several different measures of swb in China collated by Dick Easterlin in an earlier paper

All show swb falling a bit over the period roughly mid-1990s to mid-2000s

We have a tentative explanation on the basis of the cross section results

Happiness may have been held down by several factors:

- Importance of relative income
- Rising (local) income inequality
- Rising urban insecurity
- Rising migration and urbanisation
- Changing reference groups...

7. Social evaluation

The groundswell in the positive analysis of swb has not yet produced much discussion of its normative implications

The second half of the paper is concerned with this issue

We contrast the stagnation or fall in swb over that decade with apparent progress revealed by various other possible measures

Conventional measures of 'objective' well-being improved

Table 2 shows rapid growth of income per capita, and in the HDI and its two other components (education and health), over the same period

Although

- Inequality rose somewhat (Gini almost 0.5 in 2007)
- The World Bank's Worldwide Governance Indicator for 'voice and accountability' was very low and falling

Should happiness enter the social welfare function?

Ultimately, a value judgement is required

So consider arguments for and against

Arguments that happiness is a poor measure of well-being:

1. Reported happiness vs 'true utility'

Aspirations are not tethered: an 'aspirations treadmill'?

Some but evidence against (Kahneman and Krueger)

Attempts to purge the aspirational response to actual income in setting the poverty line

This requires a value judgement

2. Happiness is not the only determinant of the 'utility' that governs human behaviour

But the other factors do affect happiness and might be just the proximate determinants?

3. People use different happiness scales

Different frames of reference potentially important in China

E.g. two people have the same individual and household characteristics ('objective' welfare) but A lives in a poor and B in a rich area ($swb_A > swb_B$)

Choice of OWB or SWB requires a value judgement

4. Cultural differences produce differences in reported happiness

A problem if it gives rise to different scales

But not if due to the unobserved presence of, e.g. beneficial social networks or high trust

5. Reject the metric of utility (Sen 1)

People adjust their aspirations to what is feasible

Don't allow human beings' elastic capacity to make the best of a bad situation to enter the social welfare function

Instead, judge welfare by peoples' 'capabilities', i.e. to be and to do things of intrinsic worth

Possible disadvantages:

- No practical criterion for valuing the various capabilities or to aggregate them
- Defensible to place value on individual freedom and so on individuals' expressed views about their swb

6. Happiness is relevant but not sufficient for judging well-being (Sen 2)

Other criteria (e.g. health, longevity, knowledge) should enter and not be subsidiary

Example from our China results:

The underlying political economy produces huge 'urban bias' in Chinese policy

Yet the rural sample has a higher mean happiness score than the urban sample

Does this justify the current policy discrimination against rural people?

An additional normative judgement might be made

E.g. everyone has the right to be treated equally in respect of such public services as education, health care, or social security

In that case, the state's implicit social welfare function which justifies discriminatory policies should not be given support by our happiness findings

8. SWB as an encompassing concept

Estimate a SWB function which contains the other possible criteria for judging welfare as its arguments

Includes income per capita, physical 'functionings' (basic needs) and social 'functionings'; also conditioning variables

The estimated coefficients indicate in aggregate the importance for happiness that individuals attribute to these criteria

Table 3 (urban) and Table 4 (rural) illustrate how it might be done

Both tables:

- the absolute income variable has quite a small effect
- (Self-reported) health has a large effect
- Years of education has no effect

Social functionings: the capability to function well
in society

Adam Smith's example: leather shoes and linen
shirts

In both samples, the great importance of relative
income

In the rural sample:

- The quantity and quality of local public goods
- Proxies for social cohesion

Qualifications:

- No more than illustrative
- Simply OLS: no attempt to correct for unobserved heterogeneity and to establish causal relationships
- This way of incorporating the other criteria requires the value judgement that reported average subjective well-being is sufficient for social evaluation

9. Conclusions

The positive analysis of swb has been insightful

The analysis of the 2002 CHIP survey has helped to provide an explanation for the failure of happiness score to rise over the period being considered

It also suggests the need to disaggregate a national sample in developing countries - in this case into rural, urban and migrant sub-samples

Progress will be made when a national household panel survey, containing detailed information on SWB, becomes available

The NBS and its masters effectively vetoed happiness questions in the 2007 CHIP survey

But there is journalistic evidence that the promotion of happiness is gaining ground in some Chinese government circles

Should swb enter the social welfare function, and be accepted as one of the criteria for policy making?

The case has been criticised in several ways (although each criticism can be debated):

- SWB is misleadingly tainted by aspirations and adaptation
- Happiness is not the only objective that guides peoples' actions
- Reports of SWB are unreliable because of different happiness scales
- Even if the case is accepted, other criteria should be included as well
- The treatment of happiness as encompassing other criteria may not be an acceptable reflection of their social values

Powerful and plausible regularities were observed in the positive analysis

So it is difficult to dismiss as irrelevant peoples' reported perceptions of their own welfare

My value judgement: there is a case for including SWB in the social welfare function, but also for including other criteria as well

SWB can be appropriate not only for judging social progress but also for making policy choices

But it is government that effectively makes the value judgements that guide policy

For more than 25 years, China's reformist policy makers gave the highest priority to rapid growth

Recently the balance of objectives has moved somewhat in the direction of creating a 'Harmonious Society'

Looks like a response to the issues we have examined

The forces that influence SWB now appear more effectively to have entered the government's social welfare function