



## Language and consumption



Haining Wang<sup>a,b</sup>, Zhiming Cheng<sup>c,\*</sup>, Russell Smyth<sup>d</sup>

<sup>a</sup> Center for Economic Research, Shandong University, Jinan, Shandong 250100, China

<sup>b</sup> Institute for Studies in County Development, Shandong University, Jinan, Shandong 250100, China

<sup>c</sup> Centre for the Health Economy, Macquarie University, New South Wales 2109, Australia

<sup>d</sup> Department of Economics, Monash Business School, Monash University, Victoria 3800, Australia

### ARTICLE INFO

#### Article history:

Received 10 February 2016

Received in revised form 26 June 2016

Accepted 26 June 2016

Available online 29 June 2016

#### JEL classification:

D12

E21

I26

I28

#### Keywords:

Mandarin proficiency

Consumption

Human capital

China

### ABSTRACT

We examine the relationship between proficiency in Mandarin and consumption in China. We find that proficiency in Mandarin has a positive effect on an individual's total consumption expenditure as well as most categories of consumption expenditure. We also find considerable heterogeneity in the effects of Mandarin proficiency on consumption across subsamples. In addition, we find that proficiency in Mandarin has a positive effect on relative consumption, irrespective of the manner in which the reference group is defined. Our results have important policy implications for debates on the promotion of a national language and, in particular, recent debate about the promotion of speaking Mandarin in China.

© 2016 Elsevier Inc. All rights reserved.

## 1. Introduction

Language skills are a significant component of human capital and play an important role in determining an individual's social and economic status (Chiswick & Miller, 2001). A large body of research suggests that proficiency in the primary spoken language in the location in which one is living can significantly enhance one's labour market earnings and that this occurs through several channels. For instance, proficiency in the primary spoken language can expand job opportunities, improve efficiency in job search, enhance skill-based productivity through improving an individual's cognitive and communicative abilities and reduce customer and employer discrimination (see e.g. Chiswick & Miller, 2014; Gao & Smyth, 2011; Stöhr, 2015).

While the effect of language proficiency on earnings has been extensively studied following the pioneering work of Chiswick (1978), we know very little about the effect of language proficiency on consumption. There are several studies showing that language proficiency enhances productivity in the labour market. Chiswick and Miller (2003, p.469) suggest that "language proficiency is presumably also productive in consumption activities, although we do not know of empirical research on this issue". More than a decade after making this observation, Chiswick and Miller (2014) note that there continues to be very little research on language and consumption and suggest that addressing this gap in the literature be a research priority.

\* Corresponding author.

E-mail addresses: haining.wang@sdu.edu.cn (H. Wang), zhiming.cheng@mq.edu.au (Z. Cheng), russell.smyth@monash.edu (R. Smyth).

There are several channels through which language proficiency and consumption are potentially related. Language proficiency lowers the cost of consumption and enhances the spectrum of consumption options (Chiswick & Miller, 1995; Chiswick & Miller, 2001; Saiz & Zoido, 2005). Chiswick and Miller (1995, p.248) state: “As with other forms of human capital, economic incentives can be expected to be an important determinant of language capital acquisition. The economic incentives arise in part from the increment in the market wage rate, a higher rate of employment and the decrease in the cost of consumption (including search costs) associated with a higher level of fluency”. As an important dimension of one's cultural and social identity, language could also affect one's consumption of cultural and social goods and services (Chen, Lu, & Xu, 2014; Salzmänn, Stanlaw, & Adachi, 2014; Schild & Wrede, 2015).

We examine whether, and to what extent, proficiency in Mandarin affects an individual's consumption expenditure in China. To do so, we use the 2012 China Family Panel Studies (CFPS) dataset. We situate our study of the relationship between language proficiency and consumption in China for two reasons.

First, with rising incomes, China is increasingly becoming a more materialistic society in which patterns of consumption have changed rapidly (Min, 2009; Xu, Zhang, & Allenby, 2008). There is now considerable heterogeneity in consumption across subgroups and locations in China, which can be used to examine the relationship between language and consumption. Second, China has many ethnic and linguistic groups. There are seven major Chinese dialects and many sub-dialects spoken in mainland China (Leung & Ruan, 2012). Recently, three more major dialects were recognized (Dong & Blommaert, 2009). Each linguistic group has several regional dialects that are not intelligible in other parts of China. For instance, it has been noted that in China, people who are just 100 km away from their homes can encounter a different, and largely unintelligible, dialect (Gong, Chow, & Ahlstrom, 2011). To address this problem, the Chinese government has promoted the use of standard Mandarin in communication (Dong & Blommaert, 2009). While individuals from different parts of the country often cannot communicate in their own dialects, they usually can communicate using standard Mandarin. This is particularly important given that China has an estimated 145 million rural-to-urban migrants who have come from all over the country to work predominantly in cities on the coastal seaboard (Chen, Lu, & Zhong, 2015).

As a benchmark, we begin with the ordinary least squares (OLS) estimates, which suggest that proficiency in Mandarin is associated with 3.94% higher consumption. This amount is equivalent to almost three years of additional schooling. We employ several econometric methods to address potential unobserved heterogeneity, endogeneity issues and potential measurement error associated with language. The instrumental variable (IV) estimates are very similar to the propensity score matching (PSM) estimates, which are almost three times the size of the OLS estimates. The quantile regression analysis shows that the association between Mandarin proficiency and consumption is slightly non-linear along the consumption distribution. The results are robust, irrespective of whether we use self-assessed or interviewer-assessed measures of the participant's proficiency in Mandarin.

We find that Mandarin proficiency is positively related with most categories of consumption expenditure, except for insurance and mortgage consumption. There is considerable heterogeneity in the effects of Mandarin proficiency on consumption across groups. The effects are higher for females, urban locals, young people, those with lower education and those who live in the countryside or in the south and southwest regions. Moreover, proficiency in Mandarin has a significant effect on relative consumption, irrespective of whether the reference group is defined at the community or county levels, or is constructed based on age, education and gender.

We contribute to the literature on economics of language in several important ways. First, economists have started to examine the manner in which language use influences economic behavior (Chen, 2013), but, as far as we are aware, this is the first econometric study of the effect of language proficiency on consumption. Second, we employ a range of approaches to address endogeneity and measurement error associated with estimating the causal effect of language proficiency on consumption. We adopt IV and PSM to control for individual unobserved heterogeneity and use quantile regression to examine potentially unobserved characteristics. We use self-assessed, and interviewer-assessed, Mandarin ability as an objective measure of Mandarin proficiency to minimize measurement error and find our results are robust.

Third, we examine not only the manner in which Mandarin proficiency is related to total consumption, but also how Mandarin proficiency is associated with specific components of consumption expenditure as well as relative consumption in China. There are a few studies in the health literature on how language proficiency affects consumption of medical services (Flores, 2006; Harmsen, Bernsen, Bruijnzeels, & Meeuwesen, 2008), but we know little about how language ability affects other forms of consumption. Considering the effect of language proficiency on relative consumption is important given evidence that people are more concerned with their relative standing in terms of consumption, income and socioeconomic status and may feel deprived if they do not fare as good as their peers (Ferrer-i-Carbonell, 2005; Ravallion & Lokshin, 2010).

We examine the effects of Mandarin proficiency on consumption across subsamples. This deserves greater research attention because previous studies find that there are significant differences in Mandarin proficiency and consumption structure across different groups (Chamon & Prasad, 2010). Finally, our results help to inform debate on the importance attached to promoting standard Mandarin to stimulate domestic consumption, as China aims to shift to a more consumption-driven economy.

## 2. How does language ability affect consumption?

As an important form of human capital, language skills can be regarded as being productive in consumption activities (Chiswick & Miller, 2003). In addition, scholars have long argued that language, culture, identity and values intertwine (Salzmänn et al., 2014). Previous studies suggest that there are several potential channels through which language ability could

Download English Version:

<https://daneshyari.com/en/article/5047195>

Download Persian Version:

<https://daneshyari.com/article/5047195>

[Daneshyari.com](https://daneshyari.com)