

Contents lists available at [ScienceDirect](#)

China Economic Review



Subjective well-being in China, 2005–2010: The role of relative income, gender, and location☆

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ARTICLE INFO

Article history:

Received 14 August 2015

Received in revised form 23 December 2015

Accepted 23 December 2015

Available online xxx

JEL classifications:

O12

I30

I31

Keywords:

Happiness

Inequality

Poverty

Unemployment

Well-being

ABSTRACT

We use data from two rounds of the Chinese General Social Survey (CGSS) to study the determinants of subjective well-being in China over the period 2005–2010 during which self-reported happiness scores show an increase across all income groups. Ordered probit regression analysis of well-being reveals large influence of gender, rural residency, and household income. After controlling for demographic attributes, health status, unemployment status, number of children, agricultural *hukou* (household registration identity) and educational attainment, household assets, the influence of past and future income, and province dummies, we find that women, urban residents, and people with higher income are happier in China. More schooling, better health, and being employed are positively and significantly correlated with well-being. Sub-sample analysis reveals that the rich only care about relative income whereas the effect of absolute income dominates in case of the poorer section. The influence of absolute income is larger among women compared to men and in turn explains why women, despite being poorer, are happier in China, conditional on socioeconomic differences. On the other hand, rural residents are poorer than urban residents so that conditional on having the same income, there is no rural–urban happiness gap. Our results suggest that while further decline in poverty will enhance well-being in China, policies that reduce rural–urban and gender inequalities are also likely to boost well-being.

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1. Introduction

There is an ongoing debate over trends in and the determinants of subjective well-being in China. Income matters for happiness by helping to meet basic needs as well as sustaining well-being in times of economic shocks and crises (Johnson & Krueger, 2006). Yet people's perceived sense of happiness does not appear to have responded positively to improvements in macroeconomic conditions and a visible decline in income poverty. The country saw a four-fold increase in the level of per capita consumption and an unprecedented economic growth during 1980 to 2010. Despite the rapid rise in real income per capita and the human

☆ This study is the outcome of the “The China Model: Implications of the Contemporary Rise of China (MOHE High-Impact Research Grant)” project UMC/625/1/HIR/MOHE/ASH/03. Data analysed in this paper come from the research project “Chinese General Social Survey (CGSS)” of the National Survey Research Center (NSRC), Renmin University of China. We appreciate the assistance in providing access to the data by NSRC. We also thank participants in the Chinese Economists Society (CES) 2015 conference for helpful comments and two anonymous referees of this journal for very helpful comments. The views expressed herein are the authors' own.

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<http://dx.doi.org/10.1016/j.chieco.2015.12.010>

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Please cite this article as: Asadullah, M.N., et al., Subjective well-being in China, 2005–2010: The role of relative income, gender, and location, *China Economic Review* (2016), <http://dx.doi.org/10.1016/j.chieco.2015.12.010>

development index in recent years, subjective well-being appears not to have risen (Knight & Gunatilak, 2014). According to some studies, China has suffered a significant decrease in happiness during the last 20 years in the World Value Survey data (Easterlin, McVey, Switek, Sawangfa, & Zweig, 2010).¹ Equally, Appleton and Song (2008) document low levels of life satisfaction in urban China based on survey data for the year 2002. Knight, Song, and Gunatilaka (2009) argue that economic variables are relatively unimportant as determinants of happiness in China and instead emphasise psychological and sociological factors. Together, the evidence on China from the 1990s fits the “Easterlin paradox” in that economic growth and improved physical conditions did not add to the quality of life and average happiness.²

However, Clark and Senik (2011) caution that the idea that growth will increase happiness in low-income countries cannot be rejected on the basis of the available evidence.³ They argue that time-series data do not reflect the same relationship because cross-country time-series analyses are based on aggregate measures, which are less reliable than those at the individual level. Moreover, using individual-level data from the US, Kahneman and Deaton (2010) argue that emotional well-being satiates with high income while subjective evaluation scores do not. This suggests that even if money does not buy happiness, the lack of it is associated with emotional pain. For these reasons, more analysis of subjective measures of well-being using individual/survey data is necessary to document and build-up the evidence on the issue.

The empirical literature on the economics of subjective well-being has grown rapidly, and much is known about the determinants of happiness in China based on survey data. However, earlier studies on China have been at times narrow in terms of study population, for instance, focusing on some specific groups such as the elderly and urban residents (Knight & Gunatilaka, 2010; Smyth, Nielsen, & Zhai, 2010; Wang, Cheng, & Smyth, 2013).⁴ While there are studies galore exploring the absolute income effect, the number of studies that additionally test for and report relative income effects is small.⁵ Moreover, a handful of high-quality studies that look at relative income effect focus only on urban residents (e.g., Appleton & Song, 2008; Liu & Shang, 2012; Smyth & Qian, 2008; Wang & VanderWeele, 2011), rural areas (e.g., Knight et al., 2009) or ethnic minorities (e.g., Mishra, Nielsen, & Smyth, 2014).

There are three additional possible explanations for why findings on the relationship between income and happiness in China are mixed in the earlier studies. First, economic growth has also seen a sustained rise in income inequality and falling absolute incomes at the bottom end of the income distribution in rural areas (Benjamin, Brandt, & Giles, 2005). This may have reduced happiness because individuals prefer equal society, i.e., inequality belongs in their well-being function.⁶ In addition, in the absence of social mobility, the poor in China will view current inequality as a predictor of future relative poverty and hence remain dissatisfied in an unequal community. Therefore, the poor may feel unhappy despite a rise in their absolute income in recent years. The dissatisfaction caused by growing inequality may attenuate the positive effect of income on happiness. Indeed some early studies (e.g., Brockmann, Delhey, Welzel, & Yuan, 2009) describe happiness decline in China over the period 1990–2000 as the perceived loss of well-being among “frustrated achievers.”⁷ At the same time, if social mobility is high, inequality (or higher income of the peers) can lead to a positive effect on subjective well-being (Graham & Felton, 2009).⁸ Second, the labour market in China has seen rising unemployment rates and decreasing labour force participation over the last two decades despite sustained GDP growth (Liu, 2012). Contrary to published government data, independent assessment confirms much higher unemployment rate and lower work participation rate,⁹ particularly among women, in recent years (Feng, Hu, and Moffitt, 2015). This may weaken the average relationship between happiness and rising per capita income. Third, the observed relationship between happiness and income could be driven by a “focusing illusion” (Deaton, 2008).¹⁰ In periods of continuous economic growth,

¹ Wu and Li (2013) examine the subjective consequence of rising income inequality amidst rapid economic growth in China. Based on the data from a nationally representative survey conducted in 2005, they show that, while personal income improves life satisfaction, local level income inequality has a negative effect on individuals' life satisfaction, but they did not look into the impact for different income groups.

² Empirical support for this also comes from the broader literature on happiness in developing countries. For instance, Easterlin and Angelescu (2009) find no significant relationship between improvement in happiness and the long-term rate of growth of GDP per capita even when analysis is restricted to 9 developing and 11 transition economies which included China.

³ Clark and Senik (2011) review the international evidence on the relationship between income growth and subjective well-being in developing countries, highlighting two important patterns: (a) income comparisons within countries do seem to affect subjective well-being, even in very poor countries; (b) adaptation may be more of a rich-country phenomenon.

⁴ For a review of the older studies, see Chen and Davey (2008); studies exclusively on China are reviewed in Chen (2015).

⁵ Developing country studies that confirm the role of comparison income as a determinants of subjective well-being are Knight et al. (2009) and Knight and Gunatilaka (2010) for China, Fafchamps and Kebede (2008) for Ethiopia, and Camfield and Esposito (2014) and Corazzini, Esposito, and Majorano (2012) for multi-country studies.

⁶ For urban China, Smyth and Qian (2008) find that those who perceive income distribution to be unequal report lower levels of happiness.

⁷ Similar evidence is available for two transition economies, Peru, and Russia, where relative instead of absolute income differences were found to be more important as determinant of happiness (Graham & Pettinato, 2002). Also see Kingdon and Knight (2007) for South Africa; Carlsson, Gupta, and Johansson-Stenman (2009) for India; Ravallion and Lokshin (2010) for Malawi; Asadullah and Chaudhury (2012) for Bangladesh; and Guillen-Royo (2011) for Peru. For a review of the international evidence on relative income effects on subjective well-being, see Clark et al. (2008) and Verme (2013).

⁸ Consistent with this view, Jiang, Lu, and Sato (2012) found that urban residents in China are happier when their incomes increase within their group's income distribution.

⁹ For instance, Giles, Park, and Zhang (2005) reported unemployment to be as high as 14.0% among urban permanent residents in 2002. For a critical discussion on the reliability of published government labour statistics, see Cai, Du, and Wang (2013).

¹⁰ Focusing illusion refers to a cognitive bias that occurs when people place too much importance on one aspect of an event, exaggerating its importance, and causing an error in accurately predicting the utility of a future outcome. For instance, an overall happiness question elicits a *global evaluation* of one's life as opposed to experienced happiness (Dolan & Metcalfe, 2012). Therefore, the former induces a form of focusing illusion, by drawing respondents' attention to their relative standing in the distribution of material well-being (Kahneman, Krueger, Schkade, Schwarz, & Stone, 2006).

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