

A Cross-Country Analysis of Perceived Economic Status and Life Satisfaction in High- and Low-Income Countries

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Summary. — What are the challenges posed by the analysis of self-reported life satisfaction and material wellbeing/hardship? We explore the complex relationship between objective and subjective indicators using primary data from two diverse sources—a questionnaire survey of 3883 undergraduate students in eight economically developed and developing countries and interviews with 310 adults in the Dominican Republic. Our findings underline the value of subjective data; at the same time, they stress the importance for development researchers of gaining a deeper understanding of what subjective data really tell us, alongside the need for a richer conceptualization of individual emotions and states of mind.

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1. INTRODUCTION

The use of subjective data by development researchers is based on two main assumptions: that people can evaluate particular experiences, for example, their satisfaction with their housing, and that they can make judgments about their lives as a whole (Campbell, 1981: 23 in Schwarz & Strack, 2004). However, failure to acknowledge the complexity of these tasks may jeopardize our understanding of subjective data. Experimental research within economics and psychology finds that people's judgments about their satisfaction with their life as a whole are affected by factors such as imperfect recall of past events, neglect of their duration, and the effect of factors such as recent events, present mood, current weather, etc. (Kahneman, Wakker, & Sarin, 1997: 430). Schwarz and Strack (2004: 2) observe that "reports about happiness and satisfaction with one's life . . . are judgments which, like other social judgments, are subject to a variety of transient influences". This suggests that judgments of life satisfaction cannot be used properly without a parallel investigation of the information that people draw on to decide whether they are satisfied or not.

We explore the complexity of subjective data using two very different sets of primary data. The first one is a survey we conducted with 3883 university students from eight low- and high-income countries—Bolivia, Brazil, Italy, Kenya, Laos, Sweden, Switzerland, and the UK. Using different subjective indicators on perceived economic status, we find that students in high-income countries and/or with "white collar" parents (i.e., occupation business–academic–professional) are more likely to perceive their family's standard of living as high; however, they are also more likely to perceive their family as having experienced frequent material hardship. In addition, this dataset allows us to provide valuable empirical evidence on the issue of language translation in cross-country studies. In the second empirical example, through structured interviews with 310 adults in the Dominican Republic we explore the factors potentially influencing judgments of life satisfaction, adopting a framework that sees life satisfaction as a multidimensional phenomenon. This follows a long tradition in disciplines such as psychology and sociology, which has more recently been adopted by development research and

economics. We investigate overall life satisfaction (i.e., how satisfied are you with your life as a whole?) using an array of objective and subjective indicators concerning the four domains of health, education, housing, and safety.

Some of the implications of the empirical examples are methodological—for example, if people's satisfaction with their income does not correlate highly with their income, then researchers still need to administer lengthy sections on consumption or construct complex asset indices rather than ask a single question in a household survey. Some of the implications are normative—if what people say they value does not actually influence their wellbeing, then it could mean that we do not need to take people's stated values into account, for example, in weighting indices of poverty, wellbeing, or human development. We show that subjective data do provide useful information, which enriches our understanding of human experience of wellbeing and deprivation. However, this information does not come easily; the use of subjective indicators requires careful analysis, interpretation, contextualization, and awareness of a number of factors which may influence responses.

The paper develops as follows. In Section 2 we review literature from psychology and economics on how people make judgments in response to a survey question. In Section 3 we present our two empirical examples, first providing background information on the data collection and then moving to the analysis and discussion of the results. Section 4 concludes with a discussion of the implications of the literature and our findings for researchers working with self-reported data.

2. LITERATURE REVIEW

In this section we review potential influences from the mental processes that are likely to be operating when respondents are asked to provide subjective indicators. In looking at how

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people make judgments we will focus on judgments about their satisfaction with their life as a whole (JOLS) due to its pre-eminence in economic and psychological literature. We briefly outline possible mechanisms including adaptation, social comparison, social desirability biases, and context (summarized in Schwarz & Strack, 1999, see particularly Fig. 4.2) as a basis for the explanation of the apparent discrepancies between objective and subjective indicators and stated and revealed preferences we observe in our empirical analysis. Finally, we discuss how economic papers have dealt with some of these issues.

The speed with which survey questions are answered means that people cannot consider all aspects of their life in making JOLS. Clearly they need a heuristic or mental algorithm to sift the information. Respondents tend to prefer simple heuristics such as “how am I feeling” as an aid to judgment rather than more complex ones, which explains the influence of mood on JOLS. In Table 1 we list some of the main influences on this choice, drawing on review articles by Schwarz and Strack (1999, 2004) and Kahneman (2003). We have grouped them into three categories—influences relating to the *survey protocol* which could be characterized as biases, *endogenous factors* such as reference groups which cannot (easily) be controlled for but can be taken into account, and *exogenous factors* such as mood which can be controlled for with the addition of other questions.

Some of these problems have been controlled for in well-designed studies, especially those using panel data. For example, using German Socio-Economic Panel Study data Ferrer-i-Carbonell and Frijters (2004) find that the partial correlation coefficient between changes in income and changes in happiness is smaller than that between levels of income and levels of happiness. This suggests that panel data analyses are successfully controlling for fixed effects such as unobserved time-invariant personality traits that influence people’s happiness with their life as a whole. Frijters *et al.*’s work in East Germany and Russia (e.g., 2004), taking advantage of the large income changes post-transition, found a greater effect of income on happiness. However, Lelkes (2006) found in relation to post-transition Hungary that this did not affect the religious, showing how values shape people’s JOLS. Knight and Song’s (2006) analyses in rural China highlight the role of comparison in that relative income is twice as important in relation to JOLS as actual income (this is income relative to the other villagers who formed the reference group for 68% of respondents).

In relation to adaptation, Van Praag and Frijters (1999, chap. 21) note that increases in income in 20 European countries lead to a corresponding increase in what people consider to be an “excellent”, “good”, “sufficient”, and “bad” income, although adaptation was not complete (income retained 40% of its effect over time). Easterlin (2005) finds a similar phenomenon for material goods in that material aspirations increase in line with ownership of these items, albeit that the same is not true for marriage (or widowhood—Lucas, Clark, Georgellis, & Diener, 2003). Not everything can be adapted to, which may partially explain the role played by safety in our empirical example two. For example, Lucas, Clark, Georgellis, and Diener (2004) find that the experience of unemployment permanently alters people’s set-point for happiness. This is in line with our findings about the continuing salience of past material hardship. Blanchflower and Oswald (2004) hypothesize that increasing happiness in later life may be because people have adapted to their circumstances and abandoned some of their unrealised aspirations. However, Easterlin (2006) find life cycle happiness is the result of a complex interaction between performances in four different life domains, where, for exam-

ple, increased financial security might be traded off against worsening health. Van Praag, Frijters, and Ferrer-i-Carbonell (2003) also find that happiness can be predicted from satisfaction in specific domains, and that satisfaction in specific domains can be predicted by objective variables.

3. EMPIRICAL EXAMPLES

(a) *Example one—subjective evaluations of socio-economic status across high- and low-income countries*

In the first study 3883 questionnaires were administered to undergraduate students from a number of disciplines¹ in fifteen academic institutions across eight countries.² Four of these were low- or middle-income countries (Bolivia, Brazil, Kenya and Laos, LICs hereafter, 1924 respondents) and four were high-income countries (Italy, Sweden, Switzerland, and the UK, HICs hereafter, 1959 respondents). Table 2 shows background information about these countries (as well as for the Dominican Republic, relevant for our second empirical example). The differences among participating countries go well beyond income: figures for the Human Development Index are much lower for LICs than for HICs and range from .53 (Kenya) to .96 (Sweden), while the Gini coefficients range from .25 (Sweden) to .61 (Bolivia) and show higher levels of inequality in the LICs studied here. The distribution of tertiary education ranges from 4% in Kenya to 72% in Sweden (UNESCO, 2011). Despite the large coverage of the survey and the heterogeneity of the countries involved, we do not claim full representativeness of the HIC/LIC categories or of the whole student population of each of the countries covered. In addition, while the LIC and HIC categories are motivated by visible differences between these two groups in relation to per capita income, income inequality, and human development (Table 2), we do not imply, nor should it be expected, that these discrepancies are reproduced for all the variables we take into account.

The questionnaires were administered in supervised sessions during a lecture, typically in the first or last 20 minutes, and the response rate was over 97%. Students’ age ranged from 16 to 79 (95% of the sample were below 28).³ Overall, 43% of respondents were males and men were slightly more likely than women to be enrolled in LICs (46%) than HICs (40%). These figures reflect the gender parity indices for tertiary education and in particular that there is little gender difference in school life expectancy in developing countries, see UNESCO’s (2012) Global Monitoring Report. The percentage of students with white collar parents is larger in LICs; however, this difference is greater for mothers than for fathers (the UK and Sweden subsamples contain a considerable proportion of students with white-collar fathers). More detailed descriptive statistics on this sample are presented in Table 3.

This dataset enables us to explore the relationship between two objective indicators (students’ membership of the HIC/LIC subgroups and their socio-economic status, proxied by their parents’ occupation) and their response to three questions about their perceptions of their economic status. The correlation between these three variables is relatively low, ranging from .38 (for perceived relative living standard and perceived experience of material hardship) to .57 (perceived income and perceived relative living standard). This suggests that the questions are capturing different aspects of perceived economic status (for example, standard of living may be influenced by inherited assets, social and cultural capital, etc.):

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