



Does satisfaction matter? A microeconomic empirical analysis of the effect of social relations on economic welfare

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ABSTRACT

The paper studies the effect of social relations on individual economic welfare by explicitly considering the qualitative aspect of relations that characterize the social structure of personal contacts. It argues that important information is lost if only the density of the social network is considered. This proposition is tested using microdata representative of the entire Italian population. Two proxies for interpersonal relations at an individual level are considered: the number of voluntary associations joined and the satisfaction gained from relationships with friends. Both seem to have a positive effect on two indices of household economic welfare: a subjective index and an objective one. The subjective index is based on both the subjects' personal assessment of their household general economic situation and financial difficulties in meeting certain expenditures. The objective index is calculated from objective data on the household's economic situation. The empirical results prove robust on considering a variety of control variables and using different econometric methods.

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1. Introduction

The linkages between interpersonal relations and economic variables have been investigated extensively in recent years. For instance, several studies have analysed the relationships between social relations on one hand and economic growth (e.g. Knack and Keefer, 1997; Zak and Knack, 2001; Chou, 2006), government performance (e.g. Putnam, 1993; Easterly and Levine, 1997; La Porta et al., 1999), human capital (e.g. Loury, 1977; Coleman, 1988; Goldin and Katz, 1999), and financial development (e.g. Guiso et al., 2004) on the other. What is most relevant for the present paper is that many studies have carried out empirical analyses based on microdata showing a significant correlation between economic performance and different characteristics of individuals' social networks.

Granovetter (1974) focused on the role of "personal contacts" in obtaining a job. He defined personal contact as an "individual known personally to the respondent,¹ with whom he originally became acquainted in some context unrelated to a search for job information, from whom he has found out about his new job, or, who recommended to someone who then contacted him"

(Granovetter, 1974, p. 11). Granovetter found evidence that personal contacts are the main channel through which the unemployed finds a job. Moreover, jobs found through personal contacts have higher wages than jobs found by "formal means" (advertisements, public and private employment agencies, interviews, etc.) or "direct applications" (when the job-seeker goes directly to the firm without using a formal or personal intermediary). According to the "social capital of brokerage"² notion put forward by Burt (1992, 2002), people involved in networks that bridge the structural holes between groups have advantages in obtaining information and in the pursuit of rewarding opportunities. Burt showed that managers (Burt, 2004) and bankers (Burt, 2003) connected to different groups of individuals that share alternative ideas and ways of thinking are

² The concept of social capital is often used in order to analyse the role of interpersonal relations in economics. Although there are many definitions of social capital, it is possible to identify two main approaches to the concept. The first considers social capital to be a variable that is developed at an aggregate level. Putnam (1993), Narayan and Pritchett (1999), Uphoff (2000), Paldam and Svendsen (2000), the World Bank (2005) are exponents of this approach. The second approach considers social capital at an individual level. The authors adopting this approach interpret social capital as a factor that operates at an individual level. Burt (1992, 2002), Coleman (1988, 1990), Glaeser et al. (2000a,b) use this approach. The aim of this paper is not to investigate the concept of social capital and its features (see Paldam, 2000; Woolcock and Narayan, 2000; Durlauf and Fafchamps, 2004 for discussions of the concept of social capital). However, occasional reference to the notion will be useful for the purposes of this study. In these cases, the definitions of social capital considered will always be specified.

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¹ In Granovetter's study (1974), the respondents were workers who had found a job in the last 5 years.

better able to gain individual advantages such as higher wages, positive performance assessments, positive peer evaluations, promotions, and good ideas. Glaeser et al. (2000b) used an experimental framework to investigate the individual determinants of trust and trustworthiness. They found that the family's status (measured by the number of hours spent working for pay, which is a negative indicator of status, and by having a father with a college degree) and charisma (measured by the number of beers drunk per week and by the presence of a sexual partner) affect the pay-offs subjects gained in a trust game. The authors interpreted status and charisma as components of individual social capital reflecting the ability to gain returns from social situations. People with high levels of individual social capital have more opportunities to reward and punish others and are better able to induce trustworthy behaviour. Rose (1999) conducted an empirical analysis on Russia and showed that social networks positively affect individual welfare measured in terms of food consumption, income security and health. Individual welfare was studied in relation to various groups of independent variables: individual characteristics, social integration, social exclusion, sector-specific influences and generic social capital. The social capital measures were different kinds of social networks, in particular formal social networks (networks related to formal organizations, such as professional associations) and informal social networks (face-to-face interactions among a limited number of agents linked by kinship, friendship or propinquity). Other empirical studies have examined the effects of social relations on household economic welfare. Grootaert (1999), Grootaert and Narayan (1999) and Grootaert et al. (2002) investigated the effect exerted by participation in local institutions on the household's welfare, respectively, in Indonesia, Bolivia and Burkina Faso. These three studies show that participation in local associations reduces household poverty. Tiepoh and Reimer (2004) used data on 1995 households living in 20 rural field sites in Canada to show that social capital³ positively affects household income.

If we look at the empirical works which study the effects of social networks on economic welfare at a microlevel, we find that they focus on measures based on "quantitative" characteristics of social networks. They typically refer to the number of associations joined by individuals, or to the number of informal networks in which individuals are involved. No direct measures of "qualitative" elements of social relations are taken into account.

In this paper we adopt a microapproach and argue that important information is lost if one studies the effects of the social network on individual economic welfare only by considering the number or the density of agents' social relations. We consider two proxies for social relations which reveal information about the "quality" and the "quantity" of the interpersonal relations characterizing the social lives of individuals. The proxy for the quantity of social relations reflects participation by single agents in various types of voluntary associations. The proxy for the quality of social networks reflects the degree of satisfaction of agents with interpersonal relations. This proxy is constructed by using a survey question on the satisfaction gained from relationships with friends and it is rather original in this strand of the literature. The main idea put forward by this paper is that the effects of social networks on economic welfare can be correctly studied only by taking express account of the qualitative character of social relations as well. Only satisfactory relations can be considered a resource on which individuals can rely in order to achieve their personal purposes. Tests of this approach based on microdata representative of the entire Italian population provide supportive evidence.

With respect to the existing literature, the empirical analysis introduces a further original perspective and proposes a second interesting result. We analyse the effects of social networks on two different indices of economic welfare: an objective index of household economic welfare and a subjective one. We show that the positive effect of the quantity and quality of social relations extends beyond the impact on the effective level of economic welfare and also concerns people's perceived satisfaction with their economic circumstances. Wider and more satisfying relational networks not only foster effective economic welfare, they also make people more satisfied with their level of welfare.

This paper is organized as follows. Section 2 describes the theoretical and methodological issues concerning the analysis and the data used in the empirical estimations. Section 3 sets out the estimations and analyses the empirical results. Section 4 summarizes the main conclusions and policy implications.

2. Social relations and economic welfare: theoretical issues, data and empirical strategy

The data considered by the analysis reported in this paper were taken from the "Indagine Multiscopo sulle Famiglie-Aspetti della Vita Quotidiana", a survey published yearly since 1993 by ISTAT (The Italian National Institute of Statistics). In particular, our empirical analysis used microdata relating to two different years: 1993 and 2001 (ISTAT, 1993, 2001). In these 2 years, the ISTAT surveys examined 19,748 and 19,920 households and 55,844 and 53,113 individuals, respectively.

The principal goal of the empirical analysis was to investigate the relationship between household economic welfare and the interpersonal relations of the head of household (the data collected in the ISTAT databases refer to social relations of the head of household). Two aspects – quantitative and qualitative – of social relations were considered separately.

The quantitative aspect of social relations was measured by considering the relationships formed by agents within particular types of formal institutions, namely voluntary associations. This proxy was named *membership* and reflected participation by individuals in "Putnam associations".⁴ Three types of groups were considered:

- cultural associations;
- volunteer organizations;
- ecological, human rights and peace associations.

This proxy was computed by calculating the arithmetic mean (over the three types of associations considered) of the number of associations the head of the household participated in over the last year. The qualitative aspect of social relations was introduced into

⁴ Olson (1982) and Putnam (1993) offer two different explanations for the impact of private associations on economic growth and on social cohesion. Olson stresses certain negative effects of associations. He argues that private associations pursue the special interests of their members and, for this reason, generate social costs and reduce social cohesion. This is a consequence of the fact that only smaller associations emerge in society, and small associations defend the special interests of small groups (Olson focuses his analysis on associations characterized by economic interests). Putnam emphasizes the propensity of groups to generate trust, social ties and civiness among people. Knack and Keefer (1997) and Knack (2003) have verified the different hypotheses of Olson and Putnam empirically by considering the different characteristics of groups and distinguishing between "Putnam associations" (education, arts, music or cultural activities; local community action on issues like poverty, employment, housing, racial equality; youth work, e.g. scouts, guides, youth clubs, etc.; sports or recreation associations) and "Olson associations" (professional associations; trade unions; political parties or groups). The associations that this paper considers in order to study the impact of social relations on economic welfare are identified as Putnam associations on the criteria used by these authors.

³ They define social capital as the expression of four kinds of social relations: market relations, bureaucratic relations, associative relations and communal relations.

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