

# Well-being and unemployment in Russia in the 1990s: Can society's suffering be individuals' solace?

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## Abstract

This paper studies the effect of regional unemployment rates on subjective well-being in post-Soviet Russia. Research in Europe and the U.S. finds that higher unemployment rates lead to lower reported life-satisfaction. By contrast, our Russian study finds a small but significant effect in the other direction. We estimate that each percentage point increase in the local unemployment rate is correlated with an increase in the average well-being of people in the region which is equivalent to moving 2% of the population up one point on the five-point life satisfaction scale. Our intuition is that when individuals observe their peers suffering in a troubled economy, they lower their standards of what is good enough. All else equal, they perceive themselves to be better off in worse times. This unusual result highlights the role of psychological and contextual factors in mediating responses to economic incentives, particularly in crisis or transition. The dependence of subjective well-being scores on expectations and reference groups cautions against using happiness data from economies in crisis to draw macroeconomic policy conclusions.

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## 1. Introduction

How important is overall macroeconomic performance to individuals' well-being? Clearly, people care about their own incomes and their ability to find and keep a good job. But, how

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much do they care about what is happening more generally to the economy around them? There are a number of plausible channels through which the state of an economy may directly affect individuals' well-being. In a good economy, a person may feel that his or her own prospects for success in the labor market are greater, crime will be lower, and public goods will be more plentiful. In times of economic crisis, even people who manage to retain their jobs and livelihoods may worry about social unrest, be concerned about their own economic future, or empathize with those whose economic situation has deteriorated.

Economists generally assume that a strong economy is good for individuals, yet they have a limited understanding of what it is about economic growth that contributes to well-being. Critics both inside and outside the economics profession have asserted that economists often focus narrowly on higher incomes as a policy goal at the expense of other objectives that citizens might value, such as redistribution or full employment.<sup>1</sup> Although a more detailed understanding of the effect of macroeconomic performance on the well-being of individuals might help policy-makers decide among competing social priorities, economists have generally shied away from trying to measure such a murky and subjective phenomenon.

In recent years, an increasing number of economists and other social scientists have experimented with an unconventional and direct approach to the problem: measuring the relationship between macroeconomic conditions and individuals' responses to survey questions about life satisfaction. Using macroeconomic data and life satisfaction responses from panel surveys, [Di Tella et al. \(2001\)](#) find that high unemployment has a strong negative effect on reported well-being, even for those who are employed. Their work and that of several others suggest that policymakers should devote significant resources to reducing unemployment – not just because being unemployed is extraordinarily painful for the individuals directly affected, but also because society as a whole is subjectively better off when unemployment rates are lower.<sup>2</sup> As far as we know, there is not a comparable literature on unemployment rates and well-being for the transition and developing economies.

In this paper, we examine the effect of regional unemployment rates on subjective well-being in Russia during the economically tumultuous years from 1995 to 2001. Contrary to intuition and previous findings elsewhere in the literature, we find that, all else equal, Russians – including those who were employed – were happier when unemployment rates were higher. We stress that our finding is not that Russians enjoy being jobless. On the contrary, being unemployed in Russia was an extremely negative experience. Not having a job was, by one measure, four times worse for happiness than having experienced a divorce. Nor do we find that Russians were happier because of the general economic crisis and associated high unemployment rates that plagued the nation in the 1990s: Russians experienced a dramatic drop in overall life satisfaction as unemployment rates peaked in 1998 and just as dramatic a rise as the economy recovered in 2000 and 2001. Rather, our finding is this: after we control for the standard variables – personal circumstances, region, and time of survey – we find that on average people reported higher well-being in times and places where the unemployment rates were higher. In other words, both the employed and the unemployed were happier on average in regions with higher unemployment rates than in those with lower ones.

<sup>1</sup> One well-known critique of the value of increasing national income is [Hirsch \(1976\)](#). [Easterlin \(1974\)](#) used well-being data to argue that beyond a certain level of income, increasing per capita income does not necessarily improve peoples' lives.

<sup>2</sup> See also [Clark and Oswald \(1994, 1996\)](#), [Oswald \(1997\)](#), [Di Tella et al. \(2002\)](#), [Alesina et al. \(2004\)](#), [Wolfers \(2003\)](#), [Clark \(2003\)](#).

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