

Putting a price tag on friends, relatives, and neighbours: Using surveys of life satisfaction to value social relationships[☆]

Nattavudh Powdthavee^{*}

Bedford Group, Institute of Education, University of London, 55-59 Gordon Square, London WC1H 0NU, UK

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Abstract

There is substantial evidence in the psychology and sociology literature that social relationships promote happiness for the individual. Yet the size of their impacts remains largely unknown. This paper explores the use of shadow pricing method to estimate the monetary values of the satisfaction with life gained by an increase in the frequency of interaction with friends, relatives, and neighbours. Using the British Household Panel Survey, I find that an increase in the level of social involvements is worth up to an extra £85,000 a year in terms of life satisfaction. Actual changes in income, on the other hand, buy very little happiness. © 2007 Elsevier Inc. All rights reserved.

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This paper explores the links between social relationships, income, and human satisfaction. Can money buy the greatest amount of happiness for us? Or do the sources of true and lasting satisfaction come from having deep interpersonal relationships with close friends and other people in the community? Since it normally requires both time and effort to achieve either higher income or a stable social relationship with someone, the weight attached to each individual's investment decision thus depends upon the type of possession – money or friendship – that he or she believes will yield a larger impact on happiness than the other.

[☆] I have benefitted from conversations with Paul Dolan, John Helliwell, Andrew Oswald, Robert Putnam, Alois Stutzer, as well as comments from two anonymous referees.

^{*} Present address: Bedford Group, Institute of Education, University of London, 55-59 Gordon Square, London, WC1H 0NU, UK. Tel.: +44 7990 815924.

E-mail address: n.powdthavee@ioe.ac.uk.

But how do we work out the relative importance of these two things? How do we know which is better for us: a large pay rise or more quality time spent with close friends and relatives? On what grounds should a government base its decision in selecting the most appropriate set of policy instruments (e.g. between those that favour income and those that favour work-life balance) that will maximize the sum of happiness of the people living in that country? These are extraordinarily difficult questions, but they seem important.

For a long time, there has been no simple way to assess the size of different influences upon happiness and satisfaction with life in general. Economists have, however, recently developed a way to do so. The process simply involves taking a random sample of individuals, record their satisfaction levels of the people in these samples at different points in time, and then use simple statistical methods (regression equations) to work out the implied ‘shadow price’ of different occurrences in life. For example, economists have been able to show using happiness surveys that marriage (compared to being single) is worth around £70,000 (or \$105,000) a year for a representative person in Great Britain. Separation, on the other hand, is equivalent to around minus £170,000 (or \$255,000) a year (see [Clark and Oswald, 2002](#)). The method generalizes, and has been used by economists to calculate the happiness loss induced by non-intangibles such as the fear of crime ([Moore and Shepherd, 2006](#)) and the aircraft noise ([Van Praag and Baarsma, 2005](#)).

This paper studies the numbers that people report when asked about how satisfied they are with their life. It estimates what may be some of the first microeconomic life satisfaction equations with measures of social relationships as explanatory variables for British data: the [British Household Panel Survey \(2005\)](#) (BHPS). It also makes one of the first attempts to assess the size, and to put a financial value upon, the satisfaction induced by changes in social network status, which is measured by the frequency of meeting with friends and relatives, as well as the frequency of talking to neighbours, in the past year.

There are limitations to well being statistics, and an inquiry in this field faces the disadvantage that controlled experiments cannot be done. However, it seems impossible in our attempt to understand the connections between human satisfaction and social relationships without, in part, listening to what human beings have to say about their own lives. This paper can also be understood as an empirical application to *experienced* utility, a concept advocated in a seminal work by [Kahneman et al. \(1997\)](#). It argues, in essence, that measures of experienced utility (such as an overall view of one’s satisfaction with life) can be used as reasonable substitutes to observing individual choices. For more detailed theoretical discussions on the link between subjective well-being data and experienced utility, see also [Kahneman and Thaler \(1991\)](#), and [Rabin \(1998\)](#).

The paper is structured as follows. Section 1 reviews the literature on happiness and measurement. Section 2 outlines the data and the empirical strategy used in this article. Section 3 presents cross-sectional results on the estimated financial value of social relationships and other life events. Section 4 introduces controls for individual fixed effects (or unobserved heterogeneity), and reports panel estimates on the size of life satisfaction induced by changes in the level of social network status. Section 5 discusses arguments and counter-arguments, and conclusions are set out in Section 6.

1. Measuring happiness

Psychologists have, for many decades, extensively studied the sources of human satisfaction¹. In their view, the definition of life satisfaction or happiness is taken to be the degree to which

¹ Recent work includes [Argyle \(1989\)](#), [Fox and Kahneman \(1992\)](#), and [Diener and Suh \(2000\)](#). For a comprehensive review on the research progress in the last three decades of subjective well-being, see [Diener et al. \(1999\)](#).

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