

# Explaining Russian exception: containing income inequality promotes life satisfaction

Francesco Sarracino, Eduard Ponarin & Ronald Inglehart

16<sup>th</sup> of November 2015

# Economic growth for well-being



Or at least this is what they say...



# Does economic growth improve well-being?



(e.g. Stevenson and Wolfers, 2008; Deaton, 2008;  
Veenhoven and Vergunst, 2013)



(e.g. Easterlin, 1974; Layard, 2005; Easterlin et al., 2010;  
Bartolini and Sarracino, 2014)

# The answer

## It depends!

Economic growth does not work in the same way everywhere:

- it can benefit everybody or a few;
- it can create healthy communities or weaken the bonds among people.

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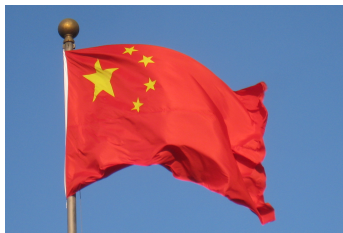


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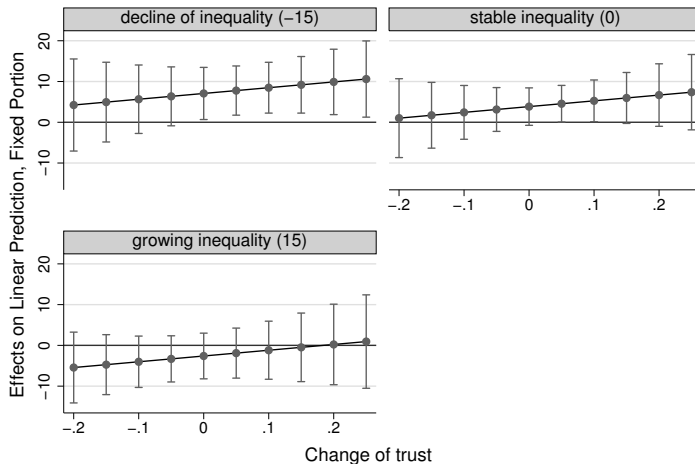
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# The moderating effect of income inequality and social capital

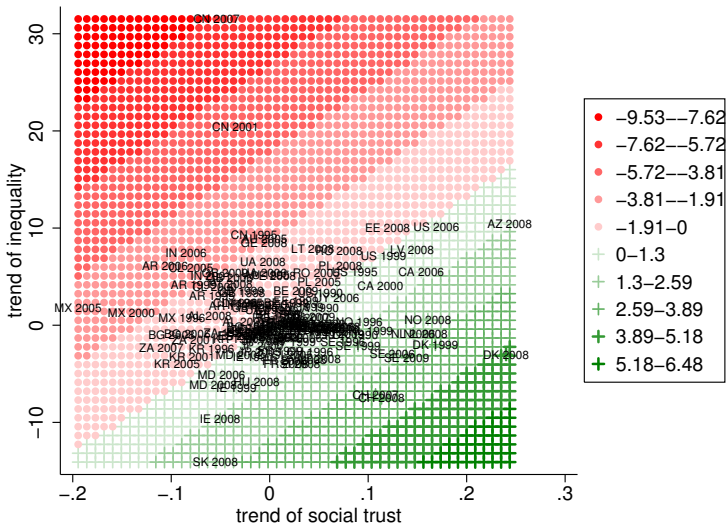


(Source: Mikucka and Sarracino, 2014)

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# Economic growth and well-being



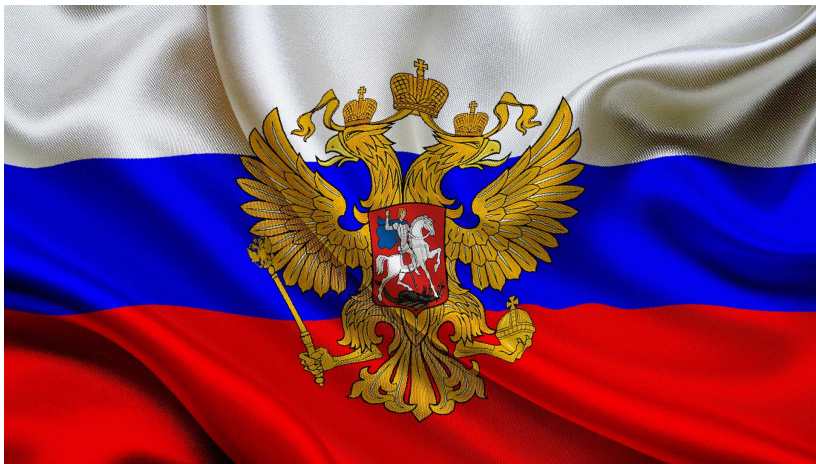
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# The research question

**How generalizable are the conclusions from previous research?**

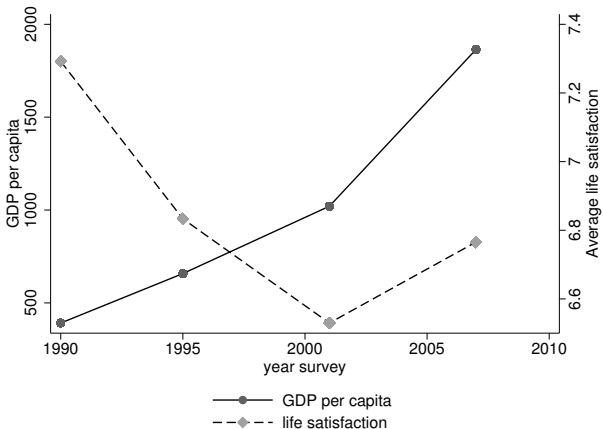
**Does income inequality and social capital help explain the trends of well-being also where economic conditions strongly affect people's well-being?**

# We focus on Russia



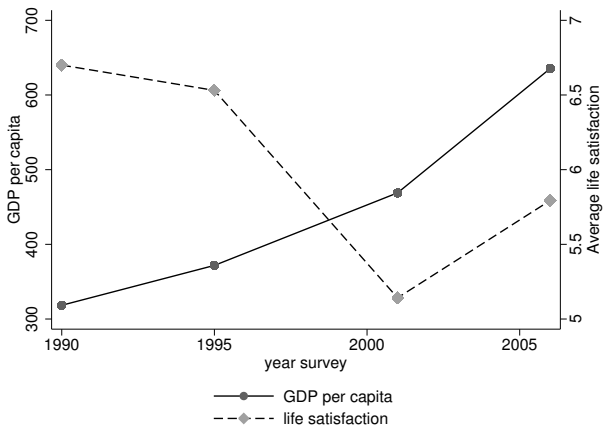
- Economic growth and SWB are strongly associated.

# Economic growth and well-being: Russia & BRICS



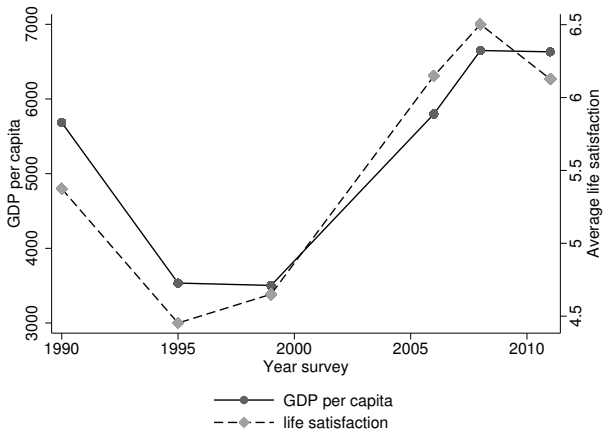
China, 1990-2007. Source: Bartolini and Sarracino (2015).

# Economic growth and well-being: Russia & BRICS



India, 1990-2006. Source: Bartolini et al. (ming).

# Economic growth and well-being: Russia & BRICS



Russia, 1990-2011. Source: authors' own elaboration on WVS data.

# What does explain the trend of well-being?

- economic growth: political and economic dissatisfaction at the origin of the 1991 collapse  
(Easterlin, 2009; Guriev and Zhuravskaya, 2009)
- after the period of crisis, other aspects seem to matter more  
(Delhey, 2010).
  - rapid political change (Inglehart, 2010);
  - loss of employment security and social provisions (Easterlin, 2009; Guriev and Zhuravskaya, 2009);
  - social, political, and economic freedom (Inglehart et al., 2008);
  - national pride (Inglehart et al., 2013);
  - income inequality (Sanfey and Teksoz, 2007);
  - social capital (Helliwell, 2003);

# Inequality and well-being

- in more unequal societies, well-being is lower:



(Oishi et al., 2011)



# Inequality and well-being

- inequality undermines social solidarity:



(Kawachi and Kennedy, 1997; Kawachi et al., 1997)

# Inequality and well-being

- crime, violence, social cleavages:



(Alesina and Giuliano, 2011; Blanco, 2013)

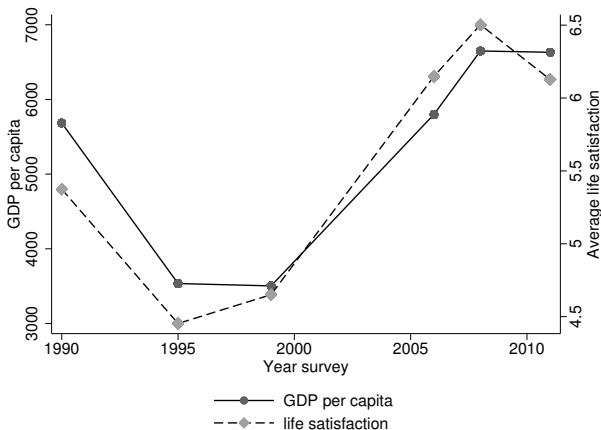
# Social capital and well-being



(Wilson et al., 2007)

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# Hypothesis



Besides economic growth, social capital and income inequality help explain the Russian swings in life satisfaction between 1990-95 and 1995-2011.

# Data: World Values Survey 1990 - 2011

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- ✓ Independent variables:
  - ▷ financial dissatisfaction;
  - ▷ proxies of social capital:
    - trust in others;
    - group membership;
    - index of civicness:
      - claiming government benefits which you are not entitled to;
      - avoiding a fare on public transport;
      - cheating on taxes if you have the chance;
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  - ▷ a standard set of socio-demographic controls, including **income, national pride, health, and freedom of choice.**

# Method: Blinder-Oaxaca decomposition

How much income and SC explain  $\Delta$  SWB

$$\Delta SWB = \underbrace{[\mathbf{E}(\mathbf{X}_{t+n}) - \mathbf{E}(\mathbf{X}_t)]'}_{\text{levels}} \cdot \beta^* + \underbrace{[\mathbf{E}(\mathbf{X}_{t+n})' \cdot (\beta_{t+n} - \beta^*) + \mathbf{E}(\mathbf{X}_t)' \cdot (\beta^* - \beta_t)]}_{\text{coefficients}}$$

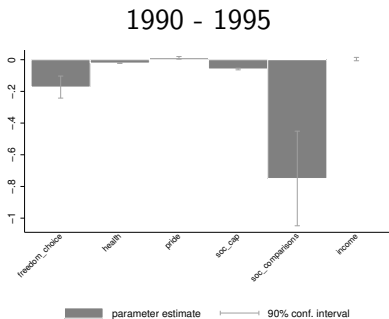
$\mathbf{E}(\mathbf{X})$  is a vector of averages of the explanatory variables.



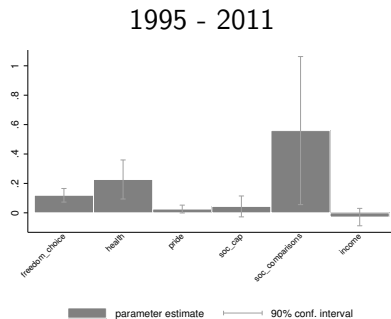
# Explaining the gap

	1990 – 1995	1995 – 2011
Differential		
Prediction_1	4.489*** (1.28e + 16)	6.226*** (2.24e + 15)
Prediction_2	5.472*** (7.49e + 15)	4.489*** (1.41e + 16)
Difference	-0.983*** (-1.14e + 15)	1.737*** (6.34e + 14)
Decomposition		
Explained	-1.032*** (-9.34)	0.970*** (4.97)
Unexplained	0.0496 (0.45)	0.767*** (3.93)
Observations	3088	3701

# The gap predicted by levels

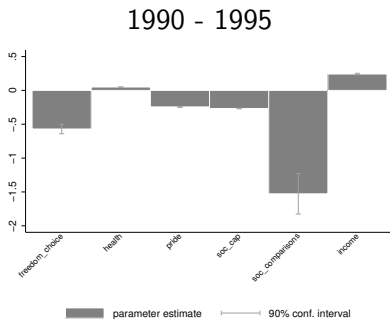


-10%\*\*\*

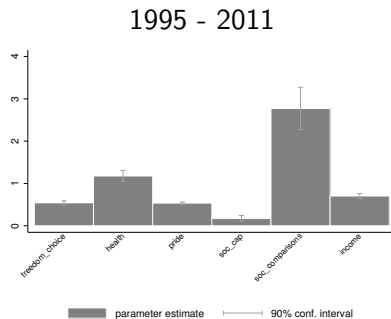


+9.7%\*\*\*

# The gap predicted by preferences



+0.68%

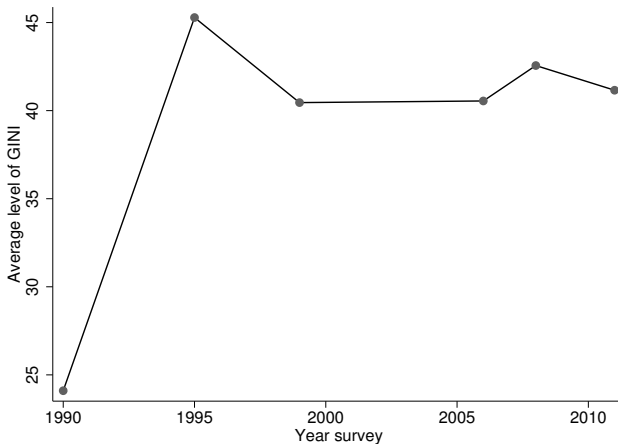


+7.6%\*\*\*

# Summarizing:

- 1990 - 1995: the 9.8% decline is explained by:
  - the general decrease of all that matters for well-being: less freedom of choice, less social capital, **more financial dissatisfaction**;
  - the changes in preferences do not predict a significant change in life satisfaction.
- 1995 - 2011: the 17.4% increase is explained by:
  - more freedom and health, **less financial dissatisfaction**;
  - more importance to income, health, freedom of choice, national pride, and social capital;
  - less importance to financial dissatisfaction.

# Financial dissatisfaction and the trend of Inequality

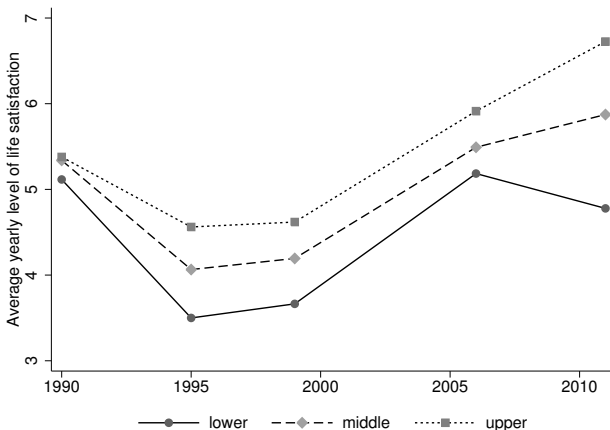


**Figure:** net GINI index from 1990 to 2011 in Russia.

Source: SWIID v5.0, October 2014, authors' own elaboration.

# Life satisfaction by income groups

Well-being inequality among income groups.



What has shaped these changes?

# Changes of life satisfaction by income classes

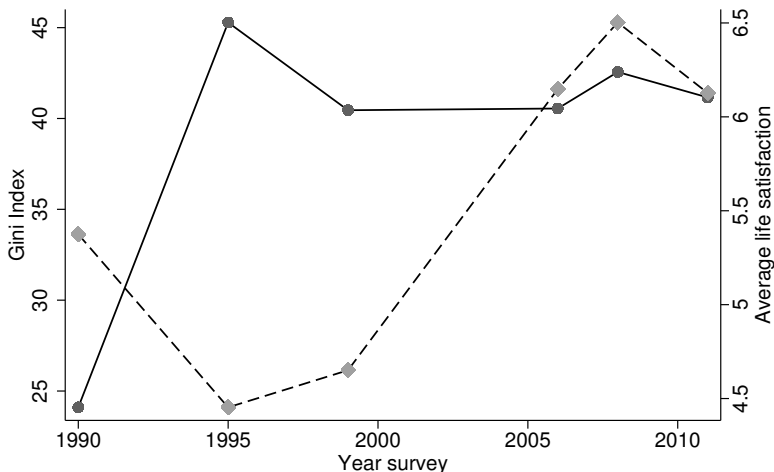
	Lower group	Middle group	Upper group
1990 - 1995	-14.5%	-6.9%	-3.5%
1995 - 2011	+14.8%	+18.2%	+19.0%

The predictors of life-satisfaction within groups are similar:

- more income, social capital, health, pride, freedom of choice, and less financial dissatisfaction;
- more importance of income, health, freedom of choice;
- less importance of financial dissatisfaction.

# Conclusions

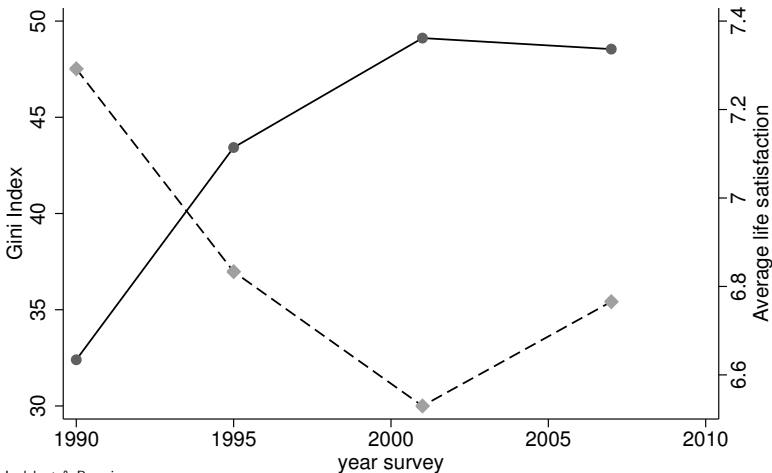
The trend of life satisfaction in Russia depends largely on changes of financial dissatisfaction which is directly related to income inequality.





# Conclusions

This is consistent with what happens in other countries where economic growth fails to improve well-being (e.g. U.S., India, China).



# Promote & Reduce

Also in Russia, a country where economic growth is closely related to well-being, income inequality plays a major role in explaining people's life satisfaction.



THANK YOU!

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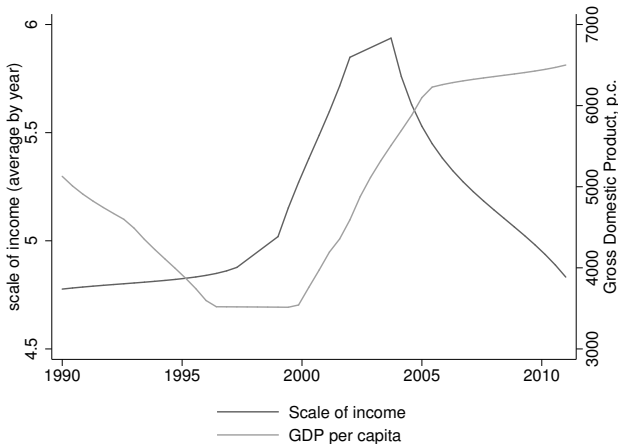
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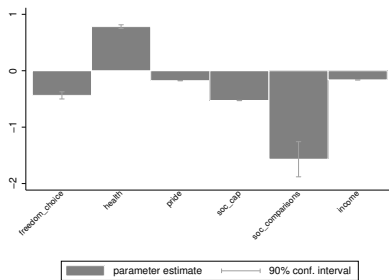
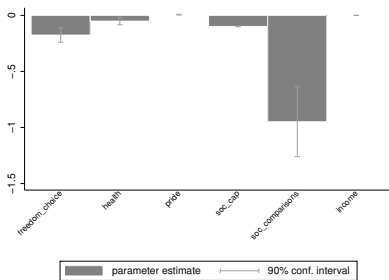
# Individual income and GDP in Russia



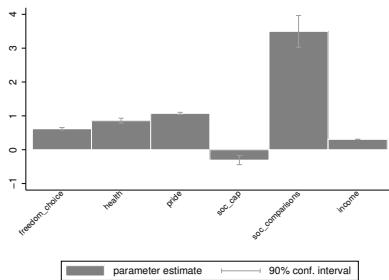
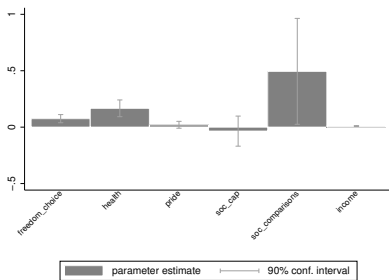
**Figure:** Trends of individual income and GDP p.c. from 1990 to 2011.

Source: World Values Survey and World Development indicators, authors' own elaboration.

# Lower group: 1990 - 1995

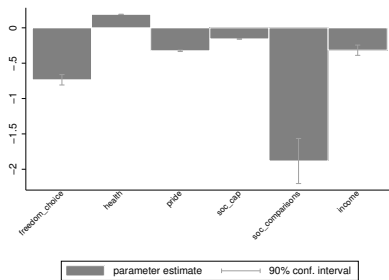
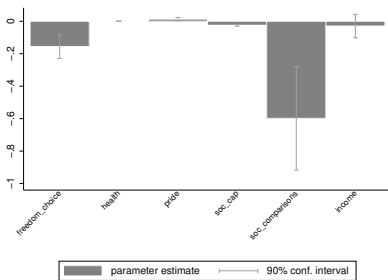


# Lower group: 1995 - 2011

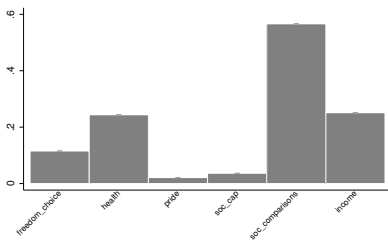




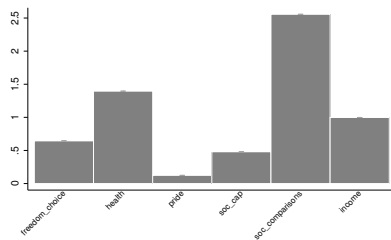
# Middle group: 1990 - 1995



# Middle group: 1995 - 2011

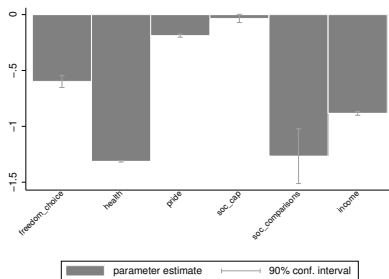
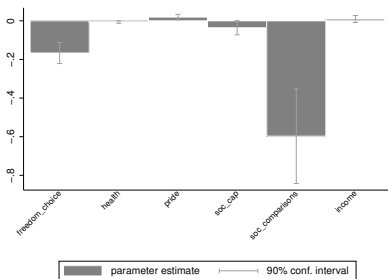


parameter estimate 90% conf. interval

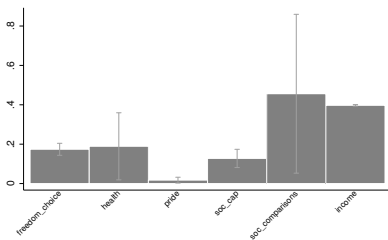


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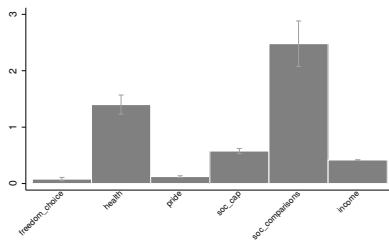
# Upper group: 1990 - 1995



# Upper group: 1995 - 2011



parameter estimate 90% conf. interval



parameter estimate 90% conf. interval

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