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# Feeling good about the iron rice bowl: Economic sector and happiness in post-reform urban China <sup>☆</sup>

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## ABSTRACT

Situated in China's market transition, this study examines the relationship between economic sector and a worker's happiness in post-reform urban China. Using datasets from the Chinese General Social Surveys 2003, 2006 and 2008, we find that workers in the state sector enjoy a subjective premium in well-being – reporting significantly higher levels of happiness than their counterparts in the private sector. We also find that during a period when a large wave of workers moved from the state sector to the private sector, those remaining in the state sector reported being significantly happier than did former state sector workers who had moved, whether the move was voluntary or involuntary. We attribute the higher level of reported happiness in the state sector than in the private sector to the disparity by sector in the provision of social welfare benefits. Those who made voluntary state-to-private moves experienced a trade-off in enjoying higher payoffs while losing job security, whereas involuntary moves experienced downward mobility and suffered a long-term psychological penalty.

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## 1. Introduction

Past research on both industrialized and transitional societies has well documented the detrimental effects of job displacement and unemployment, clearly showing that job security is important for workers' subjective well-being and health (e.g., Brand et al., 2008; Burgard et al., 2007; Darity and Goldsmith, 1996; Frijters et al., 2004; Gallo et al., 2006; Hayo and Seifert, 2003; Namazie and Sanfey, 2001; Winkelmann and Winkelmann, 1998; Young, 2012). Workers who experience job displacement and unemployment, however, constitute only a small fraction not only of the total labor force but also of those exposed to insecure working conditions. That is, job security can be viewed broadly as a spectrum of employment-related structural resources and protections allocated differentially across economic sectors. For example, researchers have long argued that the U.S. and other western countries have dual labor markets characterized by large disadvantages for workers in the secondary compared to the primary sector in terms of wages, working conditions, and employment stability

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(Bulow and Summers, 1986; Cain, 1976; Doeringer and Piore, 1971; Reich et al., 1973; Wachter, 1974). A similar distinction also exists in transitional countries such as Russia and Poland, where the private sector exposes workers to greater risks than the state sector, including higher job termination rates and fewer opportunities to secure permanent positions (Acquisti and Lehmann, 2000; Lehmann and Wadsworth, 2000; Lehmann et al., 1999). In general, workers in relatively weak labor market positions tend to have lower perceptions of job security, lower wages and fewer fringe benefits, and thus to have lower subjective well-being than their counterparts in strong positions (Linz and Semykina, 2008; Yu, 2008; Zhao, 2012).

China provides researchers with a valuable opportunity to examine the role that job security plays in determining individuals' subjective well-being. China's economic reform has achieved remarkable success in achieving rapid economic growth over the past three decades, while dramatically changing employment relationships and dislocating large numbers of workers in the process. One such change during the market reform was the smashing of the "iron rice bowl" – or the displacement of jobs in the public sector with guaranteed life-time job security, medical benefits, housing, education, and other elements of social welfare by uncertain jobs in the market economy (Tang and Parish, 2000). From 1978 to 2010, the employment share of state- and collective-owned units declined from nearly 100% to less than 50%, while the share of private and other non-state enterprises grew concomitantly from nearly nothing to over 50% (National Bureau of Statistics, 2011). Today, about 40% of China's working population has no job-related benefits (Kuruville et al., 2011). It has been argued that "fragmented markets" have emerged in China, characterized by heterogeneous institutional arrangements, inconsistent practical logic, and distinctive allocation mechanisms between the state and private sectors (Zhao, 2012; Zhao and Zhou, 2012). Workers in the private sector in urban China enjoy significantly fewer fringe benefits than their counterparts in the state sector, especially those working in government agencies and public institutions (Wu, 2013). Indeed, observers have cited these differences between the state and private sectors as the main explanation for a recent rise in the number of college graduates taking China's national civil service exam (Li, H., 2013).

Using data from the Chinese General Social Surveys, this study investigates the relationship between economic sector employment and subjective well-being, measured by self-reported happiness.<sup>1</sup> We attempt to address two research questions. First, does workers' level of happiness differ by economic sector? Second, if yes, does job security or some other factor(s) explain the observed difference?

## 2. Theoretical issues

### 2.1. Subjective well-being and economic factors

Researchers in psychology, sociology, and economics have long been interested in what makes individuals feel happy (e.g., Alber et al., 2008; Argyle, 2001; Böhnke, 2008; Diener et al., 1999; Easterlin, 1974, 1995, 2001; Di Tella et al., 2003; Easterlin et al., 2012; Frey and Stutzer, 2000, 2002a, 2002b; Frijters et al., 2004; Han, 2015; Kahneman et al., 2006; Wu and Li, 2013; Yang, 2008; Zhou and Xie, 2015). The relationship between income and happiness is an intriguing question that has long been debated, especially in economics, but still without a clear answer. On the one hand, the well-known "Easterlin Paradox" posits no link between a society's economic development and its long-term average level of happiness (Easterlin, 1974, 1995, 2001). On the other hand, studies using a variety of datasets have reported a positive relationship between various measures of subjective well-being and indicators of economic development, such as GDP per capita differences across countries, across regions within countries, and/or by time within countries (Deaton, 2008; Sacks et al., 2010, 2012; Stevenson and Wolfers, 2008, 2013).

In focusing mostly on the potential causal influence of income, the current literature on subjective well-being overlooks the importance of other social determinants of subjective well-being, particularly security. Psychologists posit that safety/security is a basic human need. In his famous hierarchy-of-needs theory, Maslow (1943) proposed that the need for safety belongs on the second level of the hierarchy, just above physiological needs, and that individuals' actions are partially motivated by safety-seeking. Only after people's safety needs are well satisfied will they pursue higher-level needs such as love and belonging, esteem and self-actualization.

One concrete way to incorporate Maslow's theory into studies of subjective well-being is to study the effects of job security, a multi-faceted concept with both objective and subjective dimensions. We are not the first to pay attention to the importance of job security for subjective well-being, as a literature already exists on this research topic, where job security is measured either subjectively by reported/perceived job security (e.g., Clark and Postel-Vinay, 2008; Blanchflower and Oswald, 1999) or objectively by temporary contracts, job separation, and fringe benefits (e.g., Lehmann et al., 1999; Lehmann and Wadsworth, 2000; Mitchell, 1982, 1983). It is known that employment security is a key factor when workers evaluate job desirability (Mitchell, 1982, 1983). However, we do not know yet whether the systematic differences in job security by economic sector that exist in contemporary China have led to a disparity in subjective well-being by sector. Our study aims to fill this gap by examining the interplay between economic sector and self-reported happiness, focusing on the role of fringe benefits – or non-wage employment compensations – as determinants. We choose fringe benefits as

<sup>1</sup> Individuals' subjective well-being is a multi-dimensional concept, and happiness mostly just reflects the positive affective components of subjective well-being (Frey and Stutzer, 2002a, 2002b), which are mood-related and sensitive to sudden changes in the environment (Diener et al., 1999). Some studies use life satisfaction while others use happiness as a measure, and most studies use these two terms interchangeably. In this study we use happiness as a measure of subjective well-being.

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