



Lost in transition: Life satisfaction on the road to capitalism

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ABSTRACT

In the 1990s transition from socialism to capitalism in Eastern Europe life satisfaction followed the collapse and recovery of GDP, but failed to recover commensurately. By 2005, with GDP averaging about 25 per cent above its early 1990s level, life satisfaction was typically back to its earlier level, but was arguably still below pre-transition values. Increased satisfaction with material living levels occurred at the expense of decreased satisfaction with work, health, and family life. In the decade of the 1990s, disparities in life satisfaction increased with those hardest hit being the less educated and persons over age 30; women and men suffered about equally.

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What has happened to subjective well-being as the former communist nations of Europe transitioned from centrally planned to market economies? Are people more or less satisfied with their lives? Have disparities in life satisfaction within the population widened or lessened? Are there differences between women and men, young and old, and the more and less educated? Although one might suppose these questions are of interest – some might even say, fundamental interest, considering that they involve comparing capitalism and socialism – they have received little attention in the voluminous literature on transition economies. This paper seeks to help fill this gap. The geographic scope is central, southern, and Eastern Europe; the time, the first decade of transition, 1989–1999, followed by an attempt to place this period in the perspective of recent and earlier experience.

The broad economic facts of the transition have been spelled out numerous times, especially for the period of the 1990s (see, for example, Campos and Coricelli, 2002; Havrylyshyn, 2006; Mickiewicz, 2005; Murrell, 1996; Philipov and Dorbritz, 2003; Simai, 2006; Svejnar, 2002; UNICEF, 2001; World Bank, 2002). Most notable was an abrupt and massive economic collapse, with measured GDP falling to levels of around 50–85 per cent of the 1989 level, usually in a few years or less. Subsequently GDP recovered somewhat, though rarely by 1999 to the initial level. A visiting economist from Mars, confronted only with these GDP data, might well conclude that an economic disaster on the scale of the Great Depression had befallen some 400 million of the world's population.¹ On the plus side, consumer goods shortages – a chronic condition under socialism – largely disappeared. With regard to factor inputs, capital shrank and there was a significant increase in flows out

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¹ The parallel to the Great Depression has not escaped the notice of transition analysts, most notably Milanovic, 1997.

of the labor force. Unemployment rates rose from near zero to double-digit levels in many countries. “[P]overty and inequality . . . both increased sharply in the beginning of the transition and have so far [1999] not shown signs of declining” (Campos and Coricelli, 2002, p. 816; cf. also World Bank, 2000b). The social safety nets that prevailed under socialism were severely ruptured (Fox, 2003; Orenstein and Haas, 2005; Pascall and Manning, 2000; Simai, 2006; UNICEF, 1999, 2001; World Bank, 2000a). Accompanying these striking socio-economic developments were equally dramatic changes in the political system. Former police states were replaced by new, often democratic, regimes, and the populations endowed with much wider civil and political rights.

Exactly how such massive changes should play out in terms of people’s feelings of well-being is far from clear a priori. On the economic side, there is the debate on whether absolute or relative income determines well-being. If absolute income, then one might expect well-being more or less to follow the course of GDP. If relative income, then well-being might remain unchanged, people simply adapting hedonically to economic vicissitude. This would be in keeping with the growing evidence that in upper income nations (and those under study here fell in 1989 in the upper middle-income group) increasing GDP is not accompanied by growing happiness (Easterlin, 1974, 1995, 2005).

There is also the question of how political change might weigh against economic in its impact on life satisfaction. On the one hand, there is the evidence that, when asked about their sources of well-being, people worldwide rarely mention political circumstances. Rather, they put foremost those concerns that principally occupy their time, most notably making a living, family life, and health (Easterlin, 2000). On this basis, one might argue that economic circumstances would carry the day. On the other hand, there are findings for Switzerland that direct democracy, in the form of access to initiatives and referenda, has a significant positive effect on well-being, other things equal (Frey and Stutzer, 2000). Also, a recent cross-country analysis of mostly European nations finds a significant positive relation between democracy and happiness, controlling for income, language, and religion (Dorn et al., 2007).² If political change were particularly stressed as determining life satisfaction, one might expect a rise in subjective well-being despite adverse economic events.

The few published empirical studies of trends in life satisfaction during transition usually relate to only one country, cover varying time periods, and give no consistent picture. Frijters and his collaborators find life satisfaction rising along with income in East Germany from 1991 to 2001 (Frijters et al., 2004a,b) and also varying directly with ups and downs in income in Russia between 1995 and 2001 (Frijters et al., 2006). These results are, in their view, vindication of the importance of absolute income in determining well-being. Saris (2001) and Veenhoven (2001) both report declines in life satisfaction in Russia between 1988 and the late 1990s, and Lelkes (2006), a decline in Hungary from the early to late 1990s. Hayo and Seifert (2003) consider economic, as opposed to overall, well-being from 1991 to 1995 and find in 7 of 10 transition countries declines in the proportion saying their economic situation is satisfactory or very satisfactory. All in all, neither theory nor the existing evidence point conclusively to the course of life satisfaction during the transition. (A newly published article by Sanfey and Teksoz, 2007 is discussed in the final section of this paper.)

The analysis that follows first describes briefly the concept and methods employed. It then turns to evidence on the course of life satisfaction during the decade of the 1990s, and, following this, an analysis of who in the population gained and lost in life satisfaction. Finally, the movement of life satisfaction both before and after the 1990s is considered. The primary aim is to present the facts, but the facts immediately raise questions of “why”, and so some tentative explanations are ventured, essentially hypotheses deserving further exploration. As will be seen, life satisfaction gives a rather different perspective on the transition than that common in economic studies that seek to evaluate different types of economic reform.

1. Concept, data, methods

The concept of central interest here is that of overall satisfaction with life, the response to the question: “All things considered how satisfied are you with your life as a whole these days?” The response scale ranges in integer values from 1 (=dissatisfied) to 10 (=satisfied). Until the last decade, economists have typically inferred well-being from what are known as “objective” measures – GDP per capita, life expectancy, educational attainment, and the like – with GDP per capita typically the featured measure. Recently, however, increasing attention has been paid to measures of “subjective” well-being (SWB)—responses to questions on personal happiness or general life satisfaction.³ This growing literature analyzes both substantive and methodological issues, including the reliability, validity, and comparability of the responses to such questions (Clark et al., 2008; DiTella and MacCulloch, 2006; Frey and Stutzer, 2002a,b; Graham, 2008; Layard, 2005; Van Praag and Ferrer-i-Carbonell, 2004; Van Praag and Frijters, 1999; Veenhoven, 1993). The methodological consensus is that SWB measures of the type used here are meaningful measures of well-being although, as with any well-being measures, including GDP, they have their shortcomings. The conclusion that SWB measures are meaningful is buttressed by numerous cross-sectional regression studies starting with those of Andrew Oswald and his collaborators that find in country after country the same patterns of association between subjective well-being and a wide range of economic and social variables (Blanchflower and Oswald, 2004; Oswald, 1997). The interest of the present analysis is substantive, not methodological—what the life satisfaction measure tells us about the course of subjective well-being during the transition.

² In transition countries, however, the effect of the shift to democracy is not significant, Dorn et al., 2007, p. 514.

³ Simon Kuznets’ insistence that GDP is a subjective, not objective, measure is conventionally ignored by economists (see the exchange between Kuznets, 1948 and Gilbert et al., 1948).

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