

Relevance of subjective measures in economic and social analysis

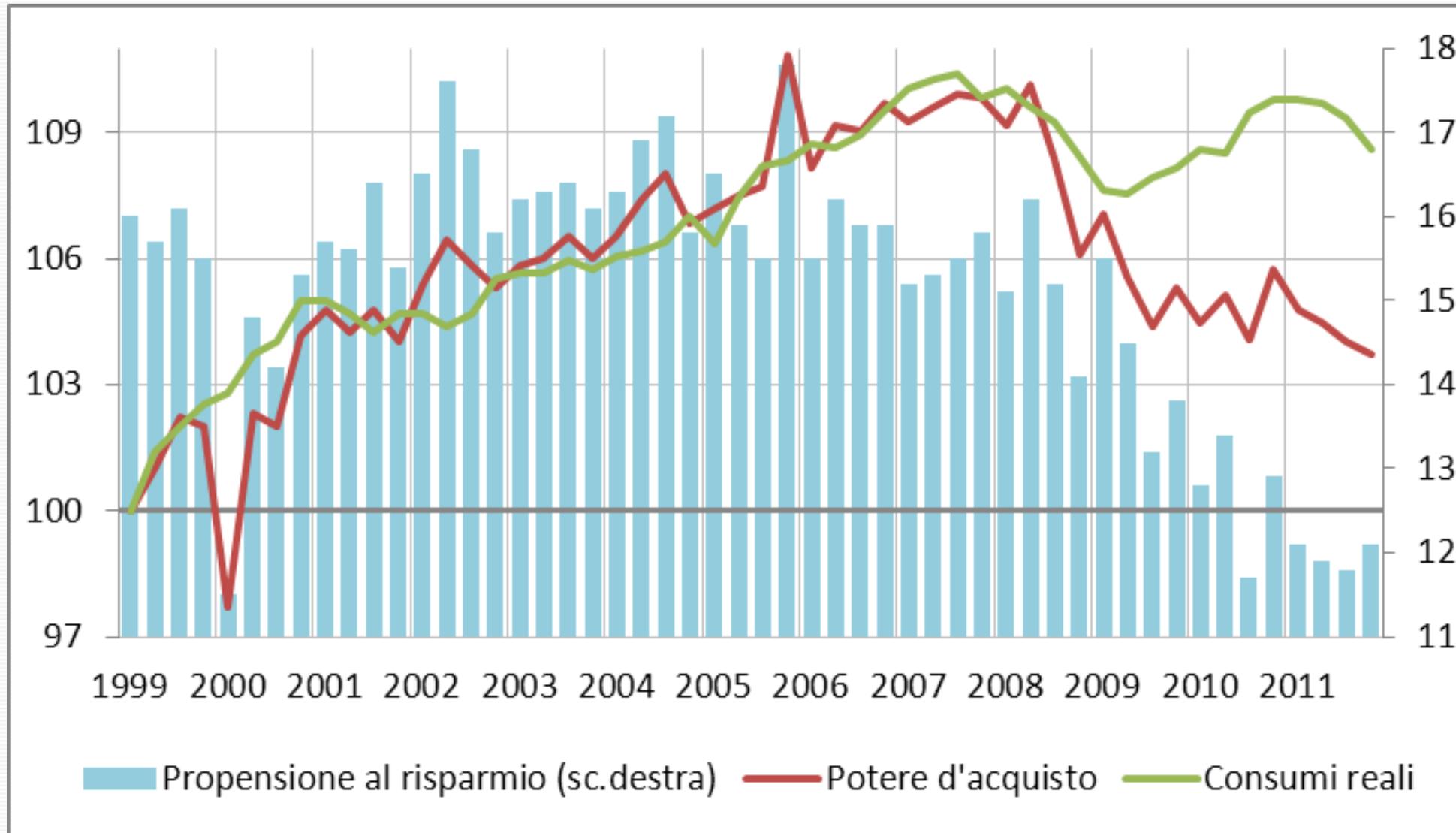
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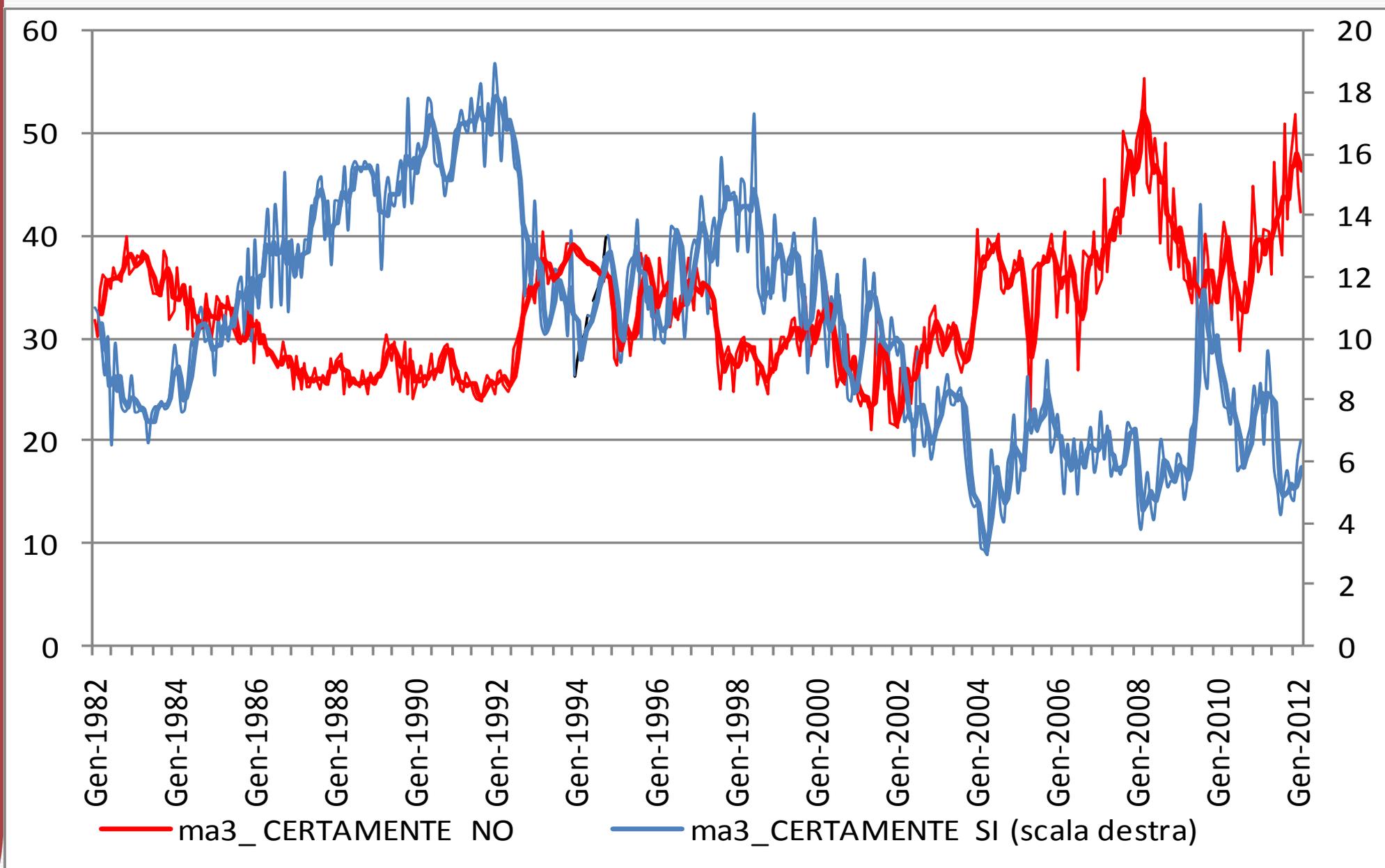
The use of subjective measures for economic analysis

- **1950s - The relevance of psychological principles in macroeconomic analysis (George Katona)**
- **1960s - The introduction of the concept of “bounded rationality” in decision making (Herbert Simon)**
- **1970s - The focus on inflation expectations**
- **1980s – Rational expectations models**
- **1990s – Monetary policy and the control of expectations (Alan Greenspan)**
- **2000s – Expectations, news and the functioning of financial markets**
- **2010s – The crisis of sovereign debt**

The use of subjective measures for economic analysis



The use of subjective measures for economic analysis



Towards the development of international standards for subjective measures

Eurobarometer measures a four steps life satisfaction since 1973

2009 - OECD / ISQOLS / Istat satellite meeting on “**Measuring subjective well-being: an opportunity for National Statistical Offices?**”

2009 – **Use of Gallup data in the OECD Factbook**

2009 – **SSF report, Recommendation 10:**

Measures of both objective and subjective well-being provide key information about people's quality of life. Statistical offices should incorporate questions to capture people's life evaluations, hedonic experiences and priorities in their own survey.

2011 – **ESS Sponsorship group recommendation:**

Developing EU-SILC as the core instrument for measuring the quality of life, incl. through incorporating further topics and subjective questions

Subjective wellbeing and policy making

Psychological elements play a decisive role in the evaluation of quality of life and on the economic condition or the changes in it.

Satisfaction for the economic condition is strongly due to:

- o relative condition with respect to others,
 - o loss-aversion (Kahneman and Tversky 2000): perceptions of wins and losses differ significantly. There is therefore no perfect substitutability between gains and losses.
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- This is far more relevant when comparing the effect of an action over people from different conditions which may be affected very differently by the same loss or gain, whatever the domain of wellbeing we are considering.
 - These considerations raise serious doubts over the effectiveness of traditional **cost-benefit analysis** in the identification of the best option in resource allocation.

Subjective wellbeing and policy making

The political decision needs to increase its attention on the subjective perception and try to intervene on elements of the functioning of the economic system, of the welfare state and of social dynamics in general which have an influence over any of the dimensions of wellbeing.

Layard:

- o Governments should intervene on is the struggle for relative income, which only produces significant reductions in quantity of time spent for leisure and social relationships:
Income taxation increase the cost-opportunity to work more
- o promote a more cooperative and less competitive society:
performance related pay should be substituted by the promotion of inner incentives and of a job satisfaction

Subjective wellbeing and policy making

Kahneman and Krueger (2006) identify four possible impacts of the adoption of subjective measures on policy action:

- o *enabling **welfare analysis** in a more direct way, complementing traditional welfare analysis;*
- o *shift the emphasis from increasing consumption opportunities to **increasing of social contacts**;*
- o *shift in emphasis from the importance of income in determining a person's wellbeing towards the **importance of his or her rank in society**;*
- o *promote **changes in the allocation of time**.*

Subjective wellbeing and policy making

More recently, **Dolan, Layard and Metcalfe** (Dolan et al, 2011) argue that different subjective well-being measures are to be used for different specific policy purposes.

	monitoring progress	informing policy design	policy appraisal
evaluation measures	- Life satisfaction	- Life satisfaction - Domain satisfactions	- Life satisfaction - Domain satisfactions - Detailed 'sub'-domains - Satisfaction with services
experience measures	- Happiness yesterday - Worried yesterday		- Happiness and worry - Affect associated with particular activities - 'Intrusive thoughts' relevant to the context
eudemonic measures	- Worthwhile things in life		- Worthwhile things in life - 'Reward' from activities

The case of the Australian treasury

The Australian Treasury explicitly states that its mission is "***to improve the wellbeing of the Australian people***"

In 2001, the Australian Treasury developed a conceptual well-being framework that allows a better understanding of the living conditions of citizens and that orientates political action:

- Level of opportunity and freedom that people enjoy
- Level of consumption possibilities
- Distribution of consumption possibilities
- Level of risk that people are required to bear
- Level of complexity that people are required to deal with

The case of the New Zealand Treasury

A similar conceptual framework has been established also by the New Zealand Treasury who decided to evaluate individual legislative measures according to their impact on:

- the guarantee of freedoms, rights and capabilities;
- a wide range of material and non material determinants of standard of living;
- distribution of living standards between different socio-economic group;
- the sustainability of living standards.

Risk and vulnerability

Vulnerability plays a central role in the understanding of individual wellbeing, either it refers to economic, social, health or psychological aspects.

Risk aversion may change significantly among people due to psychological reasons, ambitions and initial conditions.

Most vulnerable people should attract special attention from policy makers since wellbeing losses may reveal to have extremely tougher consequences.

Istat: An integrated system of social surveys

The Multipurpose surveys system is one of the most advanced and ambitious social surveys systems at international level. It is based on:

A quarterly survey:

1. **Trips, holidays and daily life;**

An annual survey:

2. **Aspects of daily life;**

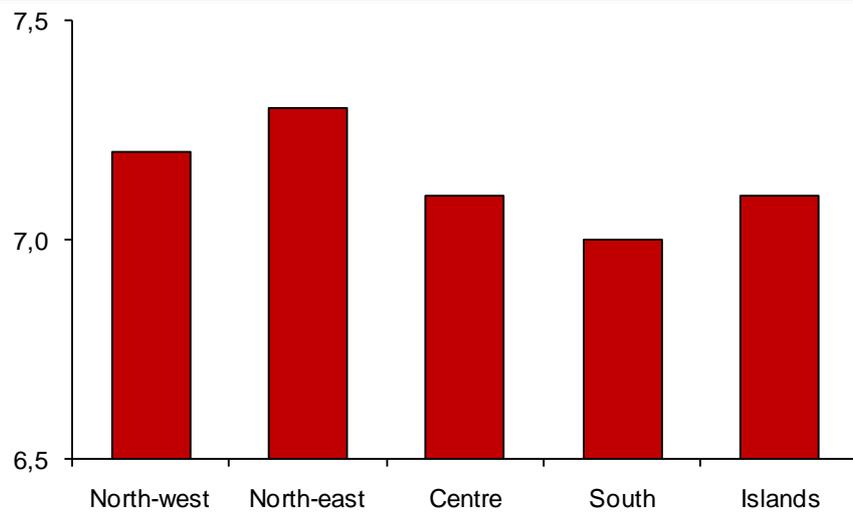
Five thematic surveys :

3. **Health conditions and use of medical services;**
4. **Citizens and leisure time;**
5. **Safety of citizens;**
6. **Household and social subjects;**
7. **Time use**

Istat's Questions on SWB (1/3)

Life satisfaction, measured since 2010: Overall, how satisfied are you with your life nowadays? Please give a score from 0 to 10.

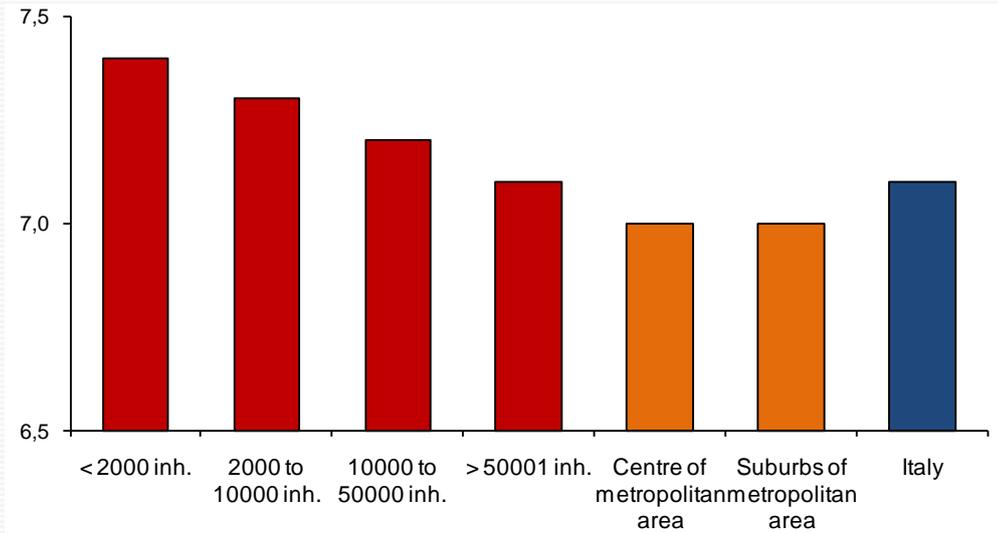
Average score 2011



Source: Indagine Multiscopo 2010

People is more satisfied in northern regions...

...and in small centres

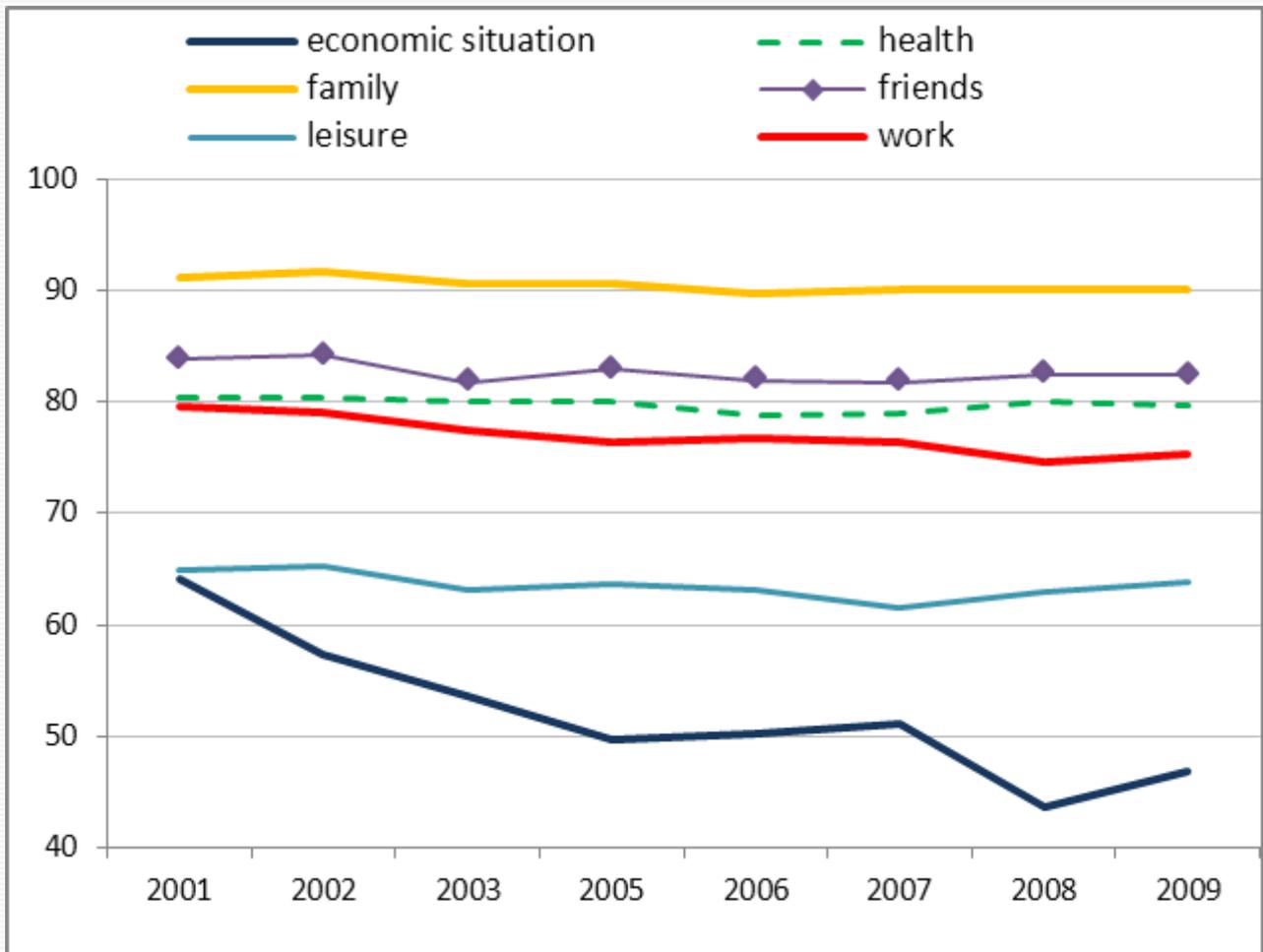


Istat's Questions on SWB (2/3)

Satisfaction for specific aspects measured on a 4 step scale:

- Very satisfied
- Quite satisfied
- Little satisfied
- Not at all satisfied

Percentage of people quite or very much satisfied



Istat's Questions on SWB (3/3)

A number of other subjective measures are collected annually:

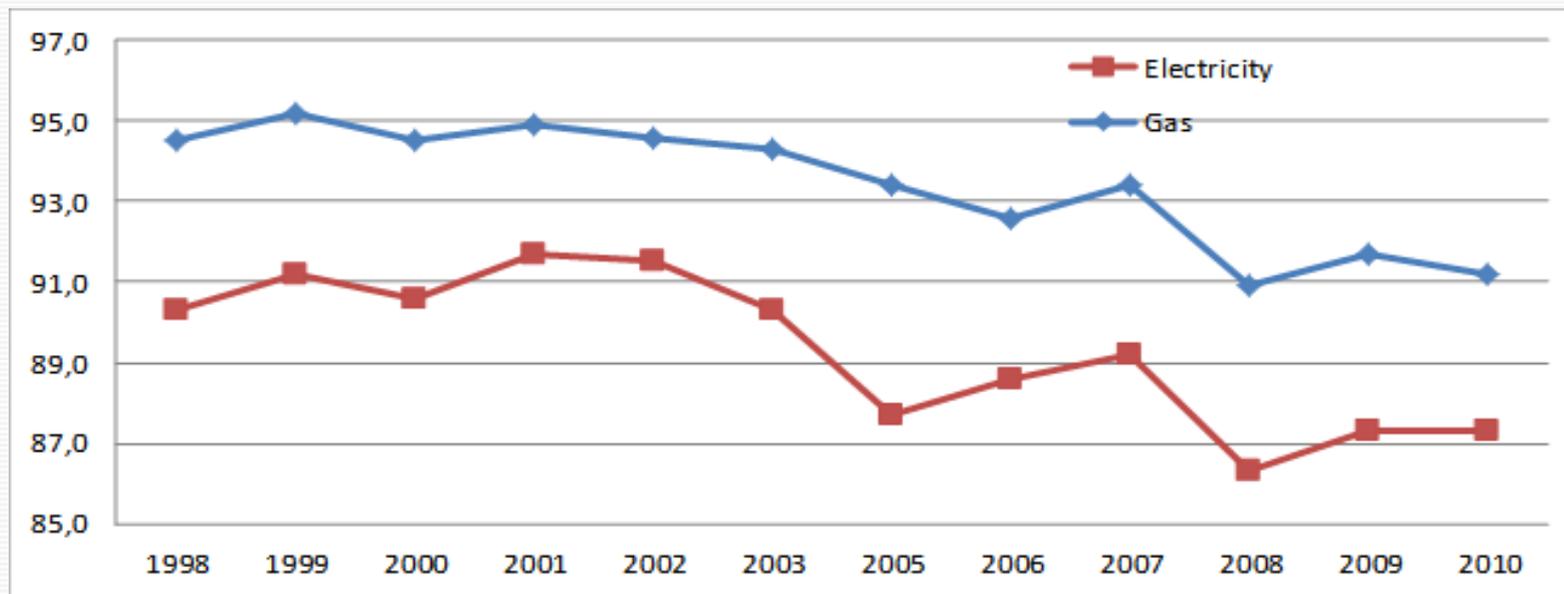
- Interpersonal trust
- Wallet question
- Trust on institutions
- Subjective health
- Subjective aspects of personal security
- Satisfaction for the use of services
- Subjective perception of the quality of urban environment

Use of subjective data in Italy (1/2)

The Regulatory Authority for Electricity and Gas presents to the Parliament and the President of the Council of Ministers a report on “**the state of the services**” where special attention is given to the satisfaction for the use of electricity and gas.

Satisfaction for gas and electricity services shows a constant decline during last decade

Households which are satisfied of the provision of electricity and gas. 1998-2010



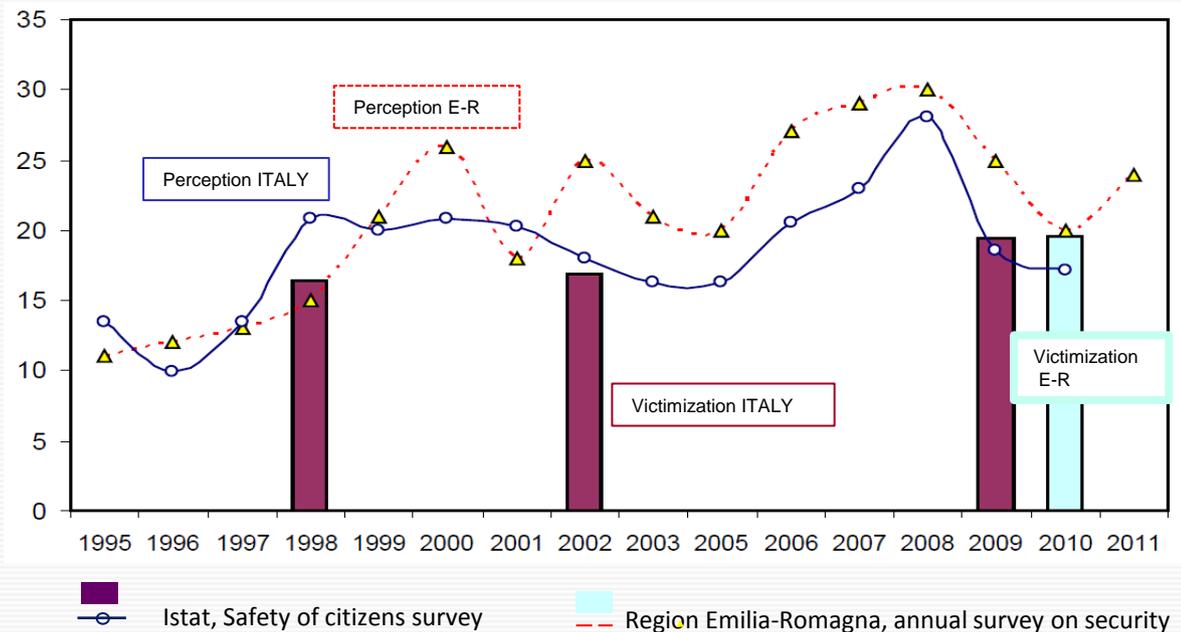
Use of subjective data in Italy (2/2)

Since 1994, the region of Emilia Romagna monitors the factors which influence citizens' security taking into account both objective and subjective aspects.

Using Istat methodology the region carries out an annual survey comparing the results with Istat data

In recent years perception of criminality has been higher in Emilia-Romagna than in Italy and generally increasing over time.

Victimization rate and people perception of criminality as a problem in the place they live. Years 1995-2011



In December 2010 Istat and CNEL launched an initiative for measuring «Equitable and Sustainable Wellbeing» in Italy

Wellbeing: multidimensional analysis of citizens' quality of life.

Equitable: Taking care of the distribution of wellbeing determinants among social actors.

Sostenibile: Guarantee of the same wellbeing for future generation

The Initiative foresees:

Steering Committee with the participation of stakeholders and Istat experts, to identify the domains and to agree on the final list of indicators

Scientific Commission with the participation of experts in different fields, to select potential indicators based on quality concerns

Public consultation

The individual sphere

1

AMBIENTE

Environment

2

SALUTE

Health

3

BENESSERE ECONOMICO

Material well-being

4

ISTRUZIONE E FORMAZIONE

Education and training

5

LAVORO E CONCILIAZIONE
TEMPI DI VITA

Work and work-life balance

6

RELAZIONI SOCIALI

Social relations

7

SICUREZZA

Personal security

8

BENESSERE SOGGETTIVO

Subjective well-being

The context

9

PAESAGGIO
E PATRIMONIO CULTURALE

Landscape and cultural heritage

10

RICERCA E INNOVAZIONE

Research and innovation

11

QUALITÀ DEI SERVIZI

Quality of services

12

POLITICA E ISTITUZIONI

Governance

Subjective measures within BES

Subjective wellbeing

- People with life satisfaction 8 to 10
- People very satisfied of their leisure time
- People thinking their personal situation will improve in the next 5 years

Environment

- Level of concern for losing biodiversity

Economic well-being

- Index of subjective evaluation of economic strain

Governance

- Trust in parliament, judiciary system and parties
- Trust in institutions at local level
- Trust in other type of institutions

Social relationships

- Satisfaction for relationships with relatives
- Satisfaction for relationships with friends

Health

- Healthy life expectancy at birth
- Index of physical status (PCS)
- Index of mental status (MCS)
- Life expectancy without limitation in daily activity at 65 years and over

Personal security

- People that feel safe walking alone at night
- People that are worried to be raped
- People that, in the last 12 months, have been worried to be on the point of being victim of a crime

Conclusions

The multidimensional approach towards wellbeing may easily lead to the identification of **trade-offs**, which may not always be rational when we are following subjective preferences

They can only be solved through a **political process**.

Complexity makes sometime impossible to simply compare costs versus benefits or even misery versus happiness of ill-being versus well-being.

Yet the use of a combination of objective and subjective measures may allow to provide an overall picture to be used for taking decisions which, even if not based on a single final number, can be rooted in the analysis of the many dimensions characterizing people's wellbeing.