

Modelling subjective well-being: Do strong social relations lead to increases in well-being?

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Summary

Subjective well-being (SWB), measured through direct survey questions, is becoming increasingly used by economists as an alternative to income as a proxy for well-being. This paper considers the SWB questions within the British Household Panel Survey (BHPS) with a view to whether they have the potential to provide useful information to policy makers, particularly in relation to understanding the contribution that strong social relationships may make to individual well-being.

To be useful the responses to subjective well-being questions must be a valid measure of well-being and be sensitive to real changes in well-being. Furthermore, findings need to be sufficiently robust to arise when SWB is measured in different ways and when different methods of modelling the relationship between an individual's circumstances and their SWB are used.

This paper considers whether SWB appears to be a sufficiently valid and sensitive measure of well-being to be useful for public policy and draws on previous empirical work to model SWB responses within the BHPS. The analysis is focused on responses to the question "how dissatisfied or satisfied are you with your life overall?" which was asked in waves 6 to 10 and 12 to 13 of the BHPS. The mental health diagnostic instrument, the GHQ12, and one question within the GHQ which asks about feeling 'unhappy or depressed' are also considered.

Analysis of SWB using cross section data is problematic since results may be driven by personality differences rather than differences in circumstances. For example, if a relationship is found between friendships and SWB it is difficult to know whether this is being driven by a causal relationship, or because certain personality types (such as extroverts) both have higher SWB and more friends. This is particularly important when considering subjective well-being since a large component of subjective well-being is thought to be due to an individual's personality. The panel nature of the BHPS, with repeated observations on the same individual at different periods of time, means that the analysis can account for time-invariant individual specific effects. A range of different modelling techniques are used within this paper (ordered logit, fixed effects ordinary least squares and conditional fixed effects logit), and in each case individual specific effects are controlled for. Consequently, the models are comparing the individual's SWB and life circumstances at one period of time to their SWB and life circumstances at other time periods. For example, if an individual is less satisfied with their life in wave 10 than they are in all other waves and the only difference in their circumstances in wave 10 is a lower health state the regression model assumes that it is the poorer health state which has caused the reduced satisfaction with life. However, potential endogeneity problems remain unsolved.

One very clear message which arises from this range of different modelling techniques on different SWB measures is that the people around you really matter.

Seeing friends and family, or neighbours 'less than most days' significantly reduces the chances of being in a higher life satisfaction category. Those times when we have people who we see regularly and who create a friendly and peaceful local environment are the times when we are more satisfied with our lives and less likely to experience unhappiness.

Other factors which are linked to times when people's well-being is reduced are poor health, unemployment and long term sickness, experiencing financial difficulties, experiencing problems sleeping, divorce, widowhood and having a heavy carer burden. Of these, the biggest knock to well-being arises from finding it difficult to cope financially. However, this is not just about income. Of those in the top income quintile only half respond that they are 'living comfortably'. In order to understand why people struggle to cope there is a need to explore their expenditures, their expectations of income and necessary consumption, their financial responsibilities, their debts, and their financial security.

Financial coping, health and social relationships are crucially important to well-being. Whilst in many cases they may interact positively (for example, improving social relationships can improve health), this need not always be the case. This paper also briefly explores the correlates of a social relationships scale and finds that although having financial difficulties is negatively associated with strong social relationships, so is being in higher income groups.

If the ultimate end of economic and social policy is maximising well-being then policy makers need to be extremely cautious that they do not treat the *means* of enhancing well-being as an end in itself. Whatever theory of well-being is adhered to income can only ever be instrumental to well-being. Clearly financial security is an important source of well-being, however, we understand relatively little about the role of the income in generating financial security compared with our own internal perception of our financial needs. These findings suggest that income may also have negative consequences for other sources of SWB in peoples' lives, namely how often one sees family, friends and neighbours. Consequently, any policy which focuses on increasing income as an outcome measure should be aware of the risks of indirectly undermining other sources of well-being.