



Economics and Well-Being in Switzerland

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Outline

1. The State of the Swiss Economy
2. Swiss Institutional Approaches
3. Approach of Swiss Researchers
 - Economic analysis of reported subjective well-being
 - Applications*
 - Direct democracy and reported satisfaction with life
 - (Un-)employment and unhappiness
4. Outlook and Concluding Remarks

1. The State of the Swiss Economy

	Switzerland	EU	India
GDP per capita (in \$)	80,528	34,240	1,499
Life expectancy (in years)	83	81	66
Schooling (in years)	12.2	8.2-12.9	4.4
Unemployment (in %)	4.2	10.5	3.4-8.5
Income inequality (Gini index)	28.7	30.6	36.8
Subj. well-being (Cantril scale)	7.7	5.1-6.7-7.7	5.2

Sources: GDP (2013), life expectancy (2012), schooling (2012), unemployment (2012) from World DataBank. Unemployment for India, income inequality (2012, 2012, 2004) from CIA Fact Sheet. SWB (2010-12) from WHR.

2. Swiss Institutional Approaches

Swiss Labor Market Institutions

“A flexible, generous but tough mix!”

1. Limited employment protection
2. Generous unemployment benefits
3. Effectively used sanction system for non-compliance in active labor market programs
4. Strong social work norms

On the basis of

- an integrative and open education system
- incl. vocational education

2. Swiss Institutional Approaches

Swiss Political Institutions

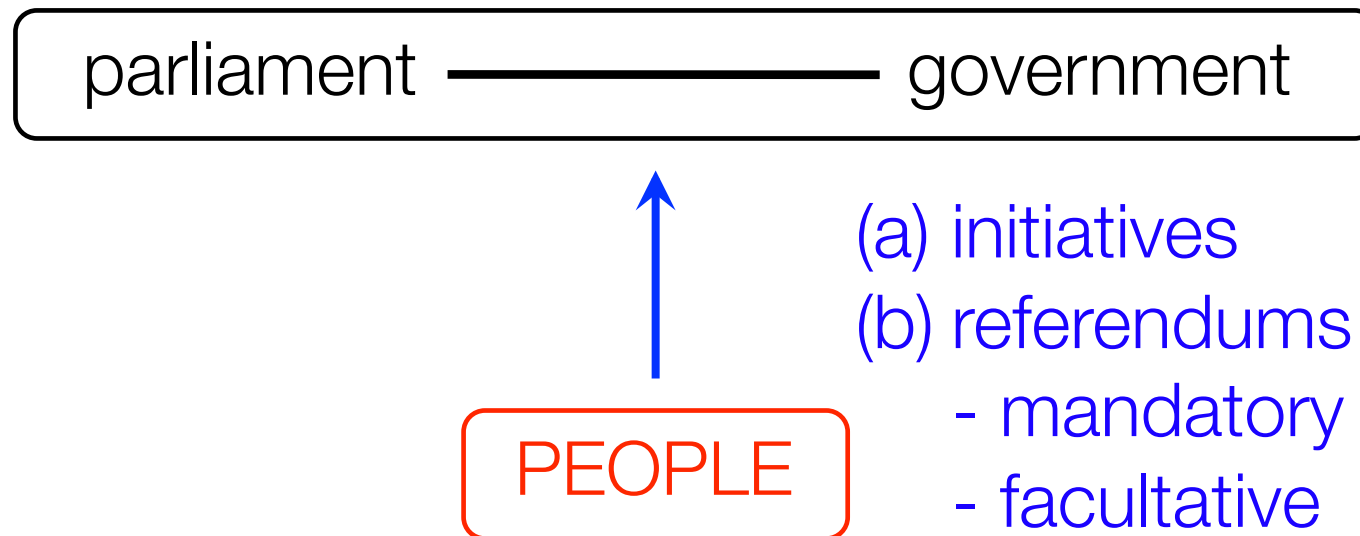
„A living constitution“

Rules for choosing rules:

1. Decentralized decision-making in a federal state
2. Direct democratic participation rights at all levels in the federal state

Swiss political institutions: Direct democracy

„Direct“ democracy is always „semi direct“



Characterization:

- number of signatures / time restrictions
- issues: everything / with restrictions

Influence of direct democracy on the political process

Additional possibilities for monitoring

- elections
- votes about issues

More political competition

- issues
- empowerment of latent interests

Outcome

Influence of direct democracy on the political process

Additional possibilities for monitoring

- elections
- votes about issues

More political competition

- issues
- empowerment of latent interests

More political discourse

- interaction
- information

} Process

Empirical evidence: Consequences of direct democracy

1. Lower public debt (CH, US)
2. Lower corruption (US)
3. Lower government expenditure (CH, US)
(But: higher expenditure for public education (US))
4. More efficient provision of public services (CH)
5. Less centralization (CH, US)
6. Higher economic performance (CH)
7. Less tax evasion (CH)
8. Better informed about politics (EU, CH)

Outline

1. The State of the Swiss Economy
2. Swiss Institutional Approaches
3. Approach of Swiss Researchers
 - Economic analysis of reported subjective well-being (SWB)
 - a) SWB as a concept in economic research
 - How can subjective well-being be measured?
 - Why is there a need for the economic study of subjective well-being?
 - b) Determinants of individual well-being
4. Outlook and Concluding Remarks

a) Measuring subjective well-being

Survey questions about subjective well-being

„In general, how satisfied are you with your life?“

Please answer on the basis of the following scale, ,0‘ means ,not at all satisfied ‘ and ,10 ‘ means ,completely satisfied ‘.

not at all
satisfied

completely
satisfied

0	1	2	3	4	5	6	7	8	9	10
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

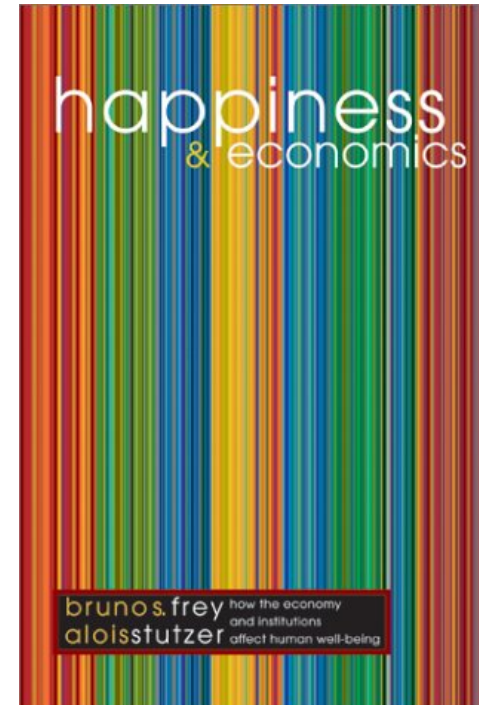
Source: Swiss Household Panel (1999-)

Why is there a need for the economic study of subjective well-being?

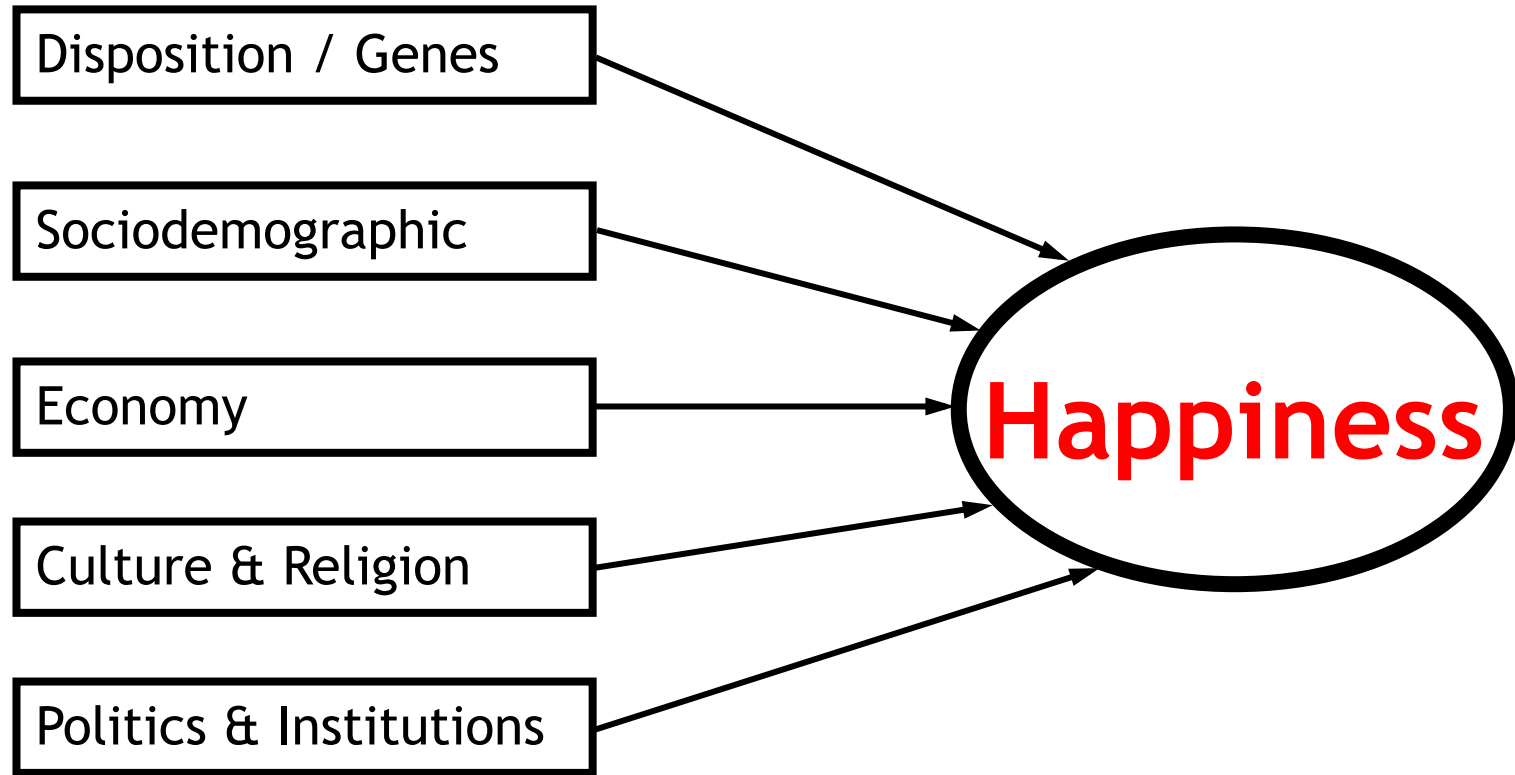
- What is the personal well-being of people?
- Identification of its determinants
- Understanding of the psychological processes that regulate well-being
- Evaluation of the basic principles of the economic approach
- Testing of economic theories
- Consequences for individual behavior
- Recommendations / „food for thought“
(individuals, organizations, society)

Previous research

- Starting point: research in psychology
- Pioneers in economics
 - Easterlin (1974)
 - Scitovsky (1976)
 - Clark und Oswald (1994)
- 1st review from an economic perspective
 - Frey, Bruno S. und Alois Stutzer (2002). *Happiness and Economics: How the Economy and Institutions Affect Human Well-Being*. Princeton University Press.



b) Determinants of subjective well-being



Unemployment and subjective well-being

- Is employment a burden or is unemployment even worse?

Unemployment and subjective well-being

Change in Life Satisfaction by Labor Force Status, Switzerland 2000–2012

Dependent Variable: Satisfaction with life

	Labor force status in year t	
	Employed	Unemployed
Employed		
Mean	-0.061	-0.501
Std. error	0.005	0.094
Observations	54'258	407
Unemployed		
Mean	0.409	0.067
Std. error	0.093	0.114
Observations	342	315

Source: Swiss Household Panel (SHP).

Unemployment and subjective well-being

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Unemployment and subjective well-being

- On average, unemployment reduces life satisfaction substantially
 - Effects *cannot* be explained by lower net income
(Clark and Oswald 1994, Winkelmann and Winkelmann 1998, Frey and Stutzer 1999)
- Unemployment involves psychic costs
 - due to a loss of status, self-esteem, personal relationships and a disciplining time structure
 - that are related to social work norms
(Clark 2003, Stutzer and Lalive 2004)
 - that reduce SWB even after re-employment (= scarring effects)
(Clark et al. 2001, Knabe and Rätzel 2011)

Unemployment and subjective well-being

- Negative consequences of unemployment on *employed* people
 - Negative correlation between the level of unemployment and the SWB of employed people
(Di Tella, MacCulloch and Oswald 2003)
 - Employees in the institutional framework of the public sector are less affected by fluctuations in regional unemployment.
(Luechinger, Meier and Stutzer 2010)

Our interpretation:

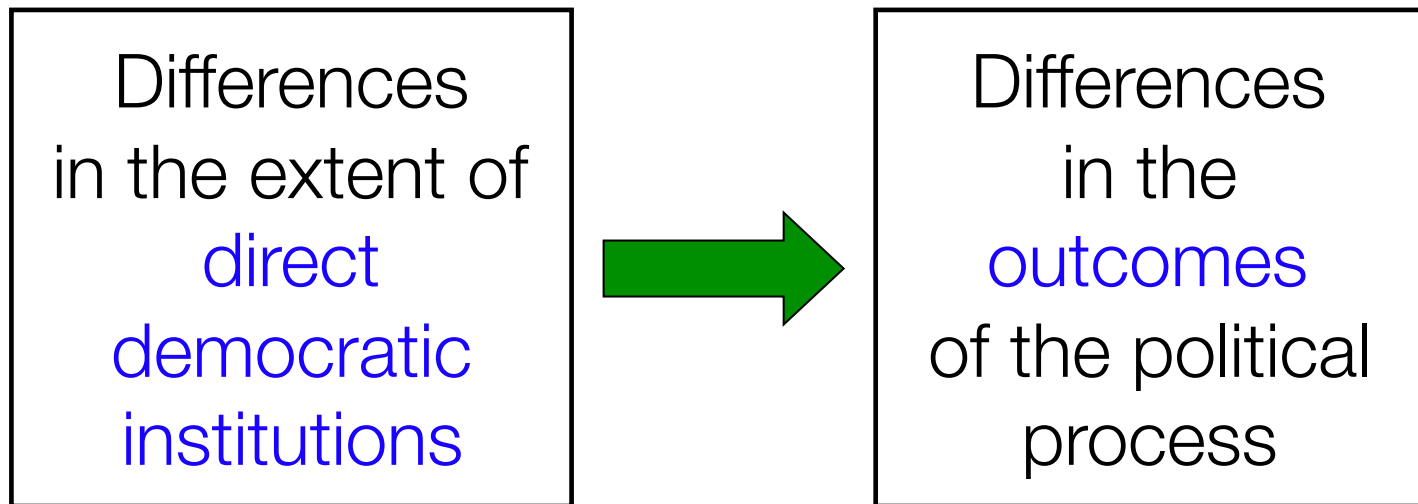
Anticipatory feelings of economic insecurity matter for individual welfare.

Direct democracy and subjective well-being

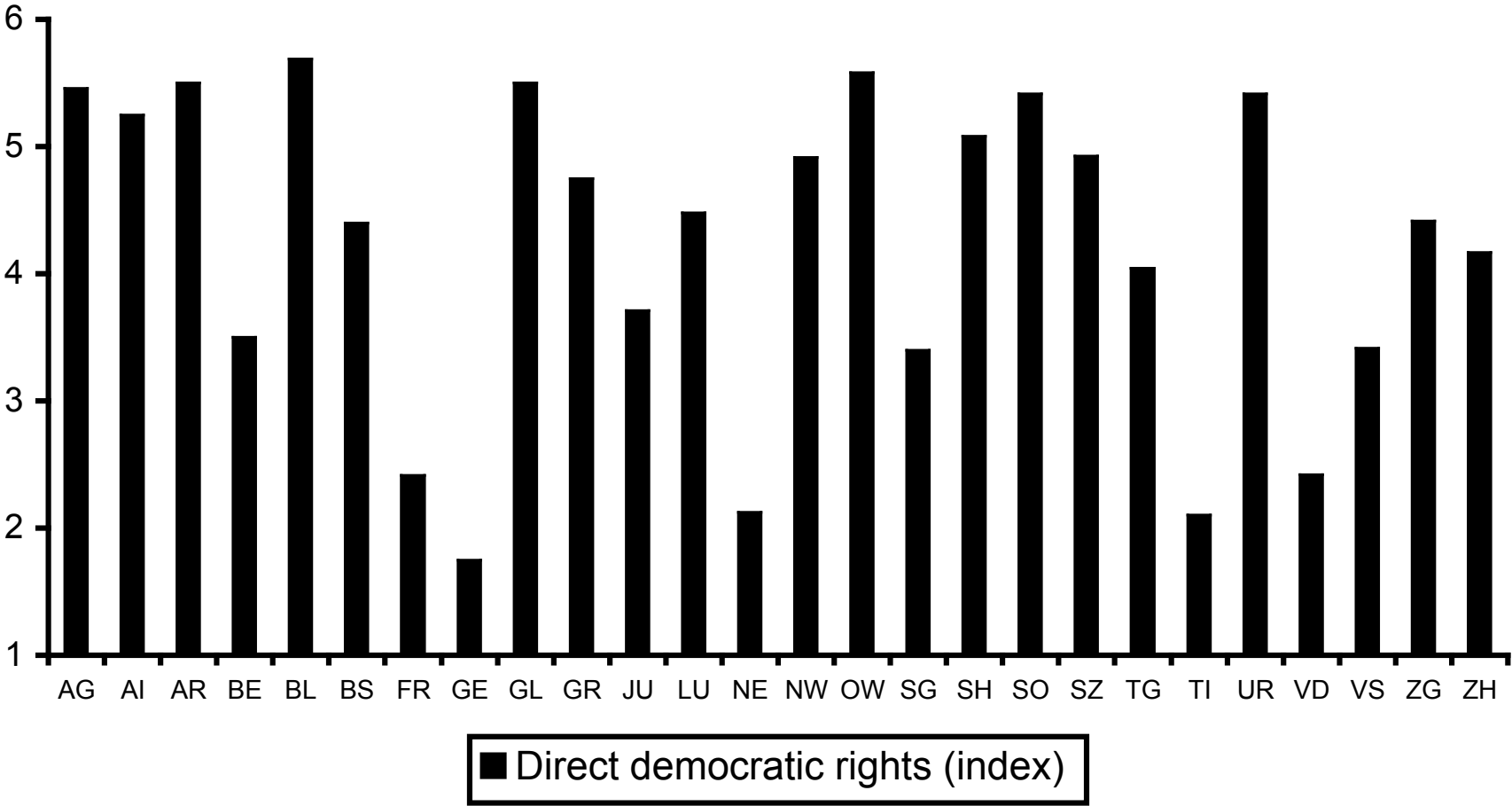
Question: Are people's preferences better satisfied when they have a direct say in politics?

Empirical approach

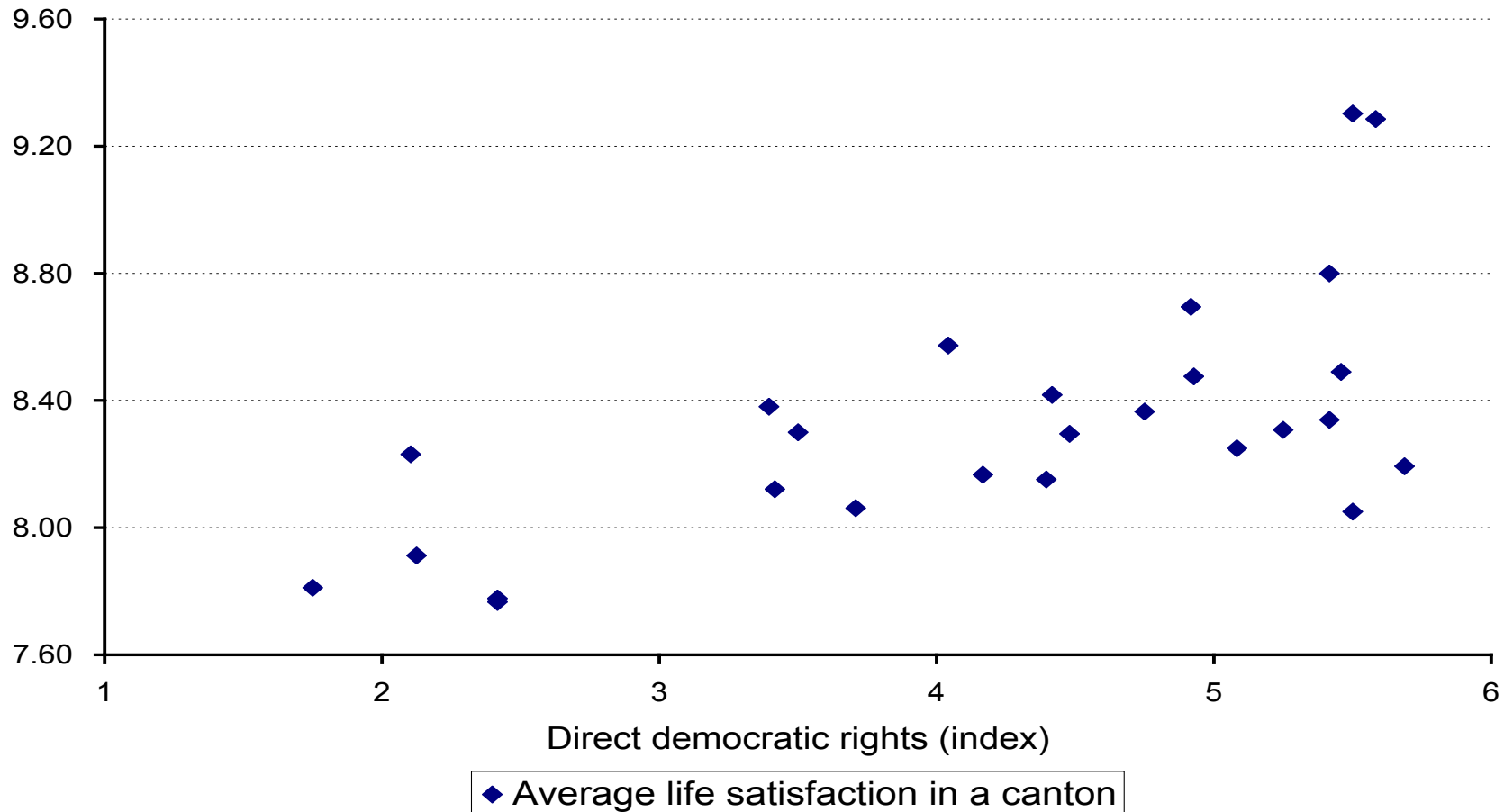
➤ *Comparison* between cantons/cities or even countries



Direct democratic rights in Swiss cantons



Direct democratic rights and life satisfaction across Swiss cantons, 1992-94



Satisfaction with life in Switzerland (part 1)

	Marginal effect (index = 10)
<i>(a) Socio-demographic variables</i>	
age 29 and younger	reference group
age 30 – 39	-0.027
age 40 – 49	-0.003
age 50 – 59	-0.027
age 60 – 69	0.073**
age 70 – 79	0.106**
age 80 and older	0.099**
men	reference group
women	0.015
Swiss	reference group
foreigner	-0.091**
low level of education	reference group
medium level of education	0.039**
high level of education	0.042*

Satisfaction with life in Switzerland (part 2)

	marginal effect (index = 10)
couples without children	reference group
single women	-0.083**
single men	-0.057*
couples with children	-0.023
single parent	-0.113**
other private household	-0.042
collective household	-0.124**
employed	reference group
self-employed	0.025
unemployed	-0.211**
homemaker	0.043*
other employment status	-0.044(*)

Satisfaction with life in Switzerland (part 3)

	marginal effect (index = 10)
<i>(b) Equivalence income</i>	
- less than CHF 2'000	reference group
- CHF 2'000 – 3'000	0.029*
- CHF 3'000 – 4'000	0.050**
- CHF 4'000 – 5'000	0.092**
- CHF 5'000 and more	0.068**
<i>(c) Institutional variable</i>	
Direct democratic rights	0.028**
Number of observations	6137

Significance level: * $0.01 < p < 0.05$, ** $p < 0.01$.

Data source: Leu, Burri und Priester (1997).

Source: Bruno S. Frey and Alois Stutzer (2000). Happiness, Economy and Institutions. *Economic Journal* 110(466): 918-938.

Outcome and process utility of direct democracy in Switzerland

	<i>Foreigners</i>	<i>Swiss</i>
	marginal effect (index=10)	marginal effect (index=10)
<i>(a) Socio-demogr. variables</i>	yes	yes
<i>(b) Income</i>	yes	yes
<i>(c) Institutional variable</i>		
Direct democratic rights	0.010	0.034**
Number of observations	743	5391

*Significance level: * 0.01 < p < 0.05, ** p < 0.01.*

Data source: Leu, Burri und Priester (1997).

Outlook and Concluding Remarks

Swiss Approaches to Economics and Well-Being

	Politics	Labor Market
Institutions matter!	<ul style="list-style-type: none">• Direct democracy• Federalism	<ul style="list-style-type: none">• Education• Flexicurity• Benefit sanctions• Social work norms
Research on subjective well-being	Outcome and process utility of direct democracy	Unemployment: primary source of unhappiness

Outlook and Concluding Remarks

Further applications using SWB data as a methodological approach

- Comparative institutional happiness research
 - Political participation rights for foreigners
- Policy evaluation
 - Welfare consequences of a more or less generous unemployment insurance system
 - Welfare consequences of tobacco control policies
- Test of the assumptions of the rational choice paradigm
 - (Mis-)prediction of future utility (after major life events)