

Kseniya Abanokova (Higher School of Economics, National Research University, Russia), Hai-Anh H. Dang (World Bank), Michael M. Lokshin (World Bank)

Subjective Wealth, Life Satisfaction, and Poverty Adaptation: Evidence from Long-run Russian Panel Data

Introduction

If poor individuals adapt their subjective well-being to poverty, it has much policy relevance. Indeed, if this is true, once people fall into poverty, they may become content with their undesirable welfare status over time. They may consequently lose incentives to escape poverty and would be trapped in chronic poverty. As such, more resources should perhaps be shifted toward social protection programs that protect vulnerable households against the life-changing fall into poverty, from longer-term programs to address structural issues such as building schools or infrastructure.

Yet, little evidence exists over poverty adaptation, most likely due to the lack of panel survey data. Clark et al. (2016) offers the first study that rigorously shows life satisfaction to fall with the incidence and intensity of poverty among Germans, and individuals do not adapt to living in poverty. This contrasts with a rather established finding in the happiness literature that individuals generally adapt to their higher incomes (Di Tella et al., 2010; Vendrik, 2013; Galiani et al., 2016).

We propose to make several new contributions to the nascent literature on poverty adaptation. First, we offer analysis using long-run panel data for the past two decades from Russia, a transition economy. Since richer countries like Germany can differ from lower-income countries like Russia in many aspects, there is no a priori evidence that household poverty adaptation behaviors in the former similarly hold for the latter. Second, we examine poverty that is defined with both an absolute income threshold and a relative threshold. Finally, beyond overall life satisfaction, we also analyze other outcomes such as subjective wealth, and satisfaction with other important domains of one's life including own economic conditions, work contract, job, pay, and career.

Proposed Directions for Further Analysis

Our preliminary results add to the nascent literature on poverty adaptation in several different aspects, including analysis of new outcome variables (i.e., subjective wealth, and satisfaction with own economic conditions, work contract, job, pay, and career) and different poverty thresholds (i.e., absolute and relative). To our knowledge, we also offer the first study for a middle-income country in transition (i.e., Russia).

We propose to further extend our contributions in at least several new directions below

i. The existing literature and our analysis above only considers individuals' first entry into poverty. Since vulnerable individuals can transition into and out of poverty over a period of

time, it can be useful to examine the impacts of these movements on their subjective well-being. This analysis is especially relevant for Russia where more than 20 percent of those, who ever experienced poverty during 1994-2017, fell into poverty twice in this period. In fact, for better poverty reduction strategies, increasingly more attention is being paid to these vulnerable groups of individuals or households that are currently not poor, but have a risk of falling into poverty (see, e.g., Dang and Lanjouw, 2017).

ii. Poverty adaptation is likely an endogenous process when poverty not only has negative impacts on subjective well-being, but the latter can have effects on individuals' economic behavior as well (Haushofer and Fehr, 2014). To address this issue, we will consider a simultaneous equation framework that jointly estimates these impacts. For example, we can model a joint OLS-probit model with individual fixed effects for the two outcomes life satisfaction and poverty. These equations can also include higher-order lagged values of both poverty and subjective well-being, which more rigorously addresses state dependence between past and current levels (Cappellari & Jenkins, 2004; Biewen, 2009).

iii. Poverty adaptation can also depend on individuals' expectations about their economic prospects in the future. We plan to analyze questions in the RLMS related to individual expectations (e.g., "Do you think that in the next 12 months you and your family will live better than today or worse?") to enrich our analysis.