

- This policy brief summarises evidence about self-perceived life satisfaction in a large sample of rural Vietnamese households based on data from the 2012 Vietnam Access to Resources Household Survey
- Results show that levels of subjective well-being in rural Vietnam are surprisingly low. 48 percent of respondents report being “not very” or “not at all” pleased with their lives.
- The effects of economic development on subjective well-being are ambiguous. Improvements in health and education have significant, positive effects on happiness.
- On the other hand, working for a wage is associated with substantially lower subjective well-being than working on a family farm, conditional on income.
- There is a strong correlation between income and happiness, but this may be driven more by relative- than by absolute income.
- In general, results are well in line with those from countries with entirely different cultures and levels of economic development.
- This supports the view that the values of rural dwellers in Vietnam are in many ways the same as those of people in advanced economies on the other side of the Earth.

The full in-depth study and our other research papers and policy briefs are available at : [www.ciem.org.vn/](http://www.ciem.org.vn/) Financial support from Danida is acknowledged with thanks.

# Policy Brief

## Economic Development and Subjective Well-Being. Evidence from Rural Vietnam

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### Background:

Vietnam is undergoing a process of fast economic development. This process not only entails rising income. Rather, it changes life circumstances for ordinary Vietnamese in a vast number of ways. Profound changes affect, inter alia, the occupational structure, gender roles, family structure, health outcomes, education, migration, and the nature of social networks.

This policy brief summarises analysis that uses the 2012 round of the VARHS survey to investigate determinants of subjective well-being (happiness) in rural Vietnam. Our measure of happiness is the question

“Taking all things together, would you say you are.. 1) Very pleased with yours life; 2) Rather pleased with your life; 3) Not very pleased with your life; 4) Not at all pleased with your life”, with each respondent choosing one answer.

The aim is not to question whether economic development in general is beneficial (we think it is), but rather to investigate whether some dimensions of development are more important for subjective well-being than others. Some aspects of development may well be detrimental to happiness (for example, increased geographic mobility means that parents see their grown-up children much less in more developed than in less developed societies).

### Measuring “Happiness”

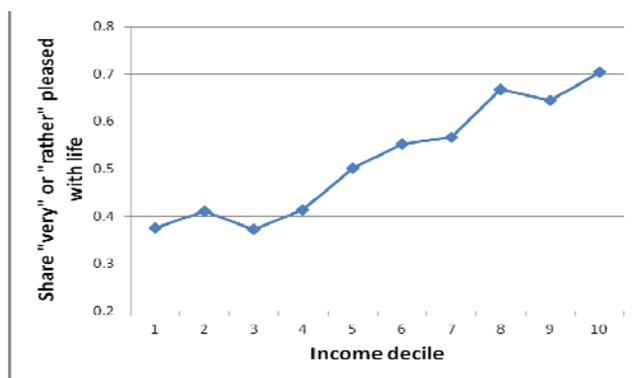
The most common way of measuring well-being is through surveys. Survey



questions vary along two dimensions. First, some questions ask the respondent for a general evaluation of his or her well-being, for example “In general, how happy would you say that you are these days”, while other questions collect information on the experience of negative and positive feelings (e.g. feeling stressed or feeling proud) in the recent past.

How should we expect these different dimensions to affect subjective well-being? We discuss the different dimension of development in turn.

**Income.** Rising levels of income is a defining feature of economic development. Income per capita has increased several-fold in Vietnam in recent decades and even if growth rates are currently somewhat lower than in the past, they are still robustly positive.



**Occupation.** Another stylized element of economic development is a secular shift in the sectorial and occupational structure of the economy. In terms of occupation, large shares of the population typically move from self-employment in agriculture to wage work in industry or services.

**Landlessness.** Partly as a corollary of the sectorial shift from agriculture to industry and services, economic development tends to be accompanied by the concentration of agricultural land in fewer and larger holdings. Therefore, the share of households without agricultural land tends to increase.

**Education:** Another standard component of economic development is improved access to education. Vietnam has already experienced huge increases in school enrolment and literacy. The effects of education on life satisfaction are ambiguous.

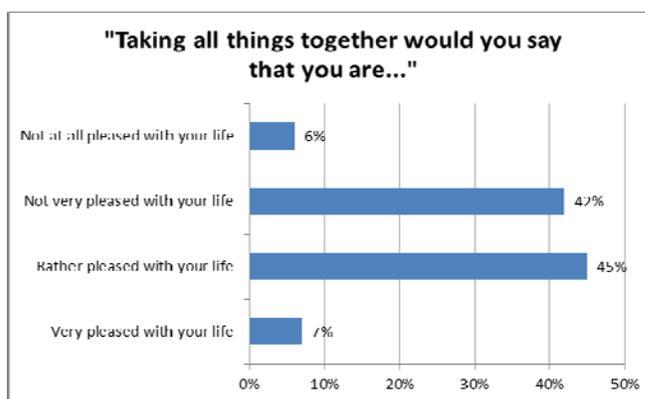
**Health:** Another important consequence of economic growth, especially at early stages of development, is improved health outcomes. One of the most robust findings in the literature on subjective well-being is the strong effect of health status on happiness.

**Fertility:** At some point, economic development almost always leads to declines in fertility. Vietnam has actively promoted this process with the use of a “two-child” policy, although this rule has been implemented less strictly in

rural than in urban areas.

**Family structure:** In most countries, economic development has been accompanied by a rise in divorce rates and in the share of unmarried adults. A quite robust finding in the literature on happiness is a positive effect of marriage on subjective well-being. This effect might be especially important in rural Vietnam where traditional family values are strong.

**Migration:** Economic stagnation may be a reason to migrate to other regions or countries, for example to find jobs. In general, however, economic development goes hand-in-hand with increased geographical mobility.



**Social networks:** The nature of social networks changes profoundly as economies develop, partly as a consequence of the changes in occupations and migration described above. Groups tend to become less defined by geography and kinship and more by shared interests and points of view.

**Risk and shocks.** The types of risk and shocks faced by households changes as the economy develops. Exposure to health shocks and natural disasters may fall, but integration into markets increases the potential importance of price shocks and unemployment.

## Main findings

The empirical analyses is based on the 2012 wave of the Vietnam Access to Resources Household Survey (VARHS), which was implemented in the rural areas of 12 provinces in Vietnam between June and August 2012.

- Own income has a strong, positive effect on happiness. In the richest income decile, 70 percent of respondents are “rather” or “very” pleased with their lives. In the poorest deciles, the corresponding number is less than 40 percent. However, there is also a strong, negative effect of other people’s income.
- In particular, median income in the respondent’s commune of residence affects happiness

negatively when own income is controlled for. Therefore, aggregate income growth (which increases your own as well as your neighbors' income) may not have a strong, direct effect on aggregate happiness.

- However, the study also shows strong, positive effects on happiness from improvements in health, schooling and risk management, all of which are more easy to obtain if aggregate income is rising.
- Detailed analyses show that the negative effect of wage labor is not driven by any particular sectors or skill levels, such as unskilled workers in agriculture.
- When income is controlled, people working for a wage, or in their own non-farm enterprise, are significantly less happy than those working on their own farm.
- The negative effect is present in all sectors and for both skilled and unskilled workers. This is cause for concern because millions of Vietnamese in the coming decades are going to move from self-employment in agriculture to wage work. While this development is a natural component of the process of economic development, the results of the paper tell us that it comes with a psychological cost.
- The reasons for this are not entirely clear, but loss of autonomy, and perhaps loss of social status, are possible explanations.
- Ethnic minorities are significantly less happy than the Kinh majority. However, this effect disappears when income is controlled for. This highlights the fact that ethnic minorities are often in a disadvantaged position and shows that economic development is equally important for ethnic minorities as for Kinh people.

In general, the determinants of happiness in rural Vietnam are strikingly similar to those estimated in developed, Western countries. This is true for factors such as relative income, marital status, health, schooling, age and social capital. It therefore appears that the values of rural Vietnamese are not radically different from the values of people elsewhere. This strengthens the view that lessons on policy derived from developed, Western countries are also relevant in Vietnam.

## Policy recommendations

- A key policy lesson is that income growth mainly increases happiness if it is translated into

improvements in outcomes such as health, schooling and risk management.

- Policy makers should react by securing good working conditions for wage workers, including limited work hours and workplace democracy (both of which would tend to reduce a psychological cost stemming from loss of autonomy).
- Economic development among ethnic minorities should be a priority.
- As in most other analyses of happiness, marriage has a significant, positive effect on happiness. Note, however, that this tells us that married people are on average more happy than non-married. It still may well be the case that the marginal couple (on the brink divorce) are more happy apart than together. Therefore, these results do not provide a rationale for policies to, for example, prevent divorce.