

Southern Africa Labour and Development Research Unit

Self-assessed well-being: Analysis of the NIDS Wave 1 and 2 Datasets

by
Dorrit Posel



Working Paper Series
Number 79



N.i.D.S.
NATIONAL INCOME DYNAMICS STUDY

NIDS Discussion Paper
2012/2

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Recommended citation

Posel, D. (2012). Self-assessed well-being: Analysis of the NIDS Wave 1 and 2 Datasets. Cape Town: SALDRU, University of Cape Town. (SALDRU Working Paper Number 79 / NIDS Discussion Paper 2012/2).

ISBN: 978-1-920517-20-5

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1. Introduction

Most nationally representative household surveys in South Africa collect data on money-metric measures of well-being (income and expenditure), which are then used to generate statistics on poverty and inequality. However, these measures may be limited in several ways. First, they typically are not able to identify differences in economic well-being *within* the household when all resources in the household are not equally shared. Second, income received or spent captures only one aspect of economic status specifically and of well-being more generally, and a wide range of other factors will also affect an individual's quality of life.

In recent decades, subjective measures of well-being increasingly have been used to complement "objective" or money-metric measures of well-being. Data collected in the National Income Dynamics Study (NIDS) provides a unique opportunity to augment income measures for South Africa, as NIDS is the only household survey that includes a range of questions asking individuals to provide subjective assessments of their well-being, in addition to collecting detailed information on income and expenditure. Furthermore, these questions were included in both waves 1 and 2 of NIDS, making it possible to explore changes in subjective measures over time. In this discussion paper, I

describe two subjective measures which have been collected in NIDS - life satisfaction and perceived economic status - and I then consider how these measures are related.

2. Subjective measures of well-being

2.1 Subjective well-being (SWB) or life satisfaction

Many international studies have found that when people are asked to assess how satisfied or happy they are with their lives, their responses provide meaningful and useful measures of their quality of life (see Kahneman and Krueger (2006); and Stutzer and Frey (2010) for reviews of these studies). Information on life satisfaction, commonly referred to as subjective well-being (SWB) in the literature, has been collected in two previous nationally representative household surveys for South Africa - the 1993 Project for Statistics on Living Standards and Development (PSLSD) and the 1998 October Household Survey (OHS). In both surveys, however, the question about life satisfaction has been asked about the *household*: "how satisfied is the household with how it lives these days"¹. The framing of the question in this way assumes not only that a respondent is able to report objectively on the household's level of satisfaction, but more fundamentally, that there is a unified SWB-function at the household level.²

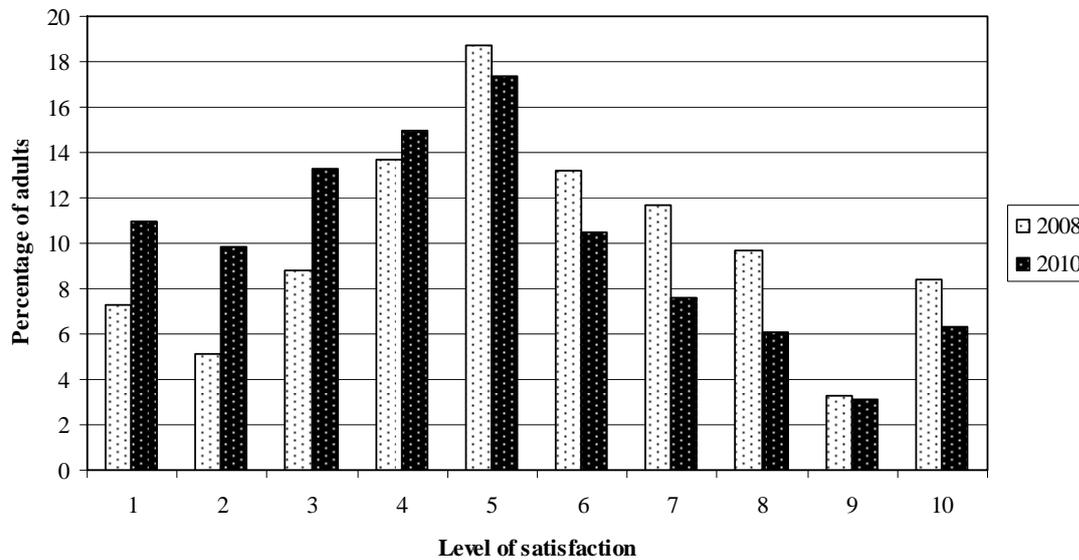
NIDS is distinctive because it collects information on life satisfaction at the level of the *individual*. In both waves 1 and 2 of NIDS, all adults were asked the following question: "Using a scale of 1 to 10 where 1 means "very dissatisfied" and 10 means "very satisfied" how do you feel about your life as a whole right now?"³

¹ See for example, Question 1, Section 9 of the 1993 PSLSD.

² Most of the earlier literature using these data overlooked this latter concern, and instead dealt with whether a single respondent was able to report reliably on the household's SWB (Bookwalter et al 2006; Kingdon and Knight 2006; 2007).

³ See question M5 of the adult questionnaire.

Figure 1. Subjective well-being among South African adults, 2008 and 2010



Source: Own calculations, NIDS 2008 and 2010.

Notes: The samples include adults who were older than 16 years in wave 1.

Figure 1 above compares responses among all adults in the two waves of NIDS. Only those adults who were present in both waves as resident household members are included in the sample for each wave. In both years, the modal level of reported satisfaction is 5. However, the distribution in reported SWB has clearly shifted to the left over the two-year period. The percentage of all adults who report being dissatisfied has increased from 2008 to 2010, while the percentage who report being satisfied has fallen. For example, whereas 21 percent of adults reported a satisfaction level of 3 or lower in 2008, this increased by 13 percentage points, to 34 percent in 2010.⁴

⁴ The restriction of the sample, to individuals who are present in both waves of the panel, will also underestimate a true decline in reported levels of satisfaction if individuals who are more satisfied with their lives are less likely to exit the panel and individuals who are less satisfied are more likely to leave. However, there is not strong evidence of this. For example, in the full or original sample of NIDS in wave 1, 35 percent of adults reported a satisfaction level of 4 or lower in 2008, whereas restricting the 2008 sample only to those who remained in the panel, 34.6 percent of adults reported a satisfaction level of 4 or lower.

Figure 2A. Measures of subjective well-being among African and white adults, 2008

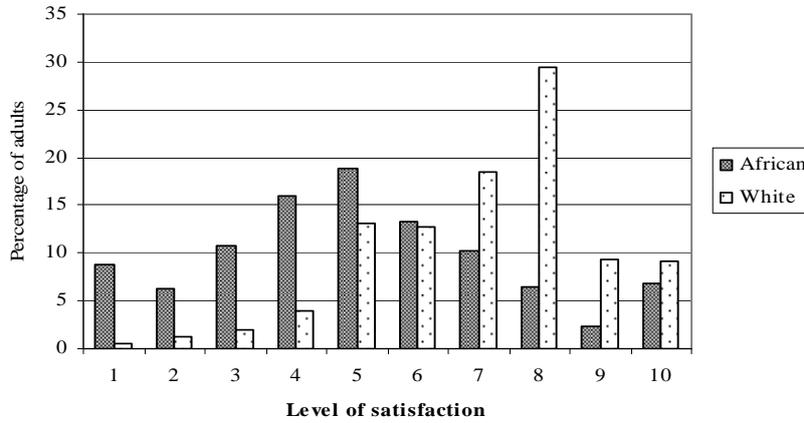
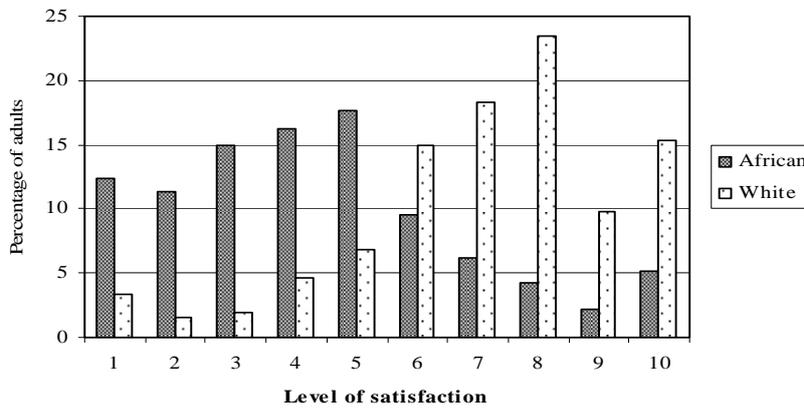


Figure 2B. Measures of subjective well-being among African and white adults, 2010



Source: Own calculations, NIDS 2008 and 2010.

Notes: The samples include adults who were older than 16 years in wave 1.

The overall distribution in reported life satisfaction masks sharp cleavages by race, as illustrated in Figures 2A and 2B above. Although the modal level of satisfaction reported by African adults was 5 (mirroring the national distribution), it was 8 among White adults. Furthermore, race differences widened over the two-year period. Both Whites and Africans reported lower levels of satisfaction overall in 2010 than in 2008, but the decline was more pronounced among Africans. By 2010, the majority of African adults in the panel (55 percent) reported a satisfaction level of 4 or lower, compared to 42 percent in 2008. The comparable figures among Whites are 11 percent in 2010 and eight percent in 2008.

The data presented in Figures 1 and 2 consider the two waves of NIDS as individual cross-sections. Table 1 takes advantage of the panel nature of the data and describes changes in subjective well-being for each individual. Only about 14 percent of all adults reported the same level of satisfaction in 2010 as in 2008, although the percentage among Whites specifically is considerably higher (23 percent). The majority of all adults reported lower levels of subjective well-being in 2010 than in 2008, a finding that is driven particularly by the decline in satisfaction among Africans. Slightly more than half (53 percent) of all African adults in the panel reported being less satisfied in 2010 than in 2008, compared to 38 percent of White adults.

Table 1. Differences in subjective well-being among individuals in 2008 and 2010

Difference in satisfaction level (2010 value - 2008 value)	Percentage of all adults	Percentage of African adults	Percentage of White adults
-9	0.61	0.54	--
-8	0.83	0.99	0.30
-7	1.78	1.75	2.43
-6	2.68	2.84	1.82
-5	4.66	4.63	2.13
-4	6.88	6.93	2.74
-3	9.90	10.29	7.29
-2	11.98	12.29	10.33
-1	12.30	12.36	10.94
0	13.81	13.20	23.40
1	10.14	9.92	14.29
2	8.17	7.95	10.03
3	6.25	6.02	8.21
4	4.18	4.34	3.34
5	2.66	2.60	2.74
6	1.51	1.58	--
7	0.86	0.91	--
8	0.28	0.30	--
9	0.52	0.62	--

Source: Own calculations, NIDS 2008 and 2010.

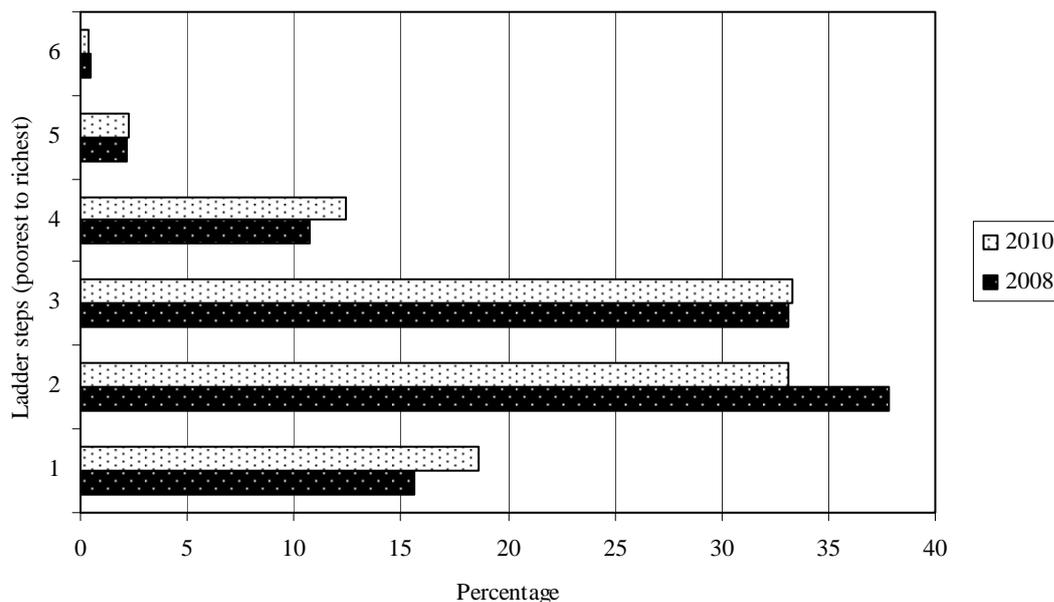
Notes: The samples include adults who were older than 16 years in wave 1.

2.2 Subjective measures of economic status

In addition to collecting subjective measures of life satisfaction, the adult module in waves 1 and 2 of NIDS includes a number of questions capturing perceptions of economic status. Using a six step ladder, with the bottom step representing the poorest

people in South Africa, and the top step, the richest, adults were asked to identify on what step they thought their household ranked today. They were also asked on what step they thought they ranked when they were aged 15, and on what step they expected to rank two years (and five years) in the future.⁵ These questions capture information on perceived relative economic status - relative to others in South Africa, or relative to where the individual ranked in the past or expects to rank in the future.

Figure 4. Perceived economic ranking in South Africa, 2008 and 2010



Source: Own calculations, NIDS 2008 and 2010.

Notes: The samples include adults who were older than 16 years in wave 1.

Figure 4 compares the distribution of perceived economic ranking in South Africa, in each of the waves of the panel. In 2008, the modal ladder step among all adults in the sample was step 2 and more than half of the adults (54 percent) thought that they ranked among the poorest third (steps 1 and 2) of South Africans. In 2010, most adults still perceived their economic status as corresponding to the bottom third, although this share declined marginally (to 52 percent), and the modal ladder step increased to step

⁵ See questions M1-M4 of the adult questionnaire.

3.⁶ The percentage of adults who perceived their economic status as being in the middle of the economic ladder (steps 3 and 4) also rose slightly (by two percentage points) to 46 percent. However, in both years, less than three percent of adults in the sample thought that they were among the richest third of South Africans.

Of course it is not possible for the majority of South Africans actually to be ranked among the poorest third of all households (and for less than three percent to be in the richest third). Rather, the statistics presented in Figure 4 suggest that a considerable share of South Africans under-estimate their relative economic position - in comparison to others in South Africa, a sizeable group of people are actually better off than they perceive themselves to be.

Tables 2A and 2B explore this further by comparing the perceived economic rank of adults with how adults would rank using an "objective" measure of economic well-being. To identify objective economic status, I use reported income, and then derive an income rank by dividing the distribution of (per capita household) income into thirds. Similarly the six ladders steps are grouped into thirds (with the bottom 2 steps representing the lowest third, for example) (see also Posel and Casale 2011). The tables describe a considerable divergence between perceived relative status and income ranking. For example, in 2008 only six percent of adults who ranked among the richest third in terms of reported income, perceived their economic status as corresponding to the upper two steps of the economic ladder. The majority (63 percent) perceived their relative economic status to be in the middle of the economic ladder (steps 3 and 4). The largest correspondence between the income rank of individuals and their perceived economic rank occurs among adults in the bottom third of the income distribution. In 2008, 63 percent of adults who were placed in the bottom third of the income distribution also perceived that they ranked on the bottom two steps of the economic ladder.

⁶ Note that in comparison to 2008, a considerably higher percentage of adults in 2010 did not provide a ranking, either because they did not know (about four percent in 2010 compared to 0.03 percent in 2008), or because they refused (about one percent in 2010 compared to 0.05 percent in 2008).

The tables suggest further that among richer adults, the divergence between income rank and perceived rank is considerably larger among Africans than among Whites. In 2008, for example, only four percent of Africans in the upper third of the income distribution perceived their relative economic status as corresponding to the richest third of South Africans; while 39 percent ranked their economic status on the lowest two steps of the ladder (the percentages for Whites in the upper income third are 15 percent and 13 percent respectively).

Table 2A: Income versus perceived economic rank in South Africa, 2008

Income rank:	Perceived richest	Perceived middle	Perceived lowest	Total
All				
Richest third	0.06 (0.00)	0.63 (0.01)	0.31 (0.01)	1.00
Middle third	0.02 (0.00)	0.42 (0.01)	0.56 (0.01)	1.00
Lowest third	0.01 (0.00)	0.31 (0.01)	0.68 (0.01)	1.00
Africans				
Richest third	0.04 (0.00)	0.57 (0.01)	0.39 (0.01)	1.00
Middle third	0.02 (0.00)	0.42 (0.01)	0.56 (0.01)	1.00
Lowest third	0.01 (0.00)	0.31 (0.01)	0.68 (0.01)	1.00
Whites				
Richest third	0.11 (0.01)	0.76 (0.02)	0.13 (0.01)	1.00
Middle third	0.05 (0.04)	0.54 (0.09)	0.41 (0.08)	1.00
Lowest third	0 (0)	0.44 (0.16)	0.56 (0.16)	1.00

Table 2B: Income versus perceived economic rank in South Africa, 2010

Income rank:	Perceived richest	Perceived middle	Perceived lowest	Total
All				
Richest third	0.06 (0.00)	0.63 (0.01)	0.31 (0.01)	1.00
Middle third	0.02 (0.00)	0.42 (0.01)	0.56 (0.01)	1.00
Lowest third	0.01 (0.00)	0.36 (0.01)	0.63 (0.01)	1.00
Africans				
Richest third	0.04 (0.00)	0.61 (0.01)	0.35 (0.01)	1.00
Middle third	0.02 (0.00)	0.42 (0.01)	0.56 (0.01)	1.00
Lowest third	0.01 (0.00)	0.36 (0.01)	0.63 (0.01)	1.00
Whites				
Richest third	0.15 (0.02)	0.73 (0.02)	0.13 (0.02)	1.00
Middle third	0.0 (0.0)	0.4 (0.13)	0.6 (0.13)	1.00
Lowest third	0 (0)	0.33 (0.33)	0.67 (0.33)	1.00

Source: Own calculations, NIDS 2008 and 2010.

Notes: The samples include adults who were older than 16 years in wave 1. Standard errors are in parentheses. An individual's income rank is calculated with reference to average per capita total household income.

What explains this poor match between where individuals think they rank on the economic ladder and where they actually rank in the income distribution, and why is the divergence larger among Africans? One possible explanation is that people base their assessments in the ladder question on accumulated income and expected future income (or permanent income), while the income rank is based on (current) monthly income. In the context of large historical inequalities in access to resources, current monthly income may not be a good predictor of permanent income, and particularly among Africans. Even though Africans may rank in the upper third of the income distribution, their economic status, in terms of permanent income may be lower.

A further explanation is that people do not have complete or accurate information about the economic status of others. Given racially differentiated opportunities in the past, Whites have higher levels of education and are more likely to be proficient in English, the dominant language of business, politics and communication in the country (Casale and Posel 2011). Consequently Whites may have access to more information when assessing their relative economic status, helping to explain why the divergence is smaller for this sub-sample. In addition, one of the legacies of apartheid may be that even relatively rich Africans still perceive their economic status as being inferior, particularly when compared to Whites (Posel and Casale 2011).

A comparison of Tables 2A and 2B suggests that over the two waves of NIDS, perceived economic status increased primarily among adults in the bottom third of the income distribution. In particular, a growing share of adults in the lowest income third thought that they ranked in the middle of the economic ladder (36 percent in 2010, compared to 31 percent in 2008)

Figure 5 below takes advantage of the panel structure to describe changes in perceived economic rank for each adult in the sample from 2008 to 2010. The distribution of responses is largely symmetrical about the modal difference of zero (i.e. no change in perceived ranking), with a third reporting a lower ladder step in 2010 than in 2008, and a third reporting a higher ladder step. Whites were more likely than Africans to perceive their economic ranking in South Africa as unchanged across the waves, and Africans were more likely to view their economic ranking as having declined (Figure 6).

Figure 5. Difference in perceived economic ranking among adults

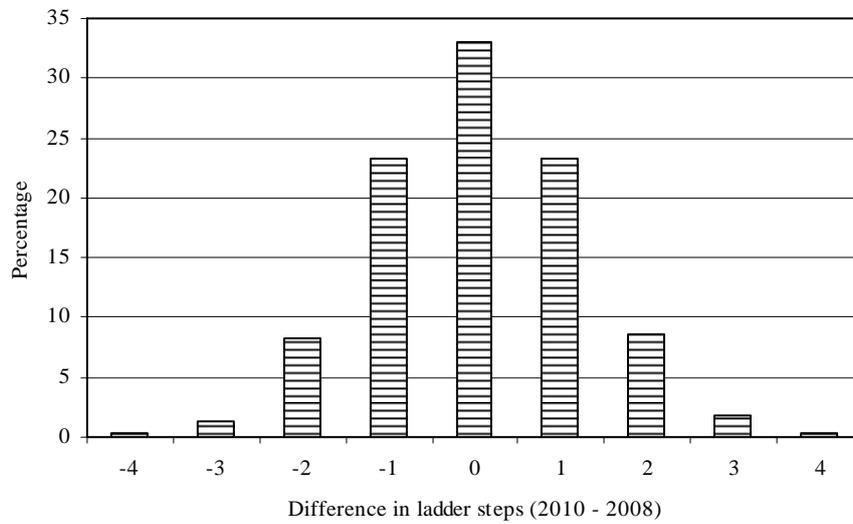
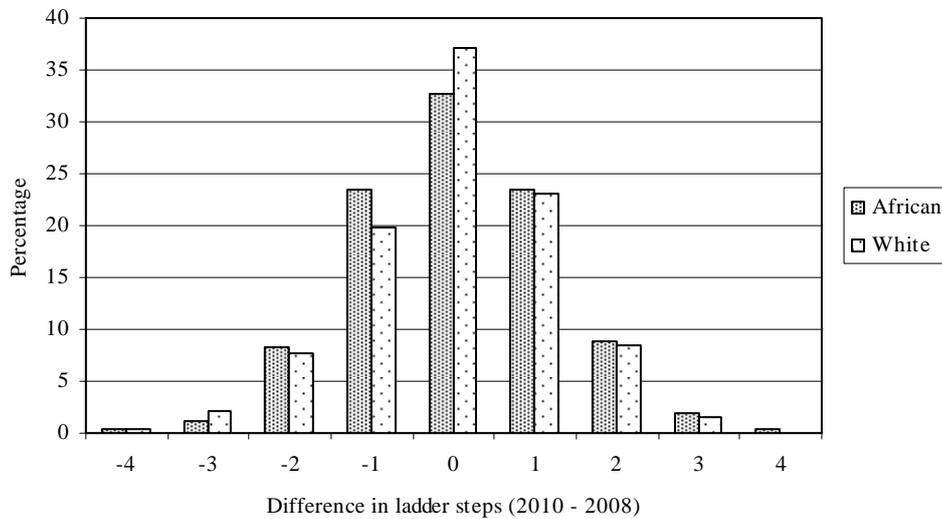


Figure 6. Difference in perceived economic ranking among African and white adults



Source: Own calculations, NIDS 2008 and 2010.

Notes: The samples include adults who were older than 16 years in wave 1.

One of the more striking changes in the responses to questions about perceived economic status concerns expectations of future mobility. In 2008, almost three quarters (73 percent) of the adults in NIDS anticipated being on a higher rung in two

years time compared to at the time of the survey; by 2010, this had fallen to 50 percent. Table 3 shows that expectations of future mobility declined particularly among Africans (from 76 percent in 2008 to 48 percent in 2010). In comparison to other groups, Whites are distinctive - although they are the least likely to anticipate being on a higher ladder rung in the future, their expectations of future mobility did not decline across the waves (and may even have increased, although not significantly).

In sum, although the period between waves in NIDS is relatively short, exploratory statistics suggest three broad changes in the subjective assessments of well-being among adults in South Africa. First, slightly more than half of the resident adults in NIDS reported being less satisfied with their lives in 2010 than in 2008; and Africans were considerably more likely than Whites to report lower levels of satisfaction. Second, approximately two thirds of the adults did not perceive their economic ranking in South Africa to have improved over the period, although there is also evidence that individuals underestimate their relative class position. Three, expectations of future upward mobility declined considerably among adults in NIDS, and particularly among Africans. The obvious next step is to investigate whether these subjective measures of well-being are related.

Table 3. Anticipated upward mobility (two years hence)

	2008	2010
African	0.76 (0.00)	0.48 (0.01)
Coloured	0.71 (0.01)	0.57 (0.01)
Indian	0.73 (0.03)	0.60 (0.04)
White	0.38 (0.02)	0.45 (0.03)

Source: Own calculations, NIDS 2008 and 2010.

Notes: The samples include adults who were older than 16 years in wave 1. Upward mobility is defined as an individual expecting to be on a higher ladder step in two years time compared to at the time of the survey.

3. Predicting life satisfaction: the role of perceived economic status

There is a large literature from both psychology and economics that investigates what makes people more or less satisfied with their lives. One of the main themes to emerge from the economics literature in particular is how the economic status of individuals affects their subjective well-being. Several studies have shown that self-assessed satisfaction is influenced not simply by how rich or poor individuals are, but also by how their economic status ranks relative to others (cf. Easterlin 1974; 1995; McBride 2001; Ferrer-i-Carbonell 2005; Luttmer 2005; Kingdon and Knight 2007; Bookwalter and Dalenberg 2009).

In earlier work with Daniela Casale, we investigated the determinants of subjective well-being in South Africa using the first wave of the NIDS data (Posel and Casale 2011). A key objective of this study was to explore the relationship between relative economic standing and an individual's level of satisfaction. However, given the data available in NIDS, we were interested not only in the actual economic rank of individuals, but also in where individuals thought they ranked i.e. their perceived economic standing. The results from this study suggest that in addition to absolute income, relative economic standing, measured by the individual's rank in the income distribution, is a significant predictor of how satisfied individuals are with their lives. However, individual perceptions of relative standing are an even stronger predictor. For example, individuals in the richest third of the income distribution reported far higher levels of satisfaction if they also thought that they ranked among the upper third of South Africans.

One of the limitations of this study is that with data from only one wave of NIDS, we were not able to control for an individual's personal traits or attitudes to life. If these unobserved individual characteristics are correlated with both reported levels of satisfaction and perceptions of relative standing, then this endogeneity will produce bias in the estimates. With the release of the second wave of NIDS, there is now information for each individual at two points in time, and it is therefore possible to control for those unobserved individual characteristics that are time invariant using

fixed effects (or first differencing) estimation techniques, and in so doing, test whether our earlier findings are robust to heterogeneity bias.

Table 4 reports the results of the fixed effects estimation for all African adults (17 years and older) in the NIDS panel.⁷ The dependent variable is the individual's reported level of satisfaction (from 1 to 10). The explanatory variables include measures of an individual's income rank, as described in the previous section (whether in the upper or middle third of the income distribution, with the poorest third as the omitted category), as well as an individual's perceived economic rank (on the upper two steps of the economic ladder, or the middle two steps, with the lowest steps as the omitted category). The regressions also include variables which capture whether an individual expects to be on a higher step of the economic ladder in the future (upward mobility), and the individual's absolute income (measured as the log of per capita household income). Four variables capturing individual demographic characteristics are also added: a quadratic in age; marital status; and whether the individual has difficulty with daily activities such as dressing, bathing or eating.

For comparison purposes, three regressions are shown in the table: the first is an OLS regression estimated only for the first wave of NIDS, the second is a pooled OLS regression for both waves of NIDS, but where the panel structure of the data is ignored; and the third is the fixed effects estimation which exploits differences in the independent and explanatory variables for each individual across the two waves.

⁷ A Hausman test rejected the null hypothesis of no systematic differences between the coefficients from a random and fixed effects model ($\chi^2 = 62.05$), suggesting that a fixed effects model is more appropriate.

Table 4. Predicting subjective well-being among Africans: OLS and fixed effects

	NIDS Wave 1 2008 OLS	NIDS Panel (2008-2010) OLS pooled data	NIDS Panel (2008-2010) Fixed effects
Richest income third	0.263** (0.118)	-0.139* (0.069)	-0.121 (0.129)
Middle income third	0.220*** (0.071)	-0.082** (0.041)	0.061 (0.079)
Perceived richest	2.467*** (0.183)	1.926*** (0.117)	1.716*** (0.209)
Perceived middle	0.984*** (0.049)	0.862*** (0.032)	0.724*** (0.057)
Expect upward mobility	0.364*** (0.055)	0.273*** (0.032)	0.220*** (0.058)
Log (per capita hhold income)	0.193*** (0.044)	0.339*** (0.028)	0.138** (0.056)
Married	0.192*** (0.056)	0.138*** (0.037)	0.367** (0.167)
Daily activities difficult	-0.684*** (0.132)	-0.611*** (0.078)	-0.475*** (0.144)
R ²	0.092	0.096	0.068 (within)

Source: Own calculations, NIDS 2008 and 2010.

Notes: The samples include African adults who were older than 16 years in wave 1. Standard errors are in parentheses. All estimations also included a quadratic in age and a wave dummy variable.

*** Significant at the 1 percent level ** Significant at the 5 percent level * Significant at the 10 percent level.

Overall, the results of the fixed effects estimation confirm earlier findings based only on wave 1 of NIDS. In addition to absolute income, an increase in the individual's relative economic standing also significantly increases satisfaction levels. However, it is specifically perceived economic rank rather than actual income rank that matters. In fact, actual income rank is not a significant predictor of satisfaction levels in the fixed effects estimation (and surprisingly, it is a negative and significant predictor in the OLS estimation on the pooled data). In comparison to the coefficients in the OLS pooled regression, the coefficients for perceived economic rank fall,⁸ but the relationship between the estimated coefficients remains unaltered: an increase in perceived economic rank has an increasing effect on reported levels of satisfaction. Positive

⁸ A fall in the estimated coefficients may derive from both endogeneity bias and measurement error.

expectations about future relative economic standing also positively affect self-assessed satisfaction.

Part of the explanation for falling levels of satisfaction particularly among Africans, therefore, may lie with the decline in perceived economic rank and the fall in positive expectations of upward mobility in the future.

In addition to subjective measures of current and future economic status, changes in the individual's demographic characteristics also significantly affect satisfaction in ways that are consistent with many other studies. Individuals who marry report significantly higher levels of satisfaction, and those who experience difficulty with basic daily activities become significantly less satisfied.⁹ Subsequent research will explore other characteristics, including at the household and neighbourhood level, that explain variation in reported levels of satisfaction among South Africans, taking advantage of the rich array of information collected in both waves 1 and 2 of NIDS.

4. Conclusion

In contrast to many other household surveys in South Africa, the NIDS survey includes a range of questions asking adults to provide subjective assessments of their well-being. This discussion paper has described data on two sets of subjective measures collected in both waves 1 and 2 of NIDS - life satisfaction and perceived relative economic standing (both now and in the future).

In 2008, African adults were far less satisfied with their lives than White adults, and more than half of all African adults in the longitudinal sample reported lower levels of satisfaction in 2010 than in 2008 (compared to less than 40 percent of Whites). Africans were also more likely than Whites to perceive their economic standing relative to others in the country as having fallen over the two-year period, and to lower their expectations of future upward mobility.

⁹ The wave 1 dummy variable was positive and significant in both the pooled and the fixed effects regressions, capturing the aggregate decline in reported satisfaction across the waves.

Earlier work, based only on wave 1 of NIDS, found that these subjective assessments are closely related. People who think that they are richer than others, and who expect to rank more highly in the future, are significantly more satisfied with their lives. Preliminary regressions which use both waves of NIDS show that these findings are robust to individual fixed effects.

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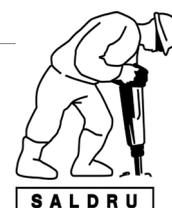
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southern africa labour and development research unit

The Southern Africa Labour and Development Research Unit (SALDRU) conducts research directed at improving the well-being of South Africa's poor. It was established in 1975. Over the next two decades the unit's research played a central role in documenting the human costs of apartheid. Key projects from this period included the Farm Labour Conference (1976), the Economics of Health Care Conference (1978), and the Second Carnegie Enquiry into Poverty and Development in South Africa (1983-86). At the urging of the African National Congress, from 1992-1994 SALDRU and the World Bank coordinated the Project for Statistics on Living Standards and Development (PSLSD). This project provide baseline data for the implementation of post-apartheid socio-economic policies through South Africa's first non-racial national sample survey.

In the post-apartheid period, SALDRU has continued to gather data and conduct research directed at informing and assessing anti-poverty policy. In line with its historical contribution, SALDRU's researchers continue to conduct research detailing changing patterns of well-being in South Africa and assessing the impact of government policy on the poor. Current research work falls into the following research themes: post-apartheid poverty; employment and migration dynamics; family support structures in an era of rapid social change; public works and public infrastructure programmes, financial strategies of the poor; common property resources and the poor. Key survey projects include the Langeberg Integrated Family Survey (1999), the Khayelitsha/Mitchell's Plain Survey (2000), the ongoing Cape Area Panel Study (2001-) and the Financial Diaries Project.



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