

Does Inequality Signal Exclusion or Opportunity for Latin America's Citizens? Some Insights from Happiness Economics

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Paper Prepared for Edinburgh Conference on Inequality and Public Policy

June 2009

I. Introduction

There is universal consensus that poverty is a bad thing and that societies need less of it. For both normative and empirical reasons, there is far less consensus on inequality and how much of it is good or bad. From a normative perspective, how desirable or undesirable inequality is depends on what it signals. If it is a sign of opportunity and of rewards to productivity and innovation, as long-held attitudes in the United States suggest, then at least some and perhaps even a lot of inequality is desirable. If it is a sign of persistent advantage for the rich and persistent disadvantage for the poor, then it is surely much less desirable. From an empirical perspective, the nature and extent of inequality varies across countries, and what it signals depends a great deal on the nature of economies and institutions, among other things.

Public perceptions of what inequality signals may matter as much to its effects on labor market and other behaviors as actual levels. If inequality is linked to higher prospects of upward mobility for the majority, it could result in higher degrees of individual effort and investment in the future, and therefore more dynamic and innovative economies. If it is linked to low levels of mobility and static distributions, then it could lead to higher discount rates and lower levels of effort and investment for those at the bottom of the distribution.² The prototypical image of the United States is the former, and of Latin America, the latter.

Eugenio Tironi (2009) has identified 'the experience and the hopes for social mobility and progress' as one of the potential pillars of social cohesion in Latin America. At the same time, he underscores how unmet expectations and constant vulnerability to falling into poverty are a threat to social cohesion. This paper aims to understand the objective and subjective

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² For a review of the linkages between inequality and mobility, as well as of the different kinds of inequality, see Nancy Birdsall and Carol Graham, eds., *New Markets, New Opportunities? Economic and Social Mobility in a Changing World* (Washington, D.C.: The Brookings Institution Press, 2000). For the links between inequality and individual well being, see Carol Graham and Andrew Felton, "Inequality and Happiness: Some Insights from Latin America", *Journal of Economic Inequality*, Vol.4, 2006.

characteristics and experiences that drive the individual prospects for upward mobility (POUM) of Latin Americans, and the links to attitudes about social cohesion or exclusion. We posit that *attitudes* about inequality and mobility can contribute to our understanding of the factors that influence both individual behavior and the performance of essential public institutions, two sets of variables which are, in turn, essential to development outcomes in the region.

A nascent body of literature links positive prospects of upward mobility - and optimism about the future more generally - to a host of behaviors, ranging from preferences for redistribution, to investments in education and health, to effort in the labor market. This research finds that more optimistic individuals - and/or those with higher prospects of upward mobility - work harder and anticipate longer careers; they are more willing to invest in their future (via their own and their children's health and education); and they have lower discount rates. Graham's research with several colleagues finds that respondents with higher prospects of upward mobility in Latin America, Russia, and the United States are happier, more supportive of markets and democracy, and less likely to favor redistributive spending.³ While these linkages are not fully understood, they *suggest* that individuals with more positive future prospects also have more faith in "the system", which is roughly defined as the institutional arrangements that facilitate individual progress on the one hand, and social cohesion on the other.

A separate body of literature establishes positive linkages between trust in public institutions and positive development outcomes. The classic works of North (1990) and Ostrom (1990) highlight how institutions develop and, in turn, how they are critical to the functioning of economies and societies.⁴ The work of Borner et al. (1995) and Tandler (1997) builds on that work and highlights importance of sound institutions to economic development.⁵ These and other

³ See, among others, Roland Benabou and Efe Ok, "Social Mobility and the Demand for Redistribution: The POUM Hypothesis", *Quarterly Journal of Economics*, Vol. 116, No. 2., 2001; 447-487; Carol Graham, Andrew Eggers, and Sandip Sukhtankar, "Does Happiness Pay? Some Insights from Panel Data for Russia". *Journal of Economic Behavior and Organization*, Vol. 55, No. 3, 2004: 319-342; Carol Graham, "Happiness and Health: Lessons – and Questions – for Public Policy", *Health Affairs*, Vol. 27, No. 1, 2008 (January-February); Manju Puri and David Robinson, "Optimism and Economic Choice", *NBER Working Paper # 11361*, May 2005; and Cavit Guven and Rudolph Saloumides, "Who Lives Longer: The Influence of Happiness on Mortality", Mimeo, Deakin University, February 2009.

⁴ North, Douglass. 1990. *Institutions, Institutional Change, and Economic Performance*. Cambridge Press; and Ostrom, Elinor. 1990. *Governing the Commons: The Evolution of Institutions for Collective Action*. Cambridge University Press. 1990.

⁵ Borner, Silvio, Aymo Brunetti, and Beatrice Weber. 1995. *Political Credibility and Economic Development*, St. Martin's Press; and Judith Tandler, *Good Government in the Tropics* (Baltimore: Johns Hopkins University Press, 1997). For a review of this literature more generally, see Carol Graham and Moises Naim, "The Political Economy of Institutional Reform" in Nancy Birdsall, Carol Graham, and Richard Sabot, eds., *Beyond Trade-offs: Market Reforms and Equitable Growth in Latin America* (Washington, D.C.: The Brookings Institution and the Inter-American Development Bank, 1998).

literatures link low levels of trust to high levels of corruption. Unfortunately, once countries get into bad corruption equilibrium, it is very difficult to get out of them. If corrupt behavior is the norm in one's society, for example, then it becomes costly to behave honestly (Thoumi, 2007; Hammond and Axelrod, 2006).⁶ While we know little about how to re-establish such trust when it is absent, surely understanding variance in trust norms – and how they are linked to or transmitted by attitudes about the future – is a first step.

In this paper, we use happiness economics as an analytical framework and rely on data from the 2007 ECOSOCIAL survey for seven countries in Latin America. We attempt to provide a typology of individuals that have high prospects of upward mobility and that trust the “system” more generally. We find, for example, that perceptions of exclusion matter less to individuals' prospects of future mobility than do their perceptions of opportunities at the country level. In other words, the “system's” ability to provide opportunities seems to matter more than the extent to which it is perceived to discriminate. And, notably, there is more skepticism about the system's ability to provide widely shared opportunities among the elites and the middle class than among the poor, the indigenous, and migrants. An important caveat is that happier individuals are more naturally optimistic about the future, and therefore more likely to be positive about whatever kind of system that they live in. Both happiness and POUM have positive although not identical linkages with many of the objective and subjective variables noted above, such as better health and higher levels of satisfaction with democracy. And it is difficult to establish the direction of causality in the absence of panel data. Despite the difficulties of completely disentangling the two variables and of definitively establishing causality, these relationships are consistent enough to merit deeper exploration, and potentially underlie virtuous circles related to social cohesion and economic development.

II. Perceptions Data in the ECOSOCIAL

The ECOSOCIAL surveys slightly more than a thousand urban respondents in each of seven countries: Argentina, Brazil, Chile, Colombia, Guatemala, Mexico, and Peru. Table 1 summarizes the characteristics and responses of the average inhabitant of the Latin American

⁶ See Thoumi, Francisco. 2007. *Illegal Drugs, Economy, and Society in the Andes*. Washington, D.C.: Woodrow Wilson Center Press; and Hammond, Ross A. and Robert Axelrod. 2006. “Evolution of Contingent Altruism When Cooperation is Expensive.” *Theoretical Population Biology*, Special Issue on ESS Theory.

cities considered on ECOSOCIAL, for key variables. Overall, the average individual in the survey is a happy 40 year old; considers he/she has a slightly better socio-economic status today than ten years ago and expects a larger improvement in status in the next ten years; has little trust in government; is relatively indifferent between democracy and an authoritarian government⁷ ; does not seem convinced that hard work is a key to success; and is skeptical of the opportunities for a poor person to overcome poverty in his/her society. That same average citizen consistently believes he or she will be better off in the future, although respondents in Argentina, Brazil and Chile see their *current* status as worse than that of ten years ago.⁸ Thus this optimistic view of the future mobility at the individual level contrasts with skepticism about “the system”, as gauged by generally low levels of trust in government and by attitudes about the importance of hard work and in opportunities for the poor.

Table 2 reflects overall statistics for key variables, by country, and confirm our depiction of the average citizen in the sample. Two-thirds of respondents in countries that have grown consistently in the last five years report that they are happy or very happy. More individuals have positive prospects for the future (69%) than positive assessments of the past (40%), but show a lack of confidence in their respective governments (17% trust the government); a quarter of the respondents report having been discriminated against for their race, regional origin, or their socio-economic status; and only a fifth believes that someone who is poor can overcome poverty.

This lack of trust in the government and opportunities not only holds but is even more notable in countries in the sample that have experienced the largest drops of poverty in the five years before the survey was taken. [See Table 3] Remarkably, respondents in those countries rank among the lowest in thinking there are opportunities for the poor to overcome poverty, and are the least optimistic about their individual prospects of upward mobility. Respondents in Brazil, which has lowered urban poverty in the past years by about 6%, feature the lowest confidence in the poor being able to overcome poverty. At the same time, Brazilian respondents manifest considerably higher confidence in their personal prospects for upward mobility in the next ten years than the sample average.

⁷ In a scale from 1 to 3, with 1 indicating preference for strong hand government, 2 indifference, and 3, preference for democracy, the average is 2.39).

⁸ All three of these are countries that have reduced urban poverty significantly, but concerns about inequality remain and might be part of the explanation. Argentina, meanwhile, has had a great deal of macroeconomic volatility during this same period.

III. Happiness and Exclusion in ECOSOCIAL

Our analytical frame uses the economics of happiness as a point of departure. The economics of happiness does not purport to replace income-based measures of welfare, but instead to complement them with broader measures of well-being. These measures are based on the results of large scale surveys, across countries and over time, of hundreds of thousands of individuals who are asked to assess their own welfare. The surveys provide information about the importance of a range of factors which affect well-being, including income but also others such as health, marital and employment status, and civic trust.

The approach, which relies on expressed preferences rather than on revealed choices, is particularly well suited to answering questions in areas where a revealed preferences approach provides limited information. Indeed, it often uncovers discrepancies between expressed and revealed preferences. Economists traditionally considered survey data as unreliable, as there is no consequence to what people say. Yet revealed preference data, usually based on consumption choices, cannot fully gauge the welfare effects of particular policies or institutional arrangements which individuals are powerless to change. Examples of these include the welfare effects of inequality, environmental degradation, and macroeconomic policies such as inflation and unemployment. Nor does an optimal choice framework explain behaviors that are driven by norms, addiction, or self control problems, such as low expectations and under-investing in savings or education by the poor, on the one hand, and perverse consumption choices resulting in obesity or tobacco addiction on the other.

Standard happiness equations use an ordered logistic regression to test the probability of an individual reporting to be in one of several happiness categories, ranging from very to not at all happy, and controlling for a number of personal and contextual characteristics. ECOSOCIAL also includes questions regarding experienced social exclusion due to race, regional origin, or socio-economic status, which we incorporate into our analysis of individual/contextual characteristics. We do so one at a time to avoid co-linearity.⁹ We also explore whether respondents who identify as indigenous are more or less happy than the average and, in turn, how those results linked to POUM. Latin America is a region dominated by people of mixed race and with relatively low ethnic polarization. We explore the effects of indigenous identity, controlling for restricted access to material goods, educational achievements and exclusion (following Schwartzman (2008) and Tironi (2009)).

⁹ Correlation between variables reporting exclusion due to race, region of origin and poverty condition is the highest among variables in the analysis (between .39 and .45), so they are input in the respective ologit regression separately.

The rather paradoxical relationship between poverty and trust raises an additional question, which is the relationship between economic growth and faith in the system. Does steady economic growth increase public confidence in widely shared opportunities? We also examine the effects of growth on individual happiness. Past research by Graham and Sukhtankar (2002) tested the effects of economic crisis on happiness and found, not surprisingly, a strong negative effect. More puzzling, though, both Lora et al (2008) and Graham and Chattopadhyay (2008) find evidence of a “paradox of unhappy growth”: individuals that live in countries with higher growth rates are on average less happy, after controlling for the effects of their own income which is, as expected, positive.¹⁰ Since the latest period of stagnated growth in the region (1997-2002) and the financial crisis in Uruguay, Argentina and others in 2001-2002 up until 2009, most of the region experienced years of consistent economic growth. We use the average of GDP growth for 2003-2007 for our analysis of the ECOSOCIAL.

Econometric Results

Our analysis of happiness based on the ECOSOCIAL confirms previous work by Graham and Pettinato using the Latinobarometro and Gallup World Poll. In general, happiness depends on who you are and what you have, but also on how you compare to others around you. The results are also consistent with the Easterlin paradox. Easterlin highlighted how after a certain level of per capita income was reached, average country happiness levels did not increase, both across countries and over time.

The basic *within country* correlates of happiness, such as age, income, employment status, established in previous studies of happiness – hold for our ECOSOCIAL sample. We find the expected positive relationship between individual wealth (and position in the socio-economic scale) and happiness. The effect is consistent across different wealth and economic classes. Table 5 shows the distribution of happiness responses across socio-economic status. Education, meanwhile, has positive effects on happiness across the ECOSOCIAL sample. Particularly in Mexico and Peru, higher levels of education are associated with more reported happiness.

Unemployment is consistently associated with unhappiness in most studies, with the exception of a few exceptional contexts where employment status is very murky and/or economic conditions are so unstable that regular employment is a rarity, such as in Afghanistan, where we

¹⁰ Beyond Facts: Understanding Quality of Life in Latin America (Washington, D.C.: Inter-American Development Bank, 2008); and Carol Graham and Soumya Chattopadhyay, “Public Opinion Trends and Well Being over a Decade in Latin America”, Paper prepared for the Partnership of the Americas Commission, The Brookings Institution, July 2008. available at www.brookings.edu

most recently studied happiness.¹¹ In the ECOSOCIAL, the unemployed are less happy than the average in Brazil, Mexico and Chile. Yet there are no significant differences in the other countries, suggesting the mixed nature of employment and high levels of informality in those economies. In Chile, individuals in blue collar jobs are less happy than those in white collar jobs, which may be due to the greater status distinctions between types of jobs in Chile's labor market than in those of other countries.

Across countries, those with higher average growth are associated with lower levels of individual happiness; *within* countries individual wealth and higher self-reported socioeconomic status¹² (an objective and a subjective/relative measure respectively) are associated with higher levels of happiness. A plausible explanation for the unhappy growth finding – and that of earlier studies – is frustration with inequalities and rising expectations during a period of sustained growth.

Table 4 shows the average GDP growth for 2003-2007 and average happiness reported in the countries in ECOSOCIAL. While the number of countries is not high enough for us to test for “Easterlin-like” across country comparisons, it is notable that, except for the case of Mexico (low growth and low average happiness compared to other countries), countries with a higher average growth have lower average happiness levels, with the Peruvian case paradigmatic: the highest average growth for the period and the lowest reported happiness. Some of what we find can likely be attributed to the inequality and uncertainty that accompanies high rates of growth; some is also likely due to unobservable differences across the countries. Our econometric analysis supports an interpretation of unobservable differences driving the results, as the significance of the result changes depending on the specification used. While the sign on average rate of GDP growth is always negative, it is insignificant when we do not control for variance in inequality levels across countries, and then becomes significant when we do.

In addition to growth, we explored the role of inequality, replacing average GDP with the best – albeit imperfect – measure that we have – the latest observation for the urban Gini coefficient for each country. We find that individuals are, on average, happier in the countries in our sample that have more inequality.¹³ Most studies of the effects of inequality on happiness

¹¹ See Carol Graham and Soumya Chattopadhyay, “Well Being and Public Attitudes in Afghanistan: Some Insights from the Economics of Happiness”, *Foreign Policy Working Papers*, # 2, The Brookings Institution, Washington, D.C., May 2009.

¹² The original Easterlin analysis explores how individual income affects happiness within countries. Here we use wealth and place in the socio-economic scale as proxys, based on available data on ECOSOCIAL.

¹³ Both GDP average and inequality effects need to be taken with reservations. Gini, for example, is not a good measure of inequality in the reference group of the individual (the neighborhood or particular city in which the person lives, for example). Additionally, the latest Gini is not calculated every year for every

have mixed results. In the U.S., rather remarkably, the only group that is made unhappy by inequality is left leaning rich people!¹⁴ In the U.S. inequality seems to signal mobility and opportunity, although the most recent mobility data do not support the image that the U.S. has of having exceptional mobility rates.¹⁵ The Gini, meanwhile, is a rather coarse measure, and is not necessarily capturing the reference groups that matter to most people as they compare themselves to others. These are likely local – the city or the neighborhood - while the Gini is a national aggregate measure. The Gini is also likely picking up unobservable differences across countries.

In contrast to happiness, we found that individuals that live in higher Gini countries had lower individual POUMs and were less likely to believe that the poor had opportunities to get ahead in their country. These findings on inequality and perceptions of opportunity are more in keeping with earlier work by Graham and Felton. They use average country level incomes and each respondent's distance from the average as a gauge of inequality rather than Gini coefficients. They find that inequality makes the poor in the region less happy and the rich happier. As there are many more poor than rich, the aggregate effect of inequality on happiness is negative. They also find that the negative relationship between happiness and perceived inequality – as gauged by a number of attitudinal variables - is much stronger than that for measured inequality.¹⁶ In Latin America, inequality still seems to signal persistent advantage for the rich and disadvantage for the poor, even though mobility rates are actually quite high compared to those of the U.S.¹⁷ At the same time, there are other unobservable characteristics of these high Gini countries that are associated with higher average happiness levels.

Table 4. GDP growth average 2002-2007 vs. Average Happiness, ECOSOCIAL

Social exclusion affects happiness

The ECOSOCIAL survey queried whether respondents had recently felt discriminated against for a variety of different reasons: race, regional origin, socio-economic status, political views, and religion. We focus here on the three first. Graphs 1-3 show the incidence of reported discrimination across the sample. First, it is notable that while much of the focus of the

country, and it does not capture trends in inequality. In the case of average GDP, there is also a reference group issue. The city, and even the neighborhood where the individual lives might be growing faster or slower than the country overall.

¹⁴ Alesina, A., R. DiTella, and R. MacCulloch (2004). 'Inequality and Happiness: Are Europeans and Americans different?', *Journal of Public Economics*, 88 (9-10): 2009-2042.

¹⁵ For a summary of these arguments, see Carol Graham and Peyton Young, "Ignorance Fills the Income Gulf", *The Boston Globe*, June 23, 2003. Also available at www.brookings.edu

¹⁶ Graham and Felton (2006).

¹⁷ For a comparison of mobility rates between the U.S. and Peru, see Graham and Pettinato (2002).

sociological literature has been on discrimination due to race or regional origin, the most prevalent type of discrimination reported in the survey is socio-economic: people seen with disdain or feeling bothered because they are poor. When the sample is limited to only those in groups 1-4 in the socioeconomic scale, the percentage reaches 20%; for the lowest level in the scale, it is, not surprisingly, higher: 27%.

It is surely plausible that the subjective experience of being discriminated against affects subjective well-being in general, and through that, individuals' future outlook. Yet there are clear problems of endogeneity: happier people might under report discrimination; un-happy people might be more likely to perceive discrimination, and these same people might report more than one type of discrimination. Also, the experience of discrimination might be different from country to country (for example, racist or stereotypical humor may be more accepted as normal in some societies than in others). The effects on related attitudes about opportunities will also vary.

In order to explore the relationship between happiness and exclusion, we created an index: each person that experiences any of the three types of discrimination (race, regional origin, or poverty) receives a score of one, and those that have not experienced discrimination receive a zero. Twenty-four percent of respondents in the sample report suffering at least one type of discrimination. When we split the sample according to reported happiness, however, 42% of unhappy people report having experienced discrimination, while only 20% of those that are happy or very happy report discrimination, suggesting that the causality could go in two directions: unhappier people may be more likely to perceive and report discrimination than happier ones.

Graphs 4-6

Across the sample, individuals that report having been discriminated because of race, regional origin or socioeconomic condition are more likely to report lower levels of happiness. The negative relationship between happiness and exclusion due to socio-economic status holds across the seven countries in the sample. The effect of racial and regional exclusion, however, varies from one country to another. The negative relationship of ethnic discrimination and happiness only holds for Brazil, Guatemala and Peru (the three countries with the highest levels of reported racial discrimination, *and* with the largest black and indigenous populations). Meanwhile, the negative effect of regional exclusion on happiness only holds for Brazil, Chile, Colombia and Guatemala.

Our findings on indigenous background, meanwhile, are in strong contrast to those on exclusion. ECOSOCIAL asked respondents whether they consider themselves of indigenous

background in five out of the seven countries in the survey (Argentina, Chile, Guatemala, Mexico and Peru). Respondents that self-report as indigenous are happier than those that report as non-indigenous. However, the effect is driven entirely by Chile and Guatemala, and is not significant in the other countries. The happiness levels of migrants, meanwhile, defined as those that were not born in the city where they live, are no different from those of non-migrants. The two findings together suggest that those that self-report as indigenous take pride and confidence in their indigenous origin, and do not feel stigma associated with it.

Having established the basic correlates of happiness for our sample, we examined the correlates of trust in the system – defined broadly as having some sort of faith that institutional arrangements work and provide a level playing field for those who attain an education and/or work hard, as well as the determinants of individual prospects of upward mobility. The latter in particular are typically closely correlated with happiness, and our results on happiness should be kept in mind when assessing our results.

IV. Who trusts the system?

We use three different questions pertaining to perceptions of opportunity in society as proxies for trust in the system.¹⁸ These are: a) is education critical to success in life? b) are there opportunities in life for those that work hard? and c) are there opportunities for the poor to overcome poverty? The questions aim to capture individuals' experience as well as what they see in the society that surrounds them. We first compared these individual attitudes with those about opportunities at the country level. Graph 7 summarizes the responses. There are clear differences in perception across the 3 dimensions. Education is widely accepted as a path to social mobility across countries and across social classes; this contrasts with a prevalent perception that the poor cannot overcome poverty.

Graphs 8-10 explore how opinions on the three dimensions vary across different groups of respondents. In the case of education, responses are even across groups, with the exception of migrants, who show more confidence in education than natives from the city. This is not a surprise. In general, less educated respondents are more positive in their general assessments of education systems.¹⁹ Migrants, meanwhile, typically come to the cities seeking better educational

¹⁸ The selection of these three dimensions over other questions on ECOSOCIAL (wealth of family, opportunities to start a business, a woman to reach a high position at work, etc.) responds to their complementarities (for example, a person without access to education but working hard might or not overcome poverty) and also because they can be seen as including the other dimensions measured by other questions on the survey.

¹⁹ See the chapter on education in Carol Graham and Eduardo Lora, eds., *Paradox and Perception: Assessing Quality of Life in Latin America* (Washington, D.C.: The Brookings Institution Press, forthcoming).

opportunities for their children, and thus it is not a surprise that they have confidence in the systems they have migrated to in comparison to the systems that they left behind. And migrants also have a consistently higher (by a small margin) perception of opportunities than city natives, which may reflect selection bias – they chose to come to the city - as well as how their economic opportunities compare to those in their place of origin. It is notable that 60% of those migrants have less education than the sample average, and 50% of them are either of low or middle-low status, with 37% of them reporting a higher status than 10 years ago.

In general, individuals with lower socio-economic status report less faith in the role of hard work and opportunities to overcome poverty than do the middle class and the rich. However, on average, it is the least educated that have more faith in the power of hard work and in the existence of opportunities for the poor to overcome poverty. Exploring these in a multi-variate framework (below) is essential to shed light on this puzzle. Related to this, people that consider themselves to be ‘religious’ also tend to be more optimistic about the role of opportunities (hard work and overcoming poverty), while they have lower than average scores when assessing their own prospects of upward mobility. Individuals may be more realistic when they assess their own prospects; more general assessments of “the system” are by definition more subjective and may therefore reflect differences in inherent character traits.

Graph 11 shows that respondents in Guatemala and Mexico have the highest scores on believing that there are opportunities for the poor to overcome poverty, with those in Brazil and Argentina on the other extreme. In terms of confidence in hard work as a channel to upward mobility, respondents in Brazil and Argentina are also the most skeptical, with less than 50% believing in hard work. Trust in education is even across countries, with more than 75% of respondents believing in its role in individual success in each country.

Econometric results

Table 6 summarizes the relationship between individual characteristics and perspectives of the opportunities available in the country where each respondent lives. We use an ordered logistic regression, which each of the three opportunities variables as dependent variables in separate equations, and controlling for individual traits and for each respondent's reported happiness level. We are attempting, to the extent it is possible, to control for endogeneity, accepting that happier people could have a generally optimistic view of things.²⁰ The fourth column reports the results of the equation with individual mobility prospects (POUM) as the dependent variable (discussed below).

The results confirm that views of opportunities in society significantly vary from country to country, with respondents in (urban) Argentina and Brazil having a less positive view than the average (the reference country is Chile).²¹ Respondents with a more positive assessment of their own social mobility in the past ten years have more positive assessments of opportunities in society (particularly hard work), as do the more religious and those that report trusting the current government more. In general, we find very few linkages between objective variables – such as education or income – and trusting the government. General trust in the government seems to be linked primarily to individual optimism and/or religiosity; as noted above, it entails a more subjective assessment than do individual mobility prospects.²² The more educated, and those individuals reporting any form of discrimination, have a more negative outlook of opportunities in society. Skepticism among elites seems to co-exist with optimism among the least educated.

V. Individual's Prospects for Upward Mobility (POUM) in the next 10 years

The initial tables show a less than clear relationship between past social mobility performance in the last 10 years and expected mobility in the next 10 years. Graph 12 shows the differences in individual POUM across the sample. Noticeably, both countries with the lowest perception of opportunities in society - Argentina and Brazil - lie on opposite sides when individual POUM is considered. Argentina reports the lowest level of POUM, while Brazil the highest. Argentina is the country of the sample that experienced the deepest economic crisis in recent years. This likely explains why only 30% of respondents in that country consider their current situation as better than 10 years ago, despite an urban poverty reduction of 24 points in the last five years. Mexico, which experienced the least growth and is the country with the most optimistic assessments of opportunities for the poor (although still less than 30%), is the one with the second lowest scores for individual POUM.

²⁰ Without happiness in the regression, the results do not vary.

²¹ Colombia also, but only for perspectives on opportunities for the poor.

²² The regression results are available from the authors.

Using different categories of respondents (Graph 13), we notice a stark contrast with the perception of opportunities in society, with the exception, again, of non-natives. Migrants are the only group that reports more optimism about opportunities in society *and* for their own social mobility.²³ In general, though, the primary observation of this paper prevails: low levels of trust in opportunities in society (particularly poverty) coexist with more optimistic perceptions about individual opportunities. The most educated are the ones with a highest confidence in their own future opportunities, in contrast to their more skeptical assessments of “the system”, as gauged by their lower scores on opportunities to overcome poverty or the role of hard work.²⁴

People that consider themselves more religious, while more optimistic in terms of opportunities in society, are significantly less optimistic than non-religious people in terms of their own POUM. A possible explanation, supported by results reported by Biehl and Valenzuela (see this volume), is that, besides their spiritual role, the churches of different denominations in the region, which reach even the poorest urban areas, have also a role as social support and network entities among people whose prospects of mobility are lower: the poor (because of their poverty status) and the rich (because they are already at the top of the socio-economic scale).²⁵ This again supports the proposition that individual assessments are less subjective than country level ones.

Econometric results

As in other contexts where we have studied POUM, higher levels of happiness are linked to higher POUM. Among other things, both variables capture latent optimism. Age has a U-shaped relationship with POUM, as in the case of happiness, which makes intuitive sense. Before a certain age, it is difficult for respondents to have a good sense of what their future holds; after a certain age, it is less likely that they will have upward mobility. The housewives and the retired have lower than average POUMs, which is not a surprise, and education has no significant effects (the sign is positive but insignificant). This is different from the simple tabulation results where the more educated have higher POUMs. The insignificant results when other individual factors such as income and employment status are controlled for suggest differences in the returns to education across countries or cohorts depending on where you are on the income/employment

²³ People that report not being born in the city where the survey was taken represent 34% of the whole sample, with a highest of 46% in Peru and a lowest of 19% in Mexico.

²⁴ Similar is the case when comparing people in the left or right of the political spectrum, and the blue collar workers compared to the white collars.

²⁵ The poorest and the richest people are in fact, the ones reporting being religious the most (30 and 32% respectively, compared to 27% of the middle class), although the presence of rich people in the sample (values of 9 and 10 on the SES scale) is minimal (barely over 1%).

scale. Given that wealth is negatively correlated with POUM in the regressions, the education finding in the cross-tabulations is likely driven by the more educated among the less wealthy. Alternatively, wealth is capturing all of the education effects. The negative wealth correlation suggests that the wealthy are aware that they are at the top of the scale and will have a harder time getting beyond it, while the poor retain latent optimism. Finally, and not surprisingly, those respondents that assess their mobility in the past ten years positively also have higher than average future prospects.

Our econometric equations also incorporate perceptions of opportunities in society as plausible explanations for individual prospects for upward mobility. People that believe in opportunities for the poor are more likely to report higher POUM scores, as are those with higher levels of trust in government. In contrast, religious respondents now have more negative POUM assessments, in contrast to the positive attitude they had towards opportunities. This suggests that while general optimism (as captured by trust in government) is linked to both individual prospects of mobility and attitudes about the system, religion operates differently. As noted above, churches provide safety nets for the poor and social networks for the wealthy, and both are groups that, by definition, have lower prospects for upward mobility than the average. Finally, Brazil, Colombia, Guatemala and Mexico show positive prospects of individual mobility that are opposite to the attitudes they have about the opportunities the system provides (again compared to Chile). Argentineans appear skeptical of both opportunities and individual POUM, while Peruvians, after controlling for all other variables, show a consistent, positive view of opportunities and high personal POUM scores.

VI. Conclusions

Our study of happiness and attitudes about mobility and the fairness of the system was an attempt to provide insights into the channels by which inequality affects individual and societal welfare. Our study confirmed the basic direction of other happiness studies in the region and beyond, as well as the positive links between happiness and individual prospects of upward mobility. Our findings on attitudes were more complex, however, and show that optimism about individual mobility prospects coincides with skepticism about the fairness of the system. Rather notably, skepticism is not linked to poverty or to perceived discrimination, but instead is higher among more educated cohorts.

The ECOSOCIAL study places a particular focus on social exclusion. While respondents who report feeling discriminated against are less happy than others, we also find that less happy respondents are more likely to report discrimination, and thus cannot dismiss endogeneity as the

causal factor. In contrast, those respondents that identify as indigenous in the sample are happier than the average. The two sets of findings combined suggest that being comfortable with one's ethnic origin is positive for happiness, and that the city – to the extent it is represented by the countries in the sample - is not an inhospitable environment for ethnic diversity. Indeed, the strongest effect of any dimension of perceived exclusion was for poverty related rather than race (or regional origin) related exclusion.

Other variables related to poverty and inequality were more important in explaining individual prospects of upward mobility and trust in the system, although they did not always work in the same direction for each of these variables. We found, for example, that socioeconomic and demographic variables had a more consistent relationship with happiness and with individual POUM than they did with trust in the system. We found that skepticism about the system among elites coexists with optimism among the poor and among generally more optimistic respondents. Individuals that live in countries which have reduced poverty the most in the past five years had higher individual POUMs but lower scores on believing that the poor had opportunities in their country. Again, there is a disconnect between attitudes about individual prospects and those about the system in general.

The happiness of individual respondents in the ECOSOCIAL was negatively correlated with higher rates of macroeconomic growth. This echoes a so-called “paradox of unhappy growth” that other studies have found. This paradox surely hints at some discontent with how the rewards of growth are shared. Rapid growth in developing country settings – where rewards structures are in flux and there are losers as well as winners - is often associated with concerns about inequality and insecurity, in addition to rising aspirations. The negative and often visible effects of these factors tend to outweigh the positive aggregate benefits of growth.

Respondents in more unequal countries – as measured by the urban Gini coefficient - were happier than the average, but had lower individual POUM scores as well as to believe that there were opportunities for the poor to get ahead. The mixed findings suggest that the Gini is picking up unobservable differences across the countries, in addition to whatever inequality happens to signal within them. The general skepticism that we find, particularly among elites, about the ability of the system to provide opportunities for the poor suggests that inequality continues to signal a static distribution of income and opportunity in the region. Yet poor individuals are more optimistic than the average about their own mobility, and also demonstrate more faith in the system than do elites. The aggregated nature of the Gini, meanwhile, makes it a coarse measure of inequality which does not well capture the reference groups that may drive its effects. Thus the picture is mixed at best.

We conclude with a paradox that may be the sign of positive change in the region. Despite widespread skepticism in the system in general, individual level prospects for upward mobility are remarkably high, particularly among the poor. And to the extent that there is perceived discrimination or social exclusion, it is more closely linked to poverty – and to being unhappy in general - rather than to race. While Latin America surely has daunting development challenges, and restoring trust in public institutions is clearly one of them, ethnic and racial fragmentation seem to be of modest importance in contrast to the strong general confidence that the region's poor have that they will do better in the future. Rather ironically, reducing inequality might do more to reduce the skepticism among elites than it does to enhance the trust of the poor.