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Determinants of subjective well-being in high and low income countries: Do happiness equations differ across countries?☆

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1. Introduction

Flourishing economic conditions are usually regarded as beneficial for people's well-being. This is why modern societies devote considerable attention to the indicators of economic performance. Gross domestic product (GDP) is probably the most widely adopted index to account for the aggregated well-being of a nation (Blanchflower, 2008) and there are a few doubts that rising GDP – i.e. economic growth – is thought to bring more comfortable lives: safer and quicker communications, longer, healthier and more comfortable lives, eradication of a large number of illnesses and better access to education for all are some of the most important benefits brought about by economic growth. However, considering people's daily life, many other dimensions affect well-being and they are not directly related to economic growth (Nussbaum and Sen, 1993; Diener and Seligman, 2009).

While enjoying more comfortable material lives, many people report feeling isolated and lonely; statistics suggest that the social environment in which people live is unsafe; cities are polluted; many people waste a lot of their daily time stuck in traffic jams; trust in others and honesty are declining; stress and nervous illnesses are widespread and it is increasingly difficult to find space to enjoy social relationships (unless mediated by commercial activities, e.g. big commercial centres, multi-cinema, etc.) (Putnam, 2000; Layard, 2005).

For example, positional goods (goods that are valuable because they mirror the relative position of their owner), regrettables, volunteers activity, shadow economy, externalities, housework and household production they all concern important aspects for people's well-being that are only partially accounted for by economic measures. In case of less developed countries (LDCs) the limitations of economic indicators in accounting for people's well-being are even more evident. As suggested by Graham (2005) "growth is a necessary, but not sufficient condition for poverty reduction. Other key factors – such as public investments in health; institutions that can ensure adherence to basic norms of equity and fairness; and collective investments in social insurance to protect workers from the volatility that often accompanies integration into global markets – are essential to sustain the gains that growth and development bring about and to increase the chances that a larger number of the world's poor can eventually have happy and fulfilling lives".[1]

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[1] Graham (2005, p. 18).

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This is why many scientists from various fields started questioning the use of GDP as a measure of well-being (Diener, 2006; Stiglitz et al., 2009). It is generally accepted that economic development per se is a neutral concept: success in improving or not people's well-being depends on the "quality" of development, that is to say on the shape and procedures with which it comes true (Helliwell, 2008).

Therefore it is relevant to understand under which conditions economic growth can result in higher well-being (Diener and Seligman, 2009) and to develop better tools to fully account for people's well-being (Diener and Seligman, 2009; Frey and Stutzer, 2002).

A possible strategy to assess people's well-being is to ask directly to people to evaluate the quality of their lives, the so-called subjective well-being (Helliwell, 2008).

In this context, "subjective well-being" is generally referred to as an evaluation of one's own life regarded as a whole and is usually observed through questions about individual's "happiness" or "life satisfaction" (van Praag et al., 2003). Examples of such questions are: "Taking all things together, how happy would you say you are?" or "All things considered, how satisfied are you with your life as a whole these days?". In both cases answers are usually ordered on a 4, 7, 10 or 11 points scale where the lowest score corresponds to "extremely unhappy" or "extremely dissatisfied" and the highest score stands for "extremely happy" or "extremely satisfied". Although the two questions are sometimes used interchangeably or summarized in an index of well-being, they are usually regarded as two distinct concepts. Happiness is seen as "a more emotional, situational and mood-related aspect of subjective well-being, which is more volatile and subject to short-term fluctuations" (Brockmann et al., 2009, p. 395). Life satisfaction, on the contrary, refers to a more cognitive and less transitory evaluation of well-being (Diener et al., 2009). At any rate, subjective well-being measures became increasingly available at individual level across countries and in time.

These data proved to be valuable and reliable sources of information concerning people's well-being and to reveal interesting stories about modern societies.[2]

This is why media, politicians as well as the scientific community have been paying increasing attention to people's subjective well-being and – more generally – to "happiness studies". It is worth recalling that in 2007 the European Commission and other organizations hosted a conference titled "Beyond GDP" leading – two years later – to the institution's commitment to improve Europeans' quality of life (European Commission, 2009). The French economic commission directed by Stiglitz et al. (2009) published a report recommending the development of indices of well-being to supplement the more commonly used income-based measures. In the same vain, in 2011 the OECD launched the "Better Life Initiative" to bring together internationally comparable measures of well-being and to inform about how well people are doing in modern societies (OECD, 2011).

Subjective well-being seems to be a promising, easy to use tool to assess people's quality of life. However, this approach is hindered by a serious treat: there is no obvious reason to assume that the determinants of well-being are the same across people (Clark et al., 2005). When considering subjective well-being across countries, this issue becomes even more serious. Do people rate their well-being in a consistent way? In other words: has the happiness equation the same structure across countries?

This topic has been widely scrutinized (Blanchflower, 2008; Di Tella and MacCulloch, 2007; Kapteyn and Wansbeek, 2008). A lot of studies have been assessing and finding consistent results about the importance of marital and employment status, income, positional concerns, ageing and sex for people's well-being (Powdthavee, 2010). This topic has been recently revived by Layard et al. (2009) who, criticizing the evidence provided by Deaton (2008) suggesting a strong relationship between average life satisfaction and log average incomes, assess that countries, whether rich or poor, do not work the same way. Helliwell (2008) and Helliwell et al. (2009) conclude that people around the world consider the same aspects as important for their well-being. Moreover, they argue that the international differences in subjective well-being depend on different life circumstances, in particular on the availability of social capital.

Some recent studies document that social capital is an important determinant of people's well-being (Helliwell, 2002, 2008; Uhlaner, 1989). Social capital is a much debated topic about which various definitions an descriptions have been proposed (Bourdieu, 1986; Coleman, 1990; Stolle and Hooghe, 2004). Putnam (2000) refers to social capital as a set of social connections and shared norms and values available in a society. Accordingly, the OECD (2001, p. 41) defines social capital as "networks together with shared norms, values and understandings that facilitate co-operation within or among groups".

The role of social capital in the economic literature has longly been overlooked, being simply considered as a factor that could make economic relationships more efficient. On the contrary, much of the current literature discovers a new role for social capital in modern societies. Studies from the "happiness economics" literature focus on the link between social capital and subjective well-being and find a positive relationship among them. In particular, it seems that the quality of the relationships among people – usually labelled relational goods –, has a predominant impact on well-being (Helliwell and Putnam, 2004; Helliwell, 2006; Bruni and Stanca, 2008; Becchetti et al., 2008). However, we do not know much about the importance of social capital and of relational goods for well-being across countries.

Present study tries to fill this gap providing an empirical test of the relevance of social capital and of relational goods for people's well-being in different contexts.

To answer my question I focus on two opposite groups of countries, the richest and the poorest countries in the world. If it's true that the determinants of subjective well-being are the same across countries, than the happiness equations in these two groups should be similar.

After controlling for a set of standard components of the happiness equation including income, positional goods and a set of standard socio-demographic controls (Helliwell, 2001, 2006; Blanchflower and Oswald, 2004b; Clark and Oswald, 1994; Di Tella et al., 2003; Easterlin, 2001; Clark and Frijters, 2008; van Praag et al., 2003; Sarracino, 2010), I test the hypothesis that social capital exherts a similar role for people's well-being across countries.

Using data from the World Values Survey[3] (WVS) and adopting two different methodologies – standard regression technique and the Oaxaca decomposition – present analysis suggests that social capital and relational goods are important correlates of people's well-being in both poor and rich countries. The signs of the remaining variables have all the expected signs and are consistent with those from the literature, thus confirming that the structure of the happiness equation is similar across countries.

This work is organized as follows. Section 2 addresses the reliability of subjective well-being proxies and presents the data and the statistical model. Regression results are presented and

[2] For more details, please refer to Section 2.

[3] www.worldvaluessurvey.org.