

Socioeconomic Factors and Sensitivity of Happiness: Explaining Cross-country Difference in Subjective Well-being

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Abstract

There is a significant variation in average subjective well-being across countries. What makes people in some country happier and people in others more miserable? It is shown that a wide range of socioeconomic circumstances of people's lives affect their subjective well-being. Many studies focus on selected aspects of individual lives and show that they can explain a part of the difference in subjective well-being across individuals. Thus, they have been less successful in fully explaining cross-country difference in average well-being. Dealing with a comprehensive set of socioeconomic factors, we provide the detailed analysis on the reason why average well-being differs across countries. Individual subjective well-being is affected by socioeconomic conditions. However, every individual does not necessarily draw the same level of subjective well-being from a given condition of life. The difference in the sensitivity of happiness to socioeconomic conditions is evident across individuals and it also plays a role explaining a cross-country variation in average subjective well-being. In the present paper, we decompose the difference of average subjective well-being across countries into a comprehensive set of socioeconomic factors along with sensitivity of happiness to these factors. Our decomposition requires estimating happiness function. We adopt Data Envelopment Analysis (DEA) to estimate a happiness function as well as sensitivity of happiness associated with each country in a sample. We draw on a comprehensive set of well-being indicators released by the OECD Better Life initiative along with measure of income inequality. It consists of 24 individual indicators assessing the average life of the population in multiple domains, which makes up the 10 representative factors of well-being. We found that factors associated with *jobs* and *health* play the largest role of generating the variation of subjective well-being, explaining more than half of the total cross-country variation. The sensitivity of subjective well-being is not differentiated across the most countries and thus plays a minor role for explaining differences in well-being. Even within countries, average level of subjective well-being differs across different population groups. Drawing on the set of indicators assessing the life circumstances of different groups in each country, our decomposition formulation allows us to fully explain the difference in average life satisfaction within different population groups. It is shown that higher subjective well-being of female is mainly attributed to factor associated with *work-life-balance*. Greater sensitivity of happiness also helps its higher subjective well-being. While higher subjective well-being of high income

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people is attributed to factors associated with *income* and *health*, their sensitivity of happiness is weakened relative to low income people.

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