SUBJECTIVE WELL-BEING AND MACROECONOMICS: A NEW INTERNATIONAL EVIDENCE

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ABSTRACT

Using the World Values Survey data gathered during the periods of 2010-2014 and 2017-2022, this study analyzes the impact of inflation, GDP growth, and unemployment on individual subjective well-being (SWB) across about 60 countries. Data on life satisfaction and happiness is used to measure individual assessment of SWB. For the analysis, the ordered probit and Ordinary Least Squares (OLS) regressions are employed. We find that both inflation and unemployment negatively affect SWB, while GDP growth positively affects individual well-being. The weight of inflation is greater than unemployment particularly when life satisfaction is regressed on macroeconomic measures. When happiness is used in the equation, the order of importance for macroeconomic measures varies between the waves and by the model of analysis. The statistical significance and the magnitude of the relationship between SWB and macroeconomic variables also differ by socioeconomic and demographic factors.

***Keywords**: Subjective Well-Being, Inflation, Unemployment, GDP Growth*

1. INTRODUCTION

Endogenous macroeconomic variables of unemployment, Gross Domestic Product (GDP) growth, and inflation are at the heart of most economic policies. Policymakers are generally presumed to attempt to maximize the utility of citizens in society (Barro & Gordon 1983). Society's utility function over loss function such as unemployment and inflation has been a popular analytical form in macroeconomic policy (Burda & Wyplosz, 1993; Di Tella et al., 2001; Hall & Taylor, 1997). Measures of subjective well-being (SWB) have been employed for an empirical estimation of aggregated utility and/or individual welfare indicators (Kahneman & Krueger 2006; Weimann et al., 2015). Since the late 1990s, SWB has received substantial interest in economics. The body of literature on happiness economics has considerably increased (Di Tella et al., 2001, 2003; Frey and Stutzer 2000a, 2000b, 2002, 2012; Graham, 2011; Dolan et al., 2008; Helliwell et al., 2017).

Richard Easterlin (1974) was one of the earliest economists who examined the association between individuals' SWB and economic factors. He found that people with higher income tend to be happier within a country, but the higher income of a nation does not always associate with a higher level of happiness among people within the nation as people adapt to higher income and determine their level of happiness relative to incomes of other people within their community. Yet, many articles found results that contradict the findings of Easterlin (1974), uncovering a positive association between SWB and economic growth across countries (Diener et al., 2013; Hagerty, 2000; Hagerty & Veenhoven, 2003; Stevenson & Wolfers, 2008). Several studies analyzed the impact of inflation and unemployment as other measures of macroeconomic variables and found their negative relationships with SWB (Blanchflower et al., 2014; Di Tella et al., 2001, 2003, 2006; Gandelman & Hernandez-Murillo, 2009; Hongo et al., 2020; Lim et al., 2019; Perovic, 2008; Welsch, 2007). However, the magnitude and statistical significance of the relationship and the order of relative importance seem to be mixed depending on measures of subjective well-being, choices of macroeconomic variables, sample countries, and research period.

Our main goal is to investigate how individuals' SWB is related to three macroeconomic performances: GDP growth, inflation, and unemployment. SWB can be measured differently in the literature ranging from happiness, life satisfaction, fear, and sorrow to purpose in life. For the analysis, we select happiness and life satisfaction as two measures of SWB. The World Values Surveys (WVS) provide information on