

PROJECT TITLE:

**The Relative Importance of Political and Economic Factors in Individual Well-being.**

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## NON-TECHNICAL SUMMARY

Using the World Values data base, attitudes to trust and happiness were examined.

The three studies have resulted in three separate papers:

### **Paper 1. In People we Trust? An Analysis of Inter-Personal Trust across the World**

#### ABSTRACT

The determinants of personal trust are analyzed using World Values data from the fourth wave, 1999-2001, the latest available at the time. By personal trust is meant whether individuals feel that they can trust 'most people'. Regression analysis is used to determine how trust varies with socio-economic and other variables. Within this context, the results are consistent with the hypothesis that interpersonal trust is motivated by the ability to impose sanctions on trustbreakers. Hence

- Trust is greater in smaller towns and villages, where communities tend to be less fragmented, than in larger towns, increases with income and is greater in linguistically homogenous communities;
- Trust also responds to the political and institutional environment with evidence that it increases with the state of democracy and the rule of law;
- Finally, there are factors unique to the individual impacting on their trust of others. In particular trust declines with ill health and there is evidence that some people, for whatever reason and unlinked to observed characteristics, are systematically more or less trusting per se.

The majority of the sample lived in developing countries, although a substantial minority were based in the developed world. The results indicated that trust in developing countries is to a large extent determined by the same factors that determine trust in richer countries, particular with respect to the impact of age, health and democracy, But there are differences, for example men appear more trusting than women and trust declines with settlement size in developing countries but not in richer countries. To a large extent the determinants of trust are also common across men, women, rich and poor, particularly with respect to health, the state of democracy and linguistic characteristics. But again there are differences, differences which also shed light on the process of trust determination. Hence settlement size is a less significant factor for women and the poor judged on the basis of both the coefficient size and its t statistic. Education is also not a significant factor for the rich.

The research has confirmed the importance of governance and institutional factors in impacting upon trust.

- Apart from the least developed of societies, characterized by low population density, it is accepted that, e.g., in the enforcement of contracts social sanctions are insufficient and need to be backed up by the law. The analysis suggests too that trust is impacted upon by the climate of governance in the country. The variables used in this context focus on democracy, democratic accountability and law and order. But different aspects of governance tend to be correlated and one should not automatically reach the conclusion that it is these variables per se which matter for interpersonal trust, although the conclusion is by no means unreasonable. But certainly it seems likely that

Thus one can conclude that governance in general matters and as trust is seen as an essential building block for economic development this is one route by which governance impacts upon development. *This then provides a justification for the emphasis donor agencies such as the World Bank place on good governance.*

**KEYWORDS** Interpersonal trust, governance, health

## Paper 2. The Happiness Gap: The Impact of Governance on Wellbeing

### ABSTRACT

The determinants of happiness, or subjective well being (SWB), are analyzed using World Values data from the fourth wave, the latest available at the time. Two measures of SWB are generally analyzed, with relatively little consideration as to how they differ from each other. The first looks at happiness per se, the second analyses life satisfaction. Regression analysis is used to determine how SWB varies with socio-economic and other variables, including governance variables. With respect to the latter there is a problem of simultaneity are people happier when they perceive themselves as well governed or are happy people more satisfied with governance?

The paper analyses both measures of SWB and also the difference between them, which is referred to as the happiness gap. This is the first time this has been analyzed and thus is new to the literature. Based on from the literature, it is argued that happiness is determined by underlying wellbeing plus factors which are largely random. Life satisfaction is also determined by underlying wellbeing together with an aspirations gap, i.e. the gap between underlying wellbeing and people's aspirations. Hence the happiness gap is, according to this, randomly distributed around the aspirations gap. The analysis results in a number of testable predications:

- a) life satisfaction will in general, but not always, be less than happiness,
- b) life satisfaction will be less random than happiness,
- c) the two variables will be correlated and
- d) the gap between the two will not be random.

The empirical work supported all of these predications.

One of the key results is that both the quality of governance, in terms of satisfaction with the way the country's affairs are being handled, and the method of governance in terms of satisfaction with democracy, impact on this happiness gap. There is not the obvious problem of simultaneity previously discussed and hence in this case it can be concluded that good governance helps reduce the aspirations gap, i.e. allows people to get closer to fulfilling their aspirations.

The results also lead to the conclusions that

- people are different, not least because of the different constraints they face. There are substantial differences between richer and poorer countries. In particular ill-health is a cause of unhappiness everywhere but more so in poorer countries, where presumably medical facilities are not as good as in richer countries. In addition the family as a source of well-being is less important for richer people. Perhaps this is a reflection of the increasing options open to richer people, or it reflects changes in the family as people become richer.
- The differing impact of urban living on subjective well-being may reflect the stages of growth as a country becomes richer. Larger cities everywhere have better facilities for leisure, work and living, better schools, better health care, better public transport. But arguably their relative advantage declines as a country becomes more affluent and the institutional framework of rural areas and small towns improves, whilst the disadvantages of cities in terms of congestion; crime and pollution impact increasingly on well-being. *This then has implications for policy makers in developed countries on the need to make cities a better environment to live in.*

**KEYWORDS:** subjective wellbeing, governance, settlement size

### **Paper 3. Determinants of Subjective Wellbeing of Individuals (A Disaggregated Analysis)**

#### **ABSTRACT**

In the paper we examine subjective well-being measured by both life satisfaction and happiness using the World Values data set. We assume that people live their lives in such a way that they attempt to maximize their well-being. In their effort they are constrained by their own personal circumstances and the institutional environment, partially determined by governance in the country.

We analyze the determinants of subjective well-being, and happiness at first for the whole sample, then separately for men and women, for poor and rich people and for poor and rich countries. Substantial differences in the determinants of well-being indicate that the determinants of subjective well-being and happiness vary between individual groups in each category. Thus, our results confirm that the context in which people live their lives is important for their well-being.

On the basis of our analysis conducted using the method of ordered probit we conclude that:

- People are different with respect to factors determining their life satisfaction and happiness and respond differently to different incentives;
- Individual's health, level of education, being married, having relatively higher income, time spent with friends, family, the involvement in church or the club increase subjective well-being and happiness;
- Unemployment, living in a larger city, having to borrow and being a man decrease subjective well-being and happiness;
- Subjective well-being follows the U shaped curve with respect to age;
- Governance variables (satisfaction with the country, the state of human rights in the country, the trust in political parties, the trust in government, the trust in press) influence subjective well-being.

**KEYWORDS:** subjective individual well-being, happiness, determinants of subjective well-being, economic development, World Values database