Determining factors of cross-country dispersion in life satisfaction: evidence from Europe

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Across country differences in average life satisfaction are a familiar feature of all cross-country studies on subjective well-being. The satisfied Danes and the not so satisfied citizens of Eastern European countries are by now almost clichés. Differences in per capita income are part of the explanation although the low average subjective well-being measure for France, lower than in the Czech Republic, cannot be attributed to this.[1]

Countries, however, differ in other aspects of life satisfaction besides the average life satisfaction score. Life satisfaction scores are pronouncedly negatively skewed in countries with high average life satisfaction scores but much more uniformly distributed in countries with low average life satisfaction. This is the issue this paper investigates. Following the work of Hamermesh (2001) on the distribution of job satisfaction, we propose an explanation for cross-country differences in the dispersion of life satisfaction. More specifically, the hypothesis being tested is that dispersion is lower in countries in which the discrepancy between the outcomes of individuals' lives and their expectations is low.

A number of descriptive characteristics appear to be consistent with this hypothesis. First, cross-country differences in the dispersion of life satisfaction are lowest for younger individuals. Young individuals have not yet had enough time to become disillusioned. Second, the dispersion of life satisfaction appears to be lowest in countries which feel there is "justice" in society. Justice in society is being proxied by, for example, the extent to which individuals perceive court decisions to be impartial. Ordered probit estimates of life satisfaction, obtained from the pooled (across countries) database, cannot reject this hypothesis.

A more formal test of the hypothesis put forward here is formed by first proxying the discrepancy between outcomes and aspiration by the difference between actual income received and the income predicted by using observable individual characteristics (fitted income) and investigating the association of this measure with life satisfaction. The fitted income is based on a regression of income on demographic characteristics (age, gender, marital status), on the productive characteristics of individuals (education, occupation, sector of activity, experience, job responsibilities, hours of work) and on features of the firm the individual is working in (type of organization, size of firm). The results so far (based on ordered probit and on generalized ordinal logistic regression models) suggest that the hypothesis put forward cannot be rejected.

Keywords: life satisfaction; observable attributes; expectations

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[1] See, for example, Figure 2.2. in the *World Happiness Report* 2016, Vol. I.