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The evolution of subjective well being over time and across space

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Abstract

The literature on self-reported subjective well being is characterized by two paradoxical results.

The first one traces back to the work by Easterlin (1974). In his seminal paper, Easterling found life satisfaction to be associated with the overall level of wealth but, surprisingly, not with economic growth. This result is counterintuitive because, if we consider subjective well being as a proxy for individuals' overall utility, we would expect people to be more satisfied as the average level of their income increases. The so-called Esterling paradox was confirmed by many other studies focused on developed economies.¹ The literature did not provide a definitive explanation of the determinants of the paradox, but most studies on this topic suggested that they have to be found in the fallacies and weaknesses of the behavioural assumption of mainstream economic theory: monetary payoffs have a limited impact on utility, while several factors other than income matter in explaining life satisfaction.

While the Easterlin paradox arose in the study of subjective well being over time, the second counterintuitive finding concerns the analysis of life satisfaction across space. A recent, but already quite long, stream of research focused on the relationship between subjective well being and urbanization (Morrison, 2007). The vast majority of these works associate large cities (in general those with more than 250k residents) with the lowest levels of life satisfaction (Lenzi and Perucca, 2016a). This result is quite surprising, since cities are the place where the most intense processes of economic growth take place (Glaeser, 2011). As for the Easterlin paradox, also in this case the literature did not provide yet any theoretically grounded explanation, apart from the assumption that, above a certain population threshold, urbanization diseconomies (cost of living, pollution, etc.) prevail on the positive externalities (job opportunities, amenities, etc.) of cities (Lenzi and Perucca, 2016a).

The present study stems from the recognition that these two paradoxes are not independent from each other. Urbanization and GDP growth are, in fact, two phenomena strictly related by a system of cause-effect mechanisms. In the last decades, the role of highly urbanized regions in the processes of economic growth of developed economies became more and more relevant. Moreover,

¹ Evidence on developing economies shows the opposite: economic growth has a positive effect on the life satisfaction of people living in these countries (Easterlin and Sawangfa, 2010).

this was matched by deep transformations in their economic specialization, which profoundly changed cities and, as a consequence, urban life. Some authors (Okulicz-Kozaryn, 2015) claimed that these economic transformations led to the commodification of cities (Fainstein, 2007) and to a subsequent loss of authenticity of the urban atmosphere (Zukin, 2009) which, in turn, had a negative impact on subjective well being. Therefore, according to this approach the negative relationship between urbanization and life satisfaction is a relatively recent phenomenon.

This paper is aimed at investigating this issue, understanding how economic growth, urbanization and the structural changes occurred in regions with different degrees of urbanization had an impact on subjective well being. While previous literature focused on relatively short periods of time, typically no more than ten-year periods, one of the innovative aspects of this work consists in its long-term analysis of the determinants of life satisfaction.

The study is focused on selected EU countries, for which data on subjective well being is available from 1980 on. These data come from a set of Eurobarometer surveys providing, apart from a set of individual characteristics such as age, gender and occupation, some information about the NUTS2 region of residence of the respondents. This will allow estimating an empirical model taking the following form:

$$(\text{Life satisfaction}_i) = F(\text{age}_i, \text{age}_i^2, \text{gender}_i, \text{marital status}_i, \text{education}_i, \text{occupation}_i, \text{regional characteristics}_r, \text{year dummy})$$

Where i stands for the individual, while r characterizes its region of residence.

In such a model, the dependent variable is represented by the self-reported happiness of life satisfaction, which is assumed to depend on a set of individual features and some macro variables capturing the characteristics of the regions where the individual lives. As stated above, these characteristics are represented by the degree of urbanization and the structural changes occurred in EU regions in the last 35 years.

As far as the method adopted is concerned, the hierarchical structure of the data² is taken into account by choosing linear multilevel modeling (Pittau et al., 2010), while robustness checks include alternative specification of the dependent variable (dichotomous vs categorical) and different estimation models (linear vs probabilistic models).

² Individuals in the sample are nested within countries, at a first level, and within cities (i.e. NUTS2 regions) at a second one.

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