Special
Article 3

Redistributing Happiness: How Social Policies Shape Life Satisfaction (Part 1)

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Happiness Science: Discovering What Makes Us Happy

The pursuit of happiness is a fundamental right written into the founding documents of many countries. And yet, the study of what makes people happy is far from complete. For many years, countries pursued higher GDP with the unquestionable assumption that economic growth will automatically lead to a happier society. But as Richard Easterlin showed in his influential paper "Does Economic Growth Improve the Human Lot?" in 1974, the correlation between economic and subjective well-being was not as robust as had been expected. Despite significant advances in our standard of living, people claim to be no happier today than they did 50 years ago. The disconnect between economic well-being and subjective well-being has led to a renewed interest in the study of happiness.

Happiness research is now discussed widely in policy circles, academia, the business community and the popular media. Owing to advances in data collection and research methods, "happiness science" is flourishing, with new discoveries of what makes us happy or unhappy.

What makes us happy? Past theorizing has pointed to individual pursuits like friendships and money, or to society-level factors like wealth and equality. Yet neither approach alone can tell us what brings happiness, because the reality is this: happiness is a question of context. It's determined by who you are *and* where you live.

In our book *Redistributing Happiness* (Praeger Publishers, 2016), we view the sources of happiness in an international context. Our contribution is an interdisciplinary approach, exploring the sources of happiness from the perspectives of sociology, economics and psychology. In particular, we pay close attention to the role of context. Accounting for social context allows us to better understand that what makes people happy in one society may not do so in another.

Happiness is determined by the right mix of societal and individual factors. A person's happiness is shaped by the social context surrounding him or her – by local policies, the size of the welfare state, norms and attitudes about religious beliefs, economic and political security, income redistribution, and more. A person's chance at happiness depends not only on who they are, or what they have achieved, but also on where they live.

While the aim of any society is to improve the quality of life for its citizens, there is greater political, economic and ideological disagreement regarding how this can be achieved. Would individuals be happier if the state played an active role? Or should the pursuit of happiness be left to individual choice and market forces?

In this two-part series, we highlight the main findings from our book, with particular focus on *how social policies shape life satisfaction*. In Part 1, we focus on economic redistribution and taxation, and their effects on people's happiness. In Part 2, we focus on social conceptions of gender, family and parenthood, and explore how social policies can shape family formation and fertility decisions.

Welfare States & the Redistribution of Happiness

Let's begin with the idea that countries can be mapped along a continuum, which shows the extent to which the state becomes involved with the welfare of their citizens. The measure of our central interest is public social expenditures (PSE). On one end of the continuum lie the market-based economies with low PSE and limited government involvement. On the other end of the spectrum lie the social-democratic welfare states of Scandinavia with high PSE and a high degree of government intervention. (In Gøsta Esping-Andersen's seminal work on the three types of welfare capitalism, he outlines welfare systems according to the role of market, state, and family. In our study, we focus on the typology between the market and the state, and transform this into a continuum.)

The Scandinavian welfare state model is first and foremost identified by its universalism and comprehensive provision of welfare services. Citizens of social-democratic welfare states enjoy comprehensive and heavily subsidized coverage of childcare, elderly care, healthcare, education and other forms of social support.

In stark contrast, in the market-based economies where the government's role is limited, many types of social services must be purchased from the market. Social insurance is replaced by private insurance, and publicly provided services such as healthcare and childcare are replaced by market mechanisms. The market-based system generates a more stratified and uneven society dividing those who can afford such benefits from those who cannot.

Social democratic welfare states achieve universal and comprehensive welfare services through the massive redistribution of resources. The government collects revenue through a combination of progressive income taxes, flat consumption taxes, flat social security taxes, and heavy taxation on addiction goods such as alcohol and tobacco. Tax revenue is then returned in the form of comprehensive social programs.

Through taxes and transfers, the social democratic welfare states redistribute resources from low-risk to high-risk persons, thereby reducing poverty and inequality. For example, OECD data from 2014-2015 show that the tax and transfer systems reduced income inequality by more than 35% in Denmark, Finland, and Belgium, compared to 18% in the United States, and 10% in South Korea.

Sustaining universal welfare is expensive, and this can only be achieved through high tax revenues. While the citizens of the Scandinavian welfare states benefit from the most generous level of social insurance, these countries consistently rank among the highest taxed countries in the world, in terms of both average and marginal tax rates. The benefits of the welfare states are many, but so are the costs associated with maintaining the system. Redistributing resources from low-risk to high-risk individuals requires that the rich are taxed heavily to subsidize the poor.

Welfare States Can Generate New Inequalities

Redistribution of resources can reduce economic and social inequality, but it can also generate new inequality in other areas. Some types of social insurance benefit all citizens, but others are targeted for specific demographic groups, such as families with small children. This pro-family policy is rooted in the idea that families are exposed to greater social risk than are single persons or households without children. For example, in the case of healthcare, a single person may be concerned only with his or her own health. But a parent in a family of four must ensure that he or she is protected against the risk of illness not only for himself or herself, but also for their spouse and two children. If a child falls ill in the household, it will not only affect the child, but also the parent who may have to take time away from work.

The effect of welfare provision on happiness must be evaluated in light of its costs and benefits. Following our discussion, it can be argued that the pro-family bias of the social democratic welfare state leads to less generous treatment of people without children, particularly of single persons. According to OECD data, single people on average pay higher personal income tax and contributions to social security (as a percentage of gross wage earnings) than do married persons. While single persons do benefit from some forms of social insurance, such as healthcare, unemployment, sick leave, and old-age assistance, they do not qualify for the benefits that are targeted for families with children. Hence, in this regard, the social democratic welfare state is partial to families, and puts single persons at a significant cost disadvantage. The burden of preserving a pro-family policy falls disproportionately on single persons.

Measuring Happiness Using the ISSP Data

Let us examine how redistribution of resources can affect happiness. We used data from the 2002 International Social Survey Program (ISSP), consisting of 42,187 respondents from 29 countries. The survey included detailed information about the respondent's demographics and socio-economic status including age, gender, marital status, presence of children under 18 in the household, education level, employment status, household income, etc. The outcome of interest is general life happiness. Respondents were asked: "If you were to consider your life in general, how happy or unhappy would you say you are, on the whole?" Responses range from 1 = completely unhappy to 7 = completely happy.

At the country level, we include PSE as a proxy for the extent of welfare spending. PSE is available from the OECD database, and is defined as the percentage share of GDP spent on welfare, excluding education. In our collection of 29 countries, the social democratic welfare states, i.e. the Scandinavian countries of Sweden, Norway and Denmark, rank among the high PSE countries, while Mexico and the Philippines rank among the low PSE countries.

Redistributing Happiness: Example 1 – Marital Status

Consider the case of marital status. The *Table* shows the results of simulations predicting the odds of selecting one of the three highest categories of happiness by marital status. The results are divided into two categories of individuals, in low- versus high-PSE countries. We refer to the high PSE countries as the social democratic welfare states as these are dominated by the Scandinavian countries.

We find that average happiness is highest among married persons in both low- and high-PSE countries, followed by cohabiting persons and single persons. However, this marriage premium is not universal. The happiness gap between cohabiters and married people is smaller in countries with high levels of public spending (with no statistical differences in happiness between these groups in high-PSE countries). We elaborate on this finding below.

First, married and single persons are actually less happy in high-PSE countries compared to low-PSE countries. The results thus suggest that at least in terms of happiness, these demographic groups do not benefit from living in social democratic welfare states. The lower state of happiness for single persons (compared to their counterparts in the low-PSE countries) is consistent with our previous discussion. Single persons are less happy because they pay high taxes for living in the pro-family based welfare states, but they receive fewer benefits in return as they do not have children.

Second, we confirm that cohabiting persons are happier in the social democratic welfare states compared to their counterparts in low-PSE countries. There is a well-grounded reason for why this is so (we will discuss the happiness gap between married and cohabiting persons in greater detail in Part 2 of this series). In the Scandinavian

TABLE

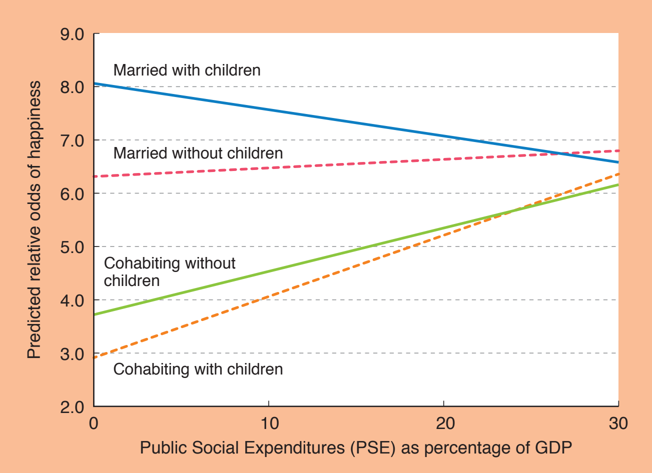
Predicted odds of selecting one of the 3 highest categories of happiness by marital status

	Low-PSE countries	High-PSE countries *Social democratic welfare states
Married	8.30	6.76
Cohabiting	4.22	5.95
Single	3.47	2.05
Women – married with children	6.33	6.81
Women – cohabiting with children	2.93	6.37

Notes: PSE = public social expenditures. Low-PSE countries correspond to countries with minimum PSE. High-PSE countries correspond to countries with maximum PSE.
Source: Hiroshi Ono and Kristen Schultz Lee, "Welfare States and the Redistribution of Happiness" in Social Forces 92(2), 2013.

CHART 1

Predicted odds of happiness for women with & without children



Source: Hiroshi Ono and Kristen Schulz Lee. Redistributing Happiness: How Social Policies Shape Life Satisfaction (Santa Barbara: Praeger, 2016).

countries, cohabiting persons with children have access to comparable benefits as do their married counterparts, with regards to family support such as childcare and paternity leave. The policy is based on the ideology that all persons should have equal access to family benefits regardless of marital status. Since this inclusive, nondiscriminatory policy is available only in the social democratic welfare states, it makes sense that cohabiting persons are happier there, relative to other countries where benefits are clearly delineated between married versus unmarried persons. In our study, we did not find evidence that the marriage premium on happiness exists in the social democratic welfare states. From the *Table* we can see that there is a small difference in the reported happiness of married and cohabiting persons and an even smaller difference in the reported happiness of married and cohabiting women with children in the high-PSE countries, but these differences do not reach statistical significance.

Redistributing Happiness: Example 2 – Women With Small Children

While children can bring happiness to families, they can also impose constraints. Resources, such as time and money, become constrained with the addition of a new family member. Empirical studies including our own research have consistently confirmed that the effect of children on happiness is negative, and that this negative effect is stronger for women than it is for men. These findings confirm anecdotal observations that the burden of parenting falls disproportionately on women than on men.

Chart 1 shows simulated results of predicted happiness for women with and without children as a function of PSE. Here, children are defined as small children under the age of 18 residing in the household. First, we confirm the negative effect of children on happiness for both married and cohabiting women in the low-PSE countries. More interestingly, we observe that the slopes are different for women with children; this is because women with children get an extra boost in happiness for living in the high-PSE countries, as these countries are characterized by extensive public support for families. Indeed, for married persons, the negative effect of children disappears in the high-PSE countries, i.e. the happiness gap between married women with and without children becomes statistically insignificant in the high-PSE/social democratic welfare states. Likewise, we observe that the happiness gap between cohabiting women with and without children disappears in the high-PSE countries. These results strongly suggest that the heavily subsidized pro-family policies of the social democratic welfare states are effective in improving the happiness of women with small children.

Redistributing Happiness: Example 3 – Income

The relationship between money and happiness has attracted considerable attention in happiness science. Does money buy happiness? The answer is yes, but with qualifications. *How much* it affects your happiness depends on *where you live*.

Taxes play a major role in transferring resources from low risk to high risk individuals. The high marginal tax rates in the social democratic welfare states suggest that high-income individuals are taxed at higher rates in order to subsidize the low-income individuals. How does this transfer of resources affect the happiness of their citizens? If happiness follows the same path as the redistribution of resources, then we would expect to see a similar "transfer effect", from low-risk to high-risk individuals, i.e. from high-income to low-income individuals.

Chart 2 shows how happiness changes with income as we move from low- to high-PSE countries. Since PSE as a percentage of GDP is highly correlated with tax revenue as a percentage of GDP, the high-PSE countries are also the countries with the highest taxes. (Indeed, the following analysis reveals identical results when we substitute PSE with tax revenue as a percentage of GDP.) In this three-dimensional illustration, the vertical axis is the predicted log odds of belonging to the top three highest categories of happiness. One horizontal axis is income, expressed in *Z*-scores, and the other is PSE. For reference, we mark the four corners of the graph. Point A is the lowest income group in the lowest-PSE country; at the other extreme is point D, which is the highest income group in the highest-PSE country. The slope of AC and BD measures how happiness changes as income grows. The slopes of AB and CD capture the change in happiness as one moves to a higher PSE country.

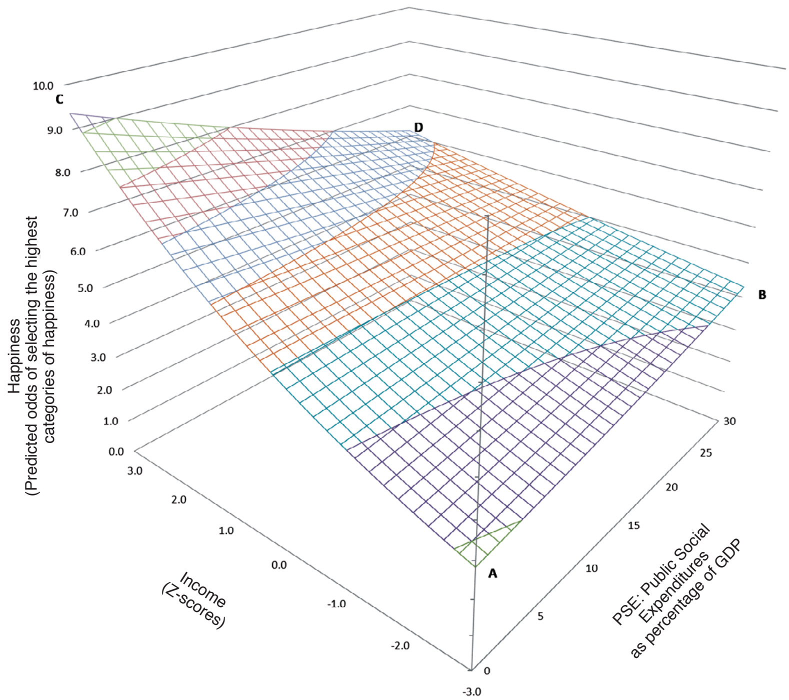
First, we can see that the slope of AC is steeper than the slope of BD. Higher income brings greater happiness in all countries, but this effect is much stronger in the low-PSE countries. Second, the slope of AB is positive, but the slope of CD is negative. Low-income people are happier if they live in high-PSE countries, but high-income people are happier if they live in low-PSE countries.

Hence, the gain in happiness derived from money incomes is not uniform across countries. Specifically, people in the low-tax/low-PSE countries achieve bigger gains in happiness as their income grows. In contrast, people in the high-tax/high-PSE countries derive little happiness from higher income.

Our findings are largely consistent with expectations: happiness

CHART 2

Individual income, public social expenditures & happiness



Source: Hiroshi Ono and Kristen Schulz Lee. Redistributing Happiness: How Social Policies Shape Life Satisfaction (Santa Barbara: Praeger, 2016).

redistribution in the social democratic welfare states mirrors income redistribution in these countries. The ideology of "spreading the wealth around" in the social democratic welfare states diminishes the happiness gains from income. Clearly, we see that the distribution of happiness is compressed much like income in these countries. There is a smaller happiness gap between the rich and the poor, suggesting a more egalitarian society with less economic and social inequality.

The fact that poor persons are happier in high-PSE countries (compared to their counterparts in low-PSE countries) suggests that social welfare programs targeted for the poor not only improve their economic well-being and protect them from poverty, but they also improve their subjective well-being. Furthermore, the finding that rich persons are less happy in the high-PSE countries suggests that the poor achieve greater happiness *at the cost of* rich persons in these countries.

Summary

"Welfare states" have massive redistribution schemes, with money and other resources transferred from the privileged to the less so. Social policies intended to improve the well-being of particular demographic groups can have the unintended perverse effect of lowering the happiness of others. Redistribution policies commonly observed in Scandinavian countries like Sweden and Norway can make the less privileged happier – but at the cost of reduced happiness among the privileged. For example, taxes can make the poor happier through redistribution, but they can make the rich less happy. Social assistance can make families with children happier, but single people less gratified.

Lessons for Japan

Our research has important implications for taxation policy. The effect of redistribution on happiness is zero sum: the happiness of the economically disadvantaged is increased while the happiness of the advantaged is decreased. From the perspective of public welfare, economist Richard Layard argues that the goal of public policy should be to reduce misery for the poor, rather than to increase happiness for the wealthy. Following this logic, it can be argued that the gains to the disadvantaged from economic redistribution justify the cost paid by the more advantaged members of society.

Our research also has important implications for fertility in Japan. Until recently, the safety net in Japan was a hybrid of a conservative family-based model (e.g. childcare and elderly care are provided by family members), and a corporatist model, where companies (especially large companies) provided generous support for families. However, against the backdrop of declining fertility and an aging population, there is an acute realization that the traditional family and corporatist model is no longer sustainable, and that government intervention is crucially required. Indeed, in the last few decades, Japan has transitioned to a more social democratic, state-centered welfare state. PSE (as a percentage of GDP) remained stable at about 10% during the 1980s, but increased to 16% in 2000 and 23% in 2013.

Redistributing resources through taxation can provide *disincentives* for single persons to remain single. As our research has shown, redistributive policies of the social democratic welfare states can elevate the happiness of families with small children, *but at the cost of* those who do not have children, in this case single persons. Taxing single persons at higher rates may result in their lower happiness, but at the same time it will discourage them from remaining single, and encourage them to start a family. The idea of encouraging higher fertility through higher taxation of single persons dates back to *Lex Papia et Poppaea*, legislated by the Roman Empire in 9 AD. Now, some 2000 years later, the law has important lessons for taxation and social policy for Japan and for other societies struggling with super-low fertility. JS

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