6. Contracts for life satisfaction and happiness

The poverty outcomes that we analysed in the preceding chapter are undeniably crucial for individual capabilities and life chances. However, favorable material conditions may not automatically translate into high levels of subjective well-being. If citizens have ample material resources but feel miserable, a narrow focus on people’s economic conditions does not provide a satisfactory account of how generational welfare contracts are related to quality of life in a wider sense. In order to provide a more nuanced analysis of how people fare under different generational welfare contracts, we also need to address other, more subjective aspects of citizens’ well-being.

While the moral, social and economic foundations of subjective well-being are recurrent themes in philosophy, dating back to classical thinkers, systematic empirical investigations are much more recent. Quantitative research on subjective well-being was introduced to the social sciences by psychologists, but in recent years a mounting research interest has also emerged in other disciplines, not least in economics (Argyle, 2009; Frey and Stutzer, 2010; Kahneman and Deaton, 2010). Although the majority of studies have ignored the role of policy and institutions, some attempts have been made to evaluate the relationship between welfare states and subjective well-being. Questions have so far mostly been framed in relation to aggregate spending patterns (Haller and Hadler, 2006; Oishi and Diener, 2014; Ono and Lee, 2013; Veenhoven, 2000) or broad welfare state regimes (Deeming and Hayes, 2012; Radcliff, 2001), on the whole with quite ambiguous results. Pacek and Radcliff (2008) is one of the few studies that directly addresses institutional effects, using a generic measure including a great variety of legislative dimensions to link welfare states to different levels of happiness. Yet possible relationships between the generational structure of social citizenship and quality of life remain underresearched.

To determine how welfare states may facilitate welfare-enhancing cooperation for the mutual benefit of all age groups, our purpose in this chapter is to analyse generational welfare contracts and subjective well-being. We will thereby complement our previous analysis of objective poverty outcomes. However, when evaluating links between policy and subjective
The generational welfare contract

well-being, we approach the latter mainly as an unintended consequence of social policy, with potential causal pathways being far from clear-cut. Following the overall hypothesis of positive-sum solutions in the generational structure of social citizenship, we expect subjective well-being to be higher and more evenly distributed in countries that have more balanced generational welfare contracts. Thus, it is not only expected that the age-related structure of social citizenship is reflected in objective outcomes such as income statistics, but also in social surveys covering subjective facets of individual well-being.

The chapter is organized as follows. Next, we briefly introduce the vivid academic debate on the role and relative importance of subjective and objective aspects of well-being. Then, we situate research on subjective well-being in relation to our analysis on generational welfare contracts. The next section is devoted to measurement issues and then we turn to the empirical analysis, first, providing descriptive findings and second, reporting the results from the regression analysis. The final section summarizes our overall findings.

QUALITY OF LIFE: SUBJECTIVE AND OBJECTIVE DIMENSIONS

According to some philosophical views, including many forms of utilitarianism, it is obvious that subjective well-being carries great moral significance. Indeed, contemporary followers of Bentham (1789 [1970]) even propose that the pleasure and pain resulting from different policies should guide political decision-making, if we could only measure such outcomes accurately (Bok, 2010). It is clear that happiness and life satisfaction is important to people, and few would deny the desirability of high levels of subjective well-being in their own lives. Although it has become more common to discuss subjective well-being as a direct political goal (Layard, 2006), objectives of creating happier or satisfied citizens are sometimes treated with suspicion in academia. In some branches of sociology (Johansson, 1973) and in many conceptions of social justice (Dworkin, 2000; Nussbaum, 2008; Rawls, 1971) it is more accepted to discuss quality of life in terms of objective resources that enable citizens to pursue a wide spectrum of opportunities in life than to focus on happiness or life satisfaction.

The reasons for this close focus on objective conditions are not only based on challenges of measuring subjective well-being in reliable ways, but also on normative views about the relevant metric of advantage or quality of life (Cohen, 1989). Specifically, whether a person converts objec-
tive resources, such as wealth and income, into subjective well-being or not may depend on circumstances that seem to have no moral relevance when assessing whether people are equipped as equals, including so-called adaptive preferences (Sen, 1980) and expensive tastes (Dworkin, 2000). To illustrate this point, compare an economically poor person who has managed to adapt to dire living conditions, to that of a wealthy person who is very easily frustrated by minor inconveniences due to a silver spoon background. Supposing that these two individuals are equally satisfied with their lives despite socio-economically different backgrounds, an exclusive focus on subjective well-being (i.e. instead of objective resources) suggests that there is no relevant inequality between them. When levels of subjective well-being reflect differences in aspirations and expectations just as much as objective conditions, measurements may thus provide misleading information about people’s quality of life (Erikson, 1993).

Another important dimension in the normative debate about subjective well-being as a political goal concerns worries that trusting the state to promote or even distribute subjective well-being might open up political attempts to publicly define and impose on each individual citizen-specific ideas about the true meaning of life (Van Parijs, 1995). Tensions may therefore exist between the idea of subjective well-being as an overriding political aim and respecting the individual freedom to live by different conceptions of a good life.

While these normative reservations may be perfectly valid, they should not prevent us from recognizing the relevance of analysing empirical links between welfare states and subjective well-being, alongside more objective indicators of quality of life. In this context, it should be noted that welfare states are not exogenous to the formation of aspirations, preferences and subjective well-being. By organizing collectively to defend certain interests, citizens mobilize to push forward their particular political agendas and inform policymaking, affecting not only resource deprivation, but also aspirations (Esping-Andersen, 1990; Korpi, 1985). It is reasonable to assume that similar processes of collective action, aspirations and institutions for redistribution also involve age-related claims.

It has been empirically demonstrated that subjective well-being is related to a wide range of factors at the individual level, including not only personal characteristics (Di Tella et al., 2003; Diener, 1984; Wolfers, 2003), but also several outcomes whose desirability and significance are widely supported, including health and sustainable economies. These connections are of general interest, and have potential policy relevance, even for those who think that social development goals or political concerns about inequality should mainly focus on objective conditions (Diener and Chan, 2011; Steptoe et al., 2015). Although the strength and robustness of these
The generational welfare contract

relationships can be debated, they nevertheless indicate that measurements of subjective well-being are far from arbitrary. Research on subjective well-being has in fact made substantial progress in recent years and today data allows for systematic quantification (Kahneman et al., 1999). In many instances, subjective well-being also contains additional information not captured by other indicators (Oswald, 1997). For such reasons, the Stiglitz-Sen-Fitoussi commission, which was appointed by the French government to widen the traditional focus on financial prosperity in research on economic performance and social development, clearly vouched for a stronger emphasis on subjective well-being in research on quality of life, for example, in terms of developing a better understanding of its many determinants.

Quality of life depends on people’s objective conditions and capabilities. Steps should be taken to improve measures of people’s health, education, personal activities and environmental conditions. In particular, substantial effort should be devoted to developing and implementing robust, reliable measures of social connections, political voice, and insecurity that can be shown to predict life satisfaction. (Stiglitz et al., 2009, p. 15)

Our ambition in this chapter to address subjective well-being from a generational perspective is thus well motivated, and highly consistent with the type of research agenda proposed by the Stiglitz-Sen-Fitoussi commission.

WELFARE STATES AND SUBJECTIVE WELL-BEING

How then can we understand the role of welfare states for subjective well-being? In terms of theoretical pathways, a few insights are provided by research in social epidemiology, where different frameworks are used to explain how health inequalities are generated and sustained. Perhaps the most elaborated arguments are formulated within the “social determinants perspective” (Marmot et al., 2008, 2012). Here, a range of conditions across the whole life course are supposed to generate inequality through accumulation of advantage and disadvantage. Included are material and psycho-social conditions, as well as certain lifestyle factors that are tied to social positions. The distinction between materialist and psycho-social explanations is central in this context.

The materialist perspective is based on the assumption that financial assets can be easily transformed into goods and services, thereby improving health (Kaplan and Lynch, 1997; Kaplan et al., 1996; Lynch et al., 1998, 2000). The explanation seems plausible in view of the fundamental role in capitalist democracies of financial resources, which can be used
to increase the command over resources in diverse areas of life, thus also positively contributing to quality of life in the sense of subjective well-being. In terms of income, the material perspective has received some support in analyses of subjective well-being, where results generally report positive but diminishing returns (Dolan et al., 2008). The materialist perspective suggests a direct pathway whereby generational balance in social citizenship – via higher income replacement in major age-related social insurance schemes – may impact on subjective well-being at the individual level. Still, it should be noted that the corresponding macro-level relationship between economic prosperity and subjective well-being is anything but clear-cut, at least when analyses are confined to rich countries.

The psycho-social perspective may provide important clues on why economic development at country level is not directly transmitted to similar improvements in aggregate levels of subjective well-being in rich countries – the so-called Easterlin paradox (Easterlin, 1973; Easterlin et al., 2010). The psycho-social perspective places emphasis on status differentials (Marmot, 2004; Preston, 1975; Rodgers, 1979; Wilkinson, 1992, 1996), where the mere level of resources is less relevant for quality of life than how resources are distributed. The role of status differentials has revived public and scholarly attention recently due to Wilkinson and Pickett’s (2009) seminal work on income inequality and well-being in rich democracies. The causal mechanisms involved are somewhat opaque, but reference is typically made to various feelings of anxiety and stress, including a perceived inability to achieve autonomy and control of one's life. In this theoretical perspective, social policy should affect subjective well-being by reducing status differences attached to social positions, including those that are defined by age.

At the individual level, the psycho-social perspective has also received some support in the literature on subjective well-being, particularly in relation to the role of relative income positions (Clark et al., 2008; Frank, 2008; Helliwell, 2008; Luttmer, 2005). Although evidence at the country level is mixed, analyses of developments in single countries, including Germany (Schwarze and Härpfer, 2003) and the United Kingdom (Clark, 2003) provide evidence of a corresponding macro-level relationship between income inequality and subjective well-being.

**EMPIRICAL ANALYSIS**

**Generational Welfare Contracts and Subjective Well-being**

Subjective well-being can be approached empirically in different ways. One approach is to measure subjective well-being by including at least two
The generational welfare contract

separate aspects: life satisfaction and positive affect (Diener, 1984). The former aspect shows how people evaluate their life in general, often with reference to past experiences. The latter aspect captures more immediate pleasant (or unpleasant, in terms of negative affect) sensations, often shortly after an event has occurred. At the individual level the statistical correlation between life satisfaction and positive affect is of moderate strength (Krueger and Schkade, 2008). Studies on subjective well-being are often based on survey data where respondents are asked to make a judgment about their own situation, using predefined scales with explicit reference points. For life satisfaction, analyses are commonly based on a single direct question asking respondents how satisfied they are with life. For positive affect, scholars typically rely on a single direct question on how happy the respondent is. Thus, in the literature on subjective well-being, it is more common to see references to happiness rather than positive (or negative) affect.

Unfortunately, there is no single comparative social survey that includes information about life satisfaction and happiness for all 18 OECD countries covered by this book. For the European countries we thus use data from the 2010 European Social Survey (ESS), and for the non-European countries we draw on data from the sixth wave (2010–14) of the World Values Survey (WVS).1 The ESS is based on face-to-face interviews of respondents and includes data on attitudinal and behavior patterns in more than 30 European countries.2 In the ESS we use the following questions: “All things considered, how satisfied are you with your life as a whole nowadays?” and “Taking all things together, how happy would you say you are?” For each question, respondents were asked to pick a score between 0 (extremely dissatisfied/unhappy) and 10 (extremely satisfied/happy). The WVS consists of nationally representative surveys conducted in nearly 100 countries using a common questionnaire.3 We used the following questions: “All things considered, how satisfied are you with your life as a whole these days?” and “Taking all things together, would you say you are: very happy, rather happy, not very happy, or not at all happy?” For life satisfaction, respondents were asked to judge their score on a 10-point scale varying between 1 “completely dissatisfied” and 10 “completely satisfied”.

In order to increase cross-national comparability between datasets, we have dichotomized both life satisfaction and happiness.4 Thus, respondents are either satisfied/dissatisfied with their lives or happy/unhappy. Figure 6.1 shows life satisfaction and happiness in three age-related social risk categories by type of generational welfare contract in 18 OECD countries around 2010. Similar to our analyses of poverty in Chapter 5, people with dependent children constitute the first age-related social risk category.
characterizing the period of childhood. We thus assume that subjective well-being is strongly transmitted from parents to their dependent children. The second category includes working-age people without children, whereas the third age-related risk category comprises elderly people (65 years or older).

The first thing to note is that in all countries, a majority of persons report that they are satisfied with life and feel happy. Although country differences often are somewhat compressed, the U-shaped distribution of subjective well-being over age-related social risk categories is another general empirical pattern. Families with children and the elderly seem to be somewhat happier and more satisfied with life than childless respondents of working ages. Notwithstanding the positive testimonial of subjective well-being described above, where the clear majority of respondents are both satisfied with life and happy, there are differences between countries that appear to be related to type of generational welfare contract. Notably, variation across countries is often larger than differences between individuals within countries. However, most important for our research question,

Note: The balanced contract includes Austria, Belgium, Denmark, Finland, France, Sweden and Norway. The pro-work contract includes Germany, Japan, the Netherlands and Switzerland. The pro-old contract includes Australia, Canada, Ireland, Italy, New Zealand, the United Kingdom and the United States.

Source: The European Social Survey and the World Values Survey.

Figure 6.1a–b Life satisfaction and happiness in three age-related social risk categories by generational welfare contract around 2010 (averages of 18 OECD countries)
both life satisfaction and happiness are higher in countries with balanced generational welfare contracts. These cross-national differences in subjective well-being are slightly larger for life satisfaction than for happiness.

A closer inspection of the data also reveals that subjective well-being is more equally distributed across age-related risk categories in countries where social citizenship rights are more balanced across generations. Thus, countries with balanced generational welfare contracts tend to achieve higher levels of life satisfaction and happiness and a more equal distribution of subjective well-being across age-related social risk categories. A few countries depart from these overall patterns. Both the Netherlands and Switzerland report levels of subjective well-being close to those observed in countries with balanced generational welfare contracts, while people in France are less satisfied with life than what might be expected on the basis of their balanced generational welfare contract (Figures 6.2 and 6.3).

Regression Analysis

Similar to the empirical investigations in previous chapters, we present results from regression analyses, which enable more detailed evaluations of links between social insurance and subjective well-being. We already know from Chapter 4 that balance in the generational structure and overall comprehensiveness of social citizenship are closely related. Our focus here is on the latter, once again defined by the overall level (arithmetic mean) of income replacement in social insurance for our three age-related social risks (childhood, working age and old age). Table 6.1 shows a series of multilevel logistic regressions of subjective well-being on the overall level of income replacement in age-related social insurance in 18 OECD countries around 2010. In multilevel models, variables measured at two levels of observation are combined into a single statistical regression, in our case individual level and country level. Logistic regressions are commonly used when the dependent variable only has two values, 0 and 1. Coefficients are reported as log odds, which are interpreted roughly as in the regressions of previous chapters.6

In order to capture the extent to which people differ in their likelihood of being satisfied with life or happy we created three dummy variables representing each of the age-related social risk categories outlined above.7 Childless respondents of working age (the working-age risk category) are used as the reference category, which means that generational effects are evaluated against the benchmark of subjective well-being in this particular group. At the individual level we added a few confounding adjustments: education, gender and family status (couple or single person). Due to the limited number of country observations, we only
Contracts for life satisfaction and happiness

a) Balanced

b) Pro-work

c) Pro-old

Source: The European Social Survey and the World Values Survey.

Figure 6.2a–c Life satisfaction in three age-related social risk categories in 18 OECD countries around 2010
The generational welfare contract

a) Balanced

b) Pro-work

c) Pro-old

Source: The European Social Survey and the World Values Survey.

Figure 6.3a–c Happiness in three age-related social risk categories in 18 OECD countries around 2010
adjust for GDP per capita at the country level, and whether data is from the WVS or not, thus controlling for sensitivity of results due to choice of survey.

The regression results show that social citizenship indeed is related to subjective well-being at the individual level. In all regression models, the overall level of income replacement in social insurance is positively associated with subjective well-being. Thus, respondents are more likely to be satisfied with life and happy in countries where age-related social

Table 6.1  Multilevel logistic regressions of life satisfaction and happiness on the overall level of income replacement in age-related social insurance in 18 OECD countries around 2010

<table>
<thead>
<tr>
<th>Model</th>
<th>Life satisfaction</th>
<th>Happiness</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual-level variables</td>
<td></td>
<td></td>
</tr>
<tr>
<td>V1. Childhood risk category</td>
<td>-0.157**</td>
<td>-0.241</td>
</tr>
<tr>
<td></td>
<td>(0.054)</td>
<td>(0.184)</td>
</tr>
<tr>
<td>V2. Old-age risk category</td>
<td>0.363**</td>
<td>0.362**</td>
</tr>
<tr>
<td></td>
<td>(0.135)</td>
<td>(0.134)</td>
</tr>
<tr>
<td>V3. Male</td>
<td>-0.101**</td>
<td>-0.101**</td>
</tr>
<tr>
<td></td>
<td>(0.041)</td>
<td>(0.041)</td>
</tr>
<tr>
<td>V4. Couple</td>
<td>0.790**</td>
<td>0.789**</td>
</tr>
<tr>
<td></td>
<td>(0.062)</td>
<td>(0.06)</td>
</tr>
<tr>
<td>V5. Primary education</td>
<td>-0.882**</td>
<td>-0.882**</td>
</tr>
<tr>
<td></td>
<td>(0.102)</td>
<td>(0.102)</td>
</tr>
<tr>
<td>V6. Secondary education</td>
<td>-0.528**</td>
<td>-0.527**</td>
</tr>
<tr>
<td></td>
<td>(0.063)</td>
<td>(0.062)</td>
</tr>
<tr>
<td>Country-level variables</td>
<td></td>
<td></td>
</tr>
<tr>
<td>V7. GDP per capita</td>
<td>0.030</td>
<td>0.030</td>
</tr>
<tr>
<td></td>
<td>(0.024)</td>
<td>(0.024)</td>
</tr>
<tr>
<td>V8. WVS</td>
<td>-0.233</td>
<td>-0.232</td>
</tr>
<tr>
<td></td>
<td>(0.288)</td>
<td>(0.288)</td>
</tr>
<tr>
<td>V9. Overall level of income replacement</td>
<td>2.205**</td>
<td>2.156**</td>
</tr>
<tr>
<td></td>
<td>(0.790)</td>
<td>(0.809)</td>
</tr>
<tr>
<td>V1*V9</td>
<td>0.163</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.323)</td>
<td></td>
</tr>
<tr>
<td>V2*V9</td>
<td>-1.112</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.682)</td>
<td></td>
</tr>
<tr>
<td>∆BIC</td>
<td>9.96</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: * p < 0.05, ** p < 0.01. Cluster robust standard errors in parentheses. Constants are not shown. Reference categories: working-age risk category, female and tertiary education.

BIC = Bayesian Information Criterion.
citizenship rights are more extensive (and thus more often generationally balanced). We also find clear generational gradients in subjective well-being at the individual level, even after controlling for gender, family status and educational attainment. Respondents with children (childhood risk category) tend to be less satisfied with life than childless persons of working age (working-age risk category), whereas elderly respondents (old-age risk category) are generally more satisfied.

The former finding may at first glance seem to contradict our earlier descriptive data analysis of macro-level relationships, where life satisfaction was higher among families with children than among childless persons of working age. However, further analyses (not shown) indicate that there is an intricate individual-level interplay between our childhood-related risk category and family status, where respondents in two-parent households are more likely to be satisfied in life than single parents. If we exclude family status from the regression analysis, the result is perfectly congruent with our descriptive data analysis, showing that respondents with dependent children are indeed more likely to be satisfied with life than childless persons of working age. Finally, in terms of happiness, elderly persons tend to be happier than respondents in the working-age risk category. For respondents with children, we find no clear association with happiness.

In order to analyse whether social citizenship is related to the generational gradients in subjective well-being noted above, we introduced statistical cross-level interactions as independent variables, measuring the association between age-related risk categories at the individual level and income replacement in social insurance at the country level. We only included cross-level interactions for risk categories that statistically could be linked to subjective well-being at the individual level, including respondents with children and elderly persons for life satisfaction, as well as elderly respondents for happiness.

Because the standard errors of coefficients corresponding to an interaction term and its main effects are often inflated due to multicollinearity, we tested for statistical significance using the Bayesian information criterion (BIC). This criterion is used in statistics for selection among a finite set of regression models. The model with the lower BIC is preferred (Kass and Raftery, 1995). Differences in the BIC statistic from the baseline models (excluding interaction terms) are shown at the bottom of Table 6.1. Only the regression models including interactions of elderly respondents provide better fit to the data and are worth further comments. Notably, the signs of these interaction terms are negative, indicating that a higher overall level of income replacement in age-related social insurance reduces generational gradients in subjective well-being associated with old age at the individual level. Thus, differences in subjective well-being
Contracts for life satisfaction and happiness

between elderly persons and childless working-age respondents tend to be reduced in countries where income replacement in social insurance is higher.

CONCLUSION

Subjective well-being is seldom found among the explicit goal dimensions of policy, and may thus best be viewed as an unintended consequence of social policymaking. Scholarly debates on the importance of subjective facets of well-being are far from settled. This chapter has been guided by the holistic perspective of the book, and the idea that subjective well-being may provide important clues to our investigation of generational welfare contracts. Using new comparative attitudinal data on happiness and life satisfaction, our analyses indicate that the generational structure of social citizenship indeed is related to subjective well-being.

In all countries, the clear majority of citizens are happy and satisfied with life. However, people tend to be somewhat happier and satisfied with life in countries with balanced generational welfare contracts, although cross-national differences are somewhat compressed. An important institutional mechanism appears to be the overall level of income replacement in age-related social insurance, which tends to be higher in countries with balanced generational welfare contracts.

We also showed that elderly people often are more satisfied and happy in life than childless persons of working age. Interestingly, the extensive-ness of social citizenship appears to have the potential to reduce these age-related gradients in subjective well-being. Our analyses on individual-level survey data indicated that differences in subjective well-being between elderly respondents and childless working-age respondents are reduced in countries where levels of income replacement in age-related social insurance are higher, thus once again providing evidence of virtuous circles of balanced generational welfare contracts.

NOTES

1. The only exceptions are Italy and Canada. Italy is not included in the ESS, and similar to Canada it is not included in the sixth wave of the WVS. For both these countries, we therefore use data from the fifth wave of the WVS. The questions on life satisfaction and happiness are the same in the fifth and sixth waves of the WVS. The WVS data correspond to the following years: Australia (2012), Canada (2005), Italy (2005), Japan (2010), New Zealand (2011) and the United States (2011).

2. The ESS minimum response target rate is 70 percent, while the maximum non-contact target rate is 3 percent. For most countries, these targets were achieved for the fifth round.
The generational welfare contract

(2010) of the ESS (Matsuo and Loosveldt, 2013). The national samples vary between about 1500 individuals in Cyprus up to about 10,000 individuals in Denmark.

3. The WVS sample sizes roughly vary between around 850 individuals in New Zealand and 2200 individuals in the United States. Response rates vary between about 25 and 70 percent. Due to high non-response in some countries, all descriptive analyses based on ESS and WVS data include sample weights.

4. For the EES, response categories 0–4 are coded as 0, and response categories 5–10 are coded as 1. For life satisfaction in the WVS, response categories 1–5 are coded as 0, and response categories 6–10 are coded as 1. For happiness in the WVS, response categories “very happy” and “happy” are coded as 1, and response categories “not very happy” and “not at all happy” are thus coded as 0.

5. The second category, used to capture working-age social risks, is to some extent subject to selection bias that could affect our results. Selection bias typically appears in quantitative research when some members in a population are more likely to end up in the sample than others. In order to ensure that the age-related categories obtained are representative of the population we intend to analyse, we made some further analyses. These analyses show that selection bias is not substantial. The share of single persons is slightly higher among childless adults than in the working-age population as a whole, but in terms of gender composition, age and educational attainment, the two groups are nearly identical.

6. Positive coefficients (log odds) show that high values on one of the independent variables increase the likelihood of respondents being satisfied with life and happy. Conversely, negative coefficients indicate that high values on one of the independent variables reduce the likelihood of respondents reporting high levels of life satisfaction/happiness.

7. A dummy variable only has two values (zero and one) and is used in regression models to represent subgroups of the sample being analysed.

8. Multicollinearity is present when two or more independent variables in a statistical regression model are moderately or highly correlated. Multicollinearity may increase the size of standard errors, making it more difficult to observe statistically significant regression coefficients.