Which Factors Most Affect Life Satisfaction
in the Developed and Developing Countries in 2019?

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Abstract.
In this article, we focused on the economy of happiness. In the introduction, we discuss why it is important to deal with the economics of happiness as part of economic theory. We then looked at Easterlin's paradox. In the next part, we briefly characterized which factors can affect happiness and satisfaction with life. in the second part we deal with research that had an impact on satisfaction with life. As a sample, we took the countries of the world, which we divided according to the Human Development Index (HDI) into developing and developed (limit 0.8 points HDI). We drew on satisfaction with life from the World Happiness Report. All data are for the year 2019. In conclusion, we looked at which of the selected indicators are significant and have an impact on life satisfaction, whether in developing or developed countries.

Keywords: Life satisfaction, happiness, developing and developed countries.

JEL classification: *B55, I31*

1   The economics of happiness

Happiness is a word that attracts immediate attention. This explains why many social and economic scientists use the term 'happiness', even though it often means 'life satisfaction' or 'subjective well-being'. Happiness is just one of many emotions that people experience at any given moment. It differs from evaluations of a person's life in general or job satisfaction, for example (Nikolova and Graham 2020).

The economics of happiness is the theoretical, qualitative, and quantitative study of happiness and quality of life, well-being and life satisfaction. It is usually

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associated with economics and other social sciences such as sociology and psychology. Proponents of the economics of happiness consider subjective indicators related to happiness as more objective indicators of quality of life, rather than wealth, income or profit. The field has grown substantially since the late 20th century, for example, with the development of methods, surveys, and indices to measure happiness and related concepts, as well as quality of life. Findings on happiness have been described as a challenge to the theory and practice of economics (Layard, 2006).

For example, research shows that migration improves both the income and subjective well-being of migrants who have moved from post-socialist countries to the West (Nikolova and Graham, 2015). This example illustrates that looking beyond income and employment and incorporating subjective measures into economic policymakers' analyses can reveal additional benefits or costs of particular decisions that can help policymakers and individuals act proactively and, in a welfare-enhancing direction, either for the individual or across the country.

The economics of happiness approach has several advantages that make it of interest to policy makers, academics, civil society organisations and lay people alike. However, applying these measures in political and economic analysis requires a thorough understanding of their challenges.

In recent years, a growing consensus has emerged in academia and policy circles about the urgent need to broaden the conceptual and empirical analysis against which well-being is defined and measured. Objective measures of welfare, such as income or employment, are often not indicative of how well people are doing in life and whether certain policies are having a positive impact on this. As the OECD (2011, p. 265) states, "Subjective well-being reflects the notion that how people experience a set of circumstances is as important as the circumstances themselves, and that people are the best judges of how their own lives are."

According to Kovanda, when it comes to happiness, it is important not to overestimate material goods. He considers governments' measurement of "Gross National Happiness" inappropriate because it may give governments too much power over people, and therefore governments should only create space for happy people with the help of democracy and decentralization. (Kovanda, 2014)

Richard Easterlin became famous in the economics of happiness, especially for the famous "Easterlin's paradox", which he published in 1974. Easterlin found that increasing everyone's income would not increase everyone's happiness, because with increasing income, people's material conditions would increase. according to which they judge their own happiness. (Easterlin, 1995)

A variety of explanations have been proposed for the Easterlin Paradox. For example, the relative income hypothesis states that an individual's happiness depends on his/her relative income rather than the absolute level of income (Ferrer-i-Carbonell 2005, Clark et al. 2007, Easterlin 1994). This may help explain why an increase in incomes of all individuals does not result in an increase in the average happiness level.

Another explanation by Easterlin (2001) stresses the role of individuals' aspirations and expectations in determination of happiness levels. He suggests that individuals' aspirations and expectations (regarding the goods and services) rise with income level. Therefore, even though the individual's income level rises over time which helps her satisfy her previous aspirations, she wants to consume more to be as happy as she thought she would be when her previous expectations were satisfied.

Clark (2012) sought to clarify the paradox that has arisen over the last 40 years, with a decline in perceptions of life satisfaction: "income inequality is increasing while the proportion of very dissatisfied and very satisfied people is declining." that poor people have better access to basic needs and that rich people do not bring extreme wealth. If income inequality is not high, then increasing the income of all people will not increase overall happiness but will reduce the gap between happy and unhappy people.

Individuals income are one of the most common areas of research in the economics of happiness, and it is assumed that the feeling of subjective happiness is an increasing function of income, but the marginal usefulness of income decreases with its amount. (Inglehart 2000, Easterlin 2001, Deaton 2008).

The following factors can also affect happiness:

    • mental and physical health (Clark, 2017),

    • marriage and social contacts (Stutzer 2006, Laaksonen 2018),

    • education (Hayo 2003, Scitovsky 1976),

    • institutional factors - economic freedom in poor countries and in rich countries it is political and personal freedom (Veenhoven 2000, Graafland 2012)

    • unemployment (DiTella 2001, Clark 1994),

    • divorce and parental divorce (Clark 1994, Blanchflower 2000),

    • inflation (DiTella, 2001),

    • discrimination (Blanchflower, 2000).

    • gender (DiTella, 2001, Frey 2000, Blanchflower 2000),

    • economic progress and development (Easterlin 1974, Blanchflower 2000, Clark 2012)

2   Life satisfaction in developing and developed countries

Borrowing the idea of shift in preferences from psychology literature, we propose that non-materialistic goods contribute to the happiness of individuals in rich countries, but the materialistic goods don't. Similarly, materialistic goods should have

an influence on happiness of poor countries' residents while non-materialistic goods should not. In the context of non-materialistic goods (and higher order needs), we analyze the institutional characteristics of a country such as the extent of democracy and civil rights and lack of corruption. The democracy and civil rights indices we employ measure the extent to which citizens of a country are involved in decision making and the degree of personal liberties in the country, respectively. Corruption index is determined by the degree of misuse of entrusted power for private gain in a country. Rich and poor countries have dissimilarities in these institutional characteristics and the preferences of individuals over these characteristics in rich and poor countries may be different.

For example, people in rich countries may value institutional characteristics (such as the prevalence and protection of civil rights) of the country more than they value the level of development or GDP, and for individuals in poor countries the opposite may be true. In that case, an increase in a rich country's GDP may not affect the happiness of its citizens, but a poor country's residents would be happier when that country's GDP increases.

2.1 Methodology

The estimation if there some effects on subjective well-beig (SWB) provided by Jalal El ouardighi and Francis Munier tell us there is a strongly significant effect of GDP per capita growth rates and unemployment on SWB. (Jalal El ouardighi and Francis Munier, 2019)

To estimate the effects on SWB Jalal El ouardighi and Francis Munier use model with Fixedeffect.

In our estimation we will try to estimate effects of log GDP per capita growth rate, social support, health life expectancy, freedom to make life choices and perception of corruption on life satisfaction. We have just cross-sectional data, so we used OLS regression.

Using World Happines Report (WHR) data to find out levels of life satisfaction worldwide. In the survey from WHR, respondents should evaluate their lives: "Imagine a ladder, with steps numbered from 0 at the bottom to 10 at the top. The upper part of the ladder represents the best possible life and the lower part of the ladder represents the worst possible life for you. On which step of the ladder would you say that you personally feel that you are standing at the moment?"

Here we examine the dependence of life satisfaction (dependent variable - y) on the logarithm of GDP per capita, expected corruption, social support, freedom of choice, life expectancy and generosity, which were used in the model as explanatory (independent) variables (x).

$$SL_{it} = b_0 + b_1\,(logHDP/p.c._{it.}) + b_2 CP_{it} + b_3 SS_{it} + b_4 G_{it} + b_5(LE) + u_{it} \qquad (1)$$

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We have examined this addiction in 125 World countries which are divided into developed (51) and developing (74) according to HDI, we set 0.8 points as a critical limit, all countries below 0.8 points HDI are characterized as developing countries (less developed, LD2019) and countries with over 0.8 points HDI are characterized as developed countries (well developed, WD 2019).

We used sources from the World Happiness Report 2021 and the Human Development Reports 2021. We used Stata software to calculate the regression (worldhappines.report 2021, hdr.undp.org 2021).

2.2   Results

Table 1. descriptive statistics

	(1)	(2)	(3)	(4)	(5)
VARIABLES	N	mean	sd	min	max
LifeLadder	139	5.575	1.118	2.375	7.780
LogGDPpercapita	136	9.481	1.151	6.966	11.65
Socialsupport	139	0.816	0.120	0.420	0.982
Healthylifeexpectancyatbirth	138	65.10	6.570	48.70	77.10
Freedomtomakelifechoices	138	0.797	0.117	0.385	0.970
Generosity	135	-0.0206	0.153	-0.289	0.561
Perceptionsofcorruption	131	0.721	0.188	0.0696	0.963

In table number 1 we can see the descriptive statistics of the variables that we used. There are between 131 and 139 observations for the variables because of data availability. We tried to get all the necessary data for each country that we have included in the model.

N- means the number of observations,

Mean- the mean value,

Sd- the standard deviation,

min- means the minimum value,

max- means the maximum value.

Table 2. OLS regressions

VARIABLES	(1) WD2019	(2) LD2019
LogGDPpercapita	0.240	-0.151
	(0.208)	(0.159)
Socialsupport	3.936***	3.538***
	(1.111)	(1.062)
Healthylifeexpectancyatbirth	0.0398	0.0641***
	(0.0271)	(0.0208)
Freedomtomakelifechoices	1.360	0.946
	(0.877)	(0.867)
Generosity	0.509	-0.253
	(0.528)	(0.517)
Perceptionsofcorruption	-0.846**	0.525
	(0.382)	(0.710)
Constant	-4.448**	-4.013***
	(2.156)	(1.354)
Observations	51	74
R-squared	0.784	0.573

Standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

From our regression we can see that the LogGDP per capita is non-significant explanatory variable for both regressions. That means the relationship between life satisfaction and GDP per capita in our sample is not occurred. For the LogGDPpercapita variable, we expected that this variable would be negligible for developed countries, but for countries that are characterized as less developed countries, we expected that the value would be positive and significant. According to the literature, we expected that in less developed countries LogGDPpercapita would have an effect on life satisfaction, but this was not confirmed in our model.

Social support is significant explanatory variable for both observations. We can see that the social support has highest impact on life satisfaction regardless of whether it is a developed or developing countries. Social support means if individuals are having someone to count on in times of trouble. From these two particular regressions we can say that for life satisfaction regardless of whether it is a developed or developing country the most important thing is to have someone who can helps you whenever you need. Currently, we see that even less developed countries reach a certain standard and thus have the opportunity to ensure a sufficient standard of living and

satisfy the basic needs of life. Considering the difference of cultures in the world and in our observation, we can say that social support is one of the most important factors that can influence life satisfaction. we can also see that if social support changes by one unit, life satisfaction increases by almost 4 units when we are talking about more developed countries, and in less developed countries, life satisfaction increases by 3.5 units.

In developed countries variable healthy life expectancies at birth is non-significant and this is because in most developed countries healthy life expectation at birth is obvious. For less developed or developing countries is expectation of healthy life at birth is not obvious and has a significant positive impact on life satisfaction. If in less developed countries the expected length of healthy life increases by one year, the satisfaction with life in the given countries increases by 0.06 units

Freedom to make choices and generosity in our sample are non-significant explanatory variables for bot regressions.

Perceptions of corruption is significant variable just for developed countries and have a negative effect. In more developed countries, the population is more concerned with the political situation, and therefore we can see that if there is a higher rate of perception of corruption in the country, people's satisfaction with life decreases. If the perception of corruption in the country increases by one unit in developed countries, it will cause a decrease in satisfaction with life by almost one unit (0.85 points).

2.3   Conclusion

From the literature, we would assume that for less developed countries, GDP per capita growth should have a positive effect on life satisfaction, and for developed countries, non-material things and the functioning of institutions should have a positive effect.

The first assumption was not confirmed from our research, we cannot say that the growth of GDP per capita has an impact on life satisfaction for either developed or developing countries.

From our research, we can say that social support had the greatest positive impact for both observed groups, and therefore we can say that even for the less developed countries, non-economic aspects have a greater impact on life satisfaction.

We also confirmed the assumption that countries that are more developed are more concerned with the political situation and therefore a higher perception of corruption has a negative effect on life satisfaction.

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