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DEMOCRACY, ECONOMY AND HAPPINESS IN POST-SOVIET STATES
(1995-2014)
MA thesis

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Tartu 2016

I have written this Master's thesis independently. All viewpoints of other authors, literary sources and data from elsewhere used for writing this paper have been referenced.



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Abstract:

Defining and measuring happiness has been a major topic for many generations of scholars. The contemporary discussion tackles upon the main predictors of happiness and their influence on the subject. This paper focuses on the influence of democracy and economy towards happiness, using the fifteen post- Soviet countries as cases. The data for the research has been collected from 1995 to 2014 and has been analyzed both on aggregate and individual level. The results show that on individual level both the economic status and the satisfaction with democracy have significant influence towards happiness. However, on aggregate level the income inequality appears to be the only predictor of happiness in both cases where the democracy factor is controlled for or not.

1. Introduction

The puzzle of what causes happiness has been present in the social science agenda for many years and yet the answer is rather unclear. The complexity of the term and its many dimensions makes its objectification difficult. Both internal and external factors have been studied as relevant to the individual level of happiness but still there is no clear formula by which it can be achieved.

Until the middle of the 70s this narrative has left happiness mainly in the realm of psychology. In 1974 Richard Easterlin published a paper titled "Does Economic Growth Improve the Human Lot? Some Empirical Evidence" in which he changes the question of what causes happiness. Instead of focusing on physiological and physiological explanations he chooses the economic welfare of the country as a main predictor of individual happiness. This rationale is linked with the utilitarian understanding that level of happiness can be maximized only by increasing the level of utility. Yet the end results are rather different, as Easterlin fails to find correlation between aggregate level of happiness in a country and its economic performance. He argues that governments should not rush to increase the economic growth of their countries but they should focus on policies relevant to the level of happiness.

This controversy, known as the "Easterlin paradox" points the beginning of new wave of political and economic research, in which the topic of happiness is of main interest. And even though traditionally this studies cover topics such as free market economy, capitalism and welfare in the past 20 years the theory according to which happiness is influenced by the type of political regime in a country has become more and more popular. The common position in this case is that democracy level in a country is an influential predictor for the happiness of its population. (Bertrand, 1981) Despite the increasing amount of studies in the field, the findings for both political regime and economic performance and their relation with happiness tend to differ.

This study will focus on both the economic and the political explanations of happiness, as it examines the cases of the fifteen post-Soviet countries. The main research question is: "Do improvements in the democratization and the economy lead to

an increase in the level of happiness?”. The objective of this question is to find explanation of the “Easterlin paradox” as well as to the income- happiness paradox, according to which there is no constant relation between economic growth on individual level and the level of happiness. The other pattern which is going to be studied is the influence of democracy level and the satisfaction of the individuals with it on their overall happiness.

I will go through the concepts of happiness, economy and democracy, presenting their relations with one another in the literature. Then I will present the measurements of the variables, both on an individual and aggregate level. The final part of this research will be the presentation of the results from the study.

This research is presented in five chapters – the first one is introductory and contains general information regarding the aim of the study. The second chapter contains a literature review as well as the conceptualization of happiness, economy and democracy and the hypothesis that are going to be tested. The sub chapter of happiness presents all the current discussions on the topic and the main findings so far. The sub chapters regarding democracy and economics present the conceptualized terms in relation to happiness and the approach of different scholars towards them. Chapter 4 presents the motivation for the case selection and the description of the operationalization process and provides information on data sources. In Chapter 6 I will present the empirical findings of the study, including both the descriptive results and the results from the logistic regression analysis. The last chapter contains conclusion and further discussion on the topic.

The results from this study show that on individual level both the economic household conditions and the satisfaction with democracy have an impact on happiness and higher satisfaction with democracy leads to a higher probability of being happy compared to the effects of the economic factors such as employment and household income. Even though the relation between the variables is significant, the effect of economy and satisfaction with democracy towards happiness is rather weak.

The results on aggregate level are not so straightforward. The level of democracy in a country does not have significant impact on the level of happiness despite whether the

effect of the economic variables is controlled for or not. In terms of prosperity, the probability of having happy population depends on the wealth in the country and its distribution among the population. This findings confirm the economic happiness theory, according to which the level of happiness depends on the prosperity of the country. The level of income inequality also appears as a significant predictor of happiness levels. The results, however, reject the hypothesis – it appears that as the income inequality in a country increases, so does the probability of being rather happy.

2. The concept of happiness in relation with economy and democracy

This chapter contains the definition and the scientific discussion on the concepts that are going to be used in the research: happiness, democracy and economy. It covers both the historical development of the terms as well as their current usage in political and social science. The contemporary debate on those topics is also presented.

2.1. Happiness

The concept of happiness has been a subject of discussion ever since Antiquity. From Aristotle, through Bentham to the modern scholars of the 21st century, the term happiness has been seen and studied through different lenses. In Antiquity happiness has been seen as related to “good luck and fortune”. (Oshi et al, 2013) In 2006 the historian McMahon focuses on this topic, emphasizing on the semiotics behind the term “eudamonia” which is transferred into today’s language as happiness. As the term is a combination of eu (good) and daimon (God, spirit, demon), he concludes that “eudaimonia thus contains within it a notion of fortune—for to have a good daimon on your side, a guiding spirit, is to be lucky—and a notion of divinity, for a daimon is an emissary of the gods who watches over each of us”. Therefore he presents the antique understanding of happiness as something beyond the influence of the individual which is only in the hands of the gods. (Oshi et al, 2013).

On the other hand philosophers such as Socrates and Plato view happiness as something that is in the realm of men and therefore can be influenced. In the “Symposium” Socrates argues that education is the key to happiness and in the “Republic” Plato presents the rightful program for a happy life, presenting happiness as something in the realm of man. (Waterfield, 1993) The dispute on the role of men and its influence towards her own happiness are present ever since.

The development of the idea of happiness as something which is hardly dependent on supernatural powers reaches its pick in the 18th century with the development of the utilitarian economic theory. In his book “Sentiments”, the Scottish economist Adam

Smith presents happiness as “ the norm of experience and pain or misery as a deviation from it.”(Sugden, 2002)

This line of thought continues through the Age of Enlightenment with the development of the Utilitarian school and its principles. Philosophers such as Mill and Bentham focus on happiness as the main end goal. This understanding of happiness puts aside the idea of eudaimonia and uses the hedonistic understanding of happiness instead. Unlike the eudaimonic idea of happiness as something that is dependent on externalities, the hedonistic approach presents happiness as something related with our own understanding of good, our idea of good behavior, and the motives for our actions. (Weijers, 2012) It focuses solely on the subjective pleasure and pain.

During this period the question of objectifying happiness also gains popularity. However, as Immanuel Kant suggests, even though everyone wishes to attain happiness, they can never say definitely and consistently what it is what they really wish. This leads to the next question in the development of the notion of happiness - “Can happiness be pursuit at all?” Kant’s pessimism on this topic goes even one step further, arguing that happiness is not even a main goal for humanity. (Bremner, 2011) The reason for that is stated above – since a person can never define what is it that she wishes, and the process of fulfilling one’s wishes will lead to achieving happiness, there is no clear pattern of how can happiness be achieved. This statement contradicts the hedonistic happiness approach, according to which happiness depends solely on our definition of pleasure and absence of what we may define as pain.

The contemporary happiness theory focuses on the individual perception of happiness and the things which may or may not affect it. According to Veenhoven et al (2006) currently there are three theoretical approaches towards happiness. The first one suggests that despite the environment in which we are living and our effort, we are mentally programmed to a certain level of happiness, which does not change through the years - the ‘Set-point’ approach. On the contrary, the ‘Comparison’ theory explains that we do change our level of happiness, but through comparison with our surroundings and the settled model of a good life, which is dominant in the society. The third theory - “Affect”, discards any feasibility of tackling the reasons for happiness, as it is

emotionally and unreasonably determined. The authors suggest that only the latter theory holds. Referring to the previous discussion on the topic such findings distance the notion of happiness from its hedonistic interpretation, arguing that man himself is not a master of her happiness. They argue that the reason behind the lack of interest by the sociologist towards happiness comes from their general interest in the human behavior rather than emotions, as the latter can hardly be studied empirically. This argument is supported by Hyman (2011) who states that for sociologists, happiness is emotion, a state or a process. Happiness is 'knowable only intuitively, at the level of feeling', (Jackson et al, 2000) therefore it goes beyond the scope of social science.

Not all modern scholars support this ideas. A variety of studies focuses on the external factors that affect happiness, arguing that it is dependent on different external factors and that the environment, in which the individual is living influences her idea of subjective well-being.

Such theoretic approach is used by Diener et al (1999) who focus not only on the basic predictors of happiness such as wealth and prosperity in general, but also on the individual's coping mechanisms with life. Even though this approach relates to the utilitarian understanding of controlling one's happiness, rather than relying entirely on external factors which one cannot influence, it also tackles on the concrete aspects of life that are essential factors for achieving happiness.

Another discussion on happiness in social science connects it to the social norms and order. In this case happiness is seen as a subject that may contribute to oppression and have a key role in the definition of social control. (Ahmed, 2010) According to Ruut Veenhoven, the evaluation of life is based on two components of happiness – hedonistic and cognitive (Veenhoven, 1991). The hedonistic understanding refers to the amount of pleasure in certain period of time and the cognitive is related to the individual self-evaluation. Others (Nuvolati, 2002) define only the first approach as relevant to happiness, as the second one is generally closer to the idea of satisfaction. Both terms can be seen as a part of the broader understanding of happiness - subjective well- being. (Bartram 2011)

Another social influence on happiness is the way individuals are thought to react when they gain or lose wealth. This idea has been presented by Brickman et al in 1978. The results of their study confirm the lack of correlation between particular life-changing obstacles such as rapid gain of wealth and personal happiness level. They argue that due to the relativity of happiness, there cannot be a particular event that will initially lead to unhappiness or happiness of the individual. By comparing the cases of lottery winners with the cases of people who had experienced accidents, the authors argue that there is no significant relation between these events and the change of happiness levels.

The growing interest in happiness from the fields of economics and psychology has led to a growing interest from social science as well due to the continuity of the utilitarian approach in the contemporary behavioral economics. In 1971 Brickman and Campbell start the discussion on the “hedonic treadmill” which is developed as a theory by Michael Eysenck. Their basic idea is that as the earnings of the individual increase, so do their wishes and expectations, therefore there cannot be an infinite increase in their level of happiness. In 1974 Richard Easterlin continues this thought by studying the relation between wealth and happiness, finding that there is no link between these two, and this statement becomes known as the Easterlin paradox. This shift in the approach towards happiness opens a wide discussion for economists, sociologists and political scientists. They find a common ground in the suggestion made by Easterlin that governments should not be focusing on economic growth rather than on the increase in the level of happiness in the population, thus making the topic part of both the sociological and political realm. Furthermore, he transfers the question of individual happiness, which beforehand was a part of the psychological discussion, to the realm of governance, by suggesting that it should also become a part of the political agenda. Such a finding also leads to the assumption that as governance can influence individual happiness, aggregate happiness levels should vary across countries.

The work of Veenhoven produces different conclusions. According to him, the relevance of happiness theory lies on three postulates: happiness results from comparison, standards of comparison adjust, and standards of comparison are arbitrary constructs and

based on them can be said that happiness does not depend on real quality of life, changes in living conditions do not have long effect on happiness, people tend to be happier after hard times and people are typically happy about their life. (Veenhoven, 1990) Furthermore, he states that despite the findings made in the economic researches still people's happiness is decreasing under conditions such as poverty, war and isolation and when at least some of this conditions improves, so does the level of happiness, difficulties in the past does not favor happiness in the future and last but not least people are typically positive about their life rather than neutral. As happiness in general is relative it is not related to the actual quality of life, rather than to the subjective assessment towards it. Veenhoven continues with the statement that happiness itself cannot be promoted due to the evasiveness of the manner, as standards rise with success and the individuals stay as unhappy as they were before.

An explanation for the paradox has been given by Clark et al (2008), as they do not focus on the relativity of wealth. They have found that an increase in the income of the individual can be measured either through his past earnings or through the income of the others. However the process of data collection may be hard and misleading due to limitation of the information. Even though current income can be compared with past income, there is hardly any information regarding past happiness and present happiness. Furthermore, returning to the issues stated by Kant, it is quite possible that the individual changes her interpretation of happiness over time.

The wealth of the individual, both subjective and objective is not the only factor that affects happiness on individual level. Dimitris Ballas et al (2007) use data from Great Britain to trace the main life events that affect happiness. What seem to matter the most is the environment which allows a dynamic interpersonal relationship both at work and during personal activities. Such findings are important for the future tackling of the relation between the political regime and the level of happiness, as recent studies already measure the importance of social capital and communication for development of modern democratic system. (Fukuyama, 2001) Therefore the more advanced the social capital is, the more opportunities for cooperation between individuals there are.

Referring to the findings of Ballas et al (2007), it appears that happiness could be determined by the political regime and the possibilities for cooperation which it leads to. Regardless of the different suggestions on what causes happiness there is one factor that tends to be overlooked. Only recently scholars introduced the cultural specifics as something which may shape the ideas of happiness among social groups. (Joshnloo 2013, Uchida and Kitayama 2009) They argue that often western understanding of happiness is related to the framework of liberal individualism and has been used as a template over the word regardless of the region specifics in terms of dominant philosophy, language and religion. Therefore the notion of eudaimonia and hedonism are inapplicable for societies which use Confucianism, Taoism, Buddhism, Hinduism, and Sufism as their dominant philosophical doctrines. (Joshnloo 2013)

This argument is supported to a large extent by Lu et al (2004) as they focus their study on the difference between the requirements for happiness in China and in the United States. The presence of “harmony” , “balance” and “fit” are stated as essential for achieving high levels of happiness in China and the American perspective on happiness is much more dynamic and intense. Such difference is present when comparing Northern American countries and Eastern- Asian countries. The results confirm the entitlement of happiness in Northern America towards self-esteem, compared to the Chinese case where the interpersonal relations are the significant determine of happiness. When the same hypothesis is tested in South Africa and Germany it confirms the difference in the idea of happiness between those two countries. In the former country happiness is associated with freedom and social relationships, and the latter – to the presence of surprising events.

Being a strong element of culture, religion also plays a significant role in determining happiness. Fidrmuc et al (2015) confirm the effect of religion on happiness, stating that religious people tend to be happier than non- religious people. Furthermore they state that the organized religion has a lesser effect on happiness than having only a religious belief, and the regulatory power of religion tends in general to decrease happiness level.

Scholars such as Inglehart et al (2000) even go one step further, assigning happiness topic to the neuroscience realm, arguing that it is not the country of origin that makes the difference in determining happiness, but the specific genes.

Another external factor for happiness studied recently is the importance of the reference group of the individual. Knight et al(2009) focus on the infectiousness of happiness, arguing that the happiness of the individual depends on the happiness of her social circle. They conduct a study on the territory of rural China focusing on the well-being of the respondents, arguing that such dependencies do exist. However, they also note that such measurement can be developed only in small groups and societies as the link between the individuals is stronger and easier to trace.

Due to its blurry definition and scope it is hard to define when does happiness stops being part of the philosophical realm and becomes a social science or an economic issue. In all cases it is hard to present clear objective boundaries and definitions. There are some main tendencies that are common for all analysis. Firstly happiness is not dependent on objective aims and wills and its definition can be blurry even for the individual. Secondly happiness is dependent on externalities (such as the political regime of the state and its economic development), but their influence and scope are rather unclear. Since Antiquity the role of the externalities is debatable, and the discussion on to what extend a person is entitled to her happiness is still present. And thirdly there are two main approaches in the western world that are used for thinking happiness- the eudaimonic related with the success and wealth of the individual which is dependent to an extend on the external conditions of the environment in which the individual is situated and the hedonistic, that is related solely on the individual's evaluation on her own life and its pleasures but they may not be necessarily applicable to non-western societies. Based on the theoretical discussion it can be expected that people from different economic and political background would be entitled to different levels of happiness.

2.2. Democracy and happiness

The essence of happiness is related with the understanding of good society and the individual prerequisites which constitutes it thus becoming a part of the political discussion. According to Ross Abbinnett (2013) this constitutes the reason why political and social science are entitled to analyze the relation between subjective happiness and the discourse provided by the modern political ideologies and the regimes that commonly support them. As the dominant political ideology, according to him, is always related with the subjective understanding of happiness it will always be articulated and pursued based on the social norms in the society. Layard (2005) also suggests that the dominant ideology influences the individual and thus it shapes her understanding of good and bad, moral and immoral. The institutional building under certain political regimes will be narrated by the same ideology and will form the objectives which the individual will be pursuing.

The way institutions are build and their relation to individual happiness is a pattern in shaping the influence of the political regime. As Berry et al (2010) argues, the way the private, public and the third sector are functioning defines to a large extend the level of well-being in the society. The pattern of their relation suggests that the more democratically developed institutions, the happier the population has been confirmed by a series of researches (Frey et al, 2000, Inglehart, 2000, Rode, 2013). Furthermore, international organizations, such as the UN present the effective, accountable and inclusive institutions as crucial for the modern society supporting the idea that the way institutions are build is highly dependent on the political regime in the country.

In conclusion there are two ways in which the political regime can affect happiness – the relation between ideology and the political regime and the institution building and its dependency on the political regime. Therefore it is safe to assume that the level of happiness should vary across political regimes.

The term democracy has been changing over the years, starting from Ancient Greece to present days. For the purposes of this study I will use the definition given by Robert Dahl, who defines democracy through five criteria – effective participation, voting

equality, enlightened understanding (the ability of a citizen to understand the alternative actions which a government is considering to take and to be able to present her opinion), control of the agenda (ability to influence the government's agenda) and inclusiveness. (Krouse, 2008) It is already widely used and therefore it can easily be transferred into modern context and linked with happiness. Furthermore it can be used as a starting point for describing the exact aspects of democracy which are mostly related to individual happiness – freedom and influence in the political process.

The relation between the political regime and the level of happiness has not been widely covered in the literature (compared to the studies, focusing on demography and economics as predictors of happiness). Furthermore, the results that have been produced are rather controversial and one explanation for that may be the difference in the background of the selected cases, as some of them represent “old” democracies and the the results from the researches conducted is sometimes different than the one performed in newly established democratic regimes.

This pattern of discussion is rather new in the academia. One of the first studies on the topic is performed by Bertrand (1981) who focuses on the period 1960-1965 in various countries to study the relation between the democracy level in the country and the happiness of the population. What he finds out is that there is a significant relation between the separation of power, political and civic freedoms, legislation, dominance of the political leader, the freedom of elections, existence of multi party system, possibility of opposition and absence of restriction of minority groups and the level of happiness in the population. On average the countries that are performing well on the above mentioned criteria tend to have happier population. Another test which the author performs is related to the possibility of the citizens to articulate their interest in a non-parliamentary manner (interest democracy). In this case the used indicators are “influence in organized interest groups”, “limitedness of the role of institutional interest groups”, “limitedness of the role of ascriptive interest groups” and “limitedness of the role of irregular interest groups”. The results present even stronger relation than between happiness and liberal democracy.

The promotion of freedom is a crucial factor for happiness and its relation with it has been widely studied. In 2008 Inglehart et al analyze the data from representative national surveys in 88 countries from 1981 to 2007 in order to trace the relation between development, freedom and democracy. The results show positive relation between freedom of choice and happiness, as well as other economic factors, which emerge through the democratization process such as market economy. However, the direction by which the variables are related remains unclear. Therefore in 2006 Inglehart publishes another paper, this time focusing on the direction of the causalities. He suggests that democracy and happiness can be related in different ways. Starting from the strong correlation between Freedom House political rights and civil liberties indices, he presents three assumptions – democratic institutions make people happier than authoritarian institutions; happiness causes the emerge of democratic institutions and the correlation could be spurious, both variables can be strongly related with third variable, like economy for example. The results show that the relation between the level of happiness and the process of democratization are not strongly related, in a sense that promotion of democracy does not make people happier per se. However, democracy tend to explain better the division of happiness levels within a country when economic factors are added. Furthermore, according to the same study it is possible to look at those relations the other way around – democracy develops in those cases, where the life satisfaction is high and the economy is growing.

The patterns by which the citizens can influence the public policy process is another factor connecting the political regime to happiness. According to Dolan et al (2011), the aim of the public policies is to increase the level of happiness within the population. Furthermore, they state that happiness should become a powerful tool for assessment of governments and their policies.

Such narrative does not find a wide support in the academia. A critique towards this approach has been presented by Frey et al(2013). In their research the happiness topic has been operationalized by the promotion of National happiness index and the pursuit of governments towards its improvement. In their study they present the cases of the United Kingdom, France, Germany and China who have declared happiness as prime

policy goal. They argue that if this approach is chosen it will lead to bias in the reports used to measure their success, firstly due to the motives of the individuals to answer strategically and secondly as it will motivate the governments to manipulate the index. The individuals will answer strategically as they will no longer see the question of their individual happiness as referring to their inner assessment of their quality of life, rather than as possibility to support or punish the incumbent party. Following this pattern governments as well will tend to overrepresent the positive economic statistics in the media in order to be re-elected and by doing so they will blur the actual economic development of the state, leaving a misleading picture to their voters in order to manipulate their feeling of happiness through the achievements of the country. (Frey et al, 2013) In conclusion they state that governments should not try to influence the overall results of happiness in their country but to enable individuals to become happy. This may not always be the case as Inglehart and Klingemann suggest that in Belgium and the Soviet Union during a period of constitutional changes the level of happiness among the population remains rather constant (Inglehart et al,2000). Furthermore they emphasize on the decline in the level of happiness in Eastern European countries after the establishment of democratic institutions. Even though their conclusion is that 'democracy is a good thing, and it probably makes some contribution to human happiness, but it does not seem to have nearly as much impact as other aspects of people's experiences' (Inglehart et al, 2000), this topic is still debatable and other scholars manage to prove the opposite. However what needs to be stated is that democracy should not be analyzed in a single dimension, but rather as a platform on which the individual has the opportunity to express herself, to increase her knowledge, competences, awareness and so on. (Radelif et al, 2003). What Haller et al (2004) suggest is that promoting one's freedom through association and expression will increase the level of happiness among the population.

The way representatives are chosen has a strong effect on individual happiness. This refers not only to the cleanliness of elections per se, but also to the act of voting and influencing directly the decision making process on national and local level. In 2000 Moller performs a single case study, focusing solely on the development of the level of

happiness in South Africa in 1994 after the country's first free and fair elections and the change of the regime to democracy. (Moller, 2000) Even though the results show a growing percentage of "happy" people – 4 out of 5 people declare themselves as very happy or happy, this trend does not last in time. Furthermore the distribution of happiness among the population is disproportional, as happiness seemed to be dependent on gender, race and region. It appears that personal safety is a factor that tends to determine the feeling of happiness.

Apart from the importance of clean and fair elections for the democratic process, voting itself can be seen as a predictor of happiness. Do voters tend to be happier than non-voters is another research question presented by several scholars. The first attempt to find such causal relation is made by Dolan et al (2008) studying this trend by using data from the United Kingdom electoral surveys. The results show that personal happiness does not in itself affect the tendency to vote, however there is a difference between the political groups. Conservatives are less likely to vote when they are happy. Such results imply the importance of happiness when it comes to electoral studies. Shapiro et al (2011) use the cases of Latin America countries to develop the question regarding voters and their happiness, concluding that voters do tend to be happier than nonvoters. However, they do agree that this relation can be reversed – that happier people are more likely to vote. This field is still underdeveloped and more results are yet to follow.

The participation in the democratic process can also be seen through the freedom of influencing the decision making process. According to Barker et al (2011) the freedom to participate in the decision making not only in the family and at work, but also in the political process tends to make people happier. However, due to data limitations his conclusions are not related to empirical evidence. Another study on happiness, executed by Tov et al (2008) presents another relevant trend – on a national level, countries with higher happiness score tend to take higher positions in surveys on generalized trust, volunteerism, and democratic attitudes.

Many scholars have used the case of Switzerland to study the relation between different elements of democracy and happiness. In 1999 Frey and Stutzer use the data from a study conducted with 6000 persons from Switzerland to study different causalities for

happiness among which is the relation between direct democracy and happiness. They find out that both the direct democratic rights and the participation in citizens' assemblies tend to increase the feeling of happiness. In 2007 Dorn et al conduct another survey, using data from Swiss Household Panel. In this study the researchers add another variable into the equation – language. The main result of this study is that once language is being controlled for in the equation on individual level the impact of direct democracy on satisfaction with life is no longer statistically significant at conventional levels. In this way the strong linkage between direct democracy and happiness presented by Frey and Stutzer has been questioned. The latest research on this topic and case has been conducted by Stadelmann-Steffen in 2011 and they do not find a significant relation between individual happiness and direct democracy.

Another important issue regarding the possible causal relation between democracy and happiness has been raised by Graham (2000). While comparing the cases of Latin America, USA and the Russian Federation he finds a relation between satisfaction with democracy and happiness, pointing that there is no significant relation between the preferences of political regime and happiness. His results lead to the suggestion that economic factors such as unemployment and relative income determine the attitude towards democracy and both of those variables influence happiness, but it is hard to say whether happiness can be influenced solely by the political regime.

A possible way to test such statement can be to compare cases with changes in the political regime when the economic performance is controlled for. That is why the collapse of the Soviet Union in 1989 is used by many scholars as an event which brings newly emerged democracies on the political scene. Bernd Hayo (2003) analyzes the results from New Democracy Barometer survey, conducted in 1991 in order to follow the life satisfaction trends in the transition countries. The results relevant to the democratic transition show that the political rights and civil liberties, such as freedom of expression and association have positive association with happiness. However the results from the analyze made by Dorn et al in 2007 show that the relation between the level of happiness and the change in the political regime in Eastern Europe is not significant. In 2001 Ruut Veenhoven focuses on the case of Russian Federation,

studying the possible explanations for the constantly low happiness level in the country. His findings show that the reason is not due to lack of government reliability rather than due to the problematic transition in both economic and political scene, therefore this is another argument stating that only a shift in the political regime is not necessarily influential towards the levels of happiness in the population.

As Easterline suggests (1976) when income increases over time along with happiness, at one point happiness becomes indifferent to further increase in wealth. This finding can be applied in the European context, comparing the cases of Eastern and Western Europe. This theory could explain the constantly high level of happiness in West Europe, compared to its low levels in the Eastern countries. One explanation for the lack of relation between democracy and happiness for countries in transition is given by Rodriguez-Pose et al (2011). They argue that high levels of corruption may be considered as possible explanation for the weak link between democratization and happiness. Therefore the decreasing in the cases of corruption would lead to a stronger relation between democracy and happiness. Margit Tavits (2007) is another scholar that comes to the same conclusion. Using data from 1997 Eurobarometer she also suggests that representation and corruption are those political factors that are influential for the well being of the population.

The relation between democracy and happiness is rather underrepresented in social science. In a broader sense democratic countries tend to have happier population. However the path of the dependence is still unclear, as well as the question of which aspects of democracy tend to make people happier. Civil freedoms and participation in the decision making process are stated as strongly related with the subjective well-being but this hypotheses have not been tested in a cross cultural environment in order to escape from possible interdependencies such as economic prosperity. Another problem stated by the scholars regarding this relation is the lack of constant and sophisticated empirical analysis on the topic, as the majority of findings are based on theoretical discussion.

2.3. Economy and happiness

The scientific discussion on the relation between economy and happiness can be traced back to the Enlightenment. The definition given to utility in the 18th century refers to everything that contributes to the personal happiness of the individual. (Bentham, 1789). This theory develops through the years in terms of the way utility should or should not be measured at all and how should the term be approached. Currently happiness becomes a part of the way economists think of utility, being one of the contents that defines it. (Frey et al, 2003) As Tibor Scitovsky suggests in his book “The Joyless Economy”, “pleasure cannot be defined only through market products and despite what possibilities the consumer has this cannot define her level of happiness”.

Happiness is being influenced by economy in three ways: income, unemployment and inflation. (Frey et al, 2003) The common understanding of the relation between happiness and income can be seen as: the more wealth a person has, the happier she is. However many people disagree with that statement. Easterlin (2001) traces down this relation discovering that the important factors to be held when measuring happiness and income is the life cycle of the individual and the growth of his material aspirations. According to him in the beginning of the life cycle there is a strong relation between increase of income and increase in happiness. In a long term this relation is weakened by the growing material aspirations. At one point even a constant growth in wealth does not affect happiness, as the material aspirations grow in the same way. Clark et al (2011) contribute to this explanation by adding the consumption benefit to the equation. According to their study the level of happiness will raise along with the increase of income until the consumption benefit from this growth stops increasing. From this point on the level of happiness remains flat as well.

The idea that income determines happiness as long as it is compared to the income of the others (the income is relevant) has been defended by many scholars. In 2001 Michael McBride tests the relevance of relative income for happiness with data from General Social Survey in 1994 conducted in the United States. The results show that relative-income effects are much stronger at higher income levels. The relative-income

effects appear to be smaller on a lower income levels when the effect of absolute income becomes significant. Richard Layard et al (2009) use the data from United States General Survey and West German Socio-Economic Panel finding that happiness in the United States has not risen since 1950s, regardless of the overall income increase in the country. The same was valid for Western Germany. On a micro level the rise in individual income leads to a raise in the level of happiness of the individual and this is valid for both cases. The effect of the measurement has been separated between the effect of relative and effect of absolute income. The results show that for this data the whole effect is on relative income. However this results may be valid only for higher income countries. Oshio et al (2011) transfer the testing of the same hypothesis in Asian countries, in particular China, Japan and South Korea. Their results show that associations between relative income and happiness are stronger for individual income than family income in China, while for Japan and Korea the associations are stronger for family income than for individual income. While controlling for the subjective assessment of family income or personal identification within the society the comparison with the income of others, especially family members is strongly related with happiness.

This thesis has also been confirmed when tested on European countries. In 2009 Caporale et al test this hypothesis on the cases of all European countries using data from European Social Survey. Their results support the previous findings that the income of a reference group exerts a negative effect on happiness even when it is controlled for other variables. Yet this trends disappear once the analysis is limited only to Eastern European countries. Then the reference income has a positive effect on happiness. One of the explanations that the scholars give is the so called “tunnel effect”, according to which when people with lower income compare their wealth with the people with higher income they tend to think that their situation also is going to be improved in some future moment. This finding may be filling the gap in the explanations of Richard Layard et al (2009) and their study of Western European countries and the United States.

The other popular theory that tries to explain the relation between income and happiness is the absolute income theory. In their paper “Wealth and happiness revisited”, Michael

R. Hagerty and Ruut Veenhoven(2003) argue that absolute income does affect happiness. They claim that the previous researches and models had low statistical explanatory power therefore the results they had produced were irrelevant. The results show that increasing national income does go with increasing national happiness, opposed to the results produced by the relative utility models. Wealthier countries show smaller effects of absolute income than lower income countries. Another suggestion that they present is that happiness is not a zero-sum game and its level can increase despite the increase of wealth in the country and the material aspirations of the population. While examining the relation between macroeconomic factors and happiness Di Tella et al (2002) also find a relation between the division in GDP and happiness in the observed countries. David Bartram also focuses on the relative income-happiness relation in his study in 2010. Following the controversy between absolute and relative income he studies the happiness – income relation within economic immigrant groups. If the relative income hypothesis holds, then the level of happiness among immigrants should not increase, having in mind that the natives tend to earn more, therefore comparing with them will have negative effect. On the other hand if the absolute income hypotheses holds, their personal happiness should increase along with the change in their income. Using data for United States from World Value Survey he finds out that being an immigrant is associated with lower levels of life satisfaction than natives. First of all there is a difference in the observations of immigrants from rich and immigrants from poorer countries. Both groups appear to evince a stronger relationship between income and happiness. Even though the level of happiness of immigrants from poorer countries tend to increase faster than the level of happiness of the natives, the effect is nonetheless small. Moreover, the extra happiness migrants get from an increase of their absolute income is outweighed by the fact that they are less satisfied than natives with the incomes they have achieved.

Income inequality has been approached as a significant part of the economic studies of happiness only recently. Alesina et al (2002) comparing the relation between income inequality and happiness in Europe and the United States. Controlling the country and year effects, their results show that Americans tend to be less affected by inequality than

Europeans. Furthermore the wealthier European population tend to be less affected by inequality, which is not the case for less wealthier people. Such findings do not hold in the United States where the population with less income does not appear affected by inequality. Oishi et al (2011) observe the same question in the United States, finding that the Americans are happier in years with less national income inequality. Another important finding is that among lower-income respondents the negative link between inequality and happiness is explained through perceived unfairness and lack of trust. Graham et al (2005) conduct a similar research, focusing on Latin America. The results present a large effect of relative income differences on happiness. At the same time, average country and city-size wealth, holding individual incomes constant, has no significant effect on happiness, except for the smaller and less wealthy cities. Brockmann et al (2008) add to the empirical analysis of the subject by studying the level of happiness in China when the economy is growing. They focus on the phenomenon that in the 1990s happiness in China decreases despite massive improvement in material living standards. What they argue is that despite the improvements, the income inequality is so skewed towards the upper income strata, that related to the average income the financial position of most Chinese has worsened.

Even though the studies focusing on the economic determinants of happiness are wider and better developed still the final results are as controversial as they are in the studies dedicated to the democratic factors. Boehm et al (2008) present the idea that happy people tend to be more successful and hence to earn more. Therefore it is possible that the income- happiness relation can also be presented the other way around. Another problematic issue is the difference between absolute and relative income and its importance for happiness. Despite the suggestions made by Easterline, the results from the more recent studies show that there may be a relation between the wealth of a country and the happiness of its population.

Another factor of the socioeconomic status of the individual is her occupation, or lack of it. As it was previously stated the second economic factor that is considered as relevant to happiness is unemployment. The main question in this case is whether the unemployed tend to be unhappy. The Keynesian school of economic thought view

unemployment as something involuntary and costly. Following this paradigm it can be easily assumed that unemployed people should be unhappier than employed people. (Frey et al, 2003) In 2001 Di Tella et al studied the relation between inflation, unemployment and happiness by using Eurobarometer data from 1975 to 1991. The results show that unemployment does have a negative impact on happiness. The suggestion, given by Clark et al (1994) on the same issue is that: “Joblessness depressed well-being more than any other single characteristic including important negative ones such as divorce and separation.” Despite the results from these studies that in almost all cases come to similar conclusions, the relation still may not be that straightforward. For example the costs of unemployment may be the variables that lead to decrease in the level of happiness and not unemployment itself. Unemployed people tend to suffer from anxiety and depression which lowers their self esteem. (Argyle, 1989) Therefore the frequency of being unemployed, as well as age, gender and education tend to work as a catalyst when it comes to unemployment – happiness relation.

Another important factor is the comparison that the individual makes with her reference group. In these cases people tend to be less unhappy with their unemployment if their surroundings are unemployed as well (Clark 2008).

Contemporary economists view unemployment as something that is not necessarily a provider of poverty and misery and despite the overall results from different researches there are still some cases in which it appears that this is not the case. In 2002 Böckerman et al study the happiness- unemployment relation in Finland, finding that despite the increase in the unemployment rate in 1990 the level of happiness in the country remains constant. Lee et al (2013) measures the difference between short and long term unemployment in relation to happiness in Japan. The results show that even though the relation between more rapid economic growth and lower levels of unemployment and happiness are positive and significant in the short run, it is the relative growth performance of the economy that matters in the long run.

In general unemployed tends to lower the happiness of those that have lost their job but at the same time causes distress among employed. For example Knabe et al (2010)

suggest that the past experience of unemployment tends to keep the level of happiness low, despite the current occupation of the individual.

The third economic factor that is considered to influence the individual happiness is inflation. Inflation is expected to have a negative effect towards happiness. However such relation will be relevant only in the case of rapid increase of the prices. Otherwise it is expected that the individual will have time to adjust and therefore the change in the prices will be less shocking for her. Therefore the economic theory distinguishes between two types of inflation – anticipated and unanticipated, the latter being crucial for the individual level of happiness. (Frey et al, 2001). When studying the relation between inflation and happiness, using cross-section method, Veenhoven (1993) doesn't find any relation between the two variables. Rehdanz et al (2008) reach similar finding, using data from 67 countries and their panel reports. The results show that both unemployment and inflation have insignificant relation with self-reported happiness.

However once combined time series and cross-section studies are used the effect of time change can be add into the equation. Such approach is used by Di Tella et al (1999). They use data from twelve European countries and the United States from 1975 to 1991. The result show that the individuals tend to evaluate themselves as less happy when the inflation in their country is high. The rates of price change and the individual life satisfaction appear to be strongly related.

In the previous researches inflation has been used mainly opposed to unemployment, studying which of the two factors have bigger influence on happiness. According to Blanchflower (2008) both factors influence happiness, but unemployment has bigger effect on less educated elderly people, and inflation is more influential among young well- educated people.

Even though the scholars agree that economic performance influences individual happiness the patterns of this relation are still debatable. When it comes to democracy or economics it is still not clear if happiness is always the dependent variable. Furthermore different social groups can be influenced differently when it comes to income, employment and inflation. Both statements lead to the relevant criticisms towards

contemporary studies on happiness – does the case selection lead to bias and does the research question is ought to point out the actual dependency.

2.4. Hypothesis

Focusing on the current debates over the relation between happiness and economy and democracy the aim of this study is to confirm or reject some of the findings made so far. The research is going to focus on five hypothesis:

H1: The higher the level of prosperity, the happier the population of a country.

H2: The higher the level of prosperity in the household, the happier the individual.

H3: The higher the level of democracy, the happier the population of a country.

H4: The higher the level of satisfaction with the democratic system, the happier the individual.

H5: The higher the level of income equality, the happier the population in a country.

Among them H1, H5 and H3 are going to be tested on a macro level and H2 and H4 will be tested on individual level.

3. Case selection and variable operationalization

One of the common problems in the previous studies on happiness were related to the replicability of the findings. As Uchida and Kitayama argue in 2009 scholars often tend to undermine the cultural specifics of their cases and in order for a hypotheses to be confirmed in needs to be valid in every environment. Thus simply testing the democracy – happiness relation in Western Europe will not be sufficient, as it will not consider the varieties in the levels of democratization and the more authoritarian regimes are going to be excluded from the testing. The same is valid for the economic dependencies – if only wealthy and developed countries are studied, the influence of the variables in less progressing economies will be missing. Furthermore as scholars such as Hayo have already proven, the transition process in a country towards market economy and democracy has a significant role in determining the level of happiness. For this reason adding cases where the transition process is ongoing will again insure the reliability of the results.

In order to provide a sample which includes a diverse set of cases guaranteeing the validity of the results, this research will focus on the fifteen post-Soviet states (Estonia, Latvia, Lithuania, Kazakhstan, Kyrgyzstan, Uzbekistan, Armenia, Azerbaijan, Georgia, Tajikistan, Turkmenistan, Belarus, Moldova, Ukraine and the Russian Federation). This sample is characterized by significant variation on both the dependent and independent variables. The level of happiness varies from 64.4% of the Latvians, stating that they are “Quite happy” compared to 39.8% of the Moldovans, stating the same in 1996. The level of freedom ranges from dictatorial non-free regimes (such as Uzbekistan, which has a Freedom House score of 7 on political freedom and scores 79th out of 100 for internet freedom) to free counties such as Estonia, which has a score of 1 on political freedom and ranks 8th in the world on internet freedom. There are great variations in economic performance as well: economic growth varies from -9.9 % in Ukraine in 2015 to Armenia with 3 % GDP growth in 2015, according to World Bank data. At the same time all of the countries analyzed have (re)gained their independence in the past 26 years and therefore have built their institutions at the same time.

The fifteen post-Soviet countries provide a sample which includes cases of different cultural, economic and political background while sharing common history during the Cold War. Furthermore, some of the countries such as Tajikistan and Turkmenistan have rarely been included in happiness researches, therefore their presence in this hypothesis testing will also guarantee the validity of the results.

Due to the different cases which are included in the surveys, whose data will be used in this research the following information is going to be used. All the data for the independent variables is gathered for the same year when the surveys have taken place :

Table 1: Included cases by year

	Countries by year												
	1995	1996	1997	2002	2003	2004	2005	2006	2008	2010	2011	2012	2014
Armenia			✓								✓		
Azerbaijan			✓								✓		
Belarus		✓									✓		
Estonia		✓				✓		✓	✓	✓	✓	✓	✓
Georgia		✓							✓				✓
Kazakhstan							✓				✓		
Kyrgyzstan					✓		✓				✓		
Latvia		✓											
Lithuania			✓							✓		✓	✓
Moldova		✓		✓				✓					
Russian Federation	✓							✓	✓	✓	✓	✓	
Turkmenistan							✓						
Tajikistan							✓						
Ukraine		✓				✓		✓	✓	✓	✓	✓	
Uzbekistan							✓				✓		

3.1. Variable operationalization

This sub chapter contains information on the variable operationalization on both individual and aggregate level. It also provides information on the data sources used in the study.

3.2. Measurements of happiness

3.2.1. Happiness on individual level

For the purposes of this study quantitative methods are going to be used. Even though I am aware that this will lead to a more broad and general conclusions they will allow me to approach the topic in a holistic matter.

The data for measuring happiness in this study is going to be taken from the World Value Survey, European Social Survey, European Value Survey and Asiabarometer. The time series cover the period from 1995 to the latest data available in 2014.

In all the waves of World Value Survey the question regarding happiness has been formed as follows: “Taking all things together, would you say you are happy?” and there are four possible answers are “Very happy”, “Quite happy”, “Not very happy” and “Not at all happy”.

Table 2: World Value Survey Waves included in the research

	Wave 3 (1995- 1998)	Wave 4 (1999- 2004)
Armenia	✓	
Azerbaijan	✓	
Belarus	✓	
Estonia	✓	
Georgia	✓	
Kazakhstan		
Kyrgyzstan		✓
Latvia	✓	
Lithuania	✓	
Moldova	✓	✓

Russian Federation	✓
Ukraine	✓
Uzbekistan	

In all the series of European Value Survey the question regarding happiness has been formed as follows: “Taking all things together, how happy would you say you are?” and the possible answers are positioned on a 0 to 10 scale when 0 refers to “Extremely unhappy” and 10 - “Extremely happy”.

The European Social Survey has launched 7 rounds so far and data from six rounds is included in the survey.

Table 3: European Social Survey Rounds included in the research

	Round2 (2004)	Round3 (2006)	Round4 (2008)	Round5 (2010)	Round6 (2012)	Round7 (2014)
Estonia	✓	✓	✓	✓	✓	✓
Lithuania				✓	✓	✓
Russian Federation		✓	✓	✓	✓	
Ukraine	✓	✓	✓	✓	✓	✓

The Asiabarometer survey that has been used in this study was launched in 2005 and includes Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan. In Asiabarometer the question regarding happiness has been formulated as “All things considered, would you say that you are happy these days?” with six possible responses. The responses have been positioned on a 1 to 5 scale - “Very happy”, “Quite happy”, “Neither happy nor unhappy”, “Not too happy” and “Very unhappy”.

The data from the European Values Survey has been collected in 1999 in Latvia, Lithuania, Estonia, Georgia, Armenia, Russian Federation, Ukraine and Belarus. The

happiness question has been formulated as “Taking all things together how happy are you?” presented on a four level scale.

The answers “Don’t know” as well as the missing values have been removed from all the surveys for the purposes of the study.

Table 4: Countries included in each survey

	World Value Survey	European Social Survey	Asiabarometer	European Values Survey
Armenia	✓			✓
Azerbaijan	✓			
Belarus	✓			✓
Estonia	✓	✓		✓
Georgia	✓			✓
Kazakhstan	✓		✓	
Kyrgyzstan	✓		✓	
Latvia	✓			✓
Lithuania	✓	✓		✓
Moldova	✓			
Russian Federation	✓	✓		✓
Tajikistan			✓	
Turkmenistan			✓	
Ukraine	✓	✓		✓
Uzbekistan	✓		✓	

3.2.2. Unification of the data

For the purposes of the study all of the collected data on happiness has been transferred into 0 and 1, as 0 is given to all cases where happiness level is being presented with “Unhappy” or less, and for the case of EVS, where the happiness score is 5 or less. A score of 1 has been given when the happiness level has been presented as “Happy” or

more, and for the case of EVS where happiness score is 6 or more. The rescaling is needed for the purposes of the statistical modeling, which is going to be widely explained at the end of this chapter.

3.2.3. Measurements of happiness on aggregate level

The data for measuring happiness on aggregate level has been collected from the sources on individual level. In order to do so I took the average for every country, and if the final score was below 0.5 it gained a final coefficient of 0, being rather unhappy and if it was above 0.5 the happiness coefficient was 1, being rather happy.

3.3. Measurements of democracy

3.3.1. Satisfaction with democracy on individual level

The data source for measuring satisfaction with democracy on individual level is the same one as in the case of the happiness variable. As on individual level the approach towards democracy does not necessarily follow the criteria settled by the political scientists and sociologists in this situation the measures used cannot be the same as in the country level analysis. Therefore in this case the important factor is not going to be the external evaluation given by a political expert but rather the subjective opinion of the respondents towards democracy (regardless of their understanding of the term).

Both EVS and Asiabarometer have conducted similar questions in their surveys. This topic appears in the Wave 3 and 4 of WVS - “On the whole are you very satisfied, rather satisfied, not very satisfied or not at all satisfied with the way democracy is developing in your country?” with four possible options.

In the case of ESS there is no difference between the different surveys – in all of them the question covering satisfaction with democracy has been articulated as “And on the whole, how satisfied are you with the way democracy works in your country?”. The possible answers are positioned on the scale from 0 to 10 where 0 refers to “Extremely dissatisfied” and 10 - “Extremely satisfied”.

In Asiabarometer this question has been presented as “Please tell me how satisfied or dissatisfied you are with the following aspects of your life – The democratic system” with five possible responses. The responses have been positioned on a 1 to 5 scale - “Very satisfied”, “Quite satisfied”, “Neither satisfied nor satisfied”, “Not too satisfied” and “Very satisfied”.

In EVS the satisfaction with democracy question has been formulated as “Are you satisfied with democracy in your country”, presented on a four level scale.

The information from WVS, Waves 3 and 4 and Asiabarometer has been collected on the same scale and not further conversion was needed. As for the levels of the variable in the European Social Survey, the information is presented on a 10 level scale, unlike the other cases which are on 4 level scale. In order to unify the results from the surveys, all responses have been rescaled on a 1 to 4 scale.

The answers “Don’t know” as well as the missing values have been removed from all the surveys for the purposes of the study.

3.3.2. Democracy on aggregate level

When it comes to measuring level of democracy in a country social and political science researchers have been using the results provided by organizations such as Freedom House. Studying the relation between happiness and democracy is not an exception and scholars such as Hayo (2007) and Inglehart (2006) have used their data for the purposes of their researches.

I am also going to use the overall Freedom House score. It has been developed on the basis of an yearly survey, measuring the global freedom, the opportunity of a person to act spontaneously in a variety of fields, based on two categories – political rights and civil liberties.

In order for the overall score to be produced, a mean from the scores on both political rights and civil liberties is taken to determine an overall status of “Free,” “Partly Free,” or “Not Free.” Countries with mean rating between 1.0 and 2.5 are considered “Free”, from 3.0 to 5.0 - “Partly Free”, and from 5.5 to 7.0 - “Not Free” .

3.4. Measurement of economy

3.4.1. Measurements of economy on individual level

The information for the economic conditions on individual level has been extracted from the same sources used to define the levels of happiness. The rationale is to avoid bias in the results and to relate the single value of happiness with the household income of the respondent and their employment status.

In the surveys performed by WVS the question regarding the household income of the respondent has been formed as follows: *“Here is a scale of incomes. We would like to know in what group your household is, counting all wages, salaries, pensions and other incomes that come in. Just give the letter of group your household falls into, before taxes and other deductions.”*. The answers are presented on a scale from 1 to 10 where 1 stands for the lowest decile and 10 – to the highest decile.

In the surveys performed by ESS the question regarding the household income as been formed as follows: *“Using this card, please tell me which letter describes your household's total income, after tax and compulsory deductions, from all sources? If you don't know the exact figure, please give an estimate.”* The answers are presented on a scale from 1 to 10 where 1 stands for the lowest decile and 10 – to the highest decile.

In the European Values Survey the household income question has been presented as: *“Here is a list of incomes and we would like to know in what group your household is, counting all wages, salaries, pensions and other incomes that come in. Just give the letter of the group your household falls into, after taxes and other deductions.”* As in this case the possible categories are 15 a further measurement is needed in order to re-scale them into 10 categories. This is done simple by redistributing the responses into 10 new categories.

In all the surveys, the “Don’t know” response was excluded from the measurement.

The other indicator used to measure the economic performance on individual level is the employment of the respondent.

In Asiabarometer the question has been framed as follows: “What is your occupation?” with possible categories: “Self-employed”, “Business owner”, “Senior manager”, “Clerical worker”, “Student”, “Retired”, “Unemployed”.

In WVS the question regarding employment has been formed as follows: “In which profession/occupation do you or did you work? (If more than one job, the main job) What is/was your job there?” with the following possible response categories: “Full time employee”, “Part time employee”, “Self employed”, “Retired/ pensioned”, “Housewife not otherwise employed”, “Student” and “Unemployed”.

In the case of ESS the question has been framed in a different manner: “Using this card, which of these descriptions applies to what you have been doing for the last 7 days? Unemployed and actively looking for a job”, where 1 is considered unemployed and 0 - employed. The reason why this framing is not considered as problematic is that it still contains the needed information.

In the EVS the question has been given as: “Are you yourself employed or not?” with two possible answers.

For the purposes of the study all data should be converted as it is in the case of EVS, having only two values. For that reason the data from Asiabarometered and WVS has been operationalized in a way that “Unemployed” and “Housewife not otherwise employed” has been coded as 0, and all the other possible answers – as 1. For ESS the values have been switched in a way that 1 stands for employed and 0 for unemployed.

The socio-demographic factors included in the measurement are the age, marital status, education and gender of the respondent. The marital status has been defined as either “Married” or “Not married”, regardless if the respondent is in a relationship or not. The education has been divided into three categories – primary, secondary and higher, the gender has two categories – male and female, and age has been presented as a number. This factors are included as control variables in the measurement phase, in order to remove their effect from the equation.

3.4.2. Measurements of economy on aggregate level

On an aggregate level there has been a set of indicators that have been present in the majority of happiness studies. (Di Tella et al, 2002; Radcliff, 2001; Frey et al, 2003) They are the GDP, inflation and unemployment. An additional variable – the income inequality is also going to be added, as the distribution of wealth within the population is also commonly used variable to explain levels of happiness.

The GDP will be measured through the purchasing power parity (PPP). It is going to be converted international dollars based on International Comparison Program in 2011 using the PPP rates. The values will be presented per capita and due to the specifics in the variance of the variable in the observed cases, a logarithm of the values is going to be taken. For the purposes of the research the GDP growth will not be included. The reason is that the hypotheses focuses on the current prosperity and its relation to happiness and not its changes over time.

Inflation is going to be measured through the consumer price index and “*the way it reflex the percentage change in the cost to the average consumer of acquiring a basket of goods and services that may be fixed or changed at specified intervals, such as yearly*” (World Bank).

As for the unemployment it has been measured as a percentage of the total labor force and the estimates have been taken from the International Labor Organizaton. All of the data on the economic indicators has been taken from World Bank.

The income inequality is most commonly measured through the GINI index, which measures the distribution of income among individuals or incomes. A GINI index score of 0 represents perfect equality and an index of 1 presents perfect inequality. The data for the index has been gathered from Freedom House.

3.5. Methods

The approach which is going to be used in this research will require the use of quantitative statistical techniques for hypothesis testing. Sociologists tend to run simple linear regression and to study the change of happiness depending on external effects. (Frijters et al, 2004) As the dependent variable in this study is binary, linear model will

fail to present the trends from the regression. In such cases a simple logistic regression is commonly used. Usually the results from the logistic regression are presented either as odds ratios or marginal effects. As the latter is more easy to interpret and understand, as it presents the average effect of the independent variable on the dependent variable. There are different ways for the interpretation of variables that are categorical and those who are continuous. (Trivedi et al, 2010) When the independent variable is categorical the results shown express the discrete change from one value to another, in this case from being very satisfied to satisfied, and when it is continuous then the effects show the instantaneous rates of change, which present the effect for the dependent variable after one unit increase in the independent one.

$$\ln(H/H - 1) = \beta_0 + \beta_1 \text{Satisfaction} + \beta_2 \text{Income} + \beta_3 \text{Employment} + \beta_4 \text{Marital} + \beta_5 \text{Gender} + \beta_6 \text{Education} + \beta_7 \text{Age}$$

The model above will be used to for the logistic regression on individual level in order to measure the relation between happiness and economy and satisfaction with democracy. In the equation, H is the probability of being rather happy and β_0 is the intercept, β_1 to β_2 are the regression coefficients, *Satisfaction*, *income* and *employment* are the independent variables in the model and *marital*, *gender*, *education* and *age* are the controlled variables, for the marital status, the gender of the respondent, her education and age respectively. Three variations of this model are going to be presented in order to observe the effect of the economic and satisfaction with democracy variables on one another – therefore the first model will include only satisfaction with democracy and the control variables, the second – with only the economic variables and the control variable, and the third will include all variables.

$$\ln(H/H - 1) = \beta_0 + \beta_1 \text{Status} + \beta_2 \text{GDP} + \beta_3 \text{Unemployment} + \beta_4 \text{Inflation} + \beta_5 \text{GINI}$$

The second model presents the logistic regression on individual level. H again stands for the probability of being rather happy, β_0 is the intercept and β_1 to β_2 are the regression coefficients. *Status* is the overall Freedom House score, and *GINI* is the inequality coefficient. This model will be used in three variates, in order to follow the effect which the independent variables have on one another – the first version will examine the relation only between the democracy status and happiness, the second will use only the economic condition, and the third will include all variables in order to control their effect on one another.

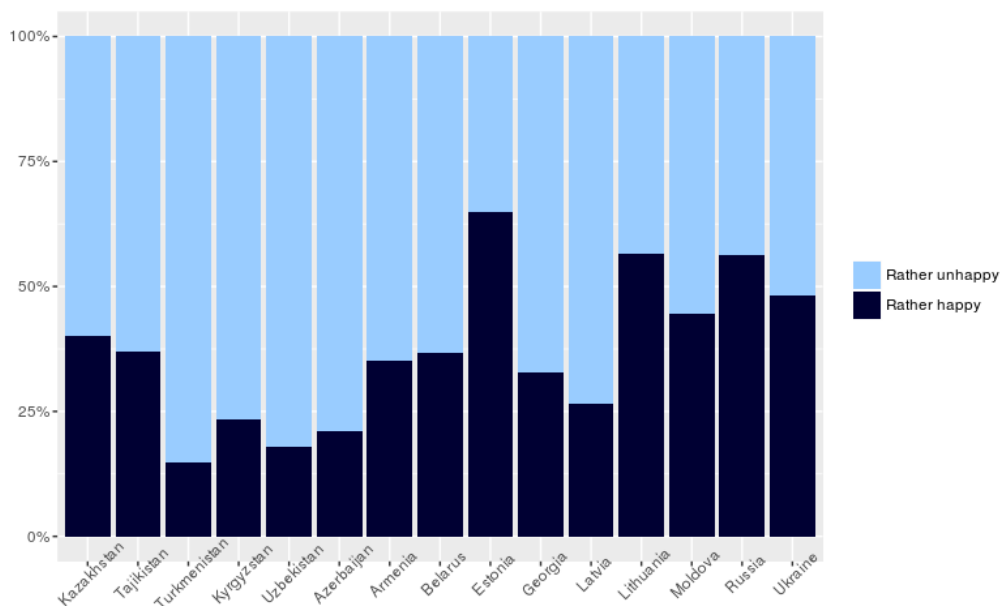
4. Empirical analysis

This chapter provides an information on the gathered data and the results from the conducted regression analysis. The first sub chapter “Descriptive results” shares information on the overall number of responses and their distribution through year, countries and the independent variables. The second sub chapter “Results from the regression analysis” contains information on the testing of the models and the interpretation of the results.

4.1. Descriptive results

4.1.1. Descriptive results on individual level

The data for this research is collected from 10 different surveys, including a total of 58 249 responses on the level of happiness from 1995 to 2014. The positive and negative responses are almost equally divided – 50.44 % of the respondents report lower levels of happiness, compared to 49.56 % who consider themselves as rather happy.



Graph 1: Happiness responses per country

Number of respondents included: 58249

Even though the overall responses are equally divided, Graph 1 illustrates the way happiness is represented on a country level. Countries such as Estonia, Lithuania and the Russian Federation have on average happier population than the Central Asian countries. What can also be observed is that the countries with lower levels of happiness among their population are more frequently presented.

The first variable which is going to be observed is the way the respondents evaluate the way democracy is developing in their countries and it has been presented on a four level scale.

Table 5: Satisfaction with democracy and happiness

	Very unsatisfied	Unsatisfied	Satisfied	Very satisfied	Total
Rather happy	18%	43%	25%	12%	49.54%
Rather unhappy	27%	46%	19%	6%	50.46%
Number of cases	12742	25277	12881	5249	56149

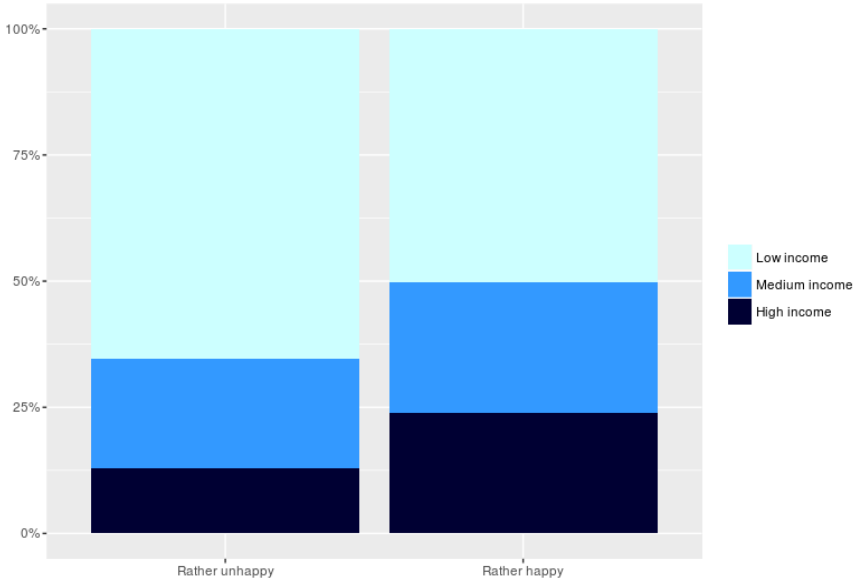
What can be seen in Table 5 is that for both happiness categories “Unsatisfied” is the most represented category. Furthermore the “Very unsatisfied” category has been chosen more frequently than the “Very satisfied” one even when the respondents are “Rather happy”. For the “Rather unhappy” category only 6% of the “Very satisfied” responses belong to this group.

When it comes to the distribution of happiness responses according to the employment level the distribution also follows a certain pattern - 90.5% of the “Rather happy” responses are also coming from employed people, compared with the “Rather unhappy” category where the present of employed is lower – 86%.

The next variable, used in the research is the income quintile of the respondent. Graph 2 will not present the distribution of happiness through each of the quantiles, rather it will group them into 3, representing the “high”, “medium” and “low” income as the task is to show the general tendency between the variables. What can be observed is that for both cases of happiness, the majority of responses have presented their household income in

the lower quantile. However, when the responses belong to the “Rather happy” category, the share of households with lower income takes almost the half of the whole group, compared to the other happiness category where the lower income quantiles take the majority of the responses.

Graph 2: Happiness and household income



Number of cases: 43836

Furthermore, another visible tendency from Graph 2 is that the share of households with high income is bigger in the “Rather happy” category which overall leads to the conclusion that the higher income in this sample is related with higher level of happiness. The sample used on individual level is also categorized based on the socio-demographic background of the respondent. From them 37.6% have stated that they are single, compared to 62.4% of married respondents. When divided by education, the biggest share goes to the respondents, for whom the highest education level is secondary with 47.8% from the whole sample. The second most frequent level attended is the tertiary education with 34% from all respondents. Respondents with primary education degree form 14.25% of the sample.

When divided by gender, the women are slightly more represented in the sample with 57.5% from all respondents, compared with man (42.5%). The last indicator is age, showing that the youngest person in the sample is 15 and the oldest – 100. The average age of the respondents is 45, and the distribution is rather positive, which leads to the conclusion that younger people are more frequently presented in the sample.

4.1.2. Statistics on aggregate level

There are 40 observations on aggregate level, presenting the relations between 12 variables. For the purposes of the study the level of happiness has been compared to both democracy variables such as the Freedom House and economic variables such as logged GDP per capita, income, unemployment rate and income inequality.

1. Freedom House and Varieties of democracy indices

This sub chapter will present the main trends between the democracy variables and happiness.

Table 6: Freedom House score and happiness

	Free	Partially free	Not free	Total
Rather happy	48%	32%	20%	62.5%
Rather unhappy	27%	33%	40%	37.5%
Number of cases	16	13	11	40

Table 6 presents the share of countries in different Freedom House overall status categories, divided by their level of happiness. What can be seen is that both cases follow the same tendency – the share of free countries is higher for the “Rather happy” category, and respectively the share of not free countries is been present mostly for unhappier countries. However, when looking at the medium score - “Partially free” we cannot see any trend.

What can be seen is that the sample does provide countries from all the registers, which take different positions on the democracy scores. Such diversity is needed in order to have an objective and valid results. When it comes to the relation with democracy what can be seen is that all of the 7 countries with the lowest scores on both 3 indices , also

fall into the “Rather Unhappy” category. However, all of the Baltic states have cases where despite of the high democracy scores the overall happiness, their overall score in some cases is still “Rather unhappy”.

2. Economic indicators

The second part of this sub chapter is dedicated to the economic indicators and their relation with the level of happiness on national level. The graphs give an overall picture on the distribution of GDP, inflation, unemployment and income inequality in the different happiness categories and the tables present a general information of the variables.

Table 7: Description of the economic variables

	GDP per capita	Inflation	Unemployment	GINI coefficient
Min	1 719.00	-0.10	4.00	26.50
Median	8 650.00	9.00	8.10	39.50
Mean	12 634.00	16.47	9.35	38.52
Max	26 957.00	197.47	17.80	50.45
Missing values				2
Number of cases	40	40	40	38

One of the main motivations behind choosing the sample size was to guarantee the diversity of countries with different form of government and economic development. By looking at Table 7 it seems that the criterion is being met. The lowest GDP per capita (registered in Tajikistan in 2005) is 16 times smaller than the highest registered GDP (Estonia, 2014).

In terms of inflation the situation is even more diverse, as in 1995 in the Russian Federation this reaches 197.47% increase in the price of the basket of goods. On the other hand in 2014 in Estonia such share is nearly visible with a small decrease (-0.10) in the price of the basket of goods.

In terms of unemployment rate the picture is similar. The highest unemployment rate in the sample has been registered in Lithuania in 2010, and the lowest – in Moldova 2008.

What is interesting in this case is the fact that despite the expectations of this research, the population in Lithuania 2010 is presented as “Rather happy” and in Moldova in 2008 – as “Rather unhappy”.

Relying on the results from the previous researches the assumption is going to be that as the income inequality grows the level of happiness would decrease. The variety of GINI score for this cases would allow me to trace the existence of such trend. What can be observed is that the distribution of income for the case selection is rather unequal, as the maximum value (50.45) implies that the distribution of income is in the middle between being in possession of only one person and being equally distributed among the population. The most unequal distribution can be found in Turkmenistan in 2005, with an “Rather unhappy” population, compared with the case of Armenia in 1997 with the maximum GINI score from the sample and “Rather happy” population.

Guaranteeing diverse cases is one stage of developing a hypothesis testing. Therefore showing the main tendencies between the variables and their distribution is needed for validating the results from this research, and the information presented in this sub chapter will not be enough for proving the relation between happiness and income. Therefore the next sub chapter is going to be dedicated to the development and the results from the regression analysis which will help in order to confirm or reject the presented hypothesis of this study.

4.2. Results from the regression analysis

In Chapter 3 I presented the model which I will use for the analysis of the variables. Due to the specifics of the dependent variable the logistic regression is the model which will be the most suitable for finding the tendency of the relations between the variables through the marginal effects which the independent variables have on the dependent variable.

Before continuing with the presentation of the regression results there is a need to test the collinearity between the variables. To do so I used the Variance inflation factors function, aiming to receive scores lower than five. The highest score was 1.12 therefore I prove the lack of multicollinearity on individual level.

4.2.1. Regression results on individual level

This section contains the results and interpretation from the logistic regression on the relation between individual happiness and satisfaction with democracy and economic status, while controlling for the main socio-demographic factors.

To do so, I have developed a three models. Model 1 examines the relation between the satisfaction with democracy response variable and reported level of happiness, Model 2 focuses only on the economic response variables and Model 3 combines all the indicators.

When it comes to the interpretation of the results, I have to explain that the reference employment group are the unemployed, the reference gender is female and the marital status is married.

Table 8: Effects of individual-level predictors on happiness: results of logistic regression

	Model 1	Model 2	Model 3
Very unsatisfied	<i>Ref. category</i>	-	<i>Ref. category</i>
Unsatisfied	0.11*** (0.02)	-	0.09*** (0.03)
Satisfied	0.21*** (0.02)	-	0.18*** (0.03)
Very satisfied	0.28*** (0.03)	-	0.24*** (0.04)
Income	-	0.02*** (0.00)	0.02*** (0.00)
Employment	-	0.07*** (0.03)	0.05*** (0.03)
Age	-0.0001*** (0.00)	0.00 *** (0.00)	0.00 *** (0.00)
Gender/Female	0.01**	0.02***	0.01***

	(0.02)	(0.02)	(0.02)
Primary education	<i>Ref. category</i>	<i>Ref. category</i>	<i>Ref. category</i>
Secondary education	-0.01**	-0.01**	-0.01*
	(0.05)	(0.06)	(0.06)
University education	0.01	-0.04***	-0.03***
	(0.05)	(0.06)	(0.06)
Marital status/Married	-0.07***	-0.10***	-0.09***
	(0.03)	(0.03)	(0.03)
Nagelkerke Pseudo-R ²	0.14	0.13	0.15
Number of cases	56073	42484	42484

Entries are proportional marginal effects with standard errors in parentheses. The dependent variable is 1 for “Rather happy” and 0 for “Rather unhappy”. Pr(>|z|) ***<0.01 **<0.05 * <0.1

In all three modules the results from the regression regarding the independent variables and their influence on happiness are significant, however the effects on the dependent variable are rather small.

The socio-demographic factors are present in the three models in order to be controlled for them. What can be seen from Table 8 is that the effect of age towards happiness is very close to zero therefore it can be concluded that it has no influence on the probability of being rather happy and in all models this result is statistically significant. Happiness also seems to not be related with gender, still what can be observed is that the probability of being happy for females is slightly higher than it is for males, and this tendency is kept constant, despite what other factors are controlled for.

The results from Model 1 show that when the economic factors are not controlled for, university degree has no significant relation with happiness. However, when income and employment are added, the university degree is no longer not significant. However, the results from the regression show that as the level of education increases, the probability of being rather happy decreases. Even though the effect in both cases is rather small, it

can be said that based on the results, people with primary education are more likely to be rather happy than people with secondary or university degree.

In terms of marital status, the results show the discrete change in the predicted probabilities of being rather happy. What can be observed in all three models is that people who are single have higher probability of being rather happy, compared to people who are married. The effect of marital status on happiness is slightly increasing ones the satisfaction with democracy is not controlled for.

By comparing the results of Model 1 and 3 it can be seen that the satisfaction with democracy has bigger effect on happiness, when the economic factors are not controlled for. In all cases this variable has a significant relation with happiness, and the discrete change in the predicted probabilities shows that as the satisfaction with democracy increases, so does the probability of being rather happy. In all cases it can be observed that compared to the reference category, that is being very unsatisfied with democracy, all other categories tend to increase the probability of being rather happy. The highest coefficient in this case goes to the very satisfied with democracy category ones the economic factors are not controlled for, with marginal effect of 0.28.

According to the results from the logistic regression, the household income has the same effect on happiness despite whether satisfaction with democracy is controlled for or not and in all cases the relation is significant. The results show that in both cases one unit increase in the household income quantile leads to 0.2 times higher probability of being rather happy.

In terms of employment, in both Model 2 and Model 3 the results are statistically significant and the effect of employment on happiness is stronger once the satisfaction with democracy variable is not controlled for. In both cases being employed increases the probability of being rather happy, however the effect is quite small in both cases.

All in all, the hypothesis presented on individual level are confirmed by the results of the logistic regression. However, when the results are studied in details it can be seen that the satisfaction with democracy has the biggest effect on the probability of being

rather happy. Even though the economic factors, such as the household income and employment are in all cases statistically significant, their effect is quite small and it cannot be said with confidence that they have a major impact on individual happiness. Even though this link is not the primary aim of the study, the results from the relation between education and happiness are quite interesting – it shows that the relation between possessing an university degree and happiness is significant only when the economic factors are controlled for. Further investigation on this finding can be conducted in a future research.

4.2.2. Results from the logistic regression on aggregate level

This section contains the results and interpretation from the logistic regression on aggregate level. This includes examining the relation between level of happiness on national level and the democratic and economic characteristics of the country. For better model fit GDP has been preened on a logged scale.

Table 9: Effects of aggregate -level predictors on happiness: results of logistic regression

	Model 1	Model 3	Model 4
Freedom House status:			
Free	<i>Ref. category</i>	-	<i>Ref. category</i>
Freedom House status:	-0.13	-	-0.08
Partially Free	(0.81)		(1.67)
Freedom House status:	-0.28		-0.32
Not free	(0.83)		(1.51)
GDP	-	0.57**	0.54
		(1.46)	(2.19)
Inflation	-	0.00	0.01
		(0.03)	(0.05)
Unemployment	-	0.00	-0.01
		(0.10)	(0.10)
GINI	-	0.03**	0.04**

		(0.10)	(0.12)
Nagelkerke Pseudo-R ²	0.08	0.40	0.46
Number of cases	40	38	38
Entries are proportional marginal effects with standard errors in parentheses. The dependent variable is 1 for “Rather happy” and 0 for “Rather unhappy”. Pr(> z) ***<0.01 **<0.05 * <0.1			

The coefficients from the logistic regression on aggregate level show in general higher effects, compared to the ones on individual level. However, despite the results in the latter case, here there is a lack of significance in most of the cases.

What can be seen is that the regression results of the relation between happiness and Freedom House status are not significant in both models where they are represented. However in the case of the Not free category of the Freedom House the p value is closer to the significance barrier compared to the rest of the cases (when the economic factors are controlled for p = 0.15, and when they are not p = 0.12. This results are not shown in the table). Even though this result is not enough to state with certainty that the level of civil liberties in a country is related with the level of happiness in the population, it is safe to say that there may be some relation and that people from free countries are more likely to be rather happy compared to people from not free countries.

What can be seen in terms of the economic variables is that GDP has a significant score only when the Freedom House status is not controlled for and the only variable which keeps its significance in both cases is the GINI score on income inequality, however its effect on happiness is rather low.

When democracy status is not controlled for, an increase in the logged GDP with one unit leads to an increase in the probability of being rather happy. The marginal effect of GDP is rather high, compared to the rest of the cases (0.57).

The scores of the inequality index are the most statistically significant in Model 4. The results show that the increase in the income inequality increases the probability of having rather happy population. However in both models the effect is rather small, 0.03 when the Freedom house scores are not controlled for and 0.4 when they are controlled

for. Such findings contradict the preliminary expectations for the relation between the variable – it has expected that the more equal income distribution would lead to a happier population, nevertheless the results lead to the opposite conclusion.

When comparing the models on individual and aggregate level it is visible that despite the more significant results present on individual level, the model fit on aggregate level is better. This is evident due to the Nagelkerke Pseudo-R coefficients of the models. Furthermore the comparison of Module 1 and Module 2 yields that overall the democracy variables present a better model fit than the economic ones.

When it comes to the relation between Freedom House score and happiness level, the effect between Not free and Free countries on happiness is on the barrier on being significant with relatively high effect. However, as the used barrier of p score for a significant results is $p < 0.1$, the assumption that the more democratic a country is, the happier its population is does not hold.

In general the tendencies presented on the economic- happiness relations tend to confirm the hypothesis that better economic performance yields a higher level of happiness. What is interesting in this case is that unlike the findings made by Oishi et al (2011), the results in this case show that bigger income inequality increases the probability of having rather happy population.

5. Conclusions and further discussions

The question about the essence and the role of internal and external factors influencing happiness has been present in social science since the middle of the 20th century. Scholars have been searching for the patterns through which individual happiness can be improved by improving the economic and political factors. Even though the idea that wealth and income have a positive effect on happiness is well spread, the empirical evidences are rather controversial. In the past decades the political factors influencing happiness have gained popularity and even though there has been evidence that democracy does lead to higher levels of happiness among the population there are still cases for which such hypothesis does not hold.

One of the reasons for such controversial results may be the fact that predictors which manage to explain happiness on individual level tend to lose their explanatory power on country level. This study presents an overall review on the development of happiness theory by philosophers, psychologists, economists and political and social scientists, highlighting the most common types of measurement and operationalization of the term. Furthermore it summarizes the contemporary discussion on the relations between happiness, economy and democracy in the academic literature, pointing to the main topics in the scientific discussion. By taking into account the main hypotheses covered so far, this study offers a new testing on both individual and aggregate level. In order to guarantee the reliability of the results, I have chosen a case selection of countries which have not been included together in happiness researches so far. The time frame covers the transition period from authoritarian to a democratic regime in the fifteen post-Soviet countries in order to capture both the economic and the political cataclysms they have experienced. This variety will give the needed insights on which of these factors constitutes happiness. This period captures the period after the collapse of the Soviet Union, presenting both cases with rapid economic and political development such as the Baltic states and countries that still struggle to establish a democratic political system such as Belarus and Uzbekistan.

This study shows that on individual level both economic indicators and the satisfaction with the democratic system influence the belonging to a particular happiness category.

The probability of considering oneself as “Rather happy” is higher with the higher satisfaction with democracy and the higher household income. Thus the expectations that both higher satisfaction with democracy and household wealth have a positive effect on happiness are confirmed. What needs to be noted is that even though the relation between the variables is significant, the effect of the household economy and the satisfaction with democracy is rather weak. The factor which raises the probability for happiness is the satisfaction with democracy with effect of 0.24, which is 0.22 bigger than the effect of household income on happiness.

When testing the relation between the development of the democracy and the economy in a country and the aggregated level of happiness the democracy assumptions are not significant. Despite the fact that the assumption that higher level of democracy will lead to happier population is rejected, it can be considered that there is some significance in the probability of being happy if you are living in a free country, compared to the ones that are not free and this may be a topic for a further investigation.

As for the economic development the presented results are clearer. The increase of wealth and the more unequal wealth distribution raise the probability of happy population. One reason for this results may be the presents of planned economy in some of the cases, such as Uzbekistan and Belarus. However when the democracy variable is controlled for, the income equality appears to be the only significant predictor of happiness. Therefore the hypotheses that the higher economic prosperity will lead to happier population can be only partially confirmed, as it is valid only for the GDP of the country and not for other economic factors such as unemployed and inflation. Even though the statement that income equality increases the probability of happier population is not valid, according to the results of the study, it also shows a potential for further investigation: the more unequal is the distribution of income, the happier the population is.

The results from this study confirm some of the findings from the previous researches while at the same time it opens questions for further discussion. The finding that satisfaction with democracy increases the probability of being happy confirms the findings made by Graham (2000). Furthermore it can be stated that the satisfaction

predictor is stronger than the economic predictors and this is valid for the cases where the economic factors are controlled for. A question that could be raised following this line is the effect of the economic perception and personal wealth aspirations on happiness, as this has already been presented in the academic discussion by Easterlin.

Another discussion which the results raise is related with the mismatch in the findings between aggregate and individual level. Possible explanations can include both specific operationalization of the variables and different type of relation between the variables. Furthermore the inclusion of different democratic regimes in the equation may lead to misleading interpretations of the results. For example in terms of planned economy, as it is the case in Belarus, unemployment and inflation are easier to be controlled. Therefore the dependency between happiness and this economic factors in such economic environment can lead to misinterpretation. However due to the limitations of this study such conclusions cannot be confirmed and this could lead as a background for a future research on this field, focusing on the economic predictors, relevant for happiness in countries with planned economy.

Another possible explanation could be found in the conclusions made by Joshanloo 2013, Uchida and Kitayama 2009 regarding the essence of happiness and the difference of its meaning for different cultures. Considering that the countries included in the study come from a different cultural background it could be possible that the economic factors in the country have different type of influence on the happiness of the population. Furthermore the cultural specifics could also be used to explain the lack of significance in the democracy- happiness relation.

In conclusion this research provides some relevant insights on the happiness relation with economy and democracy on both individual and aggregate level. This confirms the findings of Veenhoven regarding the objective economic condition and happiness as well as the conclusions made by Frey and Stutzer regarding the strong positive link perceptions of democracy and happiness.

On a aggregate level the results raise questions regarding the used democracy variables and their applicability into the context of the case sample. What can be done in the future is to develop a more complex series of democracy indicators, in order to avoid

possible multicollinearity problems, or to focus on only one aspect of democracy when it comes to happiness research.

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