

# INCOME, PERCEPTIONS AND SUBJECTIVE WELL-BEING IN HUNGARY

Zsuzsanna Deak <sup>1\*</sup>

<sup>1</sup>Department of Agricultural Economics and Rural Development, Faculty of Horticulture, Kecskemét College, Hungary

---

## Keywords:

Subjective well-being, life satisfaction, income, perceptions, Hungary

## Article history:

Received 15 October 2015  
Revised 28 October 2015  
Accepted 1 November 2015

---

## Abstract

*Subjective well-being (SWB) is based on people's personal evaluations of their own lives. Most measurements of SWB are obtained through questionnaires and interviews. Many aspects can influence our life satisfaction and our feeling of happiness such as personality, interpersonal relationships, demographics, environmental and economic factors. These observable facts are what make up objective well-being (OWB). By using OWB data as a proxy we should be able to predict an individual's or society's life satisfaction. This paper focuses on income (an objective component) and satisfaction with income and importance of personal wealth (subjective components) and their effects on SWB data.*

---

## 1 Introduction

Well-being is not a clearly defined concept. Its measurement is heavily dependent on subjectivity, individual values and different world views. At one end we can find the utilitarian approach of economics (people's "utility" increases with consumption, that is "more is better" which reduces well-being to income and GDP), and on the other end there is the subjective approach favored by psychology. Today it is generally recognized that well-being is a multidimensional notion that covers all facets of human life.

Building on these basic ideas, two main methods, the subjective and the objective, have been developed to quantify well-being. Subjective well-being (SWB) is based on people's evaluations of their own lives. As such, it is strongly influenced by expectations, personality, circumstances, aspirations and interpersonal relations. SWB data are usually obtained via interviews designed to gain self-reported valuations of an individual's life. The surveys can be grouped in three main categories in regards to how the question is phrased: satisfaction with life as a whole, happiness about life as a whole, and some variation based on the Cantril ladder. A combination of these scores what is called "subjective well being" a term coined by Diener (2010) and accepted officially by the OECD in 2013. It is important to mention that life satisfaction is not the same as happiness. Both are equally apt measures of subjective well-being, but have to be evaluated separately (as we will also see in this study). When asked how happy they are, people will immediately think of their current emotional state (how they feel at the moment), while life satisfaction is more of an overall, long-term concept (how pleased they are with how things are working out for them in general).

Objective well-being (OWB), on the other hand, is rooted in the idea that well-being is dependent on a set of easily measurable common factors (such as GDP, unemployment, health, corruption etc.) for all individuals and thus assesses the level of well-being by using these proxies to measure life satisfaction.

---

\* Corresponding author. Tel.: +36 76 517-671  
E-mail address: deak.zsuzsanna@kefo.kfk.hu

In recent studies well-being research started to employ a combination of the objective and subjective approaches thus creating composite measures. In this edition, in a series of studies aimed at SWB in Hungary, I have focused solely on income variables as predictors for SWB data to test several theories put forward in literature. Income influences life satisfaction more in poor countries while at the same time those who prize material goals seem to be less happy than others [5]. Recent studies also found that only around 10% of subjective well-being is attributable to income [9][10]. Additionally, it has been shown that there are diminishing marginal returns from income to life satisfaction, that is after a certain level of material wealth it adds no value to one's sense of fulfillment [6][12].

## 2 Data and Methodology

The study uses data drawn from a series of repeated cross-sectional sample surveys conducted by the European Social Survey (ESS)\*. The European Social Survey is a biennial survey of social attitudes and behavior which has been carried out in up to 36 European countries since 2001. The data was collected through a series of hour-long, in-person interviews with individuals aged 15 years or older. There have been six ESS versions published so far.

Ordinary Least Square regressions with heteroskedasticity-robust standard errors were run against the two subjective well-being measures as dependent and three income related questions as independent variables (household income, satisfaction with income and personal importance placed on being rich). Actual income was based on a ten point scale increasing by every 25 thousand, satisfaction and importance of wealth were both graded on a scale between 1-4.

Several demographic factors have shown to affect SWB such as age, employment status and education. For example, studies have found, that being employed, as opposed to retired or taking care of a family will not influence life satisfaction significantly, however, being unemployed has a large, negative impact [4][11]. Age also influence SWB considerably showing a U-shaped curve through a person's life, reaching the lowest level between 30-40 years [1]. Economic factors examined included income, wealth and education [3][8]. Thus I have also incorporated into my model the demographic control variables of age, gender, household size, education level, occupation and place of residence (big city, town or countryside). Time dummies were added to correspond to the ESS rounds.

## 3 Discussion

Surveys on national happiness have been around for several decades. The earliest such survey that has also included Hungary is from 1981 (World Values Survey wave1). Understandably, due to the political isolation most of Eastern Europe was during these times pollsters asking citizens how happy they are were not looked on favorably. From the early 90's on the frequency of such surveys has increased (from only 5 in the 80's to 20 in the 90's to over 70 after the turn of the century) and most recently, as part of an EU initiative, official KSH (Hungarian Central Statistical Office) surveys have also been conducted (EU-SILC in 2013).

Looking at the multitude of surveys over the years [15] several aspects have to be pointed out. One, that subjective well-being in Hungary remained relatively constant during the last 30 years (Mean 5.48, Range 1.42 on a scale of 0-10), and two that the country has consistently finished as one of the lasts in Europe. On average subjective well-being has remained 13 % lower than the average for other European countries, and there was no observable upward trend even after the fall of the "iron curtain" or after joining the European Union. In fact, there is a slight downward slant of -2.61% compared to the 1980's.

It is not surprising that research has found that life satisfaction is lowest in the newest members of the European Union and that East Europeans value material goods more than their Western counterparts [2][5][13]. When charting happiness and GDP for the EU we can find the

---

\* "Some of the data applied in the analysis in this publication is based on the ESS Multilevel Data. The data is provided by European Social Survey, and prepared and made available by the Norwegian Social Science Data Services (NSD). Neither European Social Survey nor NSD are responsible for the analyses/interpretation of the data presented here."

Eastern European countries in the lower quadrant (circled) along with the Mediterranean states. At first look higher GDP does indeed seem to correlate with happier people. Denmark, with the happiest people, however, does not have the highest GDP. In terms of Hungary, for example, the Baltic-states, Poland and Romania have lower or similar GDPs yet their inhabitants are happier (Figure 1).

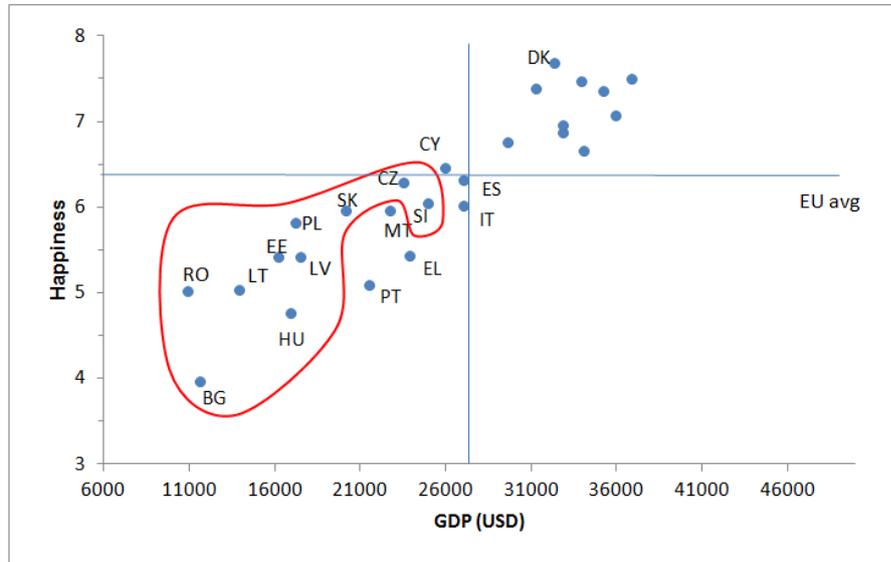


Figure 1. Happiness and GDP within the European Union

Data: United Nations World Happiness Report 2010-12, own composition

The results of the regression for the three income questions and demographic variables can be seen in Table 1 below.

Table 1. Results of the regression (N = 4850)

|         | Life Satisfaction |         |     | Happiness |       |     |
|---------|-------------------|---------|-----|-----------|-------|-----|
|         | coeff.            | tstat   |     | coeff.    | tstat |     |
| const   | 2.4200            | 8.95    | *** | 3.6636    | 13.30 | *** |
| male    | -0.1658           | -2.53   | **  | -0.1883   | -2.91 | *** |
| age     | -0.0093           | -2.98   | *** | -0.0111   | -3.57 | *** |
| dom2    | 0.0018            | 0.02    |     | -0.0012   | -0.01 |     |
| dom3    | 0.0151            | 0.18    |     | 0.0971    | 1.15  |     |
| hhmmb   | 0.0061            | 0.22    |     | 0.1289    | 4.86  | *** |
| YR2     | -0.0311           | -0.3433 |     | 0.0356    | 0.40  |     |
| YR3     | -0.3411           | -3.5950 | *** | -0.1187   | -1.33 |     |
| YR4     | -0.3664           | -3.8920 | *** | -0.4049   | -4.62 | *** |
| YR5     | 0.1394            | 1.5430  |     | 0.0349    | 0.41  |     |
| YR6     | -0.0912           | -1.0640 |     | -0.2547   | -3.21 | *** |
| edu     | 0.0397            | 2.2440  | **  | 0.0242    | 1.46  |     |
| working | 0.5320            | 3.66    | *** | 0.2250    | 1.57  |     |
| study   | 1.4631            | 7.63    | *** | 0.7044    | 3.92  | *** |
| rtrd    | 0.7011            | 4.17    | *** | 0.1221    | 0.72  |     |
| other   | 1.0299            | 5.38    | *** | 0.7505    | 3.96  | *** |
| income  | 0.0700            | 3.80    | *** | 0.0529    | 3.00  | *** |
| incfeel | 1.0024            | 20.38   | *** | 0.8236    | 17.18 | *** |
| imprich | -0.1303           | -5.01   | *** | -0.0924   | -4.15 | *** |

Note: \*\*\*, \*\* and \* denote significance at 1%, 5% and 10% respectively (one-tail test) household size (hhmmb), place of residence (dom2-midsize towns and dom3-countryside), time dummies (YR2-YR6), feelings about income situation (incfeel), importance of being rich (imprich)

Compared to the base year of 2002 Hungarians have lost -0.71 points from their happiness and -0.69 from their life satisfaction. Hungarian men are less happy or satisfied than their female counterparts (-0.19 and -0.17 points respectively), and respondents with higher level of education seem to be more satisfied with their life (by 0.4 points) but not significantly happier. Whether the respondent lives in a big city or in the countryside does not influence well-being significantly, although people living in small villages are 0.10 points happier than those in big cities but they are not more satisfied with life. Similarly, people living in big families are significantly happier. Both happiness and life satisfaction decreases with age. As previous studies have shown respondents that are active are much happier than their unemployed counterparts. However, this study has uncovered some differences between the various occupational groups. Students, by far are the most satisfied with how their life is progressing followed by people engaged in other activities. On the happiness side, retired individuals do not seem to be better off and even working folks are not reporting being that much happier than unemployed ones. Some of this discrepancy is clearly explained by the SWB numbers received for the age variable, but in most likelihood there are deeper underlying reasons behind it stemming from the recent socio-economic changes and shifting attitudes within the Hungarian population. As for the specifically income related variables, when respondents considered being rich an important aspect of life it has affected their life satisfaction downward to a higher degree than their happiness (-0.13 compared to -0.9). Income, as expected influenced both measurements upward at about the same rate (even adjusted for household size). When looking at diminishing marginal returns I have found that compared to the base salary rate of 60K HUF or less, both happiness and life satisfaction kept increasing up to 150K (the sample mean) then there was a very slight decline up until 200K then they started to increase again. The biggest upswing, however, came from how individuals evaluated their financial situation. The more satisfied they were with their income level the greater were their SWB numbers (affecting their overall life satisfaction more than their happiness). But even in the top household income brackets some of the respondents still felt that they were just barely getting by underscoring how important perception really is.

## 4 Conclusions

In this study, in a series of studies examining SWB data for Hungary, I have set out to examine the effects of income, and related perceptions. Additionally, employment status was added to the model where life satisfaction was greater for active citizens than unemployed ones (most significantly for students). Interestingly, however, happiness was less affected, even to the level where retired and working people did not experience a significant increase in happiness. Income was found to be effecting both life satisfaction and happiness (although the later to a lesser degree). There were diminishing marginal returns observed, but not consistently (only within a certain income bracket). Ironically, it is wealth that people expect will bring them satisfaction which actually makes them dissatisfied. Results correspond with previous research findings that those who prize material goals seem to be less happy than others. In Hungary, specifically, materialistic values have gained in significance over the years. I have also found that being happy and being satisfied with life do not overlap in all aspects.

## References

- [1] Blanchflower, David G. & Oswald, Andrew J., „Is well-being U-shaped over the life cycle?,” *Social Science & Medicine* 66(8), pp. 1733-1749, 2008.
- [2] Delhey, J., Life satisfaction in an enlarged Europe, European Foundation for the Improvement of Living and Working Conditions, Office for Official Publications of the European Commission, Luxembourg, 2004.
- [3] Di Tella, R., MacCulloch, R.J., Oswald, A.J., „The macroeconomics of happiness,” *Review of Economics and Statistics* 85 (4), pp. 809-827, 2003.
- [4] Di Tella, R., MacCulloch, R., Oswald, A., „Preferences over inflation and unemployment: evidence from surveys of happiness,” *The American Economic Review* 91 (1), pp. 335– 341, 2001.
- [5] Diener, E. and R. Biswas-Diener, “Will money increase subjective well-being? A Literature Review and Guide to Needed Research,” *Social Indicators Research*, 57, pp.119-169, 2002.

- [6] Diener, E., E. Sandvik, L. Seidlitz, and M. Diener, "The relationship between income and subjective well-being, relative or absolute?," *Social Indicators Research*, 28, pp.195-223, 1993
- [7] Diener, E., Helliwell, J. F., & Kahneman, D., (Eds.), *International differences in well-being*, Oxford University Press, New York, 2010
- [8] Diener, E., Seligman, M., „Beyond money: Toward an economy of well-being,” *Psychological Science in the Public Interest*, 5, pp. 1-31, 2004.
- [9] Headey, B., Muffels, R., Wooden, M., „Money doesn't buy happiness or does it?," A reconsideration based on the combined effect of wealth, income and consumption. *Social Indicators Research* 87, pp. 65–82, 2008.
- [10] Lyubomirsky, S., Sheldon, K.M., Schkade, D., „Pursuing happiness: The architecture of sustainable change,” *Review of General Psychology* 9, pp. 111-131, 2005.
- [11] Oswald, A. J., „Happiness and Economic Performance,” *Economic Journal* 107(5) pp. 1815–31, 1997.
- [12] Sanfey, P. & U. Teksoz, "Does Transition Make You Happy?," *EBRD Working Paper* 58, 2005.
- [13] Somarriba, N. and B. Pena, "Synthetic Indicators of Quality of Life in Europe," *Social Indicators Research*, 94, pp.115-133, 2009.
- [14] United Nations World Happiness Report 2010-12. Edited by John Helliwell, Richard Layard and Jeffrey Sachs Available: <http://www.earth.columbia.edu/sitefiles/file/Sachs%20Writing/2012/World%20Happiness%20Report.pdf> [Accessed: 2015-06-27]
- [15] Veenhoven R., Happiness in Hungary, World Database of Happiness, Erasmus University Rotterdam, The Netherlands [online]. Available: <http://worlddatabaseofhappiness.eur.nl>. [Accessed: 2015-06-27]