Happiness and the Welfare State: Decommodification and the Political Economy of Subjective Well-Being

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Do welfare states make people happy? In this chapter, we argue that the answer depends critically on how we conceptualize welfare states and the logics that underpin their presumed connection with well-being. In particular, we contend that understanding the relationship between welfare states and happiness requires that we distinguish between the "how much" protection welfare states offer and "what kind" of labor market opportunities they provide to go along with that protection. Welfare states are about more versus less protection, but they also are about whom they protect and in what way. This matters for happiness; more protection produces more happiness for those at risk, but having more flexible labor markets produces more happiness, too, even if a country's overall levels of protection are lower.

To make our argument and organize the empirical analysis, we rely critically on two concepts. The first is that of decommodification, taken from Gøsta Esping-Andersen's (1985) work. Decommodification means that people's access to basic resources needed to sustain their lives is protected from market risks to which they would be exposed if illness, old age, and unemployment would disrupt market-based resource flows. Decommodification supplies life satisfaction by granting peace of mind. The second concept is that of human capacities to choose one's own life and competently cope with challenges, which we take from Armatya Sen's (2011) *The Idea of Justice*. People's happiness depends on their capabilities and ability to make choices. This requires freedoms but also investments in their capabilities, skills, and competences.

The experience of freedom and choice, particularly in labor markets, provides fulfillment that translates into life satisfaction. In this vein, a highly regulatory welfare state, conferring little freedom of choice on people, for example,

in labor markets, may generate less life satisfaction than a freedom-inducing welfare state, even if decommodification is equally high. So instead of more decommodifying welfare states simply making all or most citizens a bit happier than less decommodifying ones, different kinds of welfare states also create distinct sets of more or less happy citizens across countries. As a result, variations in aggregate happiness are driven by both the quantity of social protection and the extent to which they allow flexibility for workers seeking opportunities in the labor market.

The two-dimensional account of the welfare state and its implications for life satisfaction resonates directly with the scheme developed in the editors' Introduction to this volume. Political economies vary in the extent to which governments intervene in market processes, for example, by building encompassing welfare states, and thus absorb risks, with the potential to improve the life satisfaction of those most exposed to market risks. But political economies also allocate differential resources to people's investment in capabilities to innovate and adjust to future developments (especially education and research), when compared to the effort that supports people's current consumption and replacement of market income (unemployment and sickness benefits, pensions). And it is more investment-oriented polities that also tend to have lighter regulation of employment, as they empower citizens to deploy their skills in coping with the risks of the market economies in which they live.

We take it, therefore, that where polities make greater investments in citizens' skills that allow them to make occupational and lifestyle choices people are likely to be happier. In other words, life satisfaction should be highest in polities that combine encompassing welfare states (state intervention) with light regulation of labor markets and people's empowerment through skill formation (investment orientation), while it should be lowest where welfare states are residual and combined with tightly regulated labor markets (consumption orientation).

We begin with a careful look at correlations among decommodification, employment regulations, and happiness at the macrolevel, and then proceed with a more rigorous account of how welfare states shape reports of subjective well-being at the microlevel – a question that has received relatively little attention in previous comparative research on the welfare state and happiness. To make our argument, we first provide a brief overview of research on the connection between decommodification and happiness.[1] Second, we attempt to reproduce macrolevel relationships among decommodification, employment regulations, and happiness. We find evidence of a positive correlation between decommodification and happiness, as well as a negative correlation between strict employment regulations and happiness. Third, in an effort to highlight the specific mechanisms at work that connect welfare states to happiness, we

[1] To our knowledge, no previous scholarship has specifically examined the link between employment regulations and happiness.

turn our investigation to reports of subjective well-being at the individual level. We find that the interaction of decommodification and employment regulations with specific individual-level characteristics can have marked effects on reports of subjective well-being. Fourth and finally, we conclude with a discussion of happiness research in comparative politics, as well as the implications of our results in light of the recent economic misfortune that has plagued Western Europe and the OECD.

14.1. Welfare States and Happiness: Is More Better?

Citizen support for the welfare state is at least partially reflective of the degree to which people demand social protection. Extensive comparative politics research on support for the welfare state suggests a host of factors that potentially shape demand for the welfare state at both the individual level (e.g., Kitschelt 1994; Iversen and Soskice 2001; Moene and Wallerstein 2001; Rueda 2005; Rehm 2011b) and the macrolevel (e.g., Korpi 1983; Iversen and Soskice 2006; Brooks and Manza 2007; Lupu and Pontusson 2011; Beramendi 2012; Rehm, Hacker, and Schlesinger 2012). Each of these accounts provides its own story of why support for the welfare state varies, but a common thread concerns the various forms of social risk, in particular, the risk of income loss individuals or groups of individuals confront.

Speaking generally, individuals at a higher risk of income loss demand higher levels of social protection from the state and therefore express higher levels of support for the welfare state. Presumably if or when those demands are met, however extensive they may be, individuals experience an increased sense of well-being because of the security provided by the extension of a social safety net. This version of the story of the relation between welfare states and happiness answers that welfare states make people happy when social risks are mitigated, although the level of happiness is contingent on a number of factors at the individual, group, and even national levels.

A related logic supporting a link between the welfare state and happiness concerns the capacity for the welfare state to "decommodify" citizens from the perils of the modern marketplace. Defined more precisely, labor can be considered decommodified to "the degree to which individuals, or families, can uphold a socially acceptable standard of living independent of market participation" (Esping-Andersen 1990: 37). In a strong view of this perspective, where labor force participation essentially reduces individuals to nothing more than commodities, the idea that the welfare state can make individuals happier by shielding them from this fate can be considered self-evident (Pacek and Radcliff 2008).

Work in this area has focused correlations at the macrolevel and is chiefly concerned with the deleterious effects that economic insecurity can foist on citizens competing in the labor market (Radcliff 2001). A long and illustrious line of political economists including Marx, Polanyi, and Lindblom

has discussed this negative externality of wage labor under capitalism. The relationship between decommodification and happiness can therefore be interpreted as stemming from welfare states' function as an antidote to the stress and anxiety caused by work in the modern world (Radcliff 2001; Pacek and Radcliff 2008).

Consequently, states that provide higher levels of decommodification (et ceteris paribus) through their welfare states should possess citizenries that are on average happier than states providing lower levels of decommodification. Consistent with these ideas, and regardless of the logic one may prefer, an emerging macrolevel literature on the relationship between welfare states and happiness has found a correlation between welfare state effort and happiness (Radcliff 2001; Pacek and Radcliff 2008; DiTella, MacCulloch, and Oswald 2003).

These empirical findings and the theoretical priors that underpin them are not without critics. Veenhoven (2000) in particular doubts the relationship between the welfare state and happiness, arguing that, after controlling for a country's affluence, higher levels of social protection fail to equalize happiness outcomes among a country's citizenry, with countries that provide higher levels of decommodification possessing no more equal happiness distributions than countries with lower levels of decommodification (Veenhoven 2000).

Veenhoven's primary argument posits a kind of crowding out effect when it comes to social protections provided by the state. He contends that greater social protections do not necessarily imply greater social protections for society as a whole because state-provided protections may not be of higher quality than those provided by private organizations (Veenhoven 2000). In addition, he argues that the security gained from increased welfare provisions may be offset by a loss in individual freedoms, or by diminished economic growth that he finds elsewhere to be correlated with higher levels of happiness (Hagerty and Veenhoven 2003).

We take Veenhoven's critique seriously and agree that welfare states that offset higher levels of protection with restrictions on individuals' freedoms in the labor market may ultimately have a negligible impact on citizens' life satisfaction. The trouble with Veenhoven's critique is in the empirical testing of the argument; his results hinge critically on the use of raw social security expenditure data as a proxy for welfare state effort, an approach that has fallen out of favor with scholars of the welfare state[2] (Pacek and Radcliff 2008). In addition, he fails to test his hypothesis explicitly regarding the deleterious effect of

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[2] Social spending (i.e., welfare state effort) as a measure of welfare state generosity has been critiqued for its inability to paint an accurate picture of the welfare state's influence on citizens' life chances (e.g., Scruggs and Allan 2006). For example, social spending tends to increase during periods of economic downturn. This does not necessarily mean that a welfare state has become more generous. Rather, it may simply indicate that social spending has risen as more and more people come to rely on entitlements because of unemployment or income loss.

flexibility loss on expressions of life satisfaction. We remedy these empirical shortcomings in two ways. First, we utilize Scruggs's decommodification index (Scruggs 2004), which quantifies and updates Esping-Andersen's (1990) original decommodification formulation and provides more precise measures for separable welfare state institutions (see also Scruggs and Allan 2006). This exercise is similar to that performed by Pacek and Radcliff (2008), who reassess the relationship between decommodification and happiness with Scruggs's data and find a positive and statistically significant relationship between welfare states and happiness. Second, we test the flexibility loss hypothesis by utilizing a measure of employment regulation strictness developed by the OECD and made available in the Comparative Political Data Set I (Armingeon et al. 2012). By controlling for employment regulations and decommodification simultaneously, we enable ourselves to evaluate better how social welfare protections and labor market flexibility combine to shape expressions of life satisfaction cross-nationally.

Our chapter then tackles both an empirical as well as a theoretical question. On an empirical level, the question is this: How robust is the relationship between welfare states and happiness? The theoretical question follows: Why is (or is not) there a correlation between decommodification and happiness? Moreover, if it does exist, are decommodification and labor market flexibility two of the primary mechanisms responsible for connecting welfare state institutions to happiness? We take up each of these questions in turn.

14.2. Exploring the Welfare State–Happiness Link Empirically

The dependent variable examined in this paper is a measure of people's quality of life in the form of subjective well-being (i.e., happiness). Psychologists also variously refer to this construct as life satisfaction or happiness, while economists on occasion also have labeled it "experienced utility" (for reviews, see Diener, Suh, Lucas, and Smith 1999; Frey and Stutzer 2002). The literature on subjective well-being is wide and deep and covers a wide variety of social sciences (e.g., Radcliff 2001).[3] Suffice it to say, for present purposes,

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[3] Given the varied social science traditions that have explored the foundations of subjective well-being, it should be no surprise that happiness has been attributed to myriad different sources by researchers, although these sources have been debated and evolved over time. Wilson's (1967) study on the correlates of "avowed happiness," one of the earliest significant works of happiness scholarship, stressed that happiness is largely driven by psychological factors within individuals. For Wilson, a happy person is "young, healthy, well-educated, well-paid, extroverted, optimistic, worry-free, religious, married person with high self-esteem, job morale, modest aspirations, of either sex and of a wide range of intelligence" (Wilson 1967: 294). Today research on subjective well-being tends to focus less directly on the correlates of happiness, and more on the processes and environments that tend to lead to happiness (Diener et al. 1999).Still, factors found to influence subjective well-being vary from hypertension (Blanchflower and Oswald 2008a), to religious devotion (Ellison 1991), to goal setting behavior (Brunstein 1993). Material conditions
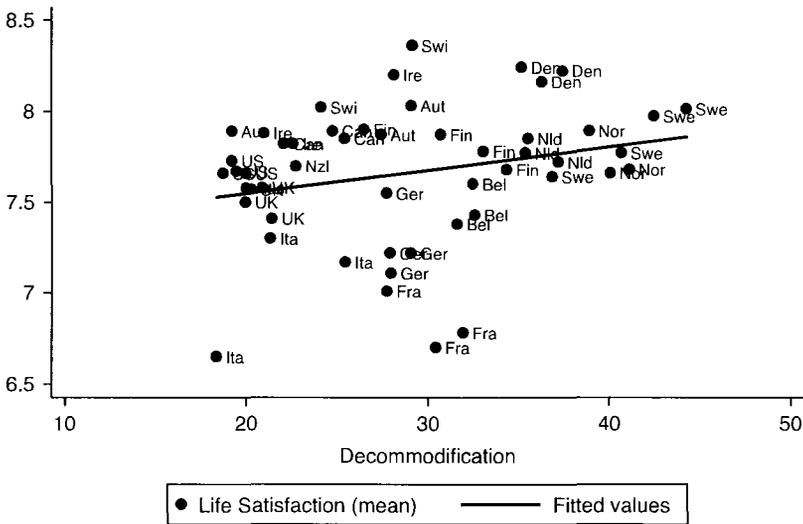
FIGURE 14.1. Decommodification and life satisfaction in seventeen OECD democracies, 1981–2000.

that the validity and reliability of indicators measuring subjective well-being (SWB) have been extensively researched.[4] In the following, we use two standard indicators measuring life satisfaction (one on a 1–10 scale, the other on a 1–4 scale) (for question wording, see Appendix) from the World Values Surveys and Eurobarometer surveys, respectively.

To begin our assessment of the robustness of the relationships among decommodification, employment regulations, and happiness, we first examine the correlation between decommodification and happiness with the help of World Values Survey data for seventeen countries from 1981 to 2000[5] in a scatterplot presented in Figure 14.1. We have superimposed a linear trend line to orient the reader.

have been shown to influence subjective well-being, with people in richer countries reporting higher levels of happiness, all else equal (Cantril 1965; Inglehart 2000; DiTella and MacCulloch 2008: Pacek and Radcliff 2008). Reports of subjective well-being also seem to follow a U-shaped pattern throughout the course of individuals' lives (Blanchflower and Oswald 2008; Anderson and Hecht 2011), with the trials and tribulations of middle age apparently depressing happiness during those years.

[4] For well more than two decades, psychologists have extensively researched the validity and reliability of different happiness indicators (for a review, see Frey and Stutzer 2002; see also Sandvik, Diener, and Seidlitz 1993). In an earlier survey of research on subjective well-being, Diener (1984) concluded that "[the] measures seem to contain substantial amounts of valid variance" (p. 551) (see also the survey about various measures of subjective well-being by Andrews and Robinson 1991).

[5] We are prevented from extending our analysis past 2002 by the lack of availability of decommodification data beyond that point in time.

A careful inspection of Figure 14.1 reveals a couple of notable characteristics of the relationship between decommodification and happiness. First, there is a moderately strong and positive correlation between them. Second, certain countries fit this relationship better than others. While countries at the high end of happiness such as Norway and Sweden seem to fit relatively well, others such as Ireland, Italy, France, and Canada seem to fit relatively poorly. In the case of Ireland and Canada, which can be located toward the middle- to upper-left portion of the scatterplot, individuals are happier given the level of decommodification than the regression line would predict. In contrast, for France, Italy, and Germany, which can be located toward the lower-left and lower-center portions of the scatterplot, individuals are somewhat less happy given the level of decommodification.

While these two groups of outliers do not diverge enough to obviate the positive correlation between decommodification and happiness, they are of particular note because they group nicely along Esping-Andersen's worlds of welfare capitalism: Ireland and Canada are prototypical examples of liberal welfare states in Esping-Andersen's classification scheme, while France, Germany, and Italy represent conservative welfare states. Thus the continental European democracies such as France, Germany, Austria, and Switzerland defy the positive trend between decommodification and happiness. While this result is puzzling at first, it becomes less so when we investigate scatterplots that demonstrate the relationship between employment regulations and happiness at the country level.

Figure 14.2 plots the same World Values Survey life satisfaction data against employment regulation strictness data from the OECD discussed previously. Here we observe a relatively strong negative correlation between employment regulations and life satisfaction, with the United States, United Kingdom, Ireland, and Canada locating in the upper left, combining low levels of employment regulation with moderate levels of happiness. In contrast, countries such as France, Germany, and Italy locate in the lower right, indicating high levels of employment regulation paired alongside low levels of happiness.

This finding may provide initial insight as to why the continental European countries fit the decommodification-happiness trend so poorly. Specifically, although this group of countries provides a relatively high level of decommodification for its citizens, that decommodification appears to be offset by strict employment regulations that are correlated with lower expressions of happiness. While this evidence is merely descriptive, it does indicate that there is not a "one size fits all" story with regard to the relationship between welfare states and happiness. Although welfare states providing higher levels of decommodification seem to lead to happier citizens, those that simultaneously restrict labor market flexibility through strict employment regulations appear to offset those gains as a result of stringent employment regimes. We proceed to a more robust assessment of these correlations in the next section of the chapter.
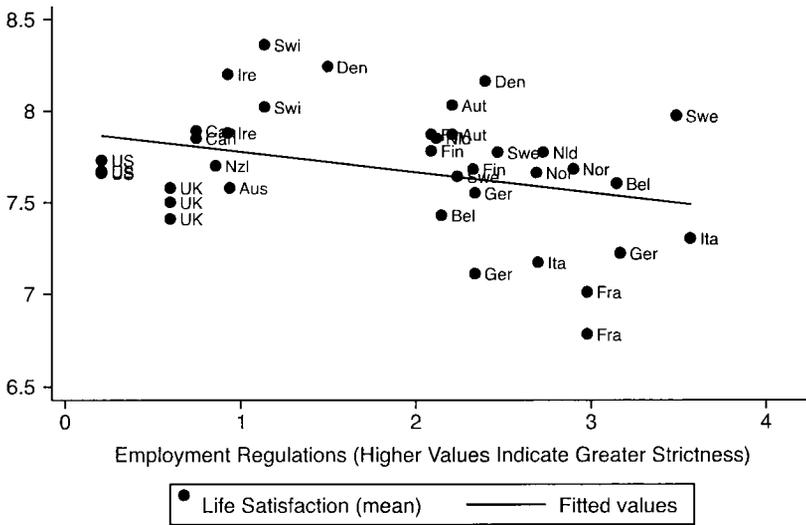
FIGURE 14.2. Employment regulations and life satisfaction in seventeen OECD democracies, 1985–2000.

14.3. The Welfare State and Happiness at the Macrolevel

The true test of the connection between welfare states and happiness, and our ability to judge the debate that has evolved regarding the dual mechanisms of decommodification and flexibility reduction, requires a more sophisticated analytic strategy. Thus, utilizing Eurobarometer data we proceed with a replication of previous analyses of the relationships among decommodification, employment regulations, and happiness, where we investigate the correlation between the two phenomena while controlling for GDP growth, the unemployment rate, the rate of inflation, a year counter to control for any time trend that might be present, and population. To gain additional confidence in these macrolevel findings, we also estimate models with the addition of dummies accounting for Esping-Andersen's three worlds of welfare capitalism.[6] We utilize ordinary least squares (OLS) regression to estimate our model, calculating robust standard errors due to heteroskedastic errors caused by repeated country observations (e.g., Hamilton 2009). The results are reported in Table 14.1.[7]

[6] Our assignment of countries to Esping-Andersen's worlds of welfare capitalism is as follows. We classify Ireland and the United Kingdom as liberal welfare states. We classify Denmark, Finland, Norway, and Sweden as social democratic welfare states. Finally, we classify Austria, Belgium, France, Germany, Italy, and the Netherlands as conservative welfare states. See Esping-Andersen 1990, chapter 2 and Esping-Andersen 1999, chapters 4 and 5.

[7] Our analysis here closely mirrors that of Pacek and Radcliff (2008). Our analysis has a slightly lower number of observations (215 vs. 242). However we include twelve rather than eleven countries (Norway being the addition), and our analysis extends back five more years (to 1970 rather than 1975).

TABLE 14.1. *Country-level determinants of life satisfaction in twelve european democracies: eurobarometer data*

Independent variables	Life Satisfaction							
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8
Decommodification	.029***	.016***	.019***	.005	.019***	.005	-.008	-.016**
	(.002)	(.003)	(.003)	(.004)	(.003)	(.004)	(.006)	(.005)
Employment regulations	-.183***	-.133***	-.11***	-.074**	-.110***	-.074**		
	(.013)	(.015)	(.030)	(.027)	(.030)	(.027)		
GDP growth	.002	-.006	-.000	-.007	-.000	-.007		
	(.005)	(.005)	(.005)	(.005)	(.005)	(.005)		
Unemployment rate	-.017***	-.024***	-.024***	-.031***	-.023***	-.031***	-.025***	-.027***
	(.004)	(.004)	(.003)	(.003)	(.003)	(.003)	(.003)	(.003)
Inflation rate	.009	-.001	.002	-.008	.002	-.008	-.021***	-.020***
	(.007)	(.007)	(.006)	(.006)	(.006)	(.006)	(.003)	(.003)
Year	-.007***	-.008***	-.008**	-.009***	-.008**	-.009***	-.003†	-.005**
	(.002)	(.002)	(.002)	(.002)	(.002)	(.002)	(.002)	(.001)
Population	-.003***	-.003***		-.003***		-.003***	-.004***	-.004***
	(.001)	(.001)		(.000)		(.000)	(.000)	(.000)
Liberal			-.084	-.129†	.117	.073	-.198***	-.062*
			(.071)	(.068)	(.077)	(.069)	(.031)	(.031)
Conservative			-.202***	-.202***			-.444***	-.288***
			(.038)	(.036)			(.028)	(.030)
Social Democratic					.202***	.202***		
					(.038)	(.036)		
Constant	17.7***	19.7***	18.6***	22.1***	18.4***	21.9***	10.5***	13.8***
	(.128)	(3.783)	(4.514)	(3.976)	(4.522)	(3.980)	(3.498)	(2.835)
Number of observations	163	163	163	163	163	163	215	215
R²	0.67	0.73	0.73	0.79	0.73	0.79	0.65	0.78

Note: The results are OLS regression estimates and their robust standard errors (in parentheses): †p < .10, *< .05, **< .01, ***< .001

The first notable finding is that the results demonstrate a strong and positive correlation between decommodification and happiness even after the inclusion of the employment regulation variable and the other controls. This correlation is somewhat stronger in Model 1 than in Model 2 after the inclusion of the population variable, an unsurprising result given that decommodification and population are correlated (–0.51 level). In addition, the negative relationship between employment regulations and happiness we observed earlier continues to be robust. The unemployment rate shows a statistically significant and negative correlation with happiness in both models, a result that fits with our expectations about the effect of rising unemployment on happiness at the macrolevel. The time trend parameter is also statistically significant and negative, indicating a slight decline in happiness over time during our sample period. Finally, the population parameter in Model 2 is negatively correlated with happiness. This fits with patterns that we observed previously with regard to Scandinavia, which routinely demonstrated the highest levels of happiness but are countries with relatively low populations. Thus far then our intuitions about the relationships among decommodification, employment regulations, and happiness have proven correct. States that provide higher levels of social protection tend to have happier citizens, while states that restrict labor market flexibility tend to depress reports of life satisfaction somewhat.

In Models 3 through 8 decommodification and employment regulation again take their positive and negative respective signs and are generally highly statistically significant. The lone exception to this is Models 4 and 6, where the decommodification parameter takes the appropriate sign but fails to achieve conventional levels of significance, a result that can be attributed to the highly correlated population parameter in these model specifications. Consistent with Models 1 and 2, Models 3 through 8 also demonstrate that the unemployment rate, time trend, and population parameters are negatively correlated with happiness. Overall, the models including worlds of welfare capitalism dummies produce no significant deviations from the results observed in Models 1 and 2 in terms of the parameters that are constant across the set of models.

Turning our attention to the worlds of welfare capitalism dummies themselves, two points salient to our analysis become apparent. First, of the three welfare worlds, social democratic welfare state types perform the best. In Models 3, 4, 7, and 8 social democratic welfare states serve as the reference category, and both the liberal and conservative parameters take negative signs and are statistically significant, with the exception of the liberal welfare state parameter in Model 3. When social democratic dummies are included in the model specification and conservative welfare states serve as the reference category (Models 5 and 6), the social democratic dummies both take positive signs and are significant at the $p < .001$ level.

The second notable point concerning the welfare state dummies included in Table 14.1 is that controlling for decommodification and employment regulations at the country level appears to account for a substantial amount of the happiness-producing capacities of the various welfare state types. This can be observed most clearly by comparing the welfare state parameter estimates of Models 3 and 4 with those of Models 7 and 8. Model specifications 7 and 8 omit the decommodification and employment regulation parameters, and within these models the welfare state dummies nearly double in magnitude[8] and are all significant at the $p < .05$ level or better.

In particular, the decommodification and employment regulation parameters appear to do an especially good job of accounting for discrepancies in happiness between liberal regimes and the other two welfare state types. In Models 3 and 4, the liberal dummy, which provides a comparison between liberal and social democratic welfare states, is only significant at the $p < .10$ level in Model 4, and insignificant in Model 3. In contrast in Models 7 and 8, which omit the decommodification and employment regulation parameters, the liberal dummy is significant (at $p < .05$ or better) in both models. This denotes that there is a significant difference between the liberal and social democratic welfare state types in terms of happiness, but that difference is only manifested clearly when decommodification and employment regulations are not accounted for. Liberal regimes also exhibit no statistically significant difference from conservative regimes when controlling for decommodification and employment regulations, as is the case in Models 5 and 6.

Beyond these results based on Eurobarometer data, we also reestimated identical models with the help of data from the World Values Survey (WVS). This allows us to evaluate the decommodification-happiness, employment regulation–happiness relationships using an alternate measure of happiness that has a different scale (10 point versus 4 point). Moreover, the WVS data provided a wider cross section of countries that can be evaluated, as countries from North America and the Asia-Pacific region are included. As the results in Table 14.2 show, the negative employment regulation–happiness correlation remains consistently strong across these models. This employment regulation parameter approaches conventional levels of significance in Models 9 through 14 and is statistically significant at the $p < .01$ level in four of the six specifications. The decommodification parameter performs somewhat less well, only reaching conventional levels of significance when both the population and welfare state parameters are omitted in Model 9. Still, these results do little to detract from our confidence in the robustness of our welfare state relationships of interest, as the number of observations for these WVS data is extremely low (an average of thirty-one observations per model).

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[8] The lone exception to this is the liberal welfare state parameter in Model 8, which decreases in magnitude but improves in terms of its statistical significance.

TABLE 14.2. *Country-level determinants of life satisfaction in seventeen oecd countries: world values survey data*

Independent variables	Life Satisfaction							
	Model 9	Model 10	Model 11	Model 12	Model 13	Model 14	Model 15	Model 16
Decommodification	.033**	.000	.014	-.004	.014	-.004		
	(.010)	(.012)	(.016)	(.018)	(.016)	(.018)		
Employment regulations	-.293**	-.161*	-.439**	-.233	-.439**	-.233		
	(.077)	(.058)	(.110)	(.137)	(.110)	(.137)		
GDP growth	.045***	-.006	.066**	.010	.066**	.010	.029	-.028
	(.016)	(.024)	(.021)	(.026)	(.021)	(.026)	(.020)	(.026)
Unemployment rate	-.007	-.014	-.017	-.018	-.017	-.018	-.040*	-.012
	(.020)	(.011)	(.021)	(.015)	(.021)	(.015)	(.016)	(.011)
Inflation rate	.059*	.032	.060*	.035	.060*	.035	-.021	-.013
	(.016)	(.018)	(.027)	(.025)	(.027)	(.025)	(.026)	(.022)
Year	.003	.012	-.008	.006	-.008	.006	-.012	.003
	(.016)	(.013)	(.014)	(.015)	(.014)	(.015)	(.013)	(.011)
Population		-.009*		-.008†		-.008†		-.011**
		(.003)		(.004)		(.004)		(.003)
Liberal			-.678*	-.290	-.528*	-.214	-.146	.211
			(.294)	(.292)	(.223)	(.251)	(.098)	(.149)
Conservative			-.150	-.077			-.451**	-.118
			(.194)	(.178)			(.128)	(.125)
Social democratic					.150	.077		
					(.193)	(.178)		
Constant	1.753	14.980	23.295	-3.850	23.144	-3.927	31.571	2.248
	(30.829)	(26.480)	(28.771)	(30.479)	(28.789)	(30.456)	(26.415)	(21.458)
Number of observations	28	28	28	28	28	28	47	35
R^2	0.55	0.71	0.62	0.72	0.62	0.72	0.39	0.68

Note: The results are OLS regression estimates and their robust standard errors (in parentheses): $†p < .10$, $*p < .05$, $**p < .01$, $***p < .001$

Taken together then, these macrolevel results suggest that both decommodification and labor market flexibility serve as two avenues that connect welfare states to happiness. Specifically, while higher levels of decommodification are associated with greater expressions of happiness at the country level, stricter employment regulations that reduce labor market flexibility in terms of the ability to change firms or move in and out of employment tend to depress happiness. With these findings in mind, we can now proceed to evaluate not only how these two mechanisms combine to produce patterns of happiness across welfare state types, but also how they create distinct sets of winners and losers once we turn to examining happiness at the microlevel.

14.4. Revisiting Happiness and the Welfare State at the Macrolevel

Our analysis thus far has uncovered two possible mechanisms that connect welfare states to happiness in the forms of decommodification and labor market flexibility. However, we are left with a multitude of questions concerning how these mechanisms manifest themselves at the individual level. Previous research, including Radcliff (2001) and Pacek and Radcliff (2008), discusses how more generous welfare states tend to lead to happier citizenries. According to their logic, this stems from the added protection that individuals living under such generous welfare states enjoy from the fickleness of the modern marketplace. This sounds completely plausible, and it represents one possible avenue for connecting welfare states and happiness, which we explored through our investigation of the relationship between decommodification and happiness earlier.

At the same time, we are less certain that it is the sole way by which the welfare state can shape individuals' well-being. Similar to Veenhoven, we expect that certain types of welfare states may indeed possess some flexibility-reducing characteristics, while others do a better job of allowing workers flexibility in their employment options. For example, conservative welfare states tend to pair benefits tied to employment with a lack of workforce mobility, making the job market less flexible relative to liberal or social democratic welfare states. Consequently, we expect that such circumstances may reduce happiness levels for workers looking to transition across firms, across the public and private sectors, or moving from unemployment to employment, or vice versa. This implies that the debate between the Radcliff and Veenhoven camps may not be a debate at all. In fact, we argue that both are correct, and that the trade-offs implicit in modern welfare states have distinct impacts on different types of citizens. While some may benefit primarily from the increased security provided by higher levels of decommodification, others may prefer the flexibility that more dynamic labor markets entail. This also is directly related to why Scandinavians routinely report such high levels of happiness, as the universality of social democratic welfare states obviates such a trade-off, combining high levels of decommodification with flexible labor markets.

Specifically, we anticipate that the mechanisms of decommodification and flexibility will manifest themselves at the individual level across variables for which welfare states create distinct sets of winners and losers. Given the available data, we expect that gender, age, unemployment, and education are all variables that will allow us to highlight how the protection provided by decommodification, and the relative flexibility provided by employment regulations, work to shape happiness at the individual level. These variables exemplify how the manner in which these mechanisms combine can encourage or reduce happiness within specific groups, and how happiness winners and losers are shaped by the manner in which welfare state institutions structure both social protections and labor market dynamism.

We are especially interested in the possibility that decommodification and employment regulations shape happiness across distinct time horizons. For employment regulations, we hypothesize that this is most likely to matter over the medium to long term, meaning that we expect it to interact most crucially with factors such as education and gender that remain fixed once an individual has entered the labor market. In contrast, decommodification is likely to be more relevant for individuals over the short to medium term. As a result, we anticipate that it will shape happiness most directly through variables such as age and unemployment that can more immediately produce anxiety and stress among vulnerable workers. While the logic for unemployment in this case is evident, we expect that a country's level of decommodification is also particularly relevant for young workers preparing to enter the labor market or at the early stages of their working life, as well as older workers who are preparing to or have just retired. We investigate these possibilities in the following.

14.5. Exploring Sources of Happiness at the Microlevel

Our microlevel investigation assesses how the worlds of welfare capitalism interact with individual-level characteristics to shape happiness across different groups of people. Table 14.3 initiates that investigation in reporting the results for our baseline, multilevel model of life satisfaction.

As can be seen in Table 14.3, the large number of observations included in our analysis yield extremely precise estimates of our parameters, with each one demonstrating statistical significance at the $p < .001$ level in our baseline regression, with the exception of the housework as primary responsibility parameter. The results show that age and age squared, respectively, are negatively and positively correlated with life satisfaction. Consistent with previous research, this indicates a U-shaped pattern of happiness over an individual's life course – a result we explore in greater detail later. Women, individuals with higher levels of education, and individuals who are married report higher average levels of happiness, as do individuals who are more ideologically conservative. Finally, the year variable indicates that individuals are becoming slightly less happy

TABLE 14.3. *Microlevel determinants of life satisfaction in twelve european democracies: baseline model*

Independent variables	Life Satisfaction
	Baseline Model
Age	−.381***
	(.010)
Age squared	.052***
	(.001)
Woman	.087***
	(.008)
Education	.060***
	(.001)
Married	.483***
	(.008)
Unemployed	−1.167***
	(.016)
Housework as primary responsibility	−.019
	(.012)
Retired	−.095***
	(.014)
Left-Right ideology	.064***
	(.002)
Year	−.012***
	(.001)
Decommodification	.083***
	(.001)
Employment regulations	−.320***
	(.012)
Social democratic welfare state	.534***
	(.013)
Liberal welfare state	.500***
	(.030)
Number of observations	295,160
Pseudo R^2	.07

Note: The results are ordered logit regression estimates and their standard errors (in parentheses): ⁻p < .10, *< .05, **< .01, ***< .001. The data for our analysis are from an update of the Eurobarometer Trend File, which permit us to evaluate the drivers of happiness for 295,160 individuals across twelve West European countries between 1985 and 2002. As before, our dependent variable is measured on a scale from 1 to 4, with 1 denoting respondents who are "not at all satisfied" with their lives, while 4s denote respondents who are "very satisfied" with their lives. We estimate ordered logit regressions to explore correlations between our dependent variable and the explanatory variables in our model, and then proceed to calculate predicted probabilities in order to provide more substantive interpretations of our results.
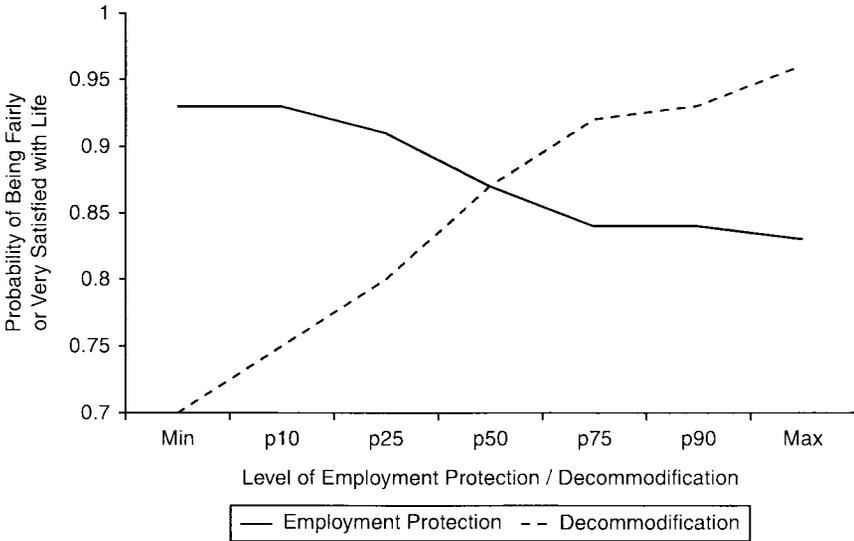
FIGURE 14.3. Predicted probability of life satisfaction by level of employment protection and decommodification.

over time, although the effect is rather small. Conversely, unemployment and retirement both have a deleterious effect on happiness.

Turning to welfare state estimates of interest, the decommodification and employment regulation parameters take positive and negative signs, respectively, as they did previously in our macrolevel analyses. This suggests that higher levels of decommodification and less strict employment regulations do tend to have a positive influence on reported levels of life satisfaction at the microlevel. The social democratic and liberal welfare state dummies are also both positive and possess similar magnitudes. This indicates not only that individuals are better off in terms of happiness living under social democratic and liberal regimes than under conservative regimes, but also that once decommodification and employment regulations are controlled for, citizens living under these two regime types tend to benefit similarly with regard to life satisfaction. Having reviewed our baseline output, we turn to Figure 14.3 for a more substantive interpretation of the effect of our dual mechanisms, decommodification and labor market flexibility. Figure 14.3 displays the predicted probabilities of an individual's reporting that she is "fairly satisfied" (3) or "very satisfied" (4) with her life across the range of values for decommodification and employment regulations present in our data.

Figure 14.3 reveals that both welfare state mechanisms are capable of exerting substantial influence over happiness at the microlevel. Beginning with decommodification, the results reveal that moving from the minimum to the maximum level of decommodification yields an improvement in predicted happiness of just above 25 percent. Holding the other explanatory variables at

their mean values, individuals living with the minimum level of welfare state protection have a slightly better than 70 percent chance of reporting that they are at least fairly satisfied with their lives, while individuals living with the maximum level of welfare state protections have nearly a 96 percent chance of reporting that they are at least fairly satisfied with theirs. The results for labor market flexibility are not quite as impressive, but still quite considerable. Individuals living under regimes with the minimum level of employment regulations have about a 93 percent chance of reporting that they are happy, while those living under regimes with the strictest regulations enjoy only an 83 percent chance of reporting happiness. Combined, these results suggest that both our welfare state mechanisms of interest play an important role in shaping happiness at the individual level; however, they reflect averages across our sample overall. To achieve a better understanding of the precise manner in which each of these mechanisms operates, we next turn to evaluating how they shape happiness for specific groups within our sample.

14.6. Examining Microlevel Heterogeneity

As we discuss previously, we expect that decommodification and employment regulations may influence microlevel happiness through separate time horizons. While employment regulations are likely more relevant for medium- to long-term happiness considerations, decommodification has the capacity to shape happiness over the short to medium term through the mitigation of work-related pressure and anxiety. While our data do not permit us to adjudicate specifically between short- and long-term dimensions of happiness, we proceed in this section to interact each of the mechanisms with both individual-level characteristics that have the capacity to change over the short to medium term, as well as those that remain more or less fixed over the medium to long term. In doing so, we are able to examine our intuition that our dual welfare state mechanisms may be influential over distinct time horizons. Table 14.4 reports the results of our interaction specifications.

We begin with medium- to long-term happiness considerations and evaluate two sets of interactions with our employment regulations parameter. First, we investigate the interaction of education level with employment regulations. While individuals can clearly change their level of education over time, here we treat it as essentially fixed over the medium to long term since most individuals do not dramatically alter their level of education once they enter the labor market. The interaction parameter between education and employment regulations reported in Table 14.4 is statistically significant ($p < .001$), negative, but of relatively low magnitude. The negative sign indicates that returns on education in terms of happiness are slightly greater in strict employment regulation regimes than relaxed regimes. However, given the low magnitude of the parameter estimate, this difference is likely to be small. We investigate this more closely in Figure 14.4.

TABLE 14.4. *Microlevel Determinants of Life Satisfaction in Twelve European Democracies: Interaction Models*

Independent variables	Life Satisfaction			
	Education × Employment Regulations	Woman × Employment Regulations	Age × Decommodification	Unemployment × Decommodification
Age	-.381***	-.381***	-.574***	-.383***
	(.010)	(.010)	(.047)	(.010)
Age squared	.052***	.052***	.092***	.053***
	(.001)	(.001)	(.006)	(.001)
Age × decommodification			.006***	
			(.002)	
Age squared × decommodification			-.001***	
			(.000)	
Woman	.087***	.185***	.086***	.085***
	(.008)	(.020)	(.008)	(.008)
Woman × employment regulations		-.043***		
		(.008)		
Education	.070***	.060***	.060***	.060***
	(.003)	(.001)	(.001)	(.001)
Education × employment regulations	-.004**			
	(.001)			
Married	.483***	.483***	.486***	.482***
	(.008)	(.008)	(.008)	(.008)
Unemployed	-1.166***	-1.164***	-1.165***	-1.977***
	(.016)	(.016)	(.016)	(.078)
Unemployed × decommodification				.028***
				(.003)

Housework as primary responsibility	-.020	-.022†	-.016	-.020
	(.013)	(.013)	(.013)	(.013)
Retired	-.096***	-.095***	-.089***	-.094***
	(.014)	(.014)	(.014)	(.014)
Left-Right ideology	.064***	.064***	.064***	.064***
	(.002)	(.001)	(.002)	(.002)
Year	-.012***	-.012***	-.012***	-.012***
	(.001)	(.001)	(.001)	(.001)
Decommodification	.083***	.083***	.080***	.081***
	(.001)	(.001)	(.003)	(.001)
Employment regulations	-.299***	-.298***	-.318***	-.322***
	(.013)	(.013)	(.012)	(.012)
Social democratic welfare state	.532***	.533***	.539***	.533***
	(.013)	(.013)	(.013)	(.013)
Liberal welfare state	.506***	.500***	.501***	.499***
	(.030)	(.030)	(.030)	(.030)
Number of observations	295,160	295,160	295,160	295,160
Pseudo R^2	.07	.07	.07	.07

Note: The results are ordered logit regression estimates and their standard errors (in parentheses). †$p < .10$, *$p < .05$, **$p < .01$, ***$p < .001$
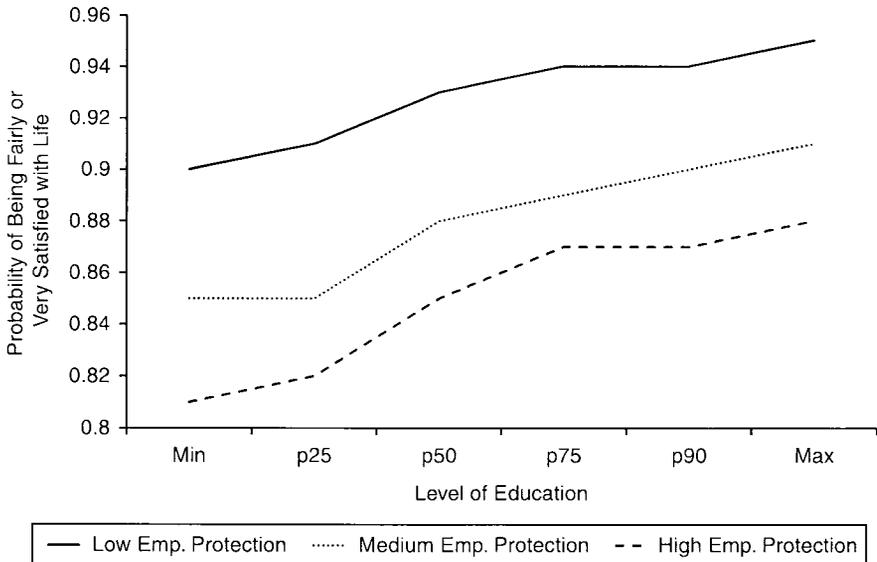
FIGURE 14.4. Predicted probability of life satisfaction by level of education across employment protection regimes.

Figure 14.4 reports the predicted probability of happiness across levels of education and employment regulations. Most apparent from a quick investigation of the figure are the differences across employment regulation regimes, which are equivalent to intercept differences among low, medium, and high regulation regimes. Individuals living under low regulation regimes are much more prone to reporting at least a fair level of happiness than individuals living under high regulation regimes. These effects are consistent across education levels, although the differences are slightly more pronounced among those with only minimal levels of education than those with higher levels of education. In addition, as anticipated on the basis of the sign of the interaction parameter, the slope of the strict employment protection curve is slightly steeper than that of the other two curves. Overall, though, Figure 14.4 reveals that employment regulation regimes are important shapers of happiness regardless of one's level of education.

Turning to the gender–employment protection interaction model specification, we again observe that the interaction parameter is highly significant and negatively signed. The negative sign indicates that stricter regimes tend to have a more harmful effect on women's happiness than men's. This is particularly interesting because women, on average, report higher levels of life satisfaction than men. It is also logical when one considers the dual roles that working women play at home and in the office. For many women, motherhood may dictate having to shift between full- and part-time employment, or in and out
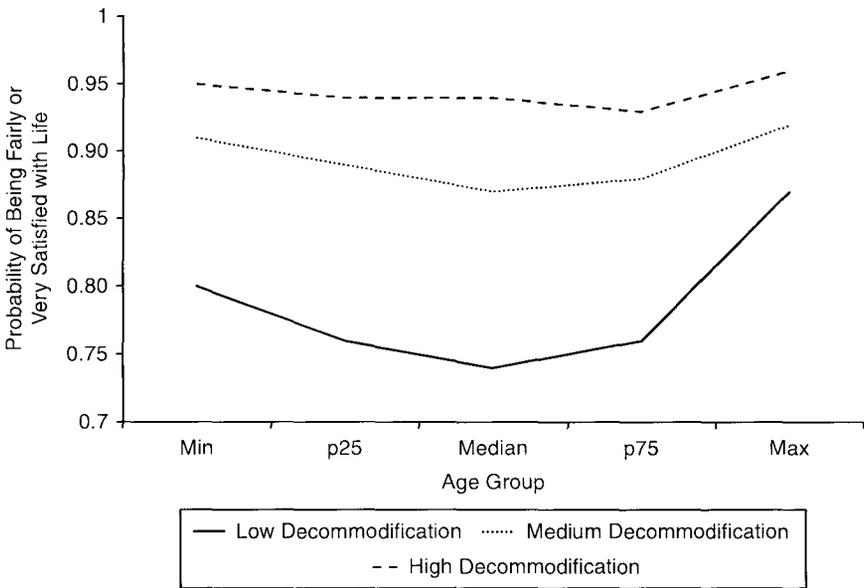
FIGURE 14.5. Predicted probability of life satisfaction by age group across decommodification regimes.

of the workforce. Consequently, it makes sense that employment regulation regimes that make such transitions more difficult for women would also tend to depress happiness in women living under such regimes relative to those living under more flexible labor market setups. We can infer then that, although both men and women are happier living in countries with more dynamic labor markets (ceteris paribus), countries with the most stringent employment regulations have an especially negative influence on the happiness of women. Or, perhaps more appropriately, especially strict employment regimes have a less harmful influence on men's happiness than on women's happiness.

We now proceed to investigate short- to medium-term happiness considerations and evaluate interactions among age, unemployment, and our decommodification parameter. Whereas the significant interaction effects we observed with regard to employment regulations were of relatively modest magnitude, we anticipate that the potentially shorter-run impact of decommodification on happiness will yield slightly more dramatic effects across various groups within our sample. Starting with the age-decommodification interaction model specification, we can see that both the age and age squared interactions are statistically significant, suggesting that the effect of age on happiness is contingent on the level of decommodification that an individual enjoys from her welfare state. Figure 14.5 provides a more substantive interpretation.

Similar to the education–employment regulations interaction effects we investigated in Figure 14.4, there are intercept-type differences across

decommodification regimes with respect to happiness. Individuals living under high decommodification regimes report substantially higher levels of life satisfaction than those individuals living under medium or low decommodification regimes. However, perhaps the more interesting feature of Figure 14.5 is the differences in the slopes of the U-shaped curves across the various decommodification regimes. In the case of high decommodification regimes, returns to happiness are highly consistent over the life course. In fact, the predicted probability of being at least fairly satisfied with life only fluctuates between 0.93 and just above 0.95 for individuals living under high decommodification regimes. This can be contrasted with the U-shaped probability curve for individuals living under low decommodification regimes. For these individuals, the predicted probability of being happy varies greatly throughout the life course, hitting a low point of 0.74 at the median age group, and reaching levels of 0.80 and 0.87 for the lowest and highest age groups, respectively. This dramatic low point makes a great deal of sense for individuals living under low decommodification regimes. These are individuals who are in the midst of their careers and face pressures not only at the workplace, but also as breadwinners expected to support their family within the context of being the relevant locus of social protection in states that do not provide much of a safety net.

Last we turn to the results for unemployment, which truly highlight the impact that high levels of decommodification can have in terms of happiness for vulnerable workers. In this case the interaction term is statistically significant and positively signed. Consistent with previous results, we find that employed individuals tend to be happier as the level of decommodification increases. While approximately 70 percent of employed respondents report being at least fairly satisfied with their lives under low decommodification regimes, about 95 percent offer this response at the maximum level of decommodification. This difference is considerable, but it pales in comparison to that for the unemployed. Our calculations show that unemployed individuals living under the lowest level of decommodification have *only a* 31 percent chance of reporting that they are at least fairly satisfied with their lives. However, when we move up to the highest level of decommodification, we observe that unemployed individuals enjoy a better than 90 percent chance of being happy. That is, an unemployed individual's probability of reporting being at least fairly satisfied for her life nearly triples under the highest level of decommodification relative to the lowest. Another way of looking at this is noticing the difference in levels of happiness between employed and unemployed individuals under the highest levels of decommodification, which is quite trivial (0.2), and that under the lowest levels of decommodification, which is quite large (0.39). This analysis makes quite clear that for individuals living under the (ideally) short- to medium-term stress of unemployment, the level of social protection provided by the state makes a great deal of difference in terms of the happiness reported by those who are out of work.

Taken together, the multilevel regression evidence presented further demonstrates not only that decommodification and labor market flexibility serve as dual mechanisms that connect welfare states to happiness at the individual level, but also that the relative magnitude of these effects is contingent on individuals' personal characteristics and labor market status. In addition, these analyses provided some indication that decommodification and labor market flexibility may work through distinct dimensions of happiness; while decommodification matters more for happiness in the short to medium term, labor market flexibility has the capacity to shape happiness over more medium- to long-term time horizons. Although further research is required to confirm this finding, this has clear implications for the impact of shifts in welfare state policy on the public mood. Specifically, while increases in spending aimed at boosting social protections can be expected to improve the life satisfaction of a country's citizenry over the shorter term, the effect of labor market reforms aimed at making labor markets more dynamic likely requires a greater amount of time to improve the well-being of citizens.

14.7. Conclusion

Our analysis shows that the link between welfare states and happiness is real, but also complex. In particular, we highlighted two mechanisms that connect welfare states to happiness in the form of decommodification and labor market flexibility and demonstrated that these mechanisms work differently for different kinds of people. In sum, welfare regimes have the capacity to shape happiness through multiple means, with a high level of decommodification and flexible labor markets serving as but two of those means that we have identified within this chapter. As a consequence, prior debates over the impact of welfare states on happiness require correction. Social protections and labor flexibility both matter for happiness, and to the extent that some welfare states provide more of one but less of the other, we can expect those welfare state setups to have a kind of neutral effect on happiness through these offsetting mechanisms.

Speaking more generally, this chapter is an exploration into the mechanisms that connect social policy institutions to the level of life satisfaction enjoyed by those individuals who rely on them. While happiness may seem to be an unusual variable for political economists to devote analytical attention to, we believe this is a promising area for future research, especially given the state of threat that welfare states are experiencing as a result of the global economic crisis. Austerity, budget slashing, and cutbacks have all seen a rise in prominence within the political lexicon across the OECD in recent years. This illustrates the paradox of social policy: It is hardest to deliver during periods when citizens need it most.

There are two primary reasons why adopting happiness as an alternative metric by which to evaluate the effects of political-economic arrangements

in postindustrial democracies is a good idea: One is theoretical and one is policy-based. From a theoretical perspective, life satisfaction shows how the outcomes of different institutional legacies and arrangements experienced by individual citizens vary across countries. In the language of the Introduction, where strong state intervention with encompassing welfare states is combined with an investment-oriented policy that provides flexibility for individuals, life satisfaction is greatest. This combination prevails in Nordic countries. In Anglo-Saxon liberal market economies, there is a fair amount of emphasis on investment and flexibility, but too little encompassing protection to achieve similar levels of happiness. Conversely, many continental European welfare states deliver encompassing protection, but little flexibility, combined with limited investments, particularly in education. Finally, in Southern European welfare states that exemplify the combination of limited encompassingness with highly rigid labor markets and consumption orientation of their social policies, our data reveal the lowest levels of life satisfaction.

From a practical perspective, happiness as a measure of policy effectiveness makes sense because it is not necessarily maximized through increased spending, at least not spending on social consumption. Our analysis suggests that higher levels of decommodification do not necessarily produce reports of higher levels of life satisfaction among a country's citizenry. As a result, a shift in attention to reported life satisfaction might provide a tool for policy makers to search for effective policy solutions that have the capacity to improve the well-being of citizens, while minding governments' bottom lines.

As a consequence, a deeper understanding of the social sources of happiness matters. If the transformations described here do not leave a trace in people's happiness, policy makers may wish to focus on those that do. But if they do, we need to know *who* is affected and *in what way* in order to manage the structural transformations in a manner that will satisfy the citizenries of capitalist democracies.

Appendix

Question wording for reports of life satisfaction:

Eurobarometer:
"On the whole, are you very satisfied, fairly satisfied, not very satisfied, or not at all satisfied with the life you lead?"

World Values Survey:
"All things considered, how satisfied are you with your life as a whole these days?" Responses range from "1" (dissatisfied) to "10" (satisfied).