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BEYOND GDP: WHAT MAKES PEOPLE IN LATVIA AND LITHUANIA HAPPY?

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Beyond GDP: What Makes People in Latvia and Lithuania Happy?

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Abstract

The aim of this paper is to study Lithuania and Latvia, two countries not captured by the wave of economic happiness research yet, and to find out what factors most contribute to people wellbeing there. In order to answer the question and to explore the determinants of happiness, the data from locally executed surveys is used and analyzed according to Frey & Stutzer (2002) theories and derived econometric model. As dependent variable two proxies for wellbeing are used: „happiness“, and „satisfaction with life“. The results show that the most important factors influencing satisfaction with life in Latvian sample are: gender, marital status, employment status, household income and political trust. Furthermore, education, settlement, household income, employment status and marital status are main contributors to happiness. In Lithuanian representative group social trust, political trust and care index were found statistically significant factors to satisfaction while age, care index and political trust are important determinants of happiness. In addition, the results show inconsistencies between two proxy variables in a number of cases, therefore raising doubts in several previous researches that treat both concepts as interchangeable. Finally, another important finding contradicting researches in other countries implies that married people are no happier than single with some regressions showing even negative sign of coefficient.

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Introduction

“... all men are created equal; they are endowed by their Creator with certain unalienable rights; that among these are life, liberty, and the pursuit of happiness...”

(*American Declaration of Independence, 1776*)

“*Happiness is the meaning and the purpose of life, the whole aim and end of human existence*” Aristotle

“*It's pretty hard to tell what does bring happiness. Poverty and wealth have both failed.*”
Kin Hubbard

Economic performance is the key concern of any country. Yet, while so much attention is being attributed to economic factors like GDP or productivity growth, people themselves seem not to be very concerned about them. The importance of economy is that it may be “a mean to an end” and thus really matter just to the extent that makes people happier, as well-being is our final goal (Oswald, 1997).

The importance of well-being at an institutional level was already explicitly recognized in the *American Declaration of Independence (1776)* and *French Declaration of Rights of Man (1789)*. These momentous for the whole human history texts perceive the pursuit of happiness as “one of the basic goals of the society” (Pasinetti, 2003). However, even though well-being was acknowledged as an inherent right and aim to seek, for quite a long period of time it has not received proper attention from economists and policy makers or was misleadingly considered to be equivalent to economic conditions. To be more precise, in the economic vocabulary individual happiness was determined as a variable that mainly “depends on income, leisure and sometimes some other factors” (Bjornskov, Gupta, Pedersen, 2005). Consequently, the main concern for policy makers was economic development. As GDP is the main measure of economic performance, it was comfortable to take for granted that in order to make people happy it is necessary and sufficient to increase GDP. However, if GDP in fact makes people happy then it would be straightforward to believe that people in the Baltics should be unhappier than people in the countries having higher GDP. Yet, the difference between perceived well-being is not so much distinguishable (Veenhoven, 1993). Moreover, how one could explain then that the level of subjective well-being is quite alike high in developed Denmark as well as poorer Puerto Rico or Mexico (Veenhoven, 2007). Besides, as *Easterlin paradox* reveals, since the Second World War GDP per capita in the USA has been growing steadily, while the happiness indicator remained practically stable. These results challenge the perception that there is a direct relationship between the mentioned variables (Easterlin, 1974). The same tendency was spotted for Ireland, France or Germany (Veenhoven, 1993). Therefore, there must be something else than GDP that affects well-being.

Exactly this issue is one of the biggest concerns of policy makers nowadays. The citation of Jose Manuel Barroso, President of the European Commission, in the conference “Beyond GDP” in November 2007 reflects it the best: “(...) *We cannot face the challenges of the future with the instruments of the past. We need to have a new data and the new tools to face this (...). It's time to go beyond GDP.*” According to him, relying only on GDP we are “*lacking the tools to take swift, well informed and effective decisions that promote the well-being of individuals of societies*”. A consensus has been reached that GDP is an effective tool of measuring current economic activity; however, it does not measure happiness or well-being that is why there is a need to create World Happiness Index. Referring to Jose Almunia, Commissioner for Economic and Monetary Affairs: “*I believe that composite indicators have a valuable role to play, especially raise an awareness of specific developments and challenges. But I also consider that it is necessary to build more overarching framework, where environmental and social issues are integrated altogether with economic ones.*” To put it in other words, it is time to move from materialistic indicators and reveal more realistic pursuits of humankind.

Furthermore, for creating new measurement tools and for policy makers to make proper decisions aimed at increasing well-being of citizens it is crucial to know what are the main factors that contribute to their satisfaction with life: what indicators Happiness Index should consist of. While GDP can be measured in quite objective and standardized method that allows for aggregation and inter-territorial comparisons, there is no one technique to capture the contributors to happiness. According to Rui Baleiras, Secretary of State for Regional Development in Portugal: “*the latter (well-being measurement, auth.note) stands essentially from subjective origin and poses difficult problems of aggregation and territorial comparability. Therefore, we need a set of few indicators that can complement information reported by GDP. (...)*” He also adds that “*it is our responsibility to ask the relevant institutions all over the world to work together and to join efforts to get the answers for today's questions.*”

Accordingly, as happiness has become a changing force in global development, motivating to re-examine inner development, social development and worldviews, there is little doubt that some form of Happiness Index will be created in the near future. (Canoy & Lerais, 2007) It is worth mentioning that some countries have already started to create subjective well-being measures based on life satisfaction surveys. Government of New Zealand publishes Economic Living Standard Index (ELSI) which main components are consumption, ownership of durable goods, social participation and self-assessment of the living standard (Canoy & Lerais, 2007). In Australia a National Well-being Index is based on people assessment of the economic situation, state of the environment and social conditions, national security and satisfaction with

government and business (Canoy & Lerais, 2007). The UK has also started publishing subjective well-being measures recently. However, nothing tangible with respect to new happiness measurement creation has been done in the Baltic States, particularly in Latvia and Lithuania. Furthermore, if something similar is to be developed in these countries, what in the authors' opinion is inevitable, firstly the factors constituting happiness should be researched. Therefore, the authors of this work see a great possibility to contribute to creating future well-being measurement by answering the following research question: *“What are the factors that most contribute to people happiness in Latvia and Lithuania?”*. (For the definition of happiness, please, see the next section “Defining Well-Being”). In order to answer the research question, the values survey data for Latvia was obtained and the similar survey was carried out by the authors in Lithuania. Furthermore, expert interviews were conducted meant for acquiring additional insights into the results and interpretations.

Accordingly, our paper is organized in a following way: firstly, the relevant literature is presented. Then the authors define the concept of well-being, describe the methods of measuring it and present the determinants of well-being figured out by previous researchers (with the special emphasis on Frey & Stutzer, 2002). The following sections describe the methodology adopted for the analysis, then empirical results are presented, ending with conclusions and suggestions for further research.

Literature Review

The economics of happiness is comparatively new but rapidly growing area of research. Until recently, happiness was studied intensively by psychologists, to some extent by sociologists, but ignored by economist (Layard, 2005). In the past decade growing interest in the field resulted in numerous researches to analyze the impact of economics on individuals' satisfaction with life; some studies were also performed in emerging economies such as Kazakhstan (Namazi & Sanfey, 1998).

Various economic reports on happiness have been operating with the concepts “happiness” and “satisfaction with life” alongside, assuming that their meaning is analogous (e.g. Winkelmann, 2004). However, a study by Bockerman and Ilmakunnas (2005) performing the same econometric analysis with “happiness” and “satisfaction with life” revealed some inconsistencies in results, therefore raising doubts about interchangeability of the concepts. It was not until recent that Frey and Luechinger (2007) distinguished three concepts of happiness: “happiness” - a momentary feelings of joy and pleasure, “life satisfaction” as a general

satisfaction with life and “good life” - a quality of life by increasing and accomplishing one’s potential. (Note: In the following work the authors will operate with two concepts of happiness: “happiness” and “life satisfaction”)

Increasing literature on happiness studies takes us a step further towards understanding what people value and what makes them happy. Most empirical research in this area is based on individual responses to questions such as “Overall, how satisfied are you with your life?” or “How happy are you?” where responses can vary on a scale from “completely dissatisfied” to “completely satisfied”. For a person to make a judgment about satisfaction with life involves assessing past, present and anticipated experiences (Veenhoven, 1993). Therefore, “happiness is not a simple sum of pleasures, but rather a cognitive construction which the individual puts together from his various experiences.” (Veenhoven, 1993)

Regression analysis is the primary tool used to understand the determinants of well-being (Winkelmann, 2004). German Socio-Economic Panel data is one of the most widely used in happiness studies providing wide range of questions for analyzing subjective well-being. Other popular researches use World Values Survey or Eurobarometer Survey, covering members of the European Union for several decades. However, there is no wealth of such data for Latvia and Lithuania. Data is collected for 3 years only which results in lack of substantial analysis so far.

The primary goal of happiness researches is not to measure happiness, but rather explain what factors influence it. A vast number of studies were conducted in various countries, each of them concluding similar, yet in some aspects slightly different findings. The reason for that is possibly diverse mentality, values and culture of people in different regions. Albeit some basic consensus has been reached on what factors and in what direction influence happiness, one should not forget that majority of studies, therefore conclusions as well, are based on western countries. It is of prime interest for the authors of this paper to research Latvian and Lithuanian standing in this area.

The effects of the demographic variables (e.g. sex, age, occupation) have been already studied extensively, commencing with Cantril’s (1965) research in 11 countries leading to more recent solid contribution of Veenhoven (1993) presenting more than 600 studies from 69 countries. Yet some studies (Diener 1984, Inglehart 1990) surprisingly discovered that the demographic variables account for only 10-15% variance in happiness. Nevertheless, testing the impact of other variables, but controlling for the demographic ones, the effect of the former decreases (Argyle, 1999).

Layard (2005) in his book “Happiness” names “Big Seven” factors that matter for happiness of people the most in order of importance. These are: family relationship, financial situation, work, community and friends, personal freedom, and personal values. Study of Helliwell (2003) derived factors that can explain about 80% of the variation in happiness on the country levels: divorce rate, unemployment rate, level of trust, membership in non-religious organizations, quality of government, and fraction of people believing in God (Layard, 2005).

For many researchers there is a primary interest in finding whether money makes a person happy. Scientific research shows that happiness has not increased since 1950 in most western societies although living standards have almost doubled (Layard, 2005). Evidence from western industrial countries shows that the richer does not necessarily mean happier. An interesting trend has been spotted – for countries where income per head exceeds \$20,000, additional income is no a guarantee of extra happiness (Layard, 2005). Evidence from Third World countries (e.g. Mexico, India, and Brazil) demonstrates that economic growth has been accompanied with average growth of happiness (Diener & Oishi, 2000). Nevertheless, studies on an individual level have shown that in any given society richer people are significantly happier than the poorer (Layard, 2005). However, the paradox comes at this point – when people become richer compared to others, they become happier. But when whole societies are getting wealthier, their well-being does not change (Easterlin, 2001).

There is a broad research done in the area of the unemployment, concluding its huge negative effect on happiness (e.g. Bockerman and Ilmakunnas, 2005). Individual and general unemployment have been discussed separately in most of the studies. Frey and Stutzer (2003) propose combining both in order to find relations between micro and macro levels that may affect the evaluation of happiness. Unemployment just as income matters on a relative terms as well. Therefore, if a person is not alone with his fate and there are more people around experiencing unemployment, its effect on individual unhappiness is smaller. Self-esteem is not ruined so much when a person knows that the job loss is more likely to be caused by the general situation within the country. Hence, as proven in previous studies (e.g. Clark & Oswald 1994) general unemployment level lowers happiness, but the unemployed suffers less when more people around him are unemployed as well (Frey, Stutzer, 2003).

Frey and Stutzer (2000) found positive influence of institutional factors – political participation rights and decentralized government structures on reported well-being. The impact of education varies across the studies. According to Di Tella et al. (2003) it has negligible effect on happiness, though of course positively contributes to individual’s income.

A part of related literature is aiming to answer the question of causality, e.g. are married people happier or it is just that happier people get married? (Frey and Stutzer, 2006), accordingly does unemployment cause unhappiness or is the effect vice versa (Argyle, 1999). Such studies require more sophisticated methods (experiments, quasi-experimental designs, panel-studies) and are still in its infancy, providing no general conclusions suitable for all.

There are also alternative ways of happiness research, e.g. as an indicators of extreme unhappiness using suicide rates, alcohol abuse or mental illnesses.

One of the extensive sources of happiness and economics research is also „Beyond GDP“ International Conference which took place in Brussels in November 2007. The website of the conference www.beyond-gdp.eu gives an opportunity to watch two days of conference in a video format. It includes speeches of range of outstanding people such as the representatives of the EU institutions: President of the European Commission Jose Manuel Barroso, Commissioner for Economic and Monetary Affairs Joaquin Almunia, as well as major contributors to the happiness research such as Bruno S. Frey. All of them assembled to develop new tools for assessing people well-being and helping policy makers in creating decisions, in short – to move beyond GDP and find instruments of the future that would complement the most widespread economic indicator nowadays.

Another important source is Gross National Happiness movement (www.gnh-movement.org). In November 2007 the 3rd International Conference on Gross National Happiness was organized in Bangkok, Thailand „Towards Global Transformation – World Views That Make a Difference“, also providing a collection of academic papers on well-being. GNH movement triggered growing interest about finding alternative well-being measurements around the world. However, GNH is based on Buddhist values; therefore, it cannot be attributed to European people having different worldview and morale. Yet, the perspectives used for Asian countries can be helpful in carrying the following research.

In Latvia and Lithuania subjective well-being has not been researched extensively, yet some initiation is present, e.g. analyzing separate social groups (e.g. Šilinskas & Žukauskienė, 2004). The authors of this work are proud to deliver first contribution of such type.

Defining well-being

People tried to define well-being from antiquity. Already Aristotle wrote a lot about eudaimonia (a classical Greek word commonly translated as happiness) - a distinguishable feature of human being (Bruni & Porta, 2005). Though eudaimonia is somewhat different from well-being, it has a subjective element (happiness) as well as objective ones (to flourish, be successful) and therefore might be seen as a fountainhead of happiness theories and discussions. It is worth mentioning that well-being was given a variety of meanings through its historical life: an individual interpretation (Aristotelian line) and a collective one which should “capture the progress of nations.” (Canoy & Lerais, 2007). The authors also do not try to challenge themselves to define well-being, but rather go in line with more recently developed theory that well-being is a multidimensional concept and captures many aspects of life. To be more precise, the definition of well-being as a concept used in this work is adopted from the book by Frey and Stutzer “Economic and Happiness: How the Economy and Institutions Affect Human Well-being” (2002, p.11-13). They explain subjective well-being as an attitude consisting of two basic aspects - cognition and affect. “Affect” is a label attached to moods and emotions. It is what presents people instant evaluation of the events that occur in their lives. The cognitive component refers to the rational or intellectual characteristics of subjective well-being. What is more, it involves the component of judgment and comparison. Happiness is thus not “given and immutable, but is constructed within the person concern and heavily depends upon the social environment within which each person has been socialized and within which he or she lives.” Frey and Stutzer (2002) emphasize three psychological processes that have to be taken into account: aspiration, adaptation and social comparison.

- Aspiration, or satisfaction treadmill, illustrates that people always evaluate their situation with regard to the aspiration level that is systematically formed by hopes and expectations. People become happier only when they attain their aspirations, thus there is a negative relationship between aspiration level and happiness.
- Adaptation, or hedonic treadmill, demonstrates that people get used to new circumstances and accordingly adjust their subjective level of well-being. Habituation is one of the main processes referred to in this context.
- Social comparison, or relative theory, is a relative measuring stick with respect to subjective well-being. People compare their status and possessions relatively to these of other persons. According to this theory “having more” is not sufficient to make a person better off. “Having more than others” is necessary.

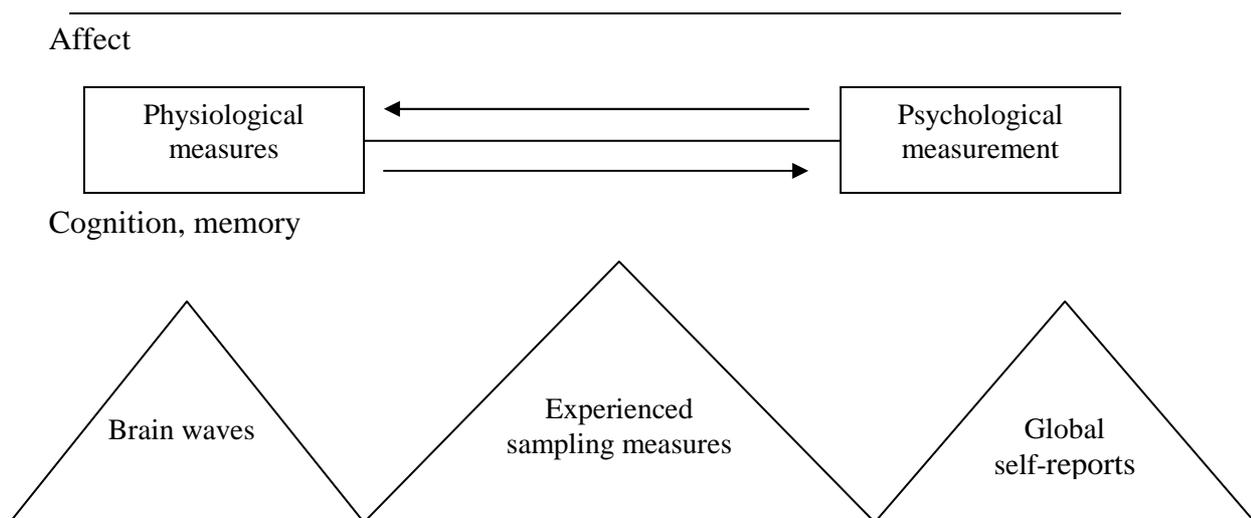
It is worth mentioning that Frey also distinguishes “happiness” from “satisfaction with life”. He explains that self reported “happiness” echoes people assessment of life in short run perspective, while “satisfaction with life” measures well-being with regard to the long run or whole life perception (Personal communication, March 14, 2008). Accordingly, the separation of concepts will be used while discussing results of this paper. However, as other researches do not exclude this difference that much, the authors also use concepts “well-being” and “happiness” as interchangeable while presenting basic theories.

Capturing Subjective Well-being

Concepts of Happiness

Objective Happiness

Subjective Happiness



Source: Frey and Stutzer (2002 a, p. 4)

Happiness research has developed several happiness indicators which rely on different measurement techniques (Kahneman et al., 2006). The most popular methods used in happiness study are the following:

- Brain Imaging - done using functional magnetic resonance imaging in order to scan individuals’ brain activities for noticing correlations of positive and negative affects;
- The Experience Sampling Method - based on collecting information on individuals’ actual experience in their natural environments in real time;

- The Day Reconstruction Method - relies on people reflections on how satisfied they felt at various times during the day;
- The U (“unpleasant”) Index, defined as the fraction of time per day that an individual spends in an unpleasant state;
- Global evaluation of individual life satisfaction - measured by results from representative surveys.

All measurement methods are situated in line within two extremes - “objective well-being” measurement and “subjective” one (Please, see the graph above). “Objective well-being” refers to physiological approach as happiness is being evaluated by a person’s brain waves according to external rules (Kahneman et al., 2006). The example is brain imaging. This costly and sophisticated way of happiness measurement requires appropriate equipment and expertise, but it objectively pictures individual happiness and extent of it (Frey & Stutzer, 2007). “In between” one can find experience sampling method, day reconstruction method and the U-Index creation (Please, see the graph). The following methods are considered to be new and thus still under development. So far they have been used only on experimental basis. (Frey & Stutzer, 2007). Finally, “subjective well-being” is being captured by various surveys and self-reports where individuals themselves evaluate happiness “compared to other persons, past experience and expectations of the future” (Frey & Stutzer, 2002 b). This approach to measure well-being is recognized as a good complement to study the world (Frey and Stutzer, 2002 a). It is assumed that everyone has own perception of what is happiness and good life and that individuals can accurately judge their overall life satisfaction. Apparently everyone is the best evaluator of his own situation (Frey & Stutzer, 2003). What is more, this method is most convenient considering money and time constraints as well as possibility to reach large number of respondents. Thus employing representative survey is the most commonly used method for happiness studies. This method has also a great advantage as it has proved to perform in reliable and valid manner (Frey & Stutzer, 2007). Reliability studies show that such measurement captures important aspects of well-being and factors contributing to it in a credible way (Schimmack and Oishi, 2005). It also correlates with behavior and features generally associated with happiness: consistency test revealed that different factors reported in presenting subjective well being, such as express of emotions or being sociable and extravert, actually reflect people happiness. Validity is supported by testing emotional and physical state of a person (Fernandez-Dols and Ruiz-Belda, 1995; Lepper, 1998; Frey and Stutzer in 2002b).

Well-being Determinants

Identifying well-being determinants is crucial for understanding what most contributes to our final goal in life and how the situation can be improved. Frey and Stutzer (2002 a, 10-11p.) present a generalized model distinguishing five types of well-being determinants, in particular: *personality factors*, *socio-demographic factors*, *economic factors*, *contextual and situational factors*, and *institutional factors*.

- *Personality factors* are such as personal concern, optimism, neuroticism or self-esteem. Various researches prove that such factors are strong predictors of subjective well-being. The reason for this is that happiness or unhappiness is found to be dependent on genetic predisposition: inborn individual differences in nervous system that have indirect effects. Therefore a susceptible person may succumb to depression, whereas a resilient person may remain unaffected. (Rowe, 2001).
- *Socio-demographic factors*, such as age, gender, marital status, and education. The first studies in the field of happiness economics claimed these factors to be the major determinants of happiness (Frey and Stutzer, 2002a). However, this approach declares that well-being is a product of exogenous factors and it is not dependent upon particular person what contradicts most psychological studies (Kahneman et al., 2003).
- *Economic factors* are such as individual and aggregate income, unemployment. Various researches concerning these factors reveal different tendencies. Frey & Stutzer (2002a) claim that the factors of this type are important to people well-being especially in the countries where GDP per capita reaches 10,000\$ or less. Easterlin (1974) illustrates that in developed countries GDP and well-being has loose or no relationship. Thus, it is very interesting to find the tendencies concerning this issue in both Baltic countries, as they are in transition period and belong to still developing economies.
- *Contextual and situational factors* are such as interpersonal relations with colleagues, relatives and friends; stress involved at workplace and health. This group of indicators is very important because it represents person's social environment. As a human primary is "a social being" the satisfaction with his environment is highly correlated with self reported happiness (Kahneman et al., 2006).

- *Institutional factors*, such as the extent of political decentralization and citizens' direct political participation rights; satisfaction with political institutions and trust in government authorities and public institutions. The effect of the political process on citizen's well-being has usually been evaluated indirectly: measuring existence of party competition or "looking at individuals' reaction to various policies" (Frey and Stutzer, 2002a). However, a new perception comes in place that the level of well-being is massively affected by various political processes (Canoy & Lerais, 2007). Thus, subjective satisfaction with institutions and authorities is an important factor to be considered.

The authors adopted this model as a principal guideline in grouping possible factors that contribute to people happiness in Latvia and Lithuania.

Methodology

In order to answer the research question the authors decided to use both quantitative and qualitative methods. After having done thorough literature review and decided upon model that will be used for identifying factors contributing to well-being, the quantitative part followed. It consisted of several steps. Firstly, the data was obtained from value survey done in Latvia as well as the similar questionnaire survey was conducted in Lithuania. Then data was gathered and analyzed. Finally, for qualitative part the experts' interviews were organized (Please, see the table to right) in order to give some supplementary insights and ideas about possible interpretation of the results. The mixture was chosen because the research area involves analyzing psychological and sociological factors and considering only the statistical relationships between variables alone might be sometimes misleading. Besides, additional notions from experts of different fields regarding the same issue might be valuable.

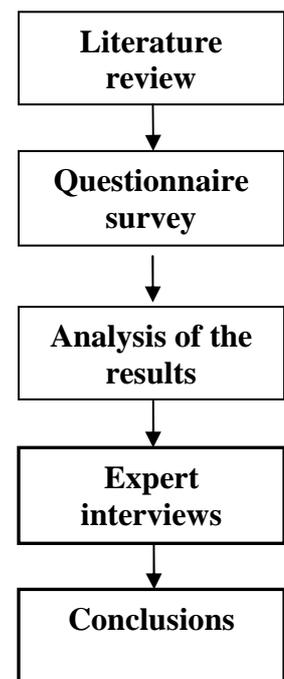


Figure 1: Methodology
Source: Self-developed

Quantitative Method - the Survey

As it was mentioned, the research area of this work is Latvia and Lithuania. The questionnaire as well as data for Latvia was adopted from survey conducted by Latvian

research agency “SKDS” in the year 2007. The survey was ordered by a research company “Laboratory of Analytical and Strategic Studies” as part of the process of developing a long term sustainable development strategy for Latvia. The researchers of this company created the survey questionnaire while the market research firm “SKDS” was contracted to collect data using their network of interviewers. This institution has randomly chosen and questioned in an interview form 809 people from different Latvian regions concerning their values and attitudes. The authors of this work used only the relevant parts of the data gathered in this survey. Furthermore, they translated the applicable parts of the questionnaire to Lithuanian language in order to carry out the survey there. Authors want to notice that the questionnaires used in both countries were not identical as irrelevant questions from Latvian version were skipped while adopting it in Lithuania. Yet, in the authors’ opinion this could not affect the results, as questions were not related which each other in a specific order. Further, given time and resource constraints, the authors were not able to use the same interview method for getting the answers to the questions, nor they could inquest the same amount of people. Yet, they found a solution by using the internet for reaching respondents. To be more precise, the questionnaire was uploaded to free internet platform and the link to it was published in different virtual forums as well as spread through internet conference groups and companies’ inside networks. In this way 207 fully filled questionnaires were gathered. The authors would like to emphasize that they tried to gather as heterogeneous respondent group as possible, yet they understand that the part of people might be from their own social network. Accordingly, they would like to delimit themselves from biases concerning this issue and understand that data from Latvia and Lithuania might not be directly comparable in some aspects.

What is more, the respondent number in Latvia in comparison with Lithuania was much bigger. Yet, the authors decided to use the advantage of having access to bigger amount of data for Latvia and analyze it all instead of randomly choosing the same amount of respondents (from those 809 questioned) in Latvia as they had in Lithuania. This approach allows obtaining more accurate results. Besides, the authors expect the outcomes to be rather similar for both countries. The reason for that is the geographical closeness and comparable economies as well as similar other indicators. E.g. Happy Planet Index ranks both countries quite close to each other. (The Happy Planet Index, 2006). Furthermore, Satisfaction with Life index (created by psychologist Adrian White) which shows correlation between happiness and health, wealth and basic education, is exactly the same for both countries (School of Psychology, 2007). Thus, there is a rationale to expect comparable results for both countries.

Qualitative Method - Expert Interviews

The authors of this work also decided to include expert interviews. Other similar methods (such as focus groups or group interviews) were considered to be inappropriate in this case, since experts' role was to help in interpreting results rather than to offer a collective opinion about what factors affect people happiness in Latvia and Lithuania.

Three experts from sociology, psychology and happiness economics fields were chosen:

- Bruno S. Frey - a Professor for Economics at the University of Zurich and Research Director of CREMA.¹
- Rita Žukauskiene - a Professor for Social Sciences (Psychology) at Mykolas Riomeris University.²
- Leonardas Rinkevičius – a Professor for Social Sciences (Sociology) at Kaunas Technical University.³

Interviews were direct, organized in a semi structured form. Furthermore, they were recorded and relevant parts of them transcribed.

The authors of this work wish to notice that experts' opinion is used only as an additional insight into results and it is presented in the analysis section.

Data description

A survey in Latvia was based on country's socio-demographical layer and covered 809 respondents, 370 males and 439 females. The young group (15-24 years old) consists of 153 persons, the adult (25-59 years old) - 462 persons and the oldest (over 60 years old) - 194 persons. When it comes to Lithuania, out 207 people that filled in the questionnaire 160 are females and 47 are males. The young group (15-24 years old) consists of 87, the adult (25-59 years old) - of 117 and the oldest (over 60 years old) - of 3 persons. Consequently, Lithuanian representative sample is much narrower and concentrated on younger people, thus analysis

¹ Centre for Research in Economics, Management and the Arts, Switzerland. He is Managing Editor of *Kyklos*. Bruno Frey seeks to extend economics beyond standard neo-classics by including insights from other disciplines, political science, psychology and sociology. He is an expert in happiness research. (Frey personal page, 2008)

² She is an Editorial Board member of *European Journal of Developmental Psychology*, *International Journal of Psychology: Biopsychosocial Approach* and a Reviewer of *European Psychologist*. Her research interest covers positive psychology, development psychology and psychological research methods. (Mykolas Riomeris University, 2008)

³ He has PhD in Social Sciences. His research interest contains social movements, knowledge society and environment sociology. His works were published in *the European Journal of Social Sciences* and other journals. (Kaunas Technical University, 2008)

for old people will be based on Latvian data only. The data set used in the study provides two proxies for measuring the overall well-being level. The authors use question 2.1 (“To what extent do you agree with the statement I am satisfied with my life”) as a proxy for satisfaction with life. The question ranges from 1 (“totally disagree”) to 7 (“totally agree”). It is a usual single item satisfaction scale included in many surveys such as *Eurobarometer Survey*. Another indicator of well-being level is „Happiness“. This variable is an answer to the question: “Overall, how happy are you?“ The answers are: 4 („very happy“), 3 („quite happy“), 2 („a little happy“), 1 („not happy at all“). This four point item question is also used in *World Value Survey*. This survey is intensively studied in cross country happiness research. Accordingly, using the question 3 as a proxy for happiness enables to make the cross cultural comparisons. The distributions of these variables can be found below.

Table 1. Distribution of life satisfaction

	Latvia		Lithuania	
	Number of observations	Frequency (%)	Number of observations	Frequency (%)
1	28	3.46	3	1.4
2	37	4.57	2	1.0
3	140	17.31	8	3.9
4	184	22.74	28	13.5
5	222	27.44	75	36.2
6	124	15.33	70	33.8
7	69	8.53	21	10.1
Mean	4.47		5.24	

Source: Self-developed

Table 2. Happiness distribution

	Latvia		Lithuania	
	Number of observations	Frequency (%)	Number of observations	Frequency (%)
„Not happy at all“	53	6.55	3	1.4
„A little happy“	245	30.28	35	16.9
„Quite happy“	430	53.15	143	69.1
„Very happy“	68	8.41	26	12.6
Mean	2.64		2.92	

Source: Self-developed

The representative distribution of weighted individual responses is the following. In Latvia a large proportion of people report high satisfaction with life. 8.53 per cent report to be “very satisfied” and even 51.3 per cent of respondents fall into 3 highest categories. Significantly smaller proportion, about 25 percent fall into three lowest categories. A

percentage of 3.46 report themselves as “completely dissatisfied with life”. The mean average of satisfaction with life is 4.47 on a scale from 1 to 7. When it comes to happiness more than a half of respondents (53.15%) report themselves to be “quite happy” and 8.41% - “very happy”. The mean of “happiness” variable in Latvia is 2.64 out of 4.

In Lithuania the proportion of people that claim to be satisfied with life is even higher: 80 per cent of respondents evaluate their life with respect to satisfaction between ranges 5 and 7. Such high rankings might be the result of representative group mainly consisting of young and middle aged persons. They tend to report themselves to be more satisfied with life than old people (Frey, personal communication, 2008). The same tendency holds for “happiness”: 69.1 percent of Lithuanian representative sample states to be “quite happy” which means ranking it with 3 out of 4 points. The mean of “happiness” for Lithuanian is 2.92 on a 4 point scale.

Furthermore, only 17.3% of interviewees in Latvia have higher education and more than 50% secondary or professional. The distribution of education level is quite different in Lithuanian representative sample - people with higher education constitute the majority of respondents with the percentage of 66.2. Such difference most probably appears due to the data gathering method and representative sample itself. Latvian data contains more old people with low level of education, while the large proportion of Lithuanian respondents, on the contrary, are younger and have higher education. Besides, particularly this group of people is most likely to use internet and thus fill in internet questionnaires. Therefore, these particular differences may cause varying results for both countries.

The nationality of respondents should also be taken into account. Latvian sample contains 61.3% responses by Latvians and 34.5% by Russians. This is not surprising as 28.8 % of Latvian citizens are Russians by nationality (Muiznieks, 2004). In Lithuanian sample there are only 1.9% Russians and 8.2% of people having other nationality. Also 48.6% of Latvian respondents come from Riga or Riga’s suburbs as more than half of Latvian population lives in this region (Latvijas Statistika, 2007). When it comes to Lithuanian sample the situation is quite similar. The majority of Lithuanians that participated in the survey (almost 64%) mark the capital Vilnius as their residential place.

Considering other data features, it is worth mentioning that the large proportion of respondents are married and live with the partner - 54% in Latvian representative sample and 48.3% in Lithuania. Furthermore, 52.9% of respondents in Latvia and 69.2% in Lithuania are hired workers.

Bearing in mind different methods of data collection and therefore having slightly different representative samples, the authors of this work intend to delimit research from the possible biases. Accordingly, representative factor groups that constitute less than 20% of the total sample are excluded from the analysis. This relates to Lithuanian sample variables: “Russians”, “other nationality”, “village”, “no higher education”, “pensioners”, “housewives”, “unemployed”, “individual workers”, “employers”, “married not living together”, “widowed”, and “divorced”. Furthermore, the authors want to emphasize that their aim is to aggregate the results, but rather to draw a picture of factors influencing well-being of a person having particular characteristics. Thus, the difference of the samples as such is not that important. Finally, the authors have to highlight that surveys done in the countries are the only data source available for wellbeing research at all.

The results discussed will be based on the Latvian data mainly as according to data collection method it is a good representative of the population. Additional insights will be given considering results from Lithuania and making comparisons where possible.

Model

Subjective well-being data is modeled in a microeconomic happiness function based on Frey and Stutzer (2002 a) general happiness determinants theory presented in section “Well-Being Determinants”.¹

Its general form is the following: $W_{it} = f(X_{it}) + \varepsilon_{it}$; where W_{it} is self reported level of happiness or satisfaction for individual i at time t ; $f(\dots)$ is a continuous non-differentiable function relating actual to reported well-being; $X = x_1, x_2, \dots, x_n$ are known variables, such as socio-demographic characteristics, institutional, environmental, social, contextual and economic conditions for individual i at time t ; and ε_{it} is an error term. This method has been widely used in plenty of studies on the correlates of happiness. The model allows analyzing each factor that is correlated with the reported subjective well-being separately (Frey and Stutzer, 2003). A model pattern used in this work consists of five factors groups, each having separate determinants:

- *Socio-demographic factors* - determined by age, gender, marital status, education and settlement;

¹ The theory suggest to include health into personal factors, however the authors have no information regarding respondents health and thus delimit themselves from biases that might appear due to omitting this variable

- *Economic factors* – determined by a logarithm of household income controlled for the number of persons in the household by including square root of persons in the household, and employment status;
- *Personality factors* - determined by index of good emotions, index of bad emotions, index of care, religion and family traditions; and today oriented index;
- *Contextual and situational factors* – determined by social trust index, fear to lose a job;
- *Institutional factors* – determined by involvement index and political index;

The overall function can be expressed in the following way:

Happiness/ Satisfaction with life = f (age, gender, marital status, education, settlement, log household income, square root of persons in the household, employment status, index of good emotions, index of bad emotions, index of care, religion and family tradition index, today oriented index, social trust index, fear to lose a job, involvement index and political index) + ϵ

Some determinants (such as age, gender, marital status, education, settlement, employment status, religion and family traditions (Question 6. 8); and fear to lose a job (Question 12) are taken directly from the data set constructed according to the questionnaire. For other factors some indexes are created as well-being determinants. This is done for *personality factors*. “Good emotions” and “bad emotions” indexes are constructed from the question 4 (“Here you will find words describing different emotions. Please, evaluate how often you felt that way in the last month”; answers ranges from 1 -“very rare” to 5 - “very often”). Indexes which Cronbach’s Alpha exceeds 0.7 are reliable. We find these indexes useful as they illustrate people psychological state and stability to some extent. Furthermore, “care index” is created. The question 15 which asks whether people care about particular issues in society and environment is used for this purpose. Cronbach’s Alpha exceeds 0.9, thus this variable is reliable, likewise. Finally, “today oriented” index is constructed from the relevant parts of the question 11. It is consistent with Cronbach’s Alpha being 0.78 and shows whether a person is more likely to take actions that bring results today rather than in the future. For *contextual* and *situational* factors “social trust” index is created which shows whether a person trust his/her closest social environment - family, friends, neighbors and colleagues. This index is constructed from the first four statements of question 9 and is consistent with the reliability tests. What is more, indexes for catching *institutional factors*

are constructed as well. All parts of the question 8 and last for parts of the question 9 are used for creating “political” index that shows whether people are satisfied with political authorities’ activity and trust public institutions. Furthermore, involvement index from the question 10 is derived in order to see how participation in political activities affects people well-being. Cronbach’s Alpha of both created variables exceeded 0.7 thus indexes are significant. Finally, variables that represent square root of persons in the household and the household income in natural logarithm form are computed.

Moreover, dummy variables are formed. These involve: gender (the dummy for “female”), education level (“no secondary education”, “higher unfinished”, “higher”), marital status (“married living together with partner”, “married living separately with partner”, “widowed”, and “divorced”), status on the job market (“student”, “individual worker”, “employer/entrepreneur”, “unemployed”, “housewife”), nationality (“Russian”, “other nationality”), and settlement (“other town that the capital”, “village”). Therefore, the person belonging to the reference group is male with the secondary education, single (never been married), a hired worker, of a nationality of his country, and living in the capital.

After necessary variables are created, multiple regression analyses are performed. Dependent variable is measured on a ranking scale; therefore OLS is used with assumption that difference in ranking scale between 1 and 2 to is the same as between 3 and 4. This means that dependent variable is treated as cardinal. In addition, ordered logit estimation technique is used and marginal effects are counted.

The authors’ expectations of factors’ influence on person’s well-being is based on theory presented in “Defining Well-Being”. In particular, the authors expect them to act according to psychological mechanisms - aspiration, adaptation, and social comparison.

The model implemented in the following research is presented in the table below.

Factor	Definition	Hypothesis testing
Socio- Demographic factors		
Age	Individual’s age	<u>The expectation of age on happiness</u> H₁ : aspiration in young > aspiration in old → happiness in young < happiness in old H₂ : adaptation in young > adaptation in old → happiness in young < happiness in old

Gender	Individual's gender: Male/Female	<u>The expectation of gender on happiness</u> H₁ : woman aspiration \leq men aspiration \rightarrow women happiness \geq men happiness
Settlement	Individual's settlement by regions: Riga/Vilnius, other cities/rural areas	<u>The expectation of settlement on happiness</u> H₁ : Rural people happiness \leq Urban people happiness
Education	Individual's education level by using secondary (12 years education) as a benchmark	<u>The expectation of education on happiness</u> H₁ : Education \uparrow \rightarrow Income \uparrow \rightarrow Happiness \uparrow ; given aspiration constant
Marital status	Individual's marital status: married and live with a partner; not married; married, but live separately; divorced; widowed	<u>The expectation of marriage on happiness</u> H₁ : Marriage \rightarrow Happiness \uparrow
Economic factors		
Job	Individual's job status: worker; self-employed; employer/entrepreneur; unemployed/searching for job; pupil/student (do not work or work occasionally); housewife/houseman; pensioner	<u>The expectation of unemployment on happiness</u> H₁ : Unemployment \rightarrow Happiness \downarrow ; given aspiration constant
Household income (presented by natural logarithm) (controlling for number of persons in the household by including "square root of persons")	Household income is family's total income per month after tax deduction	<u>The expectation of household income on happiness</u> H₁ : Household income \uparrow \rightarrow Happiness \uparrow ; given aspiration constant
Contextual and situational factors		
Social trust index	Shows the closeness of person's relationship with other people and how much a person trusts his/her family and friends	<u>The expectation of closeness on happiness</u> H₁ : Closeness \rightarrow Happiness \uparrow ; given aspiration constant
Fear to lose job	This factor shows if a person fears to lose his/her job	<u>The expectation of losing job on happiness</u> H₁ : Fear of losing job \uparrow \rightarrow Happiness \downarrow ; given aspirations constant
Personality factors		
Index of good emotions	Shows how often a person experiences positive emotions	<u>The expectation of good emotions on happiness</u> H₁ : Good emotions \rightarrow Happiness \uparrow ; positive affect

Index of bad emotions	Shows how often a person experiences negative emotions	<u>The expectations of bad emotions on happiness</u> H₁ : Bad emotions→ Happiness↓; negative affect
Care index (personal concerns)	Care index shows whether people care about particular issues in society and environment	<u>The expectation of personal concern on happiness</u> H₁ : personal concern↑→aspirations↑→Happiness↓
Religion and family traditions	The importance of religion and family traditions to an individual	<u>The expectation of religion on happiness</u> H₁ : Religion and family traditions→ Happiness↑; given aspiration constant
Today oriented index	Shows person's intentions to do things that bring quick results in the present rather than those which results appears only in the future	<u>The expectations of being today oriented on happiness</u> H₁ : today oriented→ lower aspirations→ Happiness↑
Institutional factors		
Political index (political satisfaction/trust)	Expresses people's satisfaction with government and parliament as well as show their trust in public institutions	<u>The expectation of political satisfaction on happiness</u> H₁ : political satisfaction↑→Happiness↑; given aspirations constant
Involvement index	Shows person's political activeness and participation in political activities	<u>The expectation of political involvement on happiness</u> H₁ : political involvement↑→Happiness↑; given aspirations constant H₂ : political involvement↑→aspirations↑→Happiness↓

Based on concepts of happiness factors by Frey and Stutzer (2002 a) and Nititiphrut (2007).

Empirical Results

Microeconomic well-being functions

For the well-being analysis two regressions were performed – one taking “happiness” as a dependent variable, while another - “satisfaction with life”. The procedure was carried for Latvia and Lithuania. The outcomes are summarized in 4 tables. The review of empirical findings will be based on the mentioned tables, sporadically supplemented with additional visual material.

Estimated coefficients and marginal effects of two microeconomic happiness functions, taking into account socio-demographic, economic, personality, contextual and situational, as well as institutional factors, are presented in the regression tables. In the first

column the descriptive statistics are given - the mean value of life satisfaction/happiness of the respective factor. These numbers allow for the assessment of the total effect of certain characteristics, such as being e.g. self-employed. Compared with means for the other categories with the same dimension, they offer rough information about simple correlations. In the second column ordinary least squares (OLS) model is estimated that treats happiness as a cardinal variable. The coefficients of the model can be interpreted in a straightforward way: when the independent variable increases by unity, happiness increases by the coefficient indicated. Similarly, people belonging to a particular group captured by the dummy variable on average report happiness scores that vary from that of the reference group on the degree of the coefficient. The OLS coefficients will be used to explain the size of the effect on the dependent variable. Another column represents ordered logit model that is used in order to exploit the ranking information contained in the originally scaled dependent variable. Due to the non-linear form of the estimation equation, only the sign, but not the size of the coefficient can be directly interpreted. From the latter the marginal effect is computed that specifies the change of the probability belonging to a stated happiness level when the independent variable increases by one unit (Frey, Stutzer, 2000). For dummy variables the effect is evaluated with regard to the reference group. For simplicity, only the marginal effect for the highest value of happiness (score 4) and satisfaction (score 7) is shown.

To make analysis easier the results for Latvia will be discussed primarily and only some substantial differences evident from Lithuania will be mentioned.

Socio-demographic factors

Age

A second order polynomial of age included in regressions for both countries reports that happiness is U-shaped in terms of age, *ceteris paribus*. That is consistent with previous findings in Finland (Bockerman Ilmakunnas 2005), the UK and the US (Blanchflower and Oswald, 2004) and Germany (Frey and Stutzer, 2003). According to prof. Zukauskiene (Personal communication, 2008), many believe that people tend to be happier as their age increases – it is associated with more expertise, better status and more stable views. It could also be explained by what Inglehart (1990) called “adjustment of aspirations” – older people expect to be out of job, possibly widowed, therefore goal-achievement gap is smaller. No significant U-shaped dependence is found in satisfaction regression though.

Yet, if not controlling for other factors, happiness tends to diminish steadily throughout the lifecycle (Please, see App.3, graph 1). It can be explained by higher aspirations in the middle-age (Layard, 2005) and often significantly worse health in the old age as well as low pensions (For pension distribution, please, see App.3, graph 2).

Furthermore, as Prof. Rinkevičius (Personal communication, 2008) stated, a tendency for older people to be less satisfied might partly come as a consequence of a collapse of Former Soviet Union in 1990's. The change of the government's system as well as going from "planned" economy to market economy is not that easy. "Younger people can much easier adapt to a new situation, change their job, education status or even family. Old people do not want or cannot change their life and are less likely to settle in new circumstances" (Rinkevičius, personal communication, 2008). Accordingly, gaining independence brought new possibilities for younger and harder times for older.

Gender

The coefficient of dummy variable "female" is significant in Latvian satisfaction regression, yielding that women, on average, are more satisfied than men by 0.35 point on a seven-point scale. Marginal effect illustrates that it is 2.2% more probable that a woman will report the highest satisfaction score (7). A slightly higher satisfaction with life by women than men was also found in the study by Frey and Stutzer (2003). This might be explained by the aspiration theory: the lower the gap between aspirations and present situation, the more satisfied a person is (Frey & Stutzer, 2002 a). Accordingly, women seem to be aiming in life for less than men. This reveals still existing gender gap and women social position being still lower. On the other hand, studies including Bockerman and Ilmakunnas (2005) found no correlation whatsoever, similarly as in case of Lithuania, where only marginal effect (5.1%) can be accounted for. Female variable is insignificant in happiness regression for both countries though, implying that gender does not influence happiness, holding everything else constant.

Family Status

Many previous researches have found the positive impact of marriage on individual well-being. The main benefit of marriage is giving each other love and comfort and share of resources, thus gaining economies of scale (Layard, 2005). Interestingly, in Latvia married

people are less happy than single ones with the probability of 2.3% less that a married person is in the group of the highest satisfaction with life scorers. From all the groups defining family status people that are married, but live separately with a partner, are least satisfied with life. Actually, the variable has the biggest negative coefficient of all, meaning that people belonging to the group are least satisfied in life. Widowed are also less satisfied with life than singles (estimate -0.95), followed by the divorced (estimate -0.6). Regarding happiness, the effects are similar, yet not all of them appear significant. The irrelevance of marriage for happiness is rather novel and interesting finding taking into account that more than half of respondents in both countries fit into the group “married and live with a partner”. This testifies the change of perception about “marriage institution” as such. As Frey (Personal communication, 2008) pointed out, marriage might no longer mean security and stability as it used to mean some decades ago. Besides, in western societies there is a clear tendency for a younger generation to aim at succeeding in professional life and certain material welfare firstly and only then at creating a family. Furthermore, nowadays family is subject to new challenges in developing countries, such as emigration (Rinkevičius, personal communication, 2008). The professor emphasizes that one or both of the spouses working abroad and leaving children with grandparents, relatives or even neighbors is no longer an exception. Accordingly, such circumstances do not fit under usual family conception where parents live together with their children. Therefore, it leads to change in the meaning of “marriage” and “family” as well as its contribution to well-being.

Education

Some previous studies found low correlation between education and well-being variables (e.g. 0.10 in Cantril (1965)) in most European countries, while Veenhoven (1993) discovered that the effect is bigger in poorer countries. Furthermore, Frey and Stutzer (2003) revealed positive correlation between years of studies and satisfaction with life. When comparing means of dependent variable in this research, there is a clear tendency that more educated people report themselves to be happier and satisfied with life. However, education level in Latvian and Lithuanian samples showed no significance on satisfaction with life. The coefficients of this variable are insignificant in Lithuanian happiness regression, likewise. Yet, OLS estimator for the dummy variable “higher education” in Latvian happiness regression implies that on average, a person with higher education is by 0.26 points happier than a person from the reference group having secondary education (12 year education).

Interestingly, having less than secondary education does not make a person less satisfied with life. The overall insignificance of education on well-being might be partly because of scientific degrees being undervalued in Lithuanian and Latvian job market in both monetary and quality terms. Constructors without higher education might earn much more and create a more qualified life than a doctor that has to study 12 years in order to get a degree (Rinkevičius, personal communication, 2008). Such situation is common in developing countries, but is most likely to change in the future. “In the western European countries people having higher education usually earn more and thus can afford leading more satisfactory life” (Rinkevičius, personal communication, 2008). Accordingly, this could be some explanation why researches done in developed countries find education to be important to well-being.

Settlement

People settled in a city other than Riga (the capital of Latvia) are likely to be less happy by 0.25 points. Mean happiness as well as mean satisfaction with life decreases the more rural area of inhabitation is. Such findings are not strange as a settlement defines or at least influences other factors like the available job vacancies or possibility to gain higher education. The coefficient of this variable is insignificant in Lithuania.

Nationality

Concerning nationality of a respondent, neither regression resulted in significant estimates. Yet the mean satisfaction with life as well as happiness is lower for Russians and even lower for other nationalities. Results are consistent with previous findings: members of ethnic minorities report lower happiness as often they have lower skilled jobs and lower incomes; yet, when controlling for the mentioned factors the effect is marginal or insignificant (Argyle, 1999).

This variable was not included in Lithuanian regression as it constitutes less than 20% of the representative group in the category.

Economic factors

Employment status

There is a broadly accepted fact by the economists that experiencing unemployment makes a person very unhappy (Frey 2000, Blanchflower and Oswald 2000). It is assumed to

be involuntary and costly, therefore, should be avoided as much as possible. The view behind Keynesian theory, which dominated in the 50s and 60s and which now experiences comeback, implies that government should intervene in order to raise the aggregate demand for goods, that in turn would require more labor and unemployment would consequently fall (Frey and Stutzer, 2003). Supporting those arguments, the output of regressions indicates that among the statuses on the job market the least satisfied with life are the unemployed, with the estimate of -0.88 points being less satisfied with life than hired workers and 3.5% lower probability of being in the highest satisfaction with life category. Layard (2005) defines unemployment as a catastrophe as it reduces happiness not only through reducing income, but also destroys self-respect and social relationships created at work. Partial correlation between unemployment and satisfaction with life, controlling for income only, implies reduction in satisfaction by 0.104 points (compared to 0.88 points in the regression controlling for additional factors). Therefore, it is clear that unemployment is heavily associated with non pecuniary costs attributed to psychological and social factors.

The correlation between unemployment and life satisfaction is evident, but it may be argued that the causation runs in the opposite direction as well – dissatisfied people do not perform well in their jobs and consequently get fired, while more satisfied people are better at work and have less probability of losing it (Frey and Stutzer, 2004).

Interestingly, while the state of being unemployed significantly reduces life satisfaction, it is not significant in affecting happiness. Similar results occurred in study by Bockerman and Ilmakunnas (2005). In their opinion, it is a sign that produces some doubt with studies that perceive life satisfaction and happiness as the same underlying measure and that equations of both indicators have the same structure (as believed by e.g. Blanchflower and Oswald, 2004).

On the contrary to Keynesian theory, implying that unemployment is involuntary, there are also economists that support a different view. The “new classical macroeconomics” assumes the possibility of voluntary unemployment (Frey and Stutzer, 2003). A person chooses to leave the job if the burden of work and the wage is unattractive compared to being unemployed and getting unemployment benefits and additional leisure. At the same time the view towards involuntary unemployment states that it is a short term disequilibrium and individuals and firms adjust to it with time. Therefore, governments should not intervene as raising aggregate demand will result in higher inflation. Thus, people choose to be unemployed because they expect to be better off than working (Frey and Stutzer, 2003). In our sample we can distinguish housewives as the ones to choose the unemployment

voluntarily. There is no significant correlation between satisfaction and a housewife status controlling for numerous additional factors. However, comparing mean satisfaction with life between all “statuses on the job market”, housewives score higher than simple paid workers.

Ceteris paribus, employers/entrepreneurs are likely to be less satisfied than hired workers, although without any other effects their mean satisfaction with life is higher. Without controlling for other factors they are happier as they might earn more, but with controlling they are less satisfied, as their status may be connected with more responsibility and stress.

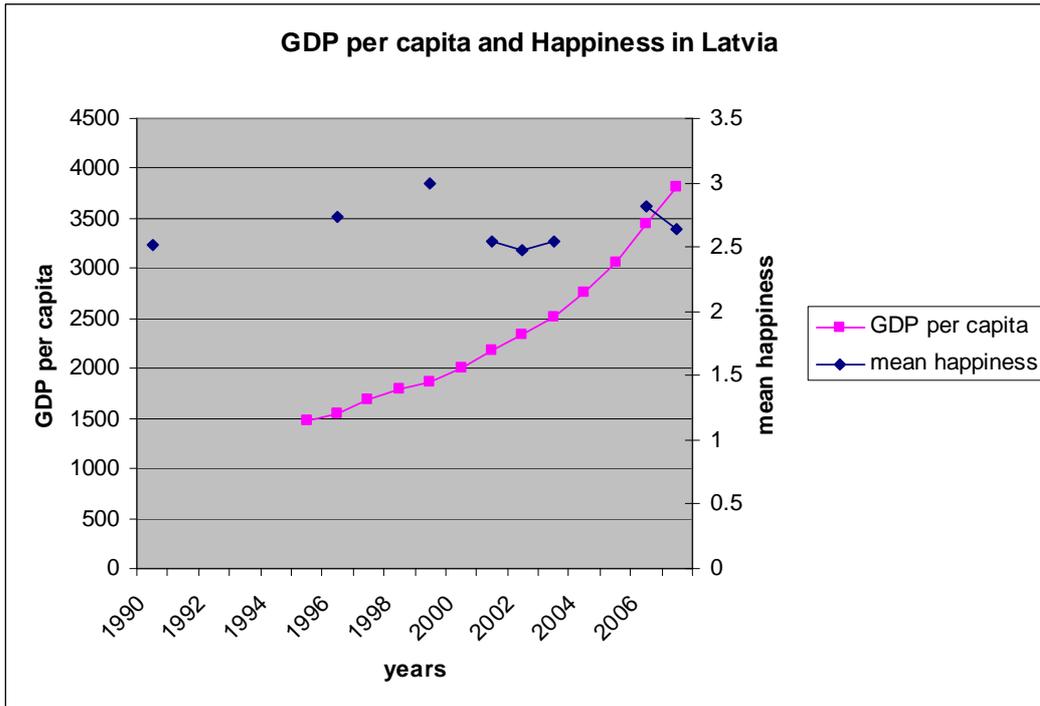
In happiness regression pensioner status positively correlates with the dependent variable meaning that pensioners are by 0.67 point happier than the reference group and it is 6% more probable that a pensioner, rather than a hired worker, indicates a happiness score of 4. The result is consistent with the previous finding of happiness function being U-shaped in terms of age, everything else being constant.

Income

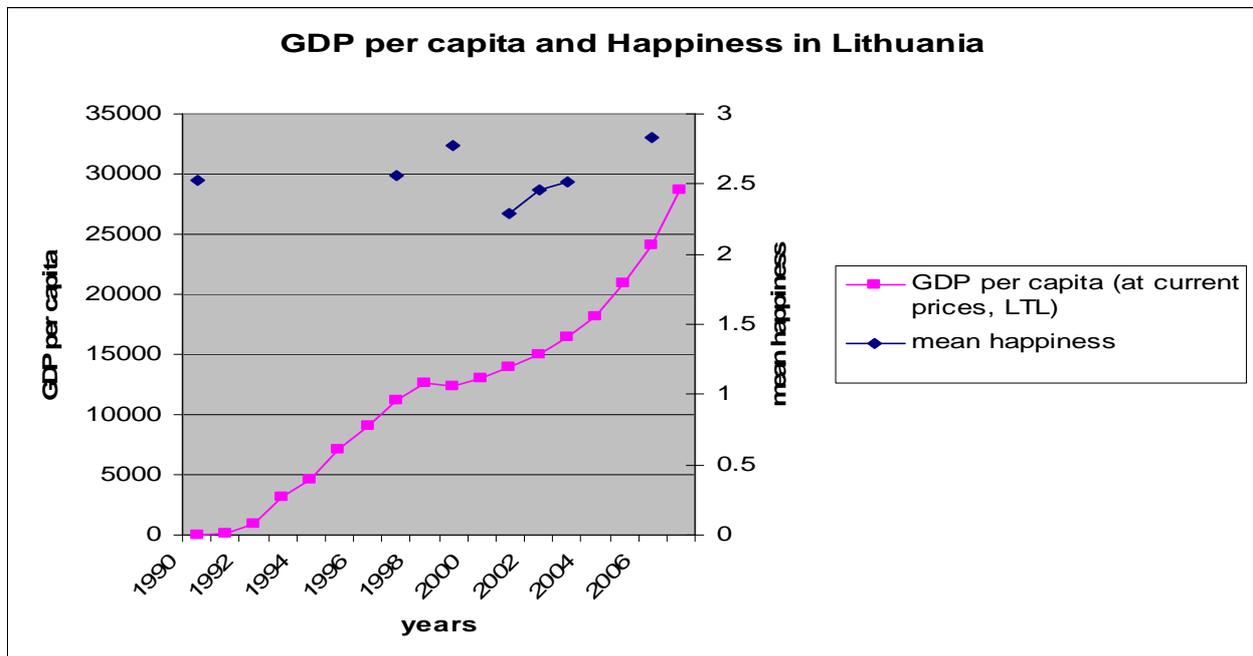
Economics takes for granted that higher income (and therefore consumption) provides higher utility, as it expands individuals’ opportunity sets. What is more, it is assumed that individual’s satisfaction depends on possession in absolute terms (Frey & Stutzer, 2003).

Frey and Stutzer (2003), analyzing German data use two methods in explaining links between well-being and income. The first one analyzes trends of subjective well-being and GDP per capita over time in order to reveal whether higher standards of living increase well-being. The second requires studying if at a given time people with higher income report higher life satisfaction on average.

The relationship (or clear lack of it) between GDP per capita and happiness in Latvia and Lithuania can be seen in graphs below. The data on happiness, collected from World Database of Happiness (Veenhoven, 2007) is incomplete, yet sufficient to spot the absence of causality between happiness and income per head in both countries. Similar results exposing huge increases of GDP per capita and only marginal change in happiness were presented for Germany (Frey & Stutzer, 2003).



Source: Self-developed using data from Latvian Statistical Bureau and Veenhoven, R., *World Database of Happiness*.
 Comment: GDP at year 2000 LVL prices.



Source: Self-developed using data from Lithuanian Department of Statistics and Veenhoven, R., *World Database of Happiness*.
 Comment: GDP at LTL current prices

Nevertheless, situation happens to be different when analyzing income on individual level. Regressions report that household income is positively correlated with happiness and life satisfaction, everything else being constant (Coefficient 0.94 – meaning that doubling household income increases satisfaction with life by 94%). This is consistent with numerous findings supporting the idea that people with higher income in the society report higher levels of life satisfaction (Di Tella et al. 2003). The household size incorporates the fact that household income has to be shared among its members. Moreover, it also captures the effect of people living together, therefore possibly sharing close and supportive relationships (Frey & Stutzer, 2003). Nevertheless, the indicator exhibits no significant correlation with measures of well-being. The coefficients of this variable are insignificant in Lithuania

Personality factors

Not surprisingly, the more positive emotions a person experiences, the more happy and satisfied with life he reports himself to be. The right lifestyle, avoiding negative experiences affects well-being also indirectly through leading to better health (Argyle & Furnham, 1998). Furthermore, the positive affect- the hallmark of wellbeing- is found to be the result of other positive characteristics (Diener et al., 2005). The reverse applies to negative emotions. Correlations are highly significant in both regressions and which goes in line with the expectations and findings of previous researches.

Religion and family traditions showed no significant correlations with well-being measures, although, according to Layard (2005) people who believe in God are happier, as they see broader meaning in life and have better health, because of less drinking, smoking and promiscuous sex (Argyle, 1999). The misfit in results can be explained by the claim that religious belief and following traditions do not have to come together. Also, due to progress in science there has been huge decline in religious belief in the 20th century (Layard, 2005).

Care index showed no significant correlations with well-being measures in Latvia. Nevertheless, in Lithuanian regressions care index has significant and quite big negative coefficient for happiness (-1.30) as well as for life satisfaction (-1.77), implying that people that are more concerned with different social and environmental issues have higher aspirations and thus, are less happy and satisfied with their lives.

Contextual and situational factors

Social trust – the quality of the community or “social capital” is crucial for making friends and affects our feeling of security, which in turn affects our well-being (Layard, 2005). Results of the regression report it as an insignificant estimate for Latvia, meaning that it is dominated by other factors. Nevertheless, taking into account only contextual factors, not controlling for other variables, the coefficient of correlation with satisfaction is 0.51 and comes out highly significant (0.000). In Lithuania, even controlling for number of factors, social trust significantly correlates (0.67) with satisfaction with life.

According to Layard (2005) even when having work, people fear unemployment. Fear to lose a job turns up not significantly correlated with well-being in the regressions. Yet, while regressing contextual factors only, it significantly reduces happiness (coefficient -0.17) and satisfaction with life (-0.15). Interestingly, happiness is reduced by more than satisfaction, even though happiness variable is reported on a 4-point scale, while the latter on a 7-point scale.

Institutional factors

Trust in politics and institutions raises subjective well being in both countries. The huge importance of quality of government and the effectiveness of its services was previously found in numerous studies. Effect was supported by comparing communist Belarus with post-communist Hungary (Layard, 2005). The more a person trusts the government, president, healthcare, justice and education institutions, the better-off he is.

When it comes to Latvia the index is significant at 10% level in satisfaction regression and indicates that 1 unit increase in political index increases satisfaction by 0.24. However, it does not affect happiness in this country as the coefficient in happiness regression is insignificant. The results in both countries are consistent with the previous findings. In Lithuanian satisfaction regression political index coefficient reaches 0.47 and in happiness regression 0.22.

Other results appear when it comes to political involvement. Frey and Stutzer (2000) revealed that people are more satisfied when they have more political rights. However, political involvement demonstrates no impact on happiness or life satisfaction.

It is hard to explain such results. Prof. Rimkevičius (Personal communication, 2008) guesses that this might be due to still seeing government institutions as self concerned and not actually influenced by the citizens. Furthermore, people still have not developed their public spirit and do not feel personally responsible for their country. To compare with the

developed country, Switzerland, in the research done by Frey and Stutzer (2000) showed that the more political rights the citizens have the better-off they are.

Happiness and other personal factors

In the following section the authors intend to look at some more personal factors that were not part of the regressions, but were found to be important (such as individuals' perception of life in the past and expected quality of life in the future, self-perceived status, issues affecting quality of life and the readiness to take up specific actions in order to do less damage to environment). The Ologit regression on happiness is used, as there is no intention to grasp the size of the effects, just its significance and the direction of the influence.

In question 2 a person was asked to evaluate the quality of his life in different periods. In order to find whether individual's happiness changes significantly over time 3 variables: evaluation of quality of life in 1990's, in year 2000 up to today, and expectation about quality of life until year 2030, were regressed on happiness (Please, see App.3, graph 3).

In Latvia, the more happy a person is the more likely he is to believe that the life will be good in the future. Also, there is a significant relationship between current happiness and person's evaluation of his life in the previous decade (1990's). It can be connected with the view that happiness depends on individual characteristics, such as optimism, to large extent (Layard, 2005). A possible explanation is that subjective well-being is a stable indicator summing everything together and it does not change much throughout a person's lifetime, as person's views and states are more or less stable (Zukauskiene, personal communication, 2008).

For Lithuanian data the output of the regression is slightly different, as such factors as „evaluation of the previous decade“ and „perception of the future“ appeared to be insignificant at 10% level for happiness (although the coefficients are positive, as could be predicted). Nevertheless, the evaluation of present life is highly significant (.000) and the coefficient is almost two times of Latvian.

Question 7 aims at capturing self-perceived status of a respondent. There is no significant correlation between happiness and importance of such statements as „I like people that are interested in politics“, or „Real man does not drink“. There is a positive correlation with „I like people who take care of their body“ and „It is better to drink wine than vodka“ (Please, see App 3. graph 4). Two statements go with a minus sign – a person that agrees with the

statement „Nowadays it is not necessary to travel anywhere as everything can be seen on TV“ is more likely to be less happy. Some previous researches found positive correlation between the amount of TV watched and unhappiness. Appearance of TV steals time from social life. What is even more important, it raises our standards of comparison (comparing our income and spouse to those seen on TV). TV reduces happiness with our possessions, bodies, also encourages physical sloth and thus obesity and low self-respect. The more television you watch, the more you overestimate the affluence of other people and the lower you rate your income, thus the less satisfied you become (Layard, 2005).

Similarly, the belief „For a family with children it is better to live in a private house than in a flat“ is associated with lower happiness level. This can be connected with the perception that higher aspirations lower the individual level of happiness (Frey & Stutzer, 2002). For Lithuania, the more happy a person reports to be the more he agrees with the statement that „Wine, cheaper than 25 LTL is impossible to drink“. The statement reflects higher quality of life and that is one possible explanation for its association with happiness.

What matters for happier people in Latvia is achievements and approval of others, having good time and relaxation, adventures, risk and amazing life. The highest impact on happiness has creativity and ability to invent something new (Please, see App. 3, graph 5). The result is consistent with conclusions by Argyle and Furnham (1998) stating that the deepest satisfaction comes from demanding activities, using skills and meeting challenges. Layard (2005) also states that “there is a creative spark in each of us, and if it finds no outlet, we feel half-dead”.

A person that agrees that it is important to take care of environment is more likely to be less happy. A possible explanation for that could be the feeling of inability to take proper care of environment to make a change.

The regression with Lithuanian data reveals significant negative impact of „Wealth, a lot of money and expensive things are important“ which means that the more important is wealth for a person the more likely he is to be less happy (App. 3, graph 5). Aspiration theory could be applied here as well. Moreover, it was found that those individuals who valued financial success the most were lower in well-being and self-actualization and higher in depression and anxiety than others (Kasser and Ryan 1993).

Not surprisingly, inflation affects happiness negatively, as well as prices and poverty (Please, see App. 3, graph 6). The pollution of environment and global warming showed no significant influence on happiness. Taxes are not perceived as having significant influence on happiness nor is social integration. The possibility to study is reported with the highest

positive coefficient. In Lithuania only two factors showed significance – inflation and poverty, both having a negative effect.

Another set of factor concerns environment. It may give important insights, whether by increasing citizens' happiness there is a possibility of decreasing negative influence on environment.

However, not all results of the regression seem favorable. The happier the person in Latvia is the less likely he is to use more of public transport and less of a car, the less likely he is to give products for recycling and the less likely he is to decrease the usage of energy in the household (Please, see App. 3, graph 7). However, on the brighter side, he is more likely to pay slightly more for everyday products as well as „bigger“ purchases (cars etc.) that are environmentally friendly and gather information about preserving environment. In Lithuania happier people are more likely to reduce the amount of waste by buying bigger packs, concentrated or second-hand products, as well as choose more environmentally friendly products when making bigger purchases.

Conclusions

GDP being not a sufficient measure of a final goal in life - well-being - new methods for this purpose are on the verge of invention. Accordingly, factors that most contribute to people happiness/ satisfaction with life should be researched first. The aim of this work was to find such factors in Latvia and Lithuania. Therefore, survey data for both countries was gathered as well as analysed according to Frey & Stutzer (2002) theory and model were performed.

The results from this study suggest that well-being model is statistically significant at 99% confidence interval. The most important factors influencing satisfaction with life in Latvian sample is gender, marital status, employment status, household income and political trust. Furthermore, education, settlement, household income, employment status and marital status are the main contributors to happiness. In Lithuanian representative group social trust, political trust and care index were found statistically significant factors to satisfaction while age, care index and political trust are important to happiness. All factors are significant at 95% or 90% confidence level. It is worth mentioning, that rather different factors were found to contribute to people happiness in Lithuania and Latvia, despite countries being seemingly similar. This might be a specific of dataset, thus unilateral conclusion concerning this issue cannot be made without further studies.

What is more, as different factors contribute to satisfaction with life and happiness there is a rationale to believe that people perceive those two differently. This finding supports previous results (Bockerman Ilmakunnas 2005). However, still it is not clear whether people understand “satisfaction” with respect to long term life perspective and “happiness” – to short run, as Frey suggest (Personal communication, March 14, 2008).

In addition, the relationship between well-being and the main factors are being estimated by presented theories. Firstly, marriage coefficients do not show contribution to happiness/satisfaction with life. On the contrary, single persons are the happiest comparing with other groups concerning marital status. The conclusion contradicts previous studies suggesting that marriage is a positive determinant of well-being (Frey & Stutzer, 2002a). Secondly, the economic factors - employment status and household income - are important and contribute to well-being in Latvia and Lithuania significantly. While income matters a lot on individual level, on the country level it does not. A huge increase in GDP per capita in both countries has not triggered similar growth of well-being indicators.

Thirdly, people with higher education report themselves to be happier and more satisfied with life. Yet, coefficients are significant only in happiness regression what indicates doubts about education contribution to well-being. Thus, overall findings nor confirm, neither rejects theories about education relationships with happiness (Veenhoven, 1993). In addition, happiness is found to be U shaped in terms of age, everything else being equal, alike in previous findings (Blanchflower & Oswald, 2004). Nonetheless, if not controlling for other factors, happiness tends to diminish steadily. Thus, age has both positive and negative effects depending on the choice of controlling variables. Finally, political trust is observed as important factor for well-being, like Frey & Stutzer (2002 a) suggest, but people do not feel direct responsibility for political outcome, what shows public-spirited immaturity.

In conclusion, the research revealed that most important factors for people well-being in Lithuanian and Latvian sample are socio-demographic, economic and institutional. Furthermore, the authors understand the limitations to apply results for aggregation, yet factors observed in representative samples are sound and significant to people.

Suggestions for further research

This work exploring factors contributing to people happiness is the first research of its kind in Lithuania and Latvia. Accordingly, it is based on the only available data; and thus has some limitations: sample size (particularly in Lithuania) and data being cross section only. As this cannot test the variation of significant determinants in the long run, the authors suggest further studies to test the framework with panel data and larger sampling. What is more, in this work the whole sample of respondents was analyzed. Yet some researches found that certain effects are much stronger for particular groups, e.g. income for the poor or that extreme unhappiness of unemployed is caused not only by unemployment itself, but also by the fact that the latter are more often separated or divorced (Argyle, 1999). Thus, analyzing particular factors on specified samples could also contribute to economics and happiness field a lot. Furthermore, the survey applied in this work does not contain sufficient questions to evaluate respondent's state of health. Nevertheless, it has proved to be an important determinant of well-being. Thus it is appealing to incorporate this variable into research. In addition, the authors also suggest to research effect of leisure on life satisfaction with an emphasis on types of leisure, as e.g. in Csikszentmihalyi (1998). Finally, taking in account that happiness researches are new in the Baltic States, almost every aspect concerning this field might and should be explored.

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