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Income (Re)Distribution and Subjective Well-Being: The Case of OECD Countries

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Income redistribution constitutes an important part of modern welfare states. It is often justified as a necessary measure to ensure minimal basic standards of living. Moreover, redistribution often aims at the reduction of income inequalities per se (Kuhn 2009). An important share of GDP is spent on redistribution and this is especially true for the OECD countries.

One of the main goals of public policy is improving the well-being of citizens and usually redistribution is understood as one of the necessary measures for achieving the before-mentioned goal. This stance is confirmed by a number of studies (e.g. Hajdu & Hajdu 2013, Delhey & Dragolov 2014) that find a negative correlation between inequality and subjective well-being (SWB). However, some studies (e.g. Rözer & Kraaykamp 2012, Ono & Schultz Lee 2013) have established that people living in more equal countries report lower well-being than those from more unequal countries. The focus of this paper is on determining if redistribution of income actually increases or decreases the SWB of individuals and/or the society. Furthermore, I try to show which income and age groups loose or gain satisfaction from less or more inequality before and after redistribution.

World Values Survey data are combined with macroeconomic variables (GDP and unemployment rate) from the World Bank and with income distribution data (Gini coefficient before and after transfers and taxes) from the OECD database. Based on the availability of data, 20 OECD countries were included in the sample. Although the data come from different years (2005–2012) all data are treated as time invariant.

Firstly, a two-level linear regression model is constructed to check for possible contextual effects of distribution and redistribution of income. In a baseline model, which includes all typical factors of SWB on micro- or macro-level, individual measures of income distribution (Gini coefficients before and after taxes and transfers) and redistribution (difference between Gini coefficients) are added one by one. Interestingly, income redistribution does not show any significant effect on life satisfaction and even both Gini coefficients proved to be insignificant.

In the second part, basic unit of observation is changed from individuals to groups. Individuals are first divided into age groups. This is done because a common belief is that the working generation loses from redistribution, while the young and elderly should gain. Surprisingly, the impact of redistribution on subjective well-being is insignificant for all age groups. However, the results show that Gini coefficient before taxes and transfers is a significant factor of life satisfaction for older generations (above 55 years). For them, the average SWB score increases with higher inequality.

The same calculations were repeated by income groups as well. Contrary to expectations, the middle class proved to be the real gainer of income redistribution. The beta coefficients for redistribution are significant (at 10% significance level) for third to seventh income group (out of ten). Furthermore, for none of the income groups I was able to find a significant negative effect of redistribution on average SWB scores.

Keywords: subjective well-being, life satisfaction, redistribution of income, Gini coefficients

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