

The Company You Keep: Economic Freedom, Preference-Policy Mis-match, and Satisfaction with Life

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Abstract

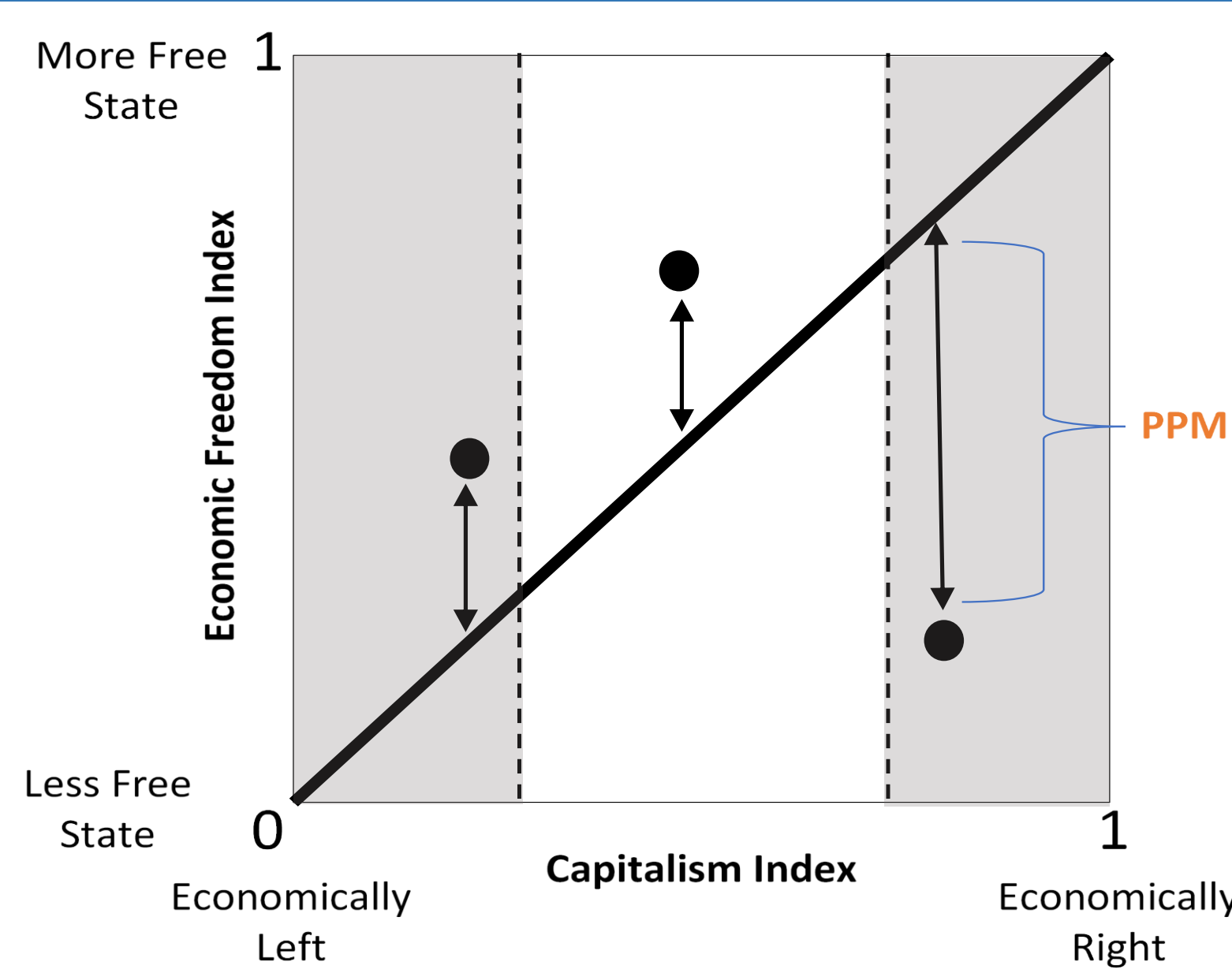
We examine the interaction between individual preferences for markets and state-level economic freedom (EF) as it relates to Satisfaction with Life (SWL). Fundamental tenets of economic freedom assert that societies free of excessive government involvement are wealthier and, ultimately, happier; individuals who are allowed to pursue self-interest are argued to be more motivated and more productive, and so society as a whole is better off. Though there is substantial empirical evidence that freer societies are wealthier, the evidence connecting economic freedom and happiness is less clear. We explore the relationship between economic freedom and SWL at the individual level. We examine differences between personal preferences for free markets and state policy and how this 'preference-policy mismatch' is related to SWL. This study is the first to focus on individual economic ideology and SWL in the United States. Combining individual and state level data we offer improvements to prior studies in a number of areas

Introduction

SWL is correlated with a wide range of socio-economic variables including income, age, gender, marital status, religion, employment, inflation, and government intervention in the economy. This paper focuses on the effects on SWL of the interaction between individual preferences for markets and government intervention in the economy.

Preferences for the amount of government intervention (i.e., EF) vary from individual to individual. Regulations, e.g., may be seen by some as infringements on individual economic freedom while others may see them as needed protection from market forces. Acknowledging this allows for differing responses to greater EF.

Using individual responses to a nationwide survey and state-level data on EF we examine the effect of EF on individual SWL; the "left" – "right" ideological divide; and whether individuals whose personal preference for economic freedom does not match state policies (what we call Preference-Policy Mismatch, PPM) are differentially affected in terms of SWL.



Preference-Policy Mismatch (PPM): For individuals along the diagonal personal preferences for markets match the state-level economic freedom. Greater distance between an individual's support for capitalism and state-level Economic Freedom is associated with lower SWL. Thus, the individual represented by the point in the lower right would have lower SWL than the individual represented by the left-most point, which is closer to the diagonal.

Methods and Data

We estimate several versions of

$$SWL = \beta_0 + \beta_1(EF) + \beta_2(CI) + \beta_3(PPM) + \sum \beta_i(\text{Demographics}) + \epsilon_i$$

- Satisfaction with Life: five-statement index developed by Diener et al. (1985)
- Economic Freedom: Fraser Institute's *Economic Freedom of North America*
- Capitalism Index: Individual preferences for markets, based on Jones et al. (2018)
- Preference Policy Mismatch (PPM): $(\text{standardized } CI_i - \text{standardized } EF_i)^2$. Ranges from 0 to 1.

A nationwide survey collected individual data for 2390 people.

	Mean	Median	Max	Min	Std. Dev.	Obs.
SWL	21.95	23	35	5	7.51	2390
CAP INDEX (CI)	29.33	28	69	10	11.14	2390
PPM	0.14	0.077	0.9667	0	0.16	2380
Econ Freedom (EF)	7.01	7.14	8.29	5.70	0.72	50

Results

Major findings –

- "Liberals"/"left" have a lower SWL than "Conservatives"/"right"
- Greater individual support for markets (higher CI) → higher SWL
- Greater EF is associated with lower SWL, contrary to earlier studies
 - but only for "liberals" ("left", low support for markets) and Moderates
- Greater PPM is associated with lower SWL

Dependent var: SWL										
Partial results										
Sample	Full	Full	Full	"Left" on CI	Moderate on CI	"Right" on CI	Full Sample	"Left" on CI	Moderate on CI	"Right" on CI
EF	-0.367*** (-3.26)	-0.389*** (-3.21)	-0.381*** (-3.04)	-1.207** (-2.69)	-0.238** (-2.02)	-0.318 (-0.67)				
Cap. Index (CI)		0.0452*** (-3.49)								
"Right"				0.0763 (-0.20)						
"Left"				-2.016*** (-5.23)						
PPM							-3.426*** (-5.40)	-3.803*** (-2.83)	-1.907** (-2.13)	-3.289 (-1.18)
R-sq	0.199	0.203	0.207	0.235	0.175	0.256	0.203	0.235	0.176	0.258

Implications

Lower SWL may lead individuals to respond by voting to change the EF under which they live, either with the ballot or by moving to another state. Previous researchers have contended that greater SWL may lead to greater voter participation as happier, more satisfied individuals may seek to engage in their community more broadly (Liberini et al., 2017; Zhong and Chen, 2002) while others note that greater SWL may lead to increased complacency and apathy toward the political process and less voting (Flavin and Keane, 2012). We find that higher levels of PPM (and hence lower SWL) are associated with greater probability of voting. We find no evidence that individuals vote with their feet, a la Tiebout, by moving to a state with EF closer to their preferences.

Conclusions

We show that a greater disparity between individual preferences for economic freedom and EF afforded by state policies, what we call preference-policy mismatch, is associated with lower SWL. This finding is robust to multiple alternative definitions of PPM. The reduction in SWL from PPM is, at its greatest, equivalent to being divorced (rather than married) or unemployed (rather than employed). We find evidence that individuals react to a mismatch between individual preference and state policy by voting, through the ballot box rather than with their feet.

Our finding that SWL correlates with PPM is striking given that individuals likely have imperfect knowledge of how their state's level of economic freedom compares to their own preferences. Thus, respondents' diminished SWL likely is not a conscious calculation based on precise comparison. The concepts of economic ideology and economic freedom are abstract for most individuals, though they are seen in concrete ways. Becoming a beautician, building a small addition to a house, fundraising, and starting a small business are all examples of common activities in which one may engage that are heavily influenced by EF and which may affect an individual's SWL.

This research adds to our understanding of the relationship between EF and SWL. Accounting for differential views of freedom and of market forces generally allows for an appreciation of the complicated relationship between free markets and happiness.

References

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