

Well-being and EU Integration

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For some time in the economic literature well-being is more and more often used instead of welfare. While welfare refers primarily to material issues, well-being is a more complex approach to measure an individual's quality of life. The paper's main goal is to estimate the consequences of Hungary's EU accession in terms of people's subjective well-being. In the absence of up to date data I could only rely on objectively measurable economic indicators, changes in every-day life circumstances and expectations about integration in the analysis. On the other hand, I intended to provide an insight into the field of the so-called economics of happiness. I refer to the development of utility theory that is closely connected with welfare economics or more precisely its shift toward the economics of well-being.

Keywords: subjective well-being, welfare economics

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1 Introduction

May 1, 2004 saw Hungary and nine other accession countries joining the European Union, which means that one of the major objectives of Hungarian politics and nation after the change of the system has been fulfilled. In their every-day life people tend to talk and speculate about the consequences of the membership. Some are looking forward to it rather optimistically while others express their doubts. So what kind of changes are we going to encounter? Do these changes make us better off? What kind of difficulties are we going to have to cope with? Such questions are very up to date nowadays. In this paper I am focusing on perhaps the most important question that people might ask: does integration make us happier or not? I consider this question from the point of view of economics. According to this, happiness is an economic term and can be (or at least its factors can be) measured usefully. This specific field of economics – the well-being studies or the economics of happiness – is debated and developing rapidly. There are no clear-cut conceptions of happiness or methods of measuring it and new scientific achievements come to light very often. Nevertheless, a distinction must be made between two approaches to happiness. One tries to measure happiness by objective criteria while the other is totally based on subjective self-reports of individuals. In this paper I am presenting the two different conceptions on the example of accession in the course of a comparative analysis. The focus of this work remains in Hungary. Because of the small distance in time there are very few data that could be used for evaluation. Therefore most of my assumptions are based on expectations.

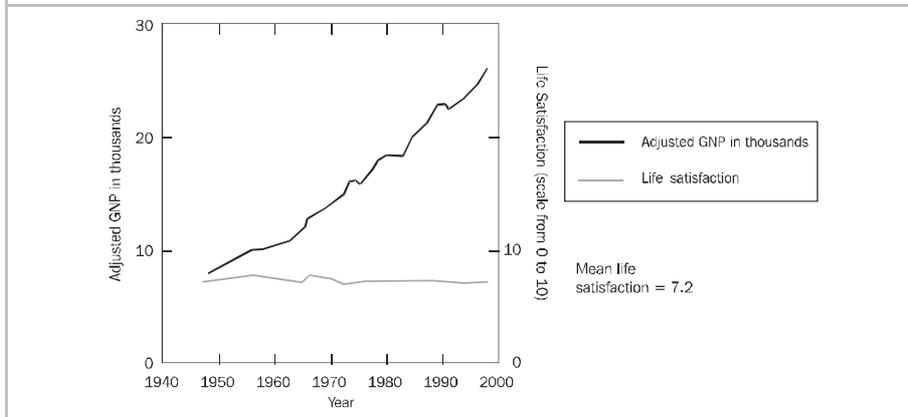
2 Welfare vs. Well-being

The most robust finding of the well-being research is that while the national income of the developed countries in the last fifty years increased rapidly the overall life satisfaction of people did not change at all.

These and similar facts moved scholars to develop new concepts other than just considering economic indicators to assess people's quality of life. One of the most important new approaches of that kind is the concept of subjective well-being (SWB). Measurement of SWB is based on retrospective self-reports of the subjects about their entire life or a longer period of their life. As Diener points out: subjective well-being (SWB) refers to how people evaluate their lives, and includes variables such as life satisfaction and marital satisfaction, lack of depression and anxiety, and positive moods

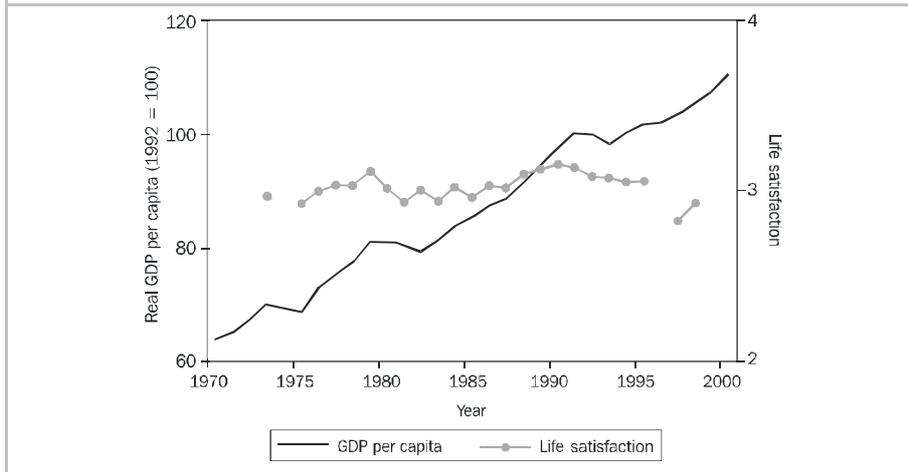
and emotions (Diener, Suh, and Oishi, 1997). There are three important hallmarks of SWB: 1. it covers the entire range of well-being from agony to ecstasy. 2. SWB is defined in terms of the internal experience of the respondent. 3. SWB focuses on longer-term states, not just momentary moods. SWB is a wide-spread method of estimating the quality of human life, statistics of SWB have been made for decades. SWB serves as a proxy for assessing individual utility (experienced utility, see later). In the next sections we take a look at the same question from the utility theory perspective.

Figure 1. **US gross national product (GNP) and mean life satisfaction from 1947 to 1998**



Source: Diener and Seligman (2004).

Figure 2. **Satisfaction with life and income per capita in Germany between 1973 and 1998**



Sources: Eurobarometer, Penn World Tables and OECD.

3 Theoretical Framework

The central theme of this paper is happiness. Considering happiness from the economist's point of view, utility is the basic term to think of. Taking utility in a broader sense, as utility is attached not just to a concrete event but to a certain period of an individual's life, we come to subjective well-being. Other social studies have played a significant role in developing the concept of subjective well-being. The latter can be measured by standard surveys: the subjects give subjective evaluations according to questions like: to what extent are you satisfied with a certain event that extends over time or a period of your life?

Some psychological results urged Kahneman and Tversky to come up with a new concept of subjective well-being: the so called objective happiness. They argued that the above mentioned concept of well-being was based on a memory or it was measured by a memory-based method. This also means that evaluation is always made retrospectively. For this concept of measuring happiness they used the term "remembered utility". Instead of that Kahneman et al. introduced a method that is based on real time measures which they called a "moment-based approach". This led to the concept of experienced utility. With the extension of the latter they came to the so-called objective happiness.

A very important finding of Kahneman et al. is that the values of remembered utility measured by a memory-based method and the values of experienced utility measured by a moment based method very often do not coincide with each other. They provided an exact evidence for that by means of a number of clinical experiments. The reason for such deviation is that the human mind applies such heuristics that are able to distort the subjects' retrospective evaluation of a particular event to be evaluated. According to the preceding, it is possible that when comparing two different periods (sequences) of pleasure and pain the first one may prove to be worse in terms of experienced utility measured moment by moment, but at the same time this first event is preferred according to a memory-based method because of its greater remembered utility. Thus a situation that is ranked better objectively can be ranked behind subjectively (or vice versa). This paradox – identified by Kahneman et al. – urged them to develop a concept of objective happiness in order to evaluate longer periods of time by a moment-based method. This much more objective way of measuring utility could be used instead of or besides the conventional concept of subjective well-being.

That leads to the phenomenon of the so-called treadmill effects. One of the most interesting findings of the well-being research is that life circumstances – which can be measured more or less objectively – make only a small contribution to the variance of an individual's happiness. Inherited personal characteristics and psychological traces play a much more decisive role in the subjective well-being. This also means that people tend to attach a great effect on utility to significant changes in their life circumstances but this change in utility is diminishing after a period of adjustment, which is the essence of treadmill effects. Formerly the term “hedonic treadmill” was used. According to that, the adaptation level of an individual follows the change in life conditions. Simply put, people get used to the new conditions. Opposed to that, Kahneman et al. have introduced the term satisfaction treadmill where an improvement of life circumstances is followed by an increase of the aspiration level of the individual. So after a period of time the experienced utility of an event that has a higher objectively measured value is falling back to a normal level of utility.

To observe treadmill effects, an event is needed that has a great effect on people's lives or at least is expected to have such a great effect. In such a situation the human mind works according to the so-called snapshot model. That means that one mentally creates a representative moment and estimates its utility. This utility is then projected to every moment of the event or to a longer period of time. In most cases the moment of change stands for the representative moment (the snapshot) which is crucial in estimating the global utility of the event or a longer period of time. Such an event can be winning the lottery, moving to another place or joining the European Union.

In this paper the EU integration is regarded as a “snapshot”, as an event of utmost importance. On the one hand, there is no question that accession is a huge event in our nation's history. But on the other hand, doubts arise as to whether May 1 can be used as a representative moment. One of the reasons for these doubts is that people might think that integration affects the country on the social level rather than on the individual one. This can be accepted to some extent because most of the consequences actually occur on the social level (like harmonizing law and standards, participating in the EU decision making process, common policies etc.) and people are not directly affected by them. But on the one hand, there are consequences that have a direct effect on particular groups of individuals. Let us think of e.g. passing the border more easily, people involved in foreign trade who do not have to pay customs duty or entrepreneurs selling EU flags. On the other hand, there are social or macroeconomic consequences that affect people directly as well. Free trade within the Union affects prices, as a member of a greater

economic integration our national economy encounters a number of consequences which sooner or later affect people's economic situation. Thus it can be stated that accession is affecting people's lives both indirectly and directly. Another reason for doubts is that expectations of Hungarians towards the EU are rather ambivalent. It has to be emphasized that expectations are not unanimously positive. Generally people anticipate favorable changes in the long term but there are fears as well in people's mind concerning job security, prices, etc. To sum up, there is no doubt about the great significance of accession, and therefore it can be examined as a good example of a potential satisfaction treadmill and also as a good example to demonstrate the above mentioned paradox of the well-being studies, i.e. the fact that objectively and subjectively measured values of subjective well-being do not always coincide.

Considering the methodology of the well-being studies, it must be stated that the above mentioned objective happiness is only a theoretical category and not a concise approach that can be measured in practice. Nevertheless, testing of the basic principle – deviation of objective and subjective measures – can be realized. Another problem is that observing treadmill effects takes time: years or at least months. Macroeconomic and subjective well-being statistics concerning the period after May 1 are not yet available. Despite these problems, the comparison of objective facts that influence subjective well-being and scientific expectations, economic forecasts about these with subjective expectations about well-being after accession can be made without harming the essence of that particular well-being paradox.

4 Assessment of Well-being: An Objective Approach

According to the conception of my paper, well-being has two sides. First there are the objective factors which determine an individual's well-being, but there is also the other side, the subjective one which "overrules" the objective side. Thus a certain combination of objective factors can be evaluated differently by different individuals.

Let us take a look at the objective factors. First of all the country's macroeconomic indicators should be considered. Hungary's leading statistical agency (KSH – Hungarian Central Statistical Office) has just released its latest study about the country's economic situation in the first quarter of 2004. The report is enthusiastic. The GDP in the first quarter of this year was 4.2 per cent higher than in the same period 2003. This result goes significantly beyond the most optimistic expectations as well. Moreover, what is also

very important is that this economic boost is not consumption based but is due to expansion of investments and export. Certain points need to be emphasized. This kind of growth seems sustainable because it is based on investment and export. This is also supported by the fact that road construction has also increased, which gives reason for optimism because one of the most important factors of economic development in the 1990s was the motorway construction. Both exports and investment has increased by 19 per cent.

Only a modest increase can be registered in terms of domestic consumption. Another very important fact – which has a more obvious effect on well-being – is that real wages have also kept growing. The first quarter of this year has also seen a 20 per cent increase of investments in the economic sector concerning real estate and flat building, which is of similar importance as the preceding. Unemployment has decreased except among the group of young people between 15-24 years of age. In connection with the above mentioned, it has to be stressed that investments in the field of social insurance have also increased.

Finally the question of prices has to be considered. The reason why prices were left behind is that the inflation statistics for May are already available. Consumer prices were 7.6 per cent higher in May than a year earlier and almost 1 per cent (0.9) higher than in April, which has been this year's inflation peak so far (experts anticipate decreasing inflation in the next period). The reasons for that peak are independent from EU integration. The two main factors are the increasing prices of oil and seasonal foods.

With respect to prices it has to be noted that this has been one of the most sensitive issues in connection with the economic consequences of accession. A significant fear of increasing prices due to integration was noticeable (see later) among citizens. After May 1, price changes can be seen in food markets. The price of imported branded spirits has unambiguously decreased because of abolishment of the serious custom duties. Also, the prices of milk, cheese, flour and cooking-oil have declined as a consequence of the EU accession because of cheaper import products.

Another very interesting finding concerning inflation after accession has to be highlighted. It is almost like a self-fulfilling prophecy. As people expect prices to go up they tend to buy all the necessary goods earlier. The expanded consumer demand causes inflation. As a result prices do really increase.

Taking into consideration further consequences that can be evaluated objectively, we come to the extended mobility of labour. Despite the restrictions of a number of older EU member-countries, Hungarian citizens find it easier to take a job in the EU. According to the Employment Office in Hungary which deals with EU issues, about 40-60 people request information about working in the EU every day, while there are 22,000 vacant jobs in the older member countries (18,000 in Great Britain), primarily for truck drivers, cooks, butchers and people involved in the health service.

Hungary, like other joining countries, has access to EU funds. According to the National Development Agency, more than 100 tenders have already been completed successfully.

Apart from economic consequences, other factors have to be taken into account as well. A truly pragmatic matter is the passing of the border. As usual there are always two sides of the coin. The spokesman of the border guards said that passing the EU border is becoming quicker and easier. But difficulties do appear, at least in the short term, if drivers take the wrong lane - they have to get used to the new order. On the other hand, crossing the non-EU borders takes more time and inconvenience as a result of preparing for the Schengen system that will be introduced there later.

A much more sublime matter is that Hungary can take part in the EU decision making process. From May 1 our representatives can vote in the EU Council and as a result of the EU Parliament elections in June Hungary can delegate 24 members to the European Parliament.

After a brief survey of the objective factors of well-being of Hungarians after accession, we may conclude that there is no need for anticipating any significant change that would make us worse off or at least there are no signs of such negative tendencies yet. Consequently, an improvement of the subjective well-being of people living in Hungary is to be expected in the future.

5 Assessment of Well-being: A Subjective Approach

In the following we take a look at the subjective factors of well-being of Hungarian citizens: how they evaluate subjectively their own situation after EU accession. As mentioned earlier, the latest Hungarian subjective well-being surveys are not yet available. Nevertheless, subjective expectations about EU membership can be detected according to the results of the recent public opinion surveys.

In this respect – the subjective one – the picture is a bit more ambiguous, as will be seen later on. The general attitude of Hungarians towards their EU membership is positive in absolute terms and relative to the other joining countries as well:

- 45 per cent think that EU membership is a good thing, 32 per cent are neutral and 15 per cent think it is a bad thing.

Source: Gallup Market Research Company

The situation changes a bit if we take into account the global expectations of Hungarians about the country's economy after accession.

- 15 per cent of Hungarians think that the country's economic situation will improve in the next 12 months, 31 per cent think that it will not change significantly and 47 per cent expects a worsening.

Source: Gallup Market Research Company

Seeing these results, the above mentioned ambiguity becomes obvious: people generally think of the EU integration as a positive thing, but this is not really reflected in the economic expectations. This is very interesting knowing that the expected economic conditions play a decisive role in judging the consequences of the EU accession or any other event. Let us therefore take a look at a detailed analysis of economic expectations.

Negative expectations have been recorded concerning prices. According to recent public opinion surveys (March 2004), 72 per cent of Hungarians anticipated that prices would increase after accession. Nevertheless, the trend is positive because the same figure was 77 per cent six months earlier and 86 per cent a year earlier.

Table 1. Do you agree that prices will rise after accession?			
Percentage of answers that agree			
	March 2003	October 2003	March 2004
Rise of prices	86	77	72

Source: GfK Market Research Institute.

Concerning unemployment, 28 per cent anticipate better conditions for job security. The statistics are similar in terms of the percentage of people expecting growing unemployment. The figure is about 50 per cent and it has been stable over time. Hungarians are also pessimistic about the standard of living: only 28 per cent think that it

will be better (with similar questions, the figures of different research companies range from 22 to 28 per cent). That is all about the pessimistic economic expectations.

As opposed to the preceding, 63 per cent think that economy will grow faster after accession. Moreover, for the following question the index of positive opinion is 155 (maximum 200): During the five years following the accession of your country to the EU, do you expect your own economic situation to improve or deteriorate?

A direct effect of the accession – a rather positive one – can be observed in connection with the consumer confidence index, which is increasing after two years of deterioration.

Time of survey	Consumer's confidence index
June 2002	197
October 2002	192
December 2002	183
March 2003	175
June 2003	171
September 2003	155
December 2003	146
March 2004	172

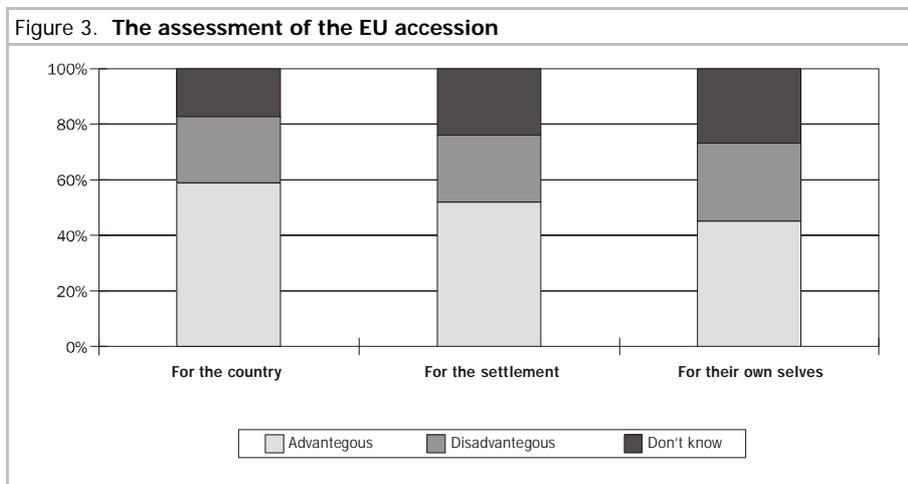
Source: GfK Market Research Institute.

Concerning some characteristics of Hungarian expectations about the accession, it can be stated that younger generation is generally more optimistic, which is not a great surprise. Another remarkable feature of this issue is that people of higher qualifications have more optimistic expectations about the Union. This can be clearly seen in the table below:

Question	8 years of Elementary or less	Vocational school	GCSE / High school diploma	College, university	National average
During the five years following the accession of your country to the EU within a year, do you expect your own economic situation to improve or deteriorate?	142	155	161	176	155

Source: GfK Market Research Institute.

The results to be shown next may resolve – at least to some extent – the above mentioned ambiguity about the accession. Surveying the general assessment of the integration, researchers found an interesting continuum of expectations ranging from neutral to rather optimistic. People think that integration is advantageous for the country as a whole. They think it is less advantageous for their settlement (town, village or region). People are the most pessimistic with regard to the consequences for themselves and their family. So optimism observed on the social level is deteriorating more and more on the individual level. That is why, in my opinion, the expectations of Hungarians are quite ambiguous.



Source: Gallup Market Research Institute

6 Summary

In the paper I have surveyed the most important factors that are very likely to influence the subjective well-being of Hungarians after accession to the European Union. I applied two approaches in order to detect those factors. First I considered the consequences that can be measured objectively. I highlighted the macroeconomic indicators, but some non-economic factors have been dealt with as well. In that respect the picture is rather positive.

After that I took a look at what people anticipate subjectively. As a result, I realized that Hungarian expectations about the accession are rather ambiguous. There are positive tendencies which – in my opinion – are due to the positive development of objective

factors. But there are also negative tendencies which may be signs of the traditional pessimism of Hungarians, but also of a treadmill effect in the future.

An indirect evidence of a treadmill effect is clearly observable. As the table below shows, the countries that wish to join the EU but are not able to do so yet have very high confidence indices, while others that have already achieved this goal have become used to it and – as a consequence of a plausible treadmill effect – have lower indices.

Country	Percentage
Turkey	153
Romania	142
Hungary	132
Cyprus	130
Bulgaria	126
Lithuania	116
Estonia	118
Poland	115
Croatia	115
Malta	114
Latvia	113
Slovenia	105
Czech Republic	98
Slovakia	97

Source: GfK Market Research Institute.

For a further analysis with more detailed and up-to-date data we have to wait until the consequences will have become more obvious and people will have adapted to the changes. So time will tell.

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