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The Impact of Social Capital on Individual Happiness across European Countries

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Abstract

This paper explores the relation between social capital and happiness in a European context. We test the hypothesis if social capital in its threefold definition as developed by James Coleman (1988) significantly influences happiness of individuals across European countries. The three dimensions evaluated are firstly social and institutional trust, secondly social interaction channels and thirdly norms and effective sanctions. To properly account for the various facets of the notion of social interaction channels, the works of Robert Putnam (1990) and Mancur Olson (1982) on associational activity are incorporated in our definition.

Previous research trying to establish a substantiated theory between happiness and social capital greatly differed in the utilised definition of the term. Consequently, their final outcomes did not stay without ambiguity. Furthermore, studies mainly focused on the rather homogenous areas of the United States or Canada. An area as diverse as Europe was to our knowledge not taken into consideration when studying the relation of social capital and happiness. The following work can therefore be seen as the attempt to respond to the inconsistency and hence a definitional and geographical enlargement of previous research.

After developing an encompassing definition of the term social capital, the paper gives an overview of the literature on happiness economics, reporting major findings of research. Before introducing the empirical study, previous findings concerning the relationship between social capital and happiness are presented in order to provide the background information for the subsequent theoretical and empirical model. After describing the data, variables and empirical methodology utilised, we will report the results of our estimation analysis and discuss continuative questions. Based on our results, we will draw conclusions on the impact of social capital on individual happiness across European countries.

Using the methodology of ordinal logistic and quantile regression on individual data of the European Social Survey 2006 and 2008, four main findings are identified. Firstly, social capital clearly displays a multidimensional character. All three dimensions evaluated show a strongly positive and robust impact on subjective well-being across European countries. Secondly, main drivers of the effects of social capital on happiness appear to be informal social interaction and general social as well as institutional trust. Associational activity of any form and the third dimension, norms and effective sanctions, only display minor influences

on the perceived happiness levels of individuals. Thirdly, decreasing marginal returns to social capital were discovered, the higher the reported happiness score of the individual. Thus, in terms of increased happiness levels, social capital benefits very unhappy people to a higher extent than happy people. Lastly, no discriminating effect of social capital effects on happiness scores between different population groups could be found. Hence, increasing social capital endowment in a society results in higher happiness for all individuals. Every individual no matter which education level, income, gender or employment status could benefit from social capital in terms of increasing happiness scores.