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*Research Article*

# The Effects of Fiscal Policy Practices on Happiness

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**Abstract:** The concept of happiness is subjective and varies across cultures. However, it is generally agreed that certain factors play a crucial role in determining an individual's well-being. Existing literature on happiness suggests that elements such as income, life expectancy, health, liberty, and moral values contribute to life satisfaction. People's happiness at the micro level can be considered as an indicator of the well-being of the society and the quality of life at the macro level. In this respect, increasing the happiness level of the society is one of the main discussion areas of today's public policies. While the exact relationship between fiscal policy and happiness is complex, many studies show that well-designed fiscal policies can contribute to higher levels of happiness by reducing inequality, improving public services, and providing individuals with a sense of security and stability. In this respect study aims to analyze the impact of fiscal policy practices on happiness in 33 OECD countries, which exhibit varying levels of happiness, over the period from 2010 to 2023. According to the findings of the study that employed the Ordered Probit Model, fiscal policies are more likely to have a greater impact on countries with higher levels of happiness.

**Keywords:** Fiscal Policy, Happiness, Ordered Probit Model.
**Jel Codes:** E62, I31, C35.

### *Maliye Politikası Uygulamalarının Mutluluk Üzerine Etkisi*

**Öz:** Mutluluk kavramı özneldir ve kültürlere göre değişmektedir. Ancak, belirli faktörlerin bir bireyin refahını belirlemede önemli bir rol oynadığı genel olarak kabul edilmektedir. Mutluluk üzerine mevcut literatür, gelir, yaşam beklentisi, sağlık, özgürlük ve ahlaki değerler gibi unsurların yaşam memnuniyetine katkıda bulunduğunu ileri sürmektedir. İnsanların mikro düzeydeki mutluluğu, toplumun refahının ve makro düzeydeki yaşam kalitesinin bir göstergesi olarak düşünülebilir. Bu bakımdan toplumun mutluluk düzeyini artırmak, günümüz kamu politikalarının temel tartışma alanlarından biridir. Maliye politikası ile mutluluk arasındaki ilişki ise karmaşık olmakla birlikte, birçok çalışma iyi tasarlanmış maliye politikalarının eşitsizliği azaltarak, kamu hizmetlerini iyileştirerek ve bireylere güvenlik ve istikrar duygusu sağlayarak daha yüksek mutluluk düzeylerine katkıda bulunabileceğini göstermektedir. Bu bakımdan çalışma, 2010-2023 döneminde, farklı mutluluk düzeyine sahip 33 OECD ülkesinde maliye politikası uygulamalarının mutluluk üzerindeki etkisini analiz etmeyi amaçlamaktadır. Sıralı Probit Modeli'ni kullanan çalışmanın bulgularına göre, maliye politikalarının daha yüksek mutluluk düzeylerine sahip ülkelerde daha büyük bir etkiye sahip olma olasılığı daha yüksektir.

**Anahtar Kelimeler:** Maliye politikası, mutluluk, Sıralı Probit Model
**Jel Kodları:** E62, I31, C35

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## 1. Introduction

Happiness is one of the most essential concepts in determining individuals' life satisfaction and overall well-being. Widely examined in various social science disciplines, this concept has also been extensively analyzed in relation to economic welfare. Research on the determinants of happiness indicates that factors such as individual income level, health, education, job security, and social rights play a crucial role in shaping human well-being. However, the impact of fiscal policy practices on both individual and societal happiness remains a significant area of discussion within economics and public policy.

Fiscal policies serve as fundamental instruments for governments to maintain economic stability, regulate income distribution, and finance public services. Government expenditures, taxation, and budget deficits are among the key fiscal policy tools that directly shape people's quality of life and overall well-being. Various studies suggest that policies aimed at increasing social spending, reducing income inequality, and mitigating economic uncertainties can enhance individuals' happiness levels. However, concerns have also been raised about how high public debt and unsustainable budgetary policies may contribute to economic instability and, in turn, negatively impact societal well-being.

This study examines the effects of fiscal policy practices on happiness across 33 OECD countries with varying happiness levels between 2010 and 2023. The study utilizes the "life ladder" indicator from the World Happiness Report as a measure of happiness. The Ordered Probit Model is applied to analyze the impact of key macroeconomic variables, including economic growth, unemployment, inflation, budget deficit, and public debt, on individuals' happiness levels. The findings provide insights into the relationship between fiscal policy and well-being, offering valuable policy implications.

By integrating theoretical perspectives with empirical evidence, this study aims to present a comprehensive analysis of how fiscal policies influence happiness. The research contributes to the ongoing discourse on economic policy and well-being, providing recommendations for policymakers seeking to design fiscal strategies that enhance societal welfare.

## 2. Conceptual Framework

The pursuit of happiness has long been a central focus in both human existence and philosophical inquiry. The underlying expectation in every decision made and every endeavor undertaken is the attainment or preservation of happiness. Consequently, the quest for understanding happiness has been a subject of philosophical exploration since Ancient Greece. Aristotle defined happiness as 'the highest good' and emphasized that everything else is a means to achieving this end (Diener, 1994, p. 103). The literature is shaped around some key questions such as what happiness is, whether it can be measured or not, and what makes people happy. For instance, subjective well-being is frequently used in research as a measure of happiness, aligning with Aristotle's idea that happiness is something personal and essential to the individual. Subjective well-being typically includes emotional reactions and cognitive evaluations of one's life, capturing both momentary happiness and overall life satisfaction (Veenhoven, 2012, p. 63; Diener, 1994, p.108).

Happiness has been the subject of many studies in many fields such as sociology, psychology and economics since the 1950s (Diener and Lucas, 1999; Dolan, Peasgood and White, 2008). Most countries use objective criterias such as income, life expectancy, literacy and some subjective criterias such as how life is perceived by the individual to determine happiness[1]. (Dolan, Peasgood and White, 2008, p. 97).

The prevailing view on this subject suggests that happiness tends to increase with rising income levels. Individuals with higher incomes are generally perceived to experience greater life satisfaction compared to those with relatively lower incomes. It is well-established that income plays a significant role in life satisfaction, as it is a critical factor in meeting basic needs, particularly those at the lower levels of Maslow's hierarchy

[1] For more detailed information on the determinants of happiness, see the Happiness Report (2024).

of needs. However, the sustainability of this relationship remains a subject of ongoing debate.

The Easterlin Paradox, introduced by economist Richard Easterlin in the 1970s, highlights a complicated relationship between income and happiness. His key insight is that while people generally report higher happiness with increased income, this effect diminishes over time or when comparing their income to others. Specifically, Easterlin posed the question: "Would you be happy if your income increased while everyone else remained in the same situation?" His answer suggested that people's happiness is not solely determined by their absolute income, but also by their income relative to others (Easterlin, 1995: ss.35-36). This introduces the concept of relative income, where individuals tend to assess their well-being in comparison to the earnings of their peers. Clark (2014, p. 2) extends this idea by emphasizing that individuals also compare their current income with their past income, which contributes to their overall sense of satisfaction. In this way, a person's happiness is not solely dependent on their absolute income, but also on how it compares to their past earnings and the income of others. Further governments aim to achieve economic growth in order to increase social welfare and thus increase per capita income in the economic policies they implement. Increasing everyone's income means increasing living standards in the country in case. The increase in living standards also increases subjective living standards. This rise will reduce the level of happiness of an individual whose income remains constant, as he will feel poorer even if there is no change in his living conditions (Easterlin, 1995, p. 36).

On the other hand fiscal policy involves to the use of public expenditure and government revenue to affect the economy. It is one of the key tools that governments use to manage economic activity, stabilize the economy, and achieve macroeconomic goals. Public expenditure is a key tool in fiscal policy that impacts happiness (Perovic and Golem, 2010). Investment in public goods such as healthcare, education, and infrastructure plays a crucial role in enhancing well-being. A study by Deaton (2013) suggests that public expenditure on health and education improves both material and psychological well-being, particularly in lower-income segments of society. As government spending increases in these areas, people are more likely to experience improvements in their quality of life, which can lead to higher life satisfaction and overall happiness. According to Bjørnskov et al. (2008), public expenditure on health and social services is directly linked to higher levels of subjective well-being. The availability of affordable healthcare alleviates the financial burden of medical expenses, which in turn increases individuals' sense of security and reduces anxiety, contributing to higher happiness levels.

Similarly, public revenues have the potential to directly impact social happiness when distributed effectively and fairly. Especially, the impact of the tax system, which forms a significant part of public revenues, on happiness is complex. Although it is challenging for taxpayers to spend their own money on others in terms of individual happiness, this situation takes on a different dimension in societies where tax awareness is developed. In societies where tax awareness is well developed, individuals see taxes as a means of meeting social needs. In this respect, although happiness is a subjective phenomenon, it is expected that general happiness will increase in societies where tax practices are implemented effectively and fairly (Friedman et al., 1980: ss.116-118). However, it is also stated that individuals' happiness is affected when tax justice is questioned. If people perceive the tax burden as unfair or excessive, this can negatively affect their life satisfaction, even if tax revenues are used for beneficial public services. Helliwell et al. (2024), in creating the data for the 'Happiness Report,' support this by indicating that countries with more equitable income distribution—often facilitated by progressive fiscal policies—report higher happiness scores.

Economic stability achieved as a result of the correct implementation of fiscal policy can also positively affect happiness. Stability and predictability in the economy, often achieved through balanced fiscal policies, enhance social trust and cohesion, which are vital components of happiness. On the other hand economic stability and inflation are closely intertwined concepts that significantly influence a country's overall economic health and the well-being of its citizens. Economic stability refers to a situation where an economy experiences steady growth, low unemployment, and predictable inflation rates, while inflation signifies the rate at which the general price level of goods and services rises.

Unemployment not only affects individuals' income levels but is also associated with psychological and social consequences. Being unemployed can lead to negative emotional states, such as financial uncertainty, stress, and low self-esteem. These factors can significantly reduce overall life satisfaction. In countries with rising unemployment rates, income loss and increased borrowing needs can directly impact the quality of life for households. Additionally, increasing unemployment can weaken social ties and heighten individuals' sense of social exclusion.

## 3. Literature Review

The impact of fiscal policy practices on happiness is a subject that is highly valued by academics and fiscal policy practitioners working on this subject, but on which no consensus has been reached. This situation is thought to be due to the fact that different country groups are addressed in the studies conducted, different econometric methods are used, or the relevant policies have different short-term and long-term outcomes.

Budget deficits occur when government spending exceeds revenues, leading to an increase in public debt. Budget deficits have become an important research topic in happiness studies due to their effects on economic growth, the sustainability of social services, and individuals' life satisfaction. Budget deficits can have positive effects in the short term during economic crises or recessions. According to Keynesian economic theory, expanding budget deficits can reduce unemployment and improve individuals' living standards by encouraging economic growth. For example, Di Tella et al. (2001) stated that budget deficits can have positive effects on social welfare in the short term, but long-term effects of budget deficits are generally negative. The study conducted by Reinhart and Rogoff (2010) shows that increasing budget deficits can make public debt unsustainable and create economic uncertainty. This situation can negatively affect individuals' perception of well-being by leading to future tax increases and cuts in public spending. The effect of budget deficits on individuals' perception of economic confidence can also directly affect their happiness levels. Frey and Stutzer (2002a) argue that financial instability reduces individuals’ happiness levels by weakening their expectations about the future. Individuals, especially in economies with high budget deficits, are concerned about the sustainability of public services. Budget deficits can have both positive and negative effects on individuals’ happiness. These effects can vary depending on the size of the budget deficit, the economic context, and the nature of the government’s fiscal policies. Keeping budget deficits at sustainable levels is critical to preserving social happiness. While short-term fiscal expansions may stimulate economic growth, their long-term implications for public debt sustainability and happiness require careful examination.

Public debt is a fiscal policy tool used by governments to increase economic growth and welfare. However, the long-term effects of debt are controversial, especially in terms of its consequences on social happiness. There are various findings in the literature on this subject. Public debt can have positive effects on individual and social welfare in the short term. For instance, debt made during economic recession periods can reduce unemployment rates and increase the quality of life of individuals by providing financing for infrastructure investments and social programs. Barro (1974) states that while public debt increases today's welfare, its burden on future generations can be ignored. The effect of public debt on individual happiness in the long term is complex. Reinhart and Rogoff (2010) suggest that if high public debt becomes unsustainable, economic uncertainty and taxation pressure may increase, and this situation may negatively affect life satisfaction. In addition, the fact that increases in debt rates cause restrictions on public services may negatively affect individuals' perception of welfare. The effects of debt policies on income distribution are also associated with happiness. It has been stated that debt policies that increase income inequality can reduce life satisfaction in low-income groups. In contrast, debt used fairly can increase social welfare and positively affect social happiness (Stiglitz, 2012). The relationship between public debt and happiness varies depending on the economic context and the purpose of using debt policies. Although short-term benefits are provided, the pressures brought about by the debt burden can negatively affect happiness in the long term. Therefore, careful planning and implementation of debt policies are critical to increasing social welfare. While public debt policies aim to enhance economic welfare through strategic investments, the labor market's health remains critical in determining the real-life impact of such policies on societal happiness.

Unemployment plays an important role on happiness as a factor that deeply affects individuals' economic situations, psychological health and social relations. In this context, academic studies have addressed the negative effects of unemployment on happiness from various perspectives. Unemployment increases economic difficulties by causing individuals to lose income. However, it is also highlighted that it leads to psychological issues, including loss of self-confidence, stress, and depression. Clark and Oswald (1994) argue that the impact of unemployment on happiness is more significant than the loss of income. In addition, unemployed individuals may experience feelings of exclusion and worthlessness in society. This situation further deepens the psychological effects of unemployment. Frey and Stutzer (2002a) argue that unemployment reduces not only individual happiness but also general social welfare. They state that the increase in unemployment rates significantly reduces the level of happiness in society. Long-term unemployment increases the negative effects on individuals' happiness levels. As the period of not being able to find a job increases, individuals' hopes for re-employment decrease and this situation further reduces life satisfaction. In addition, the negative expectations of unemployed individuals for the future may affect not only themselves but also their families and their environment (Helliwell et al., 2010). Winkelmann and Winkelmann (1998) tested the importance of the non-material (non-material) costs of unemployment using a panel data set covering the years 1984-1989 on the life satisfaction of working-age men in Germany. According to the results of the study, unemployment has a significant and serious negative effect on the life satisfaction of individuals. The non-material (non-material) costs of unemployment are much greater than the material effects resulting from the loss of income. Unemployment is an important economic indicator that directly and indirectly affects the happiness of individuals and societies. These effects are not limited to material losses, but also include the social and psychological well-being of individuals. Policies aimed at reducing unemployment are of critical importance not only for economic development but also for social happiness. In addition to unemployment, inflation plays a significant role in determining happiness levels by influencing purchasing power and economic stability.

The effect of inflation on happiness has been a subject of debate for a long time. Understanding this relationship is of great importance in terms of evaluating the effects of fiscal policies on social welfare. Inflation increases the cost of living, reducing individuals' purchasing power and increasing economic uncertainty. Various studies have shown that an increase in the inflation rate generally has a negative effect on individuals' happiness. For example, Di Tella et al. (2001) analyzed the effects of inflation and unemployment on individuals' life satisfaction using life satisfaction and happiness surveys from Europe and the United States. The research is based on survey data from 264,710 individuals from 12 European countries between 1975 and 1991, and 26,668 individuals from the United States between 1972 and 1994. According to the analysis results, both inflation and unemployment negatively affect life satisfaction. People are willing to exchange a 1% increase in the unemployment rate for a 1.7% increase in the inflation rate. In other words, unemployment reduces individuals' welfare more than inflation. On the other hand, the effect of inflation on happiness varies depending on the income level of individuals. This effect is more pronounced in low-income groups, and it is stated that increasing prices make it difficult to access basic needs (Clark et al., 2008). In contrast, high-income groups may feel the effect of inflation less because these groups have investment instruments that provide protection against inflation. The social and political effects of inflation may also indirectly affect the happiness of individuals. High inflation rates can lead to a decrease in economic confidence and political instability. This situation can negatively affect individuals' expectations for the future and reduce life satisfaction (Frey and Stutzer, 2002a). Inflation generally has negative effects on the happiness of individuals. This effect may vary according to the income level and social context of individuals. Controlling inflation is of critical importance not only for economic stability but also for increasing social welfare. While inflation primarily affects purchasing power and economic stability, broader macroeconomic variables like income distribution and fiscal policy also play significant roles in shaping societal happiness. Beyond the immediate effects of inflation, income levels and their distribution reveal deeper insights into how economic conditions influence both individual satisfaction and collective well-being.

Easterlin (1974), analyzed the relationship between income and happiness using 30 surveys containing statements about individuals' subjective happiness for 19 countries between 1946 and 1970. While the results of the analysis show that, there is a positive relationship between income and happiness in general, it does not show the existence of such a positive relationship between countries for a certain period of time. Tian and Yang (2006) investigated the link between income and happiness for Ireland, the Netherlands, America and Japan. Research results reveal that an increase in income above the threshold income level does not increase happiness, while an increase in income below the threshold income level increases happiness. Peiro (2006) used the World Values Survey conducted in 1995 and 1996 in his study examining the relationships between socio-economic conditions and individuals' happiness or satisfaction for 15 countries. The results of the study show that although income has a strong effect on financial satisfaction, its effect on happiness and life satisfaction is low. Consistent with previous studies, age, health and marital status are strongly associated with happiness and satisfaction. In fact, according to the results of study, income is also strongly related to satisfaction, but its relationship with happiness is weaker. These results indicate that happiness and satisfaction are two separate areas of subjective well-being. The first one is relatively independent of economic factors, while the second one is strongly dependent. Ball and Chernova (2008) used World Values Survey data to investigate to what extent individual happiness is affected by absolute income and relative income. Research results show that there is a positive and significant relationship between absolute and relative income and happiness. Stanca (2010) analyzed the relationship between economic conditions and happiness level for 94 countries. The analysis results show that the effect of earnings on the level of happiness is significant in countries with low GDP per capita, while the effect of unemployment on the level of happiness is insignificant in countries with high GDP per capita. Veenhoven and Vergunst (2014) examined the relationship between income growth and happiness using the World Happiness Database, which includes 1,531 data points in 67 countries and provides 199 time series ranging from 10 to 40 years. Findings from the analysis provide evidence of a positive relationship between GDP growth and increased happiness. The interplay between macroeconomic variables like GDP growth and micro-level factors such as household income highlights the multifaceted nature of happiness determinants in modern economies.

Perovic and Golem (2010) examine the macroeconomic determinants of happiness in transition economies. In the analyses, happiness data from the 3rd, 4th and 5th waves of the World Values Survey were used to model individuals' happiness according to macroeconomic and individual factors with the logit model. The study focuses particularly on the effect of public expenditures on happiness. The analysis results show that the share of public expenditures in GDP has a positive and significant effect on happiness. Transitioning from inflationary impacts, understanding how fiscal and monetary policies influence broader economic performance is essential for addressing happiness disparities across different income groups. Blanchflower and Oswald (2004) examine trends in happiness and life satisfaction in the USA and the UK. The findings support the Easterlin hypothesis regarding the relationship between economic growth and happiness. Life satisfaction exhibits a U-shaped trend with age; that is, people are happier in youth and old age and less happy in middle age. Events such as unemployment and divorce have large negative effects on well-being. A stable marriage (compared to widowhood) has been associated with an annual increase in happiness of $100,000. Oswald (1997) examines the extent to which an improvement in a country's economic performance can increase the happiness of its citizens. The study analyzed welfare data from Western countries and made various inferences. In industrialized countries, as real national income increases, subjective well-being (happiness, life satisfaction, job satisfaction) increases. However, this increase is very small and in some cases almost undetectable. This shows that the effect of income growth on happiness is limited. On the other hand, unemployment stands out as a factor that seriously negatively affects happiness. Frey and Stutzer (2002b) examine the relationship between happiness research and the economy. According to the results of the study, income level, unemployment and inflation significantly affect individuals' life satisfaction. While high income is generally associated with greater happiness, the negative effects of unemployment and inflation are more pronounced. Higher income increases happiness levels. When the results of the study are evaluated in terms of unemployment, it is seen that unemployment has serious moral costs that are not limited to income loss. Inflation also negatively affects individuals' life satisfaction. Rizkallah (2023) examines the relationship between fiscal policy (tax revenues and public expenditures) and economic happiness using panel data covering the period 2012-2016 for 18 countries in the Middle East and North Africa (MENA) region. The results of the study indicate that taxes have a negative and significant effect on economic happiness. However, no significant relationship was found between productive or unproductive public expenditures and economic happiness. It was found that other sources of public revenues increase economic happiness.

Briefly, maintaining sustainable fiscal policies, controlling inflation, and reducing unemployment are essential not only for economic stability but also for enhancing overall societal happiness. Policymakers must balance short-term benefits with long-term welfare to optimize outcomes.

## 4. Data and Methodology

The objective of this study is to examine the impact of fiscal policy practices on happiness across 33 OECD countries with varying levels of happiness between 2010 and 2023. Therefore, the life satisfaction indicator (life ladder) from the World Happiness Report is employed as a measure of happiness in the study. This indicator, which assesses individuals' satisfaction with their lives, is widely used in happiness research. It serves as a subjective well-being measure in which individuals evaluate their lives on a scale from 0 to 10, where 0 represents the least happy and 10 the happiest. Participants place their current living conditions on a step of this scale, reflecting their overall satisfaction levels.

In this study, life satisfaction was used as the dependent variable, and countries were classified into three groups based on their levels of life satisfaction. Countries in Category 1 are classified as less happy, those in Category 2 are classified as moderately happy, and countries in Category 3 are classified as very happy. The independent variables utilized in this study include growth, unemployment, inflation, current account deficit, public revenues, public expenditures, budget deficit, and the debt-to-GDP ratio. The definitions of these variables are provided in Table 1.

**Table 1.** Variable definitions

| Variables | Definitions |
|---|---|
| Dependent Variable | |
| Happiness | 1= less happy countries |
| | 2= moderately happy countries |
| | 3= very happy countries |
| Independent Variables | |
| Economic Growth | Economic Growth/GDP |
| Unemployment | Unemployment Rate |
| Inflation | The Consumer Price Index (CPI) |
| Current Account Deficit | Current Account Deficit/GDP |
| Public Revenues | Public Revenues/GDP |
| Public Expenditures | Public Expenditures/GDP |
| Budget Deficit | Budget Deficit/GDP |
| Debt-To-GDP Ratio | Total Public Debt/GDP |

When the dependent variable is nominal or categorical, binary and multi-state probit models are commonly used to estimate relationships. However, when the dependent variable is categorical and ordinal, the ordered probit probability estimator is often preferred. In general, ordered probit models, also known as ordered regression models, are widely used in research within the fields of economics and finance. Since the concept of happiness is an ordered variable that cannot be directly observed, it was deemed appropriate to use this model for the analyses.

This model is based on the assumption that ordered data reflect a relationship between consecutive categories and is well-suited for analyzing hierarchical categories. Ordered probit models, introduced by McKelvey and Zavonia (1975), are based on utility and rational choice theory (Greene, 2016, p. 788).

The ordered probit model is generally expressed as follows:

$$Y^{*}=X_{i^{*}}\beta + € \qquad [1]$$

Y* shows the categories of the dependent variable:

$$Y=1 \qquad Y^{*} < \gamma 1 \qquad [2]$$

$$Y=2 \qquad \gamma 1 \leq Y^{*} < \gamma 2 \qquad [3]$$

$$Y=3 \qquad \gamma 2 \leq Y^{*} < \gamma 3 \qquad [4]$$

In the Ordered Probit Model, the dependent variable Y is an unobserved continuous variable and is divided into intervals corresponding to the observed ordinal outcomes. The thresholds “γ1, γ2 and γ3” are the cut-off points separating these intervals (Greene, 2016: 788).

The probability method is used to estimate the parameters of the ordered probit model. This involves maximizing the probability function based on the observed data, assuming that the error term $\epsilon$ follows a standard normal distribution.

It is useful to calculate marginal effects to better understand the relationship between the independent variables and the observed outcomes. Marginal effects are calculated by taking the derivative of the probability function with respect to each independent variable. These effects are usually evaluated in the sample means of the independent variables. Marginal effects show how a small change in an independent variable affects the probability of each outcome category. In the ordered probit model, the coefficients of the explanatory variables are not equal (Özkoç, 2021, p. 271).

This situation is illustrated in the following figure.

$$P\ (y= i)\ /\partial X = \wp\ (M_{i-1-}\ \beta X) - \wp(Mi - \beta X)\ \beta \qquad [5]$$

In the study, the cross-sectional values, 1, 2 and 3, show the boundaries between the categories and the probabilities of the dependent variable in different categories are estimated according to these values.

## 5. Findings and Discussion

The results of the analyses performed in the study are shown in the table below:

**Table 2.** Ordered probit estimation results

| Variables | Coefficient | Dy/Dx (Est.=1) | Dy/Dx (Est.=2) | Dy/Dx (Est.=3) |
|---|---|---|---|---|
| Economic Growth | 0.0231 | -0.0042 | -0.0038 | 0.0078 |
| | (1.34) | | | |
| Unemployment | -0.1405*** | 0.0255 | 0.0230 | -0.0477 |
| | (-9.34) | | | |
| Inflation | -0.0099*** | 0.0017 | 0.0016 | -0.0033 |
| | (-2.42) | | | |
| Current Account Deficit | -0.0188 | 0.0034 | 0.0030 | -0.0063 |
| | (-1.46) | | | |
| Public Revenues | 0.0229 | -0.0041 | -0.0037 | 0.0077 |
| | (1.26) | | | |
| Public Expenditures | 0.0103 | -0.0018 | -0.0016 | 0.0035 |
| | (0.60) | | | |
| Budget Deficit | -0.0819*** | 0.0148 | 0.0134 | -0.0278 |
| | (-3.28) | | | |
| Total Debt | -0.0034*** | 0.0006 | 0.0005 | -0.0011 |
| | (-2.54) | | | |
| Section 1 | -0.975193 | - | - | - |
| Section 2 | 0.304439 | - | - | - |
| Section 3 | 3.462738 | | | |
| loglikelihood | -40731714 | - | - | - |
| LR chi2(8) | 118.62 | - | - | - |
| N | 461 | - | - | - |

**Notes**: 1. (*), (**), (***) denote statistical significance at 10%, 5%. and 1%, respectively. 2. Z statistics are given in parentheses.

According to the analysis results, unemployment, inflation, budget deficit and total public debt variables were found to be significant. Log-Likelihood shows that the model is compatible and LR Chi2 shows that the model is generally significant.

Unemployment, budget deficit, and total debt have a significant and negative effect on happiness. Reducing these factors can increase happiness levels. The effect of inflation is negative and significant, but the magnitude of its effect is small. Growth, current account deficit, government revenues, and government expenditures have no significant effect.

These findings suggest that economic stability is crucial in enhancing individuals' happiness levels. Specifically, managing key economic indicators such as unemployment and the budget deficit can significantly contribute to improving life satisfaction.

An increase in unemployment leads to an increase in less and moderately happy countries and a decrease in very happy countries. Unemployment is one of the most important factors that negatively affects happiness. As unemployment increases, the likelihood of individuals reaching a high level of happiness decreases significantly. On the other hand, an increase in inflation causes small increases in less and moderately happy countries and decreases in very happy countries. Although the effect of inflation is relatively low, it negatively affects the happiness levels of individuals.

An increase in the budget deficit causes an increase in less and moderately happy countries and a decrease in very happy countries. The budget deficit is an important factor that negatively affects happiness levels; it seriously reduces the possibility of moving to a high happiness level. Increases in total debt lead to small increases in less and moderately happy countries and decreases in very happy countries. Total debt level is a negative factor, though its effect is relatively small.

When the analysis results are evaluated in general, it is concluded that fiscal policies are more likely to impact countries with high happiness levels. In contrast, in countries with low and medium happiness levels, although fiscal policies have an effect, the extent to which they influence people's life satisfaction is more limited compared to those with higher happiness levels.

## 6. Conclusion and Recommendations

This study examines the impact of fiscal policies on individual happiness levels across 33 OECD countries between 2010 and 2023. The analysis results indicate that economic stability significantly contributes to happiness levels. Specifically, unemployment, inflation, budget deficits, and public debt were found to directly affect individual happiness levels. According to the results of the Ordered Probit Model used in the study, unemployment stands out as one of the variables with the most significant negative impact on happiness. An increase in unemployment rates undermines both individuals' economic and psychological sense of security, thereby reducing their happiness levels. Furthermore, budget deficits and public debt lead to long-term economic instability, increasing individuals' uncertainty about the future and negatively affecting societal happiness. Inflation, on the other hand, directly impacts individuals' purchasing power and economic well-being, emerging as another crucial factor that lowers life satisfaction. However, the effects of economic growth and public spending on happiness were not statistically significant. Nonetheless, previous studies on social spending suggest that investments in education and healthcare can enhance individuals' life satisfaction. Moreover, these effects seem to be more limited in countries with lower or moderate happiness levels. This suggests that while economic stability and well-managed fiscal policies have a high potential to increase happiness, their impact may vary depending on the social and economic structure of each country.

These results reveal that fiscal policies should not only be designed to promote economic growth but also to enhance the happiness levels of individuals. In this context, the following suggestions can be made to policymakers: developing employment-friendly fiscal policies; implementing targeted measures, especially for issues such as youth unemployment and long-term unemployment; increasing the effectiveness of public spending while minimizing unnecessary expenditures, all while designing strategies to maintain budget deficits and public debt at sustainable levels; ensuring alignment between fiscal policies, tax reforms, supply-side policies, and monetary policies that will ensure price stability to prevent inflationary pressures. Social confidence should be increased by ensuring macroeconomic stability, and policies that reduce economic uncertainties and improve the investment environment should be adopted in this regard. Additionally, long-term economic development plans should be created, and the principle of sustainability should be embraced in public finance.

The results of this study suggest that more comprehensive public policies, aimed at enhancing the well-being of individuals beyond economic indicators, should be developed. Future studies could focus on different country groups and broader time periods to analyze the long-term effects of fiscal policies in greater detail. Issues such as the indirect effects of economic growth on happiness, the distribution of public expenditures, and the psychological effects of tax policies on individuals should be examined more thoroughly.

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