**The effect of social capital on individual happiness in Indonesia**

**Abstract**

This research examines how social capital affects individual happiness in Indonesia. Determinants of happiness use several dimensions of social capital, namely trust, information channel, and civic engagement, especially political participation. In addition, the estimation also takes into account other social demographic factors. The researcher finds that trust, information channels, and political participation significantly affect individual happiness in Indonesia. Furthermore, the trust of individuals to entrust their children to neighbours within a few hours if it is not possible to take the child away and social gathering positively affects individual happiness. By utilizing IFLS data, a logistic model is used to test whether several indicators of social capital affect individual happiness. A positive correlation between social capital and happiness may suggest that public policies toward increasing social capital at the individual and aggregate level may have complementary effects on raising individual happiness. It is essential to support the government's efforts to improve the community's happiness, encouraging development policies' effectiveness.

Keywords: welfare economics; well-being; economic development; IFLS; microdata

JEL Codes: D60, I31

**Introduction**

Based on data from the World Happiness Report, the level of happiness in Indonesian society has decreased from 2015 until 2018. Indonesia ranked 74 in 2005, and in 2016 dropping to 79th. Until 2018, Indonesia's ranking still decreased to 96th based on World Happiness Report published by UN-SDSN (United Nations Sustainable Development Solutions Network). There are six variables used to measure the World Happiness Report. They are per capita GDP (per capita gross domestic product), life expectancy, social assistance, social freedom, perceptions of corruption, and generosity. The Indonesian Central Bureau of Statistics also measures the happiness index. Indonesia Happiness Index comprises three dimensions named life satisfaction, feelings, and meanings of life (BPS, 2017). The government supports efforts to increase the happiness of the Indonesian people using the Sustainable Development Goals (SDGs) Pyramid. This SDGs Pyramid was initiated by UN SDSN and the Commission on Sustainable Development Business and United in Diversity.

Development is not just about the material or physical aspects but also considers the quality of life (Abdul-Hakim et al., 2014). GDP indicator does not adequately reflect the happiness and well-being of people in a country because GDP naturally is not designed for it (Rahayu & Harmadi, 2016). A new indicator that is better than GDP is needed so that it can accommodate various aspects of human life. The use of GDP as an indicator of well-being is considered to have weaknesses because it only considers the value of material and has not measured various aspects of human life. Bergh (2009) stated that GDP has several disadvantages, such as not taking into account social costs, only being concerned with increasing total income, ignoring income distribution, not measuring activities outside the market or everyday transactions, and ignoring the impact of economic activity on the environment. Therefore, a new indicator that is better than GDP is needed so that it can accommodate various aspects of human life. Happiness is increasingly considered the proper measure of social progress and the goal of public policy.

The happiness indicator is a measure that describes the level of well-being. Happiness reflects the level of prosperity that each individual has achieved. The happiness indicator will describe the level of subjective well-being related to some aspects of life that are considered essential and meaningful for most residents and the community. Various studies related to the phenomenon of happiness showed that happiness is affected by various factors.Many experts now recognize that income is not a measurement that alone captures the well-being of individuals, and governments around the world are starting to rethink how they measure the welfare of their citizens. Well-being is best understood as a multifaceted phenomenon that can be assessed by measuring a wide array of subjective and objective constructs (Forgeard et al., 2011).

Initially, happiness was grounded on income, Easterlin (1974, 1995). Well-being is now understood not simply as positive emotions but as thriving across multiple domains of life (Diener et al., 2003). Well-being integrates hedonic well-being (feeling good) and eudaemonic well-being (functioning well). One of the most widely researched conceptualizations of well-being is subjective well-being. Subjective well-being, in general, covers a broader concept, which is defined as an excellent mental state, including positive and negative evaluations taken during life and affect reaction to these experiences.

Forgeard et al. (2011) gave a brief overview of the main instruments used by researchers to measure subjective facets of well-being. First is happiness. However, many researchers found that happiness is an unwieldy construct for scientific research, so further effort is needed to disentangle this obscure notion of 'happiness' into a more basic and measurable one. Second, positive emotion. Empirically, researchers interested in measuring positive emotion have included a broader and more nuanced range of positive and negative emotional states besides pleasure and pain. One important consideration is that individuals are not equally endowed with the ability to experience their positive emotions. Introverts and extroverts have differences in experiencing positive emotions. Therefore, the fairness of using positive emotions as a critical indicator of well-being is controversial, and the focus on measuring and nurturing other aspects of well-being may be more fruitful. Third, engagement. Engagement refers to a psychological state in which individuals report being absorbed and focused on what they are doing. In its end, engagement has been cited as "flow" or the general feeling cited as "being withinside the zone".

Fourth, meaning and purpose. Meaning has been defined in various ways: as the ontological significance of life from the point of view of the experiencing individual, as the feeling of belonging and serving something more extensive than the self, or simply as the response to the question "what does my life mean?" In particular, "meaning" is now regarded as a vital contributor to typical well-being; this is separate from, however undoubtedly correlated with, different aspects of well-being. Fifth is life satisfaction. Life pleasure judgments consequently rely on the requirements people have set for themselves. Individuals with comparable goal occasions can also decide their lives to be extra or much less satisfying, a hassle that has led many to suggest the usage of extra goal measures of well-being. The use of life satisfaction measures as a surrogate for well-being has been criticized on diverse grounds because respondents can also regularly use how properly they experience while they are requested as the idea for their judgment. Another grievance of life satisfaction measures is that respondents` social desirability will bias them. Perhaps the most important hassle with life satisfaction measures is that this assemble too frequently been equated to common well-being and ignored other facets. Sixth is relationships and social support. Social support, defined as the belief that one is cared for, loved, esteemed, and valued, has been recognized as one of the most (if not the most) influential determinants of well-being for people of all ages and cultures. Seventh, accomplishment and competence. Accomplishment can be defined as achievement, success, or mastery at the highest level possible within a particular domain. Oswald et al. (2015) offer evidence that happiness makes humans greater productive. Paying more attention to happiness should be part of policymakers' efforts to achieve human and sustainable development.

Previous studies showed that social capital and happiness are correlated (Abdul-Hakim et al., 2014; Rahayu & Harmadi, 2016). Most of these studies proved that social capital plays a vital role in increasing individual and community happiness. Evidence shows that social trust and social support are associated with life satisfaction globally, and the correlation is stronger in high-income countries. Even though both social capital and happiness have left profound impressions in the social sciences, only a limited number of studies about how social capital and happiness interact in developing countries, specifically Indonesia.

This research aimed to determine the effect of social capital on the individual level of happiness in Indonesia. The research contribution is testing determinants of happiness using several dimensions of social capital, namely trust, information channel, and civic engagement, especially political participation. In addition, the estimation also takes into account other social demographic factors. A logistic model was used to analyze the effect by utilizing the data IFLS (Indonesia Family Life Survey) 2014. Results showed that social capital has positive relation the individual happiness. In general, the higher the social capital, the higher the individual happiness.

**Method**

This research was designed using quantitative methods. This study used the data of the Indonesian Family Life Survey (IFLS) 2014. Happiness as a dependent variable uses a binary variable that shows the respondent's subjective assessment of their happiness (happy=1; not happy = 0). Respondents were given the opportunity to assess their happiness subjectively by considering their current situation and conditions. The sample used was individuals with a minimum age of 18 years. This age group is an adult age group that is assumed to be able to make their own decisions, can carry out activities in the community, and be responsible for themselves. The dimensions of social capital used here refer to the definition described by Coleman (1988), namely trust, information channel (social interaction), norms, and sanctions (Putnam, 1995) with civic engagement and dividing it into civic participation and political participation. This study focused on three dimensions, namely trust, information channel (social interaction), and political participation.

Two indicators measure the dimensions of trust. First the trust of individuals to entrust their children to neighbours within a few hours if it is not possible to take the child away (trust leaving the child = 1; no = 0). Second, personal feelings if someone with different faith lives in the individual's environment (do not mind different faith = 1; objection = 0). The dimension of the information channel (social interaction) is measured by involvement in social gathering (*arisan)*. *Arisan* is the activity of collecting money or goods of equal value from several people and is then drawn between them to determine who gets it. The activity is held in a meeting periodically until all members have obtained it. The indicator of social interaction used here is participation in a social gathering (*arisan*) in the last 12 months (participate = 1; no = 0). The final dimension of social capital used is political participation, namely whether participating in the last presidential election (participate = 1; no = 0).

Several alternative models can be used when estimating a dependent variable in the form of a binary variable. The commonly used model is a logistic model with a logistic distribution and a probit model with a normal distribution (Wooldridge, 2012). Both will give the same results. In this study, the model used is a logistic model consideration. The results of the logistic model estimation are easier to interpret because the estimated coefficient can be raised in its marginal value after logistic regression is done (Cameron & Trivedi, 2009). The models used here are as follows:



Where is set variable controls are considered influential on the happiness of individuals, such as education (years of schooling), gender, marital status, employment status, income, and asset ownership.



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**Results and Discussions**

Empirical studies have shown that various factors influence individual happiness/well-being. One of these factors is social capital. Social capital is the concept that people and organizations can benefit assets from their connections to at least one another (and the kind of those connections) (Leung et al., 2011). The essential concept of social capital is that relationships and social networks are critical and permit us to paint effectively in surroundings inherent with uncertainties through trust, collaboration, and communique. Coleman (1988) defines social capital by its function. It is not a single entity but many different entities with two common elements. They are all made up of some aspect of the social structure, facilitating specific actions by actors within the structure, whether individual or corporate actors paint. Like other forms of capital, social capital is productive and can achieve certain goals that would otherwise be impossible. Social capital is not entirely exchangeable like physical and human capital but can be specific to a particular activity. Certain forms of social capital valuable in promoting certain actions may be useless or even harmful to others. Coleman (1988) stated three forms of social capital, namely: (1) obligation, expectation, and trustworthiness of structure; (2) information channels; and (3) social norms. Trust is based on understanding help received from other people, and an obligation on the part of the person who received help is implied. Information channels involve an individual gaining more information by knowing more people and developing closer ties with others. It is also known as social interaction. Two primary forms of information channels: are social relationships and civic engagement (Leung et al., 2011). Putnam (1995) distinguished two kinds of civic engagement named civic participation (membership in organizations) and political participation (voting, following political discussion, etc.).

Social capital affects life satisfaction /welfare/happiness through various mechanisms (Abdul-Hakim et al., 2014). First, social capital can direct a higher level of economic growth, creating optimism for the future. Optimism towards the future will ultimately give life satisfaction. Second, social capital can help the State overcome external shocks well. This will cause stability for the economy, reduce economic uncertainty, and ultimately increase life satisfaction. Third, social capital by itself is a good item. Having social interaction and knowing many friends can lead to feeling good about someone and maybe publishing a level of life satisfaction at the individual and community level.

The total sample used was 50,056 adults. As shown in Table 1, most of the respondents have high social capital. Most of the respondents entrust their children to their neighbours when they have to go and cannot bring their children to participate in activities and faith trust. They do not mind if someone with different faith lives in their environment. They also have high confidence in national political security, so they need to participate in the presidential election. Eighty-three per cent of respondents participated in the presidential election. However, for respondents' participation related to *arisan*, only a small number of respondents participated in *arisan* activities.

The average age of the respondents is 38 years, with an average education of 9 years or has completed junior high school education. Most respondents were female, and 75 per cent were married. Assets are a form of reserve individuals need to cope with unexpected things. The existence of assets will facilitate the survival of individuals. The assets owned by respondents include vehicles, jewellery, and savings, but no more than half of the respondents own them for savings and jewellery. Based on the location of residence, most of them live in urban areas.

**Table 1 Descriptive Statistics of Variables**

|  |  |  |
| --- | --- | --- |
| **VARIABLES** | **Mean** | **Std. Dev.** |
| Arisan  1= participate  0= other | 0.321 | 0.467 |
| President election  1= participate  0= other | 0.831 | 0.375 |
| Childtrust  1= agree  0= disagree | 0.720 | 0.449 |
| Faithtrust  1= no objection  0= objection | 0.775 | 0.418 |
| Age | 38.475 | 14.472 |
| Educ | 8.852 | 4.533 |
| Male  1= male  0= female | 0.486 | 0.499 |
| Married  1= married  0= other | 0.751 | 0.432 |
| Main active  1= working  0= other | 0.611 | 0.488 |
| Log income | 7.825 | 8.157 |
| Vehicle  1= yes  0= no | 0.735 | 0.441 |
| Saving  1= yes  0= no | 0.291 | 0.454 |
| Jewelry  1= yes  0= no | 0.469 | 0.499 |
| Urban  1= urban  0= rural | 0.590 | 0.492 |
| Observations | 56,056 | 33,056 |

Source: IFLS 2014

Table 2 shows the results of the analysis of how several indicators of social capital affect the individual happiness of Indonesians. In general, social capital has a positive relation to individual happiness. Results showed that individuals who participate in social gatherings (*arisan*) are happier by 0.03 per cent compared to individuals who do not participate in *arisan*. Individuals who participate in social gathering activities are happier than people who do not participate in social gatherings. There are several mechanisms by which this can happen. First, regular gathering activities allow individuals to interact with other individuals, which may be challenging to do every day. Each individual has a busy schedule so that that gathering can be a place for interaction between individuals. As social beings, interacting is a necessity. Second, at every artisan meeting, there will be an arisan member who will get a turn to withdraw the contributions that have been collected previously. This means that the individual has additional income to increase his sense of security related to welfare. An individual with the trust to entrust their children to neighbours within a few hours if it is impossible to take the child away is happier by 0.004 percentage points than an individual who does not have trust. Associated with trust in neighbours to entrust their children when they cannot bring their children to participate in activities, individuals can concentrate more on completing all their activities with a sense of calm and security so that they can focus more on completing them and tasks/work can be completed more quickly. On the other hand, participation in a presidential election and objection if someone with different faith lives in the same environment does not affect happiness but is based on relation, and both still have a positive direction with happiness.

**Table 2. Effect of Social Capital on People's Happiness (Full Sample)**

|  |  |
| --- | --- |
|  |  |
| **VARIABLES** | **Dependent Variable: happiness (1=happy;0=other)** |
|  |  |
|  |  |
| *Arisan* | 0.0313\*\*\* |
|  | (0.0023) |
| president election | 0.0008 |
|  | (0.0028) |
| Child\_trust | 0.0042\* |
|  | (0.0025) |
| Faith\_trust | 0.0023 |
|  | (0.0025) |
| Age | -0.0004\*\*\* |
|  | (0.0001) |
| Educ | 0.0040\*\*\* |
|  | (0.0003) |
| Gender | -0.0022 |
|  | (0.0023) |
| Married status | 0.0203\*\*\* |
|  | (0.0026) |
| Main\_active | 0.0019 |
|  | (0.0026) |
| Log\_income | 0.0001 |
|  | (0.0002) |
| Vehicle | 0.0551\*\*\* |
|  | (0.0029) |
| Saving | 0.0311\*\*\* |
|  | (0.0025) |
| Jewelry | 0.0433\*\*\* |
|  | (0.0024) |
|  |  |
| Observations | 56,056 |

The coefficients are marginal effect after logistic model; Standard errors in parentheses; \*\*\* p<0.01, \*\* p<0.05, \* p<0.1

Social capital for Coleman is a resource that economic actors can use to enable productivity. It refers to multiple features of social capital: (1) trust and obligations, (2) information channels, and (3) norms and effective sanctions. These three dimensions affect a society's efficiency by encouraging coordination and cooperation among individuals or social groups (Coleman, 1988). If the dimensions of social capital positively influence individual happiness, then social capital has been able to move these individuals to be more productive in life and increases the likelihood they feel happier.

The relationship between social capital and individual happiness from several studies is not strong. Some researchers have found the positive influence of most social capital on general life satisfaction at the individual level through various channels and in various forms, such as Putnam (1995) using US data and Leung et al. (2011) using Canadian data. Social capital can indirectly influence happiness, focusing primarily on relationships with health, wealth, or economic growth.

Zhang (2022) shows that happiness levels are positively correlated with higher income, more active participation in social activities, and reciprocal activities. That is, social capital is a strong predictor of happiness. Crowley & Walsh (2021) add components of social capital intolerance, ties (networks), and trust that are positively associated with life satisfaction. The study results by (Somarriba Arechavala et al., 2021) confirm the importance of variables related to the neighbourhood's social capital and physical environment as key elements in residents' happiness. The findings also indicate that traditional indicators used to measure well-being, such as education or difficulty making ends meet, are insignificant.

Social demographic variables such as age, education, marital status, and asset ownership have a significant role in individual happiness. All, except age, have a positive relationship with happiness. Individuals with higher education are likely to have happier lives (Araki, 2022; Cuñado & de Gracia, 2012; Nikolaev & Rusakov, 2016). This is because people with higher education are exposed to better information and knowledge than those with lower education. With the knowledge possessed, individuals can improve their quality of life and have the ability to adapt to external changes. This is certainly advantageous when there are shocks that interfere with their survival. They will adapt more quickly to improve their condition.

Married people also have happier lives than those not married (Ndayambaje et al., 2020; Stack & Eshleman, 1998). Marriage is generally regarded as an essential indicator of well-being, providing emotional, social, and financial support between husband and wife and enhancing their well-being. It can also be seen as an appropriate means of exercising personal and social status (Himawan et al., 2018; Lee et al., 2020). (Mikucka, 2015) points out that the benefits of marriage are more significant under conditions that favour freedom of choice than financial need. (Lawrence et al., 2019) suggest that overall well-being underlies many relationships between marital well-being and better health and longevity. It can be concluded that subjective well-being and the quality of relationships contribute to the health benefits of marriage. In terms of asset ownership, individuals who have assets feel happier than individuals who do not have assets. This indicates that an asset is indirectly a guarantee of economic security for someone. Availability of assets will provide more security for individuals to provide a happier feeling. Working and the amount of income do not significantly affect happiness but are based on the direction of the relationship. Both still have a relationship that is in line with happiness. Based on sex, happiness between males and females there is no different. Even though there was no significant difference, women reported being happier than men. Women around the world report higher life satisfaction than men but at the same time report more daily stress. Yue et al. (2017) provided empirical data that women are more likely to express emotions like gratitude and happiness. However, Montgomery (2022) shows that the gap in common indicators is consistent in which women and men systematically use different response scales and that once these scales have been normalized, women appear less happy than men on average

This study also divides samples by place of residence. The results are presented in Table 3. Not much different from the results of complete sample analysis, social capital shows a positive effect on the level of individual happiness. There is a difference in the likelihood of someone becoming happier in urban and rural areas in two dimensions of social capital. Regarding social interaction, the possibility of happiness for people in rural areas is higher than in urban communities. This can be attributed to the condition of social capital in urban areas, which tends to weaken in social interaction due to economic and demographic conditions, making them more activities outside the environment to work. Both showed no significant effect in the dimension of trust but still tended to be positive. This shows that their differences in their beliefs and beliefs in the environment do not affect determining people's happiness.

**Table 3 Effect of Social Capital on People's Happiness (Urban vs Rural)**

|  |  |  |
| --- | --- | --- |
|  | (1) | (2) |
|  |  |  |
| VARIABLES | Urban | Rural |
|  |  |  |
| arisan | 0.0246\*\*\* | 0.0424\*\*\* |
|  | (0.0028) | (0.00395) |
| President election | 0.0085\*\* | -0.0118\*\* |
|  | (0.0035) | (0.00471) |
| Child\_trust | 0.0056\* | 0.000766 |
|  | (0.0029) | (0.00443) |
| Faith\_trust | 0.0050 | 0.000222 |
|  | (0.0033) | (0.00391) |
| Age | -0.0003\*\*\* | -0.000444\*\*\* |
|  | (0.00009) | (0.000129) |
| Education | 0.0038\*\*\* | 0.00427\*\*\* |
|  | (0.0003) | (0.000492) |
| Male | -0.0014 | -0.00331 |
|  | (0.0028) | (0.00398) |
| Married | 0.0195\*\*\* | 0.0206\*\*\* |
|  | (0.0032) | (0.00455) |
| Main\_active | -0.0026 | 0.00715 |
|  | (0.0033) | (0.00444) |
| Log\_income | 0.0004\* | -0.000124 |
|  | (0.0002) | (0.000263) |
| Vehicle | 0.0590\*\*\* | 0.0515\*\*\* |
|  | (0.0039) | (0.00433) |
| Saving | 0.0246\*\*\* | 0.0441\*\*\* |
|  | (0.0030) | (0.00452) |
| Jewelry | 0.0422\*\*\* | 0.0450\*\*\* |
|  | (0.0029) | (0.00387) |
|  |  |  |
| Observations | 33,056 | 23,000 |

The coefficients are marginal effect after logistic model; Standard errors in parentheses; \*\*\* p<0.01, \*\* p<0.05, \* p<0.1

Social capital, namely political participation in the form of presidential election participation in rural and urban areas, shows the direction of different relationships. Radcliff (2017) has documented several studies related to selection and happiness. Real-world data from the economic paradigm of a new happiness is used to show that presidential systems influence life satisfaction. In a famous 1990 essay in The Journal of Democracy, Professor Juan Linz argued that presidential democracies were very problematic because they did a poor job of translating public wishes into results because they promoted the "winners take all" mentality in such a way that the president represented (at most) only its coalition while pretending to represent the nation, and because they tend to produce catastrophic disasters that lead to the collapse of democracy itself (Radcliff, 2017). On the other hand, optimism toward the future will ultimately give life satisfaction (Abdul-Hakim et al., 2014). A sense of optimism for presidential candidates brings a better future and can motivate people to participate in presidential elections.

Individuals who participate in the city's presidential election are happier than those who do not participate in the presidential election. On the other hand, individuals who live in rural areas participating in the presidential election have lower happiness compared to individuals who do not participate in the presidential election. This is interesting because the euphoria of the presidential election in urban areas is seen as a democratic party to channel their political aspirations and not so for individuals in rural areas. Differences in the character and behaviour of rural and urban communities in general elections often attract attention (Harding, 2010; McKee, 2008; Scala & Johnson, 2017). Urban communities, primarily immigrants, usually choose to visit the polling place early. The conditions of polling stations also make a difference because polling stations in urban areas are more and closer to housing or workplaces, so there are fewer queues and shorter time spent. Contrary to rural elections, where people choose to arrive before closing time, the distance to polling stations is relatively far away, and the long queues make them need more time.

Trust in entrusting children to neighbours only affects individuals who live in urban areas. This is possible because people in urban areas generally migrate with a limited number of families. The existence of a trusted neighbour will significantly help individuals carry out their activities efficiently. Abdul-Hakim et al. (2014) also show that social capital significantly impacts the quality of life among rural households in Malaysia. Somarriba Arechavala et al. (2021) emphasize that the neighbourhood community profoundly affects individual well-being and happiness. Neighbourhood environment characteristics that seem most directly related to residents' happiness include access to open, natural, and green spaces, which are design features that allow for social interaction. Many studies have evidenced how the environment can influence happiness. The way cities are designed, particularly low socio-economic level areas, is directly linked to greater emotional well-being and everything it implies. If dwellings are not generally spacious and comfortable, if social life takes place in public spaces more than in other neighbourhoods, they need quality of life for their residents. With the disruption caused by the COVID virus, this has become even more pertinent.

**Conclusion**

This research contributes to testing the effect of social capital on the individual level of happiness in Indonesia using several dimensions of social capital, namely trust, information channel, and civic engagement, especially political participation. It also considers other social demographic factors and area characteristics (rural vs urban).

Some dimensions of social capital have an important influence on happiness in Indonesia. These dimensions are trust, information channel (social interaction), and political participation, part of civic engagement. In general, all measures of social capital (except participation in presidential elections in rural areas) have a positive relationship with happiness. Based on the location of residence, the community in the village has a higher tendency to feel happy than the people in the city. This can be seen from the magnitude of the influence of social capital on the increase in happiness is still higher in the village than in the city.

A positive correlation between social capital and happiness may suggest that public policies toward increasing social capital at the individual and aggregate level may have complementary effects on raising individual happiness. Correlation between individual happiness and different form of social capital appears to be important to understanding other dimensions of social capital and the potential interaction between them at any level. This study has not been able to answer it all because of the limitations of the dimension indicators used in this study. In further studies, an extension of the dimensions of social capital can be carried out and consider how it is possible to interact between these dimensions.