

## Reply to referee 1

Thank you for your comments.

*Comment:*

*In the abstract and on p. 3 the authors develop a speculative narrative that is consistent with their results. It would be helpful at times to make clear that this narrative is purely the authors own speculation, rather than something the authors test.*

Answer:

We changed the paper in the suggested way to make clear that the four explanations are our hypotheses and we state explicitly that future researches are needed to verify these explanations. (abstract; page 3, paragraph 2.)

*Comment:*

*In eq. (2) a relative measure of the change in inequality is proposed. Is this important, or does an absolute measure of inequality reduction lead to the same qualitative findings?*

Answer:

We checked this possibility. Even if we use an absolute measure of income inequality reduction (Pre-government Gini index – Post-government Gini index) we get qualitatively the same results as in Table 1: inequality reduction is associated positively, whereas income inequality is associated negatively with life satisfaction. We added Table A5 (in the Appendix) where Model 1 shows these results (page 21). In addition, in a new paragraph (paragraph 1, page 10) we discuss this result.

*Comment:*

*Are the results sensitive to the choice of filter? Do the standard errors need to be adjusted to reflect the use of filtering?*

Answer:

Model 2 In Table A5 (in the Appendix) shows the estimation where we use the original income inequality and redistribution variables instead of the smoothed trend. Both variables are significant at the 5 percent level, but their size is somewhat lower than the coefficients in Table 1. This is consistent with our expectations, since the “raw” variables are supposed to be measured with considerable noise, thus, the estimated coefficients of these variables might be biased toward zero. We discuss the result in Section 3.1. (page 10, paragraph 1).

We use standard errors that are clustered at the country-wave level and are robust to heteroskedasticity. Other papers of the “happiness literature” that use HP filtered trend variables are not make further adjustment.

e.g. Layard, R., Mayraz, G., & Nickell, S. (2010). Does relative income matter? Are the critics right? In E. Diener, J. F. Helliwell & D. Kahneman (Eds.), *International Differences in Well-being*, Oxford: Oxford University Press, 139-165.

*Comment:*

*P. 5 third para: Should be “we use it” rather than “we used it”. Also “control for” at end of next para. On p. 7 under robustness, it should be “Columns 1 and 2”. P. 11, should be “tolerance of”*

*Answer:*

We corrected the grammatical mistakes.

*Comment:*

*Section 3. Some comparison to the size of other coefficients in the literature might be helpful here.*

*Answer:*

The estimated coefficient of income inequality in the previous literature is influenced by the well-being measure and the sample as well, thus, the size of most of these coefficients is not directly comparable with our result. Nevertheless, we present some of the previous empirical results regarding the effect of inequality in a new footnote on p. 6.

*Comment:*

*The authors might want to investigate some of the approaches in psychology that make clear predictions regarding the expected relationship between well-being and inequality. In particular, range frequency theory springs to mind. The authors should consider whether this branch of literature is worthy of a mention. See, e.g., the below:*

*Hagerty, M.R. (2000) Social comparisons of income in one’s community: Evidence from national surveys of income and happiness. Journal of Personality and Social Psychology, 78, 764-771.*

*Answer:*

Thank you for your suggestion. We mention Hagerty’s work on page 2 in a footnote.