

Public Sector Practice

# Well-being in Europe: Addressing the high cost of COVID-19 on life satisfaction

Recovery will depend on saving lives, sustaining livelihoods, *and* supporting quality of life.

*by Tera Allas, David Chinn, Pal Erik Sjatil, and Whitney Zimmerman*



**As leaders across Europe** turn their attention to ensuring a safe and rapid recovery from the COVID-19 crisis, they are right to focus on promoting economic growth while preventing further loss of life. A prolonged downturn could permanently hamper countries' future growth, with the resulting income and job losses likely to disproportionately impact the most vulnerable in society. Fresh research shows why leaders can't afford to ignore another critical and underappreciated consequence of the pandemic: the toll on happiness.<sup>1</sup>

Average life satisfaction in Europe, which has consistently led the world in well-being, fell to the lowest level since 1980 in April.<sup>2</sup> People across the continent have suffered a major blow from COVID-19 and the measures to curb its spread. The drop in satisfaction is only partly explained by the losses that people have experienced in their income or job security. Indeed, the crisis has extracted an especially high toll when it comes to how people feel about their health and their relationships—with reports of depression and loneliness doubling, tripling, or even quintupling over previous norms.

One way to grasp the magnitude of the change is to express it in monetary terms. When we do this, we find that the pandemic's negative impact on well-being in April was up to 3.5 times the losses experienced in GDP (Exhibit 1). While some of the negative effects are likely to dissipate as countries start to relax virus-related restrictions, others are likely to have caused permanent scars. Even a few weeks of reduced physical exercise, heightened stress and anxiety, or limited access to diagnostics and care are likely to have longer-term health consequences for some people. Moreover, a recurrence of the virus might necessitate new or reinstated physical-distancing measures.

For employers and policy makers, this means that attention to well-being is mission critical in any recovery plan. Europe's long-term prosperity

depends on saving lives, sustaining livelihoods, and supporting quality of life. What's more, actions that boost well-being, such as supporting mental health or job satisfaction, are often surprisingly simple and cost-effective. For cash-constrained companies and governments facing the reality that life will not go back to normal anytime soon (if ever), lifting the spirits of their employees and residents is a crucial ingredient for a sustainable future.

## **Prosperity beyond economic growth**

In recent years, leaders have increasingly recognized the need to assess a society's success by metrics other than GDP. The 2008 financial crisis and the austerity measures that followed heightened that debate, and many countries—including France, Germany, and the United Kingdom—launched related well-being initiatives. Still, embedding happiness as a standard criterion in decision making has a long way to go.

A consensus is nevertheless emerging on how best to measure well-being. Researchers now tend to ask a basic question: "Overall, how satisfied are you with your life nowadays?" Respondents answer on a scale of 0 to 10, where 0 is "not satisfied at all" and 10 is "fully satisfied."<sup>3</sup> On this metric, Europeans have been doing rather well, with a population-weighted average life satisfaction of 6.7 in 2019, versus a global average of 5.0 across 136 countries, according to data from the Gallup World Poll. Europe's scores ranged from a high of 7.8 for Finland—the happiest country in the world, according to the surveys—to a low of 5.1 in Bulgaria. Only one non-European country joined the world's top ten nations in life satisfaction: New Zealand.

These findings might lead one to conclude that happiness is primarily driven by material living standards. After all, Europe is home to many of the highest-income countries in the world. Income, however, forms only a part of the story.

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<sup>1</sup> In this article, we use the concepts of well-being, life satisfaction, quality of life, and happiness interchangeably when we refer to people's subjective evaluation of their overall life.

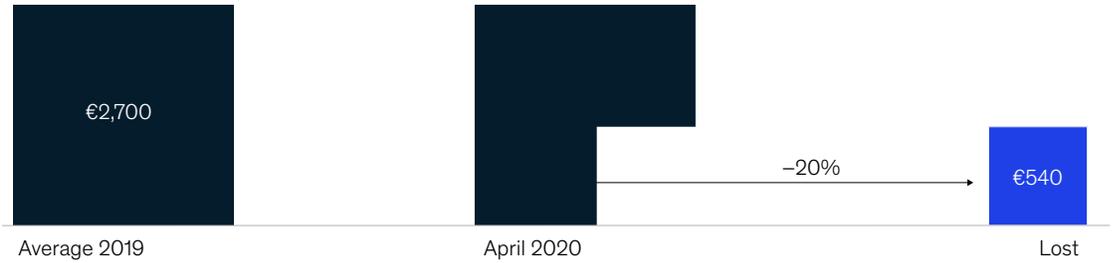
<sup>2</sup> Europe includes the UK and the 27 member countries of the European Union.

<sup>3</sup> There are some variations on exactly how these questions are posed, but any differences are taken into account when conducting quantitative analysis on the responses.

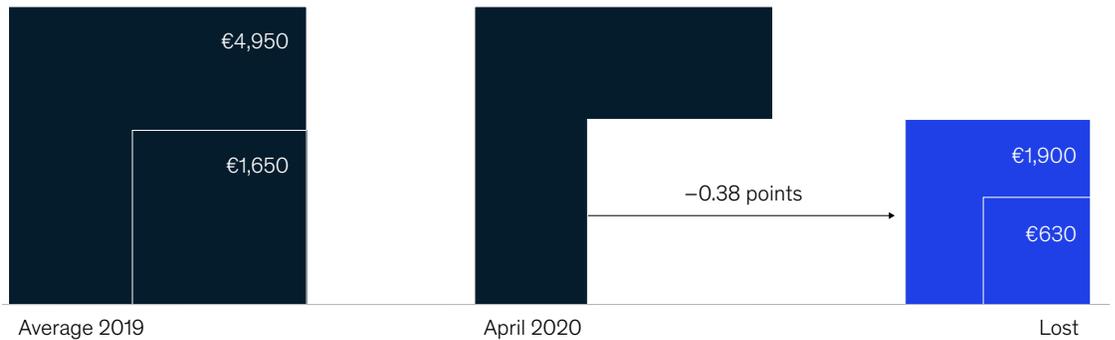
Exhibit 1

**When put into monetary terms, the pandemic’s negative impact on well-being in April was up to 3.5 times the losses experienced in GDP.**

Monthly GDP per capita in Europe<sup>1</sup> in April 2020, €



Monthly life satisfaction in Europe in April 2020, € (income-equivalent value)<sup>2</sup>



<sup>1</sup>Includes EU-27 plus the UK.

<sup>2</sup>Points of life satisfaction are on a scale of 0–10. 1 point of life satisfaction per capita = €1,650–€4,950 per month in income-equivalent value.

Source: Andrew Clark et al, *The Origins of Happiness: The Science of Well-Being over the Life Course*, first edition, Princeton, NJ: Princeton University Press, 2018; Eurostat; Paul Frijters et al, *A happy choice: Wellbeing as the goal of government*, Centre for Economic Performance, 2020; *The Oxford Handbook of Well-Being and Public Policy*, first edition, New York, NY: Oxford University Press, 2016; UK Office for National Statistics; *World happiness report 2020*, Sustainable Development Solutions Network, March 2020, worldhappiness.report; McKinsey analysis

**The role of money in happiness**

When it comes to life satisfaction, leaders tend to overestimate the relative importance of money and underestimate the value of nonmonetary factors. Research shows that the main determinants of well-being for individuals include health, job satisfaction, relationships, income, employment, and noncriminality (Exhibit 2). Mental and physical health explain almost half the difference in life satisfaction scores among individuals. Income and employment, in contrast, matter a lot less. One German study found that when an individual’s health

deteriorates, their life satisfaction falls by roughly 35 percent more than an otherwise similar person who loses their job.<sup>4</sup>

In the case of cross-country comparisons, economic factors—GDP per capita and unemployment—play a more pronounced role. But health, job satisfaction, trust, and relationships all make a material difference, too. Such characteristics tend to be correlated, resulting in four broad clusters of European countries, with different implications for their resiliency in the COVID-19 crisis (Exhibit 3):

<sup>4</sup> Deterioration of health defined as a person moving from “excellent,” “very good,” or “good” self-reported health status to “poor” health status. Paul Frijters et al, *A happy choice: Wellbeing as the goal of government*, Centre for Economic Performance, 2020.

Exhibit 2

## Health, job satisfaction, relationships, and trust are important drivers of life satisfaction, in addition to income and employment.

### Determinants of life satisfaction, % share

**Individual level in the UK**, % of variation among individuals of same age<sup>1</sup> explained by each factor



**Country level in EU-27 and UK**, % of variation among countries<sup>2</sup> explained by each factor



Note: Figures may not sum to 100%, because of rounding.

<sup>1</sup>The figures shown are derived by squaring the correlation coefficient for each variable and dividing by the sum of these squares, using a regression based on standardized values. They therefore measure the fraction of the explained variance of life satisfaction that is independently captured by the variable in question. For details of the model specification, see table 16.1 in Andrew Clark et al, *The Origins of Happiness: The Science of Well-Being over the Life Course*, first edition, Princeton, NJ: Princeton University Press, 2018.

<sup>2</sup>Includes the EU-27 plus the UK over the period 2008 to 2018; adjusted R2 = 0.86; all variables statistically significant (95% confidence interval).

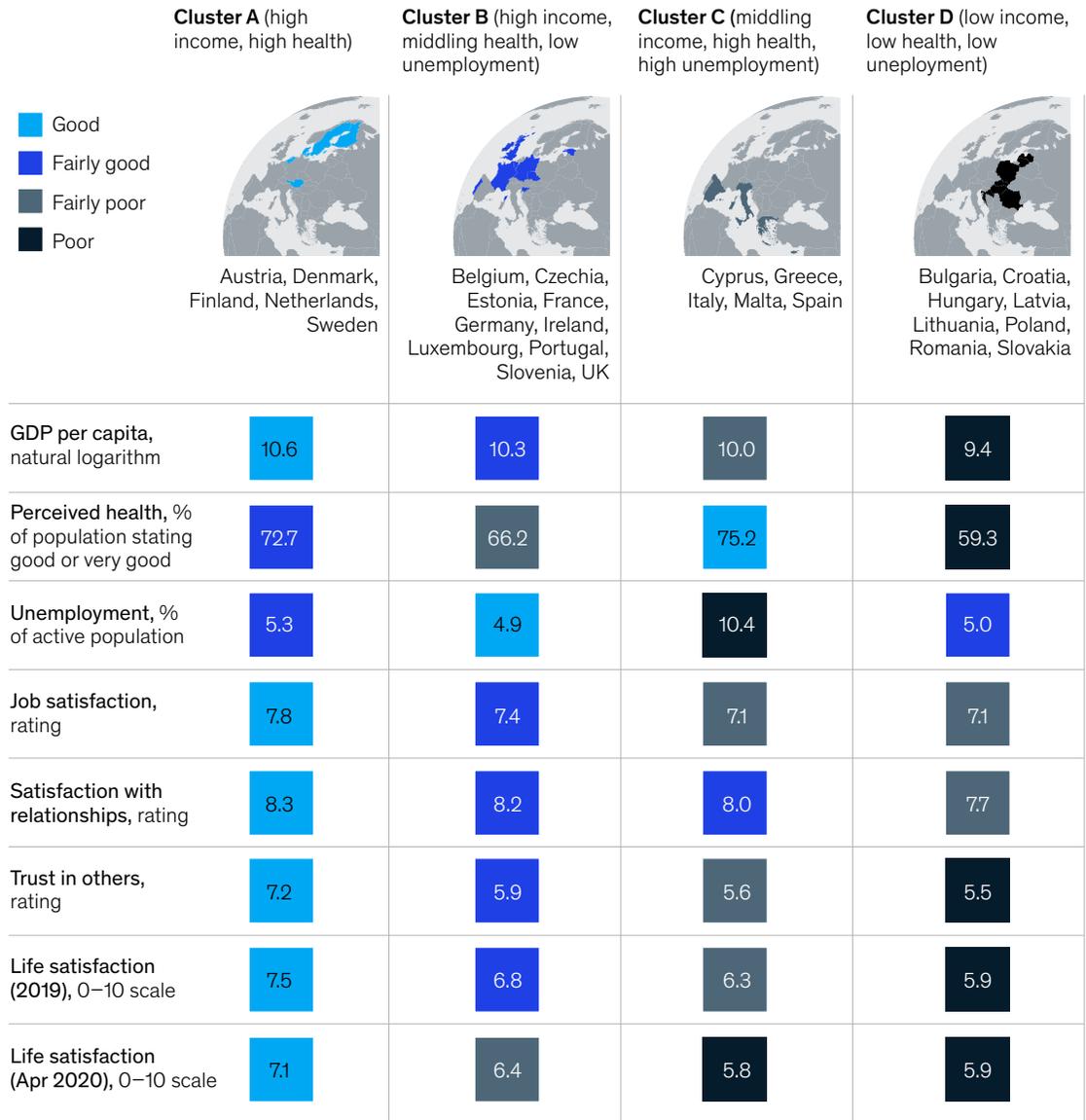
Source: Andrew Clark et al, *The Origins of Happiness: The Science of Well-Being over the Life Course*, first edition, Princeton, NJ: Princeton University Press, 2018; Eurostat; Paul Frijters et al, *A happy choice: Wellbeing as the goal of government*, Centre for Economic Performance, 2020; Richard Layard, *Can We Be Happier: Evidence and Ethics*, first edition, London, England: Pelican Books, March 2020; *World happiness report 2020*, Sustainable Development Solutions Network, March 2020, worldhappiness.report; McKinsey analysis

1. High-income countries with high levels of health, such as Austria, Denmark, and Finland, score highly on all other drivers, except unemployment. They consequently benefit from high levels of life satisfaction.
  2. High-income, low-unemployment countries, such as Ireland and Belgium, are somewhat weaker on health and other social dimensions, such as trust. This diminishes their scores, but their self-evaluated quality of life remains fairly good.
  3. Mediterranean countries have high levels of health, but also experience higher unemployment and lower incomes. Overall, their well-being is fairly poor in relation to other European countries.
  4. Eastern European countries are relatively weak on all aspects contributing to life satisfaction, except unemployment. Their self-reported well-being is low, on par with countries such as Thailand or Colombia.
- McKinsey's analysis of the consequences of the COVID-19 pandemic and related lockdowns suggests that disparities in economic factors— incomes and unemployment—are likely to be exacerbated across Europe. However, a different

Exhibit 3

**In life satisfaction and underlying socioeconomic characteristics, European countries fall into four clusters.**

Life-satisfaction determinants in Europe, average for each cluster<sup>1</sup>



<sup>1</sup>Weighted by 15+ population in each country.

Source: Eurofound; Eurostat; *World happiness report 2020*, Sustainable Development Solutions Network, March 2020, worldhappiness.report; McKinsey analysis

The boundaries and names shown on maps do not imply official endorsement or acceptance by McKinsey & Company.

pattern has emerged for well-being: countries with relatively high satisfaction scores prior to the pandemic, such as Ireland and Luxemburg, experienced more severe drops during the crisis than lower-satisfaction countries, such as Croatia and Hungary. Nevertheless, higher well-being countries appear to have displayed more resilience on some dimensions, including people's ability to work from home, thereby avoiding temporary or permanent job losses.

### **How Europeans are suffering amid the crisis**

Overall, the pandemic has caused a large decline in life satisfaction across the continent, from 6.7 to around 6.3. This is to be expected, given the wide-ranging restrictions on people's daily lives, the anxiety created by the health crisis and economic uncertainty, and the limited ability to stay close to friends and family due to physical-distancing rules.

Clearly, reduced incomes and unemployment concerns have played a role. McKinsey's modeling with Oxford Economics suggests that economic activity across Europe in the second quarter of 2020 might end up at 14 percent below the levels of the fourth quarter of 2019. Output in April is likely to have been hit substantially harder than this—by 20 to 30 percent—given the severity of lockdowns at that time.

However, as shown in Exhibit 4, when we break down the reduction in life satisfaction into individual components, we see that health and relationship concerns were in fact more consequential for well-being than income and unemployment.

In 2018, 69 percent of people across Europe reported "good or very good" health, whereas in April 2020, this figure was down to an average of 63 percent. Self-reported health status dropped in every EU country with the exception of Luxembourg. Mental health experienced an even greater blow: the proportion of people feeling depressed more than doubled, from 6 percent in 2016 to 13 percent in April 2020; in Austria, the frequency of depressive symptoms has quintupled. Mental-health issues

have been particularly acute for young women under the age of 34.

Similarly, satisfaction with relationships—a critical contributor to well-being—declined significantly. For example, in the United Kingdom, nearly a quarter of people in April 2020 said that the crisis was negatively affecting their relationships. Across Europe, the proportion of people stating that they felt lonely "most or all of the time" almost tripled, from 6 to 17 percent. Loneliness was higher in countries where trust and relationship satisfaction were already at low levels in 2018, such as Bulgaria and Greece. This suggests that social capital—the supportive networks of relationships among people—has cushioned the COVID-19 shock in other countries.

### **Calculating the cost of reduced well-being**

We can further grasp the magnitude of the reduction in life satisfaction by translating the well-being impact into a monetary, income-equivalent value. This value represents the amount of money people would need to be given to offset the decline in happiness that they have experienced. The result of such a comparison is striking: the value of well-being losses in April was up to 3.5 times the losses experienced in GDP.

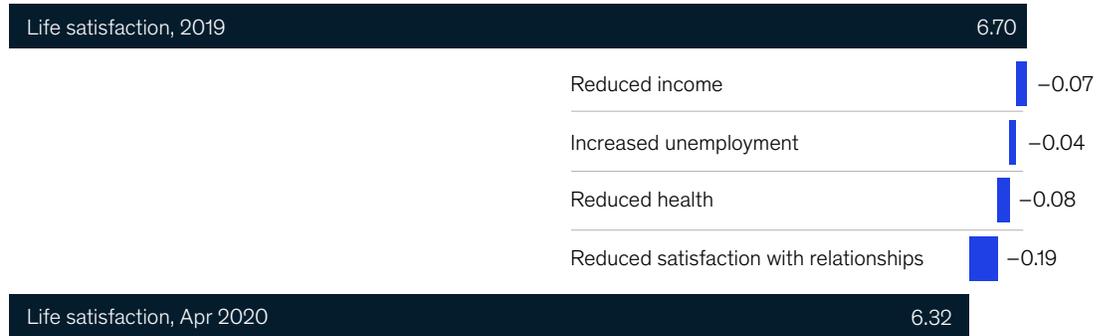
Our modeling of well-being drivers, and the large and growing literature on "happiness economics," enables us to approximate the value of each point of life satisfaction. As this is still an emerging science, we have used a number of sources and methodologies to capture the most likely range of monetary conversion rates relevant to this analysis. On that basis, we estimate that each point of life satisfaction is worth between €20,000 and €60,000 per year per person. This is around 1.1 to 3.3 times the average household income in Europe.

This estimation may sound substantial, but a full one-point change in life satisfaction would be unprecedented and huge: it would represent 15 percent of the average life satisfaction in Europe in 2019 and almost six times the average annual

Exhibit 4

## Reduced satisfaction with health and relationships was a key driver of the drop in well-being across Europe in April 2020.

European life satisfaction, EU-27 and UK, April 2020,<sup>1</sup> satisfaction score<sup>2</sup>



<sup>1</sup>The analysis is based on surveys that took place in the EU-27 and the UK in April 2020; estimates are unavailable for impact on job satisfaction and trust, so these have been excluded from the estimates.

<sup>2</sup>Weighted average based on 15+ population; excludes impact of lives lost. Estimating the life-satisfaction impact of loss of life and bereavement was outside the scope of this analysis; mathematically, a loss of life does not affect average life satisfaction (unless the person who has died was significantly more or less satisfied than the average), as the person would be removed both from the numerator and denominator of the calculation; however, other analyses indicate that the impact of loss of life on others is, understandably, significant; some of the survey-based measures used in this analysis, such as satisfaction with relationships, may include a partial reflection of these effects. Points of life satisfaction are on a scale of 0–10.

Source: Eurofound; Eurostat; UK Office of National Statistics; *World happiness report 2020*, Sustainable Development Solutions Network, March 2020, [worldhappiness.report](#); McKinsey modeling of COVID-19 economic scenarios in partnership with Oxford Economics; McKinsey analysis

fluctuation for European countries between 2008 and 2019. Indeed, even in the midst of the COVID-19 lockdowns, we estimate that life satisfaction declined “only” by around 0.4 points.

Combining these values, we find that the income-equivalent drop experienced in European well-being in April 2020 is very large—larger than the loss in GDP estimated for the same month. While official GDP data are not yet available for April, various forecasts suggest that GDP for the second quarter of 2020 is likely to be around 10 to 15 percent below 2019 levels. We have assumed that April saw the deepest reductions in economic activity—on the order of 20 percent relative to 2019—given that lockdown restrictions were at their tightest during this month, according to the Blavatnik School of Government Stringency Index.

A 20 percent reduction in GDP per capita across Europe will have reduced total income by around €540 per person in the month of April. In contrast,

we estimate that the income-equivalent value of the 0.38 point loss in life satisfaction would have been around €630 to €1,900—in other words, between 1.2 and 3.5 times the loss in GDP. Part of the life-satisfaction decline—around 18 percent, as per Exhibit 4—is directly linked to the reduction in incomes, but even if we put that to one side, the non-GDP aspects are worth €500 to €1,500 per person per month.

When one compares GDP and life satisfaction on a like-for-like basis, many complications arise. However, research has established that using income as the sole metric of well-being misses a substantial portion of what really matters to people, how the COVID-19 crisis has changed their lives, and what it will take for Europe to fully recover.

### Priorities for a postpandemic recovery

Some of the losses in well-being experienced since the start of the crisis will hopefully prove to be

short-lived. As life returns to more normal tracks, people will be able to rekindle relationships and, in some cases, use the opportunity to improve their work arrangements—for example, by reducing time spent commuting. What's more, many governments are considering how to lock in the beneficial side-effects of physical distancing, such as improved air quality and reduced greenhouse gas emissions.

However, the pandemic is also likely to leave more permanent scars, such as potential long-term unemployment, mental-health issues, delayed diagnostics and healthcare for non-COVID-related conditions, and general feelings of injustice.<sup>5</sup> Health concerns may become particularly apposite. For example, 17 percent of people in France and 34 percent of people in Italy say they are not exercising enough, with responses from Germany, the United Kingdom, and Spain falling between these figures. According to McKinsey's consumer-sentiment surveys, people are spending more time inactively, consuming digital content. Even the increase in news consumption, if it persists, could have negative implications for people's happiness.

The unique combination of economic distress and noneconomic stressors experienced during the COVID-19 crisis could pose a substantial risk to the resiliency of populations and organizations, and thus demands urgent attention from leaders in Europe. Our analysis points to three priorities.

First, with job satisfaction playing such a major part in people's well-being, it will be critical that any job creation efforts—for example, as part of fiscal stimulus packages—create *good* jobs. Governments will want to redouble commitments to upskilling the adult workforce, as skill mismatches are a key source of employee dissatisfaction. Businesses in turn need to recognize that supportive relationships with colleagues and one's immediate boss are among the most important determinants of employee health and engagement—both during and after the crisis. The good news for companies is that those same qualities are strongly correlated with better financial

performance. It is also critical that enough jobs are created for the people who are most vulnerable, including young women.

Second, leaders must actively support people's mental health in order to stop COVID-19—and the changes it will impose on people's lives even in the longer term—from exacerbating already concerning levels of stress, anxiety, and depression among Europe's population. Mitigating actions could involve, for example, digitally delivered psychological therapies and guided meditations. Fortunately, it is highly cost-effective to scale up support for common mental-health issues. The World Health Organization estimates that, for every euro spent, countries can reap a return of four euros in improved health and productivity. As for business leaders, some of the most beneficial actions they can take are cost free: expressing empathy and gratitude, fostering belonging and inclusion, and demonstrating purpose. Role-modeling these behaviors, and reinforcing their importance, will go a long way.

Third, to reflect what truly matters to people—whether they be citizens, residents, employees, customers, or business partners—government and business governance must change to consistently monitor life satisfaction. High-frequency pulse surveys that measure well-being at the business, country, and European level could be better used to rapidly collate and share lessons on what works to improve life satisfaction. Both business leaders and policy makers will also need to incorporate explicit consideration of physical and mental health, job satisfaction, relationships, and trust into their decisions. Just because these aspects of work culture and daily life might appear harder to quantify should not mean that they receive lower priority.

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The COVID-19 crisis is prompting individuals to reflect on their values and reassess their priorities in a changed world. For people in Europe, who

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<sup>5</sup> "Trust and the COVID-19 pandemic," Trust Barometer, Edelman, Spring 2020, edelman.com. The closure of schools and universities will also have long-lasting effects on the well-being of younger generations; however, they are outside the scope of the analysis for this article.

have typically enjoyed high levels of health, social interaction, and job satisfaction, the pandemic has been a brutal reminder of the consequences when those conditions suddenly change. Leaders who

reinforce the factors that foster well-being could see a swifter and more sustainable recovery. Those who don't may find the disruption and pain inflicted by this pandemic is just the start.

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