Social comparisons with similar people determine income's effect on happiness

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In a state with greater income inequality, the happiest place to occupy is not at the pinnacle of the income distribution, as one might think, but somewhere in the middle that provides clear vantage points of people like ourselves, a new study suggests.

According to sociologist Tim Liao of the University of Illinois Urbana-Champaign, it's the ability to compare ourselves with people of similar backgrounds, both people who earn more and others who earn less, that determine how our income affects our happiness—not the absolute amount we earn.

"Contrary to popular belief, more income does not necessarily make people happier. The actual amount a person earns doesn't matter much in terms of happiness," Liao said. "People who can make both upward and downward comparisons—especially with others in the same gender and ethno-racial group—are in the best position as far as their subjective well-being."

In the study, published in the journal Socius, Liao found that in states where incomes were relatively equal, individuals' happiness was affected less by their incomes because their economic positions were less clearly defined, making social comparisons less meaningful.

While there has been significant research on happiness and income inequality, much of that work was based on aggregate-level income inequality and global measures of happiness that did not capture the relationship at the individual level, he said.

Recent research suggests that social comparison theory, the premise that people's self-evaluations are based on their comparisons with others whom they perceive to be better or worse off, might play a key role.

Liao wanted to explore whether people's placement in the income distribution mattered—that is, if those who could conduct these upward and downward social comparisons were happier than outliers who were much more affluent or poorer than their peers.

Since individuals select the people they use as benchmarks for social comparisons, Liao also wanted to investigate which demographic group—gender, ethnicity/race or both of these—was most relevant.

Because no single survey was available that provided data on happiness along with income and demographic characteristics, Liao linked the data from two national surveys, both conducted in 2013, that involved many of the same respondents. Liao's sample included more than 1,900 people.

The 2013 American Time Use Survey was the most recent survey with well-being questions and provided Liao with a measure of each person's happiness. For that study, participants kept a time diary for a single day, rating on a seven-point scale how happy they felt while performing three randomly chosen routine activities. The ratings were added together to achieve a composite score representing each person's happiness level.

"Assessing a person's happiness as they go about their daily activities—a concept social scientists call 'experienced happiness' – may more accurately reflect their overall contentment with life than their responding to survey questions that ask them to rate how happy they are in general subjective terms," Liao said.

Using participants' annual income and demographic data from the Current Population Survey, Liao modeled income inequality at the state and individual levels.

He developed a measure at the individual level by comparing individuals' annual incomes with those of peers within the same gender, ethno-racial and gender/ethno-racial groups in their state.

Liao found that the gender/ethno-racial grouping was the most salient for social comparisons because individuals' inequality scores were more analogous in this array than when they were grouped either by gender or ethnicity/race alone.

In examining links between individuals' inequality scores and happiness within each group, Liao found that individuals with higher inequality scores than their peers also had lower happiness scores.

That is, people whose incomes were significantly higher or lower than their peers—meaning they could only make social comparisons upward or downward rather than in both directions—were less happy overall.

Likewise, Liao found that as income inequality within a state increased, the negative association between one-directional social comparisons and happiness also increased.

Liao said the findings confirm the importance of social comparison theory in research on happiness and income inequality.

And the same analytic method could be applicable in investigations of other social concerns at the individual level, he said, such as the connections between inequality and adverse mental and physical health outcomes.

More information: Tim Futing Liao. Income Inequality, Social Comparison, and Happiness in the United States, *Socius: Sociological Research for a Dynamic World* (2021). DOI: 10.1177/2378023120985648

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