



# A Review of Research on Income Inequality and Subjective Well-being

Yonghe Xie

College of Economics and Management, Guangxi Normal University, Guilin, Guangxi, China

**Abstract:** Happiness is not only closely related to our individual lives, but also influences efficiency transformation and social progress. There remains no definitive research outcome regarding the relationship between income inequality and subjective well-being. Research findings from various studies indicate that some believe income inequality has a negative impact on well-being, some see positive effects, and some researchers argue that income inequality has no significant influence on well-being. Therefore, this paper reviews relevant research on the link between income inequality and happiness, as well as studies on how income inequality affects happiness. It summarizes and analyzes the limitations of current research and proposes some suggestions for future research in related fields.

**Keywords:** income inequality, subjective well-being, life satisfaction

## 1. Introduction

Happiness is a cherished goal in people's lives and the ultimate purpose of economic development in various countries. According to previous research by scholars, there are numerous factors that influence happiness, among which income disparity is a significant one. An increasing number of people are focusing on the relationship between income inequality and well-being. Do people in more equitable environments truly feel happier and more satisfied than those in more unequal environments? This article reviews the research on the correlation between income inequality and subjective well-being.

## 2. The Relationship Between Income Inequality and Subjective Well-being

As material living standards gradually improve, income disparities are also widening. However, there has been no definitive conclusion regarding the impact of income inequality on people's sense of well-being in life. One view is that income inequality has a positive impact on subjective well-being. When people anticipate future income increases, they can tolerate temporary low income and income inequality, thereby enhancing their sense of well-being. Chen Zhao and others (2012) found in their survey of the well-being of community residents in Shanghai and Shenzhen that, due to the existence of household registration barriers, the demonstration effect of income increases is more pronounced for highly educated local residents and less educated foreign residents, which helps to improve residents' well-being [1]. Zhao Xinyu and others (2013) pointed out that this expectation has a significant positive effect on the subjective well-being of middle- and low-income groups. Another view is that income inequality has a negative impact on subjective well-being [2]. Feng Hexia (2016) found in empirical research using CGSS survey data that as the Gini coefficient rises and income inequality intensifies, it leads to a decline in the subjective well-being of residents in all regions [3]. Other researchers have pointed out that the negative impact of income inequality on the well-being of rural residents is significantly higher than that on urban residents, and its impact on low-income groups exceeds that on middle- and high-income groups [4].

The third view is that there is a nonlinear relationship between income inequality and subjective well-being. Zhang Lisi (2023) integrated the research models of multiple scholars and constructed a personal labor market participation model, analyzing the impacts of income inequality, perceived fairness, and social fairness on well-being, respectively. Taking the inflection point of the Gini coefficient as the boundary, perceived fairness moderates the relationship between income inequality and residents' well-being, resulting in an inverted U-shaped relationship. That is, as income inequality increases, subjective well-being first rises and then falls [5]. Komatsu's research shows that income inequality measured by different indicators has different impacts on subjective well-being. Income inequality measured by inter-provincial Gini coefficients and income ratios between urban and rural populations exhibits a significant U-shaped impact, while urban-rural income inequality measured by inter-provincial per capita household income ratios exhibits an inverted U-shaped impact [6]. Some scholars also believe that there is no significant correlation between income inequality and residents' well-being.[7][8]

## 3. The Mechanism of Income Inequality's Impact on Subjective Well-being

Researchers have proposed various explanations for how income inequality affects well-being. Firstly, inequality can

lead to social instability and an increase in criminal activities. The unfairness faced by members of society has a negative impact on their behavior, potentially limiting their choices and opportunities. This limitation may lead to decreased satisfaction with life and psychological imbalances and feelings of disappointment. Additionally, inequality can also affect well-being through social comparison, as people often compare themselves to others. When large income disparities are observed, social comparison may make people dissatisfied with their own situation, thereby reducing their well-being. At the same time, preferences for social mobility can also moderate the relationship between inequality and well-being. If society offers good opportunities for social mobility, people may more easily accept inequality and maintain an optimistic mindset.

Studies have shown a close connection between income inequality and social issues and conflicts. High levels of income disparities may exacerbate feelings of unfairness and dissatisfaction in society, potentially triggering a series of negative behaviors such as crime and violence, as well as industrial and political conflicts. These issues and conflicts not only pose a threat to individual safety and well-being but also have a negative impact on the stability and development of the entire society [9]. Conversely, equality is crucial for social harmony and fairness. When society has low income inequality, people are more likely to have access to fair opportunities and resource allocation, making it more possible for them to pursue and achieve their personal goals. This helps to enhance the well-being and satisfaction of society's members, promoting social stability and development [10]. The increase in crime rates directly affects residents' sense of well-being. When income disparities widen, especially due to unreasonable distribution, it directly affects people's psychological balance, leading to dissatisfaction with society, which may in turn trigger criminal and retaliatory behaviors, causing social unrest. These criminal acts will further weaken residents' sense of well-being.

Social comparison refers to the inclusion of others' incomes as a reference standard when people assess their own income status and position themselves within the social hierarchy. Researchers have found that the incomes of others have a significant impact on subjective well-being, which may even exceed the impact of absolute income levels [11]. Compared to a specific reference group, individuals with lower incomes are generally more likely to feel unhappy than those with higher relative incomes. This phenomenon is considered the relative income hypothesis in economics and the relative deprivation effect in sociology [12]. The greater the disparities in society, the greater the degree of income inequality, thereby driving competition and class gaps in society. Therefore, individuals from lower social classes who begin to reflect on their position within the social hierarchy often feel more distressed. These feelings can negatively affect health and increase the risk of abnormal behavior. Social mobility can serve as an important variable in the impact of income inequality on subjective well-being. In the United States, poor people view inequality as a social ladder that they can climb from the bottom to the top. Therefore, income inequality becomes a positive factor, as people can continuously climb up through their own efforts to achieve income growth, which is an incentive for individuals and can enhance subjective well-being. However, the situation in Europe is the opposite; Europeans view income inequality as an obstacle to income growth. Income mobility in Europe is lower than that in the United States, and income inequality has a negative impact on the well-being of Europeans [13].

## 4. Conclusion

The research on the relationship between income inequality and subjective well-being still faces numerous limitations. Firstly, income inequality is a social phenomenon that reflects the aggregate income distribution within a specific region, and such inequality is difficult for everyone living in the same country or region to comprehend in the same way. Income inequality at the national level is an abstract concept and does not represent individual responses, with limited empirical research conducted on inter-individual differences. Secondly, another underlying assumption is the norm of self-interest, where individuals seek to maximize their own happiness independently of others.

Merely studying the relationship between income inequality and subjective well-being is insufficient. Further exploration is needed into the mechanisms that influence the two. The use of inequality indicators in future research also requires improvement. Individual emotional experiences are influenced by the surrounding environment and, in turn, affect global well-being. Therefore, greater attention should be paid to research on individual emotional responses as well as institutions and welfare facilities.

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