



Income, sense of community and subjective well-being: Combining economic and psychological variables

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ABSTRACT

The purpose of this study was to test the effects of income and reference group income on well-being while controlling for a range of social psychological variables. A random sample of 1033 residents in a regional Australian city were surveyed by mail on a number of variables including subjective well-being, sense of community, attitudes toward their political officials, civic participation, perceptions of city life, and socio-demographics. Three general findings are reported. First, income had a significant influence on well-being, but individuals' perceptions of their access to health services had a larger effect. Second, we found that the relationship between well-being and some of its determinants (e.g., health service perceptions) varied significantly between low and high levels of income at the household level and at the regional level. Finally, reference group income was not a significant predictor of well-being in any of the analyses we conducted. These results are discussed in light of the results from previous research in this area.

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1. Introduction

Economic analyses of individual subjective well-being (i.e., happiness, life satisfaction, and quality of life) assume that higher levels of consumption are positively associated with personal utility (Stutzer & Frey, 2004). In empirical terms, the assumption is reflected in econometric models that regard well-being as an increasing monotonic function of income. However, the assumption has received mixed support from empirical studies of the relationship between income and life satisfaction at the individual (Clark & Oswald, 1994) and national (Diener, Diener, & Diener, 1995) levels of analysis. At the individual level, the focus of this research, zero-order correlations between income and well-being are frequently in the vicinity of 0.10–0.20 (Cummins, 2000; Diener & Biswas-Diener, 2002; Diener et al., 1993; Easterlin, 2001; Haring, Stock, & Okun, 1984).

One explanation for the low correlation between income and measures of subjective well-being was proposed by Easterlin (1995) who claimed that individuals compare their own incomes with the income of their reference group and it is this

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comparison that influences well-being. More specifically, higher reference group income relative to one's own, has a downward effect on well-being. In Easterlin's words "each individual's utility or subjective well-being varies directly with his or her own income and inversely with the average income of others" (p. 36). In this sense, individual well-being is thought to be a function of one's own income in absolute terms as well as one's income relative to the income of an important reference group.

In previous studies, the reference group has been defined to include whole societies, residents living in the same neighbourhood, and all individuals with similar education levels, age, and country-of-residence (Caporale, Georgellis, Tsitsianis, & Yin, 2009; Clark, Frijters, & Shields, 2008; Ferrer-i-Carbonell, 2005). As recognised by Ferrer-i-Carbonell, many other variables might be used to define the reference group. But, in whatever manner the reference group is defined, researchers seek to articulate a measure of the income of groups of broadly similar people (Clark et al., 2008; Kingdon & Knight, 2007).

2. Challenges in the field

2.1. Slope heterogeneity

Clark et al. (2008) and Dolan, Peasgood, and White (2008) highlight a number of 'key challenges' in this body of research, two of which we explored in our research. First, there is the likelihood of 'slope heterogeneity' in that the income coefficient varies across sub-samples of individuals, indicating different marginal benefits from income. Some studies have found, for example, that covariation between income and well-being depends upon the income status of those involved (see, for example, Cummins, 2000; McBride, 2001).¹ Other researchers have found that reference income too can have different effects on well-being depending upon the income level one experiences (Kingdon & Knight, 2007).²

The possibility of slope heterogeneity on income is a limited example of the more general question of invariant (or equal) and parallel regressions on well-being. That is, in instances where the coefficient for reference income (or any other variable in the well-being regression equation) is significantly different between sub-samples, the equations are not equal and results based on estimates derived from the total sample may not reflect this difference (Rojas, 2007). Further, to the extent that only the intercept is significantly different between sub-samples, the equations are parallel and indicate that the mean of well-being is significantly different between sub-samples after controlling for the effects of the independent variables in the equation. Therefore, it is important to test these kinds of interaction effects in order to address the question: under what conditions do income, reference group income, and other predictors of well-being have a significant effect? This question is important to the extent that models of the determinants of well-being estimated at the sample level fail when used to explain the well-being of individuals within particular sub-samples.

While average regional income has been used to define the reference group income in previous studies (e.g., Easterlin, 1995; Kingdon & Knight, 2007; Luttmer, 2005) it has not been tested as a moderator of the relationship between income and well-being. This re-specification of the standard reference group hypothesis suggests that income is more important to well-being for lower income households who face the financial challenge of living in wealthy areas. Diener et al. (1993) noted a version of this same hypothesis in their discussion of social comparison and well-being. They suggested that one prediction concerning social comparison is that residents on a particular income level living in poor areas would be expected to experience higher well-being than others earning the same money, but residing in wealthier areas because their income is likely to be higher compared with the income of their neighbours. This hypothesis is different to the usual test of regional differences and well-being that has been addressed in the past where dummy variables corresponding to regions are included in the well-being regression equation (e.g., Caporale et al., 2009; Ferrer-i-Carbonell, 2005). In these instances, a significant regional coefficient only signals that mean well-being differs between regions after controlling for all other variables in the equation. In contrast, when regional income is posed as a moderator of well-being, interest is on how regional differences do or do not condition the effects of other variables on well-being.

2.2. Omitted correlates of well-being

A second challenge identified by Clark et al. (2008) is the omission of important variables in the analysis of well-being. It is rare to find econometric analyses of well-being data that take into account concepts concerning the quality and extent of individual social relationships despite their inclusion in psychological approaches to well-being (e.g., Argyle & Martin, 1991; Lewinshohn, Redner, & Seeley, 1991). Diener and Biswas-Diener (2002) noted in their review of income and well-being research that psychological variables were rarely measured. Lane (2001), for example, proposed that, beyond a subsistence level of income, social relationships have a stronger influence on well-being than does income. Similarly, Cummin's (2000) Homeostatic Theory of well-being purports that, above a certain amount of income, well-being is largely under the control of psychological processes and external resources (e.g., supportive social relationships) which operate to maintain

¹ An individual's reference group income in McBride's study was defined as the average income of people whose age lay within 5 years (older or younger) of his/her own age.

² Reference income was defined as the mean of household per capita income of all households of the same race within the household's district of residence.

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