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Negatives: Competing Channels In The Relationship Between  
Others' Income, Health, And Happiness

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Local Neighbors As Positives, Regional Neighbors As Negatives: Competing Channels  
In The Relationship Between Others' Income, Health, And Happiness\*

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**Abstract**

That well-being is decreasing in others' income is termed the "relative income hypothesis" (RIH) by scholars of subjective well-being (SWB) and has substantial empirical support. Some studies, however, present evidence of both positive and negative explanatory channels in the relationship between others' income and SWB. We develop a theoretical framework integrating four distinct channels through which neighbors' income can affect utility: public goods, cost of living, expectations of future income, and direct effects (RIH or altruism). We estimate the relationship with SWB data from the U.S. Gallup-Healthways Well-Being Index and median-income data from the American Community Survey for ZIP codes and MSAs. The relationship is proximity-dependent: positive (negative) when using ZIP-code (MSA) median income as reference income, suggesting that positive (negative) channels dominate locally (regionally) and reconciling the literature's seemingly divergent results. These findings are consistent across SWB measures and many health-related indices. Additional analyses support the public-goods and cost-of-living channels.

*JEL classification:* D6, D31, I31

*Keywords:* Subjective well-being, relative income hypothesis, others' income, reference group, relative utility, income comparison, happiness

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