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Shifts in subjective well-being of different status groups: A longitudinal case-study during declining income inequality[☆]

Ragna B. Gardarsdottir[a,*], Rod Bond[b], Arndis Vilhjalmsdottir[a], Helga Dittmar[a,b]

[a] University of Iceland, Faculty of Psychology, Oddi, Sæmundargötu 2, 101 Reykjavík, Iceland
[b] University of Sussex, School of Psychology, Pevensey 1, Brighton, England, BN1 9QH, United Kingdom

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ABSTRACT

Theory holds that as income distribution becomes more equal, the well-being of those of low socioeconomic standing increases, since their relative status is improved. In this study we measure changes in individual subjective well-being (SWB) over a three year period of declining income inequality in Iceland. Using growth mixture modelling, we identified two groups whose well-being trajectories differ. One group (n = 540) whose SWB was initially high but then declined slightly, and a second group (n = 110) whose SWB was initially low, but improved over time. This second group had lower socio-economic status and stronger materialistic values. These differing shifts in SWB coincide with diminishing income inequality and class division and the results are consistent with the status anxiety explanation of the income inequality hypothesis. Our findings suggest the need to examine separate trajectories of distinct socioeconomic groups in societies generally regarded as egalitarian, and examine the role of a materialistic value orientation further.

1. Introduction

In October 2008, Iceland's financial system famously crashed as its three largest banks were nationalized.[1] In the years leading up to the crash, income inequality in Iceland had reached unprecedented heights, as can be seen in Fig. 1. Immediately following the financial crash, however, income inequality levels were again sharply reduced to their pre neo-liberal era levels (Standardized World Income Inequality Database, n.d.). Although the decrease in income inequality happened largely because of income reduction and loss of capital gains among top-earners, it was also a result of radical changes in tax-policy aimed at protecting low-earners (Ólafsson & Kristjánsson, 2013, 2017). Thus, although both the high and low earners became poorer in absolute terms, the *relative standing* of the lower earners improved, due to a more equal income distribution.

Icelanders have normally considered themselves a classless, egalitarian nation with a particularly even income distribution (Bernburg & Olafsdottir, 2012; Oddsson, 2016). Being accustomed to equality, Icelanders are sensitive to departures from egalitarian norms. The rise and decline in GINI did not go unnoticed among Icelanders and as can be marked by results showing that alongside the rise in income inequality, they perceived increases in class division, which then subsided together with decreased inequality after the financial collapse (Oddsson, 2016). Moreover, as the recession deepened following the collapse, the majority of Icelanders perceived improvement in their own subjective social location (Oddsson, 2017).

Both the economic bubble with its steepening of the socioeconomic hierarchy and the consequent financial collapse affected the social fabric of Icelanders. The 'invasion' of neoliberal thinking that started in Iceland in the late Reagan-Thatcher era led steadily to privatization and free market policies opening up markets previously unavailable to Icelanders (e.g. Bernburg, 2016; Ólafsson & Kristjánsson, 2017). This led to the so-called "*outvasion*" of the Icelandic "*business-Vikings*"; entrepreneurs who then used their borrowed cash to purchase the three Icelandic state banks in 2003. With that, a new elite emerged. They were Iceland's 1%, mostly consisting of the generously compensated bankers and staff from associated firms. This elite embarked upon conspicuous consumption and luxury living at levels never before witnessed in Iceland (see e.g. Bernburg, 2016; Garðarsdóttir & Dittmar, 2012; Oddsson, 2016).

There is evidence that this elite had a strong influence on the normative standard of living for the rest. For example, during the economic boom the privatized banks offered and promoted cheap credit resulting in an increase in household debt, reaching 255% of aggregate

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* Corresponding author.
E-mail address: rbg@hi.is (R.B. Gardarsdottir).
[1] The combined collapse of the banks is the third largest bankruptcy in history and has been widely discussed. See Johnsen (2014) for an excellent account.

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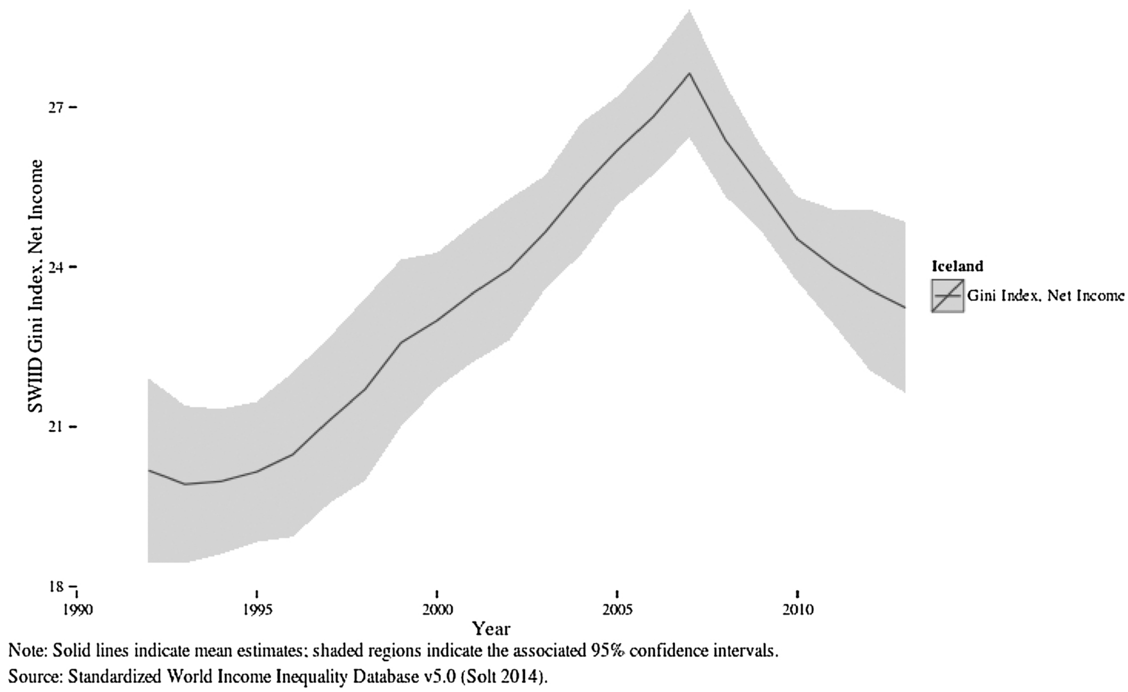

Fig. 1. GINI index for net income in Iceland from 1993 to 2013. (Standardized World Inequality Database v5.0; Solt, 2014).

disposable income (Garðarsdóttir & Dittmar, 2012; Johnsen, 2014). One study showed that amount of household debt was related to levels of materialism, but unrelated to income, indicating that Icelanders engaged in status-seeking consumption far outstripping their objective economic status (Garðarsdóttir & Dittmar, 2012).

Moreover, the observed discrepancy between the newly rich elite and the general public may have generated worries about status and material standing beyond what Icelanders were used to. According to the Income Inequality Hypothesis (IIH), such worries become more prevalent as the socioeconomic hierarchy becomes steeper, particularly in affluent societies (Wilkinson & Pickett, 2017), such as Iceland. These worries are subsequently manifested in a deterioration in health and well-being (Wilkinson & Pickett, 2017, 2009).

The observed shifts in income inequality and social divisions, in a relatively short period of time in Iceland offer an ideal “natural experiment” (Craig et al., 2012) for exploring the development of well-being for groups of differing socioeconomic status. We do this by applying the IIH to a sample of Icelanders that may be expected to have different well-being trajectories during a time when Icelandic society became more equal.

1.1. The income inequality hypothesis and well-being

The income inequality hypothesis (Kawachi & Subramanian, 2014; Wilkinson & Pickett, 2009) states that, in affluent societies, inequality in individuals' income negatively affects health and well-being over and above the effect of individuals' absolute income. Although contested (Avendano & Hessel, 2015; Eckersley, 2015; Lynch et al., 2004; Präg, Mills, & Wittek, 2013; Rambotti, 2015), the IIH is supported by a growing body of empirical studies. Still, the literature lacks consensus about two issues: the mechanisms through which income inequality generates this adverse effect and who is affected (Schneider, 2016).

With respect to how inequality, a macro characteristic, impacts individual psychological well-being, scholars have proposed two broad, probably related, categories of psychosocial mechanisms; 1) a deterioration in social capital and 2) an increase in status anxiety. The first category consists of explanations related to societal divisions. Wilkinson and Pickett (e.g. 2017) claim that inequality creates boundaries between groups or classes, reducing social cohesion, including generalized trust and social-capital, which in turn undermines emotional well-being (Kawachi & Berkman, 2000, 2001; Thoits, 2011).

The second category consists of explanations related to differences in material status and self-worth. Such explanations are often referred to as the status anxiety hypothesis (Delhey, Schneickert, & Steckermeier, 2017; Layte, 2012; Layte & Whelan, 2014). According to the status anxiety hypothesis, status and income differences become more salient as income inequality increases. Growing status differences may, in turn, cause people to worry about their social status, leading to insecurity and inadequacy in relations to others, directly affecting their psychological well-being (Wilkinson, 1999; Wilkinson & Pickett, 2017).

The status anxiety version of the IIH has been backed up with research showing that indicators of status anxiety may mediate the association of income inequality and mental well-being (Layte & Whelan, 2014), and studies showing that social comparison and relative deprivation may play a role in shaping individual health and mental well-being (Åberg Yngwe, Fritzell, Lundberg, Diderichsen, & Burström, 2003; Ladin, Daniels, & Kawachi, 2010; Lee & Kawachi, 2017).

Wilkinson and Pickett (2017) note that although this mechanism may be particularly detrimental to those of low social status, those belonging to the higher end of the socioeconomic hierarchy may also feel the pressure of maintaining their social status. Thus, they claim, while there may be a social gradient in the detrimental effect of income inequality, it may nevertheless be felt by all society members. Yet, the research literature is not in agreement about whose well-being is primarily affected by income inequality: all citizens equally within society or only selected groups. According to the *strong* or absolute version of the IIH, everyone in society is equally negatively affected as inequality grows (Lynch et al., 2004; Mellor & Milyo, 2002). According to the *weak* or relative version, however, income inequality negatively affects those with lower incomes more than those with higher incomes, due to the status anxiety experienced by those who have a relatively low socioeconomic standing in society (Brunner & Marmot, 1999; Layte & Whelan, 2014; Marmot, 2006; Wilkinson & Pickett, 2006).

Several studies have supported the weak version, both across regions and across time. In Iceland, a population study of emotional problems among adolescents in 2006 (high income inequality and 2014 (low income inequality) showed that high levels of income inequality in