

# Community, comparisons and subjective well-being in a divided society

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## Abstract

Using South African data, the paper poses six questions about the determinants of subjective well-being. Much of the paper is concerned with the role of relative concepts. We find that comparator income, when measured as the average income of others in the local residential cluster, enters the household's utility function positively (close neighbors are 'positives', not 'negatives'), but that the income of more distant others enters negatively. Race-based comparator groups are also important in racially divided South Africa. Relative income is more important to happiness at higher levels of absolute income. Potential explanations and implications of these results are considered.

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## 1. Introduction

In this paper we pose several questions about the determinants of subjective well-being. We do so for South Africa, a country that, because of its unusually divided society, provides a good case study of the effects of community and comparisons on subjective well-being. Each of these questions is new for South Africa. More broadly, the major contribution of the paper to the

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economic literature on subjective well-being concerns the role of comparisons made with others in the community. What are the reference groups against which people compare themselves, and do their comparisons give rise to fellow feeling or to feelings of relative deprivation? We highlight the roles that space and race can play. Spatially defined reference groups are shown to have a positive effect on subjective well-being, suggesting that neighbors may be ‘positives’ and not ‘negatives’. By contrast, racially defined reference groups are shown to have a negative effect, implying that relative deprivation may be experienced in relation to others of one’s own race rather than to neighbors or to the larger society. There are interesting implications for welfare economics and for policy.

In Section 2, we provide a framework of concepts and literature about the effects of comparisons on subjective well-being. Section 3 describes the South African context and the data, and outlines the method: the estimation of subjective well-being functions that include explanatory variables representing relevant comparisons. The empirical Section 4 presents the results, question by question. In particular, we test whether and how spatial and racial comparisons affect subjective well-being. Section 5 concludes and draws out the implications of the analysis.

## 2. Concepts and literature

The idea that relative position matters to individual utility has substantial support and acceptance in the social science literature, particularly in sociology (for instance, [Runciman, 1966](#)) and psychology (for instance, [Diener and Biswas-Diener, 2000](#)). By contrast, mainstream microeconomic theory generally treats utility as a function of own absolute income. However, some economists have advocated models in which the income of others enters the individual’s utility function (prominent among them being [Duesenberry, 1949](#); [Easterlin, 1974, 1995](#); [Scitovsky, 1976](#)). [Frank \(1985\)](#), [Akerlof and Yellen \(1990\)](#), [Frank and Sunstein \(2001\)](#) and [Layard \(2005a,b\)](#) have argued that some well-established ideas about economic policy would be overturned if relative income were to matter.

There is now also a good deal of empirical support for the notion that subjective well-being depends on relative income ([Clark and Oswald, 1996](#); [Watson et al., 1996](#); [Tsou and Liu, 2001](#); [Luttmer, 2005](#); [Van Praag and Ferrer-i-Carbonell, 2004](#)). In some of the studies, utility depends more importantly, or even only ([Groot and van den Brink, 1999](#)), on relative rather than on absolute income. One study finds that pay satisfaction depends not only on relative income but also on ranked position within a comparison set ([Brown et al., 2003](#)). A study on Nepal finds that perceived consumption adequacy falls as ward (village) mean consumption expenditure rises ([Fafchamps and Shilpi, 2006](#)).

Analysis of this sort requires that the comparison set, the group with whom individuals compare themselves when judging their relative position, be specified. Candidates for an individual’s reference group are the individual’s own past, her aspiration or desired future, others in her family, her spouse, others with similar characteristics, and others in her residential vicinity or workplace. Since individuals have different identities in different contexts, they may also have more than one comparator group. Various definitions of comparator group are found in the literature. Many studies have used ‘others with similar characteristics’. For instance, an individual may match with others on the basis of educational level, occupation, gender, family background, race or region.

What is the expected sign of the relationship between relative income (or other relative measures) and individual happiness? In general, it is posited that subjective well-being varies inversely with the incomes of relevant others (for instance, [Easterlin, 1995](#); [Falk and Knell, 2004](#)). In much of the applied literature that tests it, comparator income is indeed found to have a negative effect on

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