Income level of reference group and subjective welfare
- Verification of the relative income hypothesis -*

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Abstract

This study empirically verifies the sign of the coefficient of relative income and clarifies who compares their incomes with whose income and to what extent. This is done by conducting a micro econometric analysis of life satisfaction, using highly representative panel data from people aged over 20 years in Japan. Two points can be cited as features of the analysis method used in this paper. The first is to estimate the life satisfaction equation specified with a fixed effect ordered logit model, which has been rarely considered in previous studies. Second, to estimate the average income of the reference group, the reciprocal of the distance between the residential areas, which was not attempted in the past, is used as the weight. The results reveal the following points. Regarding the sign of the coefficient of relative income in the case where the coefficient is significant, the coefficient is negative in almost all the cases except in the case of the spouse as reference group. Therefore, the comparison effect may be stronger, while the positive effect, which is related to the information effect, social capital and altruism, the enhancement of regional public goods, among others is not seen in almost all cases. Comparative effects are observed in most cases for low income group using equivalent household income as a explanatory variable. But comparative effects are not observed for high income group except some

reference groups. When the occupational attribute is the reference group, positive effects are seen in high income group using individual income as a explanatory variable. In the case of equivalent household income, there is a tendency for regular employee and low income group to be concerned about average income of the reference group defined by individual attributes. In the case of individual income, woman are particularly concerned about average income of the reference group defined by individual attributes.

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