

Abstract

There is an ongoing debate in the field of happiness economics about which income measure highly determines happiness: absolute income or relative income. Absolute income refers to a person’s earning power irrespective of other people’s income; relative income refers to a person’s income relative to some other measure or benchmark. This study explored the correlation between both income measures and happiness among Indonesians.

Methods

Dataset: *Survei Pengukuran Tingkat Kebahagiaan* (SPTK) 2021, Latest Indonesian Happiness Survey

Approach : Ordinary Least Square (OLS) regression

Variables:

- Dependent : Happiness level
- Independent : Absolute income and relative income
- Demographic: Gender, age, household size, marital status, education level, and occupation type

Correlation of both income measures and happiness level					
Dep Var: Happiness level (0–10 scale)					
Variable	(1)	(2)	(3)	(4)	(5)
Relative income	0.165*** (0.03)	0.186*** (0.03)	0.147*** (0.03)	0.251*** (0.03)	0.204*** (0.031)
Absolute income	0.110*** (0.009)	0.099*** (0.009)	0.102*** (0.009)	0.044*** (0.009)	0.059*** (0.009)
Gender		X	X	X	X
Age		X	X	X	X
Household size			X	X	X
Marital status			X	X	X
Education level				X	X
Occupation type					X
Observations	74,684	74,684	74,684	74,684	74,684
R ²	0.044	0.048	0.057	0.063	0.065
Outcome mean	7.68	7.68	7.68	7.68	7.68

Notes: *p<0.1; **p<0.05; ***p<0.01
Standard error in parenthesis

Standarized Coefficient					
Variable	(1)	(2)	(3)	(4)	(5)
Relative Income β	0.165	0.186	0.147	0.251	0.204
Relative Income β^*	0.063	0.071	0.056	0.096	0.078
Absolute Income β	0.110	0.099	0.102	0.044	0.059
Absolute Income β^*	0.149	0.134	0.138	0.060	0.080

Results & Impact

- Initially, absolute income have stronger correlation with happiness level among Indonesian.
- After accounting for demographic characteristics, both income measure show similar correlation with measures become similar.
- Males experience a slightly larger increase in happiness and income’s effect is weaker as individuals achieve higher education

Future Research

- Expand the dataset to capture individual's characteristics change over time.
- Focusing on a smaller area to more effectively capture social comparisons
- Incorporate socioeconomic indicators, such as regional inequality and unemployment rate.