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Relationship Between Economic Income and Residents' Happiness

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Abstract. Economic income, as a critical factor influencing residents' quality of life, has always been an important subject in economics and sociology. However, whether sustained income growth leads to increased happiness remains controversial. This paper investigates the relationship between economic income and residents' happiness using literature analysis, data comparison, and questionnaire surveys, exploring the mechanisms and pathways through which income impacts happiness. Drawing from Maslow’s hierarchy of needs theory, the Easterlin paradox, and social comparison theory, the study constructs a logical chain: "Economic Income-Material Security-Psychological Feelings-Social Relationships." Data analysis and case studies demonstrate that income significantly impacts happiness, albeit in stages, relative terms, and culturally dependent ways. For instance, income significantly boosts happiness when basic life needs are unmet. However, among middle- and high-income groups, the marginal effect diminishes, and feelings of relative deprivation may even reduce happiness. Finally, the study provides recommendations from policy, social, and individual perspectives to enhance happiness, emphasizing fair income distribution, robust social support systems, and cultivating rational consumption and life-balance awareness. This paper offers theoretical support and practical insights for a better understanding of the complex relationship between income and happiness.

Keywords: economic income, happiness, Easterlin paradox, social comparison, income fairness.

1. Introduction

With globalization and rapid digital economic development, people's income levels have continuously improved, significantly enhancing living conditions. However, whether subjective happiness simultaneously increases with economic growth has become a focal academic issue. Traditional economics typically assumes a positive linear correlation between income and happiness, yet recent studies indicate this relationship does not consistently hold, especially in middle- and high-income groups. Research analyzing six international datasets found that income significantly boosts happiness at lower levels but diminishes as income increases, potentially even reversing this effect [1].

This paper primarily examines the relationship between economic income and residents' happiness, exploring the pathways, mechanisms, and underlying cultural and psychological factors

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through which income levels affect happiness. On the one hand, increased income provides individuals with better material security, such as improved basic living conditions in education, healthcare, and housing, thereby enhancing happiness. On the other hand, income inequality can generate pressure from social comparisons, higher work intensity, associated anxiety, and changes in individual health, potentially exerting a negative impact on happiness. Relevant scholars have noted that higher income levels likely improve residents' access to essential life services and correlate positively with overall national subjective well-being [2].

Previous research has made notable progress on this topic. For example, the Easterlin Paradox suggests that even as a country's overall income level rises, residents' happiness does not necessarily increase accordingly. In addition, social comparison theory posits that an individual's happiness is influenced not only by their absolute income but also by their relative income compared to others. In China, as the middle class expands and urban–rural income gaps evolve, there are clear differences in happiness levels across income groups, drawing increased attention to this issue. Some scholars argue that happiness is affected not only by absolute income levels but also by how individuals compare themselves to those around them, particularly within the framework of adaptation theory [3]. Further research has reinforced this paradox, showing that economic growth alone does not lead to sustained long-term improvements in happiness [4].

This paper builds an analytical framework based on Maslow’s hierarchy of needs, the Easterlin Paradox, and social comparison theory. Using a literature review approach, it systematically examines the multidimensional relationship between income and happiness from the perspectives of material security, psychological stress, social relationships, and cultural moderation. In addition, by incorporating case studies of relevant domestic and international policies as well as questionnaire survey results, the paper proposes practical recommendations for enhancing public well-being.

2. Key concepts and theoretical framework

Economic income refers to the monetary and non-monetary earnings received by individuals or households over a certain period. It typically includes wages, bonuses, investment returns, and various forms of social welfare. In academic research, economic income is commonly measured using three main indicators.

Disposable income means the portion of income remaining after taxes and social insurance contributions, available for consumption and savings; asset-based income means non-labor earnings such as rental income, dividends, and interest. Implicit benefits meansnon-cash welfare provided by employers, such as housing, healthcare, or education. These indicators reflect not only the amount of income but also the level of access to resources and overall quality of life.

Subjective Well-Being (SWB) refers to an individual’s subjective evaluation of their overall life condition and emotional experiences. It typically includes three components.

Life satisfaction means cognitive assessment of one’s overall living conditions. Positive emotions include such as happiness, contentment, and gratitude; Negative emotions include such as anxiety, stress, and depression.

According to relevant studies, numerous factors influence subjective well-being, including economic conditions, physical health, interpersonal relationships, and psychological well-being.

To gain a deeper understanding of the relationship between income and happiness, this paper introduces three classic theories as theoretical foundation and constructs a multidimensional analytical framework.

First, Mallows hierarchy of needs theory presents human needs as a pyramid-like progressive structure, starting from physiological needs, followed by safety needs, social belonging, esteem, and finally self-actualization. Economic income is primarily used to satisfy basic physiological and safety needs. Once these fundamental needs are met, individuals begin to pursue emotional and psychological fulfillment. Therefore, the impact of income on happiness is stage-based and varies according to the level of need being addressed.

Second, the Easterlin Paradox challenges the linear assumption that "higher income leads to higher happiness." Scholars have pointed out that while individuals with higher income at a given point in time tend to report greater happiness, sustained long-term increases in a country's overall income do not necessarily lead to corresponding rises in national happiness levels [5]. This paradox highlights the importance of non-economic factors-such as adaptation mechanisms and shifting social expectations-in shaping subjective well-being.

Finally, Social Comparison Theory emphasizes that individuals tend to evaluate their own happiness by comparing themselves with others, using these comparisons to assess their social status and level of satisfaction. Research shows that relative income-rather than absolute income—has a significant impact on happiness. For instance, if an individual's income increases but still remains lower than that of their peers, their subjective well-being may not improve and may even decline.

Based on the three theoretical models mentioned above, this paper constructs the following analytical pathway for how income influences happiness. First, residents enhance their happiness by using income to meet their basic needs. Second, their perception of happiness is influenced by social comparisons of income with others. Finally, varying income levels lead to different degrees of work-related stress and life pace, which in turn affect individuals' psychological well-being.

This indicates that income influences happiness through two primary channels: material security and psychological perception. Moreover, this impact is jointly shaped by individuals' subjective evaluations and the broader socio-cultural context.

3. Pathways through which economic income influences happiness

3.1. The role of material security

Economic income is a necessary condition for maintaining basic living standards. As individual income increases, people are able to access better housing, healthcare services, and educational resources, thereby enhancing their sense of control over life and their overall sense of security. According to Maslow's hierarchy of needs, meeting physiological and safety needs is a prerequisite for further improving subjective well-being. For example, in remote rural areas of China, a series of poverty alleviation policies implemented in recent years have significantly improved residents' living conditions. Relevant studies show that the subjective well-being of families lifted out of poverty increased by more than 20% after receiving income support. This clearly demonstrates that income growth has a direct and positive effect on ensuring basic material security. Maslow's theory further suggests that once these basic needs are met, individuals begin to pursue higher-level goals, such as esteem and self-actualization [6].

3.2. Psychological and social impacts

However, the impact of income is not limited to the material level; it also produces complex psychological and social effects, sometimes even creating a paradox. High-income individuals often face greater work pressure, longer working hours, and more intense workplace competition. In China, the prevalent "996" work schedule in the tech industry (9 a.m. to 9 p.m., six days a week) has sparked widespread public debate. Relevant surveys show that although these individuals earn higher incomes, they also experience high rates of negative emotions such as anxiety and depression, sometimes even higher than those reported by middle-income groups. In other words, while increased income may bring positive effects, it also comes with accompanying negative consequences, which may cancel each other out.

On a social level, widening income gaps can lead to a phenomenon known as "neighborhood alienation," which weakens social cohesion. When individuals perceive a decline in their relative social status, even as their absolute income rises, they may experience a sense of relative deprivation. This often results in reduced trust in others and an increased feeling of social isolation. Such effects are particularly prominent among the urban middle class, especially in large cities where competition for resources like education, healthcare, and housing is intense. According to research based on China General Social Survey (CGSS) data, relative income disparities significantly affect residents' happiness, with individuals in relatively disadvantaged positions more likely to feel deprived and socially disconnected [7].

3.3. Cultural moderation

At the same time, cultural background plays a critical moderating role in the relationship between income and happiness. Research has shown that in countries with higher levels of income inequality, the correlation between income and happiness is stronger, indicating that cultural and structural differences are essential in shaping this relationship [8]. In collectivist cultures, such as China, family savings often help alleviate the psychological and social pressure caused by insufficient individual income. Large family structures promote resource sharing among members, which enhances overall well-being. In contrast, in individualist cultural contexts-such as the United States and Northern European countries-there is a stronger emphasis on the connection between personal income, career achievements, and happiness. In such societies, if an individual's income falls short of expectations, their sense of happiness may be significantly affected.

More importantly, different cultures hold varying understandings of what constitutes "happiness." For example, in Chinese culture, happiness is often closely associated with family harmony and good health, whereas in Western societies, greater emphasis is placed on personal freedom and the realization of individual value. This cultural diversity further complicates the relationship between income and happiness, indicating that happiness is not solely determined by economic income but is also deeply shaped by how society defines and interprets the meaning of a "happy life."

4. Recommendations for enhancing happiness

To more effectively enhance residents' subjective well-being, comprehensive measures can be implemented across three levels-policy, society, and the individual-to build a well-rounded and multi-dimensional support system.

First, at the policy level, while maintaining existing protection, the government should continue to improve the social security system. This includes providing more affordable and accessible public services such as healthcare, education, and eldercare, in order to reduce public fear and anxiety about future uncertainties, and to enhance people's sense of security and life satisfaction. At the same time, fiscal tools such as tax adjustments and transfer payments should be used to further improve the structure of income distribution, narrow the gap between the rich and the poor, and mitigate social inequality. These efforts can strengthen the public's sense of social identity and contribute to improved overall happiness. Relevant studies have shown that increasing the accessibility and fairness of public services is one of the most effective ways to boost well-being [9].

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Second, at the societal level, it is important to support a more diverse value system and weaken the income-centric standard of social evaluation. Emphasizing alternative pathways to happiness-such as personal growth, family harmony, and contributions to society-can help reduce anxiety and pressure caused by income disparities. At the same time, community development should be further strengthened to promote daily interactions among residents. Through community events, volunteer services, and mutual aid organizations, social capital can be accumulated, enhancing individuals' sense of belonging and fostering a more supportive social environment. Research shows that factors such as the frequency of community interaction and the strength of social support networks have a significant positive impact on subjective well-being. Therefore, enhancing community engagement and social interaction not only improves social relationships but also effectively raises overall happiness levels [10].

Finally, at the individual level, each person should cultivate a rational attitude toward consumption, avoiding unhealthy spending habits and blind social comparisons. Greater attention should be given to personal growth and inner well-being, for example, by developing hobbies, strengthening interpersonal relationships, and participating in community activities-all of which can help enhance intrinsic happiness. At the same time, individuals should prioritize their mental health by actively learning how to regulate emotions and cope with stress. When necessary, seeking help from professional mental health services is essential for maintaining a stable, positive, and optimistic mindset. This provides a solid foundation for improving overall happiness.

The enhancement of happiness cannot be achieved solely by increasing economic income; rather, it requires a multifaceted and multi-dimensional approach under conditions of complementary mechanisms. In short, the combination of institutional support through sound policies, improvements in the social environment, and changes in individual behavior together form a more solid and sustainable foundation for long-term well-being.

5. Conclusion

This paper has examined the complex relationship between economic income and subjective well-being, using a multidimensional analytical perspective grounded in Maslow's hierarchy of needs, the Easterlin Paradox, and social comparison theory. The findings indicate that while income is essential for meeting basic material needs, its positive impact on happiness gradually diminishes as income levels increase.

Income influences happiness through multiple channels, including improving material conditions, affecting psychological states, and shaping social perceptions. Among low-income groups, even modest increases in income can significantly enhance happiness by improving access to food, healthcare, and security. However, once income reaches a certain threshold, the marginal benefits begin to decline-and may even be offset by rising stress levels, widening income inequality, and negative social comparisons. In addition, cultural background plays a critical moderating role in how individuals perceive and evaluate the impact of income on their happiness.

To promote more sustainable well-being, this paper offers intervention strategies at three levels. At the policy level, governments should work to reduce income inequality and expand the coverage of public services. At the societal level, efforts should focus on fostering a diverse value system and strengthening community cohesion. At the individual level, people should adopt rational consumption habits, prioritize emotional health, and strive for a balance between work and life, thereby achieving happiness that goes beyond material conditions.

In summary, although income plays an important role in shaping happiness, it is not the sole determinant. To build a more prosperous, resilient, and happiness-oriented society, economic

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policies must be integrated with cultural, social, and psychological interventions. Future research should continue to explore the long-term effects of income, cross-cultural differences, and the real-world effectiveness of policy frameworks aimed at promoting well-being.

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