

Poverty Comparisons

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Paper Abstract:

There has been considerable interest in contextual effects on well-being. The size of the relationship between own individual ill-health and unemployment, for example, has been shown to depend on the extent of ill-health and unemployment in the local area. We here use almost 30 years of German panel data to ask whether such contextual effects also apply to income poverty. We do so by looking at the link between life satisfaction, on the one hand, and own poverty and regional poverty on the other. Although there is a large literature on well-being and income, including showing a role for relative income, no work to date has considered contextual effects regarding poverty. In fixed-effect regressions, we show that the negative effect of poverty on life satisfaction is indeed lower in regions with higher poverty rates. We also find that the negative effect of being in what we call “quasi-poverty” (income above the poverty line but not more than 50% above it) on well-being is smaller in regions with higher quasi-poverty rates. The mechanism here seems to be one of homogeneity, rather than a general effect of income comparisons: the life satisfaction of the poor is not affected by the regional percentage of quasi-poverty, and the life satisfaction of the quasi-poor is not affected by the regional percentage of poverty.