The Research Frontline - Journal
(Vol. I, Issue No. 3, April - June 2026)

ALLAHABAD ACADEMIC PRESS
a publishing company

e-ISSN: 3139-2253 | DOI: https://doi.org/10.66871/trf-j.v1i3.010

Income Inequality and Life Satisfaction: A Comparative Study of India and Sweden

Monir Hussain[1]

[1]PhD Scholar at the Centre for the Study of Law and Governance, Jawaharlal Nehru University, New Delhi

Abstract

The pursuit of economic growth has traditionally been viewed as the main tool for the promotion of well-being of humans. Nonetheless, numerous decades of data have shown that when there is growth but no equal distribution, well-being does not improve for most individuals. This paper seeks to analyse the link between income inequality and well-being by conducting a comparative analysis of India and Sweden. There are various reasons why these two countries would be a good subject for analysis. India is a developing country that is experiencing rapid economic growth but with a significant level of structural inequality and an informal labour market. Based on information obtained from the World Happiness Report, the World Inequality Database, the World Values Survey, and World Bank Development Indicators, the article claims that the negative impacts of income inequality on life satisfaction occur through three different but connected mechanisms: relative deprivation because of social comparison, the deprivation of basic capabilities by virtue of lack of equal access to state organisations, and the deterioration of trust in the government and the state system. Notably, however, such outcomes are not predetermined. As illustrated by the example of Sweden, effective redistribution mechanisms, comprehensive social security, and good-quality public services can mitigate the impacts of income inequality. This paper is based on Amartya Sen's Capabilities Approach, the Easterlin paradox, and Richard Layard's political economy of happiness theory. These results can be applied to current issues regarding economics and development, governance and politics, and post-colonial views on inequality in the Global South.

Keywords: Income Inequality, Life Satisfaction, Well-being, Welfare State, Redistributive Institutions, Capabilities Approach

Received: 23/04/2026 | **Accepted:** 30/06/2026 | **Published:** 20/07/2026

Corresponding Author: Monir Hussain (ORCID: 0009-0001-7465-7000) | **Email:** monirh66_slg@jnu.ac.in

INTRODUCTION

Economic growth was seen as the key sign of development by most of the nations during the twentieth century. Government policies across different countries were aimed at promoting gross domestic product to ensure that in time, rising national income would improve the living standards of the country's population. This assumption has been under criticism in the recent years, especially in the wake of globalization and economic liberalization. The past decades saw rapid incomes growth in some regions of the world, while benefits of this process were accumulated by a minority of the population. Thus, today, in many cases, it is possible to observe a correlation between positive trends in aggregate economic statistics and a lack of improvement in the subjective evaluation of people's lives.

One of the most commonly used variables to assess subjective well-being in the studies carried out by social scientists is life satisfaction. Contrary to the indicators of material success, life satisfaction shows the actual life of people by measuring the way people feel about the things happening in their lives. It considers not only economic factors but also fairness of treatment, relationships with others, opportunities for development, and the trust in authorities. Studies have shown that inequality impacts people's life satisfaction along several dimensions which are difficult to cover when using measures such as money income only. Institutional setting of inequalities plays an important part in determining the effect of economic disparity on the well-being of people.

This paper will explore these issues through a comparative study of India and Sweden. They form an interesting juxtaposition with regards to institutional practices of redistribution and social protection. While India has continued to experience high economic growth post-reforms in 1991, it remains plagued by a structurally unjust society marked by inequality, the existence of a predominantly informal sector and inadequate social protection system that benefits a tiny portion of the population. On the other hand, Sweden has maintained a welfare system in place for many years now; it redistributes heavily, ensures widespread access to public services, and maintains trust in its institutions while suffering from rising market income inequality since the beginning of the 1990s. Hence, it is rational to compare these two cases to examine the effect of institutional practices on the inequality-life satisfaction relationship.

The conceptual framework of this study consists of three bodies of thought. First, it relies on Amartya Sen's (1999) capability approach that identifies well-being with freedom of choice among valuable ways of living. Second, the Easterlin (1995) hypothesis, according to which relative income is more important than the absolute income level in determining happiness inequalities, both cross-nationally and within a given country, is also utilised. Finally, Richard Layard's (2005) political economy of happiness is applied to understand the crucial role played by factors such as institutional trust, employment security, and social support systems in contributing to life satisfaction.

This paper is structured as follows. The first section briefly discusses previous research and provides a theoretical framework. This is followed by a discussion of the methodology and data used in the paper. The third part of the paper contains two case analyses: India and Sweden. Next sections present a comparative analysis of the two cases, and the last section concludes the paper with discussion of policy implications.

LITERATURE REVIEW AND THEORETICAL FRAMEWORK

The Capabilities Approach

Amartya Sen's (1999) capabilities approach offers a foundational critique of income-centred approaches to development and well-being. Sen argues that what matters for human development is not the level of income itself but the real opportunities that individuals have to function and to live well. These opportunities, which Sen calls capabilities, include the ability to maintain good health, to receive an education, to participate in the social and political life of one's community, and to maintain a sense of personal dignity. Income is relevant to the extent that it enables these functionings, but its conversion into actual capability depends heavily on the institutional environment: the quality of healthcare, the accessibility of schools, the extent of social protection, and the degree to which public institutions treat people fairly and equally.

The implications of this framework for the study of income inequality are significant. When income is distributed unequally, the effects are not confined to differences in consumption. Those at the lower end of the distribution are often systematically excluded from the institutions through which income is converted into capability. They may be unable to access quality healthcare when they are ill, unable to send their children to good schools, and unable to participate meaningfully in civic and political life. This form of capability exclusion represents a direct reduction in well-being that is distinct from, and often more damaging than, the material effects of income differences alone. John Rawls (1971) reaches a similar conclusion from within liberal political philosophy, arguing that a just social arrangement must ensure that its inequalities work to the benefit of the least well-off members of society.

The Easterlin Hypothesis and Relative Deprivation

The study carried out by Richard Easterlin in 1995 regarding the relationship between income and happiness provided an insight into the issue, which has generated discussion and refinement among scholars for more than three decades. According to his findings, although there is a tendency for wealthy individuals to be happier compared to poor ones in any particular society, such societies tend to be as happy at the point of becoming wealthier as they were when poor. The reasoning behind his hypothesis is that the concept of happiness has to do with relative income. Individuals evaluate themselves with respect to others around them and therefore if all persons get richer, happiness remains at a steady level.

Further studies have expanded on this argument. In a study by Clark et al. (2018), it was established that although the reference groups used to measure personal comparisons have changed over time and according to context, the fundamental theory behind the process of comparison has been sustained. Wilkinson and Pickett (2009) find through extensive comparative research that communities characterised by high income inequality always score lower than others in various measures of social health, such as mental health, physical outcomes, education, social cohesion, and overall happiness. The logic behind their findings lies in the argument that income inequality itself, regardless of any other factors, causes social stratification and status anxiety.

Institutional Trust and the Political Economy of Happiness

In his study on happiness, Richard Layard (2005) looks at the issue of happiness from the angle of public policy and asks what the governments can practically do to enhance the welfare of their citizens. From the findings of his studies, the author singles out a number of factors which tend to have the greatest impact on individuals' happiness both within countries and through different periods of time. Among the most influential are family relations, the stability of job positions, one's health status, personal freedom, and confidence in the government. The latter factor bears direct relevance to the current analysis. The feeling of security and confidence in the government ensures citizens that they will not encounter problems related to poor health, unemployment, old age, and even opportunities for their children in the future.

Rothstein and Uslaner (2005) also observed that institutional trust cannot be considered a mere cultural factor, since it is both shaped by and reproduces the design and quality of public institutions. Institutions of universal welfare, which offer equal access to their services irrespective of one's economic status, create much more social trust among citizens compared to targeted welfare programs, since the former enjoy wider political support, seem fair to a wider portion of population, and do not exacerbate the economic distance between citizens. In this sense, the aforementioned theoretical proposition sheds light on what differentiates India from Sweden and explains why identical market income inequality leads to such dissimilar effects on life satisfaction across these two countries.

Research Design and Data Sources

I have used a structured comparative case studies. This design uses the principles of selection of cases developed by George & Bennett (2005). The principle of case selection entails choosing cases that vary on relevant aspects and keep everything else constant as much as possible. India and Sweden have been chosen as they have varying institutional capability on income redistribution and social protection, yet they both constitute countries that are well-integrated into the global economy from the early 1990s. This design makes it easy to make inference on how institutions influence the connection between inequality of income and life satisfaction, because only the variable of interest varies while others remain constant.

The dependent variable in the analysis is subjective life satisfaction, measured through the Cantril Self-Anchoring Striving Scale as reported in the World Happiness Report (Helliwell et al., 2023). This scale asks respondents to rate their life on a ladder from zero, representing the worst possible life they can imagine, to ten, representing the best possible life. The key independent variables are income inequality, measured using Gini coefficients and income share data from the World Inequality Database (2022) and the Organisation for Economic Co-operation and Development (2024); institutional redistributive capacity, measured by the gap between market income inequality and post-transfer inequality; and social trust, measured through the World Values Survey Wave 7 (World Values Survey Association, 2022). Additional data on labour market informality are drawn from the International Labour Organization (2018), and macroeconomic context is provided by World Bank Development Indicators (2024). The analysis is qualitative and interpretive, using these sources to construct a comparative institutional account of how inequality is experienced in each country.

CASE STUDY I: INDIA

Growth, Inequality, and the Limits of Liberalisation

The economic reforms undertaken by India in 1991 stood for a turning point in India's approach to development policy, with India adopting a decisive approach to move from the mixed economy approach to development policies. The lifting of restrictions on industrial licensing, opening the Indian economy to foreign investments, and deregulation of its financial sector led to a rapid increase in the pace of growth for India. According to the World Bank (2024), India recorded a rate of growth in GDP of around 6.5% annually between 1991 to 2019. These were amongst the highest rates of economic growth recorded by a large economy over this period.

Nonetheless, the economic growth brought about by liberalisation has primarily taken place within sectors that employ fewer people in terms of total labor force participation. There have been significant expansions within the IT sector, financial services, pharmaceutical, and industries characterised by high capital intensity, yet these industries have higher requirements in terms of formal education and skills and can therefore not absorb many labourers from low-income families. Most of India's labor force has continued working in agriculture, construction, domestic work, and informal labor markets, where economic benefits from liberalisation have been relatively low. According to the World Inequality Database (2022), the top ten percent earned around 57 percent of the national income, whereas the lowest 50 percent earned only 13 percent of the same income. Therefore, such inequality has caused the economic growth estimates to grossly misrepresent improvements in standard of living for most Indians.

Informal Labour, Social Exclusion, and Capability Deprivation

The structure of the Indian labour market is one of the primary ways in which inequality results into reduced well-being. In its 2018 report, the International Labour Organisation reported that "more than 80% of India's non-agricultural workforce was informally engaged, without contractual relations, statutory social security or collective-bargaining rights." The lack of social protection in such cases means that informal employees have no institutional safeguard from joblessness, illness, or even old age, and must fend for themselves. Any cost arising because of these situations will fall entirely on the individual's shoulders and must be covered out of personal savings and family income alone.

Considering the capability approach of Sen (1999), this situation can be considered a direct and organised deprivation of substantive freedoms. Labourers who cannot make proper plans for their future; do not have enough funds to spend on their health without the threat of falling into a financial pitfall; and cannot save funds for educating their children because they have unpredictable incomes and cannot be said to lead freely chosen lives. This situation is even worsened by the health care system in the country, which has seen extraordinarily little government spending at less than two percent of the gross domestic product of Indian economy. This results in an underdeveloped public sector and a private sector which is accessible to those only, who have enough money to spend.

Life Satisfaction in India: What the Evidence Shows

The empirical evidence on life satisfaction in India is consistent with the structural account presented above. India ranked 126th out of 137 countries in the World Happiness Report (Helliwell et al., 2023), with a mean life satisfaction score of approximately 4.0 on the ten-point Cantril scale. This places India substantially below the global average and below several countries with comparable or lower per capita income. The six variables that the Report uses to account for cross-national differences in life satisfaction are gross domestic product per capita, social support, healthy life expectancy, freedom to make life choices, generosity, and perceptions of corruption and all record low values for India. The pattern suggests that India's poor ranking on life satisfaction is not simply a function of its income level but shows the combined effect of weak social support, low institutional trust, and limited access to the capabilities that sustain well-being.

The Easterlin paradox is directly visible here. Three decades of high economic growth have not produced a corresponding improvement in average life satisfaction, because the distributional and institutional conditions that would be needed for that improvement are not in place. The rapid expansion of visible wealth among urban professional and business classes has intensified the social comparison dynamics that Easterlin (1995) identifies as the mechanism through which inequality suppresses happiness. Those who have not shared proportionately in the gains of growth experience not only relative material deprivation but also a diminished sense of social standing and civic recognition. Bardhan (2010) and Dreze and Sen (2013) both argue that this combination of dynamic markets and weak public institutions represents a distinctive failure of the Indian development model, one that produces growth without the social conditions that make growth meaningful for human well-being.

CASE STUDY II: SWEDEN

The Welfare State and the Management of Market Inequality

The development of Sweden since the end of World War II has been characterized by the systematic creation of the welfare state based on the ideas of universality and solidarity. Welfare institutions were designed with the explicit purpose of making sure that the risk of unemployment, sickness, disability, and old age are not borne individually but collectively. And, access to education and health care depends on needs, not on the level of income. Starting from the early 1990s, Sweden has carried out a set of reforms aimed at making the market mechanism work more efficiently. Some examples include cuts in the highest rates of taxation, introducing voucher system in education, and partial privatisation of some social services. All these changes have had their impact on the distribution of market income. According to Organisation for Economic Co-operation and Development (2024), the Gini coefficient of Sweden for market income grew from about 0.43 in the early 1990s to 0.51 by the mid-2020s.

Nevertheless, the redistributive impact of the Swedish taxation and transfer system is considerable. The post-tax-and-transfer Gini coefficient for disposable income is about 0.29, which is one of the lowest ratios measured among the Organisation for Economic Co-operation and Development countries (2024). The decrease of almost twenty Gini points is one of the biggest redistributive impacts by any welfare state worldwide. It is attained via progressive taxes, universal social insurance in relation to various life contingencies, public provision of health care and schooling services, and family and housing allowances. According to the widely cited comparative study conducted by Korpi & Palme (1998), universal welfare states like the above one have a larger reduction in inequality and poverty compared to selective systems since they sustain popular political support and generous benefits needed for redistribution.

Social Trust, Institutional Quality, and Well-Being

The relation between welfare institutions in Sweden and the happiness index is based on mechanisms that go beyond the redistribution of income. Sweden is one of the top countries when it comes to the indices of social trust. In terms of World Values Survey Wave 7 (World Values Survey Association, 2022), over 60 percent of Swedish citizens agreed that most people are trust worthy. The same indicator for India was around 20 percent. The difference is explained by something other than culture. According to Rothstein and Uslaner (2005), the level of trust is shaped by people's perception of the quality of public institutions. When people feel that the government delivers good and fair services, their overall attitude towards social cooperation becomes positive.

The health care system of Sweden eliminates any apprehensions related to health insecurity because everyone in the country receives health care insurance coverage without making any out-of-pocket payments while seeking health care services. The education system of Sweden ensures widespread access to quality education even though there has been an increase in the participation of the private sector in this sector. Its labor market policies include provision of substantial unemployment benefits along with retraining programs which decrease the economic and psychological costs of being unemployed more than what is seen in India. All these aspects of the Swedish welfare state provide a general atmosphere of social security where individuals can make futuristic plans and invest in themselves knowing that all other people in the society share the same system of rights and duties.

Life Satisfaction in Sweden: What the Evidence Shows

There is an empirical pattern regarding the evidence on life satisfaction in Sweden. According to the World Happiness Report (Helliwell et al., 2023), Sweden belongs to the group of ten countries in the world with the highest level of life satisfaction measured through the ten-point Cantril scale, where the average rating is approximately 7.4 points. This high level has remained stable over many years at the same time when income inequality in the market sector has grown significantly. The ability to remain on such an elevated level of life satisfaction despite the growing market inequality is the key empirical finding from this example. It proves that the level of market income inequality does not define the results of life satisfaction. What really defines them is the situation in terms of inequality after redistribution, and the quality of welfare institutions plays a role here.

COMPARATIVE ANALYSIS: INSTITUTIONS AS THE DECISIVE VARIABLE

The comparison between India and Sweden reveals an important result that is both theoretically based and empirically observable: income inequality in itself is not the decisive factor which influences the effect of income inequality on life satisfaction. Indeed, both countries face relatively prominent levels of income inequality. They are both subjected to the forces of globalisation and market integration during the last thirty years. Nevertheless, their results on life satisfaction differ significantly. While India, despite relatively high levels of economic growth, demonstrates the mean life satisfaction of 4.0, Sweden, despite market inequality, achieves the mean score of 7.4. This difference cannot be accounted for by means of income alone. The key is the performance of public institutions.

In India, inequality works through all the three mechanisms outlined in the theoretical framework above. Inequality in terms of the absence of social security results in the inability to provide a sense of security for the majority of workers, which impacts on the subjective well-being of individuals. The denial of access to good health care and educational services prevents the acquisition of capabilities which, according to Sen (1999), make one live freely and respectfully. The accumulation of wealth among the higher income earners, revealed through urbanization and the consumption culture, accentuates the relative deprivation process described by Easterlin (1995) where people's levels of happiness are stagnating despite income growth. Finally, the low level of institutional trust can be said to be caused by the view that the system in politics and the public sector is not working in favor of average citizens.

In Sweden, the welfare state moderates each of these mechanisms systematically. Redistributive taxation and comprehensive social insurance reduce disposable income inequality to one of the lowest levels in the developed world. Universal public services ensure that health and education are accessible regardless of market position, preserving the capability foundations of well-being across income groups. High social trust reduces the anxiety that social comparison generates and creates a cooperative social environment in which well-being is sustained independently of individual income. And strong institutional confidence provides the background security about health, employment, and the future that Layard identifies as one of the most reliable supports of sustained happiness.

Two further observations from the comparison are worth noting. The first is that the Swedish case challenges the common assumption that rising market inequality necessarily translates into declining well-being. Sweden's market Gini has risen substantially since the early 1990s, but its life satisfaction scores have remained high. This is because the welfare state has continued to perform substantial redistribution and to maintain the quality of universal services, insulating people's actual experience of inequality from the changes in market income distribution. The second observation is that the Indian case challenges the assumption that high economic growth will eventually resolve the well-being deficits associated with inequality. Three decades of high growth have not closed India's well-being gap, because the institutional conditions required for converting income into life satisfaction have not developed at a pace consistent with economic expansion.

This comparison also engages with the paradox of redistribution identified by Korpi and Palme (1998). India's social protection system, where it exists, is heavily targeted and fragmented. It reaches a limited share of the population, delivers modest benefits, and is associated with high administrative costs and significant discretion at the local level of implementation. Sweden's system is broadly universal, consistently implemented, and politically sustained by the support of the middle classes who benefit from it alongside lower-income groups. The result is a far more effective reduction in effective inequality in Sweden, with correspondingly greater effects on well-being, than India achieves with its narrower and less generously funded social programmes.

CONCLUSION

This paper has tried to understand the effect of income inequality on life satisfaction through the comparative analysis of India and Sweden. There are some important conclusions to be drawn from the study. Income inequality not only adversely affects life satisfaction due to less availability of resources but through the specific mechanisms of relative deprivation, capability exclusion, and institutional deterioration. These mechanisms have differential strength based on the type of institutional setting in which they operate. In case there are strong redistributive institutions in place, then there is much less effect of income inequality on well-being of people because such institutions reduce the negative impact of income inequality.

The key theoretical contributions made by the study include an attempt to combine three different perspectives in order to examine the mediating effects of institutional context on the inequality-well-being relationship, namely, Sen's capabilities perspective, the Easterlin hypothesis, and Layard's political economy of happiness. While each of these perspectives highlights a particular mechanism that links inequality and well-being, each one also suggests an aspect of institutional design which may affect this mechanism. According to the capabilities perspective, the main factor is universal access to health and education. The Easterlin hypothesis highlights the role of redistributive institutions in alleviating the negative impact of relative deprivation stemming from income inequality. Meanwhile, Layard's perspective highlights the need for institutional trust and social security. In this way, combining these three different perspectives allows us to obtain a more complete picture of the inequality-well-being relationship than would be possible with only one of them.

The policy implications arising from the analysis are substantial for developing nations. In the case of India, the task is one of increasing the availability and quality of social protection to work incrementally towards universal access to healthcare and education; decreasing the proportion of the working-age population employed in the informal sector by labor market reforms; and improving the quality of governance that fosters the institutional trust of the citizenry. This is not just a matter of achieving greater equity. It is about creating the circumstances in which growth contributes to human well-being commensurate with the social costs incurred as part of the growth process. With respect to Sweden and other welfare states, the results imply the need to protect the universality and quality of public services in the face of reforms that emphasise markets. The benefits of universalism are substantive but not necessarily sustainable.

On a broader scale, this paper contends that the link between income inequality and well-being in terms of human welfare is as much of a political issue as an economic one. Such linkages are influenced by decisions about the way in which institutions are organised, gains from economic development are shared and investments in the social context that allow for the enjoyment of good life. These decisions are made, not solely based on economic factors but on political decision-making process and political debate. The cross-national comparison of the findings related to India and Sweden demonstrates that countries where such decisions lead to universal redistribution and strong institutional framework consistently experience greater levels of well-being among their citizens irrespective of their level of market inequality. This is a conclusion that has important implications both for scholarly research in the field of well-being and for governmental practices.

REFERENCES

1. Bardhan, Pranab. *Awakening Giants, Feet of Clay: Assessing the Economic Rise of China and India.* Princeton University Press, 2010.
2. Clark, Andrew E., Sarah Fleche, Richard Layard, Nattavudh Powdthavee, and George Ward. *The Origins of Happiness: The Science of Well-Being over the Life Course.* Princeton University Press, 2018.
3. Dreze, Jean, and Amartya Sen. *An Uncertain Glory: India and its Contradictions.* Allen Lane, 2013.
4. Easterlin, Richard A. “Will Raising the Incomes of All Increase the Happiness of All?”

Journal of Economic Behavior and Organization, vol. 27, no. 1, 1995, pp. 35-47.
5. Esping-Andersen, Gosta. *The Three Worlds of Welfare Capitalism.* Princeton University Press, 1990.
6. George, Alexander L., and Andrew Bennett. *Case Studies and Theory Development in the Social Sciences.* MIT Press, 2005.
7. Helliwell, John F., Richard Layard, Jeffrey D. Sachs, Jan-Emmanuel De Neve, Lara B. Aknin, and Shun Wang, editors. *World Happiness Report 2023.* Sustainable Development Solutions Network, 2023.
8. International Labour Organization. *Women and Men in the Informal Economy: A Statistical Picture.* 3rd ed., ILO, 2018.
9. Korpi, Walter, and Joakim Palme. "The Paradox of Redistribution and Strategies of Equality: Welfare State Institutions, Inequality and Poverty in the Western Countries." *American Sociological Review,* vol. 63, no. 5, 1998, pp. 661-687.
10. Layard, Richard. *Happiness: Lessons from a New Science.* Penguin Press, 2005.
11. Organisation for Economic Co-operation and Development. "Income Inequality (Indicator)." *OECD Data,* 2024, https://data.oecd.org.
12. Rawls, John. *A Theory of Justice.* Harvard University Press, 1971.
13. Rothstein, Bo, and Eric M. Uslaner. "All for All: Equality, Corruption, and Social Trust." *World Politics,* vol. 58, no. 1, 2005, pp. 41-72.
14. Sen, Amartya. *Development as Freedom.* Oxford University Press, 1999.
15. Wilkinson, Richard, and Kate Pickett. *The Spirit Level: Why More Equal Societies Almost Always Do Better.* Allen Lane, 2009.
16. World Bank. *World Development Indicators 2024.* World Bank, 2024, https://databank.worldbank.org.
17. World Inequality Database. "Income Inequality Data for India, 2022." *WID,* 2022, https://wid.world.
18. World Values Survey Association. *World Values Survey: Wave 7 (2017-2022).* WVSA, 2022, https://www.worldvaluessurvey.org.