

Assessment of individual income growth with relative concerns

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Abstract

This paper addresses the assessment of individual income growth providing a framework in which each individual accounts for own income growth and for the growth of each individual's reference group. We take as a starting point the concept of relative deprivation, in which an individual compares with those who are better off, and interpret it as the extent to which an individual is left behind. In this line, we propose that individuals evaluate own income and compare it with income growth of other people in society, which are taken as a sort of benchmark. After some computation, progressive growth and re-ranking are identified at the individual level, and the first component is broken down into one term that captures growth self-concern and another that accounts for growth with respect to others, or relative concerns. The empirical application to Spain over the past ten years shows that this measure supplements the analyses based on common metrics of income distribution and how it helps to identify the different aspects of income growth assessment.

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Key words: individual income growth, leave no one behind, progressivity, relative concern, relative deprivation, reranking.