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Intergenerational mobility and subjective well-being—Evidence from the general social survey[☆]

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ABSTRACT

We investigate the relationship between intergenerational socio-economic mobility and subjective well-being (SWB) using data from the General Social Survey (GSS). We look at three different measures of intergenerational mobility—social, educational, and income mobility. We find that downward mobility with respect to all three measures has a negative effect on the self-reported level of happiness and subjective health while upward mobility is associated with positive outcomes in subjective well-being. The positive and negative effect of social and educational mobility, however, is entirely through the income and health channels while income mobility has an impact on subjective well-being even after controlling for the current level of income and health. We further find that the effect of income mobility on subjective well-being peaks between the ages of 35–45 years and then slowly dissipates. Finally, the negative effect of downward mobility on subjective well-being is much stronger than the positive effect of upward mobility. This is consistent with the decision theory of loss aversion according to which the experienced disutility from loses outweighs the utility from acquiring proportionate gains. We do not find evidence for loss aversion when it comes to social and educational mobility.

1. Introduction

Income inequality in the United States has rapidly increased since the 1970s reaching historically high levels in recent years (Piketty and Saez, 2003). An emerging body of evidence[1] suggests that higher level of income inequality naturally leads to decline in socio-economic mobility, a relationship that is now commonly referred to as "The Great Gatsby Curve." According to a report by the OECD (2011, p.40), for example, rising income inequality "can stifle upward mobility, making it harder for talented and hard-working people to get the rewards they deserve." In the United States, income mobility is already detrimentally low and will continue to decline in the future (Krueger, 2012). This view has been challenged by Chetty et al. (2014) who find that rank-based measures of income mobility in the United States have stayed relatively constant since the 1970s. A recent study by Bjørnskov et al. (2013) also finds that in countries with low upward-mobility the negative effect of income inequality on SWB is much higher than in countries with plenty of economic opportunities that allow people to move quickly up the social ladder. This raises serious concerns about the "American Dream," which remains the core of the United States identity and promises equal socio-economic opportunities regardless of a person's economic background.

In this paper, we examine the effect of intergenerational socio-economic mobility[2] on SWB. Although there is by now a large literature on variety of topics related to intergenerational mobility, only a handful of papers explore the topic with respect to subjective measures of well-being. Theoretical evidence suggests that socio-economic mobility can increase the level of SWB through variety of channels. For example, in addition to higher consumption and better access to services such as health care and education, individuals who do better than their parents feel pride and a sense of accomplishment. Higher social status may also make people feel more

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1 For example, see Corak (2013) or Krueger (2012) for a summary of this literature.

2 We use the term intergenerational social mobility as the change in status (social, economic, or educational) between particular individual and their parents. Thus, the concept applied in this paper can signal upward mobility for everyone (although not necessarily), while the ranks within society stay fixed. This is consistent with the use of the term with previous studies in the literature.

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powerful and socially accepted. On the other hand, individuals may find themselves in a new socio-economic class where expectations for success and consumption are much higher which may lower their life satisfaction. Do people who climb the socio-economic ladder, then, get stuck on a hedonic treadmill or is there a permanent happiness residual in addition to the positive impact of higher income on consumption? Does social status, income, or educational mobility matter more when it comes to subjective well-being and does this effect differ among the different groups of the population?

We answer these questions using a pooled cross sectional data from the GSS from 1972 to 2012. We look at three separate measures of intergenerational mobility—social, income, and educational mobility. We find that downward intergenerational mobility with respect to each one of these measures has a negative effect on happiness and subjective health. Similarly, climbing the socio-economic ladder is associated with higher levels of happiness and subjective health. The impact of social and educational mobility, however, is entirely through the income and health channels. These results are robust with respect to several specifications used. Following Gehring (2013), we also examine how the effect of income mobility differs among the different subgroups of the population. Upward income mobility, for example, tends to benefit females, blacks, and people with higher education more than it benefits males, whites, and people with lower education. Downward income mobility, on the other hand, tends to influence more negatively males, whites, and people with lower education. We do not find any significant differences when it comes to social and educational mobility. The effect of income mobility on subjective well-being peaks between the ages of 35–45 and then slowly dissipates. Finally, the negative effect of downward income mobility on SWB is much stronger than the positive effect of upward mobility. This is consistent with the decision theory of loss aversion according to which the experienced disutility from loses outweighs the utility from acquiring proportionate gains. We do not find support of the loss aversion theory when it comes to social and educational mobility where relative gains seem to be valued more than losses.

Our study advances the literature in several ways. First, to the best of our knowledge, this is the first paper that looks at three different measures of intergenerational mobility, and the only one that considers the relationship between educational mobility and SWB. Second, we apply the analysis to the United States using data from the GSS which replicates some of the previous evidence that is based on data from Europe. Third, we investigate the effect of intergenerational mobility beyond the income and health channels, i.e., once we account for the positive effect of higher income, and better health and education, we answer if climbing the socio-economic ladder matters. Fourth, we examine how socio-economic mobility differs by sub-groups of the population. For example, given the traditional gender roles in society, do females and males see social mobility similarly? Finally, we examine how the effect of upward or downward intergenerational mobility changes with age.

2. Theory and literature review

Most people want more income and strive for it. Yet as standards of living have substantially improved in Western societies over the last fifty years, happiness levels have not changed (Easterlin, 1974, 1995; Easterlin et al., 2010; Diener and Oishi, 2000; Inglehart and Klingemann, 2000). Within a country, richer people may as a rule be happier than poorer people (see Inglehart and Klingemann, 2000; Blanchflower and Oswald, 2004; Frey and Stutzer, 2002; Headey and Wooden, 2004; Guilbert and Paul, 2009), but ultimately nations and individuals are trapped on a hedonic treadmill as they grow richer over time. This observation, known as the Easterlin Paradox,[3] has become the cornerstone of happiness research and a large literature has emerged since the 1970s that tries to explain it. What role does intergenerational mobility play in the income-happiness puzzle? Do people who manage to climb the socio-economic ladder over time report lasting increase in their happiness beyond the effect of higher consumption, or do they adapt to their new socio-economic status which after a short period of time stops delivering on its promise for higher life satisfaction?

Several psychological theories explain the Easterlin paradox. First, the theory of hedonic adaptation suggests that as individuals move up the socio-economic ladder they quickly adjust to their new level of wealth and status. People get a thrill from buying a new car or the latest tech gadget, but they soon get used to their new shiny toys and return to the mall. This leaves individuals on a "hedonic treadmill" (Brickman and Campbell, 1971; Stutzer, 2004; Di Tella et al., 2006) so that the only way they can experience the same level of happiness is if their income growth matches the income growth from previous years. Different models of hedonic adaptation have been proposed. Kimball and Willis (2006), for example, distinguish between hedonic adaptation and internal habits. The former is related to the idea that after initial period of elation, individuals rapidly return to their baseline (mean) happiness. The latter is the idea that if individuals get less than what they are accustomed to, they experience disutility. If adaptation is complete, then movements up and down the socioeconomic ladder can only cause a temporary change in SWB, but not a permanent one.

A number of studies, however, have challenged the theory of hedonic adaptation (for a summary of the literature, see Headey, 2007). Guilbert and Paul (2009), for example, do not find evidence for adaptation to income using five waves (2001–2005) of HILDA surveys. Furthermore, Lucas et al. (2004) find that people do not fully recover from repeated spells of unemployment. In addition, Lucas et al. (2003) show that some people, although not all, experience permanent gains in happiness as a result of marriage. Finally, Frederick and Loewenstein (1999) show that cosmetic surgery can be another positive life event which can raise SWB in the long-run. If anything, most scientists today believe that if adaptation exists, it is partial (Oswald and Powdthavee, 2008).

A second explanation of the Easterlin Paradox is the theory of social comparisons—people do not evaluate their life in isolation. What matters to people, for example, is not the absolute level of their income, but how their income compares to the income of the family next door, or the so called "similar others." The similar others can include people of similar age, income, education, gender, race, etc. An increase in the income or status of the reference group is associated with decline in SWB. This comparison is sociological and external (McBride, 2001) and is deeply rooted in human nature (Frank, 1999). Thus, even though individuals may have higher socio-economic status than their parents, their subjective well-being may not improve as they constantly compare themselves to people who have similar or higher status.[4] This social comparison can also be internal as people often compare their income and achievements today with their own income and successes in the past. An individual who grows in a higher income household, for example, may have a higher consumption standard than an individual who grows in poverty. A number of empirical studies find

[3] For a more recent discussion of the income-happiness paradox see Deaton and Stone (2013).

[4] The relative income effect has been extensively studied by sociologists, psychologists, and economists. See Clark, Frijters, and Shields (2008) for a summary of the literature.