



Relative payoffs and happiness: an experimental study

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Abstract

Some current utility models presume that people are concerned with their relative standing in a reference group. Yet how widespread is this influence? Are some types of people more susceptible to it than others are? Using simple binary decisions and self-reported happiness, we investigate both the prevalence of “difference aversion” and whether happiness levels influence the taste for social comparisons. Our decision tasks distinguish between a person’s desire to achieve the social optimum, equality, or advantageous relative standing. Most people appear to disregard relative payoffs, instead typically making choices resulting in higher social payoffs. While we do not find a strong general correlation between happiness and concern for relative payoffs, we do observe that a willingness to lower another person’s payoff below one’s own (competitive preferences) may be correlated with unhappiness. © 2001 Elsevier Science B.V. All rights reserved.

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1. Introduction

I’d rather be a big enchanted prince in a small pond than a small enchanted prince in a big pond.

Frank (1985), (secondary source).

Subjective states of mind are often not directly observable, but can be quite important in personal interactions and as determinants of economic activity. A large body of laboratory experiments has shown that people do not always choose to maximize their own financial

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reward, apparently being influenced by non-monetary considerations. There is a growing interest in economics in attempting to explain the motivations for such behavior. Some recent models (Bolton and Ockenfels, 2000; Fehr and Schmidt, 1999; Falk and Fischbacher, 1999) presume that people are averse to differences in relative payoffs — that is, if their own monetary reward is unaffected, people prefer payoff equality to payoff disparity. However, there is little unconfounded experimental evidence in support of this view.

The presumption is that many people are concerned with social comparisons. Frank (1985) points out that “people’s concerns about where they stand on the economic totem pole shape people’s behavior in systematic, observable, and often unexpected ways”. Yet how pervasive is this influence? To the extent that it is prevalent, can we determine which factors affect the degree of one’s inclination toward social comparisons? This is potentially very useful information for determining policy in a number of socio-economic contexts. One possibility is that a person’s level of happiness may influence any tendency to prefer payoff equality. It seems a natural view that if one is “happy”, comparisons with other individuals are less compelling.¹

We conduct an experimental study to investigate the degree to which a concern for relative payoffs is present in the heterogeneous population of individuals. Participants make unilateral choices in dictator game variants where the decision has little or no effect on the chooser’s own material payoff, but a substantial effect on a second person’s material payoff. This approach limits or removes the influence of own money maximization, permitting a cleaner test of the degree of influence of relative payoffs. Our results have immediate implications for models of non-pecuniary behavior in economic settings. We address the question of whether there exists a relationship between a person’s (self-reported) happiness and the importance he attaches to relative payoffs. One specific hypothesis is that those who are less happy may seek solace in improving their relative standing in a group.

Our results indicate a surprisingly low propensity to prefer lower payoffs for other people: People generally choose to maximize the material payoffs of others, even when these are greater than their own. Two-thirds of participants choose (other, self) payoffs of (900, 600) over (600, 600) and 89% choose (600, 600) over (400, 600).² When told that they would receive 600 and given an opportunity to select a payoff for a second person from the range of 300–1200, only 10% of participants chose 600 for the other person, while 74% chose 1200. It appears that people are more concerned with the aggregate social payoff or the minimum payoff received by anyone than they are with relative payoffs. This result is more consistent with the Charness and Rabin (1999) “quasi-maximin preferences” than with those models that adopt “difference aversion” as a social motivation.

We feel it is reasonable to expect that the motivational strength of relative payoffs will be greatest for local, rather than global, comparisons. Negative feelings seem much stronger for adverse comparisons with our immediate associates than for adverse comparisons to

¹ The fact that people are comparing themselves with others, and that these comparisons have influence on their subjective well-being, is observed in many socio-physiological experiments. These studies have demonstrated that specific measures of autonomic nervous system arousal are strongly influenced by status in social interactions (e.g. Reiser et al., 1955; Long et al., 1982). Long et al. (1982) found consistently higher heart rate and blood pressure readings among subjects interacting with people who outranked them than among subjects interacting with people of equal rank.

² Each unit represents one Spanish peseta, then valued at about 150 to \$ 1.

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