

Proposal for IARIW 2010

Parallel Session 6B: Well-Being across Time and Space

Title: What (if anything) do satisfaction scores tell us about the intertemporal change in living conditions?

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Abstract:

Empirical economics predominantly uses objective indicators (e.g., income or wealth) to analyze people's living conditions. However, the picture painted by objective indicators remains incomplete because these indicators say nothing about how people self-assess their life. To shed light on these blind spots, the literature on subjective well-being advocates the use of self-reported satisfaction scores obtained from survey questions about life satisfaction and satisfaction with specific areas of life (for an overview cf. Frey and Stutzer 2002). To be informative about how people see their life, the self-assessment has to be made with respect to certain criteria, i.e., with respect to standards of judgment.

However, the living conditions to be assessed mould, in part, the standards of judgment that are used for the assessment. That is, the standards of judgment depend on the context in which the individual lives. For example, individuals may have higher income expectations at present, when their incomes increased in the past. Thus, increasing incomes are likely to lead to an upward adjustment in the standards of judgment. The context-dependence of the standards of judgments has, however, a serious consequence for the inferences that can be made by an intertemporal analysis of satisfaction scores: It must remain undecided whether decreasing satisfaction scores indicate a decline in the living conditions or an upward adjustment in the standards of judgment (or both).

The present research project introduces an approach to empirically analyze intertemporal changes in the standards of judgments. The conceptual framework of the analysis is based on the broader research on adaptation to income: Changes in the standards of judgment are identified from desensitization (sensitization) to the hedonic effect of income. (The concept of desensitization is discussed in Frederick and Loewenstein 1999.) More precisely, using questions about financial satisfaction, the study identifies changes in the standards of judgment from changes in satisfaction scores over time when income is held constant. (A more detailed description of the framework can be found in Wunder 2009.)

Using data from the Socio-Economic Panel Study (SOEP), the following main results are obtained so far:

1. The average satisfaction score with which people assess the same financial situation decreases by about 4% between two consecutive years.
2. Satisfaction scores remain unchanged, on average, when household income increases by approximately 2% per year.
3. Increases in income lead to an upward adjustment of the standards of judgment, whereas decreases in income result in a downward adjustment of the standards of judgment.
4. Upward adjustment is stronger than downward adjustment.

An extension of the analysis to other data sets is planned as a task for further research.

References:

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Frey, B. S. and Stutzer, A. (2002). What can economists learn from happiness research?, *Journal of Economic Literature* 40(2): 402-435.

Wunder, C. (2009). Adaptation to income over time: A weak point of subjective well-being, *Schmollers Jahrbuch (Journal of Applied Social Science)* 129(2): 269-281.