

Title	Beneath, behind and between: social comparisons and adaptation
Sub Title	
Author	Clark, Andrew E.
Publisher	Keio Economic Society, Keio University
Publication year	2012
Jtitle	Keio economic studies Vol.48, (2012.) ,p.123- 125
JaLC DOI	
Abstract	
Notes	Proceedings : The Proceedings of the "Frontiers of Behavioral and Experimental Economics" Conference
Genre	Journal Article
URL	https://koara.lib.keio.ac.jp/xoonips/modules/xoonips/detail.php?koara_id=AA00260492-20120000-0123

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**BENEATH, BEHIND AND BETWEEN:
SOCIAL COMPARISONS AND ADAPTATION**

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Social Science has paid a great deal of attention to income comparisons in the determination of well-being. These comparisons can either be to others or to oneself in the past. This concentration on income has perhaps come about because income is so central to much of our analysis, or because our subjects—individuals—act as if it is.

Part of this emphasis on income has been crystallised in the analysis of the Easterlin paradox, whereby in cross-section data richer individuals are indeed happier, but average happiness in a society does not grow with real GDP per capita. One of the explanations for this paradox is indeed income comparisons to others or to the past.

One of the approaches taken to reveal the existence of such income comparisons has been the analysis of subjective well-being data (such as happiness or life satisfaction). In databases covering tens or indeed hundreds of thousands of observations, well-being is shown to be positively related to the individual's own income. However, crucially, well-being is also often shown to be negatively correlated with others' income: others' good fortune (holding my own income constant) then reduces my well-being today.

While much work has appealed to subjective well-being data, other approaches based on experiments, revealed preference (looking at what individuals do), and Neurological data are also possible. Some of these are reviewed in Clark *et al.* (2008b). Even allowing for publication bias, there is now a considerable body of evidence that such income comparisons do indeed exist.

There is (surprisingly) somewhat less work on income comparisons to oneself in the past (i.e., adaptation to higher income), despite the ease with which the comparison group can be identified here. This relative lack of research perhaps reflects that such analysis of adaptation requires that individuals be followed over a significant period of time to see whether their well-being after an income rise gradually returns to its initial position. Equally, it is more difficult to argue for the *ceteris paribus* assumption when an individual's income changes in a significant manner. Ideally, we would want income changes to be allocated randomly across individuals, so that we could follow their subsequent changes in well-being in a randomised control trial setting. In real life, large movements in income are often related to changes in marital status, health changes, promotion, job loss or other factors: these latter will likely have an effect on well-being independently of any associated change in income.

The analysis of income comparisons has thus been an active research area, and one of considerable policy importance. An arguably just as fascinating subject for study is the

application of the same ideas of social comparison and adaptation to other areas of economic and social life: these other areas include (but are not limited to) unemployment (Clark, 2003), marital status (Brochmann, 2011), health (Blanchflower, *et al.*, 2009) and religion (Clark and Lelkes, 2009).

The evaluation of the extent of comparisons across different aspects of individuals' lives is important for policy reasons. Under the Easterlin paradox, GDP growth will not lead to raising well-being. The policy question then arises of what we should do instead. A lasting rise in well-being requires us to identify a domain of life which is *a*) amenable to policy, *b*) for which there is no (or little) adaptation, and *c*) which is non-rival (in the sense that there are no social comparisons).

Research has suggested that unemployment is one area that may satisfy these three criteria. The debate is far from being settled here. The following figure amongst the topics which are still open for discussion.

- 1) Much of the discourse in terms of adaptation or social comparisons has been couched in terms of is there or isn't there. It does however seem very likely that some comparative processes (either to others or to oneself in the past) are at work: the central question is whether these effects are large or not. If they are only small, then the dimension of life in question is a suitable goal for policy to increase well-being; if they are large then it is not.
- 2) Given the above it would seem essential to establish a taxonomy of life dimensions according to social comparisons and the speed (if any) of adaptation.
- 3) Most of the existing empirical work is single-country, and we would really like to see if the effects in question differ across countries. For example, some work has revealed that adaptation to life events is quite similar between Australia (Frijters, *et al.*, 2011), Germany (Clark, *et al.*, 2008a), Great Britain (Clark and Georgellis, 2012), Korea (Rudolf and Kang, 2011) and Russia (Clark and Uglanova, 2011).
- 4) Do we compare up or down? Most people would agree that individuals do not like being poorer than others ("disadvantageous inequality"), but is it also true that individuals do not like being richer than others ("advantageous inequality")? The existing evidence here appears mixed.
- 5) Most of the existing empirical analysis of subjective well-being is static, in the sense that well-being at time t is related to some measures of income (own and others) at time t . But if we believe that individuals are sensitive to changes then it may make more sense to consider well-being at time t as being determined at least in part by income profiles over time, rather than just by their current levels. For example, the negative effect of incomes that are higher than your own may be exacerbated if they are earned by individuals who were in the past poorer than you (D'Ambrosio and Frick, 2012). In this case, it is better to always be poor, rather than to be first rich and then poor.

In summary, the interest in subjective well-being data in Economics does not seem to have been a flash in the pan, and a wide variety of both important and fascinating research questions remain far from being resolved. I expect work in this area to continue to grow.

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