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Age, Life-Satisfaction, and Relative Income: Insights from the UK and Germany

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Abstract:

We first confirm previous results with the German Socio-Economic Panel by Layard et al. (2010), and obtain strong negative effects of comparison income. However, when we split the sample by age, we find quite different results for reference income. The effects on life-satisfaction are positive and significant for those under 45, consistent with Hirschman's (1973) 'tunnel effect' and only negative (and larger than in the full sample) for those over 45, when relative deprivation dominates. Thus for young respondents, reference income's signalling role, indicating potential future prospects, can outweigh relative deprivation effects. Own-income effects are also larger for the older sample, and of greater magnitude than the comparison income effect. In Germany the reference income effects are insignificant for all. With data from the British Household Panel Survey, we confirm standard results when encompassing all ages, but reference income loses significance in both age groups, and most surprisingly, even own income becomes insignificant for those over 45, while education has significant negative effects.

Text: See [Discussion Paper No. 6045](#)



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