

Positional Income Concerns and Personality

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Abstract

There is convincing empirical evidence that individuals compare their income to that of others and that such comparisons are driving behavior. Our paper investigates both the prevalence and the determinants of positional income concerns based on the SOEP pretests for the years 2008 to 2010. Our dataset comprises direct information about the importance of income comparisons with regard to seven potential reference groups. Importantly, this gives us the opportunity to exploit the within-subject variation of positional income concerns.

We find that the prevalence of positional income concerns very much depends on the reference group. Whereas most people attach importance to comparing their income with that of others in the domain of work, this is not the case for all reference groups in the social domain. Furthermore, we show that three traits of the big five personality inventory (namely, agreeableness, conscientiousness, and neuroticism) are systematically correlated with strong positional income concerns. The sign of the association depends on the reference group and our analysis reveals that there are differences between the work and private domain.

In addition, we establish that people who ascribe importance to income comparisons are also different in their economic preferences, that is, their risk and fairness preferences. Considering risk preferences, we find that risk tolerance is significantly correlated with positional income concerns in the domain of work, but not in the social domain. With respect to fairness preferences, we detect significant positive correlations between the degree of unfairness and positional income concerns for both domains. All in all, our results indicate that economic preferences and psychological personality measures are complements with respect to positional income concerns.

Strong positional concerns are likely to impose substantial welfare losses on society. Hence, further research on the driving forces of positional income concerns and their impact on life outcomes is desirable.