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What effect has economic decline on life satisfaction? A longitudinal perspective

Debates on income inequality appear to follow the assumption that higher income equality will lead to a more satisfied society. Income mobility enables a change in the income distribution, because every individual has the chance to improve his/her economic position in the society. But drawing from the concept of relative mobility, for every upwardly mobile individual, one individual has to be downwardly mobile. Furthermore, income mobility can mean that individuals already in a disadvantaged economic position will decline even further. This paper wants to shed light on the “dark side” of income mobility: how does economic decline impact individual life satisfaction? It is furthermore of importance to take generational differences into account: since each generation grew up under better material and physical conditions, are there changes in the consequences of downward economic mobility?

This analysis is linked to Richard Easterlin’s concept of relative income, operationalizing relative income as one’s relative position in the income hierarchy. Drawing from the conservation of resources theory, set-point theory and the theory of value change, the research questions are evaluated from a variety of different theoretical angles, contributing to both the income and happiness literature as well as social mobility research. The analysis in conducted with the German socio-economic panel (GSOEP), using fixed-effects regressions.

As a result, economic downward mobility leads to a decrease in individual life satisfaction that is even stronger the higher the economic decline and the higher the prior economic position of the individual. The analysis shows that individuals anticipate the decline, but fully adapt in their life satisfaction within two years. But overall, contrary to intuition, the influence of economic decline on life satisfaction is very low and has not met expectations. This finding, together with the result that older generations show a stronger decline in their life satisfaction in comparison to younger generations, leads to the conclusion that the relevance of economic decline decreases.