

# Unfairness Perceptions at Work

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## Abstract

This work investigates the effect of unfair income on subjective well-being and job quits. Following the fair-wage hypothesis (Akerlof, 1982, Akerlof and Yellen, 1990), empirical evidence has shown that individuals change their economic behaviour according to fairness considerations. Another side of the literature, based on the relative income hypothesis (Duesberry, 1949), has provided a large amount of evidence that people do not evaluate outcomes only in absolute terms but also relative to some reference levels. We contribute to these two strands of literature exploring the effect of perceiving own income as unfair on subjective well-being. Using five waves of the German Socio-Economic Panel (SOEP), we find that those who perceive to earn an unfair income have significantly lower subjective well-being, both in terms of cognitive evaluations (life and job satisfaction) and emotional health. Moreover, in terms of life satisfaction we find that males are more affected than females by unfair treatments. The negative effect of unfair pays is translated into a higher probability of quitting the job, confirming the importance of fairness considerations for labour relations.