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**Working Paper**

## Climbing up Ladders and Sliding down Snakes: An Empirical Assessment of the Effect of Social Mobility on Subjective Wellbeing

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## ABSTRACT

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# Climbing up Ladders and Sliding down Snakes: An Empirical Assessment of the Effect of Social Mobility on Subjective Wellbeing\*

We examine how intergenerational mobility affects subjective wellbeing (SWB) using data from the British Cohort Study. Our SWB measure encapsulates both life satisfaction and mental health, and we consider both relative and absolute movements in income. We find that relative income mobility is a significant predictor of life satisfaction and mental health, whether people move upward or downward. For absolute income, mobility is only a consistent predictor of SWB and mental health outcomes if the person moves downwards, and in this case the impact is far larger than relative mobility. For both relative and income mobility downward movements affect SWB to a greater extent than upward movements, consistent with notions of loss aversion. Notably, we find that social class mobility does not affect SWB. We present evidence that the significant relative and absolute mobility effects we find operate partially through financial perceptions and consumption changes which can occur because of income mobility.

**JEL Classification:** D31, D63, I1,I14, J60

**Keywords:** income mobility, relative income, social class mobility, loss aversion, intergenerational mobility, life satisfaction, SWB, subjective wellbeing, mental health

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## 1. Introduction

Income mobility is regularly touted as a means through which individuals who were born into lower socioeconomic backgrounds can access a ‘better’ life. Mechanically, ‘better’ implies more income and possibly better quality work but it taken for granted that better also translates into higher levels of wellbeing. Whilst many papers have considered the effects of mobility on labor market outcomes, such as employment, few have considered the effects of mobility on subjective wellbeing (SWB). In this paper, we consider how social mobility affects SWB, with SWB being measured either as changes in life satisfaction or in mental health. We consider three different measures of income mobility, which capture both absolute and relative movements.

Related to is work is a large literature that looks at how relative income affects SWB (for example Clark et al, 2008, Dolan, Peasgood, and White 2008 and Bechtel, Lordan, and Rao 2012). The main message is that SWB is adversely affected if you are surrounded by people who are richer than you. Relative income has been measured in a host of ways but usually the comparison group are people of a similar age and gender at a given point in time (Knight and Song 2006; Luttmer 2005; Card et al. 2010; Li et al. 2011; Senik 2004). That is, people who I find comparable with myself with respect to some key demographic.

Additionally, the comparison group could be the income that the individual experienced in the past. This accommodates the notion that people feel changes in income more intensely than absolute levels of income (Rabin 2004). Where comparisons with past income have been considered, it has been usual to consider the income that the individual themselves has earned in the recent past. To our knowledge, the impact of inter-generational income mobility has yet to be considered with respect to SWB or health. Our work addresses this gap.

Two papers have considered alternative measures of inter-generational mobility. First, Clark and D’Angelo (2009) look at how upward social *class* mobility affects SWB by using 15 waves of the British Household Panel Survey. They find that individuals with greater mobility have higher levels of life satisfaction. Their scope is more limited than our study as they only consider upward mobility, defined as a binary indicator. In contrast, we study downward mobility and also the extent of the adjustment. Second, McBride (2001) utilises the answer to the following question to create an inter-generational measure of mobility: “compared to your parents when they were the age you are now, do you think your own standard of living now is: much better, somewhat better, about the same, somewhat worse, or much worse?” The author finds that respondents who perceive their parents as having a higher standard of living in comparison to their own report lower levels of SWB. This study is also limited, however, in its cross-sectional nature and by the fact that the respondent is asked to recall their parents’ standard of living<sup>1</sup>.

In this work, we explore both upward (positive) and downward (negative) income mobility. We use the British Cohort Study (BCS) to show how income mobility affects

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<sup>1</sup> Asking people to recall standard of living runs the risk of both measurement error and telescoping (Rodrigues et al, 2006).

life satisfaction and mental health, and consider both relative and absolute inter-generational income movements.

Overall, we find that upward mobility augments SWB and downward mobility deteriorates SWB, with the effects of downward mobility always being greater in magnitude. Notably, upward relative income mobility augments SWB more than upward absolute income mobility where the effects are zero. Downward absolute income mobility deteriorates SWB more than downward relative income mobility. The estimates implied by downward absolute mobility movements are substantive, while all other effects are modest. To give some context earning £100 less than your parents on a weekly basis, gives the same deterioration to life satisfaction as being unemployed has been shown to effect life satisfaction elsewhere. (see Clark et al 2008). Crucially, our results are robust to several specifications. We also present suggestive evidence that the income mobility effects we find operate partially through financial perceptions and consumption changes which can occur because of mobility.

## **2. Conceptual Framework**

### **2.1 Income mobility and SWB**

To consider how income mobility impacts SWB, we envisage a utility function with a reference point for income determined by the individual's past income. We assume that new cohorts begin with aspirations that are at least as high as their parents. We expect that individuals want to consume more than their own parents. We also expect that the experience of mobility is worse for those who are downwardly mobile, leading to the effects on SWB to be slow in adaptation and potentially substantive. We expect that adaptation will be quicker for those that are upwardly mobile, implying little or no legacy effects on current SWB. Our hypothesis is consistent with the notion that losses in social mobility resonate more, and for longer, than gains i.e. akin to classic loss aversion. Evidence of loss aversion abounds in many contexts (Shea 1995a; Shea 1995b; Bowman, Minehart, and Rabin 1999). The prediction is that the absolute effect on SWB of a loss of one dollar, from an initial reference position, is greater than the effect of a gain of one dollar (Tversky and Kahneman 1991). The idea that SWB adapts over time to new circumstances is not new (Inglehart and Rabier (1986) and has led to new models of adaptation (Bradford and Dolan, 2010). Interestingly, Burchardt (2005) finds that income adaptation is quicker for increases in income than for decreases. This is consistent with the loss aversion hypothesis.

In this work, we explore inter-generational upward and downward income mobility. We see four pathways that are not mutually exclusive through which income mobility can affect SWB and health. Given the data at our disposal we attempt to disentangle which channel is the most important. These are: i) stress ii) prosperity concerns iii) identity and iv) consumption changes.

For the first pathway, we envisage individuals fully internalizing their new status and gaining a 'feeling of pride' when they are mobile and a 'feeling of 'despair' when they are dis-mobile.

Our second pathway is perception of financial security. A long literature highlights that poorer perceptions of one's current financial situation is associated with lower SWB

and that perceptions of change in financial circumstances predict well-being (Wildman and Jones 2002; Brown, Taylor, and Wheatley Price 2005; Johnson and Krueger 2006).

For these two pathways, SWB and mental health are affected mainly through increased or decreased stress levels. Johnston and Lordan (2012) document the mechanisms by which stress affects SWB and overall health. We argue that any stress effects caused in the immediate aftermath of downward income mobility can also be subsequently augmented further, as individuals who report low SWB are also less likely to commit to the future and be optimistic. Consequently, they may be less likely to pursue a lifestyle that includes regular exercise and managing a nutritious diet which have been linked to directly to SWB<sup>2</sup>. Alternatively, they may engage in risky health-behaviors such as excessive drinking and smoking (Macinko et al. 2003). Stress may also manifest as status anxiety (Wilkinson and Pickett 2009; Botton 2005). For individuals who are mobile, there may be an alleviation of stress as they move from a situation with less disposable income (and vice versa for the downwardly mobile). This change also has the potential to augment (worsen) their SWB.

The third pathway is the identity hypothesis which stems from evidence that changing comparison groups, such as when there is mobility, can affect an individual's sense of identity (Akerlof and Kranton 2010). All animals, including human ones, need to feel that they belong to a group, and changing social classes, even in a supposedly good way, can result in an individual neither feeling part of their former group nor part of their new group. This process is used to explain why children from poor backgrounds who win scholarships are not as happy as their equally high achieving peers from more affluent backgrounds (Aries and Seider 2005). In our case, an identity loss can potentially affect both the upwardly and downwardly mobile if the person no longer socializes with old friends and family members regularly, and misses this experience.

The fourth pathway concerns consumption changes. This suggests that individuals may not fully realise the utility (disutility) of their new income status. If true, individuals who are upwardly income mobile consume less. This may occur because these individuals do not feel secure in their newfound status and want to ensure they can smooth future consumption. Finally, having grown up in a lower income environment, they may not view themselves as needing the same level of consumption as those who have grown used to it. This suggests that individuals who are upward mobile are slow to adapt, as it takes time to discover the new consumption bundles available to them. Conversely, downward mobility may impact SWB if individuals still spend in accordance with the reference group of their childhood, and take on too much debt. It follows that they worry about their financial situation (our first pathway) and also consume more.

### **3. Data and methods**

We utilize the 1970 British Cohort Study (BCS70). The BCS70 began by including more than 17,000 births between April 5-11 in 1970. It is estimated that these births represent more than 95% of births over these days in England, Scotland, Wales and Northern Ireland. We draw on data from: 1975, 1980, 1986, 1991, 1996, 2000, 2004 and 2008. Added to the three major childhood surveys (age 5, 10 and 16) are any

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<sup>2</sup> Lordan and Pakrashi, 2014 and Lordan and Pakrashi, 2015.

children who were born outside of the country during the week of April 5-11 and could be identified from school registers at later ages.

### **3.1 Income Mobility Measures**

This work focuses on the impact of income mobility as defined by changes in household income from ages 10 (1980) through to ages 30 (2000) and 34. Age 10 is chosen, as it is the earliest year that income information was gathered from the BCS families. The response rate in 1986 is also lower (please see Appendix A, A.1 for more detailed information on the income variable).

Ages 30 and 34 are chosen as they are deemed ages when a person is likely to be settling into their income level. They are also the years when the most questions were asked regarding health and life satisfaction. Considering two different time points is important for two reasons. First, for some careers (for example, an academic who is tenure tracked) a person may not have settled into a particular income by age 30. Second, a person who finds they are doing better/worse than their parents at age 30 may have SWB and health gains/losses at that time but adapt as they realize their gains/losses are permanent. As in the case of the 1980 questionnaire, our measure of income for 2000 and 2004 represents household income. Here it is defined as the net weekly combined income of the BCS child and their partner (if applicable).

Using multiple years of income in adulthood helps abate concerns that income gathered in a ‘one snapshot’ fashion is not a good measure of permanent income. It is, however, worth noting that for surveys like these the correlation between current income and permanent income is very strong (0.74) (Blanden, Gregg, and Macmillan 2011). The first difficulty in defining income mobility surrounds how it should be calculated. An obvious way to proceed would be to take the difference of adult income minus child income but the mobility measure would then be perfectly multi-collinear with the adult income and child income variables that we include in our equation. That is, we would need to assume that either adult income or childhood income have no effect on SWB. This is unrealistic.

We consider three measures of mobility that circumvent this problem: two measures of relative mobility and one for absolute mobility. Our first relative measure of mobility is defined as the intergenerational movement between income quintiles. A person is defined as upwardly mobile if they moved upward at least one quintile from their parents’ household income in 1980 to their own income quintile in 2000. Conversely, a person is defined as downwardly mobile if they moved downward at least one income quintile from their own parent’s income in 1980. We rely on the Family Expenditure Survey to define our income quintiles given that attrition in 1980 is likely to be non-random and cohort studies tend to underestimate income for the income distribution (Blanden, Gregg, and Macmillan 2011). This is in comparison to the Family Expenditure Surveys (FES) of the same year, which contains more detailed information. For 1980, the relevant income quintiles were drawn from the same year’s data sets based on the variable representing gross normal household income. For 2000 and 2004, the relevant income quintiles were defined based on the disposable income deciles reported in the Office of National Statistics reports of the same surveys. Along with circumventing an attrition problem, which may induce measurement error in the BCS cohort’s income distribution, this also overcomes the limitations of income being reported in gross form in childhood surveys but as net in recent years. Further details



of how the quintiles were derived is in Appendix A, A.2.

Our second measure of relative income mobility is based on percentile change in income inter-generationally and is defined internally based on incomes reported at ages 10, 30 and 34 within the BCS data. In this respect, it has the limitations of being based on a sample that may be biased by attrition; however, it has the advantage of retaining more information. We note that our first measure may also be biased by dubbing an individual as ‘mobile’ if they are sitting on the edge of a quintile between two time periods. This measure is derived by first calculating the difference between the BCS child’s income in percentiles minus their parent’s income in percentiles. Subsequently we create two variables to capture upward mobility and downward mobility. Upward mobility is defined as equal to this difference if it is positive and zero otherwise, and vice versa for downward mobility. Thus, we capture the intensity of income mobility movements. Further details are provided in Appendix A.3.

Our final income mobility measure is defined as the difference between adult and childhood income divided by childhood income. Because the income bands reported in 1980 relate to gross income, it is necessary to calculate an approximation of what the take home pay would have been. To do this, we convert the mid-points of the 1980 income bands into 2004 GBP. Next, we calculate what the weekly take home pay would have been given the average tax rules of the 2004/2005 tax year. For the 2000 differences we use the same values and therefore convert weekly income at age 30 into 2004 values. Further details are provided in Appendix A.4. For values that are greater than zero, we create a variable defined ‘upwardly’ mobile, that is zero otherwise. For values that are less than zero, we create a variable defined ‘downwardly’ mobile that is zero otherwise.

### 3.2 SWB Outcomes

Our main analysis considers how inter-generational income mobility between 1980 and 2000/2004 affects SWB. The measure of SWB is based on a life satisfaction question that takes a value from 0 to 10 where 10 is the highest level of satisfaction and is available at ages 30 and 34<sup>3</sup>. Our first measure of mental health is the Rutter Malaise Inventory (Rutter, Tizard, and Whitmore 1970), which is a set of 24 questions that combine to measure levels of psychological distress or depression. At age 30, its scores range from 0 to 24, with each question scoring a value of 1<sup>4</sup>. For age 34, only nine of the questions usually asked in the Rutter Malaise Inventory were included and we therefore rely on a sub-index<sup>5</sup>, which takes on values from 0 through 9.

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<sup>3</sup> Specifically, it is the response to the following question: “Here is a scale from 0-10 where '0' means that you are completely dissatisfied and '10' means that you are completely satisfied. Please enter the number, which corresponds with how satisfied or dissatisfied you are about the way you life has turned out so far”.

<sup>4</sup> Specifically, the index is derived through the number of yes scores to having backaches, feeling tired, feeling miserable and depressed, having headaches, worrying, having difficulty in falling asleep or staying asleep, waking unnecessarily early in the morning, worrying about health, getting into a violent rage, getting annoyed by people, having twitches, becoming scared for no reason, being scared to be alone, being easily upset, being frightened of going out alone, being jittery, suffering from indigestion, suffering from upset stomach, having poor appetite, being worn out by little things, experiencing racing heart, having bad pains in your eyes, being troubled by rheumatism, and having had a nervous breakdown.

<sup>5</sup> We derive a sub-malaise index by aggregating the number of yes responses to: feeling tired, feeling miserable and depressed, worrying, getting into a violent rage, becoming scared for no reason, being

We also measure mental health using the 12-item version of the General Health Questionnaire (GHQ) at age 30. The GHQ is a commonly used self-reported measure of mental health and consists of questions regarding the respondent's emotional and behavioral health over the past few weeks<sup>6</sup>. Each response to the GHQ garners one point, yielding a score that can potentially range from 0 to 12. The GHQ is not available at age 34 but this survey did include four questions usually included in the Kessler scale. The Kessler scale in the BCS data has 6 items, whereas the full scale is a 10-item questionnaire (Kessler et al. 2002). We follow the same method here used to aggregate the 10-item index<sup>7</sup> when creating the sub-index.

Estimating the effect of social mobility on SWB is complicated by the need to control for both current adult income and childhood income. Hence, specifying upward and downward mobility as we do allows us to control for both of these income types and also identify a mobility effect. We therefore estimates:

$$Outcome_{it} = \beta_1 UP_{t-1980} + \alpha_1 DOWN_{t-1980} + \gamma' x_{1980} + \chi' y_{adult} + \varepsilon_i \quad (2)$$

$i$  indexes the BCS child and  $t$  indicates either age 30 or aged 34.  $UP_{t-1980}$  denotes upward social mobility and  $DOWN_{t-1980}$  denotes downward social mobility. As discussed, we consider three definitions of income mobility.  $x$  is a vector of childhood variables<sup>8</sup> and  $y$  denotes a vector of adult variables that can affect SWB and health which are taken at age 30 or age 34 depending on the timing of the outcome of interest<sup>9</sup>.

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scared to be alone, being easily upset, being jittery, suffering from indigestion, suffering from upset stomach, having poor appetite, being worn out by little things, experiencing racing heart.

<sup>6</sup> The 12 items in the GHQ are: ability to concentrate, sleep loss due to worry, perception of role, capability in decision making, whether constantly under strain, problems in overcoming difficulties, enjoyment of day-to-day activities, ability to face problems, whether unhappy or depressed, loss of confidence, self-worth, and general happiness. For each of the 12 items, the respondent indicates on a four-point scale the extent to which they have been experiencing a particular symptom. For example, the respondent is asked 'have you recently felt constantly under strain', to which they can respond: not at all (a score of 0), no more than usual (1), rather more than usual (2), much more than usual (3).

<sup>7</sup> The specific questions asked are during the last 30 days, about how often did you feel i) so depressed that nothing could cheer you up? ii) hopeless? iii) restless or fidgety? iv) that everything was an effort? The possible responses are: all of the time (a score of 1), most of the time (2), some of the time (3), a little of the time (4) and none of the time (5). This results in an index that has a range between 4 and 20, with 4 being the best outcome with respect to mental health.

<sup>8</sup> These are: household weekly income, birth weight, gender, maternal education (indicators as to whether she has a degree, a vocational qualification, 'A' levels, 'O' levels, a trade qualification or 'other' qualification), mother's age, maternal employment, fraternal education (consistent with the definition of maternal education), father's age, father's employment, household size, household size squared, tenure (lives in a rural area, lives in an urban area, lives in a council estate, lives in a suburb, lives in 'other' area), number of younger siblings, number of older siblings, region of birth, and a dummy indicating whether the child had no father figure. When data at age 10 are missing for mothers or father's education, age, income or employment because they are living in a single parent household the variable is coded as 0 (imputing at the mean does not change the estimates). We note that this means there is still substantial attrition, given that at baseline there were 17,000 births and in Tables 2 and 3 we have circa 5,000 children in our various analyses. We have experimented with imputing the control variables (raising the sample to almost 8000 observations). For all analyses the estimates increase slightly but the overall conclusions remain.

<sup>9</sup> These are weekly household income, social class (a set of fixed effects that denote one of the six registrar general social classes), marital status (disaggregated into fixed effects representing married, cohabiting, single and separated/divorced/widowed), whether or not the BCS child has a degree,

We therefore can identify if income mobility is a predictor of SWB, holding constant adult and childhood income as well as the usual demographics. We cannot claim a casual effect given that mobility may be correlated with many other factors that are also correlated with SWB that are not measured in the BCS. Later, we make substantial efforts to explore what these factors may be.

#### 4. Results

Our estimates for age 30 in equation 2 are documented in Table 2. As denoted in the first row, higher values of life satisfaction imply that SWB is augmented. In contrast, lower values of malaise and GHQ imply that SWB is augmented.

A few stylized facts are worth noting from Table 2. First, the coefficients are always of the expected sign and are mostly significant. Overall, they imply that upward mobility augments SWB and downward mobility deteriorates SWB. Second, the effects of downward mobility are always greater than those for upward mobility. This is consistent with the loss aversion hypothesis. That is, downward mobility hurts more i.e. losses hurt more than gains. For example, in the case of absolute income upward mobility, the estimate is centered around zero (0.005) and not significant. This compares to the estimate of -0.832 for downward income mobility, implying that if an individual earned 100 GBP less than their parents per week, their life satisfaction would decrease by 0.832 units. This implies that a 225 GBP increase in weekly income of their parents leads to a deterioration in SWB of about 1 standard deviation (standard deviation = 1.848 see Table 1). This is a very substantive deterioration if taken in the context of the life satisfaction literature where few things have been shown to influence this specific outcome with no adaptation. Much is made of the effects of unemployment, an exception to this rule, where one year after becoming unemployed the effects of being unemployed are still 0.26 of a standard deviation (see Clark et al 2008).

The effects of downward absolute income mobility for malaise and GHQ are also relatively substantive. Specifically, a 100 GBP decrease in weekly income compared to the cohort child's own parent would dis-improve their malaise by about 1/6 of a standard deviation (standard deviation = 3.491 see Table 1). For GHQ this dis-improvement is about 0.25 of a standard deviation (standard deviation = 4.5 see Table 1). Notably, the implied effects of absolute income upward mobility on malaise and GHQ are significant, but modest.

For percentile based relative income mobility, the estimates for downward mobility are also much smaller for upward mobility as compared to downward mobility. In addition, the effects are much less substantive as compared to absolute income mobility if we take some context. Specifically, a person would need to move about 80 percentiles on the income distribution to get the same deterioration to life satisfaction as would be suggested by receiving 100 GBP less than their parents in weekly income. The percentile movements implied for GHQ and malaise are equally large, and unlikely. In contrast the effects of relative income upward mobility as measured by percentile

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household size and household size squared.

change are always significant and more substantive than those implied by absolute income mobility, albeit they are also modest.

Finally, for quintile based relative income mobility, the estimates for life satisfaction imply that downward mobility hurts twice as much as the gains experienced for upward mobility (-3.19 versus 0.161). The estimates for both malaise and GHQ are also significantly larger for downward mobility. Third, specific to upward mobility, relative movements in income again matter more as compared to absolute movements in income. However, the effects of downward absolute income mobility on life satisfaction, malaise and GHQ has a more substantive imprint on SWB as compared to this relative measures. In other words, if you are moving upward socially to get the greatest SWB gains you should be moving on your own within your comparison group, however absolute income losses relative to your parents are felt heavier than relative losses in terms of SWB. To get to the equivalent 'pain' in terms of wellbeing deterioration from a relative downward movement, as compared to a 100 GBP weekly decrease in income relative to the cohort child's parent they would have to move a significant number of income quintiles as compared. For example, more than three quintiles in the case of GHQ.

Table 3 is in the same format as Table 2 and documents the estimates drawing on the BCS data at age 34. Comparing Table 2 to Table 3 our overall conclusions remain true. First, all of the estimates have the expected sign, implying that downward mobility hurts, and upward mobility brings gains when income movements are relative (we note that all of the estimates for absolute income mobility are centered around zero and not significant). The estimates are also of a decent order of magnitude larger for downward losses as compared to upward gains for SWB. These differences are very striking for absolute income mobility (for example -0.452 versus 0.002 for life satisfaction), but are still roughly 1.5 times the size when we consider the two relative mobility measures. Last, specific to upward mobility, relative income movements matter more as compared to absolute movements, however the estimates suggest only a modest augmentation of SWB. The effects of downward absolute income mobility on life satisfaction, malaise and GHQ has a more substantive imprint as compared to the two relative measures, and the legacy itself is also substantive.

Recall the suggestion that any effects found could potentially operate through four non mutually exclusive channels. These are: i) stress ii) prosperity concerns iii) identity and iv) consumption changes. Table 4 presents some results that allow us to explore these pathways further. First, we explore our identity hypothesis utilising data from the 2000 (aged 30) surveys on the BCS child's level of contact with their mother. Specifically, the BCS child is asked how often they see their mother with the following options for response: i) more than once a week ii) more than once a month and iii) less than once a month iv) never v) lives with mother. The results under the heading 'maternal contact regressions' detail results from regressions that add these five fixed effects to the model described in equation 2. The intuition being that an individual's 'old' identity will be stronger if a mobile individual has kept in closer contact with their mother, and weaker if they never see them. Two things are worth noting from table 4. First, maternal contact does not seem to be an important predictor of SWB outcomes. The exception is for the group that never see their mother, where the estimate is substantive but only significant for malaise (i.e the estimates are noisy). Second, the estimates for upward and downward mobility are never attenuated when we include these sets of variables,

although in a few cases they are augmented. This implies that our identity proxy does not explain the underlying relationship that we have found.

The section of Table 4 labelled ‘prosperity concerns’ explores this pathway. Specifically, we add to equation 2 a measure of perceived financial prosperity at aged 30, which takes on values one through five, representing the response to the question: ‘how well are you managing financially these days’. The options for the respondent are: 1) living comfortably 2) doing alright 3) just about getting by 4) finding it quite difficult or 5) finding it very difficult. We include this variable in equation 2 as a set of fixed effects. It is intuitive that this proxy captures subjective perceptions of one’s own financial situation, so speaks directly to the financial perceptions’ pathway. From Table 4, we see that prosperity concerns are a viable pathway through which income mobility is operating. In particular, all of the estimates are greatly attenuated, and most are now centered around zero and not significant. We note that the estimates for downward mobility across all three income mobility measures remain substantive, although they are attenuated greatly implying that financial security is still a pathway through which the estimates documented in Table 2 were operating.

Finally, we explore consumption changes by using the intuition that if individuals are consuming less, they will necessarily save more. Using information on savings habits gathered at age 34, we add two variables to equation 2: i) an indicator (yes/no) for if the child saved monthly; and ii) how much the child saves monthly (equal to zero if the binary indicator i) represents no savings). The results from these regressions are shown in Table 4 under the heading ‘savings regressions. First, we note that savers have higher levels of wellbeing. Second, adding the savings variables to the regressions does attenuate our estimates, although not as substantively as the prosperity channel, with the exception of the downward mobility impact when considering absolute income mobility.

Our work has documented a persistent and strong relationship between income mobility- both relative and absolute- and a variety of SWB outcomes. We have presented evidence that these effects are likely caused by financial perceptions and consumptions changes. We note that our proxy for identity changes is less than ideal, and this may explain why we do not find any evidence in favor of this pathway. Given the impact of mobility on SWB, particularly downward absolute mobility, the last question is whether or not this is a causal relationship. It is feasible that some of the effects are determined by characteristics of the individual that makes them more likely to be mobile (for example, being the proverbial black sheep of the family or being gritty on a pathway to success). Additionally, individual personality factors may be correlated with the reporting of a certain level of SWB and also the likelihood of mobility. To consider this we include some personality proxies in our life satisfaction regressions. We focus on life satisfaction because of data availability for our lagged robustness test (see below). Specifically, we include an index of emotional and behavioral problems at age 10 and age 16. These indexes are labeled as non-cognitive skills (Heckman 2008, Lordan and Lekfuangfu, 2019) and are based on the Rutter behavioral problems index. Further, for two of the outcomes we consider it is possible to add a lagged dependent variable to equation 2. These are only for life satisfaction which we observe with a lag of four years (that is, at age 26 for the age 30 outcomes and at age 30 for the age 34 outcomes). Including a lagged dependent variable should control for any negative

‘feelings’ associated with being mobile as its information was gathered at a time when the BCS child would have had already some knowledge of their income attainment in comparison to their parents. Consequentially any adaption would already have begun. The results are documented in Table 5.

From Table 5, when we control for non-cognitive skills in panel 1, the overall conclusions of Tables 1 and 2 still hold and the estimates do not change substantively. That is, relative income mobility-either based on quantile or percentile change- both upward and downward significantly- predicts life satisfaction modestly and significantly, whereas for absolute mobility only downward mobility matters and the implied effect are substantive. Considering the second panel of Table 5, when we add lagged life satisfaction most of the estimates are attenuated however, they remain significant for downward mobility across all three measures of income mobility. That is, regardless of how we measure downward mobility it is always a significant negative predictor of life satisfaction at ages 30 and 34 when lagged life satisfaction is included in the models.

This work has considered income mobility, however the data at our disposal does also have a measure of social class- the Registrar Generals division of individuals into six social classes. Utilizing this information, we can re-create Tables 1 and 2 and compare the effects of social mobility. These are documented in Table 6. We note caution. Unlike our income mobility estimates, which control for both childhood income and adult income, we cannot control for childhood and adult social class. This means our estimates are likely to be exaggerated. This problem arises owing to multi-collinearity. Therefore, the results in Table 6 only contain adult social class (which we document). Overall, Table 6 suggests that social class mobility does not affect any of our outcomes significantly, allowing us to conclude that income mobility matters more than social class mobility for SWB given any implied bias is upward.

#### **4. Discussion**

In this work, we examine how intergenerational mobility affects SWB drawing on the British Cohort Study. We consider several outcomes that capture both life satisfaction and mental health. We define mobility as income movements inter-generationally both relatively and absolutely. We define relative mobility based on changes across income quintiles and percentiles. The advantage of the former is that the quintiles are derived from external data that arguably better represent the income distribution in the UK at that time, whereas the latter allows for greater numbers of individuals to be ‘winners’ and ‘losers’ (i.e. there is more variation and we can model intensity of movements). Overall, we find that upward mobility augments SWB and downward mobility deteriorates SWB, with the effects of downward mobility being far greater. This is consistent with the theory of loss aversion, essentially, downward mobility hurts more. Interestingly, for upward mobility, relative movements in income matter significantly more as compared to absolute movements, but the estimates imply only modest effects overall. The effects of downward absolute income mobility on SWB has a much more substantive imprint as compared to relative movements. In other words, if you are moving upward socially, to get wellbeing gains you should be moving along a large distance in relative income from your family. In contrast, absolute losses are felt more heavily than relative losses when you are moving down. To give some context earning £100 less than your parents on a weekly basis, gives the same deterioration to life

satisfaction as being unemployed has been shown to effect life satisfaction elsewhere. (see Clark et al 2008).

We proposed four pathways through which these mobility effects may move: i) stress/alleviation of stress; ii) prosperity concerns; iii) changes in the sense of identity; and iv) realised or unrealised consumption changes. We do not have data to explore whether i) is a viable pathway. We have however presented highly suggestive evidence that the income mobility effects identified by our models are partially caused by financial perceptions and consumption changes. The effects found for consumption changes echo the importance of research considering consumption data rather than income when exploring the effects of windfalls on SWB. We note that our proxy for identity changes is a very crude measure of identity and ideally, we would have information on changes to social networks. This may explain why we do not find any evidence in favor of this pathway, and considering better proxies is an area for future research.

Of course, individuals are not randomly assigned to a mobility status. We have tested the sensitivity of our results to controlling for non-cognitive skills at age 10 and a lagged dependent variable in our life satisfaction models. The conclusions documented here are robust to the addition of these variables. That is, mobility matters in determining SWB, with relative income movements augmenting SWB more than absolute movements. In contrast, downward absolute income movements substantially deteriorate SWB. Clearly, unambiguous proof of a casual effect of social mobility requires data that does not exist.

We also consider how social mobility measured using the Registrar Generals framework affects our SWB. We do not find any significant associations between class mobility and SWB. This is in contrast with the results found by Clark and D'Angelo (2009); however, we do note that they identify effects of upward class mobility from a comparison with all others. In this case, 'others' includes those who are downwardly mobile. Overall, we conclude that income mobility matters much more than social class mobility for SWB.

A natural question arising from our work is *how* income mobility should be measured to best capture how a person decides if they are doing better or worse than their parents. The answer is that we do not know. We do however, believe that children compare themselves to their parents. Additionally, the significance of the results we present should convince our audience that children make these comparisons based on income and some notion of changes in standard of living.

We are more circumspect in saying anything about the policy recommendations of this research because it raises many normative issues about how to appropriately weigh the many factors that go into the conceptualisation and derivation of the social welfare function. Firstly, it should be noted that income at ages 30 and 34 is also a significant independent predictor of SWB. That is, the mobility estimates we document are already conditional on both personal and childhood income. Therefore, to the extent that you would like the world to remain equitable with respect to *who* gets this SWB income effect, there is a separate argument to promoting mobility so that different individuals get to experience SWB effects owed to personal income. Last, much of the deterioration of SWB can be explained by prosperity concerns and a lack of saving for

the downwardly mobile that are larger than others experiencing the same level of income. This suggests that there might be a role for policy in helping people to stop living beyond their means that can mitigate some of the SWB effects found here.



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**Table 1: Descriptive Statistics of Outcome Variables**

Variables	Mean	Standard Dev	Min	Max
		<i>Age 30</i>		
Life Satisfaction	7.290	1.848	0	10
Malaise	3.534	3.491	0	24
GHQ	10.671	4.520	0	33
		<i>Age 34</i>		
Life Satisfaction	7.404	1.798	0	10
Malaise	1.401	1.791	0	9
Kessler	17.608	2.741	4	20

**Table 2: Impact of Relative Income Mobility-Quintile Based- on Outcomes at age 30**

Variables	Life Satisfaction (+)	Malaise (-)	GHQ (-)
<i>Quintile Based Relative Mobility</i>			
Upward Mobility	0.161***	-0.217**	-0.311**
Downward Mobility	-0.319***	0.256**	0.300*
<i>Percentile Based Relative Mobility</i>			
Upward Mobility	0.006***	-0.005**	-0.007*
Downward Mobility	-0.010***	0.008***	0.014***
<i>Absolute Income Mobility</i>			
Upward Mobility	0.005	-0.019*	-0.026*
Downward Mobility	-0.832***	0.680***	1.083***
Sample size	5381	5383	5380

*Notes:* Quintile based income mobility = 1 if a person moved up or down one income quintile. Percentile income mobility represents the difference in percentile that an individual moved as compared to their parent. The closest comparison to quintile based relative mobility is to multiply the coefficient of percentile based mobility by 20. Absolute income mobility represents the difference between current and past parental income, divided by 100. It therefore represents the inter generation weekly income gap in 100's of British pounds. These regressions also include controls for 11 possible regions of residence at age 10, along with the following childhood variables measured at age 10: household weekly income, birth weight, gender, maternal education (indicators as to whether she has a degree, a vocational qualification, 'A' levels, 'O' levels, a trade qualification or 'other' qualification), mother's age, maternal employment, fraternal education (consistent with the definition of maternal education), father's age, father's employment, household size, household size squared, tenure (lives in a rural area, lives in an urban area, lives in a council estate, lives in a suburb, lives in 'other' area), number of younger siblings, number of older siblings, region of birth, and a dummy indicating whether the child had no father figure. Additionally, we control for the following adult variables measured at age 30: weekly household income at age 30, social class (a set of fixed effects that denote one of the six registrar general social classes), marital status (disaggregated into fixed effects representing married, cohabiting, single and separated/divorced/widowed), whether or not the BCS child has a degree, household size and household size squared. When data at age 10 are missing for mothers or father's education, age, income or employment because they are living in a single parent household the variable is coded as 0 (imputing at the mean does not change the estimates). Note that birth weight was collected at birth. The estimated effect is the OLS regression coefficient. \*, \*\* and \*\*\* denote significance at .10, .05 and .01 levels.

**Table 3: Impact of Relative Income Mobility (Quintile Based) on Outcomes at age 34**

Variables	Life Satisfaction (+)	Malaise (-)	Kessler (+)
<i>Quintile Based Relative Mobility</i>			
Upward Mobility	0.127**	-0.116*	0.167*
Downward Mobility	-0.167***	0.095	-0.195**
<i>Percentile Based Relative Mobility</i>			
Upward Mobility	0.006**	-0.002	0.005**
Downward Mobility	-0.009***	0.005***	0.007***
<i>Absolute Income Mobility</i>			
Upward Mobility	0.002	0.020	0.036
Downward Mobility	-0.452***	0.411***	-0.612***
Sample size	4845	4844	4845

*Notes:* Quintile based income mobility = 1 if a person moved up or down one income quintile. Percentile income mobility represents the difference in percentile that an individual moved as compared to their parent. The closest comparison to quintile based relative mobility is to multiply the coefficient of percentile based mobility by 20. Absolute income mobility represents the difference between current and past parental income, divided by 100. It therefore represents the inter generation weekly income gap in 100's of British pounds. These regressions also include controls for 11 possible regions of residence at age 10, along with the following childhood variables measured at age 10: household weekly income, birth weight, gender, maternal education (indicators as to whether she has a degree, a vocational qualification, 'A' levels, 'O' levels, a trade qualification or 'other' qualification), mother's age, maternal employment, fraternal education (consistent with the definition of maternal education), father's age, father's employment, household size, household size squared, tenure (lives in a rural area, lives in an urban area, lives in a council estate, lives in a suburb, lives in 'other' area), number of younger siblings, number of older siblings, region of birth, and a dummy indicating whether the child had no father figure. Additionally, we control for the following adult variables measured at age 34: weekly household income at age 34, social class (a set of fixed effects that denote one of the six registrar general social classes), marital status (disaggregated into fixed effects representing married, cohabiting, single and separated/divorced/widowed), whether or not the BCS child has a degree, household size and household size squared. When data at age 10 are missing for mothers or father's education, age, income or employment because they are living in a single parent household the variable is coded as 0 (imputing at the mean does not change the estimates). Note that birth weight was collected at birth. The estimated effect is the OLS regression coefficient. \*, \*\* and \*\*\* denote significance at .10, .05 and .01 levels.

**Table 4: Exploring Pathways for the mobility effects**

Variables	Life Satisfaction	Malaise	GHQ
<b>Maternal Contact Regressions – Age 30 Data</b>			
<i>Quintile Mobility</i>			
Upward Mobility	0.166***	-0.206*	-0.275*
Downward Mobility	-0.292***	0.295***	0.302*
<i>Maternal Contact</i>			
once a week	0.053	-0.131	0.092
more than once a month	0.038	-0.031	0.197
less often than monthly	0.026	-0.040	0.252
never	-0.425	1.085*	0.953
lives with mother	Reference Group	Reference Group	Reference Group
<i>Percentile Mobility</i>			
Upward Mobility	0.006***	-0.006**	-0.006
Downward Mobility	-0.009***	0.009***	0.014***
<i>Absolute Mobility</i>			
Upward Mobility	0.005	-0.015	-0.017
Downward Mobility	-0.798***	0.769***	1.069***
N	5381	5383	5380
<b>Prosperity Regressions – Age 30 Data</b>			
<i>Quintile Mobility</i>			
Upward Mobility	0.046	-0.097	-0.038
Downward Mobility	-0.193***	0.118	0.033
<i>Prosperity</i>			
Living comfortably	1.717***	-3.449***	-6.273***
Doing alright	1.395***	-3.281***	-6.015***
Just about getting by	0.876***	-2.457***	-4.725***
Finding it quite difficult	0.343***	-1.362***	-2.157**
Finding it very difficult	Reference Group	Reference Group	Reference Group
<i>Percentile Mobility</i>			
Upward Mobility	0.002	-0.001	0.002
Downward Mobility	-0.006***	0.003	0.006
<i>Absolute Mobility</i>			
Upward Mobility	-0.000	-0.012	-0.014
Downward Mobility	-0.503***	0.282	0.315
N	5381	5383	5380
<b>Savings Regressions</b>			
<i>Quintile Mobility</i>			
Upward Mobility	0.081	-0.102	0.135
Downward Mobility	-0.113*	0.065	-0.159*
<i>Savings</i>			
Saves Monthly (yes=1 No=0 )	0.367***	-0.258***	0.385***
Total Monthly Savings	0.182***	-0.000	0.094
<i>Percentile Mobility</i>			
Upward Mobility	0.004***	-0.002	0.004*
Downward Mobility	-0.007***	0.004*	-0.006**
<i>Absolute Mobility</i>			
Upward Mobility	-0.005	0.023	-0.042*
Downward Mobility	-0.332***	0.347***	-0.519***
N	4845	4844	4845

Notes: See notes to Table 2 for age 30 regressions and Table 3 for aged 34.



**Table 5: Controlling for childhood non cognitive skills and lagged models**

Variables	Life Satisfaction Aged 30	Life Satisfaction Aged 34
<b>Adding Non Cognitive Skills at age 10</b>		
<i>Quintile Mobility</i>		
Upward Mobility	0.206***	0.128**
Downward Mobility	-0.395***	-0.156***
<i>Behaviour</i>		
Maternal reported	-0.006***	-0.006***
<i>Percentile Mobility</i>		
Upward Mobility	0.006***	0.004***
Downward Mobility	-0.009***	-0.007***
<i>Absolute Mobility</i>		
Upward Mobility	0.001	0.006
Downward Mobility	-0.825***	-0.314***
<b>Adding Lagged Life Satisfaction</b>		
<i>Relative Mobility</i>		
Upward Mobility	0.335	0.009
Downward Mobility	-0.693***	-0.362***
<i>Lagged Dependant Variable</i>		
4 years prior	0.335***	0.362***
<i>Percentile Mobility</i>		
Upward Mobility	0.006***	0.004***
Downward Mobility	-0.006***	-0.006***
<i>Absolute Mobility</i>		
Upward Mobility	0.010	0.002
Downward Mobility	-0.659***	-0.267**

*Note:* These regressions also include the controls detailed in Table 2 and notes to Table 2 are relevant.

**Table 6: Social Class Mobility**

Variables	Life Satisfaction Aged 30	Malaise Aged 30	Health Aged 30	GHQ Aged 30
<i>Mobility</i>				
Upward Mobility	-0.085	0.069	0.058**	0.279
Downward Mobility	-0.098	0.123	0.048*	-0.068
<i>Social class</i>				
Class 1	REFERENCE	REFERENCE	REFERENCE	REFERENCE
Class2	-0.166*	0.362**	0.065	0.029
Class 3.1	-0.384***	0.285	0.077*	0.243
Class 3.2	-0.397***	0.415**	0.140***	-0.300
Class 4	-0.495***	0.521**	0.180***	-0.097
Class 5	-0.453***	0.528	0.042	-0.229
	Life Satisfaction Aged 34	Sub malaise aged 34	Health Aged 34	Sub Kessler Aged 34
Upward Mobility	-0.018	0.035	0.007	-0.066
Downward Mobility	-0.073	0.049	0.002	-0.098
<i>Social class</i>				
Class 1	Reference	Reference	Reference	Reference
Class2	-0.067	0.056	0.035	-0.049
Class 3.1	-0.332***	0.147	0.068	-0.200
Class 3.2	-0.184	0.035	0.052	-0.131
Class 4	-0.326**	0.132	0.157**	-0.411*
Class 5	-0.341*	0.012	0.039	-0.162

*Note:* These regressions also include the controls detailed in Tables 2 and 3 . The estimated effect is the OLS regression coefficient. \*, \*\* and \*\*\* denote significance at .10, .05 and .01 levels. \*Birth weight was collected at birth.

**\*\*\* Appendix for**

**Climbing up ladders and sliding down snakes:**

**An empirical assessment of the effect of social mobility on subjective wellbeing**

**Paul Dolan, London School of Economics**

**Grace Lordan\*, London School of Economics**

**\*\*\* Not for print publication**

## Appendix A:

### A.1 Income Measures

#### A.1.1. Gross Income Bands 1980:

The BCS child's parents in 1980 were asked the following question: "Please show the following income ranges and ask for the range in which the family's total gross weekly income falls (before deductions). An estimate will be acceptable."

Include all earned and unearned income of both mother and father before deductions for tax, national insurance etc.

Exclude any income of other household members and child benefit

Total gross weekly income of parents:

Under £35 per week

£35-£49 per week

£50-£99 per week

£100-£149 per week

£150-£199 per week

£200-£249 per week

£250 or more per week

#### A.1.2. Income at ages 30 and 34

At ages 30 and 34 the BCS child was asked to state in £s both their own and their partners usual take home pay. That is, they were asked for the monetary amount that they take home after 'all deductions for tax, National Insurance, union dues, pension and so on, but including overtime, bonuses, commission and tips'.

We combine these to get a measure of household income. Specifically, if both are employed we take the simple sum of these incomes. For those households in which only one person works, household income is assigned equal to the value of his/her wages alone.

## A.2 Income Mobility Based on Inter Generational Mobility in Income Quintiles

Our work defines income mobility as the intergenerational movement between income quintiles. For this measure a person is defined as mobile if they move upward one quintile inter-generationally. Conversely, a person is defined as downward mobile if they move down one quintile inter-generationally. Therefore, if the BCS child's parent was in income quintile 5 but they are in income quintile 1 they are defined as upwardly mobile. So, we need to relate the incomes reported in the BCS in 1980, 2000 and 2004 to a relevant income quintile.

We therefore rely on the Family Expenditure Survey to define our income quintiles for 1980. In this case the relevant income quintiles were drawn from the same year data sets based on the variable representing gross normal household income. Clearly, the reported bands do not allow us to exactly match these quintiles. However, regardless of whether we define the quintile above or below the reported matched bands, the results are robust. In this work the reported results pertain to the following quintiles: >£55, >£110, >£160 and >£225 and we cut off the bands below each quintile. That is, these quintiles collapse into >£50, >£100, >£150 and >£200. .

For 2000 we also rely on the Family Expenditure Survey and the quintiles used are: > £148, >£281 >£464 and £719. Because the income data in 2000 is reported as a continuous variable we can use these quintiles 'as is'. For the 2004 the Expenditure and Food Survey replaced the Food Expenditure Survey, albeit for our purposes similar data was collected. For this year the relevant quintiles are defined as: > £205, >£375, >£579 and >£885.

## A.3 Relative Mobility Based on Percentile Differences in Income

While our relative mobility measure based on quintiles has the advantage of not being affected by attrition in the BCS, it also has a disadvantage of throwing away information. We therefore consider a third measure that is defined by the BCS data but retains more information. That is, we calculate the difference between the percentile income of the BCS child in adulthood (age 30 and 34) and that of their parents (age 10). Upward mobility is then defined as all positive values of this result, with negative

values recoded to zero. Conversely, downward mobility is then defined as all negative values of this result, with negative values recoded to zero.

#### A.4 Absolute Mobility Based on Monetary Differences in Income

In order to create the absolute mobility measure we first transform weekly income from 1980 and 2000 into 2004 prices. Next, we use 2004 tax rules to form an estimate of what net take home pay would have been in 1980, based on the weekly gross earning bands that were collected. Specifically, this translates to

Under £35 per week in 1980 = £56.53 in 2004

£35-£49 per week in 1980 = £127.34 in 2004

£50-£99 per week in 1980 = £199.20 in 2004

£100-£149 per week = £403.81 in 2004

£150-£199 per week = £414.62 in 2004

£200-£249 per week = £530.78 in 2004

£250 or more per week = £626.07 in 2004

We define mobility as weekly net income from adulthood (age 30 or 34 in 2004 prices) minus weekly net income from childhood (age 10 in 2004 prices). As in the percentile measure, upward mobility is defined as the positive values of this result, with negative values recoded to zero. Similarly, downward mobility is defined as negative values of this result, with negative values recoded to zero.

