



Does other people's education make us less happy?



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ABSTRACT

A growing body of literature suggests that the extent to which people feel happy with their lives depends, at least partially, on how they compare to those around them. Much of this literature, however, has focused on the relative effect of income on happiness while other factors such as education, marriage, or leisure have received less attention. In this study, I extend this line of inquiry by investigating how individuals' level of education, as well as the average level of education of their reference group, influences their happiness. Using longitudinal data from the Household Income and Labour Dynamics in Australia (HILDA) survey, I find that, even after controlling for an individual's own education, higher reference group education is associated with lower levels of happiness. More educated people, however, are found to be less affected by social comparison. The panel nature of the HILDA dataset, and additional tests, indicate that the negative association between happiness and reference group education is not driven by people's (changing) interpretations of the happiness scale, self-selection, or the income of their reference group. Additional robustness tests show that the results are not sensitive to variations in the definition of a reference group.

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1. Introduction

Mainstream economic models assume that individuals derive utility solely from their own consumption. The idea that people do not assess their life in isolation, however, but often compare their consumption to that of others, was central to the teachings of classical economists and their understanding of human behavior. In his *Theory of Moral Sentiments*, for example, Smith (1759, p. 50–51) writes: “To what purpose is all the toil and bustle in this world? ... to supply the necessities of nature ... to afford him food and clothing, the comfort of a house and of a family ... The contrary has been so often observed ... to be attended to, to be taken notice of with sympathy, complacency and approbation.”

In the past decade, many papers in the emerging economics of happiness literature have examined empirically

the effect of social comparison on subjective well-being (SWB).¹ The results largely confirm the intuition of the fathers of classical economic thought. Indeed, happiness² depends, at least partially, on how people compare to those around them. Much of this literature, however, has focused on the effect of relative income on happiness, and far less is known about the contextual (relative) effect on SWB of other factors such as education, marriage, or leisure.

¹ For an excellent review of this literature see Frey and Stutzer (2002). Clark et al. (2008) provide an engaging overview in the context of income comparisons.

² In this study, I use happiness, subjective well-being, and life satisfaction interchangeably. It is important to note, however, that psychologists identify three separate dimensions of happiness: (1) life satisfaction, which the outcome variable in this study, and reflects a cognitive evaluation of one's life at a point in time, (2) the presence of positive feelings or affect, e.g., positive emotions such as feelings of joy or sense of vitality, and (3) The absence of negative feelings or affect such as feelings of boredom, loneliness, etc. (Diener, 1984).

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In this paper, I extend this line of research by investigating whether individuals feel worse off when people in their reference group are better educated. Although education and income are often used interchangeably in social comparison studies, there is evidence in social epidemiology that they do not measure the same underlying phenomenon and their social comparison effects should be examined independently (Geyer, Hemström, Peter, & Vågerö, 2006). Furthermore, the work of Solnick and Hemenway (1998, 2005) and Tversky and Griffin (1991) shows that people have relative preferences for some goods, but not others.

There are compelling theoretical and empirical reasons to believe that education is at least to some extent a positional good. From an evolutionary standpoint, the pursuit of status is motivated by sexual selection: to make sure that their genes spread across populations, sexual species need to appear more attractive than their same sex competitors (Darwin, 1871). Higher education may signal many desirable attributes—intelligence, motivation, or trustworthiness—that go beyond higher income and consumption. In this sense a college degree is a desirable trait both as an investment in future earnings and an “interesting dinner conversation” (Whelan, 2006). Previous research, for example, finds education and intelligence to be one of the most desirable traits in a partner (Boxer, Noonan, & Whelan, 2015). The advantage that people get from a higher degree, however, whether in the work place or in other realms of life, diminishes with the number of people that hold the same degree. As Hirsch (1976, p. 3) observed: “the utility of expenditure on a given level of education as a means of access to the most sought after jobs will decline as more people attain that level of education.”

In the realm of social interactions, higher education can also lead to higher socio-metric status, i.e., the respect and admiration people receive in group-to-group interactions (Anderson, Kraus, Galinsky, & Keltner, 2012). This can contribute to greater feelings of power, control, and social acceptance, which are important determinants of SWB (Keltner, Gruenfeld, & Anderson, 2003). Socio-metric status, however, declines when the average education of the peer group increases. In addition, a number of studies in epidemiology find that lower educational and occupational status is associated with higher levels of stress hormones such as cortisol (Cohen, Doyle, & Baum, 2006; Steptoe et al., 2003). Long et al. (1982), for example, find that when confronted with a person who shows signs of high status, not necessarily associated with higher income, individuals experience higher heart rate and increased blood pressure.

Using the latest release of the Household Income and Labour Dynamics in Australia (HILDA) survey, I show that the relationship between education and happiness is at least to some extent influenced by relative considerations. The results indicate that even after controlling for an individual's own level of education, higher level of reference group education is associated with lower satisfaction with life. This correlation is highly statistically significant and holds even when I control for reference group income and use several alternative measures of well-being that are less prone to different (changing) interpretations of survey questions on happiness. This relationship, however, is con-

ditional on one's level of education: people with higher education are less prone to be negatively affected by social comparisons.

Developing a deeper understanding of the relationship between education and its contextual effect on SWB is important for several reasons. First, an increasing number of parents in developed countries believe that the most important goal that they want their children to achieve as adults is to be happy (Malhotra, 2015). In this regard, many parents see higher education as a necessary tool to help their children reach this goal. The most recent World Happiness Report (Helliwell, Layard, & Sachs, 2015), for instance, encourages the development of skills that lead to higher levels of subjective well-being as a top priority for every school.

Yet, several recent studies document a negative or insignificant correlation between higher education and SWB (Clark & Oswald, 1996; Green, 2011; Powdthavee, 2010; Shields, Price, & Wooden, 2009). Many of these studies are based on the HILDA dataset (Powdthavee, 2010; Shields et al., 2009), which makes the current study ideal for testing alternative hypotheses. One possible explanation for these puzzling results is that education makes people more ambitious, which might reduce happiness since higher expectations are more difficult to fulfill (Clark & Oswald, 1996). Another possible story is that most studies estimate reduced form happiness regressions that often control for variables such as income, health, and marital status and thus close these channels through which education may contribute positively to higher levels of SWB (Powdthavee, Lekfuangfu, & Wooden, 2015). The results in this paper suggest another possible explanation: Even if higher education is negatively correlated with SWB, some people may still pursue it because of its positional (status) effect.

Second, understanding the relative effect of education on SWB is also important because it can imply different predictions of the impact of public policy (Abel, 2005; Frank, 2005; Layard, 1980; Ljungqvist & Uhlig, 2000). For example, in the past several decades a large literature has emphasized that negative positional externalities can lead to arm races for conspicuous consumption and cause large welfare losses (Frank, 1999, 2005, 2012; Layard, 2005).³ Frank (1999), for example, argues that spending patterns

³ A positional good is one whose utility depends on how it compares to other goods in the same category. A positional externality happens when new purchases alter the relevant context within which existing positional goods are evaluated (Frank, 2005). Consider the following example by Marx (1847): “A house may be large or small; as long as the neighboring houses are likewise small, it satisfies all social requirements for a residence. But let there arise next to the little house a palace, and the little house shrinks to a hut. The little house now makes it clear that its inmate has no social position at all to maintain, or but a very insignificant one; and however high it may shoot up in the course of civilization, if the neighboring palace rises in equal or even in greater measure, the occupant of the relatively little house will always find himself more uncomfortable, more dissatisfied, more cramped within his four walls.” Frank (1999) uses similar logic to argue that conspicuous consumption (i.e., consumption for the sake of status display) has significantly increased in the US over the last century. The result has been positional arm races (e.g., people are buying bigger houses, fancier cars, more exotic vacations, etc.); yet SWB has stagnated. He proposes a “luxury tax” as a solution to this problem.

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