



Unfairness at work: Well-being and quits[☆]

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ABSTRACT

We here consider the effect of the level of income that individuals consider to be fair for the job they do, which we take as measure of comparison income, on both subjective well-being and objective future job quitting. In six waves of German Socio-Economic Panel data, the extent to which own labour income is perceived to be unfair is significantly negatively correlated with subjective well-being, both in terms of cognitive evaluations (life and job satisfaction) and affect (the frequency of feeling happy, sad and angry). Perceived unfairness also translates into objective labour-market behaviour, with current unfair income predicting future job quits.

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1. Introduction

Not all aspects of our life are fair. Unfairness is perhaps particularly salient in the labour market, with its great variety of different job types and rewards, many of which are visible to others. Full-time workers in the OECD devote 62% of their day, or close to 15 hours, to personal care (eating, sleeping, and so on) and leisure (socialising with friends and family, hobbies, games, computer and television use, etc.).¹ Individuals' perceptions of the labour market are thus directly salient for almost 40% of the day, and may well colour individuals' feelings even when they are not at work.²

Unfairness can manifest itself in a variety of job aspects, with unfair income likely being one of the most obvious. Income is of course only one aspect of a job, as underlined in the job-quality literature (see Clark, 2015, for a recent contribution), but is undeniably a key element of a good job, certainly quantifiable (as opposed to effort, say) and po-

tentially visible. A worker who perceives their pay as unfair may in return feel less committed to the job and take actions ranging from putting less effort into it to the more extreme decision of quitting for an alternative job, as in the fair wage-effort hypothesis of Akerlof (1982) and Akerlof and Yellen (1990). Workers develop sentiments for their firm and co-workers, and provide effort in excess of the minimum work standard as a gift in exchange for a wage that is above the market-clearing level. Workers' conceptions of fair wages are based, among other things, on comparisons to a reference group composed of similar workers, or the wages that the individuals received themselves in the past.

There is a considerable empirical literature showing that individuals do compare their incomes, which are evaluated not only in absolute terms but also relative to some reference level. This latter can be external (social comparisons) or internal (past or expected future outcomes). Regarding social comparisons, individuals compare their situation to that of others such as people working in the same firm or industry, neighbours, or friends (Clark, 2003; Clark and Oswald, 1996;

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¹ See <http://www.oecdbetterlifeindex.org/topics/work-life-balance/>.

² Clark and Senik (2010) find that 60% of the individuals who say that they compare their income do so to work colleagues; the latter are also amongst the most popular comparison groups in US (American Life Panel) and German (Socio-Economic Panel) data (see Goerke and Pannenberg, 2015, and Dahlin et al., 2014).

Ferrer-i-Carbonell, 2005, and Luttmer, 2005).³ For the internal reference, individuals evaluate their actual situation relative to their own situation in the past (Frederick and Loewenstein, 1999), their aspirations (Stutzer, 2004) and expectations (McBride, 2010). These comparisons have been evoked to explain the Easterlin paradox (Easterlin, 1974, 2001), whereby in developed countries the time trend in satisfaction is often flat while that in real GDP per capita is positive, despite the positive cross-section relationship between satisfaction and income.

Other empirical work has explicitly appealed to the notion of fairness. Experimental work has provided evidence for the fair wage-effort hypothesis, with individuals adjusting their effort according to fairness considerations (Mathewson, 1969; Cohn et al., 2014; Blinder and Choi, 1990; Bewley, 1999, and Fehr et al., 1993; Fehr and Gächter, 2000, provide a review of this literature).

Survey evidence on the wage-effort relationship is rarer, due to a scarcity of appropriate data. Clark et al. (2010) use 1997 ISSP data to show that individuals who have lower income relative to a comparison group (defined by country, sex, education and age) are less likely to report working harder than they have to in order to help their firm. The physiological responses to unfair treatment are explored in recent work by Falk et al. (2018), who look at the effect of earning an unfair wage on workers' health using both experimental and survey data (the survey data is the same as that used here). They find that workers who perceive their wage as unfair are more likely to suffer from stress-related diseases such as cardiovascular health problems.⁴

Our aim here is to relate an individual measure of fair income to both well-being and behaviour. The well-being literature here is far more scant. Experimental evidence of the effect of fairness on emotions is provided by Pillutla and Murnighan (1996) in ultimatum games, and by Bosman and Van Winden (2002) and Ben-Shakhar et al. (2007) in the context of the two-player power-to-take game. These show that participants exhibit negative emotions when treated unfairly, and react by rejecting ultimatum offers and punishing unfair behaviour. The feeling of anger produced by unfairness is also correlated with physiological measures of skin conductance (see Ben-Shakhar et al., 2007). Pfeifer (2017) uses the same survey data as we do here to show that unfairness perceptions increase the frequency of feeling angry.

We use data from six waves of a nationally-representative survey, the German Socio-Economic Panel Survey (SOEP), that provide us with measures of the income that the individual would consider fair for the job that they currently do. We take this 'fair-income' as a viable measure of the income comparisons that individuals make. One advantage of this measure is that it exhibits considerable within-person variation over time. Most of the non-experimental income-comparison literature has considered comparison income that is either predicted from an earnings regression, or calculated as a cell mean. Of course, we do not know whether this is the comparison income each particular individual has in mind. There is a small literature that has asked individuals to whom they compare (Clark and Senik, 2010, and Mayraz et al., 2009), but this still only identifies broad comparison groups, not actual individual comparison-income levels. The fair-income measure we use here comes straight from the horse's mouth.

In addition, the time variation within-individual of predicted income or cell-mean income is only rather small, making panel analysis problematic. The fair-income data we use here does exhibit a reasonable amount of within-subject variation, rendering the panel analysis of comparison-income effects on individual well-being feasible.

Our contribution then is take this individual-level measure of fair income and relate it to both cognitive measures of subjective well-being

³ There is of course a large literature on attitudes to inequality, but much of this does not explicitly refer to fairness. Clark and D'Ambrosio (2015) is a recent survey.

⁴ See also Pfeifer (2015), who finds that the perception of unfair pay is correlated with less sleep and more sleep disorders.

(job and life satisfaction) as well as measures of positive and negative affect in large-scale panel data. Controlling for the level of income, we find that the fair income gap (the difference between what you earn and what you consider as the fair income for your job) is associated with significantly lower levels of both job and life satisfaction in panel regressions. We also show that the fair income gap influences worker affect, such as the frequency of feeling happy (positive affect), and sad and angry (negative affects), with the largest effect size being on anger.

We also confirm the validity of these results by showing that unfair income is associated with not only subjective evaluations but also objective behaviour: the probability of quitting the job within the next year. We are not aware of any existing work that has shown that unfair income leads to quits. As a robustness check, we estimate a standard 'comparison income' measure as that of individuals of the same age. The inclusion of standard comparison income does not change the importance of fair income in predicting both well-being and quits.

The remainder of the paper is organised as follows. Section 2 describes the data, and Section 3 contains the empirical strategy and results. The robustness checks are discussed in Section 4. Last, Section 5 concludes.

2. Data

We use data from the SOEP, a longitudinal survey that has been conducted yearly since 1984 and that currently covers about 11,000 households and just under 30,000 individuals per year. Starting in 2005, every two years SOEP respondents are asked if they think that the income they earn in their current job is fair⁵ and, if not, what the fair net monthly amount would be.⁶ The questions asked are the following:

- *Is the income that you earn at your current job fair, from your point of view? (Yes/No)*
- If No:
- *How high would your net income have to be in order to be fair? (Euros p/m)*

The question appears every second year: we thus here analyse six SOEP waves (2005, 2007, 2009, 2011, 2013 and 2015). We restrict the sample to the employed aged 25 to 65 (as many Germans are still in education at younger ages; the results using those aged 18–65 turn out to be very similar).⁷

More than one-third (36%) of respondents think that the income they earn is not fair, with very similar figures for men and women (see Table 1). Lower-educated individuals are more likely to report their income as unfair (39%) than the highly educated (30%). The proportion of individuals reporting unfair income is also related to age, with the highest figures being found in the youngest cohort (aged up to 35: 40%). Almost half of the respondents from East Germany consider their income as unfair (48%), which is a much higher figure than that in West Germany (33%). The percentage of respondents perceiving their income as

⁵ We thus consider fairness only with respect to labour income, although it doubtless plays a role elsewhere in the labour market. For example, Zechmann et al. (2018) find that distributive injustice mediates the relationship between unemployment and depression in German panel data.

⁶ Respondents are also asked whether they think their pay is fair in HILDA (see Long, 2005), but not what the level of fair income would be. Fair earnings questions appear in the 1999 and 2009 ISSP cross-sections (www.issp.org), with five qualitative answers from "Much less than is just" to "Much more than is just". Last, the cross-section International Social Justice Project asks respondents what income they felt they deserved from their job or business (http://www.edac.eu/opinion_survey_desc.cfm?v_id=5).

⁷ There are over half a million observations in the full SOEP data, and approximately 150 000 in the six years we use. Of the latter 106 000 are aged 25–65, of whom 67 000 were employed with positive hours. Dropping individuals with missing values on income and fair income produces our final estimation sample of just above 47 500 observations.

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