

Relative wealth and well-being in Germany: a longitudinal analysis using the German Wealth Survey

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Abstract

In 1989 Veblen proposed that people's consumption behavior reflects their desire of being associated with a particular social class. Since then, empirical evidence has supported the hypothesis that an individual's position in the income distribution – rather than their absolute level of income – determines well-being. However, consumption can be financed by both income and wealth and only a few quantitative studies have investigated the relationship between relative wealth (rather than relative income) and well-being. Closing this gap, this investigation explores the role of relative wealth and its distribution in the reference group for individual well-being in Germany. The literature suggests two possible outcomes: one being a negative effect of others' higher wealth on well-being (a comparison effect); and the other a positive effect (an information or tunnel effect). The comparison effect indicates a lower position in the wealth distribution, resulting in lower social status, whereas the tunnel effect reflects that people have positive expectations for the future regarding their own wealth. In our investigation we use panel micro-data for 2010 and 2014 from the German Wealth Survey ("Panel on household finances -PHF"), which is a representative survey aimed at measuring private households' wealth at a very detailed level. Our results suggest regional (and age) differences: in West Germany (as well as in later life) the comparison effect dominates while in East Germany (as well as in early life) the information effect appears. Finally, explanations are offered for these diverse results.