Income reductions, personality and well-being: Which personality types are the most psychologically resilient to the experience of income reductions?

Corresponding author: Christopher J. Boyce, Behavioural Science Centre, Stirling Management School, University of Stirling, Email: christopher.boyce@stir.ac.uk

Co-authors: Alex, M. Wood, Behavioural Science Centre, Stirling Management School, University of Stirling

Abstract: What happens to an individual's well-being when their income reduces? Recent psychological evidence shows that income reductions have a much greater association with well-being changes than equivalent gains. Here we use the German Socio-Economic Panel Survey from 2005 to 2012, which contains Big Five personality measures in 2005 for more than 10,000 individuals, to examine whether the influence of income reductions and gains on life satisfaction differ by personality type. Preliminary multilevel analyses, controlling for a multitude of correlated covariates, suggest that whilst there are clear differences between income losses and gains at the average there are also significant differences by personality. This paper will be presented as part of the special session on "well-being, social capital, and income change".

Extended Abstract:

Purpose: What might happen to an individual's well-being when their income reduces? Research that has attempted to understand how income changes relate to changes in well-being implicitly assumes that an income reduction should have an equal but opposite influence on well-being as an equivalent gain. Recent psychological evidence, however, shows that income reductions have a much greater association with well-being changes than equivalent gains. Here, we explore the extent to which this pattern of results is observed across different personality types as captured by Big Five personality measures (openness-to-experience, conscientiousness, extraversion, agreeableness, neuroticism).

Methodology: We use the German Socio-Economic Panel Survey from 2005 to 2012, which contains Big Five personality measures in 2005 for more than 10,000 individuals, to examine whether personality predicts how income reductions and gains relate to changes in life

satisfaction. First we investigate the average sample effect of income reductions and income gains using multilevel analysis techniques and controlling for a multitude of correlated covariates, including changes in employment status, and household size. We then explore personality moderations by interacting standardized Big Five personality measures with income variables.

Results: On average there are differences by which losses and gains in income are associated with changes in well-being. However there are significant differences by personality. Conscientious individuals and those with lower levels of openness are even more sensitive to income decreases than the typical individual.

Conclusions: Income reductions and income gains do not have equal but opposite effects on life satisfaction, and as such future investigations into income and well-being needs to more readily account for this asymmetry. We also show that the personality type of individuals experiencing income reductions or gains matter. This has important implications for discussions surrounding degrowth. First, with regards to how income reductions might be expected to influence well-being. Second, the results suggest that unsustainable income increases, which are followed by income reductions, may put individuals at greater psychological risk than if the initial income increases had never taken place. Third, it may offer insights as to how and why certain individuals may be better equipped to adapt to income decreases.

Keywords: Well-being, life satisfaction, income, Big Five personality, GSOEP