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## **LARGE 'PAY GAPS' WITHIN FIRMS MAY MAKE STAFF HAPPY RATHER THAN ENVIOUS**

Even if bosses are well paid, their staff are likely to be happy rather than envious, according to new research by Professor **Andrew Clark** and colleagues to be presented at this year's Royal Economic Society annual conference. This is because workers believe that they may receive such high wages in the future themselves.

The report suggests that the widening pay gap between managers and workers in many firms will not necessarily cause resentment among those lower down the firm hierarchy. In fact, the low paid are even more likely to be happy if their colleagues are paid more than high paid workers are.

The authors comment:

'From the exterior, managerial wages may seem to be way too high. But from within the firm, the picture may be far rosier. Others' good fortune today may be my own good fortune tomorrow. In a world with enough mobility, there is a chance I tomorrow will be in the position of the Joneses today.'

The report finds that:

- Men are more likely to be happy than women if their co-workers are better paid.
- Private sector workers are more likely to be happy than public sector workers if their colleagues are paid more.
- Low paid workers are more likely to respond well to their colleagues being paid more than high-paid workers.

Workers who are male, low paid or work in the private sector are more likely to be happy if their colleagues are paid more. This may reflect a belief by these workers that they are more likely to gain promotion and share in higher wages in the future.

Previously, it was thought that individuals compare their own incomes with the incomes of people that they know, including their colleagues. If so a rise in others' income makes any worker feel worse, as their income falls compared with their colleagues. This is often called an envy, status or comparison effect.

Indeed, sayings such as 'misery loves company', and 'misfortune shared is misfortune halved' indicate that we prefer our colleagues to do no better than we do ourselves.

But this rather depressing conclusion may not always hold. People may be altruistic – they may be happy if others do well. But even if this is not the case, a person may be happy if those around him do well, as this may indicate that the person themselves is more likely to do well in the future.

For example, consider the example of two lanes of cars stuck inside a tunnel. A driver may be happy that the other lane starts to move, not because he cares about the drivers there, but because he concludes that it will soon be his turn to move.

But using individual life satisfaction scores from a survey and individual and company payroll records in Denmark, the authors find that people are happier if their co-workers are paid more. This contradicts the notion that people are envious of their colleagues' success.

The authors argue that a worker may welcome a rise in the income of others because it informs them about their own future prospects. This is more likely when these 'others' work in the same firm, and when they are above the worker in the hierarchy, as these are precisely the wages that the worker might hope to earn in the future.

Workers are indeed more satisfied when others' wages within the same firm are higher. This 'tunnel effect' holds especially for those who are relatively low paid.

Even this finding conceals an implication that some will find unpleasant: under some circumstances everyone may be happy for high-earners to earn more. This is good for the rich as their income rises, but may also be good for the less rich if there is a good enough chance that they might earn more in the future.

ENDS

**Notes for editors:** 'Job Satisfaction and Co-worker Wages: Status or Signal?' by Andrew Clark, Nicolai Kristensen and Niels Westergård-Nielsen will be presented at the Royal Economic Society's annual conference, 17-19 March 2008.

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