

Inequality and Well-Being

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Abstract

Income inequality is on the rise across the globe--an increasingly small portion of individuals control an increasingly large portion of wealth. Importantly, this inequality is associated with lower levels of happiness for citizens. In this paper, we review evidence regarding the psychological nature of this relationship. We examine central mechanisms that explain the link between income inequality and subjective well-being, including anxiety from status competition, mistrust, and hopes and fears about the future. We stress that perceptions of inequality matter as much as objective measures for well-being. Finally, we suggest some potential areas for future research regarding inequality and happiness and advise that this body of work be considered when developing and evaluating relevant policies.

Income inequality, the gap in wealth distribution between the rich and poor, has been on rise throughout the industrialized world during the last 40 years [1,2]. Just within the US, in 2012, the richest 0.1% (approximately 160,000 households) owned 22% (compared to 7% in 1978) of the total national wealth [3]. President Obama, in his 2017 farewell address, identified this growing income inequality in the United States as one of the primary forces testing American democracy. “How we meet these challenges,” he said, “will determine our ability to educate our kids and create good jobs and protect our homeland. In other words, it will determine our future.” [4]

A growing literature exploring the links between income inequality and a host of societal problems underlies the urgency of his statement. Income inequality is generally measured with the GINI coefficient, which ranges from 0, where everyone has the same resources, to 1 where all resources are held by a single person. Higher income inequality is associated with higher mortality, various physical and mental illnesses, obesity, and governmental corruption (e.g., 5). In addition, income inequality is related to decreases in educational performance and attainment, decreases in governmental stability and functioning, and even decreases in the ability of residents to climb the economic ladder (e.g. 6). In addition to affecting these more objective aspects of people’s lives, inequality also affects their everyday functioning.

In this paper, we examine the psychology underlying the well-established finding that people are generally happier where and when inequality is lower (reviewed in 7). Understanding how inequality affects happiness is essential for anyone interested in the well-being of individuals and nations. Inequality, for example, may be the answer to the

famous Easterlin paradox, which has bedeviled economics and happiness researchers since Richard Easterlin first noticed this phenomenon in 1974: that, contrary to theory and common sense, economic growth does not reliably increase a country's happiness [8]. Once a country's level of inequality is considered, however, the paradox may disappear. In countries in which these gains are distributed more equally, economic growth does, in fact, lead to increased happiness as one might expect. It's only when increases in income are concentrated among fewer beneficiaries (and thus where status gaps are likely larger and more salient) that growth does not lead to increases in national happiness [9*,10,11]. Introducing a psychological perspective demystifies the outcomes stemming from inequality.

Understanding Inequality and Well-Being

Inequality relates to individual happiness for a number of reasons. The more objective correlates of inequality - greater levels of illness and mortality, neighborhoods with fewer services for residents, weaker, less responsive government, and a diminution of opportunities for the future all negatively impact people's well-being. [6,12,13] However, this relationship is also grounded in individual psychology, in the way that people perceive inequality and in the way that inequality changes the relationships between people within a society [7,14**,15*]. We lay out and review these psychological mechanisms in this paper.

Subjective Perception

As the effect of inequality on well-being is a psychological process, it requires a psychological input. Recent studies suggest that the *perception* of inequality [16*] or the

perception of a person's position in the income hierarchy [17,18] is more important for individual well-being than objective measures of income distribution. Certain perceived features of inequality attenuate its relationship with well-being. When perceived as unimportant [19], legitimate [20], surmountable [21], beneficial [22], fair [23], or part of God's plan [24], for example, inequality matters less for well-being. There are even some ways inequality is perceived that can be associated with *increased* well-being. In many developing societies, especially those transitioning from more equal planned economies to more unequal free-market regimes, an increase in inequality is interpretable as an opportunity to climb the social ladder - as hope that the future will be better than the past [25,26] (sometimes referred to as the "tunnel effect") [27]. The tunnel effect may explain the relationship between inequality and well-being in China, where those in the countryside are a bit more optimistic about their future prospects, and thus happier as inequality increases, than those living in the cities [28,29,30], and may also explain relationships between inequality and happiness across other developing countries [31]. Importantly, when perceptions of inequality change, so too does its relationship with well-being. When inequality loses its association with hope and instead becomes interpreted as a signal of a rigged society, higher inequality relates to lower well-being [32].

Furthermore, perceptions of inequality are subject to the phenomenology of all psychological processes, including habituation. When inequality remains at a constant level, regardless of that level, it may come to be seen as normal, unremarkable, and ignorable, relating only weakly to well-being. However, when this "inequality equilibria" is disturbed by a large short-term change in inequality, inequality may become salient again, and may again share an association with individual well-being [33].

Schröder [34**] provides evidence for this model. Using 18 years of German panel data, he shows that the same person was equally happy in times of high and low inequality, as long as that inequality was not radically different from previous years. As long as inequality changed slowly, it had a weaker relationship with happiness. When inequality spiked, however, Germans were less happy, especially to the degree that inequality was covered in local newspapers at the time. The more words that were written about inequality, the less happy people were. So, to all those reading this review - we apologize.

Interpersonal Processes

Inequality may also relate to well-being by changing the way that people relate to each other in society. Here, we focus on the link between inequality and increased interpersonal competition, status anxiety, societal atomization, and mistrust. Each of these factors play an important role in explaining the association between inequality and well-being, which we now discuss.

Status Competition and Anxiety

The pursuit of status and the admiration and respect of others seem to be human universals, fundamentally related to well-being [35]. Feeling respected and admired by others matters more for well-being than does individual income [36], or the degree to which a person brings high-class, respected [37] or low-class, disrespected identities into their self-concept [38,39]. One way income inequality may affect happiness is by making status more salient. In more unequal societies, people are more likely to know how they're doing relative to others, as inequality leads to increased self-identification of the poor as

lower-class [40] or as a “have-nots” [41]. One theorized mechanism for the economic fact that people work harder in more unequal societies is that they want to use the increased income to signal that they are of a higher class [42].

Comparisons with others are especially powerful for determining well-being. Recent research has found that the feeling of outperforming other similar people predicts well-being above and beyond objective socioeconomic status [43,44]. Income inequality encourages social contrasts and amplifies the relationship of peer comparisons with well-being. People living in more unequal societies are more likely to stress the importance of being successful, respected, and admired [45], and are more likely to fear being looked down upon by others [46]. This fear is negatively associated with individual well-being [14**]. For example, in a study of 1.7 million Americans, well-being was tied more strongly to the income of neighbors in counties where overall inequality was higher [47*].

Status anxiety is also associated with financial satisfaction [42] which is a strong predictor of well-being throughout the world [48]. How easily people feel they can make ends meet explains a large portion of the difference in well-being between the highest and lowest socioeconomic statuses, within Europe at least [49, 50], and increasing income inequality may exacerbate these worries. Panel data shows that as inequality rose in Germany from 1984 to 2012, so too did economic worries, especially for the poor and middle-class. In turn, financial worry led to people feeling less happy and more dissatisfied with their lives, especially among the middle class [51].

If the worry associated with inequality is diminished, so too are the effects on well-being. Among European democracies, one’s socioeconomic status is far more weakly related to well-being in more generous welfare states, largely due to reduced worries about

one's financial situation [50] or subjective status [52]. Easing the financial worries of the poor, through inequality-decreasing mechanisms such as progressive taxation and redistribution of wealth has corresponding effects on individual happiness. People are happier in countries with more progressive taxation [53], and in those countries, absolute income is a weaker determinant of happiness [54].

Mistrust and Corrosion of Social Ties

Inequality fragments societies. People living in more unequal societies have fewer ties to each other, especially across income lines [55]. Inequality encourages higher levels of class identification [40], and voluminous survey evidence shows that residents of states or countries with higher levels of inequality are less likely to trust each other, less likely to belong to social organizations, and are less likely to participate in civic life [56,57,58]. For example, in recent survey work across 26 countries, those who are doing less well than their referent group (measured by median county income, controlling for objective income) are less likely to trust others or to have confidence in the institutions that control their economic fate, such as government, the courts, and business [59].

This mistrust can have direct consequences for individual well-being. Oishi et al. [60] showed, using the 1972-2008 US General Social Survey, that increased interpersonal mistrust explains the negative effects of inequality on individual well-being, a finding echoed in other cross-national surveys [11,14**]. In addition to its direct effect on well-being, decreases in trust and social capital spurred on by inequality have been implicated in the relationship between increased inequality and increases in mortality [61,62], homicide rates [63], sociopolitical instability [64], corruption [65], and weaker governing

institutions [66], all of which certainly affect the well-being of residents for the worse.

Nishi and colleagues [67*] demonstrated experimentally how mistrust may develop in the context of inequality. Their experiment used a public goods game, in which a group of players individually make repeated choices to either prosocially pay into a fund which benefits their community, or selfishly to do nothing and free-ride off the contributions of others. After every trial, players were allowed to retain, replace or reject a fraction of their gameplay partners (i.e., members of their social community). In one instantiation, the players were publically given unequal funds to start with. In early trials, the “rich” were less likely to pay into the community. Subsequently, the “poor,” tended to respond by choosing not to invest in the community either, so as not to further enrich the free-riding wealthy. Consequently, with selfish choices proliferating throughout, players increasingly rejected each other, leading to a disintegration of social ties and a disappearance of trust. Overall, everyone was left worse off than when they started, both financially and socially. Similar, if not quite so dramatic, relationships between inequality and perceived unfairness, mistrust, and envy, have been found in other paradigms that experimentally manipulate inequality [68, 69].

Future Directions - Different routes to happiness?

While the literature on inequality and well-being has matured in recent years, the majority of the work surveyed in this review has looked mainly at inequality as a predictor, focusing on questions regarding when inequality affects well-being and how situational or contextual factors alter that relationship. However, inequality may serve as a moderator in its own right: people at different places in a society may conceive of well-being differently,

and inequality may impact well-being in different ways. Dehley & Dragolov [14**], for example, show that link between inequality and well-being, is driven more by mistrust in the richer countries of Europe, and by status anxiety in the poorer countries (see also 21 for cross-country differences). Work in cross-cultural settings additionally shows that well-being is not a context-free concept: its shape differs across cultures and through history [70,71]. This leads people in different cultures, and in different historical periods, to approach well-being in different ways [72].

Inequality leads to stark social class divides, and this may provide one key factor for understanding the construction of well-being across time and space. Social classes may already comprise different cultures within a society [73, 74, 75], and as inequality intensifies social-class identification [40], these cultures may only grow stronger and more distinct. Within the US, there is already evidence that social class affects how people construe happiness: believing that one's self is consistent and stable, for example, affects the happiness of middle and upper-class Texans far more strongly than those from a lower class. [76]. Similarly, Americans who live in a low income zipcode area are happier if they have a few deep social ties, by contrast, Americans who live in wealthier zipcodes are happier if they have many shallow social ties [77].

Even if the predictors of well-being are generally stable across countries (financial satisfaction, autonomy, social support, and respect) [48], social class may affect *how* those predictors are pursued, especially as recent research has shown that class identity relates to how people pursue other related goals, such as power and status [78,79].

Further complicating things, inequality and social class almost certainly interact with an individual's culture to shape a concept of well-being. Those who are materially

worse off in Ghana, for example, appear to be happier than those who are doing better. [80]. Given the complex relations among objective status, subjective status, and culture, future research exploring the nuances in the relationship between inequality and happiness is essential.

Overall, recent research suggests that income inequality is objectionable not only on ethical grounds, but also on empirical grounds. In addition to exploring psychological mechanisms underlying the link between income inequality and ill-being, as has been the focus of much of the latest research on this topic, it will be important to explore policy solutions that address these negative downstream effects for personal and societal well-being. The effects of income inequality are at least in part a psychological phenomenon, and if policy-makers are interested in the well-being of their citizens, they should be consulting psychological science when contemplating various policies (such as progressive taxation, 81) designed to mitigate inequality and its detrimental effects on citizens.

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