Why Do People Tolerate Income Inequality?

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Published in **Harvard Business Review**, November 2019 (Digital Article)

In 2012, the late Alan B. Krueger, who was at that time the chairman of the Council of Economic Advisors, gave a speech that highlighted income inequality as one of the major causes of social ills in American society. It was then that he first presented what is now widely known as the Great Gatsby Curve, which shows that the higher income inequality is in a society, the more difficult it is for a person to move outside the income class he or she was born into. In other words, greater inequality makes it harder to achieve the American dream of economic mobility.

Alan Krueger was not alone in his concern for what income inequality could do to those further down in the income hierarchy. The British epidemiologists Kate E. Pickett and Richard G. Wilkinson published a book in 2009, presenting cross-country evidence of how outcomes such as mental and physical health, drug abuse, education, imprisonment, obesity, social mobility, trust and community, and child well-being are worse for the majority of people in countries where income inequality is high. Their research has since been corroborated by more recent studies on the consequences of income inequality on self-reported health, violent crime, and life satisfaction.

Despite this growing body of evidence, income inequality continues to be on the rise in many countries around the world. Across societies, the richest 1% now hold a larger percentage of national income than ever before. What's puzzling is that the latest research on attitudes toward inequality suggests that citizens in more unequal countries are less concerned about income inequality than those in more egalitarian countries. If income inequality is overwhelmingly bad for most people in a society, why do they – especially those who live in the most unequal of places – still put up with it?

According to the latest work by Harvard sociologist Jonathan J. B. Mijs, this income inequality puzzle can be explained in part by evidence showing that people's belief in meritocracy (i.e., that income differences stem from differences in effort, not in luck) often goes hand in hand with the level of income inequality in a society. It seems that people in the most unequal societies, irrespective of whether they are from the working class, the lower middle class, or the upper middle class, are more likely to believe that the rich are rich because they worked hard for their income, while the poor are poor because of a lack of trying.

Our latest research, however, offers an additional explanation for the income inequality puzzle. We find that people put up with high levels of inequality for two reasons: first, people generally care deeply about where they stand in terms of earnings within a group – for example, whether they are the 5th or 40th highest-paid person in their workplace. Second, people derive more satisfaction from being at the top of the income ranks in more unequal societies, where the pursuit of rank and status is more likely to be seen as a desirable life goal. So, we argue that people in an unequal society has a relatively larger incentive to move up the income ranks than those living in places where most people earn similar incomes – simply because each step up the income ladder pays out more in terms of happiness. Quite possibly, this larger incentive

leads people to ignore or rationalize the negative consequences of income inequality at the collective level.

We examined nationally-representative, cross-sectional data, collected over a 6-year period from around 160,000 individuals across 24 countries. The data came from the Gallup World Poll, an annual survey on people's attitudes, opinions and feelings, among other measures. We investigated the relationship between income rank and life satisfaction and found that across these countries, individuals who ranked higher in the income distribution reported higher levels of life satisfaction compared to those who ranked lower. We also found that increasing an individual's income only increased life satisfaction if their ranked position also improved – so people were only happier with higher incomes if it also meant they started making more than others (even though this meant others slid down the income ranks and saw a drop in life satisfaction as a result).

We then investigated whether this relationship between income rank and life satisfaction varied across high and low inequality countries, using the share of national income held by the top 1% as a proxy for income inequality. We found that the well-being gap between the relatively rich and the relatively poor is larger in more unequal places. We also found that improvements in an individual's income rank position bought more happiness in countries where top incomes were concentrated in the hands of a few. So, the more unequal the society, the more moving up the income ladder contributed to someone's overall well-being. The evidence also suggests that a fall in income rank likely hurts overall well-being more in more unequal countries.

How does this help to explain the income inequality puzzle? Our evidence shows that as income inequality in a society rises, the happiness that can be gained from moving up the income distribution increases with it. This can result in people becoming more status conscious and striving to move up the income ladder – and caring less about the growing income inequality around them and its negative effects. Such a shift can be rationalized by believing that income differences are deserved, making income inequality much more acceptable even among those at the bottom of the income hierarchy.

These motivations for chasing higher income ranks are likely also relevant in other contexts, such as the workplace. At the organizational level, one can imagine the effect that executive pay, which has been reported to be as much as 200 times what median workers earn, has on most employees' attitudes toward competing with their colleagues for promotions and higher salaries, and the level of dissatisfaction among employees at the bottom of the salary distribution. Such heightened levels of dissatisfaction could be disastrous for an organization, considering that unhappy workers are more likely than others to quit their jobs despite earning good incomes. More research at the organizational level is required, however, before we can conclude that income inequality within a workplace encourages employees at all levels to internalize and prioritize the pursuit of a better relative pay than their colleagues as one of their main career goals.

Like all research in social sciences, our study is far from perfect and it is therefore worth keeping in mind some of the limitations of our investigation. First, our data were collected in different years but not from the same people across the study period, and, therefore, it is not possible to say with more certainty what happened to an individual's well-being when he or she moved up or down the income ladder from one year to another. Second, we only had data on top income shares from 24 countries, which means that it might not be possible to

extrapolate our findings to other societies, and future studies should therefore aim to incorporate a larger set of countries.

With income inequality rising considerably around the world, understanding why income inequality persists has never been more important. By knowing that income disparities can breed strong incentives for people to participate in a race to the top of the income ladder, while at the same time turning a blind eye to its negative consequences, leaders may be more motivated to tackle inequalities and improve overall wellbeing.

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Link to study: https://journals.sagepub.com/doi/abs/10.1177/0146167219877413