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Societal Inequality and individual subjective well-being: Results from 68 societies and over 200,000 individuals, 1981–2008 ☆

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ABSTRACT

Income inequality has been contentious for millennia, a source of political conflict for centuries, and is now widely feared as a pernicious “side effect” of economic progress. But equality is only a means to an end and so must be evaluated by its consequences. The fundamental question is: What effect does a country's level of income inequality have on its citizens' quality of life, their subjective well-being? We show that in developing nations inequality is certainly not harmful but probably beneficial, increasing well-being by about 8 points out of 100. This may well be Kuznets's inverted “U”: In the earliest stages of development some are able to move out of the (poorly paying) subsistence economy into the (better paying) modern economy; their higher pay increases their well-being while simultaneously increasing inequality. In advanced nations, income inequality on average neither helps nor harms. Estimates are from random-intercept fixed-effects multi-level models, confirmed by over four dozen sensitivity tests. Data are from the pooled World Values/European Values Surveys, Waves 1 to 5 with 169 representative national samples in 68 nations, 1981 to 2009, and over 200,000 respondents, replicated and extended in the European Quality of Life Surveys.

1. Introduction

The morality of income and wealth inequality has been debated at least since Aristotle's time. Charity toward the poor is enjoined by all the Religions of the Book, Jewish, Christian, and Muslim alike: Those on the bottom ought to be raised. But the moral position of the wealthy is contested terrain. For Christians and Jews, envy is forbidden by the 10th commandment, but it nonetheless creeps in. Thus, whether the top should be brought down is at least arguable. Debates over income and wealth inequality took on a fresh currency in late 18th century Europe with rapid economic growth swelling the industrial working class and with the strong appeal of the emerging ideal of political equality. Marx himself resisted discussions of how equal incomes and living standards under Communism were to be, but a great deal of Communism's appeal to ordinary people lay in its promise to move towards equality.

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Income inequality has risen (or returned) to a place of special prominence in sociology in recent years, as witnessed, for example, by the large share of page space it claims in the latest edition of the discipline's key social stratification reader (Grusky, 2014). Scholars probe deeply to discover whether or not income inequality is the culprit in many social ills (Babones, 2008; Beckfield, 2004; Landman and Larizza, 2009; Wilkinson and Pickett, 2009) and an influential recent analysis of capital concentration (Piketty, 2014) has further heightened concern both within the discipline and more broadly. Moreover, in the pursuit of socio-economic development, many governments, institutions, and distinguished scholars alike treat income equality as an ideal, unquestioningly assuming that inequality is bad, either in itself or because it has bad consequences (OECD, 2011; Stiglitz et al., 2010, and countless others).

Insofar as income inequality is a moral issue, empirical evidence is not decisive, perhaps not relevant at all. But the ultimate goal of government policy is to enhance well-being: Equality is a means to an end, not an end in itself. That raises a fundamental question: Are otherwise similar individuals in equally prosperous societies less happy if they live in a society with great inequality than if they live in a more equal society? Or are they happier? Or does national income inequality simply not matter to individuals' happiness? In short, is income inequality a bane, a boon, or a nullity?

How can one measure subjective well-being and so find out whether – or under what conditions – inequality harms or benefits? A plethora of research suggests measuring the quality of life as reported by the people themselves – their answers to questions about their happiness, quality of life, subjective well-being, or life satisfaction (Veenhoven, 2014). For example, a recent blue ribbon panel convened by the then President of France – composed, perhaps ironically, largely of economics Nobel Laureates (Stiglitz et al., 2010, pp 10–11) – concluded that the best candidate yardstick for assessing quality of life was individuals' survey reports of the their subjective well-being, " … the time is ripe for our measurement system to shift emphasis from measuring economic production to measuring people's well-being". This view now has wide support, even among economists (Frey and Stutzer, 2002; Thin, 2012). Survey-based measurement of subjective well-being, life satisfaction, and/or happiness has been strongly established in sociology, social psychology, and psychology for decades and, more recently, in economics. It is thoroughly validated by comparisons with observers' reports and physiological measurements, among other things (e.g. Diener and Suh, 1997; Headey and Wearing, 1992; Tyler, 2006; Veenhoven, 1984). Accordingly, it makes sense to build on this strong foundation, taking survey measurement of subjective well-being as an important, albeit imperfect, measure of social progress.[1]

This paper addresses the key policy question of whether, net of other influences, national income inequality reduces the subjective well-being of its individual citizens, or raises it, or is irrelevant to it. Precise, accurate, and robust estimates of the effect of societal inequality on individuals' subjective well-being are essential to shifting the foundation of theory, political debate, and international development policy – by the UN, the World Bank, the OECD and many similar institutions – from the quicksand of assumption to the solid ground of evidence.

We contribute to a recent, but as yet inconclusive, flowering of research on the issue (Alesina et al., 2004; Berg and Veenhoven, 2010; Cheung, 2016; Graham and Felton, 2006; O'Connell, 2004; Rozer and Kraaykamp, 2013 and the literature reviewed there; Schneider, 2012; Verme, 2011; Zagorski et al., 2014). We provide several analytic improvements. Our analysis refines earlier work by allowing socio-economic developmental differences in effects – showing that inequality's effects differ between developing societies and advanced societies and by controlling for socioeconomic development. The latter has been a crucial omission in many prior analyses. We also extend the scope of the research tradition by using a particularly large and rich data set (68 societies, 169 surveys, over 200,000 individuals).[2] In addition, we provide more robust estimates by developing a flexible multi-level statistical model allowing curvilinear effects. Our analysis is strongly confirmed by 53 sensitivity tests.

In general, our findings are contrary to "relative deprivation" expectations: Inequality does not appear to impair happiness except under very special conditions. In developing nations not previously Communist, inequality is probably beneficial, certainly not harmful. In advanced nations it is irrelevant.

2. Theory and hypotheses

This paper focuses on the total effects of income inequality. Existing research has not even clearly established the existence or direction of these effects, so it is necessary to focus on them first, leaving it to future research to explore the mechanisms (intermediate variables and processes) whereby these effects may come about.

2.1. Focus: inequality in the distribution of income, not wealth

This paper focuses on inequality in income, not inequality in wealth. Inequality in wealth is certainly interesting (e.g. Piketty, 2014), but data on wealth are scarce – moreover individual-level wealth data are not available in the data used here. Wealth is, in any case, in good part a consequence of savings from past income – it is heavily concentrated among the old and

[1] The issue of which questions are appropriate for measuring subjective well-being is discussed in the Measurement section.

[2] The Gallup World Poll is a potentially attractive alternative, but it only began in 2005, so it does not include data on the 1980s and 1990s, which is important to assure the historical scope of our analysis. Wave 6 of the WVS/EVS panel used here became available only after this paper was finished. Preliminary analysis of it confirms our conclusions.