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Inequality and well-being

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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.

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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 is 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 [28–30], 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 are 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