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Inequality and inequity



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ABSTRACT

Kelley and Evans (2017) found that income inequality (measured at the societal level) did not affect individual well-being in advanced societies but increased individual well-being in developing societies. This paper discusses how this empirical patterning of the inequality-well-being relationship may arise from mechanisms related to the relationship of inequality with economic development (at the macro-sociological level) and to the evolution of emotional reactions to inequality (at the individual-psychological level).

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1. Introduction

Kelley and Evans (2017) analyzed data for hundreds of thousands of individuals in 68 societies and used appropriate multi-level methods to find that the level of income inequality in society actually increases the well-being of individuals in developing societies, while income inequality has no significant effect on individual well-being in advanced societies. These interesting results raise perplexing questions linked to two different levels of analysis.

At the macro-sociological level there are issues related to contemporary inequality trends and the relationship between income inequality and development. Income inequality has increased in some advanced economies in recent decades. Contrary to a common belief, however, except for a handful of societies the upswing has been relatively small relative to the decline in inequality with industrial development that characterized the first part of the 20th century. As a result a cross-section of societies in the contemporary world is still dominated by the Kuznets pattern in which income inequality rises with the onset of industrial development, reaches a peak, and then declines with further economic development. Consideration of the social mechanisms underlying the Kuznets curve – especially the net upward mobility resulting from change in the occupational structure – may provide a mechanism by which greater inequality is associated with greater well-being in developing societies. A positive inequality-well-being association may be generated if societies with high inequality are also those where labor force shifts from traditional to modern sectors, and occupational upgrading within the modern sector, are rapid, and where the rate of absolute upward mobility due to occupational upgrading is high.

At the individual social-psychological level there are mechanisms related to the perceptions of social inequality by individuals, and the psychological impact of these perceptions on well-being. Consideration of the circumstances of evolution of human nature and the probable involvement of psychological mechanisms related to reciprocal exchange in reaction to inequality suggest reasons why people are not very good at perceiving the overall degree of inequality in a large society, and why people's reaction to a conspicuous display of wealth may be more complicated than simple status anxiety. As a result in a large state society people may be relatively insensitive to the objective degree of inequality, as measured by a statistical summary such as the Gini coefficient.

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The rest of this paper discussed these two sets of issues in turn and suggests some empirical implications and possibilities for further research.

2. The continuing importance of the kuznets curve

Kelley and Evans (2017) discuss the iconic statement on the relationship of inequality with development of Kuznets (1955), who conjectured that income inequality traces an inverted U-shaped curve with economic development, with inequality at a moderate level prior to industrial development, increasing as the modern economy develops, and finally reaching a peak and declining as the society becomes fully industrial.

Contrary to what some who have not read him assume, Kuznets was far from an apologist for liberal capitalism. His paper reflects his puzzlement and disbelief as he struggled to find explanations for the non-monotonic trend. The pattern of declining inequality with mature industrialization that he suspected seemed particularly troubling for Kuznets, as it conflicted with all his economist's instincts concerning the likely consequences of continued capitalist accumulation, which seemed to predict increasing wealth concentration, and a parallel trend of rising inequality in the distribution of incomes.

Among mechanisms that could generate the non-monotonic inequality trend Kuznets identified labor force shifts from the low-wages traditional sector to the higher-wages modern sectors of the economy during development (a mechanism labeled sector dualism) and the unfolding of the demographic transition, that both will induce inverted-U shaped inequality trajectories with development, and the spread of work-related skills including formal education, that will induce a monotonic decline in inequality.

Kuznets' conjecture was based (critics might say "hallucinated") on both a time series of inequality data for the United States that Kuznets had painstakingly compiled himself in previous work and a handful of data points for other countries that were available at the time. When richer cross-national income inequality data became available the existence of the Kuznets curve was confirmed (Ahluwalia, 1976; Lecaillon et al., 1984; Nielsen, 1994b), and the role of dualistic processes in development involving sector dualism and the demographic transition was demonstrated (Bourguignon and Morrisson, 1998; Nielsen, 1994b; Nielsen and Alderson, 1995).

On the basis of comparative-historical data Lindert and Williamson (1985) showed that the phase of declining inequality did take place for a number of advanced industrial societies, after a peak of inequality in the late 1800s for the UK and around the turn of the 20th century for the US and European societies, continuing until late in the century. It is of interest that Kelley and Evans find the correlation between GDP per capita and inequality in their sample of advanced societies (i.e., those presumably arrayed along the right-most, declining segment of the Kuznets curve) to be -0.46 , with higher GDP/cap corresponding to less inequality, consistent with the Kuznets conjecture.

While it is present in the data and can be revealed by statistically fitting a nonlinear model, the curvilinear relationship of inequality with development is characterized by considerable scatter, typically explaining only some thirty percent of the variance in income inequality. As Lindert and Williamson (1985, p.346) write, "[The curve] is familiar, yet fragile: now you see it, now you don't." The scatter is particularly pronounced for developing societies situated along the increasing segment of the curve. The amount of scatter suggests that general processes of economic development are only one of many factors at work in the inequality trajectory (Lecaillon et al., 1984).

Lindert and Williamson (2016, p.206) label the phase of declining inequality that took place between 1910 and 1970 for the U.S. and Western countries the Great Leveling. They attribute the trend to six categories of factors. (1) Political shocks, including the Great Depression and two world wars. (2) Slowdown in the growth of labor supply due to slower population growth, associated with both the completion of the demographic transition and relatively slower immigration. (3) Growth in supply of labor skills associated with the spread of education. (4) Relatively less labor-saving and skill-using bias in technological change shifting the demand for labor, skills, and capital than in earlier and later periods. (5) Shrinkage of international trade due to higher trade barriers. (6) Limitations on the highly paid finance sector associated with financial crashes and subsequent tightening of banking regulations.

Beginning in the 1970s and over the past few decades advanced societies have experienced, to various degrees, an upswing in income inequality. Some increase in inequality has occurred in a number of advanced societies (Alderson and Nielsen, 2002), but the upswing has been especially substantial in English-speaking countries, particularly the US and the UK. Promptly labeled the Great U-Turn (Harrison and Bluestone, 1988), the phenomenon has attracted much scholarly attention and some political reactions, exemplified by Occupy Wall Street in the U.S. and the parallel *indignés* movement in Europe, or the current salience of inequality in the American political discourse, but the political fallout might be viewed as subdued given the momentous nature of the inequality trend.

Lindert and Williamson (2016) attribute the inequality upswing, as well as the cross-country variation in the amplitude of the trend, to reversals in some of the same six forces underlying the Great Leveling. (1) Political shocks, notably rightward shifts in the polity. (2) Faster growth in the labor supply resulting from increased immigration. (3) Slower growth in education, especially in English-speaking countries. (4) Development of labor-saving technology favoring higher skills levels, to which should be added the "winner-takes-all" phenomenon due to increasing complexity and scale of markets, amplifying the consequences of managerial decisions and increasing the demand for (and earnings premium of) top operatives perceived as marginally most effective (Frank and Cook, 1995). (5) Shifts in world trade patterns with growing imports of labor-intensive products from Asia and other sources, entailing downward pressure on manufacturing jobs and salaries. (6) Growth of the financial sector due to deregulation ushered in by changes in political climate.

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