Unequality: Who Gets What and Why It Matters

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Abstract

Who should get what, and what are the consequences? Economic inequality in the United States has been rising for decades, yet only recently have behavioral scientists explored two central questions surrounding the optimal level of inequality. First, what are the effects of increased inequality on citizens' decisions and behavior? Second, what do citizens believe the "ideal" level of inequality should be? Critical input comes from better understanding increased inequality's impact on the overall health of the economy—such as labor productivity—and assessing citizens' preferences for distributing assets—such as income and wealth. Inequality's impacts and citizens' preferences inform the likely effects (and likely voter acceptance) of policies that affect inequality, from taxation to spending on education and health care. Research reveals that Americans from all walks of life—rich and poor, liberal and conservative—endorse *unequality*: unequal outcomes (rich people have more than poor people) but far less inequality than the current state of affairs. For example, the actual pay ratio of CEOs to unskilled workers in the United States is 354:1, but Americans report an ideal ratio of 7:1—unequal, but more equal. Moreover, research shows that increasing inequality often has negative effects: decreasing motivation and labor productivity, impairing decision making, and increasing ethical lapses. In sum, behavioral research supports the benefits of policies aimed at achieving unequality.

Keywords

inequality, fairness, ethics, gambling, productivity

Tweet

Americans prefer unequal outcomes, but more equal than current inequality. "Unequality" improves productivity, decision making, and ethics.

Key Points

- Understanding inequality's impacts and citizens' preferences informs the likely effects (and likely voter acceptance) of policies that affect inequality, from taxation to spending on education and health care.
- Americans prefer "unequality": Some inequality, but lower inequality than current levels.
- Severe inequality undermines motivation and productivity, decision making, and ethical choices.
- "Unequality" appears preferable to high inequality or complete equality.

Introduction

From Occupy Wall Street to the Tea Party, from slogans like "We are the 99%" to "We are the 47%," from debates about universal health care to the minimum wage, questions about who should get what drive many of the most heated policy debates—and debates at the kitchen table. And these debates are not limited to the United States, as evidenced by movements from Occupy Armenia to Occupy Nigeria to Occupy Seoul and worker strikes around the world demanding higher wages. How countries deal with rising inequality—and how citizens push their governments to address inequality—is a critical issue with trickle-down effects to nearly every other issue, from early childhood education to job training to immigration policy. For each, policymakers and citizens are forced to answer the question: Who should get what?

Income and wealth inequality in the United States have increased dramatically since the 1980s, to levels not seen since just before the Great Depression in the 1930s (Keister, 2000; Wolff, 2002). In contrast to previous periods in American history, nearly all of the new income and wealth generated over the last decades has gone to the richest Americans. From 2009 to 2012, the incomes of the top 1% grew by 31.4%, whereas the incomes of the bottom 99% grew only by 0.4%, such that the

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top 1% got 95% of the income gains in these years (Piketty & Saez, 2014). The Great Recession brought the stark differences in outcomes for rich and poor into sharp contrast. For example, research shows that while gains in income have little positive impact on people's well-being, losses in income have a much larger negative impact: Getting richer does not feel nearly as good as getting poorer feels bad (Boyce, Wood, Banks, Clark, & Brown, 2013; De Neve et al., 2014). Or compare the enormous bonuses paid to CEOs—even CEOs of underperforming companies—to data suggesting that nearly 50% of Americans report that they would be unable to come up with US$2,000 in 30 days, no matter how many sources they tapped (Lusardi, Schneider, & Tufano, 2011).

But, what is the right level of inequality? Economists have used historical data to attempt to determine when and why inequality has positive and negative consequences at the macroeconomic level (see Piketty, 2014). Behavioral scientists—both psychologists and behavioral economists—have taken a different and complementary approach, examining the consequences of inequality at the microlevel: How inequality affects the thoughts, emotions, and behavior of a single person in worlds that are more or less unequal, and how that person's rank in each world—from richest to poorest—further shapes behaviors ranking from cheating to effort to generosity. People strongly believe that the current levels of inequality are unfair, but they rarely want perfect equality (Kiatpongsan & Norton, in press; Norton & Ariely, 2011). Moreover, people from all walks of life—rich and poor, liberal and conservative—agree far more than they disagree on what America should look like. People exhibit a desire for *unequality*—not too equal, but not too unequal.

Two approaches inform what the ideal level of unequality might be. First, my research with my colleagues simply asks citizens directly what they think the right level is: In other words, if people in the United States and all over the world are asked how they think resources such as wealth and income should be distributed among people, what do they think is ideal? These data—laypeople's sense of an ideal distribution—offer one input into understanding the ideal level of inequality.

Second, experimental research varies levels of inequality and people's rank in those more-and-less equal distributions, revealing that too much inequality can exert a negative impact on crucial outcomes: overall productivity, decision making (including people's tendency to gamble), and likelihood of engaging in both ethical and unethical behavior. On each of these metrics, inequality comes with costs not just to poor and middle class Americans, but to the rich as well.

Building a Better America—One Wealth Quintile and Wage Gap at a Time

My recent research takes a novel approach to inequality, focusing not on what is bad about inequality and the bitter debates surrounding inequality, but attempting to show that people all over the world in fact have a strong shared vision of who should get what.

People volunteer to play the "desert island game." Here's how it works: In some domain of inequality—say, wealth—people are asked to step back from the current political climate and from their notions about what policies should be implemented right now, and join a desert island thought experiment—where *they* get to play the dictator (or social engineer). People consider, if they got to start over from scratch and decide how things should ideally be distributed among people, what they would do. How much would *you* give to the wealthy in your new ideal society? To the middle class? To the poor? These data are the first input to determining who should get what.

Think about the richest 20%—the "top quintile"—of Americans for a moment. In other words, rank all Americans in order and count down from the richest person until you are one fifth of the way down that list.

Now answer this question:

Of all the wealth in the United States, what percent do you think the richest 20% of Americans own? _____%

Now play the desert island game. How would you answer if you could start over from scratch and build your ideal society?

Of all the wealth in the United States, what percent do you think the richest 20% of Americans should own? _____%

Now compare your two answers. Did you (hypothetically) write the same numbers for both questions? If you are like the vast majority of people who have completed surveys all around the world, you very likely gave a lower percentage for the second question than the first. You may have estimated that the richest 20% owned 60% of the wealth, but felt that ideally they should own 40%.

Before learning what the richest 20% actually own, answer two more questions. This time, think about the *poorest* 20% of Americans. In other words, rank all Americans in order again but count up from the poorest person until you are one fifth of the way up the list.

Same two questions:

Of all the wealth in the United States, what percent do you think the poorest 20% of Americans own? _____%
Of all the wealth in the United States, what percent do you think the poorest 20% of Americans should own? _____%

If you are like most people surveyed, you probably estimated that the poorest 20% of Americans had about 5% of the wealth—and you wanted them to have about 10%.

Now for the answers, according to the latest estimates. Compare these with your answers above. The richest 20% of Americans have about 85% of all the wealth. And the bottom 20%? They have about 0.1%. That is not a typo—not 1% of the wealth, one tenth of 1%.

In research with more than 5,000 Americans, people dramatically underestimated the current level of wealth inequality, and they wanted greater equality than even these estimates (Norton & Ariely, 2011). In other words, they thought that things were more equal than they are, and they wanted things to be even more equal than they thought they were. Americans believed that the richest 20% had about 60% of the wealth, they wanted them to have about 30%, and in reality, as noted, they have 85%. At the other end, Americans estimated that the poorest 20% had about 4%, they wanted them to have 10%, and in reality they have 0.1%. Note, however, that despite this desire for greater equality, Americans still want some level of inequality: The richest should have more than the poor, just a smaller gap. Australians show the same pattern: a consensus desire for unequality—not too equal, not too unequal (Norton, Neal, Govan, Ariely, & Holland, in press).

Perhaps importantly from a public policy viewpoint, Americans consistently express a strong—and unexpected—consensus on their views of the right levels of unequality in wealth. Despite a belief that rich and poor Americans, and especially liberal and conservative Americans, would disagree in their ideal levels of who gets what, every group—from richest to poorest, across the entire political spectrum—finds the current level of wealth inequality to be dramatically higher than their ideal level. Every group surveyed desires a more equal America—but again, an unequal America such that the rich have more than the poor.

And this same general pattern holds true when examining not wealth but income, in data from thousands of people from 16 countries (including the United States). Respondents estimated the gap in pay between CEOs and unskilled workers, and reported what they thought that gap ideally should be (Kiatpongsan & Norton, in press). The questions are again simple:

How much income do you think the average CEO makes each year? US$_____
How much income do you think the average unskilled worker makes each year? US$_____

And

*How much income do you think the average CEO **should** make each year? US$_____*
*How much income do you think the average unskilled worker **should** make each year? US$_____*

For each pair of questions, we calculated a pay ratio by dividing the first number by the second, which shows how much more people think CEOs currently make, and how much more people think CEOs *should* make.

As with wealth, ideal income gaps between CEOs and unskilled workers are significantly smaller than estimated gaps, and people drastically underestimate actual pay inequality. In each of 16 countries, people's ideal gap was smaller than their estimated gap. Moreover, as with wealth, the actual pay gaps for the 16 countries are dramatically larger than people's estimates and ideals.

Underestimation was larger in the United States than in any other country: The actual pay ratio of CEOs to unskilled workers was 354:1 (meaning that CEOs on average earned 354 times more income), whereas Americans estimated the gap to be 30:1, and reported an ideal ratio of 7:1. As with wealth, people underestimate actual pay gaps, and their ideal pay gaps are even further from reality than their erroneous estimates. Note also, however, that Americans again express a desire for unequality: CEOs should still make more money than unskilled workers, but the gap should be much smaller than it currently is.

As with wealth inequality, the desire for smaller pay gaps between the rich and poor was a consensus desire. Rich and poor, left wing and right wing, highly educated and less educated—each group believed that smaller gaps in pay were more ideal than the current gaps in the United States and around the world.

The (Negative) Consequences of Inequality

Of course, just because Americans report desiring more equal distributions of wealth and income does not necessarily mean that these are the levels policymakers should pursue. In fact, one argument for higher levels of inequality is that inequality can be a motivating positive force in people's lives: People may work harder and better if they know that doing so can improve their outcomes in life and their children's future outcomes. Indeed, the fact that when surveyed, Americans unanimously support some level of unequality offers support for the notion that they, too, believe that complete equality is not the best solution. However, research shows that increasing levels of inequality can have negative consequences on people's behavior, suggesting that while some inequality may be desirable, too much can have negative repercussions. Below are some key findings about the effects of inequality on productivity, decision making, and ethical and unethical behavior.

Inequality and Productivity

One of the truisms of the benefits of inequality is that higher salaries attract better workers and motivate people to work harder and perform better to reach those incentives. However, research shows that when pay inequality is made public—when

workers know where they stand in the distribution—lower paid workers report less job satisfaction, but higher paid workers do not experience any benefit (Card, Mas, Moretti, & Saez, 2012). Similarly, one field experiment showed that when workers are paired and one of them experiences a pay cut—such that one is now making more pay than the other—the lower paid worker exhibits less effort, but the higher paid worker does not increase effort (Cohn, Fehr, & Götte, in press). If anything, research shows that really large incentives (think of the enormous compensation packages for CEOs) can actually undermine performance. Why? Faced with the opportunity to earn—but simultaneously faced with the threat of squandering—huge bonuses, people choke at very high levels of compensation, performing worse than they did when working toward a more reasonable bonus (Ariely, Gneezy, Loewenstein, & Mazar, 2009).

Taken together, these results suggest that pay inequality is demotivating for lower paid workers and is not offset by increases in motivation for higher paid workers—and may even lead to worse performance in both groups.

Inequality and Decision Making

An emerging body of research also suggests that inequality has negative consequences on decision making, with a particular focus on how the scarcity experienced by the poor contributes to (understandable) decisions to borrow more and save less (e.g., Shah, Mullainathan, & Shafir, 2012). But research shows that the negative effects of inequality on decision making do not accrue merely to the poor.

Take the example of gambling. Research on "last-place aversion" shows that being near the bottom of the distribution can lead people to take unwise risks in an effort to get out of, or avoid being in, last place—such as playing the lottery, or forgoing sure cash for the chance at bigger cash that moves them out of last place (Kuziemko, Buell, Reich, & Norton, 2014). In one experiment, people received different amounts of money (from US$1 to US$8) and learned their rank in an "income distribution," with each rank separated by US$1. Then, they had to choose between getting US$0.50 for sure or taking a (very low) chance at winning US$2. Because ranks were separated by just US$1, taking US$0.50 meant staying in your current rank, but gambling for US$2 allowed you the possibility of "leapfrogging" the person above you. People in last place—desperate to escape—were most likely to take this unwise gamble (see also Haisley, Mostafa, & Loewenstein, 2008). But it is not only the experience of being poor that leads to gambling: The experience of being rich can have the same effects on risk-taking. Research has revealed a "house money effect," whereby people who have just experienced a big win are more likely to make risky decisions going forward (Thaler & Johnson, 1990).

In sum, research shows that the experience of being both too high and too low in a distribution can impair decision making.

Inequality and Unethical and Ethical Behavior

Poor people give a higher percentage of income to charity than people in the middle class, and only the very rich give the same percentage as the poor (Piff, Kraus, Côté, Cheng, & Keltner, 2010). Why? The data suggest that even *feeling* temporarily rich can lead people to feel less empathy for others, driving their decreased generosity. At the same time, people in the lower middle class can be less generous to the very poor than others, and even less generous to the poor than they are to the rich. Why? As with gambling, this behavior is driven by last-place aversion: People in the middle class or just below want to make sure that someone stays below them (Kuziemko et al., 2014). And this desire does not just play out in the laboratory. Why do people with wages just above the minimum wage often oppose increasing it? On one hand, they may receive a small raise, but now would have the "last-place" wage. Kuziemko et al. (2014) find exactly this pattern in survey data: Americans making between US$7.26 and US$8.25 are the least likely to support increasing the current minimum wage of US$7.25.

Inequality can lead not only to less generous behavior but also to more unethical behavior. In one experiment, people who discovered they were paid less than others for completing a task were more likely to cheat to make more money (John, Loewenstein, & Rick, 2014); moreover, the ease with which they could compare their lower wages with the "rich workers" predicted how much they were willing to cheat. And inequality even can make the rich cheat more, in an effort to restore equity. When given a lucky outcome that gives them more cash than someone else, the "rich" will fudge their grading of the "poor" person's test to compensate that poor person more than deserved (Gino & Pierce, 2009). In other words, people who end up at the top sometimes cheat on behalf of the poor, because they feel badly about their relative advantage. Taken together, this research suggests that inequality can lead to less generosity and more unethical behavior across the income distribution.

Conclusion

The extreme disagreements in the political arena—also reflected in debates among academics—about the optimal level of inequality suggest the importance of determining who gets what. While a number of lenses must be brought to bear on the issue, the illustrative sample of behavioral research summarized here offers some crucial guidance. First, clearly, as inequality increases, a number of negative outcomes occur, both psychological (Norton, 2013) and behavioral—from worse performance to impaired decision making to increased cheating. Second, also clearly, unlike politicians and academics, laypeople from all over the world exhibit a remarkable consensus on what they believe the "right amount" of inequality is, at least for wealth and income: not equal, but much more equal than the current state of affairs. Policies that come closer to

achieving this optimal level of *unequality* offer the promise of not only minimizing the negative psychological and behavioral effects of inequality but also creating a set of outcomes for citizens that more closely match the outcomes they desire.

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