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The new income inequality and well-being paradigm: Inequality has no effect on happiness in rich nations and normal times, varied effects in extraordinary circumstances, increases happiness in poor nations, and interacts with individuals' perceptions, attitudes, politics, and expectations for the future

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ABSTRACT

Based on earlier, mainly aggregate analyses, conventional wisdom previously held that income inequality reduces happiness. But aggregate models consistently yield misleading results in this domain, substantially because of intractable problems of sample size, confounding omitted variables, and conditional effects differing between poor developing nations, rich advanced nations, and nations in transition from Communism. Based on more recent evidence, scholarly views are beginning to merge on a consensus that national income inequality is irrelevant to individuals' subjective well-being in advanced nations and normal times, as shown by multi-level models with appropriate controls (including socioeconomic development, an engine of happiness and foe of inequality). For developing nations, consensus is not as strong, but the bulk of the evidence indicates a neutral to positive effect for inequality. Building on this foundation, this paper provides exploratory analyses to stimulate future research, extending our understanding of the social psychological and cultural forces that generate these results; dissects changes over time and expectations for the future; and addresses the possibility that inequality may reduce well-being in extraordinary circumstances and for particular groups – for example creating differences in formerly Communist nations between the political left and the right, and between older and younger cohorts.

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1. Introduction

1.1. Inequality and well-being: current state of knowledge

Well into this century, the conventional wisdom held that income inequality reduces happiness (American Sociological Association, 2014; OECD, 2011; Stiglitz et al., 2010). That claim, however, has now come to shipwreck on the rock of the facts. Recent findings using state-of-the-art methods demand a paradigm shift.

For **advanced nations**, we are now in broad agreement that income inequality has no noteworthy impact on subjective well-being in normal times (Esping-Andersen and Nedoluzhko, 2016; Kelley and Evans, 2016a,b; Kenworthy, 2016a; Nielsen, 2016).

For **developing nations**, we now think that inequality slightly *increases* well-being in normal times (Esping-Andersen and Nedoluzhko, 2016; Kelley and Evans, 2016a,b; Nielsen, 2016) or possibly that it has no effect (Kenworthy, 2016a). We suspect that any increase is not because people like inequality, but because it foreshadows future prosperity (Esping-Andersen and Nedoluzhko, 2016; Kelley and Evans, 2016a), as some have long argued (Zagorski, 1994).

When there are **extraordinary circumstances** rather than normal times, things may be different (as they arguably are for the equilibrium rupture analyzed by Esping-Andersen and Nedoluzhko (2016)), or may *not* be different (as arguably for the Great Recession: Evans et al., 2016). We will show here that the extraordinary changes following the fall of Communism produced mixed effects: Inequality hurt some (especially soon after the fall and for those on the political left), had no impact for some, and benefitted yet others (especially in recent times and for those on the political right).

The change in our understanding comes about through several key improvements in methods and models:

- Shifting to multi-level models¹ including individual as well as aggregate level data instead of the purely aggregate national-level models typical of prior research which were consistently bedevilled with intractable problems of small sample size (especially a problem when data are “mined” for significant effects without appropriate adjustments to significance assessment).
- Expanding the array of control variables to include socioeconomic development – certainly correlated with inequality and very probably a cause of it.
- Distinguishing three types of society – poor developing societies, rich advanced societies, and formerly Communist societies – and allowing for the possibility that things work differently for each type.²
- Including in the analysis key individual-level variables – SES, perceptions of inequality, attitudes about the distribution of income, and expectations for the future.

In this paper, we build on an existing foundation (Esping-Andersen and Nedoluzhko, 2016; Kelley and Evans, 2016a; Kenworthy, 2016a; Nielsen, 2016), exploring more deeply the potential links of inequality and subjective well-being in history, in times past and future, and in extraordinary circumstances. We also probe several key cultural and social-psychological influences on well-being. To set the stage, the next section provides an overview.

1.2. Overview: inequality, history, politics, and anticipation of the future

To contextualize the interplay of national and individual-level influences on well-being and how they unfold over time, consider this conceptual model (Fig. 1):

Start at the upper left. National characteristics (especially level of development) influence opportunity structures for individuals' education, jobs, and political stances at time 1. Of course, individuals' parental resources also play a role. Societal characteristics operate through the opportunity structures to influence individuals' incomes and may have direct influences on them as well. Individuals' attainments reap income rewards, above and beyond the transmitted influence of societal characteristics. Individuals' attainments and preferences together with separate influences of income and societal characteristics shape subjective inequality: perceptions of the amount of inequality in society, attitudes, values about income inequality and its components. Taken together, all of the preceding influence well-being.

But that is not all. This model also allows well-being to be influenced by the *future*³ – not only as conscious, articulated expectations and but also as vaguer, subterranean responses to trends. And so the process continues into the next cycle.

Thus we live in multiple times at once – the ‘Three Worlds of Well-being’: Past, present, and future. All influence our well-being in the present.

¹ To come to correct conclusions, the data must *not* be group-mean centered (Kelley et al., 2016).

² Allowing, that is, for interactions. This can be done by analyzing each type of society separately (so allowing for all possible interactions involving type of society, as in the model of Appendix A), or by explicitly including selected interaction terms in a pooled model (as in the model of Appendix B), or by using cross-population constraints in a structural equation model, or in other ways.

³ An example of anticipation may help: an undergraduate at Yale, broke, working part-time as a waitress and full-time as a data science student, yet perceives herself as prosperous and happy in anticipation of her future on Wall Street. And right she is so to do: The elegant clothes, big house, small yacht, and Grand Tour of Europe await not far in her future.

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