



Why Does Growing Income Inequality Matter to People and Politics?

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Economic inequalities have increased sharply in recent decades, as the income and wealth of people at the top of the economic pecking order have grown a lot faster than the income and wealth of those in the middle or at the bottom. So what? Should we be worried as the income gap grows, and should government adopt policies to reduce income disparities?

Economist Martin Feldstein argues that a growing gap between rich and poor should not arouse social concern, as long as the poor continue to earn more. The level of wellbeing of the worst-off people is all that matters, he argues. Unless there is reason to believe that the burgeoning income of the wealthy hurts others, denying the rich the pleasure of additional income is simply “envy.” But as I am about to explain, the disproportionate rise in income at the upper end of the income distribution can have adverse social and political consequences for society as a whole.

“Envy” of the Most Fortunate Has Consequences

Envy may seem easy to dismiss, but it can have real consequences. Research shows that people tend to be strongly aware of their income compared to others – and are much less satisfied when “other people” seem to be doing a lot better. Dissatisfaction plays out in various ways.

- Individuals may try to “catch up” by working harder. For instance, one study finds that married women are more likely to seek employment if their stay-at-home sisters are married to men earning more than their own husbands.
- The concentration of income at the top shifts consumption patterns in ways that ripple through the entire society. As economist Robert Frank points out, a car is “fast” and “big” only in comparison to the typical cars most people drive; and a house is beautiful or spacious only compared to others. If the rich up the ante by acquiring bigger, faster cars and huge houses with lots of perks, this shifts consumption patterns for everyone. Trying to keep up, middle-class households – whose income has been growing at a much slower pace – take on more debt. Researchers have found a relationship between inequality and savings: the greater the increase in economic inequality in a country, the smaller the increase in household savings.
- Citizens may also channel resentments into politics and demand policies that redistribute income from the very rich to others. This does not occur straightforwardly, because such political responses depend on inequalities and their effects becoming visible to average citizens, who also must have the capacity to express shared grievances through votes, opinion polls and mass protests. As scholars have learned,

the necessary conditions are often lacking to make political responses possible. Instead of demanding remedies, citizens may just sour on democracy or come to distrust their government.

Declining Empathy for the Poor and Non-Wealthy

Social groups do not just compare themselves to the more fortunate, they also measure themselves against those lower down on the economic scale. Well-off individuals experience varying levels of empathy for the poor depending on their socio-economic distance from the poor. Social scientists have linked growing economic inequalities to declining social affinity, or fellow-feeling, between rich and poor. In particular, researchers have found that people near (but not at) the bottom are the most likely to turn against public programs to help the poorest people.

More generally, research suggests that growing economic gaps reduce the willingness of the privileged to support the provision of high-quality public benefits and services, such as education or health care. In a highly unequal society, the economically powerful can opt out of the public system altogether – they can buy luxurious health plans or private schooling. The rich feel less of a stake in shared programs such as Social Security that no longer provide “enough” for persons in their privileged status. Over time unequally shared economic prosperity can lead to under-investment in a wide range of public goods, including economic infrastructure.

Increasing Income Gaps Spur Other Inequalities

Imagine that at one time, the rich have incomes twice as high as the poor, but decades later the rich have incomes four times the level for the poor. If income translates directly into other things – such as a very good education or political influence– then the rise in income inequality will mean that the rich now get educations not just twice as good but four times as good. The rich will also double their extra political clout compared to the poor.

In a political community founded on the equal distribution of opportunity and political influence among all citizens, such rising inequalities are highly problematic. Even if the poor do absolutely better over time, the fact that rising income gaps can translate into other growing gaps in other spheres shifts the debate. Fast-growing gaps in the education of citizens, growing disparities in citizen influence – are outcomes that matter greatly in a democracy.

A Worrisome Decline in Social Opportunity

In a world of growing inequality and rising insecurity, fierce status wars break out. The rich focus more resources on educating their children and opening opportunities for them. This in turn puts more pressure on everyone else. Empirically, we see evidence of this process in Sean Reardon’s research showing a growing correlation between family income and children’s test scores. Poor children are not doing worse, but the children of the rich are doing much better.

A society where everyone is anxious about their children’s future can give rise to dog-eat-dog politics. The rich and near-rich may resist reforms that even slightly trim their incomes or assets, while citizens in general have less empathy for the least fortunate or the unlucky. In the United States, rising educational and health disparities may cause equal opportunity to suffer, leaving younger generations to fall behind their parents.

The story is unfolding before our eyes, but the data for full assessment will not be available for some time. By then, it could be too late for several generations of Americans to make up lost ground.

This brief draws on data from Kathryn M. Neckerman and Florencia Torche, "Inequality: Causes and Consequences." *Annual Review of Sociology* 33 (2007) 335-357; Sean F. Reardon, "Does Widening Income Inequality Explain the Widening Income Achievement Gap?," Stanford University, April 2013; and the author's own research.