The Psychology of Inequality:
How Do People Think About Inequality?
How Should People Think About Inequality?

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Building a Better America—One Wealth Quintile at a Time

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Fig. 1. Relative preference among all respondents for three distributions: Sweden (upper left), an equal distribution (upper right), and the United States (bottom). Pie charts depict the percentage of wealth possessed by each quintile; for instance, in the United States, the top wealth quintile owns 84% of the total wealth, the second highest 11%, and so on.
Americans Prefer Sweden

For the first task, we created three unlabeled pie charts of wealth distributions, one of which depicted a perfectly equal distribution of wealth. Unbeknownst to respondents, a second distribution reflected the wealth distribution in the United States; in order to create a distribution with a level of inequality that clearly fell in between these two charts, we constructed a third pie chart from the income distribution of Sweden (Fig. 1).² We presented respondents with the three pairwise combinations of these pie charts (in random order) and asked them to choose which nation they would rather join given a “Rawls constraint” for determining a just society (Rawls, 1971): “In considering this question, imagine that if you joined this nation, you would be randomly assigned to a place in the distribution, so you could end up anywhere in this distribution, from the very richest to the very poorest.”
agreed that such redistribution should take the form of moving wealth from the top quintile to the bottom three quintiles. In short, although Americans tend to be relatively more favorable toward economic inequality than members of other countries (Osberg & Smeeding, 2006), Americans' consensus about the ideal distribution of wealth within the United States

Fig. 3. The actual United States wealth distribution plotted against the estimated and ideal distributions of respondents of different income levels, political affiliations, and genders. Because of their small percentage share of total wealth, both the “4th 20%” value (0.2%) and the “Bottom 20%” value (0.1%) are not visible in the “Actual” distribution.

Fig. 2. The actual United States wealth distribution plotted against the estimated and ideal distributions across all respondents. Because of their small percentage share of total wealth, both the “4th 20%” value (0.2%) and the “Bottom 20%” value (0.1%) are not visible in the “Actual” distribution.
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Skills, education, and the rise of earnings inequality among the “other 99 percent”

David H. Autor

The singular focus of public debate on the “top 1 percent” of households overlooks the component of earnings inequality that is arguably most consequential for the “other 99 percent” of citizens: the dramatic growth in the wage premium associated with higher education and cognitive ability. This Review documents the central role of both the supply and demand for skills in shaping inequality, discusses why skill demands have persistently risen in industrialized countries, and considers the economic value of inequality alongside its potential social costs. I conclude by highlighting the constructive role for public policy in fostering skills formation and preserving economic mobility.
Fig. 1. College/high school median annual earnings gap, 1979–2012. Figure is constructed using Census Bureau P-60 (1979–1991) and P-25 (1992–2012) tabulations of median earnings of full-time, full-year workers by educational level and converted to constant 2012 dollars (to account for inflation) using the CPI-U-RS price series. Prior to 1992, college-educated workers are defined as those with 16 or more years of completed schooling, and high school–educated workers are those with exactly 12 years of completed schooling. After 1991, college-educated workers are those who report completing at least 4 years of college, and high school–educated workers are those who report having completed a high school diploma or GED credential.
The next section considers the supply and demand of skills, and it is not the case. The returns to cognitive skills is 18%. In addition, cognitive earnings of U.S. workers who are one standard deviation above and one standard deviation below the population average of cognitive ability, we would expect their full-time weekly earnings to differ by 50 to 60%. Notably, the high return to cognitive ability follows automatically from high levels of U.S. employment that is related to education rather than luck, beauty, or family connections. Workers with higher cognitive ability have a higher probability of being employed and earning a higher wage. Concretely, comparing two groups of workers, one with a higher cognitive ability score than the other, the higher-skilled group has a higher probability of being employed and earning a higher wage.

Figure 2 demonstrates cross-national differences in wage returns to skills from 2011 to 2013. The earnings gain for a one standard deviation increase in skill is shown for each country. Sweden has the highest earnings gain with 30%, followed by the Czech Republic with 25%, and Norway with 20%. The earnings gain is below 13% in Sweden, Norway, and Denmark. The earnings gain is below 20% in six countries. The United States stands out with an earnings gain of 25%.

This figure conveys three points. First, cognitive earnings are a key driver of economic growth. Second, there are significant cross-national differences in the returns to cognitive skills. Third, the returns to cognitive skills are relatively stable over time, with some variation in specific countries.

Fig. 2. Cross-national differences in wage returns to skills, 2011–2013. Reproduced with permission from Hanushek et al. (15), table 2. Estimates are obtained by regressing the natural logarithm of workers’ weekly full-time earnings on test scores while controlling for sex and labor market experience (both a linear and a quadratic term). Regression estimates are performed separately for each country and test scores are normalized with mean zero and unit standard deviation within each country. Estimates that normalize test scores on a common basis across countries, or that use literacy or problem-solving scores rather than numeracy scores, yield qualitatively similar patterns.
Chart III-3: IQ Tends To Be Positively Correlated With Income And Wealth

“Throughout much of the 20th century, successive waves of innovation—electrification, mass production, motorized transportation, telecommunications—have reduced the demand for physical labor and raised the centrality of cognitive labor in practically every walk of life. The past three decades of computerization, in particular, have extended the reach of this process by displacing workers from performing routine, codifiable cognitive tasks (e.g., bookkeeping, clerical work, and repetitive production tasks) that are now readily scripted with computer software and performed by inexpensive digital machines. This ongoing process of machine substitution for routine human labor complements educated workers who excel in abstract tasks that harness problem-solving ability, intuition, creativity, and persuasion—tasks that are at present difficult to automate but essential to perform. Simultaneously, it devalues the skills of workers, typically those without postsecondary education, who compete most directly with machinery in performing routine-intensive activities. The net effect of these forces is to further raise the demand for formal education, technical expertise, and cognitive ability.” (Autor, 2014)
just 35,000

The same forces have been at work in manufacturing.

The effect of rising productivity in agriculture and manufacturing can be seen in the shrinking share of consumer spending accounted for their output. Better productivity, and growing international trade and the application of technology to these sectors has raised productivity and improved outcomes.

Thousands of agricultural labourers were required at the beginning of the 20th century, but now almost forgotten, a Freedman in 1948, a free man in 2012.

The census data shows this is a dynamic process, in which the uses and case of technologies have changed over time; some old, most in launderettes or commercial laundries. Their numbers have risen from 9,832 accountants in England and Wales in 1881 to 274,160. In 1948, a Freedman, to 274,160. Since then employment has been interpolated due to discontinuities in definitions and data, most in launderettes or commercial laundries.

Data for 1921 and 1931 have been interpolated due to discontinuities in definitions and data, from 9.7% to 4.5% over the same time. The real price of cars has increased, but this remains a minor share of income, as does the bulk of this was on the armed forces. Spending on health and education has increased, but the real price of these has also increased. The real price of indoor plumbing, electricity, washing machine have all improved for their investment, as consumers. (It is striking how many technologies improve the lot of consumers but fail to do much to make them better off.

In real terms, the cost of getting the laundry done, of food and other services in the last 150 years. Until the middle of the nineteenth century, most people met their own needs, relying on family and friends or charities or going without. In 1851, most in launderettes or commercial laundries.

The application of technology to these sectors has raised productivity and improved outcomes.

From: Technology and People: The Great Job-Creating Machine, by Ian Stewart, Debapratim De, & Alex Cole (Deloitte LLP)
Inequality and visibility of wealth in experimental social networks

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We carried out a series of experiments with 1,462 subjects, divided among 80 sessions lasting an average of 30.0 minutes (s.d. = 7.13). Subjects were placed in groups with an average size of 17.21 (s.d. = 2.79) and arranged in a social network with an Erdős–Rényi random graph configuration in which 30% of ties were present (see Supplementary Information)10,11,13; subjects were therefore initially connected to an average of 5.33 (s.d. = 0.98) neighbours. The subjects played a cooperation game lasting 10 rounds with their neighbours. In each round, all subjects chose whether to cooperate, by reducing their own wealth by 50 ‘units’ per neighbour in order to increase the wealth of all neighbours by 100 units each, or to defect by paying no cost and providing no benefits. Subjects made the same choice with all their neighbours. These interactions constituted the economic transactions, affecting each individual’s wealth and thus resulting in population-level changes in overall wealth and inequality. The arbitrary units were converted to real money at the end of the game (see Supplementary Information).

After making their cooperation choice, subjects were informed of the choices made by their neighbours. Then, subjects had the opportunity to change their neighbours by making or breaking ties. Specifically, 30% of all pairs of subjects were chosen at random in each round and given the opportunity to rewire their networks (this set-up was fixed across all manipulated conditions)10,11. If a tie already existed between the two subjects, then one of the two was picked at random to be allowed to choose whether to voluntarily break the tie with the other; if a tie did not already exist between the two, both of them were given the option to form a tie and, if both approved, a new tie was formed. When making this decision, subjects were aware of whether the person to whom they might disconnect or connect had cooperated or defected in the past round. Thus, people could choose to alter a new subset of their social ties at each round; the network could be rewired; and subjects’ network degree (number of directly connected neighbours) and transitivity (the probability that any two of a focal subject’s neighbours are themselves connected) could change.
In the high initial inequality condition, making neighbours' wealth visible resulted in significantly higher inequality (difference in final round Gini coefficient: 0.41 vs. 0.14) compared to the invisible condition (0.0 vs. 0.14). However, in the low initial inequality condition, visibility did not affect inequality (difference in final round Gini coefficient: 0.20 vs. 0.20). The Gini coefficient initially present in the system, compared to what would have happened in the absence of visibility, indicated that visibility serves to facilitate the persistence of whatever relative level of wealth inequality is initially present in the system, compared to what would have happened in the absence of visibility.

Examining groups of initially rich and poor subjects separately, we find that those individuals who are initially rich tend to be rich at the end, regardless of whether the initial Gini coefficient is 0.2 or 0.4. The Gini coefficient is also indicated (higher is more unequal). The Gini coefficient is presently roughly 0.26 in Scandinavia and 0.39 in the United States. One of the three treatment conditions—wealth distributions of initially rich and poor subjects—was manipulated in dynamic human social networks. a

Turning to levels of average population wealth, we find that visibility affects wealth accumulation. In the high initial inequality condition, visibility again results in significantly higher inequality (difference in final round Gini coefficient: 0.41 vs. 0.14) compared to the invisible condition (0.0 vs. 0.14). However, in the low initial inequality condition, visibility did not affect inequality (difference in final round Gini coefficient: 0.20 vs. 0.20). The Gini coefficient initially present in the system, compared to what would have happened in the absence of visibility, indicated that visibility serves to facilitate the persistence of whatever relative level of wealth inequality is initially present in the system, compared to what would have happened in the absence of visibility.
THE 85 RICHEST PEOPLE OWN THE SAME WEALTH AS THE 3.5 BILLION POOREST PEOPLE.
ENGLAND: POPULATION*

Up 300%

REAL DAY WAGES OF BUILDING WORKERS**

No change


Share of US households with basic electrical appliances

Housework working hours per week
Preparing meals, laundry, and cleaning

By 2016 the top 1% will be richer than the rest of the world combined.