

# Inequality and Poverty: Analysis and Policy

**Third lecture: Why inequality and poverty are important? Empirical reasons**

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Dr hab. Ryszard Szarfenberg, prof. UW  
Faculty of Political Sciences and International Studies  
Warsaw University

Course web page: <http://rszarf.ips.uw.edu.pl/inequality/>

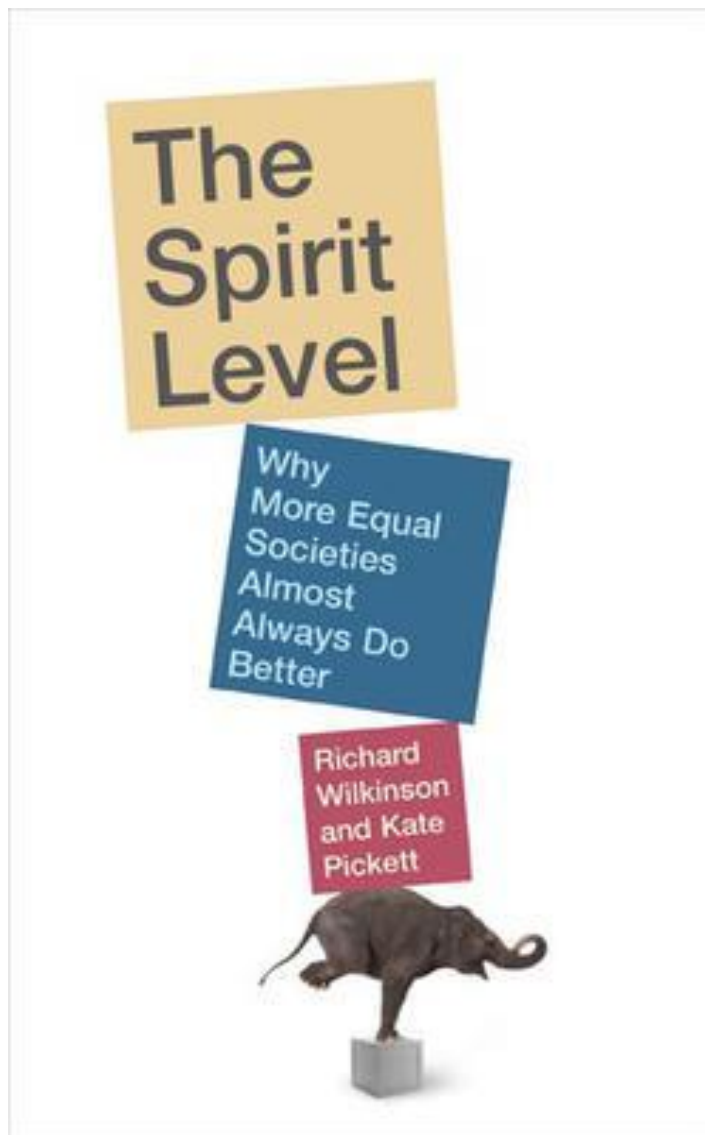
# Lecture contents

1. Empirical evidence that inequality is bad for the well-being of societies (social and health problems)
2. Understanding the health and psychological consequences of social class
3. Empirical evidence that inequality is bad for economic growth (economic problems)
4. Summary
5. Required readings

# Empirical argument 1: what if more inequality is related to more social and health problems?

Richard Wilkinson in TED talk: „**I think the intuition that inequality is divisive and socially corrosive has been around since before the French Revolution.** What's changed is we **now can look at the evidence, we can compare societies, more and less equal societies, and see what inequality does.** I'm going to take you through that data and then explain why the links I'm going to be showing you exist”

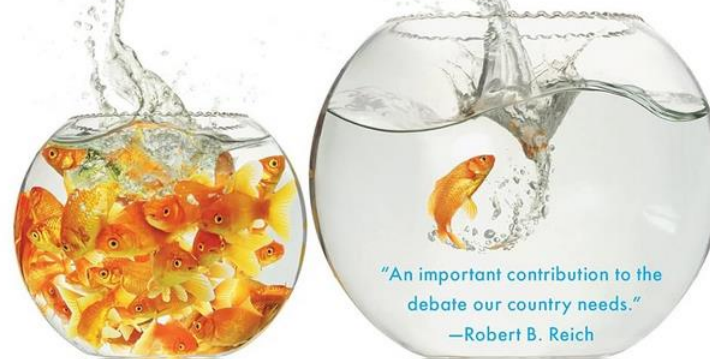
International bestseller with clear pro-equality message



INTERNATIONAL BESTSELLER

# THE SPIRIT LEVEL

Why Greater Equality Makes Societies Stronger

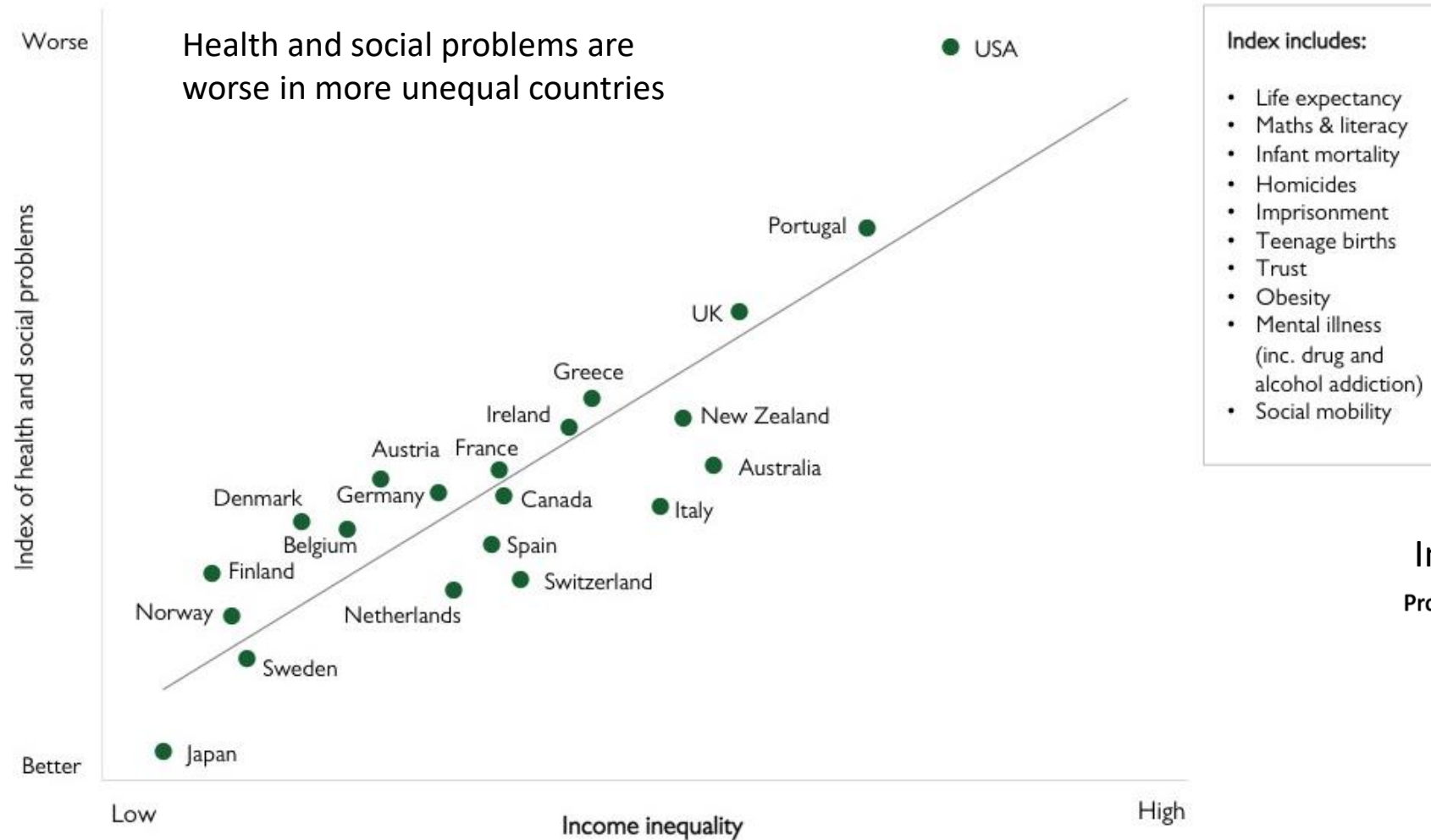


RICHARD WILKINSON AND KATE PICKETT

Foreword by Robert B. Reich

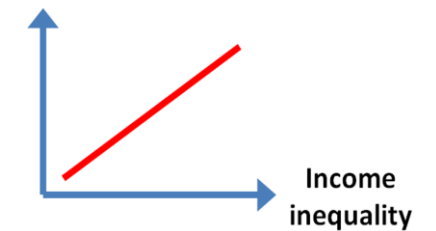
[Spirit Level - Wikipedia entry](#)

# Wilkinson and Pickett – inequality has negative consequences



In a nutshell

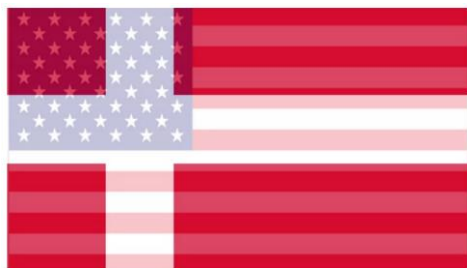
Problems



From Wilkinson presentation 2012

Richard Wilkinson, Kate Pickett, *The Spirit Level: Why Equality is Better for Everyone*, 2009

„This is social mobility. It's actually a measure of mobility based on income. Basically, it's asking: **do rich fathers have rich sons and poor fathers have poor sons, or is there no relationship between the two?** And at the more unequal end, fathers' income is much more important -- in the U.K., USA. And in Scandinavian countries, fathers' income is much less important. There's more social mobility. And as we like to say... **if Americans want to live the American dream, they should go to Denmark**”



The flag of the new American Dream?

Not only income mobility, but also educationally:

## Yes, Denmark Is a More Educationally Mobile Society than the United States: Rejoinder to Kristian Karlson

Stefan B. Andrade, Jens-Peter Thomsen

## Social mobility is lower in more unequal countries



„A more recent study published in 2017, which combined the data for twenty-seven separate studies, concluded that rates of mental illness are indeed higher in societies with bigger income differences”

„Income inequality negatively affects mental health but the effect sizes are small and there is marked heterogeneity among studies. If this association is causal and growing income inequality does lead to an increase in the prevalence of mental health problems, then its reduction could result in a significant improvement in population wellbeing.”

And 2023 study: „These findings suggest that the government should take various measures to narrow the wealth inequality between families, which may effectively improve the mental health of residents”



Figure 2.2: The prevalence of mental illness is higher in more unequal rich countries.<sup>59</sup>

## In summary... bigger income gaps lead to deteriorations in:-

### Social Relations

- **Child conflict**
- *Homicide*
- *Imprisonment*
- **Social capital**
- *Trust*

### Health

- **Drug abuse**
- **Infant mortality**
- **Life expectancy**
- *Mental illness*
- **Obesity**

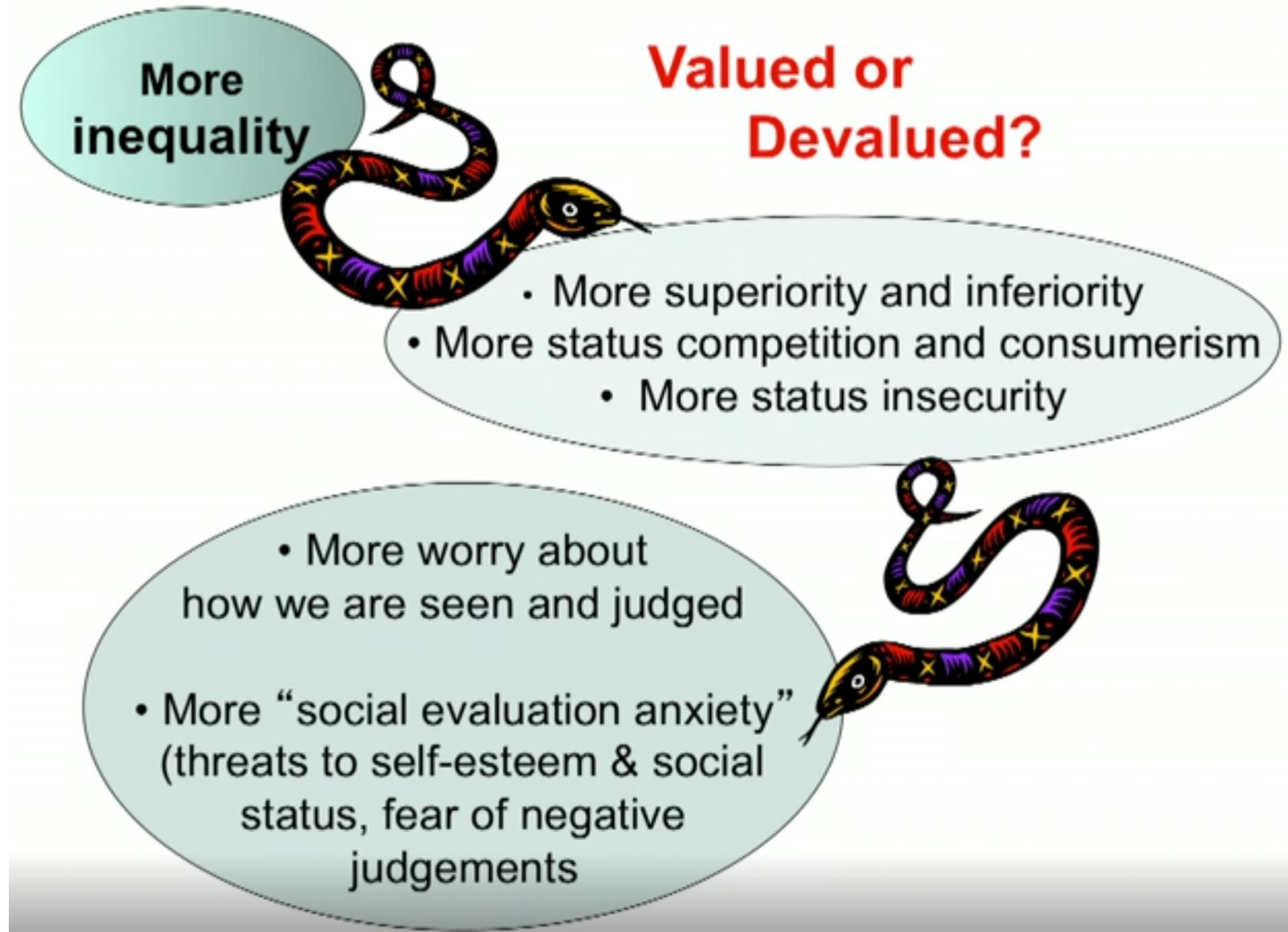
### Human Capital

- *Child wellbeing*
- *High school drop outs*
- **Math & literacy scores**
- *Social mobility*
- **Teenage births**



# Psychological consequences of high inequality

[And parental trap: „The greater a country’s income inequality, the likelier parents are to push their kids to work hard”, Matthias Doepke and Fabrizio Zilibotti 2019](#)



„ The Inner Level explains how inequality affects us individually, how it alters how we think, feel and behave. It sets out the overwhelming evidence that material inequities have powerful psychological effects: **when the gap between rich and poor increases, so does the tendency to define and value ourselves and others in terms of superiority and inferiority.** A deep well of data and analysis is drawn upon to empirically show, for example, that low social status is associated with elevated levels of stress hormones, and how rates of anxiety and depression are intimately related to the inequality which makes that status paramount”

# The INNER LEVEL

How More Equal Societies  
Reduce Stress, Restore Sanity  
and Improve Everyone's Well-Being

RICHARD WILKINSON

AND KATE PICKETT

AUTHORS OF *THE SPIRIT LEVEL*



BUT: Snowdon's eight main criticisms of Wilkinson and Pickett's methods in Spirit Level

1. **Selection bias:** They cherry-pick a small number of countries that support their argument while excluding others that contradict it. When missing countries are added, statistical relationships disappear.
2. **Outliers:** Several key correlations depend entirely on one or two outlier countries. The correlations do not exist when these countries are removed.
3. **Economic growth:** Wilkinson and Pickett dismiss the role of economic growth and absolute wealth, but outcomes are often better in wealthier countries, conflicting with their claim that only inequality matters.
4. **History:** If inequality truly drives social problems, these problems should rise and fall over time as inequality changes. But there is little evidence this is the case.
5. **Mechanisms:** The proposed mechanism of stress from hierarchy seems too weak to plausibly explain the wide range of phenomena linked to inequality.
6. **Selective criteria:** Wilkinson and Pickett highlight evidence favoring their view while ignoring other criteria not linked to inequality, like suicide, crime, unemployment.
7. **Consensus:** Wilkinson and Pickett claim scientific consensus behind them, but surveys show most research finds no general link between inequality and health/social differences.
8. **Ideology:** By presenting inequality as a disease and their methods as medical science, Wilkinson and Pickett medicalize a political issue and disguise their leftist ideological aims.

[Christopher Snowdon, \*Selfishness, Greed and Capitalism: Debunking Myths About the Free Market\*, 2014, chapter 10.](#)

Snowdon's question: Why inequality, and not poverty?

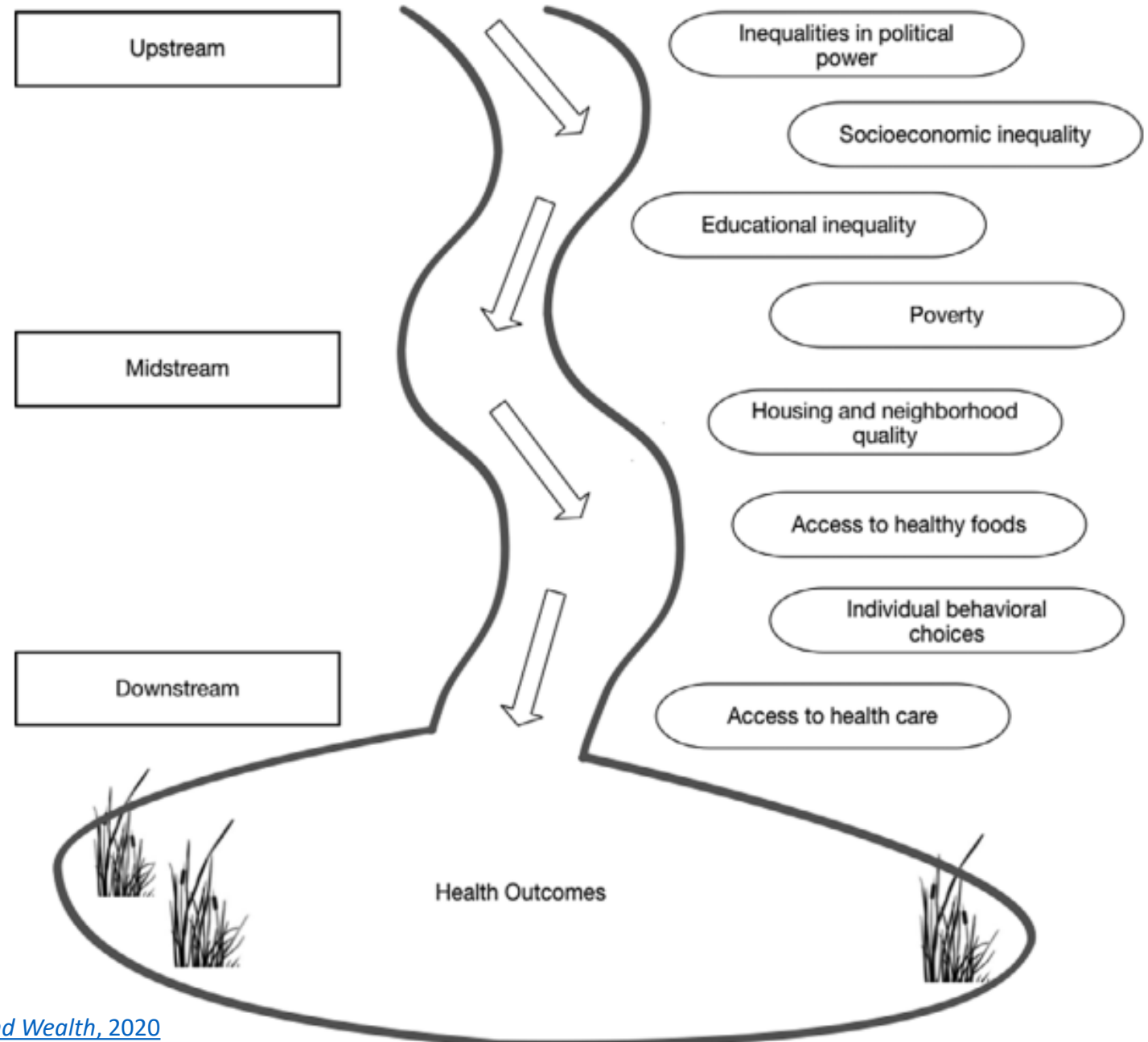
**„There is no doubt that poverty is linked to many of the problems discussed in The Spirit Level, including obesity, teen pregnancies, crime and poor health.** Nor is there any doubt that there is a socioeconomic gradient for many health and social problems. Life expectancy and educational achievement tend to be lowest among the poor and improve incrementally higher up the income ladder. Similarly, rates of infant mortality, cot death, teen pregnancies and obesity are incrementally lower on each step up the income ladder”

[Snowdon's 20 questions to Wilkinson and Pickett about their methods with their responses](#)

[Snowdon's comments to Wilkinson and Pickett's responses](#)

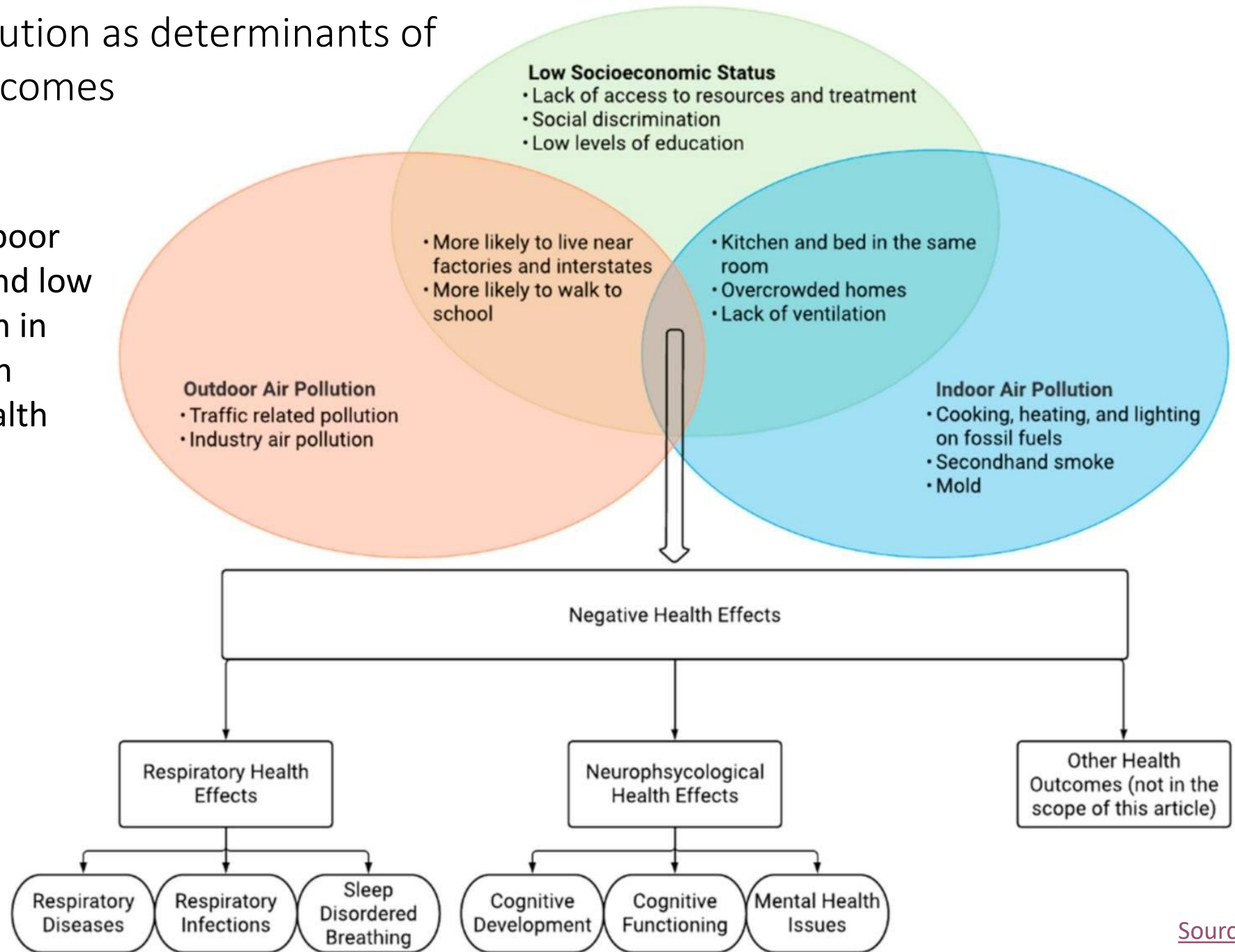
Understanding the health and psychological consequences of social class

Determinants of health in the metaphor of the beginning of a river (towards the spring - upstream), i.e. **from the causes of health problems (upstream) to the problems of those already ill with access to health care (downstream)**



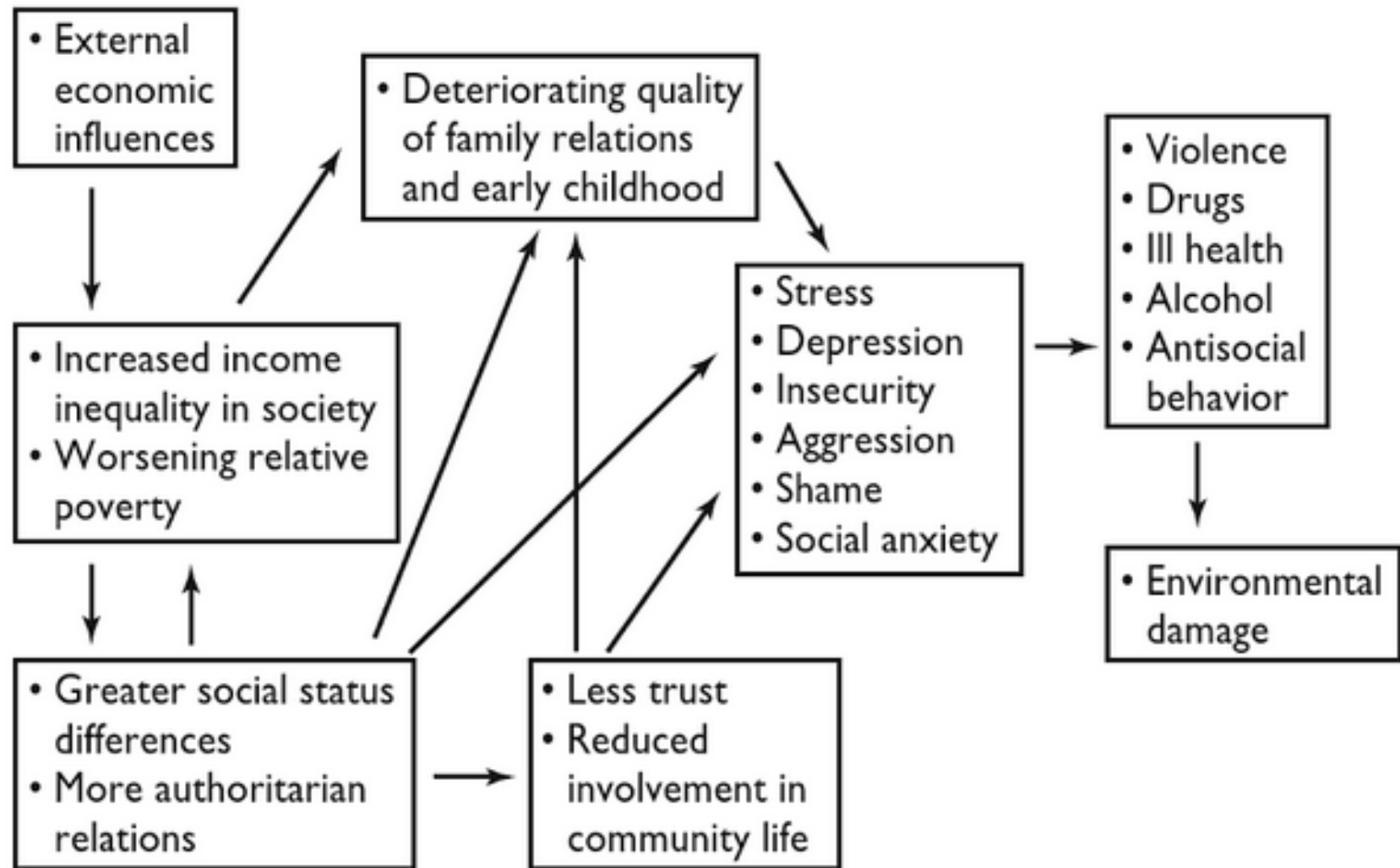
# Low SES and air pollution as determinants of negative health outcomes

An example of the interconnectedness of poor housing, air pollution and low socio-economic position in their negative impact on physical and mental health outcomes



# The effects of income inequality on social and psychological well-being

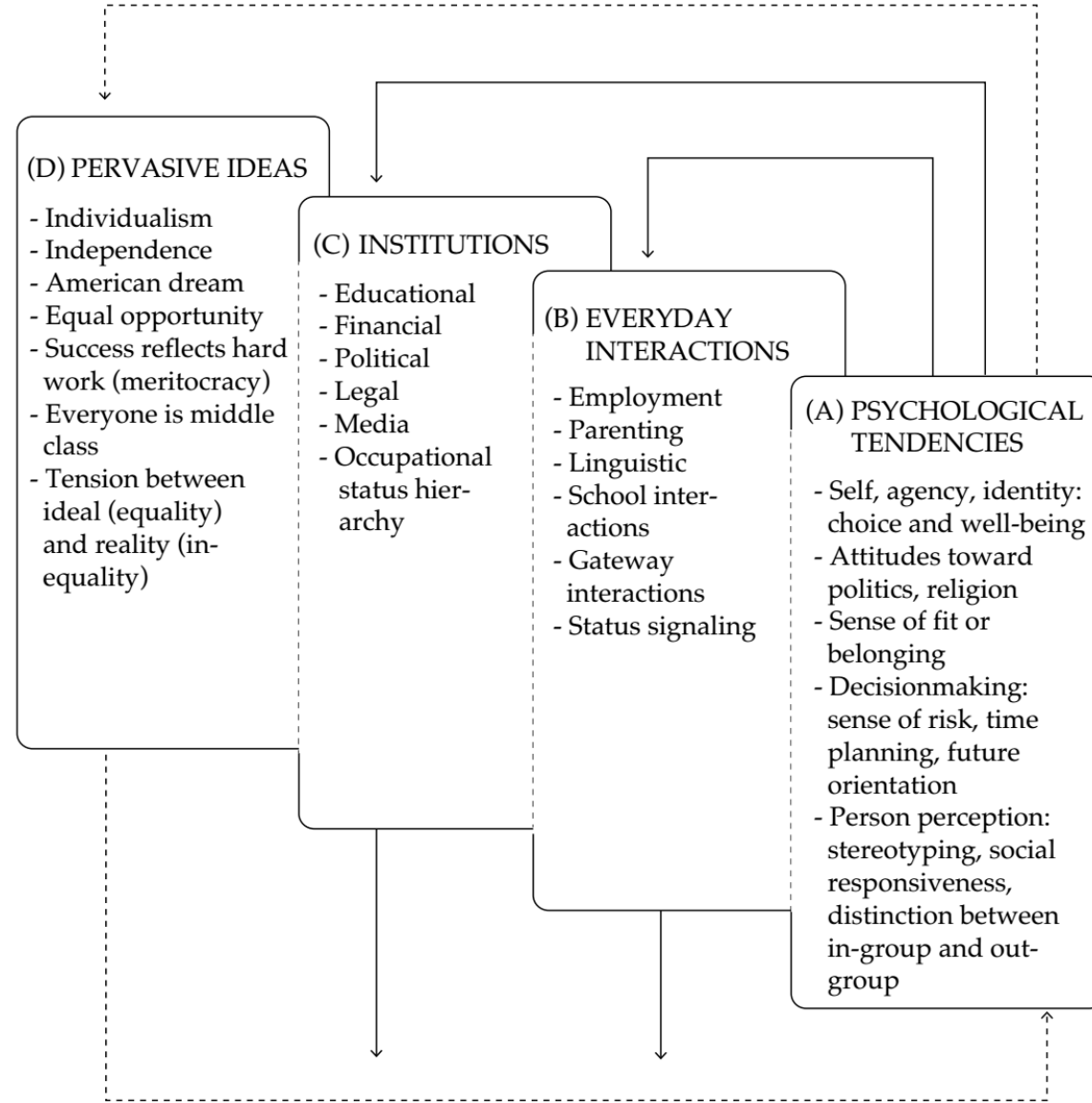
„The figure is an attempt to suggest **the causal processes that lead from greater material inequality, on the left-hand side, to various psychological, behavioral, and health outcomes, on the right.** The arrows indicate the stronger social processes discussed in this book”





## Understanding the psychological consequences of social class

Figure 1.1 Influence of Social-Class Ideas, Institutions, and Interactions on Individual Psychological Functioning



Understanding the **multifaceted psychological consequences of social class** requires a view of people as ongoing participants in encompassing social, political, economic, and cultural systems.

- **Individuals** – their brains, bodies, and psychological tendencies (box A)
- are structured by their **everyday social interactions** (box B)
- These interactions are, in turn, organized and animated by **larger societal institutions** (box C)
- and historically derived **pervasive ideas and values** (box D).

*Hazel Rose Markus and Susan T. Fiske, [Introduction: a wide-angle lens on the psychology of social class](#), in [Facing Social Class: How Societal Rank Influences Interaction](#), 2012*

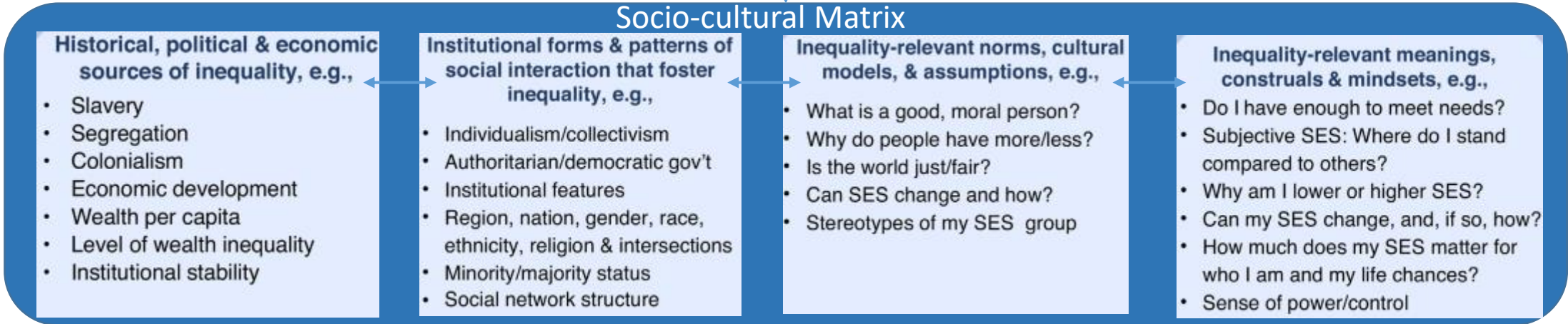
Mapping the psychological and behavioral consequences of inequality and social class

Hazel Rose Markus, Nicole M. Stephens, *Editorial overview: Inequality and social class: The psychological and behavioral consequences of inequality and social class: a theoretical integration, Current Opinion in Psychology, 2017,*

**Resource Inequality**

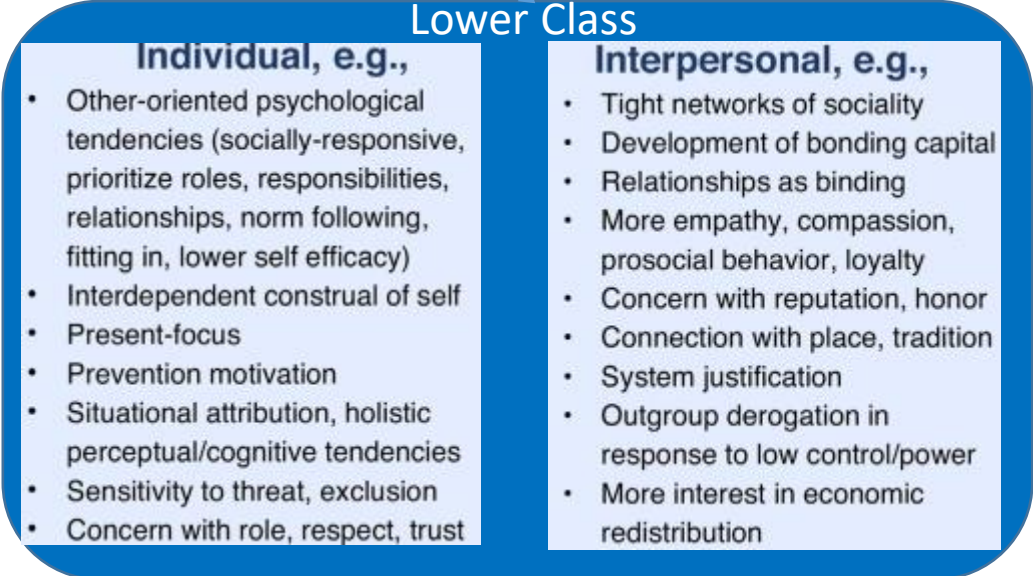
**Social Stratification/SES/Social Class**

**Socio-cultural Matrix**

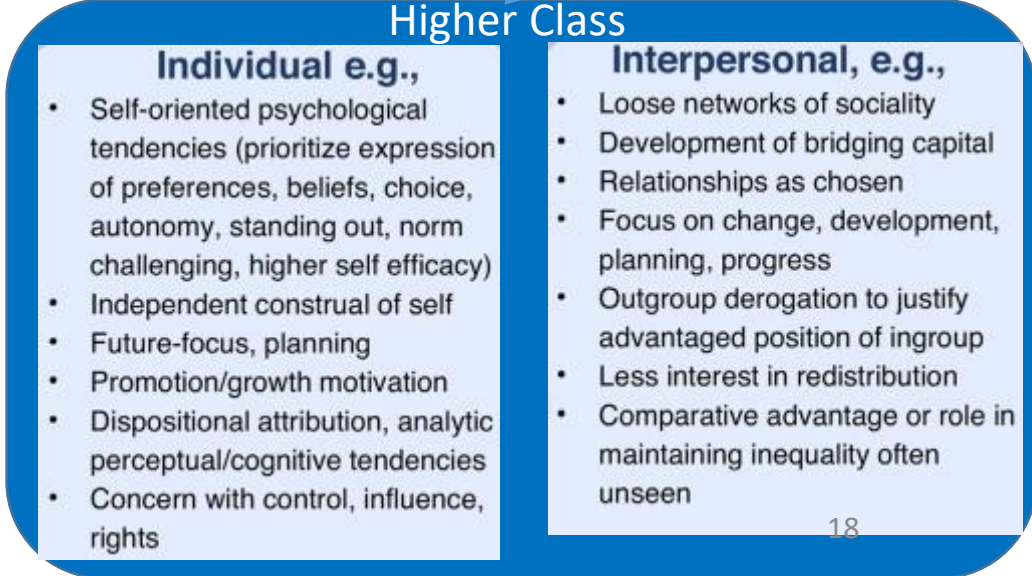


**Immediate Situation**  
(Factors from the sociocultural matrix salient in a given situation)

**Lower Class**



**Higher Class**



Empirical argument 2: what if inequality is bad for economic growth?

What we find is that the effect of income inequality on economic growth can be either positive or negative, and that at a particular level of inequality—at a Gini of about 27 percent to be exact—the direction of the relationship changes—that is, where inequality begins to hurt economic development.

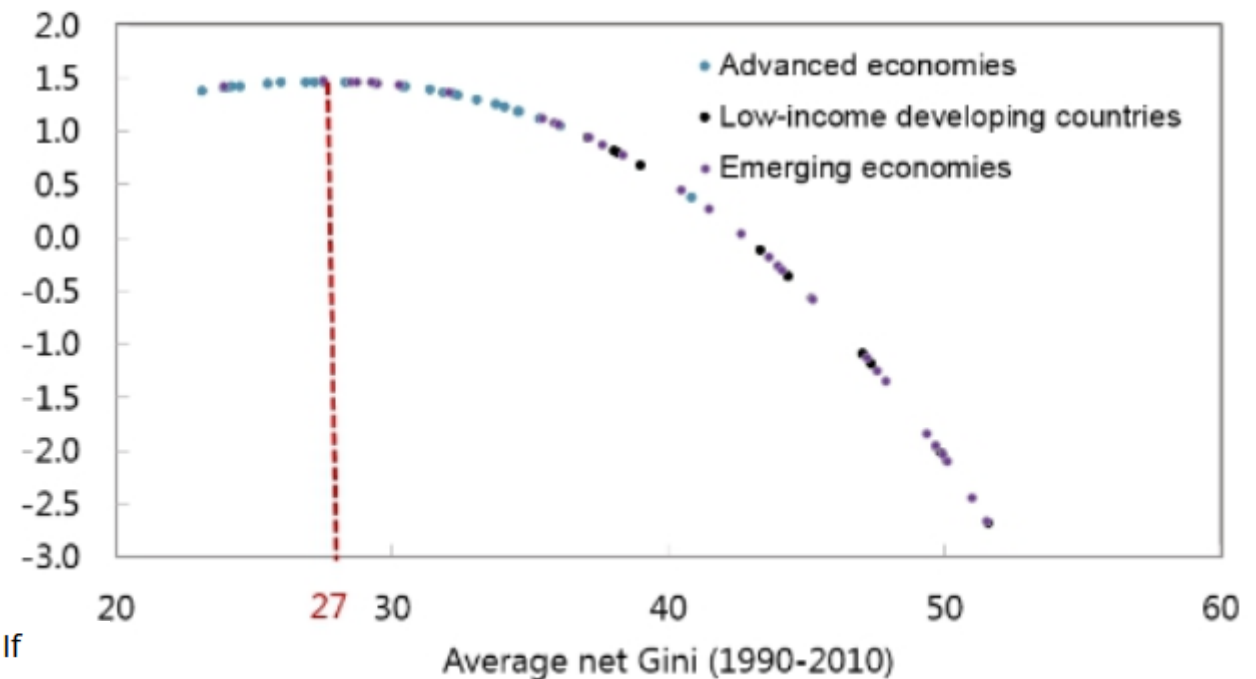
We also assess if some of the commonly proposed tools to combat the harmful effects of rising inequality—such as boosting financial inclusion and promoting female labor participation—effectively mitigate the impact on economic development.

Different effects across countries can be linked to different initial inequality levels. If income is not highly concentrated, an increase in inequality can provide incentives for countries to be more productive. If highly concentrated, that same increase can lead to rent-seeking behaviors—the top appropriating a larger and larger share of the nation's pie for themselves. Also, when inequality is low, it is unlikely that any increase would lead to social unrest; conversely, when inequality is already high, any further increase would likely reduce social consensus, and the ability to implement pro-growth reforms.

## Inequality overhang

The relationship between income inequality and economic development becomes negative at a net Gini of 27 percent.

(average per capita real GDP, percent, 1990-2010)



[\*A New Twist in the Link Between Inequality and Economic Development, IMFBlog 2017\*](#)

# Mechanisms which lead from income inequality to economic growth („+/-“ mixed impact)

1. „differential relationship between income inequality and growth, with a **positive relationship during the early stage of economic development** and a negative relationship during the mature stage“ (Kuznets)

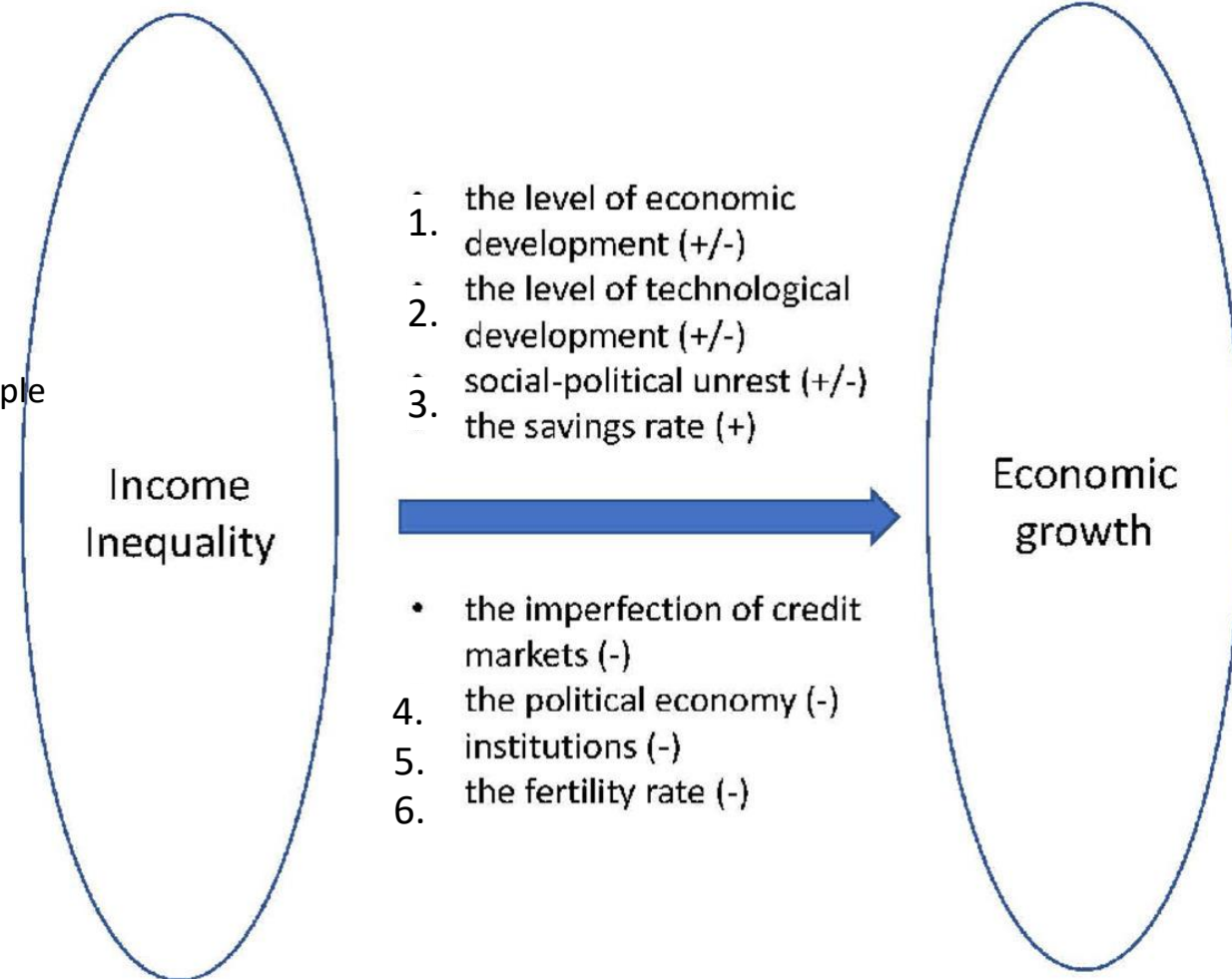
2. „**income inequality increases during the early stages of technological improvements**. However, as the economy moves to the more mature stage of technological development, income inequality decreases, the reason being that as more labour shifts to the sector using new technology“

3. „**Extreme inequality correlates with high levels of social unrest** that cause people to engage in strikes, criminality and other unproductive activities....It causes uncertainty in government and slows down productivity in the economy, while discouraging investment“

4. „when there is high income inequality, **the population demands equal distribution**“, governments respond with higher redistribution „of income and resources (from the rich to the poor)... which reduces economic growth „by discouraging innovation and investment, and causing low productivity“

5. „**High income inequality creates fertile ground for bad institutions...** In the case of high income inequality, political decisions tend to be biased towards enriching the already rich minority, at the expense of the poor“

6. „The low-income group usually have **many children**, and tend to invest less in their children’s education due to a lack of financial resources. By contrast, those in the high-income group usually have fewer children and invest more in their education... **in the case of extreme income inequality, the high fertility differential has a negative impact on human capital, leading to a decline in economic growth**“



# What we have learnt? Summary

1. There are philosophical reasons why inequality and poverty are social bads, but there are also empirical evidence about negative impact of inequality and poverty on social, health and economic aspects of human welfare
2. The evidence that more inequality in income is worsening social and health problems has correlational character (Wilkinson and Pickett) and there is criticism of this evidence (Snowdon et al.)
3. There are causal models linking economic inequality with individual and interpersonal responses conditioned by social class
4. There are studies showing that an increase in inequality from a low level to a certain point has a positive effect on economic growth, but a further increase has a negative effect
5. There are various mechanisms explaining the impact of economic inequality on economic growth e.g. extreme inequality correlates with high levels of social unrest, which is bad for economic growth

Required reading for the next class about poverty definitions and measurement

[Conceptual background, in: Guide on Poverty Measurement, UNECE 2017](#)