Equity or equality? Opportunities, outcomes and subjective well-being

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The relationship between income distribution and subjective well-being appears to be ambiguous; regression analysis shows that in some countries inequality is negatively associated with reported happiness, while elsewhere the opposite is observed. Some authors suggest, mainly based on qualitative considerations, domain-specific observations and contrast between results for heterogeneous cultures, that happiness might depend on how fair the distribution of income is perceived to be, rather than on the distribution itself. In other words, people probably care about equity, not equality.

This hypothesis, although fascinating, so far does not appear to be supported by strong quantitative evidence. This paper starts from the diffuse intuition on fairness and sets out to develop a testable framework where the relationship between inequality and happiness is mediated by three successive filters: one cognitive, one interpretative, one moral. Individuals who live in the same country perceive different levels of economic inequality, depending on macro-level factors such as the true level of inequality in their proximity and the relevance given to social frictions by the media, and on micro-level factors such as personal history, work environment, education and exposure to information. The perceived level of inequality is then given a meaning, i.e. interpreted through a system of beliefs and opinions that depends on preferences and culture; as indicated by a growing literature in sociology and economics, it is possible to identify cultural areas where inequality is viewed as proof that effort yields success and laziness is punished, and cultural areas where inequality is seen as an indicator of the presence and persistence of poverty traps and divisions along inherited class lines. Finally, each individual elaborates a moral judgement on the interpretation she assumes correct for the perceived level of inequality. The same interpretation can give rise to different judgements; for example, an individual might appreciate a society perceived to be fiercely competitive because she believes it is fair, while another, although sharing the perception on the level of competition, might dislike it on grounds of being devoid of compassion.

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Only the joint consideration of perception, interpretation and judgement allows an individual to decide whether the level of inequality around her is pleasant or unpleasant.

For a stylized illustration of the core of the framework, consider two individuals, A and B, living in the same country, and assume that A belongs to an underprivileged group, while B is the scion of a rich dynasty. It is entirely possible that A, who sees that most people are richer than him, estimates inequality to be higher than it really is; on the other hand, B might not have a close familiarity with social classes other than her own, and hence probably underestimates the degree of inequality in the country. Assume that A believes that hard work yields just deserts, and that he can escape his condition through increased effort; B, on the other hand, believes that social positioning mainly depends on parentage. However, assume that they express the same moral judgement on different grounds: A believes that the system is fair, because he feels he has the opportunity to get what he deserves, and B believes that the system is fair, because she embraces the ideas of birthright and entitlement. An increase in inequality will increase both A's and B's happiness; even though they interpret disparities differently, both find them desirable. The effect of a given increase, assuming that the marginal subjective utility of inequality is decreasing, will probably be smaller for A than for B, since A believes that inequality is higher than it is and B believes the converse.

We test the model on data from the European Social Survey (Round 2), carried out in 2004 in 26 European countries. We perform factor analysis on a large vector of value-related variables in order to position individuals along orthogonal axes which describe how they interpret inequality and how they judge it. We then regress happiness measures on separate indicators of perceived inequality, interpretation and judgement, and on interaction terms that consider the three simultaneously. We expect the interaction terms to emerge as significant determinants of happiness.