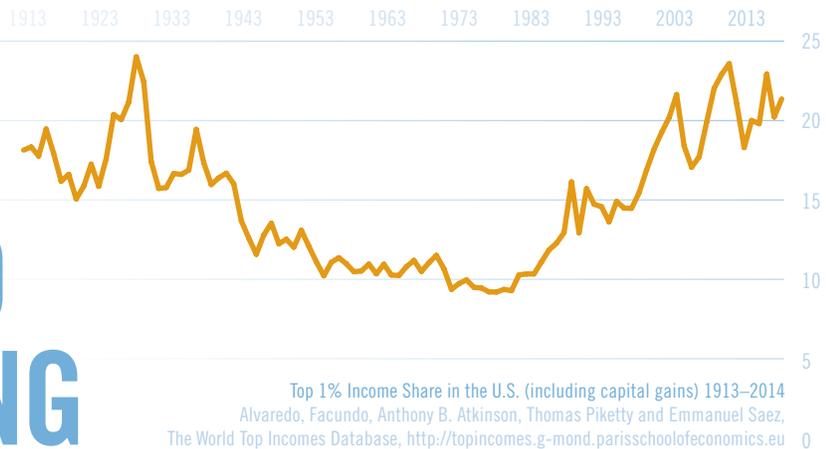


A CONFERENCE ON  
**INEQUALITY AND  
DECISION MAKING**



THE TOBIN PROJECT • APRIL 26–27, 2019 • CAMBRIDGE, MASSACHUSETTS

HOW DOES ECONOMIC INEQUALITY INFLUENCE INDIVIDUAL BEHAVIOR,  
AND HOW MIGHT THIS IN TURN SHAPE BROADER SOCIETAL OUTCOMES?

The Tobin Project's 2019 Conference on Inequality and Decision Making seeks to gather scholars working across the social sciences to investigate the effects of rising economic inequality on individuals' behavior and the consequences thereof. From psychologists working in the lab to isolate inequality's effects on altruism or risk taking, to political scientists working to uncover inequality's ramifications for voting behavior, the conference will bring together a range of perspectives on the study of economic inequality. Unifying these diverse methodological approaches is an effort to root research on inequality in its micro-level foundations, with the goal of understanding how inequality alters individuals' behavior and decision making in ways that may aggregate into large-scale economic, social, and political outcomes.

The Tobin Project's Economic Inequality initiative has its origins in an effort to spur micro-level research on inequality's behavioral effects. An earlier conference, held in 2016, sought to encourage investigations of how inequality may shape decision making and to workshop new methodological strategies for detecting these behavioral shifts. The 2019 conference will work to build upon the research that has emerged subsequently, seeking to identify which potential hypotheses are most promising to understanding inequality's consequences for our economy, society, and democracy. Leading scholars across relevant disciplines will gather to consider: **what are the most important links between changes in inequality and individual behavior, what unanswered questions need to be addressed in order to confirm or disconfirm a causal connection in each case, and what research would illuminate the potential macro-level consequences of these behavioral effects?**

The conference will be held on **Friday, April 26 and Saturday, April 27, 2019 in Cambridge, Massachusetts**. It will feature several panel discussions, a keynote speech by a prominent policymaker, and a roundtable session that critically examines the findings and questions raised by a paper recently awarded a Tobin Project prize for exemplary work in the field.

### CONFERENCE ADVISORY BOARD

#### Serena Chen

Professor of Psychology and Marian E. and Daniel E. Koshland, Jr. Distinguished Chair for Innovative Teaching and Research at the University of California, Berkeley

#### Wendy Berry Mendes

Sarlo/Ekman Endowed Chair in the Study of Human Emotion and Professor of Psychiatry at the University of California, San Francisco

#### David Moss

Paul Whiton Cherington Professor of Business Administration at Harvard Business School and Founder of the Tobin Project

#### Michael Norton

Harold M. Brierley Professor of Business Administration at Harvard Business School

### PRIZE COMMITTEE MEMBERS

#### Nancy Adler

Lisa and John Pritzker Professor of Medical Psychology at the University of California, San Francisco

#### Marianne Bertrand

Chris P. Dyalnas Distinguished Service Professor of Economics at the University of Chicago Booth School of Business

#### Christopher Jencks

Malcolm Wiener Professor of Social Policy, Emeritus at the Harvard Kennedy School of Government

# INEQUALITY AND DECISION MAKING



A TOBIN PROJECT CONFERENCE • APRIL 26-27, 2019

## *Panel I: Inequality, Geography, and Perceptions*

Individuals' understandings of economic inequality and their perceptions of its extent may be shaped by a broad array of experiences and communities, both physical and virtual. This panel will identify the geographic and social spaces in which individuals perceive inequality, focusing attention on the spaces that seem most likely to shape their beliefs, attitudes, and behaviors. The physical character of the locations where individuals spend their time, including their demographic patterns, architectural layout, and density, may well be relevant to perceptions of inequality. Yet social networks within and beyond neighborhoods, commuting patterns, media diets, school catchment areas, and other types of social signals may also have important impacts on individuals' perceptions.<sup>1</sup>

Much existing research demarcates economic inequality by the Gini index or 90:10 income ratio at the state or national level.<sup>2</sup> But these metrics offer little insight into how individuals experience inequality over the course of their day-to-day lives. One approach to this challenge is to examine zip-code- or neighborhood-level data on inequality.<sup>3</sup> Some evidence suggests that individuals' perceptions of inequality in their local communities can be used to predict their beliefs about inequality at the national level.<sup>4</sup> How do the perceptions of individuals living or working in highly unequal neighborhoods compare to those who travel between more and less equal neighborhoods? And how might scholars measure such neighborhood effects, given neighborhoods' ambiguous boundaries?

Despite the importance of these questions, assembling micro-level inequality data is a laborious (if not impossible) task, and there is a great deal of variety in neighborhoods' physical and social makeup, making comparisons difficult. Moreover, neighborhood-level analysis may not even best reflect the situations in which individuals experience inequality. Another approach is to examine more stylized situations in which inequality is isolated and readily apparent, with an eye towards the applicability of any behavioral findings to other social situations. For example, Katherine DeCelles and Mike Norton have examined the effects of fare class inequality on commercial airliners, linking planes where coach-class passengers have to walk by first class passengers with higher incidence of "air rage."<sup>5</sup>

This panel discussion will consider whether other work focused on instances of 'situational inequality'—in sports stadia, in workplaces (as will be discussed in the "Inequality and the Workplace" panel), or in other settings—could help illuminate the link between perceptions of inequality and their behavioral consequences. One particularly critical setting to study may be the classroom (and schools in general). Does the income level of one's classmates' families, or the degree of household income heterogeneity within the class, have spillover effects on academic performance? Does it affect other developmental indicators or likelihood of 'success' later in life?

# INEQUALITY AND DECISION MAKING



A TOBIN PROJECT CONFERENCE • APRIL 26-27, 2019

Over the course of the conference, participants will have the opportunity to examine many different hypothesized pathways from inequality through individual-level responses to macro-level outcomes. The question of how inequality is perceived, either consciously or subconsciously, is key to understanding many of these mechanisms, from inequality's effects on political attitudes to its impacts on health behaviors. By examining the locales and networks where individuals perceive inequality, this panel may offer insights useful for generating and testing hypotheses over the entire conference.

---

<sup>1</sup> See Ryan D. Enos, *The Space Between Us: Social Geography and Politics* (Cambridge, MA: Cambridge University Press, 2017).

<sup>2</sup> This is true even of the paper selected for the 2018 Tobin Project Prize for Exemplary Work on Inequality and Decision Making. See Daniel Schneider, Orestes P. Hastings, and Joe LaBriola, "Income Inequality and Class Divides in Parental Investments," *American Sociological Review* 83, no. 3 (2018): 475-507.

<sup>3</sup> Raj Chetty and his colleagues have done neighborhood-level work in a parallel mode to the discussion here, examining the locales associated with varying degrees of economic mobility. See, *inter alia*, Raj Chetty and Nathaniel Hendren, "The Impacts of Neighborhoods on Intergenerational Mobility I: Childhood Exposure Effects," *The Quarterly Journal of Economics* 133, no. 3 (2018): 1107-1162.

<sup>4</sup> Guillermo Cruces, Ricardo Perez-Truglia, and Martin Tetaz, "Biased Perceptions of Income Distribution and Preferences for Redistribution: Evidence from a Survey Experiment," *Journal of Public Economics* 98 (2013): 100-112.

<sup>5</sup> Katherine A. DeCelles and Michael I. Norton, "Physical and Situational Inequality on Airplanes Predicts Air Rage," *Proceedings of the National Academy of Sciences* 113, no. 20 (2016): 5588-5591.

# INEQUALITY AND DECISION MAKING



A TOBIN PROJECT CONFERENCE • APRIL 26-27, 2019

## *Panel II: Social Comparisons in Consumption and Well-Being*

As discussed in the previous panel description, Gini coefficients and other widely-used statistical measures of inequality may not capture the ways in which individuals perceive economic distributions and their own relative position over the course of their daily lives. The information most people possess about the degree of economic inequality in their communities is likely gathered through contextual clues such as social comparisons with friends, neighbors, coworkers, and acquaintances.<sup>1</sup> This panel could work to focus attention on the particular kinds of social comparisons that are most psychologically salient to individuals, and to study the consequences of these comparisons with respect to two interrelated areas: consumption decisions and subjective well-being. Investigating the mechanics underlying such social comparisons may well illuminate the ways in which inequality affects individual behavior more broadly.

This conference panel could help enable progress by considering the particular mechanisms by which inequality may or may not alter subjective perceptions of well-being. There is some evidence to suggest that deprivation relative to one's peers negatively affects one's mental health, diminishing personal well-being.<sup>2</sup> Other work has cast doubt on the connection between inequality and happiness, particularly in the context of developing countries.<sup>3</sup> Social psychology research suggests that inequality may negatively affect feelings of hope, social trust, satisfaction with one's social status, or perceptions of societal fairness, leading to reduced life satisfaction.<sup>4</sup> Other research suggests that the same psychological mechanisms may *increase* feelings of personal well-being in the upper-middle income quintile while decreasing such feelings among the less well-off.<sup>5</sup> The literature also indicates that the relationship between inequality and happiness may be mediated by other economic conditions or felt differently among different populations; one study found that economic inequality appeared to positively impact well-being among residents of rural communities in China, a result the authors suggest is linked to increased feelings of hope.<sup>6</sup> This panel offers an opportunity to further specify the particular mechanisms linking inequality and happiness, as well as their potentially disparate effects on specific sub-populations.

Social comparisons under conditions of inequality may also have consequences for individuals' financial behavior. The notion that individuals' consumption patterns are formed in relation to others' has been discussed for decades, at least since Thorstein Veblen's seminal theory of 'conspicuous consumption.'<sup>7</sup> But academic scholarship has yet to fully tease out exactly how individuals' financial decisions are affected by peer comparisons, and what, if any, macroeconomic consequences these comparisons may have. Robert Frank et al. offer one formulation of the role of peer comparisons in financial decision making through their discussion of "expenditure cascades." Directly challenging Milton Friedman's "permanent income hypothesis"—which proposes that a household's savings rate changes only when its income level changes—Frank et al. propose that because individuals make upward social comparisons, higher spending at the upper end of the economic distribution will result in higher spending among individuals across society.<sup>8</sup> To bolster

# INEQUALITY AND DECISION MAKING



A TOBIN PROJECT CONFERENCE • APRIL 26-27, 2019

this theory, the authors suggest a link between U.S. counties with higher Gini coefficients and higher rates of personal bankruptcy. Marianne Bertrand and Adair Morse offer another formulation, which they call “trickle-down consumption.”<sup>9</sup> This theory places more emphasis on the role of an oversupply of credit, but they too argue that a desire to ‘keep up’ with the spending patterns of wealthier community members under conditions of inequality contributes to financial duress.

Though these two theories challenge neoclassical assumptions about individual utility calculations, important questions about the underlying mechanics of reference points driving consumption have yet to be answered. For instance: is consumption of all forms of goods and services equally motivated by reference point comparison, or are some goods and services more cognitively salient than others? Some research indicates that inequality results in greater consumption of more ‘visible’ and income-elastic goods such as cars and housing in middle-income households; other work indicates that for some forms of goods, individuals’ preferences to measure up to their peers matter less than their desire to own more of that particular good.<sup>10</sup> Even more critically, what types of individuals serve as reference points for consumer habits? Are they coworkers, neighbors, perceived peers, the wealthiest individuals in one’s life, or some other group? Are they different for different goods and services? Could the individuals heavily featured in an individual’s media diet—on news programs or on ‘reality television’ shows—serve as important reference points?

A key question for this panel is whether and how the relationship between social comparisons and economic decision making is mediated by feelings about subjective well-being. How do differing levels and kinds of life satisfaction affect individuals’ perceptions of who their peers are, or what goods (and lifestyles) they associate with higher status? Can the expenditure cascade hypothesis be reconciled with Buttrick and Oishi’s observation that inequality increases happiness among those in the upper-middle income bracket?<sup>11</sup>

These questions have strong relevance for policymaking, as there is substantial—though noisy—evidence that reference point-driven consumption may reduce household savings, and that this phenomenon may accelerate alongside rising income inequality. Bertrand and Morse estimate that ‘trickle-down consumption’ reduces savings among middle income U.S. households by three percent; Dreschel-Grau and Schmid find an even greater effect on household savings in Germany.<sup>12</sup> Other work estimates that fully half of the decline in U.S. household savings is attributable to rising income inequality.<sup>13</sup> Declines in private savings can have important macroeconomic consequences, such as forcing the federal government to borrow more from foreign creditors in order to pay for budget deficits. Declining savings may also recursively contribute to inequality by motivating those less well-off to take on more debt in order to emulate unsustainable lifestyles. In line with its effects on savings, there is also mixed evidence that inequality-driven peer comparisons may have contributed to the housing bubble that burst in 2008.<sup>14</sup> Given the macroeconomic scale of such potential consequences, research parsing out the pathways from inequality, through social

# INEQUALITY AND DECISION MAKING



A TOBIN PROJECT CONFERENCE • APRIL 26-27, 2019

comparisons, to perceptions of well-being and decisions about consumption levels may be particularly important to future economic policymaking.

<sup>1</sup> Feelings of relative status (as distinct from absolute position) gleaned from such comparisons appear to be important for many individuals. For example, Fisman, Kuziemko, and Vannutelli found in one laboratory study that when participants' own income was held constant, they consistently sought to minimize the income gap between themselves and their next-wealthiest peers, even when doing so reduced the aggregate income of all individuals in the distribution. See Raymond Fisman, Ilyana Kuziemko, and Silvia Vannutelli, "Distributional Preferences in Larger Groups: Keeping Up with the Joneses and Keeping Track of the Tails," working paper (2017).

<sup>2</sup> Erzo F.P. Luttmer, "Neighbors as Negatives: Relative Earnings and Well-Being," *The Quarterly Journal of Economics* 120, no. 3 (2005): 963-1002. See also the exploratory paper on "Inequality and Health Outcomes."

<sup>3</sup> Jonathan Kelley and M. D. R. Evans, "Societal Inequality and Individual Subjective Well-Being: Results from 68 Societies and Over 200,000 Individuals, 1981-2008," *Social Science Research* 62 (2017): 1-23; Lane Kenworthy, "Income Inequality Probably Has Had Little or No Effect on Subjective Well-Being," *Social Science Research* 62 (2017): 36-38.

<sup>4</sup> Mark J. Brandt, Geoffrey Wetherell, and P. J. Henry, "Changes in Income Predict Change in Social Trust: A Longitudinal Analysis," *Political Psychology* 36, no. 6 (2015): 761-768; Nicholas R. Buttrick and Shigehiro Oishi, "The Psychological Consequences of Income Inequality," *Social and Personality Psychology Compass* 11, no. 3 (2017); Shigehiro Oishi, Selin Kesebir, and Ed Diener, "Income Inequality and Happiness," *Psychological Science* 22, no. 9 (2011): 1095-1100.

<sup>5</sup> Buttrick and Oishi, "The Psychological Consequences of Income Inequality."

<sup>6</sup> Felix Cheung, "Can Income Inequality Be Associated with Positive Outcomes? Hope Mediates the Positive Inequality-Happiness Link in Rural China," *Social Psychological and Personality Science* 7, no. 4 (2016): 320-330.

<sup>7</sup> Thorstein Veblen, *The Theory of the Leisure Class: An Economic Study in the Evolution of Institutions* (New York: Macmillan, 1899). The classic formal model of the relative consumption hypothesis was developed in James S. Duesenberry, *Income, Saving, and the Theory of Consumer Behavior* (Cambridge, MA: Harvard University Press, 1949).

<sup>8</sup> Robert Frank, Adam Levine, and Oege Dijk, "Expenditure Cascades," *Review of Behavioral Economics* 1, no. 1-2 (2014): 55-73. See also Milton Friedman, *A Theory of the Consumption Function* (Princeton, NJ: Princeton University Press, 1957).

<sup>9</sup> Marianne Bertrand and Adair Morse, "Trickle-Down Consumption," *Review of Economics and Statistics* 98, no. 5 (2016): 863-879.

<sup>10</sup> *Ibid.*; Sara J. Solnick and David Hemenway, "Are Positional Concerns Stronger in Some Domains than in Others?" *American Economic Review* 95, no. 2 (2005): 147-151; Lukasz Walasek and Gordon D.A. Brown, "Income Inequality and Status Seeking: Searching for Positional Goods in Unequal US States," *Psychological Science* 26, no. 4 (2015): 527-533.

<sup>11</sup> See *supra*, note 5.

<sup>12</sup> Bertrand and Morse, "Trickle-Down Consumption;" Moritz Drechsel-Grau and Kai D. Schmid, "Consumption-Savings Decisions Under Upward-Looking Comparisons," *Journal of Economic Behavior & Organization* 106 (2014): 254-268.

<sup>13</sup> Francisco Alvarez-Cuadrado and Mayssun El-Attar Vilalta, "Income Inequality and Saving," *Oxford Bulletin of Economics and Statistics* 80, no. 6 (2018).

<sup>14</sup> Neil Fligstein, Orestes P. Hastings, and Adam Goldstein, "Keeping up with the Joneses: How Households Fared in the Era of High Income Inequality and the Housing Price Bubble, 1999-2007," *Socius* 3 (2017): 1-15. For a contrasting view, see Olivier Coibion et al., "Does Greater Inequality Lead to More Household Borrowing? New Evidence from Household Data," National Bureau of Economic Research Working Paper no. 19850 (2014).

# INEQUALITY AND DECISION MAKING



A TOBIN PROJECT CONFERENCE • APRIL 26-27, 2019

## *Panel III: Inequality, Politics, and Group Dynamics*

Individuals belong to both social networks and to groups defined by identities such as race, gender, and religion. How do changes in economic inequality change people's behavior in forming, maintaining, and identifying with groups, and what political outcomes might result from such shifts? Using laboratory tools such as the 'minimal group paradigm,' psychologists have sought to examine the factors that change people's perceptions of their 'in-groups' and 'out-groups,' as well as how those groups interact. Preliminary work applying these tools to the study of economic inequality suggests that individuals display greater favoritism towards their own identity group as inequality rises.<sup>1</sup> Such shifts may have important consequences for individuals' political preferences, and by aggregation, broader political phenomena. This panel could work towards identifying how economic inequality interacts with pre-existing social norms, preferences, and patterns of discrimination, and could consider how those changes may shape political outcomes.

While there is some evidence to suggest that economic inequality influences individuals' behaviors and attitudes related to social and identity-based groups, the precise nature and magnitude of these shifts have been difficult to measure. Further investigation is needed, for example, to understand whether inequality's effects on group dynamics are universal or whether they vary across different groups and particular social settings. One study has suggested that individuals tend to be kinder to people from groups other than their own when they perceive their groups to be interdependent or if the groups have previously established norms of reciprocity.<sup>2</sup> Other evidence indicates that if individuals are primed to believe they are undeserving of their financial success (or lack thereof), they may be more likely to discriminate against individuals outside of their perceived 'ingroup.'<sup>3</sup> It may even be possible that the presence of inequality alters the perceived boundaries of these very groups. Addressing the gaps that still exist in this literature may help to build understanding of the psychological mechanisms by which inequality may alter group dynamics and, in turn, ground future inquiry into their macro-level consequences.

The panel will consider in particular the ways in which economic inequality's impacts on group dynamics might have consequences for political outcomes. One area in which scholarly work is needed is in examining whether inequality alters the salience of partisan affiliations or the relationship between political beliefs and other group identities. Some psychological evidence suggests that whites become more conservative in their voting behavior when faced with racial status threats, an effect that may be rendered more acute by economic inequality.<sup>4</sup> Does inequality further bind particular identity groups to a given partisan affiliation or foster feelings of resentment or anxiety about other groups (and the policies of those who represent them)? Might economic inequality similarly encourage partisan polarization or unwillingness to support a candidate from a political party other than one's own? Could individuals' understandings of the causes of their place in the economic distribution moderate these group loyalties? This conversation offers an

# INEQUALITY AND DECISION MAKING



A TOBIN PROJECT CONFERENCE • APRIL 26-27, 2019

opportunity for political scientists and social psychologists to work together to help address these critical questions.

This panel could also seek to identify mechanisms by which economic inequality, perhaps through its effects on partisan affiliations and intergroup dynamics, may influence individuals' preferences for *addressing* inequality through redistributive mechanisms.<sup>5</sup> Political science literature suggests that redistributive preferences are largely shaped through two broad mechanisms: ideology and one's own economic self-interest.<sup>6</sup> Because economic inequality is intermingled with economic disparities between groups, if inequality alters group dynamics, it may in turn influence individuals' ideological preferences for redistribution—perhaps in contravention with their own financial interests. Experimental and situational studies may offer a way to tease out the complex mechanisms motivating such behavior. Illustrating this complexity, one paper found that individuals who encountered an impoverished person of their own racial identity on the street were *less* likely to support a higher tax on millionaires.<sup>7</sup>

This panel also offers an opportunity to explore how inequality, group dynamics, and political outcomes may be dynamically interlinked. Scholars have argued that corporations and wealthy individuals have increasingly attempted to influence policy outcomes in recent years through political donations.<sup>8</sup> Might rising inequality—perhaps by inducing fear among elites of calls for social and economic reforms—be a contributor to such an uptick? Inequality may also impact political outcomes by changing political actors' messaging strategies, especially with respect to racial or other group-based appeals. Is there evidence that inequality has incentivized political elites to stoke or capitalize upon tensions between social groups for their own ends?

Finally, scholars on this panel could also examine the particular methodological challenges that are associated with studying group dynamics under conditions of inequality. Because economic inequality often overlaps with pre-existing identities and social ties in group settings, laboratory research could offer a valuable means of isolating the effects of economic inequality on group preferences and actions without the interference of other mediating factors. At the same time, laboratory findings about group dynamics amidst high inequality may be specific to the game-like experimental conditions designed for such research. At the conference, scholars across disciplines will have the opportunity to probe the relevance of such experimental findings to individuals' lived experiences.

# INEQUALITY AND DECISION MAKING



A TOBIN PROJECT CONFERENCE • APRIL 26-27, 2019

<sup>1</sup> Yan Chen and Sherry Xin Li, “Group Identity and Social Preferences,” *American Economic Review* 99, no. 1 (2009): 431-57; Kevin Durrheim et al., “Investigating the Evolution of Ingroup Favoritism Using a Minimal Group Interaction Paradigm: The Effects of Inter- and Intragroup Interdependence,” *PLoS One* 11, no. 11 (2016); Simon-Pierre Harvey and Richard Y. Bourhi, “Discrimination in Wealth and Power Intergroup Structures,” *Group Processes & Intergroup Relations* 15, no. 1 (2012): 21-38.

<sup>2</sup> Monica Rubini et al., “Group Power as a Determinant of Interdependence and Intergroup Discrimination,” *European Journal of Social Psychology* 37, no. 6 (2007): 1203-1221.

<sup>3</sup> Silvia Moscatelli et al., “Badly Off or Better Off Than Them? The Impact of Relative Deprivation and Relative Gratification on Intergroup Discrimination,” *Journal of Personality and Social Psychology* 107, no. 2 (2014): 248.

<sup>4</sup> Maureen A. Craig, Julian M. Rucker, and Jennifer A. Richeson, “The Pitfalls and Promise of Increasing Racial Diversity: Threat, Contact, and Race Relations in the 21st Century,” *Current Directions in Psychological Science* 27, no. 3 (2018): 188-193.

<sup>5</sup> Jazmin L. Brown-Iannuzzi, Kristjen B. Lundberg, and Stephanie McKee, “The Politics of Socioeconomic Status: How Socioeconomic Status May Influence Political Attitudes and Engagement,” *Current Opinion in Psychology* 18 (2017): 11-14; Oliver Hauser and Michael Norton, “(Mis)perceptions of Inequality,” *Current Opinion in Psychology* 18 (2017): 21-25.

<sup>6</sup> Ibid.

<sup>7</sup> Melissa L. Sands, “Exposure to Inequality Affects Support for Redistribution,” *Proceedings of the National Academy of Sciences* 114, no. 4 (2017): 663-668.

<sup>8</sup> See, e.g., Jacob S. Hacker and Paul Pierson, *Winner-Take-All Politics: How Washington Made the Rich Richer—And Turned Its Back on the Middle Class* (New York: Simon and Schuster, 2010).

# INEQUALITY AND DECISION MAKING



A TOBIN PROJECT CONFERENCE • APRIL 26-27, 2019

## *Panel IV: Inequality and the Top-End*

Rising inequality in the U.S. has been largely driven by an increase in the concentration of wealth and income at the top-end of the economic distribution. This panel will seek to identify and discuss the mechanisms by which rising inequality may influence the behaviors and attitudes of members of the economic elite. The panel will also examine the ways in which these impacts might affect society more broadly; as members of the economic elite are also more likely to hold positions of social and political power, inequality's effects on their decision making may be particularly likely to have wide-ranging societal consequences.

One goal of this panel is to better understand the ways in which economic elites perceive and make sense of inequality. While we live in an era of increasing economic segregation, academic scholarship has yet to explore whether geographic isolation of those at the top-end accelerates or otherwise mediates inequality's consequences for those individuals' decision making.<sup>1</sup> Identifying natural experiments that could parse out the possible impacts of economic segregation—in tandem with the panel discussion on the geography of inequality—could be valuable. Studies of elite institutions of higher education may also provide insight into such questions. Preliminary work on this topic suggests that individuals may develop particular political attitudes after attending colleges with a high concentration of those at the top-end.<sup>2</sup> What further work on loci of 'elite acculturation'—such as top business and law schools—would add to our understanding of inequality's effects on the perceptions and preferences of those at the top-end?

Relatedly, how might the ways in which individuals at the top-end perceive or justify inequality around them affect their political attitudes and behaviors? Experimental studies and national polls have found that those at the top-end are more likely than others to see inequality as just; ethnographies of the wealthy highlight more complicated reactions to inequality that often combine justification of economic conditions and anxiety about one's place at the top.<sup>3</sup> However, less has been shown regarding the possible effects of such justifications, or whether growing inequality has changed the balance between these potentially competing reactions. Because some research has linked economic inequality with increased political power of those at the top-end of the income distribution, this topic seems particularly worthy of exploration.<sup>4</sup>

Some evidence suggests that inequality may also change the interpersonal and leadership behaviors of those at the top-end. Laboratory experiments have found that earning a relatively high income in unequal situations may affect the degree to which individuals exhibit pro-social behaviors, including engaging in charitable giving.<sup>5</sup> In a study of the leadership styles of U.S. Army officers, Martin, Côté, and Woodruff found that leaders who were raised in wealthy families were more likely to display narcissistic personality traits—and perform less effectively as military commanders—than those who grew up in low-income families.<sup>6</sup> Discussants on the panel may explore whether these findings suggest

# INEQUALITY AND DECISION MAKING



## A TOBIN PROJECT CONFERENCE • APRIL 26-27, 2019

possible effects of inequality on leaders in other segments of social life—such as politicians, community leaders, and business executives—and how to encourage research that would test for such impacts.

Inequality's possible effects on top-end consumption patterns offer another promising line of inquiry. Hastings, Schneider, and LaBriola offer evidence suggesting that as inequality rises at the state level, wealthy parents spend a larger share of their income on schooling and extracurricular enrichment for their children.<sup>7</sup> Increased spending of this sort could have implications for educational opportunity and intergenerational mobility. This panel might investigate possible psychological mechanisms underlying these and other changes in top-end consumer behavior, such as parental anxiety concerning children's future earnings in a perceived winner-take-all labor market. The panel could also explore other ways in which inequality might change elite consumption, as well as the consequences of these changes for our economy, society, and democracy.

---

<sup>1</sup> Douglas S. Massey, Mary J. Fischer, William T. Dickens, and Frank Levy, "The Geography of Inequality in the United States, 1950-2000," *Brookings-Wharton Papers on Urban Affairs* (2003): 1-40.

<sup>2</sup> Raymond Fisman et al., "The Distributional Preferences of an Elite," *Science* 349, no. 6254 (2015); Tali Mendelberg, Katherine T. McCabe, and Adam Thal, "College Socialization and the Economic Views of Affluent Americans," *American Journal of Political Science* 61, no. 3 (2017): 606-623; Paul Piff, Michael W. Kraus, and Dacher Keltner, "Unpacking the Inequality Paradox: The Psychological Roots of Inequality and Social Class," *Advances in Experimental Social Psychology* 57 (2018).

<sup>3</sup> Jazmin L. Brown-Iannuzzi et al., "Subjective Status Shapes Political Preferences," *Psychological Science* 26, no. 1 (2014); Shamus Khan, *Privilege: The Making of an Adolescent Elite at St. Paul's School* (Princeton, NJ: Princeton University Press, 2012); Piff, Kraus, and Keltner, "Unpacking the Inequality Paradox: The Psychological Roots of Inequality and Social Class;" Rachel Sherman, *Uneasy Street: The Anxieties of Affluence*, (Princeton, NJ: Princeton University Press, 2017).

<sup>4</sup> Martin Gilens, *Affluence and Influence: Economic Inequality and Political Power in America* (Princeton, NJ: Princeton University Press, 2012); Martin Gilens and Adam Thal, "Doing Well and Doing Good?: How Concern for Others Shapes Policy Preferences and Partisanship among Affluent Americans," *Public Opinion Quarterly* 82, no. 2 (2018): 209-230; Benjamin I. Page and Martin Gilens, *Democracy in America? What Has Gone Wrong and What We Can Do About It* (Chicago: University of Chicago Press, 2017).

<sup>5</sup> Stéphane Côté, Julian House, and Robb Willer, "High Economic Inequality Leads Higher Income Individuals to be Less Generous," *Proceedings of the National Academy of Sciences* 112, no. 52 (2015); Paul Piff et al., "Having Less, Giving More: The Influence of Social Class on Prosocial Behavior," *Journal of Personality and Social Psychology* 99, no. 5 (2010): 771-784.

<sup>6</sup> Sean R. Martin, Stéphane Côté, and Todd Woodruff, "Echoes of our Upbringing: How Growing up Wealthy or Poor Relates to Narcissism, Leader Behavior, and Leader Effectiveness," *Academy of Management Journal* 59, no. 6 (2016).

<sup>7</sup> Daniel Schneider, Orestes P. Hastings, and Joe LaBriola, "Income Inequality and Class Divides in Parental Investments," *American Sociological Review* 83, no. 3 (2018): 475-507. Note that this paper, the winner of the 2018 Tobin Project Prize for Exemplary Work on Inequality and Decision Making, will be discussed at the conference Roundtable on Education and Mobility.

# INEQUALITY AND DECISION MAKING



A TOBIN PROJECT CONFERENCE • APRIL 26-27, 2019

## *Panel V: Inequality and the Workplace*

Workplaces hold particular relevance to the study of inequality and decision making: not only are they sites where disparate incomes are earned and distributed, but income inequality is also interwoven with organizational hierarchies and social relationships within them. The potential effects of inequality on worker productivity and overall profitability are of self-evident interest for the business community, and there is a wealth of literature that addresses the role of perceived fairness in workers' provisioning of effort.<sup>1</sup> But studying workplace inequalities may grant insight into topics far beyond those of business administration. For example, how might the inequalities that individuals experience within the workplace affect their capacity for leadership, their sociability with others, their tendency to take risks, or their preferences for redistribution? The panel will look specifically at places of work as case studies of inequality, considering how inequalities that individuals experience while on the job might affect their attitudes and decisions, and further, whether the impacts of inequality within the workplace offer clues to inequality's behavioral consequences more generally.

There is already a range of academic work examining the impact of inequality within firms, capitalizing on survey data, natural experiments, laboratory studies, and randomized control trials. There is substantial evidence, for instance, suggesting that relative pay inequalities have an asymmetric effect on job satisfaction, demoralizing those who earn less than their coworkers while not affecting those who earn more.<sup>2</sup> Other research has laid out a linkage between relatively low wages on the one hand, and lower productivity and higher quit-rates on the other.<sup>3</sup> Though the psychological pathways producing these effects are not yet clear, some preliminary evidence indicates that inequality may decrease employees' feelings of control over the nature and content of their work, especially when they are assigned to larger work units.<sup>4</sup> Does inequality within the workplace affect workers' performance on teams? Their tendency to take strategic (or non-strategic) risks in their jobs? Could such individual-level effects aggregate across employees in a given firm so as to impact overall performance relative to the firm's competitors? Finally, how are such effects mediated by the ways in which disparities in salaries, bonuses, and benefits are masked or revealed within the workplace? This panel discussion could explore avenues for research that would compare the operations of more and less unequal firms in a given industry, both quantitatively and qualitatively.

Importantly, a worker's socioeconomic status does not rest solely on their compensation in a particular job, but also on family background and social markers developed prior to their present employment. Earlier exposure to relative economic disparities may contribute to or mediate the effects of economic inequality in the workplace. Stephens, Townsend, and Dittmann, for example, hypothesize that individuals from lower-class backgrounds may be inculcated with "interdependent" cultural norms that discourage challenging the status quo, and therefore be less primed for success in white-collar workplaces that value "independence" among employees.<sup>5</sup> Work by Kish-Gephart and

# INEQUALITY AND DECISION MAKING



A TOBIN PROJECT CONFERENCE • APRIL 26-27, 2019

Campbell, however, has suggested that among CEOs of the 1,500 largest publicly traded U.S. firms, those with lower-class backgrounds are more likely to describe themselves as strategic risk-takers.<sup>6</sup> The panel could address whether these two findings can be reconciled, and more broadly, how the interaction between workplace inequalities and inequalities that employees experience outside of their office affects outcomes such as team dynamics, productivity, and morale.

Given that workplaces are relatively controlled, physically discrete loci of inequality, they may be especially useful settings for case studies that aim to identify inequality's effects on communities more broadly. Randomly grouping workers in rural India to complete low-skill manufacturing tasks, for example, Breza, Kaur, and Shamdasani find that workers in units with pay disparities performed significantly worse at non-work-related cooperative puzzle games when paired with their coworkers than when paired with total strangers.<sup>7</sup> Could findings like these reveal something about inequality's potential consequences for trust and social cohesion in other situations or communities?

Researchers attempting to study the causal effects of economic inequality in the workplace face particular challenges, as workplaces may be resistant to sharing data on employees or allowing social scientists to manipulate work environments. This panel could discuss strategies for overcoming these methodological hurdles. Research by Cullen and Perez-Truglia demonstrates the possibility of collecting detailed micro-level data within large firms about perceptions of peer salaries and which employees socialize with others, which could be used to gain insight into the questions outlined above.<sup>8</sup> Breza, Kaur, and Shamdasani's work, which made use of an artificially-created workplace setting, represents one way to test hypotheses about the effects of inequality within the workplace when real-world data are noisy or not publicly available.<sup>9</sup>

This panel could also identify other possible behavioral impacts of differently unequal workplaces. For example, might workplace inequality affect individuals' voting patterns or their propensity to make risky financial decisions? Could high earners in high-inequality workplaces be more likely to show narcissistic personality traits or be less effective leaders (a subject to be explored in the "Inequality and the Top-End" panel discussion)? It is also worth considering how the changing structure of the American labor market—yielding an increasing number of employees working temporary jobs or classified as independent contractors (including workers in what is sometimes referred to as the 'gig economy')—may change perceptions of both inequality and who one's peers are in the workplace.<sup>10</sup> Through discussion of these questions, this panel will explore the unique opportunity that workplaces provide to more precisely identify inequality's individual-level effects, ideally spurring new work addressing this important topic.

# INEQUALITY AND DECISION MAKING



A TOBIN PROJECT CONFERENCE • APRIL 26-27, 2019

<sup>1</sup> See, e.g., George A. Akerlof and Janet L. Yellen, “The Fair Wage-Effort Hypothesis and Unemployment,” *The Quarterly Journal of Economics* 105, no. 2 (1990): 255-283.

<sup>2</sup> David Card et al., “Inequality at Work: The Effect of Peer Salaries on Job Satisfaction,” *American Economic Review* 102, no. 6 (2012): 2981-3003; Conchita D’Ambrosio, Andrew E. Clark, and Marta Barazzetta, “Unfairness at Work: Well-Being and Quits,” *Labour Economics* 51 (2018): 307-316.

<sup>3</sup> Emily Breza, Supreet Kaur, and Yogita Shamdasani, “The Morale Effects of Pay Inequality,” *The Quarterly Journal of Economics* 133, no. 2 (2017): 611-663; Alain Cohn et al., “Social Comparison and Effort Provision: Evidence from a Field Experiment,” *Journal of the European Economic Association* 12, no. 4 (2014): 877-898; Zoë Cullen and Ricardo Perez-Truglia, “How Much Does Your Boss Make? The Effects of Salary Comparisons,” National Bureau of Economic Research Working Paper no. 24841 (2018).

<sup>4</sup> Jon Jachimowicz, Christopher To, and Oliver Hauser, “Team Pay Inequality: Pay Disparity in Large Teams Increases Employee Turnover by Reducing Job Control,” working paper (2018).

<sup>5</sup> Nicole M. Stephens, Sarah S. M. Townsend, and Andrea G. Dittmann, “Social-Class Disparities in Higher Education and Professional Workplaces: The Role of Cultural Mismatch,” *Current Directions in Psychological Science* 28, no. 1 (2019): 67-73.

<sup>6</sup> Jennifer J. Kish-Gephart and Joanna Tochman Campbell, “You Don’t Forget Your Roots: The Influence of CEO Social Class Background on Strategic Risk Taking,” *Academy of Management Journal* 58, no. 6 (2015): 1614-1636.

<sup>7</sup> Breza, Kaur, and Shamdasani, “The Morale Effects of Pay Inequality.”

<sup>8</sup> Cullen and Perez-Truglia, “How Much Does Your Boss Make? The Effects of Salary Comparisons.”

<sup>9</sup> Breza, Kaur, and Shamdasani, “The Morale Effects of Pay Inequality.”

<sup>10</sup> See David Weil, *The Fractured Workplace* (Cambridge, MA: Harvard University Press, 2014).

# INEQUALITY AND DECISION MAKING



A TOBIN PROJECT CONFERENCE • APRIL 26-27, 2019

## *Panel VI: Inequality and Health Outcomes*

Does economic inequality adversely affect the extent to which individuals can live long and healthy lives? Existing evidence suggests that inequality's effects appear early and continue throughout life, impacting numerous health outcomes and overall life expectancy.<sup>1</sup> Some research indicates that income inequality within mothers' communities negatively affects infant health;<sup>2</sup> other studies have posited links between economic inequality and health behaviors such as diet and exercise;<sup>3</sup> smoking, alcohol, and other drug use;<sup>4</sup> sex and pregnancy;<sup>5</sup> and suicide.<sup>6</sup> And though their relationship to economic inequality itself remains unclear, other negative health outcomes such as a lowered ability to regulate stress<sup>7</sup> and fight off diseases<sup>8</sup> have been associated with low socioeconomic status.

While a substantial amount of research has shown a socioeconomic gradient in health—correlational trends between inequalities and divergent health outcomes at the population level—researchers have been less successful in identifying causal mechanisms behind these correlations. Financial precarity and lack of access to health care resources can explain some of these disparities, but it is difficult to differentiate whether high economic inequality as such, rather than low socioeconomic status or other factors, is an underlying cause. This panel offers an opportunity to lay out the substantial gaps in our knowledge about economic inequality's effects on health, and to begin to identify a research agenda that can address this topic.

One way in which economic inequality may shape health outcomes is through its impact on an individual's tendency to take risks. There is some evidence that people at the lower end of the economic distribution in unequal situations are less able to “take the long view” when making decisions, including those related to their health.<sup>9</sup> An individual's prospects for economic mobility may also play a role in the decision to engage in risky health behaviors: a longitudinal study of health outcomes in the U.S. discovered that individuals in counties with higher levels of upward economic mobility were less likely to have smoked or have put themselves at risk of contracting HIV.<sup>10</sup> Another influential study found significantly elevated rates of behaviors such as substance abuse and suicide since 1999 among white Americans in rural counties, a phenomenon some have suggested was driven by perceived threats to their socioeconomic status.<sup>11</sup>

Some efforts to explain the presence of a socioeconomic gradient in health outcomes have turned to a theory of ‘allostatic load,’ defined in one explanation as “the cumulative physiologic toll exacted on the body over time by efforts to adapt to life experiences.”<sup>12</sup> Repeated experiences of stress, or inability to habituate to changing circumstances, may have consequences for the body's regulation of hormones such as cortisol and catecholamines and lead to a variety of adverse secondary outcomes, from cardiovascular disease to decline in cognitive functioning.<sup>13</sup> Indeed, there is evidence that relative socioeconomic disadvantage may be linked to poorer health outcomes later in life via higher levels of accumulated allostatic load.<sup>14</sup> But this literature has yet to fully unpack the role of absolute versus relative status in such linkages. Does the body experience repeated stress because of the

# INEQUALITY AND DECISION MAKING



A TOBIN PROJECT CONFERENCE • APRIL 26-27, 2019

psychological difficulties of making ends meet, or also due to anxieties associated with upward social comparisons? Is it inequality *per se*, or related conditions like precarity or poverty, that form these psychological stresses?

This panel might also examine several other possible mechanisms linking economic inequality to adverse health outcomes, many of them less explored. For example, might a desire to ‘keep up with the Joneses’ under conditions of inequality cause individuals to take more financial risks, perhaps at the expense of their health? Might increasing inequality result in a higher proportion of medical spending being put towards expensive and specialized treatments at the expense of more widespread preventative care? Participants will have the opportunity to consider which of these and other potential mechanisms should be prioritized in future research, as well as to discuss possible methodological strategies for confirming or disconfirming these pathways.

---

<sup>1</sup> Beth C. Truesdale and Christopher Jencks, “The Health Effects of Income Inequality: Averages and Disparities,” *Annual Review of Public Health* 37 (2016): 413-430.

<sup>2</sup> Stephen Nkansah-Amankra et al., “Maternal Social Support and Neighborhood Income Inequality as Predictors of Low Birth Weight and Preterm Birth Outcome Disparities: Analysis of South Carolina Pregnancy Risk Assessment and Monitoring System Survey, 2000–2003,” *Maternal and Child Health Journal* 14, no. 5 (2010): 774-785.

<sup>3</sup> Thomas W. McDade et al., “Adolescents’ Expectations for the Future Predict Health Behaviors in Early Adulthood,” *Social Science & Medicine* 73, no. 3 (2011): 391-398.

<sup>4</sup> Ibid.

<sup>5</sup> Melissa S. Kearney and Phillip B. Levine, “Income Inequality and Early Nonmarital Childbearing,” *Journal of Human Resources* 49, no. 1 (2014): 1-31.

<sup>6</sup> Jeffrey R. Miller et al., “Income Inequality and Risk of Suicide in New York City Neighborhoods: a Multilevel Case-control Study,” *Suicide and Life-Threatening Behavior* 35, no. 4 (2005): 448-459.

<sup>7</sup> Gary W. Evans and Kim Pilyoung, “Childhood Poverty and Health: Cumulative Risk Exposure and Stress Dysregulation,” *Psychological Science* 18, no. 11 (2007): 953-957.

<sup>8</sup> Sheldon Cohen et al., “Socioeconomic Status, Race, and Diurnal Cortisol Decline in the Coronary Artery Risk Development in Young Adults (CARDIA) Study,” *Psychosomatic Medicine* 68, no. 1 (2006): 41-50.

<sup>9</sup> Keith Payne, *The Broken Ladder* (New York: Viking, 2017): chapters 3 and 5.

<sup>10</sup> Atheendar S. Venkataramani et al., “Economic Opportunity, Health Behaviours, and Health Outcomes in the USA: A Population-Based Cross-Sectional Study,” *The Lancet Public Health* 1, no. 1 (2016): PE18-E25.

<sup>11</sup> Anne Case and Angus Deaton, “Rising Morbidity and Mortality in Midlife among White Non-Hispanic Americans in the 21st Century,” *Proceedings of the National Academy of Sciences* 112, no. 49 (2015): 15078-15083; Stephen Edward Snyder, “Urban and Rural Divergence in Mortality Trends: A Comment on Case and Deaton,” *Proceedings of the National Academy of Sciences* 113, no. 7 (2016): E815-E815.

<sup>12</sup> Teresa E. Seeman et al., “Price of Adaptation—Allostatic Load and Its Health Consequences: MacArthur Studies of Successful Aging,” *Archives of Internal Medicine* 157, no. 19 (1997): 2259-2268.

<sup>13</sup> Bruce McEwen and Teresa Seeman, “Allostatic Load and Allostatis,” MacArthur Research Network on Socioeconomic Status and Health, Allostatic Load Notebook no. 1 (2009).

<sup>14</sup> Tara L. Gruenewald et al., “History of Socioeconomic Disadvantage and Allostatic Load in Later Life,” *Social Science & Medicine* 74, no. 1 (2012): 75-83; Tara L. Gruenewald et al., “Allostatic Load and Frailty in Older Adults,” *Journal of the American Geriatrics Society* 57, no. 9 (2009): 1525-1531.