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Is equality good for everybody? Evidence on income inequality, social ills and human capabilities from Europe

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Introduction

In political discourse, ideas go in cycles. Sometimes these cycles are longer; sometimes they are shorter. In the building period of a welfare state, equality was one key concept, and political discourse was fermented by ideas of abolishing inequalities and creating more just societies. Gradually, the pendulum began to swing, and more critical voices emerged against the endeavour to diminish inequalities. The welfare state was considered to have gone too far and thus to have abolished the natural instinct to be entrepreneurial. The welfare state was accused of being a hammock seducing people to remain lazy. Furthermore, it was argued that when enhancing economic growth, the growth itself more or less automatically improves the conditions for the least advantaged in society. Thus, according to this trickle-down theory, we do not need to worry about inequalities since economic growth would also help the least advantaged precisely as a tide lifts all boats. The trickle-down theory has been proposed in many important institutions (International Monetary Fund, Organisation for Economic Co-operation and Development (OECD), World Bank, among others) and by prominent politicians such as Ronald Reagan and Margaret Thatcher.

It seems that the pendulum is now gradually swinging back, and equality is entering the political agenda. In 1997, Anthony B. Atkinson titled his presidential speech to the Royal Economic Society, "Bringing Income Distribution in from the Cold". In his speech, Atkinson demanded that more attention be given to distributional issues and inequalities in income and wealth. In the last decade or so, a number of influential books have been published with the same conviction (Sachs 2005 and 2011; Stiglitz 2012; Piketty 2014 and 2015; Atkinson 2015; Salverda et al. 2014).

Furthermore, many organisations that previously argued in favour of the trickle-down theory are now demanding that income inequalities be diminished. The OECD (2008; 2011; 2015), for example, has published a series of studies on poverty and inequality, arguing that higher inequality inhibits economic growth and harms individuals' opportunities. The OECD also emphasises the detrimental impact of inequality on social cohesion. The OECD (2015) report *In It Together* concludes "…redistribution via taxes and transfers is a powerful instrument to contribute to more equality and more growth." Additionally, the International Monetary Fund and World Bank – at least to some extent – share this new distributional idea for the very same reasons.

Perhaps the most powerful plea for equality comes from the field of health sciences. An example par excellence is *The Spirit Level* (2009) by Richard Wilkinson and Kate Pickett who forcefully strive to prove that reducing income inequality is beneficial for all, not only for the least advantaged but also for the well-off. They argue that more equal countries display higher trust among people, higher perceived level of well-being, lower infant mortality rates, better health, longer life expectancy, higher social mobility, better learning outcomes for children in school, fewer homicides, and fewer prisoners in jail. Similar results were presented earlier by the same authors (Wilkinson 2001; Wilkinson & Pickett 2006 and 2007) and many other scholars as well (Marmot 2004 and 2005; Kawachi & Kennedy 2002; Hiilamo & Kangas 2014; Therborn 2013).

In studying the possible effects of income inequality, we are interested in its impact on two groups: 1) those who are wrestling with economic problems and 2) those who have no economic concerns in their everyday life. Since income inequality is closely related to social exclusion and poverty, particularly in regard to the relative concept of poverty, we first discuss different aspects of poverty. Poverty is defined by Peter Townsend (1979) as problems with participating in the mode of life customary to the society where the individual lives. This Townsendian view is elaborated on further in ideas from Jon Rawls (1971; 1993; 1999), which leads us to the capability approach proposed by Amartya Sen (1992; 1999; 2010) and Martha Nussbaum (2011). This discussion has bearing on our empirical investigation of the impact of income inequality on poor and well-off persons' potential to fully participate in the way of life that is customary of their society. Thereafter, we take a look at how – and why – inequality is harmful not only for those who are at the bottom but also for those in other strata of society and those in society at large. That section forms the main empirical part of the article. In the final part, we knit the threads together and discuss our results.

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What is poverty?

In poverty studies, Peter Townsend's (1979) definition serves as a standard reference. Individuals are poor if they, due to a lack of money, have no ability to participate in the way of life that is customary of their society. John Rawls goes further, and in his book *Political Liberalism* (1993), he argues that individuals must have the power and capability 'primary goods' to take responsibility of their decisions (see also Rawls 1971 and 1993). The idea is further developed by Amartya Sen (1992; 1999) and Martha Nussbaum (2011). As a critique against Rawls, they argue that the resources (or 'primary goods' in Rawls's terminology) that people have in the first place are not as important as what they are able to do and be. The corollary in their capability approach is that people must be able to make rational and well-informed choices in their lives. A prerequisite for this is that people have a set of opportunities and resources, which they then may or may not exercise in their actions. In other words, the focus is on how Rawls's primary goods can be transformed into a good life rather than on the set of primary goods themselves. In particular, the capability approach is interested in social (in)justice and capability failure due to inequality. The utmost important task for the government is to provide a sufficient platform for people to exercise their full capability (Nussbaum 2011).

To some extent, the capacity approach is parallel to the Townsendian relative concept of poverty. However, Sen and Nussbaum (1993; also Sen 1992; 1999; 2010) go much further. Following their line of reasoning, we can also discuss poverty in agency (see also Korpi 2000). Poverty in agency pertains to situations where people do not have the resources and/or possibility to be actors in their own lives and in the society in which they live.

In the opening passage of *The Killing Fields of Inequality*, Göran Therborn (2013, 1) nicely and eloquently summarizes the different aspect of inequality discussed above. His definition is worthwhile to quote at length:

"Inequality is a violation of human dignity; it is a denial of the possibility for everybody's human capabilities to develop. It takes many forms, and it has many effects: premature death, ill-health, humiliation, subjection, discrimination, exclusion from knowledge or from mainstream social life, poverty, powerlessness, stress, insecurity, anxiety, lack of self-confidence and of pride in oneself, and exclusion from opportunities and life-chances. Inequality, then, is not just about the size of wallets. It is a socio-cultural order, which (for most of us) reduces our capabilities to function as human beings, our health, our self-respect, our sense of self, as well as our resources to act and participate in this world."

In summary, poverty and inequality can be defined as a lack of ability to partake in the customary way of life of the society in which the individual lives. In addition to money, these standards include the ability to take control of one's own life and be a fully functional member of society, a member with full social and political rights. The central questions are what the obstacles limiting people's capacities are and how national institutions could enhance people's participation and fortify their capabilities. In the next section, we take a short look at whether there are systematic connections between income inequality and the various capabilities that people should have under their control.

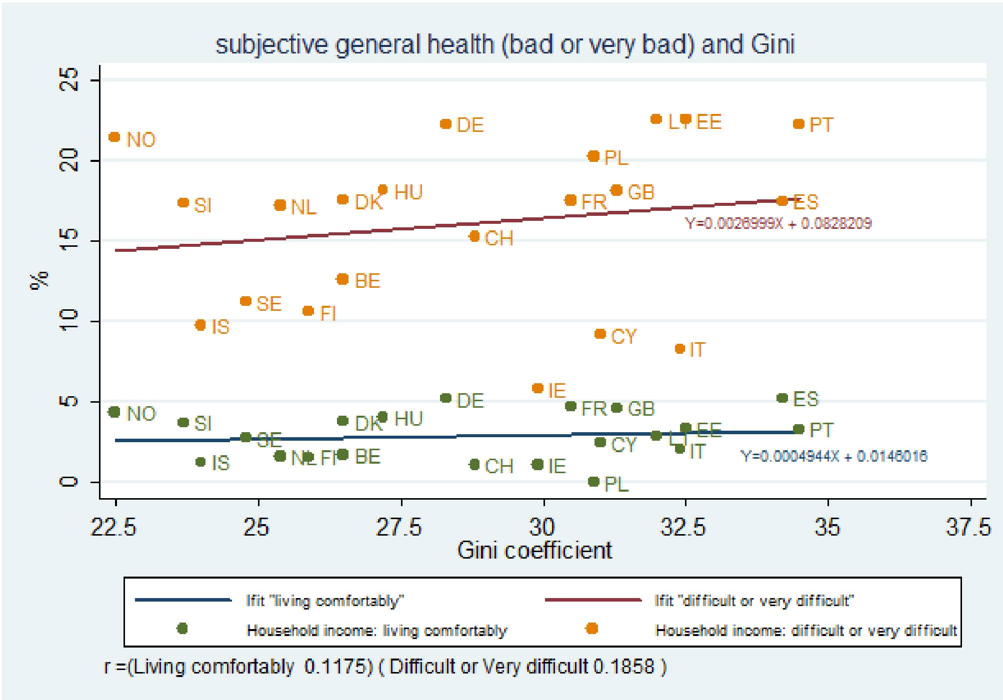
Why are poverty and inequality harmful to everyone?

Health and inequality

There is an old adage that states that it is better to be healthy and wealthy than sick and poor. There is an undeniable common sense truth in this: in most societies, people are happier if they are healthy and have money than if they are poor and in bad health. Indeed, health is one of the most important resources or capabilities in our lives. Therefore, investments in health promotion are of utmost importance. Needless to say, health care services are important, but they are not enough. Other social policy systems have their own direct and indirect impact on people's health. There is a substantial amount of research on the complex relationships between inequality and health. The main message is that excess mortality and morbidity are associated with economic inequality. From a comparative perspective, inequalities in health are rooted in the institutional structures of society (Kawachi & Kennedy 2002; Marmot 2004; 2005; Wilkinson & Pickett 2006; 2007 and 2009; Babones 2008; Fritzell & al. 2013; Therborn 2013). In their study on relationships between social policy systems and inequalities in health, Lundberg et al. (2008) conclude that "the ways that social policies are designed, as well as their generosity, are important for health... Hence, social policies are of major importance in how we are able to tackle the social determinants of health". Their results further show that generosity in pensions is linked with lower excess mortality in old age. Hence, social policy programs, whether they are services or social transfer systems, are important for health because they increase the resources that individuals have under their control and fortify their capabilities and overall well-being.

In Figure 1, the countries' mean scores of subjective health status for the two groups of people (poor and well-off) are projected against the Gini index. The two groups of interest are those living comfortably and those having difficulty coping due to their present income. Based on our theoretical discussion above, we expect that while *income inequalities are detrimental for all, the detrimental health effects would be greater among poor individuals than well-off individuals*. The first hypothesis follows the reasoning of Richard Wilkinson and Kate Pickett (2009) and many others who argue that health is related to income inequality, which is the "cause of causes". The second hypothesis is related to Michael Marmot's (2004) idea presented in his *Status Syndrome* arguing that unequal circumstances are detrimental for the poor, in particular.

As seen in the figure, there is no relationship between the level of inequality and subjective health in the well-off group.



Note: Subjective general health: The variable was measured using the European Social Survey (2016) Round 6 (ESS 2012) on a scale from 1 'very good' to 5 'very bad'. In the figure, 'subjective general health' is the percentage of 'bad' and 'very bad' answers. Gini: Gini coefficient of equalised disposable income is derived from the 2012 EU-SILC Survey. Higher gini values indicate higher level of income inequality. Household income: Dummy variable constructed from the variable 'Feelings about current household income' (Scale: 1 'Living comfortably on present income' to 4 'Very difficult to live on present income'). We concentrate on the two extreme groups. For the sake of simplicity, we sometimes refer to the former group as 'the well-off' and the latter group as 'the poor'.

Figure 1. Subjective general health (bad or very bad) and Gini coefficients.

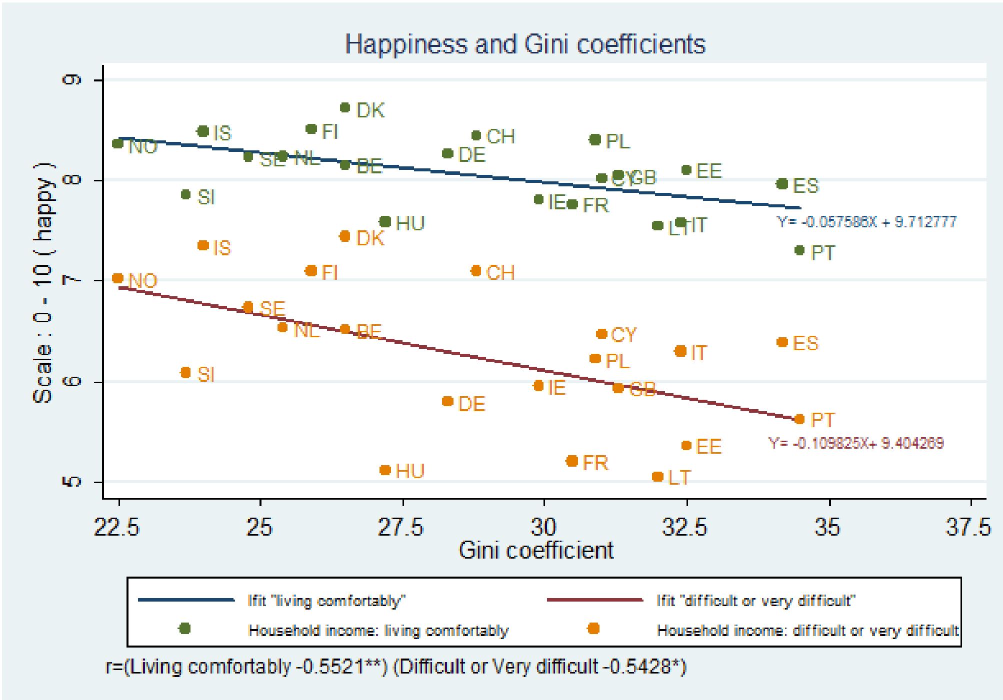
The correlation is negligible, whereas it is positive among the vulnerable group with economic problems. There are some cases that call for further explanation. While the level of subjective health in Norway appears to be surprisingly low, it seems to be surprisingly high in Ireland, Cyprus and Italy. If we omit these influential cases, the correlation between inequality and health problems in the vulnerable group increases from .19 to .68**.

Inequality and happiness

There is a growing body of research on happiness and life satisfaction (e.g., Veenhoven 1984, 2002; Kalmin & Veehoven 2005; Layard 2006; Diener & Biswas-Diener 2008; Oishi, Kesebir & Diener 2011), and there are strong arguments that happiness is the best single indicator of an individual's well-being (Veenhoven 2002). Within social sciences and political camps, there are substantial differences in the interpretations of the social prerequisites of happiness and life satisfaction. With some simplification, we can distinguish two main sets of explanations – and the large grey area between them. First, in the individualistic perspective, happiness is deeply regarded as a purely personal phenomenon that is achieved by individuals themselves. The second view is more collectivistic. In collectivist thinking, the interpretation of human beings, their happiness and other living conditions are defined contextually, always in relation to the prevailing standards of the society in which they live. In contrast to the individualistic approach, the collectivist tradition pays attention to distributional issues: not only is the level of prosperity important, but even more important than the level of prosperity is how prosperity is distributed. Equality is better for everyone's happiness and satisfaction, as argued by Wilkinson and Pickett (2009).

Not surprisingly, the two approaches yield two different working hypotheses. Following the individualistic line of reasoning, we expect *there to be no differences at all between the poor and the well-off* and *the level of happiness to not be associated with the level of inequality*.

The collectivistic tradition is similar to theories on the relationship between inequality and health. Following that line of thought, we can make counter-hypotheses and argue that there is an inverse relationship between happiness and income inequality: the more unequal a society is, the lower the level of happiness. Further, income inequalities mostly affect vulnerable groups also in regard to their state of mind. The results from previous studies are somewhat mixed (e.g., Alesina, Di Tella & Macculloch 2004; OECD 2015; Schneider 2016).



Note: Happiness: The variable was constructed by combining the items 'How happy are you?' (Scale: 0 'very unhappy' to 10 'very happy') and 'How satisfied are you with life as a whole?' (Scale: 0 'very dissatisfied' to 10 'very satisfied'). The sum of these two variables was then divided by two. The variable was labelled 'happiness'.

Figure 2. Income inequality, subjective feelings of happiness and life satisfaction among the poor and well-off.

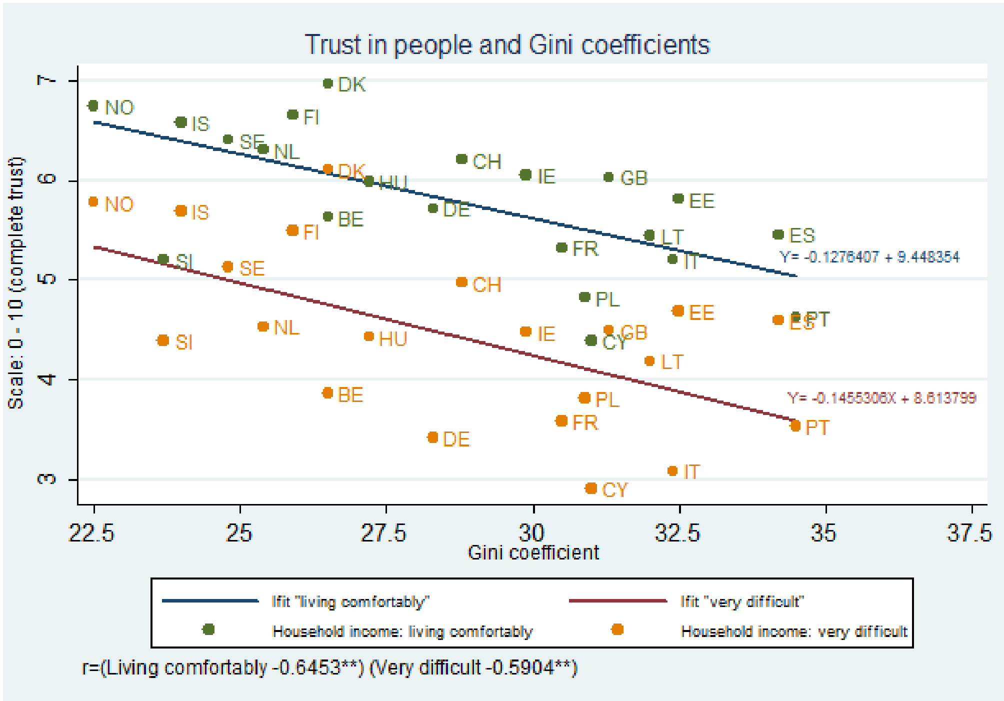
Based on Figure 2, it is difficult to support the individualistic arguments. The hypotheses do not hold. There is a negative correlation in both groups, which provides qualified support to the collectivistic interpretation that equality is good for everyone. However, the slope for the poor group is steeper, indicating that the harmful effects of inequality are stronger among vulnerable groups as argued by Michael Marmot (2004) in *Status Syndrome* (see also OECD 2015).

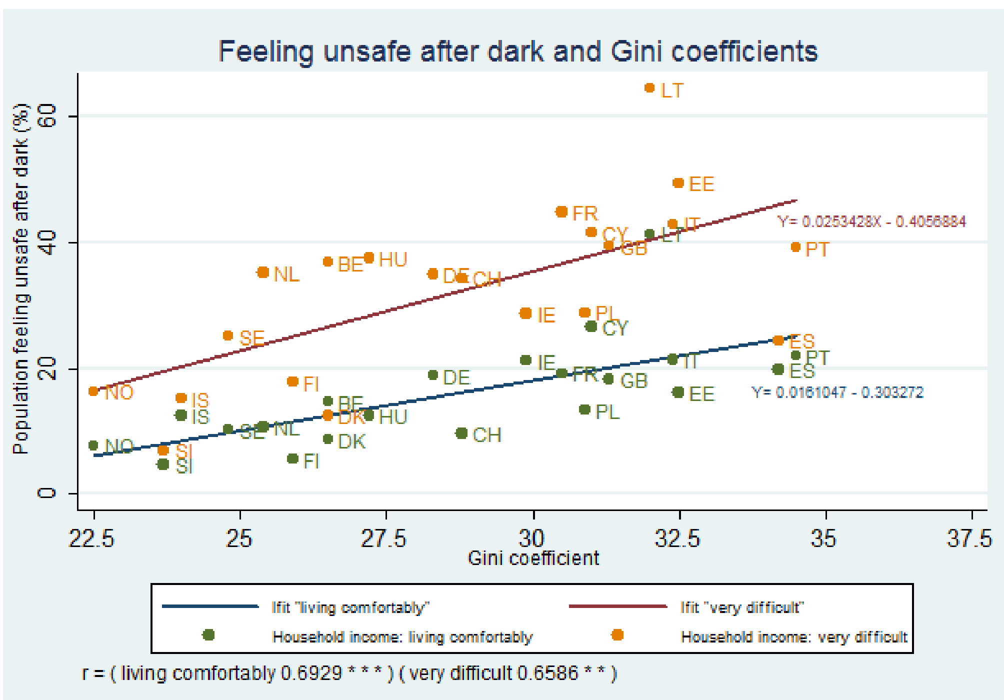
Inequality, trust and personal integrity

The idea of the importance of social trust for social and economic development has deep roots in economic thought. Trust is crucial for economic, political and social progress. Trust makes the emergence of a commercial free market society possible (Evensky 2011; Fukuyama 1995; 2011 and 2014). Perhaps the most well-known and influential scientist analysing the role of trust is Robert Putnam who carried out a comparative study on regional development in Italy in *Making Democracy Work* (1993). The central argument is that the success of societies depends on the bonds of trust – or social capital – which help societies flourish. He continued in the same line of reasoning in *Bowling Alone* (2000), which concentrates on American society. Putnam's core message is that a low level of trust in fellow people is correlated with the following: low confidence in government, low level of political efficacy, low confidence in one's own influence, lower voting participation, and less happiness and satisfaction with quality of life.

Putnam analysed the transformation of agricultural societies to industrial ones and the transformation of industrial societies to service-based economies. Trust continues to be important also in a newly emerging economy – be it a digital or a sharing economy. For example, trust is a precondition when we open our homes to unknown visitors via Airbnb. "Airbnb is built on trust", states the advertisement. Some analysts even argue that trust is the currency of the new economy (Botsman 2016). Thus, whether related to old or new economies, trust is the glue that keeps society together and enhances prosperity and well-being. As Francis Fukuyama (1995, 7) succinctly expresses, "... a nation's well-being, as well as its ability to compete, is conditioned by a single, pervasive cultural characteristic: the level of trust inherent in society." According to Fukuyama (2014, 123-125), a lack of trust also explains political decay and failure of a state. All of these factors mean that the level of trust has consequences for economic performance as well as for individual well-being. As alluded to in the previous section, in the international debate on welfare, there is currently a shift from money-based measures towards more subjective indicators of well-being. In this context, in addition to happiness, trust and feelings of personal safety are of particular interest (Figure 3).

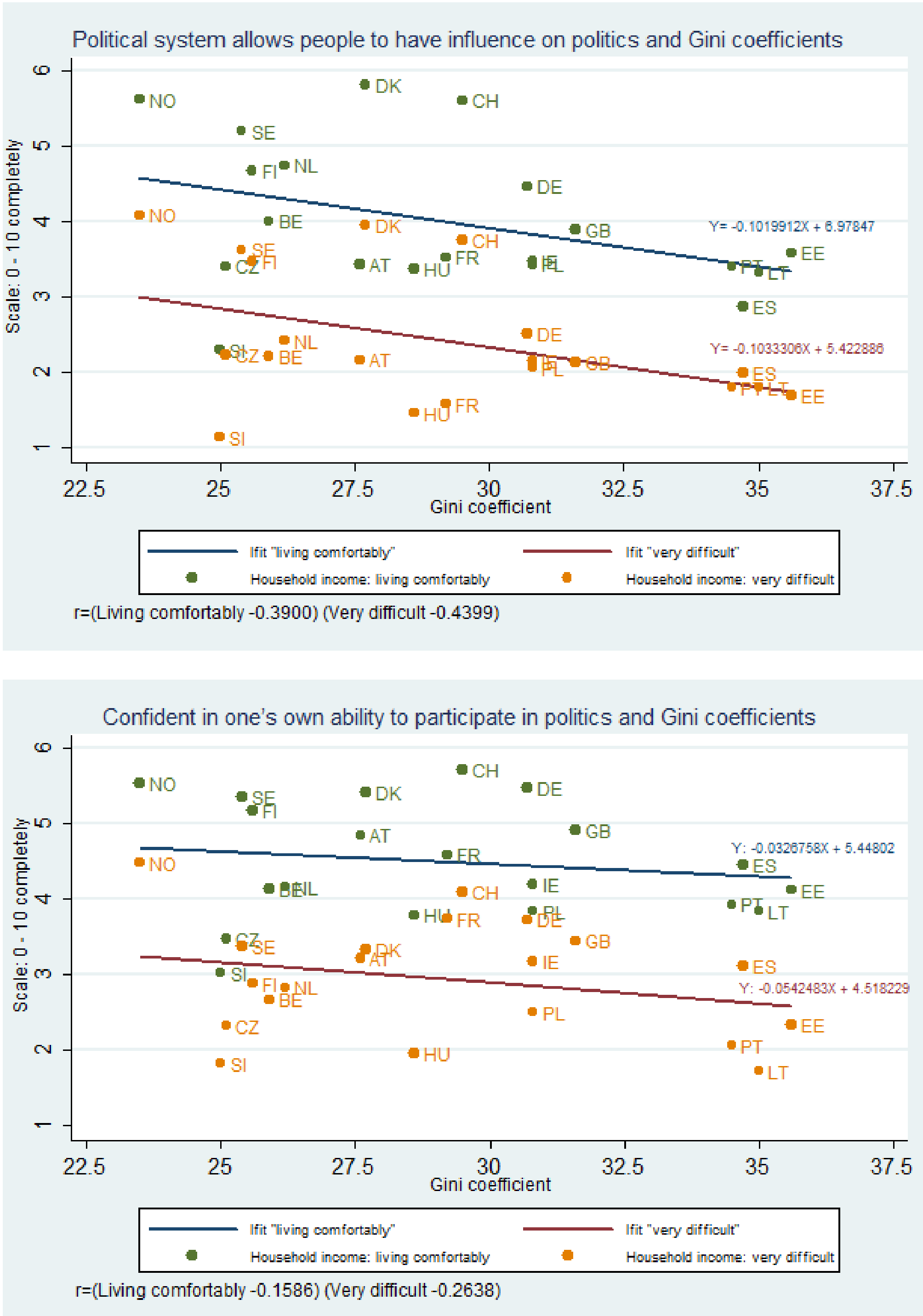
Usually the level of trust is measured by two dimensions: trust in people and trust in institutions. The bivariate correla-





Note: Trust in people is represented by combining the variables "Most people can be trusted or you can't be too careful"; "Most people try to take advantage of you or try to be fair" and "Most of the time people are helpful or mostly looking out for themselves". All scales ranged from 0 to 10, with 10 indicating complete trust and divided by three. Feeling unsafe after dark is represented by the variable feeling safe when walking alone in local areas after dark (Scale: 1 'very safe' to 4 'very unsafe'). Feeling unsafe is shown as the percentage of 'unsafe' and 'very unsafe' answers.

Figure 3. Income inequality, trust in people and personal integrity (feeling unsafe) among the poor and well-off.



Note: The 'Political system allows people to have a say in what government does' and 'Confident in one's own ability to participate in politics' items were measured using the European Social Survey Round 7 (ESS 2014) on a scale from 0 'not at all' to 10 'completely'.

Figure 4. Income inequality, feeling of influence on politics and confidence in one's own ability to participate in politics among the poor and well-off.

tion between the two forms of trust is high (r =.89** among the well-off and .70** among the poor). In countries with high trust, people trust fellow individuals (as shown in Figure 3) and their national institutions (not shown here). In countries with low trust, people neither trust their institutions nor fellow individuals. There is a positive cycle: just institutions generate trust, and trust generates just institutions. Additionally, there is a negative cycle: unjust institutions diminish trust and are prone to corrupt behaviour (Rothstein 1998). As shown in the upper graph in Figure 3, there is a rather strong negative association between equality and trust (be it trust in people or national institutions such as law enforcement, political and legal systems), and the slopes for the well-off and least-advantaged run parallel.

Personal integrity is one of the important factors in Nussbaum's (2011) list of central functions that a person must have. Safety is also included in the Swedish Level of Living surveys as one of the eight resources that guarantees a decent level of living (SOFI 2016). From the lower graph in Figure 3, we can draw a number of interesting conclusions. First, there is a strong and significant correlation between inequality and fear in both groups. If we omit the deviant case of Lithuania (LT), the correlations would be somewhat stronger (living comfortably and Gini r= 0.7820***; very difficult and Gini r= 0.685***). Second, as is mostly the case, the poor are more afraid than the well-off. However, third, the rich in many unequal societies are more afraid than the poor in equal societies. Lastly, the upward slope for the poor is steeper than the slope for the well-off, indicating that although inequality in this dimension is harmful for all, it is particularly harmful for the poor.

Poverty in agency and inequality

The relative concept of poverty is demanding and somewhat diffuse as a concept. When societies develop, their content must be expanded. The central idea in democratic societies is that all voices must be heard, and people can express their opinions on how things are done. Thus, people must have the capability to not only master their own lives but also to participate in decision making at the institutional level. As stated above, we discuss poverty of agency when people do not have either personal capabilities or institutional structures in the country in which they live, which restricts them from meeting their potential. When analysing these issues, Martha Nussbaum (2011, 193) separates two different forms of poverty of agency: the agency that is linked to an individual's own capabilities (*internal capability*) and the agency that is related to political institutions and political systems (*combined capability*). In Figure 4, we focus on these aspects.

A comparison of the two graphs interestingly shows that people are more inclined to believe in their own internal capabilities to participate in politics than believe in combined capability (i.e., that their political system allows them to influence political decision making). Furthermore, here, we see clear social gradients in favour of the well-off. The same phenomenon emerges if we study participation in democratic decision making through voting. The proportion of those who did not vote in recent elections was 39% among the poor but less than half of that figure (15%) among the wealthier stratum (ESS). There are also clear connections between poverty in agency and inequality. The more unequal a society is, the higher the degree of poverty of agency. To express the same notion in Nussbaum's concepts: inequality has detrimental effects on internal as well as combined capability.

Discussion

International comparisons of income inequality show that the gap between the rich and poor is widening. The trickle-down theory arguing that the economic tide will equally lift all boats has proven to be wrong. In the OECD hemisphere, economic growth has benefited high-income earners more than those on the lower levels of the income ladder. Additionally, as the OECD (2015) observes, this has led to a situation where low-"income people have been prevented from realising their human capital potential, which is bad for the economy as a whole". The changes taking place in the labour markets – non-standard employment, 0-hour contracts, job polarisation, among others – increase the severity of this notion and accentuate the role of redistribution policies.

When analysing redistribution policies, our platform is derived from theories on relative poverty (Peter Townsend), which leads to conceptualising equal opportunities (John Rawls) and human capabilities (Amartya Sen and Martha Nussbaum). According to the capabilities approach, the government should adopt affirmative tasks to support people's capabilities (i.e., through social investments governments should enhance participation and trust and hence increase the overall satisfaction and well-being of the people). In the previous sections, we briefly analysed the relationship between inequality and health, life satisfaction, trust and feelings of personal integrity. The main finding – not too surprisingly – was that in all aspects, the well-off are in a privileged position compared to the poor. In many ways, inequality is detrimental to the poor. Second, our results fortify the previous findings that equality would also profit the well-off. For example, there is a tendency for poor individuals to be more concerned about their personal integrity than the rich, but the rich who live in unequal societies are more concerned than the poor who live in equal societies.

Growing income inequality in almost all Western countries (OECD 2008; 2011; 2015) has increased interest in its possible detrimental consequences, and the OECD is demanding that governments tackle the widening gaps between the rich and the poor. It goes without saying that this is a very challenging task for governments and for the research community. As Atkinson (2015, 3) writes, "Inequality is embedded in our social and economic structure, and its significant reduction requires us to examine all aspects of our society." This is also the underpinning and mission of the research programme "Equal Society", which is financed by the Strategic Research Council.

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