Inequality: Causes and Consequences

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Annu. Rev. Sociol. 2007. 33:335–57

First published online as a Review in Advance on April 4, 2007

The *Annual Review of Sociology* is online at http://soc.annualreviews.org

This article's doi: 10.1146/annurev.soc.33.040406.131755

0360-0572/07/0811-0335$20.00

Key Words

disparities, income, wealth, mobility

Abstract

The increase in economic disparities over the past 30 years has prompted extensive research on the causes and consequences of inequality both in the United States and, more recently, globally. This review provides an update of research on the patterns and causes of economic inequality in the United States, including inequality of earnings, wealth, and opportunity. We also explore the social and political consequences of inequality, particularly in the areas of health, education, crime, social capital, and political power. Finally, we spotlight an emerging literature on world inequality, which examines inequality trends within as well as across nations. Sociologists can advance research on inequality by bringing discipline-based expertise to bear on the organization and political economy of firms and labor markets, the pathways through which inequality has an effect, and the social, political, and cultural contingencies that might modify this effect.

In the United States, economic disparities began to rise in the mid-1970s, and although the increase may have slowed recently, levels of inequality remain high compared with the three decades after World War II. Researchers began to document these trends two decades ago, and our knowledge about the patterns and causes of economic inequality—much of it conducted by economists—has expanded considerably. Moreover, as it became clear that the rise in economic inequality was not a transitory phenomenon, social scientists began to examine its implications for social and political life, generating a rapidly growing body of research on the consequences of economic inequality for health, crime, educational attainment, politics, social capital, and other outcomes. This review provides an update of research on the recent inequality patterns and an overview of research on their consequences. We focus on the United States, using international comparison to sharpen our understanding of domestic trends. We also spotlight an emerging literature on global inequality, in other words the economic disparities among citizens of the world. Lastly, we consider the distinctive contributions that sociologists might make to our understanding of processes driving inequality dynamics and of their implications in different social domains.

PATTERNS AND CAUSES OF ECONOMIC INEQUALITY IN THE UNITED STATES

Among the rich OECD countries, the United States features the highest level of income inequality and, together with the UK, has experienced the sharpest growth in disparities over the past quarter century (Kenworthy 2004, Smeeding 2005). Although other countries have also seen an increase in market inequality—that is, in pretax-and-transfer distribution of income—because U.S. tax policies are relatively regressive and social welfare provisions, particularly those in cash (Osberg et al. 2004), are less generous, inequality in post-tax-and-transfer income is more pronounced in the United States than in Europe (Burtless & Jencks 2003, Kenworthy 2004, Kenworthy & Pontusson 2005). Our discussion in this section includes inequality of earnings, wealth, and opportunity. Because earlier reviews of research on wage and income inequality are available (Katz & Autor 1999, Morris & Western 1999, Nielsen & Alderson 2001), we focus here on recent trends and evidence on factors driving distributional outcomes in the United States.

Wage Inequality in the United States

After a significant decline following World War II (Lindert 2000), wage inequality in the United States started growing in the mid-1970s, surged more sharply in the 1980s, then stabilized in the 1990s (Card & DiNardo 2002, Katz & Autor 1999, Morris & Western 1999, Nielsen & Alderson 2001). Inequality remained stable through the early 2000s despite economic recession (Gottschalk & Danziger 2005). Change in total family income inequality paralleled that in individual wages, but was even more pronounced as it was augmented by growing marital earnings homogamy and a rise in single-adult families (Burtless 1999, Gottschalk & Danziger 2005); returns to education in terms of other family members' earnings have also grown, implying a sharper increase in inequality in family income than individual income (DiPrete & Buchmann 2006).

Underlying these broad trends, earnings have changed in diverse ways at different parts of the distribution. During the 1980s, both upper-tail and lower-tail inequality grew. Then these trends diverged. Lower-tail inequality stopped growing around 1987 and contracted slightly during the 1990s, whereas upper-tail inequality continued to rise (Atkinson 2003, Blau & Kahn 2002, Mishel et al. 2005). Lower-tail inequality, as measured by the logged 50/10 hourly wage ratio, grew from 0.6 in 1973 to 0.75 in the late 1980s, then dropped to 0.65 by 2002. In contrast, upper-tail inequality (the logged 90/50 ratio) rose from 0.6 to 0.8 in 2002 (Autor et al. 2006). Comparable trends are found in family and household income (Alderson et al. 2006, Burtless & Jencks 2003). Growing upper-tail inequality is also evident at the very top of the earnings distribution: The highest 1% experienced faster income growth than the next highest 9%, while the highest 0.1% gained more than others in the top 1% (Piketty & Saez 2003, 2006). Growing concentration at the top of the distribution is a striking departure from earlier patterns of inequality: Historically, the United States has been more unequal than other industrialized countries because "the poor were too poor" (Smeeding 2005). In another break with the past, the new concentration of income among the rich is not driven by capital income but by labor market and entrepreneurial earnings (Piketty & Saez 2003).

Researchers distinguish between dispersion in the transitory and permanent components of income. Inequality in the transitory component of earnings grew dramatically in the 1980s, possibly accounting for about 70% of the overall variance increase, then decreased during the 1990s (Moffit & Gottschalk 2002). Notably, the rise in the transitory portion was not due to job instability or mobility (Neumark 2002), but rather to more intense wage growth and deeper wage losses resulting from displacement (Violante 2002). Although most explanations of growing earnings inequality focus on its permanent component (e.g., returns to skills), if most of the inequality increase is transitory, factors such as growing labor market fluctuation and the rise in temporary employment may be more important. Short-term income fluctuation could inflate estimates of permanent inequality in the United States, but Gangl (2005) shows that the United States still has the highest income inequality among industrialized countries after accounting for short-term variation.

Explanations for this rise in inequality continue to be contested, although there is consensus in a few areas. Trends in the real value of the minimum wage account for a significant share of the rise in lower-tail inequality during the 1980s and its decline during the 1990s (Card & DiNardo 2002, Lee 1999, Lemieux 2006). Declining union membership drove male wage inequality up during the 1980s, but had less impact during the 1990s (Card et al. 2004). Rising returns to higher education have had a significant impact on income dispersion, especially upper-tail inequality, for both men and women. The college premium increased sharply in the 1980s and grew at a slower pace in the 1990s (Gottschalk & Danziger 2005, Hornstein et al. 2005). However, a large share of the growth in disparities is within-group or residual—in other words, not accounted for by education and experience. Lemieux (2006) proposes that compositional changes among workers, specifically the aging of the baby boom generation and the increase in educational levels, explain a significant share of inequality during the 1990s because residual wage inequality is higher among older and more highly educated workers; in contrast Autor et al. (2005) find little role for composition effects in explaining upper-tail inequality.

Perhaps the most contested question remains the role of technology. According to the skill-biased technological change (SBTC) hypothesis, the computerization of the workplace increased the value of education and skills, helping to explain both the rise in returns to schooling and the increase in within-group or residual inequality. Nearly hegemonic among economists in the mid-1990s, this hypothesis has recently faced substantial criticism. Critics argue that neither the timing nor the extent of the inequality surge are consistent with SBTC. Inequality started to rise before the widespread introduction of computer technology into the workforce and stabilized in the 1990s even as computer technologies were diffusing more widely (Bernstein & Mishel 2001, Card & DiNardo 2002, Lemieux 2006, Morris & Western 1999). The comparison with Europe also raises questions. Whereas technological development is comparable in the two regions, market inequality has grown less in most European countries than it has in the United States (DiPrete 2007b). More recently, Autor et al. (2005, 2006) have proposed a modified version of the technology argument—the polarization thesis—that posits that computerization enhanced the productivity of highly educated professionals, undermined the demand for routine cognitive workers usually located in middle-wage jobs, and had relatively little impact on the lowest-skilled blue-collar and service occupations located in the lower end of the earnings distribution. This thesis appears more consistent with recent earnings trends, including the stagnation for workers in the middle of the distribution and rapid growth for highly educated workers. However, the role of technology in recent labor market trends remains uncertain, largely because no direct measure of SBTC exists to date (DiPrete 2007b). In an interesting exception, Fernandez (2001) found a significant increase in wage dispersion associated with technological upgrading. Also, a small but growing literature suggests that firm-level organizational change may mediate the effect of technological change on wage inequality (Hornstein et al. 2005).

Institutional changes in firms and labor markets are difficult to quantify but are likely to have had a substantial effect on inequality (DiPrete 2007b, Lindert 2000). The last two decades of the century have seen extensive structural change in the economy, including a shift from manufacturing to services, deregulation in many industries, transformations in corporate governance, a decline in union representation, and a rise in the use of contingent labor (Bernhardt et al. 2001, Fligstein & Shin 2004, Morgan & Cha 2007). Changes in the employment relationship are understood in the context of a shift from a stakeholders rights to a shareholder value regime (Fligstein & Shin 2004), in which executives have an incentive to cut labor costs and maximize short-term dividend growth rather than reinvest profits in the firm (Lazonick & O'Sullivan 2000, Nielsen & Alderson 2001). Furthermore, institutional changes allowing top executives more latitude to set their own compensation may have contributed to the rise in upper-tail inequality (Piketty & Saez 2006). Although the link between changes in economic organization and growing inequality of wages is plausible, as Morris & Western (1999) concluded eight years ago, we have little direct evidence of such a link.

Inequality in Wealth

Although wages and earnings are measures of flow, wealth is a stock that families can use in case of economic need and vulnerability (Spilerman 2000). Wealth is much more unevenly distributed than income. In the early 2000s, the wealthiest 1% of families held one-third of the total wealth, the next wealthiest 9% held another third, and the remaining 90% held the rest (Cagetti & De Nardi 2005, Kennickell 2006). Wealth inequality had declined dramatically from the early to mid-twentieth century as a result of the Great Depression and World War II (Kopczuk & Saez 2004). After a period of stability, wealth inequality grew in the 1980s, then stabilized during the 1990s (Kennickell 2006, Scholz 2003, Wolff 2006; but see the cohort-based analysis of Morgan & Scott 2005), except for growing concentration in the very top of the distribution (Keister 2005), particularly among the top 0.0002% of the American population, corresponding to the *Forbes* list of wealthiest Americans (Kopczuk & Saez 2004). The recent stability in wealth dispersion might seem surprising given the exceptional stock market gains during the 1990s. Note, however, that the growing earnings inequality since the 1980s has been driven more by labor income than by capital gains (Piketty & Saez 2003). Over the longer term, the United States may face growing wealth concentration as the top wage earners accumulate assets; however, the current tax structure and antitrust legislation may prevent the reconstitution of the large fortunes seen a century ago (Kopczuk & Saez 2004, Piketty & Saez 2003).

Inequality of Opportunity

Inequality matters contemporaneously because it means differences in economic well-being. It also matters over time, if inequality at one point in time affects inequality in the next generation (Hout 2004, Sorensen 2006). This raises the issue of equality of opportunity, or social mobility. The most common measure of inequality of opportunity is the intergenerational association of income, earnings, class, or other resources. A weak parent-child association indicates that individual well-being is not highly determined by parental resources, and it thus reflects high equality of opportunity in a society (but see Jencks & Tach 2006).

U.S. residents tend to believe that mobility in their country is exceptionally high (Burtless & Jencks 2003, DiPrete 2007a), which may raise tolerance for cross-sectional inequality (Benabou & Ok 2001). Does this perception match reality? Researchers use different approaches to answer this question. Some regress the log of the adult child's earnings (or, less commonly, income or other continuous measure) on the log of parental earnings at a comparable age, interpreting the elasticity or the correlation coefficient as a measure of intergenerational association. A second approach examines categorical measures of advantage such as social class or occupation, using a mobility table formulation and log-linear models to describe different levels of association in different locations of the bivariate distribution. These approaches yield somewhat contrasting results about the level of mobility in the United States in comparison with other industrialized countries. The class analysis using a mobility table approach indicates that the United States has relatively high mobility, although the authors caution that the results may reflect problems of data quality and coding (Erikson & Goldthorpe 1992). Analyses of earnings or income, on the other hand, typically find that the United States has relatively low mobility (Bjorklund & Jantti 2000, Corak 2006, Jantti et al. 2006, Solon 2002).

Recent research provides more detail on barriers to mobility in the United States and other industrialized countries. Using methods such as analysis of mobility matrices, quantile regression, and nonparametric approaches, these studies show that a single summary measure may conceal variation in mobility patterns across the bivariate income distribution. Cross-national differences in mobility are pronounced in the tails but not in the middle of the distribution. Most of the U.S. mobility deficit compared with other advanced industrial countries is due to limited fluidity in both ends of the distribution. In other words, children of poor families are more likely to remain poor, and children of wealthy families are more likely to remain wealthy in the United States than in any other rich country (Couch & Lillard 2004, Jantti et al. 2006). If we consider differential mobility across the children's (as opposed to the parents') earning distribution, persistence appears to be stronger among low-earning than higher-earning sons (Eide & Showalter 1999, Grawe 2004), suggesting that opportunity for upward mobility is more equal than opportunity for downward mobility (Beller & Hout 2006). Intergenerational persistence at the lower end of the income distribution is particularly pronounced among African American families. Thus, one reason the intergenerational correlation is so high in the United States is that race, or more precisely the physical characteristics from which racial categories are constructed, is inherited and has important economic correlates (Hertz 2005).

Can findings from the regression and mobility table approaches be reconciled? Their contrast hinges on the conceptual difference between class and earnings or income. The class approach collapses a large number of occupations into a small number of discrete strata. These classes are distinguished on the basis not only of income but also of other types of differentiation such as industrial sector and workplace authority (Erikson & Goldthorpe 1992). If factors unassociated with class produce within-class dispersion of earnings, and if these factors are correlated across generations, they can enter the intergenerational earnings correlation, leading to a higher class than earnings mobility (Bjorklund & Jantti 2000). This might indeed be the case for the United States.

Has income mobility changed over the past three decades? At the absolute level—mobility as experienced by individuals—mobility was substantially higher for the Depression-Era cohorts than for subsequent ones given strong economic growth between 1950 and 1970 (Beller & Hout 2006). Evidence on relative mobility is inconclusive. Some studies suggest an increase of the intergenerational elasticity, but others find no significant change (Levine & Mazumder 2002, Mayer & Lopoo 2004). The most accurate answer appears to be one of little change over the past two decades (Lee & Solon 2006).

Research on the association between income and a set of parental advantage measures shows that between 1970 and 1990 there was growing mobility for women and stability for men. However, income gaps across social origins widened among men and remained constant among women, driven by growing cross-sectional inequality over the past two decades (Harding et al. 2005). Consistently, Aaronson & Mazumder (2005) found a significant increase in family and community influence on men's economic outcomes between 1980 and 2000, which mimics trends in cross-sectional inequality. However, as Burtless & Jencks (2003) note, it may be still too soon to ascertain the long-term effects of the recent increase in economic disparities on mobility chances.

Taking Stock

Over the past three decades, wage inequality has increased in the United States and other industrialized countries, although in many European nations the increase in market dispersion has been offset by social welfare provisions. In contrast to earlier periods, the recent increase in inequality in the United States largely reflects concentration in the upper tail of the wage distribution. Although researchers agree on some of the proximate causes of rising wage inequality, including changes in the real value of the minimum wage, a decline in unionization, and rising returns to education, disagreement remains over the role of technological and institutional changes in the labor market. U.S. inequality in wealth has also increased, but the trend in intergenerational mobility remains unclear. The growth in upper-tail inequality may have longer-term consequences for both wealth inequality and intergenerational mobility if the working rich accumulate assets and pass their advantage to the next generation.

CONSEQUENCES OF INEQUALITY

The rise and persistence of economic inequality has motivated growing concern about the consequences of these growing disparities. Particularly significant is the prospect that social inequality will reinforce privilege among the affluent and disadvantage among the poor, reinforcing economic inequality in the next generation. The reproduction of inequality could occur through the attainment process: For instance, the poor health of low-income children means they get less education and as a result have lower earnings in adulthood. It could also occur through the political process, for instance if low-income constituents lose the political voice to advocate for policies that improve their lives. Also salient is concern about the loss of social cohesion as the social worlds of rich and poor diverge. Over the past ten years, research on the consequences of economic inequality has expanded rapidly, giving us some initial purchase on whether these concerns are likely to be realized.

Before discussing this research, we begin with a typology of inequality effects. Evans et al. (2004) discuss four types of effects. The first they call mechanical: If individual economic status is associated with a given outcome, then an increase in economic inequality will lead to an increase in inequality in that outcome. For instance, if income predicts happiness, then an increase in income inequality should lead to a corresponding rise in disparities in happiness. Second, a relational effect occurs when the relationship between economic status and a given outcome changes. For instance, if the association between income and voting has become stronger, the electorate will tilt toward the affluent, even without any change in the income distribution. Third, a functional form effect obtains when economic status has a nonlinear relationship to an outcome. The classic example of this kind of effect comes from studies of health: The same absolute increase in income is associated with a larger improvement in health for the poor than for the rich. As a result, reducing inequality improves health by redistributing income to those for whom it is more efficacious. Finally, an externality effect occurs when inequality has a contextual effect. For instance, living in a context of high inequality might intensify feelings of relative deprivation among low-income individuals, leading to higher levels of violent crime. Because they are contextual, externality effects can occur even if economic status has no relationship to the outcome of interest at the individual level.

Of these four, the contextual effects are the most novel for sociological work and have captured the most attention. Mechanical, relational, and functional form effects build on a core project of sociological research: the estimation of (or control for) the effect of socioeconomic status on a vast array of outcomes. Although there is certainly precedent in sociology for the analysis of contextual effects, especially over the past two decades, such research usually examines neighborhood-scale effects and focuses on the mean of individual characteristics. With contextual inequality effects, by contrast, the geographic scale is often larger and might reasonably vary across outcomes, and the focus is on the shape of the distribution. Most research on contextual inequality effects examines mean or aggregate characteristics such as economic growth, health, mortality, crime, and social capital, whereas studies of mechanical or relational effects more often focus on variance in the dependent variable, for instance disparities in health, happiness, or education. There is no reason, however, why contextual studies should not produce evidence about variances as well as means (Mayer 2001a).

Here, we provide capsule summaries of research on the consequences of inequality in the areas of health, education, crime and incarceration, social relations, and politics. This list does not exhaust the topics researchers have considered, but it includes the most prominent fields of inquiry and provides a representative picture both of initial empirical results and of the kinds of substantive and methodological questions that arise.

Health

The focus in health research has been on the effect of economic inequality on mean rather than variance in health within a particular population, and most research has examined contextual effects of inequality. Some contend that inequality is bad for health because it undermines social capital or because it is associated with poorer social welfare provisions or other institutional arrangements that disadvantage the poor (Lynch et al. 2004). Perhaps the most intriguing perspective is the status hypothesis, which proposes that relative deprivation—the subjective awareness of one's own economic position relative to others—influences health directly through the effects of stress on the body or indirectly through poor health behaviors such as smoking or alcohol abuse. The status hypothesis gained visibility through the well-known Whitehall studies of British civil servants (for a recent discussion, see Marmot 2004) as well as Sapolsky's (1995) studies of hierarchy, stress, and health among primates.

In the initial ecological studies, economic inequality appeared to be associated with cross-national and subnational variation in mortality, self-rated health, and other indicators. More recent results using multilevel models have raised some doubt. Variation in inequality does not appear to explain variation in health among rich countries (Beckfield 2004). Inequality may be associated with state-level differences in health in the United States (Lynch et al. 2004). Inequality within neighborhoods does not seem to be detrimental to health (e.g., Wen et al. 2003), although economic segregation across neighborhoods may be (Mayer & Sarin 2005). Very little research examines developing countries, although in an ecological analysis Moore (2006) finds that the association of inequality with health is stronger in peripheral than nonperipheral countries (with periphery status based on the country's position in world trade networks), and Subramanian et al. (2003) report that community-level inequality affects self-rated health in Chile.

Although empirical work on this topic has become more sophisticated methodologically, questions remain (Lynch et al. 2004; see also Beckfield 2004, Clarkwest & Jencks 2003, Eibner & Evans 2004). For instance, health often reflects cumulative exposures over a long period of time, but most studies are cross-sectional, implying that income inequality has an immediate effect (but see Subramanian & Kawachi 2006). Moreover, summary measures such as self-rated health or all-cause mortality combine disease conditions with varying induction periods (the time from exposure to the onset of disease). Third, the effect of inequality is likely to vary by individual characteristics, especially income and age of exposure, but these interaction effects are seldom examined. Finally, the estimated effect of contextual inequality sometimes changes substantially when other contextual or compositional characteristics are introduced, leading critics to suggest that the effect is spurious (Deaton & Lubotsky 2003, Mellor & Milyo 2003; but see Subramanian & Kawachi 2003, 2006).

Some promising research examines mechanisms through which inequality might affect health. In an analysis linking state-level inequality to infant mortality, for instance, Mayer & Sarin (2005) find that inequality is associated with economic segregation, which raises infant mortality, and with higher health-care expenditures, which lower infant morality. (The net effect of inequality on infant survival remains negative.) To investigate the status hypothesis, Eibner & Evans (2004) construct reference groups defined by state of residence, race, education, and age; their relative deprivation measure represents the average difference between one's own income and the income of other reference group members. They find that relative deprivation raises mortality risk as well as the risk of heart disease and tobacco-related mortality; it is also associated with unhealthy behaviors such as smoking and sedentary lifestyles. Their results suggest that half the impact of individual income on mortality may operate through relative deprivation. Indeed, their simulations suggest, a uniform 10% increase in income may actually increase mortality by increasing relative deprivation.

Although research typically examines physical health, a few papers consider the effect of inequality on measures of happiness or morale. Using data from the General Social Survey, Hout (2003) finds a relational effect: The effects of income on three measures of morale have grown larger, with low-income individuals reporting lower happiness, lower satisfaction with finances, and lower satisfaction with family life than in the early 1970s. He also reports a growing income effect on one's subjective sense of economic position: The poor have become more likely to call themselves below average or far below average. Alesina et al. (2004b) examine the contextual effect of inequality on happiness in the United States and Europe and find a significant negative association in both contexts. They also find intriguing differences across regions: In the United States, state-level inequality seems to lower happiness among the affluent but not the poor, whereas in Europe the reverse is true. Differences between the United States and Europe pale when compared with more unequal contexts in the developing world. Graham & Felton's (2005) findings for Latin America suggest a stronger effect of inequality on happiness in that region than in the developed world. They also find that perception of inequality and rank (relative deprivation) has a more substantial effect on happiness than absolute income.

Education

Although there is extensive evidence of the relationship between family income and school outcomes, the study of the implications of growing inequality is just beginning. Kane (2004) finds a relational effect of income on college enrollment; socioeconomic differences widened between 1980–1982 and 1992, as college enrollment remained stable in the lowest income quartile while rising among other income groups. In research on the contextual effects of income inequality, Mayer (2001a) reports that state-level inequality is associated with higher educational attainment and with higher inequality in attainment. She finds that state-level inequality is associated with higher returns to schooling, higher state spending for education, lower college tuition, and higher economic segregation, but that only higher state spending, lower college tuition, and returns to schooling had an impact on education. In states characterized by higher inequality, these factors tended to increase educational attainment—largely through college entry—for higher-income youth.

Crime and Incarceration

Most research on inequality and crime or incarceration considers contextual effects. As Kelly (2000) discusses, this work references several theoretical perspectives. Economic theories assume that the decision to commit a crime is driven by the potential criminal's calculation of expected returns; in this framework, inequality may raise the expected returns from property crime. By contrast, social psychological perspectives emphasize the implications of inequality for perceptions of relative deprivation, which may lead to frustration and hostility and thence to crime. Social disorganization or, in modern parlance, social capital or collective efficacy might also mediate the relationship between inequality and crime (Kennedy et al. 1998).

Research on inequality and crime commonly employs a cross-sectional design, examining differences in crime rates across neighborhoods, cities or metropolitan areas (Land et al. 1990), states (Kennedy et al. 1998), or countries (Fajnzylber et al. 2002, Lee & Bankston 1999). Many but not all of these studies find crime rates are higher in areas with higher income inequality; the evidence is more consistent for violent crime than for property crime (Fowles & Merva 1996, Kelly 2000). The effects of market inequality may be moderated by social welfare provisions (Messner & Rosenfield 1997); in cross-national studies, countries such as the United States, with high market inequality and poor social welfare provisions, have elevated crime rates (Messner et al. 2002, Savolainen 2000).

The mixed results from this research have prompted inquiry into the sensitivity of these findings to data quality and analysis specification. For instance, Messner et al. (2002) criticize the income measures often used in cross-national studies of inequality and crime, although they find that data quality has little effect on estimates of the relationship between income inequality and homicide. Land et al. (1990) note the high multicollinearity between inequality and measures of economic deprivation, which makes estimates of inequality effects sensitive to specification. Panel studies allow researchers to deal more convincingly with unobserved heterogeneity

(Fowles & Merva 1996) but are rare because of data limitations.

Taking a different tack, Western (2006) has examined the implications of inequality for incarceration. As he notes, the rise in inequality could have had a mechanical effect on crime, with the decline of labor market opportunities for disadvantaged men leading to an increase in criminal behavior; the evidence on this point is uneven. Western suggests that inequality has also had an impact on policing and sentencing policy, as authorities use law enforcement to respond to fears of social disorder or threat from poor and marginalized men. Such a relationship would explain the contemporaneous rise in economic inequality and incarceration rates.

Social Relations

The implications of inequality for social relations are salient because of concerns that rising inequality will deepen social divisions. In addition, social relations, including economic segregation and social capital, are often said to mediate the effect of contextual inequality on individual-level outcomes. As sociologists have documented, people associate more with others like them, both because they prefer it and because structural arrangements—neighborhoods, schools, workplaces, voluntary associations—tend to bring like people together. Social ties are less homophilous on the basis of socioeconomic status than on the basis of ascribed characteristics such as race or age, but social relations are still more likely to form and less likely to dissolve for those of similar education and occupational status (McPherson et al. 2001).

When we consider residential patterns, the preference for homophily is reinforced by social and material incentives for the affluent to maintain income-homogeneous communities (Durlauf 1996). Higher socioeconomic status families pay higher housing prices in order to live in more homogeneous neighborhoods (Bayer et al. 2005) and sacrifice economies of scale in public provision in order to live in more homogeneous municipalities (Alesina et al. 2004a). These cross-sectional results imply that economic segregation would rise as inequality increased. This has indeed happened: Although inequality across regions has declined, the affluent and the poor have become more segregated from each other across metropolitan areas, municipalities, and neighborhoods (Fischer et al. 2004, Massey & Fischer 2003, Mayer 2001b).

Inequality might also have implications for formal and informal ties. Given the preference for homogeneous relations, Alesina & La Ferrara (2000, 2002) write, inequality might reduce social capital; consistent with their work, Costa & Kahn (2003) report that long-term declines in social capital are associated with rising income inequality and that levels of trust and civic participation are lower in areas with greater income inequality. Skocpol (2003) finds that associational life has become more class segregated, with churches, fraternal organizations, and veterans' associations giving way to associations tilted toward those from privileged backgrounds. We know less about trends in the class composition of social networks, although educational homogamy has increased since the 1960s (Schwartz & Mare 2005).

Politics

Much research on politics and inequality has examined the proposition that rising economic inequality creates political discontent among lower-income constituents and leads to demands for redistributive social policies. This idea has been formalized in the median voter perspective (Meltzer & Richard 1981). In this model, elected officials seeking to maximize their odds of reelection are oriented to the preferences of the median voter. When economic inequality rises, median income typically falls relative to the mean, and the median voter gains more from redistribution; thus, political support for taxation, social welfare spending and other redistributive programs should rise. The empirical support for the positive association between inequality and redistribution has been mixed. Some cross-national studies (Kenworthy & Pontusson 2005, Milanovic 2000) find support for the median voter hypotheses. In others the association is null or negative (Benabou 1996, Perotti 1996) or varies depending on the type of redistributive program (see Osberg et al. 2004 for a review). Moene & Wallerstein (2001) find that growing inequality may increase support for redistributive benefits targeted at employed individuals but reduces support for those targeted at those without earnings. As reviewed in Lenz (2004), evidence about the association between inequality and the extent of redistribution is also mixed in studies comparing the American states.

Even when evidence indicates that inequality spurs redistribution, the United States remains an exception (Kenworthy & Pontusson 2005). Political scientists have sought to understand why American political institutions appear to be so unresponsive to the interests of lower-income voters; the American Political Science Association recently convened the Task Force on Inequality and American Democracy to examine this question (Jacobs & Skocpol 2005). Although higher-income voters are more likely to vote Republican (Brooks & Brady 1999), political views do not correspond consistently to economic interests (Bartels 2005b, McCall 2005, Osberg & Smeeding 2006; A. Gelman, B. Shor, J. Bafumi, and D. Park, unpublished manuscript). Moreover, elected officials in the United States are far more responsive to their affluent constituents than to the middle class or the poor (Bartels 2005a, Gilens 2005). This disparity in political influence is partly a function of income differences in political participation, with the affluent much more likely than the poor to vote, donate, protest, and lobby (Jacobs & Skocpol 2005).

The political disadvantage of low-income constituents may be increasing. Freeman (2004) finds evidence that the class skew in voting is tilting more toward those of higher socioeconomic status, and Skocpol (2003) documents the decline of unions and other organizations that have fought for a working-class economic agenda. Hacker & Pierson (2005) also draw attention to shifts in political institutions, including rising polarization and the growing importance of money in political campaigns, contending that politicians have become more responsive to their political base than to the priorities of (most of) their constituents. Overall, there is little evidence that rising economic inequality will spur a countervailing political movement for redistribution; it appears more likely that politics will sustain and reinforce economic inequality.

Taking Stock

Is growing inequality bad for us? Does it increase disparities in physical, psychological, or social well-being and opportunity? Although the gap between rich and poor may be growing in some areas, including health, happiness, education, and political participation and influence, it is unclear how, or even whether, this widening gap is attributable to rising inequality. As Jencks (2002) observes, given the evidence to date, the social effects of economic inequality may be neutral or negative, but probably are not positive (Mayer 2001a provides an exception). If there is a contextual effect of inequality, it appears to be small compared with the influence of individual- or family-level characteristics.

A primary concern in this literature is whether the consequences of economic inequality will make inequality more difficult to reverse in the next generation. We cannot answer this question definitively without specifying the causal pathways that lead from economic inequality to its social and political sequelae and then back to economic status, a complex undertaking for which existing data are inadequate. The evidence at hand, however, supports concerns that economic inequality may become more entrenched (*a*) through the attainment process, as economic disadvantage is compounded by disadvantages in health, education, and other domains; (*b*) through growing segregation in residence and social relations; and (*c*) through politics, as power and influence become more concentrated among the affluent.

WORLD INCOME INEQUALITY

Most inequality research has focused on disparities within the United States and other industrialized nations. Only recently have researchers begun to examine world or global inequality, in other words disparities across all individuals in the world, regardless of their country of residence. This question is substantively important for at least three reasons. First, as we discuss, most of the world's inequality is between rather than within countries. Second, a global perspective on inequality can show whether the patterns observed in the United States and the OECD countries are specific to affluent nations or have more general applicability. Finally, some consequences of inequality that we have already discussed, such as relative deprivation or the concentration of power, may have an analogue when we consider relations among countries rather than relations among individuals.

Measures of world inequality sum between- and within-country components. The between-country component evaluates disparities in per capita gross domestic product across nations, weighting each nation by its population size. The within-country component adds to the calculation the income distribution within each nation. Over time, the balance of between- and within-country inequality has shifted dramatically. In the late eighteenth century, most of the world's inequality was within nations; the average income of the richest nations was less than three times that of the poorest ones (Maddison 2001). With the industrial revolution and consequent economic development in Europe, as well as stagnation in Asia, between-nation inequality rose significantly over the nineteenth and early twentieth centuries (Bourguignon & Morrisson 2002). Since the 1950s, however, between-country inequality has declined, a trend that may have accelerated in the 1990s (Firebaugh 1999, 2003; Firebaugh & Goesling 2004, Melchior & Telle 2001, Milanovic 2002). This recent decline is a function largely of fast economic growth in a few poor and very populous nations, particularly China and India, which together account for about a third of the world's population. As these nations approach the world's mean income, they drive down population-weighted between-nation inequality. Even so, between two-thirds and three-quarters of global income inequality remains between nations (Goesling 2001, Milanovic 2005, Sala-i-Martin 2002, Schultz 1998; see also Firebaugh 2003, Table 5.1 for earlier studies).[1]

Researchers disagree about the factors underlying trends in inequality between nations. Some point out that only a few developing nations exhibit rapid economic growth, whereas many others, particularly in sub-Saharan Africa, remain extremely poor. In this interpretation, the fates of Third World countries diverged sharply in the late 1970s, reflecting differences in these countries' capacity to compete in the context of reduced capital flows and higher interest rates (Arrighi 2002, Easterly 2001). Researchers suggest also that globalization has had a detrimental effect in most of the developing world (Arrighi et al. 2003, Wade 2004), with the most vulnerable developing countries being those characterized by societal divisions, weak governmental institutions, limited democratic rights, and poor social welfare provision (Rodrik 1999). Others present a more optimistic approach to globalization. Firebaugh (2003, 2004) argues that the decline in between-nation disparities is caused largely by the spread of industrialization and technology owing to globalization,

[1]Korzeniewicz & Moran (1997) estimate an outlier value of 86% of world inequality due to between-country component in 1992, but their per capita GDP measure is not adjusted by purchasing power parity and is therefore not included.

as well as the growing similarity of national institutions and an emerging demographic windfall (as fertility declines, the adult/child ratio will rise) in poor countries. These developments are interpreted as part of a long-term convergence process that will continue to reduce inequality between nations, benefiting developing countries (Firebaugh 2003, Lindert & Williamson 2001, Lucas 2002). In this view, lagging nations are not those that have become integrated into the global economy, but rather those left behind by it.

In measurement of between-nation inequality, weighting countries by their population size reflects a focus on the well-being of individuals rather than nations. However, this approach also allows a few large countries to drive the result. Indeed, if China is removed from the calculation of population-weighted between-country inequality, between-nation inequality does not appear to decline over the past quarter century (Milanovic 2005, Goesling 2001). And if inequality is measured across countries without weighting by population, we observe an increase, not a decrease, in between-country inequality over the same period (Firebaugh 2003, Milanovic 2005). As this result highlights, many of the poorest and some middle-income countries have stagnated, with dismal economic performance in sub-Saharan Africa and poor performance in parts of Latin America, Eastern Europe, and the former Soviet Union (Firebaugh & Goesling 2004, Melchior & Telle 2001). If we focus on countries rather than individuals, it appears that the international middle class has hollowed out (Milanovic 2005, but see Sala-i-Martin 2002).

Over the past three decades, even as population-weighted between-nation inequality has declined, within-nation inequality has increased in most of the world; Africa may be an exception, but data there are less reliable (Bhalla 2002, Firebaugh 2003, Goesling 2001, Sala-i-Martin 2002). Factors driving this rise in within-country inequality are unclear. Some authors suggest that economic globalization—measured as free trade policies or the ratio of foreign direct investment or trade to GDP—has sharpened inequality within countries (Alderson & Nielsen 1999), although other studies refute this hypothesis (Bussmann et al. 2005, Dollar & Kraay 2002). More important may be long-term factors such as growing returns to education and the weakening of inequality-reducing institutions (Pontusson et al. 2002), along with contingent factors such as the market transformations in China, India, and the former socialist countries in Eastern Europe (Firebaugh 2003, Lindert & Williamson 2001).

If between-nation inequality is declining and within-nation inequality is increasing, what is the net effect for global inequality? This question has generated significant controversy. Some research finds relative stability or a small increase in global inequality over the past three decades (Bourguignon & Morrisson 2002; Chotikapanich et al. 1997; Dowrick & Akmal 2005; Milanovic 2002, 2005). Others, however, report a decline in global inequality (Bhalla 2002, Firebaugh 2003, Goesling 2001, Melchior & Telle 2001, Sala-i-Martin 2002, Schultz 1998, Sutcliffe 2003). This lack of consensus reflects methodological issues related to limitations in the available data (Firebaugh 2003, Milanovic 2005, Sutcliffe 2003). Milanovic's (2005) finding of a small increase in global inequality from 1988 to 1997 deserves special attention because his is the only research to calculate world inequality directly from nationally representative surveys covering most of the world's population.

Taking Stock

An emerging literature on world inequality is providing much-needed evidence on economic disparities both within and between rich and poor countries. Most inequality is between nations, but within-country inequality is rising in the developing world as well as in affluent countries; the question about global inequality trends is still open. There is little consensus about the explanations for these patterns, nor about whether we can expect economic convergence or divergence in the future. The uneven availability and quality of individual-level income or consumption data remain a significant challenge for empirical researchers. As access to data improves, the main task ahead is to agree on a set of measurement and analytical standards that allows conclusive assessments of global inequality trends. A global perspective should not only provide information about disparities among citizens of the world but also help discern where income dynamics correspond to worldwide trends and where they reflect country-specific decisions and institutions.

DISCUSSION: TOWARD A SOCIOLOGY OF INEQUALITY?

As critics within the discipline have noted (Morris & Western 1999, Myles 2003), sociologists have been relatively slow to take up the study of inequality. Reasons may include a long-standing focus on occupations rather than income and on gender and racial stratification (DiPrete 2007b, Kenworthy 2007), as well as the disconnect between organization-level and economy-wide studies (Sorensen 2007). In any event, the tide is clearly turning; see for instance the recent issue of *American Behavioral Scientist* edited by Myles & Myers (2007). The question that remains is how sociologists will contribute to work in this field.

One way, certainly, is through participation in the growing interdisciplinary inquiry into inequality. This enterprise, which has focused particularly on the consequences of inequality in the United States and other industrialized countries, is anchored in public policy schools and other interdisciplinary contexts such as the Russell Sage Foundation's research program on inequality. In addition, however, sociologists can make a distinctive contribution by taking advantage of disciplinary strengths. The following discussion of next steps for research on inequality highlights the role that sociologists might play.

Patterns and Causes of Inequality

Many questions remain about the causes of inequality in the United States and other industrialized nations. Much discussion, particularly about the causes of inequality, is based on inferences from the timing and incidence of changes in distributions, with few direct measures of possible drivers such as SBTC. Although empirical studies have examined changes in the minimum wage and union membership, it has been more difficult to measure other institutional factors, much less to evaluate their implications for economic inequality. We concur with Morris & Western's (1999) assessment that the analyses of labor market patterns that dominate this literature should be embedded in an institutional and organizational context, so that the implications of recent structural changes in the economy can be examined more directly.

Given their expertise in the analysis of organizations, sociologists could illuminate these changes. Recent agenda-setting statements by sociologists (Morgan & Cha 2007, Sorensen 2007) show how the stream of new structuralist research that began in the 1980s—bringing insights about organizations to the overly individualist status attainment perspective—might play an analogous role in current research on inequality. For instance, the notion of rent destruction of working-class earnings (Morgan & Cha 2007) connects causal explanations based on individual attributes (workers' skills), technological change, and institutions (wage-setting mechanisms) to political decisions shaped by the economic power of capital. Sorensen (2007), in turn, proposes that organizational heterogeneity has implications for the quality of the match between worker and firm, and that match quality in turn affects economic inequality by allowing heterogeneity in worker productivity to be more fully reflected in earnings.

Research on the growth of upper-tail wage inequality might particularly benefit from this perspective. Various hypotheses have been offered to account for this concentration at the upper end. For instance, Kane (2004) and others note the growing differentiation among colleges and suggest that earnings inequality among college graduates may be linked to rising payoffs to college quality. Frank & Cook (1995) emphasize the character of winner-take-all markets, in which small differences in performance lead to very large differences in rewards; such markets, they write, have become more common. As DiPrete & Eirich (2006) discuss, sociological work on cumulative advantage provides useful conceptual tools for studying the mechanisms leading to concentration of resources among the most advantaged; examples include Merton's (1973) Matthew effect and Rosenbaum's (1979) tournament model. Such work usefully situates the emergence and reproduction of inequality within specific organizational contexts rather than in a homogenous competitive market.

On the other hand, sociological work may have been overly structuralist in the study of inequality of opportunity, particularly intergenerational mobility. By and large, sociological analyses focus on class, i.e., the discrete positions in the social structure determined by relations of production, which cannot be reduced to a unidimensional continuous scale of advantage. There are advantages, however, of analyzing intergenerational mobility using earnings, wealth, consumption, or other continuous measures. If the objective is to describe disparities in economic well-being, continuous indicators of advantage should be considered. In addition, most of the growth in U.S. inequality has taken place within rather than between classes and even smaller occupational groups, and therefore may be missed by a structural approach.

Consequences of Inequality

Over the past decade, research on consequences of inequality has grown rapidly, with studies of externality effects most prominent in this literature. Although such work engages theoretically and substantively important questions, it is also vulnerable to criticism. This research is characterized by premature theoretical closure, with an overemphasis on a few pathways such as relative deprivation and social capital while other potential mediators remain unexamined. In addition, studies of contextual inequality effects face common methodological challenges, including the limited numbers of cases for cross-national and cross-state analysis, the uneven quality of income data, collinearity between inequality and other economic indicators, omitted variable bias, and uncertainty about temporal lag structures (Evans et al. 2004, Lynch et al. 2004). Further, as Eibner & Evans (2004) note, although relative deprivation is prominent in theoretical accounts of inequality effects, researchers often conflate contextual inequality and relative deprivation. Contextual inequality is the same for everyone living in a given area, whereas relative deprivation depends on an individual's location within the income distribution and can be understood as an interaction between contextual inequality and individual position.

More generally, research on contextual effects of inequality is characterized by insufficient attention to the mechanisms through which inequality might matter. For instance, contextual inequality is often believed to have an effect as an individual's awareness of inequality leads to feelings of relative deprivation or injustice and thence to consequences including stress, poor health, criminal behavior, and political support for redistribution. Yet we know very little about how people become aware of complex economic information, how quickly they revise this information when conditions change, how institutions mediate the acquisition and interpretation of economic information, and what kinds of biases might affect perceptions of inequality. Nor do we understand how people choose reference groups against which to evaluate their own status. Researchers have begun to consider these questions (e.g., Bartels 2005b, Eibner & Evans 2004, McCall 2005); for instance, Osberg & Smeeding (2006) recently found that Americans are more likely than Europeans to underestimate inequality at the top of the income distribution, and DiPrete (2007a) reports that Americans significantly overestimate their chances of becoming rich. This line of inquiry would be enriched by more explicit reference to literature in social and political psychology.

Likewise, some accounts propose social capital as a mediator of inequality, but social capital has a number of dimensions, such as participation in civic organizations, neighborly relations, and trust in other people, that may respond differently to changes in economic inequality. The dynamics of associational life and social relationships may also temper inequality effects. If we disaggregate the multiple dimensions of social capital and consider how inequality might affect each, drawing on existing knowledge about voluntary associations, social networks, and the like, the result could be a much richer account both of the implications of inequality for social relations and of how social relations mediate economic inequality.

Research on the consequences of economic inequality has taken what might be called a social indicators approach, considering the implications of inequality for such outcomes as mortality, educational attainment, crime, or happiness. This research is important in helping us understand whether inequality is good or bad according to conventional criteria, but it leaves unexamined the more subtle ways in which inequality might shape our institutions. For example, consider risk aversion. A regime of high inequality, in which failure becomes more costly, may induce risk-averse decisions as people select school and neighborhood environments for their children, or careers, mates, and friendships for themselves. Rising upper-tail inequality may also intensify competition for scarce goods and services—for instance the most desirable neighborhoods or prestigious colleges—raising prices for the affluent and reducing opportunities for everyone else; Bayer et al. (2005) provide an illustration with their analysis of the San Francisco housing market.

Finally, even as research on contextual effects proceeds, we should not neglect the other ways in which inequality might matter. As mentioned earlier, most research on contextual effects has examined the mean rather than the variance in outcomes. As a result, this literature has less to say than one might expect about the impact of growing economic inequality on disparities in other social and political domains. In addition, studies that explicitly compare types or mechanisms of inequality effects (e.g., Mayer 2001a, Mayer & Sarin 2005) can play a key role in this emerging literature.

To date, research on the consequences of inequality has neglected the developing world. It is unclear whether inequality has a similar effect in poorer, and usually much more unequal, countries and, if so, why. Sociologists can inform this research by showing how government, civil society, kinship and household structure, ethno-religious divisions, and culture may affect the material and symbolic consequences of economic inequality in developing countries. The study of global inequality also raises new questions about the consequences of between-nation inequality. Income disparities among nations may have implications for international relations, for instance, to the extent that the world is a community of nations regulated by international agencies (Milanovic 2005, pp. 149–50). In addition, relative deprivation may exist among nations as well as among individuals. Growing awareness of between-country inequality could fuel resentment of developed countries or heighten migratory flows across regions. In general, in a world of increasingly porous boundaries, it is more important to consider the global dimension of social and political consequences of inequality.

Much research has been done on the patterns and causes of inequality over the past two decades. Today, the most pressing questions concern inequality's social and political consequences. These consequences may depend on individuals' perception and interpretation of inequality, mediated by social relations, institutions, and cultural context. Sociologists can advance research on inequality by bringing discipline-based expertise to bear not only on the organization and political economy of firms and labor markets, but also on the pathways through which inequality has an effect, and the social, political, and cultural contingencies that might modify this effect.

ACKNOWLEDGMENTS

The authors would like to thank Dalton Conley and an anonymous reviewer for helpful comments on this paper.

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