

How does an increasing pay gap affect our attitudes?

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Income inequality can result in less willingness to contribute to a common good that benefits all, a new study shows.

Economic differences in the population are increasing in Norway, as well as in many other countries. From 1986 to 2012, the Gini coefficient for inequality increased by 19 per cent in Norway. Since 2009, the difference between the shares of total income that go to the ten per cent richest and to the ten per cent poorest has increased every single year according to Statistics Norway.

Effects of greater differences

The French economist Thomas Piketty describes a future scenario in which greater inequality has been perpetuated primarily through inheritance. At the same time, researchers such as Robert Putnam warn against the unfortunate consequences that would result from such a society, in which greater inequality will lead to less cooperation between the citizens and thus poorer results for all.

This has enticed Professor Kjetil Bjorvatn at Department of Economics to take a closer look at the effects of greater inequality. In an economic experiment, together with Nicola D. Coniglio from the University of Bari in Italy, he has studied how inequality affects the willingness of people to cooperate and contribute to the common good.

“We find that the source of income plays a decisive role. Groups of workers contributed far more to the common good than groups who had not worked for their money,” says Bjorvatn.

Classic game of common goods

The economic experiment was conducted last autumn on 240 students at the University of Bari in Italy, where Bjorvatn's colleague Coniglio is located.

In the experiment, a group of participants performed work which consisted of cutting up sheets of paper into small pieces for 25 minutes. A corresponding group did not perform any work, and they simply reported to the experiment when the others were finished with their allotted work.

All of the participants then received a payment, the amount of which varied: some received a low payment of EUR 9, others a medium payment of EUR 14, and still others received a high payment of EUR 18.

The amount awarded was random and had no connection to the work, if any, that was performed in advance. The participants were then organised into groups of three, in which they did not know the identity of the others, but they knew the amount of payment they had received and if they had worked or not.

Willing to contribute

The participants were then given the opportunity to donate portions of their income to a common pot that would ultimately be distributed equally to everyone in the group.

The money that was donated to the pot would increase in value, such that the combined value would be greater the more the participants contributed to the common pot. Since the common pot would be distributed equally to everyone afterwards, each individual participant in isolation would at the same time have an incentive to give less to the common pot than the others and thus become a free rider.

“This is a classic game of common goods. We know from the literature that fairness and reciprocity are important drivers for how much one is willing to contribute to the common good. We wanted to see how the source of the distribution, and the level of inequality, affected people’s contributions,” says Bjorvatn.

Fairness plays a role

When the researchers compare groups with three identical participants in which everyone has earned the same, they find that the groups in which all the participants had worked in advance gave much more money to the common pot than the members in the groups in which no one had worked.

“We see that those who worked in advance gave 33 per cent to the common pot, while those who had not worked in advance gave far less, just 23 per cent,” says Bjorvatn.

There was also a great difference in the percentage of free riders. All of 40 per cent of those who had not worked gave nothing at all to the common pot, while the corresponding percentage for the workers was 20 per cent.

Those who had worked

“This implies that the source of the income was significant. It may be that the workers in the experiment established a sense of community among those who worked, such that they felt more solidarity with each other and encouraged them to increase the contribution,” says Bjorvatn.

When persons who had worked were grouped together with persons who had not worked, the workers’ contribution to the common pot declined significantly, and the percentage of free riders increased from 20 per cent to 36 per cent.

The workers also stated that they expect that those who had not worked should contribute a high amount. Normally, such an expectation of a high contribution from the others would also lead to a higher contribution from the decision-maker, due to a desire to reciprocate.

Negative reaction

“Workers who encounter persons who have not worked for their money react by also contributing less themselves to the common pot. We interpret that as an expression of the fact that the workers think that it is fair that those who did not work for the money contribute more,” says Bjorvatn.

With regard to the effect of the differences in the income level, the researchers find that the workers who only earned EUR 9 gave a relatively greater portion of their income to the common pot than those with higher income.

“We interpret this as an expression of reciprocity. Workers with low income expect that those who earn more will contribute a lot, and they themselves do not want to come to the table empty-handed,” says Bjorvatn.

Will want to contribute less

Extended to a possible future society, Bjorvatn sees several consequences. In a society where everyone works, one will want to contribute a lot to the common pot, which will increase the overall creation of value.

In an alternative society, where one primarily lives off of inherited funds, the population will want to contribute less to the common pot.

“Thomas Piketty warns against a future in which income inequality increases and where a greater percentage of wealth is inherited. Greater inequality is problematic in itself. However, our study indicates that this can also be a society that is characterised by free riders and low value creation. A redistribution of wealth can thus contribute to both increased fairness and increased efficiency,” says Bjorvatn.

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