Informational content of relative deprivation as a channel linking economic inequality to risk taking

André van Hoorn*1

The evidence that economic inequality (or relative deprivation) increases risk taking, as presented in PNAS by Payne et al. (1), is an insightful addition to a broader literature that finds that relative deprivation has distinct effects on individuals, not the least of which is their happiness, in addition to any direct effects of individuals’ absolute wealth or prosperity (2–4). However, when it comes to the aggregate-level relationship between everyday inequality and risk taking, I find that the focus of Payne et al. (1) is too narrowly on the role of perceived need to the neglect of another important channel linking inequality to risk taking.

As first proposed by Hirschman (5), relative deprivation can have informational content, which means that relative deprivation may be a source of information that individuals use to update their beliefs and change their behavior. Although the original point of Hirschman (5) was that individuals may take inequality and the relative success of others as a sign of economic mobility, particularly the likelihood of their own prosperity progressing as well, various studies since then have reported empirical results consistent with the more general idea that inequality can have informational content. Happiness research, in particular, finds that material deprivation relative to one’s (professional) peers may have positive rather than negative effects on individuals’ happiness, reaching the conclusion that relative deprivation acts as a signal (6, 7). Meanwhile, a more direct test of the ideas in Hirschman (5) shows that individuals are less supportive of redistribution if they believe they are on an upward economic trajectory (8).

The lesson from this literature is that inequality is likely to affect risk taking also because of a learning process in which individuals take relative deprivation as a sign that they have been taking suboptimal levels of risk. In particular, considering others that have done better than themselves may lead individuals to believe that improving their economic position requires them to take (even) more risk. The end-result would be a strong positive link between inequality and risk taking that exists independent of inequality’s effect on individuals’ perception of need.

To be sure, the study by Payne et al. (1) is to be lauded for presenting solid experimental evidence linking inequality to risk taking through perceived need. Indeed, the existence of a second channel linking inequality to risk taking through information and learning from others does not diminish the channel considered by Payne et al. (1). However, the importance of recognizing that both these channels operate simultaneously increases when considering the aggregate-level relationship between everyday inequality and risk taking. Emphasizing changing perceptions of need, this relationship naturally raises questions not about “structural economic forces” but about individuals’ subjective feelings of how much wealth they “consider to be enough” (1). Emphasizing the idea of individuals learning from successful others, in contrast, this relationship naturally raises questions about the means available to individuals that would enable them to experience upward economic mobility (cf. ref. 9). For starters, a particularly salient thing to wonder about is the objective chance for a given individual to move up in life without engaging in increased risk taking by merely working hard.

5 Hirschman A (1973) The changing tolerance for income inequality in the course of economic development. Q J Econ 87:544–566

*Institute for Management Research, Radboud University, 6500 HK Nijmegen, The Netherlands
Author contributions: A.v.H. designed research, performed research, and wrote the paper.
The author declares no conflict of interest.

*Email: a.vanhoorn@fm.ru.nl