



Review

INCOME INEQUALITY IN THE UNITED STATES: REFLECTIONS ON THE ROLE OF CORPORATIONS

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7 **INCOME INEQUALITY IN THE UNITED STATES:**
8 **REFLECTIONS ON THE ROLE OF CORPORATIONS**
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48 valuable comments.
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53 **Keywords:**

54 Corporate responsibility, human dignity, human rights, income inequality, inequality, living
55 wage, one percent problem, social justice
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INCOME INEQUALITY IN THE UNITED STATES: REFLECTIONS ON THE ROLE OF CORPORATIONS

Thomas Piketty: *Capital in the Twenty-First Century*, Cambridge, MA and London: Belknap Press of Harvard University Press, 2014.

Joseph E. Stiglitz: *The Price of Inequality*, New York and London: W.W. Norton, 2012.

Richard Wilkinson and Kate Pickett: *The Spirit Level. Why Equality is Better for Everyone*. London, UK: Penguin Books, 2009.

Extreme income inequality challenges all economies, both developed and developing, by causing social inequality, bringing misery to those at the bottom and power to those at the top, dividing the minority “haves” from the majority “have-nots,” allowing the powerful to create conditions that further increase their wealth, and causing the deprived to become poorer.

Many organizations, leaders, and authors have turned attention to the problem. Between 2008 and 2015, the Organization for Economic Cooperation and Development (OECD, 2015) published three reports on the trends and causes of rising income inequality among its member countries. The World Economic Forum (2015) publishes annual global risks reports consistently identifying inequality as a major risk factor. In his 2015 Encyclical, Pope Francis (2015) urged the world to care for our common home by relating “climate change and inequality.” The United Nations (2015) addresses inequality explicitly in two of its 17 Sustainable Development Goals. Social scientists, especially economists, have focused on the topic, including Atkinson (2015), Bourguignon (2015), Frank (2007), and Krugman (2009), and the authors of the three books discussed in this article: Piketty (2014), Stiglitz (2012), and Wilkinson and Pickett (2009).

The attention and ongoing efforts give some hope that we may find solutions, but the challenge is to persuade those with economic and political power to be willing to change, to reduce income inequality, and improve society for all.

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3 The three books present persuasive arguments regarding the nature and serious consequences
4 of income inequality. In this article, we analyze their arguments, with our focus on the United
5 States. Despite its great wealth, for decades the United States has had greater income inequality
6 than all other developed economies. Media speculations suggest that the inequality problem may
7 be one reason for the surprising presidential election in November 2016.
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15 U.S. income inequality is usually discussed in the context of extraordinary CEO pay in
16 publicly listed firms (Pizzigati, 2004, 2005). For example, Wal-Mart paid its CEO Doug
17 McMillon \$25.6 million in 2014,¹ but its median employee pay was only \$23,000, barely above
18 the minimum wage, for a CEO–employee pay ratio of 1133. According to the AFL-CIO’s
19 Executive Paywatch website, CEOs of S&P 500 indexed companies received, on average, \$12.4
20 million in total compensation – a CEO-to-worker pay ratio of 335 to 1.² Glassdoor.com, an
21 online company for job search and company reviews, reported an average disparity ratio of 204
22 times in 2015 based on their analysis of 441 listed U.S. companies.³ Whether the ratio is 1000 or
23 200, OECD data indicate that the U.S. disparities are much greater than those in all other
24 developed countries. Denmark, for example, has a ratio of eight times (Tsui, Jiang, & Enderle,
25 2016).
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41 Why does the United States differ so dramatically from other developed economies on
42 executive pay and income inequality? Economic analysis has revealed that much of the rising
43 U.S. income inequality in the past three decades is because top income brackets have extremely
44 large earned income, while middle class wages have been stagnant, and lower earners have
45 suffered declining wages.⁴ This revelation suggests that corporations may be a major cause of
46 income inequality, and as such may be a major solution.
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3 In this essay, we first highlight the key ideas in three books, which point to the unequal rise of
4 earned income among those in different income categories, and the severe negative
5 consequences of extreme inequality for societies. Focusing on the CEO as the iconic
6 representation of the top income earners, we concentrate on income inequality in business
7 organizations, especially the publicly listed corporations, which are legally required to publish
8 the salary data of top executives. We discuss their possible roles in reducing income inequality.
9 We consider the economic, social-psychological and ethical reasons that may support the
10 possibility and desirability of reducing the extremely high level of income inequality in the
11 corporation, supporting the arguments by the authors of all three books that less inequality is
12 better for everyone. We consider the indispensable role of government and conclude by
13 discussing how management research can provide valuable knowledge to guide policies of both
14 governments and corporations to improve the quality of life for all people, due to a lower level of
15 economic and social inequality among them.
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33 34 **THREE BOOKS ON INCOME INEQUALITY**

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36 The three books discuss negative impacts of income inequality on people and society, the
37 need for a just social order, and the conviction that change is possible. The authors call for the
38 courage to pursue positive solutions, but each has a unique perspective. In *Capital in the Twenty-*
39 *First Century*, Thomas Piketty, a French economist, presents a large database showing the
40 dynamics of income and wealth distribution over 120 years across 29 countries. *The Price of*
41 *Inequality* by Joseph Stiglitz, U.S. Nobel Laureate in Economics, investigates the interplay of
42 market forces, political machinations, and consequences for the U.S. economy and society.
43 British epidemiologists Richard Wilkinson and Kate Pickett, in *The Spirit Level*, focus on the 23
44 wealthiest OECD nations. They provide robust evidence showing that gross inequality tears at
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3 the human psyche, creating anxiety, distrust, and an array of mental and physical ailments. The
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5 three books are a wakeup call for concerned citizens, policymakers, and management scholars
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8 who want to address real-life problems.
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10 **Thomas Piketty: *Capital in the Twenty-first Century***

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12 Piketty puts the debate on the distributional question at the heart of economic analysis. Rather
13
14 than denouncing inequality or capitalism, he suggests ways to best organize society and
15
16 identifies institutions and policies most appropriate for achieving a just social order. Critical of
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18 mainstream U.S. economics, of abstract theory, and of mathematical excess, he tries to answer
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20 fundamental questions using publicly accessible data and a minimal theoretical framework.
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23 Highly aware of the complex history of income and wealth, he cautiously draws lessons from the
24
25 past to predict the future.
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29 Written in a clear, compelling, and readily accessible style, the 685-page book includes an
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31 introduction, 16 chapters, conclusions, and a large appendix. The data clearly indicate that
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33 countries vary substantially in rise and fall of income and wealth inequality because of various
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35 economic and noneconomic factors with multifaceted impacts. Chapter 8, titled “Two Worlds,”
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37 explains quite different patterns in France and the United States regarding the evolution of
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39 inequality from 1910 to 2010. In France, the evolution was simple: from 1980 to 2010, the top
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41 decile (10%) in total income (capital gains and wages) kept its same share, while the top centile
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43 (1%) increased its wage share by 30% in the last decade. The top 0.1% and 0.01% had greater
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45 increases. In the United States, inequality transformation was more complex. From 1980 to 2010,
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47 the top decile (10%) increased its share of total income (including wages and capital gains) from
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49 35% to 48%; the top 10% to 5% (annual incomes \$108,000 to \$150,000 in 2010) remained at
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51 about 12%; the top 5% to 1% (annual incomes \$150,000 to \$352,000 in 2010) slightly increased
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3 from 13% to 16%. However, the top 1% (annual incomes above \$352,000 in 2010) jumped 10%
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5 to 20%, an increase of 100% (compared with 30% increase in France). Most notable is that
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7 among the top 5%, almost 90% of the total income came from employment; less than 10% came
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9 from capital income. For the majority 95%, capital earnings were miniscule.
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13 The data clearly show that since the 1970s the United States, among all developed
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15 economies, has experienced the largest increase of income inequality and, based on projections,
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17 will continue to hold this position. How did it happen? Piketty concludes that it “reflects the
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19 advent of ‘supermanagers,’ that is, top executives of large firms who have managed to obtain
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21 extremely high, historically unprecedented compensation packages for their labor” (p. 302).
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23 Consequently, corporate pay policies and practices are fueling U.S. income inequality.
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27 **Joseph Stiglitz: *The Price of Inequality***

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29 Economists largely support and non-economists can easily understand this clearly written
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31 414-page book. In ten chapters, Stiglitz criticizes the excessive gap of “the 1 percent and the 99
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33 percent” in the United States. In Chapter 1, he writes:
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36 . . . certain stark and uncomfortable facts about the U.S. economy: (a) Recent U.S. income
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38 growth primarily occurs at the top 1 percent of the income distribution. (b) As a result, there
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40 is growing inequality. (c) Those at the bottom and in the middle are actually worse-off today
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42 than they were at the beginning of the century... and (i) America has more inequality than
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44 any other advanced industrialized country; it does less to correct these inequalities, and
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46 inequality is growing more than in many other countries (p. 25).
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50 Against these inconvenient truths, with relevant empirical data, Stiglitz refutes four retorts by the
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52 American Right: that lifetime inequality is not bad; poverty in America is not real; statistics are
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3 misleading; and inequality can be economically and morally justified and thus should not be
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5 reduced, which would “kill the golden goose” and make even the poor suffer.
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8 Chapters 2 and 3 discuss the interconnected political and economic causes of inequality.
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10 Although market forces shape the degree of inequality, government policies shape market forces,
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12 which becomes especially clear when Stiglitz compares the United States with other advanced
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14 industrialized countries. Current U.S. political processes help the wealthy at the expense of the
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16 majority population, for example through government-provided hidden and open transfers and
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18 subsidies, laws that make the marketplace less competitive, lax enforcement of competition laws,
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20 monopoly rents, and government munificence. Real market forces also contribute to inequality,
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22 shaped by politics and societal changes. Stiglitz presents a long list of examples in finance,
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24 manufacturing, discrimination, labor relations, corporate governance, and globalization of trade
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26 and capital markets.
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31 In the early 1980s, just as markets started delivering more unequal outcomes, tax policies
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33 began favoring the top (e.g., by lowering tax rates on capital gains). Rather than bringing more
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35 work and better savings, the policies increased inequality. Stiglitz’s sobering look at the
36
37 functioning of markets, politics, societal norms, and social institutions reveals multiple causes of
38
39 widening inequality. Further explaining how inequality depresses national output, economic
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41 stability, economic efficiency, and growth, he says:
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46 . . . the big puzzle is how, in a democracy supposedly based on one person one vote, the
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48 one percent could have been so victorious in shaping policies toward its own interests
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50 [through] a process of disempowerment, disillusionment, and disenfranchisement that
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52 produces low voter turnout, a system in which electoral success requires heavy
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3 investments, and in which those with money have made political investments that have
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5 reaped large rewards (p. 146).
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8 In other words, economic power brings political power, which further contributes to economic
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10 power.
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12 **Richard Wilkinson and Kate Pickett: *The Spirit Level***

13 This relatively small 274-page book, divided into 16 chapters, is filled with surprising data and
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15 insightful discussions about the human cost of income inequality among the 23 wealthiest
16
17 nations. Income inequality, in this book, is defined as the difference in income between a
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19 nation's top 20% and bottom 20%, using the average of OECD data from 2003 to 2006. The
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21 authors replicate the results using data from the 50 U.S. states, with income inequality defined
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23 with the Gini coefficient with data from 1999. The Appendix explains how the authors selected
24
25 the countries and provides information on the data sources.
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31 The book focuses on income inequality at the society level, but in the final chapter the authors
32
33 point to the role of the corporation: "Turning corporations loose and letting the profit motive run
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35 amok is not a prescription for a more livable world" (p. 235):
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38 the institutions in which we are employed are, after all, the main source of income inequality.

39 It is there that value is created and divided between the various gradations of employees. It is
40
41 there that the inequities, which necessitate redistribution, are set up. And it is there that we are
42
43 most explicitly placed in a rank-ordered hierarchy, superiors and inferiors, bosses and
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45 subordinates (pp. 249-250).
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50 Wilkinson and Pickett present research showing that rank-ordered hierarchies have devastating
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52 consequences extending far beyond subjective happiness. Inequalities influence objective
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54 wellbeing in diverse areas such as homicides, obesity, infant mortality, mental illness, teenage
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3 births, social mobility, life expectancy, imprisonment rates, levels of trust in society, drug and
4 alcohol addiction, and children's educational performance. Even more sobering is that income
5 inequality hurts all income categories; hence the subtitle: "Equality is better for everyone."
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10 The authors dispel the misconception that average income brings wellbeing. They show that
11 economic development boosts wellbeing, measured by life expectancy, only in the early stages.
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13 Income and life expectancy are unrelated in countries that have average national income of more
14 than \$20,000 per person. In general, in national and census data from 50 states in the United
15 States, any index of health and social problems is strongly correlated with income inequality.
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20 What might explain these findings? The authors suggest that income inequality brings social
21 distance and stratification, causing individuals to experience anxiety, shame, humiliation,
22 loneliness, embarrassment, depression, and stress, and trigger "fight or flight" physiological
23 responses. Prolonged stress suppresses immunity and causes numerous health, education,
24 psychological, and behavioral problems. The United States leads the 23 most developed
25 countries in terms of the highest income inequality and the poorest performance on all health and
26 social indicators, while Scandinavian countries (Norway, Sweden, Finland, and Denmark) have
27 the lowest income inequality and the highest wellbeing levels. Furthermore, the relatively more
28 equal countries maintain creativity and quality of life: they are more innovative and have a wider
29 sense of social responsibility, as indicated by a greater recycling rate. The authors finally call for
30 a social movement to increase awareness of the ills of inequality and to influence governments
31 and corporations to take measures to increase income equality.
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34 35 36 37 38 39 40 41 42 43 44 45 46 47 48 49 50 51 **REFLECTIONS ON THE ROLE OF CORPORATIONS**

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53 In all three books, the authors call for governments, businesses, and nonprofit organizations
54 to reduce income inequality. Focusing on the United States is important because it leads in
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3 income inequality among the wealthiest nations and because income inequality is a matter of
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5 social injustice and economic malpractice causing ills that extend to the majority of the
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7 population:
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10 America's 1% problem consists in the large and growing inequality that has left the
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12 American social fabric, and the country's economic sustainability, fraying at the edges:
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14 the rich were getting richer, while the rest were facing hardship that seemed inconsonant
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16 with the American dream (Stiglitz, 2012: 2).
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20 Stiglitz emphasizes that "the 1%" is not just a number. It refers to the power of those at the top
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22 who can use their economic, political, and status power to influence government policies that
23
24 benefit themselves disproportionately. Exorbitant CEO compensations came from deregulation,
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26 starting with the Reagan administration, creating room for the corporate sector to engage in "rent
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28 seeking" behavior, to move money from the bottom to the top, and to cause rising inequality in
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30 the past three decades. Executives of large corporations pay powerful lobbying groups to seek
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32 further deregulation, while the 99% continues to lose power, economic ground, and status in a
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34 greatly divided society. They were the voice of the Occupy Wall Street movement that began in
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36 2011, but progress is slow on changing corporate behavior on Wall Street and beyond.⁵
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40 Income inequality, which involves an empirical and a normative dimension, has far-reaching
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42 implications for individuals, organizations and society. Empirically, as the authors of all three
43
44 books observed, extremely large inequality stymies economic growth because it weakens a
45
46 society's people and systems. With weakened human and social capital people potentially
47
48 become a less productive and less creative workforce for the organizations where they work.
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50 Normatively, an unequal society violates the basic respect for human dignity and human rights.
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52 On what basis can the extremely high or limitless salaries of the top 1% be justified? On what
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3 basis are the lower and lowest salaries of the rest 99% acceptable? On both economic and ethical
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5 grounds, reducing income inequality appears to be a serious concern and one that business
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7 organizations can and should help to address. Indeed, corporations are important actors who have
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9 the potential to reduce the level of inequality for the benefits of the society as a whole. All three
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11 books emphasize the fact that business organizations are a major cause of income inequality. It
12
13 follows that those who cause the problem are the best to solve the problem.
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18 **Arguments for the status-quo: Why U.S. corporations do not have a role in reducing**
19
20 **income inequality**
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23 Income inequality is a highly complex issue, so we concentrate on two crucial benchmarks at
24
25 the bottom and top of income distribution. The bottom earns nearly starvation wages that fail to
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27 support a family's basic needs, so that the government must provide food stamps and other
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29 subsidies. The top has limitless compensation packages. Nevertheless, there are well-known
30
31 arguments for defending the status-quo (Pfeffer & Langton, 1993; Simon, 1957).
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35 Why should we avoid raising legal local, state, and national minimum wages? Opponents
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37 argue that low-level work has little worth; low-level workers are insufficiently productive; wage
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39 increases would reduce hiring and destroy jobs; fierce industry competition would force
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41 "generous" companies to make onerous sacrifices and eventually fold; and small increases might
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43 be acceptable, but "living wages" would definitively harm companies.
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47 Are those arguments valid? The inferior productivity argument fails to recognize that
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49 productivity problems cannot be ascribed to individual workers only: in most jobs, individual
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51 productivity depends on motivation, technology, resources, structure, worker abilities, and team
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53 productivity. The laziness argument has reversed the cause-effect relationship: low pay may
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55 cause laziness rather than vice versa. The job-killing argument must be considered in the broader
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3 context of the industry and economy. In fact, evidence shows that increased minimum wages
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5 have never destroyed jobs (Katz & Krueger, 1992). As for the competition argument, individual
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7 companies often face the so-called “prisoner’s dilemma” which prevents them from finding
8
9 better solutions for all. A legally binding solution places all competing companies on the same
10
11 level and ensures fair competition – as is the case for raising the minimum wage as public policy.
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13 Finally, companies should be given some leeway to adjust to living wages over time so that the
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15 corresponding increase in productivity offsets the increased wages.
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20 Why should we avoid decreasing *pay at the top*? Three major arguments defend the status-
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22 quo. The meritocracy argument suggests that superior task performance in sales, inventions, or
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24 profitability justifies pay differences. If so, CEO pay should be positively related with firm
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26 performance, despite significant refuting evidence, except for a few small-sample studies (e.g.,
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28 Carpenter & Sanders, 2002). In fact, from 1980 to 2010, corporate earnings decreased by about
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30 1%, but executive compensation increased about 400% (Martin, 2011). A study of data from 429
31
32 large-cap U.S. companies revealed that from 2006 to 2015, companies that had CEO equity
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34 incentives (which comprise more than 70% of total pay) below the sector median had
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36 shareholder returns greater than those for companies with CEO equity incentive above the sector
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38 median by 39% (Marshall & Lee, 2016). In many cases, CEOs who led their companies to
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40 failure were paid huge golden parachutes when they departed. Carly Fiorina, CEO of Hewlett-
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42 Packard, failed in her Compaq merger, laid off thousands of workers, and left with more than
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44 \$50 million (Pfeffer, 2015). Wells Fargo’s consumer banking head Carrie Tolstedt left with a
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46 \$125 million payout (Dipietro, 2016), after the discovery of two million fake accounts opened in
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48 the name of customers without their knowledge under her leadership. Such examples show that
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50 the meritocracy argument fails to justify large executive pay.
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3 Second, the market argument is based on input factors such as experience, expertise, or past
4 performance. The market sets the price, based on supply, demand, and the qualifications of
5 available hires. Candidates with strong performance records or specialized qualifications would
6 have higher market value, assuming that high-powered CEOs will improve firm performance and
7 assuming that the market has sufficient information about the future needs of the organization
8 and perfect information about candidate qualifications. That argument often fails to hold: CEOs
9 who are highly successful in one company may fail in another, or vice versa. For example, John
10 Scully was a highly successful Pepsi CEO but a failed Apple CEO. Andrea Jung stepped down
11 as Avon CEO because of a bribery investigation and financial troubles, but easily gained another
12 CEO position and a position on Apple's board (Sorkin, 2012). Moreover, the CEO market causes
13 a "ratcheting-up effect" driving CEO pay ever higher without improving candidate qualifications
14 or firm performance. Research on the composition of top management teams has failed to find
15 firm performance to be related to CEO age, education, or experience, although some studies have
16 found diversity of background to be related to performance (Tsui & Gutek, 1999). A meta-
17 analysis revealed that past firm performance accounts for less than 5% of the variance in CEO
18 pay (Tosi, Werner, Katz, & Gomez-Mejia, 2000). Furthermore, employment contracts often
19 include signing bonuses (golden handcuffs) and departure bonuses (golden parachutes) without
20 performance contingencies. Contracts are enforced, regardless of actual CEO leadership. Hence,
21 the market argument is weak for defending the status-quo.
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48 Piketty and Stiglitz advance the third argument: the power and politics argument. CEOs have
49 strong control, especially those who are also chairmen of the boards. They can strategically
50 increase their pay by appointing highly paid executives to their boards. In turn, these board
51 members can negotiate larger increases and pay packages in their own firms for themselves by
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3 giving the incumbent CEO large bonuses and high compensation packages (Finkelstein &
4 Hambrick, 1989). Deregulation since the 1980s has allowed big corporations to achieve
5 favorable legislation through lobbying and political contributions, further supporting rent-
6 seeking behavior at the top. During the same period, union influence declined considerably,
7 along with wage and benefit protections. Therefore, power and politics largely explain why
8 CEOs have enjoyed such massive pay hikes.
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Consequently, neither data nor logic defends the status-quo. Instead, economic, social-
psychological, and ethical arguments actually support the wisdom of reducing income inequality.

Why U.S. corporations can and should reduce income inequality

Changing the status-quo would require a halt or reversal of rising income inequality through
redistribution: taking money from one group and giving it to the other. Some might argue that
business has no role in income redistribution; corporations should focus only on growth and
producing “the cake.” Charities or governments are the only ones who have a role in
redistributing wealth.

We certainly agree that the government has public and moral responsibilities to ensure
fairness, including redistribution if necessary. However, we argue that economic production
cannot be separated from distribution. Distribution permeates all stages of wealth creation: from
preconditions (i.e., resources), through generation, to outcomes, uses, consumption, and
investment (Enderle, 2009). Productive and distributive dimensions are interconnected
throughout the economy and particularly in corporations. Corporate leaders must make many
decisions about how to distribute company resources, assets, liabilities, time, and talents. Each
price decision impacts distribution. For example, two companies may charge different prices for
the same product or service in their efforts to improve productivity or profitability, with

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3 distribution implications. The company benefits from high prices; the customer benefits from
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5 low prices. Related to our focus on decisions about wages and salaries, small pays and large pays
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7 are not only relevant for production but also for distribution. Wal-Mart may benefit customers
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9 and the company by paying low wages, but it disadvantages employees and their families. Even
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11 decisions seemingly unrelated to pay or rewards have implications for distribution. Organizations
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13 can be structured according to internal labor market orientation, which would lead to more equal
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15 pay across jobs, vertically and horizontally. Alternatively, they may be structured according to
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17 external market logic, which would lead to more inequality (Cobb, 2016). Hence, a decision
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19 about how to divide work and how to acquire and allocate people is both a production and a
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21 distribution problem. Deliberately or unconsciously, corporations cannot but make many
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23 decisions about distribution because production and distribution are interconnected problems.
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29 Corporations, boards of directors, and executives have discretionary power to choose among
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31 many different options. Despite legal and institutional constraints such as minimum wage,
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33 unemployment compensation, and some mandatory benefits, corporate decision-making is not a
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35 mechanism or algorithm, but is instead grounded in freedom – the essence of the free enterprise
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37 system. Obviously, corporations are free to choose to pay average, above, or below market
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39 wages.
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43 For example, Wal-Mart and Costco operate in the same industry. Even though they cater to
44
45 different market segments, their employees perform essentially the same work, stocking shelves
46
47 or checking out customers. The 2014 median annual employee salary for Wal-Mart was about
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49 \$23,000; for Costco it was about \$31,000. In the same year, Wal-Mart paid its CEO \$25.6
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51 million; Costco paid its CEO \$5.6 million.⁶ Wal-Mart uses many part-time employees with no
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53 benefits; Costco employs mostly fulltime workers with full benefits. This contrast clearly shows
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3 that companies can freely design their pay policies as long as they comply with basic
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5 nondiscriminatory and safety laws. Also note that most companies set upper salary limits for
6
7 most jobs, but CEO executive pay is unlimited. Companies can also pay bonuses or share profits
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9 with some or all employees. We can reasonably assume that they have freedom to set pay
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11 policies and pay practices that could influence the degree of income inequality in their
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13 organizations.
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17 We now discuss several economic and social-psychological reasons as well as offer some
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19 ethical guidance on why corporations should and how they can work toward lowering income
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21 inequality.
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24 *Economic arguments for reducing income inequality*

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27 As both excessive top executive pay and low employee wages are hardly justifiable, we argue
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29 that there are strong economic benefits associated with raising low wages to living wages on the
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31 one hand and with a drastic reduction of top executive pay on the other hand.
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34 The history of economic thought (Stabile, 2008) supports our view that living wages are
35
36 crucially important for three reasons: sustainability, capability, and externality. Intergenerational
37
38 justice requires that the labor force must be sustained, renewed, and strengthened. We must not
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40 tolerate parasitic trades and businesses that take more than they give regarding nature, people,
41
42 and society. Adam Smith argued against “masters” who negotiated with workers for the lowest
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44 possible wages. Instead, he advocated “liberal wages” as being essential for prosperity and long-
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46 term economic growth that increases aggregate economic demands (Smith, 1976: 85).
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50 Moreover, as the capability argument affirms, employees are not merely production forces but
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52 human beings. Therefore, wages should enable them to improve their abilities as members of
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3 both the organization and society. High wages can also cause higher productivity and thus pay
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5 for themselves (Akerlof & Yellin, 1988).
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8 Finally, the externality argument claims that failure to pay living wages hurts uninvolved
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10 third parties. That is, low earners lack sufficient resources for survival and must draw help from
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12 the community: family members, governmental or charitable institutions, which can take the
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14 form of private and/or public goods. The society bears the cost of employers that have a below
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16 living wage policy but this is a burden to the employer also; since poorly paid workers may not
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18 perform as productively as well-paid workers.
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21 We also argue that drastically reducing top executive pay, if done wisely, can strengthen
22
23 productivity. The millions of dollars saved can be used to increase workers wages leading to
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25 increased productivity, strengthen research and development, advance technological and social
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27 innovation, establish and extend employee educational programs, and reward employees who are
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29 motivated, perform well, or meet the company's (ideally) meaningful mission. Furthermore,
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31 when top executives are committed to long-term growth of the corporation, they are likely to
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33 accept lower compensation in the short-term.
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38 *Social-psychological arguments for reducing income inequality*

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41 Income inequality is sociologically detrimental in that it allows the wealthy to have the
42
43 greatest power and influence. Wilkinson and Pickett explain that people who are in lower income
44
45 levels experience negative social comparison, "social evaluation threat" (p. 37), leading to lower
46
47 self-esteem, social insecurity, and physiological changes such as rising cortisol – a stress
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49 hormone. Indeed, in 2012, work stress cost American businesses \$300 billion in terms of
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51 absences, turnover, accidents, lost productivity, and medical, legal, and insurance expenses
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55 (Tsui, 2013).
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3 Pay is also a psychological status symbol. For some, relative status is more important than
4 absolute money: many would give up half of their real income to live where they have high
5 social status (Solnick & Hemenway, 1998). Income inequality generates social distance, whether
6 from social comparison or relative deprivation. People in lower social strata develop different
7 life styles and behavioral patterns, whether because of lower self-esteem or from economic
8 deprivations. For example, poor people tend to have affordable but unhealthful high-
9 carbohydrate diets. A life style of high stress and poor diet can then produce physical,
10 psychological, and behavioral problems, including drug use and violence. We observe such
11 problems at the society level, and we can expect similar experiences in organizations featuring
12 great pay disparities.

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15 In organizations, those who have extremely high income levels are likely to see themselves
16 as superior, privileged, important, intelligent, and valuable. Those who have very low income
17 levels are likely to see themselves as inferior, insignificant, unintelligent, and lacking ambition.
18 In addition, superiors at higher levels will treat inferiors at lower levels with disdain. Low self-
19 esteem and high social anxiety generate stress, which causes depression and sickness. Unhealthy
20 workers will then have more absences, accidents, non-cooperation, competition, disengagement,
21 frustration, or even anger. At extremes, they may engage in sabotage, theft, unethical and illegal
22 methods to meet production requirements, or even violence. In the recent Wells Fargo Bank
23 incident, relative income deprivation and feelings of helplessness led employees to open fake
24 accounts, despite the company's espoused values of providing good customer service. U.S.
25 Senator Elizabeth Warren admonished John Stumpf, CEO of Wells Fargo: "you kept your job,
26 you kept your multimillion-dollar bonuses, and you went on television to blame thousands of
27 \$12-an-hour employees who made you rich" (Chappell, 2016). Thus we see a tale of two worlds

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3 in American corporations: the 99% are victims and scapegoats who enrich the 1%.
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5 Clearly, employee behavior and wellbeing has many determinants beyond income inequality,
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7 but huge pay gaps may reveal a social structure similar to that found at the societal level. Large
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9 social distance causes those at lower levels to have heightened negative social comparison,
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11 extreme social anxiety, and a host of social, health, and psychological problems. Such an
12
13 unfulfilled workforce is likely to be unproductive and noncreative.
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16
17 Removing the thick economic wall that separates the wealthy minority from the poor
18
19 majority could substantially reduce such negative outcomes and bring immense positive social-
20
21 psychological outcomes. Narrowed social distances, feelings of oneness, and assurances of
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23 common bonds will foster trust, solidarity, self-esteem, motivation, performance, creativity, and
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25 wellbeing.
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28 29 *Ethical guidance for reducing income inequality* 30

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32 To reiterate, corporations do have some degree of freedom and can reduce organizational
33
34 income inequality. Moreover, strong economic and social-psychological arguments show that
35
36 less income inequality would be beneficial. Based on the ethics literature (e.g., Enderle, 2016),
37
38 we now look for ethical guidance that can strengthen even more our plea for addressing this
39
40 enormous challenge. In highlighting the ethical perspective, we suggest embracing the
41
42 importance of ethical values and principles. We call on corporations and their leaders to use their
43
44 unquestionable spaces of freedom and be guided by their sense of ethical responsibility.
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49 Income inequality concerns the entire business organization and cannot be compartmentalized
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51 into separate, unrelated parts because it is about the distribution of income throughout the
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53 organization, affecting all of its members. It therefore makes sense to conceive the corporation as
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55 *a community of people*, not only as a piece of property that can be cut into pieces.⁷ Based on this
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3 notion of a “human organization,” the quest for a sense of community unavoidably arises, along
4
5 with a common and meaningful purpose.
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8 However the quest for a sense of community plays out, we assert that corporations must
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10 consider *fairness* or *justice* when facing drastic income inequality. Indeed, for hundreds of years,
11
12 political, ethical, religious, and moral theology philosophers have considered justice to be a key
13
14 concern, with legal, commutative, distributive, and retributive dimensions. Particularly
15
16 pertaining to income inequality is *distributive justice*, which Aristotle defined as “proportionate
17
18 fairness” founded on the principle of equality. “Thus, a ‘just’ wage is a wage proportionate to the
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20 type and amount of labor invested. It is one which is neither too great nor too little
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22 (disproportionate), but midway between the two extremes” (Chroust & Osborn, 1942: 130). John
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24 Rawls’s influential and hotly discussed theory of justice (1971; 2001) argues that a society can
25
26 accept inequality if it maximizes the benefits of the least advantaged. Accordingly, we suggest
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28 that an organization could maximize benefits for the least advantaged by paying living wages. In
29
30 fact, a “reasonable” difference in pay levels across the hierarchy would further elevate the sense
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32 of community, solidarity, common purpose, and common fate among all employees, leading to
33
34 greater productivity, innovativeness, mutual support and well-being .
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40 A third important ethical guidance is the recognition of *the dignity of human beings*,
41
42 fundamental in the United Nation’s Universal Declaration of Human Rights in 1948. The
43
44 Declaration abstained from taking particular philosophical and religious viewpoints, but clearly
45
46 demanded respect for civil, political, economic, social, and cultural *human rights*. Article 23.3 is
47
48 most relevant for our focus on income inequality: “Everyone who works has the right to just and
49
50 favorable remuneration ensuring for himself and his family an existence worthy of human
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52 dignity, and supplemented, if necessary, by other means of social protection.”
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3 Applied to our focus on income inequality, we strongly encourage corporate leaders to
4 recognize their moral responsibility to respect the dignity and rights of their fellow human
5 beings, to live up to their responsibilities as both a production unit and a human organization to
6 maximize the potential of the human community.
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12 **The indispensable role of government**

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15 Corporations have the freedom, capability, and power to reduce income inequality, but they
16 also face uncontrollable limitations and constraints. The authors of the three books emphasize
17 that governmental institutions can provide or withhold public goods such as security,
18 infrastructure, health care, education, social welfare, a thriving natural environment, and stable
19 financial markets. Economists have pointed out that public policies and taxation are essential to
20 technology, employment, international trade, and social programs (e.g., Atkinson, 2015).
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22 Readers may disagree with the authors' concrete policy proposals; but they will recognize that
23 government is essential, particularly because market institutions do not produce public goods.
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34 Piketty discusses the role of government in regulating capital in the twenty-first century. He
35 observes that the financial crisis of 2008 prompted the state to restore economic order. He
36 believes that the social state should be modernized rather than dismantled, based on its overall
37 positive growth in the twentieth century. To deal with the explosion of executive salaries, he
38 refers to the "American invention" of confiscatory taxation of excessive incomes in the 1930s
39 and proposes a progressive income tax. "According to our estimates, the optimal top tax rate in
40 the developed world is probably above 80 percent" (Piketty, 2014: 512), which Piketty sees as
41 the only way to stem the observed high increases in the top 1%.
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53 In Chapter 10, "The Way Forward: Another World is Possible," Stiglitz outlines an ambitious
54 economic reform agenda for the United States to curb the "excesses at the top" and help "the
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3 rest.” He proposes seven reforms aimed at reducing rent-seeking and leveling the playing field to
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5 enhance economic efficiency and increase equality. However, even if the reforms are
6
7 implemented, large inequalities will remain. Therefore, he suggests a more progressive income
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9 and corporate tax system with fewer loopholes and a more effective and enforced estate tax
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11 system to prevent the creation of a new oligarchy. Moreover, the long-term economic reform
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13 agenda includes a wide range of proposals: expanding the social state (access to education,
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15 health care for all, stronger social protection), tempering globalization, restoring and maintaining
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17 full employment, establishing a new social contract, and restoring sustainable and equitable
18
19 growth. Obviously, the agenda requires a strong and far-sighted government and the sustained
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21 collaboration of business and civil society.
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27 Wilkinson and Pickett, in Chapter 16, emphasize that there are different routes to greater
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29 equality, either through the (original) income distribution (before taxes and benefits) or through
30
31 redistributive taxes and benefits of a large welfare state. Countries like Japan have chosen the
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33 first route and therefore do not need large-scale redistribution. Scandinavian countries tend to
34
35 prefer the second route. In both cases government plays a crucial role, which cannot be replaced
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37 by private business. Laws and regulations shape the markets of products, labor and finances, and
38
39 the provision of public goods have an equalizing effect that makes people less dependent on
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41 earnings. Tax laws can help to tackle runaway pay rates at the top, limit “business expenses,”
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43 increase top tax rates and even establish a maximum pay in a company to some multiple of the
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45 median or lowest wages. The arguments show that the role of government in reducing income
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47 inequality is indispensable.
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53 **The role of management research**
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3 Management scholars can play an important role in investigating the reasons for divisive pay
4 policies. Companies have greatly varying pay policies, so we might ask why different
5 organizations choose divisive or uniting strategies. Social and institutional norms at the society
6 level may explain country differences but cannot explain the variance across companies within a
7 country. Do human resource policies determine firm-level variances, as Cobb (2016) suggests?
8 Or do individual CEO or board values, personalities, or ideologies make the determinations? For
9 example, boards that have conservative political ideologies, in comparison with liberal boards,
10 apparently reward their CEOs with higher pay (Gupta & Wowak, 2017).
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22 Income inequality offers a wide-open intellectual feast for management scholars interested in
23 understanding how organizations design pay policies and related management practices such as
24 incentive plans, profit sharing, or training to upgrade skills to foster economic performance and
25 human wellbeing. As noted, the status-quo persists partially because researchers have paid little
26 attention to benefits to be enjoyed from less income inequality.
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34 Previous management research has taken a narrow perspective in studying pay disparities
35 within organizations. Most studies have focused on the pay disparities within top management
36 groups or between top executives and other managers with little attention paid to the ratio of
37 employees to top executive pay (Connelly et al., 2013.) Almost no attention has been paid to the
38 disparity between CEO pay and median employee pay, despite extensive public debate.
39 Management scholars can examine the factors explaining variation in CEO pay and in lower-
40 level employee pay across firms. Understanding how top and bottom changes may affect those in
41 between also deserves systematic analysis. Second, previous research has focused almost
42 exclusively on performance outcomes as an outcome of pay inequality (Shaw, 2014). As
43 discussed, health and social outcomes observed at the society level may occur within the firm
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3 also. Research should test these extrapolations and explore why and how income inequality
4 affects firm- and individual-level wellbeing.
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8 An even bigger challenge is to determine optimal levels of income inequality. How many
9 times more than average employees should CEOs be paid to realize productivity and wellbeing
10 benefits? Is 1000 too much? Is 100 too little? Those questions call for descriptive research
11 identifying when a positive relationship turns negative or vice versa and for normative research
12 involving logical arguments for an ethical and “fair” ratio, with supportive evidence from field
13 studies or experiments.
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22 Research also can examine organizational level income inequality across societies or
23 countries where the nature and solutions may differ. For example, China has a higher Gini
24 coefficient of income distribution than the United States has, but its CEO–employee pay ratio of
25 listed firms is much smaller than in the United States (Li, 2016). Private entrepreneurs in China
26 can be very wealthy, but they do not draw large salaries from their firms. Furthermore, in
27 contrast to the United States, China has fewer listed corporations with large numbers of
28 professional managers and hired CEOs with economic or political power. Most large firms are
29 state-owned, and state policy keeps CEO pay at very low levels. In addition, cross-culture
30 research can examine whether income inequality has similar meaning for people in different
31 cultures, given, for example, the considerable differences between Japan and the United States.
32 Research can also follow Berrone, Gelaburt, Massa-Saluzzo, and Rousseau (2016) in analyzing
33 the role of civil society such as charitable nonprofit organizations in reducing income inequality.
34 Thus, the challenges of extreme income inequality provide valuable opportunities for
35 management scholars to study crucial problems with far-reaching consequences and produce
36 indispensable knowledge for management to help solve real-life problems in society.
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Conclusion

In the final chapter, Stiglitz describes two possible visions. One is of a society greatly divided between the haves and the have-nots, where “the rich live in gated communities, send their children to expensive schools, and have access to first-rate medical care” and “the rest live in a world marked by insecurity, at best mediocre education, and in effect rationed health care” (p. 289). The other vision is of a society where the gap between the rich and the poor “has been narrowed, where there is a sense of shared destiny, a common commitment to opportunity and fairness, where the words ‘liberty and justice for all’ actually mean what they seem to mean.” He believes that only the second vision is consistent with “our heritage and our values” (p. 289).

We see a parallel vision in corporations. One envisions firms where the top echelon enjoys high status and generous pay while the bottom can hardly make ends meet. The other envisions firms where all employees feel valued and appreciated, the status differential is minimal, and compensation is generous for all.

Wilkinson and Pickett also describe “a vision of a better society which is both achievable and inspiring... a more equal society in which people are less divided by status and hierarchy; a society in which we regain a sense of community...” (p. 271). They do not consider their vision to be a “utopian dream” but acknowledge that it will not happen automatically. They appeal to “our generation to make one of the biggest transformations in human history” (p. 272). We appeal to management scholars to produce knowledge about how to generate this transformation.

Piketty proposed many measures to bring more balanced returns to capital and labor. His two final points are especially pertinent and inspiring for social scientists:

... all social scientists ... should take a serious interest in money, its measurement, the facts surrounding it, and its history. Those who have a lot of it never fail to defend their

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3 interests. Refusing to deal with numbers rarely serves the interests of the least well-off (p.
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5 577) . . . Social scientists. . . cannot be content to invoke grand but abstract principles
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7 such as justice, democracy, and world peace. They must make choices and take stands in
8
9 regard to specific institutions and policies (p. 574).
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13 Piketty argues that it is illusory for social scientists to believe they can hide in their ivory towers
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15 away from socially consequential issues. Instead, they must be involved in the public debate
16
17 through their research. As social scientists, management scholars have both opportunities and
18
19 obligations to address important economic and social issues.
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23 We are all citizens of the common world community: the scholars, the haves, and the have-
24
25 nots. In writing this review and reflection essay, we hope to encourage our colleagues in
26
27 management research to study income inequality and other urgent social challenges to contribute
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29 toward “a more efficient economy and fairer society” for the benefit of all (Stiglitz, 2012: 267),
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31 including future generations.
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34 35 Notes

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38 (1) [http://www.arkansasbusiness.com/article/98329/wal-mart-ceo-doug-mcmillon-earned-256-](http://www.arkansasbusiness.com/article/98329/wal-mart-ceo-doug-mcmillon-earned-256-million-last-year)
39 [million-last-year](http://www.arkansasbusiness.com/article/98329/wal-mart-ceo-doug-mcmillon-earned-256-million-last-year)
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41 (2) <http://www.aflcio.org/Corporate-Watch/Paywatch-2016>. Accessed October 21, 2016.
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43 (3) <https://www.glassdoor.com/research/ceo-pay-ratio/>. Accessed April 15, 2016.
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45 (4) <http://www.epi.org/publication/charting-wage-stagnation/>. Accessed October 21, 2016.
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47 (5) <http://www.cnn.com/2016/09/16/us/occupy-wall-street-protest-movements/>. Accessed
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49 October 21, 2016.
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51 (6) [http://www1.salary.com/W-Craig-Jelinek-Salary-Bonus-Stock-Options-for-COSTCO-](http://www1.salary.com/W-Craig-Jelinek-Salary-Bonus-Stock-Options-for-COSTCO-WHOLESALE-CORP.html)
52 [WHOLESALE-CORP.html](http://www1.salary.com/W-Craig-Jelinek-Salary-Bonus-Stock-Options-for-COSTCO-WHOLESALE-CORP.html).
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54 (7) Pope John Paul II (1991) emphasizes this view in the Encyclical *Centesimus Annus* (No.
55 35): “The purpose of a business firm is not simply to make a profit, but is to be found in its
56 very existence as a community of persons who in various ways are endeavouring to satisfy
57 their basic needs, and who form a particular group at the service of the whole of society.”
58 Robert Oakeshort, quoted in Wilkinson and Pickett (2009: 257), says that employee-
59 ownership “entails a movement from business as a piece of property to business as a
60 working community.”

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