Human Rights Advocates

P.O. Box 5675, Berkeley, CA 94705 USA

INCOME INEQUALITY AND ITS ROLE IN SUSTAINABLE DEVELOPMENT

Contact Information:
Samantha Lewin, Edith Coliver Intern
Representing Human Rights Advocates through
University of San Francisco School of Law's
International Human Rights Clinic
Tel: 415-422-6961
SPLewin@USFCA.edu
Professor Connie de la Vega
delavega@usfca.edu

I. Introduction

Bottom earners need a larger share of the economic gains they enable in order to live outside an unacceptable state of deprivation. On a macro level it is not controversial to say that that the world economy serves its citizens unevenly.[1] But in order to achieve the sustainable development goals (SDGs), the extent to which shares of income growth are unequally distributed, needs to be addressed.[2] Specifically SDGs number 5, achieving gender equality and empowering all women and girls; as well as goal 8 to promote sustained and inclusive economic growth; and Goal 10 to reduce inequality within and among countries. This report will survey the causes and consequences of income inequality and describe how prioritizing policy and regulation which distributes income proportionally to production efforts will help realize global sustainable development.

Productivity has steadily increased globally and yet workers' wages have stagnated.[3] Over the last 3 decades the shares of income generated by production have been allotted to laborers, at a declining rate.[4] This trend has further exacerbated the pay gap between men and women because women have first, "higher chances of ending up in lower-paying jobs and [second, already] face a lower probability of being promoted in their careers than men."[5] Still profitability has increased. Due, not only, to the global increase in productivity, but to an ability to invest corporate profits rather than use them to pay wages. As a result corporate gains keep growing through dividends. And the executives with access to them will pay themselves an

[1]Era Dabla-Norris, Causes and Consequences OF Income Inequality: A Global Perspective 5 (2015).
[2]Jan W. Rivkin, The Challenge Of Shared Prosperity 1 (2015).
[3]Josh Bivens & Lawrence Mishel, Understanding the historic divergence between productivity and a typical worker's pay why it matters and why it's real 4 (2015).
[4]IS Laziness the Cause of Economic Inequality? Foreign Policy Is Laziness the Cause of Economic Inequality Comments, http://foreignpolicy.com/2014/10/22/is-laziness-the-cause-of-economic-inequality/ (last visited Feb 23, 2016).
[5] Christian Gonzales, Catalyst for Change: Empowering Women and Tackling Income Inequality 15 (October 2015).

amount of their own choosing- an amount which is proportionally capturing more generated income every year.[6] Unfortunately, a self- discretionary pay rate is not available to their workers. They are paid what is both legally allowable and what is competitive for the industry. For just about every industry, this entails keeping labor wages low, thereby keeping profit margins high despite handsome executive salaries. This, in turn, secures investors.[7] And while there is no doubt tremendous pressure coming from shareholders and corroding from the top down. Without a mechanism for workers to exert pressure from the bottom up, they will have little bargaining power to demand even a livable share of the very prosperity they enable. Without government recourse to elevate workers' leverage to demand a greater share of global profit, the staggering earning gaps between the working poor and executives as well as the gap between working women and men will remain static.[8]

According to World Bank Statistics, in 2012, 2.1 plus Billion people had the spending power equivalent to $3.10 a day, $93.00 a month, or $1,116 a year.[9] This level of spending power is enough to buy a year of domestic gas and electricity in the U.K, a semester of community college in the US, or a year of groceries in Peru.[10] Just to put it in perspective, if I don't get out of bed, and make zero monetary transactions for a day, I'm still spending $6.00 that day on heat, electric, phone, internet, and various subscriptions. If I want to eat that day, that number conservatively doubles. But with living expenses obviously being more complex than

---

[6]Women CEOs of the S&P 500.Catalyst Inc, Feb. 2016. Web. 01 Mar. 2016, CEO Pay Continues to Rise as Typical Workers Are Paid Less Economic Policy Institute, http://www.epi.org/publication/ceo-pay-continues-to-rise/ (last visited Feb 23, 2016).

[7]CEO Pay Continues to Rise as Typical Workers Are Paid Less Economic Policy Institute, http://www.epi.org/publication/ceo-pay-continues-to-rise/ (last visited Feb 23, 2016).

[8]*Id.*

[9]Plus is included because the number only accounted for the developing world which in 2012 accounted for 85% of the world's population.

[10]Calculated from http://www.electricityprices.org.uk/ (2015), Bigfuture.collegeboard.org (2015) and http://www.numbeo.com/cost-of-living/compare_countries_result.jsp?country1=United+States&country2=Peru (2016) (last visited Feb 23, 2016).

any one purchase, those living on $3.10 won't comfortably afford basic-needs items with any regularity- let alone invest in a way that might improve their economic standing. What is more is that these 2.1 billion people in 2012, also accounted for 30% of the world's population and according to ILO statistics at least some 121,000,000 million people worldwide, living below their nations poverty line, were participants in the workforce including 53,000,000 women.[11]

But as Harvard professor T.M. Schalon posits "[a] justification for reducing inequality through non-voluntary means, such as taxation, needs to explain why redistribution of this kind is not just robbery."[12] Governments and those with political influence need to be convinced that raising the minimum wage, cracking down on tax avoidance, and regulating the distribution of corporate profits does more good than harm. Moral outrage maybe enough to inspire some, but for many with the monetary power to fund and sway political opinion, it is simply not enough.

II. Beyond Moral Outrage: Challenging the Methodology of Income Distribution

Warren Buffett, thought of the most successful investor in the world, warns us to be cognoscente and deliberate about the conversation employed to inspire corrective support. Yes, it is "sickening that rich people and companies use the Cayman Islands to lower their tax bills, but moral outrage is a weak weapon against international tax arbitrage."[13] It therefore must be acknowledged that corrective action is not the only course. There is, for now, the option of standing by, leaving the underlying assumption that the rich acquire more because they deserve more unchallenged. Relying on the assumption that economic policy coincidentally enhances the financial interests of predominantly wealthy men while simultaneously being the most

---

[11]Comparing the international poverty line across countries is discouraged because the extent of deprivation experienced with a $3.10 a day budget is not universally the same although we can assume is universally uncomfortable.

[12]The 4 biggest reasons why inequality is bad for society ideas.ted.com, http://ideas.ted.com/the-4-biggest-reasons-why-inequality-is-bad-for-society/ (last visited Feb 23, 2016).

[13]Income Inequality: Views & Solutions From Experts - Financesonline.com Financesonline.com, http://financesonline.com/income-inequality-views-solutions-from-experts/ (last visited Feb 23, 2016).

advantageous for all. But ultimately there are consequences to standing idly by. This report aims to examine the costs of current global economic trends, particularly to woman, and highlight the aspects of the sustainable development goals which would benefit from alternative policy.

Economics professor Miles Corak suggests larger disparities in income are associated with less socioeconomic mobility and studies this relationship through data mapping that is known as "The Great Gatsby Curve."[14] His body of evidence shows that in countries with higher income disparities, socioeconomic status of individuals is largely predicted by that of their parents.[15] This position is supported and cited extensively by writers in his field and his methodology, using the Gini Coefficient, is the most widely accepted measure of inequality of outcomes (income, wealth, or expenditure).[16] Along with others, Corak concludes that persistent income inequality renders fictional the notion that one's socioeconomic circumstances can be transcended through perseverance. This evidence is particularly prominent in women who face weaker financial access globally, "distort[ing] the allocation of [education and health] resources [to them]… thereby exacerbate[ing]" their inequality of opportunity.[17] Without financial access, high adolescent fertility rates associated with lower economic opportunity for women, "will prevent girls from going from school and, subsequently, entering the labor market, or result in women entering the labor market with a low skill level, thereby increasing inequality of… economic participation, and pay between men and women."[18] Furthermore, countries with higher

---

[14]Miles Corak, Income Inequality, Equality of Opportunity, and Intergenerational Mobility* 2 (University of Ottawa and IZA) (2013).
[15]*Id.*
[16]Dabla-Norris, *supra* note 1, at 9.
[17] Gonzales, *supra* note 5, at 17.
[18]Gonzales, *supra* note 5, at 17.

adolescent fertility rates, a burden not borne equally by men and women, have higher degrees of poverty and inequality.[19]

Corak explains "anything that boosts inequality reduces mobility because it differentially changes both the opportunities and incentives for families to invest in their [sons and daughters]."[20] Families with capital do not have to allot the bulk to primary needs and thus have more spending power to protect and invest in their children's futures. In the United States, the bottom 20% went from annually spending $835 per child on extracurricular development (piano lessons, books, summer camp) to $1300 per child in the mid-2000s. While the top 20% went from spending $3,500 to almost $9000 per child, seven times as much as the bottom 20%.[21] These extra investments in childhood are indicators of college and career success, and if the opportunity to explore and develop one's skills is exclusionary, the competition toward achievement is predetermined.[22] The race begins at varied places and entails varying degrees of obstacles which are not based on effort, but on social vulnerabilities.

> These are not just objections to inequality and its consequences: they are at the same time challenges to the legitimacy of the system itself. The holdings of the rich are not legitimate if they are acquired through competition from which others are excluded.[23]

The point that income distribution is operating according to guidelines that are more reflective of socioeconomic privilege and vulnerabilities than of labor effort is further reiterated by the Oxfam study "An Economy for the 1%".[24] Oxfam examines a global trend of rising net productivity and stagnant adjusted hourly pay rates and finds this trend determinative because it means the

---

[19] *Id.*
[20] Corak, supra note 14, at 13.
[21] *Id.* at 14.
[22] *Id.*
[23] Scanlon, s*upra* note 12.
[24] Deborah Hardoon, AN ECONOMY FOR THE 1% How privilege and power in the economy drive extreme inequality and how this can be stopped (Oxfam GB) (2016).

majority of workers will continue to be excluded from the benefits of productivity growth.[25] For skeptics who dismiss income inequality as a reflection of genuine earning, this data "removes the link between productivity and prosperity."[26]

Both labor income in the form of wages as well as capital income, in the form of interest and retained profits are captured predominantly upward.[27] We've all heard the statistics but between the years of 1988 and 2011, 46 % of income growth, attained via increasing global labor and capital income, was retained in the top 10%.[28] "Once there, an ever more elaborate system of tax havens and an industry of wealth managers ensure that it stays there, far from the reach of ordinary citizens and their governments."[29] This translates to the staggering statistics we see now. When the name of the game is acquisition and wealth begets wealth, we end up in a world where 50% of global wealth, roughly 223 trillion dollars, is retained in the hands of the top 2%, 94% in the top 10%, and where 3 hundred of the richest people have the same collective wealth as the poorest 3 billion.[30] To use therules.org's example, this means, that the number of people it takes to fill a commercial airplane have more wealth among them then the number of people in the populations of the US, Brazil, China, and India combined.[31]

No one is suggesting that global income growth is earned equally by the bottom and top 20% of earners. "People at the top of companies have immense responsibilities and for that they should be duly rewarded...."[32] But "it would be perverse to argue that the CEO of a tobacco

---

[25] Scanlon, *supra* note 12.
[26] *Id.* at 13.
[27] *Id.* at 9.
[28] *Id.*
[29] *Id.* at 3.
[30] Peter Joseph, Zeitgeist: Moving Forward, 1:50, (Gentle Machine Productions) (2011), Global Economic Inequality Video Change the Rules, http://therules.org/campaign/inequality-video (last visited Feb 23, 2016)
[31] Global Economic Inequality Video at 1:57, http://therules.org/campaign/inequality-video/.
[32] Hardoon, *supra* note 21, at 31.

company in India is as productive as 439 of his employees combined."[33] Furthermore, even at the preferred rate of income distribution, as told by Harvard Business School alums on the "front lines of all parts of the global economy," the outcomes can still be pro-rich while having the potential to eradicate working poverty.[34]. In the model preferred by the 3,000 alums surveyed, "the top 1% gains 20 times more than each person in the bottom 40% in terms of dollars. [But i]n terms of growth, the two groups have comparable gains: the average income among the top 1% rises by 74%, while the average income among the bottom 40% grows by 97%."[35] Yet by using exclusive and sophisticated methods of tax avoidance, capital toward political lobbying, and wealth management "delinked from any productive activity" executives will continue to have access to a socially debilitating amount of prosperity.[36] The consequences of which do not result in an overpopulated class of working poor alone.

III. The Burden of Income Inequality on Gender Equality

Robert Wilkinson has championed the study of the interconnectedness of all forms of oppression. He finds that "[a] wide range of social problems are worse in societies with bigger income differences between rich and poor."[37] Gender inequality specifically, is severely exacerbated by the disparate incomes in the labor force. "The IMF recently found that in countries with higher levels of income inequality, gender inequalities across health, education, labor market participation and representation were also higher."[38] The reasons are varied but in general high inequality is socially corrosive, making resources abundant for a few and scarce for many. It incentivizes those who have these resources; to "divert their efforts toward securing

[33] *Id.* at 16.
[34] Rivkin, *supra* note 2, at 16.
[35] *Id.*
[36] Hardoon, s*upra* note 21, at 31.
[37] Why inequality is bad for you -- and everyone else CNN, http://www.cnn.com/2011/11/06/opinion/wilkinson-inequality-harm/ (last visited Mar 1, 2016).
[38] Hardoon, supra note 21, at 11.

favored treatment and security" less they end up like the have-nots.[39] Because historically it has always been men with this power, they are at an advantage in the labor market and in political policy capturing. While "[w]omen are more likely… to work as unpaid family laborers or in the informal sector [with lower earnings]."[40] Remedying this gap in compensation and labor force participation would be reflected both in the Gender Inequality Index (GII) as well as in the Gini coefficient. When the GII falls, the net Gini decreases as well.[41] Gender gaps in opportunity and economic participation also restrict the pool of talent available to contribute to the labor market. This "can yield… total factor productivity losses and lower GDP growth."[42]

While combating income inequality will not in itself achieve the SDG toward gender equality, nor solve the pay gap, "there is a strong link between more economically equal societies and more balanced power relations among citizens."[43] Furthermore, the [International Monetary Fund] finds that "[s]ocieties do not face a choice between efficient production and equitable wealth and income distribution."[44] Exploitative wages are not a necessary cause of high prosperity. "In fact, equality appears to be an important ingredient in promoting and sustaining growth."[45] Concentrating rather than sharing wealth actually undermines growth because a lower percentage of global income goes back into the economy via purchases. Instead, money that could generate more economic activity in the hands of female laborers for example, who "are more likely… to [spend] a large proportion of their household income [on] the education of their

---

[39] Dabla-Norris, supra note 1, at 6.
[40] Empowering Women Is Smart Economics Empowering Women Is Smart Economics, http://www.imf.org/external/pubs/ft/fandd/2012/03/revenga.htm (last visited Mar 1, 2016).
[41] Gonzales, *supra* note 5, at 22.
[42] *Id.* at 6.
[43] Ricardo Fuentes-Nieva & Nick Galasso, Working for the Few Political capture and economic inequality 21 (Oxfam International) (2014).
[44] International Monetary Fund, *supra* note 13, at financesonline.com.
[45] 8 Andrew G. Berg & Jonathan D. Ostry, Equality and Efficiency Is there a trade-off between the two or do they go hand in hand? 13 (3) (2011).

children," remains in financial institutions to be watered and grown.[46] Nick Hanauer, Venture Capitalist confesses:

> I have essentially no idea what happens to my money. I invest in funds of funds, and those hedge funds do God knows what with it. But I do believe absolutely that most of the return that's being created isn't creating any kind of social utility other than creating a return for me.[47]

This return, Hanauer describes, is then taxed as "capital gains," a form of income which belongs predominately to the wealthy and is taxed at a lower rate than traditional income tax almost universally.[48] Nearly every member country of the Organization for Economic Cooperation and Development (OECD) has preferential tax rates toward capital gains. Eleven do not tax capital gains at all, which excludes governments from optimizing the amount of tax revenue they can use toward social welfare.[49]

IV. Regressive versus Progressive Taxation

Because the role of capital gains in the economy is less efficient, the more structurally sound policy argument actually lies in utilizing a higher percentage for government programs.[50] By staying stagnant, and yielding only a proportionally small spending amount from interest, capital gains contributes little to output and productivity.[51] Meanwhile, labor income proportionally generates more economic activity simply because it is spent.[52] Not to mention,

[46]Gonzales, *supra* note 5, at 65, Jacob Kornbluth, Inequality For All at 16:25 (72 PRODUCTIONS) (2013) .
[47]Jacob Kornbluth, Inequality For All at 18:00 (72 PRODUCTIONS) (2013).
[48]The Tax Break-Down: Preferential Rates On Capital Gains Committee for a Responsible Federal Budget, August 27, 2013, http://crfb.org/ (last visited Mar 1, 2016).
[49]*Id.*
[50]Kornbluth, *supra* note 44, at 17:14.
[51]CEO Pay Continues to Rise, *supra* note 6.
[52]Kornbluth, *supra* note 44, at 18:30.

creating a discrepancy in the way labor income and capital gains are taxed "encourage elaborate schemes to convert ordinary income into capital gains."[53]

> Virtually every individual income tax shelter is devoted to converting fully taxed income into capital gains. If you can transform $10 million of wages into gains, you can save over $2 million. …. [But t]ax shelter investments are invariably lousy, unproductive ventures that would never exist but for tax benefits. And money poured down these sinkholes isn't available for more productive activities.[54]

Tax breaks in capital gains overwhelmingly benefit the rich and create regressive tax code to the detriment of society. It creates tilts where giants like Warren Buffet pay 17.3% on a reported $39.8 million in taxable income while his secretary pays 34% on an estimated $200,000 salary.[55] "By making the tax code less progressive, these tax preferences… worsen after-tax income inequality" and hinder economic development.[56]

As mentioned above, there is a positive relationship between increasing the availability of disposable income across the spectrum of earners and SDG number 8; sustained and inclusive economic growth. In simple terms shared prosperity, means spent prosperity. Instead, top earners are capturing and saving a percentage of prosperity which is hurting spending potential and thus hurting growth.[57] "[A]n increase in the income share of the top 20 percent is associated with lower GDP growth… while an increase in… share[s for]… the bottom 20 percent is associated with higher GDP growth.[58] Again, the reasons for this correlation are varied but the International Monetary Fund along with

---

[53] Recent Studies Find Raising Taxes on High-Income Households Would Not Harm the Economy, April 24, 2012, http://www.cbpp.org/research/recent-studies-find-raising-taxes-on-high-income-households-would-not-harm-the-economy (last visited Mar 1, 2016).
[54] *Id.*
[55] Does Warren Buffett's Secretary Really Make Over $200,000? CNBC, January 26, 2012, http://www.cnbc.com/id/46148929 (last visited Mar 1, 2016), Warren Buffett's Nifty Tax Loophole - Barron's, April 11, 2015, http://www.barrons.com/articles/warren-buffetts-nifty-tax-loophole-1428726092 (last visited Mar 1, 2016) .
[56] Huang and Marr, *supra* note 50, Dabla-Norris, *supra* note 1, at 6-7.
[57] *Id.*at 8.
[58] Gonzales, *supra* note 5, at 5.

others suggest “that a prolonged period of higher inequality in advanced economies [is] associated with the global financial crisis by intensifying leverage, overextend[ing] credit… and allowing lobbyists to push for financial deregulation” which result in crises that hurt long and short term economic growth.[59]

V. The Politics of Income

It’s important to note that in a free market, some inequality is inevitable. Even the strongest proponents of income equality concede.[60] It is the prerogative of free markets to empower choice; choice as to the amounts of time and money to invest, how much monetary risk to bear, and the consumer fee-will to bestow varying degrees of value on marketplace contributions. The problem is not inequality per se but how much inequality can we tolerate from a human rights perspective? How much inequality is chosen and how much is exacerbated by bias in economic policy? And how much inequality exactly is optimal for a functioning and growing economy? By aspiring to gender equality (SDG 5) and “removing the obstacles that prevent women from reaching their full economic participation… [woman can better have] the option to become economically active should they so choose… [And by] “increasing female economic participation… [the] associated… higher growth, [and] more favorable development outcomes and lower income inequality” aspirations of SDGs 8 and 10, will in turn see correlative progress.[61]

But as it stands now, the trend in global economic policy is that governments are hands-off economic elites and high profits earned conducting business within their nations. For example, India’s billionaires, who have a concentrated $250 billion among them, made at least half their fortunes from sectors where profits are dependent on government licensing (real estate,

[59]Dabla-Norris, *supra* note 1, at 8.
[60]Dabla-Norris, *supra* note 1, at 6, Kornbluth, *supra* note 44, at 4:51.
[61] Gonzales, *supra* note 5, at 27.

construction, infrastructure, etc.).[62] The benefit to the government when industry thrives within their regulated spheres is that it allows for a formal monitoring and taxing of financial transactions. In sectors more independent of government permissions, the wealthy can more easily elude the full extents of taxation via tax havens. Still, even with this capacity for supervision, and the dependency that the Indian Government can benefit from when business relies on government contracts:[63] They still tax regressively making tax revenues necessary to address poverty too low. "The tax structure in India is… highly regressive, with only 37.7 percent of total taxes coming from direct taxation such as income, profits, and capital gains."[64]

The current income distribution architecture does not privilege the richest by accident. "[I]t is the result of deliberate policy choices, of our leaders listening to" the louder, better resourced groups.[65] "Stretched government regulators face 'lawyers, lobbyists, and under-written think tanks – all of whom have the time and money to present extensive, if wildly biased, legal and economic arguments".[66] Shortsighted and speculative market activities end up winning the bigger rewards over straight forward productivity or collective investment in infrastructure. Tax breaks on capital gains is an example of one of these rewards for which the benefits are heavily concentrated at the top and for which the institution has been excessively lobbied.[67] In the United States, "the percentage of households that benefit from low capital gains tax happens to overlap almost perfectly with the 'donor class.'"[68] And while succumbing to the U.S. Chamber of

---

[62]XLVII Aditi Gandhi & Michael Walton, Where do India's Billionaires get their Wealth? 13 (EPW ResearchFoundation No 40) (2012).
[63]From Market versus States to Corporations versus Civil Society , in Politics in the age of austerity Loc 4474, Cambridge, UK 2013.
[64]Fuentes-Nieva and Galasso, *supra* note 40, at 18.
[65]Hardoon, s*upra* note 21, at 6.
[66]*Id.* at 26.
[67]www.cbpp.org, *supra* note 50.
[68]'The wealthy individuals who comprise a tiny percentage of the public and yet account for the majority of campaign donations." Stacked Deck: How the Dominance of Politics by the Affluent & Business Undermines

Commerce and over 80 U.S. interest groups who lobby for preferential capital gains tax rates, governments lose out on revenue for social welfare programs.[69] By taxing both labor and capital income at the same rate, the incentive to use tax shelters for conversion disappears. This policy choice could make the estimated 8% of financial wealth, a total of $7.6 trillion dollars hiding offshore and delinked from productive activity- subject to tax revenue toward social welfare without any statistically significant economic ramifications.[70]

Political institutions become undermined by financial partnerships with the economic elites as governments are overwhelmingly lobbied to serve their interests. Defenders of the status quo argue that the wealthy need to be incentivized and rewarded for their continued investment in the global market- lest their contribution to social utility dries up. But first off, their participation is not under siege. In fact, there are no statistically significant relationships between capital gains tax and participation in either private saving or private investment.[71] As billionaire investor Warren Buffett says:

> I have worked with investors for 60 years and I have yet to see anyone — not even when capital gains rates were 39.9 percent in 1976-77 — shy away from a sensible investment because of the tax rate on the potential gain. People invest to make money, and potential taxes have never scared them off.[72]

Second, high profit does not translate to high social utility[73]. High profit industries invest in new technological forms of automation, which cut the need for jobs.[74] While smaller operations rely on unskilled labor as a resource essential to their outreach.[75]

Economic Mobility in America Demos, http://www.demos.org/stacked-deck-how-dominance-politics-affluent-business-undermines-economic-mobility-america (last visited Mar 1, 2016).

[69] *Id.*

[70] Huang and Marr, *supra* note 50.

[71] *Id.*

[72] *Id.*

[73] Kornbluth, *supra* note 44, at 17:20, Transcript of "Why we need to rethink capitalism" Paul Tudor Jones II: Why we need to rethink capitalism, https://www.ted.com/talks/paul_tudor_jones_ii_why_we_need_to_rethink_capitalism/transcript?language=en (last visited Mar 1, 2016).

The notion that the global market has created such disparate income inequality because it is apportioning rewards reflecting economic value is a myth. Those who would have us subscribe to it would like us to believe that the global economy is controlled entirely by the natural forces of supply and demand. That through innovation, skill, and investment; the profits generated and million-dollar salaries of executives "are a genuine reflection of the economic contribution of their activities."[76] "By this view, if some people aren't paid enough to live on, the market has determined that they haven't" contributed their requisite share.[77] However, the truth of the matter is that the staggering corporate profits and executive pay are not just the result of innovation, skill and investment. They are also a result of an ability to exclude others from the industry through lobbying, through preferential access to government subsidies and tax breaks, through tax avoidance, and through latitude to keep labor costs and thus worker wages devastatingly low.

Robert Reich reminds us that the "Free Market" does not exist in nature. It functions according to the life-force that government regulations provide. "Markets aren't 'free' of rules; the rules define them."[78] And the rules empower the wealthiest firms and individuals to reward themselves in a way that is, minimizing government revenue, perpetuating a staggering gap in income inequality, influencing hereditary and permanent socioeconomic status, and privileging self-interest of the few at the expense of the working majority. "The easing of labor market regulations in favor of business is associated with greater income inequality as well as rising income shares of the top 10 percent, while it has a dampening effect on the income share of the

---

[74]Rivkin, *supra* note 2, at 23.
[75]Kornbluth, *supra* note 44, at 31:20.
[76]Hardoon, s*upra* note 21, at 16.
[77]The Myth of the "Free Market" and How to Make the Economy Work for Us Robert Reich, http://robertreich.org/post/61406074983 (last visited Mar 1, 2016).
[78] *Id.*

bottom 10 percent."[79] Wealthy as well as poor countries are affected by the current state of "financial deregulation, skewed tax systems and rules facilitating evasion, austerity economics, and policies that disproportionately harm women."[80] But governments don't have to stand for it. Political institutions can and should mitigate "the extent to which rewards [are] delinked from effort" and combat practices which have a disparate impact on their vulnerable populations.[81]

According to economist Nouriel Roubini, "[a]ny economic model that does not properly address inequality will eventually face a crisis of legitimacy." Without fair shares of prosperity allotted proportionally to earners and tax revenue "[c]ollective investment in the economy's infrastructure—everything from good schools to good roads—withers. And deepening economic inequality robs our politics of the collective will—and the resources--to do much about it" without utilizing desperate measures.[82] Uprisings demonstrating frustration with economic disadvantage have occurred around the world and throughout history. At the point of revolt, the underclass has consistently attributed their prolonged suffering to political apathy, knowing that their economic disadvantage is synonymous with political underrepresentation.[83] In the long term;

> no one has reason to accept a regulatory scheme that deprives them of meaningful political participation, that deprives their children of the opportunity to qualify for better jobs, and denies them a fair share prosperity they help to produce.[84]

In Peter Turchin's view it is only "fear of revolution that restores equality," and it is our challenge to motivate reaction to this fear without waiting for the historically violent indicators.[85]

---

[79] Gonzales, *supra* note 38, at 22.
[80]Gonzales, *supra* note 38, at 3.
[81]Hardoon, s*upra* note 21, at 18.
[82]Growing Apart: A Political History of American Inequality Growing Apart: A Political History of American Inequality, http://scalar.usc.edu/works/growing-apart-a-political-history-of-american-inequality/index growing (last visited Mar 1, 2016).
[83]Nouriel Roubini, The instability of inequality 2 (Project Syndicate) (2011).
[84]The 4 biggest reasons why inequality is bad for Society, *supra* note 12.

VI. Recommendations to Achieve Sustainable and Inclusive Economic growth

- Urge governments to limit the reach of the wealthy elites' ability to capture political agendas. Create policy-making processes less prone to influence by vested interests. In order to achieve SDGs 8 to promote sustained and inclusive economic growth; and Goal 10; to reduce inequality within and among countries, concerted efforts have to be made to evaluate policy suggestions by all income brackets and which allow the majority opportunities to be heard.
- Encourage governments to increase capital gains tax revenue for the maintenance of social support programs, particularly programs which offset the pay gap between genders. This will provide the opportunity to compensate for social inequalities which both predict and exacerbate income inequality and impede sustained and inclusive economic growth (SDG 8). It will also provide the chance at equality of opportunity for women which will empower them further (SDG 5) to invest in more promising futures.
- Encourage government incentives to employers to pay workers at least a livable wage. Policy changes could include mandatory publishing of pay ratios, better legislation to protect worker's rights, and setting corporate tax rates higher for firms that have higher ratios of CEO-to-worker compensation. If equality within and among countries (SDG 10) is ever to be achieved, those capturing the majority of production income have to at least answer for their choices to create staggering wage gaps within their corporations.
- Encourage governments to establish mechanisms which empower bargaining between workers and their employers. To achieve sustained and inclusive economic growth, governments need to intervene to give ordinary workers some bargaining power in a shareholder profit-oriented corporate culture or else access to justice erodes.

---

[85] History tells us where the wealth gap leads - Peter Turchin - Aeon Essays, https://aeon.co/essays/history-tells-us-where-the-wealth-gap-leads (last visited Mar 1, 2016).