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Essay

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Organizations and Economic Inequality

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Abstract: Economic inequality has been rising for a half-century in most countries, in some cases to levels not seen since the eighteenth century. It has severe negative consequences for many aspects of social life: interpersonal trust, status competition, happiness, participation in civic and political life, crime and corruption, and health. It is shaped by the actions of organizations because they are the most powerful forces in modern societies: ubiquitous, often quite large and well-resourced, and highly institutionalized. While there is a large literature on the impact of organizations on inequality within organizations, that work mostly focuses on demographic categories like gender and race. Far less has been done to study how organizations shape economic inequality at the societal or global level. Here, I discuss three ways organizations that shape economic inequality: as employers, as policy-setters, and as buyers/sellers. I review the scant organizational literature on societal and global inequality, and offer several suggestions for future research on this critical topic.

Keywords: organizational theory; economic inequality; societal inequality; global inequality

1 Introduction

Equality is lauded by (almost) everyone (almost) everywhere. For instance, the U.S. Declaration of Independence states “We hold these truths to be self-evident, that all men are created equal.” And in France and Haiti, “liberté, égalité, fraternité” is the national motto. Yet in all societies, inequality prevails, notably economic inequality. Indeed, economic inequality has been rising for the past half-century in almost all countries (Chancel et al. 2022), in some cases to levels not seen since the collapse of the autocratic societies of the late eighteenth century (Piketty 2014, 2020). For

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example, the share of income earned by the top 10 % (including capital gains) rose from 33 % to 52 % between 1975 and 2022 (Saez 2024: Figure 1). The U.S. is the most unequal rich country, but in countries like China and India that are industrializing, inequality has risen even faster than in the U.S.: between 1990 and 2019, the share of income flowing to the top 1 % increased 75 % in India and 91 % in China (Yang 2020), compared to 13 % in the U.S. (Bricker et al. 2020). Despite these trends, industrialization in many lower-income countries (especially China and India) and slowing economic growth in richer countries have reduced global income inequality over the past 25 years (Hung and Kucinskas 2011; Pandian 2024). Wealth inequality, which has risen in almost all countries, is far greater than income inequality (Piketty 2014, 2020). For example, in the U.S. between 1990 and 2019, the wealth share of top 10 % rose from 62 % to 73 % (Bricker et al. 2020).

Economic inequality has severe negative consequences for many aspects of social life. Most basically, it reduces interpersonal trust and increases status competition (Buttrick and Oishi 2016; Rothstein and Uslaner 2005; Wilkinson and Pickett 2009). Interpersonal trust is based on social solidarity, having a shared fate. People are less likely to perceive that everyone has a shared fate in more unequal societies. Status competition occurs when people are anxious about their position relative to others (that is, they experience relative deprivation) and so work to maintain or enhance their status. This is more likely to occur in more unequal societies. In turn, lack of trust and status competition are associated with more unhappiness (especially among poor people), less participation in civic life and politics, more crime and corruption, and worse health outcomes (especially but not only for poor people) (Neckerman and Torche 2007; Pickett and Wilkinson 2015; Stiglitz 2012). Finally, while moderate levels of inequality motivate worker productivity and stimulate innovation and entrepreneurship – all of which drive economic growth – high levels of inequality retard economic growth by weakening demand and worker productivity, hampering entrepreneurship, reducing investment in public goods like education and infrastructure, and generating more frequent economic crises (Berg, Andrew, and Jonathan 2011; Stiglitz 2012).

To explain economic inequality, economists generally focus on rent-seeking (monopoly profits and high executive compensation), technology, market forces (competition), deregulation, regressive tax policies, and (in the U.S.) declining real minimum-wage rates (Stiglitz 2012). For their part, sociologists mostly focus on family formation, unequal education, regressive tax policies, feeble social-welfare policies, and high executive compensation (McCall and Percheski 2010; Neckerman and Torche 2007). Some of this work hints at the role that organizations play; for instance, the legislatures and agencies that write and enforce tax policies or the corporations that set executive compensation. But “organizations, and the people who work within them, remain largely invisible” and when organizations are visible, “they are mostly viewed as rational entities … with neutral structures and practices” (Amis, Mair, and Munir 2020: 195). Finally, much sociological work on economic inequality has a "loose theoretical orientation" and "theoretical ambiguity" about organizations (King 2024: 46ff.): inequality is foregrounded and theories of organizations are backgrounded.

Consider one sociological example. Graduating from college reduces earnings inequality in the U.S. by disproportionately increasing the incomes of people from poor families compared to those from middle-class or rich families (Brand 2023). This analysis "sees" organizations (schools) but treats schooling as a binary variable: people either graduate or not. It does not allow for within- or between-school variation (field of study, prestige, public/private status), so it cannot answer questions like whether people from poorer families flounder in more prestigious schools. And it does not consider the impact of societal (national) culture, inter-organizational networks, and government policies on how schools work. I do not single this work out because it is bad – indeed, it is extremely rigorous – but rather because its explanation is incomplete. It masks variation within and between schools and in their environments. Applying organizational theories to explain this variation would enrich our understanding.

What about organizational theorists? They have contributed to our understanding of inequality for over 40 years. However, almost all of this work focuses on inequality across *demographic categories* like gender and race/ethnicity,[1] rather than income inequality, and operates at the *organizational* level, rather than the *societal* (i.e. national) level (for reviews, see Amis, Mair, and Munir 2020; Bapuji, Ertug, and Shaw 2020; for a comprehensive theory, see Tomaskovic-Devey and Avent-Holt 2019). While studying inequality within organizations – "society within organizations" (King 2024) – is valuable, organizational theorists also need to directly study organizations' impact on societal inequality – "organizations within society" (King 2024) because (as I explain below) scholars cannot simply aggregate from organization-level to societal-level (national) effects, much less to global effects. Only a few organizational theorists have begun to study societal inequality (e.g. Benton and Kim 2022; Cobb and Stevens 2017; Sørensen and Sorenson 2007).

In sum, although current research on economic inequality has shed much light on its causes, three problems persist: (i) very little research "sees" organizations; (ii) if research does "see" organizations, it does not harness theories of organizations to explain how and why organizations drive inequality; and (iii) if research does harness theories of organizations to explain how and why organizations drive inequality, it focuses mostly on inequality within organizations, usually along demographic lines. Here, I focus on three key ways that organizations shape societal and global inequality: as employers, policy-setters, and buyers and sellers.

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1 This is not to say that demographic categories are not important: they clearly are, as women and people of color typically earn less than white men, even after controlling for human capital. Economic inequality goes beyond demographic categories; if we focus on solely on those categories, we risk overlooking other features of inequality, such as geography or class (Bapuji, Ertug, and Shaw 2020).

I review the progress we have made in harnessing theories of organizations to explain how and why employing organizations, governments, and business firms shape economic inequality at the societal and global levels. I also suggest new avenues of inquiry that leverage theories of organizations.

2 Organizations as Employers

The biggest impact organizations have on economic inequality is as employers because earnings constitute the biggest share of income and are the basis of wealth creation. In 2022, 78 % of high-income countries' labor forces worked for employing organizations (World Bank 2023). Although employment rates are much lower in middle- and low-income countries (47 % and 19 %, respectively), those rates have increased across the globe, especially in middle-income countries (World Bank 2023). It is likely, then, that much of the rise in societal and global economic inequality is due to how and how much organizations pay workers, what kind and level of benefits they provide, and how jobs and career paths are structured. Four streams of work fit under this umbrella, focusing on organizational size, cultural/economic shifts (the rise of shareholder value and financialization), changes in employment relations, and job quality. For each, I consider both within-firm and societal inequality.

2.1 Organizational Size

This is the most common feature of organizations implicated in economic inequality because it is the one most available to researchers. In general, employees are paid more by larger firms – the firm-size wage premium (Hollister 2004; Kalleberg and van Buren 1996). Larger firms also offer better employee benefits like pensions and health-care plans (which employees of smaller firms are more likely to pay themselves), and better opportunities for promotion and thus pay raises (Kalleberg and van Buren 1996), for several reasons. First, larger firms have more vertical differentiation (Blau and Schoenherr 1971), which creates promotion opportunities and thus opportunities for better pay. Second, larger firms are more likely to be unionized; union presence improves benefits and raises wages for their members, who tend to be lower-paid. Finally, larger firms are more visible and more concerned about bad publicity from disgruntled employees (Cobb and Stevens 2017).

In the U.S. and Europe, market concentration has increased in many sectors, concentrating employment in fewer, larger firms (Affeldt et al. 2021; Grullon, Larkin, and Michaely 2019). Research on the U.S. shows that the firm-size wage premium is greater for lower-paid than higher-paid employees, both at the national (Cobb and Lin 2017) and state levels (Cobb and Stevens 2017). Therefore, the more workers who are employed by large firms, the lower income inequality is at the societal level. Correlational evidence shows that this pattern holds in many countries outside the U.S. (Davis and Cobb 2010). The strength of labor unions and government policies governing collective bargaining can diminish this effect. For instance, in countries with centralized (national or sectoral) collective-bargaining agreements, income inequality is lower than in countries with decentralized (firm-level) agreements (Zwyzen 2023). Requiring centralized collective-bargaining arrangements is likely to reduce the firm-size wage premium by leveling wages for many (but not all) jobs. I have not found any research testing this hypothesis, so this is one possible approach for future research by organizational theorists that can enhance existing work.

Size is not the only characteristic of employing organizations that can influence inequality at the organizational, societal, or global level. Organizational age, geographic location (i.e. geographic spread of operations, local norms, local labor-market concentration), industry (growth rate, employee training requirements), interorganizational networks (including relationships with government organizations), and legal structure (private vs. public ownership, for-profit vs. nonprofit, franchisor ownership) may also play important roles. For example, consider interorganizational networks. The more that employing organizations depend on a few buyers or sellers, the less power they have in buyer-supplier relationships and the lower the profits they can earn (Burt 1983). In turn, lower profits limit what employing organizations can pay workers and what benefits they can offer (Benton and Kim 2022). The result is to increase income inequality between firms (those with more vs. less power in buyer-supplier relationships) and at the societal level. To give another example, increasing societal inequality over the past half-century has fostered greater acceptance of unequal pay among higher-income people (Horowitz, Igielnik, and Kochhar 2020), from whose ranks come the executives and managers who set compensation and benefits policies. Organizations imprint on social conditions at founding (Stinchcombe 1965) and their employment relations retain those imprints (Hannan, Burton, and Baron 1996). Therefore, net of firm size, income inequality may be greater in younger firms than their older competitors because the former received the imprint of greater economic inequality, and acceptance of that, than the latter. If so, countries or regions with more older firms may have less income inequality than those with more younger firms. As these examples show, there is ample room for applying organizational theories to study how employing organizations and their environments shape income inequality at the organizational and societal levels.

2.2 Cultural Shifts

A long line of research shows how organizations respond to cultural shifts in their environments (DiMaggio and Powell 1983; Meyer and Rowan 1977). Two related cultural shifts have increased societal inequality: the rise of the shareholder-value logic (for a review, see Fligstein and Goldstein 2022) and financialization (for a review, see Lin and Neely 2020). The *shareholder-value logic* conceives of corporations as entities that should be managed to increase share prices, in order to maximize their value for shareholders. This logic disdains actions that consider the interests of other corporate stakeholders – employees, local communities, and society at large – if those interests run counter to shareholders' own. This logic emerged in the late 1970s and became prominent among U.S. publicly traded corporations in the 1980s (Fligstein and Goldstein 2022).

Adoption of the shareholder-value logic by U.S. publicly traded corporations increased inequality within those corporations. They shifted from offering most workers well-paid, stable, and (fairly) secure full-time jobs with good benefits to offering increasing numbers of workers, especially those with little education and few skills, jobs that are poorly paid, insecure, and part-time or temporary, with little or no control over work schedules, and lacking benefits like health insurance and parental leave (Cobb 2015; Fligstein and Shin 2004; Kalleberg 2018). Widespread adoption of this logic led to waves of downsizing, outsourcing, and "delayering" (Fligstein and Shin 2007; Jung 2015; Lazonick and O'Sullivan 2000). In contrast, the shareholder-value logic benefitted executives, who portrayed themselves as acting in shareholders' interests and increased their own compensation by awarding stock options (Fligstein and Shin 2004; Goldstein 2012). These processes increased inequality within affected firms and in society at large; in addition, downsizing and outsourcing increased between-firm inequality (Tomaskovic-Devey and Melzer 2020).

The shareholder-value logic has spread to many privately held and nonprofit organizations because MBAs run those types of organizations, and because MBA education has long been infused with tenets of this logic (Jung and Shin 2019). Private-equity firms also "injected" the shareholder-value logic into aerospace companies, automobile suppliers, food-processing firms, and newspapers; clinics, hospitals, and physician practices; and for-profit colleges (Appelbaum and Batt 2014; Batt 2018; Eaton 2022). Private-equity firms purchase corporations, partnerships, and family firms; implement shareholder-value structures and strategies like downsizing and outsourcing; and then sell firms by taking them public. These actions amplify the impact of the shareholder-value logic on societal inequality.

The shareholder-value logic has also spread to firms in Europe and Asia, due in part to coercion from U.S.-based institutional investors (Ahmadjian and Robinson 2001; Almond, Edwards, and Clark 2003; Tomaskovic-Devey and Melzer 2020). There is some evidence that adoption of this logic generated similar job degradation and downsizing as in the U.S., especially for middle- and lower-level employees, thus increasing within-firm and societal inequality in those countries (Tomaskovic-Devey and Melzer 2020). But this topic merits further investigation, as some aspects of continental European and Asian countries' political economies, such as strong social-welfare policies and educational systems that facilitate retraining displaced or under-employed workers, are likely to attenuate the impact of the shareholder-value logic on societal inequality.

Financialization involves the rise of the finance sector in the economy and increased trading in financial markets; for nonfinancial firms, it also involves increased reliance on earning profits through buying and selling financial instruments like stocks, bonds, and derivatives, as well as charging fees associated with creating financial instruments (Krippner 2005).[2] Financialization has risen around the world since the late 1970s (Epstein 2005; Karwowski 2022; Krippner 2005, 2012). And despite regulatory reforms aimed at curbing the activities of financial firms in the wake of the Great Recession, financialization has continued apace (Lin and Neely 2020). Financialization is closely related to the shareholder-value logic, which promotes the use of debt financing to motivate executives, thereby "financializing" nonfinancial firms and increasing the importance of financial firms in the economy (Davis and Kim 2015). Financialization, like the shareholder-value logic, has spread across the globe (Darcillon 2015).

Financialization has increased societal inequality through five mechanisms. First and most simply, financial firms, specifically banks and securities firms, pay higher wages than nonfinancial firms (Godechot 2016; Lin and Neely 2020). This relationship became stronger as investment by nonfinancial firms in financial assets increased the share of national income going to finance workers (Godechot 2016; Lin and Neely 2020). Second, the financialization of both financial and nonfinancial firms, in response to the shareholder-value logic, led to skyrocketing executive compensation through the awarding of stock options (Fligstein and Shin 2004; Goldstein 2012). Third, financialization harms lower- and middle-income workers by laying them off (Jung and Lee 2022; Lin 2016; Tomaskovic-Devey and Melzer 2020) and depressing their wages (Darcillon 2015; Tomaskovic-Devey and Melzer 2020). Wages for most non-financial workers drop because their bargaining power is lower when firms depend more for profits on financial products than on traditional goods and services. Fourth, financialization depresses unions because the workers who are downsized are more likely to be unionized (Kollmeyer and Peters 2019; Tomaskovic-Devey and Melzer 2020). All four mechanisms directly increase societal inequality. The fifth mechanism – shareholder profit distributions – is indirect. The financialization of nonfinancial firms raises their stock prices (Lin 2016), increasing the incomes and wealth of higher-income people, who own the vast majority of corporate shares and mutual funds (Federal Reserve of St. Louis 2024). These effects of financialization are stronger in liberal market

2 Financialization also affects families, who have become more dependent on financial instruments like credit cards, stocks and bonds, mortgage loans, and home-equity loans. To save space, I ignore this aspect of financialization, even though it increases societal economic inequality (Lin and Neely 2020).

economies like the U.S. and the U.K., and in other countries with weak labor power like Denmark and Switzerland, than they are in co-ordinated market economies with strong labor protections like Germany and France (Roberts and Kwon 2017).

2.3 Employment Relations

Managers design jobs, hiring and evaluation procedures, promotion ladders, and compensation schemes. They decide who gets which jobs, how much and how employees get paid, and what benefits at what levels they receive. But employment relations have changed over the past half-century, spurred by the spread of the shareholder-value logic and financialization. Many employers adopted market-based practices like dismantling internal labor markets and hiring externally, downsizing, relying on contingent and temporary workers, and outsourcing labor to lower-income countries (for reviews, see Amis, Mair, and Munir 2020; Bapuji, Ertug, and Shaw 2020; Bidwell et al. 2013). Most empirical work has studied the U.S., but there is evidence that these changes have also occurred in Europe and Japan (Ahmadjian and Robinson 2001; DiPrete et al. 2006; Tomaskovic-Devey and Melzer 2020).

In the U.S., temporary and contract workers in low-skill jobs earn less than regular employees, which increases income inequality within employing organizations (Kalleberg 2011, 2018). The inequality caused by reliance on these nonstandard jobs is accentuated by the fact that workers in these types of job usually lack health-care and pension benefits. Moreover, rising executive compensation has increased executives' incomes and wealth, dramatically increasing within-organization economic inequality. Applying social-capital theory (Bourdieu 1980; Coleman 1988) reveals that when CEOs are more socially similar to compensation-committee chairs, in terms of educational background, career histories, board memberships, and club affiliations, CEO compensation is higher (Belliveau, O'Reilly, and Wade 1996). Moreover, as CEO status increases, their compensation increases because CEOs use their status to influence compensation-committee chairs – especially when CEOs have higher status. Moreover, high CEO compensation cascades down to other executives, due to CEOs' susceptibility to norms of fairness (at least within the executive ranks), which amplifies the impact of rising CEO compensation (Wade et al. 2006).

As these examples suggest, research on employment relations by organizational theorists focuses largely on inequality within organizations. Some scholars have argued that we can aggregate from within-organization to societal inequality (Bidwell et al. 2013). But within- and between-firm variation in employment practices and compensation schemes makes this argument deserving of empirical investigation. Consider two seemingly similar employment practices: reliance on part-time and outsourced workers. Relying more on part-time workers increases both within-organization and societal inequality. But whether or not it increases between-organization inequality depends on how widespread this practice is. To determine how many and which employing organizations replace full-time jobs with part-time jobs, we need theories of organizations.

In contrast, when firms outsource routine, poorly paid work like cleaning, data entry, and customer service to contract firms or temporary agencies, what remains are mostly jobs with good compensation and benefits. Jobs in contract firms or temporary agencies pay less than the jobs they replace; they also offer less security and fewer opportunities for advancement (Davis-Blake and Broschak 2009; Kalleberg 2011). Outsourcing is one reason why, in the U.S. and Europe, high-skilled, well-paid jobs for highly-educated workers are becoming more concentrated within subsets of employing organizations, while low-skilled, poorly-paid jobs for less-educated workers are becoming concentrated in other subsets of organizations (Bagger, Sorensen, and Vejlin 2013; Card, Heining, and Kline 2013; Cobb and Stevens 2017; Wilmers and Aeppli 2021). Consolidation of firm type and job quality decreases within-firm inequality and increases both between-firm and societal inequality. Moreover, when jobs are outsourced to subcontractors in countries with lower wage levels, those jobs tend to be low- or medium-wage. As a result, both *within*-organization inequality and *societal* inequality decrease. Whether *global* (between-country) inequality rises depends on how well outsourced jobs pay relative to the jobs that existed in the subcontractor's country before outsourcing, and whether these jobs are filled by people who could not find paid employment before (i.e. women).

Other scholars have examined societal inequality using administrative data linking employing organizations and their employees. Such data exist for several European countries and, to a lesser extent, for countries in Asia and North America. Analysis of linked employer-employee data across 14 high-income countries shows that over the past quarter-century, most of the increase in societal-level inequality is due to differences in wage rates *between* rather than *within* firms (Tomaskovic-Devey et al. 2020). This suggests that research focusing on inequality within firms is missing a huge piece of the puzzle. While helpful, research using linked employer-employee data is still hampered by the facts that these data contain little or no information on the structures, policies, or practices of employing organization, and that they are not available at a granular level for all countries, even in the Global North. So while such studies can suggest that rising between-firm inequality may be due to the concentration of more educated, higher-paid workers in a particular set of firms or to increased outsourcing and use of temporary or contract workers, they cannot prove their case. In addition, they cannot explain why those mediating processes might have arisen in the first place or how to alter them (but see the organizational-theoretic explanation in Sørensen and Sorenson 2007). To generate better explanations, we have to look at the attributes of employing organizations themselves (norms, structures, practices, and scale of operations) and their environments (organizational demographies, cultures, and logics; interorganizational relationships). Three organizational attributes, firms' adoption of the shareholder-value logic, financialization, and firm size, have already been the objects of study. But they have mostly been used to explain inequality within organizations, rather than at the societal or global level.

2.4 Job Quality

Jobs vary in terms of how much knowledge, education, and skill they require, all of which help determine compensation and conditions of employment. Over the past several decades, "good" jobs for lower- and middle-income workers – secure full-time jobs paying a living wage and offering generous benefits like pensions and health insurance – have disappeared wholesale, especially but not only in the U.S. (Kalleberg 2011, 2018). Declines in job quality have been driven by changes in employment relations, the decline of unions, and the rise of the shareholder-value logic and financialization. The result is worse compensation and working conditions for most workers, except those at the top, increasing within-firm inequality.

One notable change in job quality is the rise of "gig work." Driven by advances in information technologies, the rise of gig work has exacerbated the effects of the shareholder-value logic and financialization. Platforms like DoorDash, Lyft, TaskRabbit, Uber, and Upwork refuse to accept formal employer responsibility, pay living wages, or offer standard benefits like pension plans and healthcare (Griesbach et al. 2019). But the impact of gig work on societal inequality is an empirical question; it is likely to depend on the strength of different countries' social-welfare and educational systems, as well as their approach to regulating gig work. More directly, it is likely to depend on the characteristics of gig-platform firms – an opening for organizational theorists to study this new phenomenon's connection to income inequality.

2.5 Concluding Thoughts

The question of when and how business firms increase or decrease societal and global inequality clearly merits further study. One way to nail this down is to leverage available data on organizational attributes, policies, and practices (even though those data may not cover all organizations), link those data to measures of causal factors like shareholder value and financialization (and others I have not discussed here), and apply other theories of organizations to craft deeper explanations of inequality. For instance, outsourcing, downsizing, and mergers may be driven as much by isomorphism as by shareholder value, especially in highly uncertain environments (DiMaggio and Powell 1983). Data on compensation, job characteristics, and workplace practices can be extracted from job-search platforms like Glassdoor, BurningGlass, and Indeed. Although those data may not cover all organizations, they may provide insights into sectors with high fractions of professional and technical employees. Another approach is to adapt survey methods to get nationally representative data on firm structures, policies, and practices: place ads on social-media sites like Facebook to attract workers and induce them to fill out surveys on their firms' practices, then merge other available data on those firms (Schneider and Harknett 2019). With these data, researchers can apply ideas from many different organizational theories, including organizational culture (Schein 1996), internal organizational demography (Baron and Bielby 1980), institutionalization and legitimacy (Meyer and Rowan 1977), isomorphism and diffusion (DiMaggio and Powell 1983), and institutional logics (Friedland and Alford 1991), yielding novel explanations.

3 Organizations as Policy Setters

Because national and regional governments tax and spend, and because they create the rules that govern economic activity, government organizations can have huge impacts on inequality. I first discuss taxation and spending, then turn to other aspects of government. Most of my empirical examples concern the U.S. because I know that country best, but these examples are relevant to other liberal market economies such as Australia, Canada, and the U.K., and to city-state market economies like Hong Kong and Singapore. These examples will, however, be less germane for understanding countries with emerging market economies, and still less to co-ordinated market, oil-based, or socialist economies (For details on the varieties of political economy, see Hall and Soskice 2001; Whitley 2007; Witt et al. 2018).

3.1 Taxation and Spending

Government tax policies can decrease or increase economic inequality, depending on whether taxes are progressive (burdening higher-income people most) or regressive (burdening lower-income people most). Government spending can also decrease or increase economic inequality, depending on who receives government largesse and how much they receive. Here I focus on some of the more subtle, but still powerful, ways that governments affect inequality through taxation and spending.

In the U.S., there is a "hidden welfare state" (Howard 1997) based on tax expenditures (reductions in tax revenue through tax deductions and exemptions). Tax-related benefits explicitly intended to relieve the suffering of the poor, such as tax refunds like the Earned Income Credit for lower-income people, are dwarfed by tax-related benefits for higher-income people, such as income-tax deductions for home-mortgage interest and property taxes. These benefits redistribute wealth toward higher-income people because they are far more likely to own homes. The evidence is stark: in 2022, households in the top quintile for earnings received 76.5 % of tax-deduction credits for home-mortgage interest, compared to 0.1 % for the bottom quintile, while households in the top quintile received 47.4 % of tax-deduction credits for property taxes, compared to 0.2 % for the bottom quintile (Urban Institute 2024). A third tax policy that primarily benefits higher-income people is the income-tax exemption for employer-sponsored pension plans. In 2022, households in the top quintile received 59.8 % of tax-deduction credits for pension plans, compared to 0.4 % for those in the bottom quintile (Urban Institute 2024).

Another subtle way tax policies contribute to inequality is through policy "drift" (Hacker and Pierson 2010). For example, consider the general partners of U.S. private-equity firms and hedge funds, whose earnings are labeled "carried interest" and taxed at the capital-gains rate (currently up to 23.8 %) rather than the much higher income-tax rate (currently up to 37 %) (Fleischer 2008). This benefit for people with extremely high incomes (a typical general partner in these firms earns over $2 million per year) is inscribed in government policies written in the early twentieth century that covered oil- and gas-exploration projects by treating the gains and losses of investors and explorers alike. Lobbying has prevented these outdated policies from being revised, despite extensive criticism (Mernit 2016).

Tax revenues and expenditures can be affected indirectly through budgeting processes that increase or reduce spending for tax authorities. For example, the U.S. Internal Revenue Service (IRS) has faced decades of funding cuts (Center on Budget and Policy Priorities 2018; IRS 2021), which have forced workforce reductions (especially in enforcement staff), reduced employee training, and delayed upgrades to information-technology systems. One consequence is fewer audits and therefore increased tax avoidance, especially for top income earners (Johnston 2003) and business corporations (Nessa et al. 2016), whose owners are predominately higher-income individuals. Thus IRS budget cuts indirectly increase societal inequality.

3.2 Beyond Taxation: Military Benefits

Many government agencies and policies beyond those directly involved in taxation also affect inequality. One prominent example involves the military. Consider the GI Bill, which gave U.S. veterans access to excellent unemployment benefits, funding for vocational training and higher education, and low-interest loans to buy homes, farms, and businesses. Almost 60 % of veterans received $20 weekly “readjustment allowances” for up to a year while they searched for work, coupled with job counseling and placement services (Altschuler and Blumin 2009).[3] By 1947, veterans constituted almost half of the college population – a sharp contrast to the elites who attended college before the GI Bill (Mettler 2005). Veterans from lower-income families benefited most from the GI Bill’s access to higher education. Perhaps even more important was access to vocational training; one-third of veterans took advantage of this, three-quarters of whom would not otherwise have been able to afford it (Altschuler and Blumin 2009; Mettler 2005). Loan guarantees for starting small businesses and purchasing farms were used by very few veterans, but many used loan guarantees for home mortgages (Altschuler and Blumin 2009). Through access to unemployment insurance, higher education, job training, and bank loans, the GI Bill gave veterans a leg up on the social-mobility ladder, thereby helping to dramatically reduce economic inequality at the societal level.

Yet the GI Bill was not universally beneficial. Although the original bill was written to be race-neutral, in practice it was designed to accommodate racism (Katznelson 2005). Veterans’ benefits were managed by local bureaucrats and businesspeople, who denied black veterans admission to colleges and universities, job-training programs, and business, farm, and home loans (Agbai 2022; Katznelson 2005). It is not surprising, then, that back veterans received substantially less support from the GI Bill than their white counterparts. This was compounded by the effects of racially unequal primary and secondary educational systems, which produced black veterans who were less prepared than their white counterparts to attend college, less likely to attend college, and more likely to attend vocational training programs (Mettler 2005; Wilson 1994). Vocational training certainly improved black veterans’ socioeconomic status, but not as much as college education would have.

Although the provisions of the GI Bill ended in 1956, it was succeeded by a series of similar bills that were less influenced by racial discrimination. Today, U.S. military members and veterans can purchase homes with favorable interest rates through the Veterans Administration (VA), which eliminates the need for large down-

3 Over a year, this added up to $10,400, over four times the median household income in 1945. Most veterans, though, left the program quickly for work or school, so the average payout was only about $350, about 15 % of the median household income in 1945 (Altschuler and Blumin 2009: 154).

payments. After the draft was abolished in 1973, the fraction of enlistees from poorer families increased substantially. Enlistment provided these men and women with opportunities to earn stable incomes with generous education, tax, and health benefits; to develop new skills; and to forge social networks that could help drive upward mobility after discharge (Greenberg et al. 2022). However, the effects of later GI Bills depend on whether enlistees served in war zones; if they did, they were more likely to be psychologically traumatized and less likely to move up the economic ladder (Prigerson, Maciejewski, and Rosenheck 2002; Savoca and Rosenheck 2000; but see Vogt et al. 2004).

3.3 Beyond Taxation: Government Policies That Affect Workers and Businesses

In the U.S., a host of federal and state policies affect workers and the organizations they work for. Political scientists have found that collectively, changes in these policies or "drift" in their effects have worsened economic inequality in the U.S. over the past half century (Hacker and Pierson 2010; Mishel and Bevins 2021). The most powerful factors have been:

– *monetary policies* focused more on keeping inflation in check than reducing unemployment, which benefit those with net assets (richer people) over those with net liabilities (poorer people),
– *judicial decisions* eroding collective bargaining and supporting anti-union policies,
– policies facilitating *globalization and offshoring* many jobs to lower-income countries, and
– *weakening labor standards* like declining minimum-wage levels (due in large part to lack of inflation adjustments), actively reduced overtime protections, and enfeebled workplace safety standards.

While political scientists have demonstrated these effects of government policies on societal inequality, organizational theorists could deepen this line of inquiry by applying theories of organizational structure, dynamics, and environments. Doing so would generate new insights into how the goals, structures, everyday operations, and cultures of government bureaus, and their relations with business organizations, affect inequality. For example, resource-dependence theory (Pfeffer and Salancik 1978) can help explain weakening labor standards. The argument is simple: The costs of running for office have increased dramatically. Politicians have responded by raising more money from businesspeople – wealthy ones, who tend to lean conservative on economic issues (Gilens 2009; Page, Bartels, and Seawright

2013). Dependence on political donations from wealthy businesspeople makes elected officials more likely to vote in favor of business-friendly laws (Page, Bartels, and Seawright 2013).

Another source of resource dependence between business and government that shapes societal inequality concerns the careers of politicians and bureaucrats, who often pass through a "revolving door" between government and industry (Etzion and Davis 2008; Hillman and Hitt 1999). This interchange, which happens in many countries around the world, including Japan (Johnson 1974) and France (Eymeri-Douzans 2012), creates cozy relationships that favor business interests over worker interests. Much work on this topic focuses on the consequences of business-government ties for firms, rather than for society at large. So there is ample room to use resource-dependence theory to explain how the revolving door support weakens labor standards, thus increasing societal inequality.

Institutional theory (Meyer and Rowan 1977) can also be used to explain how government organizations shape societal inequality. Most prominently, institutional theory has been harnessed to explain why courts judging compliance with affirmative-action and equal-opportunity (AA/EEO) laws have come to approve of corporate-designed policies, practices, and structures (Edelman 2016) that are often largely symbolic. The mere existence of things like personnel manuals, diversity-training programs, and formal grievance procedures often fails to dispel long-standing patterns of discrimination against women and ethno-racial minorities (Dobbin and Kalev 2021), but they have come to be accepted by the courts as compliant with AA/EEO law (Edelman 2016), "inoculating" firms from punishment. The end result is persistent – even increased – inequality within employing organizations that are subject to AA and EEO regulations. Organizational theorists could build on this work to demonstrate the impact on societal-level economic inequality. For instance, the large firms that are subject to AA and EEO regulations tend to be role models for other firms because they are more visible and perceived as successful (Haveman 1993), so acceptance of symbolic compliance with AA and EEO regulations may spill over to firms not covered by those rules, thereby increasing societal inequality.

3.4 Concluding Thoughts

My discussion covered only a limited number of ways that government organizations affect society. It focused mostly on the U.S., whose political-economic system is different along multiple dimensions from that of many other countries (Hall and Soskice 2001; Whitley 2007; Witt et al. 2018). For example, the effects of government on inequality are likely to be very different in co-ordinated market economies like Germany because they have industrial-relations systems (workers' councils) that institutionalize the power of labor and educational systems (strong vocational (re)training institutions) that help displaced workers regain their footing after layoffs. But even within co-ordinated market economies, the strength of labor's voice in policy-making varies both across countries and over time, depending on economic, political, and cultural factors. In particular, the strength of leftist political parties, which is positively associated with the strength of tax and welfare policies that reduce societal inequality (Bradley et al. 2003; Brady and Leicht 2008), has varied over time. So I urge scholars studying other countries to apply organizational theory to explain the impact of government organizations, including political parties, on societal inequality.

4 Organizations as Buyers and Sellers

As mentioned above, organizations can generate inequality in the organizations from whom they purchase goods or services or to whom they sell goods or services. Inequality in power-dependence relations between buyers and sellers (Burt 1983; Pfeffer and Salancik 1978) is increasingly seen in international interorganizational exchange relations. One good approach for understanding this is to examine the complex production chains[4] that link organizations in the Global North to organizations in the Global South (Gereffi and Korzeniewicz 1994). Global production chains first developed in the era of European exploration and colonization, starting in the early 17th century (Hopkins and Wallerstein 1986); they became increasingly common after World War II (Gereffi and Korzeniewicz 1994). They involve raw materials, labor, extraction and production technologies, intermediate and finished goods, and transportation and distribution systems. These components are bound together by flows of funds, technology and information, and contracts (formal or informal) linking firms in different locations.

In the contemporary era, the flourishing of global production chains was spurred by international organizations that valorize free trade (like the World Trade Organization), as well as by multiparty international agreements (like the General Agreement on Tariffs and Trade), region-specific agreements (like the North American Free Trade Agreement), and sector-specific agreements (like the Agreement on Textiles and Clothing). Other factors promoting the development of global production chains include the spread of the shareholder-value logic and the

4 These are also known as commodity chains or value chains. I prefer the term "production" because the final outputs may be differentiated goods like brand-name fashion or services like customer support, rather than commodities like sugar.

rise of financialization, both of which prescribe the outsourcing of low-skill jobs, often to other countries, to raise corporate profits and thus stock prices (Lazonick and Sullivan 2000).

International interorganizational networks of production and payment involve firms with very different levels of power and influence. In general, firms in higher-income countries are much larger and have far more financial resources than firms in lower-income countries; they can also choose among many potential subcontractors. As resource-dependence theory tells us, this gives firms in higher-income countries more bargaining power (Burt 1983; Pfeffer and Salancik 1978). This power differential enables firms in higher-income countries to pay low wages to workers in lower-income countries and take advantage of lower-income countries' weak labor regulations, paralleling research on power-dependence relations between buyers and sellers in the U.S. (Benton and Kim 2022). Moreover, firms in higher-income countries are shielded from legal liability because workers in lower-income countries are subcontractors, not direct employees. Thus workers in the Global South are trapped in poorly paid jobs and wealth is transferred to the owners and top employees of firms in the Global North (Collins 2003; Munir et al. 2018; Riaz 2015). The result is to increase global (between-country) inequality (Gereffi and Korzeniewicz 1994; Palpacuer 2008).[5]

Global inequality is accentuated by the fact that firms in lower-income countries tend to specialize in production (manufacturing and low-skill service) while firms in higher-income countries tend to specialize in knowledge-intensive activities like R&D, marketing, and sales. Knowledge-intensive activities capture more of the value-added across global production chains (Coveri, PaglialungA, and Zanfei 2023). Consider, for example, the highly globalized textiles and clothing industries. Firms in higher-income countries outsource most of their production to subcontractors in middle- and lower-income countries. These production chains are designed for and driven by the needs of retailers and merchandisers, with manufacturers in higher-income countries managing the chains (Gereffi 1994). For example, a detailed study of U.S. apparel firms' relationships with Mexican suppliers found that the Mexican suppliers paid garment-assembly workers less than Mexican living-wage standards (Collins 2003).

Yet the impact of global production chains is not always and everywhere harmful. Jobs in Global-South firms that supply Global-North firms often pay more than other jobs available in the Global South, so global production chains can raise incomes for workers there – especially female workers, who may not have had

5 Economists often argue that participation in global production chains reduces global inequality (e.g., Duarte et al. 2022). But their research only shows statistically significant positive effects for richer countries, and nonsignificant or negative effects for poorer countries.

opportunities before in the formal labor market.[6] Moreover, participation in global production chains makes it possible (although certainly not likely) for lower-income countries to become middle-income – to "upgrade" their status (Humphrey and Schmitz 2002). There are multiple pathways for this. First, as a lower-income country's workforce becomes more skilled due to accumulated experience with manufacturing, workers can shift to creating more-sophisticated, higher-value products. Second, production processes in lower-income countries can become more efficient and effective by learning from customer firms and by adopting more advanced technologies, such as electronic controls and robotics. This would increase profits in lower-income country firms, which may be passed along to their workers. Third, firms in lower-income countries can innovate to move up the value-added ladder; for example, by developing capabilities in product design, packaging and marketing.

4.1 Concluding Thoughts

Increased profits through increased efficiency and organizational learning and through upgrading of products can reduce global inequality. But whether these organizational learning and upgrading pathways to higher profits are open to firms in lower-income countries depends on the bargaining power of firms in higher-income countries. And whether the increased profits accrued through organizational learning and upgrading translate to higher incomes for workers depends on the strength of lower-income countries' labor rights. Both pathways also depend on the degree to which the multiparty international agreements that govern global production chains are explicitly designed to reduce inequality of opportunity (for firms in lower-income countries) and income inequality (for workers).

5 Conclusions

Organizations are ubiquitous and powerful elements in modern societies (Haveman 2022). As organizational theorists, we have the expertise to understand the varied forms and behaviors of organizations. Only we can really explain how and why organizations shape economic inequality at the societal and global levels. I have sketched some things we know about organizations' impact on societal inequality, based on research by scholars in management, sociology, economics, psychology,

6 But that does not mean compensation from the end of global production chains is above living-wage levels (Collins 2003) or that compensation is fair, given the profits that manufacturing creates.

and political science. Clearly, there is much more room to apply insights from organizational theory to explain (and we hope to reduce) economic inequality within societies and across the world. We can investigate a wide array of factors that drive societal and global inequality: organizational structures, practices, cultures, and logics; power and dependence relations within and between organizations; prevailing logics and efforts to disrupt them; new technologies; and legal institutions.

Because of space constraints, this essay ignored some important determinants of societal (in)equality; for example, schools, labor unions, and social-movement organizations can help reduce societal and, perhaps, global inequality. And it ignores how organizations in many sectors – such as healthcare, financial services, and housing – whose structures, policies, practices, and services shape inequality. There is ample room to study other ways that organizations influence societal inequality than as employers, policy-setters, and buyers and suppliers: as suppliers of key resources (financial firms, healthcare organizations, national and local governments that set housing policy, builders that create housing supply, and landlords that set rents), as disruptors of unequal social orders (labor unions and social-movement organizations), and as cultivators of human, social, and cultural capital (schools). These all have tremendous impacts on inequality but alas, I do not have the space in this essay to give them justice. I urge other organizational theorists to dig into these ways organizations drive societal and global inequality.

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