A study by the World Institute for Development Economics Research at United Nations University reports that the richest 1% of adults alone owned 40% of global assets in the year 2000. The three richest people in the world possess more financial assets than the lowest 48 nations combined. The combined wealth of the "10 million dollar millionaires" grew to nearly $41 trillion in 2008. A January 2014 report by Oxfam claims that the 85 wealthiest individuals in the world have a combined wealth equal to that of the bottom 50% of the world's population, or about 3.5 billion people. According to a Los Angeles Times analysis of the report, the wealthiest 1% owns 46% of the world's wealth; the 85 richest people, a small part of the wealthiest 1%, own about 0.7% of the human population's wealth, which is the same as the bottom half of the population. More recently, in January 2015, Oxfam reported that the wealthiest 1 percent will own more than half of the global wealth by 2016. An October 2014 study by Credit Suisse also claims that the top 1% now own nearly half of the world's wealth and that the accelerating disparity could trigger a recession. In October 2015, Credit Suisse published a study which shows global inequality continues to increase, and that half of the world's wealth is now in the hands of those in the top percentile, whose assets each exceed $759,900. A 2016 report by Oxfam claims that the 62 wealthiest individuals own as much wealth as the poorer half of the global population combined. Oxfam's claims have however been questioned on the basis of the methodology used: by using net wealth (adding up assets and subtracting debts), the Oxfam report, for instance, finds that there are more poor people in the United States and Western Europe than in China (due to a greater tendency to take on debts).[unreliable source?][unreliable source?] Anthony Shorrocks, the lead author of the Credit Suisse report which is one of the sources of Oxfam's data, considers the criticism about debt to be a "silly argument" and "a non-issue . . . a diversion."

According to PolitiFact the top 400 richest Americans "have more wealth than half of all Americans combined." According to the New York Times on July 22, 2014, the "richest 1 percent in the United States now own more wealth than the bottom 90 percent". Inherited wealth may help explain why many Americans who have become rich may have had a "substantial head start". In September 2012, according to the Institute for Policy Studies, "over 60 percent" of the Forbes richest 400 Americans "grew up in substantial privilege".

Neoclassical economics views inequalities in the distribution of income as arising from differences in value added by labor, capital and land. Within labor income distribution is due to differences in value added by different classifications of workers. In this perspective, wages and profits are determined by the marginal value added of each economic actor (worker, capitalist/business owner, landlord). Thus, in a market economy, inequality is a reflection of the productivity gap between highly-paid professions and lower-paid professions.

In Marxian analysis, capitalist firms increasingly substitute capital equipment for labor inputs (workers) under competitive pressure to reduce costs and maximize profits. Over the long-term, this trend increases the organic composition of capital, meaning that less workers are required in proportion to capital inputs, increasing unemployment (the "reserve army of labour"). This process exerts a downward pressure on wages. The substitution of capital equipment for labor (mechanization and automation) raises the productivity of each worker, resulting in a situation of relatively stagnant wages for the working class amidst rising levels of property income for the capitalist class.

In a purely capitalist mode of production (i.e. where professional and labor organizations cannot limit the number of workers) the workers wages will not be controlled by these organizations, or by the employer, but rather by the market. Wages work in the same way as prices for any other good. Thus, wages can be considered as a function of market price of skill. And therefore, inequality is driven by this price. Under the law of supply and demand, the price of skill is determined by a race between the demand for the skilled worker and the supply of the skilled worker. "On the other hand, markets can also concentrate wealth, pass environmental costs on to society, and abuse workers and consumers." "Markets, by themselves, even when they are stable, often lead to high levels of inequality, outcomes that are widely viewed as unfair." Employers who offer a below market wage will find that their business is chronically understaffed. Their competitors will take advantage of the situation by offering a higher wage the best of their labor. For a businessman who has the profit motive as the prime interest, it is a losing proposition to offer below or above market wages to workers.

A job where there are many workers willing to work a large amount of time (high supply) competing for a job that few require (low demand) will result in a low wage for that job. This is because competition between workers drives down the wage. An example of this would be jobs such as dish-washing or customer service. Competition amongst workers tends to drive down wages due to the expendable nature of the worker in relation to his or her particular job. A job where there are few able or willing workers (low supply), but a large need for the positions (high demand), will result in high wages for that job. This is because competition between employers for employees will drive up the wage. Examples of this would include jobs that require highly developed skills, rare abilities, or a high level of risk. Competition amongst employers tends to drive up wages due to the nature of the job, since there is a relative shortage of workers for the particular position. Professional and labor organizations may limit the supply of workers which results in higher demand and greater incomes for members. Members may also receive higher wages through collective bargaining, political influence, or corruption.

On the other hand, higher economic inequality tends to increase entrepreneurship rates at the individual level (self-employment). However, most of it is often based on necessity rather than opportunity. Necessity-based entrepreneurship is motivated by survival needs such as income for food and shelter ("push" motivations), whereas opportunity-based entrepreneurship is driven by achievement-oriented motivations ("pull") such as vocation and more likely to involve the pursue of new products, services, or underserved market needs. The economic impact of the former type of entrepreneurialism tends to be redistributive while the latter is expected to foster technological progress and thus have a more positive impact on economic growth.

Another cause is the rate at which income is taxed coupled with the progressivity of the tax system. A progressive tax is a tax by which the tax rate increases as the taxable base amount increases. In a progressive tax system, the level of the top tax rate will often have a direct impact on the level of inequality within a society, either increasing it or decreasing it, provided that income does not change as a result of the change in tax regime. Additionally, steeper tax progressivity applied to social spending can result in a more equal distribution of income across the board. The difference between the Gini index for an income distribution before taxation and the Gini index after taxation is an indicator for the effects of such taxation.

An important factor in the creation of inequality is variation in individuals' access to education. Education, especially in an area where there is a high demand for workers, creates high wages for those with this education, however, increases in education first increase and then decrease growth as well as income inequality. As a result, those who are unable to afford an education, or choose not to pursue optional education, generally receive much lower wages. The justification for this is that a lack of education leads directly to lower incomes, and thus lower aggregate savings and investment. Conversely, education raises incomes and promotes growth because it helps to unleash the productive potential of the poor.

In 2014, economists with the Standard & Poor's rating agency concluded that the widening disparity between the U.S.'s wealthiest citizens and the rest of the nation had slowed its recovery from the 2008-2009 recession and made it more prone to boom-and-bust cycles. To partially remedy the wealth gap and the resulting slow growth, S&P; recommended increasing access to education. It estimated that if the average United States worker had completed just one more year of school, it would add an additional $105 billion in growth to the country's economy over five years.

During the mass high school education movement from 1910–1940, there was an increase in skilled workers, which led to a decrease in the price of skilled labor. High school education during the period was designed to equip students with necessary skill sets to be able to perform at work. In fact, it differs from the present high school education, which is regarded as a stepping-stone to acquire college and advanced degrees. This decrease in wages caused a period of compression and decreased inequality between skilled and unskilled workers. Education is very important for the growth of the economy, however educational inequality in gender also influence towards the economy. Lagerlof and Galor stated that gender inequality in education can result to low economic growth, and continued gender inequality in education, thus creating a poverty trap. It is suggested that a large gap in male and female education may indicate backwardness and so may be associated with lower economic growth, which can explain why there is economic inequality between countries.

John Schmitt and Ben Zipperer (2006) of the CEPR point to economic liberalism and the reduction of business regulation along with the decline of union membership as one of the causes of economic inequality. In an analysis of the effects of intensive Anglo-American liberal policies in comparison to continental European liberalism, where unions have remained strong, they concluded "The U.S. economic and social model is associated with substantial levels of social exclusion, including high levels of income inequality, high relative and absolute poverty rates, poor and unequal educational outcomes, poor health outcomes, and high rates of crime and incarceration. At the same time, the available evidence provides little support for the view that U.S.-style labor-market flexibility dramatically improves labor-market outcomes. Despite popular prejudices to the contrary, the U.S. economy consistently affords a lower level of economic mobility than all the continental European countries for which data is available."

Sociologist Jake Rosenfield of the University of Washington asserts that the decline of organized labor in the United States has played a more significant role in expanding the income gap than technological changes and globalization, which were also experienced by other industrialized nations that didn't experience steep surges in inequality. He points out that nations with high rates of unionization, particularly in Scandinavia, have very low levels of inequality, and concludes "the historical pattern is clear; the cross-national pattern is clear: high inequality goes hand-in-hand with weak labor movements and vice-versa."

Trade liberalization may shift economic inequality from a global to a domestic scale. When rich countries trade with poor countries, the low-skilled workers in the rich countries may see reduced wages as a result of the competition, while low-skilled workers in the poor countries may see increased wages. Trade economist Paul Krugman estimates that trade liberalisation has had a measurable effect on the rising inequality in the United States. He attributes this trend to increased trade with poor countries and the fragmentation of the means of production, resulting in low skilled jobs becoming more tradeable. However, he concedes that the effect of trade on inequality in America is minor when compared to other causes, such as technological innovation, a view shared by other experts. Empirical economists Max Roser and Jesus Crespo-Cuaresma find support in the data that international trade is increasing income inequality. They empirically confirm the predictions of the Stolper–Samuelson theorem regarding the effects of international trade on the distribution of incomes. Lawrence Katz estimates that trade has only accounted for 5-15% of rising income inequality. Robert Lawrence argues that technological innovation and automation has meant that low-skilled jobs have been replaced by machine labor in wealthier nations, and that wealthier countries no longer have significant numbers of low-skilled manufacturing workers that could be affected by competition from poor countries.

In many countries, there is a Gender pay gap in favor of males in the labor market. Several factors other than discrimination may contribute to this gap. On average, women are more likely than men to consider factors other than pay when looking for work, and may be less willing to travel or relocate. Thomas Sowell, in his book Knowledge and Decisions, claims that this difference is due to women not taking jobs due to marriage or pregnancy, but income studies show that that does not explain the entire difference. A U.S. Census's report stated that in US once other factors are accounted for there is still a difference in earnings between women and men. The income gap in other countries ranges from 53%

in Botswana to -40% in Bahrain.

Economist Simon Kuznets argued that levels of economic inequality are in large part the result of stages of development. According to Kuznets, countries with low levels of development have relatively equal distributions of wealth. As a country develops, it acquires more capital, which leads to the owners of this capital having more wealth and income and introducing inequality. Eventually, through various possible redistribution mechanisms such as social welfare programs, more developed countries move back to lower levels of inequality.

Plotting the relationship between level of income and inequality, Kuznets saw middle-income developing economies level of inequality bulging out to form what is now known as the Kuznets curve. Kuznets demonstrated this relationship using cross-sectional data. However, more recent testing of this theory with superior panel data has shown it to be very weak. Kuznets' curve predicts that income inequality will eventually decrease given time. As an example, income inequality did fall in the United States during its High school movement from 1910 to 1940 and thereafter.[citation needed] However, recent data shows that the level of income inequality began to rise after the 1970s. This does not necessarily disprove Kuznets' theory.[citation needed] It may be possible that another Kuznets' cycle is occurring, specifically the move from the manufacturing sector to the service sector.[citation needed] This implies that it may be possible for multiple Kuznets' cycles to be in effect at any given time.

Wealth concentration is a theoretical[according to whom?] process by which, under certain conditions, newly created wealth concentrates in the possession of already-wealthy individuals or entities. According to this theory, those who already hold wealth have the means to invest in new sources of creating wealth or to otherwise leverage the accumulation of wealth, thus are the beneficiaries of the new wealth. Over time, wealth condensation can significantly contribute to the persistence of inequality within society. Thomas Piketty in his book Capital in the Twenty-First Century argues that the fundamental force for divergence is the usually greater return of capital (r) than economic growth (g), and that larger fortunes generate higher returns [pp. 384 Table 12.2, U.S. university endowment size vs. real annual rate of return]

Economist Joseph Stiglitz argues that rather than explaining concentrations of wealth and income, market forces should serve as a brake on such concentration, which may better be explained by the non-market force known as "rent-seeking". While the market will bid up compensation for rare and desired skills to reward wealth creation, greater productivity, etc., it will also prevent successful entrepreneurs from earning excess profits by fostering competition to cut prices, profits and large compensation. A better explainer of growing inequality, according to Stiglitz, is the use of political power generated by wealth by certain groups to shape government policies financially beneficial to them. This process, known to economists as rent-seeking, brings income not from creation of wealth but from "grabbing a larger share of the wealth that would otherwise have been produced without their effort"

Effects of inequality researchers have found include higher rates of health and social problems, and lower rates of social goods, a lower level of economic utility in society from resources devoted on high-end consumption, and even a lower level of economic growth when human capital is neglected for high-end consumption. For the top 21 industrialised countries, counting each person equally, life expectancy is lower in more unequal countries (r = -.907). A similar relationship exists among US states (r = -.620).

2013 Economics Nobel prize winner Robert J. Shiller said that rising inequality in the United States and elsewhere is the most important problem. Increasing inequality harms economic growth. High and persistent unemployment, in which inequality increases, has a negative effect on subsequent long-run economic growth. Unemployment can harm growth not only because it is a waste of resources, but also because it generates redistributive pressures and subsequent distortions, drives people to poverty, constrains liquidity limiting labor mobility, and erodes self-esteem promoting social dislocation, unrest and conflict. Policies aiming at controlling unemployment and in particular at reducing its inequality-associated effects support economic growth.

British researchers Richard G. Wilkinson and Kate Pickett have found higher rates of health and social problems (obesity, mental illness, homicides, teenage births, incarceration, child conflict, drug use), and lower rates of social goods (life expectancy by country, educational performance, trust among strangers, women's status, social mobility, even numbers of patents issued) in countries and states with higher inequality. Using statistics from 23 developed countries and the 50 states of the US, they found social/health problems lower in countries like Japan and Finland and states like Utah and New Hampshire with high levels of equality, than in countries (US and UK) and states (Mississippi and New York) with large differences in household income.

For most of human history higher material living standards – full stomachs, access to clean water and warmth from fuel – led to better health and longer lives. This pattern of higher incomes-longer lives still holds among poorer countries, where life expectancy increases rapidly as per capita income increases, but in recent decades it has slowed down among middle income countries and plateaued among the richest thirty or so countries in the world. Americans live no longer on average (about 77 years in 2004) than Greeks (78 years) or New Zealanders (78), though the USA has a higher GDP per capita. Life expectancy in Sweden (80 years) and Japan (82) – where income was more equally distributed – was longer.

In recent years the characteristic that has strongly correlated with health in developed countries is income inequality. Creating an index of "Health and Social Problems" from nine factors, authors Richard Wilkinson and Kate Pickett found health and social problems "more common in countries with bigger income inequalities", and more common among states in the US with larger income inequalities. Other studies have confirmed this relationship. The UNICEF index of "child well-being in rich countries", studying 40 indicators in 22 countries, correlates with greater equality but not per capita income.

Crime rate has also been shown to be correlated with inequality in society. Most studies looking into the relationship have concentrated on homicides – since homicides are almost identically defined across all nations and jurisdictions. There have been over fifty studies showing tendencies for violence to be more common in societies where income differences are larger. Research has been conducted comparing developed countries with undeveloped countries, as well as studying areas within countries. Daly et al. 2001 found that among U.S States and Canadian Provinces there is a tenfold difference in homicide rates related to inequality. They estimated that about half of all variation in homicide rates can be accounted for by differences in the amount of inequality in each province or state. Fajnzylber et al. (2002) found a similar relationship worldwide. Among comments in academic literature on the relationship between homicides and inequality are:

Following the utilitarian principle of seeking the greatest good for the greatest number – economic inequality is problematic. A house that provides less utility to a millionaire as a summer home than it would to a homeless family of five, is an example of reduced "distributive efficiency" within society, that decreases marginal utility of wealth and thus the sum total of personal utility. An additional dollar spent by a poor person will go to things providing a great deal of utility to that person, such as basic necessities like food, water, and healthcare; while, an additional dollar spent by a much richer person will very likely go to luxury items providing relatively less utility to that person. Thus, the marginal utility of wealth per person ("the additional dollar") decreases as a person becomes richer. From this standpoint, for any given amount of wealth in society, a society with more equality will have higher aggregate utility. Some studies have found evidence for this theory, noting that in societies where inequality is lower, population-wide satisfaction and happiness tend to be higher.

Conservative researchers have argued that income inequality is not significant because consumption, rather than income should be the measure of inequality, and inequality of consumption is less extreme than inequality of income in the US. Will Wilkinson of the libertarian Cato Institute states that "the weight of the evidence shows that the run-up in consumption inequality has been considerably less dramatic than the rise in income inequality," and consumption is more important than income. According to Johnson, Smeeding, and Tory, consumption inequality was actually lower in 2001 than it was in 1986. The debate is summarized in "The Hidden Prosperity of the Poor" by journalist Thomas B. Edsall. Other studies have not found consumption inequality less dramatic than household income inequality, and the CBO's study found consumption data not "adequately" capturing "consumption by high-income households" as it does their income, though it did agree that household consumption numbers show more equal distribution than household income.

Central Banking economist Raghuram Rajan argues that "systematic economic inequalities, within the United States and around the world, have created deep financial 'fault lines' that have made [financial] crises more likely to happen than in the past" – the Financial crisis of 2007–08 being the most recent example. To compensate for stagnating and declining purchasing power, political pressure has developed to extend easier credit to the lower and middle income earners – particularly to buy homes – and easier credit in general to keep unemployment rates low. This has given the American economy a tendency to go "from bubble to bubble" fueled by unsustainable monetary stimulation.

According to International Monetary Fund economists, inequality in wealth and income is negatively correlated with the duration of economic growth spells (not the rate of growth). High levels of inequality prevent not just economic prosperity, but also the quality of a country's institutions and high levels of education. According to IMF staff economists, "if the income share of the top 20 percent (the rich) increases, then GDP growth actually declines over the medium term, suggesting that the benefits do not trickle down. In contrast, an increase in the income share of the bottom 20 percent (the poor) is associated with higher GDP growth. The poor and the middle class matter the most for growth via a number of interrelated economic, social, and political channels."

According to economists David Castells-Quintana and Vicente Royuela, increasing inequality harms economic growth. High and persistent unemployment, in which inequality increases, has a negative effect on subsequent long-run economic growth. Unemployment can harm growth not only because it is a waste of resources, but also because it generates redistributive pressures and subsequent distortions, drives people to poverty, constrains liquidity limiting labor mobility, and erodes self-esteem promoting social dislocation, unrest and conflict. Policies aiming at controlling unemployment and in particular at reducing its inequality-associated effects support economic growth.

Economist Joseph Stiglitz presented evidence in 2009 that both global inequality and inequality within countries prevent growth by limiting aggregate demand. Economist Branko Milanovic, wrote in 2001 that, "The view that income inequality harms growth – or that improved equality can help sustain growth – has become more widely held in recent years. ... The main reason for this shift is the increasing importance of human capital in development. When physical capital mattered most, savings and investments were key. Then it was important to have a large contingent of rich people who could save a greater proportion of their income than the poor and invest it in physical capital. But now that human capital is scarcer than machines, widespread education has become the secret to growth."

In 1993, Galor and Zeira showed that inequality in the presence of credit market imperfections has a long lasting detrimental effect on human capital formation and economic development. A 1996 study by Perotti examined the channels through which inequality may affect economic growth. He showed that, in accordance with the credit market imperfection approach, inequality is associated with lower level of human capital formation (education, experience, and apprenticeship) and higher level of fertility, and thereby lower levels of growth. He found that inequality is associated with higher levels of redistributive taxation, which is associated with lower levels of growth from reductions in private savings and investment. Perotti concluded that, "more equal societies have lower fertility rates and higher rates of investment in education. Both are reflected in higher rates of growth. Also, very unequal societies tend to be politically and socially unstable, which is reflected in lower rates of investment and therefore growth."

Research by Harvard economist Robert Barro, found that there is "little overall relation between income inequality and rates of growth and investment". According to work by Barro in 1999 and 2000, high levels of inequality reduce growth in relatively poor countries but encourage growth in richer countries. A study of Swedish counties between 1960 and 2000 found a positive impact of inequality on growth with lead times of five years or less, but no correlation after ten years. Studies of larger data sets have found no correlations for any fixed lead time, and a negative impact on the duration of growth.

Studies on income inequality and growth have sometimes found evidence confirming the Kuznets curve hypothesis, which states that with economic development, inequality first increases, then decreases. Economist Thomas Piketty challenges this notion, claiming that from 1914 to 1945 wars and "violent economic and political shocks" reduced inequality. Moreover, Piketty argues that the "magical" Kuznets curve hypothesis, with its emphasis on the balancing of economic growth in the long run, cannot account for the significant increase in economic inequality throughout the developed world since the 1970s.

Some theories developed in the 1970s established possible avenues through which inequality may have a positive effect on economic development. According to a 1955 review, savings by the wealthy, if these increase with inequality, were thought to offset reduced consumer demand. A 2013 report on Nigeria suggests that growth has risen with increased income inequality. Some theories popular from the 1950s to 2011 incorrectly stated that inequality had a positive effect on economic development. Analyses based on comparing yearly equality figures to yearly growth rates were misleading because it takes several years for effects to manifest as changes to economic growth. IMF economists found a strong association between lower levels of inequality in developing countries and sustained periods of economic growth. Developing countries with high inequality have "succeeded in initiating growth at high rates for a few years" but "longer growth spells are robustly associated with more equality in the income distribution."

While acknowledging the central role economic growth can potentially play in human development, poverty reduction and the achievement of the Millennium Development Goals, it is becoming widely understood amongst the development community that special efforts must be made to ensure poorer sections of society are able to participate in economic growth. The effect of economic growth on poverty reduction – the growth elasticity of poverty – can depend on the existing level of inequality. For instance, with low inequality a country with a growth rate of 2% per head and 40% of its population living in poverty, can halve poverty in ten years, but a country with high inequality would take nearly 60 years to achieve the same reduction. In the words of the Secretary General of the United Nations Ban Ki-Moon: "While economic growth is necessary, it is not sufficient for progress on reducing poverty."

In many poor and developing countries much land and housing is held outside the formal or legal property ownership registration system. Much unregistered property is held in informal form through various associations and other arrangements. Reasons for extra-legal ownership include excessive bureaucratic red tape in buying property and building, In some countries it can take over 200 steps and up to 14 years to build on government land. Other causes of extra-legal property are failures to notarize transaction documents or having documents notarized but failing to have them recorded with the official agency.

A number of researchers (David Rodda, Jacob Vigdor, and Janna Matlack), argue that a shortage of affordable housing – at least in the US – is caused in part by income inequality. David Rodda noted that from 1984 and 1991, the number of quality rental units decreased as the demand for higher quality housing increased (Rhoda 1994:148). Through gentrification of older neighbourhoods, for example, in East New York, rental prices increased rapidly as landlords found new residents willing to pay higher market rate for housing and left lower income families without rental units. The ad valorem property tax policy combined with rising prices made it difficult or impossible for low income residents to keep pace.

Firstly, certain costs are difficult to avoid and are shared by everyone, such as the costs of housing, pensions, education and health care. If the state does not provide these services, then for those on lower incomes, the costs must be borrowed and often those on lower incomes are those who are worse equipped to manage their finances. Secondly, aspirational consumption describes the process of middle income earners aspiring to achieve the standards of living enjoyed by their wealthier counterparts and one method of achieving this aspiration is by taking on debt. The result leads to even greater inequality and potential economic instability.

The smaller the economic inequality, the more waste and pollution is created, resulting in many cases, in more environmental degradation. This can be explained by the fact that as the poor people in the society become more wealthy, it increases their yearly carbon emissions. This relation is expressed by the Environmental Kuznets Curve (EKC).[not in citation given] It should be noted here however that in certain cases, with great economic inequality, there is nonetheless not more waste and pollution created as the waste/pollution is cleaned up better afterwards (water treatment, filtering, ...).... Also note that the whole of the increase in environmental degradation is the result of the increase of emissions per person being multiplied by a multiplier. If there were fewer people however, this multiplier would be lower, and thus the amount of environmental degradation would be lower as well. As such, the current high level of population has a large impact on this as well. If (as WWF argued), population levels would start to drop to a sustainable level (1/3 of current levels, so about 2 billion people), human inequality can be addressed/corrected, while still not resulting in an increase of environmental damage.

Socialists attribute the vast disparities in wealth to the private ownership of the means of production by a class of owners, creating a situation where a small portion of the population lives off unearned property income by virtue of ownership titles in capital equipment, financial assets and corporate stock. By contrast, the vast majority of the population is dependent on income in the form of a wage or salary. In order to rectify this situation, socialists argue that the means of production should be socially owned so that income differentials would be reflective of individual contributions to the social product.

Robert Nozick argued that government redistributes wealth by force (usually in the form of taxation), and that the ideal moral society would be one where all individuals are free from force. However, Nozick recognized that some modern economic inequalities were the result of forceful taking of property, and a certain amount of redistribution would be justified to compensate for this force but not because of the inequalities themselves. John Rawls argued in A Theory of Justice that inequalities in the distribution of wealth are only justified when they improve society as a whole, including the poorest members. Rawls does not discuss the full implications of his theory of justice. Some see Rawls's argument as a justification for capitalism since even the poorest members of society theoretically benefit from increased innovations under capitalism; others believe only a strong welfare state can satisfy Rawls's theory of justice.

The capabilities approach – sometimes called the human development approach – looks at income inequality and poverty as form of “capability deprivation”. Unlike neoliberalism, which “defines well-being as utility maximization”, economic growth and income are considered a means to an end rather than the end itself. Its goal is to “wid[en] people’s choices and the level of their achieved well-being” through increasing functionings (the things a person values doing), capabilities (the freedom to enjoy functionings) and agency (the ability to pursue valued goals).

When a person’s capabilities are lowered, they are in some way deprived of earning as much income as they would otherwise. An old, ill man cannot earn as much as a healthy young man; gender roles and customs may prevent a woman from receiving an education or working outside the home. There may be an epidemic that causes widespread panic, or there could be rampant violence in the area that prevents people from going to work for fear of their lives. As a result, income and economic inequality increases, and it becomes more difficult to reduce the gap without additional aid. To prevent such inequality, this approach believes it’s important to have political freedom, economic facilities, social opportunities, transparency guarantees, and protective security to ensure that people aren’t denied their functionings, capabilities, and agency and can thus work towards a better relevant income.