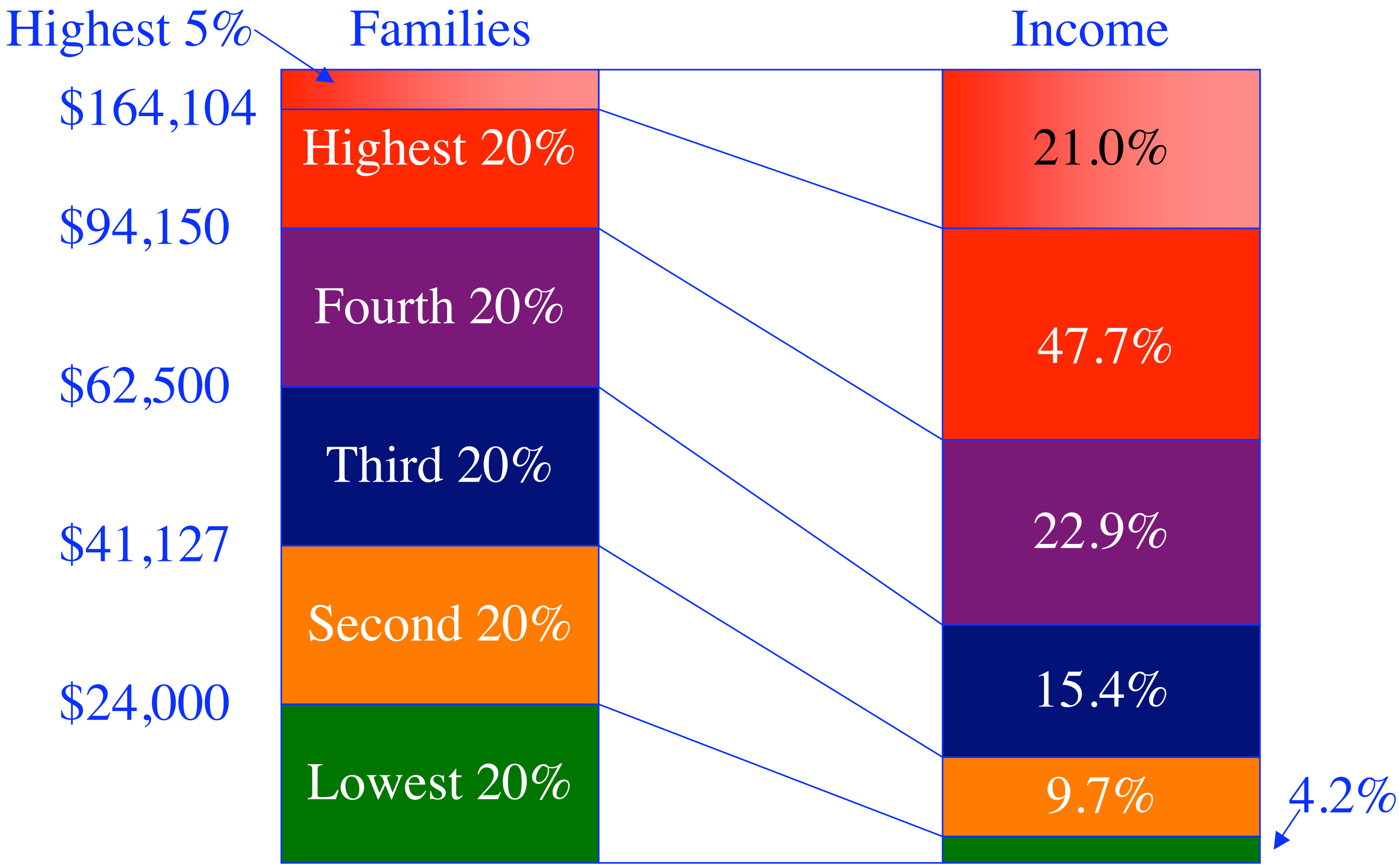
The Distribution of Economic Resources

April 7, 2008

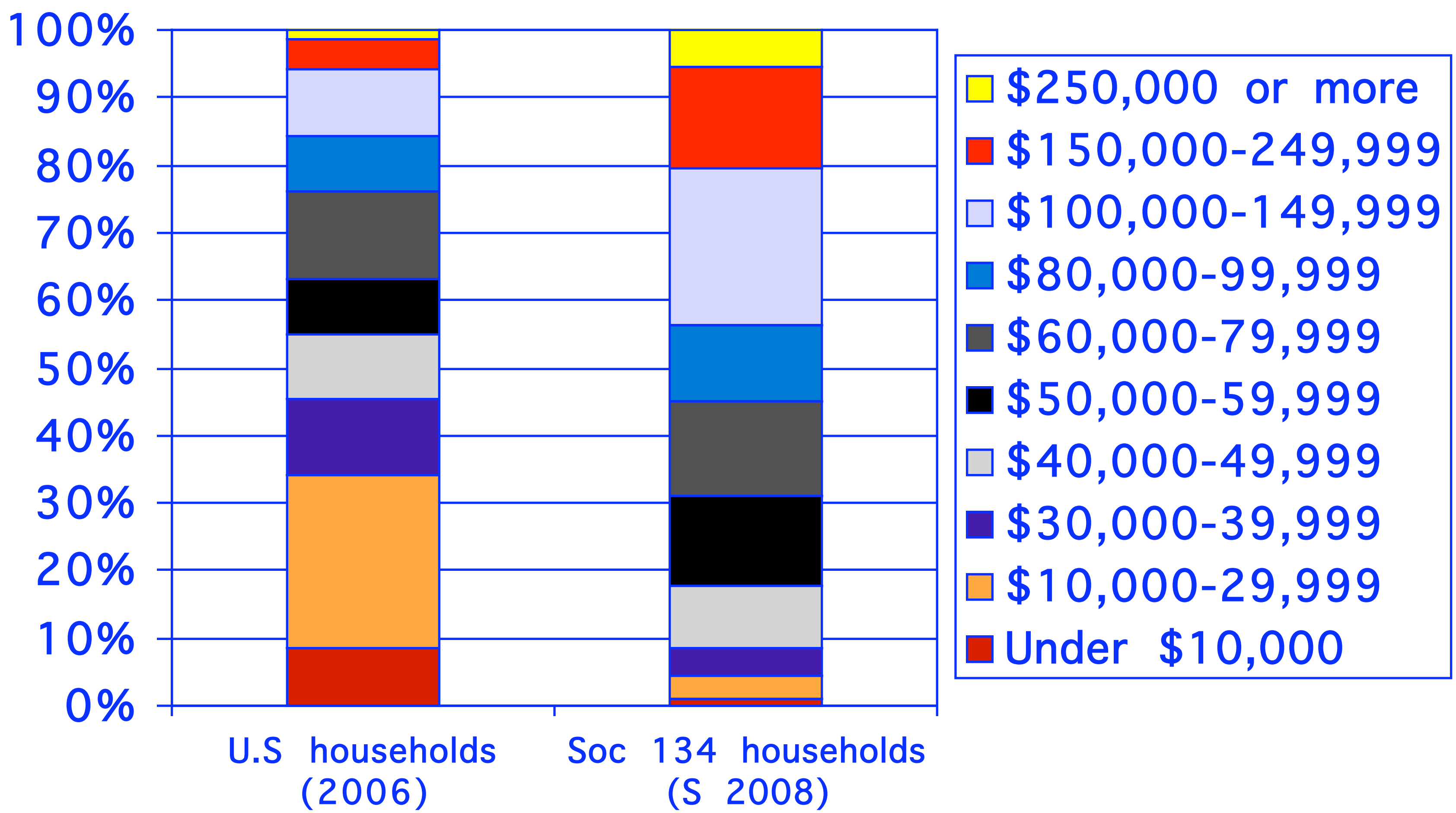
http://www.iastate.edu/~soc.134

U.S. income distribution, 2001

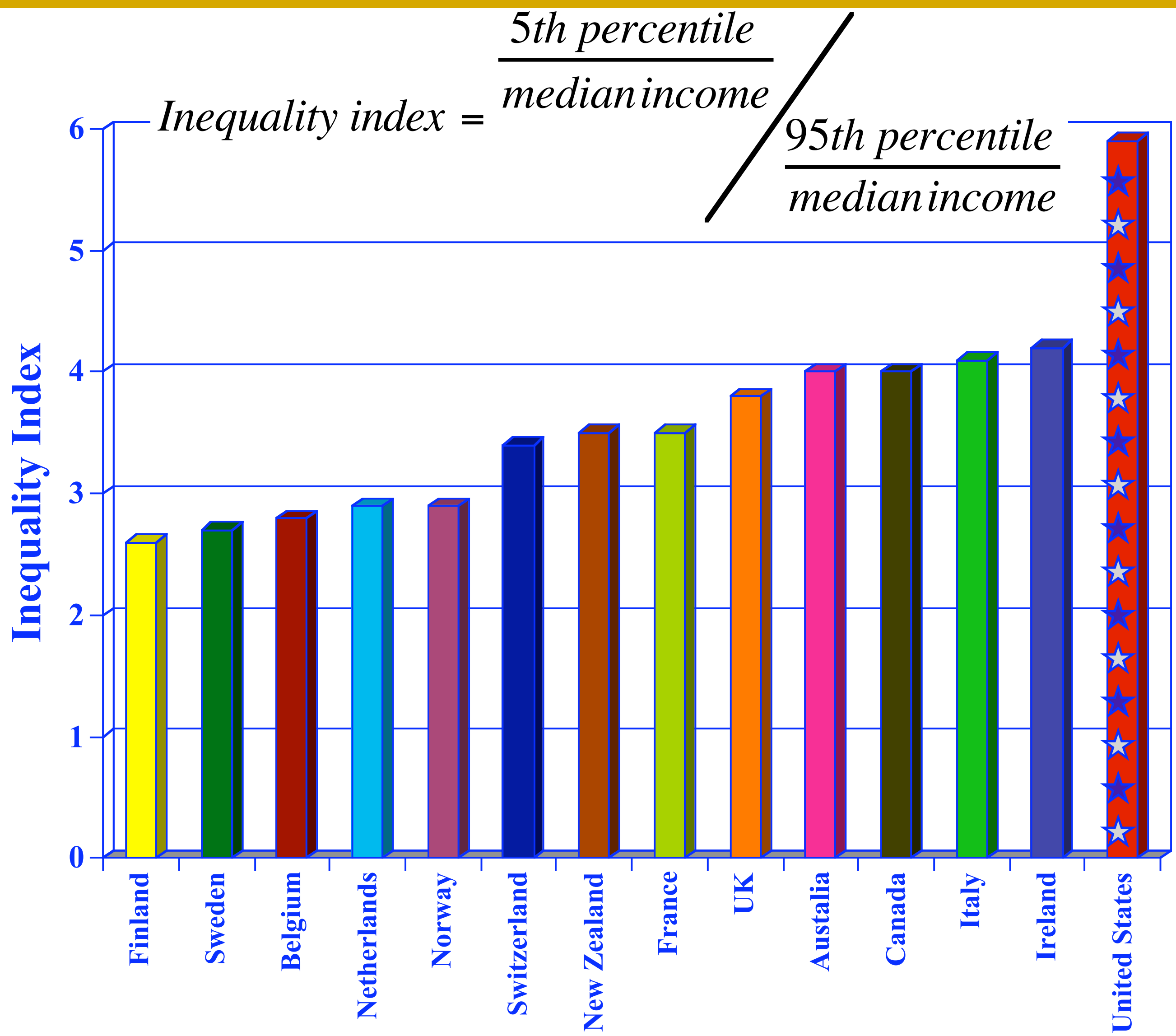


Source: Statistical Abstracts of the U.S., 2003. Table 688.

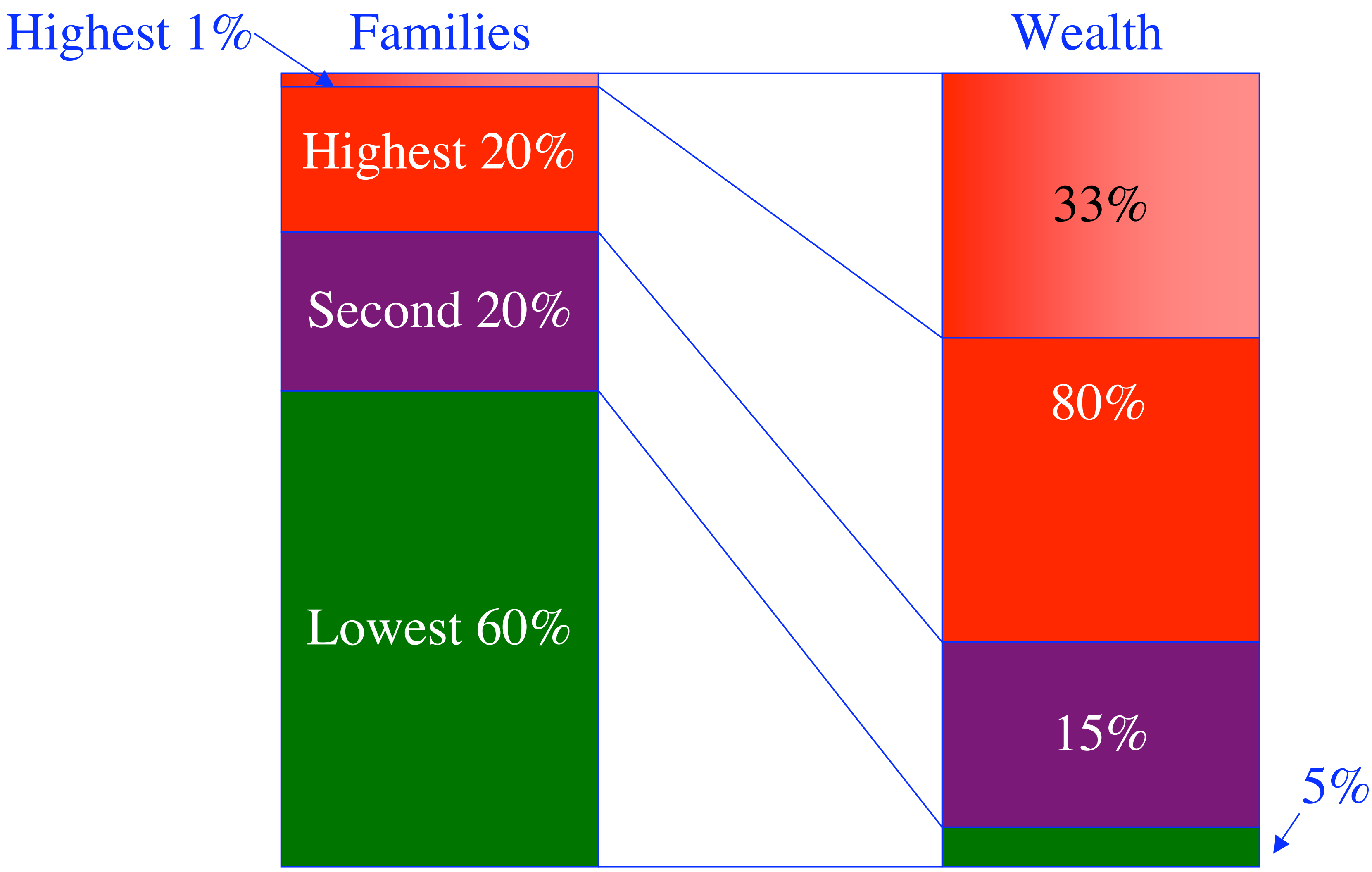
U.S. income vs. 134 students



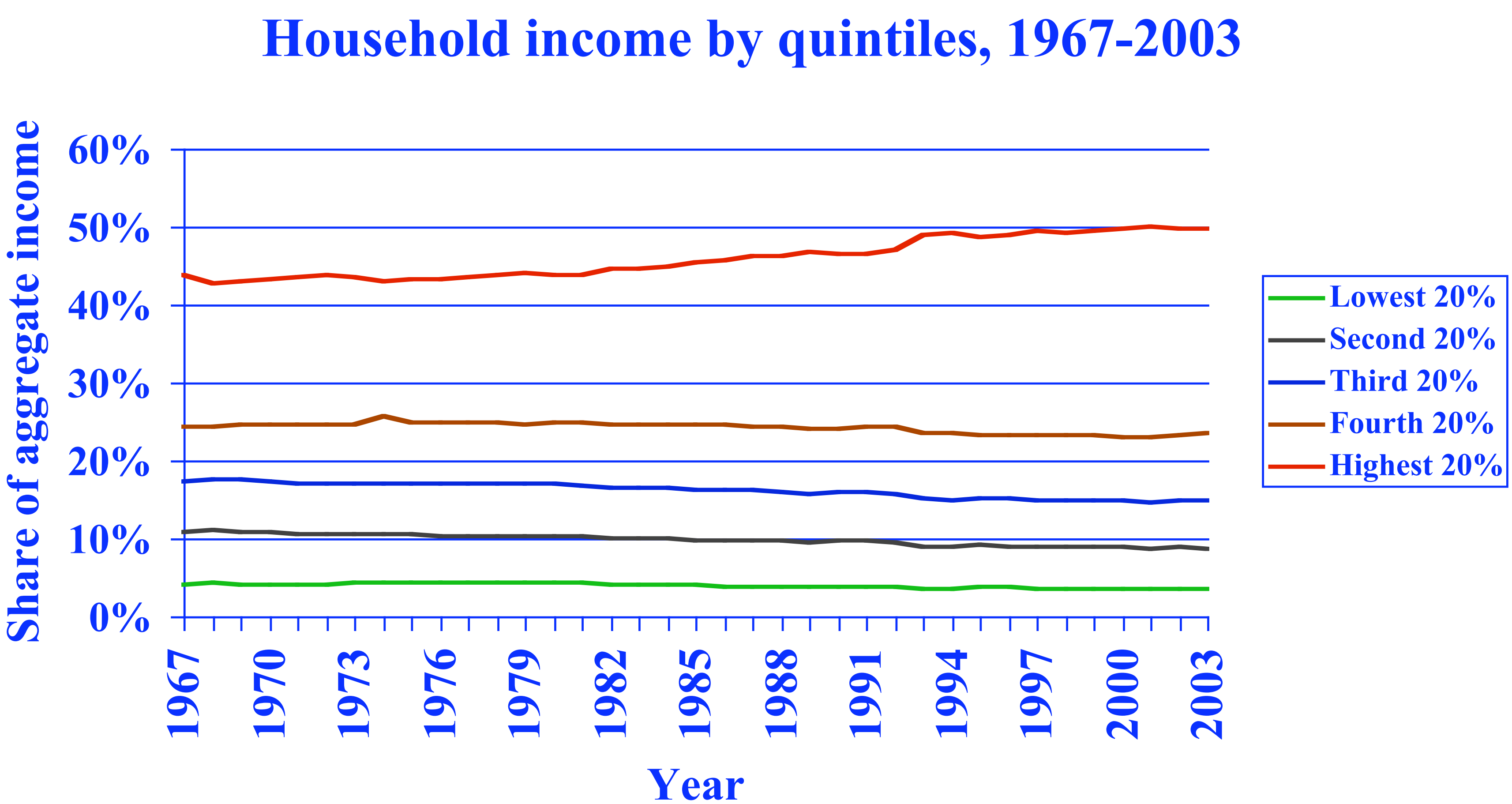
Inequality index of industrialized nations



U.S. wealth distribution, 1996



Is inequality growing or shrinking?



Source: Income, Poverty, and Health Coverage in the U.S.: 2003. Census Bureau

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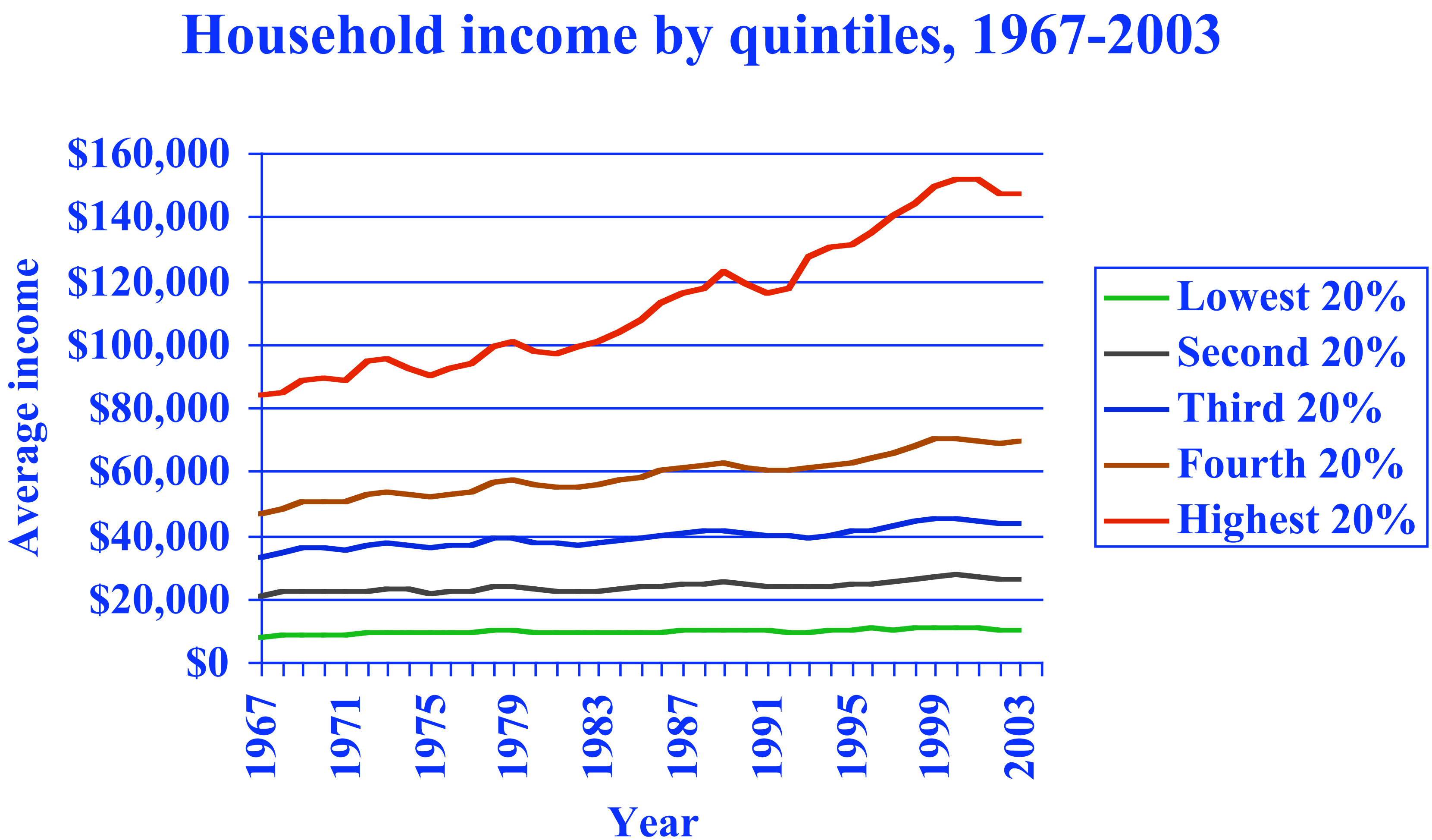


Source: Income, Poverty, and Health Coverage in the U.S.: 2003. Census Bureau

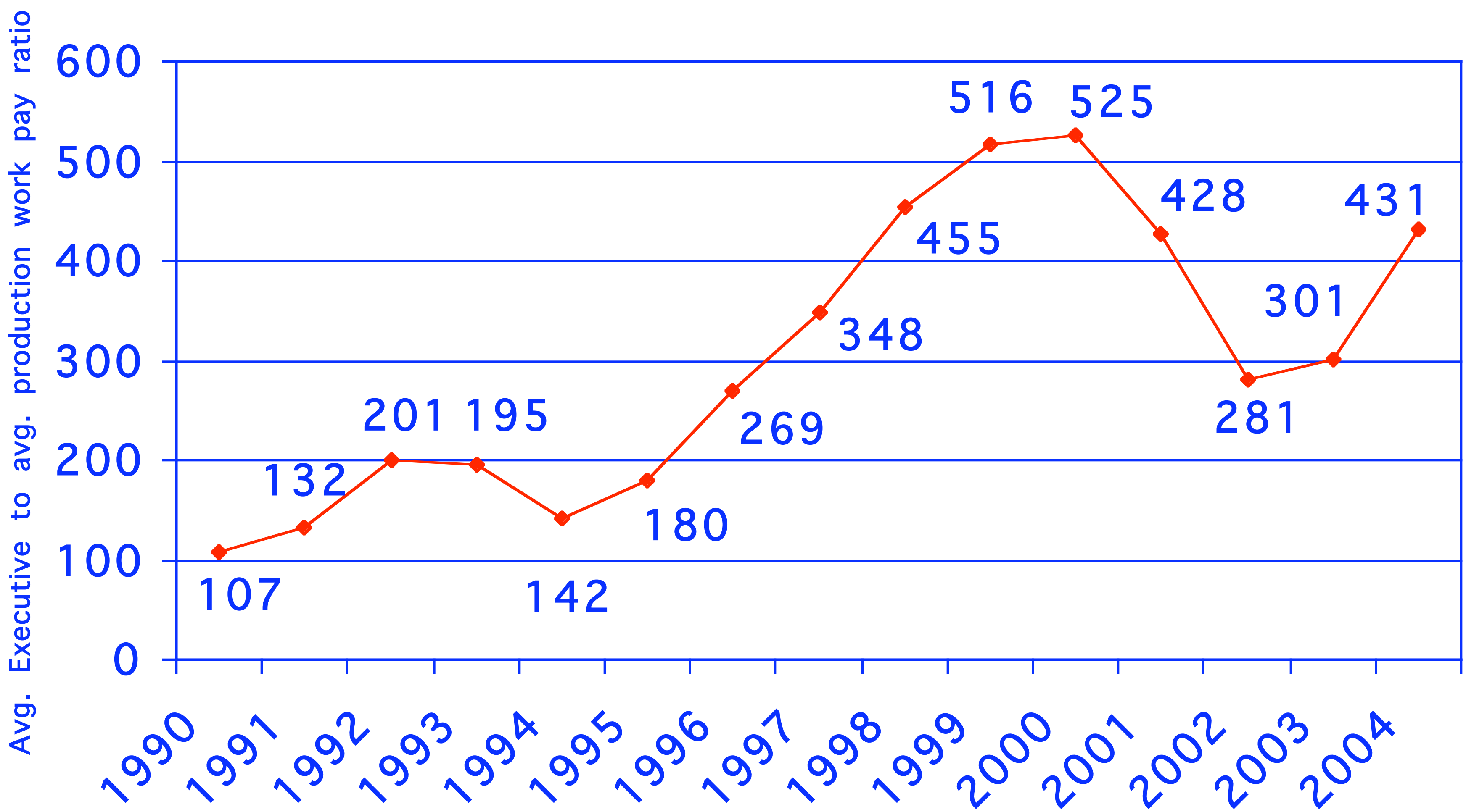
The rich get richer

- 2004: average CEO pay = $9.6 million
  - Mean salary is up 15% from $8.3 million in 2003 (BW)
  - Mean worker salary is up 2.9% to $33,176 (BW)
  - Military contractor CEO salaries up 200% since 9/11 (UFE)
- CEO pay has increased faster than the avg. worker
  - Gap is growing: 107X in 1990, 431X in 2004
  - Avg. worker salary would be over $110,000 if pay had increased at CEO rate since 1990
  - Minimum wage would be $23.03 instead of $5.15
- Top five executive salaries in 2004 (BW)
  1. Terry S. Semel, Yahoo!, $120.1 million
  2. Lew Frankfort, Coach, $58.7 million
  3. C. John Wilder, TXU, $54.9 million
  4. Ray R. Irani, Occidental Petroleum, $37.8 million
  5. Paul J. Evanson, Allegheny Energy, $37.5 million

Terry Semel

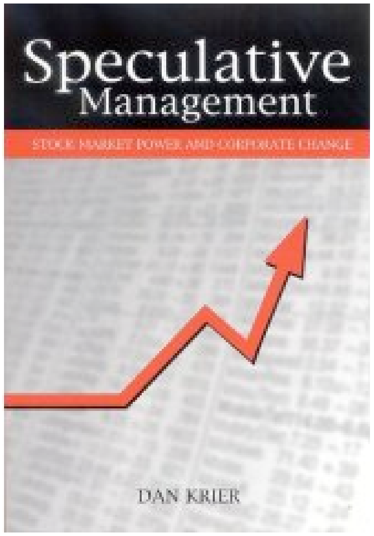
Business Week April 18, 2005, faireconomy.org

Exec pay to worker pay ratio



How do corporations get money?

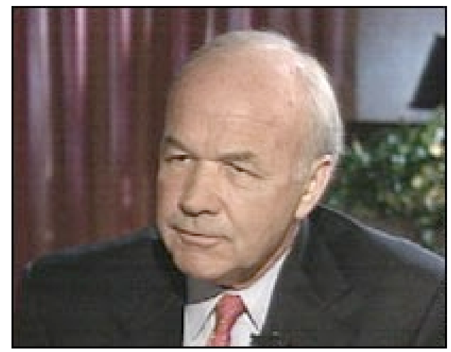
- ✓ Capitalism according to Adam Smith: If each person follows individual self interest, others will benefit (“invisible hand”)
  - Making profit may result from producing/selling valuable products or services
- ✓ However, corporations can increase their profit or value through (1) speculation, (2) fraud and/or (3) corporate welfare (“rent-seeking)
- ✓ Speculation: corporations can manipulate stock prices (and executive salary/stock options) through mergers, internal reorganizations, lay-offs, etc. that damage long-term profitability
- ✓ Sunbeam’s reorganization under “Chainsaw” Al Dunlap in mid-1990s illustrates speculation that hurt workers, communities and the company’s profitability
  - McMinnville, TN, factory employed 700 workers to produce hair clippers and earned $40 million per year. The product line was moved to Mexico, where productivity and quality plummeted.
  - However, closing 18 factories and cutting workforce in half caused stock to rise from $12 in 1996 to $53 in 1998. By 2000, the stock had fallen to 10¢.
  - According to Krier’s (2005) *Speculative Management,* this type of speculative management (as opposed to production management) is routine.
- ✓ Growing gap between execs and workers is one result of management strategy that awards execs for inflating stock prices by decreasing labor costs



Sunbeam

Fraud

- The early 2000s saw numerous corporate scandals resulting from speculative management.
- Enron
  - Enron executives engaged in complicated schemes to create the illusion of profit where none existed and avoid taxes. During 2000, the top 200 executives averaged $7 million in pay.
  - Enron also contributed to an electricity shortage in California; energy traders bragged about it on tape (“All the money you guys stole from those poor grandmothers in California?” “Yeah, Grandma Millie man.” “Yeah, now she wants her f-----g money back for all the power you've charged right up, jammed right up her a—for f-----g $250 a megawatt hour.”).
  - The scandal resulted in 34 criminal charges, the loss of employees’ pensions and the destruction of Arthur Andersen. The chairman and CEO were both convicted of fraud.
- WorldCom overstated its earnings by $11 billion. CEO Bernie Ebbers and others were convicted of fraud and other charges.
- Similar scandals have been uncovered at Adelphia, Tyco, and Global Crossing
- These scandals involved efforts to make money through speculation, not production



Ken Lay

Corporate welfare

- ✓ Economists use the term "rent-seeking" to describe manipulating economic environment, e.g., through government action, to produce value for the company, such as through tariffs, tax breaks, exclusive licensing, creating barriers to entry. Often called "corporate welfare."
  - This can harm other corporations and consumers because markets are "less free." Rent-seeking creates higher prices and poverty, especially in developing nations.
  - The 2003 federal government budget included $90 billion in corporate welfare or $842 per U.S. household.
  - Federal corporate welfare costs five times welfare for the poor.
  - Wal-Mart: 2004 study found over $1 billion in state and local government subsidies. The 2005 federal transportation bill allocates $37 million to improve road to Wal-Mart HQ in Bentonville, AR. Public assistance for Wal-Mart workers may also cost billions.
  - U.S. government spends over $1.6 billion annually buying and storing sugar to inflate prices. This results in U.S. consumers paying an extra $1.9 billion annually for sugar and costs developing nations $1.5 billion (Cato).