The Distribution of Economic Resources

April 7, 2008

http://www.iastate.edu/~soc.134
U.S. income distribution, 2001

<table>
<thead>
<tr>
<th>Percentile</th>
<th>Families</th>
<th>Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Highest 5%</td>
<td>$164,104</td>
<td>21.0%</td>
</tr>
<tr>
<td>Highest 20%</td>
<td>$94,150</td>
<td>47.7%</td>
</tr>
<tr>
<td>Fourth 20%</td>
<td>$62,500</td>
<td>22.9%</td>
</tr>
<tr>
<td>Third 20%</td>
<td>$41,127</td>
<td>15.4%</td>
</tr>
<tr>
<td>Second 20%</td>
<td>$24,000</td>
<td>9.7%</td>
</tr>
<tr>
<td>Lowest 20%</td>
<td></td>
<td>4.2%</td>
</tr>
</tbody>
</table>

U.S. income vs. 134 students

U.S. households (2006)

- Under $10,000: 10%
- $10,000-29,999: 20%
- $30,000-39,999: 10%
- $40,000-49,999: 15%
- $50,000-59,999: 10%
- $60,000-79,999: 10%
- $80,000-99,999: 15%
- $100,000-149,999: 10%
- $150,000-249,999: 5%
- $250,000 or more: 5%

Social 134 households (S 2008)

- Under $10,000: 20%
- $10,000-29,999: 20%
- $30,000-39,999: 10%
- $40,000-49,999: 10%
- $50,000-59,999: 10%
- $60,000-79,999: 10%
- $80,000-99,999: 10%
- $100,000-149,999: 10%
- $150,000-249,999: 5%
- $250,000 or more: 5%
Inequality index of industrialized nations

\[
\text{Inequality index} = \frac{5\text{th percentile}}{\text{median income}} \div \frac{95\text{th percentile}}{\text{median income}}
\]
U.S. wealth distribution, 1996

- Highest 1% Families
  - Highest 20%
  - Second 20%
  - Lowest 60%

- Wealth
  - 33%
  - 80%
  - 15%
  - 5%
Is inequality growing or shrinking?

Household income by quintiles, 1967-2003


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Is inequality growing or shrinking?

Household income by quintiles, 1967-2003

Year


Average income

$0 $20,000 $40,000 $60,000 $80,000 $100,000 $120,000 $140,000 $160,000


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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
Exec pay to worker pay ratio

Avg. Executive to avg. production work pay ratio


107 132 201 195 142 180 269 348 455 516 525 428 301 281 431

fai'reconomy.org
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, layoffs, 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
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.
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).