The Distribution of Economic Resources

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

U.S. income distribution, 2001

Highest 5% Families Income

$164,104

Highest 20% 21.0%

$94,150 Fourth 20% 47.7%

$62,500 Second 20% 22.9%

$41,127 Third 20% 15.4%

$24,000 Lowest 20% 9.7% 3.2%


U.S. income vs. 134 students

Inequality index of industrialized nations

U.S. wealth distribution, 1996

Is inequality growing or shrinking?

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Household income by quintiles, 1967-2003

<table>
<thead>
<tr>
<th>Year</th>
<th>Lowest 20%</th>
<th>Second 20%</th>
<th>Third 20%</th>
<th>Fourth 20%</th>
<th>Highest 20%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1967</td>
<td>$10,000</td>
<td>$12,000</td>
<td>$15,000</td>
<td>$20,000</td>
<td>$30,000</td>
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<tr>
<td>1975</td>
<td>$13,000</td>
<td>$16,000</td>
<td>$20,000</td>
<td>$25,000</td>
<td>$35,000</td>
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<tr>
<td>1983</td>
<td>$15,000</td>
<td>$20,000</td>
<td>$25,000</td>
<td>$30,000</td>
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<td>1991</td>
<td>$17,000</td>
<td>$22,000</td>
<td>$30,000</td>
<td>$35,000</td>
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<tr>
<td>2000</td>
<td>$19,000</td>
<td>$25,000</td>
<td>$35,000</td>
<td>$40,000</td>
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<td>2003</td>
<td>$21,000</td>
<td>$30,000</td>
<td>$40,000</td>
<td>$45,000</td>
<td>$60,000</td>
</tr>
</tbody>
</table>

Avg. production

Similar scandals have been uncovered at Enron, WorldCom, and Tyco, and others were convicted of fraud and other charges. Enron CEO Bernie Ebbers and others were convicted of fraud and other charges. WorldCom overstated its earnings by $11 billion. CEO John C. Wither, TXU, $54.4 million. Ray R. Irani, Occidental Petroleum, $27.8 million. Paul J. Everson, Allegheny Energy, $37.5 million.

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 2.3% to $33,176 (BW)
- Military contractor CEO salaries up 200% since 9/11 (UFE)
- CEO pay has increased faster than the avg. worker's pay, 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)
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1. Terry S. Semel, Yahoo! $100.1 million
2. Lew Frankfort, Coach, $83.7 million
3. C. John Wilder, TXU, $54.4 million
4. Ray R. Irani, Occidental Petroleum, $27.8 million
5. Paul J. Everson, Allegheny Energy, $37.5 million

Is inequality growing or shrinking?

Exec pay to worker pay ratio

How do corporations get money?

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 tax breaks.
- Wal-Mart workers may also cost billions.
- Federal corporate welfare (as opposed to production management) is indefensible.
- Growing gap between execs and workers is one result of management strategy that awards execs for inflating stock prices by decreasing cash from operations, increasing stock prices through mergers, internal reorganizations, layoffs, etc. that damage long-term profitability.
- wal-mart HQ in Bentonville, AR. Public assistance for Wal-Mart employees who produce its products and services.
- Sunbeam's reorganization under "Chairman" Al Dunlap in mid-1990s illustrates speculation that hurt workers, communities and the company's profitability. Wal-Mart's $7 billion profit in 2004
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- During 2000, the top 200 executive salaries averaged $7 million in pay.
- Enron also contributed to an electricity shortage in California: energy traders rigged the markets in those state's favor. When the market fell, Enron came to the government and said, "Hate, now she wants her money back for all the power you've changed right up, grandma, right up; she —— no! —— g300 is a responsive hour."
- The stock price of Sunbeam has fallen to 10¢.
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Fraud

- The early 2000s saw numerous corporate scandals resulting from speculative management.
- Enron
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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 and selling valuable products or services.
- However, corporations can increase their profit or value through (1) specialization, (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.
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- Wal-Mart: 2004 study found over $1 billion in state and local government subsidies. The 2005 federal transportation bill allocates $37.7 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 $1.5 billion annually buying and storing sugar to inflate prices. This results in U.S. consumers paying an extra $1.5 billion annually for sugar and costs developing nations $1.5 billion (Cato).