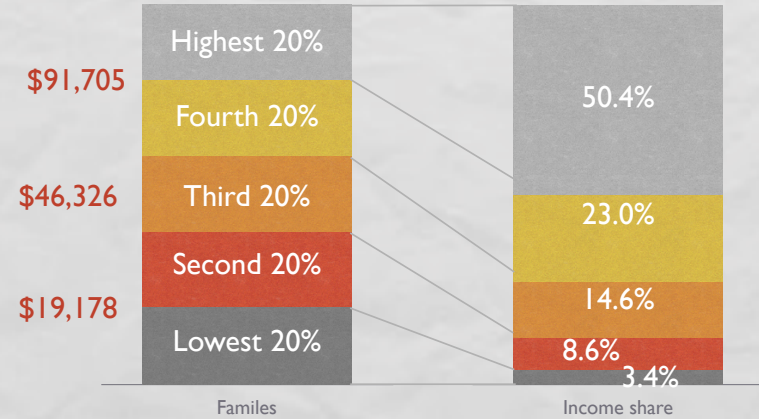


THE DISTRIBUTION OF ECONOMIC RESOURCES

April 6, 2009

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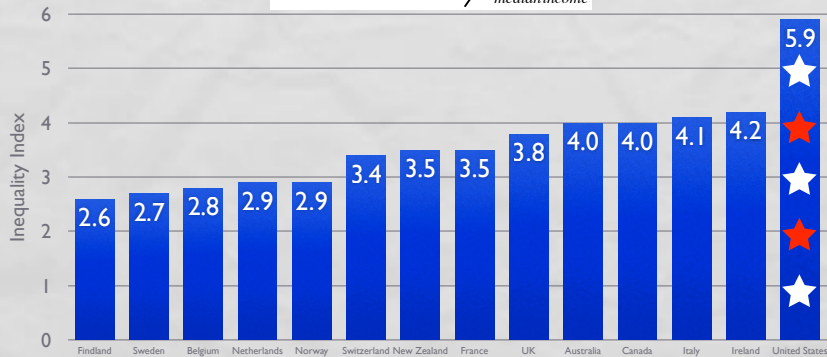
U.S. INCOME DISTRIBUTION, 2005



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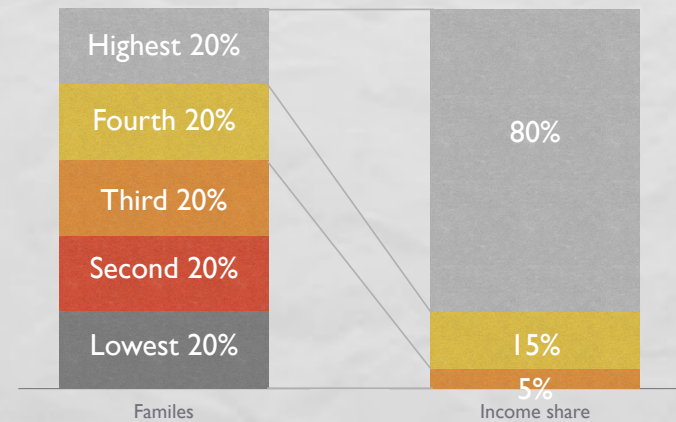
INEQUALITY INDEX OF INDUSTRIALIZED NATIONS

$$\text{Inequality index} = \frac{\frac{5\text{th percentile}}{\text{median income}}}{\frac{95\text{th percentile}}{\text{median income}}}$$



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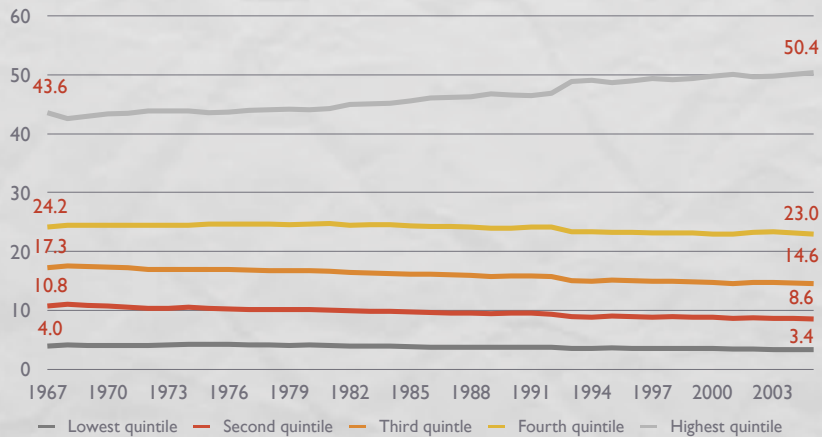
U.S. WEALTH DISTRIBUTION, 1996



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IS INEQUALITY GROWING OR SHRINKING?

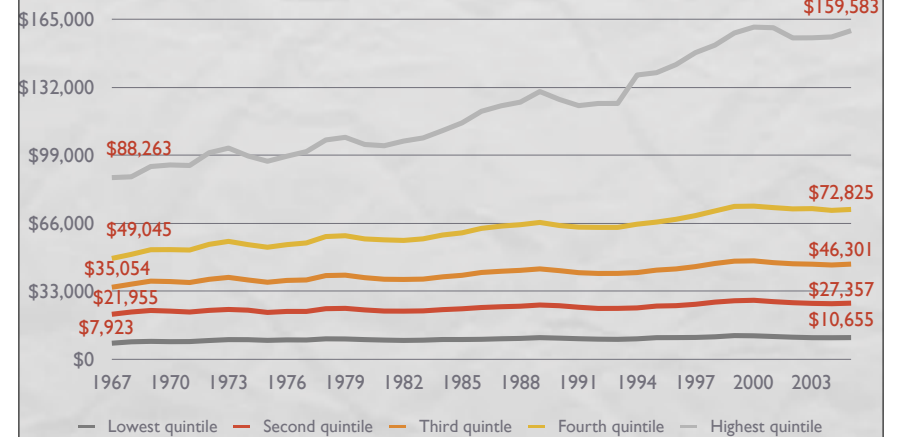
Share of Income by Household Quintile, 1967-2005



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IS INEQUALITY GROWING OR SHRINKING?

Mean Income by Household Quintile, 1967-2005 (2005 dollars)



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THE RICH GET RICHER

- 2007: average CEO pay (S&P 500): \$10,544,470
 - 344 times pay of average worker (was 107x in 1990)
 - 866 time pay of minimum wage worker
- From 1990 to 2003:
 - CEO pay rose 313%
 - The S&P 500 rose 242%
 - Corporate profits rose 128%
 - Average worker pay rose 49%
 - Inflation rose 41%
- Top 5 CEO compensation packages (2007)
 1. John Thain, Merrill Lynch, \$83 million
 2. Leslie Moonves, CBS, \$68 million
 3. Richard Adkerson, Freeport-McMoran, \$65 million
 4. Bob Simpson, XTO Energy, \$57 million
 5. Lloyd Blankfein, Goldman Sachs, \$54 million



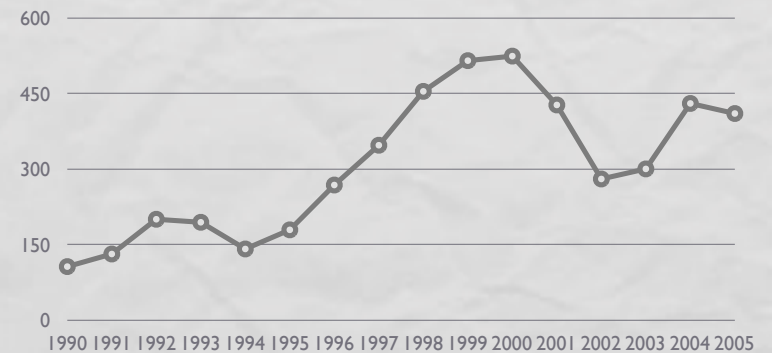
John Thain



Leslie Moonves

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CEO PAY TO AVG. WORKER PAY RATIO, 1990-2005



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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/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



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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

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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).

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