THE DISTRIBUTION OF ECONOMIC RESOURCES
April 6, 2009

U.S. INCOME DISTRIBUTION, 2005

Families
Income share

Highest 20%
50.4%

Fourth 20%
23.0%

Third 20%
14.6%

Second 20%
14.6%

Lowest 20%
8.6%

U.S. WEALTH DISTRIBUTION, 1996

Families
Income share

Highest 20%
80%

Fourth 20%
15%

Third 20%
5%

Second 20%

Lowest 20%

INEQUALITY INDEX OF INDUSTRIALIZED NATIONS

Inequality index

Inequality index =

5th percentile median income

95th percentile median income

Finland
Sweden
Belgium
Netherlands
Norway
Switzerland
New Zealand
France
UK
Australia
Canada
Italy
Ireland
United States

Inequality Index

2.6
2.7
2.8
2.9
3.4
3.5
3.5
3.8
4.0
4.0
4.1
4.2
5.9

© David Schweingruber 2008
IS INEQUALITY GROWING OR SHRINKING?

Share of Income by Household Quintile, 1967-2005

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

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

CEO PAY TO AVG. WORKER PAY RATIO, 1990-2005
HOW DO CORPORATIONS GET MONEY?

- Capitalism according to Adam Smith: If each person follows individual self interest, others will benefit (“invisible hand”)
- Making profits 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

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

CORPORATE WELFARE

- Economists use the term “rent-seeking” to describe manipulating the 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).