Corporations and economic inequality around the world

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University of Minnesota Carlson School
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The big claim of *Managed by the Markets*: Finance decisively shaped the post-industrial shift

From a corporate-centered society... 
...to a market-centered society...

Post-industrialism (def. 1): “the majority of the labor force is no longer engaged in agriculture or manufacturing but in services” (Daniel Bell, 1973)

Manufacturing employment is increasingly rare in the US

Since January 2001, the US has shed 5.7 million jobs in manufacturing—one in three

As of March 2009, more Americans were unemployed than were employed in manufacturing

Proportion of US private labor force employed in manufacturing and retail, 1939-2010 (Source: BLS)
The US still leads the world in manufacturing value-added...

**Global share, 2008:**
- US: 19.0%
- China: 16.1%
- Japan: 10.5%
- Germany: 8.0%
- Italy: 4.1%
- France: 3.3%
- UK: 3.0%
- Russia: 2.7%

Source: World Bank World Development Indicators

...it just doesn’t require employees to do it (cf. agriculture)

### Lean Factories Find It Hard to Cut Jobs Even in a Slump

By TIMOTHY APEL and JUSTIN LAHART

SPARTANBURG, S.C. — At a factory here that churns out plastic parts for everything from spray cans to blasting caps, laying off just one worker can be more trouble than it's worth.

The plant, owned by Cleveland-based Parker Hannifin Corp., has become so lean over the past decade that many assembly lines run with only a handful of highly trained workers.

So while mass layoffs have driven the U.S. unemployment rate to its highest in 26 years, Parker and other companies like it are responding to the slump in more surgical ways, mainly by cutting hours and shedding temporary workers.

"Because of productivity gains, every one of my people carries more dollars in sales today," says Donald Washlovsky, Parker's chief executive. "In 2006, the average Parker worker represented about $105,000 a year in sales. Today, that figure tops $160,000. "If I need to cut back, I have to cut back fewer people to achieve the same goal."

Similar trims are taking place at each of Parker's nearly 500 factories. And to varying degrees, this is happening at thousands of other large and small factories across the U.S.

The largest US employers have shifted from manufacturing to retail and other services

### 10 Largest US Corporate Employers, 1960-2010

<table>
<thead>
<tr>
<th>Year</th>
<th>1960</th>
<th>1980</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>GM</td>
<td>AT&amp;T</td>
<td>WAL-MART</td>
<td></td>
</tr>
<tr>
<td>AT&amp;T</td>
<td>GM</td>
<td>TARGET</td>
<td></td>
</tr>
<tr>
<td>FORD</td>
<td>FORD</td>
<td>UPS</td>
<td></td>
</tr>
<tr>
<td>GE</td>
<td>GE</td>
<td>KROGER</td>
<td></td>
</tr>
<tr>
<td>US STEEL</td>
<td>SEARS</td>
<td>HOME DEPOT</td>
<td></td>
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<tr>
<td>SEARS</td>
<td>IBM</td>
<td>SEARS HLDGS</td>
<td></td>
</tr>
<tr>
<td>A&amp;P</td>
<td>ITT</td>
<td>&quot;AT&amp;T&quot;</td>
<td></td>
</tr>
<tr>
<td>EXXON</td>
<td>KMART</td>
<td>WALGREEN</td>
<td></td>
</tr>
<tr>
<td>BETH. STEEL</td>
<td>MOBIL</td>
<td>VERIZON</td>
<td></td>
</tr>
<tr>
<td>ITT</td>
<td>GTE</td>
<td>SAFEWAY</td>
<td></td>
</tr>
</tbody>
</table>

Walmart now employs roughly as many Americans as the 20 largest manufacturers combined

Ten industries with most-tenured employees

<table>
<thead>
<tr>
<th>Industry</th>
<th>Avg tenure</th>
<th>Age</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>14</td>
<td>47</td>
<td>1.6</td>
</tr>
<tr>
<td>Utilities</td>
<td>13</td>
<td>45</td>
<td>0.9</td>
</tr>
<tr>
<td>Petroleum and coal products mfg</td>
<td>11</td>
<td>45</td>
<td>0.1</td>
</tr>
<tr>
<td>Forestry, logging, fishing, hunting</td>
<td>10</td>
<td>44</td>
<td>0.2</td>
</tr>
<tr>
<td>Electrical equipment, appliance mfg</td>
<td>10</td>
<td>46</td>
<td>0.3</td>
</tr>
<tr>
<td>Public administration</td>
<td>9</td>
<td>45</td>
<td>4.9</td>
</tr>
<tr>
<td>Transportation equipment manufacturing</td>
<td>8</td>
<td>44</td>
<td>1.4</td>
</tr>
<tr>
<td>Beverage and tobacco products</td>
<td>8</td>
<td>38.5</td>
<td>0.1</td>
</tr>
<tr>
<td>Paper and printing</td>
<td>8</td>
<td>43</td>
<td>0.9</td>
</tr>
<tr>
<td>Primary metals and fabricated metal prod.</td>
<td>7</td>
<td>43</td>
<td>1.4</td>
</tr>
</tbody>
</table>

Ten industries with least-tenured employees

<table>
<thead>
<tr>
<th>Industry</th>
<th>Avg tenure</th>
<th>Age</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internet publishing and broadcasting</td>
<td>0.5</td>
<td>42.5</td>
<td>0.0</td>
</tr>
<tr>
<td>Food services and drinking places</td>
<td>1.5</td>
<td>26</td>
<td>5.0</td>
</tr>
<tr>
<td>Private households</td>
<td>2</td>
<td>40</td>
<td>0.6</td>
</tr>
<tr>
<td>Retail trade</td>
<td>3</td>
<td>38</td>
<td>11.9</td>
</tr>
<tr>
<td>Motion picture and sound recording</td>
<td>3</td>
<td>34</td>
<td>0.3</td>
</tr>
<tr>
<td>Rental and leasing services</td>
<td>3</td>
<td>36</td>
<td>0.4</td>
</tr>
<tr>
<td>Administrative and support services</td>
<td>3</td>
<td>40</td>
<td>3.3</td>
</tr>
<tr>
<td>Social assistance</td>
<td>3</td>
<td>41</td>
<td>2.2</td>
</tr>
<tr>
<td>Arts, entertainment, and recreation</td>
<td>3</td>
<td>38</td>
<td>1.8</td>
</tr>
<tr>
<td>Accommodation</td>
<td>3.5</td>
<td>40</td>
<td>1.3</td>
</tr>
</tbody>
</table>

*Source: 2004 Current Population Survey*

Retail jobs are not like manufacturing jobs

- Median hourly wage in “Motor Vehicle Manufacturing” for “Production Occupations” (May 2008): **$27.14**
- Median tenure with current employer in “Transportation Equipment Manufacturing” (Jan. 2004 CPS): **8 years**
- Median hourly wage in “General Merchandise Stores” for “Sales and Related Occupations”: **$9.33**
- Median tenure with current employer in “Retail Trade”: **3 years**
- Mean weekly hours worked at Wal-Mart: **34**
- Estimated annual turnover at Wal-Mart: **40%**

Long-term attachments to employees can be costly...

“Our legacy costs in pensions and health care are an area of significant competitive disadvantage for us... We're now subject to global competition. We're running against people who do not have these costs, because they are funded by the government.”

Rick Wagoner, CEO of GM, Feb. 2006

Retirement Plan Trends: Participation by Plan Type:
Distribution of Private-Sector, Active-Worker Participants, 1979-2006

*Source: U.S. Department of Labor, Form 5500 Survey Report (Summer 2004); EBRI estimates for 2002-2005*
As a result, households became increasingly invested in the stock market during the 1980s and 1990s.

% of US households owning stocks, 1964-2007

Specifically: investors in mutual funds

Proportion of households allegedly owning mutual funds

There are many more US mutual funds now

And they gathered a lot of assets

Number of US mutual funds

Billions of dollars in assets held by US mutual funds
But “name brand” funds got most of the benefit

Market share of top 5 fund families


Leaving US corporate ownership largely “intermediated” by a few mutual funds

Corporate ownership by mutual funds
- 1950: 3%
- 1990: 8%
- 2005: 28%

Mean ownership by institutional investors of 1000 largest corporations

Source: Spectrum 13F database, various years

Fidelity is now the largest shareholder of one in ten US corporations

Number of US-listed firms in which Fidelity is largest shareholder

Source: Spectrum 13F and 13G databases, various years

Increased ownership by institutions has corresponded to increased devotion to “shareholder value”...

“We exist to create value for our share owners on a long-term basis by building a business that enhances The Coca-Cola Company’s trademarks.”

“We Sara Lee Corporation's mission is to build leadership brands in consumer packaged goods markets around the world. Our primary purpose is to create long-term stockholder value.”
...and an orientation to share price induced massive restructuring favoring a “Nike model” of production

“Wall Street can wipe you out. They are the rule-setters. They do have their fads, but to a large extent there is an evolution in how they judge companies, and they have decided to give premiums to companies that harbor the most profits for the least assets.”

John Bryan, CEO, explaining Sara Lee’s “de-verticalization” program

The US economy is at an advanced stage of Nike-fication

Corporation ≠ organization: no fixed nationality

Accenture to Move Base To Ireland From Bermuda

Accenture Ltd. said its board has voted to change the consulting company’s place of incorporation to Ireland from Bermuda.

Accenture incorporated in Bermuda in 2001 after the company did an initial public offering.

Several large companies have recently announced plans to reincorporate from Bermuda, helping them avoid what are expected to be significant changes in how the U.S. taxes multinational corporations. Earlier this month, drug maker Warner Chilcott Ltd. said its board approved a plan to relocate to Ireland from Bermuda.

Accenture shareholders will be asked to vote on the proposed move at meetings in the next three to four months.

“We believe that incorporating in Ireland will provide Accenture with economic benefits and help ensure our continued global competitiveness,” said Chairman and Chief Executive William D. Green, adding that the company will benefit from Ireland’s well-developed corporate, legal and regulatory environment.

The technology outsourcing and management consulting company doesn’t expect any material change in its operations, financial results or tax treatment as a result of the change.

The company will continue to be registered with the Securities and Exchange Commission and its shares will continue to trade on the New York Stock Exchange.

Corporation ≠ organization: no fixed boundaries

Vizio now has the largest market share of LCD televisions in the US (22%)—with 180 employees

Vizio is a fraction the size of Sony and Samsung Electronics Co., both leading brands in the US flat-panel market. Yet Vizio shipped 12.4% of North American digital flat-panel displays, or LCD TVs in the first quarter of 2004. That’s just behind Sony’s 14.2% share and Samsung’s 14.4%, according to research firm IHS Suppli Corp. Overall, Vizio’s sales have multiplied, just under $2 million last year, up from $79 million in 2003 and $42 million in 2002, according to a closely held company.

The California company’s success illustrates the rise of a new business model in the fast-changing TV industry. Big Korean and Japanese consumer-electronics makers spent large sums developing and marketing their own technology, creating a high barrier to entry for newcomers. They also built many key components in-house, including the all-important LCD and plasma display panels.

Vizio now has its own panel technology as well, more commoditized, meaning it can swap the manufacturers it chooses to supply. The shift has allowed it to chase players like Vizio, which handles the design and marketing, to lock up both contract manufacturers and produce their own cheap TVs. At the same time, discount retailers such as Walmart, Best Buy and Sears are increasing their sales in the electronics category, slashing prices in the process.

The US economy is at an advanced stage of Nike-fication

Corporation ≠ organization: no fixed boundaries
Poisonous pet chow containing melamine from China was made by an Ontario-based manufacturer but sold under dozens of different US brand names. The global OEM model is not just for Nike anymore.

What is a “bank”? “Hermit crab organizations” maintain the brand but lose the people (e.g., Circuit City’s 43,000 employees).
Can corporations be used as tools of public policy, e.g., to create jobs?

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"THE WALL STREET JOURNAL"

APPEAL TO THE RESCUE?

Why President Obama should mediate on the career of Steve Jobs.

By JERI KARLGAARD

Mr. Obama and his aides need to grasp this essential fact: Entrepreneurs are not just a cute little subset of the American economy. They are the whole game. They will give us tomorrow’s Apple and the multiplier effect of small businesses and exciting new jobs that go with them. Entrepreneurs are necessary to keep our large multinational corporations on their toes. It is no coincidence that the entrepreneurs innovating in the 1980s and 1990s started a managerial revolution in large companies during the 1980s and 1990s. Without Steve Jobs, there would have been no Lee Guat-Cheow to reinvent IBM in the 1980s. Entrepreneurs like Steve Jobs make everyone better.

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"THE WALL STREET JOURNAL"

ANALYSTS EXPECT IPAD TO GIVE LIFT TO ASIAN SUPPLIERS

By AARON BACH, JUNGH-AH LEE AND CHAIRMAN KOK

Apple Inc.’s iPad device may significantly increase demand for components such as touch screens and memory chips, especially if it succeeds in creating a new product category and sparking competition, according to industry analysts.

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"THE WALL STREET JOURNAL"

STRING OF SUICIDES CONTINUES AT ELECTRONICS SUPPLIER IN CHINA

SHANGHAI — A 29-year-old employee was found dead last week in what appears to have been the ninth suicide this year at a factory in northern China operated by Foxconn Technology, one of the world’s largest contract electronics manufacturers, according to China’s state-run news media.

Foxconn, which produces electronic and computer components for Apple, Dell, Hewlett-Packard and other global companies, has been struggling this year to explain a string of suicides among young workers at its large complexes in the city of Shenzhen, where the company employs about 400,000 workers.

A spokesman for Foxconn, a unit of Hon Hai Precision Industry of Taiwan, could not be reached for comment Tuesday, and the Shenzhen police did not return phone calls. But Xinhua, China’s official news agency, said the Shenzhen police had reported that young men identified as Li Hai had apparently jumped to his death at 9:00 a.m. Tuesday at Foxconn.

Yang Tongxin, vice chairman of the general labor union in Shenzhen, a government-controlled organization, said the Shenzhen police had alerted him of the young man’s death Tuesday.

"We have already sent an investigation team to the factory, and our city government is paying a lot of attention to this," Mr. Yang said in a telephone interview.

Company executives say Foxconn is planning to hire psychologists, counselors and ministers, and intends to bring in 20,000 singers, dancers and gym trainers to improve life at its sprawling campuses in Shenzhen.

China’s state-run news media also reported Tuesday that Foxconn was building tall fences at its dormitories to prevent workers from jumping to their deaths.
America’s most innovative companies employ few people

- Apple: 34,300
- Google: 19,835
- Intel: 79,800 [44,000 US]
- Amazon.com: 24,300
- Kroger: 334,000 [all US]
- Cisco: 65,550 [37,050 US]
- Microsoft: 93,000 [56,000 US]

**Total: 316,785 [215,485 US]**

Shareholder capitalism and corporate turnover:
The Dow Jones 30 Industrials in 1987

<table>
<thead>
<tr>
<th>Company</th>
<th>Employment</th>
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<tbody>
<tr>
<td>Allied Signal</td>
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<tr>
<td>Eastman Kodak</td>
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<td>Navistar Intern.</td>
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<tr>
<td>Alcoa</td>
<td></td>
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<tr>
<td>Exxon</td>
<td></td>
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<tr>
<td>Philip Morris</td>
<td></td>
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<tr>
<td>American Can</td>
<td></td>
</tr>
<tr>
<td>General Electric</td>
<td></td>
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<tr>
<td>Procter &amp; Gamble</td>
<td></td>
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<tr>
<td>American Express</td>
<td></td>
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<tr>
<td>General Motors</td>
<td></td>
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<tr>
<td>Sears Roebuck</td>
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<tr>
<td>AT&amp;T</td>
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<tr>
<td>Goodyear</td>
<td></td>
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<tr>
<td>Texas</td>
<td></td>
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<tr>
<td>Bethlehem Steel</td>
<td></td>
</tr>
<tr>
<td>IBM</td>
<td></td>
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<tr>
<td>Union Carbide</td>
<td></td>
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<tr>
<td>Boeing</td>
<td></td>
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<tr>
<td>International Paper</td>
<td></td>
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<tr>
<td>United Technologies</td>
<td></td>
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<tr>
<td>Chevron</td>
<td></td>
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<tr>
<td>McDonald’s</td>
<td></td>
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<tr>
<td>US Steel</td>
<td></td>
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<tr>
<td>Coca Cola</td>
<td></td>
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<tr>
<td>Merck</td>
<td></td>
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<tr>
<td>Westinghouse Electric</td>
<td></td>
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<tr>
<td>Du Pont</td>
<td></td>
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<tr>
<td>3M</td>
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</tbody>
</table>

**Blue = in index in 1930**
**Red = gone by 2009**

Recent exits include AIG, Citigroup, and GM (all now wards of the state)

A random speculation: might corporate dis-aggregation have something to do with rising inequality in the US?

A measure of corporate aggregation: employment concentration

Employment concentration =

\[
\text{Number of workers employed by n largest firms} / \text{Total labor force}
\]

Surprising finding: there is a very high correlation between employment concentration using the 10 biggest firms and using the 25, 50, or 100 biggest firms in the US. The corporate “tendency toward gigantism” is evident even with a relatively thin slice of data.
A measure of income inequality: The Gini coefficient

- Measures the extent to which the distribution of income (or consumption) among individuals (or households) deviates from a perfectly equal distribution
  - The percentage of area that lies between the Lorenz curve and a line of perfectly equality
  - Varies between 0 (perfect equality) and 1 (perfect inequality)

U.S. income inequality and 10-firm employment concentration, 1950 - 2008

Revised research question:

WTF??

Is there a causal link between corporate size and inequality?

Is this just the decline of unions?

Inequality and Union Density, 1950 – 2006

NO: union density has declined every year since 1958 (almost)
As of Jan. 2010, most union members are public employees
First, a snazzy buzz-phrase: *The Paradox of Hierarchy*

- “Corporations are generally hierarchical, with those at the top earning incomes many times larger than those at the bottom, and larger firms are more hierarchical than smaller firms. Yet societies in which more of the workforce is employed in the largest firms are more equal overall than those where employment is spread more widely.”

(Davis & Cobb, 2010)

- But, is the United States a unique case?

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**Cross-national comparison of income inequality and employment concentration, 2006**

**Employment concentration: Colombia vs. Denmark**

<table>
<thead>
<tr>
<th>Country</th>
<th>Company Name</th>
<th>Industry Class</th>
<th>Employees</th>
<th>Country</th>
<th>Company Name</th>
<th>Industry Class</th>
<th>Employees</th>
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</thead>
<tbody>
<tr>
<td>Colombia</td>
<td>BANCOLOMBIA SA</td>
<td>BANK</td>
<td>7,027</td>
<td>Denmark</td>
<td>ISS AS</td>
<td>INDUSTRIAL</td>
<td>273,334</td>
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<tr>
<td></td>
<td>INVERALIMENTICIAS SA</td>
<td>INDUSTRIAL</td>
<td>6,798</td>
<td></td>
<td>GROUP 4 FALCK AS</td>
<td>INDUSTRIAL</td>
<td>246,366</td>
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<td>TEXTILES FABRICATO</td>
<td>INDUSTRIAL</td>
<td>5,744</td>
<td></td>
<td>A.P. MOLLER-MAERSK</td>
<td>INDUSTRIAL</td>
<td>31,703</td>
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<td></td>
<td>SURAMERICANA DE</td>
<td>FINANCIAL</td>
<td>4,325</td>
<td></td>
<td>CARLSBERG AS</td>
<td>INDUSTRIAL</td>
<td>15,703</td>
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<td></td>
<td>CIA COLOMBIANA DE</td>
<td>INDUSTRIAL</td>
<td>3,435</td>
<td></td>
<td>DANNO NORDISK AS</td>
<td>INDUSTRIAL</td>
<td>20,285</td>
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<td></td>
<td>COMPANIA DE CEMENTO</td>
<td>INDUSTRIAL</td>
<td>2,729</td>
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<td>DANFOSS AS</td>
<td>INDUSTRIAL</td>
<td>10,634</td>
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<tr>
<td></td>
<td>BAUSMA S.A.</td>
<td>INDUSTRIAL</td>
<td>3,248</td>
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<td>DANSKE BANK AS</td>
<td>BANK</td>
<td>13,382</td>
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<tr>
<td></td>
<td>CARTON DE COLOMBIA</td>
<td>INDUSTRIAL</td>
<td>1,464</td>
<td></td>
<td>FALCK A/S</td>
<td>INDUSTRIAL</td>
<td>10,241</td>
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<tr>
<td>Total</td>
<td>40,954</td>
<td></td>
<td></td>
<td>Total</td>
<td>708,561</td>
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</tr>
</tbody>
</table>

Labor Force: 22,771,433, 2,834,422

Emp Concentration: 0.18% vs. 25.00%
Amable’s varieties of capitalism

- **Market-based**: USA, UK, Canada and Australia
  - Product competition and financial markets are critical
- **Social-democratic model**: Sweden, Finland and Denmark
  - Coordinated wage bargaining and robust social protection
- **Continental Europe**: France, Germany, Austria, Belgium, Ireland, Norway (Switzerland and Netherlands)
  - Similar to social-democratic but less coordinated wage bargaining
- **Mediterranean**: Italy, Spain, Portugal and Greece
  - More employment protection and less social protection than Continental Europe
  - Limited skill and education of workers
- **Asian model**: Japan and South Korea
  - Large corporations coordinate with state
  - Employment protection combined with lack of welfare state

**An aside: is there really a coherent “Anglo-Saxon model”?**

**Income inequality and varieties of capitalism**

**United Kingdom: inequality and employment concentration by year, 1992 – 2006**

$r = -0.34$
France: inequality and employment concentration by year, 1995 – 2006

Spain: inequality and employment concentration by year, 1995 – 2006

South Korea: inequality and employment concentration by year, 1992 – 1998, 2005

Denmark: inequality and employment concentration by year, 1995 – 2006
Sample nations inequality and employment concentration

![Graph showing the relationship between Gini Coefficient and Ratio of Top 10 Employers to Labor Force for various countries including United States, United Kingdom, Spain, South Korea, France, and Denmark.]

Tentative factoids

- Corporate size varies widely and systematically around the world, both in absolute terms and relative to the size of the labor force.
- Corporate employment concentration is positively related to equality
  - Very strongly in the US (over time)
  - Somewhat strongly around the world (cross-sectionally)
- The size of a country’s largest corporations and its level of inequality are connected to its “variety of capitalism” (VOC)
- A possible (fuzzy) causal chain:
  - VOC => concept of corporation \(\rightarrow\) corporate size \(\rightarrow\) inequality

Conclusion: blame finance for everything bad