

Corporations and economic inequality around the world: The paradox of hierarchy

Jerry Davis
Adam Cobb

© 2010 by The Regents of The University of Michigan • All Rights Reserved

Income inequality in the U.S.

- The proportion of the nation's income going to the top 1% has reached levels not seen since the eve of the Great Depression
 - 1929: 18.4%
 - 1950: 11.4%
 - 1970: 7.8%
 - 1990: 13.0%
 - 2007: 18.3%
- What explains this trend?

Increasing inequality in the U.S.

- One economic explanation focuses on technology-driven changes in the mix of skills required by the economy
 - Widens the wage gap between those who have these skills (e.g., computer literate college graduates) and those who do not

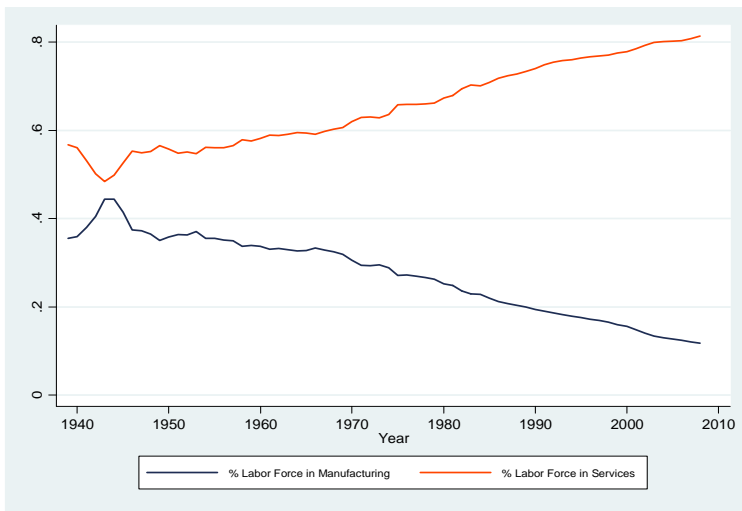
BUT ...

- Cross-national comparisons do not support this explanation
 - E.g. Japan and the Nordic countries are among the most equal nations on earth, yet are also among the most technologically advanced

An organizational explanation

- **Our motivating question:**
 - **Can organization theory help explain social inequality?**
- We propose that two interrelated mechanisms are proximal causes of the radical increase in inequality in the US since the 1980s
 - Shift from manufacturing to services
 - **Finance-driven corporate restructuring**
 - Large conglomerate firms broken up in the 1980s
 - Continued through the 1990s as announcements of acquisitions, spinoffs, and other restructurings in the 1990s were inevitably accompanied by a nod to Wall Street
 - » E.g. Shin (2010) found that firms adhering more closely to the dictums of profit-maximization were more likely to engage in corporate downsizing

The Service Shift (™ Bob Kennedy): Percentage of U.S. Labor Force Employed in Manufacturing and Services, 1938-2008



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

10 Largest US Corporate Employers, 1960-2009

1960	1980	2009
GM	AT&T	WAL-MART
AT&T	GM	TARGET
FORD	FORD	UPS
GE	GE	KROGER
US STEEL	SEARS	SEARS HLDGS
SEARS	IBM	"AT&T"
A&P	ITT	HOME DEPOT
EXXON	KMART	WALGREEN
BETH. STEEL	MOBIL	VERIZON
ITT	GTE	SUPERVALU

Wal-Mart now employs roughly as many Americans as the 20 largest manufacturers combined

Manufacturing Oil Services

Retail jobs are not like manufacturing jobs



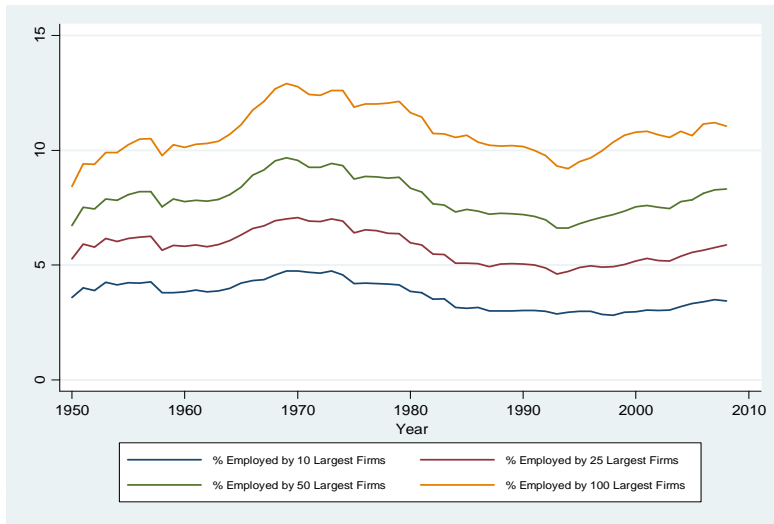
- Median hourly wage in "Motor Vehicle Manufacturing" for "Production Occupations" (May 2008) : **\$27.14**
- Median tenure with current employer in "Transportation Equipment Manufacturing" (Jan. 2004 CPS): **8 years**
- Median hourly wage in "General Merchandise Stores" for "Sales and Related Occupations" (May 2008) : **\$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%**

How do we operationalize "restructuring"?

- Our hypothesis is that finance-driven restructuring fundamentally altered the employment relationship
- The most direct way to analyze the effect of restructuring at a societal level is by examining the relative size of the largest employers in a nation
- Employment concentration =

$$\frac{\text{Number of workers employed by } n \text{ largest firms}}{\text{Total labor force}}$$

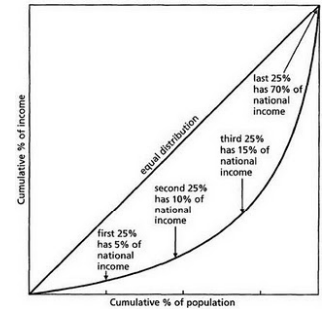
Percentage of U.S. Labor Force Employed by Top 10, 25, 50, and 100 Employers, 1950-2008



The top 10 employers provide a reliable “thin slice” of broad employment trends

How do we measure inequality? The Gini coefficient

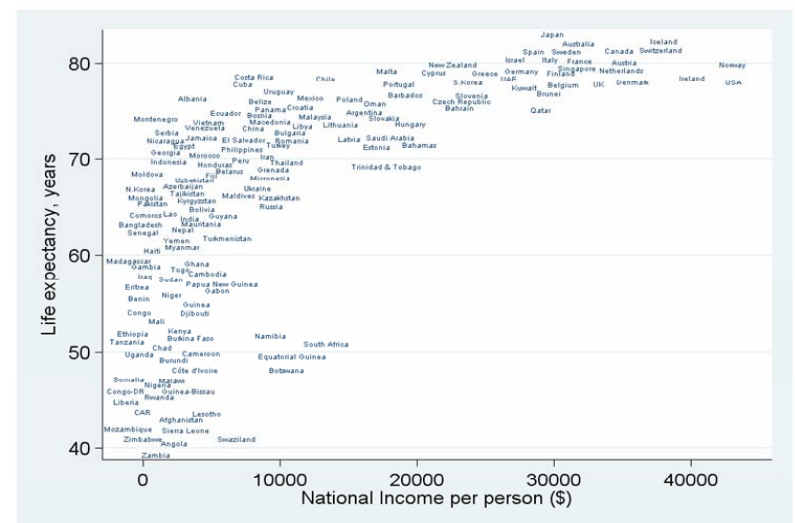
- Measures the extent to which the distribution of income (or consumption) among individuals (or households) deviates from a perfectly equal distribution
 - The percentage of area that lies between the Lorenz curve and a line of perfectly equality
 - Varies between 0 (perfect equality) and 1 (perfect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



Why should we care?

- The study of inequality is a central concern of social theory
 - Blau & Duncan (1967)
 - Baron & Bielby (1980)
- And inequality has been found to be linked to numerous social ills (Wilkinson & Pickett, 2009)

Income per head and life-expectancy: rich & poor countries

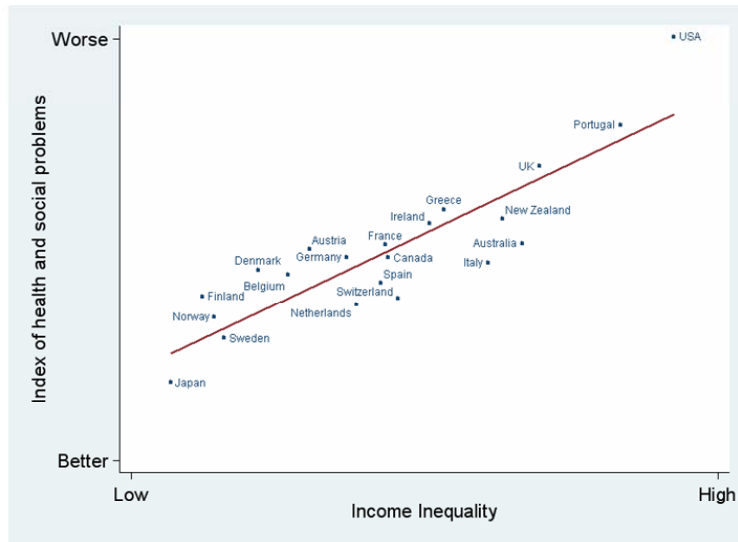


Source: Wilkinson & Pickett, *The Spirit Level* (2009)

Health and Social Problems are Worse in More Unequal Countries

Index of:

- Life expectancy
- Math & Literacy
- Infant mortality
- Homicides
- Imprisonment
- Teenage births
- Trust
- Obesity
- Mental illness – incl. drug & alcohol addiction
- Social mobility



Source: Wilkinson & Pickett, *The Spirit Level* (2009)

www.equalitytrust.org.uk Equality Trust

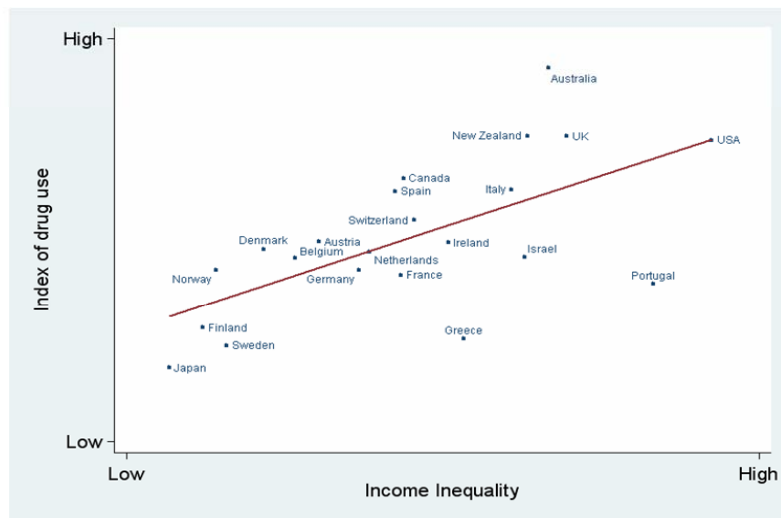
The Prevalence of Mental Illness is Higher in More Unequal Rich Countries



Source: Wilkinson & Pickett, *The Spirit Level* (2009)

www.equalitytrust.org.uk Equality Trust

Drug Use is More Common in More Unequal Countries



Index of use of: opiates, cocaine, cannabis, ecstasy, amphetamines

Source: Wilkinson & Pickett, *The Spirit Level* (2009)

www.equalitytrust.org.uk Equality Trust

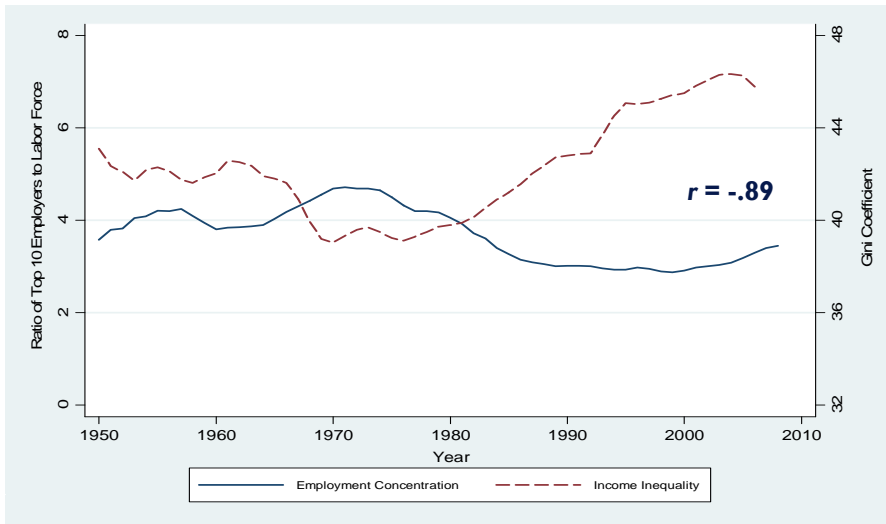
Life Expectancy is Longer in More Equal Rich Countries



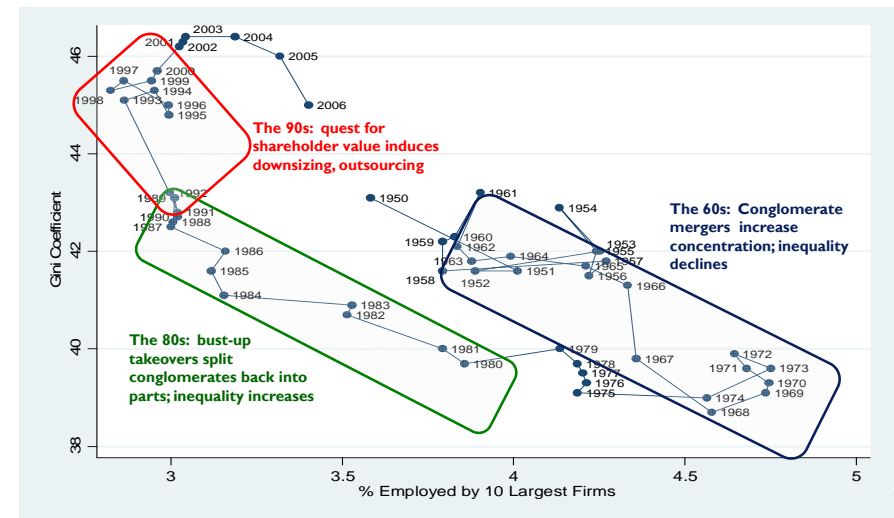
Source: Wilkinson & Pickett, *The Spirit Level* (2009)

www.equalitytrust.org.uk Equality Trust

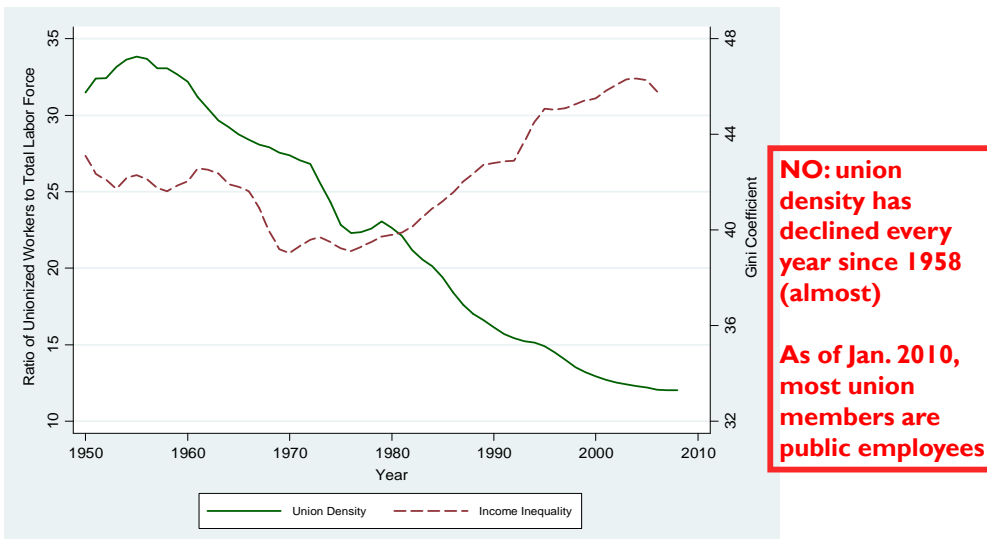
Income Inequality and Employment Concentration, 1950 - 2008



Income Inequality and Employment Concentration by Year, 1950 - 2006



Is this just the decline of unions? Inequality and Union Density, 1950 - 2006



Time-series regression estimates of Income Inequality in the U.S., 1950-2006

Variables	Model I	
	Coefficient	Standard Error
Unemployment (%)	-0.551***	.106
Union Density (%)	-0.024	.032
Employment Concentration (%)	-2.947***	.387
Constant	56.795***	1.216
Observations		57
R ²		.7571

* p < .05; ** p < .01; *** p < .001

Tests are two-tailed

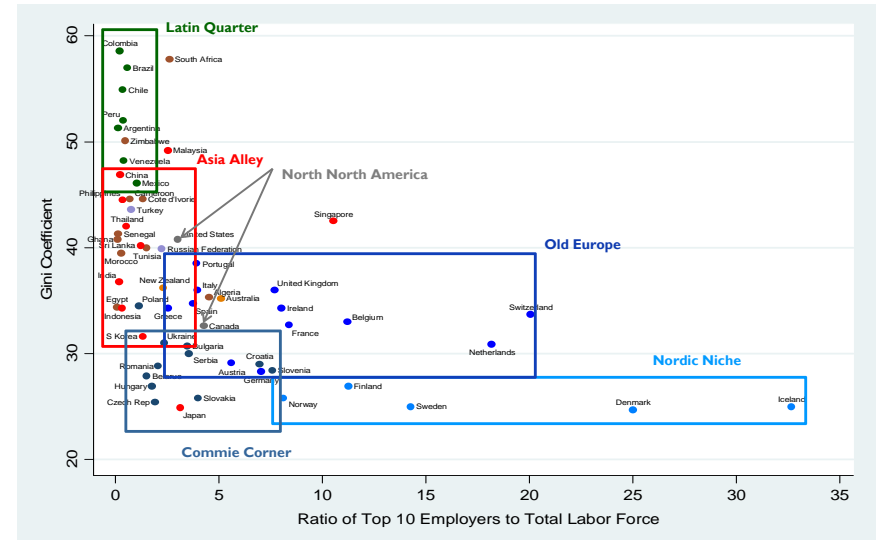
The paradox of hierarchy

- Our findings reveal a paradox:
 - Large bureaucracies are the defining structures of inequality
 - Inequality is greater *within* large corporations than within small ones (Kalleberg & VanBuren, 1994)

BUT ...

- Societies in which employment is more concentrated within these hierarchies are more equal than those with dispersed employment
- Why?
 - The trend toward flattening hierarchies limits the promotion prospects for those in management, and networks of contractors form no clear upward ladder for individual workers

Cross-National Comparison of Income Inequality and Employment Concentration



Employment concentration: Colombia vs. Denmark

COLOMBIA			DENMARK		
Company Name	Industry Class	Employees	Company Name	Industry Class	Employees
BANCOLOMBIA SA	BANK	7,027	ISS AS	INDUSTRIAL	273,534
INVERALIMENTICIAS SA	INDUSTRIAL	6,798	GROUP 4 FALCK AS	INDUSTRIAL	246,366
TEXTILES FABRICATO TEJICONDOR	INDUSTRIAL	5,744	A.P.MOLLER-MAERSK A/S	TRANSPORT.	62,300
BANCO DE BOGOTA SA	BANK	4,800	CARLSBERG AS	INDUSTRIAL	31,703
SURAMERICANA DE INVERSIONES S.	FINANCIAL	4,325	TDC AS	UTILITY	20,573
CIA COLOMBIANA DE TEJIDOS - CO	INDUSTRIAL	3,435	NOVO NORDISK AS	INDUSTRIAL	20,285
ACERIAS PAZ DEL RIO S.A.	INDUSTRIAL	2,834	DANFOSS AS	INDUSTRIAL	17,543
BAVARIA SA	INDUSTRIAL	2,729	DANSKE BANK AS	BANK	15,382
COMPANIA DE CEMENTO ARGOS S.A.	INDUSTRIAL	1,798	DANISCO AS	INDUSTRIAL	10,634
CARTON DE COLOMBIA	INDUSTRIAL	1,464	FALCK A/S	INDUSTRIAL	10,241
Total		40,954	Total		708,561
Labor Force		22,771,433	Labor Force		2,834,422
Emp Concentration		0.18%	Emp Concentration		25.00%

For you to consider and discuss

- Should management scholars be concerned about social inequality (or is that the job of sociologists)?
- If so, what could we do to address it?