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

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%

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

10 Largest US Corporate Employers, 1960-2009

<table>
<thead>
<tr>
<th>Year</th>
<th>GM</th>
<th>AT&amp;T</th>
<th>Ford</th>
<th>GE</th>
<th>US Steel</th>
<th>Sears</th>
<th>IBM</th>
<th>“AT&amp;T”</th>
<th>A&amp;P</th>
<th>Exxon</th>
<th>Kimart</th>
<th>Mobil</th>
<th>Walgreen</th>
<th>Verizon</th>
<th>Supervalu</th>
</tr>
</thead>
<tbody>
<tr>
<td>1960</td>
<td>GM</td>
<td>AT&amp;T</td>
<td>Ford</td>
<td>GE</td>
<td>US Steel</td>
<td>Sears</td>
<td>IBM</td>
<td>“AT&amp;T”</td>
<td>A&amp;P</td>
<td>Exxon</td>
<td>Kimart</td>
<td>Mobil</td>
<td>Walgreen</td>
<td>Verizon</td>
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</tr>
<tr>
<td>1980</td>
<td>AT&amp;T</td>
<td>GM</td>
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<td>GE</td>
<td>US Steel</td>
<td>Sears</td>
<td>IBM</td>
<td>“AT&amp;T”</td>
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<td>Kimart</td>
<td>Mobil</td>
<td>Walgreen</td>
<td>Verizon</td>
<td>Supervalu</td>
</tr>
<tr>
<td>2009</td>
<td>Wal-Mart</td>
<td>Target</td>
<td>UPS</td>
<td>Kroger</td>
<td>Sears HLDGS</td>
<td>Sears HLDGS</td>
<td>“AT&amp;T”</td>
<td>HOME DEPOT</td>
<td>“AT&amp;T”</td>
<td>ITT</td>
<td>“AT&amp;T”</td>
<td>HOME DEPOT</td>
<td>“AT&amp;T”</td>
<td>HOME DEPOT</td>
<td></td>
</tr>
</tbody>
</table>

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

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**

Health and Social Problems are Worse in More Unequal Countries

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


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


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Drug Use is More Common in More Unequal Countries

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


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Life Expectancy is Longer in More Equal Rich Countries

Income Inequality and Employment Concentration, 1950 - 2008

$r = -.89$

Income Inequality and Employment Concentration by Year, 1950 – 2006

The 90s: quest for shareholder value induces downsizing, outsourcing

The 60s: Conglomerate mergers increase concentration; inequality declines

The 80s: bust-up takeovers split conglomerates back into parts; inequality increases

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

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

<table>
<thead>
<tr>
<th>Variables</th>
<th>Model 1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unemployment (%)</td>
<td>-.551***</td>
</tr>
<tr>
<td>Union Density (%)</td>
<td>-.024</td>
</tr>
<tr>
<td>Employment Concentration (%)</td>
<td>-2.947***</td>
</tr>
<tr>
<td>Constant</td>
<td>56.795***</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Observations</th>
<th>57</th>
</tr>
</thead>
<tbody>
<tr>
<td>$R^2$</td>
<td>.7571</td>
</tr>
</tbody>
</table>

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 Employment Concentration

Employment concentration: Colombia vs. Denmark

<table>
<thead>
<tr>
<th>COLOMBIA</th>
<th>DENMARK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company Name</td>
<td>Industry Class</td>
</tr>
<tr>
<td>BANCOLOMBIA SA</td>
<td>BANK</td>
</tr>
<tr>
<td>INVERALIMENTICIAS SA</td>
<td>INDUSTRIAL</td>
</tr>
<tr>
<td>TEXTILES FABRICATOF TEJICONDOR</td>
<td>INDUSTRIAL</td>
</tr>
<tr>
<td>BANCO DE BOGOTA SA</td>
<td>BANK</td>
</tr>
<tr>
<td>SURAMERICANA DE INVERSIONES S.</td>
<td>FINANCIAL</td>
</tr>
<tr>
<td>CIA COLOMBIANA DE TEJIDOS - CO</td>
<td>INDUSTRIAL</td>
</tr>
<tr>
<td>ACERIAS PAZ DEL RIO S.A.</td>
<td>INDUSTRIAL</td>
</tr>
<tr>
<td>BAVARIA SA</td>
<td>INDUSTRIAL</td>
</tr>
<tr>
<td>COMPAÑIA DE CEMENTO ARGOS S.A.</td>
<td>INDUSTRIAL</td>
</tr>
<tr>
<td>CARTON DE COLOMBIA</td>
<td>INDUSTRIAL</td>
</tr>
</tbody>
</table>

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?