

Inequality and Occupy

Jerry Davis
Ross School of Business
February 8, 2012

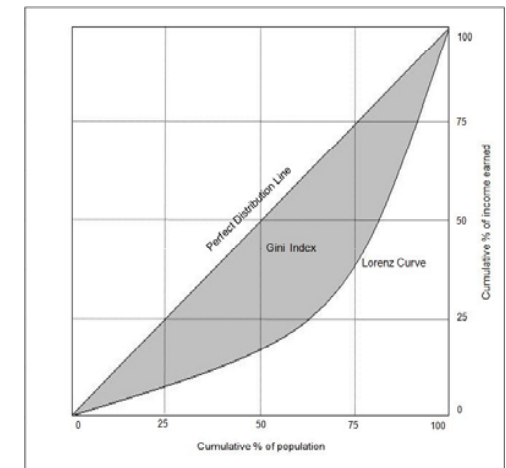


Roadmap

- What do we mean by “inequality”?
- Is inequality bad?
- How does inequality vary across countries?
- How has it changed over time?
- What causes inequality?
- How does finance fit in?

A measure of income inequality: The Gini coefficient

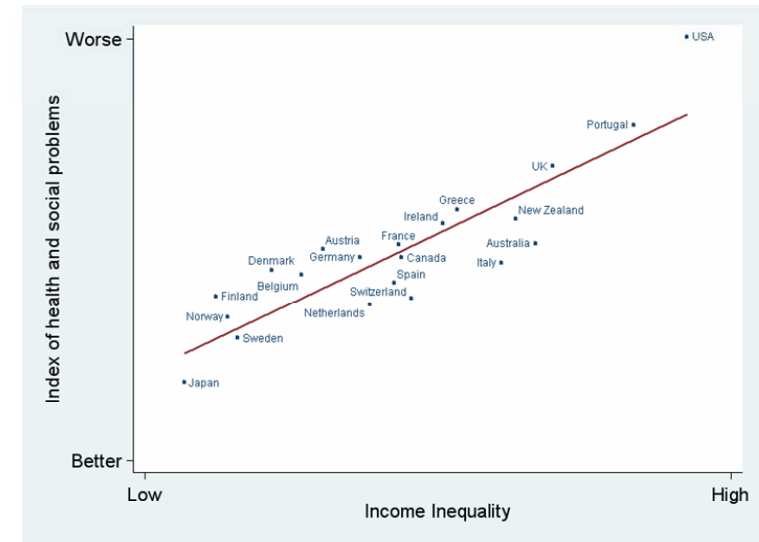
- Measures the extent to which the distribution of income (or consumption) among individuals (or households) deviates from a perfectly equal distribution
 - The percentage of area that lies between the Lorenz curve and a line of perfectly equality
 - Varies between 0 (perfect equality) and 1 (perfect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



IS INEQUALITY BAD?

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



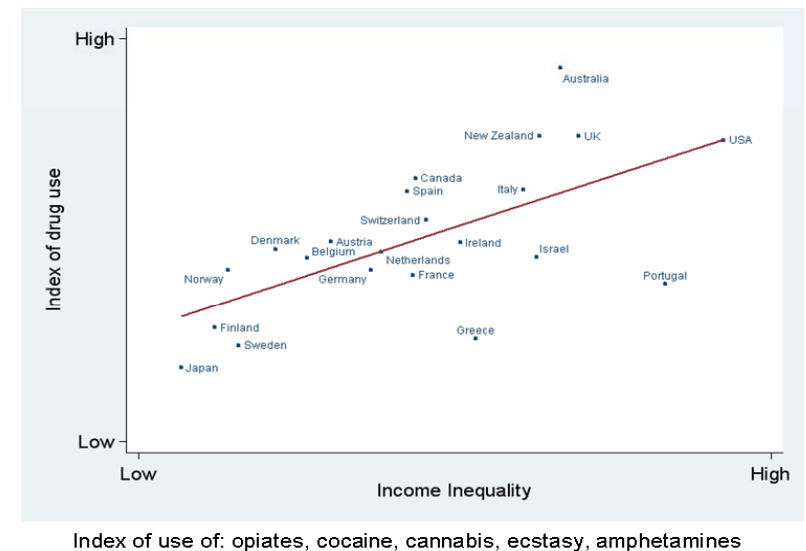
Source: Wilkinson & Pickett, *The Spirit Level* (2009)

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



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

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)

Life Expectancy is Longer in More Equal Rich Countries



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

www.equalitytrust.org.uk



Infant Mortality Rates are Higher in More Unequal Countries



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

www.equalitytrust.org.uk



Homicide Rates are Higher in More Unequal Rich Countries

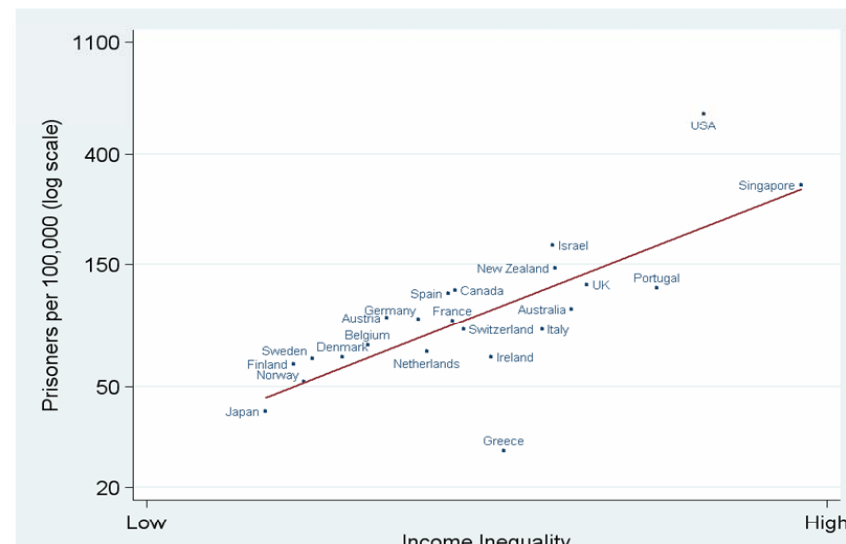


Source: Wilkinson & Pickett, *The Spirit Level* (2009)

www.equalitytrust.org.uk



Rates of Imprisonment are Higher in More Unequal Countries

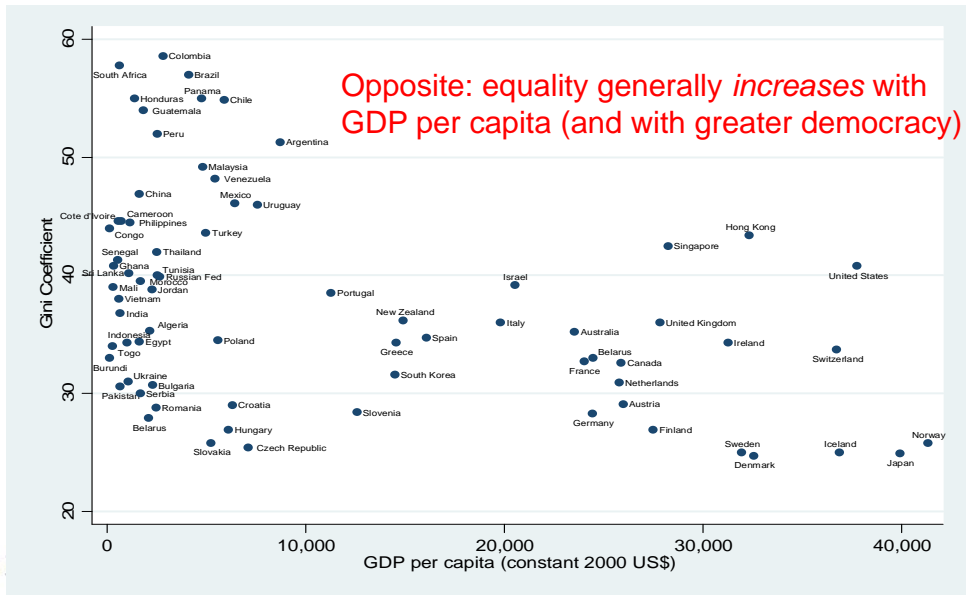


Source: Wilkinson & Pickett, *The Spirit Level* (2009)

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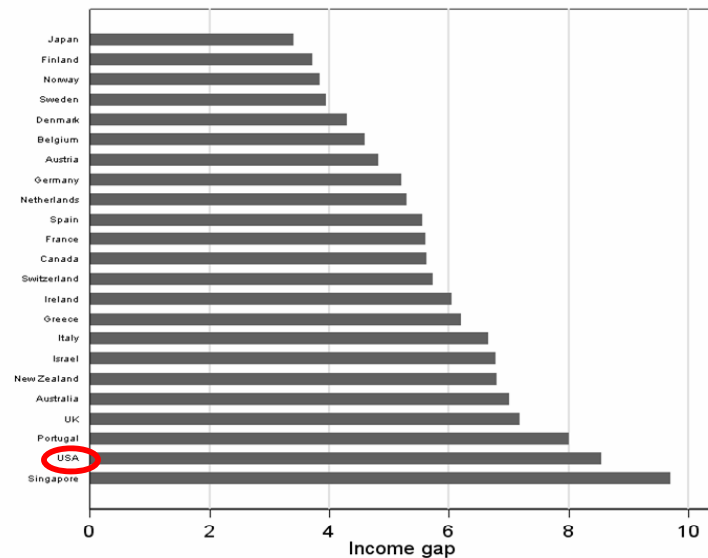


Is inequality just the price we pay for prosperity?

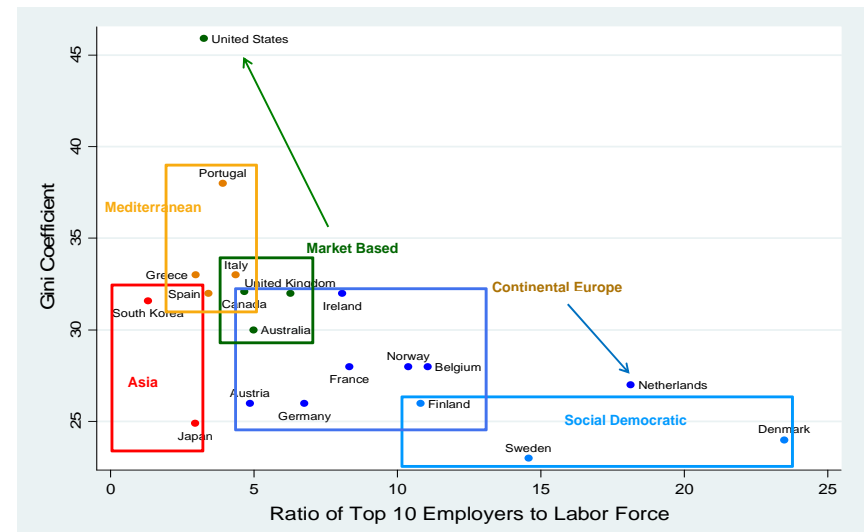


HOW DO COUNTRIES DIFFER IN THEIR LEVELS OF INEQUALITY?

How much richer are the richest 20% than the poorest 20%?

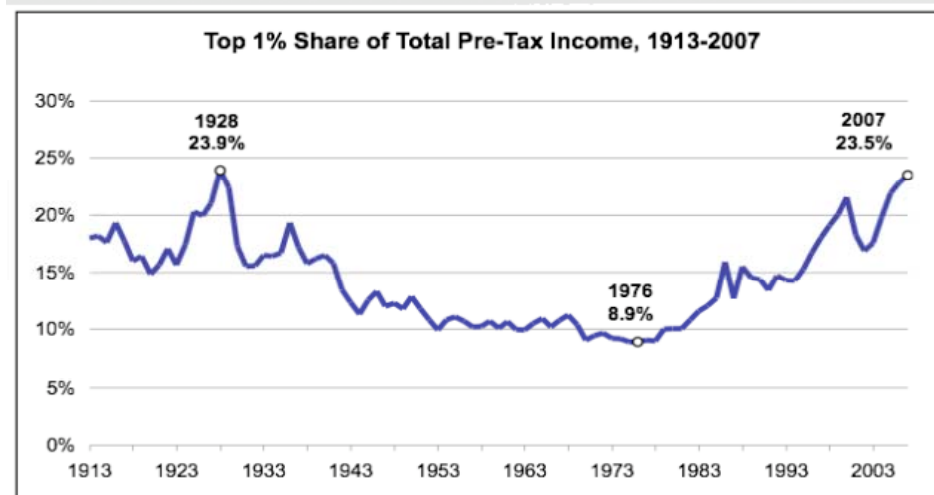


Inequality varies among different “flavors” of capitalism

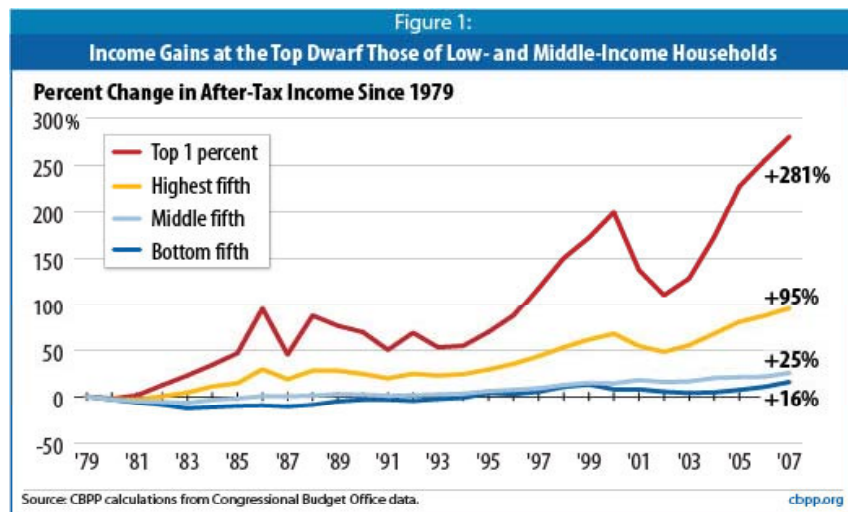


HOW HAS INEQUALITY CHANGED OVER TIME IN THE US?

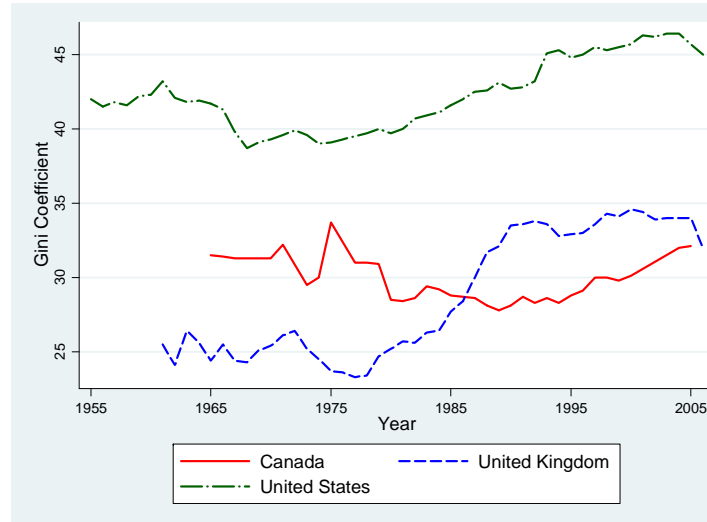
% of the nation's annual income going to the top 1%



Income gains in the U.S. since 1979



Q: Hasn't this happened everywhere else (e.g., because of the Internet)?

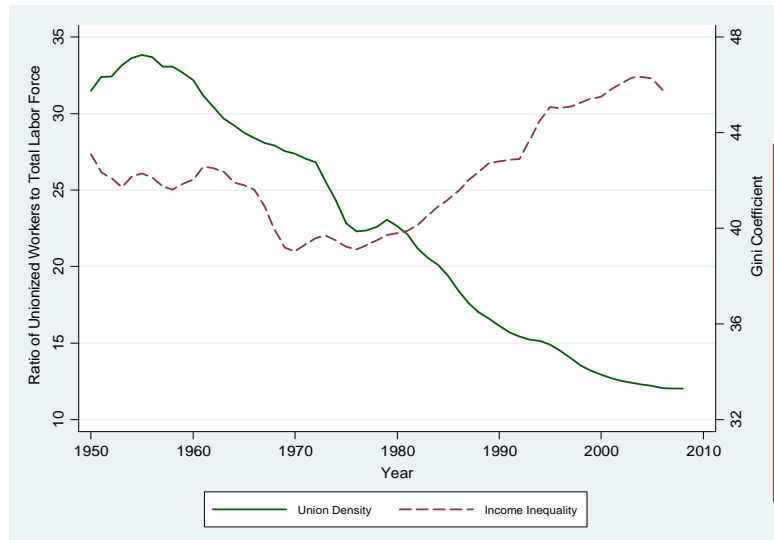


A: No. There is no general trend toward greater inequality

WHAT CAUSES INEQUALITY?

Is it just the decline of unions?

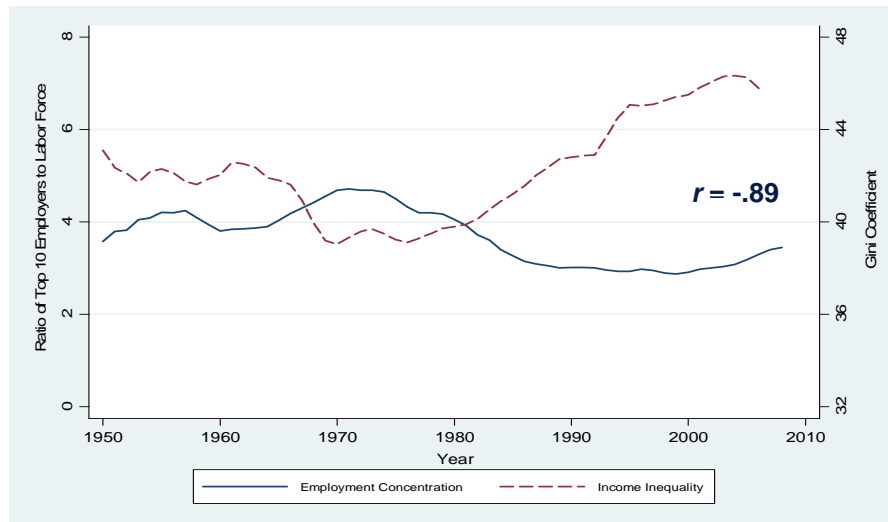
Inequality and Union Density, 1950 – 2006



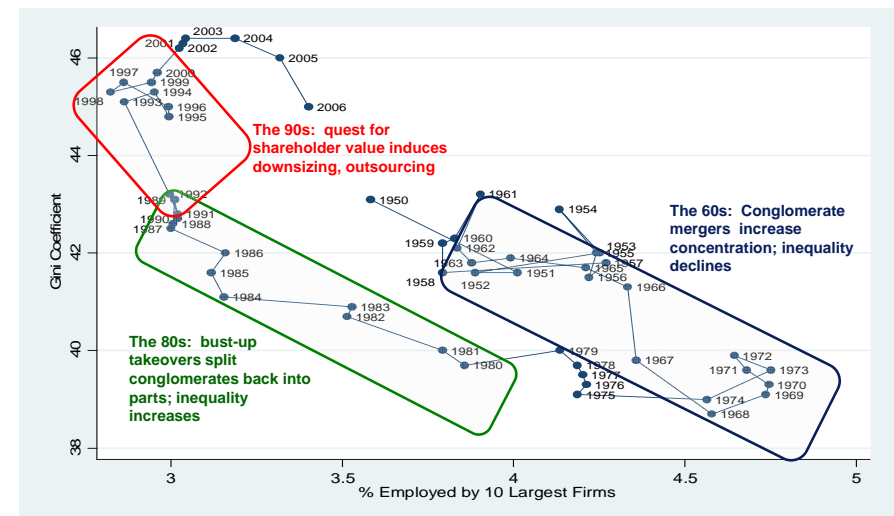
NO: union density has declined every year since 1958 (almost)

As of Jan. 2010, most union members are public employees

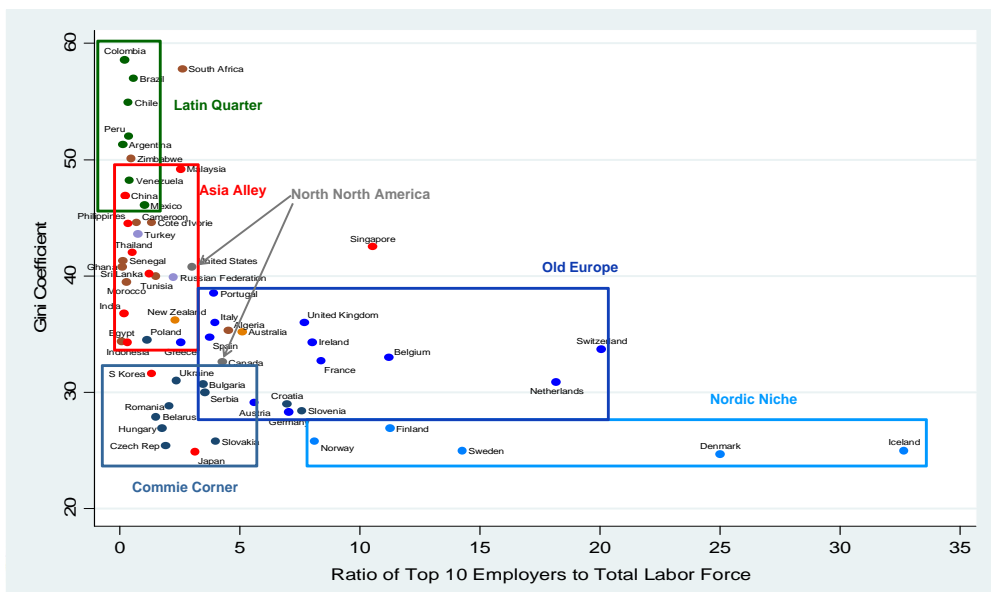
U.S. income inequality and 10-firm employment concentration, 1950 - 2008



Income inequality and employment concentration by year, 1950 – 2006



Around the world, big employers are associated with low inequality



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 TEJCONDOR	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%

HOW DOES FINANCE FIT IN?

1. Finance was responsible for corporate restructuring favoring "vertical dis-integration"

- Hostile takeovers in the 1980s
- Downsizing and outsourcing in the 1990s ff.
- In other words: Wall Street is turning us from Denmark into Colombia

2. Financiers are disproportionately represented at the top of the 1%

- Kaplan and Rauh: The top 25 hedge fund managers in 2004 earned more than all the CEOs of the S&P500 *combined*
- "By 2007, the top five investors likely made more than the combined five hundred executives at publicly-traded companies in the U.S."

Paulson Fires Back at Critics

By STEVE EDER And GREGORY ZUCKERMAN



In a webcast with investors, John Paulson remained optimistic on the economy, and predicted a coming bull market. Steve Eder reports on Mean Street. Photo: AP.



Associated Press

Protesters prepare to leave a fake check for \$5 billion to "The Top One Percent" from the "50 Percent" outside John Paulson's home on Tuesday.

Mr. Paulson's largest funds have plunged in value this year amid high-profile, and poorly timed, bets on stocks such as [Bank of America Corp.](#), [Hewlett-Packard Co.](#) and China's [Sino-Forest Corp.](#)

If unhappy investors weren't enough, hedge-fund titan [John Paulson](#) also has drawn the ire of Wall Street protesters.

The billionaire investor took on both sets of critics on Tuesday, hosting a webcast to address clients' concerns while issuing a statement urging New Yorkers to support "our most successful businesses" instead of "vilifying" them.

Mr. Paulson won fame during the financial crisis for reaping billions of dollars by betting against the U.S. housing market. He has remained in the spotlight this year, but for a different reason: His main fund has fallen by nearly half through September, as his bullish predictions of a strengthening U.S. economy haven't materialized.

building in New York's Upper East Side, the fifth stop in a march that the organizers said also included the residences of James Dimon, chief executive of [J.P. Morgan Chase & Co.](#), and [Rupert Murdoch](#), CEO of [News Corp.](#), parent company of The Wall Street Journal.

"He's one of those billionaire hedge-fund guys who bet on the meltdown of the mortgage [market] and won big," Vilma Nelson, a 60-year-old Bronx resident, said of Mr. Paulson. "He's the type of person we're against."

Mr. Paulson, whose net worth was recently pegged at \$15.5 billion by Forbes magazine, had issued a statement saying that his employees have paid "hundreds of millions of dollars" in taxes in recent years and created more than 100 high-paying jobs. "Instead of vilifying our most successful businesses, we should be supporting them and encouraging them to remain in New York City and continue to grow," it said.

Oops...make that 101 jobs

The PAC Pack: The Men Behind the Money Behind the Candidates

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By MATT NEGRIN (@MattNegrin)
Jan. 31, 2012



John Paulson and Edward Conard

It's no surprise that the two biggest donors supporting Mitt Romney have a background similar to the candidate's. The self-made, hedge-fund master John Paulson, pictured here, and the investment banking director Edward Conard have so far donated \$1 million each to Restore Our Future, the super PAC supporting Romney.



Rick Meinen/Bloomberg/Getty Images

Forbes lists Paulson, 55, as the 18th-richest person in the country. He bet big against the housing market in 2007 and walked away with \$3.5 billion. He broke a record in the hedge-fund industry in 2010 by earning \$4.9 billion, although the next year he lost a lot of money by making bad bets on Bank of America and Hewlett-Packard. So far this year, he has done better, possibly because he has put his money on the chance that the economy will recover.

Although his \$1 million to the Romney-backing PAC puts him at the top of the biggest givers, it's but a particle of a fraction of his net worth, which is \$15.5 billion.

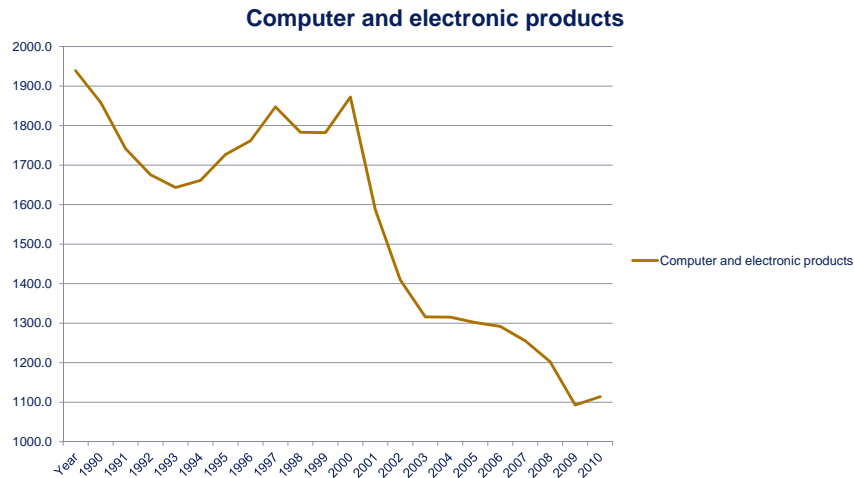
The path to a comfortable middle-class life

To do list

- ☐ Go to college so that you can get a corporate job in a growth sector (e.g., high tech)
- ☐ Buy the biggest house you can afford
- ☐ Invest your 401(k) in a low-cost index fund
- ☐ Retire to Boca in financial comfort

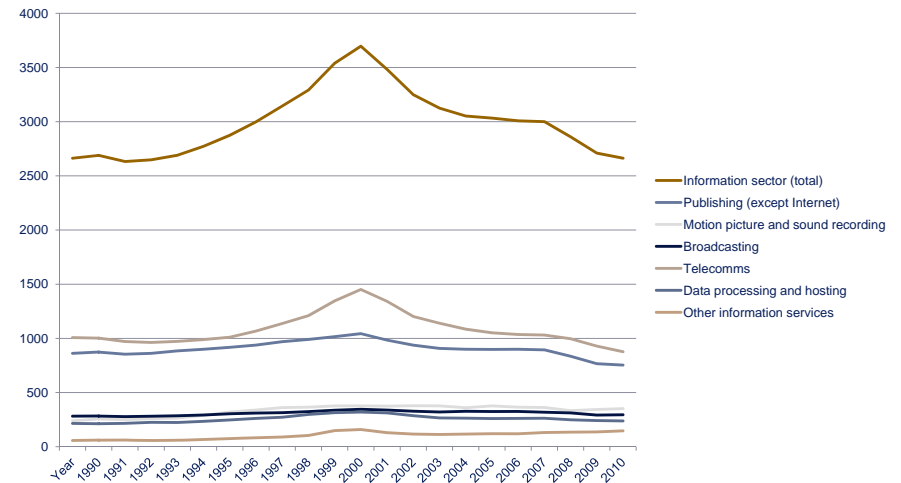
BUT DON'T PEOPLE MOVE UP IN THE WORLD ALL THE TIME?

Jobs in “Computer and electronic products manufacturing” in the US have declined by 750,000 since 2001



Source: US Bureau of Labor Statistics

The number of jobs in the U.S. “Information” service sector has declined by 1 million since 2001



Source: US Bureau of Labor Statistics

America’s most innovative companies do not employ very many people

- Apple: 60,400
 - Google: 32,467
 - Facebook: 3000
 - Amazon.com: 33,700
 - Cisco: 71,825
 - Microsoft: 90,000
- Kroger: 338,000
 - **Jobs lost in Jan. 2009: 598,000**
- [That’s 200 Facebooks]

TOTAL: 291,392

Oops

THE WALL STREET JOURNAL
WSJ.com

CAREERS | NOVEMBER 13, 2011, 7:30 P.M. ET

Young Workers Like Facebook, Apple and Google

By RACHEL EMMA SILVERMAN

Young professionals want to work for Google, Apple and Facebook. Investment banks? Not so much.

What’s Your Dream Company?

A sortable table of ideal employers, according to a survey of 6,700 young professionals.

COMPANY	RANK	PERCENT
Google	1	14.7%
Apple	2	12.1%
Facebook	3	10.5%
U.S. Department of State	4	10.4%
The New York Times Company	5	10.1%
LinkedIn	6	10.0%
IBM	7	10.0%
Microsoft	8	9.9%
Bank of America	9	9.8%
Amazon.com	10	9.7%
Netflix	11	9.7%
Netflix	12	9.7%
Netflix	13	9.7%
Netflix	14	9.7%
Netflix	15	9.7%
Netflix	16	9.7%
Netflix	17	9.7%
Netflix	18	9.7%
Netflix	19	9.7%
Netflix	20	9.7%
Netflix	21	9.7%
Netflix	22	9.7%
Netflix	23	9.7%
Netflix	24	9.7%
Netflix	25	9.7%

More photos and interactive graphics

About one in five young workers in the U.S. picked [Google Inc.](#) as a most desirable place to work according to a survey by Universum, an employment data and consulting firm. [Apple Inc.](#), Facebook Inc., the U.S. State Department and [Walt Disney Co.](#) round out the top five.

Universum queried about 6,700 early-career professionals, defined as college graduates under the age of 40 with one to eight years of work experience, and asked them to pick as many as five ideal employers out of a list of about 200. Respondents could also write in candidates.

This is the second year that Universum has conducted the survey. Google topped the earlier survey as well.

Google has “established a very strong brand in what its culture is, in what it’s like to work there,” says Chris Cordery, Universum’s director of Americas. Based on the responses to the survey, Mr. Cordery says, candidates “look at Google as compensating employees well and offering challenging work but at the same time it will be a fun and strong culture.”

February 3, 2010

No Help in Sight, More Homeowners Walk Away

By DAVID STREITFELD

In 2006, Benjamin Koellmann bought a condominium in Miami Beach. By his calculation, it will be about the year 2025 before he can sell his modest home for what he paid. Or maybe 2040.

"People like me are beginning to feel like suckers," Mr. Koellmann said. "Why not let it go in default and rent a better place for less?"

After three years of plunging real estate values, after the bailouts of the bankers and the revival of their million-dollar bonuses, after the Obama administration's loan modification plan raised the expectations of many but satisfied only a few, a large group of distressed homeowners is wondering the same thing.

New research suggests that when a home's value falls below 75 percent of the amount owed on the mortgage, the owner starts to think hard about walking away, even if he or she has the money to keep paying.

In a situation without precedent in the modern era, millions of Americans are in this bleak position. Whether, or how, to help them is one of the biggest questions the Obama administration confronts as it seeks a housing policy that would contribute to the economic recovery.

"We haven't yet found a way of dealing with this that would, we think, be practical on a large scale," the assistant [Treasury](#) secretary for financial stability, [Herbert M. Allison Jr.](#), said in a recent briefing.

The number of Americans who owed more than their homes were worth was virtually nil when the real estate collapse began in mid-2006, but by the third quarter of 2009, an estimated 4.5 million homeowners had reached the critical threshold, with their

Thankfully, markets always go up eventually...



The path to a comfortable middle-class life

To do list

- ☐ Go to college so that you can get a corporate job in a growth sector (e.g., high tech)
- ☐ Buy the biggest house you can afford
- ☐ Invest your 401(k) in a stock index fund
- ☐ Retire to Boca in financial comfort



January 4, 2012

Harder for Americans to Rise From Lower Rungs

By JASON DePARLE

WASHINGTON — Benjamin Franklin did it. Henry Ford did it. And American life is built on the faith that others can do it, too: rise from humble origins to economic heights. "Movin' on up," George Jefferson-style, is not only a sitcom song but a civil religion.

But many researchers have reached a conclusion that turns conventional wisdom on its head: Americans enjoy less economic mobility than their peers in Canada and much of Western Europe. The mobility gap has been widely discussed in academic circles, but a sour season of mass unemployment and street protests has moved the discussion toward center stage.

Former Senator Rick Santorum of Pennsylvania, a Republican candidate for president, warned this fall that movement “up into the middle income is actually greater, the mobility in Europe, than it is in America.” National Review, a conservative thought leader, wrote that “most Western European and English-speaking nations have higher rates of mobility.” Even Representative Paul D. Ryan, a Wisconsin Republican who argues that overall mobility remains high, recently wrote that “mobility from the very bottom up” is “where the United States lags behind.”

Liberal commentators have long emphasized class, but the attention on the right is largely new.

"It's becoming conventional wisdom that the U.S. does not have as much mobility as most other advanced countries," said Isabel V. Sawhill, an economist at the Brookings Institution. "I don't think you'll find too many people who will argue with that."

One reason for the mobility gap may be the depth of American poverty, which leaves poor children starting especially far behind. Another may be the unusually large premiums that American employers pay for college degrees. Since children generally follow their parents' educational trajectory, that premium increases the importance of family background and stymies

WE ARE THE 99 PERCENT

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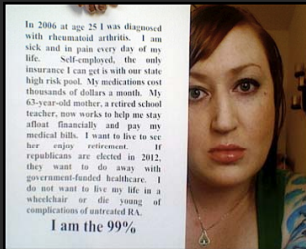
4TH FEBRUARY 2012

PHOTO WITH 49 NOTES

We are the 99 percent. We are getting kicked out of our homes. We are forced to choose between groceries and rent. We are denied quality medical care. We are suffering from environmental pollution. We are working long hours for little pay and no rights, if we're working at all. We are getting nothing while the other 1 percent is getting everything. We are the 99 percent.

Brought to you by the people who occupy wall street. Why will YOU occupy?

[OccupyWallSt.org](#)
[Occupytogether.org](#)
[somo99percento.tumblr.com](#)
[wearthe99percentuk.tumblr.com](#)



In 2009 at the age of 25 I was diagnosed with rheumatoid arthritis. I am sick and in pain every day of my life. Self-employed, the only insurance I can get is with our state high risk pool. My medications cost thousands of dollars a month. My 63-year-old mother, a retired school teacher, now works to help me stay afloat financially and pay my medical bills. I want to live to see her enjoy retirement. If republicans are elected in 2012, they want to do away with government-funded healthcare. I do not want to live my life in a wheelchair or die young of complications of untreated RA.

I am the 99%.

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