Should Companies Reduce Income Inequality?

Georges Enderle

Professor Emeritus
of International Business Ethics
Mendoza College of Business
University of Notre Dame
Notre Dame, IN 46556

Focus on the question: Should companies reduce income inequality?

- It is a “should” question, that is about Ethics: what should I / we do?
- “Who”? Companies in the United States
- Income inequality “where”? (1) in the own organization / (2) in society
- “What kind of” income inequality? *Extreme* income inequality
- “Reducing” income inequality: “How much”? How to operationalize and measure it?
- “Why”? Ethical and economic arguments
- Concretely, “what” should companies do?

Why focus on companies in the United States?

- Compare minimum wage in France and the United States (1950-2013) (Piketty 2014, 309)
- Compare the inequality of labor income in Europe and the United States (1900-2010) (Piketty 2014, 323)
- Compare the structure of income inequality in Europe and the United States (1900-2010) (Piketty 2014, 324)

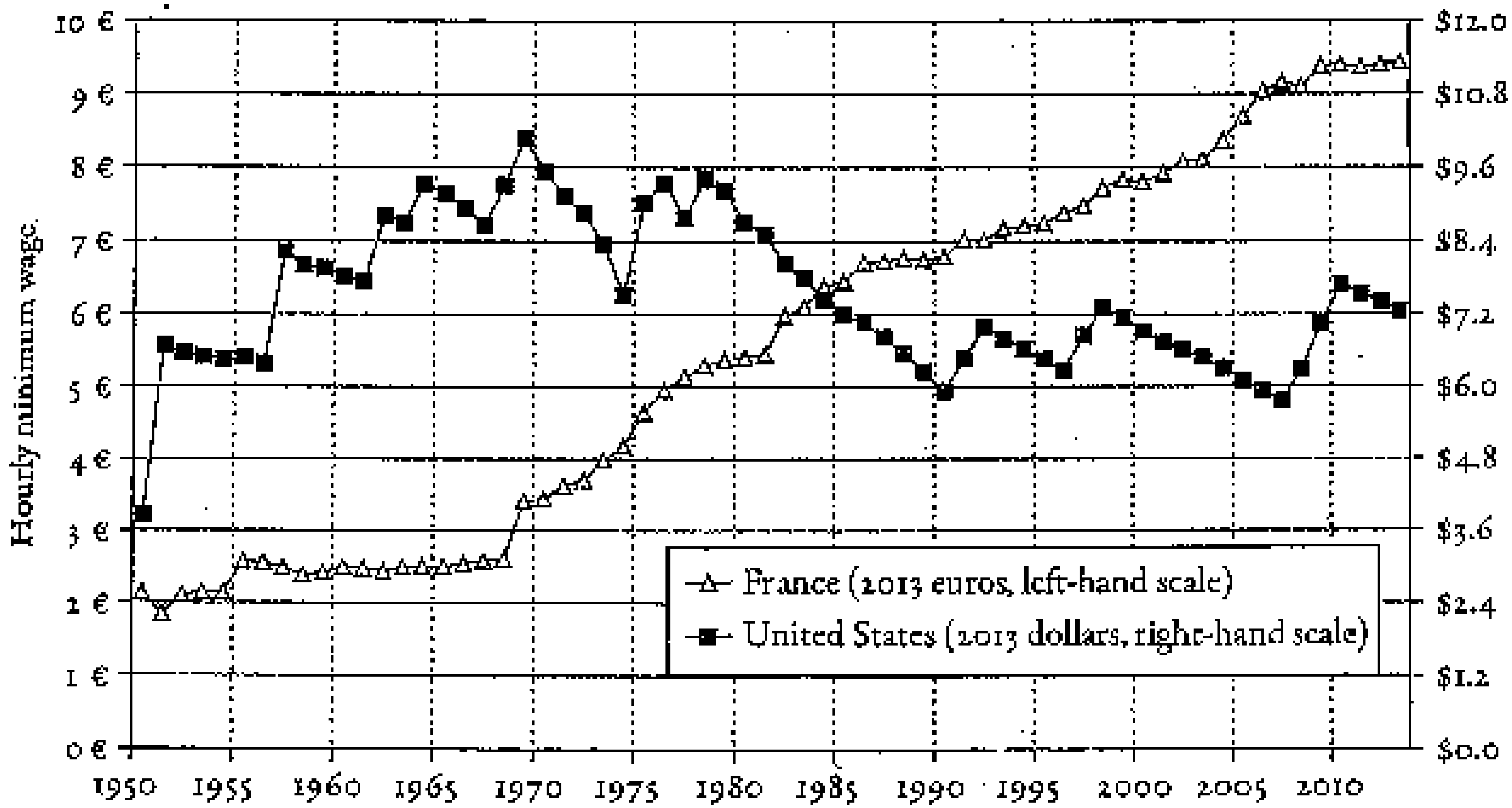

FIGURE 9.1. Minimum wage in France and the United States, 1950–2013

Expressed in 2013 purchasing power, the hourly minimum wage rose from $3.80 to $7.30 between 1950 and 2013 in the United States, and from €2.10 to €9.40 in France. Sources and series: see piketty.pse.ens.fr/capital21c.

INEQUALITY OF LABOR INCOME

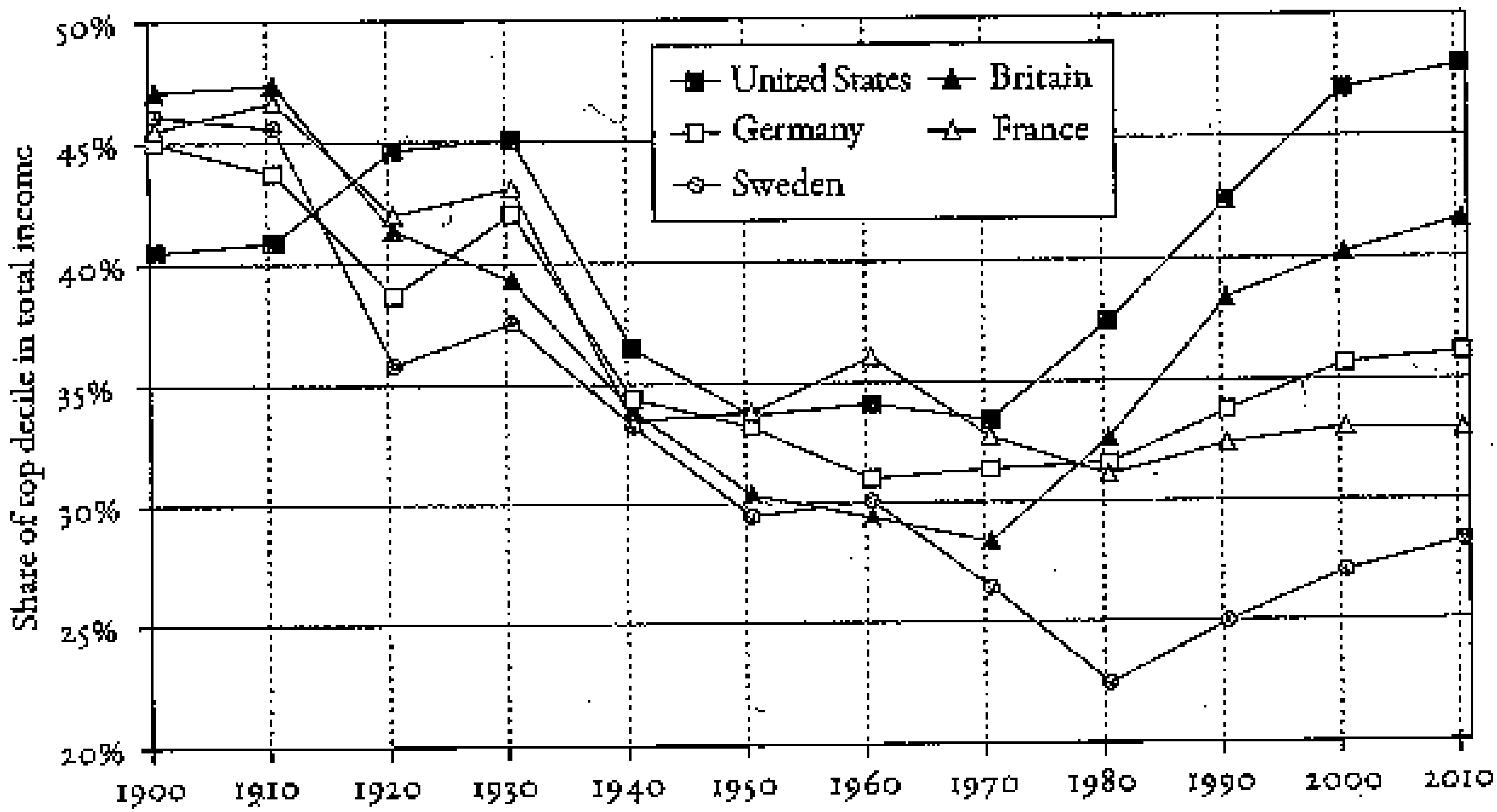

FIGURE 9.7. The top decile income share in Europe and the United States, 1900–2010

In the 1950s–1970s, the top decile income share was about 30–35 percent of total income in Europe as in the United States.

Sources and series: see piketty.pse.ens.fr/capital21c.

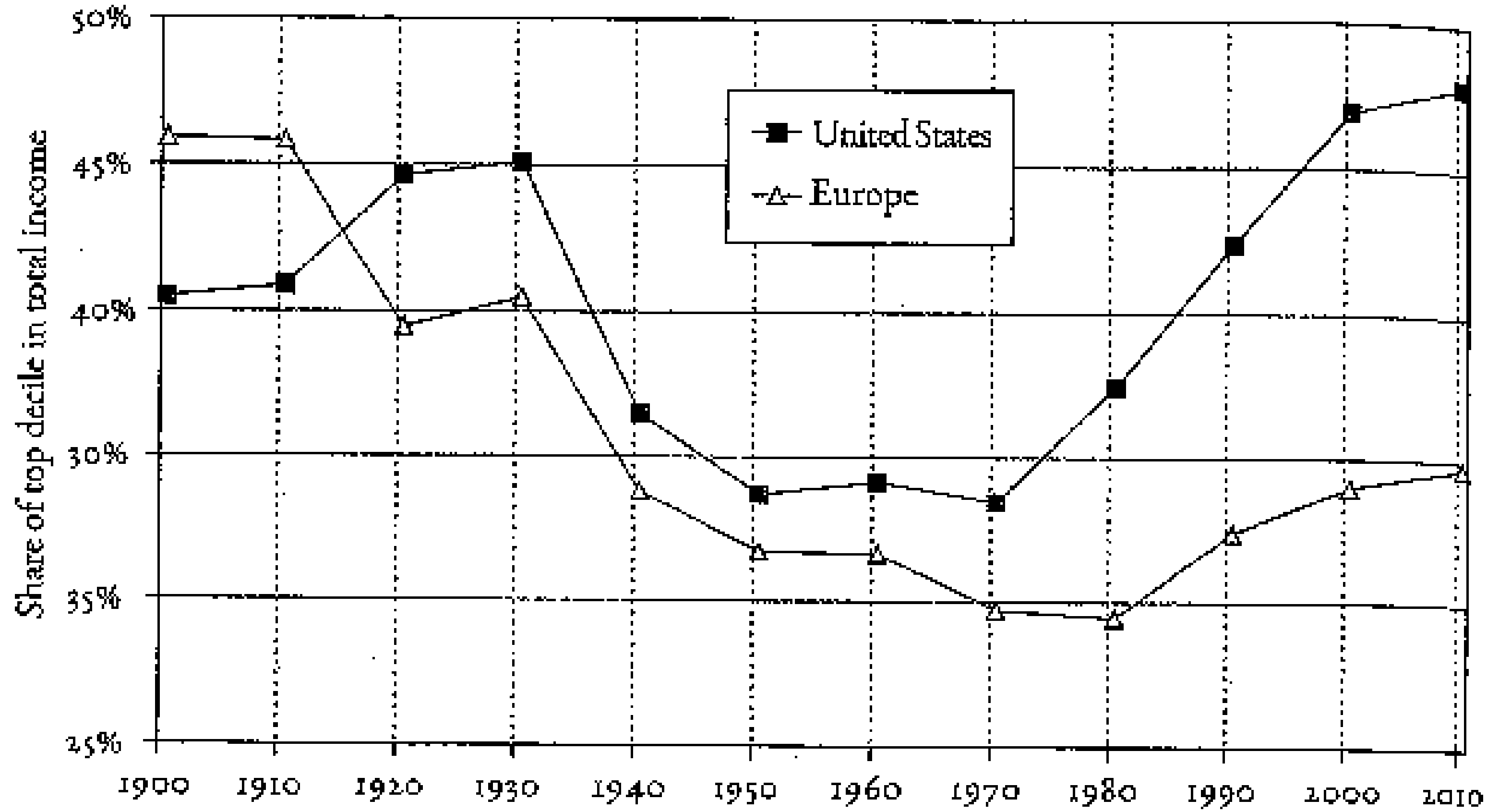

FIGURE 9.8. Income inequality in Europe versus the United States, 1900–2010

The top decile income share was higher in Europe than in the United States in 1900–1910; it is a lot higher in the United States in 2000–2010.

Sources and series: see piketty.pse.ens.fr/capital21c.

p. 324

Focus on companies in the United States

Across all companies [based on the S&P 500], the average CEO pay was $13.8 million per year [in 2014], the average median worker pay was about $77,800 and the average ratio of CEO pay to median worker pay was 204. In other words, on average, CEOs earn around 204 times what his or her median worker earns.

Examples (in Enderle 2018):

D. Zaslav, 2014 CEO of Discovery Comm.: $156 million. (Median $80,000; ratio 1,951)
G. Wasson, 2014 CEO of Walgreen: $16.7 million. (Median $28,700; ratio 582)
W.C. Jelinek, 2014 CEO of Costco Wholesale: $5.6 million. (Median $30,555; ratio 184)
Many CEOs of small- and medium-sixed companies earn less than $1 million.

A single mother working at Walmart earned $9 an hour (2016) and was reliant on the US government to pay her $294 a month in food stamps (which were spent at Walmart). In the same year Doug McMillon, CEO of Walmart was paid $22.4 million.

Focus on households below survival budget

A concrete example of financial hardship in St. Joseph County, Indiana, taken from the ALICE Report (2018) of the United Way. Alice stands for **A**sset **L**imited, **I**ncome **C**onstrained, **E**mployed and is a way of defining and understanding the men and women who work hard, earn above the federal poverty level, bot not enough to afford a basic household budget of housing, child care, food, transportation, and health care.

In 2016 the survival household budget in St. Joseph County, Indiana (population: 269,141) was $19,716 for a single adult and $54,564 for a family (on infant and one pre-kindergarten child) -
compared to the US poverty rates of $12,140 and $25,100, respectively.

St. Joseph County had 97,071 households:
16 percent were under the poverty rate plus 27 percent under the survival budget. Only 57 percent of all households had a survival budget and more.

(1) Responsibility of U.S companies to reduce extreme income inequality in their organizations

Income defined:
Income or earning in monetary and nonmonetary terms = what employees receive from their employers; = having a job and an entitlement (potential control over resources and the power it can convey) – distinct from in-kind payments received from outside the employing organization (e.g., food stamps), intangible values provided by the organization.

Income distribution defined:
It includes the whole range of income paid by the company to its employees – from the lowest to the highest, in absolute and relative terms, at a certain point in time (cross-sectional) and over a period of time (longitudinal).
Therefore, income poverty and income mobility are by definition included in income distribution (against Agarwal & Holmes 2019).

Inequality defined as a relationship:

- Relating to the whole income distribution – measurable, e.g., with Gini coefficient
- Relating the top 1 percent to the remaining 99 percent (Stiglitz)
- Relating the 20 percent to the bottom 20 percent (Wilkenson & Pikett)
- Relating the “floor” (living wage) to the “ceiling” (ethically acceptable top income) (Enderle)

Corporate responsibility for paying at least living wages based on strong ethical and economic arguments

Presupposition: Business organizations and their leaders in the free enterprise system have some space of freedom and power to decide on the low wages of their employees. "With great freedom/power comes great responsibility."

Ethical arguments:

(1) Human right in the Universal Declaration of Human Rights (1948): "Everyone who works has the right to just and favorable remuneration ensuring for himself and his family an existence worthy of human dignity, and supplemented, if necessary, by other means of social protection." (Art. 23.3)
Note: The distinction between negative and positive rights (Agarwal & Holmes 2019) is flawed. The distinction applies to the duties vis-à-vis right holders; it does not apply to basic rights, such as security rights and subsistence rights, which are essential to the enjoyment of all other rights (Shue 1980/1996).

(2) Direct impact criterion of the UN Guiding Principles on Business and Human Rights (2011). Because the company with its pay policy has a direct impact on each employee, it ought to re-spond to this right = "corporate responsibility."

Economic arguments in micro- and macro-economic terms, based on the history of economic thought (Stabile 2008):

(1) Sustainability argument: the labor force should not be depleted; rather, it should be renewed and strengthened. Parasitic trades and businesses which do not pay living wages take more from nature, people and society than they give back.
(2) Capability argument: Employees are taken seriously not merely as productive forces but as human beings. Positive correlation between wages and productivity (Akerlof and Yellen 1988).
(3) Externality argument: Not paying living wages causes net negative externalities.

Counter-arguments:
(1) Raising the very low wages to the level of living wages is too expensive for companies.
(2) Required living wages would actually destroy jobs.

Consider:
(1) Most companies do have sufficient space of freedom to raise very low wages.
(2) The expenses are normally not enormous compared to the corporate balance sheet.
(3) If the pay rise is a heavy burden, it can be staggered.
(4) Redistribution of wages from top salaries is possible.
(5) Companies can develop the capacity to honor this right: with moral imagination, entrepreneurial spirit, innovation to improve the quality of jobs and education of employees.

Corporate responsibility for ethically acceptable top incomes

In order to address income inequality within the organization, it does not suffice to determine the "floor" of the living wage. It is also necessary to identify and justify the ethically acceptable "ceiling" of top incomes.

Arguments for a drastic reduction of executive compensation:

(1) Executives do have a relatively large space of freedom in their decision making.

(2) They can use it and are ethically responsible for their actions.

(3) The economic arguments for the status quo are hardly convincing while the ethical considerations strongly support such reduction.

(4) The gains from these cuts can be used for internal redistribution, research on innovation, educational programs for employees, and other productivity and motivation enhancing policies.

(5) Far from being harmful to the organization, these and other measures are quite effective in enhancing the productivity of the organization.

Question: How much should this drastic reduction be in absolute and relative terms?

Recommendations to move towards practical solutions:

(1) Establishing and strengthening transparency of top incomes in business organizations (Dodd-Frank-Act).

(2) Giving a say to the shareowners with regard to executive pay (Swiss constitution).

(3) Establishing voluntary pay codes in companies (John Lewis, Costco).

(4) Adopting a pay limit in the public sector.

(5) Promoting a “national conversation” about the distribution of income, the distribution of the gains from a growing economy, and the extent to which those in the middle and below are being left behind (Atkinson 2015).

Responsibility of U.S companies to reduce extreme income inequality in their organizations

Conclusion:

(1) Raising the lowest incomes to minimum wages and living wages

(2) Decreasing the top incomes to the lower level that is ethically acceptable

(2) Responsibility of U.S. companies to contribute to reducing extreme income inequality in society

Conceptual remark: Income is a key indicator of the economic situation of a person and a family and has far-reaching socio-economic implications. But other indicators are also important: wealth, well-being, and public goods.

Setting an example and supporting initiatives to reduce income inequality:

(1) Paying at least living wages and establishing ethically acceptable top incomes within the own organization.

(2) Living wages have to be determined in a social scientific manner according to the relevant circumstances and in political negotiations with all stakeholders.

(3) Ethically acceptable top incomes are more difficult to be determined, which needs "a national conversation" (Atkinson 2015, 153f.) and strong legislation as a level playing field (tax policy, etc.).

Concluding Research Question

What have been, are and should be main managerial strategies to implement at least “living wages” for “essential workers” in different industries (food manufacturing, hospitals, nursing homes, transportation) before, during and after the COVID pandemic?

Thank you.

References

Agarwal, R. & Holmes, R.M. 2019. Let's not focus on income inequality. *Academy of Management Review*, 44: 450-460.

Akerlof, G.A., & Yellen, J.L. 1988. Fairness and unemployment. *American Economic Review,* 78: 44-49.

ALICE Report. 2018. Indiana. www.iuw.org/alice, accessed on October 25, 2019.

Amis, J., Mair, J., & Munir, K. 2020. The organizational reproduction of inequality. *Academy of Management Annals*, 14(1): 195-230.

Atkinson, A.B. 2015. *Inequality. What Can Be Done?* Cambridge, MA: Harvard University Press.

Enderle, G. 2018. Corporate responsibility for less income inequality. *Review of Social Economy*, 76(4): 399-421.

Enderle, G. 2021. *Corporate Responsibility for Wealth Creation and Human Rights. Cambridge*, UK: Cambridge University Press (especially 67-75 and 217-233).

Piketty, T. 2014. *Capital in the Twenty-First Century*. Cambridge, MA: Harvard University Press.

Shue, H. 1996. *Basic Rights: Subsistence, Affluence, and U.S. Foreign Policy.* Second edition. Princeton, NJ: Princeton University Press. First edition 1980.

Stabile, D.R. 2008. *The Living Wage. Lessons from the History of Economic Thought*. Cheltenham, UK: Edward Elgar.

Tsui, A.S., Enderle, G., & Jiang, K. 2018. Income inequality in the United States: Reflections on the role of corporations. *Academy of Management Review*, 43(1): 156-168.

Tsui, A.S., Enderle, G., & Jiang, K. 2019. On addressing the puzzle of extreme income inequality: A response to Agarwal and Holmes. *Academy of Management Review*, 44(2): 460-464.