Financial Innovation and Inequality: 
*Studying the Top to Mobilize the Bottom*

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US Productivity-Wage Gap: 1948-2013

Source: Economic Policy Institute
CEO-worker pay ratio: 1965-2013

CEOs now make 296 times what a typical worker earns
CEO-to-worker compensation ratio, 1965–2013

Note: CEO annual compensation is computed using the “options realized” compensation series for CEOs at the top 350 U.S. firms ranked by sales. Typical worker compensation is average compensation of production/nonsupervisory workers in the key industries of the firms included in the sample.

Reproduced from Figure C in CEO Pay Continues to Rise as Typical Workers Are Paid Less

Source: Economic Policy Institute
Stock Repurchases & Cash Dividends

- **Stock repurchases**
  - Averaged 51% of net corporate income (2004-2013)

- **Dividends**
  - Averaged 35% of net corporate income (2004-2013)

- **Repurchases + Dividends = 84% of retained earnings**

- **Effects**
  - Important contributor to increased inequality
  - Less investment in innovation – skills, technology, R&D
  - Less ability to pay decent wages in the future

Source: Based on 454 of the top Fortune 500 companies. Lazonick 2014
Growth of Corporate Debt

- Debt to capital ratio in US corporations
  - Historic corporate ratio: 30% debt / 70% equity
  - Ratio in 2000s: 40-45% debt / 55-60% equity
  - Ratio in private equity owned companies: 70% debt / 30% equity

- Why?
  - Interest rate at historic lows
  - Debt multiplies returns
  - Interest on debt is deducted from taxes (vs. profits are taxable)
Buying and Selling Assets

- Sale of property assets
  - Private equity model
  - Darden’s
  - Hedge Funds in Europe

- Sale of less profitable divisions – Mergers & Acquisitions

- Shifting production to suppliers (core competency model)
  - Fragmentation of employment relationship

- Financial activities as % of overall portfolio
  - 20% in 1980; 40% in 2000 (Krippner 2012)
Tax Arbitrage and Subsidies

- Corporate contribution to US tax income:
  - 32% in 1950s; 10% in 2013

- Debt used for capital investment & to finance foreign operations (Interest deduction on taxes)

- Offshore subsidiary tax havens ($90 billion in lost taxes annually)

- Accumulated earnings held offshore (worth $1.9 trillion, 2013)

- Corporate inversions (US companies renounce citizenship)

  “Taxpayer financed capitalism”: Relative burden shifted to public
Implications for Labor Research

Source: Economic Policy Institute