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OXFORD CAMBRIDGE AND RSA EXAMINATIONS

Thursday 18 May 2023 – Morning

A Level Economics

H460/01 Microeconomics

Stimulus Material

Time allowed: 2 hours
plus your additional time allowance

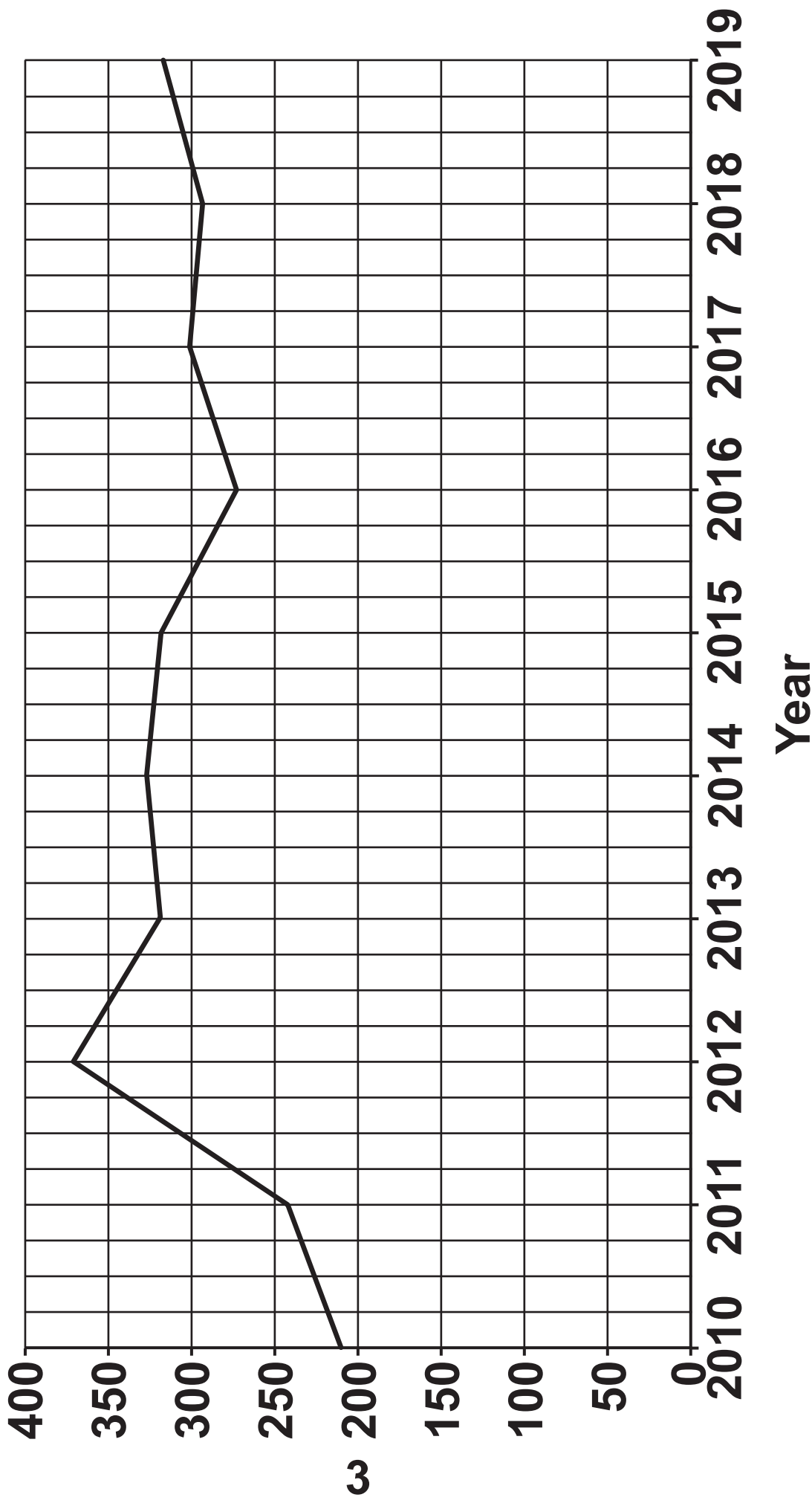


Wage differentials in the USA

Research shows the ratio of Chief Executive pay ('remuneration') to employee remuneration in the USA has increased significantly since 2010 (see FIG. 1 opposite). In 2019, Chief Executives at the largest 350 firms in the USA earned 320 times more than a typical employee.

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FIG. 1
Chief Executive-to-employee remuneration ratio (USA),
2010–2019

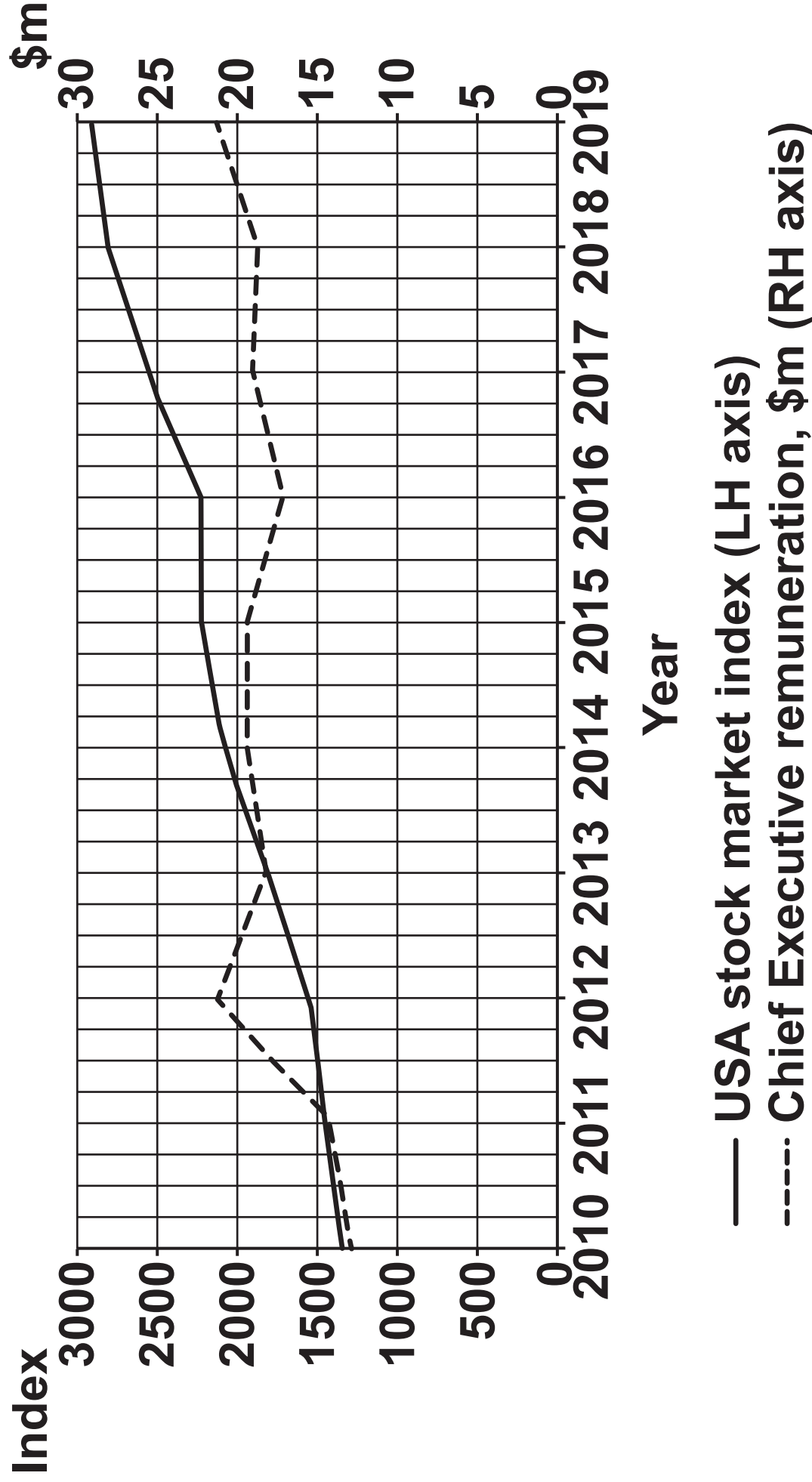


Source: Economic Policy Institute

Chief Executives earned an average of \$21 million in 2019, a 14% increase since 2018. In that year, the US stock market price index, which shows changes in the share prices of US companies also rose (see FIG. 2 opposite).	10
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FIG. 2

Chief Executive remuneration and stock market performance (USA), 2010–2019



Source: Economic Policy Institute

This growth in Chief Executive remuneration has happened while wage growth for most Americans has remained relatively low. To distract attention from their remuneration, some Chief Executives have taken a voluntary cut in salary. However, this approach is criticised as much of their remuneration comes from share options (the right to buy shares at set prices) and bonuses. Other policies that may help reduce the remuneration gap between Chief Executive and employee have been suggested, including:

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reinstating a higher marginal income tax rate at the very top income levels; setting corporation tax rates higher for firms that have higher ratios of Chief Executive-to-employee remuneration; allowing greater use of ‘say on pay’ which allows a firm’s shareholders to vote on Chief Executive remuneration.

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Society is increasingly recognising who are the essential workers. They harvest our food, stock our grocery

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shelves and deliver goods all over the country. They look after our children and care for us when we are ill. They are also amongst the lowest-paid workers in the country. Why is this? And, in contrast, why are relatively non-essential jobs, in such areas as entertainment and sport, so well paid?

The answer to these questions is not clear. The traditional economics answer would be to consider the concepts of demand and supply. Many of the essential occupations are easy to enter. For example, a cleaner might not require specialist knowledge or training.

A different answer could be 'scalability'. A cleaner, however skilled at their job, can only clean one building at a time. However, an entertainer can provide value to millions of people at the same time, thanks to television or the Internet. In many jobs, such as those in entertainment or sport, it is difficult to measure marginal physical productivity and so pay is set in a

seemingly random way, often based on power.

This ‘power differential’ is a new area of research to explain wage differentials. This suggests that skill levels are not good predictors of wage levels, as there are big differences in wage between workers who do the same job.

In the USA, business leaders and politicians have worked together to weaken trade unions, oppose minimum wage legislation and remove labour market restrictions. Marshall Steinbaum, an economist at the University of Utah, suggests that the decline in workers’ rights and bargaining power of trade unions alongside the greater power of employers is the main reasons for growing wage differentials. He says that “[The power] American bosses have to dictate take-it-or-leave-it terms to workers is the core reason our ‘essential’ workforce are underpaid.”

Source: Adapted from The Washington Post (6/4/20) & Pressenza (19/8/20)

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