

Economists's Social Responsibility

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From 1978 to 2011, CEO compensation at American companies grew by more than 725 per cent, far greater than stock market growth. Over the same period, worker compensation climbed up slightly by 5.7 per cent. The CEO-to-worker compensation ratio was 20.1-to-1 in 1965, but sits at 231.0-to-1 in 2011[1]. The contrast was not as stark but the trend was nevertheless similar in other major economies around the world [2].

The arguments, for rewarding top executives with ever-increasing share of our society's total pie, are such rewards increase efficiency and create shareholder value. The financial and economic difficulties the world has been trying to get out of since 2008 seem to suggest the opposite: extreme rewards promote extreme recklessness and irresponsibility.

At a more fundamental level, the divergence in income between top- and bottom-earners is an unstable equilibrium solution in an optimization problem with finite resources. Extreme inequality breeds political instability. It also leads to unhealthy status competition and

consumption beyond needs, wasting the limited resources all living beings on this planet co-own [3].

We economists are, to a large extent, to be blamed for this malignant development in the corporate world. Over the last few decades, we have been spreading among our pupils the doctrine: we are all selfish beings whose sole aim in life is maximizing private consumption.

Have we proudly intelligent beings of Planet Earth no morality, sympathy, empathy, and capable of sparing no thoughts for anyone but ourselves?

Corporations have social responsibilities; so do academics.

References

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