What happened to all that anger over CEO pay?

The Christian Science Monitor
By David R. Francis
July 12, 2010

With last month's sweeping financial reform bill, Congress has finally moved to tame runaway executive pay. Sort of.

It says shareholders must vote on a CEO's pay package, though the vote is nonbinding. Has Congress thereby put an end to sky-high salaries in the executive suite?

"Totally ridiculous," says Sam Pizzigati, an editor of a newsletter on income inequality put out by the liberal Institute for Policy Studies. Shareholder votes only rarely alter corporate decisions.

Given the political anger last year over the pay and bonuses of corporate officials, especially those on Wall Street and at American International Group, such tepid reform is surprising. President Obama expressed outrage in March 2009. His administration capped executive pay at firms receiving bailout money.

That move and the recession had a small impact. In 2008, the CEOs of major US firms were paid more than 300 times the wage of the average American worker. Last year, they were paid just under 300 times average pay, according to new research by Mr. Pizzigati. Now that most of those firms have paid back the government, they're setting their own compensation levels again.

Those levels would astonish the bosses of top corporations in the late 1960s. Those CEOs got about 30 times the average wage of US workers.

Are today's bosses 10 times more capable? Is there a shortage of able managers? Nope and nope, says Pizzigati. "There is more management talent today than ever before."

CEO pay inflation certainly enriches a few. It also has meaningfully shifted corporate earnings away from employees and shareholders, according to Harvard Prof. Lucian Bebchuk.

It also damages employee morale, says Ralph Nader, the famed consumer advocate, in an interview. Wal-Mart's CEO gets $10,000 an hour, he notes, while 1 million of his employees are paid between $7.25 and $10.50 an hour.

CEO pay has soared so high in part, Pizzigati suspects, because of the decline of trade union power and the less progressive federal tax system. In the 1960s, a salary above $400,000 was taxed at a 91 percent rate compared with 35 percent now. Corporate boards figured high pay was mostly wasted on Uncle Sam.

It doesn't help, Mr. Nader says, that corporate boards act as "rubber stamps" on CEO pay. There's evidence of that. The so-called "independent" directors, the ones named to compensation committees, are often personal friends of the chief executive, according to a recent academic study.

Also, executive compensation consultants tend to propose that CEO pay be set above the average CEO compensation at comparable companies – a system that automatically ratchets up compensation. Some S&P 500 companies with high executive pay further skew the picture by inappropriately benchmarking pay against that of firms larger than themselves, says a study noted by the Investor Responsibility Research Center Institute.

What more can be done to rein in pay?

A bill before Congress that Pizzigati likes would require companies to limit executive pay to 100 times the compensation of its lowest paid workers in order to bid on federal contracts. But the measure also includes Made in the USA, pension policy, union, and other provisions that make its prospects for passage dim.

Making shareholder votes on CEO pay binding might also help, says Nader.

But Congress would have to take a real stand.