

Opposing view: Well-paid CEOs Enrich U.S.

With 5% of worlds population, USA home to half of largest companies.

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Politicians are in a tizzy over how much corporate leaders make about \$8 million this year for CEOs of S&P 500 companies, according to the *Financial Times*. Rep. Barney Frank, D-Mass., has even introduced a bill titled "The Protection Against Executive Compensation Abuse Act."

Yes, CEO pay -- including the record bonuses paid this year to heads of Wall Street firms such as Morgan Stanley and Goldman Sachs -- is attention-grabbing and has increased sixfold over the past 25 years.

But, as economists Xavier Gabaix of MIT and Augustin Landier of NYU concluded in a study in July, that increase "[can be fully attributed to the sixfold increase in market capitalization of large U.S. companies during that period.](#)" CEOs get paid more because they run bigger, more valuable companies.

Critics, notably [Lucian Bebchuk of Harvard](#), argue that corporate boards are held captive by CEOs, who essentially dictate their own pay. Actually, though, rising pay has coincided with a trend toward more powerful and independent boards.

Kevin J. Murphy and Jan Zabochnik of the University of Southern California offer a more sensible explanation: Our new global high-tech economy, companies are less likely to promote insiders who may be chummy with the board and instead pick CEOs outside not just the firm but even the sector -- take Alan Mulally, who came to Ford from Boeing.

These talented generalists are scarce and can have a huge effect on profits. Sure, they command high pay. Too high? The Yankees' Alex Rodriguez earned \$29 million from June 2005 to this summer. Jeff Immelt of General Electric makes less than Dr. Phil does. If a good CEO can boost profits by \$200 million, he's easily worth \$10 million, or more.

Certainly, some CEOs, like some ballplayers, make more than they deserve. Angry shareholders have a remedy -- dump the stock. The bigger problem, as we show in *The American*, the magazine I edit, is that publicly traded companies -- because of pressure from politicians, the media and unions -- could be underpaying CEOs. The best and brightest managers are migrating to private-equity firms, hedge funds and privately owned businesses out of the spotlight.

With 5% of the world's population, the USA is home to half the world's largest companies. Our system of compensating CEOs has served the nation well. Let's not let politicians mangle it.