Excessive CEO Compensation Hurting US Companies and Society

by Francesca Rheannon

SocialFunds.com -- Last year, the average American worker had to toil for an entire year to make what the majority of Fortune 500 CEOs made in one day. Moreover, the gap between what the lowest and the highest paid employees is widening.

This pay disparity is threatening the foundations of American democracy, endangering leadership development, and creating the conditions for economic and social instability, according to Executive Excess 2007, the fourteenth annual survey of executive compensation from the Institute for Policy Studies, a liberal think tank, and United for a Fair Economy, a non-partisan organization focused on income/wealth distribution issues.

The figures stand in stark contrast: the CEO of a large company pulls down an average $10.8 million per year in salary and bonuses. That doesn't count the value of perks and some stock options, whose value can run to many millions more. But the average worker makes only $29,544 —only about 160% of the poverty level for a family of four.

The report sounds the alarm that not only is executive pay going through the roof, but it is also linked to the decline in the fortunes of workers. Far from the rising tide of executive pay lifting all boats, wage costs are being pushed down to foot the bill for CEO compensation and perks.
Despite an increase this year to $5.85 per hour, the real value of the minimum wage has declined 7% over the past decade and real wages have risen only a little over the same period. During this time, executive pay has soared by 450%.

High CEO pay is often defended as the just reward for outstanding performance, but the report shows that this correlation is a myth. One example much in the news recently is Angelo Mozilo of Countrywide Financial, "the sixth highest paid CEO in 2006...with $42.9 million. In July 2007, the company's sub-prime mortgage woes drove its foreclosure rates to the highest level in more than five years and contributed to a global liquidity crisis."

Another common argument in favor of outsized compensation is that it is necessary to attract good executive talent. But Executive Excess 2007 makes the case that it actually erodes good leadership by giving the highest rewards to those who ignore long-term stability in favor of short-term market gains.
Employee relations may also suffer, leading to negative impacts on company performance. Co-author Anderson says, "such extreme gaps between what CEO's make and what workers make can contribute to problems with worker morale, and that can translate into problems with productivity."

The report charges democracy is threatened by huge disparities between CEO compensation and salaries in the government sector. For example, our highest paid government employee—the President of the United States—makes $400,000 a year, while the average compensation for public corporate CEO's is $10.8 million. Furthermore, the latter figure is only likely to rise, pressured upward by the even more stratospheric pay of private equity and hedge fund managers. The disparities "siphon off talent from public service and create a nonstop revolving door between government and the business world that breeds conflict of interest and corruption and distorts our democracy."