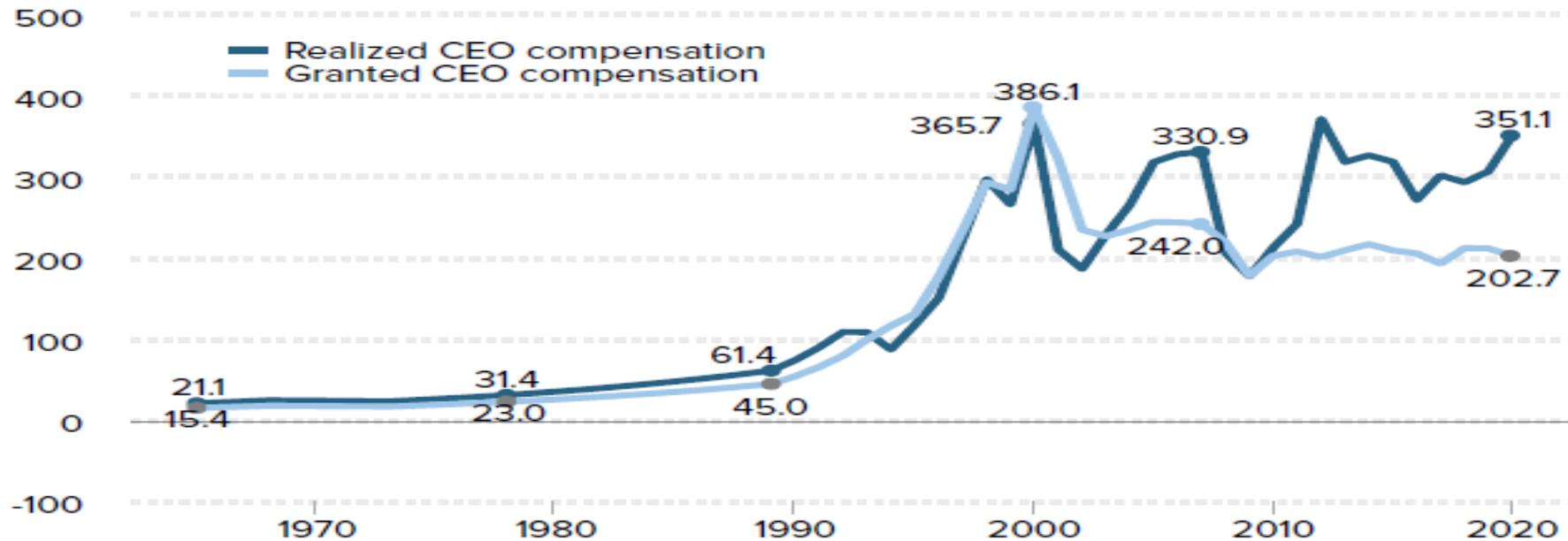


Notes on Executive Pay in the U.S.

CEOs make 351 times as much as typical workers

CEO-to-worker compensation ratio, 1965–2020



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Overview

CEO pay not just a symbolic issue. Real money and real contributor to rising inequality. Most of the divergence between economy-wide productivity and typical workers' pay due to rising inequality *of pay*, not a generalized shift of labor compensation to profits.

Rising CEO pay not linked to better returns or firm performance

Lots of popular proposals aim to laser target excessive CEO pay with narrow tax incentives (penalties/bonuses) – **these really need supplemented with stronger corporate governance reforms**

Not just symbolic

Change in wage groups' shares of total wages, 1979–2019

Wage group	Share of wages					Change in share (ppt.)					
						Long-term		Over 2007–2019 business cycle			
	1979	2007	2009	2018	2019	1979–2007	1979–2019	2007–2009	2009–2019	2018–2019	2007–2019
Bottom 90%	69.8%	61.1%	62.3%	61.0%	60.9%	-8.8	-8.9	1.3	-1.4	-0.1	-0.2
90th–99th	22.8%	24.9%	25.5%	25.7%	25.9%	2.0	3.1	0.6	0.4	0.3	1.1
90th–95th	10.8%	10.8%	11.2%	11.1%	11.3%	0.1	0.5	0.4	0.1	0.2	0.5
95th–99th	12.1%	14.1%	14.3%	14.6%	14.6%	2.0	2.6	0.2	0.4	0.0	0.6
Upper 5%	19.4%	28.1%	26.5%	27.9%	27.8%	8.7	8.4	-1.7	1.5	-0.1	-0.3
Upper 1%	7.3%	14.1%	12.2%	13.3%	13.2%	6.7	5.9	-1.9	1.0	-0.1	-0.9
99.0th– 99.9th	5.7%	8.4%	7.9%	8.2%	8.2%	2.7	2.5	-0.5	0.4	-0.1	-0.2
99.9th–100th	1.6%	5.7%	4.3%	5.1%	5.0%	4.0	3.4	-1.4	0.7	0.0	-0.6

Source: EPI analysis of Kopczuk, Saez and Song (2007) and Social Security Administration wage statistics.

Not just symbolic

7% of aggregate wage/salary income ~ \$650 billion

Between early 1990s and early 2000s, top 5 executive compensation rose from 5% to 10% of corporate profits (Bebchuk and Fried 2003)

5% of corporate profits in 2019 ~ \$120 billion

120/650 ~ 18% of redistribution to top 1% earners

Key role of spillovers too

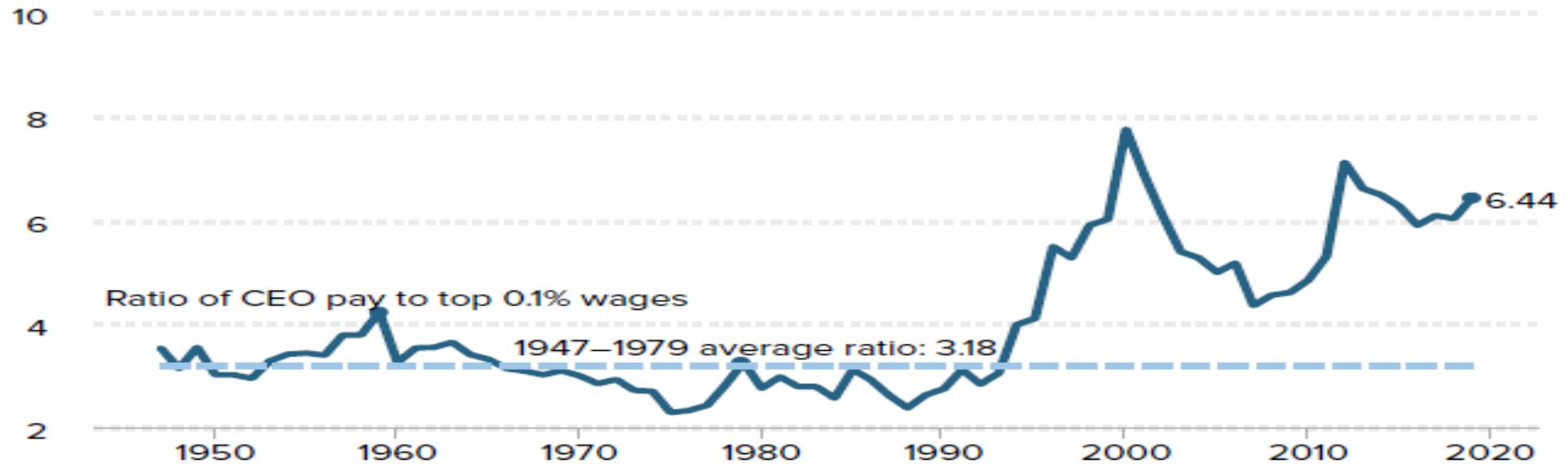
- In 2019, 19 university presidents or chancellors made > \$1,000,000

([Bauman and Elias](#))

Not just performance

CEO compensation relative to top 0.1% earners is much higher than it was in the 1947–1979 period

Ratio of CEO compensation to top 0.1% wages, 1947–2019



Note: Wages of top 0.1% of wage earners reflect W-2 annual earnings, which includes the value of exercised stock options and vested stock awards.

Source: Authors' analysis of EPI State of Working America Data Library data on top 0.1% wages in Mishel and Kandra 2020 and data on CEO compensation from an extrapolation of Kaplan's (2012b) CEO compensation series.

Not just performance

Shue and Townsend (2016) showed that most boards continued to issue the same number or a greater number of options to CEOs, even as the value of these options hugely increased, apparently because they did not want to seem to be cutting the pay of their CEOs. Certainly directors cannot effectively rein in CEO pay if they do not even know how much they are paying them.

Quigley, Crossland, and Campbell (2017) looked at the impact of unexpected CEO deaths—such as in an airplane or car crash—on stock prices. In almost half of the cases examined since 1990 (44.3 percent), the price of the company's stock rose following the death of the CEO.

Marshall and Lee (2016) looked at long-term (10-year) returns to shareholders relative to total CEO pay at 429 large corporations over the years 2006–2015. The study found a significant negative relationship, with high CEO compensation associated with worse returns to shareholders. The analysis divided CEO pay by quintiles and found that the total return to shareholders of companies with pay in the bottom quintile was *more than 60 percent higher* than the total return to shareholders of companies with CEO pay in the top quintile.

Power, not just incentives, needs shifted

ACA reduced deductibility of health insurance company executives' performance-based by

TCJA eliminated deductibility for performance-based pay.

Neither changed the trajectory of pay much (see [Scheider and Baker 2018](#) for a look at the ACA provisions)

Poor measurement of pay ratios (SEC reg) and the broader problem of labor market “fissuring” makes tax incentives alone a very unbalanced tool that needs complemented with corporate governance reforms