Real Money

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Corporate America's Achilles Heel

How much money should corporate executives earn? Do they deserve millions per year? Is there a way for the public and investors to force changes in corporate executive compensation? Pearl Myer and Partners, a consulting firm, said that the average head of a U.S. publicly traded company made 4.3 million dollars in 1995, counting all aspects of compensation. In 1996, the average CEO of all U.S. companies made 5.8 million dollars at a time when the average employees of these companies were barely staying even with inflation. Corporate CEO's in the U.S. earn approximately 209 times the pay of an average employee. This stands in stark contrast with Japanese CEO's, who make nine times as much as a typical worker in their companies. Executive pay in America has gone up faster than in any other country.

This week is important for investors as the effect of several years of falling confidence in corporate America comes to a head. The enactment of a new business law on August 14, 2002, includes increased and severe penalties for any violations of truthfulness in financial reporting. This will pose a test for the markets. As most companies step forward to verify that they are being honest and forthright, there are still undisclosed issues lurking behind the scene that investors know need to be addressed in order for the public to regain confidence in the markets.

The excessive enthusiasm for the stock markets in the 1990's has given way to similar amounts of suspicion and mistrust. People in our country support the market system because most believe that if they work hard and play by the rules, they should be able to improve their lot in life. The current problem vexing most individuals is that real opportunities seem to have been channeled towards a very few people for quite some time now. There is a growing feeling that the markets are unfair and that investing prudently no longer ensures a secure retirement.

Part of this unease is based on the astronomical compensation levels for top executives of America's giant corporations. At the same time, as the "heroes" of commerce evoke envy due to their privileged lifestyle, much of the rest of the working world is barely keeping pace with their expenses, and is seeing their standard of living fall slowly. In the recent past, mostly individuals at the top of the corporate ladder and a small cadre of doctors, lawyers, and salespeople have prospered while the rest of America has struggled to put kids through college and to afford real vacations. As investors in companies whose stock prices fall steeply and quickly, many individuals have lost money in what had previously been seen as safe investments.

The inequality between total compensation for top executives and the pay for average workers is a problem mainly in the U.S.A. Since the majority of Americans have not shared in increased real incomes or long-term gains in the market some kind of action is needed.

The tax rates on personal income for the very rich are lower in our country than in every other industrialized nation. Executives in the U.S. have also found ways to shield much of their income from taxes thanks to many astute Ivy League business school graduates. One of the ways that executives avoid paying income tax is through stock options, which I hope will soon be taxed with they are issued. Also, corporate executives have other forms of deferred compensation courtesy of the ingenuity of insurance industry lobbyists.

The money earned by our country's top management is a sign that we have moved, in the last 20 years, toward a visible concentration of wealth equaled only by the oligarchy of families in power in Latin America. Statistics show that most of the increase in personal income of Americans between 1983 and 1999 went to the top five percent of wage earners.

How did the rest of Americans fare? Since the mid-1970's, the purchasing power of workers in the United States has fallen. The falling of real wages now includes middle management, salespeople, and workers in most service industries. This is one reason why so many Americans are now in debt, and why personal bankruptcies have risen by 30 percent. Gary Burtless, an economist at the Burkings Institute in Washington, says that for 60 percent of American families, the current combined incomes of two wage earners buys less now than what one person's wages could purchase 20 years ago.

Executives own much of the stocks and bonds in this country, so one could say that the super wealthy have been hurt the most by the recent declines in the markets. The consequence of the market downturn effects on middle-income wage earners, who depend on their profit sharing or 401K plans to ensure a secure retirement, has been more pronounced than any change to the standard of living of those at the top of the economic ladder.

Statistics show that the United States is by far the most unequal nation in terms of income in the industrialized countries. The dangers of these glaring inequalities of wealth and income distribution are starting to surface. Politicians hope the enactment of the new full disclosure laws will allay fears on the part of investors, bringing individuals back into the stock market. The next step is to create a way for the public to see an accounting of executive compensation and to establish a cap on the compensation of top executives at a reasonable multiple to what line workers in the same firm earn.

While Japan's policy of top management getting only nine times the pay of average employee wages may not be high enough, I believe that something in the order of 12 times is more than enough to motivate well-meaning individuals to put in the time needed to run companies competently and fairly. This kind of a change would supply huge amounts of capital to companies that they could use to invest in the long-term future of the firm and to improve the actual wages of their workers. An increase in the minimum wage to a living wage would be another good step towards the desired end of a more equitable pay scale for corporate employees.

The inequality that we see these days in our country is not a natural or foregone conclusion. History has shown us that when people in power, such as today's corporate executives, ignore the problems of widespread inequality and dissatisfaction the consequences can be unexpected. Many observers of our markets feel that the U.S. and European elite may soon be facing some unexpected challenges to their continued existence. The efforts on the part of Congress and the S.E.C. to enact full corporate disclosure laws are a first step towards bringing large, global companies back into the social contract that we are supposed to have as a democracy. Curtailing excessive executive compensation, installing taxes on short-term profits from speculative stock, bond, and currency trading activities, and providing protections for the common assets that we all enjoy, like air, water, soil, forests, are a necessity. These are important issues