

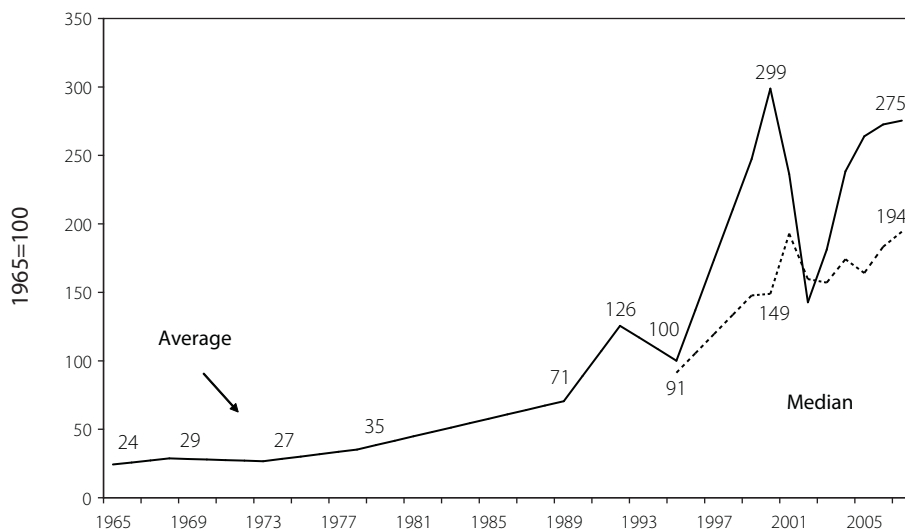
Executive pay

One distinct aspect of growing wage inequality is the gap between the very highest earners—those in the upper 1% or even upper 0.1%—and other high-wage earners at, say, the 90th percentile (who earn more than 90% of all workers). This was reviewed in an earlier section. This section now turns to the enormous pay increases received by chief executive officers (CEOs) of large firms and the spillover effects (the pay of other executives and managers rising in tandem with CEO pay) of these increases. These large pay raises go far beyond those received by other white-collar workers, though they are only one part of the growth in pay of very high earners.

The 1980s, 1990s, and 2000s have been prosperous times for top U.S. executives, especially relative to other wage earners. This can be seen by examining the increased divergence between CEO pay and a typical worker's pay over time (we use the average hourly compensation of production/nonsupervisory workers—who comprise about 80% of payroll employment—as our measure for a typical worker's pay; the trend since 1959 was illustrated in Figure 3B), as shown in **Figure 3AE**. In 1965, U.S. CEOs in major companies earned 24 times more than a typical worker; this ratio grew to 35 in 1978 and to 71 in 1989. The ratio surged in the 1990s and hit 298 at the end of the recovery in 2000. The fall in the stock market reduced CEO stock-related pay (e.g., options), causing CEO pay to tumble to 143 times that of the average worker in 2002. Since then, however, CEO pay has recovered and by 2007 was 275 times that of the typical worker. In other words, in 2007 a CEO earned more in one workday (there are 260 in a year) than the typical worker earned all year.

Figure 3AE also presents the ratio of *median* CEO compensation to that of the typical worker. This enables a comparison of a more typical (rather than average) CEO of a large firm to that of a typical worker. In 1995 the compensation of both the median and the average CEO were comparably larger, at 91 and 100 times that of a worker. Since then the pay of the average CEO grew more rapidly than that of the median CEO. Nevertheless, the gap between a median CEO and the typical worker more than doubled by 2007, reaching 194-to-1.

Table 3.41 presents more detail on the trends in CEO pay, both median and average, over the 1989-2007 period. CEO pay is based on a survey of 350 large publicly owned (i.e., they sell stock on the open market) industrial and service firms, and includes all of the components of direct compensation: salaries, bonuses, incentive awards, stock options exercised, stock granted, and so on. CEO compensation between 1989 and 2007 increased 167.3% for the average CEO and a still considerable 106.8% for the median CEO. This surge in pay occurred despite a drop of pay, especially for the average CEO, in the early 2000s due to the stock market decline. The compensation of a typical worker, in contrast, grew about 10% over the 1989 to 2007 period, almost of all that growth occurring in the late 1990s. During the recovery from 2002 to 2007, the pay for the average CEO surged 95.8% to reach \$12.3 million annually, not as much as earned in 2000 at the end of the stock market bubble but a still hefty pay level. The median CEO saw a lesser growth in pay over the recovery, up 23.5%, though it was far larger than the pay increase of other workers in this time period (recall that the pay of both high school and college graduates was flat in the recovery).

FIGURE 3AE Ratio of average and median CEO total direct compensation to average worker pay, 1965-2007

Source: Authors' analysis of *Wall Street Journal*/Mercer, Hay Group (2008).

Not only are U.S. executives paid far better than U.S. workers, they also earn substantially more than CEOs in other advanced countries. **Table 3.42** shows CEO pay in 13 other countries in 1988, 2003, and 2005 and an index (in the last two columns) that sets U.S. compensation equal to 100 (any index value less than 100 implies that that country's CEOs earn less than U.S. CEOs). The index shows that U.S. CEOs earn

TABLE 3.41 Executive annual pay,* 1989-2007 (2007 dollars)

	1989	1995	2000	2002	2007	Percent change				
						1995-2000	2000-07	2002-07	1989-2007	
	\$ Thousands									
<i>Median</i>	\$4,200	\$4,963	\$7,573	\$7,034	\$8,685	52.6%	14.7%	23.5%	106.8%	
<i>Average</i>	4,606	5,444	15,196	6,285	12,309	179.2	-19.0	95.8	167.3	

* Total direct compensation, including salary and bonuses, incentive awards, stock options exercised, and stock granted.

Source: Authors' analysis of *Wall Street Journal*/Mercer, Hay Group (2008).

TABLE 3.42 CEO pay in advanced countries, 1988-2005 (\$2005)

Country	CEO compensation			Percent change 1988-2005	Ratio of CEO to worker pay, 2005*	Foreign pay relative to U.S. pay, 2005 U.S. = 100	
	\$ Thousands		CEO			Worker	
	1988	2003	2005				
Australia	\$180,760	\$737,162	\$707,747	292%	15.6	33%	82%
Belgium	383,718	739,700	987,387	157	18	46	99
Canada	423,358	944,375	1,068,964	152	23.1	49	83
France	404,331	780,380	1,202,145	197	22.8	56	95
Germany	412,259	1,013,171	1,181,292	187	20.1	55	106
Italy	342,492	893,035	1,137,326	232	25.9	53	79
Japan	502,639	484,909	543,564	8	10.8	25	91
Netherlands	396,403	716,387	862,711	118	17.8	40	87
New Zealand		476,926	396,456	--	24.9	18	29
Spain	352,006	658,039	697,691	98	17.2	32	73
Sweden	234,670	743,160	948,990	304	19.2	44	89
Switzerland	510,567	1,263,450	1,390,899	172	19.3	64	130
United Kingdom	453,485	881,047	1,184,936	161	31.8	55	67
United States	805,490	2,386,762	2,164,952	169	39	100	100
Non-U.S. average	383,057	794,749	946,931	173	20.5	44	85

* Ratio of CEO compensation to the compensation of manufacturing production workers.

Source: Authors' analysis of Towers Perrin (1988, 2003, and 2005).

two and a quarter times the average of the 13 other advanced countries for which there are comparable data (note the non-U.S. average of 44%). In fact, in only one country, Switzerland, are CEOs paid even as much as 60% that of U.S. CEOs. This international pattern does not hold true for the pay of manufacturing workers; these jobs in other advanced countries pay 85% of what U.S. workers earn. Not surprisingly, the ratio of CEO to worker pay was far larger in the United States in 2005 than in other countries, 39.0 versus 20.5. (Note that these cross-country comparisons employ different data and definitions than those used for historical U.S. trends in Table 3.41 and Figure 3AE and therefore yield a different CEO/worker pay ratio.) Lastly, Table 3.42 shows that CEO pay in other countries has tended to grow rapidly over the 1988-2005 period; in many countries CEO pay rose as fast as or faster than in the United States.