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"The Income and Wealth Inequality Crisis in America"

Thank you, Chairman Sanders, Ranking Member Graham, and members of the committee, for the invitation to participate in this important hearing. I am Sarah Anderson, Global Economy Director at the Institute for Policy Studies, an independent center for research and action founded in 1963. I also co-edit the Institute's Inequality.org web site. For more than 25 years, I have been researching inequality, concentrating on what may be the single most dramatic driver of our country's economic divide, the growing gap between CEO and worker pay.

This gap has become a systemic problem in corporate America. In 1980, big company CEOs averaged 42 times more compensation than their typical workers. These gaps rapidly expanded in the 1990s, as wages stagnated for most workers and stock-based executive pay exploded. During the 21st century, the annual gap between CEO pay and typical worker pay has averaged about 350 to 1.[1]

This growing pay divide has been a significant driver of gender and racial disparities. Women and people of color make up a disproportionately large share of today's low-wage workers and a distressingly tiny share of corporate leaders. Only 1 percent of CEOs at our country's 500 largest corporations are Black, 2.4 percent are Asian, 3.4 percent are Latino, and 6 percent are women.[2]

For decades now, study after study has shown that skyrocketing CEO pay levels have nothing to do with improved managerial performance. Instead these massive paychecks reflect a rigged system that channels corporate resources to the top of the corporate ladder while those on the lower rungs face the greatest risks. Sadly, these obscene disparities are continuing during the pandemic. As I detail in a table below, many corporate boards are actually bending the rules to protect CEOs while average workers are suffering.

A pay system that encourages CEO short-termism and recklessness puts us all at risk

During the 2008-09 "Great Recession," I had high hopes that policymakers would finally take action on runaway executive pay. Executives chasing huge bonuses had just crashed our economy, leaving millions of Americans homeless and jobless. In the three years leading up to the meltdown, the top five executives at the 20 biggest bailed out banks had averaged $32 million each in personal compensation.[3]

The financial crisis still stands as a dramatic example of how corporate pay practices that incentivize reckless behavior put us all at risk. But we have many other examples of this same behavior. At the Institute for Policy Studies we have been documenting for decades how reckless practices have perversely rewarded CEOs for slashing jobs, cooking the books, accelerating climate change, and dodging taxes.[4]

After the 2008 crash, I thought we could finally put to rest the discredited notion that corporate pay practices only really matter to shareholders and have no impact on our broader society. Indeed, the Capitol Hill debate left me even more encouraged, as lawmakers from both parties railed against CEO greed. In September 2008, Senator (and presidential candidate) John McCain called for a straight cap on compensation for employees of all bailed-out firms at no more than $400,000, the salary of the president.[5] The Senate approved a cap at that level in 2009 as an amendment to the American Recovery and Reinvestment Act. Then came the pushback.

Policymakers backed off tough executive pay reforms after the 2008 crash

As working families sank into the Great Recession, major corporations and big Wall Street banks argued that without the ability to offer mega-million-dollar pay packages, they couldn't possibly retain and attract "top talent." The conference committee scrapped the $400,000 pay cap. The only bailed-out banks and corporations that faced any meaningful pay limits were the seven failed firms that received "exceptional assistance," and even these limits only applied to cash compensation, not stock-based pay.[6]

Having avoided compensation caps, corporate boards turned to crafting pay schemes to help their executives rebound faster from the crash than ordinary Americans. A Harvard study documented how publicly held corporations, especially the largest ones, doled out massive executive stock grants when the market was at bottom. These awards quickly ballooned in value as the taxpayer-fueled recovery began to take effect, driving up executive compensation at Russell 3000 firms by 37 percent on average between 2008 and 2010.[7]

In today's crisis, boards are again focused on protecting massive CEO paychecks

We are now going through a period of even greater national crisis than we faced in 2008-09. Today's top corporate executives didn't *cause* the pandemic in the direct way that executives' reckless behavior caused the financial crash. But CEOs at many large U.S. corporations *did* make working families much more vulnerable to the current economic crisis.

Top corporate executives created this vulnerability by outsourcing jobs and turning millions of the jobs that remained into low-wage, part-time work without benefits. These corporate moves left the majority of American families just a month or two of lost paychecks away from financial ruin.[8] When the pandemic hit, we saw quickly just how dangerous this precarity could be. Even with Covid relief assistance, more than 18 percent of U.S. adult renters soon fell behind on their rent and faced the risk of homelessness within nine months.[9]

We also quickly saw — more clearly than perhaps ever before — just how essential our country's frontline workers have become to the functioning of our economy, our public health, and our democracy.

And yet, once again, just as in the aftermath of the 2008 crash, corporate boards are fixating on protecting the paychecks of those executives who sit at the corporate summit. We're just starting to receive the annual executive pay reports that publicly held corporations have to file with the SEC. But we already have enough reports in hand to see the basic pattern that's emerging: Over the past year, a year of almost unimaginable suffering for the American people, many corporate boards have wasted their brainpower on bending the rules to safeguard their CEOs' gargantuan paychecks.

How Corporate Boards Bent the Rules in 2020 to Protect Paychecks at the Top

Select examples from annual corporate proxy statements and 10-k reports filed with the SEC.

Company	CEO	CEO total compensation	Median worker pay	CEO-worker pay ratio	% change in employees, 2019-2020	How the board protected the CEO's paycheck in 2020
COCA-COLA	James Quincey	$18,383,474	$11,342	1,621:1	-6.8	Gave "special one-time incentive payments" to compensate top executives for not meeting annual bonus targets. The CEO's cash bonus amounted to nearly $1 million.
CARNIVAL	Arnold Donald	$13,306,097	$27,151	490:1	-34.0	Created a "special retention and incentive program" that awarded stock grants to the CEO, delivering a nearly 20 percent raise in total pay over 2019.
TYSON FOODS	Noel White	$10,993,649	$37,444	294:1	-1.4	Awarded special stock grants to compensate top executives for not meeting their bonus targets. At current share values, the grants for the CEO and Chair John Tyson are each worth more than $1.3 million.
LEVI STRAUSS	Charles (Chip) Bergh	$10,641,110	$16,088	661:1	-6.3	"Adjusted" performance metrics for outstanding executive stock grants to make them easier for executives to attain.
MCCORMICK & CO	Lawrence Kurzius	$19,546,334	$33,387	585:1	n/a*	"Adjusted" performance metrics so the CEO could receive a $6 million cash bonus.
UNISYS	Peter Altabef	$7,234,193	$23,091	313:1	-18.1	Trimmed CEO base salary by 20% for 8 months but more than made up for it by "adjusting" performance metrics so the CEO could receive a $2 million cash bonus.

* reports only full-time employee data.

Coca-Cola: None of the soft drink maker's top executives met their bonus targets last year, but the board gave them all bonuses anyway. The reason? The board wanted to reward Coke's top executives for their "resilience" in the face of the pandemic. CEO James Quincey wound up with a total compensation package worth more than $18 million, over *1,600 times* as much as the company's typical worker pay.

Carnival: The pandemic has been devastating for the cruise industry. At Carnival, CEO Arnold Donald not surprisingly failed to meet his pre-Covid bonus targets. He also accepted a cut in his base salary from $1.5 million in 2019 to $857,413 in 2020. But thanks to a special "retention and incentive" award, Donald's total 2020 compensation grew to $13.3 million — nearly $2.2 million more than in 2019. He received the bulk of his special stock awards on August 28, 2020. Between that grant date and March 12, 2021, the company's share price rose 65 percent, buoyed by the vaccine rollout and the anticipated restart of their ships.[10]

Carnival's employees fared decidedly less well last year. After the industry shut down in mid-March amid Covid-19 outbreaks on several ships, Carnival and other cruise lines focused on getting paying customers home while leaving employees stranded on board for months without pay. The company reportedly even charged the abandoned workers for basic necessities like soap.[11] The company was still working on repatriating crew members in August, the month that CEO Donald received his special bonus award.[12]

Tyson Foods: The meat processing company's top executives didn't meet their cash bonus targets either. So what did the board do? The Tyson directors gave them stock awards to make up the difference. Frontline employees, meanwhile, were facing high risks on the job. More than 12,000 of the company's workers have contracted Covid-19, and at least 38 have lost their lives to the virus — more than at any other meatpacking company.[13]

Billionaire wealth growth during the pandemic

One of the executives who benefited from the Tyson board's special Covid stock awards is company chair John Tyson, who was hardly in dire need of support. The heir and grandson of the company founder, Tyson has watched his personal wealth increase 62 percent during the pandemic — to $2.4 billion. According to research by my Institute for Policy Studies colleagues and Americans for Tax Fairness, the nation's 657 billionaires have enjoyed a stock-fueled boost in their net wealth of 44 percent since the rough start of the pandemic crisis. As of March 10, 2021, their combined fortunes stood at $4.2 trillion — up $1.3 trillion since March 18, 2020.[14] Many of these billionaires owe their fortunes to their years as CEOs.

The empty gesture of CEO salary cuts

More than 500 publicly held U.S. companies announced cuts to their CEO's base salary in 2020. These moves garnered considerable positive press coverage, but they had a negligible impact on pay levels since straight salary makes up on average only 10 percent of executive compensation packages.[15] Some of the early proxy filings make this clear. A.O. Smith CEO Kevin J. Wheeler, for example, took a 25 percent salary cut while enjoying a 36 percent increase in his overall compensation. At Whirlpool, CEO Mark Bitzer accepted a 25 percent trim on his base salary

during April and May 2020 while his total compensation for the year rose 22 percent to more than $17 million.

Narrower pay gaps would increase enterprise effectiveness

Extensive research has shown that excessive CEO pay correlates negatively to firm performance. A 2018 Harvard Business School study of S&P 1500 firms looked not just at CEO pay levels but also at the pay gaps within firms over a multi-year period. The findings indicate that large disparities harm the bottom line, particularly when a gap reflects an "overpaid" CEO and "underpaid" employees — in other words, when pay levels don't reflect objective economic factors. Companies with these overpaid CEOs and underpaid workers saw significantly higher levels of employee dissatisfaction and turnover, as well as lower sales.[16]

This Harvard study and other research on the negative impact of large pay gaps on company performance reinforce a theory developed by current Treasury Secretary Janet Yellen in 1990. The "Fair Wage-Effort Theory" posits that pay disparity causes resentment among lower-level employees, leading them to take actions, such as shirking or quitting, that undermine enterprise effectiveness.

"The theory conforms to common sense, and to sociological and psychological theory and observation," Yellen and her co-author observed.[17]

U.S. CEO pay levels have gone off the charts compared to the pay experience we see in all other nations, including those that are home to large, globally competitive corporations. A 2017 Bloomberg survey found that U.S. CEOs were making more than twice as much, on average, as German CEOs, more than six times as much as Japanese CEOs, and nearly eight times as much as their Chinese counterparts.[18]

Public outrage over outrageous CEO pay cuts across the political spectrum

This period of crisis can and should be a time for Americans to come together and find a more equitable common ground. Polls suggest that we already have common ground on CEO pay. Some 78 percent of U.S. workers see CEOs as overpaid compared to their employees, one 2019 poll found.[19] A Harvard Business School study found that Americans think the right CEO-worker pay ratio runs no higher than 7 to 1.[20] A report I co-authored for the Institute for Policy Studies found that 80 percent of S&P 500 firms paid their CEO over 100 times more than their median worker in 2018. In 50 cases, this gap stretched more than 1,000 times.[21]

In 2016, a Stanford survey found that 52 percent of Republicans actually want to cap CEO pay relative to worker pay.[22] I will end with some key policy solutions that rate as far more moderate than an outright cap on executive compensation.

Key policy solutions for excessive executive compensation

1. **Tax Excessive CEO Pay Act**: This legislation would apply graduated tax rate increases on large corporations, based on the size of the pay gap between their CEO and median

worker. Companies with pay ratios of 50 to 1 or lower would not owe the IRS an extra dime under this bill. The bill also excludes companies that have average annual gross receipts for the three preceding years of less than $100 million.

Corporations that pay their top executives between 50 and 100 times more than their typical workers would face a 0.5 percentage point increase in their federal tax rate. The highest penalty would apply to companies that pay top executives over 500 times worker pay. They would be subject to a 5 percentage point increase in their tax rate. This proposal would create an incentive to both rein in executive pay and lift up worker wages — all while generating an estimated $150 billion in revenue over 10 years.[23]

2. **Financial transaction tax:** Another way to generate much-needed revenue while curbing executive excess would be through a financial transaction tax on Wall Street trades. Various legislative proposals in the Senate and the House along this line would curb the lucrative short-term speculation that has inflated Wall Street bonuses while adding no significant value to the real economy.

3. **CEO pay ratio incentives in federal procurement:** We could leverage the power of the public purse against outrageous CEO compensation by giving corporations with narrow pay ratios preferential treatment in government contracting. This incentive could be combined with additional federal contract conditions to advance economic security and worker power, race and gender equality, and environmental sustainability.

4. **Close the "carried interest" loophole:** Wealthy managers of private equity, real estate, and hedge funds pay the discounted capital-gains tax rate on so-called "carried interest" (earnings tied to a percentage of the fund's profits). This income actually amounts to compensation for managing other people's investments and should be taxed as ordinary income. The 2017 tax legislation merely lengthened the holding period for investments that qualify for this tax break from one to three years.

5. **Fully close a loophole that allows unlimited tax deductibility of excessive pay:** In 1993, Congress amended the tax code to prevent corporations from deducting off their taxable income the amounts they pay top executives in excess of $1 million per executive — unless the compensation came as stock options and other forms of "performance" pay. This huge loophole encouraged corporate boards to hand out massive bonuses that dramatically widened pay gaps between corporate executives and rank-and-file workers.

   The 2017 Republican tax law closed this "performance" pay loophole, but only for compensation going to a corporation's CEO, CFO, and three other highest-paid employees. As part of the American Rescue and Recovery Act, Congress took another step forward by closing the loophole for compensation going to an additional five executives (10 in total).[24] Pay above $1 million going to other highly paid employees — such as traders at large Wall Street firms — remains fully deductible.

6. **Restrict stock buybacks:** Since 1982, SEC Rule 10b-18 has allowed corporations to repurchase their shares on the open market, with certain limitations. As William Lazonick and other analysts have pointed out, stock buybacks artificially inflate executive pay and drain capital that could be put to productive purpose.[25] In the first year after the 2017 Republican tax cuts, U.S. corporations announced a record-setting $1 trillion of stock buybacks.[26] Repurchases have dropped off during the pandemic, but some analysts note that corporations have accumulated large cash reserves and predict a resurgence. Policy solutions introduced in Congress include banning open market buybacks, banning buybacks for companies with large CEO-worker pay ratios, and requiring companies to issue a worker dividend equal to $1 for every $1 million spent on stock buybacks.[27]

7. **Require top financial executives to contribute compensation into a fund to pay for penalties:** Following the 2008 financial crash, senior banking executives did not face personal responsibility for fraudulent activity, leaving shareholders to shoulder the financial penalties. One legislative proposal would require senior executives of large banks to place a substantial share of their pay each year into a "deferment fund" for 10 years. The amount to be deferred would be at least 50 percent of all executive compensation that exceeds 10 times median employee pay. If the bank faces civil or criminal fines, these penalties would be paid out of this fund.[28] The bill draws on a New York Federal Reserve proposal, based on the argument that deferring pay would help change the reckless Wall Street culture and motivate managers to police one another.[29]

8. **Finalize and rigorously enforce remaining Dodd-Frank executive compensation reforms:** The 2010 Dodd–Frank Wall Street Reform and Consumer Protection Act included several executive compensation reforms that have still not been implemented. One of these pertains to pay restrictions on executives of large financial institutions, Section 956 of the 2010 Dodd-Frank financial reform law prohibits large financial institutions from granting incentive-based compensation that "encourages inappropriate risks." Regulators last addressed this provision in 2016 by issuing a revised proposal.[30] As the Institute for Policy Studies explained in comments to the SEC, the proposed rule includes overly lenient bonus deferral periods, inadequately restricts stock-based pay, and allows management too much discretion over enforcement.[31]

A broader agenda to reverse extreme inequality

Excessive CEO pay has not, of course, been the only driver of our country's rapidly concentrating wealth and income. Reversing this dangerous trend will require many additional policy tools. For the past year, I have co-led an economic justice working group of the Progressive Governance Project, which brought together 70 organizations to develop recommendations for Congress and the Biden administration.[32] Our extensive recommendations for addressing economic and racial inequality include:

- Making it easier to **organize and form unions** and extend labor protections to excluded workers.

- Taxing the **accumulated wealth of the ultra-rich**, restoring a strong estate tax or shifting to an inheritance tax, and requiring taxes to be paid on capital gains accumulated during a lifetime when passed to heirs or given as gifts.
- Taxing **individual income** from investments at the same higher rate as income earned from work and raising income tax rates on high earners.
- Significantly raising **corporate income tax** rates, raising tax rates on offshore profits to equal domestic rates, and closing tax loopholes benefiting real estate and other industries.
- Shutting down mechanisms that enable the wealthy to **hide money and avoid taxes**, including outlawing tax avoidance trusts and offshore tax havens.
- Broadly canceling **federal student debt**.
- Establishing a "**baby bonds" program** to help narrow the racial wealth divide.

Conclusion

We can and must do better, as a nation, than accept a corporate business model that creates prosperity for the few and precarity for the many. And we can't afford to wait for corporations and their shareholders to solve this problem. Corporate boards have shown us — over a decade ago in the financial crash and over the last year with the pandemic — that we cannot rely on them to do the right thing when it comes to CEO pay.

Excessive CEO pay is a problem that affects all of us. We need responsible policy solutions.

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[3] Sarah Anderson, John Cavanagh, Chuck Collins, and Sam Pizzigati, "Executive Excess 2009: America's Bailout Barons," Institute for Policy Studies, September 2, 2009.

[4] See Institute for Policy Studies annual "Executive Excess" reports.

[5] Mike Allen, "McCain wants to limit execs to $400,000," *Politico*, September 21, 2008. Shortly after the presidential election, on November 19, 2008, Senator Bernie Sanders (I-VT) introduced the first legislation to limit executive compensation at TARP recipients to $400,000, the Stop the Greed on Wall Street Act (S.3693). On February 5, 2009, the Senate approved by voice vote an amendment to the American Recovery and Reinvestment Act to implement that $400,000 cap. A conference committee later cut the provision.

[6] On February 4, 2009, the White House announced a $500,000 cap on cash compensation for the five top executives at firms getting "exceptional assistance." These firms included: Bank of America, Citigroup, American International Group, General Motors, Chrysler, and the two automakers' financing units. The rules allowed additional stock incentives, requiring only that they not be cashed in until bailout aid was repaid. The rules did not apply to firms that had already received TARP funding, and firms that got aid but not exceptional assistance could waive the $500,000 pay cap if they agreed to submit executive pay plans to a nonbinding shareholder vote. On June 10, 2009, new Treasury Department rules replaced the $500,000 cap with a "special master" pay czar, Kenneth Feinberg, responsible for reviewing compensation plans at firms receiving "exceptional assistance." A 2012 government audit criticized Feinberg for having approved pay packages worth $5 million or more from 2009 to 2011 for 49 top earners at the companies with the largest taxpayer bailouts.

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