EXECUTIVE EXCESS 2019

MAKING CORPORATIONS PAY FOR BIG PAY GAPS

Institute for Policy Studies

26TH ANNUAL REPORT
SEPTEMBER 2019

Institute for Policy Studies

Co-authors:

Sarah Anderson directs the Global Economy Project and co-edits Inequality.org at the Institute for Policy Studies. She has co-authored the 25 previous IPS annual *Executive Excess* reports.

Sam Pizzigati, an IPS associate fellow, co-edits Inequality.org. His latest book is ***The Case for a Maximum Wage***.

Research assistance: Brian Wakamo and Finn Collom.

Cover design: Sarah Gertler.

Acknowledgements: Thanks to IPS Director John Cavanagh for his valuable insights on this research and to Bart Naylor of Public Citizen for detailed report comments. The authors are also grateful for the leadership the Americans for Financial Reform Task Force on Executive Compensation has displayed on advancing solutions for CEO pay excess.

The **Institute for Policy Studies** (www.IPS-dc.org), a multi-issue research center, has been conducting path-breaking research on executive compensation for more than 25 years.

The IPS Inequality.org website (http://inequality.org/) provides an online portal into all things related to the income and wealth gaps that so divide us, in the United States and throughout the world**. Sign up for our weekly newsletter at: https://inequality.org/resources/inequality-weekly/**
Twitter and Facebook: @inequalityorg

Institute for Policy Studies
1301 Connecticut Ave. NW, Suite 600
Washington, DC 20036
202 234-9382
www.ips-dc.org, Twitter: @IPS_DC
Facebook: http://www.facebook.com/InstituteforPolicyStudies
Email: sarah@ips-dc.org

Contents

Key Findings

At the 50 publicly traded U.S. corporations with the widest pay gaps in 2018, the typical employee would have to work at least 1,000 years — an entire millennium — to earn what their CEO made in just one.

- Median CEO pay at these 50 off-the-charts firms averaged $15.9 million in 2018. Median worker pay at the 50 firms averaged a mere $10,027.
- The 50 companies with CEO-worker pay ratios over 1,000 to 1 include 24 corporations in the blue-chip S&P 500 and span a diversity of industries, sectors ranging from retail (14 of the 50) and fast food (5) to tech hardware (5) and autos (3).

Among S&P 500 firms, nearly 80 percent paid their CEO more than 100 times their median worker pay in 2018.

- Just five S&P 500 firms had ratios of less than 25 to 1, the widest corporate pay gap that Peter Drucker, the father of modern management science, considered acceptable. But these five firms hardly rate as egalitarian outliers. The CEOs at the five — all company founders — only take nominal annual paychecks. Their real earnings come from the massive stashes of company stock they have accumulated over the years, holdings that range all the way up to $87 *billion* for Berkshire Hathaway's Warren Buffett.
- At 49 of the 500 largest publicly traded firms, median worker pay sits below the U.S. poverty line for a family of four.[1] At least 3.7 million of the 7.4 million employees at these firms, in other words, are earning too little from their jobs to keep their families out of poverty. The median 2018 CEO pay at these 49 firms: $12.3 million.
- The Gap retail chain had the S&P 500's widest corporate pay gap in 2018, with the CEO making 3,566 times as much as the company's most typical worker.

CEOs are making themselves outrageously rich by exploiting workers — in both the United States and abroad.

- At firms with pay gaps of over 1,000 to 1, 88 percent of median workers had temporary or part-time status in 2018, and 31 percent labored in China, Mexico, and other low-wage countries.[2]
- One example: Align Technology produces all its teeth-straightener products in Mexico. The company's CEO last year collected 3,168 times more pay than the company's typical worker, the third-widest pay gap within the S&P 500.

If corporations that pay their CEO over 100 times their median worker pay had to pay a corporate income tax penalty, S&P 500 corporations would have owed as much as $17.2 billion more in 2018 federal taxes.[3]

This additional revenue from the S&P 500 could have financed:[4]

- 232,228 clean energy jobs
- 212,839 elementary school teacher positions
- public university tuition and fees for more than 488,470 students
- 1,900,000 Head Start slots

A 5 percentage-point corporate tax increase on companies with gaps of over 500 to 1 could generate significant revenue for meeting the basic needs of millions of Americans.

- **Walmart**, with a pay gap of 1,076 to 1, would have owed an extra $794 million in federal taxes in 2018 with this penalty in place. With those millions, the federal government could have extended food stamp benefits to 520,997 people for an entire year.
- **Marathon Petroleum**, with a 714-to-1 gap, would have owed an extra $228 million, more than enough to provide annual heating assistance for 126,000 low-income Minnesotans.
- **PepsiCo**, with a pay ratio of 545 to 1, would have seen its tax liability large increase by enough to cover the cost of replacing lead pipes in Flint, Pittsburgh, and Newark.
- **CVS**, a drug store chain with a 618-to-1 ratio, would have added a revenue stream that could have provided annual Medicare prescription benefits for 33,977 seniors.

Reining in extreme pay gaps

- Support is growing nationwide for public policies that would both discourage excessive executive pay and encourage higher compensation for ordinary workers. Action has been strongest at the state and local levels.
- At the local level, San Francisco officials have put a CEO pay gap tax initiative on the ballot for March 2020. If voters approve the measure, San Francisco would become the second city in the United States to impose a tax penalty on corporations with extreme divides. The nation's first pay-ratio tax went into effect last year in Portland, Oregon.
- In seven state legislatures, policymakers are considering similar proposals to discourage excessively wide pay gaps within major U.S. corporations.

Introduction

For two full years now, publicly held corporations in the United States have had to comply with a federal mandate to report the gap between their CEO and median worker compensation. The resulting disclosures, this report makes clear, have produced truly staggering statistical results.

Americans across the political spectrum have been decrying the yawning gaps between CEO and worker compensation for several decades now. Yet Americans still, the research shows, vastly underestimate how wide these gaps have become. Today, with corporations required to disclose their pay ratios, the public can finally see the actual size of pay gaps at individual firms. These excessively wide compensation gaps hurt us on three major fronts:

- ***Corporate pay gaps help drive America's extreme inequality.***

The earnings of the top 0.1 percent of U.S. income earners grew nearly 340 percent from 1978 to 2017. According to the Economic Policy Institute, CEO pay grew three times as fast, and in 2017, the average big company CEO raked in 5.4 times as much as the top 0.1 percent income group as a whole. The more corporations shovel into executives' pockets, the less they have for workers' wages and other investments. A landmark 2005 Harvard study showed that pay for U.S. publicly held firms' top five executives amounted to 10 percent of aggregate earnings.

- ***Wide pay gaps undermine business efficiency and effectiveness.***

Academic research indicates that extreme compensation gaps sap worker morale. Lower morale, in turn, reduces productivity and increases turnover. A Glassdoor analysis of data from 1.2 million employed individuals suggests a statistical link between high CEO pay and low CEO approval ratings among employees. Peter Drucker, widely known as the father of modern management science, believed that the ratio of pay between worker and executive can run no higher than 20- or 25-to-1 without inflicting damage on a corporation's internal dynamics. America's top execs are global outliers. On average, Bloomberg data show, U.S. CEOs are making quadruple the pay of top executives in our peer nations.

- ***Runaway CEO pay endangers democracy and the broader economy***

Outrageous levels of compensation give executives an incentive to take excessive risks. Wall Street's reckless "bonus culture" proved a key factor in the 2008 financial crisis. Current executive compensation practices also contribute to short-term decision making that leaves payrolls, employee training, and R&D budgets slashed. CEO pay excess undermines our democracy as well. The best evidence of the CEO pay contribution to our democracy's increasing oligarchic tilt: Of the top 100 political donors in the 2018 election, more than 80 percent turned out to be either current or former top executives.[5]

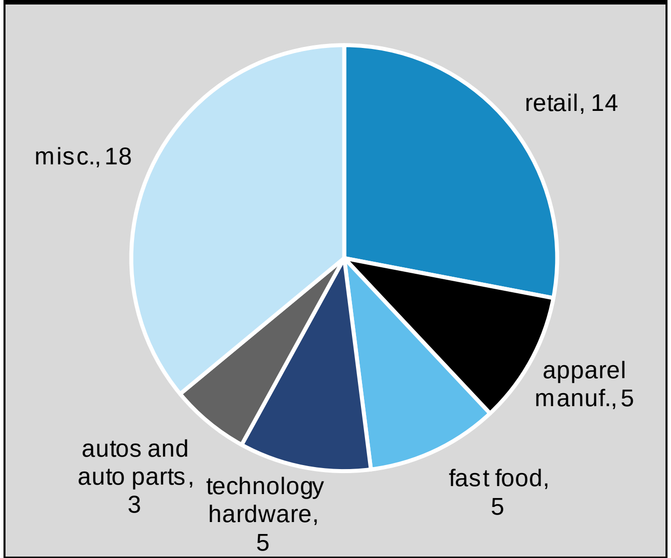
The 50 companies with pay gaps over 1,000 to 1

Back in the 1960s and into the 1970s, few American CEOs pocketed more than 40 or 50 times their worker pay, and business analysts like the famed Peter Drucker considered those gaps much too wide. Drucker called for CEO-worker pay ratios no wider than 20 or 25 to 1. Average Americans today, according to the Harvard Business School's Michael Norton and the University of San Francisco's Bhavya Mohan, would like to see an even narrower margin. Their research shows that Americans believe a ratio of just 7 to 1 to be ideal.

The contrast between that public sentiment and our current CEO pay reality could hardly be starker. At the 50 publicly traded U.S. corporations with the widest pay gaps in 2018, the typical employee would have to work at least 1,000 years — an entire millennium — to earn what their CEO made in just one (see the full list in Appendix 1).

Extreme pay gap firms are in diverse industries

The 50 companies with gaps of 1,000-1 or more, by sector



Median CEO pay at these 50 off-the-charts firms last year averaged $15.9 million. Median worker pay at the 50 firms averaged just $10,027. Such obscenely large disparities send the message that ordinary employees — compared to the power-suits far above their station — contribute infinitesimally little value to enterprise success.

The low-wage retail sector does indeed have the most companies on the list of corporations with exceptionally large pay gaps. Fourteen retail companies have CEO-worker divides wider than 1,000 to 1. The low-wage fast food and apparel manufacturing sectors each add five more companies to the super-wide pay gap list.

But huge CEO-worker pay disparities don't just afflict companies in industries widely known for paying rock-bottom wages. The list also includes five technology hardware and equipment companies, three auto and auto parts manufacturers, and 18 other firms in sectors not particularly infamous for low wage rates.

Half of the firms with pay gaps of more than 1,000 to 1 voluntarily disclosed the 2018 status of their median employees in their proxy statements. These disclosures revealed that 88 percent of the workers in these firms were laboring on a temporary or part-time basis.[6] Some people, of course, prefer to work part-time, but many others do not. According to the U.S. Bureau of Labor Statistics, about 4.8 million Americans were employed part-time last year who would rather have had full-time positions.

The San Francisco Federal Reserve Bank has found that "involuntary part-time" workers early last year represented a share of the workforce nearly a full percentage point higher than analysts would normally expect given the low official unemployment rate. Corporate executives are, in effect, exploiting America's persistent power imbalances between workers and bosses. These executives are disproportionately basing their business models on part-timers who don't receive the benefits that go by law and standard corporate practice to full-time employees.

CEOs are making themselves outrageously rich by exploiting workers in the United States and abroad.

During the federal Securities and Exchange Commission deliberations that led to our current ratio disclosure regulations, the National Retail Federation and other corporate lobby groups fought relentlessly for regulation language that would let the corporations they represent convert part-time and seasonal workers into full-time equivalents, a statistical sleight of hand that would make their pay gaps look smaller. The SEC correctly refused to allow this conversion, arguing that basing pay ratio calculations on real paychecks would better reflect "the actual composition" of a company's workforce.

Rampant offshoring of U.S. jobs also contributes to the gargantuan size of today's corporate pay gaps. Under SEC ratio disclosure rules, companies must include their entire workforce in the calculation of median worker pay. At the firms with pay gaps of more than 1,000 to 1 that have identified the location of their median employee, nearly a third — 31 percent — have their most typical workers laboring in China, Mexico, and other low-wage countries.[7]

Industry groups also pushed the SEC to exclude non-U.S. employees from pay ratio calculations. These same industry groups have, interestingly, been the driving force behind free trade agreements that increase the profit incentive for multinationals to shift production to low-wage countries. But the SEC did not back down to corporate pressure on including foreign workers in pay-ratio calculations. The agency pointed out instead that the underlying 2010 Dodd-Frank financial reform act — the legislation that mandates our new annual ratio disclosure — requires reporting on "all employees."

The SEC ratio regulations, by allowing only limited exceptions for including foreign workers in ratio calculations, are helping Americans better understand how U.S. executives are globalizing away jobs for U.S. workers.[8]

Mattel workers not featured among Career Barbies

The giant toymaker Mattel currently offers an extensive line of "Career Dolls" to inspire young girls, an array of playthings that includes Barbie pilots, firefighters, and robotic engineers. Not represented in this toy line: the typical working woman on the Mattel payroll. That median employee would be an Indonesian factory worker who earned just $5,489 in 2018. Mattel CEO Ynon Kreiz took home $18.7 million, a total compensation 3,408 times greater.

Mattel reports that 82 percent of its employees are working outside of the United States, in countries where wage rates run "dramatically lower." An investigation of conditions in two major factories producing Mattel toys in China during the 2018 holiday shopping season found substantial evidence of managers requiring overtime work that far exceeded legal limits, among many other labor rights violations.

Teeth straightener business model puts smile on CEO's face

No one has benefited more from consumer concerns about the straightness of their Instagram smiles than Joseph Hogan, the CEO of the company that makes Invisalign braces. After just three years on the job, Hogan in 2018 received a $27.6 million retention bonus, driving his total compensation package to $41.7 million. The bonus came in the form of a stock grant that will fully vest only if Hogan meets certain performance benchmarks over the next three years.

The prospect of meeting those benchmarks would soon look quite dicey after Align's stock plummeted on the news of missed second-quarter China sales targets. But less than a week later, the company moved quickly to overcome the bad sales news, announcing a $200 million accelerated stock buyback agreement that would inflate the value of Align shares — and Hogan's stock-based bonus.

Hogan has based his much-applauded business model on cheap foreign labor. The S&P 500 company makes not a single set of its teeth "aligners" in the United States. Of Align's 11,710 employees, 88 percent work in foreign countries, and all the company's manufacturing operations are taking place in either Mexico, China, or Israel. In 2018, Hogan made 3,168 times as much as his firm's median employee, an associate engineer in Mexico earning $13,180.

.

Calculating CEO-Worker Pay Ratios

The landmark 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act aims to limit the sorts of reckless banking and corporate behaviors that led directly to the 2008 financial crisis.

The law includes numerous executive pay provisions, including a Section 953(b) that requires large U.S. publicly traded corporations to report the ratio between their CEO and median worker pay to the Securities and Exchange Commission on a yearly basis.

The SEC finally approved a regulation to implement this section of Dodd-Frank in 2015. Corporations began reporting their ratios in their 2018 proxy statements. Under the SEC rule, companies key their ratios to two numbers:

- ***CEO compensation.*** The SEC regulations require companies to include in their executive pay calculations all salary, bonuses, the estimated value of stock and stock option awards, changes in pension value, and perks. The SEC has long required publicly held firms to disclose this information for their top five executives.

- ***Median employee compensation***. Companies can use various methods, including statistical sampling, to identify the employee with their firm's median — most typical — compensation. Part-time, temporary, and full-time U.S. and non-U.S. employees must be included, but not subcontracted employees.

  Companies can exempt non-U.S. employees from their ratio calculations only if these employees make up 5 percent or less of the total workforce. Under the SEC pay-ratio rule, companies cannot convert part-time and temporary employees into full-time equivalents.

Pay gaps at S&P 500 corporations

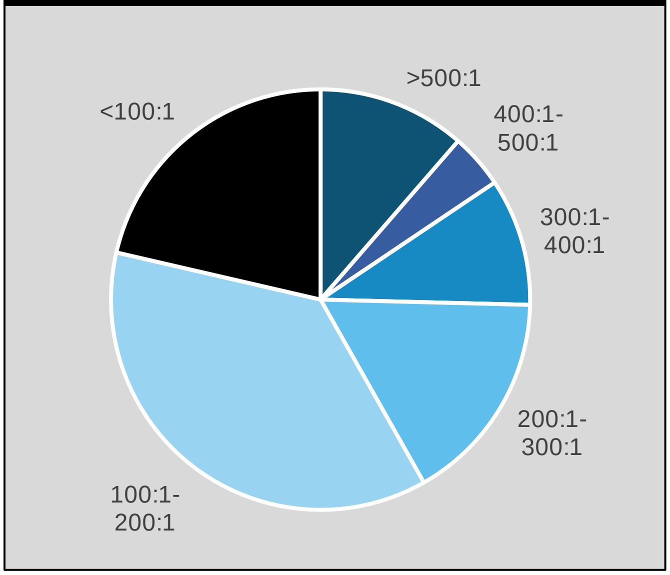
The pay disparities between CEOs and ordinary workers rate as extreme throughout the ranks of America's 500 largest publicly traded corporations. Within this top-tier group, 393 companies — nearly 80 percent of the total — paid their CEO over 100 times their median worker pay in 2018. More than a quarter had gaps of 300 to 1 or wider.

At 49 S&P 500 firms, median worker pay in 2018 sat below the $27,005 poverty line for a U.S. family of four.[9] At least 3.7 million of the 7.4 million employees at these firms, in other words, earned too little from their jobs last year to keep a family out of poverty. The median 2018 CEO pay at these 49 firms: $12.3 million (for the full list of these companies, see Appendix 2).

As top executives divert profits into their own pockets, millions of families earning poverty wages must rely on taxpayer-funded public assistance.

Nearly 80% of S&P 500 Ratios are Larger Than 100 to 1

S&P 500 firms, by CEO-worker pay ratio group



Privately held corporations should also disclose pay gaps

Only publicly held corporations must currently disclose their CEO-worker pay ratios. Privately held firms face no such disclosure requirement, even though their pay practices also contribute mightily to our nation's skyrocketing income and wealth inequality and undermine our democracy as well.

Executives chasing huge bonuses at privately held companies have engaged in the same reckless behaviors as their counterparts as publicly traded corporations. They have put us all at risk, be that by investing in toxic securities or carrying out job-killing mergers. Privately held banks received billions in taxpayer bailouts after the 2008 financial crisis.

In multiple other areas where corporate behavior can harm our society — in matters related, for example, to toxic pollution and racist lending practices — U.S. laws and regulations require privately held companies to disclose relevant information to the public. These companies should receive no pass on disclosing data related to executive compensation.

The Gap has truly earned its name

The retail chain had the S&P 500's widest pay ratio in 2018, with CEO Arthur Peck making $20.8 million, 3,566 times as much as the company's median worker pay of $5,831. Known for casual apparel, the company owns three core brands: Gap, Old Navy, and Banana Republic. Peck raked in his huge paycheck despite his firm's lackluster marketplace performance. In 2018 the company reported flat sales and announced plans for a major restructuring that includes closing some 230 Gap stores and spinning off the Old Navy brand.

An auto parts firm has the lowest median pay in the S&P 500

Aptiv PLC — formerly Delphi Automotive — had the lowest median worker pay of any firm in the S&P 500 in 2018. The typical employee of this global auto parts company made $5,414. Aptiv chief executive Kevin Clark pocketed $14.1 million, a princely sum that pushed the company's pay gap to 2,609 to 1. Aptiv has not disclosed where its median employee labors or whether that employee works part- or full-time. Company records do make clear that CEO Clark works out of Boston, Massachusetts — despite the fact that, for tax avoidance purposes, the company has incorporated itself on the tax haven island of Jersey and placed its headquarters in Ireland.

Google and Twitter's Zero Pay Ratios Explained

Just five S&P 500 firms have reported 2018 pay gaps of less than 25 to 1, the level management science guru Peter Drucker argued corporations should not exceed if they want to operate effectively. These five companies: TripAdvisor (a 19:1 CEO-median worker pay ratio), Berkshire Hathaway (7:1), Copart (6:1), Twitter (0:0), and Alphabet (0:0).

These five firms hardly rate as egalitarian outliers. The CEOs at the five — all company founders — only take nominal annual paychecks. Their real earnings come from the massive stashes of company stock they have accumulated over the years, holdings that range from $88 million for TripAdvisor's chief executive to $87 *billion* for Berkshire Hathaway's Warren Buffett. The "zero ratios" at Alphabet and Twitter turn out, upon closer analysis, to be particularly misleading:

Alphabet (Google): CEO and co-founder Larry Page is sitting on company stock worth more than $22 billion. He holds about 26.1 percent of all voting power at the company. In 2018, the outgoing head of Google's cloud businesses, Diane Greene, pocketed $47.5 million, 192 times median pay.

Twitter: CEO and co-founder Jack Dorsey owns about $800 million worth of his company's stock. In 2018, one of Dorsey's fellow executives at Twitter, Engineering Lead Michael Montano, collected $17.9 million in total compensation, 104 times the median pay at Twitter.

A tax penalty on extreme pay gaps

Tax penalties on extreme CEO-worker pay gaps would encourage large corporations to narrow their divides — by lifting up the bottom and/or bringing down the top of their wage scales. Such reforms would also give a boost to small businesses and employee-owned firms and cooperatives that spread their resources more equitably than most large corporate enterprises.

These tax penalties have even greater currency in light of the 2017 Republican tax legislation, which slashed the corporate tax rate from 35 to 21 percent. Republican leaders promised that corporations would invest their windfalls to boost working families. Instead, U.S. companies announced a record-setting $1 trillion in stock buybacks, a maneuver that serves only to enrich wealthy shareholders and top corporate executives. The AFL-CIO analyzed 10 U.S. companies that repurchased more than a quarter-billion dollars of their own stock in 2018. On average, this research found, CEO pay at these 10 companies increased 46 percent — to $30.8 million. CEOs are, in effect, continuing to pocket an excessive share of America's corporate wealth.

Potential revenue from a federal CEO pay gap tax

In 2018, 323 profitable S&P 500 firms had CEO-worker pay ratios that stretched over 100 to 1. If these corporations had to pay a corporate income tax penalty, the federal government would have collected as much as $17.2 billion in additional 2018 federal taxes (see graduated rates in table below). This estimate assumes no change in corporate compensation practices in response to the tax. Ideally, firms would change their behavior, by moving to narrow their internal pay gaps.

S&P 500 potential tax liabilities, by pay ratio group

Pay ratio group	Tax rate increase	Potential increase in tax liability
More than 500	+5 percentage points	$4.2 billion
More than 400 but not more than 500	+4 percentage points	$2.2 billion
More than 300 but not more than 400	+3 percentage points	$3.6 billion
More than 200 but not more than 300	+2 percentage points	$4.1 billion
More than 100 but not more than 200	+1 percentage points	$3.1 billion
Total		**$17.2 billion**

Sources: Pay ratios: Most recent corporate proxy statements as of June 1, 2019. Tax revenue based on U.S. pre-tax profits reported in 10-K forms and assumes no change in behavior.

To get a sense of just how much the federal government could accomplish with revenue from a CEO pay gap tax, we have compared just how much specific firms would have owed, based on their 2018 pay ratios and U.S. profits figures, with several funding options.

What CEO pay gap taxes on specific firms could finance

Company	CEO-worker pay ratio, 2018	U.S. pre-tax profit, 2018 (thousands)	tax liability at 21% (thousands)	Increase in liability if tax rate was 26% on ratios above 500 (thousands)	Tradeoff
Walmart.	1,076	$15,875,000	$3,333,750	$793,750	Food stamp benefits for 520,997 people[10]
Marathon Petroleum	714	$4,568,000	$959,280	$228,400	Heating assistance for 126,000 low-income Minnesotans for over a year[11]
PepsiCo	545	$3,864,000	$811,440	$193,200	Lead pipe replacement in Flint, Pittsburgh, and Newark[12]
Target	767	$2,942,000	$617,820	$147,100	Plastic bag clean-up in Los Angeles for about 6 years[13]
McDonald's	2,124	$2,218,000	$465,780	$110,900	Food stamp benefits for 72,791 people for a year
CVS Health	618	$1,406,000	$295,260	$70,300	Medicare Part D benefits for 33,977 people for a year[14]

Sources: Pay ratios: Most recent corporate proxy statements as of June 1, 2019. Tax revenue based on U.S. pre-tax profits reported in 10-K forms and assumes no change in behavior.

City and state-level pay ratio tax proposals

Action on CEO pay gap taxes has been moving faster at the state and local than the federal level. In 2018, Portland became the first to apply a tax penalty on publicly traded companies with wide gaps. Portland's standard business license tax sets a 2.2 percent levy on adjusted business net income. The city's new inequality surtax increases business tax liability by 10 percent for companies with CEO-worker pay ratios of more than 100 to 1 and 25 percent for companies with ratios over 250 to 1. A large company that owes the city $100,000 for its business license tax and has a pay ratio of 175 to 1 would pay an additional $10,000 in surtax.

More than 500 corporations that do business in the city are subject to the Portland pay ratio surtax. Many of these companies regularly appear on lists of America's highest-paid CEOs, among them Goldman Sachs, Oracle, Honeywell, Wells Fargo, and General Electric. In the first year of this innovative tax measure, the Oregon city generated approximately $3.4 million, the amount expected based on the tax design. San Francisco will have a ballot measure for a CEO pay gap tax on the March 2020 ballot. The city controller's office expects that a ratio tax would generate $140 million per year for mental health services.

Legislators in seven other states — California, Minnesota, Rhode Island, Connecticut, Illinois, Massachusetts, and Washington — have introduced similar pay-ratio tax legislation.

A catalog of CEO pay reforms

Tax penalties on extreme gaps in CEO-worker compensation represent one promising approach to building corporate pay equity. But activists and experts are also advancing a host of other innovative ideas for creating more equitable and effective corporate compensation systems.

This section offers the most comprehensive available catalog of policy options for reining in CEO pay. These options cover reforms in everything from corporate governance to government contracts and subsidies. Members of Congress have introduced legislation that speaks to some of these options. Others are pending before legislative bodies in U.S. cities and states — and nations around the world.

All these proposals, if enacted, would build on the progress against CEO pay excess registered over recent years. In 2010, the federal Dodd-Frank financial reform act put into place provisions that require corporate pay ratio disclosure, shareholder "Say on Pay," and a variety of other reforms. Incredibly enough, some of the Dodd-Frank reforms enacted back in 2010 have still not gone into actual effect, thanks to massive corporate lobbying pressure on federal regulators.

How best to evaluate the CEO pay reforms currently pending in the United States and beyond? IPS has developed, as a guide, the following principles for effective and equitable corporate compensation.

Principles for a Better CEO Pay System

1. Encourage narrower CEO-worker pay gaps.

As top executives focus on funneling corporate resources to shareholders and themselves, workers are not getting a fair reward for their labor. Extreme pay gaps also endanger enterprise effectiveness. Management guru Peter Drucker believed that the ratio of pay between worker and executive can run no higher than 25-to-1 without damaging company morale and productivity. Researchers have documented that enterprises operate more effectively over the long term when they tap into — and reward — the creative contributions of all employees.

2. Eliminate taxpayer subsidies for excessive pay

Ordinary taxpayers should not have to foot the bill for excessive executive compensation. And yet they do. Government contracts and subsidies routinely make mega millionaires out of corporate executives, and tax loopholes such as the preferential treatment of investment fund managers' carried interest income perpetuate our out of control executive pay system.

3. Encourage reasonable compensation limits and counter short-termism

The greater the annual reward an executive can receive, the greater the temptation to make reckless decisions that generate short-term earnings at the expense of long-term health for the corporation and the broader economy and environment. Government policies can encourage more reasonable compensation levels without micromanaging pay levels at individual firms.

4. Bolster accountability to shareholders

On paper, the corporate boards that determine executive pay must answer to shareholders. In actual practice, top executives typically dominate corporate boards. Recent reforms have made some progress toward forcing boards to justify to shareholders the compensation they award to executives.

5. Extend accountability to broader stakeholder groups

In August 2019, the Business Roundtable declared that the purpose of a corporation is not just to serve shareholders (their official position since 1997), but "to create value for all our stakeholders." To go beyond rhetorical statements, pay practices need to encourage CEO decisions that take into account the long-term health of the planet and the interests of all corporate stakeholders, including consumers, employees, and communities.

CEO PAY REFORMS RELATED TO TAX POLICY	
Raising the tax rate on firms with wide gaps between CEO and worker pay	The city of Portland, Oregon is the first jurisdiction to impose a tax penalty on companies with extreme pay gaps. Firms that pay their CEO more than 100 times their median worker pay owe an extra 10 percent of their business tax bill. Firms over 250 times face a 25 percent extra tax. A number of other U.S. municipal, state, and federal lawmakers have proposed tying tax rates to CEO-worker pay ratios. In the UK, the Labour Party has called for a new 2.5 percent corporate tax on any executive pay that runs over 20 times the national living wage and a 5 percent tax on pay that runs over 20 times the national median wage.
Ending the preferential capital gains treatment of carried interest	Under current rules, 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. • Sen. Tammy Baldwin and Rep. Bill Pascrell have introduced the Carried Interest Fairness Act of 2019 to eliminate the "carried interest" loophole. This legislation would generate between $12 billion and $14 billion over 10 years. • The Stop Wall Street Looting Act, introduced in July 2019, would also eliminate this loophole, as part of a broader plan to end private equity's predatory practices.
A luxury excise tax on excessive CEO pay	Former CEO and corporate board veteran Steven Clifford has proposed a 100 percent tax on any pay beyond $6 million. As Clifford points out, "numerous studies have shown that large financial incentives at the CEO level harm performance by narrowing vision, limiting creativity and innovation, and focusing exclusively on short-term results."
Limiting the deductibility of excessive pay	In 1993, Congress amended the tax code to prevent corporations from deducting of 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 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. Pay above $1 million going to other highly paid employees — such as traders at large Wall Street firms — remains fully deductible. Thousands of major bank employees make over $1 million per year.

	• Sens. Jack Reed (D-RI) and Richard Blumenthal (D-CT) and Rep. Lloyd Doggett (D-TX) have sponsored legislation that would extend the $1 million deductibility cap to all forms of compensation for all employees, generating an estimated about $20 billion over 10 years. • Rep. Barbara Lee's Income Equity Act would deny employers a tax deduction for any excessive pay that runs greater than 25 times the median compensation paid to full-time employees or $500,000. • Richard Freeman and Douglas Kruse of Harvard University and Joseph Blasi of Rutgers University have proposed that Congress only allow tax deductions for executive bonuses when corporations award as much incentive pay "to the bottom 80 percent of their workforce as they do to the top 5 percent."
Making firms pay for the dislocations excessively paid execs help cause	Firms with excessive executive pay have contributed to gentrification pressures that have made it increasingly difficult for people of modest means to find affordable housing, particularly in high-cost cities. • Members of the San Francisco Board of Supervisors have proposed an "IPO tax" that would function in part as a tax increase on executive stock-based compensation. This would raise $100 million to $200 million in the first two years, to be spent on housing, transportation, and health programs. • In 2016, San Francisco housing advocates proposed a 1.5 percent tax on the lush payrolls of the city's high-tech sector to fund affordable housing and homeless services. Firms affected would include Google, Twitter, Uber, Airbnb, and Salesforce. The proposal, fiercely opposed by the tech industry, has been stalled.
Limiting deferred pay	Most CEOs at large companies now legally shield unlimited amounts of compensation from taxes through special deferred accounts set up by their employers. By contrast, ordinary taxpayers face strict limits on how much income they can defer from taxes via 401(k) plans. These special deferred compensation plans burden U.S. taxpayers and widen the divide between executives and ordinary workers, whose pension benefits have declined significantly. • In 2007, the Senate passed a minimum wage bill that would have limited annual executive pay deferrals to $1 million, but the provision was dropped in conference committee.
PAY DISCLOSURE REFORMS	
Gender pay gap disclosure	The average U.S. woman earns 80 cents for every dollar a man earns. For women of color, that ratio runs far less. African-American women earn 61 cents to every dollar a white man earns, Native American women earn 58 cents and Latina women just 53 cents. Requiring corporations to disclose their own gender pay gaps would help reveal which firms are contributing the most to gender disparities. • Congress could require U.S. corporations with 100 or more employees to disclose their gender pay gaps to the public. This would impose very little cost on companies, since a new EEOC rule requiring reporting of pay data by race and gender will be soon going into effect. The Trump administration tried to roll back this 2016 Obama reform, but a federal court recently defended it. • In the UK, where a conservative government is already requiring gender pay gap disclosure for private and publicly held companies with over 250 employees, the Equality Trust has proposed additional gender-related reforms. These include requiring all large corporations to prepare and report on action plans for reducing their gender pay gap and requiring corporations with large gender pay gaps to conduct audits to investigate the cause of the disparities. The Equality Trust proposal would also make corporate access to government grants and contracts dependent on having a robust strategy to address gender pay inequality.

Racial pay gap disclosure	As of the last quarter of 2018, median white workers make over 30 percent more than the typical black and Latino worker. Requiring disclosure of racial pay gaps would reveal which corporations have the greatest pay discrepancies. • Congress could require U.S. corporations with 100 or more employees to disclose their racial pay gaps. This would impose very little cost on companies, as noted above, since a new EEOC rule is about to go into effect that requires reporting of pay data by race and gender.
CEO-worker pay gap disclosure for privately held companies	Only publicly held firms must now report to the SEC the compensation of their top executives and their CEO-median worker pay gaps. But extreme pay divides at large privately held corporations pose equally significant threats to our economic health. These divides contribute to our country's extreme economic inequality and encourage high-risk executive behavior. • Congress could expand on the 2008 Government Funding Transparency Act, which requires certain federal contractors to disclose their five top-paid officers' pay. The rule applies to companies that earn at least 80 percent of their revenue from federal contracts, grants, and loans and that received $25 million in federal funding the previous year.
Disclosure of executive versus worker raises	Rep. Nydia Velázquez (D-NY) has introduced a bill, the Greater Accountability in Pay Act (H.R. 4242), which would require publicly held corporations to annually disclose the ratio between pay raises for top executives and median employees.
PAY REFORMS TIED TO CONTRACTS, SUBSIDIES, OTHER PUBLIC SUPPORT	
Leveraging government procurement dollars to discourage excessive executive compensation	By law, the U.S. government denies contracts to companies that discriminate, in their employment practices, on race or gender. Our public policy sends the clear message that our tax dollars should not be subsidizing racial or gender inequality. We could also leverage the public purse to discourage extreme economic inequality. • Sen. Bernie Sanders released a broad pro-union Workplace Democracy Plan in August 2019 that includes a ban on federal contracts to firms with CEO-worker pay ratios of more than 150 to 1 or that outsource jobs, pay workers less than $15 an hour, or engage in union busting. As part of his presidential bid, Sanders committed to achieving these contracting reforms by executive order. • Rep. Jan Schakowsky introduced the Patriot Corporations of America Act (HR 929) in 2013 to extend tax breaks and federal contracting preferences to companies that meet good behavior benchmarks, including CEO-worker pay ratios of 100-1 or less. • At the state level, a Rhode Island bill would give preferential treatment in state contracting to corporations that pay their CEOs no more than 25 times their median worker pay. A Connecticut bill would disqualify companies with CEO-worker pay ratios of more than 100 to 1 from gaining state subsidies and grants. • The UK Labour Party has proposed a ban on government contracts to companies that pay their top execs over 20 times what their lowest-paid workers are making.
Pay ratio-linked corporate subsidies and bailouts	All forms of federal, state, and local corporate welfare could be required to incorporate CEO-worker pay ratio guidelines in their qualification standards. • In 2015, then-Republican congressman Mick Mulvaney authored an amendment designed to prevent the U.S. Export-Import Bank from subsidizing any U.S. company with annual CEO pay over 100 times median worker pay. Mulvaney currently directs the Office of Management and Budget and serves as President Trump's acting Chief of Staff. While it did not become law, but Mulvaney's proposal suggests potential for bipartisan action.

	• The European Union already applies similar pay ratio standards to state aid for failing banks. Bailed-out banks operating within the EU have to cap executive pay at no more than 15 times the national average salary or 10 times their average employee wage.
CEO pay limits at public (or publicly supported) institutions	In several states and countries, lawmakers and other groups have worked to crack down on executive excess at firms receiving taxpayer support. • A 2013 New York State executive order prohibits service providers that annually average over $500,000 in state support and receive at least 30 percent of their annual in-state revenue from state funds from using more than $199,000 in state funds to pay individual executive compensation. The prohibition has survived court challenges. • Unions pushed ballot initiatives in both Massachusetts and California in 2014 aimed at limiting CEO pay at hospitals that receive taxpayer subsidies. In both cases, the unions withdrew the initiatives after popular support helped them win other concessions. • Former French President François Hollande capped executive pay at firms where the government owns a majority stake at 450,000 euros, or essentially 20 times the minimum wage. Management consultant Douglas Smith has called for a similar pay ratio limit on U.S. firms receiving taxpayer funds.
Fannie Mae and Freddie Mac executive pay caps	Fannie Mae and Freddie Mac are quasi-public private institutions founded by the federal government to make housing affordable for lower-income families. In 2008, with both enterprises on the verge of collapse during the housing crisis, the federal government took operating control. In 2015, Congress passed a bill to cap the paychecks of Fannie Mae and Freddie Mac CEOs at no more than $600,000. In recent years, Fannie and Freddie have exploited loopholes in the law to boost pay to $4.2 million for top executives. Each enterprise has shifted duties from the pay-limited CEO position to the uncapped position of president. This loophole should be closed.
Rein in CEO pay at nonprofit organizations	Under the 2017 Republican tax law, nonprofits may no longer deduct executive compensation above $1 million off their federal taxes. This represents a positive step, but more could be done to ensure that taxpayers are not subsidizing excessive pay at nonprofits that already receive preferential tax status. • Economist Dean Baker has proposed that paying executives no more than $400,000 per year — the salary of the U.S. president — should become a condition of keeping nonprofit status for tax purposes. Another approach would be to set the cap at no more than 20 times the pay of a nonprofit's lowest-paid worker. • In Connecticut, a state lawmaker has introduced a bill that would require nonprofit hospitals that pay executives more than $500,000 to pay property taxes.
Leveraging public pension funds to encourage narrower CEO-worker pay ratios	Public employee pension fund investments offer state governments a significant opportunity to influence corporate pay behavior. • The city of San Francisco has adopted an advisory resolution urging the San Francisco Employees Retirement System to consider executive compensation and pay ratios during decision making on investments and proxy voting. The system holds $21 billion in assets. The resolution asks the pension board to report CEO-worker pay ratios at firms where the pension system invests and to set guidelines for what constitutes "excessive" pay. • The New York State Pension Fund has a similar agreement that urges several large corporations to reexamine their CEO and executive pay and adopt policies that take into account the compensation of the rest of their workforces.

CEO PAY REFORMS LINKED TO CORPORATE GOVERNANCE	
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. Buybacks have become a pervasive form of legal stock market manipulation. In the first year after the Republican tax cuts, U.S. corporations announced a record-setting $1 trillion of stock buybacks. • Sen. Tammy Baldwin (D-WI) has introduced a bill that would ban open market buybacks. • Sen. Bernie Sanders (I-VT) and Rep. Ro Khanna (D-CA) have authored a bill that would prohibit buybacks where CEO pay exceeds 150 times the compensation that goes to a company's median pay. • Sen. Sherrod Brown (D-OH) has introduced a bill requiring public companies to issue a worker dividend equal to $1 for every $1 million spent on stock buybacks. In the last session, Senators Cory Booker (D-NJ) and Bob Casey (D-PA) introduced a similar Worker Dividend Act.
Corporate board diversity	In at least a dozen European countries, workers have the right to representation in their company's top administrative and management bodies. This has had a moderating effect on CEO pay levels. In Germany, a nation with one of the world's most highly developed systems for including workers in corporate decision-making, average CEO pay levels ran less than half the U.S. average in 2016, according to Bloomberg. In a recent poll of likely U.S. voters, 52 percent support placing workers on major corporate boards and only 23 percent stand opposed. • Sen Elizabeth Warren (D-MA) has introduced the Accountable Capitalism Act to require corporations with annual revenues over $1 billion to allow employees to pick at least 40 percent of board members. Senators Tammy Baldwin (D-WI) and Cory Booker (D-NJ) have advanced similar proposals, and Sen. Sanders has announced plans to do so.
Signing and merger bonus ban	"Golden hellos" and merger bonuses give executives a powerful incentive to wheel and deal instead of working to build enterprises fit for long-term success. In 2013, Swiss voters adopted a national ballot initiative that, among other provisions, prohibits executive sign-on and merger bonuses.
'Skin in the game' mandate	Small-scale entrepreneurs seldom behave recklessly because they have their own personal wealth tied up in their business. Executives of large corporations, on the other hand, face little downside risk for irresponsible behavior. • In September 2019, Rep. Katie Porter (D-CA) introduced a bill requiring publicly held corporations to disclose whether they have established procedures to recoup compensation from top executives to cover the cost of fines or penalties against their company. • Investment adviser Vincent Panvini has proposed that executives be required to place a share of their own financial assets in escrow for five or ten years. If a CEO's company loses value over that time, the CEO would forfeit money from that escrow.
Ending the stock option accounting double standard	Accounting rules allow firms to lower their tax bill by claiming deductions for stock options that are much higher than the option value they report in their financial statements. This accounting discrepancy encourages corporate boards to hand executives huge stock option windfalls. • In 2012, Senators Carl Levin (D-MI) and Sherrod Brown (D-OH) included a provision in the Cut Unjustified Tax Loopholes Act (S. 268) that would have required the corporate tax deduction for stock option compensation to be not greater than the stock option book expense shown on a corporation's financial statement. That year, the Joint Committee on

	Taxation estimated that ending this tax break would raise $24.6 billion over 10 years. An updated revenue estimate would likely be higher, since tax avoidance using the stock option loophole has grown substantially.
A CEO pay limit for firms in bankruptcy	Private equity funds have been connected to a rash of bankruptcies in recent years, particularly in the retail sector. A significant portion of the companies that have filed for bankruptcy carried huge debt loads left over from leveraged buyouts by private equity firms. This trend has sparked increased interest in ensuring that CEOs and other executives at distressed firms do not enrich themselves while eliminating jobs and pensions. • The Stop Wall Street Looting Act builds on the Bankruptcy Abuse Prevention and Consumer Protection Act of 2005 (Sec. 331). This existing law prohibits companies in bankruptcy from giving executives any “retention” bonus or severance pay that runs over ten times the average bonus or severance awarded to regular employees in the previous year. The new bill would strengthen this legislation by: 1) closing a loophole that exempts “performance-based pay” and expanding the ban beyond top executives to the next 20 most highly paid employees, consultants, and department heads (Sec.304). 2) banning special payments to high-level executives if the company has not paid promised severance pay to employees or has reduced employee benefits within the year before declaring bankruptcy (Sec. 305). 3) blocking courts from approving a bankruptcy exit plan if top executives will receive payments either excessive or not generally applicable to other employees (Sec. 306).
Abolish executive performance pay	At best, stock options and other performance-pay incentives have CEOs thinking more about their own personal rewards than long-term enterprise sustainability. At their worst, “pay for performance” deals encourage criminal behavior. • Michael Dorff of the Southwestern Law School has proposed a ban on “performance pay.” • Bart Naylor of Public Citizen has proposed that stock options be banned as a form of compensation for financial firm employees. Short of that, Naylor argues they should at least be kept — and not cashed in — for at least two years after retirement.
‘Say on Pay’ with teeth	Under the 2010 Dodd-Frank law, U.S. shareholders gained the right to a non-binding vote on executive pay packages. Several options could further empower shareholders. • Dean Baker of the Center for Economic and Policy Research has proposed that corporate directors have their compensation denied if a CEO pay package they have approved fails to gain a majority in a “say on pay” vote. • The UK now requires public companies to give shareholders a binding vote on compensation every three years. A former EU internal markets commissioner has proposed that shareholders also have the power to vote on the ratio between the lowest and highest-paid employees in a firm. • In 2011, Australia gave shareholders the power to remove directors if a company's executive pay report gets a “no” vote from 25 percent of shareholders or more at two consecutive annual meetings.
Clawbacks	Executives should not get to keep compensation based on unachieved performance goals. • Section 954 of the 2010 Dodd-Frank law requires executives to repay compensation gained as a result of erroneous data in financial statements. Executives must repay “excess” incentive compensation received during the three-year period preceding an accounting restatement. Clawback provisions in the earlier Sarbanes-Oxley Act only apply to restatements resulting from misconduct. The SEC finally issued a proposed rule for this provision in July 2015, but no further action has been taken.

	• Regulators should develop a new rule that goes beyond top executives to include high-bonus financial market traders. And the clawback period — three years — should be extended to 10 years, the case under UK rules.
WALL STREET PAY REFORMS	
Pay restrictions on executives of large financial institutions	Executive compensation played a key role in the reckless behavior that led to the 2008 financial crash. In response, Section 956 of the 2010 Dodd-Frank financial reform law prohibits large financial institutions from granting incentive-based compensation that "encourages inappropriate risks." But federal regulators, nearly a decade later, have still not implemented this provision. After issuing a quite weak initial proposal in 2011, regulators issued a new proposal in 2016. As the Institute for Policy Studies explained in comments to the SEC, the proposed rule rates as weak in several areas. The rule, for instance, proposes much too lenient bonus deferral periods, inadequately restricts stock-based pay, and allows management too much discretion over enforcement. As noted above, some experts argue that stock options should be abolished entirely for financial executives because they encourage short-termism.
Require top financial execs to contribute compensation in a fund to pay for penalties	Following the 2008 financial crash, senior banking executives were not held personally responsible for fraudulent activity, leaving shareholders to shoulder the financial penalties. • In July 2019, Rep. Tulsi Gabbard (D-HI) introduced a bill that 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. The bill draws on a New York Federal Reserve proposal, based on the argument that deferring pay would help change the reckless culture on Wall Street and motivate managers to police one another.
Banker bonus limits	• EU rules introduced in 2014 limit banker bonuses to no more than annual salary, or up to 200 percent of annual salary with shareholder approval. The cap applies to bankers in non-EU banks located in the EU, as well as senior staff — including Americans — working for EU-based banks anywhere in the world. This reform aims to help counter the "bonus culture" that encourages high-risk investing.
Strict caps on executive compensation for bailout firms — before the next crisis	• In 2009, the Senate approved an amendment that would have capped pay at bailout companies at $400,000, the salary of the U.S. president. The EU enacted similar rules in 2014. Bailed-out banks now have to cap their executive pay at no more than 15 times the national average salary or 10 times the wage of the average worker at the bank. New UK rules ban bonuses for executives of banks receiving bailouts. Given a clear warning about the consequences for their own paychecks, executives might think twice about taking actions that endanger their own future — and ours.
Cracking down on investment fund manager 'monitoring' fees	Private equity fund managers make a killing off the so-called "monitoring" or "transaction" fees they charge corporations they have taken over through leveraged buyouts that typically drain value from the acquired enterprise. • The Stop Wall Street Looting Act applies a 100 percent tax on such fees paid by acquired firms to private fund managers.

Appendix 1: U.S. Corporations with Pay Gaps above 1,000 to 1

	Company	CEO	CEO pay	Median worker pay	CEO-worker pay ratio	Industry
1	Tesla, Inc.[15]	Elon Musk	2,284,044,884	56,163	40,668	Automobiles & Components
2	Abercrombie & Fitch Co.	Fran Horowitz-Bonadies	8,481,742	2,317	3,660	Retailing
3	Gap, Inc.	Arthur Peck	20,793,939	5,831	3,566	Retailing
4	Mattel, Inc.	Ynon Kreiz	18,707,283	5,489	3,408	Consumer Durables & Apparel
5	Align Technology, Inc.	Joseph Hogan	41,758,338	13,180	3,168	Health Care Equipment (orthodontic braces)
6	Yum China Holdings, Inc.	Joey Wat	10,608,080	3,885	2,731	Consumer Services (fast food)
7	Aptiv Plc	Kevin Clark	14,123,103	5,414	2,609	Automobiles & Components
8	Axon Enterprise, Inc.	Patrick Smith	246,026,710	95,157	2,585	Capital Goods (tasers)
9	ManpowerGroup, Inc.	Jonas Prising	11,444,010	4,563	2,508	Commercial & Professional Services
10	G-III Apparel Group Ltd.	Morris Goldfarb	17,698,980	7,101	2,493	Consumer Durables & Apparel
11	Chipotle Mexican Grill, Inc.	Brian Niccol	33,600,000	13,779	2,450	Consumer Services (fast food)
12	Williams-Sonoma, Inc.	Laura Alber	27,254,166	11,137	2,447	Retailing
13	Universal Corp.	George Freeman III	3,711,199	1,528	2,429	Food, Beverage & Tobacco (tobacco merchant)
14	Jabil, Inc.	Mark Mondello	11,396,365	5,091	2,238	Technology Hardware & Equipment
15	SKECHERS USA, Inc.	Robert Greenberg	27,361,406	12,673	2,159	Consumer Durables & Apparel
16	McDonald's Corp.	Stephen Easterbrook	15,876,116	7,473	2,124	Consumer Services (fast food)
17	Western Digital Corp.	Stephen Milligan	19,738,381	10,999	1,795	Technology Hardware & Equipment
18	Nu Skin Enterprises, Inc.	Ritch Wood	6,065,610	3,382	1,793	Household & Personal Products
19	VF Corporation	Steven E. Rendle	17,842,521	10,099	1,767	Consumer Durables & Apparel
20	Estee Lauder Companies	Fabrizio Freda	48,753,819	28,845	1,690	Household & Personal Products
21	Linde Plc	Stephen Angel	66,149,326	40,601	1,629	Materials (chemicals)
22	Foot Locker, Inc.	Richard Johnson	13,411,422	8,241	1,627	Retailing
23	The TJX Cos., Inc.	Ernie Herrman	18,822,770	11,791	1,596	Retailing
24	Motorcar Parts of America	Selwyn Joffe	2,994,629	1,879	1,594	Automobiles & Components
25	SYNNEX Corp.	Dennis Polk	7,207,201	4,615	1,562	Technology Hardware & Equipment

	Company	CEO	CEO pay	Median worker pay	CEO-worker pay ratio	Industry
26	Discovery, Inc.	David Zaslav	129,499,005	85,704	1,511	Media & Entertainment
27	Walt Disney Co.	Robert Iger	65,662,806	46,127	1,424	Media & Entertainment
28	Weight Watchers International, Inc.	Mindy Grossman	8,798,135	6,194	1,420	Consumer Services
29	American Eagle Outfitters	Jay Schottenstein	10,211,180	7,332	1,393	Retailing
30	Hanesbrands Inc.	Gerald Evans, Jr.	8,832,708	6,348	1,392	Consumer Durables & Apparel
31	J. C. Penney Co., Inc.	Jill Soltau	16,749,378	12,939	1,294	Retailing
32	Ross Stores, Inc.	Barbara Rentler	12,248,994	10,027	1,222	Retailing
33	Chico's FAS, Inc.	Shelley Broader	7,604,998	6,242	1,218	Retailing
34	Fresh Del Monte Produce	Mohammad Abu-Ghazaleh	6,666,331	5,525	1,207	Food, Beverage & Tobacco
35	Oracle Corp. (Co-CEOs)	Mark Hurd	108,295,023	89,887	1,205	Software & Services
		Safra Catz	108,282,333	89,887	1,205	Software & Services
36	Yum! Brands, Inc.	Greg Creed	14,007,038	11,865	1,181	Consumer Services (fast food)
37	Designer Brands, Inc.	Roger Rawlins	8,273,914	7,276	1,137	Retailing
38	Norwegian Cruise Line	Frank Rio	22,593,061	20,101	1,124	Consumer Services
39	T-Mobile US, Inc.	John Legere	66,543,571	59,653	1,116	Telecommunication Services
40	Kohl's Corp.	Michelle Gass	12,340,445	11,070	1,115	Retailing
41	Ralph Lauren Corp.	Patrice Louvet	25,449,216	22,913	1,111	Consumer Durables & Apparel
42	Avanos Medical, Inc.	Joseph Woody	6,449,263	5,820	1,108	Health Care Equipment & Services
43	Seagate Technology Plc	William D. Mosley	9,332,073	8,493	1,099	Technology Hardware & Equipment
44	Sanmina Corp.	Robert Eulau	18,882,608	17,366	1,087	Technology Hardware & Equipment
45	Barnes & Noble Education	Michael Huseby	6,046,444	5,604	1,079	Retailing
46	Walmart, Inc.	C. McMillon	23,618,233	21,952	1,076	Retailing (food and staples)
47	Starbucks Corp.	Kevin Johnson	13,382,480	12,754	1,049	Consumer Services (fast food)
48	Express, Inc.	David Kornberg	6,479,463	6,339	1,022	Retailing
49	The Coca-Cola Co.	James Quincey	16,701,328	16,440	1,016	Food, Beverage & Tobacco
50	AMC Entertainment	Adam Aron	9,470,202	9,347	1,013	Media & Entertainment
	MEDIAN		**15,876,116**	**10,027**	**1,511**	

Sources: **Compensation:** Most recent corporate proxy statements as of June 1, 2019. **Industries:** Global Industry Classification Standards.**Companies:** Drawn from the Russell 3000 list of publicly traded firms.

Appendix 2: U.S. Corporations with Median Pay Below Poverty Line

Company	CEO-worker pay ratio	CEO pay	Median worker pay	Location of median worker	Total employees
Aptiv Plc	2,609	14,123,103	5,414	Not specified	143,000
Mattel, Inc.*	3,408	18,707,283	5,489	Indonesia	27,000
Gap, Inc.	3,566	20,793,939	5,831	United States	135,000
Hanesbrands Inc.	1,392	8,832,708	6,348	Not specified	68,000
McDonald's Corp.*	2,124	15,876,116	7,473	Hungary	210,000
Foot Locker, Inc.	1,627	13,411,422	8,241	United States	49,331
Seagate Technology Plc	1,099	9,332,073	8,493	Not specified	40,305
Ross Stores, Inc.	1,222	12,248,994	10,027	United States	88,100
VF Corporation	1,767	17,842,521	10,099	United States	62,799
Under Armour, Inc.	605	6,556,629	10,832	United States	15,000
Kohl's Corp.	1,115	12,340,445	11,070	United States	129,000
Dollar Tree, Inc.	835	9,398,842	11,250	United States	182,100
The TJX Cos., Inc.	1,596	18,822,770	11,791	United States	270,000
Yum! Brands, Inc.	1,181	14,007,038	11,865	United States	34,000
Avery Dennison Corp.*	696	8,709,697	12,523	China	30,000
Starbucks Corp.	1,049	13,382,480	12,754	United States	291,000
Amphenol Corp.	766	10,110,360	13,197	Not specified	73,600
Dollar General Corp.	770	10,602,517	13,773	United States	135,000
Chipotle Mexican Grill.	2,450	33,600,000	13,779	United States	73,000
L Brands, Inc.	321	4,553,310	14,186	United States	88,900
H&R Block, Inc.	879	14,337,793	16,319	United States	90,700
Carnival Corp.	813	13,515,884	16,622	Not specified	102,000
PVH Corp.	943	17,065,604	18,089	United States	38,000
Darden Restaurants, Inc.	871	15,770,151	18,097	United States	180,656
Advance Auto Parts, Inc.	480	8,856,135	18,460	United States	71,000
Royal Caribbean Cruises	640	12,422,715	19,396	Not specified	77,100
Norwegian Cruise Line.	1,124	22,593,061	20,101	Not specified	33,200
Whirlpool Corp.	578	11,847,762	20,485	Not specified	92,000

Company	CEO-worker pay ratio	CEO pay	Median worker pay	Location of median worker	Total employees
TE Connectivity Ltd.	493	10,237,011	20,758	Not specified	71,646
O'Reilly Automotive, Inc.	228	4,866,262	21,373	United States	78,882
Macy's, Inc.	582	12,733,691	21,885	United States	130,000
Walmart, Inc.	1,076	23,618,233	21,952	United States	2,200,000
Maxim Integrated Products	366	8,085,050	22,052	Not specified	7,149
Target Corp.	767	17,204,069	22,439	United States	360,000
Ralph Lauren Corp.	1,111	25,449,216	22,913	Not specified	24,300
Lowe's Cos., Inc.	459	10,525,890	22,921	United States	300,000
Capri Holdings Ltd.	329	7,607,476	23,128	United States	14,846
The Home Depot, Inc.	486	11,366,662	23,389	United States	413,000
AutoZone, Inc.	179	4,220,619	23,546	United States	89,000
Robert Half International	471	9,132,451	23,905	Not specified	231,600
Colgate-Palmolive	471	11,551,328	24,513	Not specified	34,500
Tapestry, Inc.	516	12,825,430	24,860	United States	20,800
Public Storage	369	9,182,000	24,909	United States	4,030
The Kroger Co.	483	12,037,872	24,912	United States	453,000
NIKE, Inc.	379	9,467,460	24,955	United States	73,100
Viacom, Inc.	784	19,955,161	25,469	United States	10,400
Ulta Beauty, Inc.	556	14,257,713	25,666	United States	44,000
Tractor Supply Co.	349	9,329,017	26,731	United States	30,500
S&P Global, Inc.	462	12,360,845	26,738	Not specified	21,200

Sources: **Compensation and employees:** Most recent corporate proxy statements as of June 1, 2019.
Poverty level: U.S. Census supplemental poverty threshold of $27,005 for a family of four who are renters in 2017 (most recent available).

Methodology: **Median worker location:** If the company did not specify the location in their proxy statement, we consulted corporate 10-K reports. If a company reported at least two-thirds of their employees in the United States, we assumed that was the location of their median worker.

Foreign-based median workers: Among firms with median worker pay below $27,005, eight disclosed that the location of their median employee was outside the United States and identified the country in which their median employee is based. In these cases, we adjusted the median pay figure to account for cost of living differences with the United States, using OECD purchasing power parity data. On this basis, we excluded five firms from the "poverty wage" list because their adjusted median wage exceeded the U.S. poverty level. There were 14 firms with median pay below the poverty line for which we could not identify the location of their median employee.

*At these firms with median workers located outside the United States, median pay after adjusting for international cost of living differences comes to: Mattel ($18,406), McDonald's ($14,381), Avery Dennison ($23,240).

Notes

[1] Based on the U.S. Census supplemental poverty threshold of $27,005 for a family of four who are renters in 2017 (most recent available). Eight firms disclosed that the location of their median employee was outside the United States and identified the country in which their median employee is based. In these cases, we adjusted the median pay figure to account for cost of living differences with the United States, using OECD purchasing power parity data. On this basis, we excluded five firms from the "poverty wage" list because their adjusted median wage exceeded the U.S. poverty level. There were 14 firms for which we could not identify the location of their median employee and therefore were unable to make a cost of living adjustment.

[2] Based on the 25 out of 50 companies with pay gaps above 1,000 to 1 that disclosed the status of their median employee and the 32 out of 50 that disclosed the country location of their median employee.

[3] Based on the graduated tax increases detailed below. Assumes no change in pay practices.

CEO-median worker pay ratio:	**Corporate tax rate increase:**
More than 100 but not more than 200	+1 percentage points
More than 200 but not more than 300	+2 percentage points
More than 300 but not more than 400	+3 percentage points
More than 400 but not more than 500	+4 percentage points
More than 500	+5 percentage points.

[4] Based on the trade-off calculator developed and maintained by the National Priorities Project, a project of the Institute for Policy Studies. Accessed in June 2019. https://www.nationalpriorities.org/interactive-data/trade-offs/

[5] Institute for Policy Studies analysis, based on Open Secrets data. https://www.opensecrets.org/overview/topindivs.php

[6] Based on the 25 out of 50 companies with pay gaps above 1,000 to 1 that disclosed the status of their median employee.

[7] Based on the 32 out of 50 companies with pay gaps above 1,000 to 1 that disclosed the country location of their median employee.

[8] The SEC pay ratio disclosure rule does allow companies to exclude some of their foreign-based workers from the calculation of median worker pay. But companies that go this route must make additional disclosures. If a company's non-U.S. employees account for 5 percent or less of its total employees, the firm may exclude all of those employees when making its pay ratio calculations. But in this circumstance, if the company chooses to exclude any non-U.S. employees, it must exclude all of them. If a company's non-U.S. employees exceed 5 percent of its total U.S. and non-U.S. employees, the firm may exclude up to 5 percent of its total employees who are non-U.S. employees.

[9] Based on the U.S. Census supplemental poverty threshold of $27,005 for a family of four who are renters in 2017 (most recent available). Eight firms disclosed that the location of their median employee was outside the United States and identified the country in which their median employee is based. In these cases, we adjusted the median pay figure to account for cost of living differences with the United States, using OECD purchasing power parity data. On this basis, we excluded five firms from the "poverty wage" list because their adjusted median wage exceeded the U.S. poverty level. There were 14 firms for which we could not identify the location of their median employee and therefore were unable to make a cost of living adjustment.

[10] U.S. Department of Agriculture, Supplemental Nutrition Assistance Program Participation and Costs, as of July 05, 2019. Monthly benefits per person, annualized. https://fns-prod.azureedge.net/sites/default/files/resource-files/SNAPsummary-7.pdf

[11] Star-Tribune, Feb. 14, 2018. In Minnesota, about 126,000 households relied on federal heating assistance in 2018, at a cost of $102 million. http://www.startribune.com/trump-s-proposed-elimination-of-heating-assistance-would-hit-rural-minnesotans-seniors/474107843/

[12] Post-Gazette, "PPWSA will pay for public, private water line replacement," January 29, 2018. https://www.post-gazette.com/local/2018/01/26/Lead-pipe-replacement-policy/stories/201801260178 Detroit Free Press, "Replacing Flint's lead pipes is double the estimate," May 27, 2016. New Jersey Star-Ledger, "One down, thousands more to go. Newark starts long, costly road toward replacing 15,000 lead pipes," March 14, 2019. https://www.nj.com/essex/2019/03/one-down-thousands-more-to-go-newark-starts-long-costly-road-toward-replacing-15000-lead-pipes.htmlhttps://www.freep.com/story/news/local/michigan/flint-water-crisis/2016/05/27/flint-lead-lines-water-crisis/85032096/

[13] Sapphos Environmental, Inc., "Ordinances To Ban Plastic Carryout Bags In Los Angeles County," October 28, 2010. https://dpw.lacounty.gov/epd/aboutthebag/pdf/FinalEIR.pdf

[14] 2019 Annual Report of the Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds, April 2019. (Table II.B1) https://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/ReportsTrustFunds/Downloads/TR2019.pdf

[15] This outlier ratio is based on a $2.2 billion stock option award to the CEO in 2018. According to the Tesla proxy statement, this award will fully vest over 10 years if the company's market capitalization increases to $650 billion (from a current $42 billion) and if the CEO achieves 12 of 16 performance benchmarks.

Institute for
Policy Studies