Commentary

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Greed's blowing pay gap all out of proportion

Around Labor Day, we read many discussions about the American economy. New York Times columnist David Brooks (Statesman, Sept. 9) wrote that the meritocracy in our country is "working too well." The real rewards are going to the top 10 percent, especially to "the relative few" who have the executive skills to transform organizations from the top, and to bottom quartile workers skilled at providing personal services.

Brooks' argument assumes that CEO and high-level executive salaries are justified by the hard results of their transformative talents and that the failure of people in the lowest quartile to earn a decent wage is their own fault. In his view, the race at the bottom goes to the cabinet-maker who knows how to sell himself to homeowners needing renovation work.

Brooks also claims the standard view of CEOs earning astronomical salaries and workers getting less than before is just not true: "Wages and benefits have made up about the same share of the GDP for 50 years." But according to Harold Meyerson (Washington Post, Sept. 4), an earlier story in Brooks' own newspaper (Aug. 28) "makes clear [that] wages and salaries now make up the lowest share of gross domestic product since 1947, when the government began measuring such things. Corporate profits, by contrast, have risen to their highest share of the GDP since the mid-'60s, a gain that has come chiefly at the expense of American workers." And Meyerson cites Goldman Sachs economists for corroboration.

Unless we all become post-modernist disbelievers in facts, Meyerson and Brooks can't both be right. What are we to do now?

I went in search of hard statistics, preferring sources that cannot be accused of liberal distortion. The Wall Street Journal's 2006 survey of executive compensation establishes that the pay gap between the average national CEO and the average worker is 411:1. Then I looked to history. In 1980, the gap ratio was 42:1; in 1996, 209:1; in 1997, 326:1. And those stats don't even include such things as option sales, retention bonuses and golden parachutes.

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J.P. Morgan claimed that the proper ratio of pay between top people and rank-and-file workers in a corporation should be no more than 20:1. Exceeding that caused social tensions. Why is his sound advice about the social consequences of exorbitant executive compensation being ignored? Can CEOs really be improving their transformative skills and performances in such quantum leaps?

An old poster child who disproves this is Gilbert Amelio at Apple Computer. Remember Apple lost $2 billion during his 17 months as CEO. He got a $6.7 million severance package. Then recall Ken Lay's pay for transforming Enron, or Dennis Kozlowski's richly rewarded transformative skills at Tyco.

What is really driving this disparity is who has the power to set salaries. Chief executive salaries are set by boards of directors made up of other executives and people like them. Just like the closed system that drives up the salaries of big-time college head football coaches, there are no outside restraints on the supposed free market forces at work.

I could say this is the result of unconscionable greed. But I don't have to. Peter Drucker, longtime Wall Street Journal columnist and 2002 recipient of the Presidential Medal of Freedom, already did. He also called down-sizing, out-sourcing, and low wages paid to workers morally unacceptable cruelty.

How do supporters of the status quo defend what is going on on the bottom rungs of the ladder, where companies such as Wal-Mart have been criticized as evil forces for putting out of business companies that used to employ American workers at decent wages, and for paying its own American workers low wages and few benefits? Richard Vedder, an economist champion of the Wal-Mart revolution, cites the fact that Wal-Mart's average wage of $10 an hour is twice the minimum wage and that its insurance and stock ownership packages are better than other American retail companies.

Sounds good. But just think. What kind of yardstick is he using? The minimum wage in real dollars is $2 lower than it was in the mid-'60s. It was last raised in 1997. If it had risen in tandem with CEO pay since 1990, it would now be $23.03 per hour.

Then imagine how you would pay for your insurance and for lucrative stock options making average gross wages of $400 per week.

Lastly, I thought of my mom and dad. Average folks. Average IQs. Hard-working children of immigrants. There is no way in 2006 that a postal worker and a part-time cafeteria worker, starting with nothing, could construct the kind of comfortable but thrifty suburban life for a family of four they provided for me and my brother in the '50s and Æ60s.

Half of the citizens of our country are of average intelligence or below. Half have no more than average talents. Our country no longer assures them a good chance at a good life.

"Greed is good" was the line uttered by a reptilian movie villain named Gordon Gecko in 1987. Twenty years later, it has become an acceptable, but unconscionable creed.

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