

The Doubling of US Executive Pay

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A study by Lucian Bebchuk of Harvard Law School and Yaniv Grinstein published in the Oxford Review of Economic Policy (Vol 21, #2, 2005) carefully examines the growth of US top executive pay between 1993 and 2003. (The study is available at: <http://www.law.harvard.edu/faculty/bebchuk/pdfs/Bebchuk-Grinstein.Growth-of-Pay.pdf>).

The database is made up of the 1,500 public companies which make up the S&P 500, the Mid-Cap 400 and the Small-Cap 600 indexes. Together, they account for more than 80% of US public companies by market capitalization.

The definition of executive pay used in the study included cash, bonuses and equity-based pay such as stock options. Due to lack of information, it did not cover lucrative executive pensions.

The bottom line of the study is that the combined pay of the top 5 executives of these companies approximately doubled over the ten year period, from 5% to 10% of firm profits.

Average annual individual CEO pay at S&P 500 companies rose from \$3.7 Million in 1993, to more than \$10 Million after 1998 (reaching a high of \$17.4 Million in 2000 when the stock market peaked.) Total annual compensation of the top 5 executives of these companies rose from \$9.5 Million to more than \$20 Million. These numbers are adjusted for inflation.

In total, the top 5 executives of these 1,500 companies (or 7,500 top executives) earned \$350 Billion over the 10 year period, and currently probably earn well in excess of \$40 Billion per year.

One of the driving-forces behind the major increase in top executive pay from 1993 to 2003 was a shift to equity-based compensation, from 41% to 59% of total compensation in the case of the CEOs of S&P 500 companies.

The authors find that almost none of the executive pay increase can be explained by improved financial performance of firms, or by changes in the make-up of the top 1,500 companies. Elsewhere, Professor Bebchuk is one of many experts who has stressed the power exercised by top executives over company Boards of Directors.

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