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Fast Food CEOs Make The Most Relative To Their Average Employees, Study Shows, More Than In Retail, Media Or Construction

By Angelo Young

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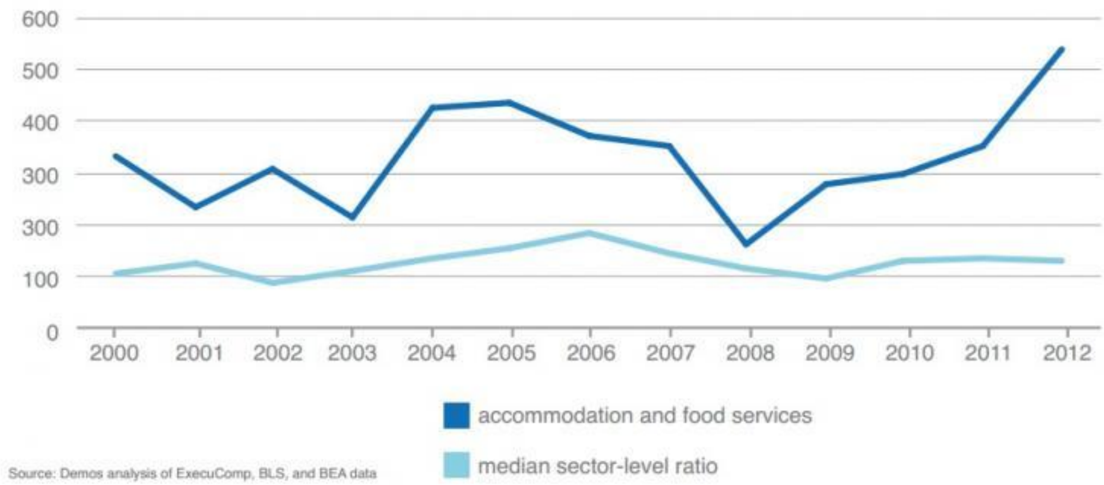
Shantel Walker has been working on and off for Papa John's pizza since she was in high school. The 32-year-old New York City resident says that over her 15 years at a Brooklyn outlet of the Louisville, Ky.-based pizza chain (NASDAQ:PZZA), she's received only two raises that weren't mandated by federal or state minimum wage hikes. Today she makes $8.50 an hour, 50 cents above the New York State minimum wage, but her employer doesn't currently use her more than 24 hours a week.

At the top end of the Papa John's pyramid, CEO John Schnatter, the 51-year-old founder of the pizza chain, received a 26-percent increase in his base salary, to $900,000, according to a recent regulatory filing. His total compensation package last year: $2.1 million.

Figure 2. The CEO-To-Worker Compensation Ratio In Accommodation And Food Services Is Much Higher Than The Rest Of The Economy



The CEO-to-worker compensation ratio of publicly listed accommodation and food services companies compared to the median levels for other major sectors of the economy show the greatest disparity between CEO pay and average employee wages. Demos

That income disparity between high-level executives and average employees is more extreme in the fast-food industry than in other areas of the service economy, according to a report released Tuesday by Demos, a liberal economic policy think tank. The study suggests that creating instability among large numbers of employees by not paying them enough to cover the cost of living creates a climate that can be detrimental to shareholder interests.

Income disparity has become a major economic and political issue in the U.S. in recent years as more attention is being paid to what corporate compensation committees give their top executives every year in industries that rely heavily on employees who earn so little that they rely on public assistance programs like food stamps and Medicaid to survive. “I don’t even think this is not fair; I know it’s not fair,” said Walker, who, like many working Americans in the hospitality, food services and retail industries, needs food stamps to eat. “We can’t afford the daily necessities we need to survive in this city. Right now I’m basically catching up on life, catching up on my bills.”

Catherine Ruetschlin, a Demos policy analyst, examined the compensation packages of publicly listed companies in various industries between 2000 and 2012 and found that the large, publicly listed companies in the accommodation and food services sector led in the disparity between what top executives make in salary, bonuses and stock-based compensation, versus what their average workers earn.

While it’s not surprising a sector that employs so many low-wage earners would have one of the greatest disparities between CEO compensation and the typical employee, the data show the gap is notable even by service-sector standards.

“We found that the accommodation and food services sector is a clear outlier over the period,” said Ruetschlin. “It exhibited the highest CEO-to-worker compensation ratio out of all sectors in the economy.”

Table A. CEO-to-Worker Compensation Ratio by Sector

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Averag 2000-20
accommodation and food services	334	232	308	215	429	439	374	350	161	280	300	352	543	332
retail	145	174	250	206	248	278	274	309	171	177	228	226	304	230
information	540	111	110	129	231	206	196	219	110	92	132	140	513	210
construction	102	203	309	234	325	490	184	164	189	158	107	92	93	204
mining	176	75	87	102	135	346	330	199	282	106	134	175	121	174
health care and social assistance	163	456	187	129	155	168	193	122	84	139	114	134	171	170
finance and insurance	266	237	127	175	205	207	180	145	84	78	106	96	123	156
arts, entertainment, and recreation	51	191	59	309	63	59	299	147	170	95	146	145	241	152
manufacturing	184	110	99	121	156	143	154	166	128	99	131	146	158	138
administrative and support, and waste mgmt	77	83	87	69	139	220	260	200	117	104	112	127	137	133
real estate, rental, and leasing	63	144	79	65	116	124	149	134	114	76	146	172	151	118
transportation and warehousing	102	91	64	83	88	134	112	107	102	84	130	106	96	100
wholesale trade	45	46	80	72	82	112	155	140	98	82	145	106	95	97
professional, scientific, and technical services	105	140	51	63	80	96	86	85	76	56	87	88	85	84
other services	38	35	37	101	51	80	58	121	149	76	82	143	93	82
utilities	44	38	35	44	57	78	74	73	71	58	59	61	66	58

Source: Demos analysis of ExecuComp, BLS, and BEA data

The study compared CEO-to-worker pay ratios and found that accommodation and food services led other sectors in having the greatest disparity between what a top executive of a company makes compared to what the average company employee earns. Retailers came in second place on the 12-year average, but were much closer to the ratios in information (media and communications) and construction. Demos

The average CEO-to-worker compensation ratio for accommodation and food services for the 12-year period was 332 to one, meaning for every $1 an average fast food worker earns the CEO makes $332. In retail, another sector that relies on low-wage hourly workers, the ratio is 230-to-1, closer to the 220-to-1 found in the media and information sector and the 203-to-1 in construction.

“This relationship between extraordinarily high CEO compensation in fast food and low stagnant earnings for everyone else is causing strains in firm performance and will be an increasing concern to the economy and to investors," said Ruetschlin. "Worker strikes, operational issues and legal battles have increased risks for investors in the fast food industry."

The White House and many Democratic lawmakers are pushing for an increase in the minimum wage from $7.25 to $10.10 an hour to help reduce economic inequality. Meanwhile, 21 U.S. states currently have wage floors higher than the federal mandate; 13 of them increased their wages at the start of the year.

Leading Republicans and free-market think tanks such as the Cato Institute and the Employment Policies Institute argue that mandating pay increases is detrimental to low-wage workers because it discourages companies from hiring more workers.

Michael Saltsman, the research director at EPI, called the Demos study a "publicity stunt" aimed at building support for the federal minimum wage hike. His group proposes that instead of raising a mandated wage floor, Congress should expand the number of low-income earners who qualify for the Earned Income Tax Credit, which increases the income tax refund many poorer working Americans receive.

"If we can acknowledge that the goal is to provide assistance for single parents or childless adults who are currently left out of the benefits package provided by the Earned Income Tax Credit, I think Democrats could get a surprising number of Republicans on board with that," said Saltsman. "That's not an inexpensive fix, and I think there would be a robust debate about that, but I think you could get bipartisan support for that."

Meanwhile, as the debate over how much is the right amount to pay a person for an hour of his or her labor continues among salaried think-tank advocates, Walker is trying to figure out how to get to work for her 24-hour-a-week shift making $8.50 an hour.

"I can't even afford a Metro [subway] card," she said.

Read the Demos report here.