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The pay of fat cats is not my business

By Christian Schneider April 20, 2013

In 2012, actor Tom Cruise appeared in "Rock of Ages," a movie so aggressively acrid, if it were shown to inmates in Guantanamo Bay, President Barack Obama would shut the prison down for violating the Geneva Convention.

The movie features Cruise singing 1980s-era hair metal songs, which is as horrifying as it sounds - yet it hasn't appeared to harm the Cruise Brand. According to Forbes, Cruise made $76 million last year - nearly $40 million more than his closest competitors, Leonardo DiCaprio and Adam Sandler.

Last week, as tax filings from late March began rolling in, news outlets began reporting the incomes of America's most prominent executives. GMI, a company that tracks executive pay, noted that median CEO pay rose 3% last year to just over $14 million. GMI gave the top five paid CEOs "F" grades, as their standard measure mandates CEO pay must only be three times as much as the next highest paid executive in the company. (The analysis only targets the 100 highest paid executives in public companies with more than $5 billion in revenue that filed at the end of March - it doesn't count execs in private companies, whose salaries are not made public.)

Brandon Rees, acting director of the Office of Investment for the AFL-CIO, took to television to complain about CEO pay, saying on CNBC that the limit of executive pay "knows no bounds." Rees noted that the average pay of a CEO for an S&P 500 company averages 350 times the average worker in the United States, up from 42 times just 30 years ago. Rees argued that high CEO-to-employee pay ratios have an "impact on employee morale and productivity," as they reduce teamwork and lead to increased employee turnover.

CEO pay is an issue for local Wisconsin unions, as well. In 2011, the Wisconsin AFL-CIO complained that the highest paid CEO in the state made 592 times what the average Wisconsin worker made. "CEOs here in Wisconsin are making millions while the state Legislature is introducing bills benefiting millionaires and CEOs at the expensive of average working Wisconsinites," said Leigh Ullman, a Sheboygan social worker at the time.

Yet it seems unlikely that Ullman and her cohorts would be found picketing outside the home of, say, Tom Cruise, who by their logic, makes more money because they make less. I anxiously await the big union boycott of the Green Bay Packers, who just signed linebacker Clay Matthews to a five-year, $66 million contract for his unique ability to run fast and hit people until they can't move. In fact, according to Mark Calabria of the libertarian Cato Institute, the 100 highest paid athletes make twice as much as the 100 highest paid CEOs in America.

We give Cruise, Matthews and other celebrities a pass because we personally enjoy their work ("Rock of Ages" excepted.) With celebrities, there is something in it for us. With nameless, faceless CEOs, that isn't the case - we get nothing but reports of their ridiculous salaries and public envy aimed their way. (Granted, this gets a little more complicated when a company accepts large taxpayer bailouts, as the financial industry has done.)

But CEOs are easily as valuable as their more recognizable counterparts in the entertainment industry. Tom Cruise makes what he does because people are willing to pay to see him, and his movies create jobs for janitors and kids working at movie theaters who wear tuxedos that they clearly keep in their car trunks. Clay Matthews is worth a lot of money to the Packers because sales of tickets and team gear keep the team running. (Further, at least $10 million of Matthews' new contract will likely be subsidizing local hair salons.)

Similarly, a talented CEO builds a business, creating revenue, economic activity and jobs. Generally, CEO pay is negotiated by the company's board, which represents the shareholder - it's not like their paychecks are stolen from the company. In fact, high CEO pay usually isn't bad for companies, since the vast majority of compensation for CEOs is in stock - the incentive exists for the company to succeed, so the executives can cash out as much as possible when they leave.

If the AFL-CIO had its way, who would ultimately decide how much a CEO is worth to a company? What would a proper ratio be? Does anyone think people would stop complaining if it were 250 to one? 100 to one?

Of course there are bad CEOs, just like there are bad teachers or cellphone salespeople. But that's between the board, the shareholders and the executive - what they decide to pay their CEO is none of my business otherwise.