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Americans Don't Mind High CEO Pay — Really

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More shocking than the news of the recent data hack at Equifax may have been the news that its departing CEO, Richard Smith, might take with him an estimated $90 million in compensation. Amounts like these often spur efforts to curb executive pay through government intervention.

But just because executives make a lot of money doesn't mean people want the government to step in. In fact, a majority of Americans oppose the idea of regulating CEO pay.

Despite this, government regularly seeks to cut executive compensation. From the 1930sthrough the present, the government has tried various methods to cap executive pay. Right now, companies are furiously working to prepare for a new rule, issued under Dodd-Frank, that requires public companies to disclose the ratio of their CEO's pay to that of their average employee.

But none of these efforts has been successful. Take the Clinton administration's attempt in 1993, for example. A new provision of the tax code offered favorable tax treatment to incentive-based pay for compensation over $1 million a year. Intended to curb what the administration viewed as "excessive" executive pay, the rule instead resulted in huge increases. Because they qualify as incentive-based, corporate boards began pouring stock options into their executives' portfolios.

The rollout of the rule was followed shortly by a huge boom in the stock market as the dot-com craze exploded in the late 1990s. The result was a massive uptick in executive compensation — not exactly the intent behind the rule.

Modern rules to curb CEO and executive pay are just as counterproductive. One rule, a creation of the massive post-crisis legislation known as Dodd-Frank, requires public companies to disclose the ratio between their CEO's pay and that of their average employee. Regulators seem to think that if companies must disclose that the CEO makes hundreds of times the amount an average employee makes, that should nudge companies toward lowering CEO pay.

Except that's not what's happening. The final rule was issued in 2015, with a January 2017 implementation date. But since 2015 a majority of the 200 companies with highest CEO compensation have *increased* pay in that time.

This rule is ineffective and should be repealed. A new report just released by the Treasury Department explicitly recommends just that. But since the rule was mandated by Dodd-Frank, Treasury lacks the authority to make this change. It will require action by Congress.

And Congress should address this, because government-issued CEO pay caps are at odds with the American people. A new national poll just released by the Cato Institute in collaboration with YouGov found that even though 73% of Americans think CEOs are overpaid, most still think the government should not be allowed to regulate CEO salaries. And 62% agree that government regulation of business usually does more harm than good. A whopping 74% say that regulations often fail to have their intended effect.

But there may be more to the poll's results than simply a belief that the government won't get it right. Overall, Americans seem unconcerned about some people making a lot of money, as long as they aren't hurting anyone. A majority said that banks and financial institutions should be allowed to make as much money as they can so long as they don't mislead their customers. And when asked to prioritize goals for financial regulators, only 12% said ensuring banks and financial institutions don't make too much profit should be a top priority; most people placed protecting consumers from fraud as a top goal.

These findings should surprise policymakers and others who view corporate executives as fundamentally different from other highly paid workers in entertainment and sports. After all, no serious attempts have been made to regulate the pay of Hollywood actors.

It turns out the general public *does* think those actors and sport stars are overpaid. Seventy percent think that famous actors are overpaid, 72% think NFL players are, and 74% think that NBA players are, about the same number who said that CEOs are overpaid. But despite this belief, Americans overwhelmingly feel that government should not regulate these salaries either. Sixty-nine percent said that government should not be allowed to regulate NBA players' salaries and 70% said it should not be allowed to regulate famous actors'.

Government should not attempt to regulate executive pay — or anyone's for that matter — even when that pay seems excessive. There are other mechanisms for policing compensation.

Equifax, for example, has announced it is considering clawing back former CEO Richard Smith's pay and that many of its executives will also suffer financial losses for their missteps. Public companies are required to disclose compensation for their top managers. A board's poor decisions will be subject to market review as investors decide whether to buy or sell the company's stock. It's too bad government itself doesn't seem to recognize this.

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