Acting SEC Chair Dr. Michael Piwowar
Securities and Exchange Commission
100 F Street, NE

Re: Proposed rule on Pay Ratio Disclosure Section 953(b) of the Dodd Frank Act
Date: March 21, 2017

Dear Dr. Piwowar:

I am disappointed that the process of enacting this rule has been protracted so greatly that I am afforded the unsought opportunity to write about it a third time. As in the past, I am writing in favor of enacting the pay ratio disclosure rules of Dodd Frank.

First, the SEC is responsible for promoting the efficient allocation of resources, which means in part that shareholders and possible investors must be provided information that helps enable them to make informed decisions. These days some investors (though not all) are concerned with social responsibility aspects of corporate governance. To that end, they want to know about companies' environmental and sustainability practices as well as their social practices, which includes their treatment of employees. Therefore providing information on how companies pay their median worker relative to the pay of the CEOs helps some investors to make more informed choices. Providing this information cannot possibly impair the decision making of those investors whose interests are purely mercenary, while providing the information could help those investors whose decision parameters include social as well as fiscal concerns. Why would the SEC possibly deny the provision of this information? Some political scientists such as Kevin Phillips (a Republican strategist) argue strongly that democracy requires a solid middle class and that the US middle class is shrinking. Again, having wage information that relates to median employee income helps investors determine whether a company is contributing to a stronger middle class or is paying workers generally lower (or higher) wages. Compensation information can impact investor decisions and local government negotiations with firms considering relocation. Shareholders have voted against proposed CEO compensation packages, even though their vote is only precatory. The Dodd-Frank pay disclosure rule provides information on what economists call a merit good. Those are, in fact, difficult to quantify, but they are essential to our quality of life.

CEO pay has been the object of a great deal of research and comment. In his massive work *Capital in the 21st Century* Dr. Thomas Piketty provides an extensive historical examination of the role of capital and labor in the wealth distribution in developed countries, primarily in North America and Europe and in Japan. Dr. Picketty carefully and exhaustively explores and analyzes governmental records to discern, educe, and elucidate key patterns. He notes that "what primarily characterizes the United States at the moment is a record level of inequality of income from labor (probably higher than in any other society at any time in the past, anywhere in the world, including societies in which skill disparities were extremely large," (p. 265). He adds that the unprecedented wage inequality we are currently seeing in the US is due primarily to the "emergence of extremely high remunerations at the summit of the wage hierarchy, particularly among top managers of large firms," (p. 298). So something extraordinary is occurring in US corporate boardrooms; one would think such a phenomenon needs explaining and disclosing.

The SEC has determined that executive compensation reflects the quality of corporate governance and therefore shareholders and the public have an interest in this issue. Thus, the SEC has required disclosure and the disclosure requirements have increased over the years, as CEO pay has become more complex. Section 953(b) of Dodd-Frank reflects legitimate concerns arising since the latest financial crisis about risk-sharing and about whether what Adam Smith called the "grand bargain" is still being honored. That is, do all employees who contribute to the success of a company enjoy the perquisites of success? JP Morgan's member newsletter in 2011 said that increased profits were due primarily to decreased labor costs. Such a statement, especially during a period of rising CEO salaries, would indicate rather wide-spread violation of the grand bargain. On the down side, when firms make risky decisions, are CEOs or workers (and - in the recent crisis – displaced and under-water homeowners) the ones who bear the costs?

When researchers attempt to explain or account for the unprecedented level of executive compensation, they cannot rely on the traditional economic argument of marginal productivity of labor. The relationship of firm profits long-term to CEO performance is difficult to disentangle from general economic conditions and not one that can be calibrated precisely. Professors Marianne Bertrand and Sendhil Mullainathan have published research exploring the relationship of CEO pay to various financial metrics and conclude that often CEOS are paid "for luck." Others attribute the very high compensation to the cozy (and far from independent) relationship of Boards of Directors and CEOs and fall back on Adam Smith's observation that high pay represents the exercise of power and influence, rather than just desserts based on individual exceptional effort, skill, intelligence, or creativity. Work by the Economic Policy Institute showing a strong correlation between market indices and CEO pay implies that individual effort is not driving high compensation as much as general markets trends are, an indication that CEOs are collecting economic rents. Of course CEOs work hard, as do other employees, whose remuneration has not increased commensurately with firm success or general market trends. US CEOs earn multiples of over 300 times what their own firms' employees earn. Dr. Ha-Joon Chang notes that this multiple is much higher than the multiple in other nations, even though companies in other nations are as productive, as profitable, and face similar challenges. The multiple has also increased rapidly since the 1960's, and far outpaced the rise since then in both productivity and median household income.

What are the reasons for opposing this rule? They come in two varieties. Having been in public accounting and in higher education, I have watched over the years as corporations respond to every new disclosure requirement with alarmist exaggerations about the cost of implementation and even more alarmist, catastrophic predictions of the failure of the capitalist system this disclosure will precipitate. Yet, many years later, the US stock market is at high levels, despite burgeoning and more complicated disclosure requirements.

Corporations opposed to this rule have claimed repeatedly that the cost of compliance is extraordinarily onerous. Such statements are downright laughable. Labor costs are among the most closely-monitored production costs companies incur. And companies take labor costs very seriously; sometimes moving to other countries to lower their labor costs. Any company that does not know or could not easily determine the pay of its median workers is a company whose CEO does not earn his or her pay. The SEC has compromised and compromised and compromised to make this rule easier and therefore less expensive to comply with. Some of the concessions include moving to tri-annual instead of annual reporting, including employees of only the issuer and consolidated subsidiaries (and not minority-owned subsidiaries or joint ventures), exempting non-US employees, and so forth. Remember, companies give employees individual tax forms, and report on individual employees when remitting withholding taxes. This information is easily obtained, if companies are motivated to obtain it. In truth, these companies should be embarrassed to claim that the median wage of their domestic employees is difficult to determine. Perhaps they need some undergraduate interns to teach them about Excel spreadsheet capabilities.

The other argument relating to the downfall of democracy is equally ludicrous. Apparently, the embarrassment that CEOs might feel if publicly-available reports include the ratio of their pay to that of their employees is so great that our democratic government and capitalist economy are both threatened. Again, what balderdash! What is the process that leads from shame to the demise of capitalism? Nobody explains what the chain of events is...Red-faced CEOs become mendicants, sell their mansions below market price, give away their luxury mobiles and cause deflation in the real estate market? What is a realistic and plausible scenario that moves from a little embarrassment to threats to capitalist markets? Nobody sensible could actually argue that the "shame" executives may feel is a reason to deny information to the public. Their shame could be easily mitigated: re-negotiate their compensation package to a more reasonable level, or consider re-negotiating their employees' compensation, or both.

If firms and Boards have defensible reasons for paying US CEOs more than they are paid in other countries, more in this era than they were paid relative to average workers forty years ago, then they can provide those reasons. If their reasons are good and sound, people will hear them. Firms cannot and should not dictate to the SEC which choices investors make or want to make. I hope you will stop opposing and delaying this rule and will move towards speedy implementation. What appears to bother opponents of the rule is that people will have more information on which they can make decisions. And isn't providing more information what the SEC is about?

Respectfully,

Sue Ravenscroft

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