Dear Chairman White,

We strongly support the Securities and Exchange Commission’s proposed rule to require publicly-traded companies to disclose the ratio between CEO pay and median employee compensation as directed by Section 953(b) of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

It is important for investors and the public to know the salaries of chief executives at publicly-traded corporations. At the same time, it is essential that these salaries be contextualized through comparison with the median employee salary at the firm. The proposed rule reflects public concern over disparate levels of executive compensation and the need to have this information available in an understandable format. According to the Center for Audit Quality’s annual investor survey, 46 percent of investors say they consider CEO compensation in their decision making.

The average American CEO makes $354 for every $1 earned by the median worker. In some companies, this ratio can reach as high as $1,000 to $1. Investors should be able to consider if a CEO provides hundreds of times the value of their employees prior to investing in a firm. While executives make critical decisions about the direction of their companies, quality employees ensure those decisions are properly implemented. This information is also necessary for corporate boards which must ascertain whether staff is fairly compensated.

Investors have good reason to want a firm’s executive pay ratio disclosed. Research shows that highly paid CEOs are more likely to pursue the kind of risky investments that brought on the global financial crisis. The Institute for Policy Studies found that nearly 40 percent of the highest-paid CEOs were fired, sought a bailout, or forced to pay fraud-related fines. Furthermore, a lower ratio of CEO to median worker pay implies more investment in human capital and a longer-term outlook.

Some assert that finding a firm’s median worker pay is too complicated. Firms that set up advanced computers for high frequency trading or that master the concept of just-in-time inventory should be able to figure out the median salary using basic software. Companies already track how much they spend on personnel including salary and benefits. Companies with unusually complex benefit plans are provided other options to find their ratio, including statistical sampling. We find no credibility to
the assertion that the costs and burdens of documenting this will be too high. In addition, the SEC may not use cost-benefit analysis to either block implementation of Section 953(b) or to support a rule that is inconsistent with the language of the provision.

Another point of contention over the new rule comes from a concern that a simple CEO-employee pay ratio may not include pertinent information that could contextualize the ratio. If companies feel that the information is incomplete, they should voluntarily disclose more information to contextualize it for stakeholders.

The current culture of paying CEOs much more than average employees hurts working families, is detrimental to employee morale, and goes against what research shows is best for business. Peter Drucker, one of the most prominent management theorists of the 20th century, wrote that the ratio of CEO-to-worker pay was best kept between 20-1 and 25-1. Drucker has argued that firms with very high ratios between CEO and employee pay have weaker corporate cultures. Today’s numbers dwarf that ratio, contributing to stunning inequality and high levels of unemployment – 95% in income gains since the global financial crisis have gone to the top 1%.

Finally, the CEO-median employee pay ratio is critical to our national dialogue on income inequality and economic mobility. Income inequality in the U.S. is stunning: the richest 1% earn 24% of national income and own 40% of nation’s wealth. In contrast, the bottom 50% of Americans own a mere 1.1% of the nation’s wealth. In 1980, a typical CEO made 42 times the average pay of workers. Now, the average CEO of large companies makes 354 times that of the average worker. The ratio reached as high as 1,795 times the average department store worker’s pay at J.C. Penney in 2012. What did this massive CEO compensation package produce for J.C. Penney shareholders? The CEO was fired in only 17 months because sales dropped 28.4% in one quarter alone.

It has already been more than three years since the Dodd-Frank law was enacted. We hope the SEC will act quickly to finalize the rules fully implementing 953(b), giving boards of directors, investors, customers and other stakeholders the information they need to better understand and assess CEO compensation.

Sincerely,

Keith Ellison
Member of Congress

Peter DeFazio
Member of Congress

James P. McGovern
Member of Congress

David Cicilline
Member of Congress

 Zoe Lofgren
Member of Congress

Emanuel Cleaver, II
Member of Congress

William L. Enyart
Member of Congress

Peter Welch
Member of Congress

Rubén Hinojosa
Member of Congress
Denny Heck  Sam Farr  Maxine Waters
Member of Congress  Member of Congress  Member of Congress

Raul M. Grijalva  Julia Brownley  Eric Swalwell
Member of Congress  Member of Congress  Member of Congress

Stephen Lynch  Charles B. Rangel  Michael Capuano
Member of Congress  Member of Congress  Member of Congress

Jan Schakowsky  Gwen Moore  Al Green
Member of Congress  Member of Congress  Member of Congress

Mike Michaud  Eleanor Holmes Norton  Barbara Lee
Member of Congress  Member of Congress  Member of Congress

Alan Grayson  Luis V. Gutierrez  John Garamendi
Member of Congress  Member of Congress  Member of Congress

George Miller  Tim Walz  Carol Shea-Porter
Member of Congress  Member of Congress  Member of Congress
John Conyers  
Member of Congress

Jared Huffman  
Member of Congress

5. Joseph Stiglitz. Of the 1%, by the 1%, for the 1% - http://www.vanityfair.com/society/features/2011/05/top-one-percent-201105