Business

Pay for CEOs is getting out of hand

By Rick.Hanton@iowastatedaily.com

It was back in the eighth grade that I first started investing in the stock market for fun and profit. I've always been interested in making money in whatever way I can.

After doing chores for my parents for years, I accumulated a hefty sum in my savings account, but some articles I read revealed that I could earn more in CDs — certificates of deposit, not compact disks — or in the stock market with my cash than the few pennies the bank paid me to hold onto it.

So, after working for a year or so on my strategy and following stock prices in the paper, I told my dad that I wanted to play the market.

He set up an account for me — being far under 18, I couldn't have my own account — and I made my first investment in a corporate giant, the Target Corporation.

I felt that I did pretty well, eventually netting about a 50 percent gain on my investment during high school. By that time I was invested in more companies, and over the years I have owned a small piece of more than 20 companies, sharing in their gains and losses.

But, while I have made gains from the market, I have also shared angst with fellow investors over increasing levels of CEO pay over the last decade.

Paying the executive of a corporation massive amounts of money is not new — just ask the railroad barons of the late 1800s, many of whom were worth the equivalent of billions today by time of death.

But, after a crackdown on the railroads in the early 1900s and following the use of very high income taxes on the income of the richest CEOs, average executive pay dropped to about $500,000 per year for most of the 20th century.

Decades ago when executives paid about 90 percent of their earnings in taxes, executive pay only increased about 0.8 percent per year, even when the companies were growing.

Those rates rose when executives were able to move more pay into pay incentives with lower tax rates and kept climbing until average year-over-year executive pay raises reached about 10 percent during the 1990s.

Now for those of you that don't know the joys of compound interest, now is the time to learn. A 10-percent-per-year increase in pay means that a CEO who starts off being paid $2 million per year is paid $2.2 million one year later, $3.22 million five years later and $5.2 million 10 years later.

In the short run this isn't too bad, but in the long run it gets ridiculous — pay reaches $13.5 million in 20 years, $34.9 million in 30 years.

Comparatively, if pay increases were instead kept at the high average inflation rate estimate of 3 percent, the $2 million in pay would only reach $2.7 million in 10 years, $3.6 million in 20 years, or $4.9 million in 30 years.

That's very reasonable when you note that in this situation, $2 million today would be equivalent to a value between $3.6 and $4.9 million 30 years later if inflation remains approximately constant.

On the other hand, on the 10-percent plan, the $34.9 million earned during year 30 means that at 2 to 3 percent inflation, the CEO makes seven times more money — with inflation factored in — during year 30 than he or she did that first year.

So that means that the CEO must be doing a 7-percent better job each year to be earning 7-percent more money above the rate of inflation each year.

Otherwise, why would he or she be paid so much more?

This is not the case. CEOs do not make more money because they are doing a better job. Look at the CEOs who dug the big Wall Street banks into a ditch recently.

As the government bailed out the banks, these CEOs still made millions. Wouldn't want them to have to sell one of their beachfront properties, would we?

The real problem is the corporate boards are generally the ones to vote on executive pay packages. But, who is on these boards?

Investors, of course, but many of them are CEOs of other corporations, meaning it is in their best interest to keep executive pay packages as large as possible, as long as the company's CEO is not paid so well that they are incentivized to do something stupid with the board's investments in that company.

The high pay at the company, where they sit on the board, will help build the case to the board member's own corporate board that he or she needs higher pay as well. This is the endless cycle.

Investors across the country are unhappy, but are able to do little besides join to try to force companies to adopt measures that let individual investors vote to approve or disapprove of executive pay at yearly meetings.

This is generally not supported by some of the biggest investors, so little has been done, but the government has expressed interest in mandating these "say-on-pay" measures for all U.S. corporations.

My problem is: "What you do with all the millions of dollars you make per year?" Do you buy bigger yachts like Paul Allen or Roman Abramovich? Do you spend millions on charity?

And is that more effective than the government spending your millions? Maybe you spend a few million naming a building at a university like ours.

My point is that I think that CEOs like Gregory B. Maffei of Liberty Media, who earned $87 million last year, could probably survive on $1 million or maybe $500,000 per year. If he did so, perhaps he could afford to pay each of the company's 22,000 employees $4,000 more per year to help them out in this tough economy. He might not be able to use as many private airplanes, or have as many second homes as he used to, but I'm sure he would survive just fine.

So, should well-paid CEOs take a pay cut? Write to the Daily and tell us what you think.

CEOs at large corporations are being paid disproportionately high salaries, and there's no telling when their pay will stop increasing. Courtesy photo: Thinkstock

Health care

Give me liberty or give me death by trans fats

By Tyler.Lage@iowastatedaily.com

Let's take a moment to strip away the hysteria of death panels and year-long waits for treatment in order to do a fundamental analysis of the current health care direction.

The impetus of universal health care is a humanitarian one. The end goal is to make healthfulness an inalienable right granted to all from the common coffers. Ideally, no one will be left uncovered, and it will be provided at a reasonable expense to the taxpayer.

Unfortunately, reality is forced to interject.

Let us take a look at the public good that is most analogous to universal health care: public education.

Public education provides a basic level of services to everyone who cares to partake at the expense of the whole; much like universal health care is aiming to do. It has been marginally successful at providing this service at what appears to be a cost-effect rate — although there is little basis for comparison — for the average user, and stumbles at times when providing service for extraordinary cases of advanced and remedial students. Look for health care to perform in a similar fashion.

That is where the optimistic comparison ends.

The damning lesson from the public education analogy is this: when the government has a vested interest in something — read: when it pays the bills — it dictates how the resources will be spent.

As such, expect to see the government enact official policies to control: your level of fat intake, a la the trans-fat legislation represented in California's Assembly Bill 97; your ability to smoke and drink; the amount which you engage in risky behaviors — in general, the things insurance companies ask about when deciding your coverage. In fact, the insurance company of yesterday and the government-funded health care that appears to be the inevitable choice of tomorrow are doing the same thing: protecting their financial interest.

The principle of the funding entity dictating priorities is perfectly respectable. It is pervasive throughout society; from your parents deciding on where to take you out to dinner, to T. Boone Pickens anointing coaches and picking brick colors at Oklahoma State University. I do not take any umbrage with the idea.

The wrinkle in the universal health care debate is that many people do not fully consider what "the government dictating priorities" will look like.

Much like your insurance has limits and acceptations, the universal option will as well. The only difference is that you have relatively little say in the matter. With health insurance, you can change providers. If the government is the sole provider of affordable health care — which is the end result of most universal systems — you are left trying to contact your congresswoman in order to achieve change.

Good luck with that.

In the end, then, the universal option limits personal choice in two distinct ways. First, it gives the government vested interest in what you eat, drink and do, and who you have sexual relations with. Second, it limits the ability of the average health care consumer to choose what insurance or health care option they want to pursue.

The next time you are faced with the idea of whether or not to support universal health care, remember the ever-timely words of the man behind the picture on your C-note, Benjamin Franklin: "They that can give up essential liberty to obtain a little temporary safety deserve neither liberty nor safety."

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COLLEGE OF LIBERAL ARTS & SCIENCES
Dean's Lecture Series
Chewing Over the Numbers: How Food Consumption Data Are Driving Nutrition Policy
Alicia Carriquiry, Distinguished Professor of Statistics
Tuesday, Nov. 16, 2010
7:30 p.m. Sun Room
Memorial Union
Access to food that is nutritious, safe and tasty is a basic human right. Yet the prevalence of inadequate intakes of a variety of nutrients, is unacceptably high even in the United States. In this talk, Carriquiry discusses some of the research conducted at Iowa State on the analysis and interpretation of food intake data and how the findings have impacted the way in which countries in every continent are now using food consumption data to guide their food nutrition policies.
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Newt Gingrich
Valley Forge: A Story of Endurance Transformation
Newt Gingrich is the coauthor of Valley Forge, a tour-de-force novel about endurance, survival, transformation, and rebirth. It chronicles the unique crucible of time and place where Washington and his Continental Army were forged into a fighting force that would win a revolution and found a nation. Newt Gingrich served in Congress for twenty years and as Speaker of the House. He is a member of the Defense Policy Board and cochair of the UN Task Force. He is also the author of several bestselling works of historical fiction, including Gettysburg and Pearl Harbor. His coauthor, William R. Forstchen, is the author of more than forty books and is a Faculty Fellow at Montreat College.
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Cyclone Hockey
Player of the Week
#5 Justin Wilkinson
Cyclone Hockey is pleased to announce Justin Wilkinson as Player of the Week. Wilkinson has shown consistent leadership throughout the season and is an excellent role model for younger players.
Wilkinson is an excellent second year player for the Cyclones. With one goal and six assists, Justin sees the ice very well, and has the hockey smarts that are necessary to be a good defenseman.
Before Wilkinson played for Iowa State, he played for the Kindersly Klippers of the SJHL. Hailing originally from Prince Ablert, Saskatchewan, Justin is currently a sophomore at Iowa State majoring in Civil Engineering.
Head Coach Dr. Al Murdoch is very pleased with Wilkinson's performance. "Justin has great work effort in practice and at games. He is an excellent role model and is only a sophomore."