Australia: A widening gap between CEO salaries and average wages

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Symptomatic of the underlying tendency in capitalist society toward ever greater levels of social inequality is the phenomenal growth in the remuneration paid to the chief executive officers (CEOs) of leading corporations.

In every major country, corporate chiefs unashamedly enrich themselves while overseeing the wholesale destruction of jobs, wages and working conditions of ordinary working people, and demanding governments axe essential social programs to fund huge tax cuts for the wealthy few.

That Australia is no exception to the rule can be seen in the results of research by Dr John Shields of the University of Sydney economics department published in the *Journal of Australian Political Economy*. His paper reviews the movement in the CEO salaries paid by 51 corporations that are members of the Business Council of Australia (BCA).

Shields points out that the BCA, comprised of the country's 100 largest corporations, "aggressively champions the cause of greater labour market 'flexibility' and 'labour cost competitiveness'..." In fact, in many cases the large pay packets commanded by the CEOs are determined by their ability to drive down the conditions of employees, so as to enhance profits.

Shields' research shows that the average annual CEO pay climbed by 564 percent over 15 years, rising from $514,433 in 1989-90 to $3.42 million in 2004-05. The average compounded yearly rise was 13.5 percent, or five times the inflation rate of 2.8 percent.

Over the same period, the average wage of full-time adult workers rose just 85 percent, or by 4.2 percent a year, from $29,198 to $54,080. In 1989-90 the total salary of a CEO, including base pay and bonuses, was 18 times that of an average worker; today it is 63 times higher.

Translated into weekly earnings, an average CEO is paid $65,000 a week, or around $11,000 more than the annual wage of an average worker or nearly $40,000 more than the annual earnings of the 1.6 million basic wage workers who make up 20 percent of the Australian workforce. These workers struggle to make ends meet on just $25,188 a year, or $484 a week.

While it takes the average worker around three to five years to pay off even a modest car, two weeks' earnings of a top CEO would purchase a luxury Mercedes-Benz CLK2 at around $130,000. With just five weeks' pay, a CEO could buy outright the modest home that most people spend their entire working lives paying off.

Shields emphasises that CEOs also "have access to disguised income" worth many more millions of dollars. This includes generous sign-on bonuses, special retirement benefits, retention and long service benefits, non-interest company loans, zero-cost share rights and post-termination consultancy fees. Share option plans, for example, give CEOs the right to buy shares at pre-determined prices at a time of their choosing. They can exercise options when share prices are at their peak and sell them to make a financial killing with no risk.

Unlike ordinary workers, CEOs also use a range of loopholes to avoid paying tax, such as separate company trust and other so-called "minimising techniques". According to one recently quoted tax expert, senior executives "were unlikely to pay the 47 percent top tax rate". Nevertheless, the BCA is loudest in demanding further tax "reform" to benefit the country's top earners.

The obscene pay levels and outright hypocrisy of the corporate elite are fuelling widespread disgust and anger. Companies therefore employ a host of public relations experts and spin doctors to attempt to justify the extraordinary levels of executive benefits.

One argument is that high salaries are determined by the global market and are necessary to attract the best executive talent. Amazingly, the same market forces dictate that workers, no matter how skilled, talented or hardworking, are grossly overpaid and must have their wages cut.

High executive salaries, however, are no guarantee of talent. In many cases, enormous salaries were paid to CEOs and senior executives responsible for plunging leading corporations into deep financial crisis and even bankruptcy.

Insurer HIH collapsed in March 2001, leaving behind more than $A5 billion in losses and two billion worthless insurance policies. Even with the company teetering on the edge, company executives continued to draw performance bonuses. CEO Ray Williams jumped ship just four months before the company announced an $800 million loss.

Australia's fourth largest telecommunications company One.Tel collapsed in May 2001, owing more than $600 million to some 3,000 creditors. Prominent on the company's board were James Packer and Lachlan Murdoch, the sons of media magnates Kerry Packer and Rupert Murdoch. The company's leading directors Jodee Rich and Brad Keeling awarded themselves an extra $14 million in performance bonuses just before the company went under.

When National Australia Bank (NAB) CEO Frank Cicutto resigned in 2003 after overseeing the loss of hundreds of millions of dollars in foreign currency trading, he was drawing an annual salary of $7.7 million. He left behind a financial crisis that resulted in the bank axing thousands of jobs. Nevertheless, Cicutto received a $14 million termination payout.

Shields examines another oft-cited reason for exorbitant CEO pay, that "the market for executive labour differs from that for 'average workers' in that supply of executive skills is extremely small". Pointing to some of the destructive practices rampant in the corporate world he says that potential executive talent was devastated by "the dismantling of internal promotions structures and the repeated rounds of middle-management delayering in the 1990s..."

Shields adds: "Incoming CEOs also have a well-deserved reputation for eliminating promising rivals... the mantra of scarce executive talent can be viewed as being essentially a self-serving myth of incumbency."

The BCA's communications director Mark Triffitt attempted to counter Shields' research by claiming that it was "unfair" to draw a comparison between top executive wages and those of workers because: "These people who occupy those positions (CEOs) are responsible for generating the biggest share of wealth in Australia."

In reality, actual wealth is not created by a handful of over-paid CEOs. Nor is it the outcome of corporate raiding, takeovers, acquisitions, mergers, asset stripping and speculation. If anything, such activities result in vital productive forces—including the most productive of all, human labour—being squandered or destroyed. Wealth creation is the outcome of the labour of the many millions of workers in manufacturing, construction, mining, energy generation and a host of services and other industries that produce all the goods and services necessary for human society.

Shields notes that it is even difficult to justify CEO salaries on the grounds that executives have increased returns on shareholder investment. His research shows that since 1999, BCA CEOs' remunerations have doubled whereas shareholder returns increased by just under 60 percent. Shields concludes: "In short, in recent years, pay increases that are supposedly contingent on performance, have, on average, generated earnings disproportionate to underlying improvements in shareholder value."

Clearly, capitalist society is not only increasingly unequal but also economically diseased. Ever increasing amounts in "cost savings" ripped out of the workforce are being used to bolster the earnings of fabulously wealthy company executives while companies themselves stagnate or fail.