Taxing CEO-worker Pay Gaps

A decade after Wall Street's abusive, reckless, and at times criminal behavior caused the worst financial crisis since the Great Depression, excessive executive pay is still a problem on Wall Street and in corporate America, evidenced by corporate and banking executives head about two-thirds of America's top 1 percent of households. Big banks, private equity funds, and other corporations offer massive payouts to their top executives, incentivizing reckless behavior, shortchanging workers and worsening inequality. **Taxing CEO-worker pay gap will help address both excessive CEO compensation and the extreme inequality the pay gap both creates and exacerbates.**

Why tax excessive CEO-worker pay gaps?

1. **Gives corporations an incentive to narrow gaps by lifting the bottom and lowering the top of their pay scale.** While worker wages have largely stagnated since the 1970s, the top 1% have more than doubled their share of the nation's income. The more corporations channel into executives' pockets, the less they have for wages and other investments.

2. **Would discourage the outrageous levels of compensation that incentivize excessive risk-taking by executives.** Wall Street's reckless "bonus culture" proved a key factor in the 2008 financial crisis. Current extreme executive compensation also contributes to short-term decision making that slashes payrolls, employee training, and R&D budgets.

3. **Raises an estimated $150 billion over 10 years that could be used to reduce inequality.** The Institute for Policy Studies analyzed the impact of the above tax rates on S&P 500 companies with CEO-worker pay ratios of 100 to 1 and higher and found that if the tax penalty had been in effect in 2018, these firms would have owed as much as $17.2 billion more in federal taxes. This additional revenue could have financed important social needs, such as 232,228 clean energy jobs or 1.9 million Head Start slots.

4. **Americans across the political spectrum are outraged about today's extreme pay gaps.** A Stanford survey found that even 52% of Republicans want to see a fixed cap on CEO pay relative to worker pay — a more radical approach than a tax penalty on large gaps. Even business leaders support the tax**,** with academic research indicating that extreme pay gaps hurt worker morale, which reduces productivity and increases turnover.

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Under the "Tax Excessive CEO Pay Act", the wider a company's gap between CEO and median worker pay, the higher their federal corporate tax rate. The tax penalties would begin at 0.5% for companies that pay their top executives 50-100 times more than median workers. Companies that pay top executives over 500 times worker pay would pay the highest penalty, at 5%. All private and publicly held U.S. corporations with average annual sales of at least $100 million for the three preceding years would be subject to the tax. In 2018, the tax would have applied to all of the leading banks and publicly held private equity firms.
