HB 2951 and the -1 Curtails the subtraction of excessive compensation

Testimony for House Revenue – Jody Wiser – 6.28.2017

We support this bill and believe it would be great public policy, addressing both income inequality and revenue production for the state.

We were unable to find median wage information to use to do good analysis, and of course the original bill is quite specific, using a comparison of executive pay to the pay of their own employees. While median figures are called for in HB 2951, and average and median figures are often far apart, this following information from "The Highest Paid CEOs in Oregon" by GoLocal in April of 2015, is instructive.

> *According to the Bureau of Labor Statistics data for production and nonsupervisory workers, the average worker in Oregon made $39,464 a year in 2013, while the average CEO in Oregon, according to the AFL-CIO, was paid $3,587,770.*
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> *The average Chief Executive Officer made 91 times the average worker's salary in Oregon in 2013, according to a study, "Executive Paywatch: High Paid CEOs and the Low Wage Economy", published by the American Federation of Labor and Congress of Industrial Organizations (AFL-CIO).*
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> *Nationally, the CEO to worker pay ratio in 2013 was 331 to 1.*

We have thought our law should relate more closely to our local fiscal environment. A multiple of 100 might be too high, for the local businesses, but the CEO pay for national companies, which will also face adjustments will also be affected. Google's CEO pay is $100 m. and Comcast's is $32 m. This bill will capture a good part of those salaries, charging 7.6% in corporate income tax on Oregon's proportion of the excess of those executives' income. No wonder it has such a nice revenue impact.

Unless the current administration stops the actions, The Securities and Exchange Commission, will require public companies to calculate and disclose how their chief executives' compensation compares with their workers' median pay. The S.E.C. rule was required under the Dodd-Frank legislation enacted in 2010. This will make adjusting the original version of this law easier.

According to a NY Times article[1], criticism of how much chief executives are paid has risen in recent years as their compensation has grown substantially. In 2015, the median compensation for the 200 highest-paid executives at public companies in the United States was $19.3 million, up from $9.6 million five years earlier.

Comparing such compensation with how much lower-level employees earn is likely to show a very wide gulf. A 2014 study by Alyssa Davis and Lawrence Mishel at the Economic Policy Institute, found that **chief executive pay compared with the earnings of average workers had surged from a multiple of 20 in 1965 to almost 300 in 2013**.

A multiple of 50 would be more effective in driving more of the cost of excessive pay of executives off of taxpayers and onto shareholders.

You may find helpful looking at the 2013 total pay for the top 10 CEOs in Oregon. Of course, only the employment division has access to the median pay of the employees of these businesses.

Nike:	$14.7 m
Precision:	$9.7 m
Stancorp:	$9.2 m
Schnitzer:	$9.2 m
Lithia:	$5.6 m
Greenbrier:	$5.3 m
Mentor:	$5.3 m
Flir	$4.2 m
Umpqua	$4.0 m
FEI	$3.9 m

Because it will be easier to raise the multiple than lower it, if there were more time, we would recommend you start well below 100, and that the comparison be executive pay to Oregon employee's median wage, so the DOR can verify wages.

The -1 of course simplifies the bill. We appreciate that all employees with pay in excess of $1 million would be affected. Even if an executive is working 90 hours a week, that's $320 per hour, about 33 times more than Oregon's minimum wage. If the executive works a standard week, it makes their compensation $480 per hour, about 49 times more than Oregon's minimum wage. These are more appropriate multiples than 100.

But, the session is nearly over. We support either version of this bill as an important step.

We read the bills and follow the money

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[1] Portland Adopts Surcharge on C.E.O. Pay in Move vs. Income Inequality, By Gretchen Morgenson, Dec 7, 2016