Extract from “CEOs”


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The trends they uncovered in this sample are summarized in Figure 1. In real terms, the pay of the median top officer in their sample declined until the early 1950s. Between the early 1950s and the mid-1970s, the pay of top officers increased at a very slow rate (an average of less than 1% per year). Only after that did top executives' pay start to rise sharply, reaching an average annual growth rate of more than 10% in the late 1990s.

Frydman & Saks (2007) also compared the pay of the median officer in their sample to average earnings per full-time equivalent workers from the National Income and Product Accounts. Strikingly, this inequality measure declined until the mid-1970s, at which point it took a sharp turn. By 2005, the median officer earned 110 times the average worker’s earnings (compared with less than 30 times in the early 1970s). They also found that the growth of CEO pay was significantly more rapid than that of the other top officers in their sample: The median ratio of CEO pay to that of the other two highest-paid officers was stable at approximately 1.4 until the early 1980s. Since then, the ratio began to rise, reaching 2.6 in the early 2000s. This unique look into historical data confirms how exceptional the past three decades have been in terms of CEO compensation in the United States.

The trends in pay since the early 1970s have been documented for a much wider set of firms, using both the Forbes and Execucomp databases. See, for example, Figure 2.

Note: Median value of total compensation, 1936–2005. Total compensation comprises salary, bonuses, long-term bonus payments, and stock-option grants. Relative compensation is defined as total compensation divided by total wage and salary accruals per full-time equivalent employee from table 6.6 of the National Income and Product Accounts. Based on the three highest-paid officers in the largest 50 firms in 1940, 1960, and 1990. Solid line represents the real value of median officers’ incomes; dashed line represents incomes of median officers relative to those of average workers. Source: Data from Frydman & Saks (2007).
Figure 2

Note: Average cash and total remuneration for CEOs in S&P 500 firms, 1970–2002. Sample is based on cash pay, restricted stock, payouts from long-term pay programs, and the value of stock options granted using ExecuComp’s modified Black-Scholes approach. (Total pay prior to 1978 excludes option grants, whereas total pay between 1978 and 1991 is computed using the amounts realized from exercising stock options during the year, rather than grant-date values.)
Source: Data from Jensen et al. (2004); figure adapted with permission.