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Executive Compensation Conditions on Corporate Bailout Funds

There is growing consensus on the need for executive compensation restrictions for corporations that received emergency coronavirus assistance. The question is how best to structure these restrictions to most effectively prevent taxpayer dollars from padding the pockets of executives instead of mitigating a national economic crisis.

Republican ban on pay raises is extremely weak

The March 19 Republican plan includes pathetically weak restrictions on executive compensation at airlines and other distressed companies that receive emergency financial assistance. The plan merely bans pay raises for two years for executives who earned more than $425,000 in 2019. In other words, if a CEO made $10 million in 2019, he or she could earn $10 million in 2020 and 2021. Golden parachute payments for these executives would be limited to twice the value of their 2019 compensation. If an executive made $424,999 in 2019, he or she would face no pay limits whatsoever.

The Republican plan would do nothing to prevent massive CEO windfalls through their equity-based pay during a taxpayer-funded economic recovery. Say a CEO got a stock grant worth $9 million in 2019. To match that value in 2020, when share prices are very low, the firm would have to award many more shares, which could easily balloon in value in a recovery.

Proposed bonus bans could be circumvented

Some lawmakers have proposed a ban on executive bonuses, starting immediately and extending for a few years after the bailout. This raises some potential enforcement concerns:

1. **Annual cash bonuses make up a small share of total executive compensation** packages at the largest corporations. Executives are unlikely to meet criteria for long-term incentive awards in the near future, given low stock prices.

2. **Corporations could circumvent this restriction by shifting compensation into other forms**, such as salary, pensions, or perks. If they shifted compensation into long-term stock options or restricted stock awards (as President Obama's "Pay Czar" encouraged mega-bailout firms to do), this could result in massive windfalls down the road as executives cash in on a taxpayer-funded economic recovery. Large stock-based awards made at a moment when share values are very low could balloon with even a small uptick in the market.

Exec comp should be capped at level that prevents taxpayer subsidies for excessive pay

1. Restrict total executive compensation to no more than 50 times median worker pay

Linking CEO pay to a multiple of worker pay would prevent taxpayer subsidies from pumping up executive pay and, at the same time, create an incentive to narrow internal pay divides by lifting up the bottom of the wage scale. This pay ratio limit should accompany other proposed pro-worker conditions, such as banning layoffs, setting a $15 per hour wage minimum, requiring worker representation on boards, and banning anti-union activity.

Top 5 U.S. Airlines

Company	CEO	Total CEO compensation, 2018	Median employee pay, 2018	CEO-median worker pay ratio, 2018	CEO pay if ratio limited to 50 to 1	Share of free cash flow used for stock buybacks, 2010-2019
AMERICAN	Doug Parker	$11,999,517	$61,527	195	$3,076,350	n/a*
DELTA	Edward Bastian	$14,982,448	$81,355	184	$4,067,750	50.5%
UNITED	Oscar Munoz	$10,493,832	$72,924	144	$3,646,200	80.1%
SOUTHWEST	Gary Kelly	$7,726,455	$78,494	98	$3,924,700	66.4%
ALASKA AIR	Bradley Tilden	$4,374,845	$54,584	80	$2,729,200	32.7%
Total		$49,577,097			$17,444,200	

* American Airlines had negative cumulative free cash flow over the decade, but spent $12.5 billion on buybacks. Source: Bloomberg. All other data from corporate proxy statements.

In 2018, the CEOs of the five largest U.S. airlines averaged nearly $10 million in total compensation. Thanks to data the SEC now requires publicly held corporations to report, we know just how much larger these CEO paychecks run compared to the pay that each firm's typical workers receive. In 2018, the ratio between CEO and median employee pay at the five largest airlines ranged from 80 to 1 at Alaska Air to 195 to 1 at American. If we restricted CEO pay to no more than 50 times median worker pay, as the table above shows, and if these five airlines kept median worker pay at current levels, their CEOs could earn $2.7 million to $4.1 million and still stay below this 50:1 ratio threshold.

2. Cap total executive compensation at a fixed amount

In 2009, the Senate approved an amendment that would have capped total pay for all employees of all bailout companies at no more than the salary of the U.S. President ($400,000). This sent a strong signal that bailout execs were essentially working for taxpayers, who should not have to subsidize excessive compensation. The measure, championed by Senator John McCain, was not included in the final bailout legislation.

Government must have authority to force renegotiation of compensation contracts

Obama Pay Czar Kenneth Feinberg had limited impact on executive pay at bailout firms after the 2008 crash. One reason: the bailout legislation limited his power over compensation contracts signed before February 11, 2009. This time around, legislators should require bailout recipients to renegotiate employment contracts to meet rigorous bailout restrictions.

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