

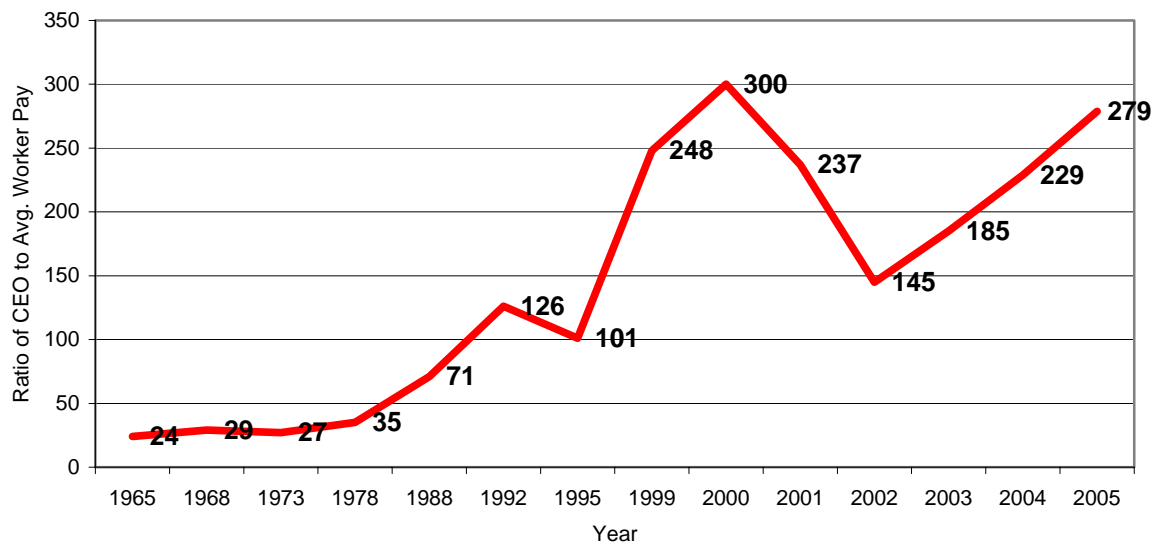
The Gap Between CEOs and America's Middle Class Widened in 2005

By John Alexander Burton and Christian E. Weller

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In the fifth year of this business cycle, the fortunes of CEOs and middle-class families pulled further apart. In 2005, the typical CEO received \$11.6 million in total direct compensation—salaries, bonuses, restricted stock grants, gains from stock option exercises and other long-term incentive payouts. This constituted a 24 percent increase over the 2004 average of \$9.3 million. This means that in 2005, the average CEO made 279 times the average pay of a production non-supervisory worker, the vast majority of America's private sector work force. This is up from 185 times in 2003 and 229 times in 2004 (figure 1).

Figure 1: Ratio of CEO Pay to Average Worker Pay, 1965-2005

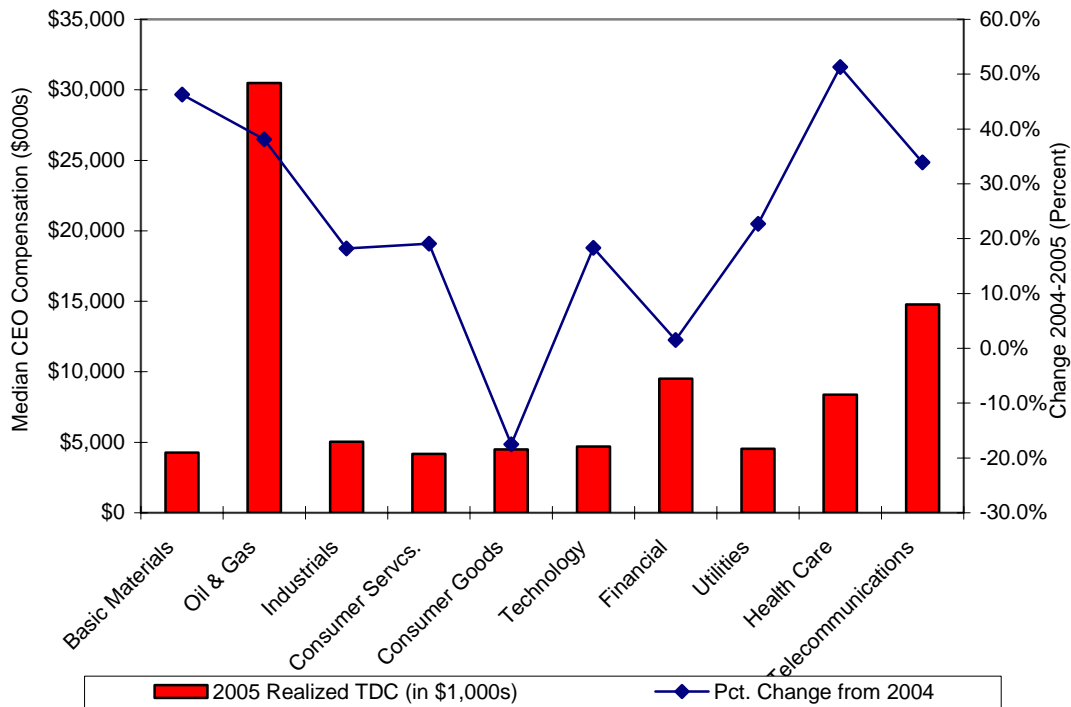


Notes: Data prior to 2004 are taken from L. Mishel, J. Bernstein, and S. Allegretto, *The State of Working America 2004/2005*, Ithaca, NY: Cornell University Press. Data for 2004 and 2005 are from the Wall Street Journal, CEO Compensation Survey, April 11, 2005 and April, 10, 2006, and from the Bureau of Labor Statistics, Average Hourly Earnings of Production Non-Supervisory Workers, Washington, D.C.: BLS, www.bls.gov. The annual average hourly earnings of production non-supervisory workers was \$15.67 in 2004 and \$16.11 in 2005. Average worker compensation is calculated by multiplying the average hourly earnings of production non-supervisory workers times 2,080 and then multiplying this figure by the ratio of compensation to wages for 2005 from the Bureau of Economic Analysis, 2006, National Income & Product Accounts, Washington, D.C.: BEA.

Although generally high, CEO compensation varied widely by industry. In 2005, CEO compensation in the oil and gas industry far outstripped that of CEOs in other industries. Compensation ranged from \$4.2 million for the typical CEO in the basic materials industry to \$30.5 million in the oil and gas industry (figure 2). This very large compensation package followed an already very good year for CEOs in the gas and oil industry, where the typical CEO took home \$16.5 million in total compensation in 2004.

The typical increases were nothing to sneeze at either. The median increase, i.e., half of CEOs saw larger and half saw smaller increases, for CEOs who were covered in the 2004 and 2005 survey was a whopping 51.3 percent in the health care industry, followed by 46.3 percent for CEOs in basic materials, 38.1 percent for oil and gas executives, and 33.9 percent for the typical telecommunications executive who was on the job for both years.

Figure 2: Level and Change of CEO Total Direct Compensation, 2005



Source is Wall Street Journal, CEO Compensation Survey, April 10, 2006.

The growing divide between CEOs and the vast majority of America's workers reflects the state of our economy. While workers typically see strong gains in a recovery, wages have been flat, after adjusting for inflation, in the wake of comparatively low job growth. At the same time, profit growth has been exceptionally strong, mirrored in high and rapidly rising CEO compensation. With America's middle-class being left behind in terms of total pay, the question arises how much longer firms will be able to enjoy high and rising profits without giving their workers more buying power through higher wages and more jobs.

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