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Is Exorbitant CEO Pay a Form of Tyranny? Thomas Aquinas Thinks So

Vinnie Rotondaro | Mar. 16, 2015

A combination of shareholder activism, academic rigor and religious support may be chipping away at exorbitant CEO pay, finding it bad for business and contrary to the common good.

Pay of corporate chief executives has grown "an astounding 937% over the past 35 years," says a new report from As You Sow, a shareholder advocacy group that promotes environmental and social corporate responsibility.

Issued mid-February, the report examines the "forces behind the trend of ever-increasing CEO pay." It contends, "The system in place to govern corporations has failed in the area of executive compensation."

According to Rosanna Landis Weaver of As You Sow, this matters, not just because it leads "to jackpots for CEOs -- not necessarily earned -- and contributes to people getting a sense that the system is rigged against them," but also because "this system promotes short-term thinking and deepens income inequality."

Experts like Weaver argue that excessive CEO pay helps concentrate profit for a few while leaving millions to scrape by. They point to evidence showing that inequality leads to low growth and poor macroeconomic performance. Furthermore, the public currently subsidizes CEO pay through the tax code, they say. In short, experts say that exorbitant CEO pay reflects bad economics.

Capuchin Fr. Michael Crosby comes at the question from a different angle. He sees the issue of high CEO pay from a theological point of view, through the "lens" of the Trinity.

The Trinity is "the model for all human community and interactions ... a community of equals," he said. "The closer we get to greater equality among persons and resource-sharing, the more godly we will be." Ergo, sky-high CEO pay doesn't add up.

Crosby, who has a master's degree in economics, is a shareholder activist. Shareholder activists buy shares of a company in order to affect change. Some shareholder activists seek to affect change for financial gain. Others, like Crosby, take a moral approach.

As director of the Wisconsin/Iowa/Minnesota Coalition for Responsible Investment, a branch of the Interfaith Center on Corporate Responsibility, Crosby has been spearheading an effort to file shareholder resolutions with retail and fast food companies like Verizon, Yum! Brands, McDonald's and Kohl's -- companies that employ large numbers of workers at low pay while offering CEOs millions.

Armed with research showing a relationship between stagnant wages and low retail sales, the resolutions filed by coalition members suggested that companies examine the high pay of CEOs compared to the low pay of average employees.

In total, Crosby and the coalition filed resolutions with 20 companies. Over the past few months, most of the companies decided to challenge the resolutions at the Securities and Exchange Commission, he said.

On Feb. 24, Crosby learned that the SEC had ruled on one of the cases, siding with Verizon over the coalition filer. "That means all the other resolutions will lose," Crosby told NCR in an email. But the effort wasn't for naught, he said. One of the companies the coalition filed a resolution with was Wal-Mart. Like other companies, Wal-Mart asked for dialogue with the coalition. On Feb. 9, a telephone conversation took place.

"We reviewed with them why we filed," Crosby said, "and they responded that the resolution would be taken under consideration and that the board was addressing the issue. I asked, 'Are you saying that the board has been given the resolution, that the board is aware of our resolution?' And they said, 'Yes, and it is being discussed seriously.'

"You just got the impression from that call that something was coming down," he said. Ten days later, Wal-Mart announced that it would be giving its minimum wage workers a raise. Crosby called filing the resolution "one action among many that influenced [the] decision." Wal-Mart did not respond to a request for comment from NCR.

On Feb. 25, another company that Crosby and the coalition had filed with, TJX -- owners of T.J.Maxx, Marshalls and HomeGoods -- announced that it would be offering minimum wage workers a raise.

Lynn Stout, professor of corporate and business law at Cornell University Law School and author of the book The Shareholder Value Myth: How Putting Shareholders First Harms Investors, Corporations, and the Public, said she is "so glad to see the religious community getting involved in this very essential policy question of 'what is the purpose of corporations?' "

Stout, who has written an amicus brief in support of an Episcopal church that sued Wal-Mart over gun sales, said that efforts like Crosby's provide a very important "social cue" to corporations.

"One of the things we need to get our corporations back on track is to get shareholders involved in expressing their concern," she said, "not only as investors in that single company, but as taxpayers, citizens, employees and consumers.

"It's wonderful to see some of the more enlightened shareholder institutions, including these religious institutions, going to boards and saying, 'We're members of society, we want corporations to benefit society.' " Stout spoke about the "perverse incentives" that are created by pay for performance measures that "dictate 80 percent of CEO pay."

Pay for performance "creates incentives for CEOs to focus on manipulating the performance metrics," she said. "We now have over 20 experiences that show these incentives lead CEOs to stop worrying about what's best for the corporation and its shareholders, and its employees and its customers, and instead focus on manipulating these numbers."

In 2014, Stout published a paper called "Killing Conscience: The Unintended Behavioral Consequences of 'Pay for Performance.' " The paper argued that "ex ante or incentive contracts -- even well-designed ones -- typically create 'psychopathogenic' pressures that suppress or snuff out conscience."

It described a 1993 tax code amendment that encouraged "publicly held companies to use high-powered ex ante incentive schemes to compensate executives." It criticized the "notion that ex ante incentives provide the best and possibly only way to channel human behavior -- an idea that implicitly assumes people are opportunistic and selfish."

"While different individuals show different proclivities toward conscientiousness," the paper read, "the data demonstrates that conscience is neither rare nor quirky. Almost anyone other than a clinical psychopath is likely to act unselfishly when certain social cues support unselfishness and the personal cost of acting unselfishly is not too high."

Asked how Catholic social thought views the issue of high CEO pay, Villanova University's Gerald Beyer, author of Recovering Solidarity: Lessons from Poland's Unfinished Revolution, wrote in an email, "Catholic social teaching denounces both the payment of unjustly low wages and excessively high wages."

Beyer says that popes have taken on the subject of just wages for more than 100 years:

- In his 1931 encyclical, Quadragesimo Anno, Pope Pius XI "contended that 'lowering or raising wages unduly, with a view to private profit, and with no consideration for the common good, is contrary to social justice.' Wages should be determined in order to provide as many jobs as possible."
- "Pope John XXIII maintained in his encyclical Mater et Magistra that 'disproportionately high' wages are unjust, particularly when many workers are not paid a living wage."

- "Pope John Paul II deemed demanding excessively high wages an 'abuse of freedom' that exacts a cost on the multitudes of workers whose freedom is thereby threatened by poverty and systemic marginalization due to low wages."
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Jesuit Fr. David Hollenbach, director of the Center for Human Rights and International Justice at Boston College, said, "If society breaks apart into segments in such a way that the advance of the economy, the growth of the economy, does not benefit all, but only a handful -- especially the handful who are calling the shots at the top, then the advance of the economy is not serving the common good."

"Thomas Aquinas said that if people in positions of power use their power to benefit not the common good but just themselves, that such people are 'tyrants,' " Hollenbach said. "You could say that the people on Wall Street who are using the tools of the economy just to benefit top executives, when there are large numbers of people are suffering as a result, are tyrants."

"That's the kind of thing that creates real anger, and leads people to say this has to stop," he said. "That's the kind of thing that leads Pope Francis to say, 'Inequality is the root of social evil.' "