We The People
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We the People 390 **The Obscenity of CEO Salaries and the World of Perverse Incentives**

Good Day to you. In 1902 when the French ruled what we now know as Vietnam, Hanoi was overrun with rats. The colonial government came up with a brilliant plan to encourage the citizenry to kill the rats and pay them a bounty for each one. To avoid the messy business of citizens delivering dead rats to be counted in order to calculate the bounty payable, which might offend the refined sensibilities of their French overlords, it was decreed that only the rat's tails need be delivered to collect the bounty. Sounds like a plan. However, the wily locals soon worked out that they could make more money if they didn't kill the rats but simply cut off their tails and left them to breed even more rats. More rats, more tails, more bounty money. This is what is known in economic circles as a "**perverse incentive**", an incentive that has a negative, unintended and undesirable result, contrary to design intentions.

No doubt you will have read about the massive salaries that corporate Australia **showers upon its most golden of children**, the CEOs. Australia's 10 highest paid CEOs took home an eye-watering $150 million in 2018. Alan Joyce from Qantas took the biscuit with almost $24 million a salary that **was 270 times the national average! Its highway robbery and of the most egregious and obscene kind.** These **jumbo-sized** salary packages are an insult to the rest of the nation. They reflect a culture of entitlement at the big end of town. Many of the multimillion-dollar recipients are in finance and banking. They pocketed these massive pay packets at the very time that the royal commission into shifty banking practices was in full swing, revealing **a** plethora of evidence that executives were not being held accountable for the misconduct and rip-offs that hurt thousands of their customers.

To make matters worse the CEO salary packages include bonus structures that reward short-term thinking. Bonuses are often tied to share price increases which incentivise the CEOs to make decisions to maximise share price, rather than for long-term shareholder value or for that matter, the community or national interest. **That is the classic perverse incentive**. Tying salaries and bonuses to short-term share price rises encourages self-interest, short term thinking and planning and an often blatant disregard for the longer-term consequences of corporate decision making as the banking royal commission so ably demonstrated. In a world of rising inequality, exorbitant CEO pay is something we could easily dump. They are getting these high salaries **because they have the market power to supersize their own pay packets**, not because they are 270 times more skilled than the average worker or because they have increased productivity or added anything else wonderful enough to be rewarded so handsomely. This rampant escalation of executive compensation has fuelled the financial growth of the top 1%, whilst workers further down the food chain are struggling to keep up with inflation. Their greed is constantly **widening the gap** between very high earners and the bottom 90%. **Paying them less or taxing them more** wouldn't hurt the economy one bit but it might provide more social justice.

During the corona virus lockdown which has seen thousands of businesses closed and millions stood down from work, many of whom will never return to their jobs. A few of these saintly CEOs have offered to make their contribution by, wait for it, drum roll please......... *offering to freeze their pay increases for the rest of the year!* **How noble. Let's polish their halos.** Freezing your pay increase for a few months when you're already taking home millions is hardly a sacrifice. It's not really a sign of *"we're all in this together"* is it? It's more like code for how to send people to sleep with hypocritical virtue-signalling to draw attention away from their greed.

Until next time this is Kent Bayley with thanks to Deborah Kelly