HOW TAXPAYERS SUBSIDIZE GIANT CORPORATE PAY GAPS

25th Annual Executive Excess Report

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Key Findings

The typical American believes CEO pay should run no more than six times average worker pay. Top business experts, meanwhile, have shown that much wider income divides undercut efficiency by lowering employee morale and boosting turnover. And yet every year billions of dollars in taxpayer-funded federal contracts and subsidies continue to flow to corporations with extremely wide pay gaps.

Comparing federal government pay with contractor and subsidy recipient pay

- More than two-thirds of the top 50 federal contractors and the top 50 federal corporate subsidy recipients paid their CEO more than 100 times their median worker pay in 2017. By contrast, the U.S. president's salary equals just five times the pay of the average federal government employee.

Top 50 contractors

- In 2017, 34 of the 50 publicly held U.S. firms that received the most lucrative federal contracts paid their CEOs over 100 times the pay of their median employee. Federal contracts to these 34 firms totaled $167 billion.
- All 50 top contractors paid their CEOs more than 25 times their median worker pay, the widest gap that modern management science founder Peter Drucker felt appropriate.
- **The Geo Group**, one of the primary contractors for the notorious immigrant family detention centers, took in $663 million in Justice Department and Homeland Security contracts in 2017. Geo CEO George Zoley pocketed $9.6 million that year, 271 times more than his company's median employee pay of $35,630.

Top 50 subsidy recipients

- Among the 50 publicly held firms that received the largest federal subsidies last year, 33 paid their CEO more than 100 times as much as their median worker. Federal subsidies to these 33 firms totaled $1.4 billion. All but three of the 50 firms had ratios larger than 25 to 1.
- **American Airlines** received more than $16 million to subsidize flights between small communities and larger air traffic hubs in 2017, a year that saw CEO Doug Parker receive $12.2 million, 195 times the firm's median worker pay. A 2018 survey found that 27 percent of employees at American Airlines subsidiary Envoy Air have to rely on public assistance to make ends meet.

Corporations with the largest pay gaps

- **YUM Brands** is benefiting from a $7.25 million taxpayer-backed loan from the Overseas Private Investment Corporation to finance the expansion of KFCs and Pizza Huts in Mongolia. The fast food giant paid its CEO 1,358 times as much as its median employee in 2017.
- **Walmart,** the go-to source for government purchases of everything from TVs and doughnuts to consumer-unfriendly $5 gift cards, paid half of its 2.3 million employees less than $19,177 last year. The company's CEO made 1,188 times that amount.
- These and other low-wage employers also benefit enormously from indirect subsidies, since a large share of their workers earn so little they have to rely on public assistance.

Ending subsidies for extreme pay gaps

- Building on pay ratio data available for the first time this year, an emerging new movement is seeking to use the power of the public purse to rein in the pay of top executives and lift up compensation at the bottom of the corporate income scale. In Oregon this past January, the city of Portland began collecting revenue from the world's first tax penalty on corporations that pay their CEO more than 100 times their median worker pay. In Congress and states and cities around the country, policymakers are considering similar proposals that would use tax, contracting, and subsidy policies to discourage extreme gaps within large U.S. corporations.

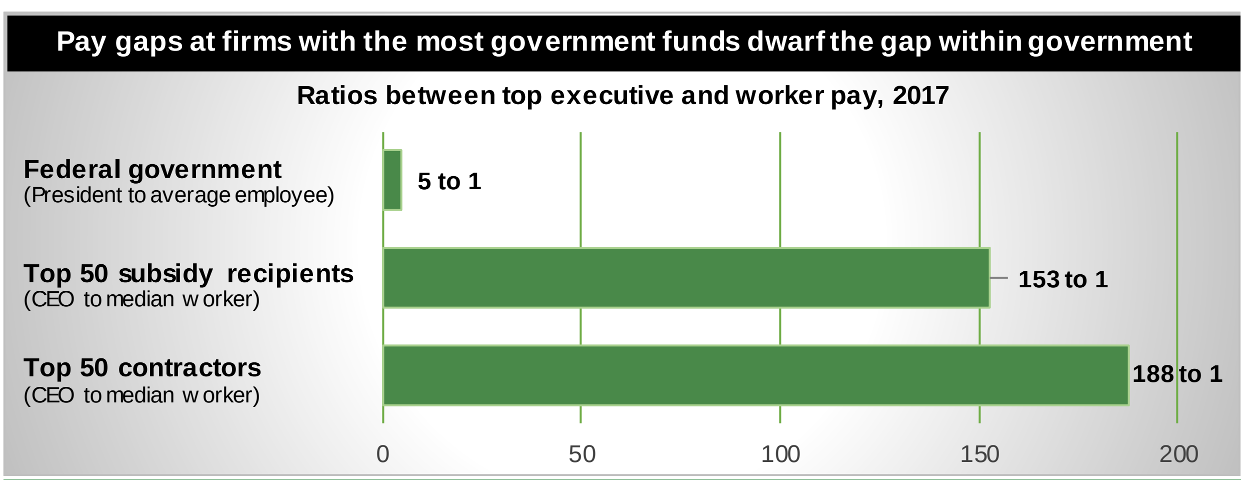
Introduction and Overview

The yawning gap between CEO and worker pay has Americans outraged across the political spectrum. How outraged? A Stanford Business School survey two years ago found that 62 percent of Americans want to see a cap on CEO pay relative to worker pay. Sixty-six percent of Democrats and 52 percent of Republicans feel the same. What do typical pay-cap supporters consider the ideal ratio between CEO and average worker pay? Just six to one.

The actual pay gap between American CEOs and their typical workers runs considerably wider. This year, for the first time ever, publicly traded U.S. corporations must disclose the ratio between their CEO and median worker pay. This disclosure, originally mandated by a provision in the 2010 Dodd-Frank financial reform act, has already generated a wealth of revealing data. One congressional report released late this past spring found an average ratio of 339 to 1 among the first 225 large U.S. companies to disclose their gaps.

CEOs at a sizeable number of these top corporations owe their personal good fortune to America's taxpayers. The research in this report, the 25th in our annual *Executive Excess* series, uses newly available pay ratio data to show how CEOs at major U.S. corporations are benefiting *directly* from taxpayer largesse.

Our key finding: More than two-thirds of the top 50 federal contractors and top 50 recipients of federal subsidies pay their CEOs more than 100 times their median employee pay. By contrast, the pay gap within the government itself — between the U.S. president and the average federal employee — stands at just five to one.



Sources: Institute for Policy Studies analysis of data from the Bureau of Economic Analysis, Good Jobs First, Bloomberg, AFL-CIO Paywatch, and corporate proxy statements.

What explains this massive difference in compensation ratios between the government and the companies that rely on government funds? Not worker pay. Federal government employee compensation is averaging $82,406, about par with the median pay for the 50 top contractors ($80,169) and top 50 subsidy recipients ($86,445).

The difference lies on the top end. The U.S. president's salary in 2017: $400,000. Average pay for the CEOs at the top 50 federal contractors: $14 million. CEOs of the top 50 recipients of federal subsidies averaged $12 million. These bloated CEO paychecks drove the average pay ratio to 188 to 1 for the top 50 contractors and 153 to 1 for the top 50 subsidy recipients.

Policymakers can use the new pay ratio data as a tool for reining in the gaps that have so angered the American public for decades. We already tap the power of the public purse to encourage many other forms of responsible corporate behavior. We can now do the same to narrow the pay gaps that are driving inequality wider, undermining business enterprise effectiveness, and encouraging short-termist thinking among our corporate leaders.

Why Pay Gaps Matter

- ***Corporate pay gaps help drive America's extreme inequality***

Since the 1970s, U.S. worker wages have largely stagnated while the top 1 percent of U.S. income earners have more than doubled their share of the nation's income. Corporate and financial executives head about two-thirds of America's top 1 percent households. No nation has a gap between average CEO and worker pay anywhere near as large as the divide in the United States. U.S. CEO pay, Bloomberg data show, is quadrupling the CEO pay average of our peer nations.

- ***Wide pay gaps are bad for business***

Academic research indicates that extreme gaps undermine worker morale. Lower morale, in turn, reduces productivity and increases turnover. A Glassdoor analysis of data from 1.2 million employed individuals suggests a statistical link between high CEO pay and low CEO approval ratings among employees. Peter Drucker, widely known as the father of modern management science, believed that the ratio of pay between worker and executive can run no higher than 20- or 25-to-1 without inflicting damage on a corporation's internal dynamics.

- ***Runaway CEO pay endangers democracy and the broader economy***

Outrageous levels of compensation give executives an incentive to take excessive risks. Wall Street's reckless "bonus culture" proved a key factor in the 2008 financial crisis. Current executive compensation practices also contribute to short-term decision making that leaves payrolls, employee training, and R&D budgets slashed. CEO pay excess undermines our democracy as well. The best evidence of the CEO pay contribution to our democracy's increasing oligarchic tilt: Of the top 100 political donors in the 2016 election, 87 turned out to be either current or former top executives.

Pay Gaps at the 50 Top Federal Contractors

In the United States, private-sector firms currently take in about $500 billion every year in federal government contracts, for everything from manufacturing military aircraft to running immigrant detention centers. An estimated 22 percent of the U.S. private sector workforce labors for a company that holds one or more federal contracts. Millions of other Americans work for firms with state and local government contracts.

In 2014, President Obama issued an executive order to raise the minimum wage to $10.10 for federal construction and service contract employees. This positive step left workers still significantly below a "living wage."

At the top end, the U.S. government does impose limits on the amounts contractors can directly bill Uncle Sam for the expense of executive compensation. A 2013 budget deal lowered the allowable reimbursement limit from $952,000 to $487,000 per executive, with yearly cost-of-living adjustments. But this policy has not reduced the windfalls that government contracts generate for top executives. Most executive compensation today is in the form of stock options and other stock-based pay. Thus, to the extent that government contracts boost profits and share prices, they continue to drive contractor CEO pay up into the stratosphere, as our analysis of the 50 publicly held U.S. firms with the most lucrative federal contracts in 2017 reveals.

Contractors	
■ Number of the top 50 contractors that paid their CEO over 100 times the pay of their median employee in 2017:	**34 (68%)**
■ Value of federal contracts to these 34 firms in 2017:	**$167 billion**
■ Average CEO pay at these 34 firms:	**$18 million**
■ Number of the top 50 contractors that paid their CEO more than 25 times their median worker pay:	**50 (100%)**
■ The highest CEO-worker pay ratio, according to Peter Drucker, the founder of modern management science, before executive compensation becomes detrimental to business effectiveness:	**25 to 1**
■ Average CEO pay among the military contractors that are the country's top 5 contractors:	**$21 million**

Top 50 Federal Contractors

Publicly held U.S. firms that have reported their pay ratios. All data for 2017.

	Company	CEO compensation	Median compensation	CEO-worker pay ratio	Federal contracts ($mill)	Contracts as a % of total revenue
1	Lockheed Martin	$22,866,843	$123,231	186	$49,500	97.1
2	Boeing	$18,450,416	$111,204	166	$23,300	25.0
3	General Dynamics	$21,501,429	$98,563	218	$15,600	50.5
4	Raytheon	$24,883,871	$144,589	172	$14,200	56.1
5	Northrop Grumman	$18,869,057	$101,872	185	$11,500	44.6
6	McKesson	$18,143,017	$38,370	473	$8,800	4.4
7	Huntington Ingalls Industries	$7,974,179	$132,546	60	$7,300	98.6
8	Leidos Holdings	$9,221,709	$99,416	93	$6,700	67.0
9	L3 Technologies	$19,712,866	$78,820	250	$5,200	54.7
10	Centene	$25,259,468	$66,600	379	$4,700	9.7
11	Honeywell International	$16,753,438	$50,296	333	$4,400	10.9
12	Booz Allen Hamilton Holding	$4,922,357	$110,985	44	$4,200	72.4
13	Humana	$19,768,525	$57,385	344	$3,600	6.7
14	Science Applications International Corp.	$6,427,791	$89,153	72	$3,400	77.3
15	UnitedHealth Group	$17,389,976	$58,378	298	$3,100	1.5
16	United Technologies	$17,027,493	$72,433	235	$3,000	5.0
17	General Electric	$9,000,603	$57,211	157	$2,400	2.0
18	Fluor	$10,253,787	$67,580	152	$1,900	9.7
19	DXC Technology	$32,185,309	$39,945	806	$1,900	7.5
20	Merck & Co.	$17,643,087	$82,173	215	$1,700	4.2
21	Textron	$14,825,330	$90,025	165	$1,600	11.3
22	KBR	$9,318,063	$70,783	132	$1,500	36.6
23	Vectrus	$2,175,523	$47,489	46	$1,100	100.0
24	Pfizer	$19,913,773	$89,206	223	$1,100	2.1
25	International Business Machines	$18,595,350	$54,491	341	$1,100	1.4
26	ManTech International	$4,401,206	$87,306	50	$900	52.9
27	Engility Holdings	$3,910,582	$95,000	41	$878	46.2
28	AT&T	$28,720,720	$78,437	366	$842	0.5
29	Insight Enterprises	$4,498,318	$65,752	68	$693	10.3

	Company	CEO compensation	Median compensation	CEO-worker pay ratio	Federal contracts ($mill)	Contracts as a % of total revenue
30	Verizon Communications	$17,937,581	$126,623	142	$682	0.5
31	The Geo Group	$9,664,433	$35,630	271	$663	30.1
32	Express Scripts Holding	$15,895,415	$52,509	303	$647	0.6
33	Tetra Tech	$3,042,482	$72,760	42	$567	28.4
34	Interpublic Group of Companies	$16,883,818	$63,936	264	$535	6.9
35	CoreCivic (formerly Corrections Corp. of America)	$2,373,657	$38,236	62	$527	31.0
36	Unisys	$7,530,080	$30,381	248	$501	18.6
37	Andeavor	$19,924,675	$151,793	131	$491	1.4
38	Aerojet Rocketdyne Holdings	$3,561,204	$102,799	35	$489	27.2
39	CenturyLink	$14,715,560	$69,252	212	$472	2.7
40	Ford Motor	$25,030,151	$87,783	285	$450	0.3
41	Great Lakes Dredge & Dock	$2,582,733	$83,467	31	$418	0.1
42	Emergent BioSolutions	$3,681,284	$90,361	41	$414	0.1
43	ICF International	$3,247,170	$71,095	46	$395	32.9
44	General Motors	$21,958,048	$74,487	295	$392	0.3
45	VSE	$2,436,600	$46,800	52	$388	0.1
46	Valero Energy	$22,532,260	$192,837	117	$382	0.4
47	US Foods Holding	$8,119,040	$72,142	113	$374	1.6
48	Nelnet	$1,738,642	$36,200	48	$338	28.2
49	FLIR Systems	$11,290,574	$79,263	142	$310	17.2
50	Anthem	$18,553,317	$70,867	262	$304	0.3
	Total: Top 50	**$677,312,810**	**$4,008,460**		**$195,852**	
	Average: Top 50	**$13,546,256**	**$80,169**	**188**	**$3,917**	
	Total: the 34 firms with pay ratios above 100	**$611,117,373**	**$2,739,095**		**$167,145**	
	Average: the 34 with pay ratio above 100	**$17,974,040**	**$80,562**	**252**	**$4,916**	

Sources: Compensation: AFL-CIO Paywatch and corporate proxy statements. Contracts: Bloomberg, BGOV200 report.

Select examples

The Geo Group and General Dynamics

Two companies on our top contractors list with pay ratios above 100 to 1 have drawn scrutiny this year for profiting off the Trump administration's "zero tolerance" on immigration, a policy that has pushed thousands of new migrants and asylum seekers into detention centers.

The Geo Group, the nation's largest private prison operator, runs 11 immigrant processing centers around the country and one family residential center in Texas under contract with ICE. The firm's $663 million in Justice Department and Homeland Security contracts in 2017 made up more than 30 percent of its total revenue.

Most of us know General Dynamics, the third-largest federal contractor, as a maker of fighter jets and other war machinery. But the company also stands to profit from Trump's harsh immigration policies through contracts to process and handle the paperwork related to unaccompanied migrant children, including those forcibly separated from their families by the U.S. government. In 2017, General Dynamics reportedly made over $4 billion on contracts like these.

The windfalls from the Trump administration's "zero tolerance" policy will mostly flow into the pockets of top executives. Geo CEO George Zoley pocketed $9.6 million in 2017, 271 times more than his company's median employee pay of $35,630. A stock award valued at $6.1 million boosted the value of Zoley's 2017 compensation package to nearly double the size of his 2016 pay. The Geo Group had 18,512 full-time employees in 2017. More than 9,000 of them earned less than $35,630.

General Dynamics CEO Phebe Novakovic, a former CIA and Defense Department official, made $21.5 million last year, 218 times as much as her median employee and 104 times as much as the U.S. defense secretary. More than half her company's revenue comes from the federal government.

Lockheed Martin

With nearly half a trillion dollars in deals in 2017, Lockheed Martin — America's biggest federal contractor — relied on the U.S. government for 97 percent of its annual revenue. CEO Marillyn Hewson pocketed $22.9 million in 2017, 186 times as much as the firm's median employee compensation of $123,231. We do not know how much the firm might have pushed up this median by outsourcing lower-level jobs. What we do know: Lockheen Martin has cut its workforce nearly in half — from 190,000 in 1997 to 100,000 employees in 2018. And media reports indicate the firm has outsourced maintenance of all manufacturing equipment at its major global locations, janitorial and cafeteria jobs, much of its human resources functions, and other support services.

Hewson's pay package came to more than twice the amounts handed out last year to the CEOs of the two largest non-U.S. aerospace giants. Airbus CEO Tom Enders made $10.6 million (9.1 million euros), while BAE Systems CEO Charles Woodburn sparked a firestorm in the United Kingdom with his pay package of $9.86 million (7.5 million pounds).

After Lockheed Martin, the next four top contractor slots are held by military contractors: Boeing, General Dynamics, Raytheon, and Northrop Grumman. Average CEO pay among these five Pentagon-supported firms was $21.3 million in 2017. Their combined federal contracts last year amounted to $114 billion. Lockheed Martin and Raytheon also rank among the top 10 federal subsidy recipients.

DXC Technology

No federal contractor in our survey has a wider pay ratio than DXC Technology, a company formed in 2017 from the merger of Computer Sciences Corporation and the Enterprise Services business of Hewlett Packard. The firm reaped $1.9 billion in federal contracts for IT services in 2017. CEO Mike Lawrie raked in $32.2 million, 806 times as much as the $39,945 earned by company's median employee, who resides in India. If we adjust the Indian worker's pay for the U.S. cost of living, the firm's pay ratio would have still been extremely high, at 404 to 1. DXC Technology employs about 150,000 employees in 70 countries.

Calculating CEO-Worker Pay Ratios

- ***CEO compensation:*** The SEC has long required publicly held firms to disclose the compensation of their top five executives. The figure includes salary, bonuses, the estimated value of stock and stock option awards, the change in pension value, and perks.

- ***Median Employee Compensation:*** Under the new SEC rule, companies can use various methods, including statistical sampling, to identify the employee with the median (middle value) compensation. Part-time, temporary, and full-time U.S. and non-U.S. employees must be included, but subcontracted employees are not. Companies can exempt non-U.S. employees where they make up 5 percent or less of the total workforce.

Pay Gaps at the 50 Top Recipients of Federal Subsidies

Governments at all levels in the United States bestow economic-development and other subsidies on private corporations. According to the Good Jobs First Subsidy Tracker, just 100 corporations have accumulated more than $140 billion in state and federal subsidies over recent decades.

Many federal subsidies are pure corporate welfare, often serving as a reward for major political donors. In an ideal world, our government would do much more to use subsidies to help disadvantaged communities and encourage critical economic shifts, such as the transition from fossil fuels to renewables. In our current world, the federal subsidies our tax dollars underwrite help perpetuate highly inequitable business models that undermine both business effectiveness and our democracy.

Only in rare cases today do economic development subsidies require beneficiaries to pay above certain minimal wage levels. Nor do existing subsidies limit how wide CEO-worker pay gaps at subsidized firms can go. The absence of limits has left CEO paychecks soaring, as our analysis of the 50 publicly held U.S. firms that received the most in federal subsidies last year reveals.

Subsidy Recipients	
■ Number of top 50 subsidy recipients that paid their CEO over 100 times the pay of their median employee pay in 2017:	**33 (66%)**
■ Average CEO pay at these 33 firms:	**$15 million**
■ Number of top 50 subsidy recipients that paid their CEO more than 25 times their median worker pay:	**47 (94%)**
■ Average pay ratio among the top 50 subsidy recipients:	**153 to 1**
■ The highest CEO-worker pay ratio, according to Peter Drucker, the founder of modern management science, before executive compensation becomes detrimental to business effectiveness:	**25 to 1**

Top 50 Recipients of Federal Subsidies

Publicly held U.S. firms that have reported their pay ratios. All data for 2017.

	Company	CEO compensation	Median compensation	CEO-worker pay ratio	Federal subsidies
1	NRG Energy	$9,049,662	$112,446	80	$376,635,019
2	Archer Daniels Midland	$15,875,055	$57,345	276	$306,125,826
3	General Motors	$21,958,048	$74,487	295	$291,878,763
4	Babcock & Wilcox	$6,486,690	$64,674	100	$117,567,025
5	General Electric	$9,000,603	$57,211	157	$106,975,152
6	SkyWest	$2,857,395	$37,250	77	$91,317,946
7	Cummins	$16,387,661	$59,682	275	$87,955,035
8	Lockheed Martin	$22,866,843	$123,231	186	$72,049,551
9	Raytheon	$24,883,871	$144,589	172	$70,397,061
10	Edison International	$9,794,301	$157,112	62	$60,755,860
11	Textron	$14,825,330	$90,025	165	$60,382,933
12	United Technologies	$17,027,493	$72,433	235	$38,408,038
13	Kinder Morgan	$382,026	$103,947	4	$37,903,087
14	PG&E	$8,597,220	$140,263	61	$25,000,000
15	Boeing	$18,450,416	$111,204	166	$23,816,670
16	Alaska Air	$5,718,166	$49,664	116	$20,432,937
17	3M Company	$20,494,285	$63,338	324	$19,679,166
18	Alcoa	$10,720,123	$52,243	121	$17,984,310
19	Aerojet Rocketdyne	$3,561,204	$102,799	35	$17,389,868
20	American Airlines	$12,175,486	$62,394	195	$16,024,679
21	PPG Industries	$14,249,861	$37,307	382	$12,388,145
22	Eaton	$15,178,141	$71,073	214	$11,099,328
23	Ball	$12,932,654	$82,329	157	$10,595,990
24	DowDuPont	$13,792,002	$78,835	175	$9,291,557
25	Teledyne Technologies	$8,208,032	$62,535	131	$9,106,567
26	Ford Motor	$23,500,111	$87,783	199	$8,040,260
27	Honeywell International	$20,955,539	$50,296	333	$7,705,439
28	TEAM Inc.	$2,667,527	$71,209	37	$6,922,025
29	Intel	$21,544,700	$102,100	211	$6,640,577

	Company	CEO compensation	Median compensation	CEO-worker pay ratio	Federal subsidies
30	Xerox	$9,505,048	$85,276	111	$6,218,886
31	DTE Energy	$15,835,907	$173,839	91	$4,887,657
32	Schlumberger	$20,759,340	$88,604	234	$4,731,449
33	FMC	$13,011,873	$50,370	258	$4,643,111
34	United Continental	$9,561,134	$83,122	115	$4,501,878
35	AES	$9,354,683	$49,229	190	$4,076,647
36	Advanced Energy Industries	$5,539,991	$35,081	158	$3,238,513
37	PPL	$13,540,331	$104,520	130	$3,146,232
38	Allegheny Technologies	$7,265,581	$86,332	84	$3,128,420
39	Pinnacle West Capital	$10,533,439	$128,140	82	$2,881,596
40	Sempra Energy	$18,025,736	$134,571	134	$2,500,000
41	IBM Corp.	$18,595,350	$54,491	341	$2,385,141
42	PNM Resources	$4,425,922	$103,864	43	$2,362,379
43	Leidos	$9,221,709	$99,416	93	$1,994,845
44	Arconic	$5,015,032	$52,243	96	$1,273,838
45	Caterpillar	$14,035,209	$65,770	213	$1,200,000
46	Ormat Technologies	$1,356,435	$77,000	18	$1,135,980
47	SPX Corp.	$4,891,463	$56,123	87	$894,100
48	LyondellBasell Industries	$17,589,372	$111,568	158	$793,808
49	FireEye	$6,799,490	$149,283	46	$784,337
50	Advanced Emissions Solutions	$1,656,921	$117,584	14	$688,533
	Total: Top 50	**$600,660,411**	**$4,322,727**		**$1,997,936,164**
	Average: Top 50	**$12,013,208**	**$86,455**	**153**	**$39,958,723**
	Total: the 33 firms with pay ratios above 100	**$496,749,177**	**$2,553,877**		**$1,361,980,674**
	Average: 33 with pay ratios above 100	**$15,053,005**	**$77,390**	**201**	**$41,272,142**

Sources: Compensation: AFL-CIO Paywatch and corporate proxy statements. Subsidies: Phil Mattera, Good Jobs First, drawn from their Subsidy Tracker. Includes subsidies and grants. Excludes loans.

Select examples

American Airlines

American Airlines received more than $16 million last year to subsidize flights between small communities and larger air traffic hubs. These taxpayer dollars support a highly unequal reward system. In 2017, American Airlines CEO Doug Parker received $12.2 million in compensation, 195 times the firm's median worker pay of $62,394.

Many of the company's employees earn far less. A 2018 survey found that employees at American Airlines subsidiary Envoy Air were making as little as $9.48 per hour, and 27 percent of these workers had to rely on public assistance to make ends meet. In a July 16 townhall event hosted by Senator Bernie Sanders, a ticketing agent for another American subsidiary, Piedmont Airlines, noted she was making, after a decade of service, less than $14.50 an hour. "I cannot make ends meet without working extra hours," Heather Hudson explained. "I work 12-hour days, but even with this additional time, I still qualify for Medicaid and food stamps."

PPG Industries

PPG Industries, a producer of paints and coating materials, had the largest pay ratio among the top 50 corporate recipients of federal subsidies. In 2017, CEO Michael McGarry pocketed compensation worth $14.2 million, 382 times as much as the firm's median pay of $37,307. In other words, half the 28,200-employee workforce labors for less than this amount.

In 2017, PPG received $12.4 million in federal subsidies from the Department of Energy for renewable energy and conservation research and development. The federal government certainly should be providing incentives for reducing greenhouse gas emissions and developing renewables. But such taxpayer supports should also incentivize *good* job creation and the fair reward practices so critical to a sustainable economy.

Archer Daniels Midland

Archer Daniels Midland received the second-largest amount of federal subsidies last year, with more than $306 million — most of it for bioenergy carbon capture and storage, a technology some climate scientists find dubious. Meanwhile, the global agribusiness giant's CEO, Juan Luciano, made $15.9 million last year, 276 times more than the company's median employee.

For decades now, this global food processor and commodities trader has drawn scrutiny for using its lobbying might to win billions of dollars in subsidies and other government protections for products that range from corn ethanol to sugar. The firm's extreme pay gap has received little to no attention.

IBM

IBM had the second-largest pay ratio of any corporation in our survey of federal subsidy recipients. CEO Ginni Rometty raked in $18.6 million last year —341 times as much as the tech firm's typical employee compensation of $54,491. Since Rometty took the helm in 2012, IBM's shares have dropped 21 percent, while the S&P 500 rose 72 percent.

The company's federal subsidies have come in the form of generous research grants. In fiscal year 2017, IBM received $2.4 million from the Department of Defense. In fiscal year 2018, the firm has received a much larger haul: a total of $31.4 million in Defense and Energy Department research subsidies.

Firms with pay ratios below 25 to 1

The three firms in our survey that had pay ratios in 2017 of less than 25 to 1 had varied reasons for their relatively narrow gaps last year.

Kinder Morgan CEO Steven Kean made just four times the company's median worker pay in 2017. But Kean is hardly a hardship case. In keeping with top executive tradition at the oil and gas pipeline firm, Kean has requested to be paid in the form of occasional massive stock grants. So Kean received only nominal annual pay in 2017, but he is sitting on more than 7 million shares of Kinder Morgan common stock, currently worth nearly $140 million.

Ormat Technologies had a pay ratio of just 18 to 1 last year due to CEO Isaac Angel's relatively modest paycheck of $1.4 million. The renewable energy firm rates as one of the smallest companies on our list, with annual revenue of less than $700 million. (A slot on the Fortune 500 requires revenue of at least $5.4 billion).

Advanced Emissions Solutions CEO Heath Sampson earned just 14 times the chemical company's median employee compensation last year, but that could shoot up next year. Sampson's 2017 paycheck ended up less than half the size of his 2016 and 2015 payouts.

Contracts and Subsidies at Firms with the Largest Pay Gaps

In recent years researchers have exposed the indirect taxpayer subsidies flowing to low-wage employers that pay their workers so little they have to rely on public assistance. Americans for Tax Fairness has estimated that Walmart employees turn to food stamps, health care, and other taxpayer-funded benefits valued at about $6.2 billion annually. A National Employment Law Project study of the fast food industry estimated that McDonald's employees rely on $1.2 billion in public assistance per year. Employees at YUM! Brands accounted for about $650 million.

Some of the most notoriously low-wage companies also benefit enormously from *direct* government support.

YUM! Brands

YUM! Brands is benefiting from a $7.25 million loan from the Overseas Private Investment Corporation to finance the opening of up to eight KFCs and five Pizza Huts in Mongolia. OPIC provides U.S. taxpayer-backed loans, loan guarantees, and insurance to U.S. businesses for investments in "politically risky" countries. The agency has classified the YUM project as "highly developmental" for Mongolians, who apparently would otherwise have few opportunities to eat American fast food. OPIC estimates the Mongolia fast food deal will support about eight U.S. jobs over five years.

OPIC has adopted labor and environmental standards that apply to projects they finance, including basic labor protections related to child labor, health and safety, and the rights to freedom of association and collective bargaining. This positive step should be expanded to include criteria such as a reasonable CEO-worker pay gap. YUM would have failed any such test. The fast food giant paid its CEO $12.4 million in 2017. That's 1,358 times as much as the company's median employee compensation of $9,111.

Hanesbrands

Hanesbrands has received more than $4 million in contracts to supply panty hose for military commissaries and bras for prison inmates over the past decade. The apparel maker's CEO raked in $9.6 million last year, 1,830 times as much as the firm's median employee, who happened to be a worker in Honduras with $5,237 in annual compensation. (In U.S. purchasing power terms, that wage equals about $10,670.)

The company's massive pay gap hardly comes as a surprise. In 2011, the disclosure of a U.S. embassy cable revealed that the company had successfully enlisted the U.S. State Department's help in preventing the Haitian government from raising the minimum wage for textile workers from $3 to $5 per day.

Walmart

The world's largest private employer also has one of the largest pay ratios. Last year CEO Doug McMillon made $22.8 million last year, 1,188 times as much as the big box giant's median employee, a U.S.-based worker paid $19,177.

Many retailers have complained that the SEC's pay ratio disclosure regulation requires companies to include part-time workers in the calculation of median employee pay. The SEC has held that this information can help shareholders better understand company business models. Walmart's business model focuses on restricting workers to part-time hours without benefits. A 2018 survey found that 52 percent of Walmart employees are working part-time. Sixty percent of these employees would prefer a full-time job.

Federal agencies encourage this low-wage model by using taxpayer dollars to buy a wide range of goods at Walmart, including TVs for prisons, clothing for homeless veterans, and school supplies for children on Native American reservations. The most dubious of these purchases may be the Walmart gift cards the U.S. government buys in massive bulk.

In December 2017, for example, the Department of Veterans Affairs requested approval of a purchase of 31,000 $5 gift cards to compensate vets who participated in a program evaluation. Such gift cards reflect an old retailer trick. Few people will take a $5 gift card into a store and leave without spending more than the value of the card. In fact, Investopedia has found that about half of all customers using gift cards spend more than the card's value. An estimated $1 billion in gift cards also go unused every year.

Recommendations

Policymakers should ensure that taxpayers are not subsidizing extreme CEO-worker pay gaps in any way, whether through tax, contracting, or subsidy policies. The newly available pay ratio data make it much easier to implement policies that leverage the power of the public purse to narrow these dangerous divides.

The following reform proposals could be implemented at the federal level and in many states and cities. None of these proposals aim to dictate to corporate boards exactly how much companies can pay their top executives. But all these reforms would provide an incentive for corporations to both reduce executive pay *and* lift up compensation for workers at the bottom end of corporate payrolls.

1. Ratio-linked business tax rates

U.S. corporations received a massive windfall from the 2017 Republican tax reform, a move that slashed the corporate tax rate from 35 to 21 percent while maintaining many of the most egregious business tax loopholes. Lawmakers at the state, local, and federal levels seeking to recoup some of these windfalls should consider excessive pay gap taxes.

In 2016, Portland became the first locality anywhere to set a tax penalty on publicly traded companies with wide gaps between their executive and worker paychecks. Starting this year, the Oregon city is applying a business license tax "surtax" on companies with pay gaps that run higher than 100 to 1.

The Portland license tax sets a 2.2 percent levy on adjusted business net income. The surtax will increase this business tax liability by 10 percent for companies with CEO-worker pay ratios of more than 100-to-1 and 25 percent for companies with ratios of more than 250-to-1. In other words, a large company that owes the city $100,000 for its business license tax and has a pay ratio of 175-to-1 would pay an additional $10,000 in surtax.

Portland city officials have identified more than 500 corporations that do enough business in the city to be affected by the surtax. Many of these 500 companies regularly appear on lists of America's highest-paid CEOs, most notably Goldman Sachs, Oracle, Honeywell, Wells Fargo, and GE.

Legislators in five other states — Minnesota, Rhode Island, Connecticut, Illinois, and Massachusetts — have introduced similar tax legislation. Such initiatives may now gain more traction as a result of the new federal tax code provisions enacted this past December.

In the current U.S. Congress, the pending CEO Accountability and Responsibility Act (H.R. 6242) proposes to increase the corporate tax rate on firms that pay their CEO more than 100 times the pay of their median employee.

2. Ratio-linked procurement reform

Under existing law, the U.S. government denies contracts to companies that discriminate by race and gender in their employment practices. Our tax dollars, Americans believe, should not subsidize racial or gender inequality. Our tax dollars, procurement reformers believe, should also not subsidize companies that increase economic inequality.

A Rhode Island Senate bill would give preferential treatment in state contracting to corporations that pay their CEOs no more than 25 times their median worker pay. The measure's sponsors see this legislation as a sensible "good government" reform that would reduce taxpayer subsidies for top executives and encourage more efficient and effective pricing and services from companies truly interested in serving the public.

In past congressional sessions, Rep. Jan Schakowsky has also introduced a "Patriot Employer Tax Credit Act," legislation that would extend tax breaks and federal contracting preferences to companies that meet a variety of responsible behavior benchmarks, including CEO-worker pay ratios of 100-1 or less. In the UK, Labour Party leader Jeremy Corbyn aims to deny government contracts to companies that pay their CEO more than 20 times the pay of their lowest-paid worker.

3. A pay ratio approach to corporate subsidies and bailouts

All forms of federal, state, and local corporate welfare could be required to incorporate pay ratio guidelines in their qualification standards. In November 2015, then Republican congressman Mick Mulvaney from South Carolina authored an amendment designed to prevent the U.S. Export-Import Bank from subsidizing any U.S. company with annual CEO pay over 100 times median worker pay. Mulvaney currently directs the Office of Management and Budget. The amendment did not become law, but Mulvaney's proposal suggests potential for bipartisan action.

The European Union already applies such pay ratio standards to state aid for failing banks. Bailed-out banks operating within the EU have to cap their executive pay at no more than 15 times the national average salary or 10 times the wage of the average worker at the bank. A recent Institute for Policy Studies/Public Citizen report reveals that among the nation's top 10 U.S. banks, those that pose the greatest risks to our financial system, the average pay gap stood at 265 to 1 in 2017. Among the four giants at the top, the ratio averaged 319 to 1.

Institute for Policy Studies