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INEQUALITY CHAPTER - TITLE

CORPORATE GOVERNANCE AND COMPOUNDING INEQUALITY: THE INSTITUTIONAL ABANDONMENT OF THE WORKING CLASS

The Return to Extreme Inequality

In recent years the rediscovery that extreme inequality is returning to advanced economies has become widespread (Oxfam 2022; Credit Suisse 2015). What is at issue are the causes of this inequality. It is becoming clear that the wider population, particularly in Anglo-American economies have not shared in the growing wealth of the countries concerned, and that the majority of this wealth is being transferred on a continuous and systemic basis into the hands of the very rich. As the financialisation of these economies has continued, with the rapid growth and transmission of financial flows and the penetration of finance into every aspect of human activity, it is those who already have considerable accumulations of wealth who seem to benefit most, and this acute increase in inequality is particularly evident in the United States. Janet Yellen, former Chair of the Board of Governors of the US Federal Reserve at the time (and now Chair of the US Treasurer has stated:

"The distribution of income and wealth in the United States has been widening more or less steadily for several decades, to a greater extent than in most advanced countries… The past several decades have seen the most sustained rise in inequality since the 19th century after more than 40 years of narrowing inequality following the Great Depression. By some estimates, income and wealth inequality are near their highest levels in the past hundred years, much higher than the average during that time span and probably higher than for much of American history before then. It is no secret that the past few decades of widening inequality can be summed up as significant income and wealth gains for those at the very top and stagnant living standards for the majority. I think it is appropriate to ask whether this trend is compatible with values rooted in our nation's history, among them the high value Americans have traditionally placed on equality of opportunity… to the extent that opportunity itself is enhanced by access to economic resources, inequality of outcomes can exacerbate inequality of opportunity, thereby perpetuating a trend of increasing inequality" (Yellen 2014:1; Morelli et al 2014; Atkinson, Piketty and Saez 2011; Saez and Zucman 2014).

While the Anglo-American economies are seeing a return to the extremes of inequality last witnessed in the 19th century, the causes of this inequality are changing. In the 19th century great fortunes often were still inherited or derived by entrepreneurs from the ownership and control of productive assets. By the late 20th century as Atkinson, Piketty and Saez (2011) and others have highlighted, the sustained and rapid inflation in top income shares have made a significant contribution to the accelerating rate of income inequality:

"Most countries experience a dramatic drop in top income shares in the first part of the twentieth century in general due to shocks to top capital incomes during the wars and depression shocks. Top income shares do not recover in the immediate post-war decades. However, over the last thirty years, top income shares have increased substantially in English speaking countries and in India and China but not in continental European countries or Japan. This increase is due in part to an unprecedented surge in top wage incomes. As a result, wage income comprises a larger fraction of top incomes than in the past" (Atkinson, Piketty and Saez 2011:3).

Explanations for the increasing rate of inequality have focused upon changes in political economy as occurred in the Reagan and Thatcher administration neo-liberal reforms, macro-economic transformations and recurrent financial crises, the impact of globalisation, and the replacement of progressive by regressive taxation as Atkinson, Piketty and Saez have examined. However one dynamic for the rapid and widespread intensification of inequality, a potent tributary of neo-liberalism, which has been relatively ignored is the transformation of corporate governance in the later decades of the 20th century from a technocratic managerialist professionalism which regarded the objectives of the corporation to deliver value to all stakeholders, enhancing the prosperity of the economy and society in the process, to a much narrower and doctrinaire sense of shareholder primacy in which maximising shareholder value became the sole objective of the corporation:

"In recent years a growing consensus has emerged in favour of the shareholder-oriented model of the corporation. Increasingly, this model is justified not on the basis of shareholder ownership rights but on efficiency grounds: whoever the immediate and direct beneficiaries of shareholder orientation, it is argued; it ultimately indirectly benefits everyone by ensuring the maximization of aggregate social wealth. The prevalence of this view has caused the distributional dimensions of corporate governance to be neglected" (Ireland 2005:1).

It is true that the Anglo-American economies have proved particularly afflicted by the shareholder value doctrine, and a degree of institutional resistance occurs in Europe other regions of the world, however insistent international financial markets continue to overwhelm regional institutional diversity (Clarke 2016b).

As the financialisation of the economies of the advanced economies has proceeded, and non-financial corporations in other sectors themselves have increasingly been transformed into financial entities, the ownership of all financial assets has increasingly skewed towards the very rich. From the end of the recession in 2009 through 2011, the 8 million households in the U.S. with a net worth above $836,033 saw their aggregate wealth rise by an estimated $5.6 trillion, while the 111 million households with a net worth at or below that level saw their aggregate wealth decline by an estimated $0.6 trillion (Fry and Taylor 2013:2). Whilst increasing inequality has accompanied financialisation and globalisation throughout the world, it is in the Anglo-American world that many of the impulses towards financialisation and globalisation have originated, and specifically the dynamics of corporate governance and equity markets, once captured by the doctrines of shareholder primacy and the imperative of maximising shareholder value, were at the centre of the insistent production of increased inequality.

In many senses the election of an aggressive property billionaire as President of the United States, who promptly filled his Government with a greater array of billionaires and millionaires than ever before witnessed in US history, did not auger well for the campaign for equity in reward or recognition. Donald Trump's shallow commitment to come to the aid of the growing numbers of the dispossessed in America echoed in the valleys of corporate indifference. This hard-faced arrogance of extreme wealth is in danger of undermining the fabric of societies beyond the United States and may be seen more brutally and crudely in the state-controlled economies, as in the increasing influence of the growing ranks of billionaires in China, Russia, and throughout the emerging economies, where family wealth often remains dominant not only in the economy, but in the effective control of the state.

Maximising Shareholder Value

Maximising shareholder value has proved a debilitating philosophy throughout large-listed U.S. corporation for some decades, and this philosophy has impacted upon other forms of corporation, and corporations in other regions. The corrosive impact of shareholder value imperatives is felt in every business sector in the U.S., even the most successful such as the U.S. information technology and finance industries, where rather than investing in the future of the company, executives extracted value for shareholders and inflated their own excessive remuneration packages. U.S. information technology companies, which led the world in 1990s innovation (Microsoft, IBM, Cisco, Intel, Hewlett-Packard), "spent more (much more except Intel) on stock buybacks than they spent on R & D in 2000-2009" (Lazonick 2012). In the 2007/2008 global financial crisis, "many major US financial firms (including Citigroup, Merrill Lynch, Lehman Brothers, Wachovia, Washington Mutual, Fannie Mae), many of whom subsequently failed, had previously used up precious reserves in order to fund stock buybacks, which in turn made already over-compensated executives even wealthier" (Lazonick 2012).

Lazonick asks why did senior executives willingly diminish the financial strength and resilience of major corporations in this reckless way? "The ideology of maximizing shareholder value is an ideology through which corporate executives have been able to enrich themselves. The economists' and corporate executives' mantra from 1980 until the 2007-2008 meltdown of shareholder value and the need to 'disgorge…free cash flow' translated into executive option grants and stock buybacks, and resulted in increasing dramatically those executive options' value"

(Lazonick 2012; Lazonick 2017). The eviscerating impact of these financial interventions diminishing corporations and undermining their resilience is revealed by Davis (2009) Stout (2012) and the recent research of the Modern Corporation Project (2016) and Bower and Paine (2017). The power of the shareholder value model "has been amplified through its acceptance by a worldwide network of corporate intermediaries, including international law firms, the big accounting firms, and the principal investment banks and consulting firms – a network whose rapidly expanding scale give it exceptional influence in diffusing the ... model of shareholder-centred corporate governance" (Ireland 2005:77).

The self-interest and irresponsibility inherent in the practice of pursuing shareholder value reached its zenith with the reckless excesses of the global financial crisis. William Bratton and Michael Wachter relate the activities of financial sector firms in the years and months leading to the financial crisis of 2007−2008: "For a management dedicated to maximizing shareholder value, the instruction manual was clear: get with the program by generating more risky loans and doing so with more leverage. Any bank whose managers failed to implement the [high risk strategy] got stuck with a low stock price. . . Unsurprisingly, its managers laboured under considerable pressure to follow the strategies of competing banks" (Bratton, and Wachter 2010; Bruner 2011).

This irresponsible behaviour has been widely recognized in post-crisis inquiry reports, and regulatory reforms across most jurisdictions now recommend that executive remuneration systems should be redesigned to take into account risk strategy and promote long-term performance and responsibility (Blair 2012). And yet, even after the onslaught of criticism of executive excess, and the prolonged international reform process in the years following the financial crisis, the concept of shareholder primacy, and the concomitant insistence that the only real purpose of the corporation is to deliver shareholder value, has survived as an almost universal principle of corporate governance, and often goes unchallenged. This self-interested, tenacious and simplistic belief is corrosive of any effort to realise the deeper values companies are built upon, the wider purposes they serve, and the broader set of relationships they depend upon for their success. The obsessive emphasis on shareholder value is an ideology that is constricting and misleading in business enterprise, and is intended to crowd out other relevant and viable strategies for business success (Veldman and Willmott 2013; Clarke 1978). As Aglietta and Reberioux (2005:47) argue:

"..Shareholder value, or the agency perspective on corporate governance is less a theoretically founded model than a position of principle. Contrary to the affirmations of champions, it cannot lay claim to any scientific legitimacy, no economic reasoning can justify the assertion that the firm should be managed exclusively in the interests of its shareholders. Attempts at justification come up against the distributed nature of risk within the firm. ..Study of the creation of value within the firm thus brings out the collective nature of this process, which combines a group of specific productive resources under the authority of managers and directors. The implications in terms of the organization of power within the firm are noteworthy: management of the firm must be oriented to satisfying the interests of the entity itself, and not the interests of one of its constituents. In other words, the holistic, or partnerial, conception of the firm and its governance are reaffirmed by an economic analysis of the process of value creation in the firm."

Irresponsibility of Business

The primacy traditionally accorded to shareholder interests is most often justified on the basis that it is the means by which corporate law can most effectively secure aggregate social welfare (Hansmann and Kraakman 2001). This view was perhaps most clearly and familiarly expressed by the economist Milton Friedman (1970) that "the social responsibility of business is to increase its profits." The licence this jaundiced view offers to create profits by imposing severe externalities on the wider society is exposed by Robe (2012). One evident proof of the increasing irresponsibility of business is the increasingly sophisticated attempt to avoid any form of corporate taxation, particularly by the highly profitable international platform technology companies including Apple, Google, and Facebook. The OECD Base Erosion and Profit Shifting (BEPS) project estimates that the scope of tax avoidance by multinationals is between $100 billion and $240 billion per annum (by comparison total US corporate tax revenues in recent years were approximately $400 billion) (Avi-Yonah 2017; OECD 2018; Ault et al 2014). This is a reckless refusal to contribute to the public provision of the economic and social infrastructure required to conduct all business.

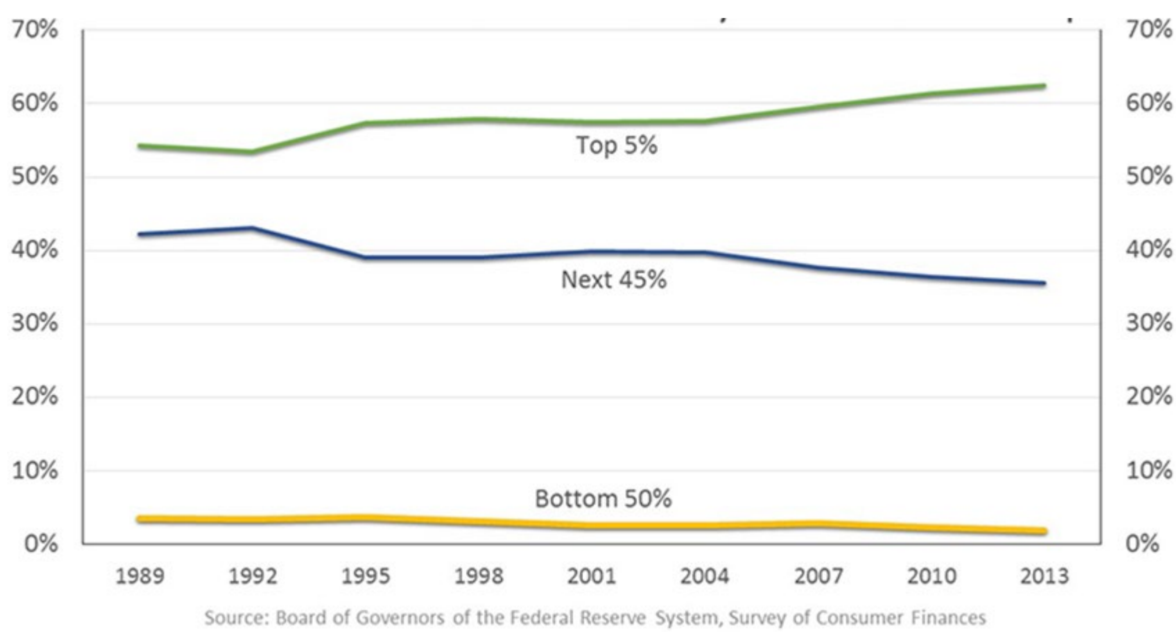
Amid the amassing evidence of the increasingly self-interest orientation of corporations, the question of whose interests should shape corporate operations and strategy has become contested under the corporate social and environmental responsibility movement (Clarke 2007; Clarke 2016a). Should companies pursue the collective interest of shareholders exclusively or should they include other interests and wider social and environmental claims in their own right? As Margaret Blair persuasively argues, "to anyone who has worked for a corporation or observed the ways that corporations can externalise some of their costs onto employees, customers, or the communities where they operate the idea that 'maximising share value is equivalent to maximising the total social value created by the firm' seems obviously wrong. The long-run maximization of share value is not the equivalent to maximising total social value. On the contrary, the in-the-long-run argument simply "fails to make a case that shareholders' interest should be given precedence over other legitimate interests and goals of the corporation . . . Neither in theory nor in practice, is it true that maximizing the value of equity shares is the equivalent of maximizing the overall value created by the firm." (Blair quoted by Ireland 2005 p 143)

This suggests that shareholder primacy is more accurately seen as a device for achieving a particular distribution of the product of productive activity than as a mechanism for achieving economic efficiency. Its vigorous re-assertion, like the adoption of neo-liberal policies more generally, involves "a shift in the internal social relationships within states in favour of creditor and rentier interests, with the subordination of productive sectors to financial sectors and with a drive to shift wealth and power and security away from the bulk of the working population" (Ireland 2005:31). In this way, the core purpose of business enterprise in the Anglo-American world has radically shifted from the creation of wealth for all stakeholders in the corporate endeavour to share, to the extraction of value from the activity of the enterprise for a select group of financial institutions, shareholders and executives exclusively to enjoy.

Intensifying Inequality

In this tragic inversion of the purposes of enterprise, the structural increasing inequality of wealth now disfiguring Western economies is born (Reich 2016; Davis 2009). While other important causes of increasing structural inequality have been recognised including “the financialization of economies that has taken place since 1990, inequality increased because labour flexibility intensified, labour market institutions weakened as trade unions lost power, and public social spending started to retrench and did not compensate the vulnerabilities created by the globalization process” (Tridico and Fadda 2018:2), shareholder value has proved a powerful and unrecognised driver of intensifying inequality internationally (Hickel 2017; Clarke and Boersma 2017) .

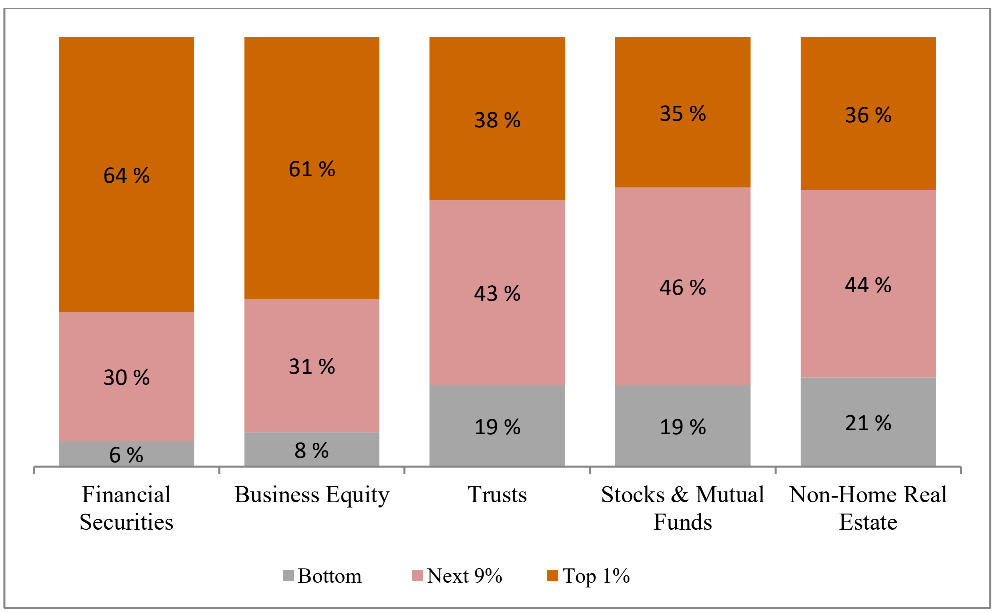
Figure 17 Share of All Financial Assets by Net Worth Group in US



As the Board of Governors of the Federal Reserve (2014) indicate the ownership of all financial assets in the U.S. is heavily skewed towards the top 5 per cent of the population who by 2013 possessed more than 60 per cent of these assets, while the bottom 50 per cent of the population barely have any financial assets (Figure 17). However, Wolff (2012) highlights that U.S. financial securities and business equity are the most heavily skewed financial assets in their distribution, with just 1 per cent of the population owning 64 per cent of financial securities and the next 9 per cent of the population owning 30 per cent of these assets. Similarly with business equity one per cent of the U.S. population own 61 per cent of business equity and the next 9 per cent of the population own 31 per cent of business equity (Figure 18).

Therefore, in essence the elevated mantra of the maximisation of shareholder value effectively boils down to devoting corporations to the financial interests of 1 per cent of the U.S. population, and at best 10 per cent of the population. That is shareholder value behind the elaborate pretension, is essentially a creed of maximising intense and increasing inequality to the benefit of a tiny percentage of the population. The crudeness of the avarice and recklessness that underlies the maximisation of shareholder value is most clearly demonstrated in the massive, continuing and irresponsible inflation in executive pay during the last three decades.

Figure 18 US Distribution of Investment Assets 2010rends e:



Source: Adapted from: Wolff, E. N. (2012). The Asset Price Meltdown and the Wealth of the Middle Class, National Bureau of Economic Research Working Paper No 18559, New York: New York University http://www.ecineq.org/ecineq_bari13/FILESxBari13/CR2/p17.pdf
G.W. Donhoff (2013), Wealth, Income and Power, Who Rules America? http://www2.ucsc.edu/whorulesamerica/power/wealth.html

Executive Pay

It is important to remember that though hundreds of millions of dollars are routinely paid individually to the leading CEOs and financial institution executives in the United States, and though the country remains the second richest on earth in GDP (after China), the political economy of the U.S. is deeply disfigured by mounting, severe, and very visible inequality. While CEO salaries inflated through the roof in the era from the 1990s to the present day, average earnings in America actually went down (EPI 2015). In this re-invention of inequality the U.S. led the world "The share of total income going to top income groups has risen dramatically in recent decades in the United States and in many other (but not all) countries" (Atkinson, Picketty and Saez 2011:6). How did this insistent inequality reappear in the industrial world, what are its causes, and what are the consequences?

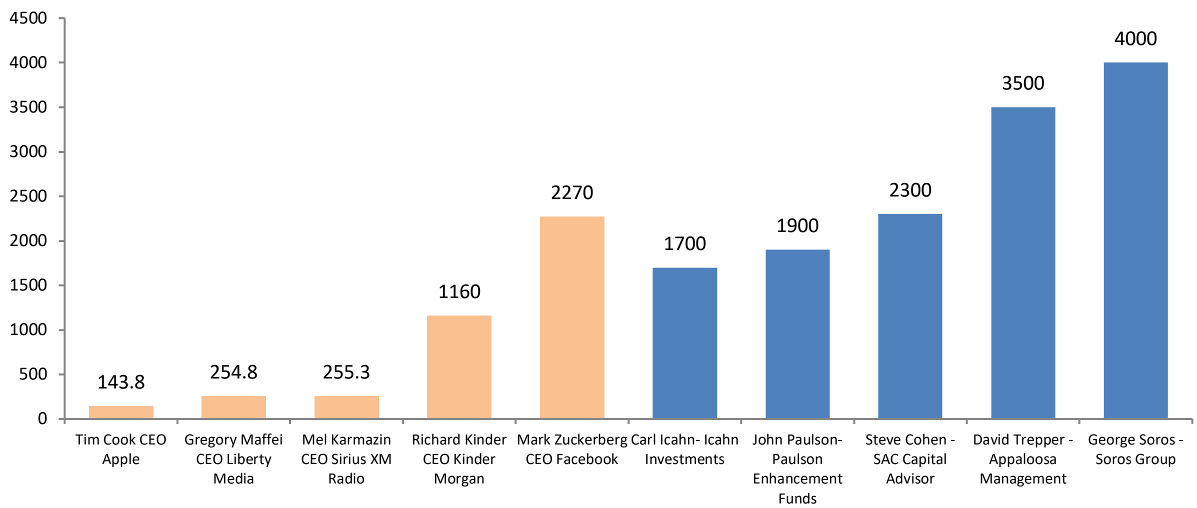
Executive remuneration began to explode in the late 1980s and early 1990s when executives began to be encouraged to align their thinking more closely with shareholders by receiving equity based pay. Jensen and Murphy (1990a and 1990b) asked the rhetorical question "Why pay executives like bureaucrats?" The apparent answer to this question was to load executives up with equity pay until this became the lion's share of their remuneration (Hall 2003). The purpose was to focus and enhance executive's performance on achieving returns to shareholders: equity-based compensation was intended as the silver bullet to achieve higher rates of shareholder value. However, the critical flaw in this plan is that executives, who were running the company and could influence the performance of the company to serve their own purposes, effectively seized control of their own reward structures:

"Flawed compensation arrangements have not been limited to a small number of 'bad apples'; they have been widespread, persistent and systemic. Furthermore, the problems have not resulted from temporary mistakes or lapses of judgement that boards can be expected to correct on their own; rather they have stemmed from structural defects in the underlying governance structure that enables executives to exert considerable influence over their boards. The absence of effective arm's-length dealing under today's system of corporate governance has been the primary source of problematic compensation arrangements. Finally, while recent reforms that seek to increase board independence will likely improve matters, they will not be sufficient to make boards adequately accountable; much more needs to be done" (Bebchuk and Fried 2005:2).

During the boom years of the 1990s there was a rapid and sustained escalation in CEO salaries in the United States, and any expected adjustment downwards in executive reward with the market crash of 2001, and the halving of the market capitalisation of many large corporations, did not occur. These extravagant salary packages were readily disengaged from any meaningful incentive system and became instead bullish self-justificatory status symbols. Though there were more stringent efforts to link CEO compensation to performance, U.S. CEO reward remained at incredibly high levels whether the companies they managed did well or not. Extremely lucrative share option schemes continued, and if the options packages became more sophisticated, there were many devices such as backdating widely employed to ensure executives extracted the best possible reward from their options.

This pattern has continued to the present day: whatever reductions in their remuneration (if any) CEOs experienced during the financial crisis were quickly restored in the period after the crisis, and soon were as extravagant as they had ever been before. Stock options in the US proved the route to enriching not just brilliant software entrepreneurs but any CEO of an S & P 100 company who stayed in office long enough to massage the company accounts. (In 2021 Tim Cook, Apple's CEO squeezed out $98 million in compensation, and vested 5 million Apple shares worth $754 million at the time, shares granted to him in 2011 when he became CEO) (Cao 2022).

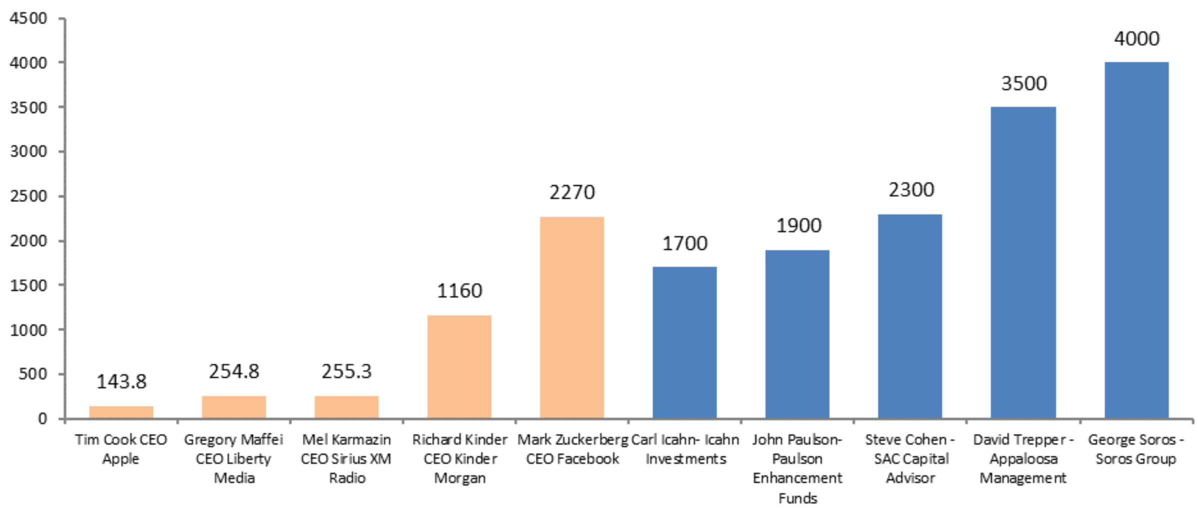
Figure 19 Top five US CEOs annual remuneration vs. top five US fund managers CEOs in 2013



Source: Forbes (2014), CEO Compensation, 25 Highest Earning Hedge Fund Managers and Traders http://www.forbes.com/sites/nathanvardi/2014/02/26/the-highest-earning-hedge-fund-managers-and-traders/; World of CEOS available at http://www.worldofceos.com/dossiers

Figure 19 indicates the total remuneration of the five highest paid CEOs in the US in 2013. Included in the compensation figures are base salary, bonuses, benefits, long term incentive plans, and profits from cashing out on stock options where this information was accessible. U.S. executive salaries are by far the most inflated in the world, followed by the UK. Executive salaries in Europe are generally more modest, and in Japan are much lower (though the example of US executive excess is influencing the behaviour of executives in other economies). Claims that such extravagant salaries are required to incentivise U.S. CEOs and create greater alignment between their interests and those of the shareholders scarcely stand scrutiny: despite the sophisticated formulas often employed in complex compensation packages, all too often extravagant CEO salaries have little connection to performance measured in terms of shareholder returns, peer performance, or any measure of stakeholder values.

Figure 19 Top five US CEOs annual remuneration vs. top five US fund managers CEOs (2013)



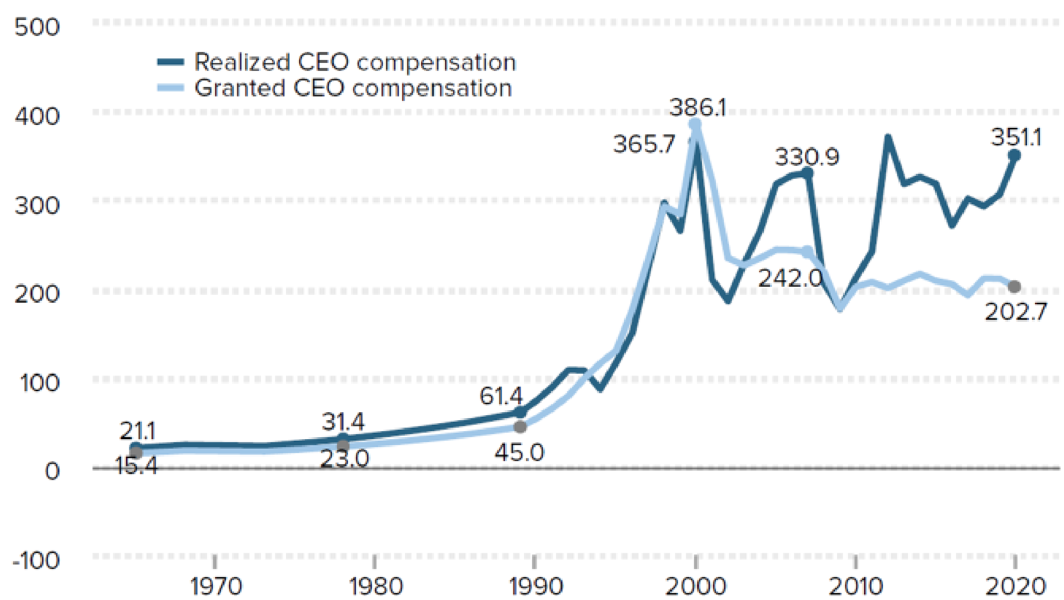
Source: Forbes (2014), CEO Compensation, 25 Highest Earning Hedge Fund Managers and Traders http://www.forbes.com/sites/nathanvardi/2014/02/26/the-highest-earning-hedge-fund-managers-and-traders/; World of CEOS available at http://www.worldofceos.com/dossiers

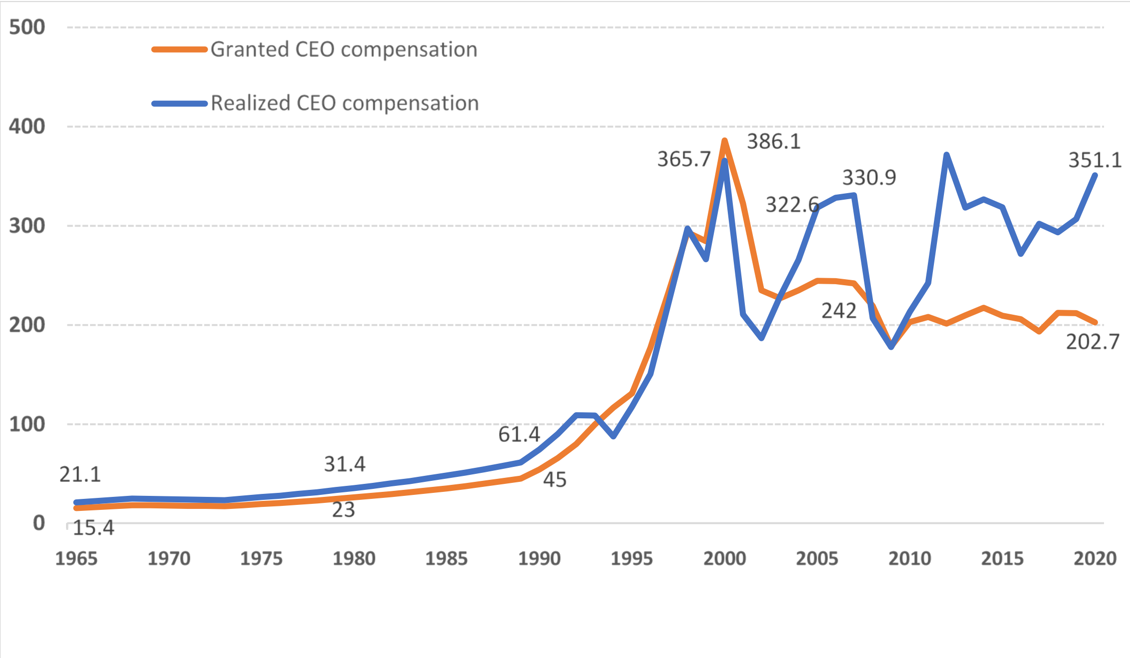
Of course, CEO salaries are only a part of wider structures of inequality that have become more extreme in recent years, and rewards for executives in the finance sector have become much more astronomically inflated (Figure 19) with billions of dollars being paid to the small group of top hedge fund directors. (When the leaders of the hedge funds were hauled into the U.S. Congress House Committee investigating the financial crisis George Soros admitted that "more regulation of the financial system is needed in order to reign in the greed that ultimately creates unsustainable economic bubbles" *New York Times* 13 November 2008). As Thomas Piketty's *Capital in the 21st Century* (2014) graphically demonstrates western economies led by the United States have been drifting back into levels of inequality not witnessed since the 19th century. The irony is that as the US has become one of the most unequal societies in the world, there has been a rediscovery of philanthropy, with both Bill Gates and Warren Buffet eager to give their vast $100+ billion fortunes away to help solve the most deep-seated problems of the world. Mark Zuckerberg has responded to this by channelling some company stock and his own money into public education. But earlier in the 20th century both corporations and individuals were taxed at a level that enabled governments to meet these problems of social need and equality of opportunity, without having to depend on the super-rich.

The essential problem is not the unrestrained and absolute growth in CEO reward, however morally dubious that is in organisations where CEOs are expected to be setting an example of ethical behaviour rather than greed, it is the wider impact of the obsessive focus on CEO reward systems in Anglo-American corporations. Firstly, there is the debilitating displacement of goals as the *objectives* of the corporation under the leadership of equity incentivised CEOs switches from the single-minded focus on the development and success of the company to highly individualistic CEO strategies on how to align the performance of the corporation with the maximisation of their personal earnings. Secondly, how the arrogation of an increasing share of the wealth of the corporation by the CEO impacts upon *relationships* with other employees, shareholders and the wider community, as CEOs become increasingly remote from the material concerns of the rest of the people and disinterested in serving them.

The Displacement of Goals

The displacement of CEO goals is not a recent problem but occurred in earlier periods in different forms, for example in earlier periods of merger and takeover activity, often the most insistent driver was CEOs' ambition, since they associated acquisitions with higher rewards for themselves, regardless of the consequences for other employees. Similarly, the sustained lack of capital investment in US and UK industry in the 1970s and 1980s was partly due to the self-interest of management: “The problem was not only the high cost and mobility of capital. The problem was also the willingness of many top managers of industrial corporations to take advantage of the permissive financial environment to appropriate huge levels of compensation for themselves while neglecting to build organizational capabilities in the companies they were supposed to lead” (Lazonick 1992:476). However, the displacement of goals since the introduction of equity-based pay for CEOs has become systemic, and now agreeing the elaborate design of the CEO remuneration package is one of the principal roles of boards of directors. For example, in the celebrated downfall of WorldCom the report prepared for the District Court of New York stated: “The Audit Committee spent as little as six hours per year in overseeing the activities of a company with more than $30 billion in revenue, while the WorldCom Compensation Committee met as often as 17 times per year” (Breedon 2003:31).





Source: https://www.epi.org/publication/ceo-pay-in-2020/"

"Source: Authors' analysis of data from Compustat's ExecuComp database, the Bureau of Labor Statistics' Current Employment Statistics data series, and the Bureau of Economic Analysis NIPA tables. "

Source: Economic Policy Institute 2014. Authors' analysis of data from Compustat's ExecuComp database, Current Employment Statistics program, and the Bureau of Economic Analysis NIPA tables

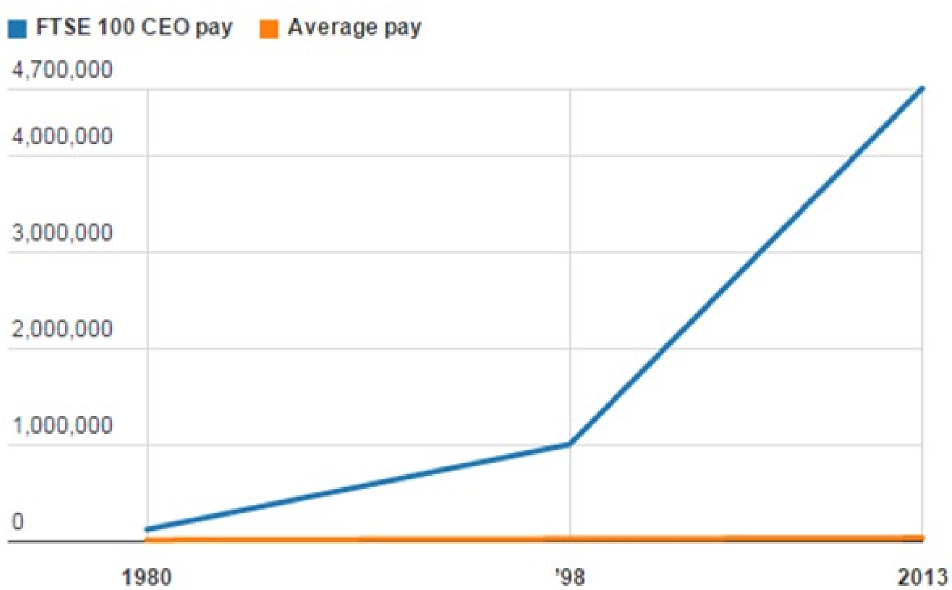
As critical as the detachment of US executives from their corporations and shareholders' interests that occurred from the 1990s, was the distance that grew between the rewards and lifestyle of executives and their employees and other stakeholders. In 1980 the ratio of CEO and worker compensation in the US in the top 350 US firms by sales was approximately 50:1, and by 1990 this had risen to a ratio of 109:1. With the meteoric rise in executive pay in the 1990s the ratio expanded inexorably to an unprecedented 376:1 in 2002 (Figure 20). After the fall-out from the Enron and WorldCom collapses and the introduction of the Sarbanes Oxley regulation there was a sharp dip in this ratio, which quickly recovered with the excesses that led to the global financial crisis. The post-crisis regulatory intervention put a check of executive excess for a short while, but with the public stimulus led recovery CEO salaries returned to a ratio of 303:1 compared to worker pay.

Though there was productivity growth during this era almost all the benefits went to top management: as Dew-Becker and Gordon who examined the distribution of the benefits of growth in the US comment "Our results show the dominant share of real income gains accruing to the top 10 per cent and top 1 per cent is almost as large for labour income as total income … It is not that all gains went to capital and none to labour; rather, our finding is that the share of gains that went to labour went to the very top of the distribution of wage and salary incomes" (2005:77). In two decades US workers saw no measurable improvement in their wages, while US executives enjoyed the experience of becoming multi-millionaires en masse. This is hardly a recipe for a an equitable, well integrated or orderly economy and society, and it is not surprising that the US now has among the worst social and health problems of any advanced industrial country, and has rediscovered the scourge of widespread absolute poverty.

The elaborate structures designed to link executive reward to performance has often compounded the problems rather than alleviating them, and too often CEO compensation is not due to achieving results but has amounted to rewards for failure (UK Trade and Industry Committee 2003). Essentially the extraordinary elevation in executive reward that occurred in the 1990s (and has continued since) in the United States had little to do with the productive efforts of the executives themselves and was fuelled by the longest running bull market in history. The sustained rise in share prices in this period reflected institutional savings flows and momentum investing, together with falling interest rates. Stock options became an accelerator mechanism providing risk free bonuses to senior management. "Corporate governance in the 1990s operated against a background of rising share prices, the capital market was not an agent of discipline but a facilitator of painless general enrichment through rising share prices; amidst increasing confusion about what management could do in a world whose stock market was running on narratives (not discounted cash flows) and encouraging CEOs to pose as heroes … Many CEOs in the decade of the 1990s profited personally from using the language of value creation to cover the practice of value skimming" (Ertuck et al 2004).

When companies do use objective criteria for setting CEO compensation these criteria are not designed to reward managers for their own contribution to the firm's performance, as bonuses are typically not based on the firm's operating performance or earnings increases relative to its industrial peers, but on metrics that cannot distinguish the contribution of industry wide or market wide movements. In fact, conventional stock options allowed executives to gain from any increase in stock price above the grant-date market value, even when their company's performance might have significantly lagged that of their peers.

Figure 21 Change in CEO pay and Average Worker Pay in the UK 1980-2013 (UK £)



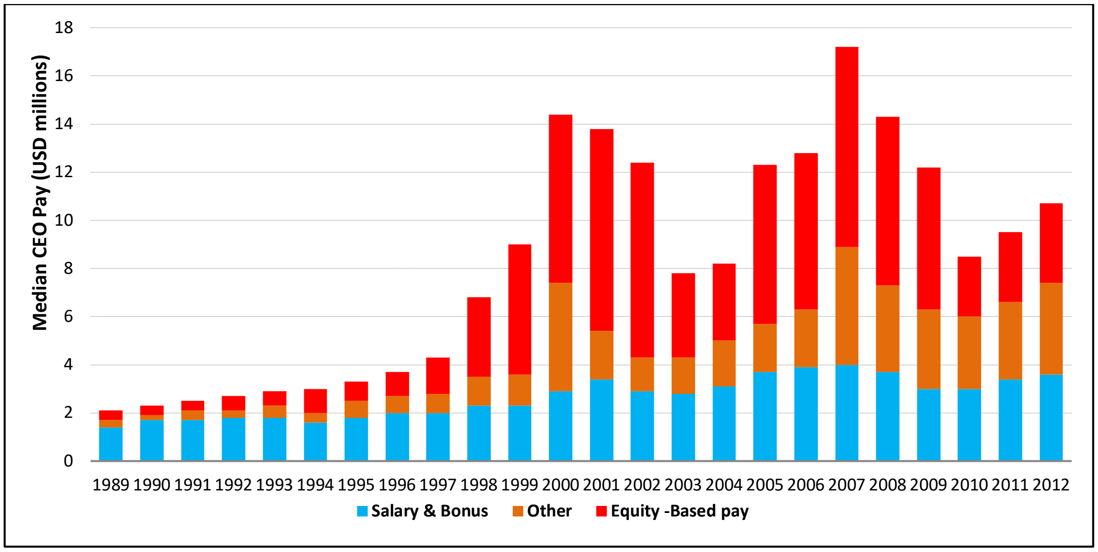
Source: Adapted from: High PayCentre, *Reform Agenda: how to Make Top Pay Fairer*, Final Report, 2014

There is a real danger that the excessive compensation secured by US executives is becoming the benchmark for executive reward in other regions of the world where up till now executive rewards have remained modest in comparison, and executive have pursued a balanced set of corporate objectives rather than their personal remuneration. The out-of-control inflation in executive pay in the United States threatens to impact upon executive reward internationally, beginning with the UK where CEO salaries were a small fraction of US CEO salaries until 1998 when a sharp and sustained inflation in CEO pay in the FTSE 100 occurred (Figure 21). In the past there was some resistance to this as business executives in Europe and Asia were less enamoured to the short-term orientations of the U.S. counterparts and identified with the sustained success of the companies they led rather than celebrating their own reward. However more European and Asian executives now look upon swollen US executive salaries as a benchmark to aspire towards. Already a higher proportion of executive pay is being offered in equity-based compensation and in incentive payments in other parts of the world, which were significant stages in the acceleration of the inflation of US executive pay. It may be questioned whether executive performance pay should be in the form of stock options at all, since these create an incentive for management to manage performance of financial results in order to maximise share price. Pay for performance in the form of bonuses might better be linked to the underlying drivers of performance that impact on the financials, and to non-financial performance indicators in a more balanced scorecard. The focus could then be upon management for sustainability, rather than short term performance management aimed at the stock price (Clarke 2016a).

The Reform of Executive Pay

As the inflation in executive pay has continued for several decades, interrupted, but not ended, by the corporate crises of 2001/2002 and the global financial crisis of 2007/2008, the public outcry against this manifest inequity and the calls for radical reform have increased to a crescendo internationally (Figure 22). Addressing the structural inequalities that Atkinson, Piketty and Saez (2011) and others have clearly identified will take a major overhaul of individual and corporate taxation, and significant repair of social, welfare and educational systems. However, the inflation in executive pay, which is the most public of the present inequities has attracted a raft of specific reform proposals.

Figure 22 Composition of median CEO pay in the US (1989–2012)



Source: Adapted from Forbes Annual Executive Compensation Report.
http://www.forbes.com/lists/2012/12/ceo-compensation-12-historical-pay-chart.html
Hall, Brian J. (2003), Six Challenges in Designing Equity-Based Pay, Journal of Applied Corporate Finance, 15(3): 21–23.

Often these proposals have proved idealistically conceived and widely popular, but either have been delayed in their introduction due to corporate resistance or remain in development. The reform movement on executive pay is now so broad some measure of success in restraining unwarranted increases may result. The U.S. Institute for Policy Studies has outlined a number of principles for an improved CEO pay system:

Encourage narrower CEO-worker pay gaps

Extreme ratios between executive and employees pay runs counter to principles of fairness and endangers enterprise effectiveness and commitment.

Eliminate taxpayer subsidies for excessive executive pay

Taxpayers should not have to pay for the excesses of executives, and yet do so on government contracts which subsidise this lifestyle, and in corporate tax deductions.

Encourage reasonable limits on total compensation

The greater the short-term incentives for executives the more temptation there is to make reckless decisions rather than pursue the long term success of the company.

Bolster accountability to shareholders

An irony of the shareholder value movement is that the inflation in executive pay it has induced was achieved while disenfranchising shareholders, and boards answerable to shareholders are more likely to be more careful in justifying compensation they award to executives.

Extend accountability to broader stakeholder groups

Pay reform for executives should encourage executives towards decisions that take into account the interests of all corporate stakeholders including consumers, employees, and communities (IPS 2014).

As the Institute for Policy Studies (2014) records there are many statutory and regulatory initiatives deriving from the Dodd-Frank Act (2010). They include measures intended to mandate disclosure on executive pay of the ratio of the median total annual compensation of their employees and the CEO; to disclose the relationship between executive pay and corporate financial performance; to disclose whether companies have a policy on executives hedging on their stock options (that is using hedging contracts to bet against their own firm's success, meaning that they will benefit if the company does well or not); the right of shareholders to a non-binding vote on the compensation of executives; and allowing shareholders to place candidates on the ballot for boards of directors; finally to require securities exchanges to set listing standards related to the independence of board compensation committees and their advisers (Tables 11 and 12). Of these measures the greatest struggle to have the rule passed occurred with disclosing the ratio of CEO pay to median employee compensation, as the SEC admitted having passed the rule on 5 August 2015: "As required by Section 953(b) of the Dodd-Frank Act, today's rules would require a public company to disclose the ratio of the total compensation of its chief executive officer

(“CEO”) to the median total compensation received by the rest of its employees…The Congressional mandate under Section 953(b) has proven to be one of the most controversial rules that the Commission has been required to undertake under the Dodd-Frank Act” (SEC 2015). This will mean major corporations will need to publicly reveal how much they value the efforts of all of their employees relative to the contribution of the CEO. Yet the implementation of this rule was undermined as opponents of the rule mounted a bitter campaign.

Internationally a campaign has continued against the trend to adopt the inflated U.S. executive remuneration which is gradually spreading. In Switzerland there was a popular initiative to limit executive pay to no more than 12 times worker pay, which was blocked by a massive corporate advertisement campaign. In the UK shareholders now have a binding vote on executive compensation in public companies, and in the European Union the internal market commission is proposing a vote on the ratio between the lowest and the highest paid employee in the company. In 2011 Australia gave shareholders the right to spill the board of directors if the executive pay report gets a ‘no’ vote of 25 per cent or more for two consecutive annual general meetings. In France President Hollande capped executive pay at firms where the government has a majority stake at 450,000 euros, approximately 20 times the minimum wage, and introduced a special corporate tax equal to 75 per cent of any individual executive compensation they pay over one million euros (Table 13). All of these measures are contested and highly problematic in terms of application. However, they do serve to focus further public attention on the outrage of unrestrained and undeserved executive reward.

It is likely that this international campaign to place restraint upon executive pay will continue, however whether the trend towards endless inflation of executive reward will be stemmed, is in some doubt, and will require a major political campaign to be effectively and continuously developed in policy and implemented in practice. Though these various attempts to restrain executive pay have merit, the effort at reforms must be placed in the context of the insistent trend of inflation of executive reward in recent decades, and the apparent capacity of executives to evade all restraint on the increase in their relative shares of the wealth generated by the enterprises they control, (and the concomitant excess distribution to shareholders). It is not likely that any of these attempts to limit executive pay will succeed in any sustained way unless reform is associated with a substantial reformulation of corporate law, a radical redesign of corporate and personal income taxation, and a range of social and welfare reforms as occurred in the social democratic reconstruction following the second world war. In the contemporary political world, which is almost as dominated by neo-liberal thinking as is business, such sweeping reforms are remote.

Table 11 U.S. Statutes or Regulation Recently Passed Impacting on Executive Pay: Disclosure

Table 11 U.S.

Reform	Description and	Significance
CEO-worker pay ratio	The Dodd-Frank financial reform law (Sec. 953b) requires all U.S. corporations to compute and report the median annual total compensation of their employees, excluding the CEO, and reveal	This provision will for the first time ever require major U.S. firms to reveal how much they value the contributions of all employees, not just top executives. Enterprises operate
Pay versus performance	The Dodd-Frank financial reform law (Sec. 953a) requires all U.S. corporations to disclose the	This requirement places too much emphasis on short-term, narrowly defined performance criteria and does
Employee and director	The Dodd-Frank financial reform law (Sec. 955) requires firms to	Top executives use hedging contracts to bet against their own firm's success.
Government contractor pay	The 2008 Government Funding Transparency Act requires government contractors and subcontractors to annually disclose	This reform expands executive pay reporting requirements that already apply to publicly held companies to privately held firms that rely heavily on

Adapted from IPS (2014) Executive Pay Reform Scorecard, Institute for Policy Studies
http://inequality.org/wp-content/uploads/2014/08/Executive-pay-reform-scorecard.pdf?9aeac0

Shareholder 'Say on Pay'	The Dodd-Frank financial reform law (Sec. 951) requires firms to provide shareholders the right to a nonbinding vote on the compensation of executives. Dodd-	Pay proposals failed to receive a majority of shareholder support at 72 companies in 2014, up slightly from 54in 2013. The biggest impact of the law is that it has encouraged the
Proxy access	The Dodd-Frank financial reform law (Sec. 972) gives the SEC the authority to adopt rules allowing shareholders to place candidates on the ballots for board of director	If these rules are ever implemented, institutional investors will have a greater capacity to challenge incumbents and incumbents may become more attentive to broader
Compensation committee and consultant independenc	The Dodd-Frank financial reform law (Sec. 952) requires securities exchanges to set listing standards related to the	Unfortunately, the SEC's ruling will have limited impact. The SEC ignored recommendations to bar stock exchanges from listing companies that do not have compensation committees

Table 12 U.S. Statutes or Regulation Recently Passed Impacting on Executive Pay: Governance

Source: Adapted from IPS (2014) Executive Pay Reform Scorecard, Institute for Policy Studies http://inequality.org/wp-content/uploads/2014/08/Executive-pay-reform-scorecard.pdf?9aeac0

Table 13 Selected International Regulation Impacting on Executive Pay

Reform	Description and	Significance
Overall CEO pay limit	A massive corporate ad blitz was needed to block Swiss voters from	Current pay ratios at major firms in Switzerland are running neat 100 to 1.
'Say on Pay' with teeth	The UK now requires public companies to give shareholders a binding vote on compensation every three years. Michel Barnier, the EU's internal markets commissioner, is proposing that shareholders also have the power to vote on the ratio between the lowest and highest-paid employees in the company.	Policies like these give shareholders much more power than they received through the purely advisory "Say on Pay" rules in the United States. Four U.S. companies whose shareholders rejected a pay plan in 2011 received a second no vote in 2012, and yet the firms still have no legal obligation to alter the pay packages.
Pay ratio limit	French President François Hollande has capped executive pay at firms where the government owns a majority stake at 450,000 euros, or essentially 20 times the minimum wage. In the United States, veteran	Corporate salary differentials near 10 and 20:1 have been commonplace in Japan and some European nations for many years. A government could step toward mandating such a limit by denying government contracts, tax
Corporate tax penalty on excessive executive	France has introduced a special corporate tax equal to 75% of any individual executive compensation they pay out over 1 million euros,	French President Hollande advanced this proposal after the French high court struck down, on technical grounds, an earlier proposal that would have set a

Source: Adapted from IPS (2014) Executive Pay Reform Scorecard, Institute for Policy Studies http://inequality.org/wp-content/uploads/2014/08/Executive-pay-reform-scorecard.pdf?9aeac0

Use this para on Trump with Yellon's critique

Figure of Family Ownership in Asia - cite/use

The Crisis of the Return to Extreme Inequality (*Start of Chapter?)*

In recent years the rediscovery that extreme inequality is returning to advanced economies has become widespread (Oxfam 2022; Credit Suisse 2015). What is at issue are the causes of this inequality. It is becoming clear that the wider population, particularly in Anglo-American economies have not shared in the growing wealth of the countries concerned, and that the majority of this wealth is being transferred on a continuous and systemic basis into the hands of the very rich. As the financialisation of these economies has continued, with the rapid growth and transmission of financial flows and the penetration of finance into every aspect of human activity, it is those who already have considerable accumulations of wealth who seem to benefit most, and this acute increase in inequality is particularly evident in the United States. Janet Yellen, former Chair of the Board of Governors of the US Federal Reserve at the time (and now Chair of the US Treasurer has stated:

"The distribution of income and wealth in the United States has been widening more or less steadily for several decades, to a greater extent than in most advanced countries… The past several decades have seen the most sustained rise in inequality since the 19th century after more than 40 years of narrowing inequality following the Great Depression. By some estimates, income and wealth inequality are near their highest levels in the past hundred years, much higher than the average during that time span and probably higher than for much of American history before then. It is no secret that the past few decades of widening inequality can be summed up as significant income and wealth gains for those at the very top and stagnant living standards for the majority. I think it is appropriate to ask whether this trend is compatible with values rooted in our nation's history, among them the high value Americans have traditionally placed on equality of opportunity… to the extent that opportunity itself is enhanced by access to economic resources, inequality of outcomes can exacerbate inequality of opportunity, thereby perpetuating a trend of increasing inequality"

(Yellen 2014:1; Morelli et al 2014; Atkinson, Piketty and Saez 2011; Saez and Zucman 2014).

While the Anglo-American economies are seeing a return to the extremes of inequality last witnessed in the 19th century, the causes of this inequality are changing. In the 19th century great fortunes often were still inherited or derived by entrepreneurs from the ownership and control of productive assets. By the late 20th century as Atkinson, Piketty and Saez (2011) and others have highlighted, the sustained and rapid inflation in top income shares have made a significant contribution to the accelerating rate of income inequality:

"Most countries experience a dramatic drop in top income shares in the first part of the twentieth century in general due to shocks to top capital incomes during the wars and depression shocks. Top income shares do not recover in the immediate post-war decades. However, over the last thirty years, top income shares have increased substantially in English speaking countries and in India and China but not in continental European countries or Japan. This increase is due in part to an unprecedented surge in top wage incomes. As a result, wage income comprises a larger fraction of top incomes than in the past" (Atkinson, Piketty and Saez 2011:3).

Explanations for the increasing rate of inequality have focused upon changes in political economy as occurred in the Reagan and Thatcher administration neo-liberal reforms, macro-economic transformations and recurrent financial crises, the impact of globalisation, and the replacement of progressive by regressive taxation as Atkinson, Piketty and Saez have examined. However one dynamic for the rapid and widespread intensification of inequality, a potent tributary of neo-liberalism, which has been relatively ignored is the transformation of corporate governance in the later decades of the 20th century from a technocratic managerialist professionalism which regarded the objectives of the corporation to deliver value to all stakeholders, enhancing the prosperity of the economy and society in the process, to a much narrower and doctrinaire sense of shareholder primacy in which maximising shareholder value became the sole objective of the corporation:

"In recent years a growing consensus has emerged in favour of the shareholder-oriented model of the corporation. Increasingly, this model is justified not on the basis of shareholder ownership rights but on efficiency grounds: whoever the immediate and direct beneficiaries of shareholder orientation, it is argued; it ultimately indirectly benefits everyone by ensuring the maximization of aggregate social wealth. The prevalence of this view has caused the distributional dimensions of corporate governance to be neglected" (Ireland 2005:1).

It is true that the Anglo-American economies have proved particularly afflicted by the shareholder value doctrine, and a degree of institutional resistance occurs in Europe other regions of the world, however insistent international financial markets continue to overwhelm regional institutional diversity (Clarke 2016b).

As the financialisation of the economies of the advanced economies has proceeded, and non-financial corporations in other sectors themselves have increasingly been transformed into financial entities, the ownership of all financial assets has increasingly skewed towards the very rich. From the end of the recession in 2009 through 2011, the 8 million households in the U.S. with a net worth above $836,033 saw their aggregate wealth rise by an estimated $5.6 trillion, while the 111 million households with a net worth at or below that level saw their aggregate wealth decline by an estimated $0.6 trillion (Fry and Taylor 2013:2). Whilst increasing inequality has accompanied financialisation and globalisation throughout the world, it is in the Anglo-American world that many of the impulses towards financialisation and globalisation have originated, and specifically the dynamics of corporate governance and equity markets, once captured by the doctrines of shareholder primacy and the imperative of maximising shareholder value, were at the centre of the insistent production of increased inequality.

Conclusion

This analysis has considered the dimensions of financialization of the international economy and how this has produced a more intensive and integrated mode of accumulation. With the increasing translation of corporations into financial entities, how the dominant shareholder primacy mode of corporate governance has served to compound inequality was examined. The damaging impact of maximising shareholder value was investigated, both in terms of the long term prospects of corporations, but also in aggressively producing increased inequality in the economy and society. Finally, the ultimate paradoxical outcome of agency theory and shareholder value was highlighted as the explosion of executive reward in the last two decades in the Anglo-American countries, and the possibilities and limitations of proposals to reform this inequitable and unacceptable distribution assessed.

It is the central tenet of this analysis that the way the corporate governance systems in Anglo-American economies and companies have been subjected to the regimes of shareholder primacy and increasing rewards for CEOs has systemically intensified inequality, creating corporations apparently dedicated to serving the interests of a small elite of owners and managers. In this process the conception of property rights and reward systems was wilfully distorted to compound the wealth of the privileged and has dispossessed working people from sharing in the benefits of prosperity. This crisis of inequality disfigures the advanced industrial economies which once shared their prosperity more equitably and creates distressed societies and damaged communities. Translated onto the world stage the consequences of growing global inequality are far more devastating, the widespread dispersal of acute inequality as emerging economies become afflicted by debt to the developed nations, has led to destabilising conflicts and mass migration, which in turn has undermined further the security and stability of the world order. At the epicentre of this global malaise is the failure of corporate finance, industry and governance institutions to exercise responsibility and equity in their dealings.

Accompanying and often driving many of these dramatic changes has proved the technological advance and transformation that has promised a better world, though often delivered something far more questionable. Digital finance, electronic markets, and hegemonic platform technology companies have amassed huge fortunes in recent decades, but in the process created the potential for new systemic crises. The technological transformation of the global economy with high-speed digital electronic infrastructure governing all forms of business transactions, the transmission of funds at the speed of light, and the penetration of digital financial transactions into every aspect of commercial and personal life has created a brave new world, that has the potential not only for massive generation of wealth but also for more rapid and greater economic and social crises than ever experienced before.

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NOTES

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The American economy has experienced waves of wrenching crisis and restructuring during the past thirty years. The Fordist model of mass production relied on large integrated and oligopolistic industrial firms, managerial autonomy from shareholders, long-planning horizons, stable sources of capital, and predictable product cycles in predictably expanding markets. The collapse of the Bretton Woods monetary regime, oil shocks, and stagflation during the 1970s undermined these foundations of Fordism and triggered a prolonged period of economic crisis. Deindustrialization, erosion of domestic and export market shares, and the collapse of organized labor heralded the end of the post-war economic order. The wave of hostile takeovers, mergers, and acquisitions during the 1980s signaled the arrival of a new, volatile, and financially driven form of economic organization. Securities markets became more than simply another source of finance; they drove corporate—and thus economic—restructuring.