ILO

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Research Report

The Question of:

Addressing the CEO-employee wage gap

Introduction

CEOs earn more money than employees. This is a fact that can't be changed much. An average CEO in the US earns 271 times more money than his average employee. Add your source. Is a CEO 271 times more important than an employee? And do these great earners understand the problems of their employees?

Another objection is that the salary of CEOs is growing much faster than that of the average employee in the same company. It is the task of this committee to find a suitable solution to this issue that works for both the CEO's, the companies and the employees.

The Committee

The ILO was founded in 1919, and since then it brings together governments, employers and employees with the aim of creating labour standards, developing policies and conceiving programmes that could help in the promotion of decent work for all men and women. The ILO has 187 member states; 186 of the UN members and the Cook Islands. In 1946 it became the first specialized agency of the UN. The unique tripartite structure gives an equal voice for governments, employers and workers for the debates. The mission of ILO includes the promotion of rights at work, enhancing social protection and working towards decent working opportunities.

Key Terms

CEO

CEO means "chief executive officer". The CEO is the highest-ranking person in a company or other institution, ultimately responsible for taking managerial decisions.

Employee

An employee is a person who is working at a company or organisation for salary. Employees can have many different positions. An employee is not independent and always has a boss.

Wage gap

A wage gap is the relative difference in money earned by different persons. So when an CEO makes €1.000.000 a year and his assistant €40.000, the wage gap is 25.

Gini coefficient

The Gini index measures the extent to which the distribution of income among individuals or households within an economy deviates from a perfectly equal distribution. A Gini coefficient of zero expresses perfect equality, where all incomes are the same. A Gini coefficient of 1 (or 100%) expresses maximal inequality of income, where only one person has all the income or consumption, and all others have none, In the link below you can find the development of the Gini coefficient per country. Click on a country, and then on the play button to see how income equality develops over time.

https://www.gapminder.org/tools/#$state$marker$axis_x$which=time&domainMin:null&domainMax:null&zoomedMin:null&zoomedMax:null&scaleType=time&spaceRef:null;&axis_y$data=data_fasttrack&which=gini&domainMin:null&domainMax:null&zoomedMin:null&zoomedMax:null&spaceRef:null;;;&chart-type=bubbles

Multinationals

A multinational is a company that operates in multiple countries. Multinationals are often large corporations with CEOs making a large sum of money.

Trade unions

Trade unions are organisations where workers are united to protect their rights. Through these organisations they can take a stand against large companies and corporations.

General Overview

It is a widely discussed topic in the history of mankind: the difference in income between the rich and the poor. Not that it is strange, because the majority of people are poor and they think that it is unfair that some people earn much more than they do. In the early days it was determined at birth whether you were rich or not, but this started to change in the 19th century as a result of the Industrial Revolution. This period caused great differences between the upper class of the population and the lower class. The factory bosses owned the money and paid their employees little, in this period the socialist ideology also emerged. Philosophers such as Karl Marx wrote that the money had to be distributed much more equally among the population and that it was immoral that one part of society was very rich.

After these dark times the gap between the population groups was closed by means of social laws. And after the Second World War there was a period where everyone improved, both the upper and lower classes of society. But in the period that followed, a big difference started to emerge between the incomes of the leaders of companies and the employees. We are now even at a point where in the US the average CEO earns 271 times more money than the average employee of the same company.

There are different views on this situation. There are those who say that it's a good thing that these people earn so much money: after all, they have worked hard for it and have a demanding job. The other side of the story is that CEOs benefit from higher bonuses during economic upturn, but during an economic crisis they do not feel the consequences of a bankruptcy. An example of this is the economic crisis of 2008, which arose because financial companies took too many risks and after that society's tax money was used to save the companies in trouble.

Another objection is that there is a gap between the life of the CEO and that of his employees, while the CEO does make decisions that have a huge impact on them. If a CEO doesn't know what's going on in the underclasses of society, how can he make sure that he makes good decisions for his employees?

Furthermore, economic research shows that income inequality can hurt economic growth, increases crime rates and undermines education opportunities (see link)

https://www.economist.com/the-economist-explains/2015/06/15/how-inequality-affects-growth

https://www.oecd.org/newsroom/inequality-hurts-economic-growth.htm

Lastly, evidence shows that consumers are less interested in purchasing from and getting a job at companies with high CEO-to-worker compensation ratios.
https://news.berkeley.edu/2018/09/24/ceo-to-worker-pay-gap/

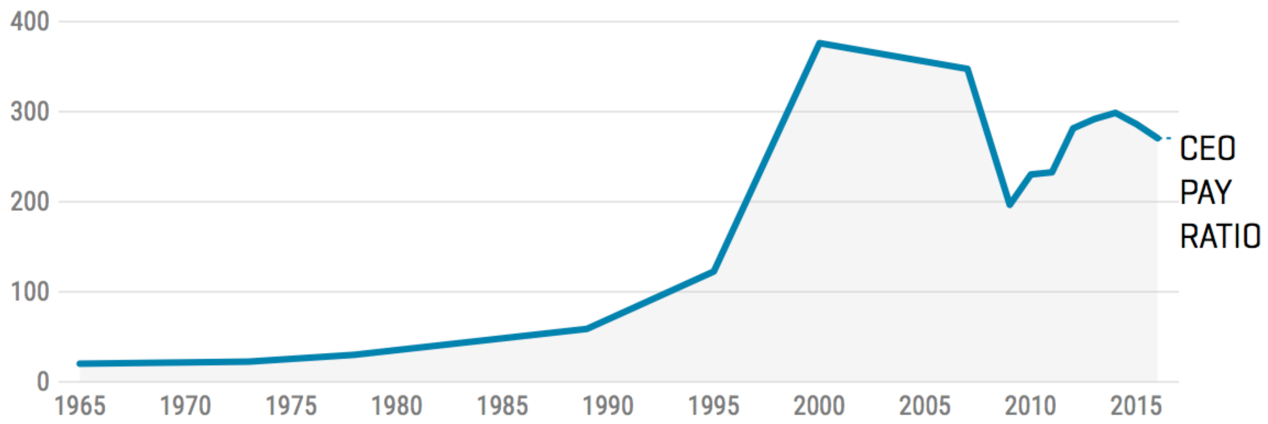
Over the centuries, a new elite has emerged. It is no longer the nobility but the business community that determines the life of the people. And the inequality is back at its peak. CEOs earn a lot more than employees without there really being a good explanation for this. However, there are also objections to interfering with this issue, because isn't it the task of the market and the companies themselves to solve this? And should we solve it? After all, these CEOs have worked hard for it, haven't they? It is important that a solution takes into account all parties that are part of this incredibly complex problem.

A new problem?

The CEO-employee wage gap is relatively a new problem on the world stage. Currently there a no laws or UN decisions about the Issue. The average person thinks that a CEO in the US earns 35 times the salary of a workers while in reality it is 271 times. The reason why there is not much action undertaken is because of the nature of politics: money, money and money. For a politician taking on big corporations means that he won't get funding and that is not what he wants. However in the past 3 years a new trend is rising, a trend against those companies. That is also the reason why this issue is relevant now. CEO's aren't the only ones who earn more, the wage gap is also present in politics, the entertainment industry and in sports.

CEO-to-worker Compensation Ratio

While 2016 CEO pay is projected to fall slightly from 2015, the average CEO of a large U.S. company makes 271 times the wages of the average worker.



This uses the "options realized" compensation series which includes salary, bonus, restricted stock grants, options realized, and long-term incentive payouts for CEOs at the top 350 companies ranked by sales.

SOURCE: Economic Policy Institute

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The graph above clearly shows that between 1990 and 2000, the average difference in CEOs' salaries and those of an average worker rose incredibly fast. You can also see that during the economic crisis, salaries fell fairly sharply, but by 2015 the salary was almost back at its peak again. This shows that CEO's took a relative small hit after the economic crisis of 2008 and recovered quickly again. While the salaries of workers dropped more and rose less quick again. This shows one of the problems with the wage gap, the CEO's care more about their own salary than about their company or employees. This is why the market or the companies will never close the wage gap and it is time that the International labor Organization interferes with this problem.

Major Parties Involved

Multinationals (companies)

CEOs often earn more money at multinationals than with other companies. This is because the companies themselves are bigger and make more profit. The difference in income between CEOs and employees is therefore the most significant at multinationals. These companies are often not in favor of closing the wage gap between CEOs and employees, because they are afraid that otherwise they will not be able to find good leaders to run their company. Because they argue that good CEOs only want to work for their company if they earn lots of money.

Labor unions

Trade unions are important on this issue because they stand up for workers' rights on this issue and fight to close the pay gap between workers and employers. The trade unions therefore represent the opinion of the workers.

United states of America

In no other country is the difference in income as great as in the United States of America. In America, the problem is the biggest, but there is the least political pressure to solve the problem and it is often even seen as a good thing by politicians.

All UN member states

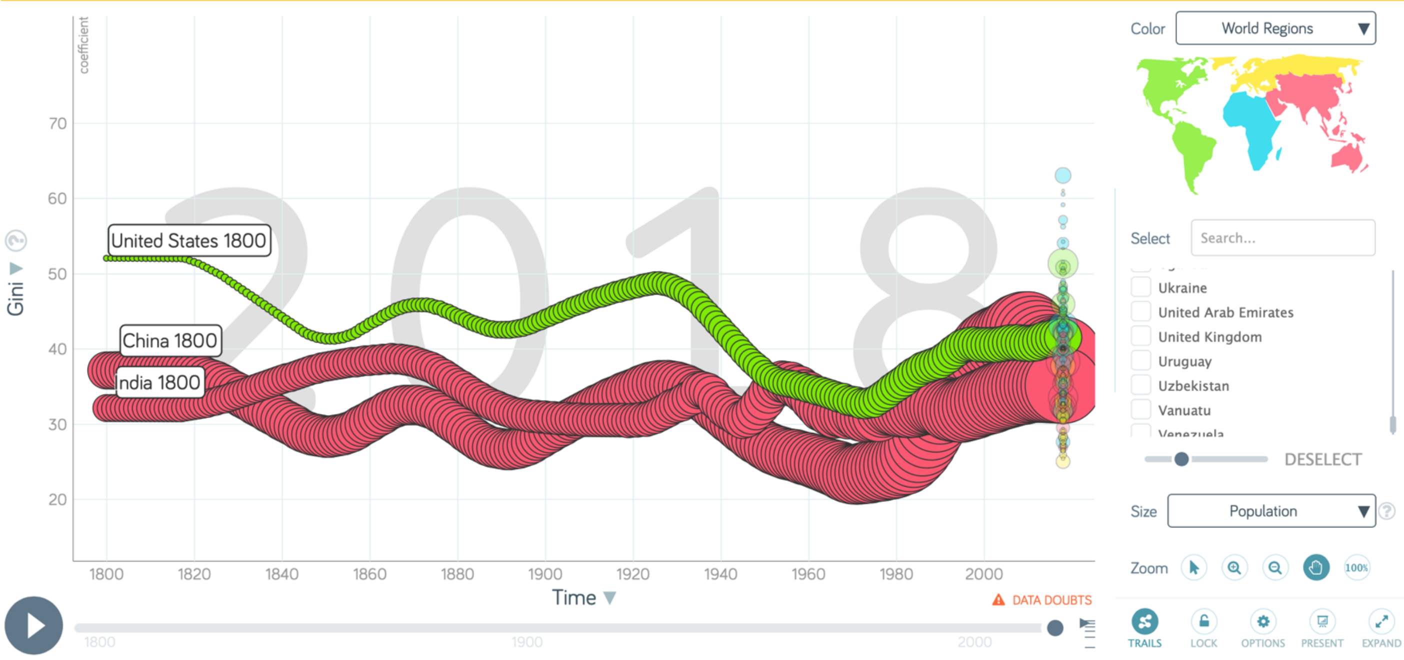
This issue is important and relevant to all UN member states. Because in all states there is a wage gap between CEO's and employees, in some it's bigger and in some member states the gap is smaller. But it exists. The problem is that there is currently not a regulation to close this gap and it is only growing. For all UN member states it is relevant to find a solution to this problem because when it continues like this, there is a possibility that workers won't sit still and demand action. This can happen in ways like strikes or protests (eg. yellow vests movement in France)and that is always bad for both the companies and the economy of their country. So a solution that is both sustainable for the member states and the companies needs to be found. And all member states should keep in mind that this issue is relevant to them, despite that all of them have a different vision on how to solve the problem.

Timeline of Events

The UN never discussed this issue before. However the development of the income distribution over time for your selected country can be found by clicking on the link below:

https://www.gapminder.org/tools/#$state$time$value=2018;&marker$select@$country=ind&trailStartTime=1800;&$country=chn&trailStartTime=1800;&$country=usa&trailStartTime=1800;;&axis_x$which=time&domainMin:null&domainMax:null&zoomedMin=1800&zoomedMax=2018&scaleType=time&spaceRef:null;&axis_y$data=data_fasttrack&which=gini&domainMin:null&domainMax:null&zoomedMin:16&zoomedMax:79.9&spaceRef:null;;;&chart-type=bubbles

Screenshot for the countries: China, India and USA.



Previous attempts to solve the issue

There were no UN attempts to solve this issue so far.

Questions a Resolution Must Answer (Q.A.R.M.A.)

These are questions delegates can use to solve the issue. However, these are just starters to develop further thinking. Delegates are encouraged to think about other solutions and plans themselves.

- Is the CEO-employee wage gap a problem? Or is it just something that is there because CEO's deserve it because they are working harder?

- Why is it the task of the ILO to solve this issue?

- What are the reasons why the gap is growing? And how can the roots of the problem be tackled?

- Should there still be a gap?

- How large should the wage gap be?

- Is this an one size fits all issue? Or should there be a different regulation for CEOs who founded the company themselves than for CEOs who were simply hired by the board?

- Does every company have to meet the same requirements? Or should we look at what is best to do in each situation?

- Is the wage gap the only problem concerning inequality? Or should the resolution also tackle other issues concerning inequality like education, insurance and development of workers?

• Should the salaries of the CEO and the employees be linked? This will mean that if the salary of the CEO increases by 3%, that of the employees will also increase by 3%. This ensures that the wage gap can never increase.

• Should there be an international oversight committee?

• Should there be an global minimum wage? This problem is caused by the globalised world. This makes it easy for companies to relocate production to other countries, thereby reducing production costs and thus increasing profits. If a worldwide minimum wage is introduced, these tactics to reduce production costs can no longer be used and the wage gap will narrow. In addition, this also ensures that fewer people can and will be exploited. On the other hand it will speed up the substitution of labour by capital (eg. machinery, automation)

Further Reading

These websites and pages can be useful to read through. There will be information about this issue and possible solutions will be suggested.

https://www.theguardian.com/business/2018/mar/18/america-ceo-worker-pay-gap-new-data-what-can-we-do

https://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/---publ/documents/publication/wcms_537846.pdf

https://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/---publ/documents/publication/wcms_650553.pdf

https://www.nytimes.com/interactive/projects/executive_compensation

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https://www.economist.com/the-economist-explains/2015/06/15/how-inequality-affects-growth

https://www.oecd.org/newsroom/inequality-hurts-economic-growth.htm