

# LET'S GET BACK TO: THE GOOD OLD DAYS OF EXECUTIVE COMPENSATION

*GMD helps bring insight to today's most pressing organizational issues. In this article, we tackle the truth and perception around today's executive pay.*

Executive Compensation –  
Let's Go Back to the Good Old Days

Executive pay has gotten out of hand - why can't we return to the good old days of sensible compensation for top managers? Indeed, why can't we return to sensible compensation for everybody?

## **HISTORY**

Back in 1929, as the Western world was unraveling financially, Eugene Grace, President of Bethlehem Steel, who would go on to organize the company's outstanding war-time contributions, earned a strangely modest base salary of only \$12,000 - poverty-level in the US today. However, he compensated this with a bonus that year of \$1,600,000 (for some execs,

still 'poverty-level'!). Not bad, and, at the time, Bethlehem was the equivalent to GE or ExxonMobil today. This is a perfect example of what we mean by sensible salaries. Back then there was 'an honest day's pay for an honest day's work', but public frustration with silly levels of compensation goes further than just corporate executives.

## **VERY SPORTING**

Take sports: back in 1930, without the aid of sports therapists, private trainers, or anabolic steroids, the greatest home-run hitter of all time earned \$80,000, quipping to a reporter that he made more than President Hoover because: "I had a better year than he did..." Today, Alex Rodriguez has a 10-year contract worth \$275 million –

and his performance is nothing to crow about, but the end of these monstrosities is nowhere in sight.

By 1933, executive compensation was already starting to spike into some pretty amazing numbers. George Washington Hill's yearly base pay at American Tobacco popped to a remarkable \$1,300,000. According to the Consumer Price Index that's nearly \$22 million in 2010 dollars! Still, in comparison, these are modest compared to the packages many executives enjoy today. Or are they?

## **BACK TO THE FUTURE**

Good ol' Eugene Grace - whose commitment to President Roosevelt to produce at least one ship per day during the war was



exceeded by 15 times - was also known as the first million-dollar man. You see, that modest \$12,000 salary of his calculated using the CPI, was only \$153,000 today, but using a more realistic calculation of 'nominal GDP per capita' we can see that, were he receiving equivalent compensation today, it would be a base salary of \$700,000. Still, not bad, but his total compensation for 1929, including bonus, was: \$88,200,000! Now that sounds like a very modern salary package!

So, what does that mean for baseball's "Babe"? His \$80,000 in 1930 would have been a very recognizable \$5,060,000 in 2010 dollars, but allowing for the explosive growth of sport (using relative share of GDP) the calculation would be more like \$12.7 million. And what of George Washington Hill's compensation that, in 1934, caused shareholders to file an injunction against his Board-blessed pay? His \$1,300,000 salary would be 136,000,000 in today's dollars.

### **YOU'RE KIDDING, RIGHT?**

It seems that the Fat Cats of 100 years ago were just as spoiled as the Fat Cats of today – it's just that they can hide behind a Consumer Price Index! No wonder the Supreme Court decided in 1930 that pay at public companies could be subject to judicial review.

But what were we expecting? This is capitalism, and John Maynard Keynes must be given the last, if rather extravagant, end note to this discussion of pay:

“Capitalism is the astounding belief that the most wickedest of men will do the most wickedest of things for the greatest good of everyone.” ❖

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