

Exposing the Pay Gap

By THE EDITORIAL BOARD

Of all the provisions in the vast and complex Dodd-Frank financial reform law, one of the most far-reaching is also the most direct and easily understood. It requires public companies to compute and disclose the ratio of a chief executive's pay to that of a typical employee.

For more than three years, however, corporate America has resisted the mandate, warning that following the law would be a logistical nightmare, unduly complex and ultimately meaningless. The complaints never rang true. Companies already disclose executive pay and surely know how much they pay their employees. From there, computing the "pay ratio" is not rocket science.

Even so, these arguments have long prevailed at the Securities and Exchange Commission, delaying regulations to put the pay-ratio provision into effect. No longer. [Last week](#), the S.E.C. proposed a strong, common-sense rule that basically tells the companies to follow the law. The proposal addresses concerns about complexity by giving corporations clear guidance and sufficient flexibility to compute the ratio, but without undermining the law's intent, which is to give the public a clear picture of the gaps between pay at the top and pay at the median.

The information is vital. It would allow investors to more accurately judge the effect of pay structures on company performance. It would inform investors' votes on executive pay, because it would be a benchmark for determining whether executive pay is excessive. It would help regulators and policy makers detect bubbles and impending crashes, because those often correlate to widening pay gaps. It would help alert consumers and taxpayers to companies where work forces are underpaid, even as executive pay soars, a circumstance that often requires taxpayer dollars be spent on assistance to low-wage workers.

Disclosing the pay ratio is not the only way to confront those issues, but it will be enormously helpful. In recent decades, changing corporate norms have allowed C.E.O. compensation over all to balloon to nearly 300 times what typical employees make. Company-specific data on pay gaps will force chief executives and their boards to justify just how out of kilter pay scales have become.

For the next 60 days, the S.E.C. will gather public comment on its pay ratio proposal. Count us in favor.
