Are the Rich Overpaid?

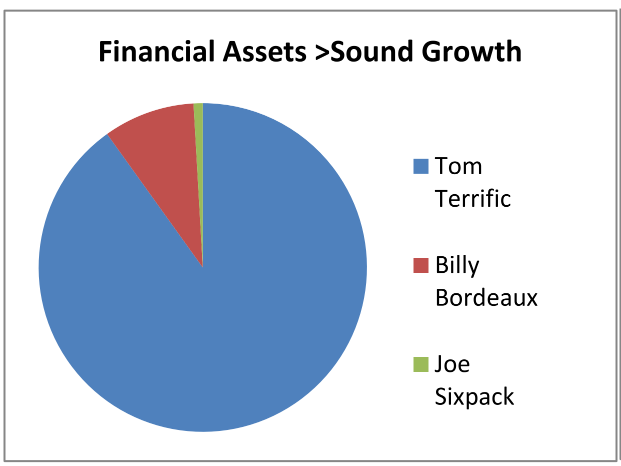
Absolutely, unequivocally, without a doubt, **YES!!!** But, not for the reasons you might think…

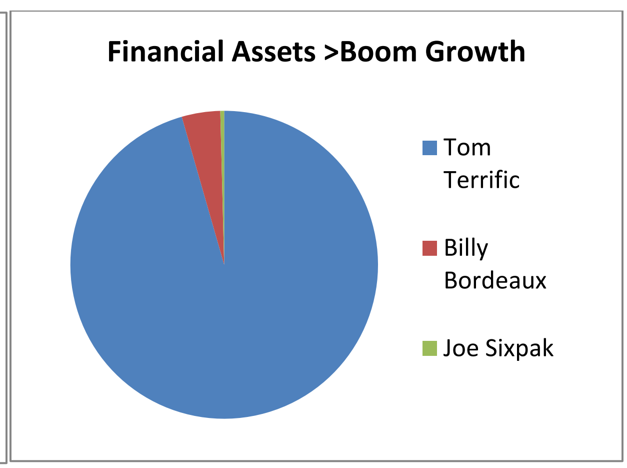
There are no people more important within an economic context than our entrepreneurs. They are the only people who create jobs in a free society and provide the wealth that enables any government jobs to even exist. ***No entrepreneurs?... No government.*** The exception, of course, would be a fully government controlled society; e.g. communist, dictatorship, collective, feudalism, etc. The more successful the entrepreneurs… the better. Their success means more jobs and wealth are created from which we may all benefit regardless of our individual circumstances.

So, why are the rich overpaid? The root cause of their overcompensation is due to the existence of a fiat currency system that is controlled by a central authority. When money and credit expand at a faster rate than output, then either consumer prices increase and/or asset prices increase above what they otherwise would have been within a sound money environment. As a result, the top echelon executives receive disproportionately higher compensation increases than the "rank-and-file". Note: A condition of a sound money system is that any currency must be backed by a commodity (e.g. gold, silver, etc.).

Introducing: Tom Terrific, Billy Bordeaux, and Joe Sixpack…

	Salary & Bonus	Financial Assets	Growth w/ Sound Money System	% Inc.	Growth w/ Fiat Money & Credit Boom	% Inc.
Tom Terrific	1,000,000	5,000,000	**200,000**	**2.0**	**1,500,000**	**30.0**
Billy Bordeaux	80,000	500,000	**10,000**	**2.0**	**50,000**	**10.0**
Joe Sixpack	40,000	500	**10**	**2.0**	**10**	**2.0**





Tom Terrific is the ambitious Type "A" CEO entrepreneur. Through his tireless efforts he managed to start a successful company and hire many employees along the way. Tom has financial assets of $5,000,000 that primarily includes shares in his own company. Tom enjoys terrific vacations in exotic places.

Billy Bordeaux is an accounting supervisor professional. Billy followed the upstanding protocol of graduating from college, working hard, and putting a bit of every paycheck away into his 401K retirement funds ($500,000). Billy enjoys a glass of French wine frequently with dinner.

Joe Sixpack drives a delivery truck for a beer company. Joe lives paycheck to paycheck and rents his home. He has no financial assets and very little in his checking account ($500) because he spends everything he makes and then some. The highlight of Joe's life is having a six-pack of beer with his buddies watching the Green Bay Packers on Sundays.

What Drives Exaggerated Income Disparity?

Paulette Volcker was chairman of the Central Bank and nearly sacrificed her career from insisting upon a sound monetary system of fiduciary currency backed by gold. Everyone knows that the money and credit rate of growth in this sound system can be no more than the country's output. Hence, any increase in the aggregate financial asset base including stocks and bonds will be proportionate with the growth of real output, which includes a market driven balance of investment and consumption goods and services. e.g. a 3% annual increase in output would justify a 3% annual increase in total stock market valuations.

Paulette's reign was a bit harsh for the financial speculators because risks they took that went sour quickly and markedly depleted their capital and reputations. Therefore, leveraged financial speculation was not an attractive field to pursue for an upcoming ambitious student. The rewards were much more certain, rewarding, and productive from entering a field where new, youthful energy was directed toward exciting product innovation and process improvement.

Unfortunately **Freddie Bernanspan** became chairman of the Central Bank replacing Paulette. Mr. Bernanspan had legendary ambitions to goose the economy by rewarding speculation via money and credit expansion far beyond the growth in output. Freddie became good friends with Tom Terrific.

What is the Result of "Easy Money" Fiat Monetary Policies?

Once Freddie's elixirs of easy money and credit flooded the financial world, all of Tom Terrific's asset wealth grew exponentially. The company stock price soared. Generous stock options granted to Tom along with huge bonuses tied to an increase in his stock prices soared as well. Tom knew a 10% increase in his stock price would increase his personal asset gains by 100% due to the leverage in option grants and bonuses tied to the stock price. Not to be left out, Billy enjoyed a respectable 10% increase in his personal assets due to his non-leveraged stock holding. Unfortunately, Joe was left completely behind.

When Paulette was in charge of a steady sound money system, Tom Terrific knew he could not pay himself and his executive staff too much because his costs would not be competitive and he would be faced with a margin squeeze cutting into his profits that would negatively affect his stock price. Further, he knew he must invest in developing new products and improving processes to ensure future profits would remain healthy. Most important, he knew quality employees are a must, so his labor cost had to be high enough to attract and retain them. ***These free-market forces keep the ratio of his pay relative to his employee's pay reasonable and historically stable***.

With Freddie in charge of a fiat monetary system (un-sound money), then Tom would focus upon scrounging up any creative financial manipulation possible to goose his stock price up. Tom hired the finest talent out of the elite Ivy League schools to accomplish this important task. He was also motivated to outsource his operations to lower cost countries because Freddie has created an artificially strong currency relative to his international trading partners' currencies. Any jobs remaining in the country would be low-level, low-paying service jobs. These two compensation drivers (creative financing & outsourcing) will push the ratio of Tom's pay relative to his remaining employees to obscene levels, and, of course, he thinks he deserves it.

Ultimately Freddie will destroy his own reputation and that of the Central Bank institution. Artificially induced "easy money" policies create horrific unintended consequences including massive misallocation of resources (malinvestment) and asset bubbles (illusions of wealth) that all must eventually be unwound resulting in a very painful bust. Freddie's buddy, Tom, will experience debilitating strikes and a very disgruntled workforce. Eventually Freddie and Tom were found guilty of fraud and money laundering, publically ostracized, and sent to prison for life.

Conclusion:

The most significant root cause of pay disparity between corporate CEO's and their employees can be attributed to Central Bank Easy Fiat-Money policies that enable the expansion of money and credit far greater than output. This excess liquidity pushes asset prices up higher than is fundamentally justified. The executive compensation tied to the higher asset prices rises exponentially compared to the more linear increase in the middle or lower level employees. Hence, an expanded pay gap results.

The solution is not to add yet more bureaucracy to track and control, and ultimately create complex wealth transfer systems to force less pay disparity. The solution is to enable the free market to work its magic by reinstalling a sound monetary system that will unleash the natural drivers of pay once again without government regulations and intervention.

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