Drew Harwell writes; Thousands of public U.S. companies are likely to soon be forced to share a number many would rather keep under wraps: how much more their chief executives make than their typical rank-and-file employees.

The Securities and Exchange Commission is expected to finalize on Wednesday a long-delayed rule forcing businesses to share their "pay ratio," a simple bit of arithmetic that would cast an unprecedented spotlight on one of corporate America's thorniest debates.

Once the pay-ratio rule is in place, millions of workers will know exactly how their top boss's payday compares with their own, revealing a potentially embarrassing disparity in corporate riches that many companies have long fought to keep hidden.

While the average American's pay and benefits have been growing at the slowest pace in 33 years, executive wages have soared. Fifty years ago, the typical chief executive made $20 for every dollar a worker made; now, that gap is more than $300 to $1, and it's growing.

The pay ratio, at the center of years of corporate arm-wrestling, could ratchet up the pressure on big companies to bring runaway executive pay under control. Boards and shareholders could use it to judge a firm's high-priced leadership, and customers could opt to shop at companies where workforce pay seems more fair.

The effects could ripple far beyond the corporate suite. Disclosing the pay of a company's "median worker" — the line at which half the employees make more and half make less — could also become a human resources nightmare, exposing the raw and awkward tensions of workplaces undercut by growing pay gaps.

"This is going to sensitize every single worker to how it is they compare in pay to folks within their organization, and folks who do the same job at competitors," said Steve Seelig, a senior regulatory adviser for Towers Watson, a human resources consulting firm.

Companies already disclose the pay of their chief executives, although not how it compares with that of personnel. Most Americans still drastically underestimate how wide that wealth gulf has become. In a Perspectives on Psychological Science study last year, researchers found that Americans estimate the pay gap between executives and unskilled workers is about 30 to 1, when in reality it's more than 300 to 1, a misunderstanding that Harvard Business School professor Michael Norton has said can make people less likely to fight the gap.

But critics of the rule argue that having to calculate that ratio will be a costly headache and easily misconstrued.

"While income inequality is an important matter worth addressing," said Jim Barrall, a global co-chair of legal giant Latham & Watkins's benefits and compensation practice,

"burdening companies and investors with more proxy disclosure is a very poor tool for dealing with it."

The rule was added as a last-minute mandate to the Dodd-Frank financial reform law in 2010 and sprang forth amid national outrage over massive executive bonuses at businesses such as American International Group that were rescued by taxpayer bailouts.

In the years since the SEC began working on the rule, it has attracted an intense measure of public advocacy, including drawing more than 286,000 public comments. In March, 58 members of Congress wrote a letter to SEC Chair Mary Jo White urging the agency to finalize its rule by early 2015, saying the culture of skyrocketing pay "hurts working families, is detrimental to employee morale, and goes against what research shows is best for business."

[The average worker loses 11 days of productivity a year due to insomnia]

Democratic presidential candidate Hillary Rodham Clinton said last month: "There is no excuse for taking five years to get this done. Workers have a right to know whether executive pay at their company has gotten out of balance, and so does the public."

The proposed rule would apply to about 3,800 large U.S. companies, exempting small businesses and foreign-based firms.

The companies would need to share the ratio in public financial filings, accessible online, within a year of the rule's effective date. To make it easier for companies to pull the information together, the SEC has said they could take a statistical sample and offer reasonable estimates, instead of compiling each employee's pay stub.

Although the federal mandate is new, the conversation about how executive pay compares with that of the working class has a long history. Management theorist Peter Drucker suggested, first in 1977, that a lopsided pay balance would erode the teamwork and trust on which businesses depend. A 20-to-1 ratio is the limit for managers who "don't want resentment and falling morale to hit their companies," he explained.
Over the past 20 years, the SEC has increasingly required clearer executive-pay disclosures, asking companies to share how they set competitive benchmarks for top managers' pay and to detail perks such as country-club dues and private jets.

But greater transparency also had unintended consequences: Comparing executives at rival firms led companies to notch their top-level pay higher every year to keep their leaders onboard, an upward spiral that ensured the pay gap would continue to grow.

"The theory was disclosure would create embarrassment and lower pay," said Charles Elson, the director of the John L. Weinberg Center for Corporate Governance at the University of Delaware. "But that was based on the assumption that those who had asked for that kind of money were capable of that kind of embarrassment. And they weren't."

Businesses, corporate groups and the SEC's two Republican members have belittled the disclosure rule as an onerous gift for liberal groups and talking heads that is designed mostly to "shame" corporate leadership, with little regard for the added strain.

The National Association of Manufacturers told the SEC that complying with the rule would force one of its members to rake through 500 international payroll systems covering 130,000 employees, at a cost of $18 million. The SEC, meanwhile, estimated in 2013 that the public companies would need to spend only about $19,000 each to crunch their numbers.

More than a dozen companies — including Whole Foods Market, oil company Noble Energy and the Bank of South Carolina — have already volunteered the information to investors with little fanfare, agony or cost.

NorthWestern Energy, an electric and gas utility based in Sioux Falls, S.D., began listing its executive-to-worker pay ratio in 2010, believing it gave the company another way "to tell our compensation story and tell our shareholders the value we're providing them," said Tim Olson, the company's senior corporate counsel. The ratio is 24 to 1, meaning the company's chief makes 24 times as much as the median employee.
The cost of sharing that information? "It takes one of our employees four hours to prepare it," Olson said, noting that his company's 1,600 workers are based in only three states.

Others have argued the ratio offers no useful information to shareholders and can be easily misconstrued by employees, investors and customers. Tim Bartl, the president of the Center on Executive Compensation, a group of human resources chiefs that has advocated against the rule, said worker and executive pay are delicate, complicated issues affected by geography, business structure, competition and other factors.

Yet proactive companies, researchers say, could even turn their pay ratios into marketing tools. For a working paper this year, Norton, the Harvard Business School professor, offered shoppers a hypothetical choice between two retailers: one with an executive-worker gap of about $1,000 to $1, similar to Wal-Mart, and one with more equal pay. Respondents were not just more willing to shop at the lower-ratio retailer, they were also happier to spend more: A third of those polled said they would pay more for the same bath towels to a company they believed was more fair.

Out-of-balance pay ratios "will be public shaming, just as all adverse financial results are public shaming," said Bartlett Naylor, a financial policy advocate with the consumer think tank Public Citizen. "If one reports low returns, skyrocketing expenses, that's shameful, too. Welcome to capitalism."