

CEO pay, tax cuts, accounting fraud and political corru...

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The [Wall Street Journal has reported a new report](#) by the US based Institute for Policy Studies.

There argument, backed by analysis, is that the US tax code is designed to reward CEOs by giving massive tax breaks to high CEO pay. The result is plain to see:

The policy institute's study identified 26 CEOs who averaged \$20.4 million in total compensation last year, including bailed-out Citigroup's Vikram Pandit and bailed-out AIG's Robert Benmosche. "That's a 23% increase over the average for last year's list of 2010's tax dodging executives," the study said.

All the major corporations cited in the report paid more to their CEOs than they did in federal income taxes (which the study calls "tax dodging"). The study also said that thanks to the Bush tax cuts, CEOs at 57 major U.S. companies each saved more than \$1 million in personal income taxes.

That's what CEO capture of corporate power in turn leading to corporate capture of the tax code has lead to. No wonder inequality is growing.

And as Joseph Stiglitz argues in his book "The Price of Inequality", that's massively destructive for the economy as a whole.

Does this matter? Well, yes: this will, as, [John Authers argues in the FT this morning](#) be an issue at the core of the US presidential election debate:

There is a distinguished tradition that holds that cutting taxes for the wealthy creates incentives for greater profits, and wealth creation. It is hard to combine deficit hawkery with advocacy of tax cuts even for the wealthiest in society — as it appears the Republican ticket will do — without believing this to be true.

There is also a tradition in economics holding that cutting taxes for the wealthy will not stimulate growth. These two schools will argue it out for the next three months.

But as he also points out, if the growth that results is simply distorted reporting of profits created by abusing accounting rules, and over the last decade there is considerable evidence that much of the growth corporates have delivered has been of this sort, then there is no link between tax cuts and growth at all. The tax cuts are simply a way to pay the distorted rewards of distorted profit reporting more cheaply. That then makes a mockery of another commentators view in the FT today. Gavyn Davies, a man so New Labour he combined Goldman Sachs and New Labour support, [says](#):

I for one have no trouble accepting that more business friendly tax and regulatory policies would have beneficial supply side effects.

before adding:

However, we need to see this in context. Most business surveys report that the greatest source of policy uncertainty is the fiscal cliff at the year end, not the tax and regulatory regime. This, the euro crisis and the recession itself, are the main reasons why businesses are reluctant to hire and invest. And that will be much harder to fix than candidate Romney contends.

The combination shows, if I might be so bold, the way in which people like Davies have captured the system for gain. He argues for tax cuts and deregulation, all of which will make the rich richer and life for the rest harder before then admitting they won't change anything except inequality, which will increase.

The trouble is, people listen to him as he has money and Goldman Sachs behind him.

And that, in my view, is what modern political corruption is: the advocacy of policy from a position of power created by the capture of wealth even when you know that policy won't work and you're only suggesting it for the sake of your own private gain. The Romney / Ryan campaign is the archetype, but let's not think it's by any means alone.