

May 9, 2014

Senator Daniel DaPonte  
Chair, Rhode Island Senate Finance Committee  
82 Smith St  
Providence, RI 02903

Dear Senator DaPonte,

The Center for Effective Government is pleased to support S 2796, a bill that would give preferential treatment in the awarding of state government contracts to firms with low pay ratios between highest and lowest paid workers.

Wide disparities of income create very real costs to government and to society. Unequal societies deliver poor health outcomes to citizens, lack of social cohesion and trust, and reduced economic efficiency. When businesses do not pay low-end workers enough to live, this increases the costs to the state of providing income support and other welfare services.

The federal government attempted to respond to soaring CEO pay when in 1993, they capped the tax deductibility of executive pay at \$1 million per executive. The federal government has also established maximum reimbursable executive compensation levels for federal government contractors. Both of these policies are based on the principle that businesses should be able to pay their executives whatever they like, but that the public shouldn't be compelled to subsidize excessive compensation. This appears to be the same principle at play with S 2796. Hard-working Rhode Island taxpayers should not be forced to pay the salaries of excessively compensated executives as a part of state contracts.

We recently celebrated S 2796 as an innovative policy prescription, in our Reimagining Government blogging series.

One suggestion for strengthening S 2796 would be shifting the metric from lowest paid worker, to median pay of worker. It is easy for firms to game a system based on lowest paid workers, simply by outsourcing workers in functions like janitorial and food service. This would also make your metric consistent with Section 953b of the Dodd-Frank financial reform legislation, which will require all publicly held corporations to report the ratio between their CEO and median worker pay.

Best wishes for a successful hearing and for continued leadership in areas of innovative public policy.

Sincerely,



W Scott Klinger  
Director of Revenue and Spending Policies