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Kevin F. Hallock
University of Richmond, president@richmond.edu

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Presidential Pay

Does the U.S. president's salary make any sense?

Last month, I wrote about athletes' pay relative to CEOs' pay and I invoked Babe Ruth's famous line justifying being paid more than President Herbert

Hoover because Ruth had had "a better year." This month, President Barack Obama will be sworn in for a second term. His annual salary will be \$400,000. This means he earns significantly more than 99 percent of earners in the United States (\$100,000 is roughly the cut-off for the top 1 percent of earnings for full-time workers in the United States). But is \$400,000 the right level of pay for the president and how does it compare with the presidential salaries of the past?

President Pay Over Time: Some Facts

Even though we have had 44 presidents of the United States, they have only been paid six unique salaries. This is stunning. George Washington was paid a salary of \$25,000 in 1789. Presidential pay rose in 1873 to \$50,000 and in 1909 to \$75,000. President Harry S. Truman earned \$75,000 per year during his first term, but \$100,000 after he was elected in 1948. From 1949 to 1968, presidential pay stayed at \$100,000. In 1969, when Richard Nixon became president, the salary was upped to \$200,000. In 1999, an increase to \$400,000 was approved and took effect the day George W. Bush became president in 2001. That rate is still in effect. (See an interesting Congressional Research Service Report, "President of the United States: Compensation," by Barbara L. Schwemle, Oct. 17, 2012.)

In November, I wrote in this column that minimum wage declines over time (until it spikes up with a change) relative to inflation because it is not "indexed" or automatically



Cornell University
ILR School
Institute for Compensation Studies

Kevin F. Hallock, Ph.D.

Donald C. Opatrny '74 Chair,
Department of Economics
Cornell University

Joseph R. Rich '80 Professor,
Departments of Economics and HR Studies
Cornell University

Director,
Institute for Compensation Studies,
Cornell University

Member,
2012 WorldatWork Society
of Certified Professionals Board

adjusted for rising prices. But obviously, minimum wage has changed much more frequently than the president's pay, which has dramatically eroded in purchasing power during times of inflation. Had we indexed the Truman rate (\$100,000 in 1948) to inflation, it would be worth about \$960,000 today. Had we indexed the Nixon 1969 rate to inflation, the \$200,000 would now be worth about \$1.3 million. No matter how we measure these things, however, it is reasonable to assume that, although the president's salary is a lot more than most people earn, it is a lot less than he could earn in the private sector after being president.

Total Rewards?

Of course, compensation is about a lot more than wages and salaries in most jobs, and it is no different for the president of the United States. Consider that the president enjoys a \$50,000 "expense allowance" that is not taxed. He also enjoys Air Force One, a helicopter, Camp David, security protection (for himself and his family), cars and drivers, fancy dinners, a nice house and the ability to pick some of those with whom he works (Cabinet members and other staff). So in many ways, it is a richly rewarded job.

There are also rewards after leaving office. In fact, the president enjoys a pension each year for life that is set at the same rate as Level I of the Executive Schedule. This is the rate paid to employees like Cabinet members and is currently set at \$199,700. This rate can obviously increase as the Executive Schedule increases, but it has not done so for several years.

There are also financial rewards that can be earned by presidents after they leave office. Consider book deals and speaking engagements, for example. It is reported by *The New York Times* and other sources that former President Bill Clinton was given an advance in excess of \$10 million for his memoirs published by Alfred Knopf. And some have reported that President Clinton can garner as much as \$250,000 per speech. That is more than he ever earned in a single year as president.

But there are very many other rewards for being president. Some of these are positive and some are negative. For example, presidents have the ability to foster good and

positive change and can make the lives of many better. This type of gratification is surely important. At the same time, the job is demanding and imposes substantial costs on those elected to this office and their families.

Pay and Performance?

I have written some about compensation in nonprofits. ("Managerial Pay and Governance in American Nonprofits," *Industrial Relations*, 41(3), July 2002).

It is interesting to consider if and how heads of nonprofits should have their pay linked to performance. Should we do this for the president of the United States?

In some sense, the president is paid for performance in that the person can be re-elected. But that can only happen once. In what other ways could we pay the president based on performance? Would it make sense to increase the pay of the president if GDP per capita (the size of the domestic economy averaged over the number of people in the U.S. population) increased? What about linking presidential pay to increasing how many people have jobs, or the high school graduation rate? If we picked

one measure of performance and linked the pay of the president to this measure, what would it be? I think this would be a bad idea for a variety of reasons, but it highlights that paying on one metric alone is often a very bad idea, even for nonpresidential folks.

Again, the president earns \$400,000 a year, which is a large amount, relative to what most Americans earn. But it is tiny compared with what he could earn (if he chooses) when he leaves office. It is truly amazing that the president's pay has been changed only five times in the entire history of the country. This is extraordinarily unusual. The times of the changes are interesting and seem arbitrary. I wonder when it will be changed again. **WF**

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