Workers Lose, CEOs Win (II)

The widening wage gap between U.S. executives and their U.S. and Mexican workers

**The Institute for Policy Studies'
2nd annual report
on executive compensation**

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Summary

Sixteen months into NAFTA, as the U.S. and Mexican economies become increasingly intertwined, this report takes a look at how the U.S. companies with the most employees in Mexico are treating their executives and their workers. The study analyzes the 1994 compensation packages of the top three executives at the 26 U.S. companies with at least 1,500 employees in Mexico, and examines the wages and working conditions for both the Mexican and U.S. workers of these firms. This is the second annual IPS report on executive compensation.

MAJOR FINDINGS:

1. The 78 executives at the 26 U.S. firms included in the study earned, on average, total compensation packages of $2,651,825 in 1994. If they had instead taken home only $411,200 — the average pay of the top 38 Japanese executives[1] — they could have used the rest of their earnings to give each of their Mexican workers a raise of more than $1,000 per year. Since most of their Mexican employees earn between $1,000 and $3,000 per year, this would amount to a raise of 33 –100 percent.

2. These executives enjoyed average pay raises of more than 29 percent. Executives at Ford and General Motors got pay hikes of more than 130 percent. At the same time, many of these same companies are refusing to grant raises to their Mexican workers that would make up for the 40–50 percent plummet in purchasing power caused by the current Mexican economic crisis.

3. In most cases, the executives at these firms are making several thousand times the pay of their Mexican employees. For example, Ford CEO Alexander Trotman made 2,003 times the annual pay of an average Ford employee in Mexico. Trotman's 1994 compensation package was $8.1 million, while the average Ford employee in Mexico made $4,044.[2]

4. In at least one case, the CEO's compensation was worth far more the company's total annual Mexican payroll. A news report stated that wages in AlliedSignal's Monterrey plant had dropped from $1.30 to 82 cents an hour in January due to the peso crisis.[3] At that wage rate, Allied's 3,810 Mexican workers would make a combined total of only $7.8 million a year — less than two-thirds the value of Allied CEO Lawrence Bossidy's $12.4 million take last year.

5. The U.S. employees of these companies haven't fared well either. U.S. wages continue to stagnate and the 26 companies studied have carried out 18 NAFTA-related layoffs affecting 3,396 U.S. workers since NAFTA took effect on January 1, 1994. These figures come from the Department of Labor's NAFTA Transitional Adjustment Assistance Program, which provides retraining and other benefits to workers who've lost their jobs as a result of the agreement. The DoL is currently investigating three additional petitions for this assistance filed by workers laid off by companies in the study sample.

Introduction

AlliedSignal CEO Lawrence Bossidy did pretty well for himself last year. His corporate board awarded him a 39 percent raise in his salary and bonus in 1994 to $3.6 million. If you include the generous restricted stock units he pulled in, his total compensation of $12.4 million ranks him among the top eight corporate earners in the country.[4]

How did his workers fare? Although Bossidy pledged on CNN in 1993 that he would not move jobs to Mexico,[5] workers in five U.S. AlliedSignal plants have filed claims that they lost their jobs due to NAFTA since January 1994.

And in Mexico, where AlliedSignal is the number 12 U.S. employer, the purchasing power of wages has plunged with the peso collapse. A news report stated that wages in AlliedSignal's Monterrey plant dropped from $1.30 to 82 cents an hour in January due to the peso crisis.[6] At that wage rate, Allied's 3,810 Mexican workers would make a combined total of only $7.8 million a year — less than two-thirds the value of CEO Bossidy's $12.4 million take last year.

Our study of the 26 U.S. companies with at least 1,500 employees in Mexico indicates that the AlliedSignal case is not unusual. We looked at the top three executives at each of these firms and found that on average, they enjoyed pay raises of more than 29 percent in 1994 (see appendix). Several got pay hikes of more than 130 percent.

Top 3 executives at the U.S. companies with more than 1,500 employees in Mexico

Average 1994 salary + bonus	=	**$1,435,006**
Average increase since 1993	=	**29.3%**
Average 1994 total direct compensation*	=	**$2,651,825**

* includes salary and bonus, plus the value of stock options exercised, restricted stock grants, and payouts from long-term incentive plans

Meanwhile, real wages for the Mexican employees of these companies have plummeted as a result of the peso devaluation and the firms' U.S. workers have faced layoffs and stagnating wages.

Workers in Mexico

Pro-NAFTA analyst Gary Hufbauer, of the Institute for International Economics, was surprisingly candid in a recent Chicago Tribune article on how much U.S. corporations in Mexico are benefiting from the peso devaluation: They "are making so much money down there that running a factory in Mexico now... is like running a mint. They are making tons of money."[7]

For Mexican workers, the December 1994 peso devaluation has meant a drop in Mexican buying power by as much as 40 to 50 percent, due to the jump in price of essentials such as milk, meat and gas. Inflation in Mexico is expected to top 40 percent this year and credit card rates are as high as 90 percent.

A few firms have made attempts to offset the crisis by providing benefits other than wage raises. For example, Mattel, the toy maker, has been giving away food and clothing, while Honeywell, which makes heating systems controls in Tijuana, is offering free breakfasts.[8] And, although the maquiladoras gave 10 percent raises in January, this did little to offset the strain of the crisis on workers. "This devaluation has definitely given us an edge," one plant manager bragged to a San Diego Union-Tribune reporter. "Even with the increase we gave on January 1, we still are saving 60 cents per worker per hour."[9]

The Coalition for Justice in the Maquiladoras and the Interfaith Center on Corporate Responsibility, as well as Mexican unions, have launched a campaign to pressure U.S. companies to raise their Mexican workers' wages to compensate fully for the loss in purchasing power. Corporate officials have offered a number of excuses for resisting this action, including the fear that they would lose their competitive edge or contribute to higher inflation in Mexico.

Table 1
CEO vs. Mexican Worker Compensation

	CEO total direct compensation[10]	Mexican workers annual income (in wages)	Number of workers in Mexico[16]	Approx. annual income (in wages) of Mexican workers
AT&T	$5,248,167	$1,934[11]	8,000	$15,475,200
Ford	$8,100,000	$4,044[12]	9,905	$40,055,819
Zenith	$1,007,707	$1,198[13]	20,000	$23,951,994
Sara Lee	$1,805,655	$2,213[14]	1,575	$4,182,569
AlliedSignal	$12,381,250	$2,046[15]	3,810	$7,795,260

Note: companies are reluctant to reveal wage data. Except for Ford, all wages noted are approximations based on pay stubs.

Layoffs

The U.S. employees of these companies haven't fared well either. The 26 U.S. companies with the most Mexican workers have carried out 18 NAFTA-related layoffs affecting 3,396 U.S. workers since NAFTA took effect on January 1, 1994 (see Table 2). These figures come from the Department of Labor's NAFTA Transitional Adjustment Assistance Program, which provides retraining and other benefits to workers who've lost their jobs as a result of the agreement. The DoL is currently investigating three additional petitions for this assistance among the 26 firms.[17]

Nationwide, petitions for NAFTA-related TAA have jumped dramatically since the peso crash. The DoL reports that the number of workers certified for the program has more than doubled since the end of fiscal year 1994 — from 10,345 in September 1994 to 26,785 by April 17, 1995.[18]

Table 2
Laid-Off Workers Certified for NAFTA Assistance in the 26 companies

COMPANY	CITY	WORKERS
Zenith	Springfield, MO	430
Zenith	Chicago, IL	80
United Technologies	Tucson, AZ	1
General Electric	Rome, GA	pending
General Electric	Murfreesboro, TN	pending
Baxter International	Kingstree, SC	122
Emerson Electric	Logansport, IN	200
Emerson Electric	Wichita, KS	15
Mattel (Fisher Price)	Medina, NY	520
AlliedSignal	El Paso, TX	3
AlliedSignal	Greenville, OH	180
AlliedSignal	Orangeburg, SC	77
Kimberly-Clark	Memphis, TN	636
Johnson & Johnson	N. Little Rock, AR	200
Johnson Controls	Owosso, MI	276
Johnson Controls	Garland, TX	pending
MagneTek	Huntington, IN	40
MagneTek	Owosso, MI	31
A.O. Smith	Mebane, NC	40
Sara Lee	Midway, GA	245
Sara Lee	Martinsville, VA	300
TOTAL		3,396

Source: Petitions filed for NAFTA-related Transitional Adjustment Assistance (TAA) before the U.S. Department of Labor, as of April 17, 1995.

Wages

Real wages for U.S. workers in the private sector continued to stagnate in 1994. The real average weekly earnings of manufacturing workers grew less than 1 percent (0.4 percent) in 1994, a trend that builds on two decades of declining real wages.[19] Indeed, overall, U.S. workers can buy 20 percent less with their earnings today than they could in 1972.[20] The figures are even worse for people of color and workers with lower levels of education. Entry level jobs are also much less attractive than before: in 1993, entry level jobs for men paid 30 percent less than they did in 1979; for women they paid 18 percent less.[21]

Although real wages for women have risen slowly over the last decade, women's wages remain at much lower levels than men and for a large share of women, they do not support a decent standard of living. The share of U.S. women working for poverty-level wages or less was 33 percent in 1989; it was 18.4 percent for men.[22]

One factor in the falling real income of U.S. workers is the phenomenon of "whipsaw bargaining" wherein the employer threatens relocation to Mexico or elsewhere if workers don't accept cuts in wages and working conditions. In a 1992 Wall Street Journal poll of 455 corporate executives, fully one quarter indicated that if NAFTA were passed, they were likely to use it to bargain down wages in their firms. Sixteen months into NAFTA, anecdotal evidence of this form of "whipsaw bargaining" has begun to surface:

- at a Xerox plant in Webster, New York, workers were pressured into accepting wage concessions in 1994 to prevent the company from moving the plant overseas. According to news reports, the union agreed to forgo annual wage increases, sharply reduce base rates of pay and set a lower level of wages for new employees in exchange for job guarantees through 2001.[23]

- In a similar case, Leviton Co., of Warwick, Rhode Island last September used the threat of moving production of electrical outlets to Mexico to pressure workers into accepting a wage freeze and working 12-hour shifts without overtime pay.[24]

Case Studies

A Closer Look at Three Top U.S. Employers in Mexico

Case 1: Zenith

Zenith CEO Jerry Pearlman made only $1 million last year, a rather miserly sum relative to the deals awarded to many other executives. However, the gulf between Pearlman and his Mexican employees is just as vast. Seventy-five percent of Zenith's workforce is now in Mexico, where the company is notorious for its rock-bottom wages. A March 1995 pay stub from one Zenith employee in Mexico showed he was making less than 50 cents an hour.[25]

On top of the low pay, Zenith's Mexican workers often face hazardous health risks. According to the Coalition for Justice in the Maquiladoras (CJM), thousands of women of child-bearing age work with lead solder in Zenith's television factories without receiving proper training regarding its dangers or adequate protective equipment. A recent inspection of one Zenith plant in Reynosa revealed a lack of available eye protection and gloves and unidentified containers of glues on the floor.

And in the United States? Since NAFTA took effect, the company has laid off 430 workers in Springfield, Missouri and another 80 in Chicago and shifted production to Mexico. The Springfield layoffs came in spite of major concessions made by the workers in an effort to save their jobs. In 1987, the workers agreed to an 8.2 percent wage cut and a five-year contract extension. According to one of the Springfield employees, "If (we) didn't give them the wage concession, they were going to move to Mexico. We just gave them an extra five years to move. We just helped pay for it."[26]

Case 2: Baxter International

Baxter International CEO Vernon Loucks Jr. got $1.4 million in salary and bonus last year, but that doesn't even begin to reflect the full extent of his compensation. In March 1995, the Wall Street Journal featured Loucks in an article on "imperial perks." According to the report, Baxter paid $79,600 in 1993 for Loucks and his family's use of the company's jet for personal travel, as well as $33,450 for his club membership fees. Loucks was also reimbursed nearly $100,000 for taxes attributable to use of aircraft, a car allowance, a financial counseling allowance and the maintenance of a home security system.[27]

Contrast that lifestyle with the situation for Baxter's workers in Kingstree, South Carolina. Last year, Baxter laid off 830 workers in the small town of Kingstree (population 4,000) after deciding to shift production to Mexico and Asia. The layoff dealt a devastating blow to the entire county, which has the state's lowest per capita income ($10,255) and highest unemployment rate (13.6 percent).[28]

The layoff also contributed to racial tensions in the area. The county is 65 percent African-American. Angered by the threat of higher taxes, a small predominantly white town tried to secede from the county to join a more affluent neighboring county that is predominantly white.

Case 3: Magnetek

Magnetek CEO Andrew Galef's exact salary is not available, since Magnetek pays him indirectly through a management services firm. However, Galef's bonus went up from $161,000 in 1993 to $175,000 in 1994. Meanwhile, Magnetek's U.S. and Mexican employees have found themselves in a downward spiral.

Tracy Bartrom, a maintenance worker for Magnetek in Huntington, Indiana, recalls meeting a trainee from Magnetek's plant in Matamoros, Mexico. "Through a translator I asked him how much he was paid and he said $1 an hour. I had to wonder why the company would pay me 10 times as much to do the same work."

Within the first six months of NAFTA, Bartrom found herself in search of a job. Magnetek, which makes electrical equipment, moved about 40 jobs from Huntington and 30 more from Owosso, Michigan, to Mexico.

In Mexico, Magnetek workers report that the company dismissed older workers in two plants in 1994 and replaced them with younger employees at half the pay ($50 for a 48-hour work week in December 1994). The Mexican workers also complain of strong fumes in Magnetek's plants which cause nausea and vomiting.

Conclusion

The growing gap between corporate executives and their workers in the United States and Mexico offers compelling evidence of the deeply flawed nature of the NAFTA agreement. Independent unions in Mexico had joined with unions in the United States to argue that a more just and sensible agreement would have included enforcement provisions to press corporations to respect basic worker rights and environmental standards. This call is more urgent than ever as the public debate grows over NAFTA and its proposed extension to Chile and other countries.

Notes

1 Financial Times, March 24, 1995.
2 Investor Responsibility Research Center, "Social Issues Service Background Report E," draft, April 1995.
3 Andrew Maykuth, "Mexican-made products may invade the U.S.," Times-Picayune (New Orleans, January 29, 1995.
4 The Wall Street Journal survey (April 12, 1995) ranked Bossidy number 6; Business Week (April 24, 1995) ranked him 8.
5 CNN, "Moneyline," August 23, 1993.
6 Times-Picayune (New Orleans), January 29, 1995.
7 Chicago Tribune, April 20, 1995.
8 Joel Simon, "On Mexican Border, Economic Boom Fizzles," San Francisco Chronicle, March 24, 1995, p.A 12.
9 Diane Lindquist,"Peso's loss plants' gain," San Diego Union-Tribune, February 14, 1995, p.C-1.
10 Proxy statements.
11 Pay stub of April 1995, acquired by the Interfaith Center for Corporate Responsibility.
12 April 1995, the Investor Responsibility Research Center.
13 Pay stub of March 24, 1995, Interfaith Center for Corporate Responsibility.
14 Arizona Republic, January 15, 1995.
15 Times Picayune (New Orleans), January 29, 1995.
16 Investor Responsibility Research Center, based on July 1994 data supplied by Solunet, a market research firm in El Paso, Texas.
17 For a more detailed analysis of the impact of NAFTA's first year on U.S. workers, see AFL-CIO Task Force on Trade, NAFTAmath: The First Year, March 1995.
18 BNA Daily Labor Report, April 21, 1995.
19 Council of Economic Advisors, The Economic Report of the President, Washington, D.C., February 1995, p. 326. For an analysis of the longer-term decline, see Lawrence Mishel & Jared Bernstein, The State of Working America, 1994-95 (Economic Policy Institute, 1994).
20 Peter Kilbom, "Up From Welfare: It's Harder and Harder," New York Times, April 16, 1995.
21 State of Working America, 1994-95, p.107.
22 State of Working America, 1994-95, p.126.
23 Vincent Schodolski, "NAFTA, One Year After," Chicago Tribune, January 1, 1995.
24 Jeff Faux, "I Was Right," Wall Street Journal, October 28, 1994.
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26 AFL-CIO News, February 20, 1995.
27 Wall Street Journal, March 7, 1995.
28 Florence Morning News, March 6, 1995.

Appendix

Executive Compensation at U.S. Firms with over 1,500 Mexican Workers

COMPANY	EXECUTIVE	TITLE	1994 salary plus bonus	% change since '93	total '94 direct compensation	Mexican workers
G M	John F. Smith Jr.	CEO and president	3,425,000	149.0	6,114,000	44,413
	William Hoglund	Executive VP	1,800,000	132.0	3,217,000	
	Louis R. Hughes	Executive VP	1,763,000	n/a	2,700,000	
Zenith	Jerry K. Pearlman	Chairman and CEO	458,333	1.9	1,007,707	20,000
	Albin F. Moschner	President and COO	276,667	19.0	909,169	
	Gerald M. McCarthy	Executive VP	212,000	11.0	419,496	
United Technologies	George David	President and CEO	1,606,250	17.1	3,054,584	12,087
	R. Daniell	Chairman	1,422,916	n/a	8,257,973	
	K. Krapek	Pres, Pratt & Whitney	987,500	18.5	1,982,907	
Chrysler	Robert J. Eaton	Chairman and CEO	3,263,750	15.3	6,093,991	11,793
	Robert A. Lutz	President and COO	2,408,750	7.2	3,400,000	
	Thomas Denomme	Vice Chairman	1,496,250	10.9	3,406,316	
Ford	Alex Trotman	Chairman	7,733,000	321.0	8,100,000	9,905
	Allan D. Gilmour	Vice Chairman	4,013,000	178.0	4,987,000	
	Louis Ross	Vice Chairman	2,900,000	175.0	3,415,964	
G E	John F. Welch Jr.	Chairman and CEO	4,350,000	10.1	7,609,375	6,994
	Paolo Fresco	Vice Chairman	2,125,000	20.5	2,125,000	
	Frank Doyle	Executive VP	1,476,667	14.3	2,719,948	
Alcoa	Paul H. O'Neill	Chairman and CEO	1,450,200	39.0	2,886,708	6,361
	Alain P. Belda	Executive VP	673,500	42.8	1,317,778	
	Richard L. Fischer	Executive VP	530,400	14.7	1,074,124	
Baxter	Vernon R. Loucks Jr.	Chairman and CEO	1,380,100	15.7	1,380,100	6,293
	Tony L. White	Executive VP	727,950	14.3	964,973	
	Lester B. Knight	Executive VP	724,938	34.0	1,013,896	
Emerson Electric	Charles F. Knight	Chairman and CEO	1,975,000	3.9	11,712,770	4,841
	A.E. Suter	Sr. Vice Chair and COO	975,000	5.5	975,000	
	J.J. Adorjan	President	750,000	9.1	750,000	
AT&T	Robert E. Allen	Chairman and CEO	3,362,600	40.8	5,248,167	4,265
	Victor A. Pelson	Executive VP	1,657,600	51.2	2,160,240	
	Jerre L. Stead	Executive VP	1,441,700	38.0	3,569,007	
Mattel	John W. Amerman	Chairman and CEO	1,783,164	-20.9	7,557,748	3,995
	Jill E. Barad	President and COO	1,360,810	-19.9	4,606,087	
	James Eskridge	President, Fisher Price	980,786	-11.8	1,457,382	
AlliedSignal	Lawrence Bossidy	Chairman and CEO	3,625,000	39.4	12,381,250	3,810
	Frederic Poses	Executive VP	975,000	14.0	2,117,185	
	Daniel Burnham	Executive VP	806,670	10.1	889,595	
Kimberly-Clark	Wayne R. Sanders	Chairman and CEO	1,134,384	7.3	1,610,821	3,523
	James D. Bernd	Executive VP	542,440	5.2	1,671,549	
	Thomas Falk	Group President	476,877	28.4	476,877	
Dun & Bradstreet	Charles Moritz	Chairman	1,496,225	-19.6	5,865,693	3,350
	Robert Weissman	President and CEO	1,487,744	17.5	3,362,782	
	Serge Okun	Executive VP	813,157	-12.1	1,383,157	
TRW Inc.	J.T. Gorman	Chairman and CEO	4,003,133	18.0	4,626,533	3,150
	E.S. Dunford	President and COO	2,618,220	16.3	2,618,220	
	P.S. Hellman	C O O	2,083,605	56.9	2,083,605	

COMPANY	EXECUTIVE	TITLE	1994 salary plus bonus	% change since '93	total '94 direct compensation	Mexican workers
Johnson & Johnson	R. Larsen	Chairm and and CEO	1,506,714	12.6	1,506,714	2,899
	R. Wilson	Vice Chairman	1,178,967	11.9	1,707,887	
	R. Campbell	Vice Chairman	1,077,169	11.1	1,077,169	
Honeywell	M.R. Bonsignore	Chairman and CEO	1,016,233	11.3	1,124,791	2,850
	D.L. Moore	President and COO	923,155	8.0	923,155	
	J.R. Dewane	Pres, Space & Aviation	409,002	7.7	409,022	
Vishay	Felix Zandman	Chair, President and CEO	1,200,000	27.0	1,200,000	2,578
Intertechnology	Donald Alfson	Director, VP	349,481	9.8	349,481	
	Richard Grubb	Director, VP	372,100	n/a	372,100	
Johnson Controls	James Keyes	Chairman and CEO	1,291,060	14.2	2,132,278	2,430
	John M. Barth	Executive VP	635,614	10.1	780,614	
	Joseph Lewis	Executive VP	537,117	7.7	840,917	
MagneTek	Andrew Galef	Chairman and CEO	n/a	n/a	n/a	2,235
	Antonio Canova	Executive VP	241,163	45.0	241,163	
	C. Ore Davis	Executive VP	286,375	11.7	286,375	
A.O. Smith	Robert J. O'Toole	Chair, President, & CEO	1,274,992	19.7	2,688,603	2,031
	Glen Bomberger	Executive VP and CFO	587,008	7.3	1,355,204	
	Samuel Licavoli	President, Auto Products	450,000	10.2	450,000	
Valmont Industries	Mogens C. Bay	President and CEO	799,971	75.0	882,994	1,870
	Robert Daugherty	Chairman	711,692	99.0	711,692	
	Lewis Hays	President and COO	514,301	74.0	606,176	
Nacco Industries	Alfred Rankin	Chair, Pres, CEO	1,572,592	52.0	1,572,592	1,620
	Reginald Eklund	Presiden, CEO NMHG	506,901	17.9	506,901	
	George Nebel	CEO Hamilton Beach	473,569	22.8	473,569	
Sara Lee	John Bryan	Chairman and Director	1,569,015	-10.6	1,805,655	1,575
	Michael Murphy	Vice Chair and Director	924,105	1.9	924,105	
	C. Steven McMillan	Executive VP and Director	916,750	3.9	1,270,366	
Hasbro Inc.	Allan Hassenfeld	Chair, President and CEO	1,123,886	-31.0	1,123,886	1,564
	George Ditomassi, Jr.	COO	661,238	-18.2	1,199,491	
	Alfred Verrechia	COO	627,920	-28.9	627,920	
Philip Morris	Geoffrey Bible	Chair and CEO	2,150,000	81.6	8,122,500	1,500
	William Murray	COO	1,875,000	43.7	7,937,500	
	James Kilts	Executive VP	1,178,077	24.2	3,698,016	
TOTAL			$110,495,453	29.3 % (average)	$204,190,513	167,932

Sources: Executive compensation data are from company proxy statements. The number of Mexican workers employed by Zenith was provided by the Interfaith Center on Corporate Responsibility. All other information on workers in Mexico was calculated by the Investor Responsibility Research Center (IRRC) in July 1994 using data supplied by Solunet, a market research firm based in El Paso, Texas. IRRC cautions that these numbers may be slightly inaccurate since employment figures frequently fluctuate.

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