CEOs Win, Workers Lose

How Wall Street Rewards Job Destroyers

The Institute for Policy Studies'
Third Annual Analysis
of Executive Compensation

by Sarah Anderson and John Cavanagh[1]

— embargoed until midnight on Wednesday, April 24, 1996 —

PRIMARY FINDINGS:

Examining at the 22 U.S. firms that announced layoffs of 3,000 or more workers in 1995, we found:

1. Layoff Leaders Receive Higher Compensation
Of the 20 CEOs for whom data were available, 14 received raises in salary and bonus that were higher than the average increase for CEOs of large U.S. firms. The layoff leaders got an average raise of 13.6%, compared to 10.4% for top executives in general. By contrast, U.S. workers received an average raise in wages and benefits of only 2.9 percent in 1995, the lowest level in 14 years. (Inflation rose 2.8 percent in 1995, erasing workers' meager gains.)

2. Wall Street Rewards Downsizing
The stock prices of 17 of the 22 firms rose or stayed the same the day of the announced layoffs. In only five cases did the stock price fall and, in two of these cases, Wall Street analysts stated that the fall was because the announced job cuts were less than desired.

3. CEOs of Job-Cutting Firms Reap Windfalls
The CEOs of the 22 top job-cutting firms in 1995 held a combined total of over 22 million stock options in their firms. As stock prices rose on the day of the announced layoffs, the value of the CEOs' stock options rose a combined total of $37 million.

The Institute for Policy Studies
1601 Connecticut Ave. NW, Washington, DC 20009
tel 202/234-9382, fax 202/387-7915

WALL STREET vs. MAIN STREET

A careful study of the relationship between corporate layoffs and the enrichment of corporate executives offers another insight into the growing disconnect between the interests of Wall Street and those of ordinary Americans. As corporate profits skyrocket in an age of global economic opportunities for firms, real wages of U.S. workers stagnate, inequality rises and an alarming number of large firms continue to lay off full-time workers.

This report examines a new and disturbing trend in the perverse relationship between Wall Street and Main Street: the positive reaction of Wall Street to corporate layoffs. Layoffs are a plague to communities and workers alike. Workers are devastated both psychologically and economically; studies show that a majority of laid off workers who get new jobs do so at lower pay and fewer benefits. Communities find their tax base destroyed, and local businesses suffer from the diminished purchasing power of unemployed workers. A survey by the American Management Association indicates that layoffs can be harmful to corporations as well. Of firms that downsized during the 1989-1994 period, only about half reported an increase in profits, while 86 percent saw a decline in employee morale.

Nevertheless, Wall Street's reaction is invariably gleeful. Downsizing is seen as a bold move to reduce costs and enhance competitiveness. And, overwhelmingly, stock prices of downsized firms rise. Our research reveals another twist in this game. Over the past decade, a growing proportion of CEO compensation has been in the form of stock options. Hence, when stock prices rise in the wake of announced layoffs, the value of the stock options held by CEOs also rises. In other words, the individual interests of the CEOs making the layoff decisions are enhanced by destroying their own workforces.

Increasing numbers of Americans are speaking out against this perverse incentive system. This report concludes with a summary of various efforts to halt the growing inequality between CEO compensation and worker pay.

THE DATA

This report analyzes how CEOs benefited from layoffs in the 22 U.S. firms that announced layoffs of at least 3,000 workers in 1995. The list of layoffs was compiled by the Greenwich, Connecticut-based publication Workplace America. Data on CEO compensation has been compiled from the proxy statements of the 22 firms, along with the annual CEO compensation surveys of Business Week and The Wall Street Journal. Information on changes in the stock prices of firms is derived from a wide range of business sources. Here is what the data reveal for 1995:

1. Layoff Leaders Receive Higher Compensation

Of the 20 CEOs for whom data were available, 14 received raises in salary and bonus that were higher than the average for CEOs at other large firms (See Table 2).[2] The 20 layoff leaders received average raises of 13.6%, compared to 10.4% for top executives overall. Workers received an average raise in wages and benefits of 2.9 percent in 1995, the lowest level in 14 years.[3] (Inflation rose 2.8 percent in 1995, erasing workers' meager gains.[4])

Another indication that the "Corporate Killers" — as Newsweek has dubbed the job slashing executives — have been disproportionately rewarded is that the CEOs of the top 22 job slashers received an average total direct compensation package of $4.5 million (see Table 2), well above the $3.7 million average of 362 CEOs of the nation's largest firms surveyed by Standard & Poor for Business Week.[5] (Even these astronomical sums don't tell the entire story of CEO pay packages. AT&T's celebrated CEO Robert Allen received a salary and bonus of $2,677,400 in 1995. Add in his gains on stock options and the value of his vested restricted shares and Allen's direct compensation rises to $5,162,300.[6] Add in the value of Allen's unexercised stock options, and the total reaches $16,090,000.[7])

Overall, 1995 CEO compensation figures reveal another alarming trend — the growing gap between CEO and worker pay. As recently as 1992, the average ratio between CEO compensation and the average salary of the firm's employees was 143 to 1; in 1995 it grew to 185 to 1.[8] The U.S. gap is far wider than in other industrialized countries, for example in Japan, France, and Germany where CEOs make, respectively, 25, 30, and 35 times that of an average worker.

2. Wall Street Rewards Downsizing

The stock prices of 17 of the 22 firms rose or stayed the same the day of the announced layoffs (See Table 1). Coverage of most of the layoffs in the financial press was filled with praise by analysts of

the wisdom of cutting labor costs to enhance competitiveness. Big institutional investors responded positively to the layoffs and stock prices rose.

Why didn't Wall Street reward the other five firms (Lockheed-Martin, BellSouth, GTE, Burlington Northern, and Eastman Kodak) where stock prices fell? Well, in at least 2 of the cases, analysts blamed the fall on the fact that the announced layoffs were less than the "market" desired. Consider the following comments:

- Lockheed Martin: Baltimore Sun writer Kim Clark wrote of the $2.00 fall in Lockheed's shares on the day of the announced layoffs: "Analysts said some investors were expecting bigger cuts."[9]

- BellSouth: After BellSouth shares fell $1.37 on the day the firm announced 11,300 layoffs, Craig Ellis, a managing director at Wheat First Butcher Singer said, "Even after these cuts, BellSouth will still employ almost 60,000. That's way too many."[10]

3. CEOs of Job-Cutting Firms Reap Windfalls

The CEOs of the 22 top job-cutting firms in 1995 held a combined total of more than 22 million stock options in their firms. As stock prices rose on the day of the announced layoffs, the value of the CEOs' stock options rose a combined total of $37 million (See Table 1). The biggest winner was Lucio Noto, CEO of Mobil, whose stock options rose $24 million in value on the day he announced the layoffs of 4,700 workers. Lawrence Bossidy of AlliedSignal, Robert Allen of AT&T, and Thomas Labrecque of Chase Manhattan all saw a rise in value between $3 million and $5 million.

Business Week's Balance Sheet

Business Week has offered the following statistical commentary on the 1990s:

	CEO Pay	Corp. Profits	Worker Pay	Worker Layoffs
1990:	$1.95 mn	$176 bn	$22,976	316,047
1995:	$3.75 mn	$308 bn	$26,652	439,882
% change	+ 92%	+ 75%	+ 16%	+ 39%

Source: Business Week, April 22, 1996.

Business Week's editors concluded: "It doesn't take a brain surgeon to see why millions of people who worked hard to make their companies competitive feel shafted."

CASES: AlliedSignal and GM

NAFTA Booster Becomes NAFTA Job Destroyer

AlliedSignal has been rewarded by Wall Street not only for slashing jobs, but for breaking promises it made to garner support for the North American Free Trade Agreement (NAFTA). AlliedSignal CEO Lawrence Bossidy, as the leader of the corporate coalition USA*NAFTA, vowed on national TV that AlliedSignal would not shift jobs from the United States to Mexico if NAFTA passed.[11]

Within two years of NAFTA's passage, Bossidy's firm could boast the highest number of petitions to the Department of Labor claiming job loss due to NAFTA. AlliedSignal workers in five cities have petitioned for retraining benefits available to U.S. workers who lose their jobs as a result of the trade pact.

The DoL approved claims in three communities (Greenville, Ohio; El Paso, Texas; and Orangeburg, South Carolina). The appeal of producing in Mexico is obvious. News reports stated that wages at Allied's Mexican plants dropped to about $.82 per hour last year after the peso devaluation. At that rate, Allied's approximately 3,800 Mexican workers would earn a combined total of about $7.8 million a year—less than CEO Bossidy's total 1995 compensation of $8.4 million.

Wall Street Rewards "Toughness" Toward Strikers

One of the most dramatic showdowns between corporate America and organized labor in recent times occurred in March 1996 in Dayton, Ohio. Some 3,000 members of the UAW went on strike March 5 to protest General Motors' decision to subcontract more work to non-union suppliers in South Carolina. Within weeks, over 175,000 workers were idled because of the strike. Nevertheless, Wall Street rewarded GM's hard line against the workers by pushing up the corporation's stock price during the first two weeks of the strike. Auto investors reasoned that by pressing forward with subcontracting to low-wage suppliers, GM would enhance its global competitiveness. Stephen Roach of Morgan Stanley put it this way: "Wall Street views these negotiations the same way as corporate restructuring — a near-term positive for the stock."[12]

SOME IDEAS ON CLOSING THE GAP

Public outrage over the astronomical paychecks of America's corporate leaders is nothing new. More than 50 years ago, Louisiana Governor Huey Long and President Franklin Delano Roosevelt responded to this populist sentiment by calling for measures to control soaring salaries. At the turn of the century, even banking magnate J.P. Morgan expressed the belief that executive salaries should be held to no more than 20 times that of the workers.' In recent months, there has been growing concern, even in the business press, that the growing pay gap between CEOs and workers has gone too far.

1. Investor Activism

A. Shareholder resolutions

Bloated executive pay packages have become a target of shareholder groups since a 1992 SEC ruling that made it more difficult for corporations to exclude proposals on this issue from proxy statements. According to the Investor Responsibility Research Center, shareholder groups sponsored 40 resolutions on executive compensation in 1995.[13] Ten proposals aimed to cap executive pay, either by limiting compensation to some multiple of the president's salary or the average worker's pay. For example, the International Brotherhood of Electrical Workers has filed a resolution three years in a row asking that executive compensation at GTE be held to 75 times the wages of an average hourly GTE employee. In 1995, the proposal received about 22 percent of the vote.

Other pay-related proposals have aimed to (1) restrict pay by linking it to various performance standards or (2) give shareholders more access to compensation information or the power to approve or reject compensation plans. The Interfaith Center for Corporate Responsibility has sponsored numerous proposals to link executive pay to environmental and social performance. Although none of ICCR's proposals have actually passed, they have been effective in pressuring some corporations into making policy changes. For example, as the result of an ICCR campaign, Eastman Kodak agreed to condition 5 percent of the CEO's compensation on the attainment of affirmative action goals.

B. Socially responsible investment and consumption

While consumers and investors are increasingly using their pocketbooks to support more responsible corporate behavior on issues such as child labor and toxics, the pay gap is not yet a front burner concern. However, several analysts in the realm of socially responsible investing predict that it could be in the near future. The Calvert Group, a socially responsible investment organization based in Washington, DC, is currently studying the issue with the goal of developing a policy on when and whether to discourage investment in companies because of extreme pay inequity.

2. Tax Policy

A. A cap on deductible pay

In Europe, high tax rates have been an important mechanism for controlling executive pay. On average, European executives make half or less what their U.S. counterparts make. However, in the United States, one recent effort in this area has failed. A 1993 change in the U.S. tax code aimed to curb excessive executive pay by eliminating corporate tax deductions for pay packages above $1 million. The rule has backfired because it does not apply to pay that is "performance-based." Thus many corporations have gotten around the rule by shifting pay from base salary to stock options and bonuses linked to performance. Moreover, the rule is limited in its application to public companies and only the five highest-paid executives at those firms. Clearly, more work needs to be done to close up loopholes and develop a tax policy that would seriously address excessive pay.

B. Bingaman plan

A group of congressional Democrats are developing proposals to give tax breaks to corporations that treat workers well and raise taxes on those that don't. Led by Sen. Jeff Bingaman (D-NM), the group has recommended that tax incentives be available to corporations that agree to hold executive pay to no more than 50 times the wage of the lowest-paid employee. Critics of such rewards include Ralph Estes, author of Tyranny of the Bottom Line, who says he is unenthusiastic about "rewarding companies for doing what they should already be doing."

Conclusion

Overall, the public debate on this central issue of growing income inequality has shifted significantly in the past six months. Until recently, it was not uncommon to hear the comment that in this land of

opportunity, it was wrong to deny CEOs the exorbitant salaries they make. Yet as increasing numbers of people have watched their job security disappear or their real wages fall, public discontent has been on the rise. This anxiety was crystallized into anger for many when AT&T's CEO Robert Allen pulled in his highest pay package ever as he announced the layoff of 40,000 more workers. There are ample avenues to translate this public anger into positive action to close the pay gap in America.

NOTES ON TEXT

1 Sarah Anderson and John Cavanagh are Fellows at the Institute for Policy Studies and co-editors (with Dave Ranney) of the new study: "NAFTA's First Two Years: The Myths and the Realities." Cavanagh is co-author, with Richard J. Barnet, of Global Dreams: Imperial Corporations and the New World Order (Simon & Schuster). The authors would like to thank Karen Harris for her help in data collection for this report, and Dean Baker of the Economic Policy Institute and Ralph Estes for their helpful comments.

2 The 13.6 percent figure was calculated by the authors from data in company proxy statements. The 10.4 percent is from a survey conducted by William M. Mercer Inc. for the Wall Street Journal, April 11, 1996, p. 1 of "Executive Pay" section.

3 Wall Street Journal, April 11, 1996, p. 1.

4 Business Week, April 22, 1996. Business Week also points out that the pay of factory employees grew only 1 percent in 1995.

5 "How High Can CEO Pay Go?" Business Week, April 22, 1996, p. 101.

6 Figures from Wall Street Journal, April 11, 1996, p. R17.

7 Washington Post, February 28, 1996, p. C1.

8 "Reap As Ye Shall Sow," Time, February 5, 1996.

9 "Lockheed Martin to lay off 12,000 and shut 38 plants, offices by 1999," Baltimore Sun, June 27, 1995.

10 "BellSouth will slash more jobs," The Commercial Appeal (Memphis), May 19, 1995, p. 4B.

11 *Moneyline*, CNN, August 23, 1993.

12 "GM's Hardball Has Fans, Unless They Get Hit, Too," Wall Street Journal, March 21, 1996, p. C1.

13 Ann L. Yerger, "Corporate Governance Service 1996 Background Report D: Shareholder Proposals on Executive Compensation," Investor Responsibility Research Center, Washington, DC, Jan. 16, 1996, and Susan Williams, "Social Issues Service 1996 Background Report M: Link Executive Compensation to Social Performance," Investor Responsibility Research Center.

Table 1. Job Slashers Rewarded Through Stock Options

COMPANY	CEO	LAYOFF ANNOUNCEMENTS		number of CEO stock options[3]	change in value of CEO options resulting from layoff[4]
		jobs to be cut[1]	share price change–day of announcement[2]		
1. AT&T	Robert Allen	86,500	$2.125	1,578,766	$3,354,878
2. Boeing	Frank Shrontz	25,000	$0.750	727,433	$545,575
3. Lockheed-Martin	Daniel Tellep	15,800	-$2.000	577,317	-$1,154,634
4. Chase Manhattan	Thomas Labrecque6	12,000	$6.680	453,891	$3,031,992
5. BellSouth	John Clendenin	11,300	-$1.370	745,120	-$1,020,814
6. CNA Financial	Dennis Chookaszian	8,000	$2.250	0	$0
7. Northrop Grumman	Kent Kresa	7,650	$0.125	616,400	$77,050
8. KMart	Joseph Antonini 7	7,118	$0.000	1,244,200	$0
9. First Interstate Bancorp	William Siart	6,000	$2.250	266,000	$598,500
10. GTE	Charles Lee	6,000	-$0.500	950,700	-$475,350
11. Kimberly Clark	Wayne Sanders III	6,000	$1.800	491,149	$884,068
12. MCI	Bert Roberts, Jr.	6,000	$0.625	1,210,000	$756,250
13. 3M	Livio DeSimone	5,000	$2.625	283,875	$745,172
14. Mobil	Lucio Noto	4,700	$3.875	6,185,591	$23,969,165
15. James River	Robert Williams 8	4,400	$7.250	62,718	$454,706
16. Burlington Northern	Robert Krebs9	4,350	-$0.130	382,447	-$49,718
17. Eastman Kodak	G.M. Fisher	4,000	-$0.375	1,373,539	-$515,077
18. Continental Airlines	Gordon Bethune10	4,000	$0.750	n/a	n/a
19. American Home Prod.	John Stafford	4,000	$0.250	1,018,200	$254,550
20. Texaco	Alfred DeCrane, Jr.	3,200	$0.000	380,217	$0
21. Fruit of the Loom	William Farley	3,200	$0.000	1,385,230	$0
22. AlliedSignal	Lawrence Bossidy	3,000	$2.000	2,550,000	$5,100,000
		237,218	Avg. $1.317	22,482,793	$36,556,311

Table 2. Layoff Leaders Also Do Well in Direct Compensation

COMPANY	CEO	1995 salary + bonus	% change from 1994	CEO Total Direct Comp[5]
1. AT&T	Robert Allen	$2,677,400	-20.4%	$5,162,300
2. Boeing	Frank Shrontz	$1,943,200	21.9%	$5,277,000
3. Lockheed-Martin	Daniel Tellep	$2,453,462	51.5%	$4,983,600
4. Chase Manhattan	Thomas Labrecque[6]	$3,470,000	1.5%	$8,111,785
5. BellSouth	John Clendenin	$1,555,100	6.3%	$4,290,400
6, CNA Financial	Dennis Chookaszian	$1,593,027	28.0%	$1,593,000
7. Northrop Grumman	Kent Kresa	$1,730,000	11.6%	$2,210,000
8. KMart	Joseph Antonini[7]	n/a	n/a	n/a
9. First Interstate Bancorp	William Siart	$2,016,000	29.3%	$2,020,000
10. GTE	Charles Lee	$2,301,100	14.8%	$4,016,300
11. Kimberly Clark	Wayne Sanders III	$1,644,800	45.0%	$1,644,800
12. MCI	Bert Roberts, Jr.	$2,190,000	25.1%	$2,190,000
13. 3M	Livio DeSimone	$1,270,501	9.4%	$2,530,100
14. Mobil	Lucio Noto	$1,508,333	16.4%	$3,031,800
15. James River	Robert Williams[8]	$1,600,000	36.0%	$7,134,196
16. Burlington Northern	Robert Krebs[9]	$790,147	10.6%	$6,928,000
17. Eastman Kodak	G.M. Fisher	$4,282,496	12.2%	$11,275,000
18. Continental Airlines	Gordon Bethune[10]	n/a	n/a	n/a
19. American Home Prod.	John Stafford	$2,370,000	6.5%	$4,949,500
20. Texaco	Alfred DeCrane, Jr.	$1,840,300	20.9%	$3,594,200
21. Fruit of the Loom	William Farley	$950,000	-30.1%	$950,000
22. AlliedSignal	Lawrence Bossidy	$4,350,000	20.0%	$8,405,600
AVERAGE		$2,126,793	13.6%	$4,514,879

NOTES ON CHARTS

[1]Sum of all layoffs announced during 1995. Data from Workplace America, Greenwich, Connecticut.

[2]In cases where layoffs were announced on more than one occasion during 1995, we looked at the day of on which the largest layoff was announced.

[3]As of 12/31/95.

[4]Most stock options are restricted in terms of when the executive can exercise their right to purchase the stocks at the exercise price. Thus, we do not suggest that the CEOs could immediately cash in on gains resulting from layoffs.

[5]Sum of salary/bonus and long-term compensation (gains from the exercise of stock options and/or stock-appreciation rights during 1995, value of restricted stock grants, and payouts under long-term incentive plans).

[6]After merger with Chemical Bank in August 1995, Labrecque became president and COO and Walter Shipley of Chemical became CEO of the new Chase Manhattan.

[7]Antonini was forced to resign in March 1995.

[8]Williams retired in the fall of 1995. He was succeeded by Miles Marsh.

[9]Krebs became CEO on Sept. 1, 1995.

[10]Proxy not available.

IPS Resources on the Global Economy

NAFTA's First Two Years

The Myths and the Realities

edited by Sarah Anderson, John Cavanagh, et al
March 26, 1996, 50 pp. $7.50 (also avail. in Spanish)

With contributions from 20 citizens groups, this report presents a comprehensive analysis of the impact of NAFTA on workers, communities, and the environment.

Workers Lose, CEOs Win (III)

How Wall Street Rewards Job Destroyers

by Sarah Anderson and John Cavanagh
April 24, 1996, $5

This report looks at how Wall Street and corporate boards have rewarded the CEOs who made the largest layoff announcements of 1995.

No Laughter in NAFTA

Mexico and the United States Two Years After

A joint report by the Institute for Policy Studies, the Development GAP and Equipo Pueblo
January 1996, 11 pp, $5

This report reveals trends in the speed-up of NAFTA-related layoffs, the shift of polluting factories to Mexico, and the strain of free trade on rural communities and women in both countries.

Workers Lose, CEOs Win (II)

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

by Sarah Anderson and John Cavanagh
April 1995, 10 pp, $5

A year and a half into NAFTA, this report looks at how the U.S. companies with the most employees in Mexico are treating their executives and their workers.

A Just and Sustainable Trade and Development Initiative for the Western Hemisphere

December 1994, 15 pp, $5

Endorsed by 17 citizens organizations, this document presents alternatives to the free trade model that are based on the principles of respect for human rights, democracy, citizen participation in decisionmaking, environmental sustainability, and the reduction of economic inequalities.

Workers Lose, CEOs Win

An Analysis of Executive Salaries at Top Job-Cutting Firms

by Sarah Anderson and John Cavanagh
April 1994, 3 pp with table, $4

This report documents how top executives are rewarded for corporate downsizing.

ORDER FORM

REPORT	PRICE	Qty.	TOTAL
		shipping	$1.50
		GRAND TOTAL	

Send to:

Name ____________________

Address ____________________

____

City/State/Zip ____________________

Phone ____________________

Make checks payable to IPS.
Address orders to:
IPS Publications
1601 Connecticut Ave. NW
Washington, DC 20009
Or call 202/234-9382 for credit card orders.