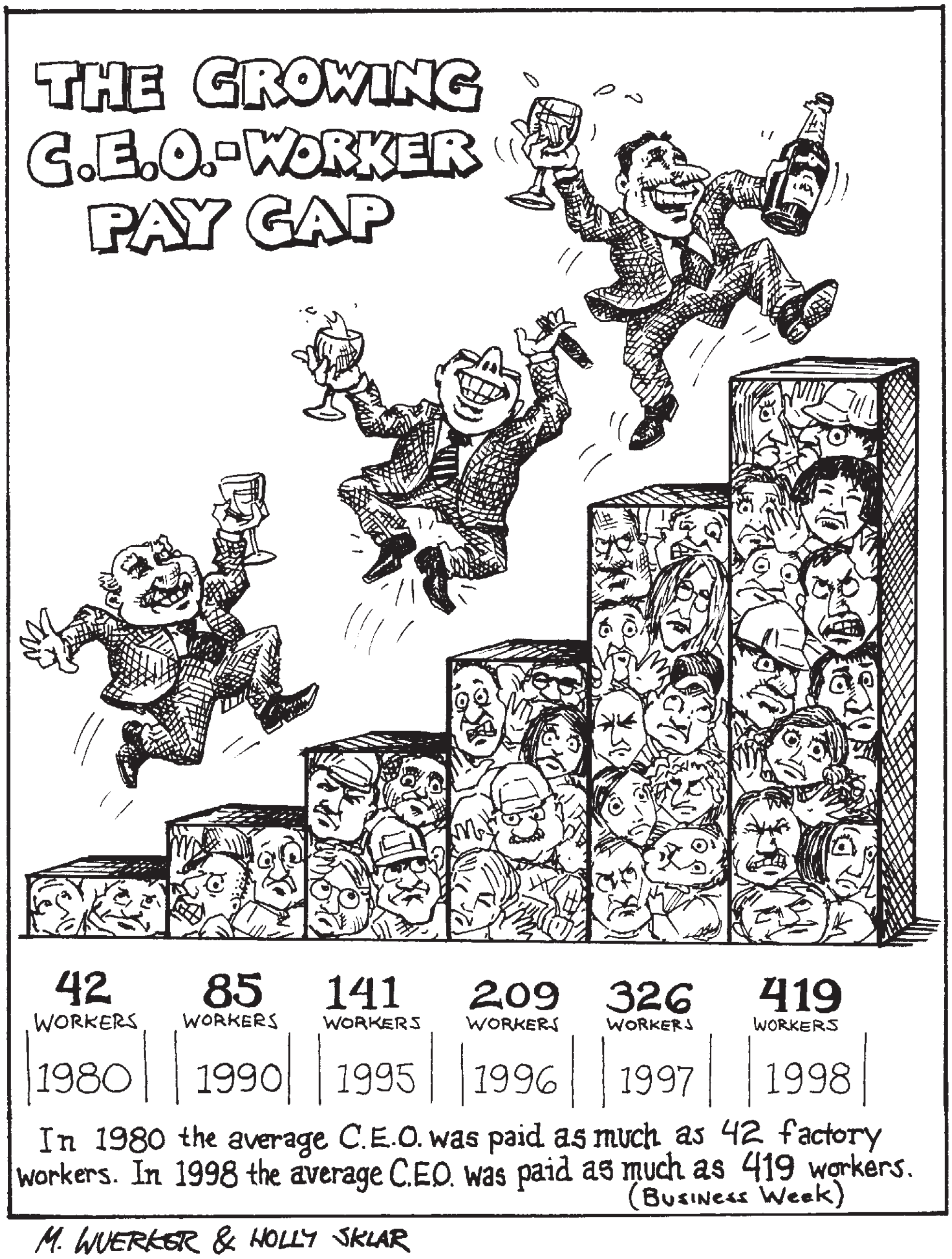
A Decade of Executive Excess: The 1990s

Sixth Annual Executive Compensation Survey

September 1, 1999



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United for a Fair Economy is a national, independent, non-partisan organization founded in 1994 to focus public attention and action on economic inequality in the United States—and the implications of inequality on American life and labor. United for a Fair Economy provides educational resources, works with grassroots organizations and supports creative and legislative action to reduce inequality.

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Key Findings

1. Over the course of the 1990s, corporate profits rose 108 percent, supporting an S&P 500 Index increase of 224 percent. Who gained? After nearly two decades of real wage declines, workers' pay has risen 28 percent in the 1990s (before adjusting for inflation). Meanwhile, CEO pay has risen 481 percent.

2. If average production worker pay had risen at the same rate as CEO pay between 1990 and 1998, worker pay would be $110,399 today, rather than the current $29,267. The minimum wage would be $22.08, rather than the current $5.15 per hour.

3. Internationally, CEO salaries are rising in other countries, but they remain dwarfed by U.S. CEO pay. An IPS/UFE survey of seven large foreign corporations found that the CEOs of these firms make between 4 and 27 percent of the amount earned by the average U.S. CEO.

4. An increasing number of business experts refute the claims that exorbitant CEO pay can be justified for economic or other reasons. Recent studies demonstrate that excessive CEO pay instead lowers employee morale, undermines the corporate bottom line, and exerts a burden on taxpayers.

5. The Top 10 lists of executive earners from the decade include many who have reaped their colossal rewards while leading companies involved in illegal behavior, worker exploitation, the marketing of killer products or other less-than-noble activities.

6. The trends of the decade are not irreversible. Numerous institutions and grassroots organizations are working to challenge the growing divide through legislation, investor activism, promoting responsible corporate action, and policies to broaden the ownership of wealth.

1. Introduction

For six years, researchers at the Institute for Policy Studies and United for a Fair Economy have charted CEO pay vs. workers pay. With the spread of stock options in a time of stock market boom, we have chronicled the explosion of CEO pay, while blue collar workers have barely kept up with inflation, minuscule as it has been.

The fortune of Michael Eisner, CEO of Disney, sums up this recent history pointedly. Eisner led all CEOs in 1998, with a total compensation package of $576 million. Eisner was also the highest paid executive 10 years earlier, when his pay package topped $40 million. Consider what happened to average worker pay over this period: it inched up from $22,952 a year in 1990 to $29,267 eight years later.[1]

Years of CEOs amassing stock options and stocks in their companies have created levels of wealth (and inequality) that are almost beyond comprehension. In 1999, Microsoft CEO Bill Gates, Berkshire Hathaway CEO Warren Buffett, and Microsoft alumnus Paul Allen had combined wealth of $156 billion.[2] This topped the combined GNPs of the poorest 43 nations on earth.[3] By 1999, the world's 475 billionaires had combined wealth of over $1.7 trillion, well above the combined incomes of the world's poorest half of humanity.[4]

These unprecedented levels of wealth, greed and inequality prompted us to shift the focus of this year's report to the decade of the 1990s. After a brief look at trends in pay this past year, we examine the growing divide between CEO pay and workers' pay over the 1990s. We then analyze the economic arguments against exorbitant levels of CEO pay and identify some of the worst examples of overpaid CEOs. We end with an inventory of efforts by citizens, corporations and Congress to close the wage gap.

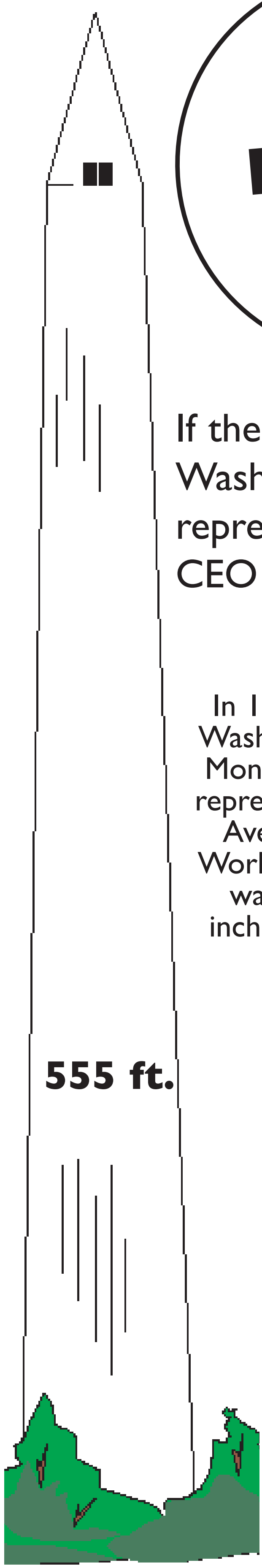
2. Brief Overview of 1998

Chief executive officers at America's major firms brought home an average compensation package of $10.6 million in 1998, an astounding 36 percent rise over 1997.[5] A record 16 executives pulled in over $50 million, three of whom weren't even CEOs.[6] Salary and bonus now make up only 20 percent of top executives' pay, down from 28 percent in 1997, with exercised stock options making up most of the rest. The levels of pay have reached such high levels that even Federal Reserve Chairman Alan Greenspan and billionaire Warren Buffett have publicly criticized the current system of paying a growing share of compensation through stock options.[7]

Since blue-collar workers received, on average, only 2.7 percent more in 1998 than the year before, the wage gap has scaled unprecedented heights. The average executive now makes 419 times the average blue collar worker, a gap which outrages growing legions of Americans. Leading business magazines such as *Business Week* and the *Wall Street Journal* are careful to support such levels of CEO pay only when they are related to performance; they bemoan the growing number of companies who pay their CEOs too much even when performance is poor.[8]

CEO PAY IN THE 1990S

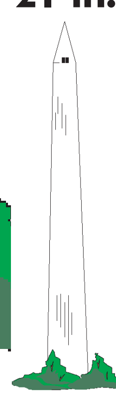
If the 555-foot Washington Monument represents average CEO pay...



555 ft.

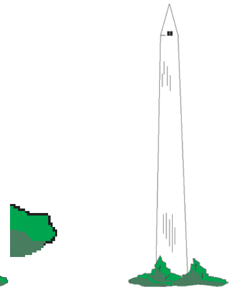
In 1997, a Washington Monument representing Average Worker Pay was 21 inches tall.

1997
21 in.



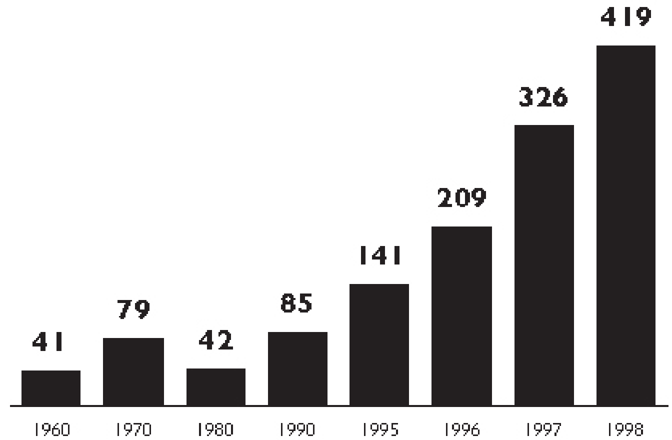
The 1998 Workers' Washington Monument is only 16 inches tall.

1998
16 in.



The Wage Gap

CEO Pay as a Multiple of Average Factory Worker Pay



Lower Real Wages

Real Average Hourly and Weekly Earnings of Production and Nonsupervisory Workers, 1967-98
1998 dollars

Year	Hourly	Weekly
1967	$12.03	$457
1973	$13.61	$502
1979	$13.57	$484
1989	$12.70	$439
1998	$12.77	$442
% Change 1973-98	–6.2%	–12.0%

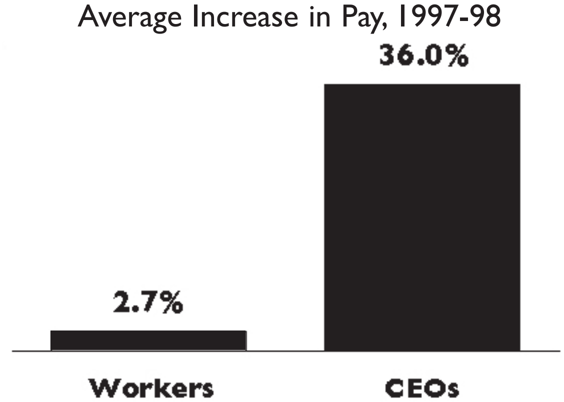
Between 1973 and 1998, productivity grew 32.8%.

Production and non-supervisory workers account for more than 80% of total wage and salary employment.

Source: Economic Policy Institute, 1999.

Raises

Average Increase in Pay, 1997-98



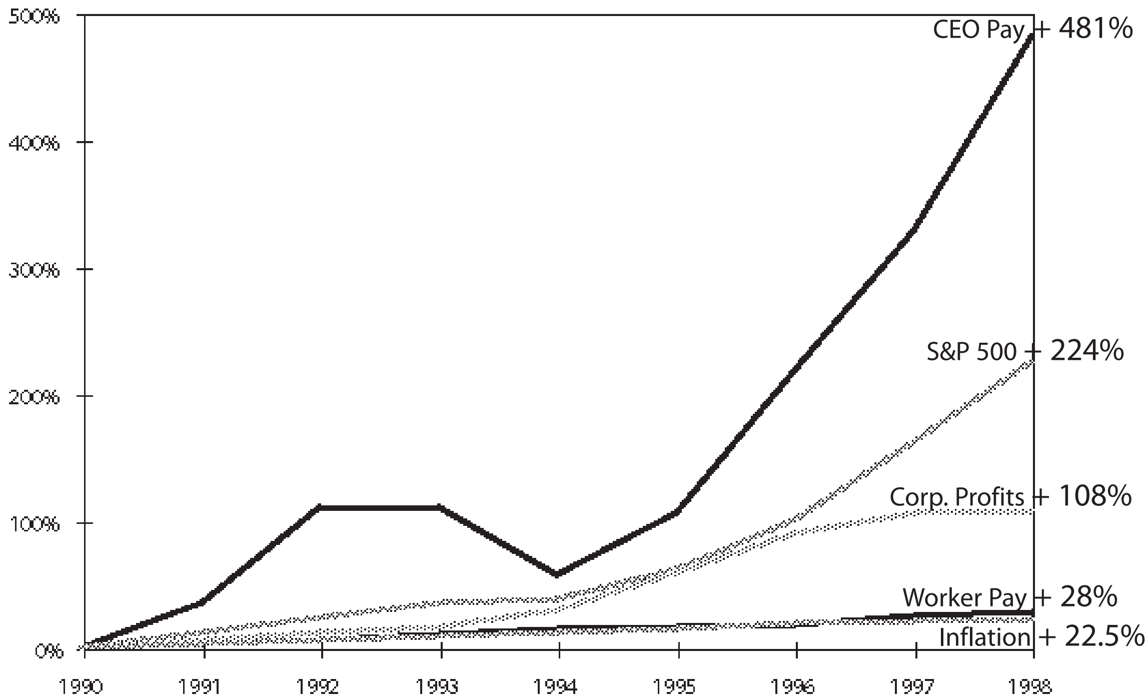
Source: *Business Week*, April 19, 1999.

3. The Decade of CEO Excess

A. Major Trends

A look at trends in pay and profits during the decade leaves no doubt as to who's been reaping the gains from the expanding U.S. economy. The S&P 500 Index and corporate profits have climbed steadily (by 224 and 108 percent, respectively) since 1990. Meanwhile, CEO total compensation has skyrocketed, from an average of $1.8 million in 1990 to $10.6 million in 1998, for an increase of 481 percent. Worker pay as measured by the Bureau of Economic Analysis lagged far behind, rising only 28 percent, from $22,952 to $29,267 (about on par with inflation, which rose 22.5 percent).

Chart 1. CEO Pay, Profits, Stocks Leave Workers Far Behind



Sources: CEO Pay: Business Week annual executive pay surveys; S&P 500: Standard and Poors Corporation, quoted in 1999 Economic Report of the President; Corporate Profits: Department of Commerce, Bureau of Economic Analysis, National Income and Disposition of Personal Income data; Worker Pay: Bureau of Labor Statistics; Inflation: Bureau of Labor Statistics, Consumer Price Index, All Urban Consumers (CPI-U).

Defenders of high CEO pay implicitly employ the Great Person Theory of Shareholder Value: "CEO So-and-so created $6 billion in shareholder value, etc." But when corporate boards decide to unload a top executive, they often argue that this action won't affect the firm's performance. For example, when Compaq recently fired its CEO, Eckhard Pfeiffer (who had been extremely well-compensated), it sought to reassure investors by running ads in major newspapers saying that it didn't matter who the CEO was, the company was still strong.

Workers who actually produce the goods and services that result in corporate income are arguably the primary creators of shareholder value. And yet if average production worker pay had risen at the same rate as CEO pay between 1990 and 1998, worker pay would be $110,399 today, rather than the current $29,267.[9] If the minimum wage, which was $3.80 an hour in 1990, had grown at the same rate as CEO pay between 1990 and 1998, International comparisons of the gap between average executive pay and average workers pay also indicate that the United States is far off the charts. Whereas U.S. CEOs of major companies enjoyed earnings 419 times the pay of the average blue collar worker last year, the ratio in Japan was about 20 to 1 and in Great Britain 35 to 1. Even though the British figures do not account for stock gains, economist Susan Alexander points out that "the magnitude of these differences overwhelms data inconsistencies. Nor can international differences in productivity account for a twelve-fold differential."[15]

In today's global economy, workers are told they must compete in a global labor pool, whereas U.S. CEOs do not seem to face similar international wage competition. Instead, unlike in other societies, American culture places no limits on what is considered appropriate compensation for top executives. Virtually all corporate proxy statements boast that the company aspires to pay executives at or above industry averages. In this Lake Wobegon world, where all the CEOs are above average, the result is an unabated upward spiral of CEO pay.

Chart 2. Comparison of Compensation of Top Executives at Leading Foreign Firms with Those of U.S. Competitors

Company	Total CEO Pay ($US)	Corporate Net Income ($mil)	% Change Over Previous Year
AUTOS			
Volvo (Sweden)	414,660	1,091	-20
Chrysler	11,081,802	2,805	-21
MINING			
Rio Tinto (Australia/UK)	1,732,363	1,218	11
Alcoa	6,254,000	853	6
HOUSEHOLD PRODUCTS AND FOOD			
Unilever (Netherlands/UK)	2,390,039	5,605	124
Colgate-Palmolive	52,703,000	849	15
Procter and Gamble	3,224,000	3,956	9
PHARMACEUTICALS			
Astra (Sweden)	630,111	1,491	12
Schering-Plough	29,029,000	1,756	22
Warner-Lambert	15,770,000	1,254	44
GlaxoWellcome (UK)	2,840,021	3,030	-3
Amgen	39,186,000	2,718	-58
Bristol-Myers Squibb	56,279,000	3,141	-2
BANKING			
Canadian Imperial Bank (Canada)	713,348	1,130	13
PNC Bank	14,673,000	1,115	6
Bank of New York	7,380,000	1,192	8
BankBoston	9,153,000	792	-10
JP Morgan	8,199,000	963	-34
AGRO-CHEMICALS AND PHARMACEUTICALS			
Zeneca (UK)	1,063,154	1,196	19
Monsanto	19,642,000	-250	-185

Note: Foreign firms in bold. Figures are the most recent available. All data are from 1998, except for Chrysler, Rio Tinto, Zeneca, and GlaxoWellcome. For these firms, 1997 data were used.

Chart 3. Average CEO Pay for medium-sized firms (revenues of $250 million to $500 million) it would now be $22.08, rather than the current $5.15 an hour.[10] Wages have not even kept pace with productivity gains. If the average hourly wage had tracked the 32.8% increase in productivity between 1973 and 1998, it would have been $18.10 an hour in 1998, rather than $12.77.[11]

Of course, the biggest contributor to exorbitant CEO pay is stock options, which are variable. Indeed, when the stock market was weak in 1994, fewer executives exercised their options and total compensation took a dip. However, most executives still enjoy generous base pay packages and in fact in 1994 a record number earned more than $1 million.[12] Moreover, while CEOs might face the unhappy prospect of their stock options slipping "underwater," employees have their very livelihoods at risk, since layoffs are often the first response to economic downturns.

B. International Analysis

During the 1990s, executive pay in other countries, though increasing, doesn't begin to approach the outrageous levels in the United States. The slight increases in foreign compensation levels can be attributed to two factors:

- Stock options are increasingly permitted as part of compensation in other countries

- Mergers between U.S. and foreign firms have resulted in foreign executives receiving pay hikes to lift them toward the level of their U.S. colleagues.

Still, CEOs at many globally competitive foreign firms earn modest amounts relative to comparable U.S. firms. We requested compensation information from the more than 90 foreign firms that had net income levels over $1 billion in 1997. Because most governments outside the United States do not require that corporations report such information, response to our requests was spotty. However, as the chart on page 5 reveals, none of the corporations that responded pay their top executive anywhere near the average total compensation of $10.6 million earned in 1998 by the average U.S. CEO. These seven foreign firms successfully compete in the global marketplace while paying their top executive between 4 percent and 27 percent of the amount earned by average U.S. executive.

No Japanese firms responded to our inquiry, but Towers Perrin, a U.S.-based consulting firm, has studied Japanese compensation levels and estimates that chief executives of companies with revenues between $250 million and $500 million in that country make on average $420,855.[13] Pay levels for Japanese executives have not risen much during the decade. Towers Perrin estimated in 1990 that executives of large Japanese companies received between $270,000 to $400,000 per year.[14]

Olav Sabo (D-MN) points out that "a company doesn't exist solely for the benefit of those running it. It has a relationship with shareholders, consumers, communities and workers—all of which are essential to the company's success. Those who work on the factory floor should be as important as those who work in the executive suite."[16] Likewise, William Bennett, one of the nation's leading conservatives and a self-described ethics expert, chastised members of the American Compensation Association in May 1999, describing some pay packages as "ridiculous" and posing the rhetorical question "How much do people actually need?"

These arguments are nothing new. At the turn of the century, finance magnate J.P. Morgan espoused the opinion that CEOs should not make more than 20 times the compensation of the average employee.[17] In 1912, Theodore Roosevelt told the Ohio Constitutional Convention: "I hold it to be our duty to see that the wage worker, the small producer, the ordinary consumer, shall get their fair share of the benefit of business prosperity."[18]

The other camp of critics focuses on economic concerns. They include money managers and other economic analysts—including even Federal Reserve Chairman Alan Greenspan—who see excessive executive compensation as an obstacle to shareholder profits and U.S. corporate competitiveness. The following section lays out the five major economic arguments against excessive CEO pay.

A. Short-termism

Exorbitant stock options grants have generated much of the explosion in executive pay in the past decade. Promoters of stock options bill them as a way to get managers to think like owners, by linking their wealth directly to firm value. However, a study by the New York University's Stern School of Business of more than 8,500 executives reveals that most break this link by immediately selling off the shares they acquire after exercising stock options. In fact, despite the massive issuance of stock options, the study found that overall ownership levels of managers did not increase in the years 1993 to 1995.[19]

Without much interest in a long-term ownership stake, most CEOs focus instead on boosting share prices in the short-term. Thus, they have an incentive to make the type of short-term cuts in expenditures that Wall Street typically rewards, such as slashing payroll through layoffs. Many studies now show that massive downsizing often hurts the company in the long term. For example, the American Management Association surveyed 713 major companies and found that of those that downsized between 1989 and 1994:

- only 50.6 percent had experienced increased profits;
- only 34.4 percent had increased worker productivity; and
- 86 percent had a drop in worker morale.[20]

Large options grants encourage other equally myopic, albeit lower profile, strategies that improve balance sheets in the short term but potentially weaken a company's long-term competitiveness. These include cuts in research and development projects to introduce new products or processes, in efforts to pursue new market opportunities, or in training for employees.[21] These are investments that could produce long-term benefits but require up-front costs that "short-termist" CEOs may be reluctant to make.

B. Lower Morale, Higher Cynicism

Several studies have indicated that exorbitant CEO pay can demoralize employees, affecting those at all levels of the pay scale.

Country	CEO Pay
US	$1,072,400
Brazil	$701,219
Hong Kong	$680,616
Argentina	$655,309
Britain	$645,540
Singapore	$545,517
France	$520,389
Canada	$498,118
Italy	$487,060
Switzerland	$475,342
Venezuela	$459,264
Mexico	$456,902
Netherlands	$449,889
Australia	$431,890
Japan	$420,855
Germany	$398,430
South Africa	$361,526
Sweden	$355,398
Spain	$338,160
Malaysia	$297,379
New Zealand	$158,894
South Korea	$150,711
AVERAGE	$480,037

The U.S. CEO earns 123% more than the 22-country average.

Source: Towers Perrin, Worldwide Total Rewards 1998 (April 1998) p. 21.

4. What's Wrong with Sky-High CEO-Pay?

Critics of exorbitant executive compensation tend to fall into two camps. One is composed of people who see the ever-widening gap between CEO and worker pay as a trend that undermines their hopes for a healthy, democratic, and just society.

Many in this camp point to the excessive influence of the wealthy on our political institutions. Given the fact that politicians must raise enormous sums of money to get elected, the concentration of wealth in the hands of a few wealthy CEOs/campaign contributors throws our democratic system out of kilter. Voters see the "wealth primary" all too clearly for what it is, and increasing numbers stay home on election day. Concentrated economic power has translated into concentrated political power and a set of rules governing both corporations and the broader society that benefit the few at the expense of others. This shift in rules undermines the democratic structures upon which financial markets and social harmony rest.

Others in this camp argue against high CEO pay on fairness grounds. Rep. Martin

AFL-CIO reveals that these directors fell into four categories: 1) relatives of the CEO, 2) lawyers or bankers for the company, 3) executives at another firm with an interlocking board, or 4) people who did significant business with the company (either personally or through their firms).[32]

D. The Bottom Line

Graef Crystal, a leading expert on compensation and a former corporate consultant, rebuffs the common claim that CEO pay is a trivial issue because the sums involved are not large enough to affect a corporation's profits or stock value. As Crystal points out, "a CEO's pay package acts something like a 4,000-horsepower vacuum cleaner, in that it sucks into the nozzle any pay package that gets close to the nozzle. So if the CEO is overpaid, it's a good statistical bet that the COO will be overpaid, too. And that the CFO will be overpaid. And so on."[33] Because of the vacuum cleaner effect, Crystal claims that excessive CEO pay is a legitimate concern for shareholders focused on the bottom line.

One of Crystal's favorite targets is the CEO of Long Island-based Computer Associates, who Crystal describes as "easily the most overpaid CEO in the history of the United States." Charles Wang and his two subordinates earned an astonishing $1.1 billion in May 1998 through an incentive plan that offered millions of free shares if the company's stock closed above a certain level for 60 days in a 12-month period. The company did not charge its earnings for this share plan until the executives met the payout requirement. Hence, in July 1998 it announced the entire charge of $1.1 billion, along with an announcement that the company might be negatively affected by the Asian crisis. In response, the price of Computer Associates stock plunged more than 30 percent.[34] This is an example of stockholders directly suffering from excessive compensation. Crystal also says exorbitant stock options can cost shareholders by leading to a diluting of stock value.[35]

Federal Reserve Chairman Alan Greenspan has also criticized American executive pay levels as bad for shareholders. In Congressional testimony in February 1999, Rep. Bernie Sanders (I-VT) asked Greenspan whether he was concerned about CEO pay contributing to inflation. Greenspan replied "If their shareholders are willing to do it, they're wasting their money in many respects."[36] Greenspan is not completely opposed to stock options, but favors a method that would only allow executives to profit from them if the stock did better than a market or peer group index.[37]

E. Burden on Taxpayers

A number of tax experts argue that excessive pay packages are in fact corporate profits disguised as compensation.[38] Thus, when corporations deduct exorbitant amounts of compensation from their taxes, they are denying the government revenues that must be made up for by other taxpayers. This is one of several factors in the dramatic drop in the share of federal taxes paid by corporations. In 1960, corporations paid 23.2 percent of federal taxes. In 1998, they paid only 11.4 percent.[39]

During Congressional debate on this issue in 1992, the Joint Committee on Taxation estimated that limiting the deductibility of CEO pay would recapture about $2 billion in lost revenue between 1992 and 1997. In previous studies, IPS and UFE have estimated the savings that the U.S. government could realize if the proposed Income Equity Act (see full description in following section) were applied just to the top two executives at the 365 companies covered in the *Business Week* pay survey. In 1997, the Act would have saved the government over $514 million; in 1998, over $493 million.

- A poll of *Industry Week* subscribers, the majority of whom are managers themselves, revealed that over half felt that soaring salaries at the top had a depressing effect on their morale and productivity.[22]

- A 1992 study of 89 organizations by the Haas School of Business at the University of California at Berkeley found that firms with the widest pay gaps experienced lower product quality.[23]

- A study published in the *Journal of Organizational Behavior* found that high levels of executive compensation generated cynicism in white-collar workers.[24] The research further found a correlation between cynicism and tendencies toward unethical behavior.

- Research on faculty at a number of universities showed that there was higher turnover at institutions with greater wage inequality within departments.[25]

- A study published in *The Academy of Management Journal* looked at professional baseball salaries between 1985 and 1993 and revealed that the smaller the gap between highest and lowest paid players, the higher the level of team performance. The study also found that wide pay gaps did not improve the play of the best-paid players, and they actually had a detrimental effect on the performance of the lower-paid players.[26]

Anecdotal evidence suggests that the negative impact of high CEO pay on employee attitudes is most severe during periods of downsizing. Pay practices that encourage disloyalty to workers foster worker disloyalty in return. In 1997, the Institute for Policy Studies and United for a Fair Economy found that CEOs at the 30 firms announcing the largest layoffs in 1996 enjoyed an average increase in total direct compensation (including salary, bonus, and long-term compensation) of 67.3 percent—far above the average increase of 54 percent for executives at the top 365 U.S. firms.

Last year, Boeing CEO Phil Condit acknowledged this problem by declining to accept his bonus in the wake of layoff announcements affecting tens of thousands of workers.[27] US Airways CEO Stephen M. Wolf followed Condit's example and announced that he would not accept payouts from a new bonus fund for executives when airline employees who haven't had a raise in nearly a decade protested the fund's creation.[28] Condit and Wolf, however, are rare examples and even without their bonuses, they still made about $3 million and $10.9 million last year, respectively.[29]

C. A Red Flag of Cliquishness

Corporate boards set compensation terms for CEOs based on recommendations from a "compensation committee" made up of directors. Analysts at the AFL-CIO and elsewhere argue that sky-high pay is often more of a reflection of cliquishness and back-scratching on these boards than good professional performance.

Robert A.G. Monks, who manages two institutional investment funds, advises against investing in companies with extremely high executive compensation. This, he says, is a sign that a company's board is not truly independent of its management.[30] Michael C. Jensen, a financial economist, has also analyzed the problems that result when corporate boards are loaded with insiders or the CEO is the chair of the board. Not only do these arrangements contribute to excessive pay, but the CEOs tend to engage in self-interested behavior at the expense of the firm's long-term performance.[31]

According to a study of S&P 500 companies by the Investor Responsibility Research Center, nearly 150 directors serving on Board compensation committees had affiliations that compromised their independence from the company or the CEO. Analysis by the

5. The Most Undeserving CEOs of the Decade

From a perusal of the "Top 10" lists from *Business Week's* annual pay surveys since 1990, we identified eight CEOs who stood out as some of the most overpaid executives of the decade. These are men who ranked among the top 10 earners in the country while leading corporations that were:

- committing crimes such as fraud, price-fixing, and toxic dumping;
- exploiting oppressed workers or slashing jobs in the United States;
- pushing products that kill millions;
- charging loan shark-level interest rates to low-income Americans; or
- using government funds to pad their outrageous pay packages.

We believe they exemplify the worst aspects of the perverse reward system for executives in the 1990s.

Hamish Maxwell, Philip Morris

A defiant smoker until the day he retired, Philip Morris's Hamish Maxwell was the seventh-highest paid executive in 1991, based on the huge profits of the tobacco industry. His total compensation that year was $15,677,000. Maxwell's reputation as a top CEO came in good part from his engineering of Philip Morris' lightning takeovers of General Foods, Kraft Foods and Jacobs Suchard between 1985 and 1990.[40] But the money to pay him these huge sums came from the most profitable and deadly product on the market: cigarettes. In 1991, Philip Morris outsold all corporate competitors, with 11 percent of the 5.5 trillion cigarettes sold that year.[41] While Maxwell was reaping his biggest reward, the rest of society paid the price. In 1991, cigarettes caused an estimated three million deaths worldwide, while smoking-related illnesses placed immeasurable health care and social costs on the general public.[42]

Dean Buntrock, Waste Management

Buntrock, as CEO of the world's largest waste disposal firm, came in at No. 4 in 1990, earning a total of $12,290,000. While this figure may seem large, it is dwarfed by the amounts the company had been forced to shell out in fines under Buntrock's leadership between 1970 and 1990. As the result of 223 criminal and civil cases, Waste Management paid $52.3 million in fines and untold legal costs during this period, mostly for monopolization, but also on environmental charges. Buntrock remained CEO through 1996 and was called back into that position for a brief period in 1997. Throughout his reign, the company ran afoul of the law. In 1992, it paid a record $11.6 million fine for violations of environmental laws at a superfund site in Pennsylvania. In 1996, a federal judge ordered the firm to pay nearly $100 million on a fraud charge, while in 1998, new leadership of the company agreed to pay $220 million to settle a class action suit brought by shareholders for overstating earnings while Buntrock was in charge. It is believed to be the largest securities class action settlement ever by a single defendant.[43]

Thomas Frist, Hospital Corporation of America, Columbia/HCA

In December 1998, executive pay expert Graef Crystal found that CEOs in the HMO/Healthcare industry received the best pay packages in 1997, outpacing their counterparts in 31 other industries by 61%.[44] Perhaps the most famous well-paid health care CEO of the 1990s is Thomas Frist, who was the highest-paid CEO in America in 1992, raking in over $127 million as president of the Hospital Corporation of America. Six years later, he was one of the lowest-paid, taking just a few thousand dollars in compensation as he struggled to arrive at a settlement between his company and the federal government over Medicare fraud. In between, Frist had merged his company with Columbia Healthcare and turned over control of the merged enterprise to Columbia's Richard Scott. In 1998, Frist had to come out of retirement to engineer Scott's ouster as CEO of Columbia/HCA amid the largest federal Medicare fraud investigation in history. Even today, controversy swirls around the Frist family—Thomas Frist's brother Bill, a U.S. Senator from Tennessee, was criticized in his home state in 1999 for not abstaining from a vote on the HMO Patients Bill of Rights even though he owns a multi-million dollar stake in Columbia/HCA.

Lawrence Coss, Green Tree Financial

America's highest-paid CEO in both 1995 and 1996, Lawrence Coss was CEO of Green Tree Financial, America's largest lender in the mobile home market and a big player in the high-risk "subprime" credit industry. Coss made his millions running a company that loaned money at interest rates that were only slightly cheaper than those charged by a pawnshop or the neighborhood loan shark (with various finance charges, fees, and insurance and other charges, the true interest on some sub-prime car loans can hover around 30% a year.)

Coss was forced to give back $26 million of his 1996 $102 million dollar salary when shareholder lawsuits showed that company accountants had cooked the books to artificially inflate earnings by $200 million. Green Tree Financial was later purchased by Conseco, and Coss is now retired, but he didn't leave before pulling the ripcord on a $30 million golden parachute that CEO pay expert Graef Crystal derided as nothing more than "a commission for selling the company."[45]

William Anders, General Dynamics

William A. Anders, former CEO of defense contractor General Dynamics, made an estimated $9.35 million in salary, bonuses and various stock plans in 1991, while announcing that the company would be eliminating approximately 30,000 jobs over the next few years.[46] Anders transferred some of those jobs to Mexico, where employees made between 65 cents and $1.50 an hour.

"[Anders] was my hero when I was a kid—all the Apollo astronauts were," said Brian Miller, a nine-year General Dynamics employee facing layoffs, in a 1994 interview with the *San Diego Union Tribune.* "He went to the moon in a vehicle built by somebody like me, and when he gets to the top of [General Dynamics], he just sells us out," Miller said. "I guess I do take it personally."

Anders instituted a gain-sharing plan in early 1991 that rewarded top executives with cash bonuses for each $10 increase in the company's stock price. The plan generated more than $22 million in bonuses for the company's top officers, including about $2.5 million for Anders.[47] It also made Anders a favorite target of CEO pay guru Graef Crystal. "The CEO of General Dynamics must be the laziest man in the world," Crystal told the *New York Times.* "Look at all the incentive plans they have to give him to go to work in the morning."[48]

Anders's pay package was sufficiently outrageous to attract the attention of Congress, which in 1994 passed the so-called "Anders amendment," which placed a cap of $ 250,000 on the amount the Pentagon will pay each year to reimburse a firm for an executive's work on military contracts.[49]

David Maxwell, Fannie Mae

A top-ten finisher in the 1991 CEO Pay Derby with $7.56 million in salary, bonus and options was David Maxwell, CEO of the quasi-governmental Federal National Mortgage Association (FNMA or Fannie Mae). Maxwell retired after 10 years of service in 1992 with a $19.6 million pension, a sum that was blasted in Congress as "excessive" and "obscene." Oakley Hunter, Maxwell's predecessor at Fannie Mae, made $225,000 in 1980, his last year on the job, and retired on a pension of about $80,000 a year. Hearing of

Maxwell's pension, he said, "Executive compensation at Fannie Mae has run amok." Hunter believed that the CEOs of government-backed corporations such as Fannie Mae, Amtrak or the Federal Reserve Bank shouldn't make the million-dollar salaries found in the private sector. "I don't think it's justified by any rational standard," he told the *Washington Post*.[50]

Charles Lazarus, Toys 'R' Us

Charles Lazarus was the third-highest-paid CEO in 1992 with a total pay package of over $64 million — made primarily off the backs of workers in China, where it is not uncommon to work 20-hour shifts for less than 20 cents an hour.[51] Lazarus was still at the helm of Toys 'R' Us in 1998 when his company settled a $6 million federal antitrust suit. The court found that Lazarus colluded with toy industry executives to keep popular toys off the shelves of warehouse clubs, or forced the clubs to sell some popular toys in packages that cost more and couldn't be compared with prices at Toys 'R' Us.[52]

Nolan Archibald, Black and Decker

The well-known maker of Dustbusters, toaster ovens, and power tools sawed off 3,000 workers in 1998, a year in which CEO Nolan Archibald nevertheless saw fit to take a 360% pay hike, boosting his 1998 take-home to over $50 million. Archibald placed number 2 on *Business Week's* 1998 list of CEOs whose company's stock price did the worst relative to their pay. Archibald has presided over a shift in production from the United States to Mexico and other low-wage countries, despite promises made by the company during the 1993 debate over the North American Free Trade Agreement that it would not be moving any jobs out of the United States if the agreement passed.[53]

6. What Can Be Done?

As the millennium draws to a close, the United States stands at an important crossroads. Will we head into the next millennium as a nation divided by two sets of economic values: one that operates on a "winner take all" principle, the other founded on the deeply seated American dream that all people who work deserve economic security and the opportunity to improve their lot in life?

Texas populist Jim Hightower likes to quote his father: "Son, everyone does better when everyone does better." Greater equity reinforces both healthy markets and healthy communities. It fosters participation in society through ownership. Equity provides security by offering resources, both financial and human, to fall back on when markets becomes uncertain or social relationships become strained.

Americans have an instinctive understanding of these truths, and there are already widespread rumblings among institutions and grassroots organizations working to challenge the growing economic divide. Two dozen cities and counties nationwide have adopted living wage legislation, seeking to boost low wage workers out of poverty. A number of Christian and Jewish denominations are reaching into their scriptural roots invoking the dawn of the new millennium as a Time of Jubilee, recounting the ancient Hebrew teaching that periodically, debts should be canceled and land returned to its original owner. The laws of Jubilee seek to prevent the excesses of the marketplace from tearing at the social and cultural fabric. Even Wall Street and Corporate America are beginning to speak out as shareholders file resolutions opposing lucrative executive compensation. When *Business Week* asked American CEOs in 1997 how they would rate the pay of the average American CEO, a majority of those surveyed responded "too much."

Here are a few concrete steps that we as a nation could take to make sure that the first decade of the new millennium is not characterized by the unparalleled greed of the

1990s.

A. Limit the Deductibility of Executive Salaries

Many corporate leaders reject any government regulation of CEO pay as meddling with the invisible hand of the market. The reality is that government has long been involved in executive pay issues—through the U.S. corporate tax code. The tax code currently allows businesses to deduct only “a reasonable allowance for salaries and other compensation.” But the tax code neglects to define “reasonable.” Corporations have seized upon this loophole within the tax code and exploited it.

Many Americans are unaware that corporations are allowed to fully deduct executive salaries, benefits and perks as a routine business expense, thereby shifting even more of the tax burden from corporations to individual citizens.

Many have called for a closing of this loophole, and the idea surfaced during the presidential campaign of 1992. Democrats Bill Clinton, Bob Kerrey, and Tom Harkin all talked about it in the early months of the campaign, and even Republicans Dan Quayle and Pat Buchanan criticized excessive CEO pay (see box).

In Congress in 1992, Senators David Boren, Max Baucus, and Tom Daschle held a hearing on the issue (see box, next page). In that year, the Joint Committee on Taxation estimated that limiting the deductibility of executive compensation to $1 million per year would raise about $2 billion between 1992 and 1997.[54] These hearings led Congress to attempt to cap the deductibility of executive pay to a maximum of $1 million in 1993. But the law applied only to the top five highest-paid executives in public firms and only capped non-performance based salaries. In response, many corporations passed resolutions making all compensation above $1 million “performance-based” and shifted much of their top executive pay from base salary to stock options and bonuses linked to performance.

Pending Legislation: The Income Equity Act

Legislation is currently pending that would cap the amount of deductible salary to 25 times the lowest paid worker in a firm. Salary in excess of this cap would no longer be deductible. The Income Equity Act (H.R. 740), introduced in the House by Rep. Martin O. Sabo (D-MN), now has 35 bi-partisan co-sponsors.

The Campaign to Close the Wage Gap, coordinated by United for a Fair Economy, has brought together over 300 labor, religious and community organizations to advocate for the Income Equity Act. Members of the coalition have organized district meetings with legislators to

Quotes on CEO Pay from 1992 Presidential Campaign

Candidate Bill Clinton: “Executives at the biggest companies raised their pay by four times the percentage their workers’ pay went up and three times the percentage their profits went up. It’s wrong to drive a company into the ground and have the boss bail out with a golden parachute to a cushy life. The government should not support such largesse through unlimited tax deductions. If a company wants to overpay its executives to perform less well, and underinvest in the future, it shouldn’t get any special treatment from Uncle Sam.”

Senator Bob Kerrey (D-NE): “Ceilings on deductibility of excessive compensation should be imposed.” He also believed shareholders “should have a greater say on executive compensation issues.”

Senator Tom Harkin (D-IA): “Shareholders should have a right to vote on top corporate executive pay packages.” He also favored a $500,000 ceiling on tax deductibility.

Vice President Dan Quayle: Spoke out against “these exorbitant salaries paid to corporate executives.”

Candidate Pat Buchanan: Railed against “executives running around making $4 million while their workers are being laid off.”[55]

Quotes from a June 4, 1992 Hearing on Executive Compensation held by the Senate Committee on Finance, Subcommittee on Taxation

Senator Max Baucus (D-MT): "The growing gap between the executive compensation and the salary that an average worker receives, if allowed to continue, will continue to breed more cynicism and more indifference in our country. And I think that detracts from the shared sense of commitment which is vital to successful competitive business and to a strong country.

"Corporate America should be willing to set examples. After all, CEOs are leaders. All leaders must set examples. They should not take bonuses while their employees lose their jobs. What happens to American competitiveness, for example, when workers get the message the performance does not affect compensation? What happens to quality of American products? When American workers get that message that performance does not affect compensation or quality of product? It's demoralizing. And it actually condones slipshod performance and unnecessary costs. It could also result in a flight of capital away from those corporations with executive compensation which is divorced from performance.

"And while I generally believe that wages should be left to fair and free competition of the market, I also believe that government should not subsidize this excess..."

Senator Tom Daschle (D-SD): "Subsidization really takes two forms: Direct government payments and indirect tax expenditures. The question is, should we provide unlimited subsidization to those companies which pay their executives many millions of dollars in salary and benefits?

"Already we have laws which are intended to limit all business deductions to that which is 'reasonable.' Well, my belief, Mr. Chairman, is that we really can't afford unlimited subsidization of this practice, not with a $400 billion deficit, not with a debate looming about whether or not we ought to have a constitutional amendment to balance the federal budget.

"If were we [sic] to examine tax expenditures annually like we examine all the other forms of governmental involvement in our budget, I would have—I would believe that this would be one of the first questions that we would be taking on—can we afford this year, with a $400 billion deficit, a $2 billion subsidy to businesses who pay their executives unlimited compensation?

"Well, I don't think compensation ought to be regulated, but nor do I think excessive compensation should be subsidized. Businesses should have a right to pay their executives whatever they choose, but not at taxpayers' expense."

Senator Carl Levin (D-MI): "One of the reasons that I think you can fairly use to limit the deductibility is that the corporate share of the tax burden in this country has fallen 25 percent since 1980. So that putting a cap on companies paying over a million dollars to one person is probably a burden which they would be able to bear given the shift in the burden in terms of, again, the corporate share of the tax burden having gone down in the last 10 years." (Despite this favorable comment, Levin thought that the deductibility cap was too blunt an instrument. He advocated a law that would force corporations to report stock option grants on their books as expenses, to give shareholders a better idea of the cost of this form of compensation.)

urge them to co-sponsor the Income-Equity Act and other federal minimum wage laws.

Congress should convene another hearing on the issue of Executive Compensation like the Senate hearing held in 1992. This hearing should review:

- Trends in wages and executive compensation.
- The causes of excessive compensation and their impact on the economy and productivity.
- The effectiveness of the 1993 $1 million deductibility cap, The Income Equity Act and other remedies.

B. Voluntary Corporate Action

There are a number of businesses that voluntarily pay a living wage and maintain a small ratio between highest and lowest paid workers. These companies have taken the "high road" of maintaining profitability without resorting to outsourcing jobs and forcing wage and benefit concessions from workers. In the global economy, many of these enterprises are under tremendous pressure to take the "low road" by cutting wages and benefits, shifting production facilities to low wage markets, and cutting corners on environmental standards.

Cabletron execs revolted by CEO pay

In 1995, *Business Week* spotlighted Cabletron, a New Hampshire computer networking equipment manufacturer. Cabletron's CEO S. Robert Levine and Chairman Craig Benson each drew a salary of only $52,000 in 1994, with no cash bonuses, stock options, or other incentive compensation. In fact, 420 of Cabletron's 4,900 employees were actually paid more than Levine and Benson in that year. As *Business Week* reported in 1995, "The two say their minuscule pay is a statement of their disgust with out-of-control executive pay. 'I find it extremely distasteful the way many CEOs pay themselves,' says Levine, 36, who founded Cabletron in 1983. 'The numbers are pretty revolting, and we don't want to be part of it.'"

Levine continued to earn $52,000 a year until he stepped down as CEO in 1997. He turned over the reins to co-founder Benson, who went on to serve as a $52,000-a-year CEO until 1999.

It should be noted that Levine and Benson owned substantial stakes of Cabletron stock that was worth some $927 million in 1994, and they sold more than $500 million in company shares between 1989 and 1994. But this direct ownership of stock distinguishes Levine and Benson from the typical stock-option-exercising CEO who claims stock options "align the CEO's interests with those of the shareholders," even though, unlike those ordinary shareholders, he loses nothing if the stock price drops.[56]

Employee letter, testimony leads US Airways CEO to refuse bonus

In May 1999, union picketing at the US Airways shareholder meeting and a letter from a leader of the Flight Attendants Union convinced US Airways CEO Stephen M. Wolf to refuse a $1 million bonus plan. In the letter, flight attendant Lynn Lenosky argued that approval of the management incentive plan "can have a detrimental effect on employee morale and productivity."

Apparently, the message got through to CEO Wolf, who said after the shareholders' meeting, "I understood it quite clearly. We considered it an issue that could lead to divisiveness in the company."

Also during the meeting, Danny Carter, a US Airways passenger service employee said his pay and pension have been frozen for six years, forcing him to work lots of overtime to support his family. "I want to fall in love with my wife again and be with my daughters when they graduate high school," he said tearfully. Wolf admitted to the employee, "You have not been compensated at a fair level for a number of years," and added, "My wife and I don't have any children. At 57 years of age I wish we did; I would love to be able to spend my time with them."[57]

Despite Wolf's gesture, he remains a very well-paid CEO. As the flight attendants noted, Wolf's 1998 pay of $34.2 million made him more highly paid than the CEOs of American, United and Delta combined.[58]

It's not the first time Wolf has been at the center of a CEO pay controversy. In 1990, while at the helm of United Airlines, he was the highest-paid CEO in America. In that year, he collected $18 million in salary, bonuses and stock while United's profits plunged by 71 percent.[59]

Kingston Technology Corp. founders share the wealth

Kingston Technology Corp. was formed by two young Taiwanese-born scientists, David Sun and John Tu, who met in America in 1981. In just eight years, the firm became the world's largest maker of computer-memory devices.

In 1996, Sun and Tu sold 80 percent of their company to a Japanese consortium for $1.5 billion. But instead of keeping all the money for themselves, the two co-founders set up a $100 million account for employee bonuses. As an initial payout, 523 Kingston workers received three years' pay in a lump sum—while keeping their jobs.[60]

Brunswick Corp. CEO cuts own pay during period of downsizing

In the late 1980s and early 1990s, Brunswick, a manufacturer of recreational equipment, laid off 8,000 employees nationwide. In 1991, Chairman Jack F. Reichert refused a cash bonus and cut his own pay 33 percent to $736,000 from $1.1 million in 1990. Reichert told Fortune magazine, "Top management took the pain right along with the workers. We think that's the way companies should work."[61]

Business Leaders and Investors for a Living Wage group is forming

In the fall of 1999, a new alliance of business leaders and investors will go public in their support for local living wage ordinances and increases in the federal minimum wage. Businesses and investors are currently being enlisted to sign a "Living Wage covenant" stating their commitment to paying a living wage. The effort is being organized by Responsible Wealth, a project of United for a Fair Economy.

C. Support Living Wage Campaigns

For its first thirty years the U.S. minimum wage law was periodically adjusted to maintain an adequate standard of living above the poverty level. However, since the early 1970s, we have lacked the political will to pass regular increases updating the minimum wage to coincide with changes in the cost of living. As a result, the minimum wage has become a poverty wage— a person working full time for 52 weeks will earn only $10,712 a year, nearly 40% below the national poverty threshold for a family of four. Low-wage earners are therefore forced to work long hours and several jobs just to sustain their families with minimal food and shelter.

A living wage is often defined as the wage required to raise a family of four above the official poverty line (the exact amount varies by location). When employers don't pay their employees a living wage, part of the burden shifts to taxpayers in the form of public assistance for food stamps, welfare, and health and housing assistance. However, when people are paid enough to support their families, not only are they less dependent on government aid, but they also pay more taxes and buy more goods and services in the local economy, stimulating growth of neighborhood economies.

Many businesses support paying a living wage because it reduces employee turnover and absenteeism, thereby lowering recruitment and training costs; increases productivity and morale; increases cooperation with management; and encourages more business investment in training, technology, and other productivity enhancers.

Since 1994, living wage ordinances have passed in 32 cities and counties nationwide, and currently there are over 70 active living wage campaigns. Some living wage measures specify a single wage, subject to periodic review. Others index the wage to the federal poverty line, automatically increasing it every year to keep pace with the rising cost of living. More recently, cities are beginning to mandate a two-tiered living wage, one for jobs with benefits, and a higher wage for jobs with no benefits.

D. Strengthen Employee Ownership Plans

Enacted Living Wage Ordinances

Where two wages are given, the first wage is for jobs with benefits, the second is for jobs without benefits.

California		Minnesota	
Hayward	$8.00 / $9.00	Duluth	$6.50 / $7.25
Los Angeles	$7.39 / $8.64	Minneapolis	$8.47
Oakland	$8.00 / $9.25	St. Paul	$8.47
Pasadena	$7.25 / $8.50	New Jersey	
San Jose	$9.50 / $10.75	Hudson County	$7.73
Santa Clara	$10.00	Jersey City	$7.50
West Hollywood	$7.25 / $8.50	North Carolina	
Connecticut		Durham	$7.55
New Haven	$8.03	Orange County	$8.00
Florida		Ohio	
Dade County	$8.56 / $9.81	Dayton	$7.00
Illinois		Oregon	
Chicago	$7.60	Multonomah County	$8.00
Cook County	$7.60	Portland	$8.00
Maryland		Texas	
Baltimore	$7.70	San Antonio	$9.27
Massachusetts		Wisconsin	
Boston	$8.23	Dane County	110% of poverty line
Cambridge	$10.00		
Somerville	$8.35	Madison	100% of poverty line
Michigan			
Detroit	$8.23 / $10.29	Milwaukee	$6.56
Ypsilanti	$8.50 / $10.00	Milwaukee (county)	$6.25

Source: Employment Policies Institute, http://www.epionline.org/living.htm

Ownership in America is broadening. There are more than 10,000 employee-owned firms in the United States with over 11 million workers owning stock in their companies. Firms such as Ford, Exxon, Procter & Gamble, Polaroid, and United Airlines, all have more than 10% of their shares owned by employees. An even broader range of working Americans are owners through their collective $1.3 trillion in pension assets.

While these worker-owners reap some of the financial gains from their investments, there remain significant structural barriers to worker-owners acting like owners in matters of corporate governance. For instance, laws governing Employee Stock Ownership Plans

Living Wage Ordinance Campaigns Currently Underway

Arkansas
Little Rock
Arizona
Tucson
California
Berkeley
Fresno
Los Angeles County
Marin County
Mountain View
Palo Alto
San Diego
San Francisco
Santa Cruz
Santa Monica
Colorado
Denver
Connecticut
Hartford
District of Columbia
Washington
Florida
Gainesville
Georgia
Atlanta
Valdosta
Indiana
Bloomington
Indianapolis
South Bend
Kansas
Manhattan
Kentucky
Covington
Lexington
Louisville
Louisiana
New Orleans
Massachusetts
Northampton
Maryland
Annapolis
Montgomery County
Prince George's County
Maine
Portland
Michigan
Ann Arbor
Grand Rapids
Kalamazoo
Lansing
Missouri
St. Louis
Mississippi
McComb
Montana
Helena
Missoula
North Carolina
Durham County
Greensboro
Nebraska
Lincoln
New Hampshire
Concord
New Jersey
Atlantic City
New Mexico
Albuquerque
Nevada
Reno
New York
Albany
Buffalo
Rochester
Utica
Ohio
Cincinnati
Cleveland
Oregon
Eugene
Lincoln City
Salem
Pennsylvania
Harrisburg
Philadelphia
Pittsburgh
Scranton
Rhode Island
Providence
South Carolina
Columbia
Tennessee
Knoxville
Nashville
Texas
Austin
Dallas
Houston
Utah
Provo
Virginia
Alexandria
Nassawadox
Williamsburg
Washington
Seattle
Spokane
Wyoming
Cheyenne

Source: Employment Policies Institute, http://www.epionline.org/living.htm do not give workers the right to vote their shares of stock. Instead this power is vested with the plan's trustees. Similarly, pension funds are overseen by trustees, with employees left in the dark about the governance policies used to vote their pension assets.

Corporations in America are overseen by a Board of Directors charged with protecting the interests of the shareholders. Those who serve as corporate directors are drawn from a fairly narrow pool, which disproportionately include CEOs of other firms. As a result of their own internal conflicts of interest, directors have been ineffective at controlling runaway executive compensation. They have similarly been unwilling to rein in the political power of their institutions when such actions threaten other constituencies of the corporation: communities, employees, and consumers.

In order to reap the benefits of broadened ownership, the rules must be changed to allow owners to act like owners, participating in the governance process through the election of directors that represent their interests. In Germany, for instance, workers elect 50% of Board members. Other proposals under consideration by members of the European Union include allowing shareholders, employees and public interest organizations to each elect one-third of corporate Boards. Adding new voices to America's corporate boardrooms will increase the accountability of corporations to the society's that give them life.

E. Broaden the Ownership of Wealth

American anti-poverty policies have long focused on income maintenance. They have sought to provide basic minimums, either in the form of income transfer payments (welfare) or laws such as the minimum wage. However, these policies have ignored the fact that wealth, not income, provides security, flexibility and a sense of ownership in society. Whereas income temporarily fills stomachs, wealth changes people's minds, offering hope and a sense of possibility and security. Sustainable economic development provides both income support and opportunities for wealth creation.

Some models of wealth creation are starting to emerge. Individual development accounts (IDAs) have emerged as a potent tool for fighting poverty through the creation of wealth. Through IDAs, low-income people have their savings matched, typically by community funds allocated for poverty alleviation. IDAs may be used for education, for down payments on a home, or for starting a small business—proven paths for fighting poverty and for increasing the participation of those presently excluded from significant economic roles.

Within the corporate setting, there have been interesting developments in the area of stock-based compensation, the driving force behind the astounding creation of CEO wealth over the last decade. Once reserved solely for a handful of top executives, 31 percent of all companies today grant options to a majority of employees, realizing that if options have successfully motivated executives, they might also motivate all employees. Still, many stock option plans are not equitably distributed and remain wildly unequal.

Pharmaceutical giant Bristol-Myers Squibb has been a leader in creating employee wealth through granting universal stock options. In 1995, Bristol-Myers Squibb's Team Share stock option program granted every employee throughout the world 200 stock options. Over the following three years, these options produced over $500 million in value for the company's employees. Granting these employees even a tiny stake in the huge company where they work has created new possibilities. For instance, employees in the company's Latin American operations have received payments equal to several years worth of their annual salaries. Stock option gains have enabled people to achieve things of which they had never dreamed: improved housing, the education for children and the creation of small businesses. The sharing of equity changes lives.

F. Shareholder Resolution Campaigns

In 1998, at least 33 shareholder resolutions were filed addressing the issue of executive compensation. Almost all were concerned about the excessive nature of senior management pay and the lack of accountability within the compensation committee.

Responsible Wealth, a project of United for a Fair Economy, filed nine resolutions calling on corporate boards to reduce pay disparities within their companies. These included resolutions at General Electric, AT&T, Allied-Signal, Citigroup, Bank America, Huffy, R.R. Donnelley, BankBoston, and Computer Associates. Responsible Wealth members particularly sought out companies where corporate leaders received large pay increases while at the same time many employees were losing their jobs.

These resolutions won over a half a billion votes from shareholders, though no individual resolution won a majority of votes. The resolution on gender and race pay equity at printing giant R.R. Donnelley, co-sponsored by the Domini Social Equity Fund, drew the greatest shareholder support — 16.6%. Voting results on resolutions to tie CEO pay to the lowest paid employee at the company ranged from 12% in favor at AlliedSignal and 10.8% at Citigroup to 4.8% at BankBoston. Some of these results are surprisingly high given voting procedures that favor management positions on proxy resolutions; double-digit votes on shareholder resolutions are rare.

Responsible Wealth's shareholder campaign has succeeded in starting a dialogue on excessive CEO pay. In response to the resolutions, the CEOs of AT&T, BankAmerica and BankBoston publicly acknowledged that growing economic inequality is a problem both for society and for business. A complete list of resolutions and their text is available on the world wide web at: www.stw.org.

Fortune Cookies for Citigroup Shareholders

Responsible Wealth members also took their message to the general public outside Citigroup's annual meeting, held in New York's Carnegie Hall. They set up two wheelbarrows representing the pay disparity between Citigroup co-CEO Sanford Weill and the typical Citibank teller—Weill's wheelbarrow was heaped full of 5,566 fortune cookies while the teller's contained a single cookie. The activists handed out fortune cookies containing educational messages about wage inequality to passersby and to shareholders entering the meeting. "Citigroup CEO Sanford Weill makes more in 22 minutes than the typical bank teller makes in one year," read one of the six messages found in the fortune cookies.

Citigroup's co-CEO Sanford Weill was one of 1998's most outrageous examples of out-of-control CEO pay: his $167 million in compensation made him 1998's third-highest paid executive. Weill also ranked also Number 2 on Business Week's list of executives who gave shareholders the least for their pay and Number 5 on the list of those executives whose companies performed the worst relative to pay. Citigroup Co-CEO John Reed enjoyed a 138 percent pay increase to $9.5 million in 1998 after the merger of Citicorp and Travelers, as well as $88 million in unexercised stock option gains.

Among those who stopped next to the wheelbarrows was a woman with her young daughter. Tearfully, she explained that she was one of the 10,400 Citigroup employees who had been downsized the previous year.

G. Organize Workers to Control Their Retirement Assets

According to the AFL-CIO, about 26 percent of corporate America is owned by workers through their pension and 401(k) plans. That ownership stake represents a huge lever that workers can use to affect corporate behavior. The AFL-CIO's Office of Investment monitors the portfolios of union pension funds, urging the union trustees of these funds to direct money managers to invest in pro-labor companies.

Another Office of Investment project, the Center for Working Capital, was set up in 1998 to monitor the investments and shareholder proxy votes of the Wall Street executives managing the money in union pension plans. Each year, the Center will issue a scorecard rating the money mangers' proxy votes on shareholder resolutions covering CEO pay, stock options, and golden parachutes, corporate governance, campaign

Closing the Pay Canyon at General Electric

What does a shareholder resolution concerning executive pay look like? This resolution at General Electric was filed in the fall of 1998 and voted on at the April 1999 annual shareholder meeting.

A Shareholder Resolution on Executive Compensation

WHEREAS, increases in CEO compensation continue to dwarf the compensation increases enjoyed by employees. Between 1990 and 1997, CEO cash compensation rose 86% and average total compensation (including stock options) rose 298% to $7,800,000, vastly exceeding a 22% increase in factory wages and a growth of 110% in S&P 500 earnings (Business Week Survey of Executive Compensation; Bureau of Labor Statistics);

WHEREAS, in 1997, top US CEOs earned on average 326 times the average factory workers pay, a dramatic rise from the 42 times reported in 1980;

WHEREAS, General Electric's CEO in 1997 was the 11th highest paid US CEO, making $39,894,000, a 44.5% increase from 1996. This represents 5.1 times the pay of the average US CEO, more than 1,400 times the average US factory worker, and 9,571 times the $4,168 average wage for Mexican maquiladora workers, thousands of whom work for General Electric;

WHEREAS, General Electric's efforts to cut costs have been disproportionately focused on the factory floor, while ignoring the executive suite. Between 1995 and 1997, a period in which our company laid off thousands of workers, the top five officers enjoyed increases in cash compensation of 46%;

WHEREAS, in opposing this resolution last year, General Electric's Board pointed to the unique contribution Mr. Welch has made to the creation of more than $225 billion of share owner value during his tenure as Chief Executive Officer. We believe this value has been created not by one individual, but by hundreds of thousands of current and former General Electric employees who by working together have created tremendous value;

WHEREAS, growing research on effective organizations stresses the importance of empowering front-line workers, a goal undermined by compensation policies that reward top executives at the expense of workers closest to the customers and production;

WHEREAS, business leaders and thinkers ranging from J.P. Morgan to Peter Drucker have argued against wide pay gaps within enterprises and called for limits on executive pay based on multiples of worker compensation;

THEREFORE, BE IT RESOLVED, that shareholders urge the Board to address the issue of runaway remuneration of CEOs and the widening gap between highest and lowest paid workers by:

3)Establishing a cap on CEO compensation expressed as a multiple of pay of the lowest paid worker at General Electric;

4)Preparing a report for shareholders explaining the determinations used in order to determine the appropriate cap.

SUPPORTING STATEMENT: Last year this resolution was supported by 6% of General Electric's shareholders. In asking General Electric to establish a cap on executive compensation, we have not sought to impose our own arbitrary cap on executive pay. Instead we have asked our company to wrestle with the issue of the rising wage gap that exists between corporate executives and those they seek to lead. By imposing the financial discipline of a pay cap, we hope our company can help reverse a long standing trend that is neither good for business, nor society. Please vote YES.

financing, and other issues. Investment firms that flunk the Working Capital scorecard will lose part of the $350 billion in total union pension fund business.

Any worker, whether or not he or she is in a union, can learn about CEO pay at a wide range of American companies by visiting the AFL-CIO's Paywatch site (www.paywatch.org). The site allows visitors to calculate how many years they would have to work at their current salary to match the CEO's pay at a given company.

H. Investors' Right to Know Campaign

America's mutual funds control more than $3 trillion in equities, more than 20% of the total stock market. Yet, most funds refuse to disclose information regarding proxy voting on executive pay and other issues. A few funds will disclose specific votes in response to a written shareholder request. The Domini Social Equity Fund has set a new industry standard by publishing its proxy votes on its website.

The Investors' Right to Know Campaign, coordinated by the Responsible Wealth project at United for a Fair Economy, is a call to the nation's mutual funds to voluntarily disclose their proxy voting policies and voting records. The goal is to make mutual funds more accountable to their share owners and lead to a stronger corporate governance process that balances the interests of all stakeholders—stockholders, employees, communities, consumers, and the environment.

The Campaign urges mutual fund shareholders to contact their mutual fund and ask to receive guidelines on their proxy voting guidelines and the actual voting record of the fund. Shareholders can also suggest that it would be useful to have this information posted on the fund's website. For more information on the campaign, contact Scott Klinger at Responsible Wealth (617-423-2148, rw@stw.org).

Appendix A. A Guide to the Executive Compensation Maze

Components of Compensation

Salary: The payment made just for showing up to work. Typically a small portion of most CEOs' pay package. Very rarely declines during down years or difficult periods.

Bonus: An annually-determined cash payment reflecting general achievement of objectives. Bonuses commonly decline during years of poor performance.

Incentive Stock Options: An option represents the right to purchase a share of stock at a set price over a set number of years (commonly ten years). Most often the "strike price" (the price at which the stock may be bought) is the stock's price on the day the option is granted. Increasingly companies are moving toward granting "premium priced options," which force the stock to appreciate in value before the CEO starts to make money. Proxy statements provide several forms of disclosure about stock options. For options granted during the reporting year covered in the proxy, the company is required to disclose the "present value" of the stock options. This is the value of the option in current dollars using a set of assumptions mandated by the SEC. The present value is essentially what the option is theoretically worth. The proxy also provides information on the value of past option grants, both those that were cashed in during the current reporting year as well as those that remain unexercised. Lastly, the proxy provides information on how broadly the options were distributed in the organization. This is usually expressed by a table showing what percentage of options went to senior officers and how many employees into total received options.

Stock Grants: Unlike options, which represent a right to purchase stock in the future, stock grants are made up of actual shares of stock. Often, the grant carries the condition that the sale of stock is restricted by either time or some performance related event (like a certain earnings threshold).

Long Term Incentive Plans (LTIPs): In response to shareholder criticisms that CEOs pay incentives were too short-term oriented, LTIPs were born. The LTIP creates financial rewards for performance over a longer time period, commonly three to five years. Thus each payout is based on performance over the entire long-term period. Hence a company can have a poor year, following two great years and a CEO might still get a generous LTIP payment.

Other Compensation: This catch-all category frequently reflects premiums on insurance covering the executive's life. It's also where the trips on the company's airplane for personal vacations are counted, along with paid housing, vacation retreats, gourmet executive dining rooms, country club memberships, and financial and legal services.

Pay for Performance: Earlier criticism of CEO compensation practices gave rise to the shareholder rights movement with its goal of aligning shareholder and CEO interests. Leading companies responded by making a greater percentage of CEO pay variable, and theoretically thereby at risk. Interestingly, while the balance of the pay package shifted to variable pay, in the vast majority of cases, stock options, restricted stock and LTIP were added on as additions to basic salary and bonus, one of the propellants of executive compensation.

How Much Did the CEO Really Make?

Growing public interest in the CEO pay issue has resulted in numerous media articles and studies. Seldom do all newspapers and magazines report the amounts earned by CEOs in exactly the same fashion. Why the difference? The most common difference comes in the reporting of options. Some sources report the present value of stock options as income in the current year, while others report the value of options exercised. Both have advantages and disadvantages. The present value of options granted is a theoretical value, yet it is the theoretical value of a transaction the company has control over. Reporting cashed in options is appealing because it represents actual cash in pocket. Its shortcoming it that the executive determines how many options to cash in. This measure tends to exaggerate the pay packages of CEOs who exercise many years' worth of options in a single year.

Another common cause of reporting confusion is LTIPs. Most include the value of LTIPs in the year they are paid, though there are some who argue they should be spread out over the time period in which they were earned.

There is no right answer to calculating the value of pay packages. It is, however, important to adopt a consistent methodology when making comparisons publicly.

Who Determines CEO Pay?

Most elements of CEO pay are determined by the Board's Compensation Committee. It was common in the past for company insiders (including the CEO themselves) to sit on the Compensation Committee. Corporate governance reforms have made this occurrence largely a thing of the past. However, given the disproportionate number of peer and retired CEOs that sit on company boards and compensation committees, questions of conflicts remain. Peer CEOs have little incentive to stem skyrocketing CEO pay, since their vote as a board member could have negative repercussions on their own pay.

Certain elements of CEO pay are acted upon by shareholders. First the shares allocated to option plans must be approved by shareholders because the granting of options reduces the shareholder's ownership stake. However, the specific decisions on how many options to grant and to whom, as well as the terms of each option, are retained by the compensation committee. The second instance where shareholders get to vote on executive compensation is in LTIPs. Federal tax legislation in the late 1980s required that LTIPs have clearly stated financial objectives that are voted upon by shareholders in order to retain the tax deductibility of payments above $1 million. However, many votes are controlled by CEO/management-friendly blocs, and procedural rules often stack the deck in favor of the CEO.

Appendix B. About the Authors

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The Perils of the Growing American Wealth Gap (United for a Fair Economy, 1999) and a contributor to *Field Guide to the U.S. Economy* (The New Press, November 1999)

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Publications

Shifting Fortunes: The Perils of the Growing American Wealth Gap (United for a Fair Economy, 1999)

Campaigns:

In July 1997, United for a Fair Economy launched the **Campaign to Close the Wage Gap.** For an organizing kit, fact sheets, and information on signing on to the campaign as a co-sponsor, contact United for a Fair Economy at the address below.

World Wide Web:

AFL-CIO's Executive Pay Watch	www.paywatch.org
American Compensation Association	www.ahrm.org/aca/aca.htm
Bud Crystal's Executive Pay Reports	www.crystalreport.com
Business Week	www.businessweek.com
Representative Martin O. Sabo	www.house.gov/sabo/ie.htm
Securities and Exchange Commission	www.sec.gov
United for a Fair Economy	www.stw.org

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